Ibercaja Banco, S.A.
and subsidiaries
(Ibercaja Banco Group)

Consolidated financial statements at 31 December 2018 and
consolidated directors’ report for 2018

IBERCAJA BANCO, S.A.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED DIRECTORS' REPORT

At its meeting on 1 March 2019 in Zaragoza, pursuant to the prevailing legislation, the Board of Directors of Ibercaja Banco, S.A. resolved to authorise for issue the 2018 consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, 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 2018 consolidated directors' report, which were set forth on official stamped paper and were numbered correlatively. Those documents were approved by means of the Directors' signatures, which appear below.

To the best of our knowledge, the 2018 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 2018 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 VÍCTOR IGLESIAS RUIZ
Tax ID No.:
CEO

MR JESÚS BARREIRO SANZ
Tax ID No.:
Director Secretary

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

MR JESÚS SOLCHAGA LOITEGUI
Tax ID No.:
Member

MR JUAN MARÍA PEMÁN GAVÍN
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Member

MR EMILIO JIMÉNEZ LABRADOR
Tax ID No.:
Member

MR VICENTE CÓNDOR LÓPEZ
Tax ID No.:
Director

MR FÉLIX LONGÁS LAFUENTE
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MR JESÚS TEJEL GIMÉNEZ
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Member

MR ENRIQUE ARRUFAT GUERRA
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Ms. MARÍA PILAR SEGURA BAS
Tax ID No.:
Member

JORGE SIMÓN RODRÍGUEZ
Tax ID No.:
Member

Ibercaja Banco, S.A.
and subsidiaries
(Ibercaja Banco Group)

Consolidated financial statements at
31 December 2018

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

ASSETS (**)	Note	31/12/2018	31/12/2017 (*)
Cash and cash balances at central banks and other demand deposits	**6**	**1,118,206**	**3,512,477**
Financial assets held for trading	**7**	**7,411**	**9,378**
Derivatives		7,411	9,054
Debt securities		-	324
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Non-trading financial assets mandatorily measured at fair value with changes through profit or loss	**8**	**141,315**	
Equity instruments		38,852	
Debt securities		82,733	
Loans and advances		19,730	
Customers		*19,730*	
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	
Financial assets designated at fair value through profit or loss	**9**	**9,575**	**52,247**
Equity instruments			41,632
Debt securities		9,575	10,615
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Financial assets at fair value through other comprehensive income	**10**	**8,754,640**	
Equity instruments		340,000	
Debt securities		8,414,640	
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*1,060,771*	
Available-for-sale financial assets			**10,849,926**
Equity instruments			325,681
Debt securities			10,524,245
Memorandum items: loaned or delivered as collateral with the right to sell or pledge			*2,150,225*
Financial assets at amortised cost	**11**	**39,378,416**	
Debt securities		6,544,456	
Loans and advances		32,833,960	
Credit institutions		*248,856*	
Customers		*32,585,104*	
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*5,603,706*	
Loans and receivables			**35,019,799**
Debt securities			2,296,675
Loans and advances			32,723,124
Credit institutions			*362,419*
Customers			*32,360,705*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge			*5,399,359*
Held-to-maturity investments			**-**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge			-
Derivatives - Hedge accounting	**12.1**	**161,371**	**187,456**
Fair value changes of hedged items in a portfolio hedge of interest rate risk		**-**	**-**
Investments in joint ventures and associates	**13**	**126,235**	**105,313**
Joint ventures		28,462	27,884
Associates		97,773	77,429
Assets under insurance or reinsurance contracts	**14**	**719**	**395**
Tangible assets	**15**	**941,991**	**1,029,414**
Property, plant and equipment		637,704	640,977
For own use		*592,611*	*615,429*
Assigned under operating lease		*45,093*	*25,548*
Investment property		304,287	388,437
of which: assigned under operating lease		*100,701*	*183,232*
Memorandum items: acquired under finance lease		-	-
Intangible assets	**16**	**203,877**	**199,680**
Goodwill		144,934	144,934
Other intangible assets		58,943	54,746
Tax assets	**25**	**1,383,560**	**1,338,472**
Current tax assets		18,467	25,054
Deferred tax assets		1,365,093	1,313,418
Other assets	**17**	**189,833**	**249,656**
Inventories		152,397	225,551
Other assets		37,436	24,105
Non-current assets and disposal groups classified as held for sale	**18**	**288,590**	**552,756**
TOTAL ASSETS		**52,705,739**	**53,106,969**

(*) Presented for comparison purposes only (Note 1.4).
(**) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 at 1 January 2018 (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

LIABILITIES (**)	Note	31/12/2018	31/12/2017 (*)
Financial liabilities held for trading	**7**	**8,691**	**7,301**
Derivatives		8,691	7,301
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Memorandum items: subordinated liabilities		-	-
Financial liabilities at amortised cost	**19**	**41,141,636**	**42,270,895**
Deposits		38,658,120	39,666,819
Central banks		*3,341,085*	*3,353,508*
Credit institutions		*1,236,219*	*1,236,216*
Customers		*34,080,816*	*35,077,095*
Debt securities issued		1,640,432	1,827,266
Other financial liabilities		843,084	776,810
Memorandum items: subordinated liabilities		*586,614*	*631,751*
Derivatives - Hedge accounting	**12.1**	**155,200**	**106,702**
Fair value changes of hedged items in a portfolio hedge of interest rate risk	**12.2**	**24,961**	**11,054**
Liabilities under insurance or reinsurance contracts	**20**	**7,514,769**	**7,019,204**
Provisions	**21**	**348,811**	**372,779**
Pensions and other post-employment defined benefit obligations		124,265	120,751
Other long-term employee remuneration		1,931	3,863
Proceedings and litigation for outstanding taxes		9,027	12,814
Commitments and guarantees given		33,465	31,656
Other provisions		180,123	203,695
Tax liabilities		**181,263**	**191,630**
Current tax liabilities		2,295	3,152
Deferred tax liabilities	25.4	178,968	188,478
Other liabilities	**22**	**170,181**	**128,112**
Liabilities within disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**49,545,512**	**50,107,677**

(*) Presented for comparison purposes only (Note 1.4).
(**) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 at 1 January 2018 (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

EQUITY (**)	Note	31/12/2018	31/12/2017 (*)
Shareholders' equity	**23**	**3,091,665**	**2,854,915**
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		**350,000**	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		350,000	-
Other equity items		-	-
Retained earnings		521,762	418,783
Revaluation reserves		3,313	3,321
Other reserves		31,510	150,168
Accumulated reserves or losses on investments in jointly-controlled entities and associates		*(44,004)*	*(64,260)*
Other		*75,514*	*214,428*
(Treasury shares)		-	-
Profit attributable to owners of the parent		40,804	138,367
(Interim dividends)		-	-
Other accumulated comprehensive income		**68,562**	**144,077**
Items that will not be reclassified to profit or loss		18,464	(11,607)
Actuarial gains/(losses) on defined benefit pension plans	*24.1*	*(17,367)*	*(11,607)*
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised in joint ventures and associates		-	-
Changes in the fair value of equity instruments measured at fair value changes through other comprehensive income	*24.3*	*35,831*	
Ineffectiveness of fair value hedges of equity instruments measured at fair value through other comprehensive income		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	
Items that may be reclassified to profit or loss		50,098	155,684
Hedges of net investment in foreign operations (effective portion)		-	-
Foreign currency translation		-	-
Hedging derivatives. Cash flow hedge reserve (effective portion)	*24.2*	*9,288*	*(1,169)*
Changes in the fair value of debt instruments measured at fair value through other comprehensive income	*24.3*	*40,200*	
Available-for-sale financial assets			*157,203*
Debt instruments			*85,822*
Equity instruments			*71,381*
Hedging instruments (undesignated items)			
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised at joint ventures and associates		*610*	*(350)*
Non-controlling interests	**23.2**	**-**	**300**
Accumulated other comprehensive income		-	-
Other items		-	300
TOTAL EQUITY		**3,160,227**	**2,999,292**
TOTAL EQUITY AND LIABILITIES		**52,705,739**	**53,106,969**
Memorandum items: off-balance sheet exposures			
Loan commitments given		**2,970,560**	**2,951,517**
Financial guarantees granted	**27.1**	**79,289**	**92,717**
Other commitments given	**27.3**	**908,335**	**787,297**

(*) Presented for comparison purposes only (Note 1.4).
(**) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 at 1 January 2018 (Note 1.4).

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Thousands of euros)

	Note	2018	2017 (*)
Interest income	**28**	**660,894**	**695,983**
Financial assets at fair value through other comprehensive income (1)		146,763	185,917
Financial assets at amortised cost (2)		530,121	482,716
Other		(15,990)	27,350
(Interest expenses)	**29**	**88,743**	**134,827**
(Expenses on share capital repayable on demand)		**-**	**-**
NET INTEREST INCOME		**572,151**	**561,156**
Dividend income	**30**	**11,487**	**12,797**
Share of profit of entities accounted for using the equity method	**31**	**(642)**	**1,303**
Fee and commission income	**32**	**391,622**	**379,967**
(Fee and commission expenses)	**33**	**16,707**	**14,932**
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**34**	**42,802**	**148,273**
(Financial assets at amortised cost)		1,542	21,029
(Remaining financial assets and liabilities)		41,260	127,244
Gains/(losses) on financial assets and liabilities held for trading, net	**34**	**404**	**971**
(Reclassification of financial assets from fair value through other comprehensive income)		-	-
(Reclassification of financial assets from amortised cost)		-	-
(Other gains/(losses))		404	971
Gains/(losses) on non-trading financial assets valued mandatorily at fair value through profit or loss, net	**34**	**(885)**	**-**
(Reclassification of financial assets from fair value through other comprehensive income)		-	-
(Reclassification of financial assets from amortised cost)		-	-
(Other gains/(losses))		(885)	-
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss, net	**34**	**792**	**1,169**
Gains/(losses) from hedge accounting, net	**34**	**511**	**2,111**
Net exchange differences	**35**	**646**	**1,334**
Other operating income	**36**	**42,399**	**155,637**
(Other operating expenses)	**37**	**77,567**	**85,282**
Income from assets covered by insurance and reinsurance contracts	**20.2**	**1,327,536**	**1,150,124**
(Liability expenses covered by insurance or reinsurance contracts)	**20.2**	**1,327,955**	**1,150,414**
GROSS INCOME		**966,594**	**1,164,214**
(Administration expenses)		**617,556**	**668,194**
(Staff expenses)	38	419,505	458,588
(Other administration expenses)	39	198,051	209,606
(Amortisation and depreciation)	**15, 16**	**51,291**	**50,806**
(Provisions or (-) reversal of provisions)	**21**	**(32,870)**	**(2,628)**
(Impairment or (-) reversal of impairment on financial assets not measured fair value through profit or loss or (-) net gain on change)		**154,724**	**185,189**
(Financial assets measured at cost)			11,770
(Financial assets at fair value through other comprehensive income)	10	3,895	
(Available-for-sale financial assets)			1,552
(Financial assets at amortised cost)	11	150,829	
(Loans and receivables)			171,873
(Held-to-maturity investments)			(6)
(Impairment or (-) reversal of impairment on investments in joint businesses or associates)		**-**	**129**
(Impairment or (-) reversal of impairment on non-financial assets)	**40**	**4,962**	**16,075**
(Tangible assets)		1,449	(2,375)
(Intangible assets)		673	-
(Other)		2,840	18,450
Gains/(losses) on derecognition of non-financial assets, net	**41**	**(19,201)**	**8,068**
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**	**(70,900)**	**(71,786)**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**80,830**	**182,731**
(Expense or (-) income from taxes on income from continuing operations)	**25**	**40,026**	**44,373**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**40,804**	**138,358**
Profit/(loss) after tax from discontinued activities		-	**-**
PROFIT/(LOSS) FOR THE YEAR		**40,804**	**138,358**
Attributable to non-controlling interests		-	(9)
Attributable to owners of the parent		40,804	138,367

(*) Presented for comparison purposes only (Note 1.4).
(1) Includes interest at 31 December 2017 on available-for-sale financial assets.
(2) Includes interest at 31 December 2017 on loans and receivables.

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated income statement for 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Thousands of euros)

	Note	2018	2017 (*)
PROFIT/(LOSS) FOR THE YEAR		**40,804**	**138,358**
OTHER COMPREHENSIVE INCOME	**24**	**(74,678)**	**(79,253)**
Items that will not be reclassified to profit or loss		**(42,506)**	**10,151**
Actuarial gains/(losses) on defined benefit pension plans		(8,229)	14,501
Non-current assets and disposal groups of items held for sale		-	-
Share in other income and expense recognised in joint ventures and and associates		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		(53,560)	
Gains/(losses) resulting from hedge accounting of equity instruments at fair value through other comprehensive income, net		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	
Changes in fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	
Income tax relating to items not to be reclassified	25.4	19,283	(4,350)
Items that may be reclassified to profit or loss		**(32,172)**	**(89,404)**
Hedges of net investment in foreign operations (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)		14,939	(1,670)
Valuation gains/(losses) taken to equity		*14,939*	*(1,670)*
Transferred to the income statement		-	-
Transferred to initial carrying amount of hedge items			
Other reclassifications		-	-
Hedging instruments (undesignated items)		-	
Valuation gains/(losses) taken to equity		-	
Transferred to the income statement		-	
Other reclassifications		-	
Debt instruments at fair value through other comprehensive income		(62,270)	
Valuation gains/(losses) taken to equity		*(22,771)*	
Transferred to the income statement	*34*	*(39,499)*	
Other reclassifications		-	
Available-for-sale financial assets			(128,861)
Valuation gains/(losses) taken to equity			*(3,644)*
Transferred to the income statement			*(125,217)*
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 associates		960	210
Income tax relating to items that may be reclassified to profit or loss	25.4	14,199	40,917
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(33,874)**	**59,105**
Attributable to non-controlling interests		-	(9)
Attributable to owners of the parent		(33,874)	59,114

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of recognised income and expense at 31 December 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(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 31/12/2017	**2,144,276**	**-**	**-**	**-**	**418,783**	**3,321**	**150,168**	**-**	**138,367**	**-**	**144,077**	**-**	**300**	**2,999,292**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	(115,872)	-	-	-	(2,045)	-	-	(117,917)
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**418,783**	**3,321**	**34,296**	**-**	**138,367**	**-**	**142,032**	**-**	**300**	**2,881,375**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,804**	**-**	**(74,678)**	**-**	**-**	**(33,874)**
Other changes in equity	**-**	**-**	**350,000**	**-**	**102,979**	**(8)**	**(2,786)**	**-**	**(138,367)**	**-**	**1,208**	**-**	**(300)**	**312,726**
Issuance of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments (Note 23)	-	-	350,000	-	-	-	(2,940)	-	-	-	-	-	-	347,060
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or other shareholder remuneration) (Note 4)	-	-	-	-	(17,500)	-	-	-	-	-	-	-	-	(17,500)
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	120,479	(8)	16,701	-	(138,367)	-	1,195	-	-	**-**
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(300)	(300)
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other increases/(decreases) in equity	-	-	-	-	-	-	(16,547)	-	-	-	13	-	-	(16,534)
							-							
III. Closing balance at 31/12/2018	**2,144,276**	**-**	**350,000**	**-**	**521,762**	**3,313**	**31,510**	**-**	**40,804**	**-**	**68,562**	**-**	**-**	**3,160,227**

(*) See reconciliation of IAS 39 at 31 December 2017 to IFRS 9 at 1 January 2018 (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 2018.

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**

(*) 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 2018.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Thousands of euros)

	Note	2018	2017 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**(2,899,748)**	**(671,410)**
Profit/(loss) for the year	**23**	**40,804**	**138,358**
Adjustments to obtain cash flows from operating activities		**316,000**	**366,783**
Amortisation and depreciation	15 and 16	51,291	50,806
Other adjustments		264,709	315,977
Net increase/decrease in operating assets		**(2,671,039)**	**2,423,901**
Financial assets held for trading		1,961	23,746
Non-trading financial assets mandatorily measured at fair value with changes through profit or loss		3,613	
Financial assets at fair value through profit or loss		1,937	(3,250)
Financial assets at fair value through other comprehensive income		(335,698)	
Available-for-sale financial assets			1,651,679
Financial assets at amortised cost		(2,438,856)	
Loans and receivables			648,193
Other operating assets		96,004	103,533
Net increase/(decrease) in operating liabilities		**(451,573)**	**(3,682,127)**
Financial liabilities held for trading		1,390	(23,954)
Financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		(1,030,134)	(3,816,324)
Other operating liabilities		577,171	158,151
Income tax credit/(payments)		**(133,940)**	**81,675**
B) CASH FLOWS FROM INVESTING ACTIVITIES		**260,804**	**3,421,599**
Payments		**(162,854)**	**(101,488)**
Tangible assets		(66,077)	(36,249)
Intangible assets		(19,216)	(14,097)
Investments in joint ventures and associates		(10,587)	-
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		(66,974)	(25,142)
Held-to-maturity investments			(26,000)
Other payments related to investing activities		-	-
Receipts		**423,658**	**3,523,087**
Tangible assets		93,206	63,830
Intangible assets		-	-
Investments in joint ventures and associates		5,031	23,883
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		325,421	182,196
Held-to-maturity investments			3,253,178
Other receipts related to investing activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**270,637**	**(260,349)**
Payments		**(75,164)**	**(260,349)**
Dividends	4	(17,500)	(35,725)
Subordinated liabilities	19.4	(45,414)	(224,624)
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		(12,250)	-
Receipts		**345,801**	**-**
Subordinated liabilities		-	-
Issuance of own equity instruments		345,801	-
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)		**(2,368,307)**	**2,489,840**
F) CASH AND CASH EQUIVALENTS AT START OF PERIOD		**3,467,597**	**977,757**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,099,290**	**3,467,597**
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	212,847	212,467
Cash equivalents at central banks	6	675,568	3,068,476
Other financial assets	6 and 19.2	210,875	186,654
Less: bank overdrafts repayable on demand		-	-

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

Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of cash flows at 31 December 2018.

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2018

Contents

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2018

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 institution, 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.

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 2018 and 2017, 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 2018 were authorised for issue by the Company's directors at its Board of Directors' meeting held on 1 March 2019, 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 2017 consolidated financial statements were approved at the Bank's Annual General Meeting held on 10 April 2018.

The consolidated financial statements have been prepared having regard to the applicable accounting principles, standards and measurement bases in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter EU-IFRS) and with Bank of Spain Circular 4/2017 of 27 November (hereinafter "Circular 4/2017") as amended, which replaced Circular 4/2004 of 22 December on 1 January 2018, so as to provide a true and fair view of the Group's equity and financial position at 31 December 2018, of the results of its consolidated operations and of the consolidated cash flows for the year then ended.

On 6 December 2017, Bank of Spain Circular 4/2017, of 27 November, was published in the Boletín Oficial del Estado [Official State Gazette], addressed to credit institutions, concerning the rules on public and confidential financial information and model financial statements. The purpose of the Circular, which came into force on 1 January 2018, is to adapt the accounting rules of Spanish credit institutions to the changes in European accounting rules arising from the adoption of IFRS 9 and IFRS 15.

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 2018, 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 2018 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 assets and the estimate of related security (Notes 10, 11, 13, 15 to 18), in particular as regards the changes arising from changes in portfolios as a result of specific business models, the consideration of the "significant increase in credit risk (SICR)" and "default", and the introduction of forward-looking information
- the assumptions used in the actuarial calculation of post-employment remuneration liabilities and commitments and other long-term obligations to employees (Notes 2.13, 38.2 and 38.3), 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 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 financial assets (Note 26),
- the income tax expense and the recoverability of deferred tax assets (Notes 2.14, 25.3 and 25.4),
- the valuation of investments in joint ventures and associates (Note 13), and
- the determination of returns from investments in joint ventures and associates (Note 13).

Although these estimates were made on the basis of the best information available at 31 December 2018 on the events analysed, future events may require them to be modified in coming years, which would occur in accordance with prevailing regulations, with a prospective recognition of the effects of modified estimate in the consolidated financial statements for the years in question.

1.4 Comparative information relating to 2017

Under the regulations in force, the information contained in these consolidated financial statements for 2017 is presented exclusively for the purpose of comparison with the information for 2018, in order to aid understanding.

As indicated in Note 1.11, the Group has adopted IFRS 9 “Financial Instruments” since 1 January 2018. The implementation of IFRS 9 has 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.

In accordance with IFRS 9.7.2.15, the Group has opted not to restate the opening consolidated balance sheet at 1 January 2017 and the consolidated income statement for the year ended 31 December 2017. In addition, the disclosures at 31 December 2017 breaking down certain items on the consolidated balance sheet relating to financial instruments in these notes to the consolidated financial statements have not been restated and, therefore, are not comparable with the information at 31 December 2018.

The impact of these changes on the items in the consolidated balance sheet is detailed below:

ASSETS	Thousands of euros				
	31/12/2017	**Reclassifications due to change in the name of the captions**	**Other reclassifications**	**Valuation adjustments**	**01/01/2018**
Non-trading financial assets mandatorily valued at fair value through profit or loss	**-**	**-**	**161,239**	**(11,893)**	**149,346**
Equity instruments	-	-	41,632	-	41,632
Debt securities	-	-	88,748	(5,620)	83,128
Loans and advances	-	-	30,859	(6,273)	24,586
Customers	-	-	*30,859*	*(6,273)*	*24,586*
Financial assets at fair value through profit or loss	**52,247**	**-**	**(41,632)**	**-**	**10,615**
Equity instruments	41,632	-	(41,632)	-	-
Debt securities	10,615	-	-	-	10,615
Financial assets at fair value through other comprehensive income	**-**	**10,849,926**	**(2,248,320)**	**(3,197)**	**8,598,409**
Equity instruments	-	325,681	-	-	325,681
Debt securities	-	10,524,245	(2,248,320)	(3,197)	8,272,728
Available-for-sale financial assets	**10,849,926**	**(10,849,926)**	**-**	**-**	**-**
Equity instruments	325,681	(325,681)	-	-	-
Debt securities	10,524,245	(10,524,245)	-	-	-
Financial assets at amortised cost	**-**	**35,019,799**	**2,128,713**	**(144,598)**	**37,003,914**
Debt securities	-	2,296,675	2,159,572	(3,650)	4,452,597
Loans and advances	-	32,723,124	(30,859)	(140,948)	32,551,317
Credit institutions	-	*362,419*	-	-	*362,419*
Customers	-	*32,360,705*	*(30,859)*	*(140,948)*	*32,188,898*
Loans and receivables	**35,019,799**	**(35,019,799)**	**-**	**-**	**-**
Debt securities	2,296,675	(2,296,675)	-	-	-
Loans and advances	32,723,124	(32,723,124)	-	-	-
Credit institutions	*362,419*	*(362,419)*	-	-	-
Customers	*32,360,705*	*(32,360,705)*	-	-	-
Tax assets	**1,338,472**	**-**	**-**	**50,406**	**1,388,878**
TOTAL ASSETS	**53,106,969**	**-**	**-**	**(109,282)**	**52,997,687**

LIABILITIES	Thousands of euros				
	31/12/2017	Reclassifications due to change in the name of the captions	Other reclassifications	Valuation adjustments	01/01/2018
Provisions	**372,779**	**-**	**-**	**8,635**	**381,414**
Commitments and guarantees given	31,656	-	-	8,635	40,291
TOTAL LIABILITIES	**50,107,677**	**-**	**-**	**8,635**	**50,116,312**

EQUITY	Thousands of euros				
	31/12/2017	Reclassifications due to change in the name of the captions	Other reclassifications	Valuation adjustments	01/01/2018
Shareholders' equity	**2,854,915**	**-**	**-**	**(115,872)**	**2,739,043**
Other reserves	150,168	-	-	(115,872)	34,296
Other accumulated comprehensive income	**144,077**	**-**	**-**	**(2,045)**	**142,032**
Items that will not be reclassified to profit or loss	(11,607)	-	71,381	-	59,774
Items that may be reclassified to profit or loss	155,684	-	(71,381)	(2,045)	82,258
TOTAL EQUITY	**2,999,292**	**-**	**-**	**(117,917)**	**2,881,375**
TOTAL EQUITY AND LIABILITIES	**53,106,969**	**-**	**-**	**(109,282)**	**52,997,687**

- The changes arising from the modifications to portfolios as a result of the business models defined at the Group (Note 2.2.) 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.

- As detailed in the accounting principles and policies applied by the Group (Note 2.2), certain financial assets that at 31 December 2017 did not comply with the contractual conditions giving rise to cash flows that are only principal and interest payments (SPPI test) have been reclassified following the entry into force of IFRS 9 in the portfolio of *"Non-trading financial assets mandatorily measured at fair value through profit or loss"* in an amount of €108 million, which has resulted in a decrease of €12 million in the balance for which these items were recorded in the Group's consolidated balance sheet at 31 December 2017 and a decrease of €8 million in consolidated equity.

- 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.

Changes in relation to the classification of financial instruments for presentation and measurement purposes and the new requirements for bad debt provisions required by the entry into force of IFRS 9, and the increase in deferred tax assets due to such an increase in provisions, prompted a €118 million decrease in consolidated equity.

The impact on Common Equity Tier 1 CET1 fully loaded of the adoption of the standard was 53 bp The Group applies a progressive 5-year transition period in accordance with Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

In December 2018, Bank of Spain Circular 2/2018 of 21 December was published, amending Circular 4/2017. This new Circular has made some changes to the presentation of the captions of the financial statements, in particular, of the income statement, extending the itemised disclosures required for this statement. These changes have been considered in the preparation of these financial statements, so the information for 2017 has been adapted to the formats of financial statements required by Circular 2/2018, for comparative purposes.

1.5 Agency agreements

Neither at year-end 2018 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 2018 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 European Union governing bodies are completing a review of the existing capital regulatory framework (CRR/CRD IV). The new framework (CRR II/CRDV), which is expected to be adopted in early 2019, incorporates a range of Basel rules, such as the *Fundamental Review of the Trading Book* for market risk, the *Net Stable Funding Ratio* for liquidity risk, SA-CCR for calculating EAD for counterparty risk, and interest rate risk in accordance with the *Banking Book* (IRRBB). Changes are also introduced as to the treatment of central counterparties, the Maximum Distributable Amount (MDA), Pillar 2, leverage ratios and Pillar 3, among others.

The main novelty is the implementation of the TLAC Term Sheet established internationally by the FSB (Financial Stability Board) within the European capital framework, called MREL (Minimum Requirement for own funds and Eligible Liabilities) in such a way that systemic banks will have to comply with the MREL requirements in Pillar 1. Within this package of changes, the Resolution Directive (BRRD) is replaced by BRRD II, where MREL requirements are established by Pillar 2 for all banks in resolution, whether systemic or not, and the resolution authority sets requirements on a case-by-case basis.

The Single Resolution Board's 2017 MREL policy was based on a step-by-step approach to achieve the MREL target level within several years. Non-compliance could lead to a determination that the bank cannot be resolved. As to the subordination requirement, the Single Resolution Board took the view that global systemically important institutions (G-SIIs) must meet, as a minimum, a level of subordination equal to 13.5% of RWAs plus the combined buffer requirement.

In 2018 the SRB set target requirements for MREL at a consolidated level based on the 2017 policy. These targets are set for each resolution group, whether in MPE (Multiple Point of Entry) strategies as in the case of the Group, or in SPE (Single Point of Entry) strategies.

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 2018, the Ibercaja Banco Group was complying with the minimum solvency ratios (Basel Pilar I) demanded by current regulations, as detailed in the following table:

	2018	2017
Capital ratios		
Eligible common equity tier 1 (thousands of euros) (a)	2,495,554	2,610,227
Additional eligible equity tier 1 (thousands of euros) (b)	350,000	-
Eligible equity tier 2 (thousands of euros) (c)	487,640	492,087
Risks (thousands of euros) (d)	21,379,068	22,266,290
Common equity tier 1 ratio (CET 1) (A)=(a)/(d)	11.67%	11.72%
Additional tier 1 capital ratio (AT 1) (B)=(b)/(d)	1.64%	0.00%
Tier 1 capital ratio (Tier 1) (A)+(B)	13.31%	11.72%
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	2.28%	2.21%
Total capital ratio (A)+(B)+(C)	**15.59%**	**13.93%**

	2018	2017
Market leverage		
Tier 1 capital (thousands of euros) (a)	2,845,554	2,610,227
Exposure (thousands of euros) (b)	47,133,663	48,239,586
Leverage ratio (a)/(b)	**6.04%**	**5.41%**

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 2019 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 9% and a total capital ratio of 12.50%. This total capital requirement includes the minimum demanded for Pillar 1 (4.5% CET 1 and 8% of total capital), the Pillar 2 requirement (2%) and the capital conservation buffer (2.5%).

At 31 December 2018, Ibercaja Banco's ratios on a consolidated basis, CET1 of 11.67% and total capital of 15.59%, were 2.67 and 3.09 points, respectively, above the regulatory requirements established for 2019. The total capital ratio includes the Bank's issue in April 2018 of preference shares for a nominal amount of €350 million carried out . The issue is eligible as Additional Tier 1 capital (AT1) (Note 23).

The reconciliation of accounting equity to regulatory equity is as follows:

	Thousands of euros	
	2018	**2017**
Share capital	2,144,276	*2,144,276*
Equity instruments issued other than capital	350,000	-
Retained earnings	*521,762*	*418,783*
Revaluation reserves	*3,313*	*3,321*
Other reserves	*31,510*	*150,168*
Profit/(loss) attributed to the parent	*40,804*	*138,367*
Shareholders' equity in public balance sheet	3,091,665	2,854,915
Other accumulated comprehensive income	*68,562*	*144,077*
Non-controlling interests	-	*300*
Equity in public balance sheet	**3,160,227**	**2,999,292**
Intangible assets	*(212,496)*	*(213,586)*
Deferred tax assets	*(187,411)*	*(144,100)*
Ineligible valuation adjustments	-	*(31,309)*
Transitional adjustment for first-time application of IFRS 9	*99,945*	-
Proposed distribution of dividends	*(17,500)*	*(17,500)*
Securitisations deduction	*(2,082)*	-
Equity instruments ineligible as CET1	*(350,000)*	-
Contingent convertible bonds	-	-
Differences in public equity for prudential purposes	*4,871*	*17,430*
Total adjustments and deductions	(664,673)	(389,065)
Total common equity tier 1 (CET1)	2,495,554	2,610,227
Equity instruments eligible as AT1	*350,000*	-
Other temporary adjustments for additional tier 1 capital	-	-
Total additional tier 1 capital (AT1)	350,000	-
Total tier 1 capital (T1)	2,845,554	2,610,227
Subordinated financing and other	487,640	492,087
Total tier 2 capital (T2)	487,640	492,087
Total eligible shareholders' equity	**3,333,194**	**3,102,314**

Below are the details at 31 December 2018 and 2017 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	
	2018	**2017**
TOTAL ELIGIBLE SHAREHOLDERS' EQUITY	**3,333,194**	**3,102,314**
Tier 1 capital (T1)	**2,845,554**	**2,610,227**
Common equity tier 1 (CET1)	**2,495,554**	**2,610,227**
Equity instruments disbursed	2,144,276	2,144,276
Retained earnings and other reserves	553,812	568,940
Admissible results	23,304	120,867
Revaluation reserves	3,313	3,321
Common equity tier 1 instruments in previous system	-	-
Non-controlling interests	-	87
Valuation adjustments of financial assets at fair value through other comprehensive income	70,061	125,234
Actuarial losses and gains on defined benefit plans	2,832	5,188
Transitional adjustment for first-time application of IFRS 9	99,945	-
Deductions of common equity tier 1 instruments (CET 1)	(401,989)	(357,686)
Securitisations	*(2,082)*	-
Intangible assets	*(212,496)*	*(213,586)*
Deferred tax assets dependent on future earnings	*(187,411)*	*(144,100)*
Additional tier 1 capital (AT1)	**350,000**	-
Additional tier 1 capital instruments in previous system	350,000	-
Deductions of additional tier 1 capital instruments (AT 1)	-	-
Tier 2 capital (T2)	**487,640**	**492,087**
Subordinated financing, subordinated loans and others	487,640	492,087

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 2018 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**	
Company	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Standard&Poors	May 2018	August 2017	B	B	BB+	BB+	Positive	Positive
Moody’s	November 2018	May 2017	NP	NP	Ba3	Ba3	Stable	Stable
Fitch Ratings	May 2018	Abril 2017	B	B	BB+	BB+	Positive	Positive

1.7.6 Stock market launch

The Bank maintains its plans for going public on the stock exchange within the period established by current regulations, before the end of 2020. To complete the preparation of this process, it has engaged as its independent financial advisor an institution with relevant and successful experience in the execution of these projects.

1.8 Single Resolution Fund and Deposit Insurance Fund

1.8.1 Single 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 2018, the expense incurred as a result of the contribution to this body was 11,538 thousand euros (11,809 thousand euros in 2017; 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 2018, the Management Committee of the Deposit Insurance Fund for credit institutions set the contribution to be made for all institutions adhering to the deposit insurance sub-fund at 1.8 per thousand of the amount of insured deposits as at 30 June 2018. Each institution's contribution is calculated on the basis of the amount of insured deposits and their risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, introduced by Bank of Spain Circular 5/2016 of 27 May, as amended by Circular 1/2018 of 31 January. The contribution to the securities insurance sub-fund was set at 2/1000 of 5% of the insured amount of the securities and other financial instruments as 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 (39,704 thousand euros and 42,038 thousand euros at 31 December 2018 and 2017, 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 2018, the expense incurred as a result of all contributions made to this body was 47,680 thousand euros (50,224 thousand euros in 2017). This amount was recognised under "Other operating expenses" (46,738 thousand euros and 49,071 thousand euros in 2018 and 2017, respectively; Note 37) and "Interest costs" (943 thousand euros and 1,153 thousand euros in 2018 and 2017, respectively; Note 29).

1.9 Minimum reserve ratio

At 31 December 2018, and throughout 2018, the Company complied with the minimums required by the minimum reserve ratio. In compliance with the legal obligations prescribed by the European Central Bank, the daily average of the minimum reserves to be held at 31 December 2018 amounted to €306,044 thousand (€311,093 thousand at 31 December 2017).

1.10 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.

1.11 Changes in accounting estimates and criteria

In 2018, 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 2018 were as follows:

Standards and Interpretations	Title
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendment to IFRS 15	Clarifications on IFRS 15 "Revenue from contracts with customers"
Amendment to IFRS 4	Application of IFRS 9 "Financial instruments" with IFRS 4 'Insurance contracts"
Amendment to IFRS 2	Classification and measurement of transactions with share-based payments
Amendment to IAS 40	Transfers of investment property
Annual improvements to IFRS	Cycle 2014-2016
IFRIC 22	Foreign currency transactions and advance consideration

Adoption of IFRS 9 "Financial Instruments".

On 1 January 2018, IFRS 9 "Financial Instruments" entered into force, replacing IAS 39 "Financial Instruments: recognition and measurement" and bringing about a change in the set of accounting requirements for the recognition and measurement of financial assets and liabilities. The application of this standard has also led to significant amendments to IFRS 7 "Financial Instruments: Disclosures".

The accounting policies, principles and measurement bases relating to financial instruments that, following the adoption of IFRS 9, have been applied by the Group in the preparation of these consolidated financial statements are specified in Note 2.2 and Note 2.3. The Group has chosen to use the option permitted by IFRS 9 and continue to apply the requirements of IAS 39 as to the regulation of hedge accounting.

Adoption of IFRS 15 "Revenue from Contracts with Customers".

IFRS 15 establishes new requirements for the recognition of non-financial income, based on the principle that an entity must recognise income to reflect the delivery of the goods or the rendering of the non-financial service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In relation to the above changes, a revenue recognition model structured into five steps is introduced: identify the contract with the customer, identify the separate obligations of the contract, determine the transaction price, allocate the transaction to each identified obligation, and recognise revenue as and when obligations are satisfied.

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 within the scope of IFRS 9, the first-time application of this standard did not have a significant impact on the Group's consolidated financial statements.

Amendment to IFRS 4, "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.

The Ibercaja Banco Group has chosen not to avail itself of that temporary exemption, and IFRS 9 is applicable to the insurance companies that form part of the Group.

Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”.

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.

Such amendment will be effective for years commencing on or after 1 January 2018.

Annual improvements to IFRS, 2014-2016 cycle

These improvements have made non-urgent amendments to IFRS 1 “First-time Adoption of IFRS”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”.

Amendments to IAS 40 “Transfers of 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.

Such amendment will be effective for years commencing on or after 1 January 2018.

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.

Such interpretation will be effective for years commencing on or after 1 January 2018.

Application of these accounting standards has not had a material effect on the Group’s consolidated annual accounts, except for the impacts arising from the adoption of IFRS 9 described in Note 1.4.

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:

<u>Approved for use in the EU</u>

Standards and Interpretations	**Title**
IFRS 16 (*)	Leases
Amendment to IFRS 9 (*)	Prepayment Features with Negative Compensation
IFRIC 23 (*)	Uncertainty over Income Tax Treatments

(*) Applicable for financial years beginning on or after 1 January 2019.

Entry into force of IFRS 16 - "Leases"

In January 2016, the IASB published IFRS 16 "Leases", which replaces IAS 17, IFRIC 4, SIC-15 and SIC-27, and was adopted by the European Union on 31 October 2017 under Regulation (EU) 2017/1986.

IFRS 16 (effective for financial years beginning on or after 1 January 2019, with an early adoption option that the Group has not made use of) establishes the principles for the recognition, measurement, presentation and disclosure of leases in order to ensure that both lessee and lessor provide relevant information that presents a true and fair view of these transactions. The Standard provides a single accounting model for lessees that requires them to recognise right-of-use assets and lease liabilities under all leases unless the lease term is 12 months or less or the underlying asset is low in value.

Transition

The criteria established by that Standard for recognition of leases shall apply retrospectively by adjusting the opening balance sheet at the date of first-time application (1 January 2019). The Group has decided to apply the practical solution permitted by the Standard of not determining on first-time application whether a contract is or contains a lease under the new definition, and will therefore apply IFRS 16 only to contracts that were identified as leases previously.

The Ibercaja Group has estimated an impact on Common Equity Tier 1 - CET 1 fully loaded of 4 basis points. Assets for rights of use amounting to approximately €62 million and lease liabilities of an equal amount have also been recognised.

The impact is mainly caused by the requirements to recognise the asset for rights of use and the lease liability arising from all the leases in effect on the date of first-time application: the most significant impact for the Group relates to leased properties.

IFRS 16 implementation strategy and governance

The Group drew up an end-to-end project to adapt its processes to the new accounting standard for leases. In the second half of 2018, in addition to analysing the property leases, with the support of an independent expert and the joint involvement of the Accounting, Purchasing, Technology Management and Strategy and Real Estate areas, a detailed analysis was carried out of all the lease expense items in the income statement in order to identify leases that involve use of equipment owned by third parties. Once the potentially affected lease expense items had been pinpointed, the related suppliers were identified and, after analysing the contracts signed with these suppliers, they were classified into the following types: leases, leasebacks and "other contracts".

An analysis was then performed to ascertain the existence of leases in accordance with IFRS 16, taking into account contracts of each of the types identified. The process was structured into the following activities:

- Analysis and conclusion as to whether or not the contracts of each type constituted a lease.

- If it does, verification of whether such a type fell within the exceptions to the scope of paragraph 3 of IFRS 16 or the voluntary exemption for intangible assets in paragraph 4 of the Standard.

- For the resulting contract population, development of a database with the fields required to support the calculations required by the Standard.

The Capital Strategy and Balance Sheet Unit has determined the incremental interest rate, as required by the Standard for the transition under the modified retrospective model. This rate is calculated considering the Ibercaja financing curves and the adjustments required by IFRS 16.

In the light of all this, the Accounting Department proceeded to update the accounting policies document, establishing that:

- The Group will elect to avail itself of the exemptions for short-term contracts and low-value assets.

- With the exception of offices and branches, it is not considered reasonably certain that any extensions that may be included in the contract will be exercised, and therefore the lease term will be the minimum contractual term provided for in the contract. In the case of offices and branches, when Ibercaja has unilateral extension options, the following approach is taken:

    a) When the contractual minimum, calculated from the date of transition, is greater than three years, that minimum is applied, on the basis that, having regard to the trend identified by the Ibercaja Banco Group in its branch network, this is a sufficiently distant period for it to be impossible to confirm with reasonable probability that the extension option will be exercised.

    b) When the contractual minimum is less than three years as from the date of transition, and there is an option for unilateral extension by the Ibercaja Group, the exercise of this extension option to three years has been considered to be reasonably certain, since this period is in line with the trend identified by the Ibercaja Group in its branch network. The same test has been used in cases where the contractual minimum was greater than three years but the Group has an option for unilateral exit without penalty.

Amendments to IFRS 9 “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.

IFRIC 23 “Uncertainty over Income Tax Treatments”

The interpretation provides 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.

Not approved for use in the EU

Standards and Interpretations	**Title**
Amendment to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture
IFRS 17 (***)	Insurance contracts
Annual improvements to IFRS	Cycle 2015-2017
Amendment to IAS 28 (*)	Long-term interests in associates and joint ventures
Amendment to IAS 19 (*)	Plan amendment, curtailment or settlement
Amendments to the IFRS Conceptual Framework (**)	Amendments to references to the IFRS Conceptual Framework
Amendment to IFRS 3 (**)	Definition of a business
Amendment to IAS 1 and IAS 8 (**)	Definition of “material”

(*) Applicable for financial years beginning on or after 1 January 2019.
(**) Applicable for financial years beginning on or after 1 January 2020.
(***) Applicable for financial years beginning on or after 1 January 2021.

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 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.

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.

Cycle 2015-2017

These improvements introduce minor amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs" and IAS 28 "Investments in Associates and Joint Ventures".

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".

This amendment to IAS 19 requires an entity to use current actuarial assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, with recognition in profit or loss as part of past service cost, or as a gain or loss on settlement, or any curtailment in a surplus, even if that surplus was not previously recognised because of the impact of the asset limit.

This amendment shall be applied prospectively to amendments, settlements or curtailments of defined benefit plans that occur on or after 1 January 2019. Early application is also permitted.

Amendments to references to the IFRS Conceptual Framework

The Conceptual Framework sets out the fundamental concepts applied in implementation of new IFRS and helps to ensure they are consistent and that similar transactions are recognised in the same way in order to provide useful information to users. It also helps entities to develop their own accounting criteria when there are no fully implemented standards applicable to a particular transaction.

The revised Framework entered into force in March 2018 and, among other things, reintroduces the concept of prudence, modifies the definitions of assets and liabilities, introduces clarifications on the recognition and derecognition of assets and liabilities and on the basis of measurement of financial statement items, and places profit or loss as the key indicator of an entity's performance.

In addition, the IASB released the paper "Amendments to References to the Conceptual Framework in IFRS Standards", which updates the references included in various IFRS to the new Conceptual Framework. These amendments will apply from 1 January 2020, with early adoption permitted.

Amendments to IFRS 3 "Business Combinations"

The purpose of these amendments is to improve the definition of a business in order to help entities differentiate between asset purchases and business acquisitions. This distinction is relevant because it is only business acquisitions that generate goodwill.

The modified definition of a business stresses that the aim of a business is to provide goods and services to consumers, whereas the old definition focused on obtaining dividends, reducing costs or other benefits for investors.

Amendments to IAS 1 and IAS 8 "Definition of Material".

These amendments clarify the definition of "material" by introducing, in addition to omitted or misstated items that may influence users' decisions, the concept of "obscuring" information. Such amendments make IFRS more consistent, but are not expected to have a significant impact on the preparation of financial statements.

The changes shall apply to financial years beginning on or after 1 January 2020, although early adoption is permitted.

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.

2. Accounting policies and measurement bases

The accounting policies and measurement bases used in the preparation of the Group's 2018 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.

These 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, investment 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, or
- the risks and rewards associated with the transferred financial asset are not substantially transferred or retained - this being the case of sales of financial assets with an acquired call or written put option that are not deeply in or out of the money, or securitisations in which the transferor assumes subordinated financing or other credit enhancements for part of the transferred asset and other similar cases - if the transferor does not retain control of the transferred financial asset, it is derecognised and any rights or obligations retained or created as a result of the transfer are recognised.

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 interested 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.

All investments in equity instruments and contracts relating to such instruments are measured at fair value.

Amortised cost is the amount at which a financial asset or liability is measured at initial recognition, as corrected by principal repayments and by the cumulative amortisation of any difference between that initial amount and the maturity amount of the financial instrument, using the effective interest rate method. In the case of financial assets, amortised cost also includes any impairment loss allowances.

The effective interest rate is the discount rate that matches the gross carrying amount of a financial asset or the carrying amount of a financial liability to estimated cash flows over the expected life of the instrument, based on the contractual terms and disregarding expected credit losses. For fixed-rate financial instruments, the effective interest rate is the contractual interest rate set upon acquisition, adjusted by any fees and transaction costs that in accordance with current legislation form part of the effective yield or cost of the instrument and must therefore be considered in the calculation of the 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

<u>Business model and contractual cash flow characteristics of financial assets</u>

Financial assets are classified into different categories depending on the business model under which they are managed and the contractual characteristics of their cash flows.

“Business model” means the way in which the Group manages its financial assets to generate cash flows, having regard to how groups of financial assets are managed together to achieve a specific objective. So a business model does not depend on the Group’s intentions for an individual instrument but is determined for a wider set of instruments.

Specifically, the business models used by the Group consist of holding financial assets to collect their related contractual cash flows, selling such assets, or a combination of both approaches (mixed model):

- *Holding financial assets to collect their related contractual cash flows:* the Group’s objective is to hold financial assets to collect their related contractual cash flows. In accordance with the requirements of the standard, debt instruments managed under this model are rarely or never sold, i.e., sales are merely accessory and subject to restrictions. However, the Group takes the view that sales of financial assets close to maturity and sales prompted by increased credit risk or the need to manage concentration risk are consistent with this business model.

- *Sale of financial assets:* the Group’s objective is to realise gains and losses on financial assets.

- *Mixed model:* the Group’s objective combines collection of contractual cash flows and realisation of financial assets. For financial instruments managed under the mixed model, sales are essential and not accessory; therefore, sales are unrestricted.

Based on the characteristics of its contractual cash flows, a financial asset is initially classified into one of the following categories:

- Financial assets whose contractual terms give rise, on specified dates, to cash flows consisting only of payments of principal and interest on principal outstanding.

- Other financial assets:

For the purposes of this classification, the principal of a financial asset is its fair value at the time of initial recognition. That amount may change over the life of the financial asset: for example, after repayments of principal. Interest is defined as the sum of the consideration for the time value of money, for financing and structural costs, and for the credit risk associated with the principal amount outstanding during a specified period, plus a profit margin.

Although, given the nature of the Group’s business, almost none of its debt instruments give rise to cash flows other than payments of principal and interest, the Group monitors compliance with the contractual conditions of its financial assets (solely payments of principal and interest, SPPI test) and classifies such assets accordingly.

Classification and portfolios of financial instruments for presentation and measurement purposes

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

- **Financial assets at amortised cost:** this category includes financial assets that are managed under a business model that holds assets to collect their contractual cash flows and whose contractual terms give rise to cash flows on specified dates, which are solely principal and interest payments on the outstanding principal amount.

  This portfolio includes financing to third parties from typical credit and lending activities, debt securities satisfying the two conditions set out above, and debts incurred by purchasers of goods and by users of services. 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 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.

  Income and expenses from financial instruments at amortised cost are recognised on the following basis:

  - Accrued interest is recognised under "Interest income" in the consolidated income statement, using the effective interest rate of the transaction on the gross carrying amount of the transaction (except in the case of non-performing assets, where the rate is applied to the net carrying amount).

  - Other changes in value are recognised as income or expense when the financial instrument is derecognised; when it is reclassified; when there are exchange differences (see Note 2.5.3) and when there are impairment losses or gains due to subsequent recovery.

- **Financial assets at fair value through other comprehensive income**: this category mainly includes debt instruments acquired to manage the Company's balance sheet, which are managed using a mixed business model whose objective combines collection of contractual cash flows and sales, and whose contractual terms give rise to cash flows on specified dates, which are solely payments of principal and interest on the outstanding principal amount.

  In addition, the Group has opted to include in this portfolio the investments it holds in equity instruments that should not be classified to the portfolio of "Financial assets held for trading" and that, but for the use of this option, would be classified as financial assets mandatorily measured at fair value through profit or loss. This optional treatment is applied instrument by instrument.

  Instruments included in this category are initially measured at fair value, adjusted by transaction costs directly attributable to the acquisition of the financial asset. After acquisition, financial assets included in this category are measured at fair value through other comprehensive income.

  Income and expenses of financial assets at fair value through other comprehensive income are recognised on the following basis:

  - Accrued interest or, where applicable, accrued dividends are recognised in the consolidated income statement.

  - Exchange differences are recognised in the income statement in the case of monetary financial assets and in other comprehensive income, net of tax effects, in the case of non-monetary financial assets.

- For debt instruments, impairment losses or gains on subsequent recovery are recognised in the consolidated income statement.

- Other changes in value are recognised, net of tax effects, in other comprehensive income.

When a debt instrument at fair value through other comprehensive income is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to profit or loss for the period. However, when an equity instrument at fair value through other comprehensive income is derecognised, the amount of the gain or loss recognised in other comprehensive income is reclassified not to profit or loss but to an item of reserves.

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

  - **Financial assets and liabilities held for trading:** 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.

  - **Financial assets not held for trading mandatorily measured at fair value through profit or loss:** financial assets whose contractual terms do not pass the SPPI test, i.e., they do not give rise to cash flows consisting solely of principal and interest payments on the outstanding principal amount, as defined in the previous section.

  - **Financial assets and liabilities designated at fair value through profit or loss:** to avoid differences between the measurement bases of the related assets and liabilities, the Group classifies to this portfolio any debt instruments that are managed jointly with insurance contract liabilities ("Unit-linked"), measured at fair value.

A financial asset is classified to the portfolio of financial assets held for trading or the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss if the Group's business model for its management or the characteristics of its contractual cash flows do not warrant classification to any of the financial asset portfolios described above.

Financial instruments classified at fair value through profit or loss are initially measured at fair value, and directly attributable transaction costs are recognised immediately in the income statement.

Income and expenses of financial instruments at fair value through profit or loss are recognised on the following basis:

  - Changes in fair value are recognised directly in the consolidated income statement, distinguishing, for non-derivative instruments, between the portion attributable to the instrument's accrued income, which is recognised as interest or dividends depending on its nature, and the remainder, which is recorded as gains/losses on financial transactions with a balancing entry under the headings "Gains/losses on financial assets and liabilities held for trading (net)", "Gains/losses on non-trading financial assets mandatorily measured at fair value through profit or loss (net)" and "Gains/losses on financial assets and liabilities designated at fair value through profit or loss (net)" of the consolidated income statement.

- Accrued interest on debt instruments is calculated using the effective interest method.

In relation to derivative instruments, the Group 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 paragraph 48 of IFRS 13.

- **Financial liabilities at amortised cost:** this category of financial instruments includes those financial liabilities that do not belong to any of the above categories and reflect the typical funding activities of financial institutions.

  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 or other form of exposure to credit risk is considered to be impaired when there is objective evidence that events have occurred that:

- in the case of debt instruments (loans and advances and debt securities), have an adverse impact on future cash flows as estimated at the time of entering into the transaction.
- in the case of other exposures involving credit risk other than debt instruments, an adverse impact on the future cash flows that would be due in the case of the drawdown of the loan commitment and the cash flows that are expected to be collected if the loan commitment is drawn, or in the case of financial security granted, on the payments that the entity expects to make.

Impairment losses on debt instruments arising in the period are recognised as an expense under “Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss” in the consolidated income statement. For debt instruments classified as financial assets at amortised cost, such impairment losses are recognised against an allowance account that reduces the carrying amount of the asset, while for debt instruments at fair value through other comprehensive income, impairment losses are recognised against “other accumulated comprehensive income”.

Allowances for impairment losses on exposures involving credit risk other than debt instruments are recorded on the liability side of the balance sheet as a provision. Impairment losses arising in the period for these exposures are recognised as an expense in the consolidated income statement.

Subsequent reversals of previously recognised impairment losses are immediately recognised as income in the consolidated income statement for the period.

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. For debt instruments at amortised cost, the Group 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 likelihood of recovery is remote.

Interest accrual is recognised in the consolidated income statement by applying the effective interest rate to the gross carrying amount of the transaction, in the case of transactions classified as normal risk (stage 1) and normal risk under special watch (stage 2); while such recognition is carried out by applying the effective interest rate at amortised cost, i.e. adjusted for any impairment correction, in the case of transactions classified as non-performing risk (stage 3).

Following are the criteria applied by the Group to determine potential impairment losses in each of the different financial instrument categories, together with the method used to calculate the allowances recognised for such impairment.

Debt instruments and other exposures involving credit risk

Within the framework of EU-IFRS, International Financial Reporting Standard 9, "Financial Instruments", which sets the criteria for measurement and impairment of financial assets, it is considered important to link credit risk monitoring policies to the accounting recognition of provisions under IFRS.

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 followed in the "Loan and discount risk management policy and procedure 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 estimate the impairment loss.

The credit risk characteristics considered for grouping instruments are, among others: type of instrument, debtor's sector of activity, geographical area of activity, type of security, age of past-due amounts and any other factor relevant to the estimation of future cash flows.

The Group has policies, methods and procedures in place to estimate expected losses as a result of credit risk exposures, 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 to identify borrowers and bond issuers displaying significant increases in risk or objective evidence of impairment and classify them on the basis of their credit risk.

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

Classification category definitions

Credit exposures are classified according to credit risk as follows:

- Performing (stage 1): a transaction is considered to be at this stage when no significant increase in risk has occurred since its initial recognition. Where appropriate, the impairment loss allowance will reflect the expected credit losses arising from possible default during the 12 months following the reporting date.

- Performing on special watch (stage 2): when the risk has significantly increased from the date on which the transaction was initially recognised, but without leading to impairment, the transaction will be classified to stage 2. 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.

- Non-performing (stage 3): a transaction will be catalogued as stage 3 when it shows effective signs of impairment as a result of one or more events that have already occurred and 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.

    - 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, the likelihood of recovery is considered remote due to a significant impairment, or where the solvency of the transaction or of 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.

Transactions purchased or originated with credit impairment

As at 31 December 2018, there were no transactions purchased or originated with credit impairment. In recent years, the Bank has not acquired assets at a significant discount in accordance with the materiality threshold established by Group management. The assets acquired at the greatest discount in prior years are not in the portfolio at the current date because they were written off by Group management or because they were converted into repossessed assets.

Transaction classification criteria

The Group applies a range of criteria to classify borrowers, bond issuers and transactions among the different categories, depending on the related 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 advance identification of significantly increased risk or indications of impairment of transactions, the Group has constructed a series of indicators, distinguishing between significant and non-significant borrowers, which encompass all default events and signals depending on the composition of the relevant 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.

To evaluate the significant increase in credit risk, the quantitative measurement indicators used in ordinary credit risk management are taken into account, such as the increased risk of default in any of the key indicators for which a threshold has previously been defined that depends on the management practices of each portfolio; for example, defaults of between 30 and 90 days are considered, except in cases where the unpaid amount does not exceed the materiality thresholds established by Group management for each portfolio, or increases in the Probability of Default (PD) at the reporting date with respect to the PD at the time of origination, based on specified 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.

The definition of default is based on a non-payment period exceeding 90 days, except in the events referred to in the above paragraph, 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.

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 Group has identified the following as individually significant borrowers:

- Borrowers/issuers with EAD (exposure at default) in excess of €3 million.
- Borrowers classified as doubtful for reasons other than default due to non-automatic factors (manually identified default).
- Borrowers without appreciable risk classified as doubtful for accounting purposes, irrespective of EAD.

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 to identify 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 analyses borrowers with activated triggers to conclude on the existence or otherwise of a significant increase of risk or objective evidence of impairment and, in the event that there is evidence of impairment, whether the event(s) causing the loss have any impact on estimated future cash flows from the financial asset or group of financial 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 specified 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 materiality threshold and additionally have not been classified as doubtful or under special watch by the automatic classification algorithm, the Group has constructed a synthetic indicator to identify exposures that display significantly increased risk or weaknesses which could entail losses that are higher than those in other similar transactions classified as performing. In this respect the Group has laid down thresholds that, once exceeded, entail an automatic classification as performing exposure under special watch due to the significant increase in risk or weaknesses.

For borrowers assessed with a group approach, thresholds were set 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.

Refinancing and restructuring

Once a transaction has been identified as refinancing, refinanced or restructured, it may only be classified as non-performing 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.

- Transactions based on an unsuitable payment plan - because the plan has been repeatedly breached, because it has been modified to avoid default, or because it is based on expectations that are not properly supported by macroeconomic forecasts.

For a refinancing or restructuring classified as non-performing to be upgraded to “under special watch”, all the criteria that generally determine the classification of transactions outside the category of non-performing risk must be satisfied, and, furthermore:

- It has been concluded, following an exhaustive review of the borrower’s assets and financial position, that it is unlikely the borrower will encounter financial difficulties.

- One year has elapsed from the date of refinancing or restructuring.

- Accrued principal repayments and interest payments must be met, reducing the renegotiated capital. The transaction cannot have overdue amounts.

- 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, entails that the transaction remains under special watch.

- 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:

- It has been concluded, following an exhaustive review of the borrower's assets and financial position, that it is unlikely the borrower will encounter financial difficulties.

- A minimum of two years elapse from the formalisation of the operation or from reclassification from doubtful exposures.

- The borrower has paid principal and interest accruing since the date of the refinancing or since the date of reclassification from non-performing exposure.

- 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.

The Group's refinancing, restructuring, renewal and renegotiation policies are described in Note 3.5.5.2 to these financial statements.

Determination of provisions

Once the accounting classification of the borrower and of the related transactions has been determined, credit risk allowances are calculated. These allowances can be calculated by individual analysis or collective analysis.

Transactions of borrowers in respect of which - as a result of individual analysis - it is determined that there has been neither a significant increase in risk since initial recognition nor objective evidence of impairment are included (whether material or not) in a group of transactions with similar credit risk characteristics, and are tested collectively for impairment.

In contrast, individually material borrower transactions classified as non-performing or under special watch are not included in the collective impairment test.

The criteria for selecting portfolios for creating internal models for collective impairment testing follow the principles of materiality and complexity, and provide results that are in line with the real situation of the transactions in the current economic environment.

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

The amount of impairment loss provisions is calculated on the basis of whether or not there has been a significant increase in credit risk since the initial recognition of the transaction and whether or not an event of default has occurred. Thus, the allowance for impairment losses on transactions is equal to:

- The expected credit losses over twelve months, when the risk of an event of default in the transaction has not increased significantly since initial recognition (stage 1).

- The expected credit losses over the lifetime of the transaction, if the risk of an event of default in the transaction has increased significantly since initial recognition (stage 2).

- The expected credit losses over the lifetime of the transaction, if an event of default has occurred (stage 3).

The Group uses forward-looking information in the calculation of the expected loss, for which it uses scenario projection models.

The application of a range of scenarios to reflect the effect of non-linearity of losses entails estimation of the allowances required in different scenarios, including those that are unlikely but plausible. Specifically, three macroeconomic scenarios were considered, a base case scenario, an adverse scenario and a favourable scenario, which were specified 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.

- <u>Base case scenario:</u>

  The growth environment, together with protectionism, is conducive to higher inflation and tighter overall financing conditions.

  The Spanish economy will show slower growth than in recent years, but will continue to outperform the euro area as a whole. Domestic demand will continue to be the main driver of the economy.

- <u>Adverse scenario:</u>

  Rising inflation in developed countries, with central banks raising interest rates at a faster pace than in the base case scenario. This leads to an upturn in the term premium and long-term government bond yields. Economic activity declines and it is hard to stabilise government debt. Rising oil prices bring about a loss of competitiveness, endangering current account surpluses.

- <u>Favourable scenario:</u>

  Improved productivity and an absence of inflationary pressures. Moderate interest rate hikes. This environment has a positive effect on the financial sector and government finances, prompting upgrades in the rating of sovereign debt on the European periphery.

The Group estimated the pre-payment rates for a range of different products and segments based on observed historical data. These pre-payment rates are applied to determine the expected loss on the exposures classified in Stage 1 and Stage 2. Also, the repayment table agreed for each transaction is applied.

Transactions identified as not carrying appreciable risk (essentially transactions with central banks, government bodies and state-controlled corporations, and financial institutions, all belonging to the European Union or certain countries regarded as risk-free) are assigned an allowance percentage of 0%, except for transactions classed as non-performing, for 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 transactions classified as non-performing, an estimate is made of expected losses, defined as the difference between the current exposure amount and the estimated future cash flows, as described below.

Subsequently, those cash flows are discounted at the current effective interest rate of the financial asset (if the contractual rate is fixed) or at the contractual interest rate effective on the date of discounting (if the contractual 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:

- Allowances for non-performing transactions or special watch of individually material borrowers.
- Allowances for transactions that are non-performing for reasons other than late payment, except if classified to this category exclusively on the basis of automatic classification factors; and allowances for transactions classified as performing under special watch as a result of individual analysis of the transaction where some factor other than the automatic factors had a decisive influence.
- 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 these allowances: calculating the difference between the carrying amount of the asset and the present value of the future cash flows expected to be collected (excluding future credit losses not incurred), discounted at the current effective interest rate of the financial asset. 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 enforcement of the security, less costs of obtaining and selling the collateral, whether or not enforcement is probable, with application of a haircut to the collateral.

The following methods for calculating the recoverable amount of assets tested 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.

c) Mixed approach: individual analysis of the borrower in which the two previous approaches are combined, enforcing secondary (non-essential) collateral.

The Group uses macroeconomic scenarios in its method for calculating provisions for individually material borrowers via an add-on calculated on the basis of the Group's internal models.

<u>Collective provision estimates</u>

The following are estimated on a collective basis:

- Exposures classified as performing or as performing under special watch that are not assessed through individualised allowance estimates.
- 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 Group has conducted a prior study of the operations used in the collective calculation of provisions. As a result of this study, the Group has chosen the following portfolios to be used in the development of internal methodologies:

- Home purchases.
- Credit cards.
- Companies.

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

- Consumer.
- Self-employed.
- Large corporations.
- Property developers.

When calculating a collective impairment loss, the Group, in accordance with IFRS 9 and taking into account Bank of Spain Circular 4/2017, mainly takes into consideration the following aspects:

- The impairment estimate process takes into account all credit exposures except performing loans with no appreciable risk for which impairment estimation methods are used based on statistical data and models that aggregate the average behaviour across Spanish banking institutions. The Group 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. The Group has identified the following transactions without appreciable risk for the estimation of credit risk allowances:

  - Transactions with central banks.
  - Transactions with the government bodies of European Union countries, including those arising from reverse repurchase loans of debt securities.
  - Transactions with central governments of countries classified in group 1 for country-risk purposes.
  - Transactions in the name of deposit insurance funds and resolution funds, provided that they are comparable in credit quality to those of the European Union.
  - Transactions with credit institutions and credit financial institutions of European Union countries and, in general, of countries classified in Group 1 for country-risk purposes.
  - Transactions with Spanish mutual guarantee companies and with government bodies or government-controlled companies from other countries classified in Group 1 for country-risk purposes whose main activity is credit insurance or guarantee.
  - Transactions with non-financial corporations that qualify as public-sector.
  - Advances on pension benefits and pay packets corresponding to the following month, provided that the paying entity is a government body and the payments are made to the bank on standing orders, and
  - Advances other than loans.

- 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 into groups according to the economic performance of the respective countries, their political situation, regulatory and institutional framework, and payment ability and history.

Debt instruments or off-balance-sheet exposures with final obligors resident in countries with persistent difficulties in servicing their debt are considered non-performing assets due to the materialisation of country risk: the possibility of recovery is considered doubtful. The same applies to off-balance-sheet exposures for which the likelihood of recovery is considered remote, unless they are to be classified as write-offs.

Allowances are estimated in two stages: first, we estimate the allowance for insolvency risk and then the additional allowance for country risk.

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 property 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.

2.4 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 hedge (effective portion) reserve until the time when 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

Ibercaja Banco’s presentation and functional currency is the euro. The Group’s presentation currency is also 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			
	2018		2017	
	Assets	Liabilities/Equity	Assets	Liabilities/Equity
Breakdown by type of portfolio -				
Financial assets/liabilities at fair value with changes in equity	77,438	1,884	15,345	(1,136)
Financial assets/liabilities at amortised cost	59,400	51,291	72,181	42,236
Other	-	996	-	-
	136,838	**54,171**	**87,526**	**41,100**
Breakdown by type of currency -				
US dollar	128,291	47,295	65,148	37,300
Pound sterling	5,254	2,160	17,794	1,432
Swiss franc	1,267	936	1,839	1,726
Japanese yen	1,097	32	1,496	37
Canadian dollar	76	10	442	12
Other	853	3,738	807	593
	136,838	**54,171**	**87,526**	**41,100**

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 arising on the translation of foreign currency balances to the functional currency of the consolidated entities are generally recognised at their net amount under "Exchange differences (net)" of the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement under "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)", without differentiating them from other changes in fair value and exchange differences arising on non-monetary items whose fair value is adjusted with a balancing entry in consolidated equity, which are recognised under "Accumulated other comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value through other comprehensive income".

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 2018 and 2017 there is no balance in that caption since equity instruments denominated in foreign currencies are hedged against foreign exchange risks by means of fair value hedges in which the hedging instruments are interbank deposits, allowing changes in value caused by foreign exchange fluctuations to be recognised in the income statement.

2.6 Recognition of income and expenses

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

They are recognised for accounting purposes when the goods are delivered or the non-financial service is rendered. To determine the amount and timing of recognition, a five-step model is followed: identify the contract with the customer, identify the separate obligations of the contract, determine the transaction price, allocate the transaction to each identified obligation, and finally recognise revenue as and when obligations are satisfied.

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.

2.6.5 Contributions to the Single Resolution Fund and Deposit Insurance Fund

In accordance with IFRIC 21, recognition of the obligation, which entails recording the amount accrued to date, takes place upon receipt of the payment notification (second quarter for the contribution to the Single Resolution Fund and fourth quarter for the contribution to the Deposit Insurance Fund).

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.

Therefore, financial assets are only derecognised from the consolidated balance sheet when the cash flows they generate have been extinguished, when the risks and rewards involved have been substantially transferred to third parties, and when the transferor does not retain control of the transferred financial asset.

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.

Financial guarantees, whatever the holder or instrumentation, are analysed periodically to determine the credit risk to which they are exposed and, where appropriate, to estimate the need to create a provision for them, which is determined by applying criteria similar to those used to quantify impairment losses on debt instruments, as explained in Note 2.3. 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 to active employees 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 €15,888 thousand in 2018 and €17,379 thousand in 2017.

Defined benefit plans

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.

Pension supplements for serving or retired personnel

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

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 39 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 0.50% 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 39 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 property assets or assets received in settlement of debts by the Group in order to partially or fully meet the payment obligations of its debtors are considered non-current assets and disposal groups of items that are classified as held for sale, unless the decision has been taken to make continuing use of these assets or they are used in operations as leased properties.

- The carrying value at the date of acquisition of non-current assets and disposal groups of items that are classified as held for sale from foreclosures or received in settlement of debts is defined as the outstanding amount receivable of loans or credit facilities from which they originate net of any related provisions according to their accounting classification before receiving said assets. These repossessed assets or assets received in settlement of debts are treated as collateral. This carrying amount is compared with the previous carrying amount and the difference is recognised as an increase 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. 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 consolidated financial statements, although they are disclosed 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 general, income and expenses recognised directly in equity are disclosed at the gross amount and the relevant tax effect is reflected under “Income tax”.

Therefore, this statement shows:

a) Consolidated profit/(loss) for the year.

b) The net amount of income and expenses recognised as “Other accumulated comprehensive income” in equity, which will not be reclassified to profit or loss.

c) The net amount of income and expenses recognised in equity, which may be reclassified to profit or loss.

d) Income tax accrued on the items indicated in (b) and (c) above, except for adjustments to other comprehensive income arising from investments in associates or jointly controlled entities accounted for using the equity method, which are presented on a net basis.

e) Total consolidated recognised income and expenses, calculated as the sum of the foregoing letters, showing separately the amount attributed to the parent and the amount attributed to non-controlling interests.

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 performed with financial instruments are treated as operating activities, with some exceptions, such as financial assets in the portfolio of financial assets at amortised cost, equity instruments classified as financial assets at fair value through other comprehensive income that are strategic investments, and subordinated 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

3.1 General principles

The Ibercaja Group’s risk management is based on the strategic principles described below:

- Maintenance of a medium-low risk profile.
- Compliance with regulatory requirements at all times, and with the capital and liquidity targets set in the capital and liquidity self-assessment processes.
- Maintenance of suitable levels of risk-adjusted returns to ensure achievement of profit targets.
- Avoid concentration of risks in any form (individual, economic groups, sectorial, etc).
- Avoid the materialisation of operational, regulatory, legal or reputational risks through active and continuing risk management.
- Strong risk governance with the effective involvement of senior management and the Board of Directors.
- Foster a risk-aware culture and support the Organisation’s suitable understanding of the level and nature of risks to which it is exposed.
- Maintain and reinforce the trust of customers, investors, employees, suppliers and other stakeholders.

3.2 Catalogue of material risks for the Ibercaja Group

The material risks identified by the Ibercaja Group in the course of its business are as follows:

- Credit risk: the risk of loss due to borrowers’ breach of payment obligations, and loss of value due to impairment in borrowers’ credit quality. Includes sovereign risk
- Concentration risk: risk 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 Group.

- Operational Risk: reflects potential loss resulting from a failure to adequately design or implement processes, personnel and internal systems, or a loss arising from external events. Includes the following sub-categories:
    - Reputational risk: Risk tied to the perception of stakeholders (customers, investors, employees, suppliers and others), from which economic losses may derive.
    - Legal risk: the possibility of financial loss due to failure to comply with applicable legal and administrative provisions, issuance of unfavourable administrative and judicial decisions, application of fines or sanctions in relation to any of the bank's operations, processes or activities, such as errors in legal opinions, contracts, bonds or any legal document, such as to preclude enforceability of a right or determine the legal impossibility of enforcing a contract due to failures of legal implementation.
    - Technological risk: the probability that the bank's ICT (information and communication technologies) services or infrastructure will not achieve the service levels necessary to support business processes with sufficient effectiveness, as a consequence of an event that affects the availability, integrity or confidentiality of the data, applications and networks that make up such infrastructure, causing economic loss or other types of loss.
- 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, commodity prices, etc.) that determine the value of those positions. This risk affects the trading portfolio and the "hold to collect and sell" portfolio.
- Interest rate risk: the risk that the financial margin or economic value of the Bank are affected by adverse variations in interest rates that impact the cash flows of financial instruments.
- Liquidity and financing risk: the possibility of incurring losses due to not having access to sufficient liquid funds to meet payment obligations.
- Business and profitability risk: the probability of incurring losses as a result of not generating sufficient profitable business volume to cover the costs incurred. In addition, the risk encompasses extraordinary threats, which may endanger the continuity of the business or the Bank.
- Insurance business risk. In addition to its banking business risk, Ibercaja Banco, as a financial conglomerate, must specifically manage and control its insurance business risk. Material risks of this business include interest rate risk, spread risk, concentration risk, counterparty risk, underwriting risk, operational risk and sovereign risk.

3.3 Global risk management processes and tools

Risk Appetite Framework (RAF)

The Group's risk management is organised through the Risk Appetite Framework (RAF). The key aim of the Ibercaja Group's RAF is to establish a set of principles, procedures, controls and systems through which the Bank's risk appetite is specified, communicated and monitored.

Risk appetite is the level or profile of risk that the Ibercaja Group is willing to accept and maintain, in terms of type and amount, and its level of tolerance. Risk appetite must be geared towards achieving the targets of the strategic plan, in accordance with the lines of action established in that plan.

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 characterised by:

- Alignment with the strategic plan and capital planning.
- Integration into the Bank'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.

<u>Internal Capital/Liquidity Adequacy Assessment Process (ICAAP & ILAAP)</u>

The internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) seek to provide certainty about the risks to which the Bank is or may be exposed and its ability to remain viable, while maintaining an adequate level of capitalisation and liquidity and managing its risks effectively.

This requires prospective assurance that all material risks are identified, managed effectively (with an appropriate combination of measurement and controls), and covered by a sufficient amount of high-quality capital, in the case of ICAAP, and by a sufficient amount of liquid assets and stable sources of financing, in the case of ILAAP.

The purpose of ICAAP and ILAAP is to ensure an adequate relationship between the Bank's risk profile and the own funds that it effectively holds. To do this, a recurring process is carried out that allows:

- Identify, measure and aggregate material risks (not just Pillar I),
- Define the risk profile,
- Carry out capital planning and medium-term financing (base case and adverse scenarios),
- Set internal targets for own resources and liquid assets that enables us to maintain adequate clearance over minimum requirements.
- Determine and allocate the capital and liquidity needed to cover material risks,
- Establish action plans to respond to any situation of capital or liquidity shortage.
- Present a formal and unequivocal statement on the adequacy of the Group's capital and liquidity approved by the Board of Directors.

Recovery Plan

Ibercaja Banco's recovery plan is a response to the requirement under Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, or "Bank Recovery and Resolution Directive" (BRRD). The main objectives of the plan are:

- To provide a detailed view of the Bank, including an analysis of its main lines of business and critical economic functions.
- To describe the process of development, approval and updating of the plan, and how it is integrated into the Bank's procedures.
- To describe in detail the model of escalation and decision-making in a situation of continuity, early warning and recovery.
- To identify the set of recovery indicators that are to be monitored periodically to anticipate any situations of severe stress.
- To set out the selected recovery measures, which could be taken in a recovery situation to restore Ibercaja's capital and liquidity position. For each recovery measure, a feasibility and financial impact analysis was carried out, an operational plan was designed for its implementation, a communication plan was rolled out, and needs were analysed from an information management point of view. In addition, a test of the effectiveness of the measures in the face of hypothetical stress scenarios is described.
- To design the internal and external communication plan to be carried out in a recovery situation.
- To describe preparatory measures.

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 reviewed and approved by the Bank's Board of Directors on an annual basis.

3.4 Governance Model

The Ibercaja Group has a robust organisational structure that allows it to ensure effective risk management and control. The governance structure provides adequate channels of communication to convey information and decisions at all levels of the organisation.

The following are the Governing Bodies and Executive Committees that directly address risk management and control.

3.4.1 Governing Bodies

Board of Directors

The Board of Directors is the body responsible for ensuring a robust risk culture, establishing the strategic lines of risk management and control and approving policies, manuals and procedures relating to risk management.

Its risk management and control duties and powers include:

- Establishing and approving the Ibercaja Group's Risk Appetite Framework (RAF) after a report from the Major Risks and Solvency Committee, and review it at least once a year or whenever necessary depending on the circumstances.
- Evaluating and supervising the risk profile and its alignment with the established framework and the Group's strategy, and approving the internal capital and liquidity adequacy assessment process (ICAAP & ILAAP) reports.

- To approve and periodically review the strategies and policies for accepting, managing, supervising and reducing the risks to which the Group is or may be exposed, including risks posed by the macroeconomic situation in which it operates in relation to the current stage of the economic cycle.
- To actively participate in the management of material risks covered by solvency regulations and ensure that the organisation has adequate resources for such management.
- To ensure that the necessary action plans and corrective measures are in place to manage limit overshoots.
- To establish and supervise the Group's risk information and control systems, following a report from the Major Risks and Solvency Committee.
- To ensure that all aspects of capital planning are integrated with management in line with the scenarios used in the Strategic Plan, the Risk Appetite Framework and the Financing Plan.

The boards of directors of the subsidiaries are responsible for approving the respective risk appetite proposals once they have been validated by the Global Risk Committee and the Major Risks and Solvency Committee.

The Ibercaja Group is a financial conglomerate and its insurance business is significant, so it jointly manages the risks arising from the banking and insurance businesses.

Large Risk and Solvency Committee

The Major Risks and Solvency Committee has had powers delegated to it by the Board of Directors to carry out the functions of framing and supervising risk management.

Its risk management duties and powers include:

- To report to the Board of Directors, prior to approval, on the Bank's Risk Appetite Framework (RAF), the Risk Appetite Statement (RAS), the internal capital and liquidity adequacy assessment process (ICAAP & ILAAP) reports and the Recovery Plan, ensuring that they are consistent with other policies and with the Bank's strategic framework.
- To review the effectiveness of the risk management framework and internal control systems.
- To periodically review compliance with risk appetite (significant risk exposures, breaches of limits and agreed management measures).
- To receive adequate information from management so as to be able to identify the risks faced by the Bank and its Group; to be able to assess and, where appropriate, propose measures to mitigate the impact of the risks identified.

Strategy Committee

The Strategy Committee has the core function of informing the Board of Directors of the Bank's strategic policy, ensuring that there is a specific organisation in place for its implementation.

Audit and Compliance Committee

The powers of the Audit and Compliance Committee include supervising the effectiveness of internal control, internal auditing and risk management systems, and periodically reviewing them. In particular, supervision of the independent assessment of the design and effectiveness of the RAF and its alignment with the regulatory body's expectations.

3.4.2 Executive Committees

<u>Global Risk Committee</u>

Executive body responsible for defining and monitoring the Group's risk strategies and policies. The main functions and responsibilities of the Global Risk Committee are:

- To report periodically to the Major Risks and Solvency Committee on the degree of compliance with the metrics established in the Risk Appetite Statement, proposing, where appropriate, the action plans required to correct overshoots or breaches.
- To submit the proposed RAF, the internal capital and liquidity adequacy assessment process (ICAAP & ILAAP) reports and the Recovery Plan to the Major Risks and Solvency Committee for evaluation and analysis with a view to consistency with the Group's risk management policy and strategic plan.
- To evaluate and approve action plans in response to alerts or overshoots, prior to referral to the Major Risks and Solvency Committee.
- To ensure that the Group has adequate procedures and means in place for the identification, measurement, follow-up and monitoring of the risk profile.

<u>Audit Committee</u>

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 organisational scheme provides the Bank with a global structure of governance and risk management, in proportion to the complexity of the Ibercaja Group's business, with three lines of defence:

- First line of defence: Configured by the Group's risk-taking business and support units.
- Second line of defence: Located organisationally in the General Secretary's Office as the head of the second line, it acts independently of the business units. The second line comprises the Risk Control functions, which monitor and report risks and review the application of management policies and control procedures by the first line, and the Compliance functions, in charge of reviewing that business is conducted in accordance with applicable legislation, regulations and internal policies.
- Third line of defence: Internal audit, as an independent function that provides an assessment and proposals for improving risk management and control processes.

3.5 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.

3.5.1 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 management framework, strategies, policies and limits for the management of this risk, following a report from the Major Risks and Solvency Committee, documented in the “Credit Risk Management Framework”, the “Irregular Assets Management Framework” and the “Risk Models Management Framework” and the various policy manuals that implement those frameworks. . The manuals include, inter alia, the action guidelines for the main operating 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.

3.5.2 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 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, under its “Acceptance Policy Manual”, risk acceptance policies in line with Law 2/2011 of 4 March, on the Sustainable Economy, Order EHA/2899/2011 of 28 October, on banking services transparency and customer protection, 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.

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) In the area of credit risk monitoring, the main objective is to identify in advance any impairment in borrowers' risk quality, to take corrective action and minimise the adverse impact of any entry into default of the exposure, or of classification of the exposure as Stage 2.

The credit risk monitoring function is carried out on the basis of individualised monitoring of customers who require greater attention due to exposure or risk profile, and on the basis of an analysis of the performance of different portfolios (Individuals, Production Activities, Developers, etc.).

Some of the credit risk monitoring conducted at the Bank, including classification and estimation of allowances for exposures, is based on Annex 9 "Analysis and Coverage of Credit Risk", of Bank of Spain Circular 4/2017, of 27 November. Those regulatory provisions require institutions to have policies in place for credit risk assessment, monitoring and control that require the utmost care and diligence in the study and rigorous evaluation of the credit risk of transactions, both when granted and throughout their term of effect. Under this Circular, the Bank considers borrowers with respect to which exposure exceeds €3 million to be individually material borrowers.

The principles, procedures and key tools on which the monitoring function is based to carry out its work effectively are set out in the Bank's Credit Risk Monitoring Policy.

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.

3.5.3 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 4/2017, 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.

3.5.4 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 that are performing, have not become impaired and are subject to collective impairment testing is as follows:

	Thousands of euros	
	2018	**2017**
No appreciable risk	16,697,447	11,948,341
Low risk	19,488,127	20,115,531
Medium-low risk	590,218	650,618
Medium risk	6,879,476	9,191,123
Medium-high risk	1,544,971	1,613,521
High risk	176,324	172,668
	45,376,563	**43,691,802**

There follows a description of the credit quality of the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss (Note 8) and of the portfolio of financial assets at amortised cost (Note 11) at 31 December 2018:

	Thousands of euros 31/12/2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross amount	**36,773,579**	**1,551,944**	**2,274,558**	**40,600,081**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	**-**	**-**	**2,222**	**2,222**
Allowances for impairment of assets	**55,379**	**85,351**	**976,250**	**1,116,980**
Of which: calculated collectively	55,379	76,180	539,394	670,953
Of which: calculated separately	-	9,171	436,856	446,027
Net amount	**36,718,200**	**1,466,593**	**1,296,086**	**39,480,879**

The credit quality of the portfolio of non-trading financial assets measured at fair value through profit or loss (Note 8) and of the portfolio of financial assets at amortised cost (Note 11) at 1 January 2018, after first-time application of Circular 4/2017, was as follows:

	Thousands of euros 01/01/2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross amount	**33,722,499**	**2,063,919**	**2,563,159**	**38,349,577**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	**-**	**-**	**6,210**	**6,210**
Allowances for impairment of assets	**58,672**	**112,704**	**1,060,363**	**1,231,739**
Of which: calculated collectively	58,672	96,231	524,892	679,795
Of which: calculated separately	-	16,473	535,471	551,944
Net amount	**33,663,827**	**1,951,215**	**1,496,586**	**37,111,628**

The amounts of collectively tested impairment losses include €33 thousand at 31 December 2018 and €31 thousand at 1 January 2018 for country-risk reasons.

In relation to the maximum level of exposure to credit risk, the most significant sectors of activity are detailed in relation to non-trading financial assets mandatorily measured at fair value through profit or loss (Note 8) and financial assets at amortised cost (Note 11), by transaction purpose:

	Thousands of euros	
	2018	**2017**
Public sector	4,854,084	396,804
Credit institutions	461,791	650,522
Real estate construction and development	1,574,908	1,673,354
Other production activities	11,330,182	10,555,474
Housing acquisition and refurbishment	20,345,619	20,429,959
Consumer and other household lending	710,357	672,328
Other sectors not classified	1,323,140	1,731,724
	40,600,081	**36,110,165**

With respect to the maximum level of exposure to credit risk, financial assets at amortised cost (Note 11) secured by collateral or credit enhancements are as follows:

	Thousands of euros	
	2018	**2017**
Mortgage guarantees	24,440,560	25,308,850
Pledges - financial assets	28,669	25,010
Off-balance sheet guarantees – public sector, credit institutions, mutual guarantee funds	1,954,234	2,149,226
Guarantees - public sector debt	1,703,749	981,535
	28,127,212	**28,464,621**

Guarantees received and financial guarantees granted break down as follows at 31 December 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Value of collateral	23,504,074	24,350,886
Of which: guarantees risks on special watch	*1,153,800*	*722,531*
Of which: guarantees non-performing risks	*1,509,131*	*1,793,335*
Value of other collateral	7,500,057	7,627,724
Of which: guarantees risks on special watch	*562,002*	*300,926*
Of which: guarantees non-performing risks	*626,528*	*635,809*
Total value of the collateral received	**31,004,131**	**31,978,610**

	Thousands of euros	
	2018	**2017**
Loan commitments given (Note 27.3)	**2,970,560**	**2,951,517**
Of which: classified as non-performing	*14,518*	*28,024*
Amount recognised under liabilities on the balance sheet (Note 21)	7,974	6,739
Financial guarantees granted (Note 27.1)	**79,289**	**92,717**
Of which: classified as non-performing	*5,795*	*9,151*
Amount recognised under liabilities on the balance sheet (Note 21)	6,189	6,843
Other commitments given	**908,335**	**787,297**
Of which: classified as non-performing	*33,688*	*35,203*
Amount recognised under liabilities on the balance sheet (Note 21)	19,302	18,074

At December 2018 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 51.78% (56.78% at December 2017).

The classification of non-trading financial assets mandatorily measured at fair value through profit or loss (Note 8), of fixed-income assets at fair value through other comprehensive income (Note 10) and financial assets at amortised cost (Note 11) that are impaired, distinguishing between those where impairment arises from non-payment and those where it emerges from other factors, is as follows:

	Thousands of euros	
	2018	2017
Customer default	1,832,307	1,940,818
Other factors	442,251	624,007
	2,274,558	**2,564,825**

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 11.4.1 includes a breakdown of assets due and not impaired, stating whether they have been outstanding for less than 90 days.

3.5.5 Information concerning risk concentration, refinancing and restructuring

3.5.5.1 Information concerning risk concentration

Below is a breakdown of the carrying amount of the distribution of customer loans by activity at 31 December 2018 and 2017:

	Thousands of euros							
	31/12/2018							
	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%
Government bodies	**248,501**	**62,310**	**-**	**4,744**	**17,132**	**37,123**	**3,311**	**-**
Other financial companies and individual entrepreneurs (financial business activity)	**1,718,978**	**2,825**	**1,703,612**	**976**	**1,196**	**498**	**1,703,767**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**8,230,436**	**3,181,008**	**25,248**	**1,248,452**	**981,492**	**622,335**	**176,553**	**177,424**
Real estate construction and development (including land)	1,236,085	1,190,702	2	404,039	398,298	272,100	60,849	55,418
Civil engineering	22,585	39	-	39	-	-	-	-
Other purposes	6,971,766	1,990,267	25,246	844,374	583,194	350,235	115,704	122,006
Large corporations	*1,047,464*	*17,784*	*162*	*8,552*	*2,663*	*5,922*	*83*	*726*
SMEs and individual entrepreneurs	*5,924,302*	*1,972,483*	*25,084*	*835,822*	*580,531*	*344,313*	*115,621*	*121,280*
Other households and non-profit institutions serving households	**21,667,278**	**20,417,059**	**19,576**	**5,789,262**	**7,710,932**	**5,687,230**	**781,287**	**467,924**
Homes	20,087,031	19,831,216	4,548	5,477,141	7,559,292	5,594,006	756,809	448,516
Consumer	687,627	141,787	6,522	101,081	28,541	13,985	2,503	2,199
Other purposes	892,620	444,056	8,506	211,040	123,099	79,239	21,975	17,209
Total	**31,865,193**	**23,663,202**	**1,748,436**	**7,043,434**	**8,710,752**	**6,347,186**	**2,664,918**	**645,348**
Memorandum items: refinancing, refinanced and restructured operations	**1,230,637**	**1,137,616**	**728**	**207,357**	**203,306**	**281,508**	**184,084**	**262,089**

	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%
Government bodies	**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
Consumer	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**

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				
	31/12/2018				
	Spain	Rest of the EU	America	Rest of the world	Total
Central banks and credit institutions	**2,057,974**	**118,133**	**1,880**	**1,475**	**2,179,462**
Government bodies	**10,083,006**	**1,094,101**	**75,123**	**-**	**11,252,230**
Central government	9,191,608	1,094,101	75,123	-	10,360,832
Other government bodies	891,398	-	-	-	891,398
Other financial companies and individual entrepreneurs (financial business activity)	**4,002,734**	**138,814**	**10,378**	**369**	**4,152,295**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**9,813,417**	**944,113**	**42,317**	**11,386**	**10,811,233**
Real estate construction and development (including land)	1,484,278	-	-	-	1,484,278
Civil engineering	20,427	-	-	2,158	22,585
Other purposes	8,308,712	944,113	42,317	9,228	9,304,370
Large corporations	*1,283,012*	*84,563*	*24,784*	*8,283*	*1,400,642*
SMEs and individual entrepreneurs	*7,025,700*	*859,550*	*17,533*	*945*	*7,903,728*
Other households and non-profit institutions serving households	**21,784,772**	**70,775**	**12,653**	**36,092**	**21,904,292**
Homes	19,975,000	64,867	11,532	35,634	20,087,033
Consumer	686,092	334	838	363	687,627
Other purposes	1,123,680	5,574	283	95	1,129,632
Total	**47,741,903**	**2,365,936**	**142,351**	**49,322**	**50,299,512**

	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**
Government bodies	**8,018,912**	**912,166**	**-**	**-**	**8,931,078**
Central government	7,026,476	910,121	-	-	7,936,597
Other government bodies	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
Consumer	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**

- Activity in Spain:

	Thousands of euros								
	31/12/2018								
	Aragon	Madrid	Catalonia	Comm. of Valencia	Andalusia	Castilla León	Castilla La Mancha	Other	Total
Central banks and credit institutions	**1,131,396**	**813,189**	**-**	**10,133**	**53,931**	**1**	**-**	**49,324**	**2,057,974**
Government bodies	**85,981**	**138,893**	**11,600**	**105,221**	**113,230**	**77,992**	**25,694**	**332,787**	**10,083,006**
Central government (*)	-	-	-	-	-	-	-	-	9,191,608
Other government bodies	85,981	138,893	11,600	105,221	113,230	77,992	25,694	332,787	891,398
Other financial companies and individual entrepreneurs (financial business activity)	**64,099**	**3,932,896**	**1,627**	**523**	**690**	**1,450**	**404**	**1,045**	**4,002,734**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**3,096,939**	**2,231,105**	**1,080,140**	**650,403**	**550,352**	**599,254**	**328,860**	**1,276,364**	**9,813,417**
Real estate construction and development (including land)	259,582	702,881	77,541	91,984	107,925	77,694	62,689	103,982	1,484,278
Civil engineering	1,554	18,206	24	-	106	303	-	234	20,427
Other purposes	2,835,803	1,510,018	1,002,575	558,419	442,321	521,257	266,171	1,172,148	8,308,712
Large corporations	*264,727*	*331,255*	*255,494*	*108,311*	*61,382*	*61,393*	*32,196*	*168,254*	*1,283,012*
SMEs and individual entrepreneurs	*2,571,076*	*1,178,763*	*747,081*	*450,108*	*380,939*	*459,864*	*233,975*	*1,003,894*	*7,025,700*
Other households and non-profit institutions serving households	**5,985,974**	**5,412,466**	**2,010,586**	**1,856,943**	**1,380,956**	**1,019,028**	**1,386,127**	**2,732,692**	**21,784,772**
Homes	5,040,146	5,166,208	1,896,720	1,769,598	1,327,314	933,230	1,308,370	2,533,414	19,975,000
Consumer	261,832	111,560	48,071	38,899	26,086	43,746	38,552	117,346	686,092
Other purposes	683,996	134,698	65,795	48,446	27,556	42,052	39,205	81,932	1,123,680
Total	**10,364,389**	**12,528,549**	**3,103,953**	**2,623,223**	**2,099,159**	**1,697,725**	**1,741,085**	**4,392,212**	**47,741,903**

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

	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**
Government bodies	**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 government bodies	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
Consumer	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.

The concentration of credit quality risk in debt securities based on the counterparty's rating at 31 December 2018 and 2017 is detailed below:

	Thousands of euros			
	2018			
	Financial assets not held for trading mandatorily measured at fair value through profit or loss	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**
AAA / AA	30,651	-	216,192	5,911
A	41,910	6,079	5,273,102	4,217,762
BBB	10,172	2,130	2,821,211	2,274,510
BB	-	1,366	80,341	45,665
B	-	-	5,846	-
CCC	-	-	6,898	-
Unrated	-	-	11,050	608
Total	**82,733**	**9,575**	**8,414,640**	**6,544,456**

	Thousands of euros			
	2017			
	Financial assets held for trading	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**
AAA / AA	20	-	132,506	37,694
A	304	6,414	5,532,189	175,414
BBB	-	2,322	4,699,081	2,047,799
BB	-	1,879	160,469	35,768
B	-	-	-	-
CCC	-	-	-	-
Unrated	-	-	-	-
Total	**324**	**10,615**	**10,524,245**	**2,296,675**

3.5.5.2 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. The policy is aimed at:

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

<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. Transactions are authorised by the Recoveries Department of the Credit Risk Area, which is entirely separate from the Commercial Network.

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 2018 and 2017 can be seen below:

	Thousands of euros			
	2018		2017	
	Total	Of which: default/not-performing	Total	Of which: default/not-performing
Gross amount	**1,878,722**	**1,451,618**	**2,500,207**	**1,719,964**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	**2,222**	**2,222**	**-**	**-**
Allowances for impairment of assets	**645,863**	**607,988**	**668,565**	**640,466**
Of which: collective	286,453	252,714	224,920	196,821
Of which: individual	359,410	355,274	443,645	443,645
Net amount	**1,230,637**	**841,408**	**1,831,642**	**1,079,498**
Value of the collateral received	**1,878,568**	**1,399,619**	**2,467,915**	**1,672,912**
Value of collateral	1,358,376	1,015,222	1,817,991	1,257,875
Value of other collateral	520,192	384,397	649,924	415,037

The reconciliation of the carrying amounts of refinanced and restructured transactions at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Opening balance	**2,500,207**	**2,933,170**
(+) Refinancing and restructuring in the period	57,298	420,520
Memorandum items: impact recognised in the statement of profit and loss for the period	*16,091*	*68,189*
(-) Debt repayments	284,521	732,573
(-) Foreclosures	36,976	19,846
(-) Derecognitions (reclassification to written-off assets)	113,428	22,267
(+)/(-) Other changes (*)	(243,858)	(78,797)
Closing balance	**1,878,722**	**2,500,207**

(*) 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 2018, 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Government bodies	**7**	**3,777**	**8**	**4,074**	**3,473**	**-**	**1,056**	**6,795**
Other financial companies and individual entrepreneurs (financial business activity)	**6**	**176**	**3**	**132**	**119**	**-**	**157**	**151**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,833**	**180,906**	**2,621**	**884,404**	**493,237**	**324**	**489,299**	**576,011**
of which: financing for property construction and development (including land)	*91*	*48,074*	*519*	*512,212*	*255,706*	*-*	*289,311*	*270,975*
Other household	**4,602**	**42,604**	**8,247**	**762,649**	**598,322**	**44**	**157,573**	**647,680**
Total	**6,448**	**227,463**	**10,879**	**1,651,259**	**1,095,151**	**368**	**648,085**	**1,230,637**
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	-	-	-	-	-	-	-	-
Government bodies	**3**	**1,941**	**2**	**874**	**273**	**-**	**1,056**	**1,759**
Other financial companies and individual entrepreneurs (financial business activity)	**4**	**140**	**2**	**99**	**87**	**-**	**154**	**85**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,158**	**138,982**	**1,908**	**759,598**	**384,790**	**172**	**472,875**	**425,705**
of which: financing for property construction and development (including land)	*88*	*47,274*	*464*	*474,087*	*220,128*	*-*	*287,103*	*234,258*
Other household	**2,522**	**27,663**	**5,379**	**522,321**	**389,427**	**25**	**136,125**	**413,859**
Total	**3,687**	**168,726**	**7,291**	**1,282,892**	**774,577**	**197**	**610,210**	**841,408**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-	-

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	-	-	-	-	-	-	-	-
Government bodies	**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 property 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Government bodies	**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 property 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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 2018 and 2017:

	Thousands of euros	
	2018	2017
Government bodies	**-**	**-**
Other legal persons and individual entrepreneurs	**48,946**	**137,668**
Of which: financing for property construction and development	28,662	98,113
Other individuals	**46,986**	**93,347**
Total	**95,932**	**231,015**

On 31 December 2018, 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 427,104 million euros (780,243 million euros on 31 December 2017).

3.5.6 Policies for the management of problematic assets

Ibercaja Banco, S.A., establishes specific policies relating to the management of assets of the property 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 property 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 property and lease of property assets. The Group has specific Units to implement these strategies and coordinate the actions of instrumental subsidiaries, the branch office network and the rest of actors 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.

3.5.6.1 Credit investment linked to development and property activities and to retail mortgages

On 31 December 2018 and 2017, the details of the financing for the property 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Financing for property construction and development (including land) (businesses in Spain)	**1,586,107**	**1,695,006**	**430,806**	**485,606**	**339,426**	**418,776**	**1,246,681**	**1,276,230**
Of which: default/non-performing	600,566	775,480	352,142	366,982	331,647	405,365	268,919	370,115
Memorandum items: written-off assets	**254,431**	**150,031**	**-**	**-**	**-**	**-**	**-**	**-**

(*) Excess of the gross exposure on the maximum recoverable amount of the effective collateral calculated according to Circular 04/2017. That is, 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	**2018**	**2017**
Loans to customers, excluding Government bodies (businesses in Spain)	31,616,692	31,616,720
Total consolidated asset (total businesses)	52,705,739	53,106,969
Impairment loss and provisions for exposures classified as normal (total businesses)	163,438	82,989

The breakdown of the heading of the financing for the property construction and development (including land), on 31 December 2018 and 2017 is the following:

	Thousands of euros	
	Gross carrying amount	
	2018	2017
Without property collateral	**73,946**	**91,692**
With property collateral (breakdown as per the type of asset received in collateral)	**1,512,161**	**1,603,314**
Buildings and other completed constructions	437,106	469,394
Housing	*386,825*	*418,728*
Other	*50,281*	*50,666*
Buildings and other constructions under construction	645,769	558,270
Housing	*644,502*	*556,923*
Other	*1,267*	*1,347*
Land	429,286	575,650
Consolidated urban land	*399,261*	*550,886*
Other land	*30,025*	*24,764*
Total	**1,586,107**	**1,695,006**

Below a detail of the collateral received and financial guarantees granted in relation to the financing for property construction and development is shown (including undeveloped land) on 31 December 2018 and 2017.

Collateral received:

	Thousands of euros	
	2018	**2017**
Value of collateral	1,349,752	1,502,417
Of which: guarantees default/non-performing risks	*335,138*	*499,061*
Value of other collateral	427,366	743,561
Of which: guarantees default/non-performing risks	*87,398*	*96,773*
Total value of the collateral received	**1,777,118**	**2,245,978**

Financial guarantees granted:

	Thousands of euros	
	2018	**2017**
Financial guarantees granted related to property construction and development	**9,125**	**18,371**
Amount recognised under liabilities on the balance sheet	3,146	4,156

On 31 December 2018 and 2017, the breakdown of loans to households for housing acquisition, is the following:

	Thousands of euros			
	Gross amount		**Of which: default/non-performing**	
	2018	**2017**	**2018**	**2017**
Housing acquisition loans	**19,916,029**	**20,429,959**	**820,226**	**857,096**
Without mortgage loan	257,738	260,209	27,776	29,422
With mortgage loan	19,658,291	20,169,750	792,450	827,674

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 2018 and 2017 is the following:

	Thousands of euros					
	2018					
	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	5,277,125	7,485,817	5,616,639	789,707	489,003	**19,658,291**
Of which: default/non-performing	64,351	141,930	265,953	143,146	177,070	**792,450**

	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 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**

On 31 December 2018 93% of the housing acquisition loan with property collateral has an LTV lower than 80% (94% on 31 December 2017).

3.5.6.2 Repossessed assets; assignments of assets in lieu of payment

As at 31 December 2018 and 2017, the following information relates to assets repossessed or accepted as payment for debts:

	Thousands of euros			
	31/12/2018			
	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 property construction and development	**673,356**	**(406,690)**	**(262,762)**	**266,666**
Buildings and other completed constructions	92,165	(37,441)	(20,120)	54,724
Housing	*30,743*	*(13,511)*	*(6,712)*	*17,232*
Other	*61,422*	*(23,930)*	*(13,408)*	*37,492*
Buildings and other constructions under construction	10,212	(3,706)	(682)	6,506
Housing	*7,782*	*(2,828)*	*(576)*	*4,954*
Other	*2,430*	*(878)*	*(106)*	*1,552*
Land	570,979	(365,543)	(241,960)	205,436
Consolidated urban land	*213,594*	*(129,159)*	*(72,279)*	*84,435*
Other land	*357,385*	*(236,384)*	*(169,681)*	*121,001*
Real estate assets acquired in mortgage loans to households for housing acquisition	**57,102**	**(19,790)**	**(6,705)**	**37,312**
Other foreclosed or received property assets in payment of debt	**36,509**	**(20,289)**	**(6,404)**	**16,220**
	766,967	**(446,769)**	**(275,871)**	**320,198**

(*) Amount before deducting the allowances for impairment loss

	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 property 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 property assets in payment of debt	**61,148**	**(33,122)**	**(9,582)**	**28,026**
	1,566,355	**(887,000)**	**(499,358)**	**679,355**

(*) Amount before deducting the allowances for impairment loss

On 28 December 2018, the Ibercaja Banco Group entered into an agreement for the contribution of a repossessed property portfolio with a combined gross book value of approximately €641 million and a combined net book value of approximately €285 million. The portfolio was acquired by a new company, Northwind Finco, S.L., 80% owned by Intrum AB and the remaining 20% owned by the Ibercaja Banco Group (Note 12.3). The transaction realised a loss of €31 million, mainly recorded under "Gains/losses on derecognition of non-financial assets, net" and "Gains/losses arising from non-current assets and disposal groups held for sale that are ineligible for classification as discontinued operations" in the consolidated income statement (Note 41 and Note 42, respectively).

3.6 Exposure to operational risk

This is defined as the risk of loss resulting from a lack of adequacy or failure of internal processes, personnel and systems, or a loss arising from external events, and therefore encompasses sub-categories such as conduct risk, technological risk or model risk, among others.

3.6.1 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. For its part, the Market, Operational and Reputational Risk Control Unit, together with other units and subsidiaries, coordinates risk measurement and carries out risk monitoring, analysis and communication.

3.6.2 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 2018 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 real losses recorded in the data base of losses in 2018 shows the total annual net losses (net of direct recoveries and insurance) for operational risk events came to €21,654 thousand, corresponding to 5,326 events, of which 598 events for €12,309 thousand euros derive from write-downs linked to floor clauses (return of interest totalling €10,738 thousand and legal costs of €1,571 thousand). If the provisions linked to these losses from “floor clauses” and other provisions associated with different losses are discounted, the total annual net loss is €7,165 thousand.

Stripping out the exceptional impact of floor clauses, real operational losses were small in relation to 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 Entity 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.

3.7 Exposure to the interest rate risk

This is defined as the current or future risk to the Company’s capital or earnings as a result of adverse fluctuations in interest rates affecting the positions of its investment portfolio.

The sources of the interest rate risk are the repricing, yield curve, basis or optionality risks. In particular, repricing risk arises from the different timing of interest rate-sensitive balance sheet instruments, as a result of differences in the timing of their repricing or maturities. Yield curve risk derives from changes in the slope and shape of the interest rate curve. Basis risk emerges from the differing impact on interest rate-sensitive balance sheet instruments, which have similar maturities, but which are repriced using different indices. Optionality risk arises from embedded or explicit options.

3.7.1 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”.

3.7.2 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 Company’s tools measure the effects of interest rate movements on the intermediation margin and the economic value, simulate scenarios depending on the assumptions used for interest rate behaviour and business performance, and help estimate the potential impact on capital and on results of abnormal fluctuations of the market, so that the results can be considered in the establishment and review of risk policies and limits and in the planning and decision-making process.

As to optionality risk, behavioural models are available that provide the key assumptions on the sensitivity and duration of demand savings transactions, as their maturity date is not contractually specified, and on early repayments on loans, early redemption of time deposits, and duration of non-performing assets, always based on historical experience for 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 sheet of the Group to the interest rate risk on 31 December 2018 and on 31 December 2017, 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 2018:

	€ 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	**7,696**	**8,982**	**15,843**	**32,521**	**13,480**	**5,096**	**8,384**
Financial assets with fixed interest rates and other assets without determined maturity	2,916	850	2,257	6,023	8,655	2,513	6,142
Financial assets at fixed rate hedged with derivatives	27	267	230	524	3,473	2,399	1,074
Financial assets at variable interest rate	4,753	7,865	13,356	25,974	1,352	184	1,168
Liabilities	**7,199**	**3,623**	**11,995**	**22,817**	**23,184**	**17,651**	**5,533**
Financial liabilities with fixed interest rates and other liabilities without determined maturity	6,817	1,721	8,209	16,747	22,356	16,375	5,981
Financial liabilities at fixed rate hedged with derivatives	109	1,415	3,783	5,307	912	1,273	-361
Financial liabilities at variable interest rate	273	487	3	763	-84	3	-87
Difference or Gap in the period	**497**	**5,359**	**3,848**	**9,704**	**(9,704)**	**(12,555)**	**2,851**
Difference or accumulated Gap	**497**	**5,856**	**9,704**	**9,704**	**(9,704)**	**(2,851)**	**-**
Average gap	497	4,516	2,768	5,944			
% of total assets	1.08	9.82	6.02	12.92			

On 31 December 2017:

	€ 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	**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			

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 for the period was €5,943.8 million euros, 12.92% of total assets (-€7,691.1 million, -16.30% of total assets on 31 December 2017).

As at 31 December 2018, the impact on the Company's interest income of a 200-basis point rise in interest rates would be €104.34 million, or 19.56% of interest income for the next 12 months. A decline of 200 basis points would have an effect of -€2.23 million euros, or 0.42% of interest income for the next 12 months (in December of 2017, -€136.07 million euros and €27.35% if rates rose and -€3.96 million euros and -€0.80% if rates declined) on the assumption of constant size and structure of the balance sheet and that interest rate movements occur instantly and are equal on all points of the yield curve, with a floor of 0%.

The impact on the economic value of the Company in the face of an increase of 200 basis points in interest rates would be €301.81 million, or 4.82 % of equity. A drop of 200 basis points would have an impact of €214.03 million, 3.42 % of equity (in December 2017, €539.42 million and 7.22% for a 200-bp increase and €131.77 million and 1.76% for an equivalent decrease), assuming that interest rate movements were to occur instantaneously and equally on all points of the yield curve, with a floor of 0%.

3.8 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.

3.8.1 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.

3.8.2 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.

At 31 December 2018, the Company’s available liquidity amounted to €10,917 million (€10,328 million at 31 December 2017), coupled with an issuance capacity of €6,290 million (€6,688 million at 31 December 2017). Total availability stood at €17,207 million (€17,017 million at 31 December 2017), €190 million up on the close of last year. During 2018, wholesale maturities were outstanding for a nominal amount of 664 million euros: covered bonds (€422 million), securitisation bonds owned by third parties (€227 million), subordinated bonds (€15 million). In addition, they have carried out repurchases of issuances for 78 million euros, instrumented in Securitisation bonds.

An AT1 issue of €350 million was launched in April 2018 to strengthen the Bank’s own funds. Likewise, in December 2018 a covered bond was issued for an amount of €1,000 million, maturing in 2028, which was subscribed for as a “treasury” portfolio and became part of the collateralised credit facility with the ECB.

This facility includes assets pledged for a discountable value of €8,133 million at 31 December 2018 (€8,438 million at 31 December 2017), of which the Bank has drawn down €3,372 million (same amount as in December 2017). Therefore, the Bank maintains an available amount of €4,761 million (€5,065 million at 31 December 2017), that the Bank can access to meet its liquidity needs.

In addition to the credit facility mentioned, the Company has very different sources of financing. There is a large base of retail deposits of €28,866 million (€28,782 million as at 31 December 2017), of which 80% had stable balances (same ratio as in December 2017). The Bank also has financing collateralised by securities in the amount of €4,494 million (€5,404 million at 31 December 2017), €365 million of which is transacted with central counterparties. In addition, wholesale issues of a total €4,375 million euros (€4,511 million at 31 December 2017), characterised by diversification of maturities, and deposits from the Group's financial institutions amounting to €640 million (€1,091 million at 31 December 2017), and deposits from other customers of €2,241 million (€1,797 million at 31 December 2017), 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 2018, there was no amount affected by the reversal of a qualification scale.
- Liability derivatives for 57 million euros, that have required the contribution of additional guarantees for 63 million as well as asset derivatives for 71 million euros, for those that have received additional guarantees for 70 million euros. In addition, those transacted through the clearinghouse required additional collateral of €51 million.
- Financing collateralised by securities of €661 million, which required the provision of additional collateral of €194 million in cash (collateral includes both repurchase agreements and reverse repurchase agreements).
- Financing of the BEI of 392 million, which requires a contribution of guarantees of 408 million euros in fixed income.

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	
	2018	**2017**
Cash and central banks	888,415	3,280,943
Available in credit facility	4,760,526	5,065,044
Eligible assets not included in the policy	4,835,712	1,647,285
Other marketable assets not eligible by the Central Bank	432,195	335,112
Accumulated available balance	**10,916,848**	**10,328,384**

On 31 December 2018, the capacity to issue covered bonds was €6,289.72 million (€6,688.19 million euros on 31 December 2017).

The LCR (Liquidity Coverage Ratio) of the Ibercaja Group on 31 December 2018 was 307% (281% on 31 December 2017), while the NSFR (Net Stable Funding Ratio) on 31 December 2018 was at 130% (124% on 31 December 2017). The breakdown of liquid assets at 31 December 2018 under the criteria established for calculating the LCR ratio is as follows:

	Thousands of euros					
	31/12/2018			31/12/2017		
	Balance sheet figure	**Weighting (%)**	**Weighted balance**	**Balance sheet figure**	**Weighting (%)**	**Weighted balance**
Cash and central banks	578,747	100	578,747	2,971,635	100	2,971,635
Tier 1 fixed-income	7,649,620	100	7,649,620	4,394,550	100	4,394,550
Central government sovereign debt	*4,145,591*	*100*	*4,145,591*	*2,364,491*	*100*	*2,364,491*
Regional government sovereign debt	*673,493*	*100*	*673,493*	*674,092*	*100*	*674,092*
Foreign government debt	*228,939*	*100*	*228,939*	*259,299*	*100*	*259,299*
SAREB/ICO	*1,799,309*	*100*	*1,799,309*	*1,922,266*	*100*	*1,922,266*
FADE/FROB/State-backed bonds	*205,355*	*100*	*205,355*	*219,028*	*100*	*219,028*
Reverse repurchase agreement for Tier 1 fixed-income assets	*1,700,205*	*100*	*1,700,205*	*973,736*	*100*	*973,736*
Fixed-income repos	*(1,103,272)*	*100*	*(1,103,272)*	*(2,018,362)*	*100*	*(2,018,362)*
NCC1 covered bonds	-	93	-	-	93	-
TIER 1 ASSETS	**8,228,367**		**8,228,367**	**7,366,185**		**7,366,185**
Non-financial entity NCC1 bonds	-	85	-	-	85	-
NCC2 covered bonds	26,130	85	22,210	28,325	85	24,076
TIER 2A ASSETS	**26,130**		**22,210**	**28,325**		**24,076**
NCC1 securitisations	-	75	-	6,403	75	4,802
Non-financial entity NCC 2/3 bonds	39,236	50	19,618	21,106	50	10,553
NCC3 covered bonds	27,857	70	19,500	28,750	70	20,125
Disposable equities	108,512	50	54,256	50,325	50	25,163
TIER 2B ASSETS	**175,605**		**93,374**	**106,584**		**60,643**
LIQUID ASSETS	**8,430,102**		**8,343,951**	**7,501,094**		**7,450,904**

The LCR ratio data for the Ibercaja Group are:

	Thousands of euros					
	31/12/2018			31/12/2017		
	Balance sheet figure	**Weighting (%)**	**Weighted balance**	**Balance sheet figure**	**Weighting (%)**	**Weighted balance**
TIER 1 ASSETS (70% limit)	8,228,367	100	8,228,367	7,366,185	100	7,366,185
TIER 2 ASSETS	26,130	85	22,210	28,325	85	24,076
TIER 2B ASSETS	175,605	53	93,374	106,584	57	60,643
LIQUID ASSETS	**8,430,102**		**8,343,951**	**7,501,094**		**7,450,904**
Stable deposits	*23,004,936*	*5*	*1,150,247*	*22,348,223*	*5*	*1,117,411*
Non-stable deposits	*6,112,303*	*10*	*611,230*	*5,632,385*	*10*	*563,238*
RETAIL CUSTOMER DEPOSITS	29,117,239	6	1,761,477	27,980,608	6	1,680,649
Unsecured wholesale financing	2,401,881	37	881,140	2,400,446	37	890,841
Additional requirements	4,014,979	14	557,396	3,878,102	12	450,873
GROSS OUTFLOWS			**3,200,013**			**3,022,363**
INFLOWS- Maximum allowed inflows (75% outflows)	903,888	53	480,132	708,619	53	372,235
NET OUTFLOWS			**2,719,881**			**2,650,128**
LIQUIDITY COVERAGE RATIO (LCR)			**306.78%**			**281.15%**

Below the breakdown by terms of the contractual maturities of assets and liabilities is presented (liquidity gap) on 31 December 2018 and 31 December 2017:

	Thousands of euros						
	On 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
ASSET							
Deposits in credit institutions	37,351	4,538	47,295	-	-	148,221	237,405
Loans to other financial institutions	-	15,582	6,429	523	5,059	498	28,091
Temporary acquisitions of securities and securities lending	-	1,620,623	-	83,126	100,000	-	1,803,749
Loans (including matured, non-performing, written-off and foreclosed)	-	806,584	1,218,233	2,753,554	7,367,731	20,877,195	33,023,297
Securities portfolio settlement	-	23,800	245,380	126,718	2,257,164	4,919,568	7,572,630
Hedging derivatives	-	(390)	12,829	49,126	74,848	58,689	195,102
Trading derivatives	-	-	4	-	-	-	4
Net interest income	-	34,996	77,819	294,699	-	-	407,514
Total on 31 December 2018	**37,351**	**2,505,733**	**1,607,989**	**3,307,746**	**9,804,802**	**26,004,171**	**43,267,792**
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**
LIABILITY							
Wholesale issues	-	9,538	109,021	516,972	2,477,047	1,262,673	4,375,251
Deposits from credit entities	13,749	14,692	2,000	900	-	-	31,341
Deposits from other financial institutions and bodies	611,926	(5,021)	19,894	85,440	69,860	-	782,099
Deposits from large non-financial companies	-	-	-	-	-	-	-
Financing from the rest of the customers	25,732,586	722,083	1,144,540	3,115,568	388,333	3,418	31,106,528
Funds for brokered loans	-	13,808	20,123	151,768	286,585	84,966	557,250
Financing with secured securities	-	896,008	125,596	-	3,472,460	-	4,494,064
Other net outflows	-	42,041	(83,952)	276,502	119,649	(17,362)	336,878
Hedging derivatives	-	127	10,286	(4,758)	43,866	4,334	53,855
Formalised loans pending settlement	-	469,992	-	-	-	-	469,992
Commitments available for third parties	2,970,560	-	-	-	-	-	2,970,560
Financial guarantees issued	14	4,498	32	215	6,550	22,155	33,464
Total on 31 December 2018	**29,328,835**	**2,167,766**	**1,347,540**	**4,142,607**	**6,864,350**	**1,360,184**	**45,211,282**
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**
2018 gap period	**(29,291,484)**	**337,967**	**260,449**	**(834,861)**	**2,940,452**	**24,643,987**	
2017 gap period	**(27,838,835)**	**(1,407,201)**	**(228,802)**	**(1,482,798)**	**3,232,781**	**23,691,708**	
Accumulated gap (without demand savings) 2018	**-**	**337,967**	**598,416**	**(236,445)**	**2,704,007**	**27,347,994**	
Accumulated gap (without demand savings) 2017	**-**	**(1,407,201)**	**(1,636,003)**	**(3,118,801)**	**113,980**	**23,805,688**	

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 embedded derivative in the structured deposits.

Loan commitments amounted to €2,970.56 million (€2,951.52 million at 31 December 2017). 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 “Provisions” (Note 21), for an amount of €33.46 million (€31.66 euros on 31 December 2017).

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

On 31 December 2018:

	Thousands of euros						
	On 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	-	54,837	850,000	-	909,837
Bonds and mortgage- and sector-covered bonds	-	-	100,000	429,634	1,436,111	1,006,026	2,971,771
Securitisations	-	4,538	9,021	32,501	190,936	256,647	493,643
Promissory notes and certificates of deposit	-	-	-	-	-	-	-
Wholesale issues	**-**	**9,538**	**109,021**	**516,972**	**2,477,047**	**1,262,673**	**4,375,251**
Financing with long-term secured securities		**-**	**-**	**-**	**3,372,460**	**-**	**3,372,460**
Maturities in the period	**-**	**9,538**	**109,021**	**516,972**	**5,849,507**	**1,262,673**	**7,747,711**
Accumulated maturities	**-**	**9,538**	**118,559**	**635,531**	**6,485,038**	**7,747,711**	

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 2017:

	Thousands of euros						
	On 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.

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 available liquidity (10,917 billion euros), the Company could cover the total of the maturities of the long-term wholesale financing (4,375 billion euros). Additionally, it is able to issue 6,290 billion euros (total availability of 17,207 billion euros).

3.9 Exposure to other risks

3.9.1 Exposure to market and counterparty risk

3.9.1.1 Strategies and policies for the market and counterparty risk management

a) Market risk

This is defined as the possibility of incurring losses due to maintaining market positions as a result of adverse movements in financial variables or risk factors (interest rates, exchange rates, share prices, etc.) that determine the value of those positions.

The Bank 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, 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, following a report from the Major Risks and Solvency Committee, as documented in the “Capital Markets Department Policy 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

The possibility of default by 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, government bodies 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.

3.9.1.2 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 2018, 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	(20,876)	0.63%	(35,374)	1.06%	(22,062)	(0.66%)	(27,499)	(0.83%)
Time horizon: 10 days	(66,108)	1.98%	(111,864)	3.36%				

The calculation on 31 December 2017 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	(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%				

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.

3.9.2 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.

3.9.3 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 2018 and 2017:

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

	Thousands of euros	
	2018	**2017**
Spain	10,071,844	8,006,169
Italy	996,636	768,008
Portugal	75,123	109,765
France	23,887	24,077
United States	63,802	-
Other	9,185	9,705
	11,240,477	**8,917,724**
of which: from the insurance company	5,113,817	4,460,485

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

	Thousands of euros	
	2018	**2017**
Financial assets held for trading	-	304
Financial assets at fair value through profit or loss	6,079	6,414
Financial assets at fair value through other comprehensive income	6,380,314	
Available-for-sale financial assets		8,514,202
Financial assets at amortised cost	4,854,084	
Loans and receivables		396,804
	11,240,477	**8,917,724**
of which: from the insurance company	5,113,817	4,460,485

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					
	2018					
	Up to 3 months	**From 3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Financial assets at fair value through profit or loss	-	-	-	1,536	4,543	**6,079**
Financial assets at fair value through other comprehensive income	23,973	326,052	1,967,645	895,838	3,166,806	**6,380,314**
Financial assets at amortised cost	121,592	84,226	402,201	309,008	3,937,057	**4,854,084**
Total	**145,565**	**410,278**	**2,369,846**	**1,206,382**	**7,108,406**	**11,240,477**
of which: from the insurance company	23,973	325,165	1,260,290	791,349	2,713,040	5,113,817

	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**
Financial assets 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**
Investments held until maturity	-	-	-	-	-	**-**
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

- Other information

  - Fair value. The fair value of instruments in the portfolio of financial assets held for trading, the portfolio of financial assets designated at fair value through profit or loss and the portfolio of financial assets at fair value through other comprehensive income (available-for-sale financial asset portfolio as at 31 December 2017) matches the carrying amount indicated above.

    Note 26 sets out the method for measuring the portfolio of financial assets at amortised cost (portfolio of loans and receivables at 31 December 2017), which shows that the reported fair value does not differ significantly from the carrying amount. Except for this portfolio, the remaining fair value associated with sovereign risk is obtained using tier 1 valuation techniques (as described in Note 26).

  - A 100-basis point shift in the interest rate would have an effect on fair value of -6.24% (-5.36% in 2017).

3.9.4 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, corporate reputation, by preventing events that may have an adverse effect.

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 constructed and regularly measured so as to monitor the perception of the Company by the general public, customers and employees and the Group’s evolving footprint in social media. 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.

In 2018, the Company continued to measure its reputational risk, identifying strengths and areas for improvement and continuing action plans to enhance its reputation involving the Company’s main areas.

4. Appropriation of profit

The proposed appropriation of the profit of Ibercaja Banco, S.A. from fiscal year 2018, which the Board of Directors will propose for its approval to the General Shareholders’ Meeting, and that which was approved from fiscal year 2017 are the following:

	Thousands of euros	
	2018	**2017**
Distribution		
To dividends:	17,500	17,500
To retained earnings:		
Legal reserve	*25,578*	*9,969*
Voluntary reserve	*212,702*	*72,219*
Profit/(loss) for the year	**255,780**	**99,688**

The Ibercaja Banco General Shareholders’ Meeting held on 10 April 2018 approved the distribution of a dividend paid from profits from 2017 for an amount of €17.5 million. Additionally, the Board of Directors will propose to the General Shareholders’ Meeting that shareholders declare a dividend to be paid from 2017 profits for an amount of €17.5 million.

5. Information on the Board of Directors and Senior Management

Under the provisions of the Bank of Spain Circular 4/2017, 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 2018 by the members of the Board of Directors of the Company, in their status as Directors, is detailed below by item individually:

		Thousands of euros						
Members of the Board of Directors	Position	Remuneration		Attendance fees	Life insurance premiums	Remuneration for membership on board committees	Other items	Total
		Fixed	Variable					
José Luis Aguirre Loaso	Chairman	354.0	16.0	26.6	11.4	-	6.5	414.5
Jesús Bueno Arrese	First Deputy Chairman	-	-	41.3	24.8	-	4.2	70.3
Victor Iglesias Ruiz	Chief Executive Officer	385.0	122.6	26.6	1.4	-	5.3	540.9
Jesús Barreiro Sanz	Director Secretary	-	-	51.8	4.9	-	6.6	63.3
Jesús Solchaga Loitegui	Director	-	-	16.8	-	30.4	5.4	52.6
Gabriela González-Bueno Lillo	Director	-	-	44.1	5.2	45.6	1.8	96.7
Juan María Pemán Gavín	Director	-	-	36.4	3.2	-	7.7	47.3
Vicente Cóndor López	Director	-	-	42.0	4.1	45.6	2.9	94.6
Jesús Tejel Giménez	Director	-	-	25.9	3.0	-	5.3	34.2
Félix Longás Lafuente	Director	-	-	18.2	3.2	-	6.6	28.0
Emilio Jiménez Labrador	Director	-	-	14.0	-	-	0.6	14.6
Enrique Arrufat Guerra	Director	-	-	14.0	3.9	-	6.6	24.5
María Pilar Segura Bas	Director	-	-	18.9	2.0	-	5.4	26.3
Jorge Simón Rodríguez (1)	Director	-	-	2.1	0.3	-	0.7	3.1
José Ignacio Mijangos Linaza (2)	Second Deputy Chairman	-	-	9.8	-	-	7.7	17.5

(1) Company Director appointed 19 November 2018.
(2) Company Director who resigned on 19 November 2018.

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:

		Thousands of euros						
Members of the Board of Directors	Position	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	Member	-	-	35.7	4.6	45.6	1.8	87.7
Jesús Solchaga Loitegui	Member	-	-	14.0	-	30.4	5.3	49.7
Juan María Pemán Gavín	Member	-	-	32.2	3.0	-	7.6	42.8
Emilio Jiménez Labrador	Member	-	-	13.3	-	-	0.6	13.9
Vicente Cóndor López	Member	-	-	37.1	3.8	45.6	2.9	89.4
Félix Longas Lafuente	Member	-	-	15.4	3.0	-	6.5	24.9
Jesús Tejel Giménez	Member	-	-	20.3	2.7	-	5.3	28.3
Enrique Arrufat Guerra (1)	Member	-	-	5.6	3.6	-	6.5	15.7
María Pilar Segura Bas (1)	Member	-	-	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 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 and 2018.

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 Cajacírculo 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 annual accounts, 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.

At 31 December 2018, the Management Committee (including the Chief Executive Officer) is made up of 12 people, jointly identified as Senior Management (12 people in 2017).

The remunerations accrued by Senior Management are shown in the following table, as was previously defined, for 2018 and 2017:

	Short-term remuneration		**Post-employment benefits**		**Total**	
Thousands of euros	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Senior Management	2,239	2,448	105	121	**2,344**	**2,569**

Remuneration 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

At 31 December 2018, 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 2018 and 2017, there have been no transactions outside the ordinary course of business or other than at arm's length with significant shareholders, except:

- Service provision agreement (legal, tax, technological, marketing, communication, etc) formalised with Fundación Bancaria Ibercaja for the amount of €236,703 euros (€236,821 euros at 31 December 2017).
- Rental of Ibercaja Banco property used by Fundación Bancaria Ibercaja to carry out its activities for the amount of €133,053 euros (€131,747 at 31 December 2017).
- Service provision agreement (use and management of facilities, artistic heritage, etc.) between Fundación Bancaria Ibercaja and Ibercaja Banco for the amount of €858,286 (€863,726 at 31 December 2017).

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 at 31 December 2018 and 2017 were as follows:

	Thousands of euros	
	2018	**2017**
Cash	212,847	212,467
Cash balances at central banks	675,568	3,068,476
Other demand deposits	229,791	231,534
	1,118,206	**3,512,477**

The average effective interest rate on debt instruments classified in this portfolio during 2018 was 0.01% (0.01% during 2017).

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 at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2018	**2017**
By geographical areas		
Spain	7,033	8,272
Rest of the countries in the European Monetary Union	261	88
Rest of the world	117	1,018
	7,411	**9,378**
By counterparty classes		
Credit institutions	3,887	7,749
Resident government bodies	-	304
Other resident sectors	3,524	1,325
	7,411	**9,378**
By type of instruments		
Debt securities	-	324
Derivatives not traded in organised markets	7,411	9,054
	7,411	**9,378**

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 2018 was 3.49% (3.06% during 2017).

7.2 Breakdown of the balance - credit balances

The financial liabilities included in this category at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2018	2017
By geographical areas		
Spain	6,893	5,269
Rest of the countries in the European Monetary Union	489	839
Rest of the world	1,309	1,193
	8,691	**7,301**
By counterparty classes		
Credit institutions	7,715	6,142
Other resident sectors	976	1,154
Other non-resident sectors	-	5
	8,691	**7,301**
By type of instruments		
Derivatives not traded in organised markets	8,691	7,301
Of which: segregated embedded derivatives of hybrid financial instruments	*4*	*1,159*
	8,691	**7,301**

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 at 31 December 2018 and 2017 are shown below:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2018	2017	2018	2017
Not matured foreign currency purchases and sales	**490**	**1,452**	**-**	**-**
Security/index options	**4**	**709**	**153**	**677**
Interest rate options	**46**	**565**	**1,040**	**1,781**
Other interest rate transactions	**6,871**	**6,328**	**7,498**	**4,843**
Interest rate swaps (IRSs)	6,871	6,328	7,498	4,843
	7,411	**9,054**	**8,691**	**7,301**

	Thousands of euros	
	Notional	
	2018	2017
Not matured foreign currency purchases and sales	**102,266**	**63,530**
Security/index options	**156,856**	**412,000**
Interest rate options	**-**	**92,500**
Security/index embedded derivatives	**153,949**	**393,040**
Other interest rate transactions	**348,207**	**483,961**
Interest rate swap embedded derivatives	-	92,467
Retail market derivatives	219,739	253,353
Distribution of derivatives	128,468	138,141
	761,278	**1,445,031**

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 785,345 million euros at 31 December 2018 (957,919 million euros at 31 December 2017).

8. Financial assets not held for trading mandatorily measured at fair value through profit or loss

The financial assets included in this category at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instruments:

	Thousands of euros	
	2018	**2017**
By geographical areas		
Spain	74,358	
Rest of the countries in the European Monetary Union	20,348	
Rest of the world	48,831	
Total gross amount	**143,537**	
Accumulated negative changes in fair value due to credit risk from non-performing exposures	(2,222)	
Total net amount	**141,315**	
By counterparty classes		
Credit institutions	69,580	
Other resident sectors	73,957	
	143,537	
By type of instruments		
Debt securities	82,733	
Credits and loans	21,952	
Shares	400	
Ownership interests in Investment Funds	38,452	
	143,537	

The Group classifies financial assets to this portfolio when their contractual terms do not give rise to cash flows consisting solely of principal and interest payments (SPPI test). The portfolio also includes equity assets (investment fund units) that are managed jointly with insurance liabilities (“Unit linked”) measured at 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 of debt instruments classified in this portfolio during 2018 was 1%.

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

The financial assets included in this category as at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2018	**2017**
By geographical areas		
Spain	6,079	48,047
Rest of the countries in the European Monetary Union	961	1,468
Rest of the world	2,535	2,732
	9,575	**52,247**
By counterparty classes		
Credit institutions	1,367	1,879
Resident government bodies	6,079	6,414
Other resident sectors	-	41,632
Other non-resident sectors	2,129	2,322
	9,575	**52,247**
By type of instruments		
Debt securities	9,575	10,615
Ownership interests in Investment Funds	-	41,632
	9,575	**52,247**

The Group classifies to this portfolio the fixed-income assets that are managed jointly with insurance contract liabilities (“Unit linked”) measured at 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 2018 was 1.70% (3.46% during 2017).

10. Financial assets at fair value through other comprehensive income

10.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2018	**2017 (*)**
By geographical areas		
Spain	6,524,929	8,423,306
Rest of the countries in the European Monetary Union	879,536	1,303,827
Rest of Europe	19,413	15,487
Rest of the world	1,341,636	1,110,377
Total gross amount	**8,765,514**	**10,852,997**
(Impairment losses)	(10,874)	(3,071)
Total net amount	**8,754,640**	**10,849,926**
By counterparty classes		
Credit institutions	744,755	855,827
Resident government bodies	5,887,859	7,602,035
Non-resident government bodies	493,138	912,167
Other resident sectors	655,362	741,873
Other non-resident sectors	984,400	741,095
Total gross amount	**8,765,514**	**10,852,997**
By type of instruments		
Debt securities:	8,425,514	10,527,316
Public sector debt	*5,887,177*	*7,602,035*
Other public authorities	*312,655*	-
Foreign government debt securities	*493,137*	*912,167*
Issued by financial entities	*739,819*	*842,885*
Other fixed-income securities	*992,726*	*1,170,229*
Other equity instruments:	340,000	325,681
Shares in listed Spanish companies	*55,329*	*47,115*
Shares in non-listed Spanish companies	*174,722*	*219,465*
Shares in listed foreign companies	*99,419*	*44,945*
Shares in non-listed foreign companies	*51*	*51*
Ownership interests in Investment Funds	*1,009*	*1,501*
Ownership interests in Venture Capital Funds	*9,470*	*12,604*
Total gross amount	**8,765,514**	**10,852,997**

(*) Balances classified as “Available-for-sale financial assets” (Note 1.4)

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

In 2018, the Group, on the basis of the latest Business Plan approved by Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB), has decreased the value of the interest it holds in this entity by €25,733 thousand, with a charge to consolidated equity. At 31 December 2018, the decrease in the fair value of this interest amounts to €41,482 thousand, the carrying amount being €7,147 thousand (€32,879 thousand at 31 December 2017).

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.

The average effective interest rate on debt instruments classified in this portfolio during 2018 was 1.75% (1.80% during 2017), which includes the effect of the revenue reversals from risk hedging for interest rate risk.

10.2 Impaired debt securities

At 31 December 2018 and 2017 there were no impaired debt securities.

10.3 Credit risk hedges and others

The changes in the impairment losses recognised to cover the credit risk of the debt instruments included in this portfolio in 2018 and 2017 are presented below:

	Thousands of euros	
	2018	**2017**
Opening balance	**3,071**	**2,533**
First-time application of IFRS 9	3,688	-
Transfer charged to profit for the year	9,914	1,836
Reversal of provisions taken to income statement	(6,019)	(1,267)
Amounts used	-	-
Exchange differences and other movements	220	(31)
Closing balance	**10,874**	**3,071**
Of which:		
- Individually determined	4,820	-
- Collectively determined	6,054	3,071
- Certain country risk	-	-

The impairment losses indicated in this Note are recognised in the consolidated income statement under “Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at fair value through other comprehensive income)”.

11. Financial assets at amortised cost

The component items of this caption in the consolidated balance sheets at 31 December 2018 and 2017 and at 1 January 2018 were as follows:

	Thousands of euros		
	31/12/2018	**01/01/2018 (*)**	**31/12/2017 (**)**
Debt securities (Note 11.2)	6,544,456	4,452,597	2,296,675
Loans and advances	32,833,960	32,551,317	32,723,124
Credit institutions (Note 11.3)	248,856	362,419	362,419
Customers (Note 11.4)	32,585,104	32,188,898	32,360,705
	39,378,416	**37,003,914**	**35,019,799**

(*) Balance at 1 January 2018 after first-time application of IFRS 9 (Note 1.4)
(**) Balances classified as “Loans and receivables” (Note 1.4)

11.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as at 31 December 2018 and 2017 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2018	**2017**
By geographical areas		
Spain	39,590,641	35,785,217
Rest of the world	904,755	324,948
Total gross amount	**40,495,396**	**36,110,165**
(Impairment losses)	(1,116,980)	(1,090,366)
Total net amount	**39,378,416**	**35,019,799**
By counterparty classes		
Credit institutions	392,211	650,522
Resident government bodies	4,177,997	396,804
Non-resident government bodies	676,087	-
Other resident sectors	35,065,550	34,897,037
Other non-resident sectors	183,551	165,802
Total gross amount	**40,495,396**	**36,110,165**
By type of instruments		
Debt securities	6,544,728	2,296,816
Credits and loans	31,258,559	32,061,001
Reverse repurchase agreements	1,803,612	1,155,536
Other	888,497	596,812
Total gross amount	**40,495,396**	**36,110,165**

As a result of the first-time application of IFRS 9, impairment losses on financial assets at amortised cost of 140,948 thousand euros were recognised in 2018 (see Note 1.4).

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 outstanding on financial guarantees, registered under "Other" (in the breakdown by type of instruments), amounts to 1,707 thousand euros as at 31 December 2018 (1,896 thousand euros as at 31 December 2017). 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 at 31 December 2018 they amounted to 3,104,109 billion euros (3,429,095 billion euros at 31 December 2017), 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 2,763,148 million euros at 31 December 2018 (2,964,949 million euros at 31 December 2017). The amount of the bonds issued by the securitisation funds that were subscribed by third parties outside to the Group amounts to 461,029 million euros at 31 December 2018 (606,083 million euros at 31 December 2017), with their breakdown detailed in Note 19.4.

11.2 Debt securities

The breakdown by financial assets included in the debt securities category at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Debt securities	**6,544,728**	**2,296,816**
Impaired assets	-	-
Total gross amount	**6,544,728**	**2,296,816**
(Impairment losses)	(272)	(141)
Total net amount	**6,544,456**	**2,296,675**

This heading includes, among others, SAREB bonds, with an irrevocable guarantee from the Spanish central government, whose nominal value at 31 December 2018 was 1,794.5 million euros (1,937.6 million euros at 31 December 2017).

The average effective interest rate on debt instruments classified in this portfolio during 2018 was 1.04% (0.31% during 2017).

11.3 Credit institutions

The breakdown of the financial assets included in the “credit institutions” category at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Time or at notice:	**107,622**	**181,053**
Reverse repurchase agreement	100,000	174,518
Other accounts	7,622	6,535
Other financial assets:	**141,092**	**181,197**
Cheques payable by credit institutions	665	817
Cash guarantees	43,672	1,791
Other items	96,755	178,589
Impaired assets	**-**	**-**
Valuation adjustments	**142**	**169**
Total gross amount	**248,856**	**362,419**
(Impairment losses)	**-**	**-**
Total net amount	**248,856**	**362,419**

The average effective interest rate on debt instruments classified in this portfolio during 2018 was 0.10% (0.63% during 2017).

11.4 Customers

The breakdown by financial assets included in the Loans and advances to customers category at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Credits and loans	**31,258,559**	**32,061,001**
Commercial loans	573,237	514,592
Secured loans	22,056,364	22,630,739
Other term loans	5,325,825	5,318,737
Finance leases (Note 27.7)	499,297	417,415
Receivables on demand and others	491,370	555,059
Impaired assets	2,272,336	2,564,825
Valuation adjustments	40,130	59,634
Reverse repurchase agreement	**1,703,612**	**981,018**
Other financial assets	**739,641**	**408,911**
Financial transactions pending settlement	12,826	9,401
Cash guarantees	230,141	3,728
Financial guarantee fees	1,707	1,896
Other items	494,967	393,886
Total gross amount	**33,701,812**	**33,450,930**
(Impairment losses)	(1,116,708)	(1,090,225)
Total net amount	**32,585,104**	**32,360,705**

“Valuation adjustments” at 31 December 2018 included an amount of 61.1 million euros corresponding to the adjustment to the amortised cost of the covered assets pending accrual after the interruption of the macro-hedges described in Note 12.2 (81.6 million euros at 31 December 2017).

The average effective interest rate on debt instruments classified in this portfolio during 2018 was 1.33% (1.34% during 2017).

11.4.1. Overdue, impaired and unimpaired assets

There follows a breakdown of credit to customers considered to be impaired because of credit risk at 31 December 2018 and 2017, classified according to the period elapsed since the maturity of the oldest unpaid amount of each transaction at those dates:

	Thousands of euros					
	Not yet due	Up to 6 months	6 to 9 months	9 to 12 months	Over 12 months	Total
Balances at 31 December 2018	412,237	164,299	102,664	107,329	1,485,807	**2,272,336**
Balances at 31 December 2017	623,566	173,408	101,936	104,006	1,561,909	**2,564,825**

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

	Thousands of euros	
	2018	2017
Resident government bodies	2,833	8,044
Other resident sectors	2,261,753	2,548,826
Other non-resident sectors	7,750	7,955
	2,272,336	**2,564,825**

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 at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	2018			
	Less than one Month	1 to 2 months	Between 2 months and 90 days	Total
Credit institutions	-	-	-	-
Resident government bodies	599	-	-	599
Other resident sectors	52,687	10,879	7,938	71,504
Other non-resident sectors	120	11	5	136
	53,406	**10,890**	**7,943**	**72,239**

	Thousands of euros			
	2017			
	Less than one Month	1 to 2 months	Between 2 months and 90 days	Total
Credit institutions	-	-	-	-
Resident government bodies	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**

11.5 Credit risk hedges and others

The changes in the gross balance of financial assets included in this category in 2018 are presented below:

	Thousands of euros			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross balance at 1 January	**33,614,785**	**2,063,919**	**2,556,949**	**38,235,653**
Transfers:	190,416	(352,327)	161,911	-
from stage 1 to stage 2:	*(599,574)*	*599,574*	-	-
from stage 1 to stage 3	*(73,041)*	-	*73,041*	-
from stage 2 to stage 3	-	*(197,213)*	*197,213*	-
from stage 3 to stage 2	-	*99,984*	*(99,984)*	-
from stage 2 to stage 1	*854,672*	*(854,672)*	-	-
from stage 3 to stage 1	*8,359*	-	*(8,359)*	-
Increases	7,889,316	114,451	63,615	8,067,382
Decreases	(5,023,401)	(274,099)	(265,818)	(5,563,318)
Transfers to write-offs	-	-	(242,793)	(242,793)
Other movements	-	-	(1,528)	(1,528)
Gross balance at 31 December 2016	**36,671,116**	**1,551,944**	**2,272,336**	**40,495,396**

The changes in impairment losses recognised to cover the credit risk of financial assets included in this category in 2018 are presented below:

	Thousands of euros			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**58,672**	**112,704**	**1,060,363**	**1,231,739**
Of which:				
- Individually determined	-	16,473	535,471	551,944
- Collectively determined	58,672	96,231	524,892	679,795
Changes through profit or loss:	**(119,747)**	**85,541**	**191,158**	**156,952**
Increases in origination	40,637	-	-	40,637
Changes due to changes in credit risk	(113,476)	94,992	253,615	235,131
Changes in calculation method	-	-	-	-
Other	(46,908)	(9,451)	(62,457)	(118,816)
Changes other than through profit or loss:	**116,454**	**(112,894)**	**(275,271)**	**(271,711)**
Transfers:	116,454	(112,894)	(3,560)	-
from stage 1 to stage 2:	*(20,218)*	*20,218*	-	-
from stage 1 to stage 3:	*(980)*	-	*980*	-
from stage 2 to stage 3:	-	*(30,908)*	*30,908*	-
from stage 3 to stage 2	-	*28,942*	*(28,942)*	-
from stage 2 to stage 1	*131,146*	*(131,146)*	-	-
from stage 3 to stage 1	*6,506*	-	*(6,506)*	-
Existing provisions utilised	-	-	(242,793)	(242,793)
Other movements	-	-	(28,918)	(28,918)
Balance at 31 December	**55,379**	**85,351**	**976,250**	**1,116,980**
Of which:				
- Individually determined	-	*9,171*	*436,856*	*446,027*
- Collectively determined	*55,379*	*76,180*	*539,394*	*670,953*

The changes in impairment losses recognised to cover the credit risk of financial assets included in this category in 2017 are presented below:

	Thousands of euros
	2017
Opening balance	**1,350,348**
Transfer charged to profit for the year	565,534
Reversal of provisions taken to income statement	(382,211)
Amounts used	(423,206)
Exchange differences and other movements	(20,099)
Closing balance	**1,090,366**
Of which:	
- Individually determined	520,388
- Collectively determined	569,978

The balance of provision utilisation in 2018 relates mainly to provisions covering transactions derecognised from the consolidated balance sheet amounting to XX thousand euros (160,571 thousand euros in 2017). The balance of provision utilisation in 2017 also included provisions derecognised from the balance sheet covering the non-performing loans portfolio sold to Fleta Issuer Holdings Designated Activity Company, amounting to €224,806 thousand.

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	
	2018	**2017**
Resident government bodies	1,074	1,455
Other resident sectors	1,112,825	1,084,860
Other non-resident sectors	3,081	4,051
	1,116,980	**1,090,366**

The various items recognised in 2018 and 2017 under "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortised cost" in the consolidated income statements for those years are presented below:

	Thousands of euros	
	2018	**2017 (*)**
Impairment losses credited to allowances for assets	156,952	183,323
Recovery of written-off assets	(6,123)	(11,450)
	150,829	**171,873**

(*) Balances classified under "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Loans and receivables" (Note 1.4)

The movement of the consolidated Loans and receivables derecognised in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Balances at the start of the year	**592,922**	**1,026,462**
Use of the Accumulated impairment balance	242,793	160,571
Contractually required interests	17,136	22,766
Direct write-down to the profit and loss account	-	-
Main cash payment to the counterparties	(5,855)	(10,814)
Interest cash payment to the counterparties	(268)	(636)
Forgiveness	(43,164)	(15,554)
Limitation period	(19,309)	-
Debt refinancing or restructuring	-	(5,470)
Sales	(131)	(328,887)
Other items	(51,575)	(255,516)
Balance at the close of the year	**732,549**	**592,922**

"Sales" in 2017 includes the sale of a portfolio of written-off loans for a total of 326 million euros to Cabot Securitisation (Europe) Limited.

The accrued interest pending payment, registered in memorandum accounts, associated with impaired financial assets, amounts to 106,593 million euros at 31 December 2018 (100,458 million euros at 31 December 2017).

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 at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2018	2017	2018	2017
Interest rate swaps (IRSs)	161,371	187,456	155,200	106,702
	161,371	**187,456**	**155,200**	**106,702**

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.	
	2018	2017
Derivative assets	90,788	138,394
Derivative liabilities	76,839	98,156

	Thousands of euros	
	Deposits subject to derivative offset arrangements	
	2018	2017
Deposits recognised under assets	63,420	66,220
Deposits recognised under liabilities	70,480	99,940

The purpose of all fair value hedges carried out by the Company is to hedge the risk of changes in the fair value of debt instruments, assets or liabilities issued at a fixed rate, due to changes in 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 arranges interest rate swaps, the value of which varies similarly and symmetrically to the changes in value 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 were arranged on the market that convert the issue's inflation-indexed floating rate into a fixed rate.
In the event of ineffectiveness in fair value or cash flow hedges, the Bank mainly considers the following causes:

- Possible economic events affecting the Bank (e.g.: default),

- Due to changes and possible differences with respect to the market in the collateralised and non-collateralised curves used in the valuation of derivatives and hedged items, respectively.

- Possible differences between the nominal value, settlement/repricing dates and credit risk of the hedged item and the hedging instrument.

Note 3 analyses the nature of the Group's main risks covered by these financial instruments.

A breakdown of the maturities of the notional amounts of the hedging instruments used by the Group at 31 December 2018 and 2017 is shown below:

	Thousands of euros					
	2018					
	Up to 1 month	1 to 3 months	Between 3 months and 1 year	1 to 5 years	Over 5 years	Total
Fair value hedges	**-**	**94,871**	**598,773**	**4,872,341**	**2,642,205**	**8,208,190**
Interest rate swaps (IRSs)	-	94,871	598,773	4,872,341	2,642,205	8,208,190
Average interest rate	-	2.29%	0.33%	0.43%	1.58%	0.81%
Cash flow hedges	**-**	**-**	**-**	**225,000**	**370,000**	**595,000**
Interest rate swaps (IRSs)	-	-	-	225,000	370,000	595,000
Average interest rate	-	-	-	0.00%	0.00%	0.00%

	Thousands of euros					
	2017					
	Up to 1 month	1 to 3 months	Between 3 months and 1 year	1 to 5 years	Over 5 years	Total
Fair value hedges	**23,947**	**47,168**	**699,239**	**4,244,308**	**1,790,204**	**6,804,866**
Interest rate swaps (IRSs)	23,947	47,168	699,239	4,244,308	1,790,204	6,804,866
Average interest rate	0.00%	0.00%	0.00%	0.73%	1.55%	0.88%
Cash flow hedges	**-**	**-**	**-**	**200,000**	**-**	**200,000**
Interest rate swaps (IRSs)	-	-	-	200,000	-	200,000
Average interest rate	-	-	-	0.00%	-	0.00%

A breakdown of the hedging instruments used by the Group at 31 December 2018 and 2017 is shown below:

	Thousands of euros			
	2018			
	Notional	Assets	Liabilities	Change in the FV used to calculate hedging ineffectiveness
Fair value hedges	**8,208,190**	**148,944**	**96,989**	**(50,197)**
Interest rate swaps (IRSs)	8,208,190	148,944	96,989	(50,197)
Cash flow hedges	**595,000**	**-**	**45,784**	**9,288**
Interest rate swaps (IRSs)	595,000	-	45,784	9,288

	Thousands of euros			
	2017			
	Notional	Assets	Liabilities	Change in the FV used to calculate hedging ineffectiveness
Fair value hedges	**6,804,866**	**186,711**	**78,332**	**(11,990)**
Interest rate swaps (IRSs)	6,804,866	186,711	78,332	(11,990)
Cash flow hedges	**200,000**	**-**	**27,625**	**(1,169)**
Interest rate swaps (IRSs)	200,000	-	27,625	(1,169)

A breakdown of the items hedged the Group at 31 December 2018 and 2017 is shown below:

	Thousands of euros					
	2018					
	Carrying amount of the hedged item		Adjustment of cumulative FV in the hedged instrument		Change in the FV used to calculate hedging ineffectiveness	Cash flow hedges reserve
	Assets	Liabilities	Assets	Liabilities		
Fair value hedges	**3,131,911**	**6,174,979**	**59,528**	**119,475**	**50,708**	**-**
Transactions with clients	-	1,028,645	-	1,010	(205)	-
Loans	-	2,560,126	-	104,905	34,415	-
Fixed Income	3,131,911	-	59,528	-	28,259	-
Deposits taken (Money Market)	-	1,636,208	-	3,053	(1,254)	-
Savings demand deposit hedge	-	950,000		10,507	(10,507)	
Cash flow hedges	**658,428**	**-**	**-**	**-**	**-**	**9,288**
Fixed Income	658,428	-	-	-	-	9,288

	Thousands of euros					
	2017					
	Carrying amount of the hedged item		Adjustment of cumulative FV in the hedged instrument		Change in the FV used to calculate hedging ineffectiveness	Cash flow hedges reserve
	Assets	Liabilities	Assets	Liabilities		
Fair value hedges	**1,958,904**	**5,333,080**	**34,028**	**142,535**	**14,101**	**-**
Transactions with clients	14,105	482,866	612	1,415	1,694	-
Loans	-	3,208,568	-	139,321	73,253	-
Fixed Income	1,944,799	-	33,416	-	(60,171)	-
Deposits taken (Money Market)	-	1,641,646	-	1,799	(675)	-
Cash flow hedges	**230,906**	**-**	**-**	**-**	**-**	**(1,169)**
Fixed Income	230,906	-	-	-	-	(1,169)

The following table shows the impact on the consolidated income statement and consolidated statement of other comprehensive income of the hedging relationships designated by the Group at 31 December 2018 and 2017:

	Thousands of euros			
	2018			
	Change in value of hedging instrument recognised in other comprehensive income	**Ineffectiveness recognised in profit or loss**	**Amount reclassified from equity to profit or loss**	
			Hedging interruption	*Recognition in profit or loss of the hedged transaction*
Fair value hedges	**-**	**511**	**-**	**-**
Transactions with clients	-	973	-	-
Loans	-	(28)	-	-
Fixed Income	-	(279)	-	-
Deposits taken (Money Market)	-	(155)	-	-
Cash flow hedges	**10,457**	**-**	**-**	**(27,843)**
Fixed Income	10,457	-	-	(27,843)

	Thousands of euros			
	2017			
	Change in value of hedging instrument recognised in other comprehensive income	**Ineffectiveness recognised in profit or loss**	**Amount reclassified from equity to profit or loss**	
			Hedging interruption	*Recognition in profit or loss of the hedged transaction*
Fair value hedges	**-**	**2,111**	**-**	**-**
Transactions with clients	-	1,049	-	-
Loans	-	367	-	-
Fixed Income	-	697	-	-
Deposits taken (Money Market)	-	(2)	-	-
Cash flow hedges	**(1,169)**	**-**	**-**	**253**
Fixed Income	(1,169)	-	-	253

At 31 December 2018 and 2017, there were no accounting hedges that failed the effectiveness test.

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 breakdown of adjustments to financial assets and liabilities via macro-hedges at 31 December 2018 and 2017 is as follows:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2018	2017	2018	2017
Mortgage loans	-	-	-	-
Financial liabilities	-	-	24,961	11,054
	-	**-**	**24,961**	**11,054**

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. At 31 December 2018, the adjustment pending accrual amounts to 61.1 million euros (81.6 million euros at 31 December 2017) and has been recorded since the interruption of the hedge under the heading "Financial assets at amortised cost - Customers" on the asset side of the balance sheet (Note 11.4). The cancellation of the derivative with the counterparty was made on the same day.

The nominal amount of financial liabilities corresponding to own issues, covered bonds, deposits and transactions with customers, covered by interest rate swaps (IRSs), amounted to 450,897 thousand euros at 31 December 2018 (500,897 thousand euros at 31 December 2017).

At 31 December 2018 and 2017, there were no accounting hedges that failed the effectiveness test.

13. Investments in joint ventures and associates

13.1 Investments in associates

This heading of investments in associates in the consolidated balance sheets at 31 December 2018 and 2017 is broken down as follows:

	Thousands of euros	
	2018	**2017**
Equity instruments	97,902	77,558
(Impairment losses)	(129)	(129)
Total net amount	**97,773**	**77,429**

In 2018, the new companies Ibercaja Global Internacional SICAV and the company Northwind FINCO, S.L. were incorporated (Note 3.5.6.2).

The balance of "Investments in subsidiaries, joint ventures and associates – Associates" of the consolidated balance sheets as at 31 December 2018 and 2017 included goodwill associated with these investments. The breakdown of this goodwill, based on the entity in which they originated, is shown below:

	Thousands of euros	
Company	**2018**	**2017**
Heraldo de Aragón, S.A.	11,149	11,149
Total net amount	**11,149**	**11,149**

The movement of the impairment losses of the associated entities in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Opening balance	**129**	**481**
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	**-**	**-**
Closing balance	**129**	**129**

13.2 Investments in joint ventures

Appendices I and II show a breakdown of the investments in joint ventures held by the Group at 31 December 2018 and 2017, with related details.

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

14. <u>Assets under insurance or reinsurance contracts</u>

At 31 December 2018 and 2017, 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 2018 and 2017 is as follows:

	Thousands of euros
Balances at 31 December 2016	**514**
Transfers	(119)
Balances at 31 December 2017	**395**
Transfers	324
Balances at 31 December 2018	**719**

15. Tangible assets

Movements in this consolidated balance sheet heading in 2018 and 2017 are as follows:

	Thousands of euros			
	For own use	Investment property	Assigned under operating lease	Total
Cost				
Balances at 1 January 2017	**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 at 31 December 2017	**1,321,589**	**609,534**	**33,398**	**1,964,521**
Additions	20,833	11,643	33,601	66,077
Disposals due to sales or through other means	(51,071)	(126,059)	(13,168)	(190,298)
Other transfers and other movements	(863)	(13,119)	-	(13,982)
Balances at 31 December 2018	**1,290,488**	**481,999**	**53,831**	**1,826,318**
Accumulated depreciation				
Balances at 1 January 2017	**(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 at 31 December 2017	**(705,204)**	**(134,656)**	**(7,850)**	**(847,710)**
Disposals due to sales or through other means	30,096	23,227	4,270	57,593
Allowances recognised in profit or loss	(23,037)	(8,749)	(5,158)	(36,944)
Other transfers and other movements	780	(1,509)	-	(729)
Balances at 31 December 2018	**(697,365)**	**(121,687)**	**(8,738)**	**(827,790)**
Impairment losses				
Balances at 1 January 2017	**(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 at 31 December 2017	**(956)**	**(86,441)**	**-**	**(87,397)**
Transfer charged to profit for the year	(806)	(649)	-	(1,455)
Recovered amount credited to profits	-	6	-	6
Applications and other movements	1,250	31,059	-	32,309
Balances at 31 December 2018	**(512)**	**(56,025)**	**-**	**(56,537)**
Net tangible assets				
Balances at 31 December 2017	**615,429**	**388,437**	**25,548**	**1,029,414**
Balances at 31 December 2018	**592,611**	**304,287**	**45,093**	**941,991**

At 13 December 2018, fully depreciated property, plant and equipment in use amounted to 431,481 thousand euros (407,140 at 31 December 2017).

In 2013, Ibercaja Banco, S.A. and Banco Grupo Cajatres, S.A.U. availed themselves of the possibility offered by Article 9 of Law 16/2012 to update the tax value of property, plant and equipment, and certain buildings for own use and property investments were accordingly updated.

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 at 31 December 2018 and 2017 is the following:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment losses	Net balance
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 at 31 December 2017	**1,321,589**	**(705,204)**	**(956)**	**615,429**
Computer equipment and installations	228,006	(201,049)	-	26,957
Furniture, vehicles and other installations	404,159	(353,865)	-	50,294
Buildings	651,779	(142,451)	(512)	508,816
Construction in progress	6,544	-	-	6,544
Balances at 31 December 2018	**1,290,488**	**(697,365)**	**(512)**	**592,611**

No third party termination benefits were received in 2018 for asset impairment, and there were no pending termination benefits to be received at 31 December 2017.

There are no significant material asset acquisition commitments for its own use or restrictions on its ownership at 31 December 2018 and 2017.

15.2 Investment property

The rental income coming from the Group’s investment properties amounted to 8,963 thousand euros in 2018 (11,298 thousand euros in 2017) (Note 36), other related expenses amounted to 2,037 thousand euros (2,503 thousand euros in 2017) (Note 37) and operating expenses were incurred due to depreciation and amortisation in an amount of 8,749 thousand euros (10,134 thousand euros in 2017) (Note 15).

93.73% of the net carrying amount of the investment properties (84.24% in 2017) 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. The carrying amount (excluding impairment losses) of these assets, which was valued by an independent surveyor, is as follows:

	Thousands of euros			
	carrying amount (without impairment losses)		Of which: appraised by an independent appraiser	
	2018	2017	2018	2017
Investment property	**360,312**	**474,878**	**322,675**	**400,122**
Residential	22,896	204,145	16,538	186,976
Commercial and industrial	330,063	266,327	298,783	208,745
Agricultural	7,353	4,406	7,354	4,401

The fair value calculated by independent appraisals for the assets amounts to €337,719 thousand at 31 December 2018 (€357,178 thousand at 31 December 2017).

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 at 31 December 2018.

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 45,093 million euros at 31 December 2018 (25,548 million euros at 31 December 2017). In 2018, rental income from these assets amounted to 8,537 thousand euros (6,465 thousand euros in 2017) and operating expenses due to depreciation and amortisation and other related expenses amounted to 5,158 thousand and 1,588 thousand, respectively (3,975 thousand euros and 1,227 thousand euros in 2017).

15.4 Impairment losses

In 2018, 806 thousand euros of impairment losses on property, plant and equipment for own use and 643 thousand euros of impairment losses on investment property were recognised (impairment losses of 1,649 thousand euros and reversal of impairment losses of 4,024 thousand euros in 2017, 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 at 31 December 2018 and 2017 is the following:

	Thousands of euros	
Company	**2018**	**2017**
Banco Grupo Cajatres, S.A.U.	128,065	128,065
Caja Badajoz Vida y Pensiones, S.A. de Seguros	16,869	16,869
	144,934	**144,934**

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, after satisfaction of the conditions precedent and the required administrative exemptions and authorisations having been secured, Ibercaja Banco became the owner of 100% of the share capital of Banco Grupo Cajatres, S.A. To this end, Ibercaja Banco carried out a 325.5 million euro capital increase subscribed for by the shareholders of Banco Grupo Cajatres, S.A. in exchange for all that bank's share capital. 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.

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 as part of the reorganisation of the Group's insurance business as a result of the takeover of Banco Grupo Cajatres, S.A.U. in 2013. In 2015 Caja Badajoz Vida y Pensiones, S.A. de Seguros (absorbed company) was merged by absorption into 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.

At year-end, the Group calculated the value in use of the cash-generating unit that constitutes Ibercaja Banco, and concluded that there was no need to record any impairment losses.

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 2023.
- Normalised projection for the determination of the estimated perpetual rate for 2035 and thereafter, calculating for the remaining period a residual value that has been determined considering a distributable cash flow of 447 million euros and a 2% growth rate of this flow.

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, 9.6%.

An analysis of the sensitivity of the valuation to reasonably possible changes in the key variables has been performed (distributable cash flow used to calculate terminal value, perpetual growth rate of cash flow, and discount rate). It was observed that when the discount rate changes by +0.5%, the value in use would be lower than the carrying amount of the cash-generating unit, resulting in a partial impairment of goodwill. The discount rate should vary by 30 bp so that, after incorporating into the recoverable amount all the effects resulting from that change of the other variables, the value in use of the unit is equal to its carrying amount.

The main criteria used to calculate value in use are as follows:

- Cash flows estimated from the Company's business plan

  - Recovery of interest income and fees 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 yield observed in the 2009-2018 period for the Spanish 10Y bond of 3.28%, an adjusted beta as the average of the one-year beta across listed Spanish banks of 1.15 and a market risk premium of 5.5%.

- Rate of growth in perpetuity of the cash flow starting in 2035

  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	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 at 31 December 2017	**173,414**	**(118,668)**	**-**	**54,746**
Computer software	138,484	(94,824)	(673)	42,987
Trade mark	7,500	(7,500)	-	-
Customer relationships (Core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(29,833)	-	15,198
Other	1,616	(858)	-	758
Balances at 31 December 2018	**192,631**	**(133,015)**	**(673)**	**58,943**

The "trademark" includes the estimated value of the brands of the now extinct savings banks 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 this entity represent with respect to other alternative financing sources.

Movements in this consolidated balance sheet heading throughout 2018 and 2017 are as follows:

	Thousands of euros				
	Computer software	Trade mark	Customer relationships of Banco Grupo Cajatres	Other	Total
Cost					
Balances at 1 January 2017	**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 at 31 December 2017	**119,267**	**7,500**	**45,031**	**1,616**	**173,414**
Additions	19,217	-	-	-	19,217
Disposals due to sales or through other means	-	-	-	-	-
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2018	**138,484**	**7,500**	**45,031**	**1,616**	**192,631**
Accumulated depreciation					
Balances at 1 January 2017	**(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 at 31 December 2017	**(86,783)**	**(6,750)**	**(24,409)**	**(726)**	**(118,668)**
Disposals due to sales or through other means	-	-	-	-	-
Allowances recognised in profit or loss	(8,041)	(750)	(5,424)	(132)	(14,347)
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2018	**(94,824)**	**(7,500)**	**(29,833)**	**(858)**	**(133,015)**
Impairment losses					
Balances at 1 January 2017	**(189)**	**-**	**-**	**-**	**(189)**
Transfer charged to profit for the year	-	-	-	-	-
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	189	-	-	-	189
Balances at 31 December 2017	**-**	**-**	**-**	**-**	**-**
Transfer charged to profit for the year	(673)	-	-	-	(673)
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	-	-	-	-	-
Balances at 31 December 2018	**(673)**	**-**	**-**	**-**	**(673)**
Net intangible assets					
Balances at 31 December 2017	**32,484**	**750**	**20,622**	**890**	**54,746**
Balances at 31 December 2018	**42,987**	**-**	**15,198**	**758**	**58,943**

At 31 December 2018, fully-amortised intangible assets still in use amounted to €79,305 thousand (€71,214 thousand at 31 December 2017).

17. Other assets

This heading in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	Thousands of euros	
	2018	2017
Accruals and deferred income	32,822	18,681
Inventories	303,137	430,157
Transactions in transit	1,902	386
Other	2,712	5,038
Total gross amount	**340,573**	**454,262**
(Impairment losses)	(150,740)	(204,606)
Total net amount	**189,833**	**249,656**

Impairment analysed in the above table relates entirely to Inventories.

Movements in Inventories during 2018 and 2017 are as follows:

	Thousands of euros		
	Foreclosed assets	Other assets	Total
Cost			
Balances at 1 January 2017	**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 at 31 December 2017	**332,370**	**97,787**	**430,157**
Additions	29,164	-	29,164
Disposals due to sales or through other means	(129,639)	(14,550)	(144,189)
Other transfers and other movements	(11,995)	-	(11,995)
Balances at 31 December 2018	**219,900**	**83,237**	**303,137**
Impairment losses			
Balances at 1 January 2017	**(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 at 31 December 2017	**(191,321)**	**(13,285)**	**(204,606)**
Transfer charged to profit for the year	(2,526)	(365)	(2,891)
Recovered amount credited to profits	51	-	51
Applications and other movements	56,099	607	56,706
Balances at 31 December 2018	**(137,697)**	**(13,043)**	**(150,740)**
Net inventories			
Balances at 31 December 2017	**141,049**	**84,502**	**225,551**
Balances at 31 December 2018	**82,203**	**70,194**	**152,397**

In inventories, all foreclosed assets consist of property.

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 valuations of these elements of property have been 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.

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

The breakdown of the inventory-related expenses for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Costs to sell inventories sold during the year	74,620	6,139
Impairment losses on inventories (Note 40)	2,840	18,450
Impairment write-downs	2,891	18,494
Reversals of impairment write-downs	(51)	(44)
Total net amount	**77,460**	**24,589**

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

At 31 December 2018 and 2017, this consolidated balance sheet item breaks down as follows:

	Thousands of euros	
	2018	**2017**
Foreclosed assets	**365,816**	**752,681**
Residential	304,467	630,093
Industrial	44,800	106,554
Agricultural	16,549	16,034
Other assets	**64,612**	**81,699**
Residential	39,507	45,418
Industrial	21,974	20,329
Agricultural	3,131	3,131
Other	-	12,821
Total gross amount	**430,428**	**834,380**
(Impairment losses)	(141,838)	(281,624)
Total net amount	**288,590**	**552,756**

“Other assets” at 31 December 2017 includes the ownership interest in CAI Seguros Generales de Seguros y Reaseguros, S.A. On 14 December 2017, Ibercaja Banco, S.A. signed an agreement to sell all of its shares in CAI Seguros Generales de Seguros y Reaseguros, S.A. In 2018 the necessary administrative authorisations were obtained for the performance of the agreements signed in December 2017, both for the purchase of the shares representing the remaining 50% and for the subsequent sale of all the shares.

Movements in this consolidated balance sheet heading in 2018 and 2017 are as follows:

	Thousands of euros		
	Foreclosed assets	**Other assets**	**Total**
Cost			
Balances at 1 January 2017	**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 at 31 December 2017	**752,681**	**81,699**	**834,380**
Additions	90,284	36,759	127,043
Disposals due to sales or through other means	(490,038)	(53,846)	(543,884)
Other transfers and other movements	12,889	-	12,889
Balances at 31 December 2018	**365,816**	**64,612**	**430,428**
Impairment losses			
Balances at 1 January 2017	**(261,648)**	**(1,479)**	**(263,127)**
Net provision charged to profit or loss for the year	(63,377)	(1,836)	(65,213)
Applications and other movements	46,716	-	46,716
Balances at 31 December 2017	**(278,309)**	**(3,315)**	**(281,624)**
Net provision charged to profit or loss for the year	(40,523)	-	(40,523)
Applications and other movements	178,695	1,614	180,309
Balances at 31 December 2018	**(140,137)**	**(1,701)**	**(141,838)**
Net non-current assets held for sale			
Balances at 31 December 2017	**474,372**	**78,384**	**552,756**
Balances at 31 December 2018	**225,679**	**62,911**	**288,590**

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 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 property 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.

In 2018, the Group financed 17.61% of sales (55.32% in 2017).

Loans granted during the year to finance sales of this type of assets amount to €85,193 thousand (€89,023 thousand at 31 December 2017) and the accumulated amount of loans granted is €545,064 thousand (€459,871 thousand at 31 December 2017).

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 (without impairment losses)		**Of which: appraised by an independent appraiser**	
	2018	**2017**	**2018**	**2017**
Non-current assets held for sale	**430,428**	**834,380**	**415,569**	**772,452**
Residential	343,974	675,511	338,575	641,997
Industrial	66,774	126,883	58,175	112,151
Agricultural	19,680	19,165	18,819	18,304
Other	-	12,821	-	-

The fair value calculated by independent appraisals for the assets amounts to €434,476 thousand at 31 December 2018 (€756,155 thousand at 31 December 2017).

The appraisals 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 property market operators. In order to arrive at a definitive value, the value obtained is adapted to the specific characteristics of the property, according to its physical and structural condition, the design and lay-out of its surface area, location and other factors (planning status, immediate environment etc.).

19. Financial liabilities at amortised cost

The items making up this consolidated balance sheet caption at 31 December 2018 and 2017 are as follows:

	Thousands of euros	
	2018	**2017**
Deposits	**38,658,120**	**39,666,819**
Central banks (Note 19.1)	3,341,085	3,353,508
Credit institutions (Note 19.2)	1,236,219	1,236,216
Customers (Note 19.3)	34,080,816	35,077,095
Debt securities issued (Note 19.4)	**1,640,432**	**1,827,266**
Other financial liabilities (Note 19.5)	**843,084**	**776,810**
	41,141,636	**42,270,895**

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 2018 and 2017 is shown below:

	Thousands of euros	
	2018	**2017**
European Central Bank	3,372,460	3,372,460
Valuation adjustments	(31,375)	(18,952)
	3,341,085	**3,353,508**

At 31 December 2018 and 2017 this caption includes financing obtained from the European Central Bank via targeted longer-term refinancing operations (TLTRO II) maturing in 2020.

The average effective interest rate on debt instruments classified in this caption during 2018 was -0.52% (0.51% at 31 December 2017).

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 2018 and 2017 is shown below:

	Thousands of euros	
	2018	**2017**
On demand	**18,916**	**44,880**
Other accounts	18,916	44,880
Time or at notice	**1,216,984**	**1,188,632**
Fixed-term deposits	560,152	663,891
Assets sold under repurchase agreements	647,308	513,046
Other accounts	9,524	11,695
Valuation adjustments	**319**	**2,704**
	1,236,219	**1,236,216**

The average effective interest rate on debt instruments classified in this caption during 2018 was 0.26% (0.04% during 2017).

19.3 Deposits - Customer

The breakdown of the balance under this heading in the consolidated balance sheets at 31 December 2018 and 2017, based on the geographical location, nature and counterparties of the transaction concerned, is indicated below:

	Thousands of euros	
	2018	**2017**
Geographic location		
Spain	33,950,989	34,916,023
Rest of the world	129,827	161,072
	34,080,816	**35,077,095**
By nature		
Demand deposits	26,316,080	24,629,205
Current Accounts	*19,605,008*	*18,206,323*
Savings accounts	*6,655,077*	*6,360,804*
Other demand deposits	*55,995*	*62,078*
Term deposits	7,384,711	9,261,903
Fixed-term deposits	*4,895,932*	*6,014,942*
Non-marketable mortgage covered bonds and bonds issued (Note 44.1)	*2,271,771*	*2,693,384*
Hybrid deposits	*153,708*	*483,108*
Other term deposits	*63,300*	*70,469*
Assets sold under repurchase agreements	121,286	858,894
Valuation adjustments	258,739	327,093
	34,080,816	**35,077,095**
By counterparties		
Resident government bodies	1,100,777	1,047,912
Other resident sectors	32,850,212	33,868,111
Non-resident government bodies	9	10
Other non-resident sectors	129,818	161,062
	34,080,816	**35,077,095**

The average effective interest rate on debt instruments classified in this caption during 2018 was 0.14% (0.19% during 2017).

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 €2,271,771 thousand (€2,693,384 thousand at 31 December 2017). 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 2018 and 2017 breaks down as follows:

	Thousands of euros	
	2018	**2017**
Nominal value of mortgage covered bonds (Note 44.1)	4,650,000	4,650,000
Treasury shares	(4,067,057)	(4,067,352)
Nominal value of other securities linked to transferred financial assets	461,029	606,083
Nominal value of preferred shares	5,000	5,000
Nominal value of subordinated bonds	572,819	618,233
Valuation adjustments	18,641	15,302
	1,640,432	**1,827,266**

On 5 December 2018, covered bonds with a nominal value of 1,000 million euros matured. On 13 December 2018, Ibercaja Banco issued covered bonds for a total nominal value of 1,000 million euros. The breakdown of the bonds issued are as follows:

				Thousands of euros
Issue	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**
Ibercaja December 2018	3M Euribor + 0.60%	13.12,2018	13.03,2028	1,000,000
				1,000,000

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**	**2018**	**2017**
TDA2 securitisation bonds	Variable	13.10,2005	(*)	904,500	87,142	99,865
TDA3 securitisation bonds	Variable	12.05,2006	(*)	1,007,000	81,436	117,935
TDA4 securitisation bonds	Variable	18.10,2006	(*)	1,410,500	100,926	125,372
TDA5 securitisation bonds	Variable	11.05,2007	(*)	1,207,000	80,059	132,801
TDA6 securitisation bonds	Variable	25.06,2008	(*)	1,521,000	16,750	18,540
TDA ICO-FTVPO securitisation bonds	Variable	15.07,2009	(*)	447,200	94,716	111,570
					461,029	**606,083**

(*) 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 2018 was 0.26% (0.31% during 2017).

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. This issue is expected to be redeemed in January 2019.

Details regarding each issue of subordinated bonds are as follows:

Issue	Nominal interest	Maturity	Thousands of euros Nominal amount 2018	2017
20 April 2006	Variable	20 April 2018 (*)	-	45,414
25 April 2007	Variable	25 April 2019 (*)	72,789	72,789
15 June 2007	Mixed	15 June 2022	30	30
28 July 2015	Fixed	28 July 2025 (**)	500,000	500,000
			572,819	**618,233**

(*) 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 preference shares and subordinated bonds have been authorised by the competent Regulator to be classified as eligible own funds.

Interest accrued on the subordinated liabilities amounts to €25,847 thousand at 31 December 2018 (€30,955 thousand at 31 December 2017).

The average effective interest rate on debt instruments classified in this caption during 2018 was 4.32% (4.73% during 2017).

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 2018	2017
Opening balance	**631,751**	**857,260**
Cash flows	(45,414)	(224,624)
Redemption of subordinate bonds issued by Ibercaja Banco, S.A.	*(45,414)*	*(1,024)*
Redemption of contingent convertible bonds	-	*(223,600)*
No impact on cash flows	277	(885)
Valuation adjustments	*277*	*(885)*
Closing balance	**586,614**	**631,751**

19.5 Other financial liabilities

This heading in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	Thousands of euros 2018	2017
Bonds payable	43,607	75,194
Guarantees received	5,513	4,545
Collection accounts	482,466	376,604
Special accounts	45,065	64,920
Financial guarantees	2,362	2,814
Other items	264,071	252,733
	843,084	**776,810**

"Other items" 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 repos 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.	
	2018	**2017**
Assets under repos	4,619	337
Liabilities under repos	40,344	7,912

	Thousands of euros	
	Deposits subject to repo offset arrangements.	
	2018	**2017**
Deposits recognised under assets	30	7,360
Deposits recognised under liabilities	4,118	-

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 2018 and 2017 is as follows:

	2018	**2017**
	Days	
Average supplier payment period	18	21
Ratio of settled transactions	17	20
Ratio of transactions pending payment	76	61
	Thousands of euros	
Total payments made	701,308	518,334
Total payments outstanding	13,020	14,155

20. Liabilities under insurance or reinsurance contracts

At 31 December 2018 and 2017, the balances in this consolidated balance sheet heading were as follows:

	Thousands of euros	
	2018	**2017**
Technical reserves for:		
Unearned premium reserves (non-life)		-
Life insurance:	7,383,670	6,877,284
Unearned premium reserve	*21,930*	*20,917*
Mathematical reserves	*7,361,740*	*6,856,367*
Benefits pending payment	63,788	62,504
Profit sharing and returned premiums	3,397	10,845
Life insurance in which the investment risk is borne by the policyholders	63,914	68,571
	7,514,769	**7,019,204**

There is no accepted reinsurance at 31 December 2018 or 31 December 2017.

The reconciliation between the opening and closing balances under this heading in 2017 and 2018 is as follows:

	Thousands of euros
Balances at 31 December 2016	**6,858,907**
Transfers	240,487
Other movements	(80,190)
Balances at 31 December 2017	**7,019,204**
Transfers	517,989
Other movements	(22,424)
Balances at 31 December 2018	**7,514,769**

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 at 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 behaviour 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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Portfolio at 31 December (number of contract)	459,277	439,386	64,331	59,577	6,844	6,262	394,973	396,142	925,425	901,367
No. claims expected	1,828	1,802	2,741	2,524	55	53	606	594	5,230	4,973
No. actual claims	972	992	2,240	2,244	49	43	467	425	3,728	3,704
Percentage (actual/expected)	53.18%	55.05%	81.71%	88.91%	89.69%	81.13%	77.03%	71.55%	71.28%	74.48%

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	
	2018	**2017**
Life insurance premiums	72,675	69,852
Savings insurance premiums	1,251,876	1,077,396
	1,324,551	**1,147,248**
Premiums under individual policies	1,319,707	1,141,909
Premiums under group policies	4,844	5,339
	1,324,551	**1,147,248**
Regular premiums	434,994	403,259
Single premiums	889,557	743,989
	1,324,551	**1,147,248**
Premiums for policies with no profit-sharing	1,314,637	1,141,426
Premiums for policies with profit-sharing	4,368	4,391
Premiums for policies where the investment risk is assumed by the policyholder	5,546	1,431
	1,324,551	**1,147,248**

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 €1,327,536 thousand at 31 December 2018 (€1,150,124 thousand at 31 December 2017). This heading also reflects income from reinsurance amounting to €2,985 thousand at 31 December 2018 (€2,876 thousand at 31 December 2017).

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 2018 amounting to €1,327,955 thousand (€1,150,414 thousand in 2017) 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 2018, 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 2.48% in the value of the asset and 1.94% in the value of the liability.
- A parallel fall of 50 base points in the discount curve entails an increase of 2.50% in the value of the asset and 2.01% 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 2018 and 2017 indicating the purpose of the provisions recognised in the consolidated balance sheet at 31 December 2018 and 2017, 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 2017	**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)	2,829	-	-	-	71,860
Reversal of provisions taken to income statement	-	(105)	-	(16,387)	(68,918)
Provisions utilised	(8,724)	(1,909)	-	(35)	(87,177)
Other movements	(13,181)	-	1,274	38	(902)
Balances at 31 December 2017	**120,751**	**3,863**	**12,814**	**31,656**	**203,695**
Allowances charged to income statement					
Interest expense	2	-	-	-	-
Allowances to provisions and other	-	527	-	36,970	35,650
Staff costs (Note 38)	2,482	-	-	-	55,752
Reversal of provisions taken to income statement	-	(315)	(3,589)	(43,790)	(58,323)
Provisions utilised	(8,496)	(2,144)	-	-	(57,189)
Other movements	9,526	-	(198)	8,629	538
Balances at 31 December 2018	**124,265**	**1,931**	**9,027**	**33,465**	**180,123**

The composition of the provisions items “Pensions and other post-employment defined benefit commitments” and “Other long-term employee remuneration” is broken down in Note 38 “Staff costs”. Other movements disclose the variation of exterior commitments implemented through pension plans and insurance policies without breaking down the financial and actuarial components and the benefits paid, with the information provided in the aforementioned Note.

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 Group.

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 (€75,350 thousand and €65,701 thousand at 31 December 2018 and 2017, 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 €21 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 of the Group.

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 2018 and 2017, are analysed below:

	Thousands of euros	
	2018	**2017**
Liabilities		
Early retirement agreement	43	198
Externalised post-employment benefits	118,024	114,530
Non-externalised post-employment benefits	6,241	6,221
Fund for labour-related costs of the restructuring plan	1,888	3,665
	126,196	**124,614**

The net balance in the consolidated balance sheet for defined benefit plans breaks down as follows:

	Thousands of euros	
	2018	**2017**
Commitments relating to:		
Post-employment benefits (Note 38.2)	(26,048)	(10,621)
Other long-term remuneration - pre-retirement (Note 38.3)	(1,931)	(3,863)
(Shortfall)/Surplus	**(27,979)**	**(14,484)**
Impact of limit on assets	(388)	(386)
Net asset (liability) on balance sheet:	**(28,367)**	**(14,870)**
Assets linked to pensions (*)	93,264	105,483
Net pension assets (**)	4,565	4,261
Net pension (provision)	(126,196)	(124,614)

(*) Financial assets at the subsidiary Ibercaja Vida, S.A.
(**) Amount recorded under "Other assets" in the consolidated balance sheet.

The costs recognised in the consolidated income statement for employee benefits are as follows:

	Thousands of euros	
	2018	**2017**
Defined benefit plans	(2,482)	(2,829)
Contributions to defined contribution plans	(15,888)	(17,379)
interest expense and similar charges (net)	72	59
Transfers to provisions (*)	(527)	(595)
Actuarial gains (-) losses on long-term employee benefits	315	(180)
	(18,510)	**(20,924)**

(*) Includes annual provision for training, educational assistance for children, etc.

The amounts recognised in the consolidated statement of changes in equity are as follows:

	Thousands of euros	
	2018	**2017**
Actuarial gains/(losses) on post-employment benefits	(8,227)	14,653
Limitation on assets	(2)	(152)
	(8,229)	**14,501**

The main financial and actuarial assumptions used in measuring the commitments are as follows:

	2018	2017
Technical interest rate	0.00% - 2.06%	0.00% - 2.36%
Expected return on assets	1.56% - 2.06%	1.14% - 2.36%
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	22.42	22.30
Women	26.91	26.79
Employees retiring in FY 2037/2036		
Men	24.73	24.52
Women	29.03	28.93

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 10.46 years and the weighted average discount rate was 1.52%.

22. Other liabilities

This heading in the consolidated balance sheets at 31 December 2018 and 2017 breaks down as follows:

	Thousands of euros	
	2018	**2017**
Personnel expense apportionment	16,560	12,955
Transactions in transit	12,845	3,493
Contribution to Deposit Guarantee Fund (Note 1.8.2)	39,704	42,038
Other	101,072	69,626
	170,181	**128,112**

At 31 December 2018 and 2017, “Other” mainly includes supplier expenses that have been accrued by the Group.

23. Shareholders' funds and non-controlling interests

23.1 Shareholders' equity

The breakdown of shareholders' equity at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Capital	2,144,276	2,144,276
Equity instruments issued other than capital	350,000	-
Retained earnings	521,762	418,783
Legal reserve	*33,637*	*23,668*
Goodwill reserve	*12,807*	*12,807*
Voluntary reserves	*475,318*	*382,308*
Revaluation reserves	3,313	3,321
Other reserves	31,510	150,168
Legal reserve	*214,428*	*214,428*
Accumulated reserves or losses on investments in jointly-controlled entities and associates	*(44,004)*	*(64,260)*
Other reserves	*(138,914)*	-
Of which: from the application of IFRS 9	*(115,872)*	-
Of which: from the issue of equity instruments other than capital	*(15,570)*	-
Profit/(loss) for the year	40,804	138,367
Total	**3,091,665**	**2,854,915**

On 27 March 2018, Ibercaja, S.A. set the economic terms of an issue of preferred shares with a principal reduction mechanism for a nominal amount of 350 million euros. The preferred shares were issued at par value and carry remuneration, to be paid on a quarterly basis, of 7% a year up to 6 April 2023. From that moment onwards, the remuneration will be revised every five years with application of a margin of 6,809% at the five-year mid-swap rate. In any event, payment of the remuneration is subject to certain conditions, and is discretionary for the issuer.

The preferred shares are perpetual, without prejudice to their eligibility for redemption under certain conditions, at the discretion of the Entity. In addition, the nominal value of each of them may decrease to 0.01 euros if the Common Equity Tier 1 capital of Grupo Ibercaja falls below 5,125%. The payout and closing of this issue was carried out on 6 April 2018, and it was listed for trading in the AIAF fixed income market.

This issue of preferred shares has been authorised by the competent supervisor for classification as eligible tier-1 capital (Note 17.2).

Accrual and payment of the dividend of these instruments is recognised in "Other reserves" of equity. At 31 December 2018, payment of this dividend amounts to 12,250 thousand euros.

23.1.1 Capital

Share capital at 31 December 2018 consists of 2,144,275,998 shares (2,144,275,998 shares at 31 December 2017), with a par value of €1 each, fully subscribed and paid out, of the same class and series. The Bank's shares are represented by registered certificates.

The shareholders of Ibercaja Banco, S.A. are as follows:

	Thousands of euros	
	31/12/2018	31/12/2017
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

The goodwill reserve is recognised pursuant to the previous 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 2018 and 2017 are set out below for each subsidiary included in the balance:

Movements in 2018:

	Thousands of euros					
Company	**Balance at 01.01.18**	**Increases in shareholding**	**Decreases in shareholding**	**Attributed profit/(loss)**	**Other changes in equity**	**Balance at 31.12.18**
Dopar, S.L.	60	(60)	-	-	-	-
Enclama, S.L.	240	(240)	-	-	-	-
Total	**300**	**(300)**	**-**	**-**	**-**	**-**

Movements in 2017:

Company	Thousands of euros					
	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**

The financial highlights of the companies included in non-controlling interests are set out below at 31 December 2017:

Entity	Thousands of euros			
	Assets	Liabilities	Profit/(loss) after tax	Cash flow
Dopar, S.L.	219	91	(107)	22
Enclama, S.L.	781	196	57	129

24. Accumulated other comprehensive income

24.1 Actuarial gains/(losses) on defined benefit pension plans

At 31 December 2018, cumulative actuarial losses on defined benefit pension plans amount to €17,367 thousand (€11,607 thousand at 31 December 2017).

24.2 Hedging derivatives. Cash flow hedge reserve (effective portion)

At 31 December 2018, the amount of gains taken to equity for cash flow hedges amounted to €9,288 thousand (31 December 2017: losses of €1,169 thousand).

24.3 Financial assets at fair value through other comprehensive income

This heading on the consolidated balance sheets reflects the net amount of changes in fair value of assets 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).

A breakdown of valuation adjustments, net of the tax effect, and fair value hierarchies (detailed in Note 26) is as follows:

	Thousands of euros				
	2018				
	Valuation adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Listed equity instruments	(22,166)	155,754	155,754	-	-
Unlisted equity instruments	57,997	184,246	-	-	184,246
Listed fixed income	40,200	8,414,640	8,125,678	288,962	-
Total	**76,031**	**8,754,640**	**8,281,432**	**288,962**	**184,246**

	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**

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 2014 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 2018 and 2017 and corporate income tax expense is as follows:

	Thousands of euros	
	2018	2017
Consolidated profit(loss) before tax	**80,830**	**182,731**
Corporate income tax at the 30% tax rate	24,249	54,819
Effect of permanent differences	8,874	2,228
Other adjustments on consolidation	193	(391)
Tax deductions and tax credits	(417)	(835)
Write-off of deferred tax assets	7,127	-
Corporate income tax expense for the year	**40,026**	**55,821**
Adjustments to prior-year tax expense	-	(11,448)
Total corporate income tax expense	**40,026**	**44,373**

The item “Effect of permanent differences” includes 7,285 million euros (7,866 million euros at 31 December 2017) 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 28,946 thousand 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 3,132 thousand euros. The amount pending inclusion in the taxable base at the end of the year and for the aforementioned holdings comes to approximately 57,892 million euros.

Corporate Income Tax expense decreased by 51,140 million euros in 2018 due to the deferred taxes related to the origination and reversal of temporary differences (increase of 41,469 million euros in 2017).

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 2018 and 2017 are as follows:

	Thousands of euros	
	Deferred tax liabilities	Deferred tax assets
Balance at 1 January 2017	**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**
Prior-year restatement and other	4,277	19,584
Generated during the year	98,874	513
Applied during the year	(108,862)	(3,105)
Change in deferred tax assets and liabilities applied to equity	6,980	(26,502)
Adjustment for first-time application of IFRS 9 (Note 1.4)	50,406	-
Balance at 31 December 2018	**1,365,093**	**178,968**

As a consequence of the first-time application of IFRS 9, deferred tax assets in the amount of 50,406 thousand euros were recognised in 2018. In this regard, in accordance with Transitional Provision Thirty Nine of the Corporate Income Tax Law, in the wording given in Royal Decree-Law 27/2018, of 28 December, income and expense directly recognised in reserves as a result of the first-time application of IFRS 9 with a tax effect shall be integrated in equal proportion to the taxable base of each of the three first years (start in 2018). The amount added to the taxable base of the year for this item was 22,136 thousand euros, with 44,273 thousand euros to be added.

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	
	2018	2017	2018	2017
Impairment of financial assets	747,507	698,830	7,747	1,444
Pension commitments and other provisions	63,293	70,186	-	-
Fixed assets	-	-	110,200	110,134
Foreclosed assets	2,955	31,596	-	-
Other adjustments	102,095	47,106	43,458	32,835
Total temporary differences with a balancing item in income statement	**915,850**	**847,718**	**161,405**	**144,413**
Temporary differences with a balancing item in equity	**17,747**	**10,767**	**17,563**	**44,065**
Tax credit for tax-loss carryforwards	414,215	447,855	-	-
Tax credit for deductions pending application	17,281	7,078	-	-
Total tax credits	**431,496**	**454,933**	**-**	**-**
	1,365,093	**1,313,418**	**178,968**	**188,478**

Below follows a breakdown of income tax relating to each item included in the statement of recognised income and expense:

	Thousands of euros	
	2018	2017
Actuarial losses and gains on defined benefit pension plans	2,469	(4,350)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	16,814	
Items that will not be reclassified to profit or loss	**19,283**	**(4,350)**
Debt instruments at fair value through other comprehensive income	18,681	
Valuation gains/(losses) taken to equity	*6,831*	
Transferred to the income statement	*11,850*	
Available-for-sale financial assets		40,416
Valuation gains/(losses)		*2,851*
Amounts transferred to income statement		*37,565*
Reversal of deferred tax liabilities	-	-
Cash flow hedges	(4,482)	501
Other recognised income and expenses	-	-
Items that may be reclassified to profit or loss	**14,199**	**40,917**
	33,482	**36,567**

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).

In 2018, the net amount of deferred tax assets and liabilities related to temporary differences amounted to 754,629 million euros (670,007 million euros at 31 December 2017). There are no deductible temporary differences, losses or tax credits for which deferred tax assets have not been recognised on the balance sheet.

As noted above, a portion of deferred tax assets arising from temporary differences are enforceable against the public authorities in the above circumstances (monetisable assets), meaning that recoverability is not dependent on the existence of future taxable profits, so the recognition of the relevant amounts is justified. At 31 December 2018, deferred tax assets amounted to 654 million euros (661 million euros at 31 December 2017).

In addition, at 31 December 2018 there are deferred tax assets for tax-loss carryforwards and for unused tax credits amounting to 431,496 million euros (454,933 million euros at 31 December 2017). 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 property assets in 2012 and of renegotiated assets in 2013, as disclosed in the financial statements 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 2018, 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 2018 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 2018 and 2017 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				
	2018				
	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	1,118,206	1,118,205	-	1,118,205	-
Financial assets held for trading	7,411	7,411	-	7,407	4
Financial assets not held for trading mandatorily measured at fair value through profit or loss	141,315	141,315	38,852	-	102,463
Financial assets at fair value through profit or loss	9,575	9,575	9,575	-	-
Financial assets at fair value through other comprehensive income	8,754,640	8,754,640	8,281,432	288,962	184,246
Financial assets at amortised cost	39,378,416	42,230,289	4,509,540	3,737,045	33,983,704
Derivatives - Hedge accounting	161,371	161,371	-	161,371	-
Total financial assets	**49,570,934**	**52,422,806**	**12,839,399**	**5,312,990**	**34,270,417**
Financial liabilities held for trading	8,691	8,691	-	8,538	153
Financial liabilities at amortised cost	41,141,636	41,259,598	-	41,259,598	-
Derivatives - Hedge accounting	155,200	155,200	-	155,200	-
Total financial liabilities	**41,305,527**	**41,423,489**	**-**	**41,423,336**	**153**

	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
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**

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.
- Financial assets at amortised cost – Loans and advances - Customers: 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 -1.23% 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, 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 expected losses 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 2018 and 2017 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 the portfolio of financial assets and liabilities held for trading, the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss and trading 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	
	2018	**2017**
Level 1	(375)	572
Level 2	1,129	2,827
Level 3	(724)	(317)
	30	**3,082**

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	Financial assets not held for trading mandatorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities held for trading
Balance at 1 January 2018	**1,274**	**107,714**	**233,488**	**2,458**
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(177)	(794)	(26,678)	(145)
Purchases	-	-	501	149
Sales	-	(44)	(23,065)	-
Issues	-	-	-	-
Settlements and maturities	(979)	(7,129)	-	(978)
Transfers from or to Level 3 in or outside the portfolios described	(114)	2,716	-	(1,331)
Balance at 31 December 2018	**4**	**102,463**	**184,246**	**153**

	Thousands of euros		
	Financial assets held for trading	Available-for-sale financial assets	Financial liabilities held for trading
Balance at 1 January 2017	**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 Group measures both derivatives according to the quotations offered by the counterparty.

As for financial instruments classified as financial assets at fair value through other comprehensive income (financial assets available for sale at 31 December 2017), 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 2022, 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 Group 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 the Group.

27. Other significant information

27.1 Contingent risks

The following table breaks down financial guarantees granted at 31 December 2018 and 2017 in accordance with the maximum risk assumed by the Group:

	Thousands of euros	
	2018	2017
Guarantees and other sureties	**784,275**	**714,262**
Financial guarantees	79,289	92,717
Guarantees and other sureties	704,986	621,545
Irrevocable letters of credit	**30,681**	**28,331**
Irrevocable documents issued	30,562	28,331
Irrevocable documents confirmed	119	-
Assets associated with third-party obligations	**234**	**234**
	815,190	**742,827**

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 2018 and 2017, 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	
	2018	2017
Securitised assets (net of valuation adjustments)	3,053,120	3,402,205
Assets under repos	505,760	1,178,963
Assets associated with Bank of Spain policy (*)	2,901,623	2,870,741
Other	203,974	97,675
	6,664,477	**7,549,584**

(*) There is an additional 5,197,076 million euros (5,566,763 million euros in 2017) 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 2018 and 2017, the limits on financing contracts granted and the undrawn balances were as follows:

	Thousands of euros			
	2018		2017	
	Limit granted	Undrawn balance	Limit granted	Undrawn balance
Drawable by third parties	**5,793,090**	**2,970,560**	**5,734,077**	**2,951,517**
Available immediately	2,716,651	1,932,945	2,727,383	2,061,324
Available subject to conditions	3,076,439	1,037,615	3,006,694	890,193
Securities subscribed pending disbursement	**-**	**1,267**	**-**	**3,544**
Documents in clearing houses	**-**	**171,167**	**-**	**133,643**
	5,793,090	**3,142,994**	**5,734,077**	**3,088,704**

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 2018 and 2017 are indicated in the following table:

	Thousands of euros	
	2018	2017
Collective Investment Institutions	13,920,839	13,308,470
Pension funds	5,068,609	5,202,212
Insurance products	124,744	148,058
Discretionary portfolio management (*)	5,651,758	6,987,667
	24,765,950	**25,646,407**
Of which: managed by the Group	24,186,277	25,126,384

(*) 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 2018 and 2017:

	Thousands of euros	
	2018	2017
Fixed Income	7,706,087	7,882,302
Equity	4,690,219	5,165,006
	12,396,307	**13,047,308**

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 2018 and 2017 are analysed below:

	Thousands of euros	
	2018	**2017**
Assets transferred to TDA Ibercaja 1, FTA in 2003	62,696	75,714
	62,696	**75,714**

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	
	2018	**2017**
Assets transferred to TDA Ibercaja 2, FTA in 2005	190,439	219,017
Assets transferred to TDA Ibercaja 3, FTA in 2006	261,093	294,806
Assets transferred to TDA Ibercaja 4, FTA in 2006	401,181	446,348
Assets transferred to TDA Ibercaja 5, FTA in 2007	403,940	446,462
Assets transferred to TDA Ibercaja 6, FTA in 2008	618,990	675,234
Assets transferred to TDA Ibercaja ICO-FTVPO, FTH in 2009	138,921	164,139
Assets transferred to TDA Ibercaja 7, FTA in 2009	1,089,545	1,183,089
	3,104,109	**3,429,095**

Note 11.1 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 2018 and 2017, which are backed by the transferred assets mentioned above, is as follows:

	Thousands of euros	
	2018	**2017**
Liabilities issued by TDA Ibercaja 2, FTA in 2005	188,381	217,257
Liabilities issued by TDA Ibercaja 3, FTA in 2006	256,106	287,418
Liabilities issued by TDA Ibercaja 4, FTA in 2006	394,402	436,151
Liabilities issued by TDA Ibercaja 5, FTA in 2007	388,362	425,546
Liabilities issued by TDA Ibercaja 6, FTA in 2008	600,730	655,720
Liabilities issued by TDA Ibercaja ICO-FTVPO, FTH in 2009	134,656	159,625
Liabilities issued by TDA Ibercaja 7, FTA in 2009	982,769	1,083,709
	2,945,406	**3,265,426**

27.6 Assets received under guarantees

Assets received under guarantees at 31 December 2018 amount to €11,359 thousand (€11,398 thousand at 31 December 2017).

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 2018, the gross investment totals €475,357 thousand (€402,010 thousand at 31 December 2017).

- 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 2018 is €157,284 thousand within one year, €307,393 thousand in one to five years and €36,547 after more than five years.

- Unaccrued financial income totals €29,301 thousand in 2018 (€23,630 thousand in 2017).

- The residual value of these leases amounts to €38,307 thousand at 31 December 2018 (€27,526 thousand at 31 December 2017).

- Impairment adjustments to finance leases amount to €11,034 thousand at 31 December 2018 (€10,344 thousand at 31 December 2017).

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 2018, 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 €3,057 thousand within one year, €12,230 thousand within one to five years and €14,028 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 2018 totals €23,809 thousand (€24,192 thousand in 2017).

Refurbishing expenses and capital investment relating to leased assets for which the Group is the lessee, net of depreciation, total €45,663 thousand at 31 December 2018 (€46,356 thousand at 31 December 2017).

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 2018 and 2017, 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. 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	
	2018	2017	2018	2017
Banking	1,012,280	1,184,414	797,689	892,967
Insurance	1,467,895	1,358,668	127,921	119,481
Other	(1,967)	5,284	(3,286)	(2,092)
	2,478,208	**2,548,366**	**922,324**	**1,010,356**

28. Interest income

The breakdown of the balance under this consolidated income statement heading in 2018 and 2017, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2018	2017
Financial assets held for trading	3	15
Non-trading financial assets mandatorily valued at fair value through profit or loss	628	
Financial assets at fair value through profit or loss	-	1,732
Financial assets at fair value through other comprehensive income	146,763	
Available-for-sale financial assets		185,917
Financial assets at amortised cost	530,121	
Loans and receivables		482,716
Held-to-maturity investments		41,656
Interest rate hedging derivatives	(33,304)	(39,839)
Other assets	1,199	755
Interest income from liabilities	15,484	23,031
	660,894	**695,983**

29. Interest expense

The breakdown of the balance under this consolidated income statement heading in 2018 and 2017, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2018	2017
Financial liabilities at amortised cost	155,504	193,752
Interest rate hedging derivatives	(86,237)	(95,481)
Insurance contracts	8,329	26,299
Other liabilities	6,378	6,275
Interest expense from assets	4,769	3,982
	88,743	**134,827**

30. Income from dividends

The amount recorded under this heading relates in full to dividends from equity instruments of the portfolio of financial assets at fair value through other comprehensive income (portfolio of available for sale financial assets at 31 December 20178) that amount to €11,487 thousand at 31 December 2018 (€12,797 thousand at 31 December 2017).

31. Share of profit/(loss) of equity-accounted entities

Appendix II provides a breakdown by company of the balance under this consolidated income statement heading in 2018 and 2017.

32. Fee and commission income

Fee and commission income accrued in 2018 and 2017, classified in accordance with the item generating the fees, is reflected in the following table:

	Thousands of euros	
	2018	2017
Contingent risk fees	10,003	8,508
Contingent commitment fees	3,921	4,086
Foreign currency exchange fees	288	317
Collection and payment services fees	115,253	112,325
Securities services fees	40,381	14,574
Non-bank financial product marketing fees	188,176	207,654
Other fees	33,600	32,503
	391,622	**379,967**

33. Fee and commission expenses

Expenses for fees accrued in 2018 and 2017, classified in accordance with the item generating the fees, are reflected in the following table:

	Thousands of euros	
	2018	2017
Fees and commissions assigned to other entities	7,094	6,426
Fees for securities transactions	2,003	2,030
Other fees	7,610	6,476
	16,707	**14,932**

34. Gains/(losses) on financial transactions

The breakdown of the balance under this consolidated income statement heading in 2018 and 2017, based on the financial instrument portfolios from which the balances originate, is as follows:

	Thousands of euros	
	2018	2017
Net gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss.	**42,802**	**148,273**
Financial assets at fair value through other comprehensive income	40,150	
Available-for-sale financial assets		125,217
Financial assets at amortised cost	1,542	
Loans and receivables		(41,426)
Held-to-maturity investments	-	62,455
Financial liabilities at amortised cost	818	1,833
Other	292	194
Net gains/(losses) on financial assets and liabilities held for trading	**404**	**971**
Gains/losses on financial assets not held for trading mandatorily measured at fair value through profit or loss, net	**(885)**	
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	**792**	**1,169**
Net gain/(loss) from hedge accounting	**511**	**2,111**
Adjustments to hedged instruments (fair value hedge)	50,708	14,101
Hedge derivative (fair value hedge)	(50,197)	(11,990)
	43,624	**152,524**

35. Exchange differences

This consolidated income statement heading is analysed below for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Translation into euro of monetary items denominated in foreign currency	1,557	1,612
Foreign currency trading	(911)	(278)
	646	**1,334**

No gain or loss was obtained on the cancellation of exchange differences recorded in consolidated equity, in accordance with the provisions of Note 2.5.3.

36. Other operating income

This consolidated income statement heading is analysed below for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Income from investment property (Note 15.2)	8,963	11,298
Income from other operating leases (Note 15.3)	8,537	6,465
Sales and income from provision of services	6,054	11,415
Other items	18,845	126,459
	42,399	**155,637**

In December 2017, through the mediation 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.

37. Other operating expenses

This consolidated income statement heading is analysed below for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Operating expenses on investment properties (Note 15.2)	2,037	2,503
Contribution to National Resolution Fund (Note 1.8.1)	11,538	11,809
Contribution to Deposit Guarantee Fund (Note 1.8.2)	46,738	49,071
Other items	17,254	21,899
	77,567	**85,282**

At 31 December 2018, "Other items" includes the charge of €2,845 thousand (€3,605 thousand at 31 December 2017) 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 2018 and 2017:

	Thousands of euros	
	2018	2017
Wages and salaries	276,135	292,109
Social security contributions	66,346	71,627
Contributions to pension funds and insurance policies	18,370	20,208
Severance payments	55,752	71,860
Other staff costs	2,902	2,784
	419,505	**458,588**

In May 2017, 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 occurred gradually up until December 2017. On 28 March 2018, depending on business requirements and in accordance with the evolution of the restructuring process, the Board of Directors of Ibercaja Banco approved the implementation of the rest of the outstanding agreed terminations, which were carried out in the first six months of 2018.

This plan has incurred staff costs of €55,752 thousand in the consolidated income statement for 2018, with a balancing entry under "provisions" on the liability side of the consolidated balance sheet (€71,860 thousand in 2017) (Note 21).

38.1 Number of employees

The distribution by category and gender of the Group's employees at 31 December 2018 and 2017 is as follows:

	31/12/2018		31/12/2017	
	Men	Women	Men	Women
GR. 1 Senior Management	9	3	9	3
GR. 1 Levels I to V	1,340	711	1,426	696
GR. 1 Levels VI to X	1,212	1,631	1,310	1,611
GR. 1 Levels XI to VIII	152	217	198	298
GR. 2 and Cleaning service	23	4	26	4
	2,736	**2,566**	**2,969**	**2,612**

At 31 December 2018 and 2017, the entire workforce is based in Spain.

The average number of Group employees in 2018 and 2017 is as follows:

	2018	2017
GR. 1 Senior Management	12	12
GR. 1 Levels I to V	2,076	2,234
GR. 1 Levels VI to X	2,854	3,024
GR. 1 Levels XI to VIII	459	587
GR. 2 and Cleaning service	28	35
	5,429	**5,892**

At 31 December 2018, the average number of Group employees with a disability of 33% or more is 46 (44 employees at 31 December 2017).

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	
	2018	**2017**
Present value of obligations financed	(256,700)	(264,016)
Fair value of plan assets	230,652	253,395
(**Shortfall)/Surplus**	**(26,048)**	**(10,621)**
Impact of limit on assets	(388)	(386)
Net asset (liability) on balance sheet:	**(26,436)**	**(11,007)**
Assets linked to pensions (*)	93,264	105,483
Net pension assets (**)	4,565	4,261
Net pension (provision)	(124,265)	(120,751)

(*) Financial assets at 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 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Initial value of obligations financed	**(264,016)**	**(294,053)**
Cost of services for the current year	(2,482)	(2,829)
Interest expense	(690)	(664)
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	(6,756)	17,190
Gains/(losses) due to experience	(2,032)	(2,923)
Benefits paid	19,276	19,263
Transfers and other	-	-
Final present value of obligations	**(256,700)**	**(264,016)**

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan assets during 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Initial fair value of plan assets	**253,009**	**270,054**
Interest income	702	675
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	1,200	(4,806)
Gains/(losses) due to experience	(645)	5,189
Change in asset limit, excluding interest expense	4	(149)
Employer contributions	(5,056)	991
Member contributions	-	-
Benefits paid	(18,950)	(18,945)
Transfers and other	-	-
Final fair value of plan assets	**230,264**	**253,009**

The breakdown of the main types of plan assets at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Shares	10.96%	10.96%
Debt instruments	84.95%	51.64%
Constructions	-	-
Demand deposits	4.09%	37.40%
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					
	2019	2020	2021	2022	2023	2024-2028
Probable post-employment benefits	18,645	18,144	17,585	16,982	16,355	71,451

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	(3.94%)	6.68%
Pension increase rate	50 bp	5.29%	(4.91%)
Salary increase rate	50 bp	0.11%	0.11%

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:

	2018	2017	2016	2015	2014
Present value of obligations financed	(256,700)	(264,016)	(294,053)	(301,251)	(325,877)
Fair value of plan assets	230,652	253,395	270,289	283,805	288,036
Surplus/(Shortfall)	**(26,048)**	**(10,621)**	**(23,764)**	**(17,446)**	**(37,841)**
Impact of limit on assets	(388)	(386)	(235)	(2,058)	(2,041)
Net asset (liability) on balance sheet:	**(26,436)**	**(11,007)**	**(23,999)**	**(19,504)**	**(39,882)**
Insurance contracts related to pensions	93,264	105,483	112,416	114,827	119,569
Net pension assets	4,565	4,261	3,405	6,296	4,205
Net pension assets (Provision)	(124,265)	(120,751)	(139,820)	(140,627)	(163,656)

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 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
Present value of obligations financed	(1,931)	(3,863)
Fair value of plan assets	-	-
Net liability on balance sheet:	(1,931)	(3,863)
Assets linked to pensions	-	-
Net pension assets	-	-
Net pension (provision)	(1,931)	(3,863)

The reconciliation of opening and closing balances reflecting the present value of obligations under defined benefit plans for early retirees during 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Initial value of obligations financed	**(3,863)**	**(4,999)**
Cost of services for the current year	-	-
Interest expense	-	-
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	615	(2)
Gains/(losses) due to experience	(300)	(178)
Benefits paid	1,617	1,611
Transfers	-	-
Final present value of obligations	**(1,931)**	**(3,863)**

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					
	2019	2020	2021	2022	2023	2024-2028
Probable long-term staff obligations	1,304	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	(0.50%)	0.51%
Pension increase rate	50 bp	0.72%	(0.72%)

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 2018 and 2017:

	Thousands of euros	
	2018	2017
Buildings, installations and office equipment	47,872	47,880
Equipment maintenance, licences, works and computer software	19,035	17,113
Communications	14,842	18,253
Advertising and publicity	7,395	7,384
Charges and taxes	25,177	23,573
Other management and administration expenses	83,730	95,403
	198,051	**209,606**

The item “Charges and taxes” includes the Tax on Deposits in Credit Institutions amounting to €12,209 thousand at 31 December 2018 (€9,211 thousand in 2017).

- Other information

Fees payable to PricewaterhouseCoopers Auditores, S.L. for auditing the 2018 annual accounts of Ibercaja Bank and its group companies (including securitisation funds) amount to €801 thousand (€878 thousand in 2017).

In addition, the audit firm received fees amounting to €489 thousand (€323 thousand in 2017) for other audit work and €551 thousand (€269 thousand in 2017) for other services.

The fees accrued for non-audit services provided by the audit firm during the year relate mainly to limited reviews of the Group's interim consolidated financial statements and other services requested of the auditor.

In 2018 and 2017, no services have been provided by other companies that use the PricewaterhouseCoopers brand.

40. Impairment or reversal of impairment in non-financial assets

This consolidated income statement heading is analysed below for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Tangible assets	**1,449**	**(2,375)**
Property, plant and equipment	806	1,649
Investment property	643	(4,024)
Intangible assets	**673**	**-**
Goodwill	-	-
Other intangible assets	673	-
Other	**2,840**	**18,450**
	4,962	**16,075**

41. Net gains/(losses) on derecognition of non-financial assets

This consolidated income statement heading is analysed below for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Gains (losses) on disposal of assets not classified as non-current assets held for sale	(19,333)	1,290
Gains/(losses) on disposal of shareholdings	136	6,858
Other gains/(losses)	(4)	(80)
	(19,201)	**8,068**

42. Profit/(loss) 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 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Impairment gains/(losses) on other non-current assets for sale	(40,523)	(65,213)
Gains/(losses) on disposal of other non-current assets for sale	(30,377)	(6,573)
	(70,900)	**(71,786)**

43. Related parties

The balances recorded on the consolidated balance sheets at 31 December 2018 and 2017 and in the consolidated income statements for 2018 and 2017 are as follows:

	Thousands of euros									
	2018					2017				
	Shareholder	Associates	Associates entities	Other related parties (*)	Related individuals (**)	Shareholder	Associates	Jointly cont. entities	Other related parties (*)	Related individuals (**)
ASSETS										
Loans and receivables	375,314	1,837	8,211	-	8,383	263,172	15,935	10,019	-	9,149
Counterparties under insurance contracts	-	-	-	-	-	-	-	-	-	-
LIABILITIES										
Deposits	407,408	12,482	251	290,223	19,397	272,406	20,712	1,991	342,055	17,171
Liabilities under insurance contracts linked to pensions	-	-	-	-	-	-	-	-	-	-
Provisions	-	33	-	-	-	-	-	-	-	-
PROFIT / (LOSS)										
Expenses										
Interest expense	153	1	4	124	10	204	10	3	284	16
Fees, commissions and other expenses	908	-	-	-	2	914	-	-	-	1
Income										
Interest income	-	27	107	-	71	1	65	159	-	94
Fees, commissions and other income	370	-	-	-	9	369	1	-	-	7
Dividends	17,500	-	-	-	-	35,725	-	-	-	-
OTHER										
Contingent liabilities	1,145	9,219	-	-	358	5	11,593	200	-	392
Commitments	-	73	6,790	-	435	-	268	6,424	-	418

(*) 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 2018, the figure was 42.28% (42.36% at 31 December 2017).

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 236.51% at 31 December 2018 (236.09% at 31 December 2017).

At that date 95.36% of transactions in the mortgage portfolio have been formalised through loans (99.35% at 31 December 2017). Of these, instalments are collected on a monthly basis for 97.29% (96.77% at 31 December 2017). The operations formalised at variable interest rates are 99.52% of the total (99.52% at 31 December 2017) and of these, 83.36% are tied to Euribor (84.05% at 31 December 2017).

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 securitisations written off the balance sheet):

	Thousands of euros	
	Nominal value	
	2018	2017
Total loans	**24,575,457**	**25,608,203**
Mortgage participations issued	**1,342,807**	**1,521,181**
Of which: loans recognised on asset side of balance sheet	1,302,055	1,471,143
Mortgage transfer certificates issued	**1,823,997**	**1,983,627**
Of which: loans recognised on asset side of balance sheet	1,802,053	1,957,952
Mortgage loans pledged in guarantee for financing received	**-**	**-**
Loans backing mortgage bonds issues and covered bond issues	**21,408,653**	**22,103,395**
Non-eligible loans	5,012,268	4,713,590
Fulfil requirements to be eligible except for limit under Article 5.1 of Royal Decree 716/2009	4,248,933	3,936,299
Other non-eligible loans	763,335	777,291
Eligible loans	16,396,385	17,389,805
Loans backing mortgage bond issues		-
Loans suitable for backing mortgage bond issues	16,396,385	17,389,805
Non-computable amounts	25,536	52,787
Computable amounts	16,370,849	17,337,018
Memorandum items	**Updated value**	
Loans backing mortgage bond issues	-	-

Note 3.5.4 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				
	2018				
	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					**16,396,385**
Residential	4,369,429	6,388,295	4,494,184		15,251,908
Other properties	644,149	455,999	44,329		1,144,477

	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

- Information concerning the issue of mortgage covered bonds. breakdown of mortgage loans pending repayment:

	Thousands of euros			
	2018		2017	
	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	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Origin of operations	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Originated by the Entity	14,357,138	10,448,388	14,530,219	10,830,569
Subrogated from other entities	444,327	420,161	488,539	474,913
Other	6,607,188	5,527,836	7,084,637	6,084,323
Currency	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Euro	21,406,433	16,396,385	22,100,970	17,389,805
Other currencies	2,220	-	2,425	-
Payment status	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Payment normality	19,641,277	16,153,050	20,053,610	16,743,051
Other situations	1,767,376	243,335	2,049,785	646,754
Average residual period to maturity	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Up to 10 years	3,285,935	1,962,845	3,682,877	2,175,527
More than 10 years and up to 20 years	7,569,936	6,140,648	7,665,958	6,333,859
More than 20 years and up to 30 years	8,879,369	7,066,727	8,610,033	7,087,321
More than 30 years	1,673,413	1,226,165	2,144,527	1,793,098
Interest rate	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Fixed interest rate	255,544	57,477	286,707	62,787
Variable interest rate	19,446,363	14,945,641	20,217,876	16,013,490
Mixed interest rate	1,706,746	1,393,267	1,598,812	1,313,528
Holders	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Legal entities and individual entrepreneurs (business activities)	3,829,992	1,907,919	4,285,738	2,186,413
Of which: property construction and development (including land)	*1,689,779*	*746,958*	*1,919,102*	*740,435*
Other household	17,578,661	14,488,466	17,817,657	15,203,392
Type of collateral	**21,408,653**	**16,396,385**	**22,103,395**	**17,389,805**
Finished assets/buildings	20,134,352	16,007,109	20,183,286	16,735,659
Homes	19,215,328	15,470,561	18,815,831	15,834,020
of which: state-subsidised housing	*1,563,662*	*1,460,017*	*1,748,549*	*1,640,273*
Offices and commercial premises	474,841	286,430	531,319	352,133
Other buildings and constructions	444,183	250,118	836,136	549,506
Assets/buildings under construction	467,236	229,053	850,369	426,484
Homes	141,490	29,518	837,639	419,124
of which: state-subsidised housing	*7,446*	*1,508*	*2,500*	*1,562*
Offices and commercial premises	-	-	795	345
Other buildings and constructions	325,746	199,535	11,935	7,015
Land	807,065	160,223	1,069,740	227,662
Consolidated urban land	487,312	3,966	713,828	12,248
Other land	319,753	156,257	355,912	215,414

- Nominal value of mortgage covered bonds issued by the Company:

	Thousands of euros	
	Nominal value	
	2018	2017
Mortgage covered bonds (Note 19.4)	**4,650,000**	**4,650,000**
Ibercaja April II 2010	100,000	100,000
Ibercaja December 2011	-	1,000,000
Ibercaja March 2012 II	750,000	750,000
Ibercaja September 2012	800,000	800,000
Ibercaja October 2016	500,000	500,000
Ibercaja September 2017 I	750,000	750,000
Ibercaja September 2017 II	750,000	750,000
Ibercaja December 2018	1,000,000	-
AYT mortgage covered bonds (Note 19.3)	**1,171,771**	**1,593,384**
AYT 5 Single Covered Bond (15 years)	-	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 2018 Single Covered Bond	-	270,000
AYT Global 2022 Single Covered Bond Series III	19,444	19,444
AYT Cajas Global 2018 Covered Bond Series IV	-	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
TDA mortgage covered bonds (Note 19.3)	**1,100,000**	**1,100,000**
TDA 5 Single Covered Bond	300,000	300,000
TDA 6 Single Covered Bond	250,000	250,000
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			
	2018		2017	
	Nominal value	Average res. mat. (months)	Nominal value	Average res. mat. (months)
Mortgage bonds issued	-	-	-	-
of which: recognised under liabilities	-	-	-	-
Mortgage covered bonds issued	**6,921,771**	-	**7,343,384**	**-**
of which: recognised under liabilities	*2,971,771*	-	*3,293,384*	-
Debt securities. Issued through public offering	-	-	-	-
Debt securities. Other issues	4,650,000	-	4,650,000	-
Residual maturity up to one year	1,550,000	-	1,000,000	-
Residual maturity greater than one year and up to two years	100,000	-	1,550,000	-
Residual maturity greater than two years and up to three years	-	-	600,000	-
Residual maturity greater than three years and up to five years	1,250,000	-	750,000	-
Residual maturity greater than five years and up to ten years	1,750,000	-	750,000	-
Residual maturity greater than ten years	-	-	-	-
Deposits	2,271,771	-	2,693,384	-
Residual maturity up to one year	429,634	-	421,613	-
Residual maturity greater than one year and up to two years	216,667	-	429,634	-
Residual maturity greater than two years and up to three years	525,000	-	216,667	-
Residual maturity greater than three years and up to five years	94,444	-	544,444	-
Residual maturity greater than five years and up to ten years	1,006,026	-	1,081,026	-
Residual maturity greater than ten years	-	-	-	-
Mortgage participations issued	**1,302,055**	**99**	**1,471,143**	**101**
Issued through public offering	-	-	-	-
Other issues	1,302,055	99	1,471,143	101
Mortgage transfer certificates issued	**1,802,053**	**114**	**1,957,952**	**117**
Issued through public offering	-	-	-	-
Other issues	1,802,053	114	1,957,952	117

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 hipotecarios*) and secured mortgage covered bonds (*cédulas hipotecarias*) (eligible and non-eligible):

	Thousands of euros			
	2018		2017	
	Eligible loans	Non-eligible loans	Eligible loans	Non-eligible loans
Opening balance	**17,389,805**	**4,713,590**	**17,685,304**	**5,328,508**
Write-offs in the year	**2,368,973**	**762,160**	**1,586,686**	**948,106**
Due principal received in cash	1,107,340	444,700	1,084,381	509,090
Repaid early	401,304	260,517	300,870	136,292
Subrogated by other entities	2,806	1,556	4,488	666
Other write-offs	857,523	55,387	196,947	302,058
Additions in the year	**1,375,553**	**1,060,838**	**1,291,187**	**333,188**
Originated by the Entity	1,100,151	294,782	1,063,971	283,460
Subrogated from other entities	8,277	720	12,262	359
Other additions	267,125	765,336	214,954	49,369
Closing balance	**16,396,385**	**5,012,268**	**17,389,805**	**4,713,590**

- Information on mortgage loans backing the issue of mortgage bonds (*bonos hipotecarios*) and secured mortgage covered bonds (cédulas hipotecarias). Available balances:

	Thousands of euros	
	2018	**2017**
Total	**155,438**	**166,929**
Potentially eligible	128,186	128,456
Non-eligible	27,252	38,473

At 31 December 2018 and 2017, 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 2018, the Customer Care Service (CCS) of the Ibercaja Group managed a total of 13,362 cases, which can be classified into three groups:

- Claims and grievances regarding mortgage arrangement costs and other clauses included in mortgage loan contracts: 6,877.
- Other claims, grievances and suggestions (3,790 claims, 2,489 grievances and 65 suggestions).
- 141 requests relating to exercise of other GDPR rights.

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

A total of 1,254 claims were registered and processed in 2018 under the framework of this Royal Decree-Law.

The average term for resolving complaints and claims in 2018 was 12 days for the CCS and 35 days for the special floor clause service, both within current legislation and significantly lower than in previous years. The Company is making a clear effort to resolve all complaints and claims within the maximum period of one month provided for in Law 7/2017 of 2 November incorporating into Spanish law Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on dispute alternative resolution for consumer disputes, which supervisors have been applying de facto to institutions, despite the fact that the special law for the protection of financial customers provided for in its first additional provision has not yet been enacted.

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 2018 and 2017

Set out below are the balance sheets at 31 December 2018 and 2017, 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 2018 and 2017, all such statements drawn up in accordance with Bank of Spain Circular 4/2017, as discussed in Note 1.2 to the individual annual accounts of Ibercaja Banco at 31 December 2018.

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

ASSETS	31/12/2018	31/12/2017 (*)
Cash and cash balances at central banks and other demand deposits	**917,825**	**3,308,717**
Financial assets held for trading	**5,632**	**9,378**
Derivatives	5,632	9,054
Debt securities	-	324
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Non-trading financial assets mandatorily measured at fair value with changes through profit or loss	**33,284**	
Equity instruments	-	
Debt securities	13,554	
Loans and advances	19,730	
Customers	*19,730*	
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	-	-
Financial assets at fair value through other comprehensive income	**1,939,719**	
Equity instruments	314,295	
Debt securities	1,625,424	
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*1,060,771*	
Available-for-sale financial assets		**4,752,989**
Equity instruments		320,239
Debt securities		4,432,750
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*2,825,533*
Financial assets at amortised cost	**39,816,547**	
Debt securities	6,446,612	
Loans and advances	33,369,935	
Credit institutions	*207,728*	
Customers	*33,162,207*	
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*5,956,715*	
Loans and receivables		**35,353,321**
Debt securities		2,094,340
Loans and advances		33,258,981
Credit institutions		*286,405*
Customers		*32,972,576*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		5,399,359
Held-to-maturity investments		**-**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-
Derivatives - Hedge accounting	**161,371**	**185,552**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging	**-**	**-**
Investments in subsidiaries, joint ventures and associates	**759,221**	**753,792**
Subsidiaries	650,949	653,573
Joint ventures	38,226	38,226
Associates	70,046	61,993
Tangible assets	**736,446**	**788,358**
Property, plant and equipment	491,318	513,411
For own use	*491,318*	*513,411*
Assigned under operating lease	-	-
Investment property	245,128	274,947
of which: assigned under operating lease	*71,842*	*104,761*
Memorandum items: acquired under finance lease	-	-
Intangible assets	**122,760**	**131,225**
Goodwill	64,033	76,839
Other intangible assets	58,727	54,386
Tax assets	**1,387,513**	**1,405,771**
Current tax assets	7,061	6,094
Deferred tax assets	1,380,452	1,399,677
Other assets	**210,566**	**215,541**
Insurance contracts linked to pensions	97,238	104,690
Inventories	1,083	1,599
Other assets	112,245	109,252
Non-current assets and disposal groups classified as held for sale	**68,681**	**114,605**
TOTAL ASSETS	**46,159,565**	**47,019,249**

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

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

LIABILITIES	31/12/2018	31/12/2017 (*)
Financial liabilities held for trading	**5,147**	**7,301**
Derivatives	5,147	7,301
Financial liabilities at fair value through profit or loss	**-**	**-**
Memorandum items: subordinated liabilities	-	-
Financial liabilities at amortised cost	**42,160,453**	**43,477,733**
Deposits	40,070,662	41,519,151
Central banks	*3,341,085*	*3,353,508*
Credit institutions	*1,236,203*	*1,228,568*
Customers	*35,493,374*	*36,937,075*
Debt securities issued	1,300,189	1,242,260
Other financial liabilities	789,602	716,322
Memorandum items: subordinated liabilities	*590,619*	*635,755*
Derivatives - Hedge accounting	**155,200**	**103,370**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging	**24,961**	**11,054**
Provisions	**326,811**	**365,713**
Pensions and other post-employment defined benefit obligations	103,479	108,033
Other long-term employee remuneration	1,931	3,863
Lawsuits and litigation for outstanding taxes	6,435	10,222
Commitments and guarantees given	33,645	31,724
Other provisions	181,321	211,871
Tax liabilities	**157,831**	**160,974**
Current tax liabilities	-	-
Deferred tax liabilities	157,831	160,974
Other liabilities	**187,133**	**154,925**
Liabilities within disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**43,017,536**	**44,281,070**

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

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017
(Thousands of euros)

EQUITY	31/12/2018	31/12/2017 (*)
Shareholders' equity	**3,080,081**	**2,624,629**
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	350,000	-
Equity component of compound financial instruments	-	-
Other equity instruments issued	*350,000*	-
Other equity items	-	-
Retained earnings	269,545	187,357
Revaluation reserves	2,327	2,327
Other reserves	58,153	190,981
(Treasury shares)	-	-
Profit/(loss) for the year	255,780	99,688
(Interim dividends)	-	-
Other accumulated comprehensive income	**61,948**	**113,550**
Items that will not be reclassified to profit or loss	41,582	5,188
Actuarial gains/(losses) on defined benefit pension plans	*2,832*	*5,188*
Non-current assets and disposal groups classified as held for sale	-	-
Changes in the fair value of equity instruments measured at fair value changes through other comprehensive income	*38,750*	
Ineffectiveness of fair value hedges of equity instruments measured at fair value through other comprehensive income	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	
Items that may be reclassified to profit or loss	20,366	108,362
Hedges of net investment in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedge reserve (effective portion)	*9,288*	*(1,169)*
Changes in the fair value of debt instruments measured at fair value through other comprehensive income	*11,078*	
Available-for-sale financial assets		*109,531*
Debt instruments		*38,456*
Equity instruments		*71,075*
Hedging instruments (undesignated items)	-	
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**3,142,029**	**2,738,179**
TOTAL EQUITY AND LIABILITIES	**46,159,565**	**47,019,249**
Memorandum items: off-balance sheet exposures		
Loan commitments given	**3,215,623**	**3,378,057**
Financial guarantees granted	**80,285**	**93,750**
Other commitments given	**912,239**	**799,148**

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

IBERCAJA BANCO, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017
(Thousands of euros)

	2018	2017 (*)
Interest income	**533,824**	**565,617**
Financial assets at fair value through other comprehensive income (1)	21,757	55,419
Financial assets at amortised cost (2)	523,611	476,040
Other	(11,544)	34,158
(Interest expenses)	**96,072**	**129,150**
(Expenses on share capital repayable on demand)	**-**	**-**
NET INTEREST INCOME	**437,752**	**436,467**
Dividend income	**315,854**	**213,512**
Fee and commission income	**285,587**	**280,671**
(Fee and commission expenses)	**10,655**	**9,965**
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**38,332**	**77,418**
(Financial assets at amortised cost)	*1,542*	*20,508*
(Remaining financial assets and liabilities)	*36,790*	*56,910*
Gains/(losses) on financial assets and liabilities held for trading, net	**406**	**1,036**
(Reclassification of financial assets from fair value through other comprehensive income)	-	-
(Reclassification of financial assets from amortised cost)	-	-
(Other gains/(losses))	*406*	*1,036*
Gains/(losses) on non-trading financial assets valued mandatorily at fair value through profit or loss, net	**(393)**	-
(Reclassification of financial assets from fair value through other comprehensive income)	-	-
(Reclassification of financial assets from amortised cost)	-	-
(Other gains/(losses))	*(393)*	-
Gains/(losses) on financial assets and liabilities at fair value through profit or loss, net	**-**	**-**
Gains/(losses) from hedge accounting, net	**511**	**2,111**
Net exchange differences	**646**	**1,334**
Other operating income	**57,591**	**104,888**
(Other operating expenses)	**70,869**	**75,720**
GROSS INCOME	**1,054,762**	**1,031,752**
(Administration expenses)	**582,126**	**625,449**
(Staff expenses)	406,533	444,556
(Other administration expenses)	175,593	180,893
(Amortisation and depreciation)	**54,278**	**54,255**
(Provisions or (-) reversal of provisions)	**(34,647)**	**(3,736)**
(Impairment or (-) reversal of impairment on financial assets not measured fair value through profit or loss or (-) net gain on change)	**278,339**	**167,372**
(Financial assets measured at cost)		11,770
(Financial assets at fair value through other comprehensive income)	(230)	
(Available-for-sale financial assets)		468
(Financial assets at amortised cost)	278,569	
(Loans and receivables)		155,140
(Held-to-maturity investments)		(6)
(Impairment or (-) reversal of impairment on investments in subsidiaries, joint ventures and associates)	**(189,917)**	**89,273**
(Impairment or (-) reversal of impairment on non-financial assets)	**2,334**	**(4,041)**
(Tangible assets)	1,613	(4,046)
(Intangible assets)	673	-
(Other)	48	5
Gains/(losses) on derecognition of non-financial assets, net	**(6,898)**	**4,250**
Negative goodwill recognised in profit or loss	**-**	**-**
Profit or (-) loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**(12,270)**	**(2,393)**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**343,081**	**105,037**
Expense or (-) income from taxes on income from continuing operations	**87,301**	**5,349**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**255,780**	**99,688**
Profit/(loss) after tax from discontinued activities	**-**	**-**
PROFIT/(LOSS) FOR THE YEAR	**255,780**	**99,688**

(*) Presented for comparison purposes only (Note 1.4).
(1) Includes interest at 31 December 2017 on available-for-sale financial assets.
(2) Includes interest at 31 December 2017 on loans and receivables.

IBERCAJA BANCO, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Thousands of euros)

	2018	2017 (*)
PROFIT/(LOSS) FOR THE YEAR	**255,780**	**99,688**
OTHER COMPREHENSIVE INCOME	**(49,687)**	**(56,251)**
Items that will not be reclassified to profit or loss	**(34,810)**	**42**
Actuarial gains/(losses) on defined benefit pension plans	(3,366)	60
Non-current assets and disposal groups of items held for sale	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(47,885)	
Gains/(losses) resulting from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	
Changes in fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	
Income tax relating to items not to be reclassified	16,441	(18)
Items that may be reclassified to profit or loss	**(14,877)**	**(56,293)**
Hedges of net investment in foreign operations (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)	14,939	(1,670)
Valuation gains/(losses) taken to equity	*14,939*	*(1,670)*
Transferred to the income statement	-	-
Transferred to initial carrying amount of hedge items		
Other reclassifications	-	-
Hedging instruments (undesignated items)	-	
Valuation gains/(losses) taken to equity	-	
Transferred to the income statement	-	
Other reclassifications	-	
Debt instruments at fair value through other comprehensive income	(36,192)	
Valuation gains/(losses) taken to equity	*(1,069)*	
Transferred to the income statement	*(35,123)*	
Other reclassifications	-	
Available-for-sale financial assets		(81,260)
Valuation gains/(losses) taken to equity		*(26,377)*
Transferred to the income statement		*(54,883)*
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 to profit or loss	6,376	26,637
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**206,093**	**43,437**

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

IBERCAJA BANCO, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(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 31/12/2017	**2,144,276**	**-**	**-**	**-**	**187,357**	**2,327**	**190,981**	**-**	**99,688**	**-**	**113,550**	**2,738,179**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	(114,372)	-	-	-	(2,045)	(116,417)
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**187,357**	**2,327**	**76,609**	**-**	**99,688**	**-**	**111,505**	**2,621,762**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255,780**	**-**	**(49,687)**	**206,093**
Other changes in equity	**-**	**-**	**350,000**	**-**	**82,188**	**-**	**(18,456)**	-	**(99,688)**	-	**130**	**314,174**
Issuance of common shares	-	-		-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-		-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	350,000	-	-	-	(2,940)	-	-	-	-	347,060
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or other shareholder remuneration)	-	-	-	-	(17,500)	-	-	-	-	-	-	(17,500)
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	-	-	-	-	99,688	-	(130)	-	(99,688)	-	130	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	(15,386)	-	-	-	-	(15,386)
III. Closing balance at 31/12/2018	**2,144,276**	-	**350,000**	-	**269,545**	**2,327**	**58,153**	-	**255,780**	**-**	**61,948**	**3,142,029**

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**

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

IBERCAJA BANCO, S.A.

STATEMENTS OF CASH FLOWS FOR THE
THE YEARS ENDED 31 DECEMBER 2018 AND 2017
(Thousands of euros)

	2018	2017 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(2,660,460)**	**(516,911)**
Profit/(loss) for the year	**255,780**	**99,688**
Adjustments to obtain cash flows from operating activities	**123,763**	**287,669**
Amortisation and depreciation	54,278	54,255
Other adjustments	69,485	233,414
Net increase/decrease in operating assets	**(1,803,924)**	**2,594,632**
Financial assets held for trading	3,740	22,644
Non-trading financial assets mandatorily measured at fair value with changes through profit or loss	1,706	
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	544,902	
Available-for-sale financial assets		1,752,708
Financial assets at amortised cost	(2,407,105)	
Loans and receivables		692,894
Other operating assets	52,833	126,386
Net increase/(decrease) in operating liabilities	**(1,157,651)**	**(3,586,282)**
Financial liabilities held for trading	(2,154)	(23,954)
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(1,219,628)	(3,457,897)
Other operating liabilities	64,131	(104,431)
Income tax credit/(payments)	**(78,428)**	**87,382**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**24,897**	**3,275,466**
Payments	**(82,528)**	**(57,252)**
Tangible assets	(28,732)	(15,460)
Intangible assets	(19,165)	(14,383)
Investments in subsidiaries, joint ventures and associates	(10,469)	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	(24,162)	(1,409)
Held-to-maturity investments		(26,000)
Other payments related to investing activities	-	-
Receipts	**107,425**	**3,332,718**
Tangible assets	46,506	46,332
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	4,186	11,732
Other business units	-	-
Non-current assets and liabilities classified as held for sale	56,733	21,476
Held-to-maturity investments		3,253,178
Other receipts related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**270,635**	**(260,349)**
Payments	**(75,165)**	**(260,349)**
Dividends	(17,500)	(35,725)
Subordinated liabilities	(45,414)	(224,624)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(12,251)	-
Receipts	**345,800**	**-**
Subordinated liabilities	-	-
Issuance of own equity instruments	345,800	-
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)	**(2,364,928)**	**2,498,206**
F) CASH AND CASH EQUIVALENTS AT START OF PERIOD	**3,263,837**	**765,631**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD	**898,909**	**3,263,837**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	212,846	212,457
Cash equivalents at central banks	675,568	3,068,476
Other financial assets	10,495	-
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:

Company	Address	Country of residence	Shareholding (%) 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect
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%	-
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%
Enclama, S.L. (*)	C/ Juan de la Cierva, 23, Zaragoza	Spain	-	-	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%
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 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%	-
Ibercaja Vida, S.A.	Pº Constitución, 4, 8ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Cajaragón, 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%
Inmobiliaria Impulso XXI, S.A. (**)	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	-	100.00%	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	100.00%	-	100.00%
Residencial Murillo, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Servicios a Distancia IBD, S.L.	C/ Bari, 49, Zaragoza	Spain	95.00%	5.00%	95.00%	5.00%

(*) Write-offs due to sale of shareholding.
(**) Write-offs due to dissolution and/or liquidation.

Jointly-controlled entities:

Company	Address	Country of residence	Shareholding (%) 2018 Direct	2018 Indirect	2017 Direct	2017 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%
Montis Locare, S.L. (in liquidation)	Pza. Aragón, 11, Zaragoza	Spain	47.73%	-	47.73%	-
Promociones Palacete del Cerrillo, S.L.	Pº Castellana, 95, 18ª pta., Of. 18-24, Madrid	Spain	-	33.33%	-	33.33%

Associates:

Company	Address	Country of residence	Shareholding (%) 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect
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%	-
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	30.15%	-	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%
Henneo (formerly Grupo Heraldo)	Pº Independencia, 29, Zaragoza	Spain	39.94%	-	39.94%	-
Ibercaja Global Internacional SICAV (***)	Cl Boulevard Prince Henri, 9 L-1724 , Luxembourg.	Luxembourg	46.65%	-	-	-
Liderazgo Inmobiliario de Aragón, S.A. (**)	C/ Josefa Amar y Borbón, 1, Zaragoza	Spain	-	-	-	50.00%
Mobart Circulo Participaciones, S.L.	Ctra. Madrid-Irún (Villafría), (KM 245), Burgos	Spain	50.00%	-	50.00%	-
Northwind Finco, S.L (***).	C/ Vía de los Poblados, 3, Ed.1,Parque Empresarial Cristalia, Madrid	Spain	-	20.00%	-	-
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%
Proyectos y Realizaciones Aragonesas de Montaña, Escalada y Senderismo, S.A.	Camino Molinos, 32, Zaragoza	Spain	31.28%	-	31.28%	-
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%	-	15.87%	-

(*) Write-offs due to sale of shareholding.
(**) Write-offs due to dissolution and/or liquidation.
(***) Additions due to incorporation/acquisition of company.

APPENDIX II

FINANCIAL INFORMATION ON INVESTMENTS IN SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Group companies:

Company	Date of financial statements	Contribution to consolidated earnings		Contribution to consolidated reserves		Non-controlling interests	
		2018	2017	2018	2017	2018	2017
AnexaCapital, S.A.U.	-	-	11,884	-	-	-	-
Badajoz Siglo XXI	Dec-18	(1,286)	(1,408)	(15,249)	(13,858)	-	-
CAI Inmuebles, S.A. (in liquidation)	Dec-18	(2,504)	16,527	(10,429)	(175,266)	-	-
Cartera de Inversiones Lusitania, S.L.	-	-	(949)	-	-	-	-
Cerro Goya, S.L.	Dec-18	(139)	(1,871)	(2,161)	(737)	-	-
Cerro Murillo, S.A.	Dec-18	(220,655)	(79,651)	318,349	350,379	-	-
Dopar Servicios, S.L.	Dec-18	(43)	(43)	-	123	-	60
Enclama, S.L.	Dec-18	(11)	33	-	292	-	240
Espacio Industrial Cronos, S.A.	Dec-18	(2)	832	(9,340)	(10,171)	-	-
Gedeco Zona Centro, S.L.	Dec-18	(5)	(22)	-	(19,245)	-	-
Ibercaja Cajaragón, S.A.U.	Dec-18	(389)	130	5,057	(12,251)	-	-
Ibercaja Banco, S.A.	Dec-18	284,706	30,125	50,565	139,260	-	-
Ibercaja Gestión, S.A.	Dec-18	23,391	46,923	9,690	45,408	-	-
Ibercaja Gestión de Inmuebles, S.A.	Dec-18	(27)	(35)	267	315	-	-
Ibercaja Leasing y Financiación, S.A.	Dec-18	1,511	2,259	21,466	19,246	-	-
Ibercaja Mediación de Seguros, S.A.	Dec-18	24,687	46,153	9,369	39,354	-	-
Ibercaja Pensión, S.A.	Dec-18	11,641	12,991	9,382	24,380	-	-
Ibercaja Viajes, S.A.	Dec-18	(70)	78	69	511	-	-
Ibercaja Vida, S.A.	Dec-18	73,934	115,007	206,660	208,197	-	-
Iberprofin, S.L.	Dec-18	59	46	-	25	-	-
Inmobiliaria Impulso XXI, S.A.	Dec-18	295	(296)	-	(27,452)	-	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-18	375	763	33,710	33,067	-	-
Residencial Murillo, S.A.	Dec-18	(154,044)	(62,252)	(26,912)	34,866	-	-
Servicios a Distancia, IBD S.L.	Dec-18	22	76	96	89	-	-
Tipo Línea, S.A.	Dec-18	-	(236)	-	-	-	-

Company	Date of financial statements	Financial information					
		2018			2017		
		Capital	Reserves and val. adj.	Profit/(loss)	Capital	Reserves and val. adj.	Profit/(loss)
AnexaCapital, S.A.U.	-	-	-	-	-	(11,983)	11,983
Badajoz Siglo XXI	Dec-18	40,950	(1,615)	(1,280)	40,950	(208)	(1,407)
CAI Inmuebles, S.A. (in liquidation)	Dec-18	64	(6,834)	(604)	64	(196,148)	10,536
Cartera de Inversiones Lusitania, S.L.	-	-	-	-	-	3,788	(3,788)
Cerro Goya, S.L.	Dec-18	5,024	(1,351)	(600)	5,024	(2)	(1,349)
Cerro Murillo, S.A. (*)	Dec-18	98,354	(75,836)	(57,258)	98,354	(75,649)	(64,003)
Dopar Servicios, S.L.	Nov-18	-	43	(43)	20	215	(107)
Enclama, S.L.	Nov-18	-	11	(11)	20	508	57
Espacio Industrial Cronos, S.A.	Dec-18	28	(9,340)	(2)	28	(9,337)	(3)
Gedeco Zona Centro, S.L.	Dec-18	-	5	(5)	7,185	(14,765)	(22)
Ibercaja Cajaragón, S.A.U.	Dec-18	58,041	5,714	315	73,715	(10,672)	713
Ibercaja Banco, S.A.	Dec-18	2,144,276	391,973	255,780	2,144,276	494,215	99,688
Ibercaja Gestión, S.A.	Dec-18	2,705	10,679	22,646	2,705	46,135	46,883
Ibercaja Gestión de Inmuebles, S.A.	Dec-18	120	247	(4)	120	92	(53)
Ibercaja Leasing y Financiación, S.A.	Dec-18	3,006	21,858	4,216	3,006	18,691	3,167
Ibercaja Mediación de Seguros, S.A.	Dec-18	60	9,393	2,479	60	39,396	46,129
Ibercaja Pensión, S.A.	Dec-18	11,010	10,511	11,639	11,010	25,961	12,983
Ibercaja Viajes, S.A.	Apr-18	-	71	(71)	94	513	79
Ibercaja Vida, S.A.	Dec-18	135,065	223,496	74,966	135,065	172,903	115,606
Iberprofin, S.L.	Dec-18	-	(59)	59	50	25	46
Inmobiliaria Impulso XXI, S.A.	Nov-18	-	(315)	315	18,000	(27,452)	(296)
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-18	40,051	27,485	217	40,051	26,938	607
Residencial Murillo, S.A. (*)	Dec-18	132,012	(179,442)	(45,428)	132,012	(117,879)	(61,685)
Servicios a Distancia, IBD S.L.	Dec-18	480	96	21	480	90	76
Tipo Línea, S.A.	-	-	-	-	-	244	(244)

(*) These companies do not attract mandatory dissolution since they have participation loans that are eligible as equity for commercial purposes.

Jointly-controlled entities:

Company	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2018	2017	2018	2017	2018	2017
Aramón Montañas de Aragón, S.A. (*)	361	(1,097)	(29,776)	(28,680)	27,743	27,382
Other companies	87	(123)	(13,786)	(19,059)	719	502

	Thousands of euros			
	Financial information			
	2018		2017	
Company	Aramon, Montañas de Aragón, S.A. (*)	Other	Aramon, Montañas de Aragón, S.A. (*)	Other
Current assets	4,057	-	4,384	-
Non-current assets	125,326	-	130,834	-
Cash and cash equivalents	675	-	450	-
Current liabilities	17,254	-	12,733	-
Non-current liabilities	35,577	-	46,562	-
Current financial liabilities	4,583	-	4,660	-
Non-current financial liabilities	32,863	-	43,740	-
Ordinary income	47,649	-	47,942	-
Dividends paid	-	-	-	-
Total recognised income and expense	619	(3)	(3,076)	(369)
Profit/(loss) from ordinary activities	*619*	*(3)*	*(3,076)*	*(369)*
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other recognised income and expense	-	-	-	-
Depreciation	1,832	-	1,785	-
Amortisation/Depreciation	11,395	-	12,190	-
Interest income	5	-	60	-
Interest expense	2,034	-	2,414	-
Income tax expense/(income)	(46)	-	69	-

(*) 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:

Company	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2018	2017	2018	2017	2018	2017
Concessia Cartera y Gestión de Infraestructuras, S.A. (*)	42	(725)	(13)	1,256	10,368	13,286
Henneo (formerly Grupo Heraldo) (*)	(787)	(2,385)	1,179	4,154	31,811	33,121
Other companies	(345)	5,633	(1,608)	(21,931)	55,594	31,022

	Thousands of euros					
	Financial information					
	2018			2017		
Company	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	20,350	59,764	-	9,536	52,463	-
Non-current assets	14,414	50,867	-	38,410	55,662	-
Current liabilities	382	32,946	-	110	22,506	-
Non-current liabilities	-	16,376	-	1,000	20,125	-
Ordinary income	-	122,169	-	46	120,624	-
Dividends paid	-	-	-	-	-	-
Total recognised income and expense	112	(1,935)	7,051	(154)	(4,875)	5,553
Profit/(loss) from ordinary activities	*112*	*(1,935)*	*7,051*	*(154)*	*(4,875)*	*5,553*
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 2018.

	Thousands of euros
	31/12/2018
Spain	966,594
	966,594

c) Number of equivalent full-time employees

Equivalent full time employees by country were as follows at year-end 2018:

	Thousands of euros
	31/12/2018
Spain	5,302
	5,302

d) Gross profit/(loss) before tax

	Thousands of euros
	31/12/2018
Spain	80,830
	80,830

e) Corporate income tax

	Thousands of euros
	31/12/2018
Spain	40,026
	40,026

f) Grants and public aid received

No grants or public aid were received by Ibercaja Banco, S.A. or any Group company in 2018.

Other information

The return on the Group's assets during the year, calculated as net profit divided by the total balance sheet, was 0.08%.

Ibercaja Banco, S.A.
and subsidiaries

Consolidated Directors'
Report for 2018

Ibercaja Banco, S.A. and subsidiaries

Consolidated Directors’ Report for 2018

Contents

1. The Ibercaja Group: current situation

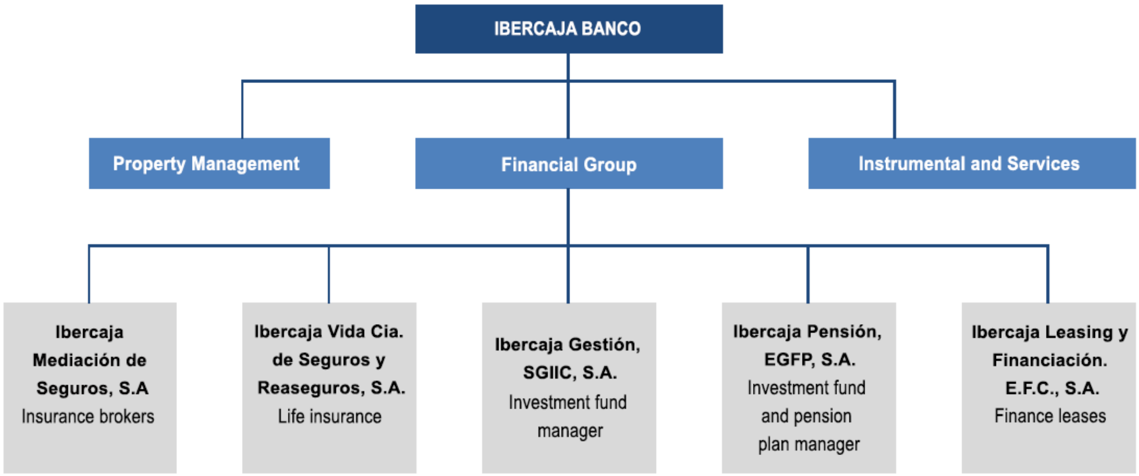
1.1. Description, shareholding and organisational structure

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%).

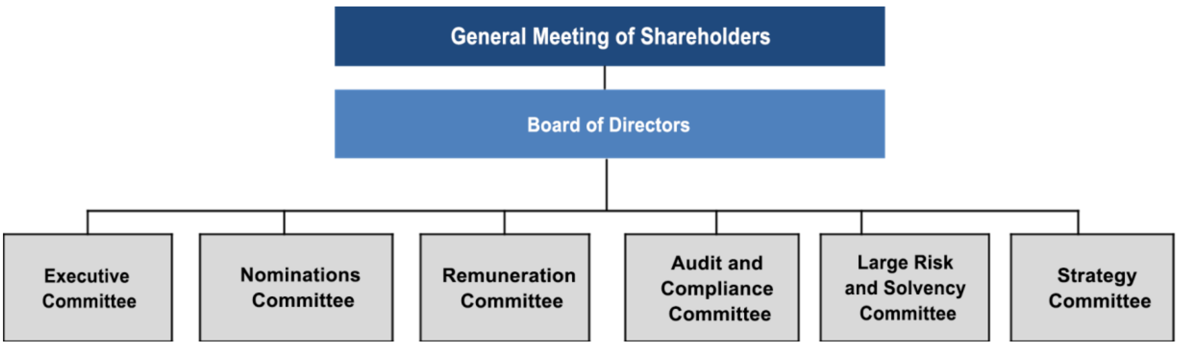
From an organisational standpoint, the Bank is the parent of a group of subsidiaries. Of these, the most notable - due to their wide range of banking products and high levels of profitability - belong to the Financial Group, which comprises companies specialising in investment funds, savings and pensions, bancassurance and leasing 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, among other regulations, with the law on the organisation, supervision and solvency of credit institutions, the Corporate Enterprises Act, the Audit Act, the guidelines issued by international bodies such as the EBA or the ESMA, and the Code of Good Governance of Listed Companies, which is taken as a benchmark of best practices in this field.

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.

Information on the composition of the different governing bodies and the remuneration policy is disclosed in the Annual Corporate Governance Report presented below and which is available on the website of the Bank under the section titled "Shareholders and investors - Corporate Governance and Remuneration Policy" and on the website of the CNMV as a Material Event.

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 Department 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 2018-2020

The Group, ninth largest entity by asset volume in the Spanish banking system, has €52,706 million in assets. It primarily engages in retail banking, focusing on the financing of households, particularly first mortgages, and SMEs, savings management and other financial services. The eminently retail nature of the business is reflected in the structure of the balance sheet, where loans to individuals and small and medium-size enterprises account for almost 90% of loans and advances to customers, and retail deposits 78% of outside funding. On a national scale, the Group has a market share of 2.75% household and non-financial enterprise loans, and of 4% in the segment of individual home purchases. In customer funds, it has a market share of 3.48%, which breaks down to 2.85% for retail deposits and 4.70% 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 63% of its network and nearly 60% of business volume. The market share in this territory, 33% in private sector deposits and 24% in credit, is 46% and 33%, respectively, in Aragon. It also has a significant presence in other areas of major economic significance such as Madrid and the Mediterranean coast (Catalonia and Valencia). At December 2018, the network comprised 1,115 branches, which is 4.2% of the national total, six of which are special company business centres. The distribution of branches by autonomous regions is as follows: 388 points of sale in Aragon, 183 in the Community of Madrid, 105 in Extremadura, 97 in La Rioja, 81 in Castile and León, 90 in Catalonia, 60 in Castilla-La Mancha, 54 in the Community of Valencia, 29 in Andalusia and 28 in the other autonomous regions of Spain. The Group has a total of 5,302 employees (5,061 in the parent).

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 2.7 million customers, comprising households, companies and public and private institutions. It has specific channels, special products adapted to different customer segments, and offers basic banking services with products such as insurance, investment funds and pension plans, all marketed through its highly specialised financial group.

After concluding the 2015-2017 Strategic Plan and achieving most of its objectives, in March the Bank unveiled a new Strategic Plan with a 2020 horizon that sets the guidelines for competing successfully in a scenario of rapid changes affecting consumer habits, technology, the economic and business context and the regulatory framework. The Bank aspires to win a prominent position within the Spanish banking system and gain the efficiency, profitability and solvency that is necessary to attract capital and to successfully support its share price on the stock market. The Plan includes three major programmes: Customer, Value and Transformation Drivers.

- Our customers are the basic foundation underlying the transformation of the business model. It aims to raise their level of satisfaction, become more competitive and attractive through excellent service that is personalised, useful and committed. The manager and the office are the main links with the customer increasingly supported by digital channels. Growth and winning of new customers are focused on companies, a strategic segment for the future of Ibercaja, and individuals, especially personal and private banking customers.

- The Valor programme aims to ensure that growth is geared towards the most profitable business opportunities. It relates to the reduction of unproductive assets, the evolution of risk management processes, the more efficient allocation of prices and capital and the optimisation of information systems, all with a view to increasing the Bank's profitability and solvency.

- The Transformation Driver programme, the third pillar of the Plan, encompasses technology, processes and people.

    - Technology is at the heart of most initiatives, as it streamlines internal processes, opens up business opportunities and improves the customer experience.

    - Ibercaja aims to optimise its processes to make them more efficient, modernising and rationalising applications and infrastructures, which will free up the network from administrative tasks and allow it to focus on sales.

    - People are the key to change. The success of the Plan depends on the capacity and commitment of the staff working in the Bank, for which we need to boost opportunities for professional and personal growth.

During 2018, important steps have been taken towards the achievement of the strategic goals:

- Placement of an issue of AT1 capital in the form of preferred shares for institutional investors in the amount of €350 million. This issue contributes to the strengthening the Group's capital structure, increasing its base of instruments loss-absorption capacity, a regulatory requirement of the MREL. The strong demand has confirmed the investor confidence in the Bank's project and confirmed its ability to access capital markets.

- Sale of a portfolio of foreclosed properties. In December, as part of the Cierzo transaction, a portfolio of foreclosed assets with a gross book value of 641 million euros was sold to a company in which the Bank holds a 20% interest. This action contributes to cleaning up the balance sheet, accelerates the reduction in non-performing assets and improves the Bank's profitability profile.

- Design of roadmap for going public. Ibercaja has hired Rothschild & Co as an independent financial advisor to prepare for the process of going public within the time limit set by current regulations.

- Boost of digital transformation process with significant increases in terms of the number of both users of different channels and transactions. The mobile banking app has been equipped with new functionalities, among which the "Onboarding System" stands out, through which a new customer can go through the entire Ibercaja registration process in just ten minutes.

- Materialisation of the second round of the workforce adjustment agreed in 2017. The month of June marked the completion of the process of dismissal of the 590 employees who had voluntarily availed themselves of the adjustment agreed with union representatives in 2017.

- Renewal for the fifth time of the European Excellence 500+ Seal awarded by the European Foundation for Quality Management (EFQM). The certification shows a high degree of excellence in the management model and the orientation of the organisation towards continuous improvement, confirming the leadership position of the Bank in terms of quality. The certification of the personal wealth management advisory service has also been renewed. Personal banking, one of the Bank's strategic cornerstones, is reinforced by this guarantee.

- The quality of the service and its fulfilment of customer expectations have been recognised in the sector study carried out by Inmark on the financial behaviour of individuals in Spain, in which Ibercaja ranks first among comparable banks for the third consecutive year. Likewise, Stiga's EQUOS study rates Ibercaja as the third leading entity in Spain.

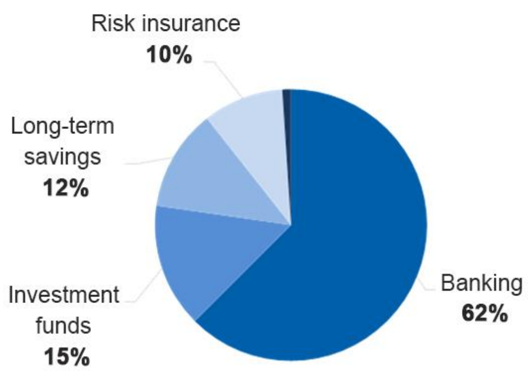
- Recognition of the work of the companies of the financial group. Ibercaja Pensión has been awarded the prize for the best national investment fund manager in the 29th Edition of the Expansión-AllFunds Bank Awards. Ibercaja Gestión was also the best rated investment fund manager among 40 Spanish entities analysed in the annual survey conducted by Extel Europe.

- Strengthening of the strategic alliance with Caser. Ibercaja has sold 100% of CAI Seguros Generales to the insurance company and, at the same time, has signed an agreement whereby the Bank's branches will distribute Caser's general insurance exclusively, thereby promoting bancassurance activity, which is an important way of diversifying the Group's income.

- Disinvestment in business investees. These include the sale of Ibercaja Viajes and the companies specialising in logistics and document management, Dopar, Iberprofin and Enclama. These operations are part of the effort to concentrate the Group's resources in its traditional business. The agreements ensure the best service for customers through their integration into leading companies in the sector.

Looking ahead to 2019, we must strive to make the Group's objectives and strategies geared to make our business model more dynamic in response to the 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 business should focus on providing value-added services and be aligned with customers' needs, while being less reliant on changes in interest rates. Key in this regard are the strengthening of the personal and corporate banking segments, as well as accelerating the rate of progress of the asset management business. Banks must also seek to protect their profitability by improving margins, reducing the weight of problematic assets in the balance sheet and pushing forward with the digital transformation. All this with a view to successfully undertaking the process of going public, the main corporate challenge facing the Bank. In this context, Ibercaja is updating its Strategic Plan to update its targets for 2019 and 2020, and extend them until 2021.

Ibercaja's business model, which is markedly retail in nature and customer-focused, consists of two main areas: banking business and asset management and insurance. The contribution to the recurring income of each of these is shown in the graph below:



BANKING BUSINESS

1. Commercial banking

This is the Group's most significant activity, through which it provides banking services to households, companies and institutions.

Retail banking:

It manages 2.5 million customers who account for 84% of business volume. Their high level of engagement with the Bank can be seen in the average age of 20 years, and in the number of products or services contracted, 6.7. Individual banking includes the segments of households, personal banking and private banking, with more than €23,000 million in loans and €50,000 million in customer funds plus securities.

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 personal circumstances and income.

Based on the criterion of having a savings balance of more than €100,000 or 75,000 outside the Traditional Zone, almost 220,000 customers or household management units are included in the Personal Banking segment with an average financial wealth of €135,000. The model of providing service to this group is based on a personal manager who proposes financial planning, advises on investments and provides detailed information on products and services that best meet the needs of the customer. Personal Banking customers generated a business volume of €33,220 million. In a group in which savings are more important than credit, customer funds and securities amounted to €29,510 million, 52% of the balance of the retail network.

The 484 specialised managers have specialised training, and their advice to personal banking customers is certified according to ISO 22222:2010.

Private banking is aimed at customers or household management units with financial wealth in excess of €300,000. The customer is assisted by a private banking manager who analyses their needs and provides them with the best investment strategies and financial-tax planning. They also have access to a wide range of financial assets: securities listed in Spanish and international markets, investment funds managed either by Ibercaja or external providers, SICAVs, structured deposits and so on. The wealth managed, belonging to more than 10,000 households, amounts to €6,519 million of which 79% are off-balance sheet funds.

The work team assigned to the private banking service has increased to 76 people, working out of the offices in Madrid, Zaragoza, Logroño, Valencia, Guadalajara, Barcelona, Burgos, Seville and Badajoz, as well as in the customer service offices in Huesca, Teruel and Pamplona.

Businesses and institutions

Nearly 200,000 customers, companies, retailers, institutions and others contribute 16% of the business volume, distributed in 7,700 million credit and €6,700 million in on-balance sheet and off-balance sheet funds.

Within this group, 78,000 customers form part of the strategic business group of corporates. The companies with the highest potential, business volume and most complex operations, numbering approximately 35,000, are served by 227 specialised managers, supported by 352 office directors. Of the volume of activity in this business, €5,318 million in loans and €3,719 million in customer funds, and 80% are provided by micro-enterprises and SMEs, with a business volume of less than €50 million.

The new Plan+ 2020 aims to position Ibercaja as one of the leading financial institutions in the business world. To this end, the actions of the previous plan have been consolidated and new ones have been undertaken. The aim is to respond quickly and individually to companies' needs so as to generate a global relationship that is profitable for both parties and sustainable over time.

By the end of 2018, six company business centres in Zaragoza, Madrid, Alcobendas, Valencia and Barcelona were fully operational, in charge of managing clients with a business volume of more than 6 or 10 million euros, depending on the area of action, and which require a greater degree of specialisation. The opening of new centres in Alicante, Sabadell and Granollers is planned for 2019.

Ibercaja's more than 16,000 retail business owners generate significant business opportunities in the areas of financing, insurance, collection and payment services, etc. Likewise, the Bank collaborates with public and private institutions of state and territorial scope through financing agreements and other specific commercial offers.

2. Other business lines

Business at the Group's Financial 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, property, 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.

A new divestment and investment plan has been designed for the 2018-2020 period in which, on the one hand, the possibility of investing in projects that meet the criteria required by the Bank (profitability and development) is addressed and, on the other hand, it is planned to continue executing an active policy of divestments in non-core business holdings, as well as in consolidated projects that have reached a sufficient degree of development and autonomy.

In 2018, 23 divestments were made, 11 of them total and 12 partial, with a net book value of more than €35 million. These operations generated a positive result and freed up the consumption of capital. Investment during the year centred on business projects considered strategic or linked to the parafinancial business.

ASSET MANAGEMENT AND INSURANCE

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, which provide 37.5% of the Group's recurring income. The Financial Group's capacity to innovate and its range of specialised products and services make it a key player within the Spanish banking sector. Assets under management and insurance amount to €26,000 million, which makes Ibercaja the sixth-ranked bank in this sort of business, with a market share of 4.7%. Its products, targeted at both individuals and businesses, 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 the end of 2018 it managed assets of €12,325 million, 0.34% less than a year earlier, thus maintaining its seventh position in the sector ranking. Net contributions, amounting €468 million, are 5.6% of those achieved by the system, so Ibercaja Gestión is the sixth-ranked bank by subscriptions in the year. At the same time, the rate or return of its funds has been comparatively better than that of the industry as a whole. The Group's market share when it comes to funds managed or sold now stands at 4.80%, having gained 7 basis points.

Ibercaja Gestión has 55 investment funds tailored to each investor and capable of obtaining returns in any market situation. The volatility of the markets and the application of MiFID II have helped profiled and mixed funds to increase their weight in the structure of the assets under management. Two guaranteed funds were launched during the year as an investment alternative for customers with a more conservative profile. Ibercaja Gestión also manages 11 *sociétés d'investissement* à capital variable (SICAVs), with a volume of assets just in excess of €53 million. Activity in this segment has been strengthened, with a new SICAV domiciled in Luxembourg for private banking customers.

Pension plan management

Ibercaja Pensión, EGFP, S.A. is the Group company engaged in managing different kinds of pension plans.

The assets managed by Ibercaja Pensión, €6,205 million, are €158 million lower than in 2017. The decline is the result of the unfavourable performance of the fixed-income and equity markets throughout 2018. However, the better performance compared to the sector means that the market share, now at 5.80%, added 7 basis points in the year and the manager stands fifth in the sector ranking.

The savings managed in individual plans, €2,248 million, fell 0.37%, a percentage significantly lower than that of the system as a whole. The market share, 3.11%, was 8 basis points higher than in December 2017. The company is still eight-ranked in the sector. Meanwhile, the number of fund investors, 190,197, increased by 6,500 on the previous year.

The assets managed in employment plans amount to €3,957 million. Despite the 3.65% decrease, the manager's better performance in relation to its competitors has helped the market share, now at 11.65%, to climb 18 basis points in the last twelve months and for the company to consolidate third place among Spanish managers. The 18 plans have 69,334 participants and beneficiaries working at companies and government bodies 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 7.58% in the period to reach €7,353 million, and the market share was up 19 basis points in the year to reach 3.91%. The insurance firm is ranked six in its sector. The Systematic Individual Savings Plan is the most significant product in the catalogue, with a managed volume of €2,300 million and significant growth in excess of 10% in recent years. As a complement, the product PIAS LINK was launched in 2018, with four investment baskets targeted at different risk profiles.

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 increased by 4.8%, up to €267 million, distributed among life risk insurance at €76 million, non-life insurance (€191 million), with increases of 3.7% and 5.3%, respectively, well above those achieved by the system as a whole. The outperformers were payment protection (+80%), civil liability (+25.8%) and death (+17.2%). Meanwhile, the number of policies climbed to nearly 1.1 million.

Leasing and renting

Ibercaja Leasing y Financiación S.A. specialises in financing productive activities through leasing and renting. It provides the branch network with products for SMEs and professionals to finance their investments in fixed assets and access goods under operating leases.

Outstanding investment, at €561 million, increased by 22.73% year-on-year, a percentage that far exceeds the average growth of the sector (6.48%). Of note was the performance of renting, the outstanding balance of which rose by 73.38%. The market share, 2.74%, has added 36 basis points since the end of 2017. The number of contracts signed is 24.31% higher than that achieved in the previous year, reaching a market share in the sector of 3.67%.

2. Business performance and results

2.1. Economic and financial environment

In 2018, the world economy continued its expansionary cycle with growth of around 3.5%, similar to that of 2017. However, the weaker performance in the second half of the year would appear to herald a slowdown in economic growth.

China's GDP growth, close to 6.5%, although very appreciable, is lower than that achieved in 2017. The main indicators, retail sales, industrial production and exports, have shown in recent months increases below those seen at the beginning of the year.

Japanese macroeconomic variables show signs of weakening, as GDP contracted in the third quarter and growth forecasts are below 1%for the year as a whole. The country's economic activity has been affected by natural disasters, the weakening of China's economy, the second destination for its exports, and the threat from the US, its main client, of a tariff hike.

Activity in the United States remained very robust, with a year-on-year growth rate of 3%. The most significant driver remains private consumption, supported by labour market performance of near-full employment, tax cuts and wage increases.

The Eurozone's expansionary cycle has lost vigour. Even so, the GDP growth forecast by the European Commission is 2.1%, with domestic demand as the main driver of growth. As a result of good employment data, the unemployment rate has fallen below 8% for the first time since the onset of the economic crisis, along with a gradual recovery of wages and favourable financial conditions that stimulate consumption and investment. On the other hand, the external sector is showing signs of weakness as a result of the global economic slowdown and the heightening of protectionist tensions. Inflation stood at 2% in November, while core inflation, 1%, is still far from the ECB's target.

Central banks have continued to normalise their monetary policies at a much faster pace in the US than in Europe. The Fed, based on its positive view of the economy and inflation data, raised the reference interest rate to 2.25%-2.50% in December for the fourth time the year and does not rule out further increases for 2019. At the last meeting of the year, the ECB confirmed the end of the asset purchase programme, although it will maintain the reinvestment of maturities for a period that it calls prolonged. As for interest rates, the ECB expects them to remain at current levels until at least the second half of 2019.

Equity markets have had a very negative year. Uncertainty has dominated the stock markets, causing sharp falls in prices. The crisis in emerging countries during the first part of the year has been compounded by investors' perception that the incipient slowdown in the economy could worsen in the coming months, the end of expansionary policies that drain liquidity and make debt rates, especially in the US, more attractive, the US trade war with its main partners and episodes such as the chaotic negotiation of Brexit or the Italian fiscal indiscipline. The main stock market indices underwent major corrections. The Ibex 35 was down 14.97%, the German Dax 18.26%, the French CAC 10.95% and the Italian FTSE 16.15%. U.S. markets have shown greater resilience, which has not prevented them from closing 2018 with losses. The Dow Jones was down 5.63% and the Nasdaq, which lists the major technology companies, 3.88%.

In fixed income markets, sovereign debt rates have shown high volatility, reflecting the less favourable dynamics of the economy and the Fed's rate hikes. In the US, the yield on 10-year government bonds was above 2.6% at the end of the year, with rates flattening in the middle of the curve, while in Europe the German bond closed December within a range of between 0.2% and 0.3%.

The Spanish economy has maintained its expansive path and, according to the latest known data, will end the year with an increase of 2.5%, slightly less than that achieved in 2017, but clearly above other major countries and the Eurozone as a whole.

Household consumption and investment have become pillars of activity. Household spending is supported by employment data, rising wages and good financing conditions. Investment in capital goods increased by more than 6%, property activity increased by more than 5% and housing prices continued to recover.

The loss of traction from the external sector has drained GDP growth. Exports are suffering from exogenous factors, especially the slowdown in Europe, which accounts for nearly 70% of Spanish external sales, and the rise in protectionism worldwide.

The labour market has continued to create employment, albeit at a somewhat slower pace than in 2017, in line with more moderate GDP performance. The number of Social Security registrants is close to 19 million, with a 3.1% increase in the year, and the unemployment rate provided by the Survey of the Working Population at the end of the fourth quarter, 14.45%, is 2.1 percentage points lower than the previous December.

Inflation, after the upturn in the first few months of the year, has resumed its downward trend to end December at 1.2% year-on-year, only one basis point more than in 2017 and below the European average. Core inflation, excluding unprocessed food and energy, at 0.9%, remains stable.

The healthy performance of the Spanish economy is reflected in the activity of the banking sector, especially with regard to the increase in new lending and the reduction of problematic assets on the balance sheet. At the same time, the low interest rates continue to put pressure on profitability, an effect that is partially offset by the strengthening of alternative sources of income, especially intermediation and insurance products, cost containment and the spread of digitisation.

Retail lending fell 2.84% year-on-year. While financing to households remains practically flat, owing to the boost in consumer credit, lending for productive activities is decreasing at a faster rate than in 2017 as a result of the proliferation of sales of non-performing loans, the contraction of developer lending and the lower demand from companies. The dynamism of the economy has caused lending to increase by nearly 10%. Thus, new financing to households and companies grew by 14.72% and 8.59%, respectively.

Retail customer funds increased by 2.18% year-on-year, with a clear slowdown in investment funds compared to last year. Market instability has led savers to seek refuge in low-risk assets.

The volume of problematic assets has significantly decreased, largely owing to massive portfolio sales that improve the quality of balance sheets and will raise future profitability. The ratio of non-performing loans to the private sector of deposit institutions as a whole, 5.84%, fell by 201 basis points in the year. The contraction, albeit at a slower pace, is expected to continue in 2019 when the announced sales take effect.

In the regulatory sphere, Bank of Spain Circular 4/2017 of 27 November came into force in January, adapting Spanish banking accounting standards to the criteria of the new International Financial Reporting Standards. The changes introduced by IFRS 9 have affected the impairment models of financial assets and the classification of portfolios for measurement purposes. In the Basel III framework, the timetable for improving the calculation of credit and operational risk in the standard model and restrictions on the use of internal models has been implemented. In addition, steps have been taken to complete the Banking Union, such as the creation of financial support for the Single Resolution Fund. MiFID II, the Payment Services Directive, known by its acronym PSD2, and the General Data Protection Regulation have also been implemented. In November, the results of the European Banking Authority’s stress test were released and serve as the basis for the determination of PRES capital requirements. Spanish banks have exhibited satisfactory levels of resilience and capital in the event of a hypothetical deterioration in macroeconomic and market conditions.

2.2. Highlights for the period at the Ibercaja Group

Ibercaja’s activity has concentrated on protecting the profitability of the business by neutralising the impact of low interest rates on net interest income. To this end, it has prioritised the defence of margins, the diversification of sources of revenue by strengthening the asset management and insurance business, the improvement of efficiency, containing recurring operating expenses, and the reduction of the cost of risk through the management of non-performing assets on the balance sheet. The bases have also been laid for strengthening the solvency and soundness of the group. Highlights in the period were essentially as follows:

- The CET1 phased in ratio stands at 11.67%, once the negative impact caused by the first application of IFRS 9 has been absorbed. Ibercaja has strengthened its capital base through the issuance of €350 million of AT1 eligible as Tier I additional capital. This issue has an impact of 164 basis points on the total capital ratio of 15.59%. In this way, the buffers of hybrid capital allowed by European regulation have been completed. In fully loaded terms, CET1 is 10.53% and the total capital ratio is 14.50%. Both indices comfortably exceed both the PRES 2018 requirement and the ECB requirement applicable from 1 March 2019.
- New lending was up nearly 5% year on year. In line with our aim of diversifying the portfolio, there was a 4.56% increase in production activities, so that more than 68% of new transactions related to lending to businesses. Investment in home purchases is gaining pace after years of sluggishness, with a change near 10%.
- The success of the commercial strategy to boost new business loans and credits and the reactivation of the mortgage business allowed for halting the deleveraging trend in lending, so that healthy lending, excluding doubtful balances and the temporary asset purchases, fell by only 0.53%.
- The growth of retail funds is centred on asset management and insurance. Their volume increased by 1.56%, with a healthier performance than that of the system as a whole in a year that was particularly unfavourable for financial markets. This performance, together with that of demand accounts (+7%), which include the transfer of savings from term deposits, generates a more profitable mix of retail funds.

- Asset quality greatly improved in the period. Non-performing risks declined by more than 11% as a result of a reduction in inflows and active management of recoveries. The NPL ratio, 6.74%, decreased by 93 basis points. The balance of foreclosed properties contracted by 51% as a result of the slowdown in inflows, together with the good performance of both ordinary and extraordinary sales. Of note was the sale of a portfolio of €641 million as part of “Operation Cierzo”. The overall problematic exposure, doubtful assets and foreclosed assets fell more than 26%, the ratio fell to 8.82% (-298 basis points) and the degree of coverage rose to 51.48% (+362 basis points).

- The sound funding is based on retail funding, so that the loan-to-deposit ratio (LTD) ratio is below 100% and customer deposits account for 78% of external funding. The Group’s liquid assets account for 20.71% of the balance sheet and cover all wholesale debt maturities.

- Despite the interest rate situation, the Group managed to strengthen recurring revenues, typically banking, which rose by 2.18%. This result was made possible by the recovery of net interest income and the increase in fee income, especially from fees and commissions related to asset management.

- Ordinary operating expenses, excluding those associated with the workforce adjustment, decreased by 5.26%. Controlling costs and improving efficiency are key in a scenario in which revenues are conditioned by Euribor in negative territory and the slow recovery of credit. The recurring efficiency ratio increased by five percentage points during the year.

- The cost of risk associated with credit and foreclosed property assets was 0.54%, 14 basis points lower than a year earlier, in line with the progressive normalisation of this variable.

Key indicators:

(millions of euros and %)

BALANCE SHEET	31/12/2018	31/12/2017	Change
Total assets	52,706	53,107	(0.76)
Loans and advances to customers, gross	33,724	33,451	0.82
Total funds under management	61,240	62,030	(1.27)
Total retail resources	57,011	56,394	1.09
Equity	3,160	2,999	5.37
Retail business volume	89,031	88,864	0.19
RESULTS	**31/12/2018**	**31/12/2017**	**Change**
Net interest income	572	561	1.96
Gross Income	967	1,164	(16.97)
Profit before write-downs	298	445	(33.12)
Profit/(loss) attributed to the parent	41	138	(70.51)
EFFICIENCY AND PROFITABILITY	**31/12/2018**	**31/12/2017**	**Change**
Recurring efficiency ratio (ordinary expenses/recurring revenues)	64.69	69.77	-5.08 p.p.
ROA (profit attributable to the parent company/total average assets)	0.08	0.25	-0.17 p.p.
ROE (profit attributable to the parent company/average own funds)	1.48	4.98	-3.50 p.p.
RORWA (profit attributable to the parent company/RWAs)	0.19	0.62	-0.43 p.p.
ROTE (profit attributable to the parent company/average tangible own funds)	1.59	5.36	-3.77 p.p.
RISK MANAGEMENT	**31/12/2018**	**31/12/2017**	**Change**
Non-performing balances (loans and advances to customers)	2,275	2,565	(11.32)
Non-performance rate of loans and advances to customers (%)	6.74	7.67	-0.93 p.p.
Ratio of problematic assets (%)	8.82	11.80	-2.98 p.p.
Coverage of non-performing risks	1,119	1,090	2.63
Coverage of non-performing risks (%)	49.19	42.51	+6.68 p.p.
Coverage of exposure to distressed assets (%)	51.48	47.86	+3.62 p.p.
LIQUIDITY	**31/12/2018**	**31/12/2017**	**Change**
Available liquidity/total assets	20.71	19.45	+1.26 p.p.
Loan-to-deposit ratio (LtD)	98.12	100.36	-2.24 p.p.
LCR ratio (%)	306.78	281.15	+25.63 p.p.
NSFR ratio (%)	130.45	124.42	+6.03 p.p.
SOLVENCY	**31/12/2018**	**31/12/2017**	**Change**
CET1, phase-in (%)	11.67	11.72	-0.05 p.p.
Solvency ratio, phase-in (%)	15.59	13.93	+1.66 p.p.
Leverage ratio, phase-in (%)	6.04	5.41	+0.63 p.p.
CET1, fully loaded (%)	10.53	11.04	-0.51 p.p.
Total capital, fully loaded (%)	14.50	13.26	+1.24 p.p.
Leverage ratio, fully loaded (%)	5.48	5.09	+0.39 p.p.
ADDITIONAL INFORMATION	**31/12/2018**	**31/12/2017**	**Change**
No. Group employees	5,302	5,581	(5.00)
No. of offices	1,115	1,147	(2.79)

2.3. Analysis of the main balance sheet figures

Key figures on the consolidated balance sheet:

	€ million			Change (%)
	31/12/2018	31/12/2017	Change	
Cash and credit institutions	1,367	3,875	(2,508)	(64.72)
Loans and advances to customers	32,605	32,361	244	0.75
Securities portfolio	15,556	13,304	2,252	16.93
Tangible assets	942	1,029	(87)	(8.49)
Intangible assets	204	200	4	2.10
Other assets	2,032	2,338	(306)	(13.10)
Total assets	**52,706**	**53,107**	**(401)**	**(0.76)**
Deposits from credit institutions and central banks	4,577	4,590	(12)	(0.27)
Total on-balance sheet customer funds	43,236	43,924	(688)	(1.57)
Customer deposits	34,081	35,077	(996)	(2.84)
Debt securities issued	1,640	1,827	(187)	(10.22)
Liabilities under insurance contracts	7,515	7,019	496	7.06
Provisions	349	373	(24)	(6.43)
Other liabilities	1,384	1,222	162	13.24
Total liabilities	**49,546**	**50,108**	**(562)**	**(1.12)**
Equity	3,160	2,999	161	5.37
Total equity and liabilities	**52,706**	**53,107**	**(401)**	**(0.76)**

Total assets on the consolidated balance sheet come to €52,706 million, 0.76% less than at year-end 2017.

Loans and advances to customers recognised as financial assets at amortised cost and financial assets not held for trading which must be measured at fair value through profit or loss came to €32,605 million, 0.75% more than in 2017. In gross terms, i.e., without value adjustments for impairment of assets and other impairments, they amounted to €33,724 million. If we exclude the “doubtful” balance and temporary acquisition of assets, healthy credit continues to stabilise, with a reduction of only 0.53%, reflecting the boost given to new lending, driven forward by the vigour of the Group’s marketing activity and the improvement in the macroeconomic framework.

New lending, €5,724 million, was up 4.91% year on year. In line with our aim of diversifying the portfolio, there was a 4.56% increase in production activities, so that more than 68% of new transactions related to lending to businesses. The number of mortgages granted increased at a rapid pace (+9.7%), although their weighting within the total is still only 23%. By geographical markets, the Traditional Zone and Madrid account for 37% and 32% of new contracts, while 17% came from the Mediterranean Arc.

Distribution of loans and advances to customers by purpose:

	€ million			Change (%)
	31/12/2018	31/12/2017	Change	
Loans to individuals	20,999	21,529	(530)	(2.46)
Home loans	19,492	19,999	(507)	(2.54)
Consumer loans and other	1,507	1,530	(23)	(1.48)
Loans to companies	7,745	7,511	234	3.11
Real estate development	959	873	87	9.93
Non-property productive activities	6,786	6,639	147	2.22
Public sector and other	1,002	865	137	15.78
Gross loans and advances to customers, ex doubtful and TAAs	**29,746**	**29,905**	**(159)**	**(0.53)**
Reverse repurchase agreement	1,704	981	723	73.66
Impaired assets	2,275	2,565	(290)	(11.32)
Loans and advances to customers, gross	**33,724**	**33,451**	**273**	**0.82**

Lending for productive activities (ex NPLs) increased 3.11%, in line with the goal of portfolio diversification towards more profitable purposes. Within this segment, financing for non-property-related production activities rose 2.22%. Lending for property development, although its weight in the portfolio is small, rose 9.93% as a reflection of the incipient recovery of the sector. The balance of loans for housing acquisition and repair fell by 2.54%, as a result of the deleveraging still being seen in the mortgage segment. Consumer credit remained practically stable, reined in by the prudent risk acceptance policy in this business segment.

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 2.54%. The decline in the stock of mortgage loans has slowed compared to 2017, although increasing originations resulting from the gradual increase in housing demand do not offset the natural paydown of the portfolio and early redemptions. The strong growth in lending to companies can be seen in commercial lending (+11.40%), other term loans (+0.51%) and financial leases (+19.62%).

Distribution of loans and advances to customers by type of collateral:

	€ million			Change (%)
	31/12/2018	**31/12/2017**	**Change**	
Commercial loans	573	515	59	11.40
Loans secured with collateral	22,056	22,631	(574)	(2.54)
Other term loans	5,346	5,319	27	0.51
Finance leases	499	417	82	19.62
Receivables on demand and other	491	555	(64)	(11.47)
Valuation adjustments	40	60	(20)	(32.94)
Other financial assets	740	409	331	80.88
Gross loans and advances to customers, ex doubtful and TAAs	**29,746**	**29,905**	**(159)**	**(0.53)**
Reverse repurchase agreement	1,704	981	723	73.66
Impaired assets	2,275	2,565	(290)	(11.32)
Loans and advances to customers, gross	**33,724**	**33,451**	**273**	**0.82**
Impairment losses and others	(1,119)	(1,090)	(29)	(2.63)
Loans and advances to customers	**32,605**	**32,361**	**244**	**0.75**

Asset quality indicators improved in the period. Impaired assets from loans and advances to customers, €2,275 million, were down 11.32% on December 2017, due to lower gross additions to non-performing assets (-34%) and an increasingly strong recovery. As a result, non-performing loans and advances to customers (6.74%) fell 93 basis points in the year. The NPL ratio of the Group's largest exposure, financing for home purchases, stood at 4.12%.

Credit risk-related provisions came to €1,119 million. After the application of IFRS 9, the coverage ratio for non-performing loans (49.19%) was 6.68 percentage points higher than at the end of 2017.

The Group's portfolio of repossessed properties or property assigned in lieu of payment, recorded under the balance sheet headings "investment property", "inventories" and "non-current assets held for sale", totalled €767 million, a reduction of €799 million or 51% over the year. The coverage of these property assets is 58.25%, 162 basis points more than a year ago. Coverage for undeveloped land was 64.02%. Additions to repossessed properties were 12% lower than in 2017, while both ordinary and extraordinary sales increased significantly. Among the latter was the sale of a portfolio with a gross book value of €641 million to a new company, 20%-owned by Ibercaja and 80%-owned by Intrum AB, the parent company of Aktua, which has been managing the Group's property assets since 2016. This transaction is a stride forward in the Bank's strategy to clean up the balance sheet and improve its profitability profile by offloading problem assets with the least possible impact on the income statement. Thus, after this deal, the net value of repossessed properties, €320 million, accounts for only 0.61% of assets.

The balance of distressed assets and doubtful loans and advances to customers, plus repossessed properties, €3,042 million, fell by more than 26%. The net value, €1,476 million, represents 2.80% of assets. The distressed asset index, 8.82%, fell by almost 3 percentage points in the year, and its coverage ratio, 51.48%, was 3.62 percentage points. On the other hand, the Texas ratio, which relates non-performing assets to equity and coverage, improved 14.88 percentage points to 70.61%. Ibercaja expects to bring its non-performing asset ratio to 6% in 2019 and renews its intention to achieve a risk cost of less than 35 bp in 2020.

Asset quality indicators (non-performance rate, foreclosed assets and coverage):

	€ million and %	
	31/12/2018	**31/12/2017**
Non-performing loans and advances to customers	2,275	2,565
Loans and advances to customers, gross	33,724	33,451
Non-performance rate of loans and advances to customers (%)	**6.74**	**7.67**
Non-performing loans and advances to customers	2,275	2,565
Coverage of non-performing risks	1,119	1,090
Coverage of non-performing risks (%)	**49.19**	**42.51**
Foreclosed assets (gross carrying amount)	767	1,566
Coverage of foreclosed assets	447	887
Coverage of foreclosed assets (%)	**58.25**	**56.63**
Distressed assets (non-performing loans and advances to customers + repossessions)	3,042	4,131
Exposure (loans and advances to customers + repossessed assets)	34,491	35,017
Distressed asset index (%)	**8.82**	**11.80**
Distressed assets (non-performing loans and advances to customers + repossessions)	3,042	4,131
Coverage of distressed assets	1,566	1,977
Coverage rate of distressed assets (%)	**51.48**	**47.86**

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 balances totalled €1,879 million, 25% less than in 2017 and accounting for 5.57% of gross loans and advances to customers. 77% of refinanced loans are classified as non-performing and their coverage is 42.04%.

The portfolio of fixed income securities, shares and other equity interests in companies totalled €15,556 million, of which €7,218 million relate to the Group's insurance business. The entry into force of IFRS 9 led to reclassifications of financial assets between portfolios and a value adjustment of €12 million. For ease of comparison, the following table shows the changes with respect to the opening balance at 1 January 2018.

The securities portfolio breaks down as follows:

	€ million			Change (%)
	31/12/2018	01/01/2018	Change	
Financial assets held for trading	-	-	-	-
Debt securities	-	-	-	-
Financial assets not held for trading mandatorily measured at fair value through profit or loss	122	125	(3)	(2.54)
Debt securities	83	83	-	(0.48)
Equity instruments	39	42	(3)	(6.68)
Financial assets at fair value through profit or loss	10	11	(1)	(9.80)
Debt securities	10	11	(1)	(9.80)
Financial assets at fair value through other comprehensive income	8,755	8,598	156	1.82
Debt securities	8,415	8,273	142	1.72
Equity instruments	340	326	14	4.40
Financial assets at amortised cost	6,544	4,453	2,092	46.98
Investments in joint ventures and associates	126	105	21	19.87
Total securities portfolio	**15,556**	**13,292**	**2,264**	**17.04**
Fixed income	15,051	12,819	2,232	17.41
. Of which: ALCO portfolio	8,086	6,517	1,569	24.08
Equities	505	473	32	6.87
Investments in joint ventures and associates	126	105	21	19.87
Other equity instruments	379	367	12	3.14

After sales at the end of 2017, the securities portfolio increased by €2,264 million, €2,232 million of which were fixed-income securities, almost all being Spanish government bonds. Equities grew by €32 million due to the combined effect of investments in foreign listed securities, stakes in two new companies (Northwind FINCO, SL, to which property assets have been transferred, and Ibercaja Global Internacional SICAV), and divestments, basically from Ibercaja Viajes, CAI Seguros Generales and companies specialising in logistics and document management.

According to accounting classification, financial assets at fair value through other comprehensive income have a weight of 56%, financial assets at amortised cost represent 42% and the rest are financial assets not held for trading that are mandatorily valued at fair value through profit or loss, together with investments in joint ventures and associates.

By type, fixed income (€15,051 million) accounted for 96.75% of the total. Stripping out the insurance business, the ALCO portfolio managed by the parent, €8,086 million, comprises low-risk bonds (mainly Spanish government debt) with an average term of 2.12 years and a yield of 1.42% 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. Equities, €505 million, mainly comprise listed shares of domestic and foreign companies, and interests in unlisted companies in strategic sectors for the Bank or intended for the territorial development of the regions in which the Bank operates.

The balance of assets at central banks and credit institutions and in cash, €1,367 million, decreased by €2,508 million, and mainly concentrated in cash balances at central banks. Liabilities to credit institutions and central banks amounted to €4,577 million, €12 million less than in December 2017. Funding from the ECB, €3,341 million, corresponds entirely to the TLTRO II programme falling due in 2020. After the eligible loan portfolio exceeded the reference threshold, the ECB ratified the interest rate, -0.40%, applicable to such financing.

Breakdown of cash and assets at credit institutions and deposits from credit institutions and central banks:

	€ million			Change (%)
	31/12/2018	31/12/2017	Change	
Cash and cash balances at central banks and other demand deposits	1,118	3,512	(2,394)	(68.16)
Credit institutions (Financial assets at amortised cost)	249	-	249	-
Credit institutions (loans and receivables)	-	362	(362)	-
Cash and credit institutions	**1,367**	**3,875**	**(2,508)**	**(64.72)**
Deposits - central banks	3,341	3,354	(12)	(0.37)
Deposits from credit entities	1,236	1,236	-	-
Deposits from credit institutions and central banks	**4,577**	**4,590**	**(12)**	**(0.27)**

Tangible assets came to €942 million, down 8.49% in the year, largely on account of the reduction in investment property (-21.66%) and property, plant and equipment for own use (-3.71%). Intangible assets totalled €204 million, consisting mainly of goodwill, other items generated from the acquisition of Caja3 and computer software. The 2.10% change in the year can be explained by investments in software.

Deferred tax assets amounted to €1,365 million, rose by €52 million. The increase in non-monetisable assets is mostly explained by the tax effect of €50 million arising from first-time application of IFRS 9. The monetisable assets, the recoverability of which does not depend on future taxable income, amount to €654 million.

Total funds under management on and off balance sheet came to €61,240 million, 1.27% less than a year earlier.

Detail of the funds under management:

	€ million			Change (%)
	31/12/2018	31/12/2017	Change	
Customer deposits	34,081	35,077	(996)	(2.84)
. Of which: strictly customer deposits	31,492	31,268	224	0.72
Debt securities issued	1,640	1,827	(187)	(10.22)
Liabilities under insurance or reinsurance contracts	7,515	7,019	496	7.06
Investment funds, pension plans and insurance products	18,004	18,107	(103)	(0.57)
Total funds under management	**61,240**	**62,030**	**(791)**	**(1.27)**

Customer deposits were down 2.84% to €34,081 million following the reversal of the repurchase agreement (€738 million) and the maturity of single mortgage covered bonds (€422 million nominal value). Strictly customer deposits, demand savings accounts and traditional term deposits, ex covered bonds or repurchase agreements, increased 0.72%. In its composition, in line with events across the system as a whole, the most liquid deposits - demand accounts - increased 7%, including the transfer from deposits to maturity, which fell 22%.

Debt securities issued, €1,640 million, were down €187 million, due to the maturity of securitisation liabilities (€145 million in nominal value) and wholesale subordinated debt (€45 million). The falling due of €1,000 million of covered bonds was offset by an issue for the same amount, maturing in 2028, subscribed for as own bonds, now part of the collateral policy facing the ECB.

Liabilities covered by insurance or reinsurance contracts, €7,515 million, increased by 7.06%. The increase of 7.37% in mathematical provisions for life insurance is the outcome of the gradual entrenchment of these products as pension systems that supplement public pensions, given their returns in the current interest rate framework and the tax advantages they attract.

Retail customer funds, €57,011 million, increased by 1.09%. Asset management and insurance, which accounted for 45% of the total, grew 1.56%. The Group's market share in assets under management (excluding products marketed by third parties) and insurance, 4.70%, rose by 10 basis points over the year.

Breakdown of customer retail funds:

	€ million			Change (%)
	31/12/2018	**31/12/2017**	**Change**	
Strictly customer deposits	31,492	31,268	224	0.72
Demand deposits	26,316	24,629	1,687	6.85
Term deposits	5,176	6,639	(1,463)	(22.03)
Asset and insurance management	25,518	25,126	392	1.56
Total retail customer funds	**57,011**	**56,394**	**617**	**1.09**

Provisions for on-balance sheet liabilities (€349 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 (€21 million). The cost of the second tranche of the workforce adjustment programme, €55.8 million, was taken to the income statement with a balancing entry under this heading. The use of balances from previous years and new allowances in 2018 triggered a reduction of €24 million in this heading.

Equity came to €3,160 million, €161 million more than at year-end 2017. The increase in equity, €237 million, reflected the result for the year and the issuance of €350 million of preference shares eligible as AT1 capital, reduced by the decrease in reserves, €116 million, which took place on 1 January 2018 as a result of the new requirements for insolvency coverage as a result of the entry into force of Bank of Spain Circular 4/2017. The heading Other accumulated comprehensive income was down €76 million due mainly to the reduction in unrealised gains on debt securities.

2.4. Income statement

The pre-tax profit of the Ibercaja Group amounted to €81 million euros, 56% less than in 2017. The decrease is due to the significant income from financial transactions and other extraordinary transactions recorded in the previous year. It is worth highlighting the growth - stripping out non-recurring - of typical recurring banking revenue, in a context of extremely low interest rates, the significant increase in new lending in the business and housing segments, and the rise in assets under management and insurance, the Group's most significant special field. Key aspects of the year included a notable reduction in ordinary operating expenses, an improvement in the recurring efficiency ratio and a reduction in the cost of risk as a result of the decline in unproductive assets on the balance sheet and the optimisation of risk management.

Main headings of the income statement:

	€ million			Change	% ATM (*)	
	31/12/2018	31/12/2017	Change	(%)	Dec-18	Dec-17
Net interest income	**572**	**561**	**11**	**1.96**	**1.09**	**1.02**
Net fees and commissions and exchange differences	376	366	9	2.51	0.72	0.66
Gains/(losses) on financial assets and liabilities	44	153	(109)	(71.40)	0.08	0.28
Other operating profit/(loss)	(25)	84	(109)	-	-	-
Other operating income/expense	(36)	70	(106)	-	(0.07)	0.13
Dividends	11	13	(1)	-	0.02	0.02
Earnings at equity-accounted entities	(1)	1	(2)	-	-	-
Gross income	**967**	**1,164**	**(198)**	**(16.97)**	**1.84**	**2.11**
Operating expenses	669	719	(50)	(6.98)	1.27	1.30
. Of which: Recurring expenses (ex WAP)	613	647	(34)	(5.26)	1.17	1.17
Profit before write-downs	**298**	**445**	**(147)**	**(33.12)**	**0.57**	**0.81**
Provisions, impairment and other write-downs	167	264	(97)	(36.61)	0.32	0.48
Other gains/(losses)	(50)	1	(51)	-	(0.09)	0.00
Profit/(loss) before tax	**81**	**183**	**(102)**	**(55.77)**	**0.15**	**0.33**
Taxes	40	44	(4)	(9.80)	0.08	0.08
Consolidated profit/(loss) for the year	**41**	**138**	**(98)**	**(70.51)**	**0.08**	**0.25**
Profit/(loss) attributed to the parent	**41**	**138**	**(98)**	**(70.51)**	**0.08**	**0.25**
(*) Average total assets, average total assets	**52,494**	**55,158**	**(2,664)**	**(4.83)**		

Net interest income, €572 million, increased 1.96% year-on-year, reflecting the strong performance of retail business, which offset the decline in the contribution from the fixed-income portfolio. Income from loans stabilised progressively. The repricing of the mortgage portfolio due to the impact of the interest rate curve is decreasing, but is partially offset by the contribution of new transactions with a higher return. The cost of retail savings decreases, both by type and by structure, in which demand savings accounts gain weight. As a result, the customer spread was 1.38%, 5 basis points more than in December 2017.

Income from the fixed-income portfolio (12.23% of total interest income) decreased due to the reduction in the average balance. The decline was largely offset by the lower cost of wholesale financing, as maturities were not renewed and issues were repriced at lower rates.

Net fees and exchange differences totalled €376 million, 2.51% more than in 2017. Fees from marketing and asset management increased 3.07%, due to the increase in fees linked to risk insurance and investment funds. Fees linked to banking activity increased 1.78%, as a result of the strong performance of both collection and payment services and contingent risks and commitments.

Recurring revenue, net interest income and fee income grew 2.18%, cementing their positive trend in a difficult year due to the persistently low level of interest rates and the instability of the markets for much of the year.

Net fees and commissions:

	€ million			Change (%)
	31/12/2018	31/12/2017	Var.	
Fees for contingent liabilities and commitments	14	13	1	10.56
Collection and payment services fees	115	112	3	2.61
Securities services fees (*)	40	15	26	177.08
Fees on mktg. of non-bank financial products (*)	188	208	(19)	(9.38)
Other fees	34	33	1	3.25
Fees received	**392**	**380**	**12**	**3.07**
Fees paid	**17**	**15**	**2**	**11.89**
Exchange differences	**1**	**1**	**0**	**-**
Net fees and commissions and exchange differences	**376**	**366**	**9**	**2.51**
Fees for marketing and asset management	*214*	*208*	*6*	*3.07*
Banking fees and commissions	*162*	*159*	*3*	*1.78*

(*) Following the entry into force of MiFID II, portfolio management fees are included in "fees for securities services" and must therefore be analysed jointly with fees related to the marketing of non-banking financial products.

The result of financial transactions, €44 million, was 71.40% less than in 2017. The variation is explained by the fact that significant gains materialised in that year on sales of fixed-income securities, as part of the strategy for managing financial instruments to adapt portfolios to IFRS 9, and because the gains or losses on equities, following the entry into force of these regulations, are taken to equity.

Other operating income and expenses amounted to €36 million, as against the figure of €70 million in 2017, a year in which extraordinary income was collected from the novation of the contract for the transfer of the depositary business to Cecabank and the risk insurance distribution agreement with Caser. Over the year, insurance net income amounted to €42 million. Charges include the contribution paid to the Deposit Guarantee Fund (€47 million) and to the National Resolution Fund (€12 million) and the expense (€3 million) arising from the conversion of deferred tax assets into tax credit claimable from the Spanish tax authorities.

After adding the balance of €11 million of the remaining items (return on equity instruments and results of entities accounted for using the equity method), gross income totalled €967 million. The 16.97% decline is a consequence of the decrease in extraordinary items with respect to 2017, as already explained. Recurring revenue accounts for more than 98% of gross income.

Operating expenses, €669 million, were down 6.98%. Excluding the impact of workforce adjustment costs in both 2017 and 2018, the decline is 5.26%, in line with the strategic objective of cost containment and improved efficiency. Personnel expenses, stripping out non-recurring items, dropped 5.94%, mainly due to the employee termination agreement and the divestment of subsidiaries. Other general administrative expenses and depreciation/amortisation decreased by 4.25%, as expenses relating to property maintenance and marketing were reduced.

The efficiency ratio or cost-to-income ratio, defined as the quotient of ordinary operating expenses and gross income, stood at 63.43%. In addition, the recurring cost-to-revenue ratio, measured as ordinary expenses over recurring revenue, was 64.69%, down more than 5 percentage points from 2017.

Breakdown of operating expenses:

	€ million			Change (%)
	31/12/2018	31/12/2017	Change	
Wages and salaries	276	292	(16)	(5.47)
Social security contributions	66	72	(5)	(7.37)
Pensions	18	20	(2)	(9.10)
Termination benefits	56	72	(16)	(22.42)
Other staff expenses	3	3	-	4.24
Personnel expenses	**420**	**459**	**(39)**	**(8.52)**
Property, plant and office equipment	48	48	-	(0.02)
Equipment maintenance, licences and computer work	19	17	2	11.23
Communications	15	18	(3)	(18.69)
Advertising and publicity	7	7	-	0.15
Charges and taxes	25	24	2	6.80
Other management and administrative expenses	84	95	(12)	(12.24)
Other general administrative expenses	**198**	**210**	**(12)**	**(5.51)**
Depreciation and amortisation	**51**	**51**	**-**	**0.95**
Operating expenses	**669**	**719**	**(50)**	**(6.98)**
Operating expenses without workforce adjustment costs	***613***	***647***	***(34)***	***(5.26)***
Personnel expenses ex WAP costs	*364*	*387*	*(23)*	*(5.94)*
Other general administrative expenses	*198*	*210*	*(12)*	*(5.51)*
Depreciation and amortisation	*51*	*51*	*-*	*0.95*

Recurring profit before provisions, defined as net interest and fee income less ordinary operating expenses, came to €335 million, 19.34% more than a year earlier. 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 €167 million, down 36.10% on 2017. Loan and property write-offs, €187 million, decreased 23.28%, due to a decrease in new NPLs, an increase in recoveries and a decrease in repossessions. The cost of the Group’s risk, calculated as the percentage of credit and property impairment in relation to average exposure, is 54 basis points.

Other gains and losses detract €50 million from the results, of which €31 million relate to the sale of properties repossessed within “Operation Cierzo”, €10 million to the disposal of non-repossessed properties and €9 million to the sale of other assets not classified as non-current assets held for sale.

The Group’s pre-tax profit amounted to €81 million. After deducting the corporate income tax expense, profit attributable to the parent is €41 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.

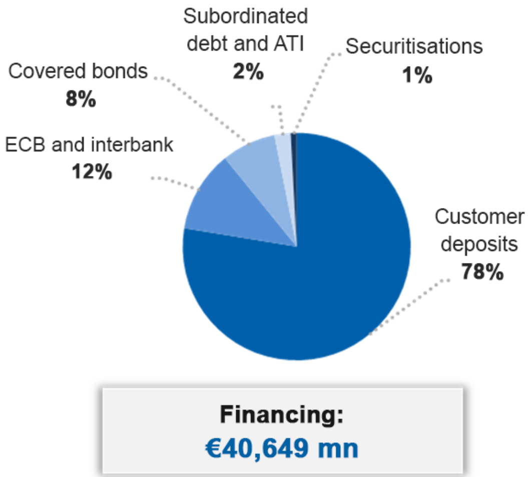
The basic principles governing this strategy are as follows: active management through a regular control system based on internal limits and indicators documented in the Liquidity Manual; establishing measures and actions to respond to crisis scenarios (contingency plan); harnessing the various alternatives 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 3.8. to the annual accounts for 2018 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 78% of the total. Nearly 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 loan to deposit ratio (LTD) stands at 98.12%. Wholesale funding supplements funding obtained from individuals and companies. It is centred on the medium and long term and includes repos and balances held by the Group at the ECB, mortgage bonds, securitisations, subordinated liabilities and other issues.

Breakdown of funding structure:



Liquid assets were up 5.70% to €10,917 million, representing 20.71% 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 €6,290 million, bringing total fund availability to €17,207 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 306.78%, well clear of the 100% requirement for 2018. Meanwhile, the NSFR stands at 130.45%, 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 €4,761 million. Almost all (96%) 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 236.51%, well clear of the legal minimum of 125%.

The Bank's maturities of wholesale market issues present a staggered redemption schedule through to 2027. In 2019 and 2020, redemptions, net of treasury shares, will total €512 million and €817 million, respectively, representing less than 2% of the Bank's assets. All these placements can be comfortably redeemed using available liquidity.

Liquidity Indicators:

	€ million and %	
	31/12/2018	**31/12/2017**
Cash and central banks	888	3,281
Balance drawable under facilities	4,761	5,065
Eligible assets not pledged to the policy	4,836	1,647
Other marketable assets not eligible by the central bank	432	335
Volume of liquid assets	**10,917**	**10,328**
Issuance capacity for mortgage covered and public sector covered bonds	6,290	6,688
Availability of liquid assets	**17,207**	**17,017**
Liquid assets / Total assets (%)	20.71	19.45
Loan-to-deposit ratio (LtD) (%)	98.12	100.36
LCR (%)	306.78	281.15
NSFR (%)	130.45	124.42

With regard to the expected trends and fluctuations in liquidity, the outlook for the business would indicate that the Group will have adequate levels of liquidity in the short and medium term, and in line with both internal management and regulatory limits, given the scant significance of wholesale maturities, the high weight of retail funding and the situation of 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 medium 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 from March 2019 on the basis of its business model, capital risk, liquidity risk, governance and internal control. Ibercaja must maintain a Common Equity Tier 1 (CET1) ratio of 9.0% and a total capital ratio of 12.5%. This total capital requirement includes the minimum demanded for Pillar 1 (4.5% CET 1 and 8% of total capital), the Pillar 2 requirement (2.0%) and the capital conservation buffer (2.5%).

Total eligible own funds come to €3,333 million and represents a solvency ratio of 15.59%, 166 basis points more than a year ago. This increase includes the issuance in April of €350 million eligible as additional Tier I capital. With this transaction and the €500 million Tier II capital issued in 2015, Ibercaja completes the buffers of hybrid capital allowed under European regulation.

The phased-in CET1 ratio, which measures the relationship between Tier 1 capital and risk-weighted assets, stands at 11.67%, It has fallen by five basis points since last December owing to the phase in of IFRS 9. The Group has opted to defer the effect of the full implementation of IFRS 9 for five years, in accordance with the transitional provision of Regulation 2017/2395 of the European Parliament and of the Council of 12 December 2017.

These capital levels imply, based on the SREP requirements communicated by the Supervisor applicable in 2018, an excess of CET1 and total Capital of 3.55 and 3.97 percentage points, respectively.

The phased-in leverage ratio stands at 6.04%, 63 basis points higher than at the end of 2017 and significantly above the minimum reference level of 3%. The healthy performance during the year was due to the increase in Tier I capital, mainly as a result of the issuance of AT1 capital, and the reduction in exposure owing to the decrease in assets on the balance sheet.

In fully loaded terms, CET1 amounts to 10.53%. The impact on this ratio of the entry into force of IFRS 9 on 1 January 2018 was 53 basis points. The total capital ratio stands at 14.50% The leverage ratio is 5.48%, well clear of required reference levels.

Key solvency indicators:

(millions of euros and %)	Phased in			Fully loaded		
	31/12/2018	01/01/2018	31/12/2017	31/12/2018	01/01/2018	31/12/2017
Tier 1 capital	2,846	2,592	2,610	2,570	2,319	2,445
Common Equity Tier 1	2,496	2,592	2,610	2,220	2,319	2,445
Additional Tier 1 capital	350	-	-	350	-	-
Tier 2 capital	488	492	492	488	492	492
Eligible own funds	3,333	3,084	3,102	3,057	2,811	2,937
Risk-weighted assets	21,379	22,258	22,266	21,084	22,077	22,150
RWA density (RWAs/AT)	40.56	-	41.93	-	-	-
CET1 (%)	11.67	11.65	11.72	10.53	10.50	11.04
AT1 (%)	1.64	0.00	0.00	1.66	0.00	0.00
Tier I (%)	13.31	11.65	11.72	12.19	10.50	11.04
Tier 2 (%)	2.28	2.21	2.21	2.31	2.23	2.22
Solvency ratio (%)	15.59	13.86	13.93	14.50	12.73	13.26
Leverage ratio (%)	6.04	5.39	5.41	5.48	4.82	5.09

In accordance with the definition of distributable items in the CRR regulation, the balance of these items in Ibercaja Banco individually, as at 31 December 2018, amounted to €297 million.

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 management is organised through the Risk Appetite Framework, the key aim of which is to establish a set of principles, procedures, controls and systems through which the Group's risk appetite is specified, communicated and monitored. Risk appetite is the level or profile of risk that the Bank is willing to accept and maintain, in terms of type and amount. Risk appetite must be geared towards achieving the targets of the Strategic Plan, in accordance with the established lines of action.

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 2018 consolidated annual accounts provides more extensive and detailed information on the management of each type of risk.

6. Research, development and technology

Technological innovation plays a key role in the banking sector at a time of significant change for the sector: transformation of customer habits, need to improve the efficiency of operational processes to gain competitiveness, emergence of new players, fintech, which are making inroads in the retailing of financial products, and regulation in continuous change.

Ibercaja, aware of the need to face the new challenges, has devised an ambitious programme of digital transformation within its Strategic Plan 2018-2020. Its objective is to satisfy the customer needs and expectations, boost competitive advantages by enhancing omnichannel as a supplement to the personal attention given by managers, and ensure maximum agility and efficiency of the operational processes of both the branch network and central services. The most relevant actions being taken in this area, some of which are complete and others in progress, include the following:

- The digitisation of processes for the end customer such as digital signature, customer mailbox and others that simplify procedures, avoid travel, eliminate archiving work and achieve significant cost savings.

- The Group has adapted to the new LOPD through a project that includes the creation of the privacy office and the appointment of a Data Protection Officer with competence in the Bank, the companies of the Financial Group and the technological subsidiary IBD. At the same time, it has developed a protocol for the processing of personal data and has reviewed the technological assets that manage this information.

- Since 2018, the credit risk area has had a new risk alert system focused on early detection of risk quality deterioration, in line with the approaches for managing outstanding risk that are in place following the implementation of IFRS 9. The alert system will continue to be developed in 2019 in order to cover in more detail diagnostics of companies and the self-employed.

- Management of irregular risk has been incorporated into a new platform that improves customer, group and operation management processes, giving them greater efficiency in recovery and in the building of viability solutions.

- A strategic project for the development and implementation of a Data Governance Framework was launched in 2018. The objective of this framework is to promote continuous improvement in the standardisation, traceability, quality and availability of data in order to maximise the value of the data as an engine for generating business. This Governance Framework will be developed on a continuous basis, with prioritisation of informational areas more strategic for the Bank. The deployment is being carried out with new market tools acquired, and development is ongoing of a new data quality management environment, which includes a new scorecard monitoring the level of information quality.

- As part of the project to adapt internal credit risk models to the IRB framework, progress has been made on the scheduled milestones, allowing rates to be set with a risk-adjusted approach and offices and decision-making centres to be provided with risk quality and price measures that are consistent with capital costs and provisions.

- The commercial flows of advice and sales have received a new boost that will conclude in 2019 with the definitive implementation of a new commercial platform aimed at optimising the quality, pace and efficiency of customer contacts by generating proposals that are more attractive and suitable for their profile.

- In the area of transformation, new functionalities related to pension plans, investment funds or means of payment have been added to the app. One of the new features is the “Onboarding System”, through which a new customer can go through the entire Ibercaja registration process in just ten minutes.

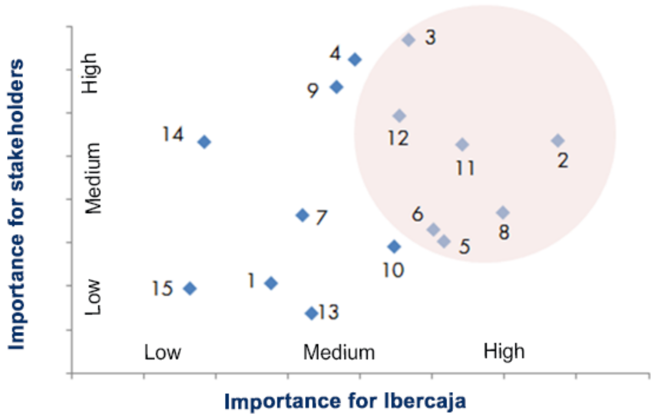
- Ibercaja Explora is a pilot project in the field of innovation and digitisation. This is a unique space, located in the centre of Zaragoza, where an educational approach is used to inform the public and showcase the digital assets of the Bank.

7. Consolidated non-financial report

On 28 December, Spain approved **Law 11/2018** amending the Spanish Commercial Code, the consolidated text of the Spanish Corporate Enterprises Act approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July, on Audits, in relation to **non-financial information and diversity**.

Under the new law, the non-financial statement shall contain a brief description of the Ibercaja Group's business model, the non-financial policies pursued and the outcome of those policies and the principal non-financial risks related to its business. It should also include a set of key non-financial performance indicators of the Bank and meaningful information for the Bank on environmental, social and personnel issues, on respect for human rights, on the fight against corruption and bribery and on the company. In order to identify the material aspects of these issues, Ibercaja carried out a materiality analysis, analysing the relevance of the different aspects both internally for the Bank and externally for its stakeholders.

The following graphic shows the results of the materiality matrix created:



Material aspects identified:

2	Solvency/profitability/financial strength
3	Ethical conduct and integrity
5	Transparency in customer relations and communication
6	Business model and customer advice
8	Digital transformation and multichannel
11	Attracting and retaining talent
12	Social action/community support projects

Ibercaja has included all such non-financial information in this directors' report. It also draws up an annual report, which explains the Bank's social and environmental policies and its commitment and performance when it comes to corporate social responsibility. In it, the Bank provides detailed information on its actions in the matters described above.

In drawing up the non-financial report, the Bank has relied mainly on the standards 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.

Risk control, identification, measurement and monitoring are key to Ibercaja's business. The Bank takes into consideration both financial and non-financial risks (operational, reputational, technological and legal), the latter of which are being ever more important in global risk management. These risks have been incorporated into the Bank's Risk Appetite Framework and are taken into account for management in both the short and long term.

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 Responsibility 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. To this end, it has an **Environmental Policy** (https://www.ibercaja.com/archivo/sp/4477)that constitutes the frame of reference for all actions related to this area, and an **Environmental Committee** responsible for ensuring compliance. The policy is based on the observance of 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 disseminating good practices among customers and suppliers to raise their awareness.

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 ISO 14001:2015. As a requirement of this Standard, the risks and opportunities arising from the system are identified, as well as the actions to be taken for each risk. In 2018, Ibercaja passed the second follow-up audit on application of standard 1004:2015 to the EMS.

The Environmental Management System, which supervised by the Environment Committee, has a Coordinator and a specific budget for its correct implementation. For its part, an **Environmental Team** consisting of 18 people proposes, develops and promotes initiatives related to environmental protection.

In 2018 the main lines of action were the following:

- **Resource management:** launch of initiatives aimed at optimising resources, especially those that are material for Ibercaja: water, energy and paper, as well as raising awareness of their proper use.

TOTAL CONSUMPTION	**2018**
Water consumption (m3)	41,197
Energy consumption (Gj)**	147,992
Paper consumption in Tm *	481

* 96% of DIN A4 paper is recycled
** The total electricity consumption at Headquarters comes from renewable sources.

- **Circular economy and waste management:** the waste generated is segregated, ensuring the correct destination of each of them in order to reduce their environmental impact at all stages of the value chain. The Waste Coordinator is in charge of their integral management. Actions have been carried out to promote education and awareness among employees of the importance of the circular economy.

- **Emissions:** The Bank works to reduce CO_2 emissions based on a calculation of the carbon footprint. The trend of the data obtained makes it possible to identify and undertake initiatives, such as the use of renewable energies. In 2018, total emissions in Tn of CO2 (Scope 1 and 2) amounted to 13,403, which represents a reduction of 10.15% compared to the previous year.

Ibercaja collaborates in COEPLAN (Coalition of Companies for the Planet), an initiative that promotes greater demand for green products and the dissemination of good practices to encourage the development of more innovative and sustainable companies. It is also a member of a working group to analyse and adapt to the first legislative proposals promoted by the European Commission, in its Action Plan on Financing Sustainable Growth, and to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) on finance and climate change.

7.2. 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.

The Group has 5,302 employees, of which 5,061 work for the parent company. 96% of the Ibercaja Banco workforce have permanent contracts, the average length of service stands at 19 years and the average age is 45. Men make up 52% of employees while women make up the remaining 48%. Women make up 52% of employees that are 40 years of age or less. The employees of Ibercaja Banco are fully covered by the collective agreement.

The following tables present the distribution of the workforce by gender, job category, age and type of contract in terms of average number of days:

GROUP	GENDER		TOTAL	AVERAGE AGE
	Men	Women		
Executives	119	36	145	49
Middle managers	1,135	771	1,906	46
Technicians	667	812	1,479	45
Clerical staff	724	797	1,521	45
TOTAL	**2,645**	**2,416**	**5,061**	**45**

AGE	GENDER		TOTAL
	Men	Women	
Under 30 years	99	125	224
31 - 40 years	537	568	1,105
41 - 50 years	1,099	1,136	2,235
51 - 60 years	903	585	1,488
61 - 70 years	7	2	9
TOTAL	**2,645**	**2,416**	**5,061**

GROUP	Type of contract			
	Indefinite		Temporary	
	Total employees	Average days	Total employees	Average days
Executives	155	99.69%	-	0.31%
Middle managers	1,906	99.97%	-	0.03%
Technicians	1,479	100.00%	-	0.00%
Clerical staff	1,343	82.92%	178	17.08%
TOTAL	**4,883**	**94.58%**	**178**	**5.42%**

AGE	Type of contract			
	Indefinite		Temporary	
	Total employees	Average days	Total employees	Average days
Under 30 years	68	15.08%	156	84.92%
31 - 40 years	1,086	96.64%	19	3.36%
41 - 50 years	2,233	99.58%	2	0.42%
51 - 60 years	1,487	99.85%	1	0.15%
61 - 70 years	9	100.00%	-	0.00%
TOTAL	**4,883**	**94.58%**	**178**	**5.42%**

The workforce adjustment agreement reached in 2017 was completed in 2018, allowing for optimising the Bank's staff structure. Departures have been implemented under the principle of voluntariness as a priority criterion. Most of the severances have occurred among older employees on clerical staff. The number of redundancies, including those associated with the workforce adjustment, is shown in the table below.

GROUP	GENDER		TOTAL	AVERAGE AGE
	Men	Women		
Executives	6	2	8	58
Middle managers	51	13	64	57
Technicians	27	15	42	57
Clerical staff	108	35	143	57
TOTAL	**192**	**65**	**257**	**57**

Ibercaja's activity is carried out entirely in Spain and its workforce is made up of people of different nationalities. Ninety-nine percent of employees are on a full-time basis (except Thursdays in winter).

The Bank has implemented various measures aimed at improving the psychosocial climate, with the aim of contributing to the reduction of stress and to disconnection during rest periods, promoting the welfare of the individual through networking between peers in a different and enjoyable way. Some of these initiatives are: the creation of Ibercaja CoffeeWork, a multipurpose space to facilitate the relationship between employees, generate ideas and share leisure and relaxation time; and the promotion of sports activities in free time through 12 cultural and sports sections.

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 2018 863 people 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 is a total of 1,217 professionals pertaining to these promotion plans.

The aim of the training programmes is to promote professional development meeting the needs that arise in an environment as dynamic environment as banking. Among the main training programs undertaken are those related to tools and operations, products and services, standards/regulation, taxation, development of attitude and personal motivation, digital environment and new trends. A total of 30,869 hours of face-to-face training was provided, and 356,157 hours of distance training, and by job category the distribution is as follows:

GROUP	Training hours
Executives	2,962
Middle managers	132,361
Technicians	103,663
Clerical staff	148,040
TOTAL	**387,026**

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 at any professional level. These principles are present in all aspects of human resource management, such as recruitment, hiring, promotion, remuneration and communication.

The Bank has protocols for dealing with any type of discrimination, including cases of sexual harassment and harassment for reasons of gender.

Taking into account the preferences expressed by women and the fact that women's representation in Ibercaja stands at 48%, professional development opportunities in 2018 have been carried out on the basis of equality.

Women received 57% of the promotions in 2018. The positioning of women in positions of responsibility is continually advancing. In 2017, 36% of Bank Manager positions, 54% 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, 257 employees have taken leaves of absence, working time reductions and maternity leave in order to perform family care.

In relation to the integration of people with disabilities, Ibercaja, in addition to complying with the General Disability Law, promotes the participation of disabled people through agreements with social entities and awareness through training and volunteer actions. Currently, 47 people with disabilities work in the Bank.

Remuneration policy

In line with the rest of Ibercaja's Human Resources policies, the Remuneration Policy is based on the principle of equality between men and women, with no type of wage differentiation between genders.

The following are details of the average remuneration received by the employees of Ibercaja at 31 December 2018. These remunerations are made up of fixed remuneration, salary complements and variable remuneration received in 2018.

Average total remuneration by gender (amounts in euro):

	Fixed and variable wages	**Change compared to 2017**
Women	44,993	1.24%
Men	52,072	0.40%
TOTAL	**48,693**	**0.59%**

Average total remuneration by age (amounts in euro):

	Fixed and variable wages	Change compared to 2017
Under 30 years	22,072	3.87%
31 - 40 years	41,768	2.30%
41 - 50 years	49,948	-0.02%
51 - 60 years	55,781	-0.79%
61 - 70 years	77,867	1.39%
TOTAL	**48,693**	**0.59%**

Average total remuneration by job group (amounts in euro):

	Fixed and variable wages	Change compared to 2017
Executives	89,157	-2.51%
Middle managers	54,003	-0.32%
Technicians	46,074	1.39%
Clerical staff	40,461	0.62%
TOTAL	**48,693**	**0.59%**

In relation to the wage gap, if the base salary of the collective agreement is taken as a reference and the additional remuneration for length of service, social benefits or other benefits is excepted, the male/female wage ratio in Ibercaja is 1.

The wage difference shown by the results is in line with the sector, mainly generated by the historical gender composition of the company, which translates into a higher average length of service of men compared to women. The evidence for this is the reduction of the gap with respect to 2017 by 4.96%, from 14.30% to 13.59%.

This calculation takes into account fixed remuneration, wage complements and variable remuneration received in 2018.

An analysis of this information, weighted by the job grouping (managers, middle managers, technicians and clerical staff) reveals a wage gap in 2018 of 9.21%, with a reduction of 6.19% compared to the previous year.

This trend is partly due to the measures developed to reduce it:

- Increase in the representation of women in management positions.

- Increase in the number of promotions for women. 56.78% of promotions in 2018.

Aspects relating to the remuneration of directors

The position of member of the Board of Directors is remunerated, in accordance with article 53 of the Bylaws. Only the Chief Executive Officer and the Chairman receive a salary for the performance of their duties, as well as allowances for attending meetings of governing bodies, in accordance with the provisions of the Bylaws. The remuneration of the other directors, in their capacity as such, consists of (a) allowances for attending meetings of the Board of Directors and its committees, and (b) an annual allocation to be determined by the Board for directors with special dedication and duties (chair of the internal committees of the Board of Directors).

Thus, the average remuneration of the 14 directors (12 men, 2 women), including the CEO and the Chairman, amounts to €109 thousand. On the other hand, the average remuneration of directors in their capacity as such is €47.66 thousand (the average remuneration of male directors is €44.9 thousand and that of female directors is €61.5 thousand.

Information on directors' remuneration is disclosed on the Bank's corporate website (www.ibercaja.com), in section on *Corporate governance and remuneration policy* and in the Annual Corporate Governance Report.

Aspects relating to the remuneration of senior management

The members of the Bank's Management Committee, made up of 11 people (8 men and 3 women) at 31 December 2018, are considered senior management. Information on senior management remuneration includes both fixed and variable remuneration, long-term pension systems and any other payments. The average remuneration is €164 thousand (average remuneration of executives of €173 thousand and €140 thousand in the case of executives, which is mainly affected by the length of service of the officials in the Bank).

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.

Thus, the Bank encourages social dialogue, in accordance with the provisions of the collective bargaining agreement for savings banks and financial institutions, by means of information, consultation and negotiation with the employees' representatives in all significant matters.

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. Given the activity carried out, no specific risk or illness for employees is identified.

In 2018 there were 38 occupational accidents at work (12 men and 26 women) and the total number of hours of absenteeism was 314,559.

7.3. 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 Bank is always mindful of the UN Universal Declaration of Human Rights, and it has been a signatory to the UN Global Compact since 2006, so its activities are carried out in accordance with the principles enshrined in this initiative.

One of the commitments of the Corporate Social Responsibility Policy is defending human rights, which is a principle that encompasses the entire organisation and all its members. In this regard, in 2018 the **Bank's Code of Ethics** was developed and approved by the Board of Directors as a key element that reinforces the corporate culture and the ethical approach to the Bank's management. The Code contains the Bank's ethical commitments and the principles of action that must be present in the day-to-day work of all the people who make up Ibercaja, so as to make its corporate values tangible. In addition, a **Whistle-blowing Channel** has been made available to all employees to report possible violations of the Code or present queries about its interpretation.

Ibercaja also tries to convey this commitment to respect for human rights, and involve the people, companies and institutions with which it deals, incorporating the safeguarding of these rights in investment and project financing decisions and in its relations with customers and suppliers. To strengthen this bond, it has a **Code of Conduct for suppliers** that specifies the values that are fostered responsible contracting, many of which are related to human rights.

It should be noted that the institution has not been involved in any incidents involving violation of human rights.

7.4. Matters relating to the fight against corruption and bribery

Measures to combat corruption and bribery

The Bank has a criminal risk prevention system, the purpose of which is to mitigate the risk of commission of actions by members of the organisation that may constitute crimes. The system has express policies and procedures in place 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.

This system will also include the criminal compliance and anti-bribery policy, promoted by the Regulatory Compliance Department, as a formal statement of the intention of the Board of Directors and senior management of the Bank to establish and uphold, as one of its fundamental values, that the actions of all members of the organisation shall always comply with the legal system in general and with criminal law, in particular, by fostering a culture of preventive compliance, based on the principle of "zero tolerance" with the commission of unlawful acts (including bribery), and promoting ethical and responsible conduct. This intention is also included in Ibercaja's Code of Ethics, as approved by the Board of Directors.

95% of Ibercaja Banco's current workforce has received training in criminal risk prevention, including the crime of corruption and bribery.

Measures to combat money laundering

Ibercaja Banco has the status of "reporting Bank" under anti-money laundering and counter-terrorism financing regulation (AML/CTF) and, therefore, it must apply the measures to prevent the Bank from being used for this purpose. To this end, it has adequate internal control and communication procedures and bodies in order to uncover, impede and prevent the carrying out of transactions that may be related to money laundering or the financing of terrorist activities.

These procedures and bodies, which are described in the corresponding Manual, as well as their organisation, meet the principles of swiftness, security, efficiency, quality and coordination, both in the internal transmission and in the analysis and reporting to the competent authorities of the relevant information pursuant to regulations on the prevention of suspicious transactions.

A basic pillar of the AML/CTF system are the due diligence measures referred to in Articles 3 to 7 of Law 10/2010 and the provisions of Royal Decree 304/2014 that implement them: identification of the formal and beneficial owner, as well as knowledge of the activity of the same, which will include knowing the origin of the funds with which the client tries to operate with the Bank.

Consequently, and in line with the risk prevention and management model based on three lines of defence implemented in the Bank, the first filter of the AML/CTF system is the establishment of the relationship with customers, and this relationship is the responsibility of the business units that act as the first line of defence against the risk of money laundering and the financing of terrorism.

In the second line of defence, in addition to the risk control function, there is the regulatory compliance function performed by the Regulatory Compliance Department, which includes the AML/CTF Unit which, as a technical unit specialised in this field, has an essential (although not exclusive) role in the application, supervision and monitoring of the internal procedures established by AML/CTF, with the Internal Audit Department assuming the functions of the third line of defence.

Such AML/CTF procedures and measures are applied with a risk-based approach, so that in cases in which there is a greater risk that the Bank may be used for money laundering or terrorist financing, these measures are applied with a greater degree of intensity.

Contributions to foundations and not-for-profit entities

To the extent that contributions of economic nature by the Bank to foundations and not-for-profit entities are made through accounts held in Ibercaja, the entities benefiting from these contributions are subject to the same controls for prevention of money laundering and financing of terrorism as other customers. In addition, given that due to their very nature, such entities are categorised as medium risk customers, in addition to the application of due diligence measures that are carried out in each customer registration or monitoring of the business relationship (e.g. check against blacklists), the Bank adopts additional control measures for the adequate management of the risk of money laundering or financing of terrorism.

7.5. Social matters

Ibercaja's vision envisages the development of a banking model based on social commitment. One of its founding principles is to contribute to the socio-economic development of the areas where it operates, taking into account the needs of society and stakeholders.

Each year, the Bank prepares a Social Impact report in which it provides quantitative data on its contribution to its surroundings, centred on four areas: people, companies, society and environment. Noteworthy are the following results:

- Development and employment: 225 students and interns carried out occupational training at Ibercaja.
- Social action: €16.18 million was allocated to social action through the Fundación Ibercaja.
- Company: 533 employees participated in volunteering.
- Companies: In 2018, 400 training/informative days were held with customers and non-customers, and they were attended by 34,406 people.
- Tax: The Group's pre-tax profit amounted to €80,830 thousand. Income tax amounted to €40,026 thousand (estimated 2018 income tax expense). No grants or public aid were received by Ibercaja Banco or any Group company during the year.

In addition, Ibercaja collaborates in local development through sponsorship actions, mainly in the field of sports, as it believes that this is the best vehicle for conveying the Bank's values; it also collaborates in cultural activities and business events through agreements signed with numerous associations.

Ibercaja has established a policy for dealings with suppliers in which they are required to have the appropriate level of commitment to socially responsible practices that are compatible with its own code of conduct. To this end, it has approved a Code of Conduct whose purpose is to ensure that its suppliers observe these fundamental principles as they carry out their business activity, as core precepts for the relationship. This Code of Conduct is included in all commercial contracts between Ibercaja Banco and its suppliers, who must sign and ratify compliance by implementing all appropriate measures to ensure that the content is conveyed to their employees.

The relationship with local communities is a very important factor for Ibercaja, given the Bank's proximity to the territory. In 2018 it engaged in intense collaboration with public and private actors from local communities throughout the country (regional and municipal governments, business and trade union organisations, Chambers of Commerce and Industry, etc.) for the promotion of joint actions to disseminate information, training and solutions for entrepreneurs, the self-employed, SMEs and citizens in general, in key areas for company management (innovation, financing, internationalisation, etc.) and personal and household finance (saving for retirement, investment alternatives, etc.).

Ibercaja has established a communication circuit between the customer and the Bank (Customer Care Service, CCS) so that customers can send their complaints, claims, interpretative queries and proposals for improvement. A total of 13,362 requests were processed during the year. The average term for resolving complaints and claims was 12 days for the CCS and 35 days for the special floor clause service, both within current legislation and significantly lower than in previous years.

In addition, in order to learn about the needs and expectations of Ibercaja's stakeholders, in the awareness of the importance of active listening, various telephone and online surveys are carried out and other direct communication channels, such as forms and e-mail addresses, are made available to them.

Requirements of Spanish Law 11/2018 regarding non-financial information and diversity

Areas	Content	Material aspect for Ibercaja (YES/NO)	Scope/Perimeter	Related GRI standards	Page/section where reported	Additional remarks
Business model	Brief description of the business model of the group, which will include: 1.) its business environment, 2.) its organisation and structure, 3.) the markets in which it operates, 4.) its objectives and strategies, 5.) the main factors and trends that may affect its future performance.	-	Ibercaja Group	102-1 / 102-2 / 102-3 / 102-4 / 102-6 / 102-7	5, 31-32	-
Policies	A description of the policies that the group applies with respect to those issues, which it will include: 1.(a) the due diligence procedures applied for the identification, assessment, prevention and mitigation of significant risks and impacts 2.) the verification and control procedures, including what measures have been taken.	-	Ibercaja Group	103 Management approaches in each area within the economic, environmental and social dimensions	31-32	-
ST, MT and LT risks	The main risks related to aspects linked to the group's activities, including, where relevant and proportionate, its business relations, products or services that may have negative effects in those areas, and * how the group manages those risks, * explaining the procedures used to identify and evaluate them in accordance with the national, European or international reference frameworks for each topic. * Must include information on the impacts that have been detected and a breakdown of these, in particular on the main short-, medium- and long-term risks.	-	Ibercaja Group	102-15	29.31-32	-
KPIs	Key non-financial performance indicators that are relevant to the particular business and that meet the criteria of comparability, materiality, relevance and reliability. * In order to facilitate the comparison of information, both over time and between banks, special use will be made of generally applicable non-financial key indicator standards that comply with the European Commission's guidelines in this area and the Global Reporting Initiative standards, and the report should mention the national, European or international framework used for each area. * Non-financial key performance indicators should be applied to each of the items in the statement of non-financial information. * These indicators should be useful, take into account specific circumstances and be consistent with the parameters used in their internal risk management and assessment procedures. * In any event, the information presented must be accurate, comparable and verifiable.	-	Ibercaja Group	General or specific GRI standards of the economic, environmental and social dimensions that are reported in the following blocks	31-32	-

Areas	Content	Material aspect for Ibercaja (YES/NO)	Scope/Perimeter	Related GRI standards	Page/section where reported	Additional remarks
Environmental matters	**Global Environment**					
	1.) Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, health and safety, environmental assessment or certification procedures; 2.) The resources dedicated to the prevention of environmental risks; 3.) The application of the precautionary principle, the amount of provisions and guarantees for environmental risks. (e.g. derived from the Environmental Liability Law)	No	-	103 Management Approach to each area within the Environmental dimension	32-33	Although the impact of Ibercaja's activities on the environment is small, the Bank has an Environmental Policy and actively manages this impact. This is why quantitative information is reported on water consumption, paper consumption, energy consumption and GHG emissions.
	Pollution					
	Measures to prevent, reduce or repair carbon emissions that severely affect the environment; taking into account any form of air pollution specific to an activity, including noise and light pollution.	No	-	103 Emissions management/Biodiversity approach	-	-
	Circular economy and waste prevention and management					
	Circular economy Waste: Measures for prevention, recycling, reuse, other forms of recovery and disposal of waste; Actions to combat food waste.	NO	-	103 Effluent and waste management approach	-	-
	Sustainable use of resources					
	The consumption of water and water supply according to local constraints;	Yes	Ibercaja Group	303-1	33	-
	Consumption of raw materials and measures taken to improve the efficiency of their use;	Yes		103 Management approach of Materials 301-1 / 301-2	33	-
	Consumption, direct and indirect, of energy, measures taken to improve energy efficiency and the use of renewable energies.	Yes		103 Management approach of energy 302-1	33	-
	Climate Change					
	The important elements of the greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces;	YES	Ibercaja Group	103 Management approach of Emissions 305-1 / 305-2	33	-
	The measures adopted to adapt to the consequences of climate change;	YES		103 Management approach of Emissions 305-1 / 305-2	33	-
	Voluntary medium- and long-term reduction targets to reduce greenhouse gas emissions and the means implemented to for that purpose.	NO		103 Management approach of Emissions 305-1 / 305-2	-	-
	Protection of biodiversity					
	Measures taken to preserve or restore biodiversity;	NO	-	103 Management approach of Biodiversity	-	-
	Impacts caused by activities or operations in protected areas.	NO	-	304-2	-	-

Areas	Content	Material aspect for Ibercaja (YES/NO)	Scope/Perimeter	Related GRI standards	Page/section where reported	Additional remarks
Social and personnel aspects	**Employment**					
	Total number and distribution of employees by gender, age, country and job category;	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Employment management approach 102-8 / 405-1	34	-
	Total number and distribution of employment contract types,	Yes		102-8	34	-
	Annual average of indefinite contracts, temporary contracts and part-time contracts by gender, age and job category,	Yes		102-8 / 405-1	34	-
	Number of dismissals by gender, age and occupational classification;	Yes		401-1	35	-
	The average remuneration and its evolution disaggregated by gender, age and professional classification or equal value; Salary gap, the remuneration of equal or average jobs in the company,	Yes		103 Diversity and equal opportunities management approach 405-2	36-37	-
	The average remuneration of directors and executives, including variable remuneration, allowances, indemnities, payment to long-term savings pension schemes and any other payments broken down by gender,	Yes		103 Diversity and equal opportunities management approach	37-38	-
	Implementation of occupational disconnection policies,	Yes		103 Employment management approach	35	-
	Employees with disability.	Yes		405-1	36	-
	Organisation of work					
	Organisation of working time	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Employment management approach	35	-
	Number of hours of absenteeism	Yes		403-2	38	-
	Measures aimed at facilitating the enjoyment of the work-life balance and encourage co-responsible exercise by both parents.	Yes		103 Employment management approach	36	-
	Health and safety					
	Health and safety conditions at work;	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Employment management approach	38	-
	Occupational accidents, particularly their frequency and severity, occupational ailments, broken down by gender.	Yes		403-2	38	-
	Social relations					
	Organisation of social dialogue, including procedures for informing, consulting and negotiating with them;	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Employer-employee relationship management approach	38	-
	Percentage of employees covered by collective bargaining agreements by country;	Yes		102-41	34	-
	The balance of collective agreements, particularly in the field of health and safety at work.	No	-	403-1	-	-
	Training					
	Policies implemented in training;	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Training and education management approach	35	-
	The total number of training hours by job categories.	Yes		404-1	35	-
	Universal accessibility for persons with disability	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Diversity and equal opportunities and non-discrimination management approach	36	

Areas	Content	Material aspect for Ibercaja (YES/NO)	Scope/Perimeter	Related GRI standards	Page/section where reported	Additional remarks
Social and personnel aspects	**Equality**					
	Measures adopted to foster equal treatment and opportunities between women and men;	Yes	Ibercaja Banco S.A. (accounts for 97% of the Group's total workforce)	103 Diversity and equal opportunities management approach	36	-
	Equality plans (Chapter III of Spanish Organic Law 3/2007, of 22 March, for the effective equality of women and men), measures taken to promote employment, protocols against sexual and gender-based harassment, integration and universal accessibility of persons with disabilities;	Yes			36	-
	The policy against all types of discrimination and, as applicable, management of diversity.	Yes			36	-
Human rights	Application of due diligence procedures in the field of human rights Prevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and redress any abuses committed;	No	-	103 Management approach to human rights assessment and non-discrimination 102-16 / 102-17	38-39	Although the risk of human rights violations in Ibercaja's activities is low, the Bank has several mechanisms to prevent and mitigate any risk in this area.
	Complaints for cases of human rights violations;	No	-	406-1	-	
	Promotion and compliance of the provisions of the fundamental Conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining;	No	-	407-1	-	
	The elimination of discrimination in employment and occupations;	No	-	103 Non-discrimination management approach 406-1	-	
	The elimination of forced or compulsory work;	No	-	409-1	-	
	The effective abolition of child labour.	No	-	408-1	-	
Corruption and bribery	Measures taken to prevent corruption and bribery;	Yes	Ibercaja Group	103 Anti-corruption management approach 102-16 / 102-17	39	-
	Measures to combat money laundering,	Yes	Ibercaja Group		39-40	-
	Contributions to foundations and not-for-profit entities.	Yes	Ibercaja Group	413-1	40	-

Areas	Content	Material aspect for Ibercaja (YES/NO)	Scope/Perimeter	Related GRI standards	Page/section where reported	Additional remarks
Company	**Company's commitments to sustainable development**					
	The impact of the company's activity on local employment and development;	Yes	Ibercaja Group	103 Local community and indirect economic impacts management approach 203-1 / 413-1	41	-
	The impact of the company's activity on local communities and the territory;	Yes			41	-
	The relationships with local community actors and the types of dialogue with them;	Yes		102-43	41	-
	Actions of partnership or sponsorship.	Yes		102-12 / 102-13	41	-
	Subcontracting and suppliers					
	* Inclusion in the procurement policy of social, gender equality and environmental issues; * Consideration in the dealings with suppliers and subcontractors of their social and environmental responsibility;	Yes	Ibercaja Group	103 Management approach to purchase practices 102-9 / 204-1	41	-
	Systems of supervision and audits and results thereof.	Yes			41	-
	Consumers					
	Measures for consumer health and safety;	No	-	103 Customer health and safety management approach, Marketing and labelling and customer privacy	-	-
	Complaint systems, complaints received and their resolution.	Yes	Ibercaja Group		41	-
	Tax information					
	Profits country by country Income taxes paid	Yes	Ibercaja Group	103 Economic performance management approach	41	-
	Public grants received	Yes	Ibercaja Group	201-4	41	-

8. Information regarding treasury shares

There have been no transactions involving Treasury shares in 2018.

9. Other information

9.1. Dividend policy

At the General Meeting held on 10 April 2018, shareholders approved the distribution of a dividend of €17.5 million charged to the profits earned by the Bank in 2017, and the payment was made on 18 April 2018.

The proposed distribution of dividends charged to 2018 profits that the Board of Directors will present for approval of Shareholders at the General Meeting is €17.5 million euros, the same amount as the previous year.

Taking into account the earnings projection for the coming years and the capacity to generate organic capital, the Bank intends to continue the policy of remuneration to its shareholders. The Bank has no restriction or limitation on the payment of dividends. However, it shall distribute its profit in a prudent manner so as not to affect the objective of maintaining an adequate level of capital, even in the event of deterioration of the economic situation and financial conditions.

9.2. Credit agency ratings

In April 2018, Standard & Poor's ratified the Bank's long-term rating at "BB+" with a positive outlook and the short-term rating at "B". The rating is based on Ibercaja's stable retail franchise in its Traditional Zone, the Bank's conservative culture and management, and its retail funding profile. The positive outlook indicates a possible rating increase linked to the attainment of the profitability and capitalisation objectives set out in the Strategic Plan.

The rating given by Moody´s to deposits remains at "Ba3" with a stable outlook. In its latest report, the agency assesses Ibercaja's franchise in Aragon, the favourable liquidity situation and the Bank's stable deposit base.

The credit rating agency Fitch ratified Ibercaja's long-term rating of "BB +" in May 2018, 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 outlook assigned to the rating is positive, reflecting the favourable expectations regarding the evolution of capital and the improvement in asset quality.

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 2018 was 18 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>

The Group made progress on the path marked by the Strategic Plan 2018-2020 in a complex year for banking activity due to the interest rate environment, the performance of financial markets, competition between institutions to position themselves in the most profitable credit segments and regulatory pressure.

Ibercaja has demonstrated its capacity to generate results with the growth in recurring revenues, the decrease in ordinary operating expenses and the reduction of provisions and allowances for insolvencies. At the same time, the level of non-performing assets declined significantly, anticipating the objectives set out in the Strategic Plan, and liquidity and solvency increased.

Forecasts suggest that the favourable dynamics of Spain will continue in 2019, with the pace of growth slightly easing. The market consensus estimates an increase in GDP of around 2.1%. The slowdown is due to internal causes and, above all, to a more adverse international environment. Household consumption will lose momentum slightly, as negative factors such as lower employment dynamism or the fall in the household savings rate observed in 2018 will be partly offset by rising wages in both the private and public sectors. Expectations for investment are lower than in recent years and the external sector will continue to lose momentum in a less buoyant international environment. Outside the strictly economic sphere, political tensions and uncertainty in an election year could put downward pressure on growth.

The Bank will continue working in the line marked until now with the recently approved Strategic Plan 2018-2020 as a guideline. The main aspects and objectives that will focus the activity are:

- **Successfully undertaking process of going public by 2020** is the main corporate challenge facing the Bank and one of the most significant since its creation. Ibercaja is working intensively on this project to meet the expectations of investors.
- **Accelerate the growth of the business**:
    - Consolidate the Corporate Banking, Personal Banking and Private Banking Plans, segments that generate higher profitability.
    - Diversify the loan portfolio, especially in the area of SMEs, maintaining the significant presence in mortgage loans for home purchases.
    - Boost revenues from asset management, improving the share of retail resources.
- **Enhance excellence in customer service** as a guide for management and a differentiating aspect in an increasingly competitive market.
- **Maximise profitability**:
    - Adapt the loan and resource structure, along with the pricing strategy to optimise their contribution to results.
    - Supplement the retail margin with income from the wholesale business.
- **Quality of the balance sheet and reduction of unproductive assets:**
    - Minimise the impact of irregular assets in the income statement through ordinary management and extraordinary sales transactions.
    - Achieve the progressive normalisation 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 control by implementing actions that contribute to improving efficiency and productivity.
    - Progress in the digitisation of the business to adapt to new customer habits and optimise the operating costs of the commercial network and central services.

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

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA/2015/1415es), the Alternative Performance Measures (APMs) used in this report are defined below, alongside a reconciliation with the balance sheet and income statement items used to calculate them.

Ibercaja uses a range of APMs, which are unaudited, to aid understanding of the company's financial performance. APMs should be regarded as additional information. They do not replace financial information prepared under IFRS. The way in which the Group defines and calculates APMs may differ from performance measures calculated by other companies and, therefore, the APMs may not be comparable.

Customer spread (%): Difference between the average yield on loans to customers and the average cost of retail deposits.

	(%)	2018	2017
+	Yield on loans to customers *Interest income from the portfolio of loans to customers recognised over the year, based on management criteria, divided by the average balance of loans to customers*	1.41	1.40
-	Cost of retail funds *Interest expenses on retail deposits recognised in the year, based on management criteria, divided by the average balance of retail deposits*	0.03	0.07
=	**Customer spread**	**1.38**	**1.33**

Source: Company information based on management criteria

Fixed income over interest income ratio: Fixed income portfolio revenue divided by interest income.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Fixed income portfolio revenue	80,805	89,505
Denominator	Interest income	660,894	695,983
=	**Fixed income over interest income ratio (%)**	**12.23**	**12.86**

Source: Company information based on management criteria

Net fee income and exchange differences: Fee and commission income minus fee and commission expense plus net exchange differences.

	(thousands of euros)	31/12/2018	31/12/2017
+	Fee and commission income	391,622	379,967
-	Fee and commission expense	16,707	14,932
+	Net exchange differences	646	1,334
=	**Net fee income**	**375,561**	**366,369**

Source: consolidated income statement

Profit/(loss) from financial assets and liabilities: Sum of gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains/(losses) on financial assets and liabilities held for trading, gains/(losses) on financial assets and liabilities not held for trading mandatorily measured at fair value through profit or loss, gains/(losses) on financial assets and liabilities designated at fair value through profit or loss, and gains/(losses) arising from hedge accounting.

	(thousands of euros)	31/12/2018	31/12/2017
+	Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss	42,802	148,273
+	Gains/(losses) on financial assets and liabilities held for trading	404	971
+	Gains/(losses) on financial assets not held for trading mandatorily measured at fair value through profit or loss	(885)	-
+	Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	792	1,169
+	Gains/(losses) arising from hedge-accounting	511	2,111
=	**Profit/(loss) on financial assets and liabilities**	**43,624**	**152,524**

Source: consolidated income statement

Recurring revenue: Net interest income plus net fee and commission income and net exchange differences.

	(thousands of euros)	31/12/2018	31/12/2017
+	Net interest income	572,151	561,156
+	Net fee income	375,561	366,369
=	**Recurring revenue**	**947,712**	**927,525**

Source: consolidated income statement

Net interest income over ATA: Net interest income divided by consolidated average total assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Net interest income	572,151	561,156
Denominator	Consolidated average total assets	52,494,089	55,158,351
=	**Net interest income (% of ATA)**	**1.09**	**1.02**

Source: consolidated income statement

Net fee income and exchange differences over ATA: Net fee and commission income plus net exchange differences divided by consolidated average total assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Net fee income	375,561	366,369
Denominator	Consolidated average total assets	52,494,089	55,158,351
=	**Net fee income and exch. diff. (% of ATA)**	**0.72**	**0.66**

Source: consolidated income statement

Recurring revenue over ATA: Recurring revenue (sum of net interest income, net fee income and net exchange differences) divided by consolidated average total assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Recurring revenue	947,712	927,525
Denominator	Consolidated average total assets	52,494,089	55,158,351
=	**Recurring revenue (% of ATA)**	**1.81**	**1.68**

Source: consolidated income statement

Other operating income and expenses: Sum of net other operating income and expenses and income and expenses from assets and liabilities under insurance or reinsurance contracts.

	(thousands of euros)	31/12/2018	31/12/2017
+	Other operating income	42,399	155,637
-	Other operating expenses	77,567	85,282
+	Income from assets under insurance or reinsurance contracts	1,327,536	1,150,124
-	Expenses from liabilities under insurance or reinsurance contracts	1,327,955	1,150,414
=	**Other operating income and expenses**	**(35,587)**	**70,065**

Source: consolidated income statement

Operating expenses: Sum of staff expenses, other administration expenses and depreciation/amortisation.

	(thousands of euros)	31/12/2018	31/12/2017
+	Staff expenses	419,505	458,588
+	Other administration expenses	198,051	209,606
+	Depreciation/Amortisation	51,291	50,806
=	**Operating expenses**	**668,847**	**719,000**

Source: consolidated income statement

Cost-to-income ratio: Operating expenses divided by gross income.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Operating expenses (ex redundancy plan costs *)	613,095	647,140
Denominator	Gross income	966,594	1,164,214
=	**Cost-to-income ratio (%)**	**63.43**	**55.59**

Source: consolidated income statement and Note 38 to the consolidated financial statements (*55,752 and 71,860 thousand euros for 2018 and 2017, respectively).

Recurring operating expenses: Operating expenses, excluding the costs of the collective redundancy plan (Spanish “ERE”).

	(thousands of euros)	31/12/2018	31/12/2017
+	Operating expenses	668,847	719,000
-	Costs of the collective redundancy plan	55,752	71,860
=	**Recurring operating expenses**	**613,095**	**647,140**

Source: consolidated income statement and Note 38 to the consolidated financial statements.

Recurring operating expenses over ATA: Recurring operating expenses divided by consolidated average total assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Recurring operating expenses	613,095	647,140
Denominator	Consolidated average total assets	52,494,089	55,158,351
=	**Recurring operating expenses (% of ATA)**	**1.17**	**1.17**

Source: consolidated income statement and Note 38 to the consolidated financial statements.

Recurring cost-to-income ratio: Recurring operating expenses divided by recurring revenue.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Recurring operating expenses	613,095	647,140
Denominator	Recurring revenue	947,712	927,525
=	**Recurring cost-to-income ratio (%)**	**64.69**	**69.77**

Source: consolidated income statement and Note 38 to the consolidated financial statements.

Recurring profit before provisions: Recurring revenue less recurring operating expenses.

	(thousands of euros)	31/12/2018	31/12/2017
+	Recurring revenue	947,712	927,525
-	Recurring operating expenses	613,095	647,140
=	**Recurring profit before provisions**	**334,617**	**280,385**

Source: consolidated income statement and Note 38 to the consolidated financial statements.

Recurring profit before provisions over average total assets: Recurring revenue over average total assets less recurring operating expenses over consolidated average total assets.

	(thousands of euros)	31/12/2018	31/12/2017
+	Recurring revenue (% of ATA)	1.81	1.68
-	Recurring operating expenses (% of ATA)	1.17	1.17
=	**Recurring profit before provisions (% of ATA)**	**0.64**	**0.51**

Source: consolidated income statement and Note 38 to the consolidated financial statements.

Profit before provisions: gross income less operating expenses (administrative expenses and depreciation/amortisation).

	(thousands of euros)	31/12/2018	31/12/2017
+	Gross income	966,594	1,164,214
-	Administrative expenses	617,556	668,194
-	Depreciation/Amortisation	51,291	50,806
=	**Profit before provisions**	**297,747**	**445,214**

Source: consolidated income statement.

Provisions, impairments 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 ventures and associates, impairment of non-financial assets and gains or losses on non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations, corresponding to impairment losses on non-current assets held for sale.

	(thousands of euros)	31/12/2018	31/12/2017
+	Provisions or (-) reversal of provisions	(32,870)	(2,628)
+	Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss	154,724	185,189
+	Impairment or (-) reversal of impairment of investments in joint ventures or associates	-	129
+	Impairment or (-) reversal of impairment of non-financial assets	4,962	16,075
+	Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale that do not qualify as discontinued operations		
	Of which: impairment losses on non-current assets held for sale	40,523	65,213
=	**Provisions, impairments and other write-downs**	**167,339**	**263,978**

Source: consolidated income statement and Note 42 to the consolidated financial statements.

Cost of risk: The percentage of loan-loss provisions associated with credit risk and foreclosed properties in relation to average exposure.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Credit risk and property provisions	186,591	243,213
Denominator	Average exposure (gross credit and property)	34,640,798	35,533,007
=	**Cost of risk (%)**	**0.54**	**0.68**

Source: Company information based on management criteria

Other gains and losses: Sum of gains/(losses) on derecognition of non-financial assets and equity interests and gains/(losses) on non-current assets and disposal groups held for sale that cannot be carried as discontinued operations (excluding impairment losses on non-current assets held for sale included in provisions, impairments and other write-downs).

	(thousands of euros)	31/12/2018	31/12/2017
+	Gains or (-) losses on derecognition of non-financial assets and equity interests, net	(19,201)	8,068
+	Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale that do not qualify as discontinued operations		
	Of which: gain/(loss) on sale of strategic equity interests		
	Of which: gain/(loss) on sale of other non-current assets held for sale	(30,377)	(6,573)
=	**Other gains and losses**	**(49,578)**	**1,495**

Source: consolidated income statement and Note 42 to the consolidated financial statements.

ROA: Profit attributable to the parent divided by consolidated average total assets.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Profit attributable ot the parent	40,804	138,367
Denominator	Consolidated average total assets	52,494,089	55,158,351
=	**ROA (%)**	**0.08**	**0.25**

Source: consolidated balance sheet and income statement.

ROE: Profit attributable to the parent divided by consolidated average equity. Excludes the AT1 issue of €350 million recorded as equity.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Profit attributable ot the parent	40,804	138,367
Denominator	Consolidated average equity	2,763,373	2,778,296
=	**ROE (%)**	**1.48**	**4.98**

Source: consolidated balance sheet and income statement.

ROTE: Profit attributable to the parent divided by consolidated average tangible equity. Excludes the AT1 issue of €350 million recorded as equity.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Profit attributable ot the parent	40,804	138,367
Denominator	Consolidated average tangible equity	2,567,184	2,582,352
=	**ROTE (%)**	**1.59**	**5.36**

Source: consolidated balance sheet and income statement.

RORWA: Profit attributable to the parent divided by risk-weighted assets.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Profit attributable ot the parent	40,804	138,367
Denominator	Risk-weighted assets	21,379,068	22,266,290
=	**RORWA (%)**	**0.19**	**0.62**

Source: consolidated income statement and Note 1.7.2 to the consolidated financial statements.

RWA density: Risk-weighted assets divided by total assets.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Risk-weighted assets	21,379,068	22,266,290
Denominator	Total assets	52,705,739	53,106,969
=	**RWA density (%)**	**40.56**	**41.93**

Source: Note 1.7.2 to the consolidated financial statements and consolidated balance sheet.

Non-performing loans ratio: Non-performing loans on the consolidated balance sheet divided by gross loans and advances to customers.

	(thousands of euros)	**31/12/2018**	**31/12/2017**
Numerator	Non-performing loans	2,274,558	2,564,825
Denominator	Gross loans and advances to customers	33,723,764	33,450,930
=	**Non-performing loans ratio (%)**	**6.74**	**7.67**

Source: Notes 8 and 11.4 to the consolidated financial statements.

NPL coverage ratio: The sum of impairment losses on assets and negative accumulated changes in fair value due to credit risk for doubtful exposures divided by total NPLs.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Impairment losses on lending to customers	1,116,708	1,090,225
	Negative accumulated changes in fair value due to credit risk for doubtful exposures	2,222	---
Denominator	Non-performing loans	2,274,558	2,564,825
=	**NPL coverage ratio (%)**	**49.19**	**42.51**

Source: Notes 8 and 11.4 to the consolidated financial statements.

Non-performing assets: The sum of non-performing loans and gross foreclosed assets.

	(thousands of euros)	31/12/2018	31/12/2017
+	Non-performing loans	2,274,558	2,564,825
+	Gross foreclosed assets	766,967	1,566,355
=	**Non-performing assets**	**3,041,525**	**4,131,180**

Source: Notes 3.5.6, 8 and 11.4 to the consolidated financial statements.

Foreclosed assets coverage ratio: Impairment losses on foreclosed assets (since loan origination) divided by the gross value of foreclosed assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Impairment losses on foreclosed assets	446,769	887,000
Denominator	Gross foreclosed assets	766,967	1,566,355
=	**Foreclosed assets coverage ratio (%)**	**58.25**	**56.63**

Source: Notes 3.5.6 to the consolidated financial statements.

Foreclosed land coverage ratio: Impairment losses on foreclosed land (since loan origination) divided by the gross value of foreclosed land.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Impairment losses on foreclosed land	365,543	530,095
Denominator	Gross value of foreclosed land	570,979	821,318
=	**Foreclosed land coverage ratio (%)**	**64.02**	**64.54**

Source: Notes 3.5.6 to the consolidated financial statements.

NPA ratio: Non-performing assets divided by the value of the exposure.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Non-performing loans	2,274,558	2,564,825
	Gross foreclosed assets	766,967	1,566,355
Denominator	Gross loans and advances to customers	33,723,764	33,450,930
	Gross foreclosed assets	766,967	1,566,355
=	**NPA ratio (%)**	**8.82**	**11.80**

Source: Notes 3.5.6, 8 and 11.4 to the consolidated financial statements.

NPA coverage ratio: Impairment losses on loans and advances to customers and impairment of foreclosed assets, divided by NPAs.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	NPL coverage ratio	1,118,930	1,090,225
	Impairment losses on foreclosed assets	446,769	887,000
Denominator	Non-performing assets	3,041,525	4,131,180
=	**NPA coverage ratio (%)**	**51.48**	**47.86**

Source: Notes 3.5.6, 8 and 11.4 to the consolidated financial statements.

Net NPAs over total assets: NPAs, net of provisions for NPAs, divided by total assets.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Non-performing assets	3,041,525	4,131,180
	Provisions for NPAs	(1,565,699)	(1,977,225)
Denominator	Total assets	52,705,739	53,106,969
=	**Net NPAs over total assets (%)**	**2.80**	**4.06**

Source: consolidated balance sheet and Notes 3.5.6, 8 and 11.4 to the consolidated financial statements.

Texas ratio: NPAs divided by the sum of provisions for NPAs and equity. Excludes the AT1 issue recorded as equity.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Non-performing assets	3,041,525	4,131,180
Denominator	Provisions for NPAs	1,565,699	1,977,225
	Equity	2,741,665	2,854,915
=	**Texas ratio (%)**	**70.61**	**85.49**

Source: consolidated balance sheet and Notes 3.5.6, 8 and 11.4 to the consolidated financial statements.

Total customer funds: Sum of customer deposits, debt securities issued, liabilities under insurance or reinsurance contracts and investment firms and funds, pension funds and insurance products (ex portfolios managed on a discretionary basis or the assets of investment funds that themselves invest in Ibercaja Gestión funds).

	(thousands of euros)	31/12/2018	31/12/2017
+	Customer deposits	34,080,816	35,077,095
+		1,640,432	1,827,266
+	Liabilities under insurance or reinsurance contracts	7,514,769	7,019,204
+	Off-balance sheet funds	18,003,683	18,106,797
=	**Total customer funds**	**61,239,700**	**62,030,362**

Source: consolidated balance sheet and Note 27.4 to the consolidated financial statements.

Total retail funds: Sum of retail deposits (demand savings and traditional time deposits without covered bonds or repos in customer deposits) and investment firms and funds, pension funds and insurance funds (ex portfolios managed on a discretionary basis or the assets of investment funds that themselves invest in Ibercaja Gestión funds).

	(thousands of euros)	31/12/2018	31/12/2017
+	Retail deposits	31,492,320	31,268,193
+	Asset management and insurance	25,518,452	25,126,001
	. Investment firms and funds	12,810,329	12,756,527
	. Pension funds	5,068,610	5,202,212
	. Insurance.	7,639,513	7,167,262
=	**Total retail funds**	**57,010,772**	**56,394,194**

Source: consolidated balance sheet and Note 27.4 to the consolidated financial statements.

Asset management and insurance: Sum of the assets managed by investment firms and funds (including third-party funds but excluding the assets of funds that themselves invest in Ibercaja Gestión funds), pension plans and insurance.

	(thousands of euros)	31/12/2018	31/12/2017
+	Investment firms and funds	12,810,329	12,756,527
+	Pension funds	5,068,610	5,202,212
+	Insurance.	7,639,513	7,167,262
	. Insurance products	124,744	148,058
	. Liabilities under insurance or reinsurance contracts	7,514,769	7,019,204
=	**Asset management and insurance**	**25,518,452**	**25,126,001**

Source: consolidated balance sheet and Note 27.4 to the consolidated financial statements.

Retail business volume: Sum of gross loans and advances to customers, excluding reverse repos, retail deposits and asset management and insurance.

	(thousands of euros)	31/12/2018	31/12/2017
+	Gross loans and advances to customers, ex reverse repos	32,020,152	32,469,912
+	Retail deposits	31,492,320	31,268,193
+	Asset management and insurance	25,518,452	25,126,001
=	**Retail business volume**	**89,030,924**	**88,864,106**

Source: consolidated balance sheet disclosures

Loan-to-Deposit (LTD) ratio: Loans and advances to customers (net of reverse repos) divided by retail deposits.

	(thousands of euros)	31/12/2018	31/12/2017
Numerator	Net loans and advances to customers	32,604,834	32,360,705
	Reverse repurchase agreements	(1,703,612)	(981,018)
Denominator	Retail deposits	31,492,320	31,268,193
=	**LTD (%)**	**98.12**	**100.36**

Source: Notes 8, 11.4 and 19.3 to the consolidated financial statements.

Liquid assets: Sum of cash and central bank accounts, collateral available for ECB operations, collateral available for ECB operations outside of ECB guarantee pool and other marketable assets not eligible for ECB, in accordance with Banco de España statement LQ 2.2.

	(thousands of euros)	31/12/2018	31/12/2017
+	Cash and central banks	888,415	3,280,943
+	Collateral available in ECB operations	4,760,526	5,065,044
+	Collateral available for ECB operations outside of ECB guarantee pool	4,835,712	1,647,285
+	Other marketable assets not eligible for ECB	432,195	335,112
=	**Liquid assets**	**10,916,848**	**10,328,384**

Source: Note 3.8 to the consolidated financial statements.

Available liquidity position: Sum of our liquid assets and our issuance capacity for mortgage covered and public sector covered bonds.

	(thousands of euros)	31/12/2018	31/12/2017
+	Liquid assets	10,916,848	10,328,384
+	Issuance capacity for mortgage covered and public sector covered bonds	6,289,715	6,688,186
=	**Available liquidity position**	**17,206,563**	**17,016,570**

Source: Note 3.8 to the 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 **31/12/2018**

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 authorisation 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.

The general meeting, whether ordinary or extraordinary, shall be validly held on first or second call when the shareholders present or represented possess the percentage of capital with 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.

An Ordinary General Meeting was held on 10 April 2018, called by means of a notice published on the corporate website, in which it was agreed, with the unanimous attendance of all the shareholders: (i) approve the individual and consolidated annual accounts of Ibercaja Banco, S.A. for fiscal year 2017, which had been prepared by the Board of Directors at its meeting held on March 1, 2018, (ii) approve the management of the Board of Directors as well as (iii) the application of the result for the fiscal year.

At the same meeting, the Board approved, in accordance with article 33.3 of the Law on the Regulation, Supervision and Solvency of Credit Institutions and in article 529 *novodecies* of the Law on Capital Companies, the Policy for the remuneration of the directors of the Bank, setting at two million euros the maximum amount of the annual remuneration of all the directors, in accordance with the provisions of article 217 of the Law on Capital Companies, authorising the Board of Directors to distribute the remuneration among the different directors, taking into consideration the functions and responsibilities attributed to each of them. Likewise, the General Shareholders' Meeting approved, in a consultative manner and also unanimously, the Annual Report on the Remuneration of the Directors of the Bank, in the terms included in the Annual Report of the Bank's Annual Accounts for the year ended 31 December 2017.

Finally, the Shareholders' Meeting also unanimously agreed to appoint PRICEWATERHOUSECOOPERS AUDITORES, S.L. as the auditors of the individual and consolidated annual accounts of IBERCAJA BANCO, S.A. for 2018, 2019 and 2020, at the proposal of the Audit and Compliance Committee, approved by the Board of Directors.

On 13 November 2018, an Extraordinary General Meeting was held, called by means of a notice published on the corporate website, in which it was unanimously agreed, with the attendance of all the shareholders, to appoint Mr. Jorge Simón Rodríguez as external proprietary director, for a five-year term, to replace Mr. Jose Ignacio Mijangos Linaza, at the request of the shareholder Fundación Caja Círculo. Likewise, and also by unanimity of the shareholders, the Meeting agreed to renew the mandate as members of the Board of Directors, with the category of independent external directors of Ms. Gabriela González Bueno-Lillo and Mr. Jesús Solchaga Loitegui, as well as to renew the mandate of Mr. Juan María Pemán Gavín, with the category of proprietary external director.

B.4 Indicate whether at the general meetings or equivalent bodies held during the year there were any items on the agenda that were not approved by the shareholders.

At the general meetings held during the year, no item on the agenda was not approved by the shareholders.

B.5 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.6. 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 2018 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
Maximum number of directors/members of the governing body set by general meeting or assembly	15

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		30-08-2018
Víctor Manuel Iglesias Ruiz		28-01-2015
Jesús Máximo Bueno Arrese		30-08-2018
Gabriela González-Bueno Lillo		13-11-2018
Jesús Solchaga Loitegui		13-11-2018
Juan María Pemán Gavín		13-11-2018
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
Jorge Simón Rodríguez		13-11-2018

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

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							
	2018 Number	%	2017 Number	%	2016 Number	%	2015 Number	%
Board of Directors	2	14.28 %	2	14.28 %	1	9.09%	1	9.09%
Executive Committee	1	14.28 %	1	14.28 %	1	14.28%	1	14.28%
Audit and Compliance Committee	1	20%	1	20%	1	20%	1	25%
Appointments Committee	1	20%	-	-	-	-	-	-
Compensation Committee	1	20%	-	-	-	-	-	-
Large Risk and Solvency Committee	2	40%	1	20%	-	-	-	-
Strategy Committee	-	-	1	20%	-	-	1	33.3%

C.1.5 Indicate whether the company has diversity policies in relation to the company's administrative, management and supervisory bodies with regard to issues such as age, gender, disability or professional training and experience. Small and medium-sized entities, according to the definition contained in the Auditing Act, shall report, as a minimum, on the policy it has established in relation to gender diversity.

Yes ☑ No ☐ Partial policies ☐

If yes, describe this diversity policy, its objectives, the measures and manner in which it has been implemented and its results for the year. The specific measures adopted by the administrative body and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors or administrators must also be indicated.

If society does not apply a diversity policy, explain the reasons why it does not do so.

Royal Decree Law 18/2017, of 24 November, which amends the Commercial Code, the Capital Companies Law and the Accounts Audit Law, establishes a general policy for listed companies, but also for entities of public interest -as is the case of the Bank- to have a Diversity Policy applied in relation to the Board of Directors, which shall include issues such as training and professional experience, age, disability and gender, which shall refer to the measures, if any, adopted to ensure that the Board of Directors includes a number of women that allows a balanced presence of women and men.

At its meeting held on 28 June 2018, the Board of Directors approved the Suitability and Diversity Policy for the members of the Board of Directors, at the proposal of the Appointments Committee, highlighting the main novelties: the express mention of the principle of independence of criteria (independence of ideas) as an aspect to be assessed in the suitability assessment process; the introduction of criteria for the assessment of the capacity for dedication of time on the part of the person to be appointed for the performance of the post for which it is proposed; the specification of the cases that will determine the need to carry out a (re)assessment of the collective suitability of the Board of Directors; as well as the introduction of a specific section, called "principles to encourage diversity of directors. Thus, it is expressly established that in the selection of candidates to form part of the Board of Directors, the following principles will be taken into account in order to promote the diversity of its members:

- The candidate selection process will be based on a prior analysis of the Bank's needs, based on the report made by the Appointments Committee.
- It shall be ensured that the number of independent directors is adequate in relation to the total number of directors, bearing in mind, in any case, the regulatory requirements relating to the composition and positions to be occupied by this category of directors in internal committees of the Board of Directors.
- Care shall be taken to ensure that the selection criteria take account of the diversity of knowledge, training, professional experience, age and gender, and are not implicitly biased in a way that could lead to discrimination (in particular on grounds 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.

During the year, one of the directors was re-elected as an independent external director, who also holds the position of Chairman of the Major Risks and Solvency Committee. In addition, on the occasion of the appointment of a new director and the re-election of three directors whose term of office expired during the year, a re-evaluation of the collective suitability of the governing body as a whole was carried out, valuing in particular the diversity in the training and professional experience of its members and their geographical origin.

C.1.6 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	739	-
Variable remuneration	139	-
Attendance fees	389	-
Other compensation	263	-
TOTAL:	**1,530**	**-**

Remarks
Fixed remuneration" includes the remuneration received by the directors. Other remuneration" refers to the remuneration received by directors for their membership of internal committees of the Board of Directors, other than per diems for attending meetings, including insurance premiums. Although a director has not carried out his activity during the entire period subject to information, the remuneration he has received is included under this heading.

C.1.7 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	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)	1,805

Remarks
Senior management is understood to be the general managers and assimilated managers who carry out their management functions under the direct dependence of the administrative bodies, executive committees or the managing director. As a result, the members of the Management Committee are considered to be “senior management” for the purposes of this report. In order to calculate the “senior management remuneration”, the same remuneration items of section C.1.6 that are applicable to them have been taken into account. Contributions to pension funds are included.

C.1.8 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.1.9 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

Remarks
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.1.10 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.1.11 Is the Secretary to the Board of Directors or Governing Body a Director?

Yes ☑ No ☐

C.1.12 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 authorisation 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	Member	Executive
Mr. Jesús Máximo Bueno Arrese	Member	Proprietary
Ms. Gabriela González-Bueno Lillo	Member	Independent
Mr. Vicente Cóndor López	Director	Independent
Mr. Juan María Pemán Gavín	Member	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 summarise 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 Bank: 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 authorisation 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
Mr. Vicente Cóndor López	Chairman	Independent
Mr. Jesús Máximo Bueno Arrese	Member	Proprietary
Ms. Gabriela González-Bueno Lillo	Director	Independent
Mr. Juan María Pemán Gavín	Member	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	15

Observations
In accordance with the regulations governing audit committees (in particular, the Companies Act and the Accounts Audit Act), which requires that its chairman be appointed from among the independent directors who form part of it and that he must be replaced every four years, the Board of Directors, following a favourable report from the Appointments Committee, resolved to appoint Mr. Vicente Cóndor López as chairman of the Audit and Compliance Committee, replacing Mr. Gabriela González Bueno Lillo, who has reached the maximum term of office of four years. Ms. Gabriela González Bueno Lillo, Mr. Vicente Cóndor López, Mr. Jesús Bueno Arrese and Mr. Jesús Tejel Giménez have been appointed taking into account their knowledge and experience in accounting, auditing or both.

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarise 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 evaluating 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	Mr. Vicente Condor López
Number of years the chair has been in that position.	1 year

NOMINATIONS COMMITTEE

Name	Position	Category
Mr. Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Member	Independent
Mr. Jorge Simón Rodríguez	Member	Proprietary
Ms. Maria Pilar Segura Bas	Member	Other external directors
Mr. Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	-
% of proprietary Directors	40%
% of independent Directors	40%
% of other external Directors	20%
Number of meetings	6

Explain the duties attributed to this Committee, describe the procedures and rules for organising and operating the Committee and summarise 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 organise 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.

REMUNERATION COMMITTEE

Name	Position	Category
Mr. Jesús Solchaga Loitegui	Chairman	Independent
Mr. Félix Santiago Longás Lafuente	Member	Independent
Mr. Jorge Simón Rodríguez	Member	Proprietary
Ms. Maria Pilar Segura Bas	Member	Other external directors
Mr. Jesús Barreiro Sanz	Secretary	Proprietary

% of Executive Directors	-
% of proprietary Directors	40%
% of independent Directors	40%
% of other external Directors	20%
Number of meetings	1

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarise 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 Remuneration Committee shall be made up of a minimum of 3 and a maximum of 5 non-executive directors, at least two of whom must be independent directors (and, in any case, its 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 COMMITTEE

Name	Position	Category
Ms. Gabriela González-Bueno Lillo	Chairman	Independent
Mr. Jesús Máximo Bueno Arrese	Member	Proprietary
Mr. Jesús Tejel Giménez	Director	Independent
Mr. Vicente Cóndor López	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	10

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarise the most important action that it took during the year.

The Committee has the primary duty of advising the Board of Directors as to the overall current and future risk appetite of the Entity and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by senior management by monitoring the Bank's solvency levels and proposing any action deemed appropriate for improvement.

It will consist of a minimum of three and a maximum of five Directors, who will not perform executive duties at the Entity and which possess the appropriate knowledge, capacity and experience to understand and control the risk strategy and the Entity's appetite for risk. At least one third of the members will be independent and the Chair will be independent in any case. The Committee will adopt its resolutions by a majority vote of the directors that form part of the committee and are present or represented at the meeting, and the Chair will have a casting vote.

During the year Committee informed the Board of Directors of the Entity's Risk Appetite Framework, the quarterly monitoring reports as well as the annual capital and liquidity self-assessment report for 2017. 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
Mr. Jesús Solchaga Loitegui	Director	Independent
Mr. Félix Santiago Longás Lafuente	Director	Independent
Mr. Emilio Jiménez Labrador	Member	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	6

Explain the duties attributed to this Committee, describe the procedures and rules for organizing and operating the Committee and summarize the most important action that it took during the year.

The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organisation for its implementation.

The 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.

Contract for the provision of services by the Fundación Bancaria Ibercaja in the amount of €369; contract for the provision of services by Fundación Bancaria Ibercaja to Ibercaja Banco in the amount of €858 thousand.

The amount of the profit for 2018 earmarked for dividends was distributed among the shareholders on the basis of their interest in the share capital.

D.2 List any transactions between the Company or group companies and directors or members of the governing body or company executives.

No transactions were carried out during the year.

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.

The situations of conflict of interest incurred by directors would, where appropriate, be the subject of information in the annual report.

In addition, the Bank has internal procedures to prevent the granting of credit, guarantees or security without the prior authorisation of the competent governing bodies, under the terms established in the Law on the Organisation, Supervision and Solvency of Credit Institutions.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the Risk Management System.

The Group's risk management is organised 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 Bank carries out a recurring process of self-assessment of capital and liquidity through the identification, measurement and aggregation of risks, determines the capital and liquidity necessary to cover them, plans the capital and liquidity in the medium term and establishes the objective of own resources and liquidity that allows it to maintain an adequate clearance over 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 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 Entity's other strategic policies and frameworks, evaluating the Group's risk management, reviewing the risk control systems and proposing measures to mitigate the impact of identified risks.

- The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organisation for its implementation.

- The Audit and Compliance Committee, 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 organisational 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 organisation, 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 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 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 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 materialised 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 2018 there were no material events that significantly affected the Bank's risk profile, beyond the entry into force of IFRS9, which led to an increase in provisions of 153 million, with an estimated impact on hedges of approximately 6 percentage points and a negative impact of -53 b.p. on the fully loaded CET 1 ratio.

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 Explain the response and supervision plans for the entity's primary risks, and the procedures followed by the company to ensure that the board of directors responds to the new emerging challenges.

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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, approved by the Board of Directors, which includes the actions and procedures that favour greater transparency, with the ultimate objective of ensuring that the financial information disclosed is clear, relevant, reliable and comparable, in the sense of the provisions of Rule Seven of Bank of Spain Circular 4/2017, 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 centralises 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 Organisation Department at Ibercaja Banco is responsible for ensuring an efficient organisational 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 Organisation 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 organisational change made. With regard to the financial information preparation process, this is carried out by the Department of Corporate Information and Management Analysis, which includes the Units of General Accounting, Management Planning and Analysis, Data Governance and Quality, Corporate Information and Analysis, and Supervisor Service and Regulatory Support. 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 decentralised 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 summarises 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.

On the other hand, at its meeting held on 27 December 2018, the Board of Directors approved a Code of Ethics, which contains the principles that govern the behaviour of the Bank's employees, commitments that transfer corporate values to the daily exercise of their responsibilities. An independent, autonomous and confidential communication channel has also been set up to facilitate communications on possible misconduct in the area of ethics and to raise doubts about the interpretation of the Code of Ethics, which is available to all staff.

Finally, the Group's Internal Audit Charter includes the ethical standards applicable to the Internal Audit function that are known and accepted by all Internal Audit staff.

- **'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 organisation, stating whether reports made through this channel are confidential.**

  In addition to the communication channel relating to the code of ethics, all employees of Ibercaja Banco, through the intranet, have a "Criminal Risk Prevention Reporting Channel" to inform, by e-mail, the Regulatory Compliance Department of possible risks and breaches of criminal regulations, including those of a financial and accounting nature, that may occur within the organisation in the course of its activities.

  The Regulatory Compliance Department maintains a computerised register of all complaints received and processes them in accordance with the provisions of the criminal risk prevention and management model, guaranteeing the confidentiality of the complainant at all times.

  The Regulatory Compliance Department periodically issues a report to the Audit and Compliance Committee, which includes, where appropriate, information on the complaints received and their outcome. 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 Bank has an annual Training Plan, which is designed in accordance with the professional category and the Management/Unit to which the staff belongs. 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 in the preparation and preparation of financial information, as well as in its supervision, have the training and professional competence necessary for the exercise of their functions. 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 2018 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 materialise 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 the objectives of the financial information contemplated in the Internal Control Document on financial information in listed companies issued by the CNMV (existence, integrity, valuation, presentation and breakdown 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) valuation; (iv) presentation; (v) rights and obligations; and effectively takes into consideration other types of risks (operational, technological, financial, legal, fiscal, 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 2018 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 authorisation procedure for the financial information is adequate and covers broad knowledge and experience in the areas of accounting, audit and/or risk management. On the other hand, technical means and information systems guarantee, through the establishment of control mechanisms, the reliability and integrity of financial information.

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 centralised 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 organisation, 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 visualisation 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 following is a detail of the significant processes (distinguishing between business areas and cross-cutting business processes) associated with the Bank's financial areas for which the aforementioned documentation is available.

<u>Transversal processes</u>

- 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.

<u>Business Areas</u>

- 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).

The Bank is currently in the process of updating the Internal Financial Information Control System, which will culminate in the implementation of a CRM tool (governance, risk management and compliance) to cover the management of the map of processes, risks and controls defined in the system, as well as the procedure for certification of controls at the bottom up.

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 defined global policies and procedures that are uniform regarding the required security in the information systems involved in the preparation of financial information, including physical and logical security, data processing security and end user security.

The information servers are located at the central and back-up processing centres and only authorised 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 outsourced to third parties certain non-significant functions that affect the process of preparing the financial information by obtaining certain valuations, calculations and estimates used in the generation of the individual and consolidated financial statements that are published in the securities markets.

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 externalise 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 externalised 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 2018 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.

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, is responsible for defining, reviewing and updating the accounting procedures that must be implemented in the Bank and in the different Group companies, requiring the collaboration of the Internal Audit Department and the General Secretariat (Regulatory Compliance Department) as regards legal aspects, in order to ensure strict compliance with the Regulations. 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.

On the other hand, Ibercaja does not have a single Accounting Policies Manual, but its accounting policies as a whole consist of the International Financial Reporting Standards (IFRS), the Bank of Spain Circular (Circular 4/2017), the policies whose development is required by current regulations, as well as the specific policies prepared by the Bank. 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 in a decentralised 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 harmonise 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 Specialised 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.

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 2018. 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.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting on 1 March 2019.

List any Directors or members of the governing body that voted against, or abstained from voting on, the adoption of this report.

None