Pillar 3 Disclosure

2018

iberCaja



CONTENT

1. EXECUTIVE SUMMARY 6

2. REGULATORY CONTEXT OF THE GROUP 13

2.1 – MACROECONOMIC CONTEXT 13
2.2 - THE IBERCAJA GROUP 14
2.3 - SHAREHOLDING AND FUNCTIONAL STRUCTURE 17
2.4 - EXERCISE 2018 IN THE IBERCAJA GROUP 18
2.5 – REGULATORY FRAMEWORK 19
2.5.1 - INTRODUCTION 19
2.5.2 - SOLVENCY 20
2.5.3 - LIQUIDITY 20
2.5.4 - SECURITIZATIONS 20
2.5.5 – BANKING RECOVERY AND RESOLUTION 21
2.5.6 - MODELS FOR REGULATORY CAPITAL CALCULATION 21
2.5.7 - OTHER INITIATIVES OF THE BASEL COMMITTEE 23
2.5.8 – OTHER EBA INITIATIVES 23
2.5.9 - SINGLE SUPERVISION AND RESOLUTION MECHANISM 23

3. PILLAR III GENERAL ASPECTS 25

3.1 - INTRODUCTION 25
3.2 – GOVERNING BODIES 26
3.2.1 - BOARD OF DIRECTORS 27
3.2.2 - COMMISSIONS OF THE BOARD OF DIRECTORS 28
3.2.3 - PROCEDURES TO ENSURE THE SUITABILITY OF THE MEMBERS OF THE BOARD OF DIRECTORS 33
3.2.4 - POLICY ON DEDICATION OF COUNSELLORS 34
3.2.5 - TRAINING ACTIONS TO THE BOARD OF DIRECTORS IN TERMS OF RISKS AND REGULATION 34
3.2.6 - DIVERSITY IN GOVERNANCE BODIES 34
3.3 – CONSOLIDATION SCOPE 35
3.4 - DIFFERENCES BETWEEN THE ACCOUNTING AND REGULATORY CAPITAL CONSOLIDATION METHOD 39
3.5 - IDENTIFICATION OF SUBSIDIARIES WITH OWN RESOURCES BELOW MINIMUM REQUIREMENTS 42
3.6 - EXEMPTIONS TO REQUIREMENTS 43

4. COMPUTABLE OWN RESOURCES 44

4.1 - CONCILIATION OF REGULATORY CAPITAL AND ACCOUNTING CAPITAL OF THE CONSOLIDATED BALANCE SHEET 46
4.2 - EQUITY DETAILS 47

5. MINIMUM REQUIREMENTS ON OWN RESOURCES 48

5.1 - APPLIED PROCEDURES FOR THE EVALUATION THE ADEQUACY OF INTERNAL CAPITAL 48
5.2 - MINIMUM OWN RESOURCES REQUIREMENTS FOR CREDIT, COUNTERPARTY AND DILUTION RISKS 49
5.3 - CORRECTION FACTOR APPLIED TO SMALL AND MEDIUM CORPORATE EXPOSURES 50
5.4 - MINIMUM OWN RESOURCES REQUIREMENTS FOR TRADING BOOK 50

5.5 - MINIMUM OWN RESOURCES REQUIREMENTS FOR FOREIGN EXCHANGE AND GOLD POSITION RISK 51
5.6 - OWN RESOURCES REQUIREMENTS FOR OPERATIONAL RISK 51
5.7 - OWN RESOURCES REQUIREMENTS FOR RISK OF CREDIT VALUATION ADJUSTMENT (CVA) 51

6. RISKS 52

6.1 - RISK MANAGEMENT POLICIES AND OBJECTIVES 52
6.2 - CORPORATE GOVERNANCE IN RISK MANAGEMENT 52
6.2.1 - FRAMEWORK FOR ACTION AND MANAGEMENT 52
6.2.2 – GOVERNANCE STRUCTURE 54
6.2.3 - RISK MANAGEMENT, CONTROL AND MEASUREMENT STRATEGIES 55
6.2.4 - THE BOARD OF DIRECTORS' FUNCTIONS 65
6.2.5 - INTERNAL AUDIT AND REGULATORY COMPLIANCE AREA FUNCTIONS 66
6.2.6 – RISK REPORTING 72

7. CREDIT RISK 73

7.1 - ACCOUNTING DEFINITIONS AND METHODOLOGICAL DESCRIPTIONS 73
7.2 - CREDIT RISK EXPOSURES 74
7.2.1 – CREDIT RISK EXPOSURE 2018 74
7.2.2 - GEOGRAPHICAL DISTRIBUTION OF EXPOSURES 75
7.2.3 - EXPOSURE BY ECONOMIC SECTOR 75
7.2.4 - RESIDUAL MATURITY OF EXPOSURES 76
7.2.5 - GEOGRAPHICAL DISTRIBUTION AND BY COUNTERPARTY OF IMPAIRED POSITIONS 77
7.2.6 – VARIATIONS DURING 2018 IN IMPAIRMENT LOSSES AND PROVISIONS FOR RISKS AND CONTINGENT COMMITMENTS FOR CREDIT RISK 79
7.3 - INFORMATION ON GROUP COUNTERPARTY CREDIT RISK 79
7.4 - IDENTIFICATION OF EXTERNAL RATING AGENCIES 82
7.5 - EFFECT ON RISK EXPOSURES FROM THE APPLICATION OF RISK MITIGATION TECHNIQUES 82
7.6 - SECURITIZATIONS 84
7.6.1 - GENERAL DESCRIPTION AND OBJECTIVES 84
7.6.2 - RISKS OF GROUP SECURITIZATION ACTIVITY 85
7.6.3 - ROLES PLAYED IN SECURITIZATION PROCESSES AND DEGREE OF INVOLVEMENT 87
7.6.4 - ACCOUNTING TREATMENT OF FINANCIAL ASSET TRANSFERS 89
7.6.5 - ORIGINATED SECURITIZATIONS 90
7.6.6 - CALCULATION OF RISK-WEIGHTED EXPOSURES IN SECURITIZATION POSITIONS 91
7.7 - RISK MITIGATION TECHNIQUES 93
7.7.1 – GENERAL INFORMATION 93
7.7.2 - QUANTITATIVE INFORMATION 95

8. OPERATIONAL RISK 97

8.1 – CAPITAL REQUIREMENTS FOR OPERATIONAL RISK 97
8.2 - OPERATIONAL RISK MANAGEMENT. OBJECTIVES AND JUSTIFICATION 98
8.3 - STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT 98
8.4 - OPERATIONAL RISK CATEGORIES 99
8.5 - OPERATIONAL RISK MEASUREMENT METHODOLOGIES 99
8.6 – LOSS DATABASE 100
8.7 – SELF-ASSESSMENTS 100
8.8 – OPERATIONAL RISK INDICATORS (KRIS) 101
8.9 – ACTION PLANS 101

9. HOLDINGS AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO 102

9.1 - CLASSIFICATION, VALUATION AND ACCOUNTING CRITERIA 102
9.2 - QUANTITATIVE INFORMATION 102

10. STRUCTURAL INTEREST RATE RISK 104

10.1 – CHANGES IN INTEREST RATES 104

11. LIQUIDITY AND FINANCING RISK 106

11.1 - QUARTERLY EVOLUTION OF THE LCR IN 2018 109
11.2 - LIQUIDITY AND FINANCING PERSPECTIVE 110

12. ASSET ENCUMBRANCE 111

12.1 – GENERAL INFORMATION 111
12.2 - QUANTITATIVE INFORMATION 111

13. LEVERAGE 113

13.1 – GENERAL INFORMATION 113
13.2 - DISAGGREGATION OF THE TOTAL EXPOSURE MEASURE 114
13.2.1 - CONCILIATION OF THE LEVERAGE RATIO WITH PUBLISHED FINANCIAL STATEMENTS 116
13.3 - INFORMATION ON QUALITATIVE ASPECTS 116
13.3.1 - PROCEDURES APPLIED TO MANAGE EXCESSIVE LEVERAGE RISK 116
13.3.2 - FACTORS INFLUENCING THE LEVERAGE RATIO 117

14. REMUNERATIONS 118

14.1 - BACKGROUND 118
14.2 - PURPOSE AND SCOPE OF THE REMUNERATION POLICY 118
14.3 – PRINCIPLES OF THE REMUNERATION POLICY 119
14.4 - MAIN CHARACTERISTICS OF THE REMUNERATION POLICY 120
14.5 - DECISION-MAKING PROCESS FOLLOWED TO ESTABLISH THE REMUNERATION POLICY OF THE IDENTIFIED GROUP 120
14.6 - CHARACTERISTICS OF THE REMUNERATION SYSTEM FOR MEMBERS OF THE GOVERNING BODIES 121
14.6.1 - REMUNERATION OF THE CEO 121
14.6.2 - REMUNERATION OF DIRECTORS BY THEIR CONDITION 122
14.7 - CHARACTERISTICS OF THE EXECUTIVE REMUNERATION SYSTEM 123
14.7. 1 - SETTING OBJECTIVES 123
14.7.2 – PERFORMANCE EVALUATION 124
14.8 - DEFERRAL 124
14.9 – MALUS CLAUSES 125
14.10 - REMUNERATION RECEIVED 125

ANNEXES 127

ANNEX I: MAIN CHARACTERISTICS OF CAPITAL INSTRUMENTS 127
ANNEX II: INFORMATION ON TRANSITORY OWN FUNDS 129
ANNEX III: OWN FUNDS AND *PHASE-IN* AND *FULLY-LOADED* CAPITAL REQUIREMENTS 133

ANNEX IV: *PHASE-IN* AND *FULLY-LOADED* CAPITAL RATIOS **134**

ANNEX V: TEMPLATE IFRS 9-FL: OWN FUNDS, CAPITAL AND LEVERAGE RATIOS UNDER IFRS 9/ANALOGOUS ECLS TRANSITIONAL ARRANGEMENTS COMPARED TO FULLY LOADED IFRS 9/ANALOGOUS ECLS **135**

TABLES INDEX **136**

ILLUSTRATIONS INDEX **137**

1. Executive Summary

The present Pillar III Disclosures comply with what is established in the Eighth Part of Regulation (EU) 575/2013 of the European Parliament and Council (hereinafter CRR – Capital Requirements Regulation) about "Disclosure by the Entities" and the developed in detail by EBA RTS/ITS guidelines and documents, all of this under the Pillar III framework of the Basel Committee Capital Accord.

Pillar III fosters market discipline through the development of a set of requirements on information disclosure which enable the distinct agents to assess the Entity's risk exposure, assessment processes, risk management and control, Group capital sufficiency and internal governance.

The present Report contains the information required by the current regulation:

- The regulatory framework, governance bodies, scope for capital requirement purposes, policy on information disclosure and policies and goals regarding risk management.
- Computable own resources and Group solvency level, features of the risk profile in its distinct typologies: credit, market, operational, holdings or equity instruments not included in the trading book, structural interest rate, liquidity, securitizations.
- Leverage, unencumbered assets and remuneration policy.

Ibercaja Group (hereinafter Ibercaja or the Group) is the ninth Spanish banking group in view of its assets volume, and its main activity is focused on retail banking, developing the totality of its business in national territory.

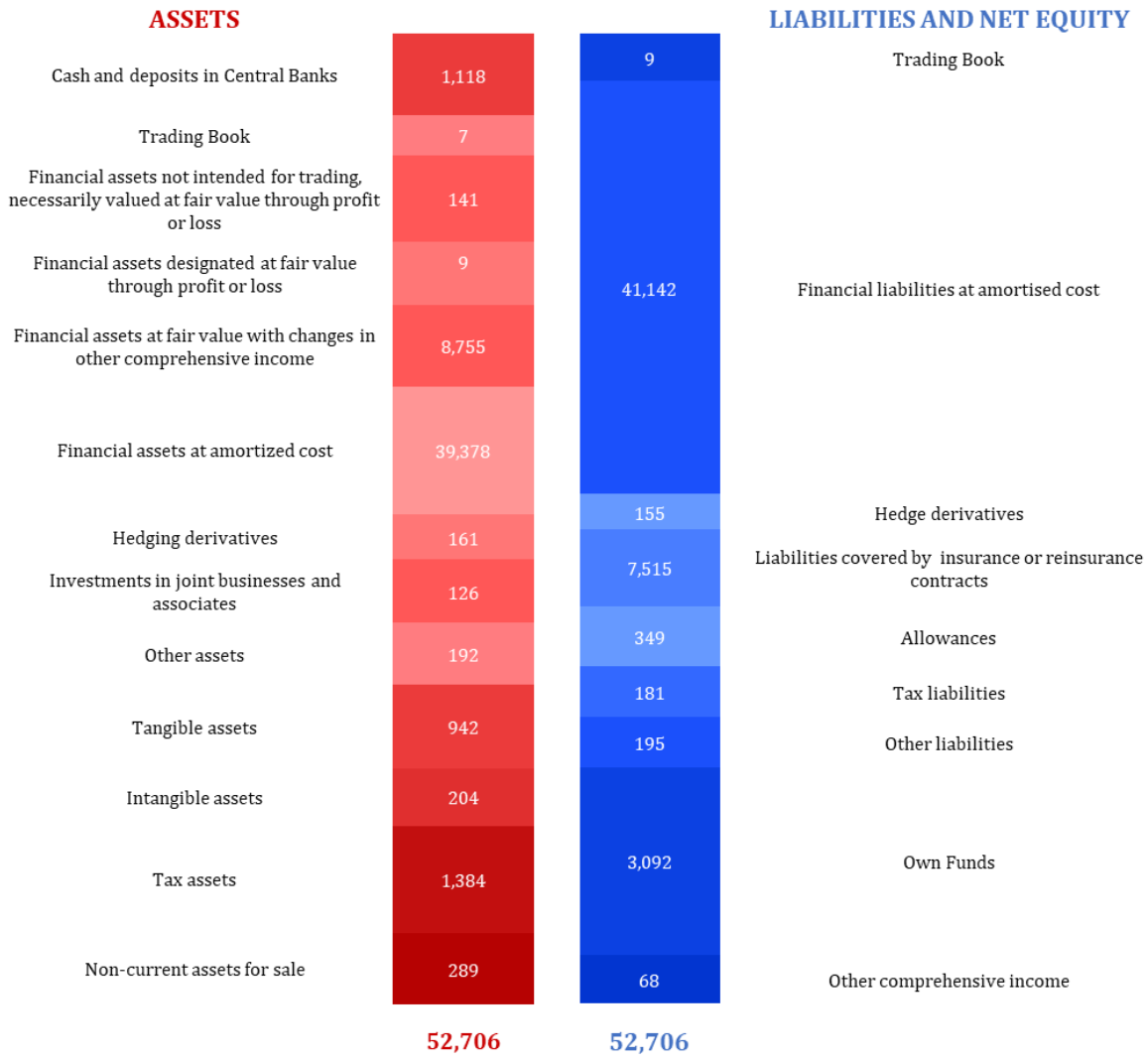
Its social object is the fulfilment of all classes of activities, transactions, actions, contracts and typical services of the banking business in general, as well as the provision of investment and auxiliary services, always under current regulation at each moment.

Its mission is to aid in the management of family and company finances, offering a global and tailored service. For this purpose, it offers excellent solutions to the financial needs of its nearly three million clients.

The Group reached a net profit of € 41 million euros in 2018. It is worth mentioning the growth of recurrent banking revenues, in a context of extremely low interest rates, the significant increase in credit formalizations in the business and housing segments, and the portfolio of assets under management and insurance, the Group's most relevant specialization. Net interest income increased 1.96% year-on-year, reflecting the good performance of retail activity.

In the next sections the most relevant magnitudes are gathered, which are subsequently developed in the report.

Consolidated Balance Sheet as of December 31, 2018 (in millions of euros)



Own funds and solvency ratios

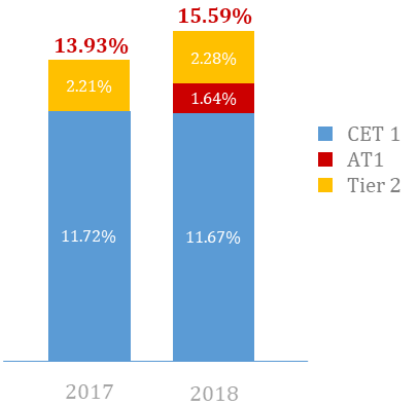
The Group's own resources correspond to:

Computable Own Funds	
(thousands of euros)	Amount
Computable Own Funds 2018	3,333,194
Computable Own Funds 2017	3,102,314

Consistent with the current regulation regarding the Basel Capital Accord framework for solvency determination, as of 31 December 2018 Ibercaja Group complies with minimum solvency ratios (Basel Pillar I) required. Ibercaja's ratios on a consolidated basis, a CET1 of 11.67% and own funds of 15.59% (both phase-in), stand at 2.67 and 3.09 points over the total capital decision communicated to the Entity as a result of the Supervisory Review and Evaluation Process (SREP). This decision is equivalent to a CET 1 phase-in ratio of 9% and a total capital ratio of 12.5% for 2019.

Based on the criteria foreseen for the end of the transitional period prior to the total implementation of Basel III, the fully loaded CET1 ratio stands at 10.53%, and includes the impact on solvency of the entry into force of IFRS 9 on January 1, 2018.

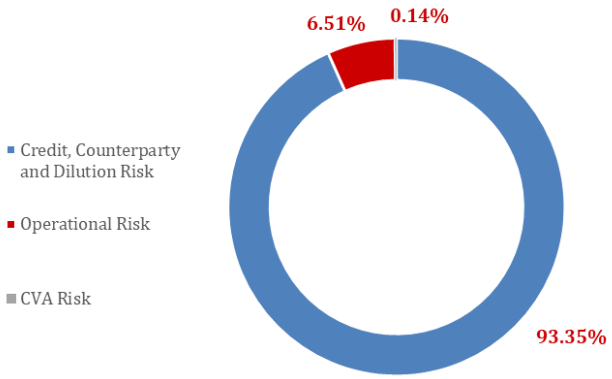
Capital Ratios	
	%
Common Equity Tier 1 ratio (CET1)	11.67%
Minimum required CET1	4.50%
Tier 1 ratio (T1)	13.31%
Minimum required T1	6.00%
Total Capital ratio	15.59%
Minimum required Total Capital	8.00%



Capital ratios are incorporated in Annex IV without applying transitional measures (fully-loaded).

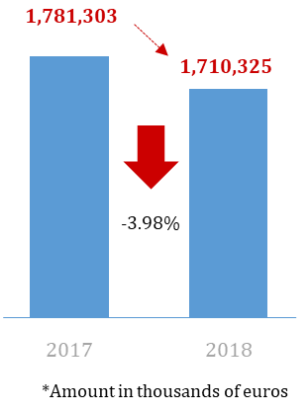
Capital requirements

During 2018, requirements by credit risk have amounted to 93.35% of capital requirements, while requirements by operational risk have amounted to 6.51%.



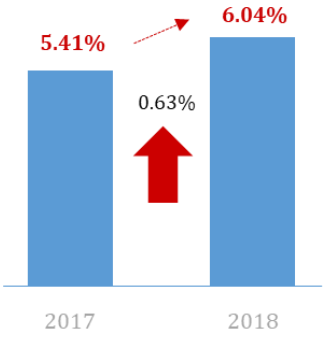
Minimum Capital Requirements	
(thousands of euros)	Amount
Minimum Capital Requirements	**1,710,325**
Capital requirements for credit, counterparty and dilution risk	1,596,504
Capital requirements for market risk	-
Capital requirements for operational risk	111,410
Capital requirements for credit valuation adjustment (CVA)	2,411
Risk-weighted assets	21,379,068

Minimum capital requirements by Pillar I risks have decreased 3.98% with respect to 2017, reaching a figure equal to € 1.71 bn.



Leverage Ratio

The leverage ratio has increased by 0.63%, from 5.41% at December 2017 to 6.04% at December 2018, which means that a greater percentage of assets is financed with Tier 1 ordinary capital (CET1).



Regulatory framework for Own Resources and Entity supervision

Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms, jointly with the 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, constitute the current regulation for own resources and supervision of Spanish credit institutions on a consolidated basis.

Pillar III Information Disclosure. Information of Prudential Relevance

Ibercaja Banco is head of a group of dependent entities, which carry out activities of different nature and constitute Ibercaja Group. Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), Community Directive 2013/36 / EU of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions and the prudential Credit institutions and investment companies (CRD IV) and their transposition into Circular 2/2016, of February 2, of the Bank of Spain, on supervision and solvency, are applicable at consolidated level for the whole Group.

According to the eighth part of the first chapter of the CRR and article 85 of Law 10/2014, entities must publish, at least annually, information relevant to the proper understanding of their business profile, their exposure to different risks, the composition of its capital base and its risk management policies and objectives. This report reflects the compliance with these requirements at December 31, 2018 by the Ibercaja Banco S.A. Consolidable Group and has been published on April 1, 2019 on the website of Ibercaja Banco (https://www.ibercaja.com/shareholders-and-investors/financial-information/information-of-prudential-relevance).

In case that the information is confidential or barely important and is not disclosed for such reasons, specific reasons will be exposed explaining its absence and more general information will be provided, as long as this last on is not confidential. The Entity, in compliance with this standard, does not make omissions of information due to materiality or confidentiality without being specified.

In relation to disclosure with frequency higher than one year, the Group considers that the activity and risk-weighted assets (RWAs) of the business have been stable during 2018, and therefore it is not necessary to publish Pillar III information with a periodicity of more than one year. In this respect, the Entity refers to the final document on disclosure requirements "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013", issued by the EBA in December 2016. These guidelines reflect the best practices so that entities can comply with the CRR and with the Basel Committee and will be applicable as of December 31, 2017.

The areas and functions responsible of the realization of Pillar III Disclosures are the following:

a) Corporate Information and Management Analysis Area: In charge of the coordination, regulatory adequacy and contrast with the distinct Group information sources.
   The Department of General Accounting collaborates within the area with the objective of providing quantitative and qualitative information on Own Funds, Capital requirements for the different types of risk (credit, counterparty, trading book, market, equity, etc.), mitigation of credit risk, capital buffers and securitizations.

b) General Secretariat. Within the area the following participate:

   a. Global Risk Control: contribution of information relating to RAF leverage, unencumbered assets, structural interest rate risk and liquidity and operational risk capital requirements.

   i. Regulatory Compliance: provides information on Governing Bodies and remuneration policies.

c) Personnel Area: provides quantitative information on remunerations.

In accordance with Standard 59 from the Circular 2/2016 of the Bank of Spain, for the present Pillar III Disclosures 2018 the Group has assigned an independent expert (the Auditor of Annual Accounts for 2018 – *PwC*), an adequacy review to current regulation requirements and information verification.

According to the "*Policy for the disclosure and verification of information with prudential relevance of Ibercaja Banco, S.A. and its Consolidated Group*" approved by the Board of Directors, this report has been prepared by Corporate Information and Management Analysis Area, approved by the CEO and the Board of Directors has adopted it.

For the preparation of the present report the Group has taken into account:

- The Guidelines, RTS (Regulatory Technical Standards) and ITS (Implementing Technical Standards) documents issued by the EBA, which develop contents from the eighth part of the CRR in terms of: policies on materiality, confidentiality and periodicity, leverage, encumbered assets and liquidity and countercyclical buffer;
- Best practices described in "On Bank's Transparency in their 2014 Pillar 3 Reports", EBA report which assesses effective disclosure by 17 European banks regarding distinct aspects of capital and risks, as well as recommendations included by the Basel Committee in the report "Revised Pillar 3 Disclosure Requirements", published on January 2015;
- The final document "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013", issued by the EBA in December 2016, which establishes criteria and information to be published at different frequencies. The purpose of the Entity is to continue to evolve in line with the best practices derived from this document, through the gradual implementation of the recommendations of the supervisors that are gathered here.
- Guidelines on the uniform disclosure of information under Article 473 bis of Regulation (EU) No 575/2013 with regard to the transitional provisions for the mitigation of the equity impact of the introduction of IFRS 9.

The Pillar 3 Report of Ibercaja Group is structured in 14 chapters and 5 annexes. The first chapter describes the most relevant variables that are later developed in the report. The second chapter develops the relevant events that took place in 2018 and affected the Group and the regulatory environment. The third chapter describes the general aspects of Pillar III of the Group and all the information related to the governing bodies and the scope of consolidation. Chapters 4 and 5 develop all capital information, from qualitative to quantitative information on the capital base and the Group's own capital requirements. Chapters 6 to 13 describe the risk function in the Group and cover credit risk, securitization, operational, liquidity, interest rate and leverage aspects. Chapter 14 contains information on remuneration policies.

The annexes include information on the Main Characteristics of Equity Instruments, Information on transitory own funds, Own funds and capital requirements phase-in and fully-loaded, phase-in and fully-loaded capital ratios and Template NIIF9-FL. At the end of the document there is an index of tables and an index of illustrations.

The Pillar 3 Disclosure 2017 Report is available on the website of Ibercaja Banco (https://www.ibercaja.com/shareholders-and-investors/financial-information/information-of-prudential-relevance).

2. Regulatory Context of the Group

2.1 – Macroeconomic context

The world economy has prolonged its expansionary cycle in 2018 with growth of around 3.5%, similar to that of 2017. However, the less vigorous evolution in the second part of the year seems to announce a slowdown in economic growth.

The expansive cycle of the Eurozone has lost steam. Even so, the variation in GDP forecast by the European Commission is 2.1%, with domestic demand as the main driver of growth. It is a consequence of good employment data, the unemployment rate has fallen below 8% for the first time since the outbreak of the economic crisis, the gradual recovery of wages and favorable financial conditions that stimulate consumption and investment. On the contrary, the external sector shows signs of weakness, as a result of the slowdown in the global economy and the intensification of protectionist tensions.

Central banks have continued to normalize their monetary policies at a much more determined pace in the US than in Europe. The Fed, supported by its positive view of the economy and inflation data, has risen in December for the fourth time in the year the benchmark interest rate to 2.25%-2.50% and does not rule out additional increases for 2019. The ECB has confirmed at the last meeting of the year the end of the asset purchase program, although it will maintain the reinvestment of the maturities during a period that qualifies as prolonged. Regarding interest rates, they are expected to remain at current levels until at least the end of 2019.

The equity markets have experienced a very negative year. The uncertainty has dominated the stock markets causing sharp falls in the prices. The crisis in emerging countries, during the first part of the year, has joined the perception of investors that the incipient deceleration of the economy could be accentuated in the coming months, the end of expansionary policies that drains liquidity and makes interest rates on debt, 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. In fixed income markets, sovereign debt rates have shown high volatility, reflecting the less favorable dynamics of the economy and the rate increases by the Fed.

The Spanish economy has maintained its expansive trend and, according to the latest public data, it will conclude the year with an increase of 2.5%, somewhat lower than that achieved in 2017, but clearly above the countries of our environment and the Eurozone as a whole. Household consumption and investment have become the pillars of activity. Household spending is favored by employment data, the upward trend in wages and good financing conditions. The investment in capital goods increases by more than 6%, the real estate activity does so at a rate of more than 5% and housing prices continue to recover. The loss of traction in the foreign sector has drained GDP growth. Exports have exogenous factors, especially the deceleration in Europe, responsible for almost 70% of our foreign sales and the increase in protectionism worldwide.

The labor market has continued to create employment, although at a somewhat slower pace than in 2017, in line with a more moderate evolution in GDP. The number of Social Security affiliates is around 19 million, with an increase of 3.1% in the year and the unemployment rate provided by the EPA at the end of the fourth quarter, 14.45%, is 2.1 percentage points lower than in the previous December.

The good performance of the Spanish economy is reflected in the activity of the banking sector, especially in terms of the increase in new credit operations and the reduction of problematic assets on the balance sheet. At the same time, the low level of interest rates continues to put pressure on profitability, an effect that is partially offset by the strengthening of alternative sources of income, especially intermediation and insurance products, the containment of costs and the extension of digitization.

2.2 - The Ibercaja Group

The origin of Ibercaja dates back to 1873, when the *Real y Excma. Sociedad Económica Aragonesa de Amigos del País* founded the *Caja de Ahorros y Monte de Piedad of Zaragoza, Aragón y Rioja,* which began its activity as a credit institution on May 28, 1876. The Entity, after a long process of expansion in which it achieved a solid implantation in Aragon, La Rioja and Guadalajara, acquired in 2001 national presence by operating in all the Spanish provinces.

As part of the process of restructuring the Spanish financial system, the General Assembly of the Savings Bank, in a special meeting held on July 26, 2011, approved the creation of Ibercaja Banco S.A., to which it transferred all the assets and liabilities related to their financial activity.

The 25th of July 2013, Ibercaja Banco acquired *Banco Grupo Caja3*. The merger process concluded in October, 2014, with the merger through absorption of the acquired institution.

The *Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja,* the main shareholder of Ibercaja, complying with Law 26/2013, of December 27, was transformed into the *Ibercaja Banking Foundation*, being registered in the Register of Foundations, dated on October 13, 2014.

After concluding the 2015-2017 Strategic Plan and achieving most of its objectives, the Bank announced in March a new Strategic Plan with horizon in 2020 that sets the guidelines for competing successfully in a scenario of rapid changes that affect the consumer habits, technology, the economic and business context and the regulatory framework. The Entity aims at taking a prominent position within the Spanish banking system and to acquire the efficiency, profitability and solvency necessary to attract capital and to contribute successfully in the securities market. The Plan includes three major programs: Client, Value and Transformation Drivers.

During 2018, the followings steps stand out in the consecution of the strategic goals:

- Placement of an AT1 capital issue, in the form of preference shares for institutional investors, amounting to 350 million euros. This issuance strengthens the Group's capital structure, increasing its total loss absorbing capacity, regulatory requirements of the MREL. Strong demand has ratified investor confidence in the Entity's project and accredited its ability to access capital markets.

- Sale of a portfolio of foreclosed assets. In December, within the Cierzo operation, the sale of a portfolio of foreclosed assets, with a gross book value of 641 million euros, to a company in which the Bank holds a 20% stake was formalized. This action contributes to the reorganization of the balance sheet, accelerates the reduction of unproductive assets and improves the profitability profile of the Bank.

- Roadmap design for the IPO. Ibercaja has hired Rothschild & Co. as an independent financial advisor to prepare the IPO.

- Promotion of the digital transformation process with significant increases in the number of users of the different channels as well as in the operations. The Mobile Banking App has been equipped with new functionalities, among which the "Onboarding System" stands out thanks to which a new client can complete, in just ten minutes, the entire Ibercaja registration process.

- Fifth renewal of the 500+ European Seal of Excellence granted by the European Foundation for Quality Management (EFQM). The certification accredits a high degree of excellence in the management model and the orientation of the organization to continuous improvement, confirming the leadership position of the Entity in terms of quality. The certification of the management of personal assets advisory service has also been renewed. Personal banking, one of the strategic focus of the Bank, is reinforced by this certification.

- The service quality and its adaptation to the client's expectations have been recognized in the cross-sectional study carried out by Inmark, on the financial behavior of individuals in Spain, in which Ibercaja ranks the first place among comparable entities for the third consecutive year. Likewise, the Stiga's EQUOS study values Ibercaja as the third entity in the national scope.

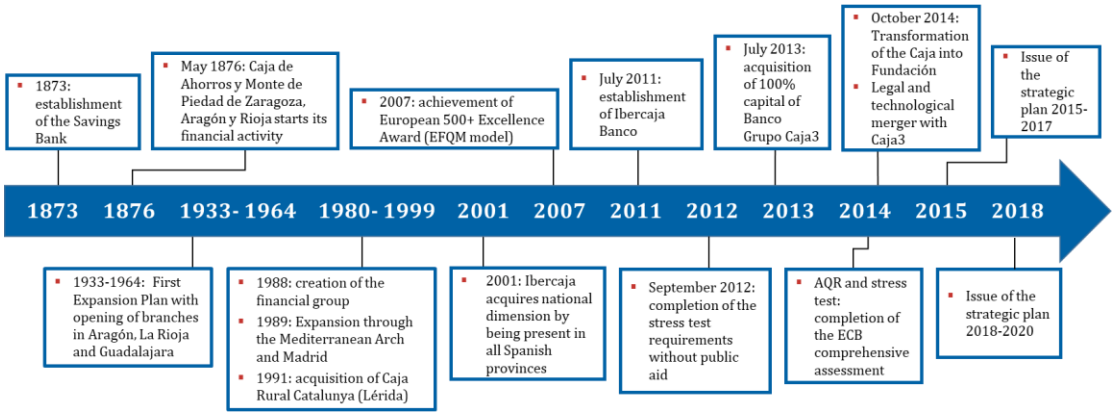
- Recognition of the work of the companies of the Financial Group. Ibercaja Pensión has been awarded the prize for the best national investment fund manager in the XXIX edition of the Expansión-AllFunds Bank Awards. Likewise, Ibercaja Gestión has been the best valued investment fund manager among 40 Spanish entities analyzed within the annual survey carried out by Extel Europe.

- Reinforcement of the strategic alliance with Caser. Ibercaja has sold to the insurer 100% of *CAI Seguros Generales* subscribing, at the same time, an agreement whereby the Bank's offices will exclusively distribute Caser's general insurance, thus promoting the activity of insurance banking, an important way of diversification of the Group's income.

- Divestment in corporate investees, including the sale of *Ibercaja Viajes* and the companies specialized in logistics and document management, *Dopar, Iberprofin* and *Enclama*. These operations are part of the purpose of concentrating the Group's resources in its traditional business. The agreements ensure the best service for clients with their integration in leading companies in the sector.

Major milestones in Ibercaja's 145-year history

Illustration 1: Major milestones



Ibercaja is the ninth banking group in Spain, with a history of more than 145 years providing quality financial services and all due professionalism. Its mission and vision are based on the values that have guided the Bank's trajectory since its establishment and have enabled it to establish a solid and fruitful relationship with clients, employees, investors and society in general.



2.3 - Shareholding and functional structure

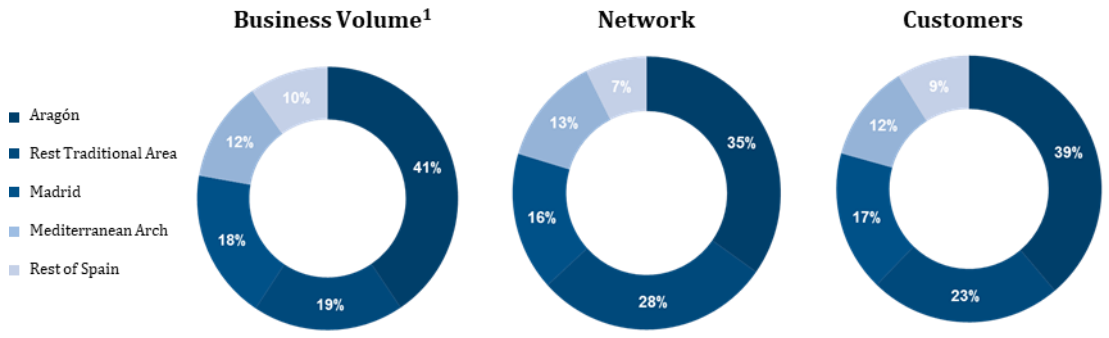
Ibercaja Banco is majority-owned, in an 87.80% of its capital, by the Ibercaja Banking Foundation. As a consequence of the acquisition in July 2013 of *Banco Grupo Caja3*, the following are also shareholders of Ib*ercaja: Fundación Caja Inmaculada* (4.85%), *Fundación Caja Badajoz* (3.90%) and *Fundación Bancaria Caja Círculo* (3.45%).

The Group, the ninth by volume of the Spanish banking system, has assets of 52,706 million euros. Its main activity is retail banking, focused on financing families, particularly first mortgages, and SMEs, savings management and other financial services. The eminently retail character of the business is reflected in the structure of the balance sheet, where credit to individuals and small and medium-sized companies represents almost 90% of loans and advances to customers, and retail deposits 78% of external financing. At the national level, it holds a market share of 2.75% in loans to households and non-financial corporations, reaching 4% in the private housing acquisition segment. In customer funds, its market share is 3.48%, which is broken down by 2.85% for retail deposits and 4.70% in asset management and life insurance.

The Entity has a relevant position in its traditional area of operation (Aragón, La Rioja, Guadalajara, Burgos and Badajoz), where 63% of the network is concentrated and obtains almost 60% of the business volume. The market share in this territory, 33% in deposits from the private sector and 24% in credit, reaches 46% and 33% in Aragón, respectively. It also has an important presence in other areas of great economic importance such as Madrid and the Mediterranean Arc (Cataluña and Comunidad Valenciana). As of December 2018, the network reaches 1,115 branches, 4.2% of the national total, with 6 specific business centers of companies. The number of employees of the Group raises to 5,302 people (5,061 in the parent company).

Distribution of business volume, network and customers by areas of activity

Illustration 2: Distribution of business volume, network and customers



[1]Business volume: credit to customers plus leasing + customer resources (on and off balance sheet).

2.4 - Exercise 2018 in the Ibercaja Group

The profit before taxes of the Ibercaja Group amounts to 81 million euros, 56% less than in 2017. The decrease is due to the significant income from financial operations and other extraordinary operations registered the previous year. It is worth mentioning the growth of recurrent banking revenues, in a context of extremely low rates, the significant increase in credit formalizations in the business and housing segments, and the portfolio of assets under management and insurance, the Group's most relevant specialization. Likewise, key aspects of the year include the notable reduction in ordinary operating expenses, the improvement of the recurring efficiency ratio and the reduction in the cost of risk, as a result of the decrease in unproductive assets on the balance sheet and the optimization of risk management.

Sound investment maintains the trend towards stabilization, with a reduction of only 0.53%, reflecting the momentum of new credit operations, favored by the dynamism of the Group's commercial activity and the improvement of the macroeconomic framework. The new financing has increased almost 5% year-on-year. It stands out, in line with the objective of diversifying the composition of the portfolio, the increase, 4.56%, of productive activities, so that more than 68% of the new operations correspond to formalizations with companies. The investment destined to housing acquisition has gathered pace after years of weakness, registering a variation close to 10%.

Asset quality has developed positively. Doubtful debt has decreased by more than 11% due to reduced incoming flow and active recovery management. The default rate, 6.74%, falls 93 basis points. The balance of foreclosed real estate contracts falls to 51%, as a result of the slowdown in inflows, together with the good sales record, both ordinary and extraordinary. In this regard, it is worth mentioning the sale of a portfolio of 641 million euros within the Cierzo operation. The set of problematic, doubtful and foreclosed assets exposure decreases more than 26%, the ratio drops to 8.82% (-298 basis points) and the degree of coverage rises to 51.48% (+362 basis points).

The growth of retail resources is focused on asset management and insurance. Its volume increases 1.56%, with a more favorable behavior than the system, in a year especially unfavorable for financial markets. This trajectory, together with that of current accounts (+ 7%), which reflect the transfer of savings from term deposits, generates a more profitable mix of retail resources.

The solid financing structure is based on retail resources, so that the credit ratio on retail financing (LTD) is below 100% and customer deposits make up 78% of third-party financing. The Group's liquid assets account for 20.71% of the balance sheet and cover all the maturities of the wholesale debt.

The Group, in spite of the situation of the interest rates, has managed to strengthen the recurrent banking revenue, which increase 2.18%. This result was possible due to the recovery of the interest margin and the increase in fee income, especially those related to asset management. Ordinary operating expenses, excluding those associated with the *ERE (Expediente de Regulación de Empleo)*, yield 5.26%. The recurring efficiency ratio improves 5 percentage points during the year. The cost of risk, associated with credit and foreclosed real estate assets, stands at 0.54%, a rate 14 basis points lower than that of a year earlier, in line with the progressive normalization of this variable.

The CET1 phased in ratio reaches 11.67%. *Ibercaja* has strengthened its capital base through the issuance of 350 million euros computable AT1 as additional level I capital. This issue has an impact of 164 basis points in the total capital ratio, which reaches 15.59%. In fully loaded terms, CET1 is 10.53% and the total capital ratio is 14.50%. Both indexes far exceed both the SREP 2018 requirement and the ECB requirement applicable for 2019.

2.5 – Regulatory framework

2.5.1 - Introduction

In December 2010, the Banking Supervision Committee published a new global regulatory framework for international capital standards (Basel III) that broadened the requirements established in the previous frameworks (Basel I, Basel II and Basel 2.5) in order to improve the quality, consistency and transparency of the capital base and risk coverage. On June 26, 2013, the Basel III legal framework was incorporated into European regulations through Directive 2013/36 on access to the activity of credit institutions and their prudential supervision (hereinafter CRD IV), which repeals Directives 2006/48 and 2006/49, and Regulation 575/2013 on the prudential requirements of credit institutions and investment companies (hereinafter CRR).

The Basel regulatory framework is based on three pillars. Pillar I defines the minimum capital requirements, and may use internal ratings and models for the calculation of risk-weighted exposures. Pillar II establishes a supervisory review system for capital adequacy based on the risk profile and the internal management of those risks. Pillar III refers to information disclosure and market discipline.

The CRD IV has been transposed to Spanish legislation through *Law 10/2014 on the organization, supervision and solvency of credit institutions* and its subsequent regulatory development through Royal Decree 84/2015 and Circular 2/2016 of the Bank of Spain, which completes its adaptation to the Spanish legal system. This Circular repeals for the most part Circular 3/2008 (although it remains valid for issues relative to minimum own funds and mandatory information submissions of mutual guarantee companies of Circular 5/2008), about determination and control of own funds; as well as a section of Circular 2/2014, concerning the exercise of diverse regulatory options contained in the CRR.

Since 1 January 2014, the CRR is to be mandatorily implemented in EU Member States and repeals any law of inferior rank involving additional capital requirements. This regulation allows a phased-in adaptation, through a gradual implementation calendar (incorporated to Spanish regulation through Bank of Spain Circular 2/2014), which affects new deductions, issuances and own funds' elements which with this new regulation cease to be eligible. Regulation 2016/445/EU, published by the ECB on March 2016, modifies some schedules established in CBE 2/2014. The capital buffers provided for in the CRD IV are also subject to a gradual implementation between 2016 and 2019.

Currently, both the CRR and the CRD IV are in the process of being reviewed. Predictably, the new regulatory framework will be approved throughout the year 2019, incorporating Basel standards according to the draft of the European Commission on the new CRR and CRD IV of November 23, 2016, such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio for Liquidity Risk or the SA-CCR for the calculation of EAD by counterparty risk. Changes related to the treatment of the central counterparty entities, the MDA, Pillar II, leverage ratio, and Pillar III, among others, will be introduced. The TLAC Term Sheet issued by the FSB (Financial Stability Board) within the capital framework is implemented as a most relevant novelty, in such a way that the systemic entities will have to comply with the requirements of TLAC (or MREL at European level) in a Pillar I, while non-systemic ones will only have to comply with MREL in a Pillar II that the resolution authority will communicate on a case-by-case basis. These latest developments will be incorporated into the modification of the BRRD Resolution Directive, replaced by the BRRD II.

2.5.2 - Solvency

The CRR and the CRD IV transpose the solvency regulation known as Basel III to European law. The phased-in inclusion of this regulation to the European framework places computable own funds and capital buffers above minimum regulatory levels, thus regulating solvency levels and own funds' composition with which credit institutions must operate.

In addition, towards ensuring a homogenous implementation of the new regulation throughout the European Union, the European Banking Authority (EBA) develops the more specific aspects of the CRR through the publication of more specific guidelines. To this end, the EBA has issued the final document "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013", which establishes criteria to ensure consistency and homogeneity that allows for greater comparability among credit institutions.

2.5.3 - Liquidity

The publication of the final version of the "*Basel III: the Net Stable Funding Ratio*" framework in October 2014, introduced a series of stable financing requirements for short-term exposures to their regular funding sources, avoiding a potentially higher systemic stress. The NSFR has become a minimum requirement as of January 1, 2018.

In addition, disclosure standards for the net stable financing ratio (NSFR) were published in June 2015, requirements that improve the transparency of regulatory financing requirements, reinforce the principles for the adequate management and supervision of liquidity risk, strengthen the discipline market and reduce uncertainty in the markets.

After the previous consultations carried out in 2016, the EBA published in 2017 the final proposals regarding the disclosure of the Liquidity Coverage Ratio (LCR) and Asset Encumbrance. In addition, the EBA is expected to develop standards to homogenize the reporting requirements of the NSFR.

2.5.4 - Securitizations

In December 2017, a new general framework for securitisation and a specific framework for simple, transparent and standardized securitisation (STS) were published. In addition, a new capital treatment is established for securitisations that modifies the current CRR treatment, and a preferential capital treatment for those securitisations that meet the STS criteria. The implementation of these regulatory frameworks will be mandatory from 1 January 2019.

For its part, in May 2018, the Basel Committee published the Capital Treatment for Simple, Transparent and Comparable Securitisations (STC) in the short term, as well as the criteria for identifying such securitisations in "Capital treatment for short-term simple, transparent and comparable securitisations" and "Criteria for identifying simple, transparent and comparable short-term securitisations".

2.5.5 – Banking Recovery and Resolution

The Directive 2014/59/UE was approved by the European Parliament and the Council, on 15 May 2014, which establishes the framework for the recovery and resolution of European credit institutions and investment services companies in order to harmonize the procedures to resolve financial institution crises in Europe, minimizing costs for contributors.

On July 2016, the Commission published the Delegated Regulation 2016/1075, on the restructuring and resolution plans, in accordance with the BRRD, which details: the content of the restructuring plans, resolution plans and resolution plans for groups, minimum criteria to be assessed by the competent authority with respect to restructuring plans and restructuring plans for groups, conditions for group financial assistance, requirements for independent valuators, contractual recognition of redemption and conversion competencies, the procedure in relation to notification requirements and announcement of suspension and their content and the operational functioning of the resolution authorities' colleges.

The Basel Committee and the Financial Stability Board (FSB) have continued with the steps begun in previous years. In 2015, the standard was closed for the requirement of a minimum amount of loss absorption capacity sufficient to recapitalize an entity in case of resolution, that is, Total Loss Absorbing Capacity (TLAC), for entities classified as Global Systemically Important Banks (G-SIBs). In 2017, the FSB has published the following:

- The Internal TLAC framework.
- Two relevant consultations whose objective is, on one hand, to ensure financing in resolution and, on the other, to guarantee the successful execution of a bail-in.
- In November 2017, the list of G-SIBs was updated for 2019.

Conversely, Basel published the final disclosure proposal of TLAC, updated in October 2018.

2.5.6 - Models for regulatory capital calculation

In December 2017, the revision of Basel III was finalized. This final framework of Basel III was approved thanks to the agreement reached on the calibration of capital floors, which limits the capital savings generated by applying internal models.

This review of the frameworks for the calculation of capital requirements for credit, market and operational risk aims to ensure the improvement of its simplicity, comparability and sensitivity to risk, as well as the reduction of the variability of risk-weighted assets not justified by the different risk profiles.

The final agreement regarding the capital framework will enter into force on January 1, 2022. However, implementation will not be complete until 2027. This process will be gradual in the case of capital floors. On the other hand, the Basel Committee announced that the implementation of the new market risk framework (FRTB) will begin on January 1, 2022 instead of in 2019 as originally planned.

This final framework includes significant improvements with respect to the proposals initially raised by the Basel Committee.

The main changes are those established in the following points:

Floors:

The level of capital floors has been set at 72.5% at the aggregate level for all risks, with a maximum impact limit of 25% of the RWA by entity.

Credit Risk:

The review of the standard method for the calculation of capital by credit risk introduces the use of external ratings non-mechanically for exposures to banks and companies and greater sensitivity to risk for certain exposures.

The review of advanced methods for calculating capital by credit risk for low default portfolios includes the following:

- It establishes limitations in the estimation of parameters through floors at exposure level
- Homogenizes the methodology for estimating risk parameters
- The treatment of risk mitigation techniques is reviewed

Credit Valuation Adjustments (CVA):

The revision of the credit valuation adjustment (CVA) includes the elimination of the internal models and the revision of the standard methods, in order to align them with the revised framework for market risk.

Operational Risk:

A new standard approach is introduced for the calculation of capital for operational risk, which combines the size with indicators of losses resulting from past events. This new approach will replace the internal models (AMA) and the current standard methods.

Leverage:

The final calibration of the leverage ratio has been set at 3% for all entities and, for the G-SIBs, an additional surcharge is established, that is 50% of the GSIB buffer.

The EBA has also published different documents in 2017 with the aim of reducing unjustified variability in capital consumption by different risk profiles and improving the homogeneity and comparability of capital ratios among entities. These documents are those listed below:

- Final guidelines on the definition of default, in order to harmonize the definition of default in Europe.
- Consultation on the nature, severity and duration of the downturn economic cycle to estimate the LGD (loss given default) and the CCF (credit conversion factor).
- Final guidelines with the methodology for estimating risk parameters (PD, LGD and treatment of defaulted assets).

2.5.7 - Other initiatives of the Basel Committee

During the year 2018 the Basel Committee has carried out several initiatives, detailed below:

- In March 2018, the Basel Committee finalized the consultation on the Discussion Paper launched in 2017 with the purpose of reviewing the treatment of sovereign debt, in which different options were proposed that implied additional disclosure requirements (Pillar III) and capital surcharges (Pillar I and Pillar II) for exposures to central banks of countries whose monetary policy focuses on the exchange rate and for sovereign debt exposures, with the exception of those to central banks denominated in local currency.
- The revision of the methodology for the identification of Global Systemic Entities in July 2018 has been carried out.
- The Basel Committee has published the Third Review of the Transparency Framework of Pillar 3 "Pillar III Disclosure Requirements" in December 2018.

2.5.8 – Other EBA initiatives

During 2018 the European Banking Authority (EBA) has issued standards and guidelines on aspects of European capital regulations (CRR/CRD IV), to ensure in this way, both its understanding and the harmonized implementation of minimum capital requirements within of the European Union.

The main regulatory initiatives are, among others, the following:

- With regards to the new applicable accounting framework of IFRS9, the EBA has published the Guideline 1/2018 in January 2018, including the standards for uniform disclosure of information pursuant to article 473 bis of Regulation (EU) No. 575/2013 regarding the transitory provisions for the mitigation of the impact on own funds of the introduction of IFRS 9, guidelines which were adopted as own by the Bank of Spain on February 14, 2018.

- The European Commission launches a qualitative and quantitative request to the EBA on the implementation of the Basel III framework (approved on December 7 and given its implementation process started), where it requests a comprehensive analysis evaluating the potential impact of the elements included in the new banking framework and in the general economy of the EU.

2.5.9 - Single Supervision and Resolution Mechanism

The first key element in the banking union is the Single Supervisory Mechanism (SSM), which assigns the role of direct banking supervisor to the European Central Bank in order to ensure that the largest European banks are subject to a single independent supervision with common standards.

In line with the intense monitoring agenda under the Supervisory Review and Evaluation Process (SREP), the SSM has made a major effort in 2018, on the one hand, to harmonize supervisory policies between countries and , on the other hand, in the transparency of their expectations.

The second key element is the Single Resolution Mechanism (SRM), which is responsible for preparing for the possibility of entry into resolution, i.e. bankruptcy, in order to ensure that the situation can be resolved in an orderly manner with minimum costs for contributors.

The SRM is working together with the national resolution authorities in the development of MREL (Minimum Requirement of Eligible Liabilities) policies. Entities must comply with their MREL requirement, after receiving the request from the SRM, in a transitional period of no more than four years. Non-compliance could result in the consideration that the entity cannot be resolved.

In addition, the SRM also manages the Single Resolution Fund. The period of progressive mutualization of the Single Resolution Fund will make it possible to move from the National Resolution Funds, in force in several countries of the Euro zone until 2016, to the Single Resolution Fund, which will be fully implemented in 2024.

In 2017, the funding objective of the Single Resolution Fund was 40% based on a national perimeter (BRRD perimeter) and 60% based on a Euro Zone perimeter. In 2018, financing was 33% with the BRRD perimeter and 67% with the Euro Zone perimeter. Financing with a perimeter of the Euro Zone will gradually increase until it reaches 100% in 2024. The financing objective of this fund is 1% of guaranteed deposits in 2024.

In order to complete the Banking Union, the Commission published in October 2017 a statement in which it established the necessary measures to do so. In 2018 the Commission carries out, among others, the following actions:

- The debate continued on the creation of a backstop for the Single Resolution Fund and for the third pillar of the Banking Union: a Single Deposit Guarantee Fund (EDIS, European Deposit Insurance Scheme).
- The Commission published in March 2018 a set of measures with the objective of addressing high levels of default, in order to establish a framework for the reduction of NPLs. The Commission also published a proposal for a regulation on the minimum coverage of losses arising from doubtful exposures that will foreseeably be approved throughout 2019.
- In May 2018, the Commission published its legislative proposal on a framework for the creation of SBBS (Sovereign Bond-Backed Securities).

3. Pillar III General Aspects

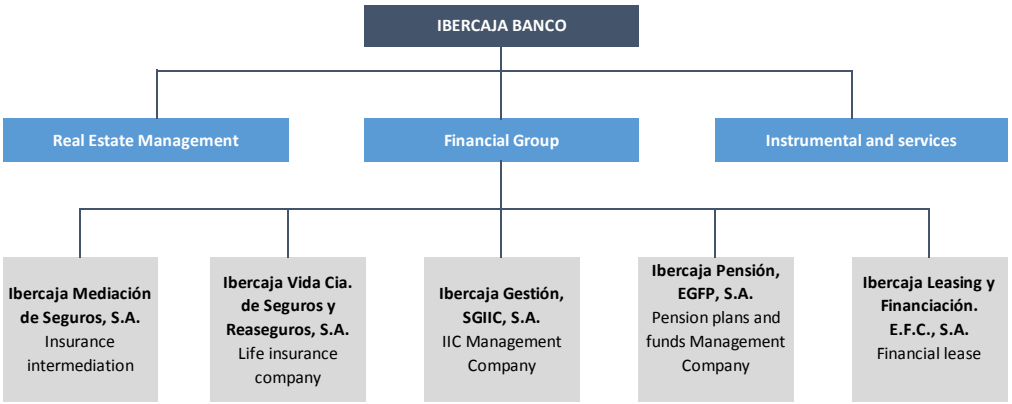
3.1 - Introduction

Ibercaja Banco, S.A. is a credit institution owned in 87.80% of its capital by Fundación Bancaria Ibercaja, subject to laws and regulations determined by economic and monetary authorities, both Spanish and from the European Union.

Ibercaja Banco is the head of a group of subsidiaries. Such companies compose its consolidated group and perform activities of diverse nature. Activities from the Financial Group stand out by their importance, both by their diversification in the offer of banking products and their profitability. The Financial Group is formed by companies specialized on investment funds, savings and pensions plans, insurance banking and leasing/renting.

The most relevant companies that conform the consolidation perimeter are:

Illustration 3: Consolidation perimeter



Its mission is to support management of family and company finances, offering a global and tailored service. For this purpose, it offers excellent solutions to the financial needs of its nearly three million clients.

Its activity is underpinned by an infrastructure of more than 1,115 offices located throughout the entire Spanish territory.

For more details on the Entity consult the website of Ibercaja Banco (www.ibercaja.com).

3.2 – Governing Bodies

The governing bodies of Ibercaja Group, their composition and operating rules are governed by the Bylaws and the Regulations of the Board of Directors, the content of which is in accordance with Law 10/2014 of June 26, on supervision and solvency of credit institutions, the Royal Decree Law 1/2010, of 2 July, approving the consolidating text of the Capital Companies Law and Uniform Good Governance Code. The composition and members of the different governance bodies, as well as the management team are detailed in the Corporate Governance Report.

Below is a summary table of the composition of the Board of Directors and the committees. In addition, the main governing bodies are detailed, as well as the policies that ensure the suitability and diversity of the members in the Board of Directors, according to article 435.2 of the CRR.

Illustration 4: Governing Bodies

		Board of Directors				Commissions					
		Dominical	Independent	Executive	External	Executive Commission	Audit and Compliance Commission	Appointments Commission	Remunerations Commission	Major Risks and Solvency Commission	Strategy Commission
Chairman	D. José Luis Aguirre Loaso	■				C					C
Vice-chairman	D. Jesús Máximo Bueno Arrese	■				M	M			M	
CEO	D. Víctor Iglesias Ruiz			■		M					
Secretary Counsellor	D. Jesús Barreiro Sanz	■				S		S	S		
Members	Dª. Gabriela González-Bueno Lillo		■			M	M			C	
	D. Jesús Solchaga Loitegui		■					C	C		M
	D. Juan María Pemán Gavín	■				M	M				
	D. Emilio Jiménez Labrador	■									M
	D. Vicente Cóndor López		■			M	C			M	
	D. Félix Longás Lafuente		■					M	M		M
	D. Jesús Tejel Giménez		■				M			M	
	D. Enrique Arrufat Guerra	■									M
	D.ª María Pilar Segura Bas				■			M	M	M	
	D. Jorge Simón Rodriguez	■						M	M		

C Chairman
M Member
S Secretary

3.2.1 - Board of Directors

The Board of Directors has the broadest powers for the management, administration and representation of the Entity and, except in the areas reserved for the competence of the General Meeting, it is the Bank's highest decision-making body. The Board has six Commissions: Executive, Appointments, Remuneration, Audit and Compliance, Major Risks and Solvency and Strategy Commission.

Within the Board of Directors, only the Chief Executive Officer is part of the Senior Management of the Entity.

Table 1: Members of the Board of Directors

Board of Directors			
Position	Name	Category	Date of last appointment
Chairman	Mr. José Luis Aguirre Loaso	Dominical	30/08/2018
1st Vice-chairman	Mr. Jesús Máximo Bueno Arrese	Dominical	30/08/2018
CEO	Mr. Víctor Iglesias Ruiz	Executive	28/01/2015
Secretary Counsellor	Mr. Jesús Barreiro Sanz	Dominical	11/11/2014
Member	Mrs. Gabriela González-Bueno Lillo	Independent	13/11/2018
Member	Mr. Jesús Solchaga Loitegui	Independent	13/11/2018
Member	Mr. Juan María Pemán Gavín	Dominical	13/11/2018
Member	Mr. Emilio Jiménez Labrador	Dominical	28/10/2016
Member	Mr. Vicente Cóndor López	Independent	27/01/2014
Member	Mr. Félix Longás Lafuente	Independent	30/08/2016
Member	Mr. Jesús Tejel Giménez	Independent	30/08/2016
Member	Mr. Enrique Arrufat Guerra	Dominical	30/08/2017
Member	Mrs. María Pilar Segura Bas	Other External	30/08/2017
Member	Mr. Jorge Simón Rodriguez	Dominical	13/11/2018



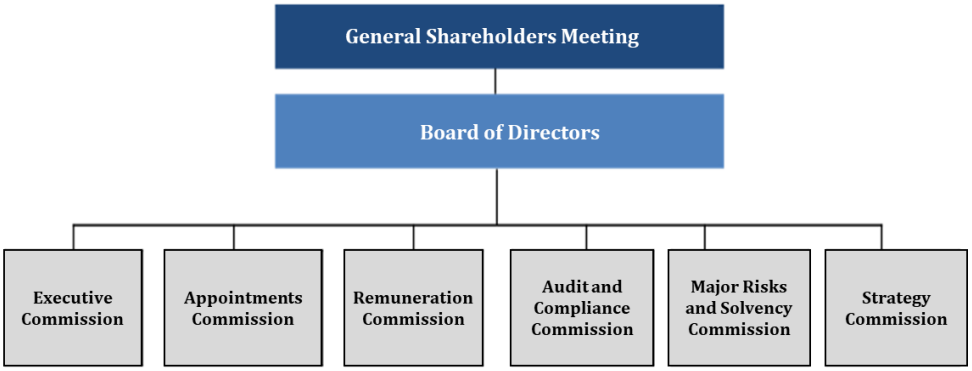
Table 2: Composition of the Board of Directors

Composition	
Category	%
% Executive counsellors	7.1%
% Dominical counsellors	50.0%
% Independent counsellors	35.7%
% Other external	7.1%
Number of meetings (2018)	14

All appointments of members of the Board of Directors have been adopted with a favorable report from the Appointments Commission. Likewise, the Annual Corporate Governance Report specifies those directors who, in addition, hold positions of directors or executives in other entities that are part of the group.

3.2.2 - Commissions of the Board of Directors

Illustration 5: Commissions of the Board of Directors



Executive Commission

Table 3: Composition of the Executive Commission

Composition	
Category	%
% Executive counsellors	14.3%
% Dominical counsellors	57.1%
% Independent counsellors	28.6%
% Other external	-
Number of meetings (2018)	23

In accordance with the provisions of the Bylaws and the Regulations of the Board of Directors, the Executive Commission has the following faculties of the Board of Directors:

- Acknowledge and agree on the proposals of concession, modification or novation and cancellation of risk operations within its competence, in accordance with the provisions of the Manual of Policies and Procedures for credit investment risk management approved by the Board of Directors. Likewise, the Executive Commission will acknowledge and resolve the proposals for the acquisition of assets by the Entity in or for debt payment of debts that must be submitted for its consideration, in accordance with the Asset Management Policies and Manuals.
- Acknowledge and agree on matters concerning personnel (disciplinary proceedings, granting of leave of absence...) except in those cases in which the decision corresponds to the Chief Executive Officer or to the full Board of Directors, as they are employees directly dependent on the CEO.
- Acknowledge and agree on matters concerning the Entity's assets (real estate, expense files, purchase...) and investments and divestments in investee companies, which must be submitted for consideration in accordance with the Internal Policies and Manuals, except those that by law correspond to the Annual General Meeting.
- Grant, when appropriate, the faculties that are necessary or convenient for the execution of the resolutions adopted.

Its agreements are valid and binding without the need for subsequent ratification by the full Board Meeting. However, in those cases in which, in the opinion of the chairman, the CEO or three members of the Commission, the importance of the matter so advises, the resolutions adopted by the Commission will be submitted for ratification by the Board.

The Commission will be validly constituted with the attendance, present or represented, of at least half plus one of its members, and will adopt its resolutions by majority vote of the directors who are part of the Committee, present or represented at the meeting, having the chairman the casting vote. The agreements adopted will be kept in a minute book, available to all members of the Board of Directors.

In the periodic development of its sessions, the Executive Committee has learned the reports of the chairman and Chief Executive Officer, who have reported, among other issues, the main macroeconomic magnitudes and the evolution of the Entity's data: balance sheet and loss and profits account; evolution of the Entity's securities portfolio; customer resources and customer credit; market shares; liquidity management; delinquency and coverage rates; volume of activity; and results of the Group's subsidiaries. Likewise, it has given its view on the financing operations submitted for its consideration, as it corresponds to the Executive Commission its authorization or ratification due to the amount or condition of the applicants. Likewise, it has ratified the operations approved, denied or ratified by the Credit Risk Committee, has adopted various disinvestment agreements in investee companies and has acknowledge the disciplinary proceedings in the terms foreseen in the labor legislation and in the Collective Agreement.

Audit and Compliance Commission

Table 4: Composition of the Audit and Compliance Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	40%
% Independent counsellors	60%
% Other external	-
Number of meetings (2018)	15

The Commission's functions come expressly gathered in the Regulation of the Board of Directors. Particularly:

- Report to the General Meeting on the issues that the shareholders pose in matters within their competence.
- Supervise the effectiveness of the Entity's internal control: regulatory compliance and internal audit functions.
- Supervise the process of preparation and presentation of regulated financial information.
- Propose the appointment or re-election of the account auditor.
- Establish the appropriate relations with the external auditor to receive information on issues relative to its independence.
- Receive once a year from the external auditor written confirmation of its independence with respect to the Entity or its group, issuing the corresponding report.

The Committee is chaired by an independent director, who must be replaced every four years, and may be re-elected once the term of one year has elapsed since his dismissal. The secretary of the Board of Directors will be secretary of the Commission.

The Audit and Compliance Commission will be validly constituted with the attendance, present or represented, of, at least, half plus one of its members; and will adopt its resolutions by a majority vote of the directors who are part of the Committee, present or represented at the meeting, having the chairman the casting vote. The agreements will be kept in a minute book, available to all members of the Board of Directors.

The Commission will meet as many times as it is called by agreement of the Commission itself or its chairman and, at least, once a quarter. The Commission may also request the assistance of the Entity's accounts auditor. One of its meetings will necessarily be aimed at evaluating the efficiency and compliance with the rules and procedures of governance of the Entity and preparing the information that the board must approve and include in the annual public documentation.

During the year, the Commission has been informed of the requirements and communications received from the supervisory bodies within the scope of its powers; has known and informed the transactions to be formalized with related parties; has known the periodic reports of the functions of compliance and internal audit, as well as the reports issued by the external auditor. In relation to financial information, it has acknowledge and supervised the process of preparing and presenting the regulated financial information, has reviewed the Bank's annual accounts, as well as the periodic financial information to be provided by the Board to the markets and supervisory bodies.

Appointments Commission

Table 5: Composition of the Appointments Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	40%
% Independent counsellors	40%
% Other external	20%
Number of meetings (2018)	6

The Appointments Commission has functions of reporting to the Board of Directors on nomination proposals. Particularly:

- Assess the suitability of the Counsellors.
- Establish a representation target for the least represented sex in the Board of Directors.
- Conduct, for the General Meeting, the proposals of nomination, re-election or termination of independent Counsellors.
- Inform about the proposals of nomination and separation of senior executives and professionals with key functions and the basic conditions of their contracts.
- Examine and organize the succession of the chairman and CEO.

The Commission will be formed by a minimum of three and a maximum of five non-executive directors, two of which, at least, must be independent directors. The Commission will meet as many times as it is called by agreement of the Commission itself and, at least, once a quarter. The chairman (independent in any case) will have a casting vote in case of a tie.

The agreements will be kept in a minute book, available to all members of the Board of Directors.

During the year, the Commission reported the appointment of new directors, as well as that of the new members of the Entity's Management Committee.

Remuneration Commission

Table 6: Composition of the Remuneration Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	40%
% Independent counsellors	40%
% Other external	20%
Number of meetings (2018)	1

The Remuneration Commission has been delegated functions of information, assessment and proposal on remunerations of counsellors, general managers or similar, and persons whose professional activity significantly impacts on the risk profile of the Entity.

The Remuneration Commission will consist of a minimum of 3 and a maximum of 5 non-executive directors, two of which, at least, must be independent directors (and, in any case, its chairman).

The commission will be validly constituted when half plus one of the directors attend, present or represented. The chairman will have a casting vote in case of a tie. The agreements, which will be adopted by a majority of the members of the Committee, will be kept in a minute book, available to all members of the Board of Directors.

During year 2018, the Committee informed, advised and formulated to the Board of Directors proposals regarding the remuneration of directors, senior management, and persons whose professional activity has an important impact on the Entity's risk profile.

Major Risks and Solvency Commission

Table 7: Composition of the Major Risks and Solvency Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	20%
% Independent counsellors	60%
% Other external	20%
Number of meetings (2018)	10

The main function of the Committee is to assess the Board of Directors on the overall risk appetite of the Bank and its Group and its strategy in this area, helping the Board to oversee the implementation of the mentioned strategy by the Senior Management and monitoring the Group's solvency levels and making the pertinent recommendations for improvement.

The Commission will be formed by a minimum of 3 and a maximum of 5 directors, who do not perform executive functions and possess knowledge, capacity and experience to understand and control the strategy and the risk appetite of the Entity. At least one third of the members and, in any case, its chairman will be independent. The Commission will adopt its resolutions by majority vote of the directors that form part of it, having the chairman a casting vote in case of a tie.

During 2018, the Commission has informed the Board of Directors of the Entity's Risk Appetite Framework, its quarterly monitoring reports, and the annual capital and liquidity adequacy assessment report for 2017.

Strategy Commission

Table 8: Composition of the Strategy Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	60%
% Independent counsellors	40%
% Other external	-
Number of meetings (2018)	6

The main function of the Commission is to inform the Board of Directors on the implementation of the Entity's strategic policy, ensuring that there is a precise organization for its implementation.

The Committee will consist of a minimum of 3 and a maximum of 5 directors, who will be appointed taking into account the knowledge, skills and experience of the directors and the duties of the Commission. The Board of Directors will appoint its chairman, being its secretary that of the Board.

The Commission will meet as many times as it is called by agreement of the Commission itself or its chairman and, at least, quarterly. The Commission will adopt its resolutions by majority vote of the directors that are part of it, having the chairman a casting vote in case of a tie. The agreements adopted are included in the corresponding minute book, which is available to all members of the Board of Directors.

The Commission has periodically monitored the Strategic Plan approved by the Board of Directors, as well as the quarterly monitoring of the budget evolution (as specified in the mandates contained in the aforementioned Strategic Plan), giving the Board of Directors the conclusions reached, as well as the progress of the new Strategic Plan.

The information on the Group's corporate governance can be accessed through the corporate website. (https://www.ibercaja.com/shareholders-and-investors/corporate-governance-and-remuneration-policy/corporate-documents)

3.2.3 - Procedures to ensure the suitability of the members of the Board of Directors

The Group has developed a Policy for the assessing the suitability and diversity of the members of the Board of Directors and persons with key roles in the Entity, approved by the Board of Directors, which must be annually reviewed and, if necessary, updated. This policy establishes the criteria that the Entity will apply for the assessment of the suitability of the members of the Board of Directors, general managers or similar, responsible for internal control functions and other key positions for the daily developments of the Entity's activity.

At the meeting held on June 28, 2018, the Board of Directors approved an update of the Suitability and Diversity Policy of the members of the Board of Directors, at the proposal of the Appointments Committee, highlighting as main novelties: the explicit 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 devotion of time capacity by the person to be appointed for the performance of the position for which it is proposed; the specification of the assumptions that will determine the need to conduct a re-evaluation of the collective suitability of the Board of Directors.

In the application of the mentioned policy, the main functions of the Appointments Committee are described below:

- Define the criteria for the composition of the Board of Directors and ensure that the procedures for candidate's selection reflect diversity of gender, experience and knowledge and are not biased by any discrimination.
- Assess the skills, knowledge and experience required in the Board of Directors, defining the functions and capabilities required in the candidates, and assess the time and dedication necessary for them to perform their duties.
- Notify the Board of Directors of proposals for the appointment of independent Directors and Directors for submission to the General Shareholders' Meeting, as well as proposals for the re-election or removal of the mentioned Directors by the General Shareholders' Meeting.
- Report on the proposals for the appointment and removal of senior executives that the chief executive proposes to the Board of Directors.

For the suitability assessment of the persons who are going to integrate the Board of Directors, their commercial and professional integrity, their knowledge and experience, as well as their willingness to good governance of the Entity are taken into account: commitment capacity (limiting the maximum number of positions they can occupy in other companies), independence and the absence of conflicts of interest. Therefore, the maximum number of positions that Counsellors can hold simultaneously has been limited, in Governance Bodies of other companies.

It must be review, at least annually, that the members of the identified group do not incur in causes of supervening incompatibility, without prejudice to the obligation of all of them to communicate such circumstances, in the hypothetical event that they occurred.

The suitability assessment policy is available to the supervisory authorities.

3.2.4 - Policy on Dedication of Counsellors

This policy develops the criteria that guarantee the willingness of the members of the Board of Directors to good governance of the Entity and their devotion of sufficient time to the performance of their position. It is worth noting the diligence duty; the obligation to attend meetings of the governing bodies of which they are a part; information rights and counsellor obligations; or limitation in the maximum number of administrative bodies of other entities of which they may be part of.

3.2.5 - Training actions to the Board of Directors in terms of Risks and Regulation

Based on article 435 of the CRR, regarding the knowledge and competences of the Board of Directors, the Entity provides training sessions to the members of the Board of Directors. During the year, training sessions were given to the directors, related to the EBA Directive on Internal Government. In addition, *Cuatrecasas* conducted training on the MIFID II Directive, the Payment Services Directive (PSD2), AML Directives (IV and V Directives), Real Estate Credit Directive, Insurance Distribution Directive (IDD), on the remuneration of directors in unlisted companies (STS February 26, 2018). A training session on the economic environment and the financial sector was also conducted by *Analistas Financieros Internacionales*.

3.2.6 - Diversity in Governance Bodies

The Entity strives to avoid at all times that its rules of internal governance contain discrimination, or that they contain implicit biases that prevent diversity (gender, age, geographical origin ...) in the selection of persons to be appointed as members of governing bodies and senior management.

Although there is currently no minimum percentage defined as a representation objective of the less represented gender in the Board of Directors, it has been expressly included in its Regulations that the establishment of a representation objective for the less represented gender in the Board of Directors and determining the manner in which this objective is to be achieved is the responsibility of the Appointments Committee.

On the other hand, in the Policy on the evaluation of the suitability and diversity of directors approved by the Board of Directors at the meeting held on June 28, 2018, at the proposal of the Appointments Committee, and to which reference has been made previously, a specific section was introduced, denominated "Principles to promote the diversity of directors". Thus, it is established, expressly, that in the selection of candidates for the composition of the Board of Directors, the following principles will be taken into account to promote the diversity of its members:

- The process of selection of candidates will start with a prior analysis of the Entity's needs, based on the report performed by the Appointments Committee.
- The adequacy of the number of independent counsellors in relation to the total number of counsellors will be ensured, bearing in mind, in all cases, the regulatory requirements regarding the composition and positions to be filled by this category of counsellors on internal committees of the Board of Directors.
- It will be ensured that the selection criteria take into account the diversity of knowledge, training, professional experience, age and gender, and that they do not suffer from implicit biases that may imply any discrimination (in particular, for reasons of sex, ethnic origin, age or disability).

The objective is to favor a diverse and balanced composition as a whole, which in addition to meeting the requirements in terms of knowledge and experience referred to above, enrich the analysis, debate and decision making processes.

Likewise, throughout the year, the re-election of one of the female directors has taken place, with the categorization of external independent, which also holds the position of Chairman of the Commission on Major Risks and Solvency.

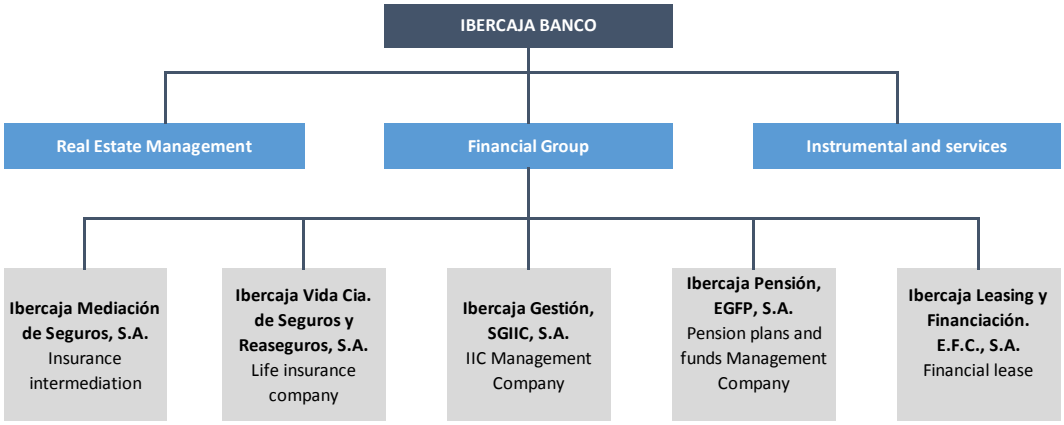
3.3 – Consolidation Scope

The information presented in this report corresponds to the Consolidated Group of credit institutions whose parent entity is Ibercaja Banco S.A.

From an organizational point of view, the Bank is the head of a group of dependent entities, the most important of which are, in terms of diversification of banking products and profitability, those that compose the Financial Group, composed of companies specialized in investment funds, savings and pension plans, wealth and leasing-renting.

The most relevant companies that make up the consolidation perimeter are:

Illustration 6: Consolidation Scope entities



Hereinafter a summary is offered on the main differences relative to the principles, accounting policies and valuation criteria that have been applied in the preparation of the Group's consolidated financial statements for the 2018 financial year, in accordance with Regulation (EU) 575/2013 (CRR) and for the purposes of the third rule of the Circular 4/2017 of the Bank Of Spain, of November 27.

Subsidiary Companies

Subsidiary Companies are those over which the Entity has the capacity to exercise control, which is manifested, generally, but not only, by direct or indirect ownership of more than 50% of the voting rights of the investees or, even if this percentage is lower or null due to the existence of other circumstances or agreements granting control. In accordance with current regulation, control refers to the power to govern the financial and operating policies of an entity, in order to obtain benefits from its activities.

In the preparation of the financial statements, the subsidiaries have been consolidated using the global integration method, defined in the Bank of Spain Circular 4/2017, of November 27. Consequently, all the balances derived from the transactions carried out between the companies consolidated by this method and which are significant have been eliminated in the consolidation process.

Additionally, the participation of third parties in:

- The Group's net assets are presented under the "Minority Interests" section in the consolidated balance sheet,
- Consolidated results for the year are presented in the "Income of the year attributable to minority interests" section in the consolidated income statement.

The consolidation of the results generated by the subsidiaries acquired during an exercise is made taking into account only those corresponding to the period between the date of acquisition and the closing of that year. At the same time, the consolidation of the results generated by the subsidiaries disposed of in one year is made taking into account only those corresponding to the period between the beginning of the year and the date of disposal.

Multi-group Companies

Multi-group Companies are defined as those which, without being dependent, are under contractual agreements of joint control, whereby decisions on the relevant activities are taken unanimously by the entities that share the control and are entitled to their net assets.

These companies are valued according to the "equity method", as defined in the forty-ninth rule of Circular 4/2017 of the Bank of Spain.

Holdings in Multi-group Companies that may be consolidated by virtue of their activity are consolidated through the application of the proportional integration method, as defined in the forty-eight standard of the Circular 4/2017 of the Bank of Spain, for the purposes of application of solvency requirements. Holdings in Multi-group Companies that cannot be consolidated by their activity are valued using the equity method, as defined in the forty-ninth standard of the Circular 4/2017 of the Bank of Spain.

Associated Companies

Associated entities are those over which the Entity has the capacity to exert significant influence, although they do not constitute a decision unit nor are they under joint control. In general, although not exclusively, this capacity is assumed when there is a participation (direct or indirect) equal to or greater than 20% of the voting rights of the investee.

In the consolidated financial statements, Associated Companies are valued by the "equity method", defined in the fortieth standard of the Circular 4/2017 of the Bank of Spain.

If, as a result of the losses incurred by an Associated Company, its shareholders' equity where negative, it would appear in the consolidated balance sheet with zero value, unless the Group has the obligation to support it financially, in which case a provision for liabilities would be registered "Provisions" on the liability side of the balance sheet.

Structured Companies
Structured companies are those that have been designed so that voting and/or similar rights are not the decisive factor when deciding who controls it.

In those cases where the Group participates or constitutes entities for the transfers of risks, or in order to allow access to certain investments, it is determined whether there is control and, therefore, whether the constituted companies should be consolidated, taking into account, mainly, the following factors:

- Analysis of the Group's influence on the Entity's activities, which are relevant to determine its performance.
- 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.

Among these entities are the so-called "asset securitization funds" which the Group consolidates as there are contractual financial support agreements (commonly used in the securitization market). In practically all securitizations carried out by the Group, the transferred risks cannot be derecognized from the assets of the balance sheet and the issues of the securitization funds are recorded as liabilities within the Group's balance sheet.

The companies and investment and pension funds managed by the Group do not comply with the requirements of the regulatory framework to be consider structured companies, so they are not subject to consolidation.

In accordance with criteria previously indicated, detail is offered as of 31 December 2018:

a) Subsidiary companies of the Consolidated Group for solvency purposes, to which the full consolidation method has been applied:

Table 9: Subsidiary Companies, full consolidation

Business Name	
Ibercaja Banco S.A.	*TDA 2 Ibercaja Fondo Titulización*
Ibercaja Leasing S.A.	*TDA 3 Ibercaja Fondo Titulización*
Ibercaja Gestión S.A.	*TDA 4 Ibercaja Fondo Titulización*
Ibercaja Pensión S.A.	*TDA 5 Ibercaja Fondo Titulización*
Ibercaja Mediación de Seguros S.A.	*TDA 6 Ibercaja Fondo Titulización*
Ibercaja Cajaragón S.A.U.	*TDA 7 Ibercaja Fondo Titulización*
Servicios a distancia IBD S.L.	*TDA ICO Ibercaja Fondo Titulización*
Inmobinsa S.A.	*Badajoz Siglo XXI S.L.*
Cerro Murillo S.A.	*CAI Inmuebles S.A.*
Cerro Goya S.L.	*Residencial Murillo S.A.*
Ibercaja Gestión de Inmuebles S.A.	

b) Subsidiary or multi-group companies, that in the preparation of the Consolidated Financial Statements of the Consolidated Group for solvency purposes, have not been fully consolidated and have been valued through the equity method:

Table 10: Subsidiary or multi-group companies, equity method

Business Name
Espacio Industrial Cronos S.L.
Ibercaja Vida S.A.

c) Multi-group companies valued through the proportional consolidation method:

Table 11: Multi-group companies, proportional consolidation method

Business Name
Montis Locare S.L.

Hereafter, detail is presented on the significant holdings in assurance companies which are owned by the Consolidated Group as of 31 December 2018, which belong to the economic group as defined in the Bank of Spain Circular 4/2017 and their underlying book value has not been directly deducted from own resources, but for the purposes of calculating minimum own resources requirements, has been included through a 100% weight in risk-weighted assets, in accordance with the established in Article 49 of Regulation (EU) 575/2013 (CRR) and as authorized by the Executive Commission of the Bank of Spain:

Table 12: Significant holdings in assurance companies

Business Name
Ibercaja Vida S.A.

Modifications in the consolidation scope and corporate operations

During fiscal year 2018, and in order to simplify the current corporate structure, the following corporate operations have taken place:

- Liquidation of the companies: *Inmobiliaria Impulso XXI, S.A.* and *Gedeco Zona Centro, S.L.*
- Sale of the companies: *Dopar Servicios, S.L., Enclama, S.L., Iberprofin, S.L.* and *Ibercaja Viajes, S.A.*

The changes produced during 2018 in the consolidation perimeter are shown below:

Table 13: Scope Modifications

Scope Modifications
Companies liquidated in 2018
Inmobiliaria Impulso XXI S.A.
Gedeco Zona Centro S.L
Companies sold in 2018
Iberprofin S.A.
Dopar Servicios S.L.
Enclama S.L.
Ibercaja Viajes S.A.
Companies incorporation/acquisition in 2018
Ibercaja Global Internacional SICAV
Northwind Finco S.L.

3.4 - Differences between the accounting and regulatory capital consolidation method

Hereafter, conciliation is presented between the Public Balance Sheet and the Balance Sheet for the purposes of solvency regulation of credit institutions (Prudential Balance Sheet) as of 31 December 2018. The objective is to show the transition between accounting and prudential information.

Table 14: Conciliation accounting and regulatory scope

(thousands of euros)	DISTRIBUTION				
ASSETS	**CONSOLIDATED GROUP OF CREDIT INSTITUTIONS**	**ASSURANCE ENTITIES**	**OTHER ENTITIES**	**ADJUSTMENTS AND ELIMINATIONS**	**TOTAL PUBLIC BALANCE SHEET**
Cash, balances at central banks and other demand deposits	**1,118,216**	**-**	**-**	**-10**	**1,118,206**
Trading Book	**7,411**	**-**	**-**	**-**	**7,411**
Derivatives	7,411	-	-	-	7,411
Debt securities	-	-	-	-	-
Financial assets not intended for trading at fair value through profit or loss	**33,284**	**108,031**	**-**	**-**	**141,315**
Equity instruments	-	38,852	-	-	38,852
Debt securities	13,554	69,179	-	-	82,733
Loans and advances	19,730	-	-	-	19,730
Other financial assets at fair value through profit or loss	**-**	**9,575**	**-**	**-**	**9,575**
Debt securities	-	9,575	-	-	9,575
Loans and advances	-	-	-	-	-
Financial assets at fair value with changes in other comprehensive income	**2,004,198**	**6,873,539**	**-**	**-123,097**	**8,754,640**
Equity instruments	317,507	22,493	-	-	340,000
Debt securities	1,686,691	6,851,046	-	-123,097	8,414,640
Financial assets at amortized cost	**39,150,013**	**950,243**	**-**	**-721,840**	**39,378,416**
Debt securities	6,346,422	227,170	-	-29,136	6,544,456
Loans and advances	32,803,591	723,073	-	-692,704	32,833,960
Hedging derivatives	**161,371**	**-**	**-**	**-**	**161,371**
Changes in fair value of hedged items in a portfolio with interest rate coverage	-	-	-	-	-
Holdings	**493,160**	**-**	**-**	**-366,925**	**126,235**
Joint businesses	395,387	-	-	-366,925	28,462
Associated	97,773	-	-	-	97,773
Insurance and reinsurance assets	**-**	**719**	**-**	**-**	**719**
Tangible assets	**889,907**	**55,444**	**-**	**-3,360**	**941,991**
Property, plant and equipment	590,026	51,038	-	-3,360	637,704
For own usage	544,933	51,038	-	-3,360	592,611
Leased out under an operating lease	45,093	-	-	-	45,093
Subject to obra social (savings banks and credit cooperatives)	-	-	-	-	-
Real estate investments	299,881	4,406	-	-	304,287
Intangible assets	**187,008**	**-**	**-**	**16,869**	**203,877**
Goodwill	128,065	-	-	16,869	144,934
Other intangible assets	58,943	-	-	-	58,943
Tax assets	**1,370,398**	**1,820**	**859**	**10,483**	**1,383,560**
Current	18,469	-	-	-2	18,467
Deferred	1,351,929	1,820	859	10,485	1,365,093
Other assets	**292,873**	**1,710**	**-**	**-104,750**	**189,833**
Insurance contracts linked to pensions	97,238	-	-	-97,238	-
Stocks	152,397	-	-	-	152,397
Other	43,238	1,710	-	-7,512	37,436
Non-current assets or disposal groups held for sale	**291,941**	**-**	**-**	**-3,351**	**288,590**
TOTAL ASSETS	**45,999,780**	**8,001,081**	**859**	**-1,295,981**	**52,705,739**

(thousands of euros)	DISTRIBUTION				
LIABILITIES	**CONSOLIDATED GROUP OF CREDIT INSTITUTIONS**	**ASSURANCE ENTITIES**	**OTHER ENTITIES**	**ADJUSTMENTS AND ELIMINATIONS**	**TOTAL PUBLIC BALANCE SHEET**
Trading book	**8,691**	**-**	**-**	**-**	**8,691**
Derivatives	8,691	-	-	-	8,691
Financial liabilities at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
Financial liabilities at amortized cost	**41,968,815**	**10,135**	**10,173**	**-847,487**	**41,141,636**
Deposits	39,354,841	-	7,664	-704,385	38,658,120
Central Banks	3,341,085	-	-	-	3,341,085
Credit Institutions	1,236,219	-	7,664	-7,664	1,236,219
Clients	34,777,537	-	-	-696,721	34,080,816
Debt securities	1,786,536	-	-	-146,104	1,640,432
Other financial assets	827,438	10,135	2,509	3,002	843,084
Memorandum item: subordinated liabilities	590,618	-	-	-4,004	586,614
Hedging derivatives	**155,200**	**-**	**-**	**-**	**155,200**
Changes in fair value of hedged items in a portfolio with interest rate coverage	**24,961**	**-**	**-**	**-**	**24,961**
Insurance and reinsurance liabilities	**-**	**7,611,227**	**-**	**-96,458**	**7,514,769**
Provisions	**330,042**	**-**	**-**	**18,769**	**348,811**
Pensions and other post-employment defined benefit obligations	103,479	-	-	20,786	124,265
Other long-term employee benefits	1,931	-	-	-	1,931
Provisions for taxes and other legal contingencies	9,027	-	-	-	9,027
Commitments and guarantees granted	33,465	-	-	-	33,465
Other provisions	182,140	-	-	-2,017	180,123
Tax liabilities	**164,959**	**15,322**	**-**	**982**	**181,263**
Current	2,292	-	-	-	2,295
Deferred	162,667	15,319	-	982	178,968
Other liabilities	**169,497**	**3,278**	**-**	**-2,594**	**170,181**
Non-current liabilities or disposal groups held for sale	**-**	**-**	**-**	**-**	**-**
TOTAL LIABILITIES	**42,822,165**	**7,639,962**	**10,173**	**-926,788**	**49,545,512**

(thousands of euros)	DISTRIBUTION				
EQUITY	CONSOLIDATED GROUP OF CREDIT INSTITUTIONS	ASSURANCE ENTITIES	OTHER ENTITIES	ADJUSTMENTS AND ELIMINATIONS	TOTAL PUBLIC BALANCE SHEET
Own Funds	**3,092,205**	**336,342**	**-9,314**	**-327,568**	**3,091,665**
Capital	2,144,276	135,065	28	-135,093	2,144,276
Issued capital	2,144,276	135,065	28	-135,093	2,144,276
Non-called up required capital	-	-	-	-	-
Memorandum item: non-required capital	-	-	-	-	-
Share premium	-	-	-	-	-
Equity instruments issued other than capital	350,000	-	-	-	350,000
Equity instruments from compound financial instruments	-	-	-	-	-
Other equity instruments issued	350,000	-	-	-	350,000
Other equity items	-	-	-	-	-
Retained earnings	546,481	197,783	-9,265	-213,237	521,762
Revaluation reserves	3,313	-	-	-	3,313
Other reserves	7,331	-	-	24,179	31,510
Reserves or accumulated losses from joint ventures and associated companies	-68,183	-	-	24,179	-44,004
Other	75,514	-	-	-	75,514
(Own shares)	-	-	-	-	-
Profit of the year attributable to the parent entity	40,804	75,494	-77	-75,417	40,804
(Interim dividends)	-	72,000	-	-72,000	-
Other accumulated comprehensive income	**85,410**	**24,777**	**-**	**-41,625**	**68,562**
Items not reclassified into profit or loss	42,027	-3,364	-	-20,199	18,464
Items reclassified into profit or loss	43,383	28,141	-	-21,426	50,098
Minority interests	-	-	-	-	-
Other accumulated comprehensive income	-	-	-	-	-
Other items	-	-	-	-	-
TOTAL EQUITY	**3,177,615**	**361,119**	**-9,314**	**-369,193**	**3,160,227**
TOTAL LIABILITIES AND EQUITY	**45,999,780**	**8,001,081**	**859**	**-1,295,981**	**52,705,739**

3.5 - Identification of subsidiaries with own resources below minimum requirements

As of 31 December 2018 all subsidiaries, subject to minimum requirements on own funds at the individual level and not included in the Group, complied with the requirements established by the regulation.

The subsidiaries included in the consolidated group (*Ibercaja Gestión* and *Ibercaja Pensión*), additionally comply with the requirements on minimum Own Resources, according to their specific applicable regulation.

Table 15: Own Resources Ibercaja Gestión

Own Funds *Ibercaja Gestión*	
(thousands of euros)	Data 2018
Own Resources	13,152
Minimum Requirements Own Resources	9,791
Surplus	3,361

Table 16: Own Resources Ibercaja Pensión

Own Funds *Ibercaja Pensión*	
(thousands of euros)	Data 2018
Own Resources	20,411
Minimum Requirements Own Resources	10,430
Surplus	9,981

There are no legal nor practical impediments to the transfer of own funds nor the reimbursement of liabilities between the subsidiaries and their parent entity.

3.6 - Exemptions to requirements

In accordance with the established in article 7 of Regulation (EU) 575/2013 (CRR), the competent authorities will be able to exempt any subsidiary of an entity as well as the parent entity of complying at an individual basis and, where appropriate, in a sub-consolidated manner, with the obligations of minimum requirements on own resources by credit and dilution risk; counterparty, position and settlement risk of the trading book; exchange rate risk and gold position risk, operational risk; as well as the requirements on internal corporate governance, and limits to concentration of great risks, when both the subsidiary and the parent are subject to authorization and supervision from the Bank of Spain and are included under consolidated supervision.

As there is no impediment of material, practical or legal character, to the immediate transfer of own founds or to the reimbursement of liabilities between the subsidiaries of the Group and the Bank, and not existing any fact suggesting that such impediments may exist in the future, the parent and Ibercaja Leasing S.A. requested the referred waiver.

Ibercaja Leasing S.A., as subsidiary credit institution owned at 100%, has been exempted, as per agreement with the Executive Commission of the Bank of Spain as of 30 July 2010, form individual compliance with the obligations on requirements of own resources and limits to great risks and corporate governance. Furthermore, the European Central Bank has agreed to this exemption.

4. Computable Own Resources

In Title I of Part II of Regulation (EU) 575/2013 of the European Parliament and the Council, the different levels of capital that make up the own funds of the Bank as well as those items that comprise it are defined. The *Bank of Spain Circulars 2/2014* and *2/2016* complete the adaptation of the Spanish Legal Order to the Directive 2013/36 UE y al Regulation (UE) nº 575/2013 and specify the progressive implementation schedules that have to be used when computing certain items.

There are three categories for the Group's computable own funds:

1) **Common Equity Tier I instruments**, defined in Part II, Title I, Chapter 2 of Regulation (EU) 575/2013 (CRR), are characterized as components of equity that can be used immediately and without restriction to cover risks or losses as they occur, being registered their free amount from any foreseeable tax at the time of calculation. These elements show higher stability and permanence in time than Additional Tier I equity instruments. As indicated in section 4.2, the Group Common Equity Tier I instruments as of 31 December 2018 consist of:

   - Equity.
   - Retained earnings and other reserves, including revaluation reserves.
   - The net profit for 2018 that the Entity plans to allocate to reserves.
   - Valuation adjustments of financial assets at fair value with changes in other comprehensive income.

   The following items are deducted:

   - Prudent valuation adjustments.
   - Securitization positions that can be alternatively submitted to a risk weight of 1,250%.
   - Intangible assets and goodwill accounted for in the Group's balance sheet.
   - Deferred tax assets that rely on future performance and do not receive alternative treatment provided in applicable regulation to those coming from temporary differences, after applying the schedule prescribed by CBE 2/2014 y UE 2016/445.

   The fully-loaded Common Equity Tier 1 (CET1), which refers to the calculation of capital without applying transitional measures, exceeds the minimum level required by SREP decision in 2018 (9% fully-loaded). According to the Bank's solvency situation, the recommendations of the European Central Bank regarding the restriction or regulatory limitation on dividend payments, variable remuneration and interest payments to holders of Additional Tier 1 Capital.

2) **Additional Tier 1 capital instruments** are defined in Part II, Title I, Chapter 3 of Regulation (EU) 575/2013 (CRR), with the limits and deductions set out in that Regulation. These own resources are characterized by having, a priori, higher volatility or lower degree of permanence than the elements considered as Common Tier 1 capital instruments. As detailed in section 4.2 below, as of December 31, 2018, the additional Tier 1 capital instruments of the Group consisted of:

   - Preferred shares.

3) **Tier II capital instruments** are the ones defined in Part II, Title I, Chapter 4 of Regulation (EU) 575/2013 (CRR), with the limits and deductions established in this regulation. As indicated in section 4.2, at December 31, 2018 the Group's Tier II capital instruments consist of:
   - Subordinated debt.

   The following must be deducted:
   - Subordinated debt in financial sector entities with significant influence.

Supervisory Review and Evaluation Process (SREP) y Capital Buffers

The ECB communicated the final results of the Supervisory Review and Evaluation Process (SREP), which sets the capital requirements of each bank for 2019 based on: business model, capital risk, liquidity and governance and internal control. This decision requires Ibercaja Group to maintain a Common Equity Tier 1 (CET1) of 9.0% and a total capital ratio of 12.5%. These solvency requirements include the minimum required by Pillar 1 (4.5% of CET1 and 8% of total capital), the requirement of Pillar II (2.0%) and capital conservation buffer (2.5%).

According to the Bank of Spain, no Spanish entity has countercyclical buffer requirements for 2018.

The following table details the requirements for the transitional period until 2019:

Table 17: Transitional period solvency requirements

Transitional period solvency requirements		
% of RWAs	2018	2019
Capital Conservation Buffer	1.875%	2.50%
Min. CET1	4.50%	4.50%
Min. Tier I	6.00%	6.00%
Min. Solvency ratio	8.00%	8.00%
Min. CET1 + Conservation Buffer	6.375%	7.00%
Min. Tier I + Conservation Buffer	7.875%	8.50%
Min. Solvency Ratio + Conservation Buffer	9.875%	10.50%

4.1 - Conciliation of regulatory capital and accounting capital of the consolidated balance sheet

The scope of consolidation does not match for regulatory purposes and for accounting purposes, therefore existing differences between the information used in the calculation of computable own funds and own funds from published financial statements.

The conciliation between regulatory capital and accounting capital is presented according to the method set out in Annex I of the Implementing Regulation 1423/2013:

Table 18: Conciliation of Own Funds with Financial Statements

Full reconciliation of own funds elements with the audited financial statements		
(thousands of euros)	Amount 2018	Amount 2017
Subscribed 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 attributable to the Parent Company	40,804	138,367
Own funds in public balance sheet	3,091,665	2,854,915
Other accumulated comprehensive income	68,562	144,077
Minority 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
Valuation adjustments (non-computable)	-	-31,309
Transitional adjustment first application NIIF9	99,945	-
Proposed distribution of dividends	-17,500	-17,500
Securitization deduction	-2,082	-
Equity instruments computable as CET1	-350,000	-
Contingent convertible bonds	-	-
Differences in public and prudential equity	4,871	17,430
Total adjustments and deductions	-664,673	-389,065
Total Common Equity Tier 1 (CET1)	**2,495,554**	**2,610,227**
Capital instruments computable as AT1	350,000	-
Other transitional adjustments of Additional Equity Tier 1	-	-
Total Additional Tier 1 Capital (AT1)	**350,000**	**-**
Total Tier 1 Capital (T1)	2,845,554	2,610,227
Subordinated debt	487,640	492,087
Total Tier 2 Capital (T2)	**487,640**	**492,087**
Total Computable Own Funds	**3,333,194**	**3,102,314**

4.2 - Equity Details

Below, the detail at 31 December 2018 and 2017 of the consolidated group computable own resources is presented, indicating each of its components and deductions, and is broken down into Common Equity Tier 1 instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments:

Table 19: Computable Own Funds

Computable Own Funds		
(thousands of euros)	Amount 2018	Amount 2017
TOTAL COMPUTABLE OWN FUNDS	**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 results	553,812	568,940
Admissible results	23,304	120,867
Revaluation reserves	3,313	3,321
Common Equity Tier 1 instruments	-	-
Minority instruments	-	87
Valuation adjustments of the asset portfolio at fair value with changes in other comprehensive income	72,767	125,234
Actuarial gains and losses in defined benefit schemes	2,832	5,188
Transitional adjustment first application NIIF9	99,945	-
Prudent valuation adjustments	-2,706	-
Deductions from Common Equity Tier 1 Instruments (CET 1)	-401,989	-357,686
Securitizations	-2,082	
Intangible assets	-212,496	-213,586
Deferred tax assets that rely on future returns	-187,411	-144,100
Additional Tier 1 Capital (AT1)	**350,000**	**-**
Additional Tier 1 capital instruments	350,000	-
Deductions from Additional Tier 1 capital instruments (AT 1)	-	-
Tier 2 Capital (T2)	**487,640**	**492,087**
Subordinated debt and subordinated loans and others	487,640	492,087

Giving effect to Implementing Regulation 1423/2013, the Table on Transitory Own Funds is included in Annex II.

Changes in Own Funds during the year 2018

On March 27, 2018, Ibercaja Banco, S.A. fixed the economic terms of an issuance of preference shares with a principal reduction mechanism for a nominal amount of 350 million euros. The preference shares were issued at par and have a quarterly paid remuneration of 7% per annum until April 6, 2023. Thereafter, the remuneration will be reviewed every five years applying a margin of 6.809% at the 5 year Mid-Swap Rate. In any case, the remuneration payment is subject to certain conditions and is also discretionary on the part of the issuer.

The preference shares are perpetual, without prejudice to the fact that they could be redeemed in certain circumstances at the option of the Entity. Additionally, the nominal value of each of them may be reduced to an amount of 0.01 euros if the Common Equity Tier 1 (CET1) is below 5.125%. The disbursement and closing of this issue was made on April 6, 2018, and has been admitted to be listed and traded in the Fixed Income AIAF Market.

This issuance of preference shares is authorized by the competent Supervisor for classification as additional Tier 1 capital instruments

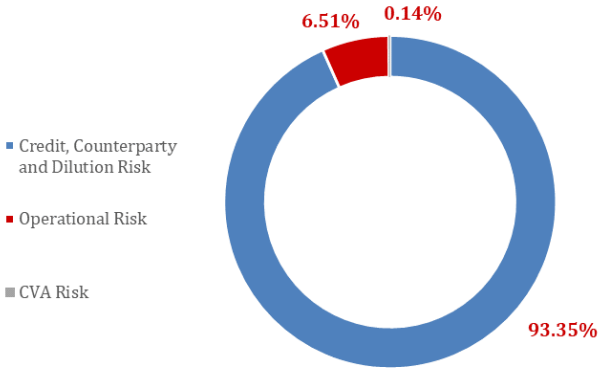
5. Minimum Requirements on Own Resources

Below, capital requirements are listed in accordance with the third part of the CRR for each of the risk categories, calculated as 8% of the risk-weighted assets:

Table 20: Minimum Own Funds Requirements

Own Funds Requirements		
(thousands of euros)	2018	2017
Credit, Counterparty and Dilution risk	1,596,504	1,663,561
Market Risk	-	-
Operational Risk	111,410	113,372
CVA Risk	2,411	4,370
Total Pillar 1 Requirements	1,710,325	1,781,303

Illustration 7: Minimum Own Funds Requirements



5.1 - Applied procedures for the evaluation the adequacy of internal capital

The aim of Basel's Pillar II is to ensure the proper relationship between the risk profile of the Group and the own resources that it effectively maintains.

To this end, the Group carried out a recurring process of Capital self-assessment in which it:

- Applies a series of risk identification procedures.
- Determines the capital needed to cover them. In addition to minimum own resources, it maintains a level appropriate to the inherent risks in its business, to the economic environment in which it operates, to the management and control it performs regarding these risks, to the government systems and internal audit that are at its disposal and to its strategic business plan.
- Plans the capital in the medium term.
- Sets the capital target.

To carry out proper planning of the Group's future capital needs, projections have been made on capital sources and consumptions resulting from the evolution of the activity and the expected results in a time horizon of three years. Additionally, The Group estimates projected capital levels under stress scenarios.

The capital self-assessment process is carried out in accordance with the ECB Guidelines on the internal capital adequacy assessment process (ICAAP).

The Bank's Board of Directors approves the "Declaration of Capital Adequacy", which is submitted to the supervisor. The Self-assessment Report is the basis of the dialogue with the supervisor regarding the risk profile, the capital and liquidity adequacy, as well as the medium-term plans of the Entity.

5.2 - Minimum own resources requirements for credit, counterparty and dilution risks

The following tables presents the amount of the consolidated group minimum own resources requirements for credit risk as of 31 December 2018, calculated, for each of the categories to which the standard method has been applied, as an 8 % of risk-weighted exposures:

Table 21: Own resources requirements for Credit Risk

Own Resources requirements for Credit Risk		
(thousands of euros)	2018	2017
Central governments or central banks	87,042	81,761
Regional governments and local authorities	-	-
Public sector entities and other non-profit public institutions	2,850	6,561
Multilateral development banks	-	-
International organizations	-	-
Institutions	10,507	15,164
Corporates	310,314	294,160
Retail customers	327,932	355,025
Exposures secured by real estate	531,672	534,125
Exposure in default situation	119,204	135,898
High-risk exposures	972	1,422
Covered bonds	867	908
Exposures to institutions and corporates with a short-term credit rating	-	-
Exposures to collective investment institutions	883	61
Equity exposures	92,652	93,969
Other exposures	109,811	142,188
Securitization positions	1,798	2,319
Total own resources requirements for credit risk	**1,596,504**	**1,663,561**

(*) The items included in each of these categories are in accordance with the provisions of Regulation (EU) 575/2013 (CRR).

The above-mentioned requirements for credit risk include counterparty risk related to derivative transactions by the following sum:

Table 22: Own resources requirements for Counterparty Risk

Own resources requirements for Counterparty Risk		
(thousands of euros)	2018	2017
Market-to-Market Method	3,659	9,749
Original Risk Method	-	-
Standard Method	-	-
Internal Models Method	-	-
Total own resources requirements	3,659	9,749

As indicated in the table, the requirements for counterparty risk are calculated by the mark-to-market method, which is determined by the result of adding the current replacement cost of all contracts with positive value and the amount of future potential credit risk of each instrument or transaction, calculated in accordance with Article 274 of Regulation (EU) 575/2013 (CRR).

5.3 - Correction factor applied to small and medium corporate exposures

Law 14/2013 of September, 27, supporting entrepreneurs in their fourteenth additional provision establishes a "correction factor" of 0.7619 applicable to credit risk-weighted exposures of small and medium enterprises. For the application of this factor, taken into account are the provisions of Article 501.2 of Regulation (EU) 575/2013 (CRR), on prudential requirements for credit institutions and investment firms, which set as parameters the business volume (<€ 50 Million) and the risk with the entity (<€ 1.5 Million).

The above-mentioned requirements for credit risk includes the reduction of the exposures applied to small and medium enterprises:

Table 23: SMEs correction exposures

Exposures subject to "corrective factor"		
(thousands of euros)	2018	2017
Requirements for exposures applying the correction factor	213,371	207,347
Requirements for exposures without applying the correction factor	280,051	272,145
Total own resources correction requirements	**-66,680**	**-64,798**

5.4 - Minimum own resources requirements for trading book

In accordance with Article 94 of Regulation (EU) 575/2013 (CRR), which refers to the scope of application as of 31 December 2018 the Group is not subject to calculating own resources requirements for position and liquidation risk of the trading book.

5.5 - Minimum own resources requirements for foreign exchange and gold position risk

In accordance with Article 351 of Regulation (EU) 575/2013 (CRR), own resources requirements of the Group as of 31 December 2018 are null for exchange rate risk and gold position as the sum of net global positions in currency, gold and instrumental currencies, regardless of their sign, does not exceed 2% of total computable own resources.

5.6 - Own resources requirements for operational risk

As of 31 December 2018 the operational risk requirements for the Group are the following:

Table 24: Own resources requirements for Operational Risk

Own resources requirements for Operational Risk		
(thousands of euros)	2018	2017
Basic Indicator Method	-	-
Standard Method	111,410	113,372
Alternative Standard Method	-	-
Advanced Method	-	-
Total Equity Requirements	**111,410**	**113,372**

The Group has estimated the requirements by the standard method to meet the requirements specified in Article 320 of Regulation (EU) 575/2013 (CRR), as a simple average of the last three years of the aggregation, for each year, the maximum value between zero and the sum of the relevant income of each business line referred in table 2 of paragraph 4 of Article 317 of Regulation (EU) 575/2013 (CRR) multiplied by their corresponding weights foreseen in that table: Retail Brokerage, Retail Banking and Asset Management at 12%; Commercial Banking and Agency Services at 15%; Business Financing, Trading and Sales and Payment and Settlement at 18%.

5.7 - Own resources requirements for risk of credit valuation adjustment (CVA)

According to Title VI of Regulation (EU) 575/2013 third (CRR), "Credit Valuation Adjustment" means a valuation adjustment at market value of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the counterparty credit risk towards the entity.

As of 31 December 2018, the Group requirements for risk of credit valuation adjustment (CVA) are the following:

Table 25: Own resources requirements for CVA

Own Resources Requirements for Credit Valuation Adjustment (CVA)		
(thousands of euros)	2018	2017
Advanced Method	-	-
Standard Method	2,411	4,370
Based on the original exposure method	-	-
Total equity requirements	2,411	4,370

The requirements have been calculated by the standard method in accordance with Article 384 of Regulation (EU) 575/2013 (CRR).

6. Risks

6.1 - Risk management policies and objectives

The Ibercaja Group's risk management is based on the strategic principles detailed below:

- Maintenance of a medium-low risk profile.
- Compliance with regulatory requirements at all times, as well as with the capital and liquidity objectives established in the capital and liquidity self-assessment processes.
- Maintenance of adequate levels of risk-adjusted return to ensure compliance with the objectives of profit generation.
- Avoid the risk concentration in any of its manifestations (individual, economic groups, sectorial ...).
- Avoid the materialization of operational, compliance, legal or reputational risks through active and constant risk management.
- Good risk governance with the effective involvement of Senior Management and the Board of Directors.
- Promote a risk culture and facilitate the entity's better understanding of the level and nature of the risks to which it is exposed.
- Maintain and foster the trust of customers, investors, employees, suppliers and other agents.

The Group risk management is structured through the "Risk Appetite Framework" (hereinafter RAF). The main purpose of the Group RAF is to establish a set of principles, procedures, controls and systems by which it defines, communicates and monitors the risk appetite of the Group.

The risk appetite is understood as the risk level or profile that the Group is willing to assume and maintain both for its type and for its amount, as well as their level of tolerance and should be oriented towards the achievement of the strategic plan objectives, according to the action lines established in the RAF.

The objective of managing the various risks is to achieve a risk profile that is within the level of appetite desired, defined from the limits established, taking those management measures considered most appropriate to achieve it.

6.2 - Corporate Governance in Risk Management

6.2.1 - Framework for action and management

The Board of Directors ensures the adequacy of the risk management systems to the Entity's risk profile and the strategy.

Likewise, the Risk Appetite Framework includes a statement of the limits, tolerance and appetite for risk, as well as the functions and responsibilities of the different governing and management bodies that oversee the implementation and monitor it.

The Risk Appetite Framework defined by the Group is characterized by:

- Being aligned with the strategic plan and with the capital planning.
- Being integrated into the risk culture of the institution, with the involvement of all its responsibility levels.
- Being flexible, able to adapt to changes in business and market conditions, so it must be subject to periodic review, at least annually.
- Being linked with information management systems.

The RAF has a global vision of the Consolidated Group and considers all the risks that affect the development of the Group's activities and the achievement of the business goals.

The RAF of the Group is based on strategic principles, corporate governance principles and risk management principles that all integrated constitute the Group Risk Appetite Declaration. The risks considered are the following: business and profitability risk, credit risk, concentration risk, operational risk (which includes the sub-categories of reputational risk, legal risk and ICT risk), interest rate risk, market risk, liquidity and financing risk and insurance business risk.

In addition, The Group has policies and procedures manuals for risk management that are reviewed annually and approved by the Board of Directors.

The Risk Appetite Framework is consistent with the capital and liquidity planning of Basel's Pillar II, which aims to ensure the proper relationship between the risk profile of the Entity and the own resources that it effectively maintains. The Entity carries out a recurring process of capital and liquidity self-assessment in which it applies a series of procedures for the identification, measurement and risk aggregation, and determines the capital and liquidity needed to cover them, plans capital in the medium-term and sets the target for own resources and liquidity, enabling it to maintain adequate clearance with respect to minimum legal requirements and supervisory guidelines.

The entry into force of the new Single Supervisory Mechanism (SSM) in November 2014 involves adaptation of the risk policies and procedures of the European financial sector, as well as its control environment. The "Supervisory Review and Evaluation Process" (SREP) is the means to carry out the continuous assessment of the entities by the SSM.

The processes of internal assessment of capital and liquidity adequacy of Pillar II (also called ICAAP & ILAAP) together with the stress exercises carried out by the European Banking Authority (EBA) and the ECB are configured as a key part of the SREP process.

The Entity has a recovery plan defined, in accordance with the Banking Recovery and Resolution Directive (Directive 2014/59, BRRD), as well as the guidelines and recommendations of the EBA, that sets the foundations for the process of restoring the Group's financial strength and viability, if a situation of severe stress occurs.

These management frameworks (RAF, ICAAP & ILAAP and Recovery Plan) are consistent with each other, are integrated into the existing risk management processes, and are reviewed and approved by the Bank's Board of Directors on an annual basis.

The Risk Management System works in an integral, continuous manner, consolidating this management by business area, geographical areas and subsidiaries at the corporate level.

6.2.2 – Governance structure

The Entity has a robust organizational structure that ensures effective risk management and control. Governance Bodies are articulated as follows:

- The Board of Directors is responsible for establishing and supervising information and risk control systems, approving the risk appetite framework and the risk management policies, manuals and procedures.
- The Major Risks and Solvency Commission, among whose competences is to propose the establishment of limits by risk and business type, to report the RAF consistently with other policies and strategic frameworks of the Entity, to assess the Group risk management, to review the risk control systems and to propose measures to mitigate the impact of the identified risks.
- The Strategy Commission has, as its core mission, to report the Board of Directors on the strategic policy of the Entity, ensuring that there is an accurate organization for its implementation.
- The Audit and Compliance Commission, whose competence is to monitor the effectiveness of internal control, internal audit and risk management systems, regularly reviewing them so that the main risks are identified, managed and disclosed adequately.

On the other hand, the following Executive Committees have been set up with the participation of the Entity's Senior Management:

- The Global Risk Committee is responsible for defining and monitoring the risk strategies and policies of the Group, for setting goals and strategies for the development of the equity structure and composition in the balance sheet, for analyzing the sensitivity of the results and the equity value of the Entity in different scenarios, for analyzing compliance with the established tolerance levels and for performing the Group medium-term capital planning.
- Among the functions of the Audit Committee are to acknowledge the annual Internal Audit Operational Plan that is presented to the Audit and Compliance Commission, be regularly informed of the results of the internal audit reports and promote the implementation of the improvement recommendations proposed to mitigate the weaknesses observed.

The organizational structure gives the Entity a risk management and governance global structure, aligned with the market trends and proportional to the complexity of the business of the Group, with three lines of defense (management, control and audit). This structure ensures the homogeneity of policies and the control of risk in Ibercaja and in all the companies integrated in its Group.

6.2.3 - Risk management, control and measurement strategies

Below are presented the main policies and strategies for the most significant risks, as outlined in the Annual Report.

Credit Risk

Credit Risk arises from the possibility of generating losses due to non-compliance with payment obligations by the borrowers as well as drops in value resulting from deterioration in the credit quality of the borrowers.

- *Strategies and policies for Credit Risk Management*

Credit Risk Management is focused on facilitating credit investment growth in a sustained and balanced manner, while ensuring the Group's assets and financial position, with the aim of optimizing the risk/return binomial within tolerance levels set by the Board of Directors based on the management principles and performance policies defined.

The Board of Directors approves the strategies, policies and limits for managing this risk, prior report from the Major Risks and Solvency Commission, documented in the "Credit Risk Management Framework", "Irregular Asset Management Framework" and "Risk Model Management Framework" as well as the different policy manuals that are developed from them. The aforementioned manuals include, among others, the performance criteria in the main activity segments and the maximum risk lines with the main creditors, sectors, markets and products. It is the responsibility of the Board of Directors to authorize risks that exceed the competence of the operating circuit.

- *Credit granting, monitoring and recovery policies*

The credit investment portfolio is segmented into client groups with homogeneous risk profiles and subject to differential treatment through the application of specific evaluation models.

a) The following policies are established in the field of **credit risk granting**:

- Risk classifications for groups of borrowers, through the establishment of previous limits of exposure, in order to avoid inappropriate risk concentrations.
- Criteria for the admission of new operations and limits to the concession powers according to the customer segment to which it is financed.
- Methodology of analysis of the operations according to their typology and belonging to different segments.
- Internal credit rating models integrated in the decision systems for the different areas of the retail business.
- Necessary requirements to provide legal security to each operation.
- Risk mitigation techniques.
- Pricing policies according to the credit quality of the clients.

The structure of credit risk management has a decentralized transactions concession scheme, which is based on a formally established delegation of powers, depicted in risk manuals.

The Bank has established in its "Manual of Admission Policies" policies for the granting of risks in accordance with Law 2/2011, of March 4, Sustainable Economy, the Orden EHA / 2899/2011, of October 28, of transparency and protection of the banking services client and the Circular 5/2012 of the Bank of Spain, of June 27, on transparency of banking services and responsibility in the granting of loans and credits.

In the granting of loans, the manual considers as fundamental criteria the reasonableness of the proposal, the analysis of the payment capacity of the borrower and the prudent valuation of the guarantees. In the case of real estate guarantees, they are always valued by an independent third party (appraisal companies authorized by the Bank of Spain).

With respect to the transparency and protection of the customer of banking services, the Group carries out the following actions:

- The current rates (interest rates, commissions and expenses) applied to the different financial products are presented in the offices.
- The current rates are communicated to the Bank of Spain on a quarterly basis.
- The Company's website (http://contransparencia.ibercaja.es) gives access to the rates applied by the Bank to its different products.
- The contractual conditions document is delivered to the client prior to signing. Subsequently a copy of the contract is delivered.
- Annually, in January, the client receives a personal communication detailing the interests, commissions and expenses applied during the previous year, for the different contracted products.

Internal Audit, within the controls conducted to the offices, is in charge of ensuring compliance with established policies and procedures.

b) **Risk monitoring**.

In the area of credit risk monitoring, the fundamental objective is to identify in advance possible deterioration in the borrower's risk quality, to adopt corrective measures and to minimize the negative impact that the entry in arrears of the exposure would entail, or its classification in Stage 2.

The function of credit risk monitoring is carried out based on the individualized monitoring of clients who, due to exposure or risk profile, require greater attention, and based on the analysis of the evolution of different portfolios (Individuals, Productive Activities, Promoter...).

Part of the credit risk monitoring carried out in the Entity, including the classification and estimation of coverage of the exposures, is based on Annex 9 Analysis and Coverage of Credit Risk, of the Circular 4/2017, of November 27, from the Bank of Spain. This regulation establishes that the entities must have credit risk evaluation, monitoring and control policies that require the utmost diligence in the study and rigorous evaluation of the credit risk of the operations, not only at the moment of its concession, but also during its life. Within the scope of this Circular, the Bank considers as individually significant creditors those with which the exposure exceeds 3 million euros.

The fundamental principles, procedures and tools that support the monitoring function to carry out their work effectively are included in the Entity's Credit Risk Monitoring Policy.

c) **Recoveries**.

The integral risk management is completed by recovery policies aimed at avoiding or minimizing potential defaults by specific recovery circuits depending on the amount and type of transaction, and with the intervention of different internal and external managers to adapt the necessary actions to each situation

Country risk

It is defined as the possibility of incurring losses derived from the breach of the payment obligations of a country globally considered by circumstances other than usual commercial risk. It includes sovereign risk, transfer risk and other risks arising from international financial activity.

Countries are classified into six groups in line with Circular 4/2017 of Bank of Spain, according to their rating, economic evolution, political situation, regulatory and institutional framework, capacity and payment experience.

Likewise, with regards to sovereign risk, maximum limits have been established for public debt issued by the Member States of the European Union and other States according to their rating.

Operational risk

It is defined as the risk of incurring losses resulting from the lack of adaptation or a failure of processes, personnel and internal systems, or derived from external events, contemplating, therefore, subcategories of risks such as conduct risk, ICT risk or model risk, among others.

- *Strategies and policies for Operational Risk Management*

The Board of Directors approves the strategies, policies and limits for the management of this risk, prior report from the Major Risks and Solvency Committee, all documented in the "*Operational Risk Management Framework*."

Currently, the Group has a management and assessment model of this risk, which basically covers the following points:

- General aspects: operational risk definition, categorization and risk assessment.
- Methodologies applied for the identification, assessment and measurement of operational risks.
- Scope of the methodologies and personnel involved in the management of this risk.
- Indicators, limits and tolerance thresholds.
- Generation of stress scenarios
- Management support models (operational risk management, control and mitigation): information derived from previous methodologies and implementation of risk mitigation measures.

The scope of application of the operational risk management and assessment model extends to the Group's business and support units, as well as to the Group companies.

Its effective implementation and use in each of the units and subsidiaries is carried out in a decentralized manner. Meanwhile, the Internal Control and Validation Unit performs risk measurement, monitoring, analysis and communication.

- *Management, control and measurement procedures for Operational Risk*

The Group, in the application the model adopted for operational risk management, combines the following methods, 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 collection and analysis of risk indicators. During the 2018 fiscal year, 615 operational risks were reviewed and self-assessed, and a medium-low risk profile was concluded.
- Quantitative methodology, supported in the identification and analysis of the real losses that have occurred in the Group, which are registered in the database established for this purpose.

The quantification of the actual losses registered in the loss database in 2018 shows that the total annual loss amount (net of direct recoveries and insurance) due to operational risk events amounts to 21,654 thousand euros corresponding to 5,326 events, from which 598 events amounting to 12,309 thousand euros derive from losses linked to floor clauses (interest reimbursement amounting to 10,738 thousand euros and legal costs amounting to 1,571 thousand euros). If the provisions associated to such losses linked to floor clauses are discounted, as well as other provisions associated with different losses, the total net annual loss amount is 7,165 thousand euros.

Without considering the aforementioned extraordinary impact by floor clauses, the actual operational losses are reduced in relation to the capital requirements, in a manner consistent with the overall result of the qualitative evaluation referred to above.

Advances in operational risk management and control processes resulting from the established policies, allow the Entity to calculate, since December 2010, the capital consumption for Operational Risk by under the Standardized Approach, in accordance with the provisions of Regulation (EU) No. 575/2013.

Interest Rate risk

It is defined as the current or future risk that the Entity's capital or profit may be affected as a result of adverse fluctuations of the interest rates that impact the positions of its investment portfolio.

The sources of the interest rate risk are repricing, curve, base or optionality risks. In particular, repricing risk derives from temporary differences of balance sheet instruments sensitive to interest rates, which arises from the differences in their repricing or maturity schedule. The curve risk derives from the changes that may occur in the slope and the shape of the interest rate curve, the base risk derives from the different impact on the balance sheet instruments sensitive to interest rates, which have similar terms, but which reprice using different indices, and the risk of optionality derives from the implicit or explicit options.

- *Strategies and policies for Interest Rate risk management*

The purpose of the management of this risk is to contribute to the maintenance of the present and future profitability of the appropriate levels, preserving the economic value of the Group.

The Board of Directors establishes strategies, policies and limits for the management of this risk, prior report from the Major Risk and Solvency Commission documented in the "Manual of policies and procedures for the management of interest rate risk".

- *Control and measurement procedures*

The Group manages risk exposures derived from its portfolio transactions, both at the moment of their contract as their later monitoring, and incorporates into its analysis horizon the expected business development and the expectations regarding the interest rates, as well as management and coverage proposals, simulating different behavior scenarios.

The Group has tools that allow to measure the effects of interest rate variations on the brokerage margin and economic value, simulate scenarios based on the evolution hypotheses of interest rates and commercial activity, and estimate the potential impact in capital and results derived from unusual market fluctuations so that their results are considered in the establishment and review of policies and risk limits, as well as in the risk limits as well as in the planning and decision-making process.

With regards to optionality risk, there are behavioral models that establish the essential hypotheses about the sensitivity and duration of on-demand saving transactions, since the expiration date is not contractually established, as well as on early loan repayments, early cancellation of term deposits, and duration of unproductive assets, all based on historical experience for different scenarios.

Similarly, the effect of interest rate variations on the financial margin and the economic value is controlled through the establishment of exposure limits. The limits allow maintaining the exposure to the interest rate risk within the levels compatible with the approved policies.

Liquidity risk

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

- *Strategies and policies for Liquidity Risk Management*

The management and control of liquidity risk is governed by the principles of financial autonomy and balance sheet stability, ensuring business continuity and the provision of sufficient liquid resources to meet payment obligations associated with the repayment of liabilities in their respective maturity dates without compromising the capacity to respond to strategic market opportunities.

The Board of Directors establishes the strategies, policies and limits to manage this risk, prior report from the Major Risks and Solvency Commission, documented in the "Policies and procedures manual for liquidity risk management."

The funding strategies in retail markets and the use of alternative sources of liquidity in the short, medium and long term, allow the Group to have the necessary resources to meet the demand for solvent credit derived from commercial activity and maintain treasury positions, within the management parameters established in the Risk Appetite Framework and in the Liquidity Manual.

- *Management, control and measurement procedures*

Liquidity risk measurement considers the estimated assets and liabilities cash flows, as well as guarantees or additional instruments at the Group's disposal to ensure alternative liquidity sources that may be required.

Likewise, future estimated business changes and interest rates expectations, as well as the management and coverage proposals, are incorporated simulating different behavior scenarios. These procedures and analysis techniques are reviewed as frequently as needed to ensure proper functioning.

Short, medium and long-term forecasts are conducted to acknowledge the financing needs and compliance with the limits, which take into account the current macroeconomic context, due to their impact on the evolution of the different assets and liabilities of the balance sheet, as well as contingent liabilities and derivative products. Similarly, liquidity risk is controlled through the establishment of tolerance thresholds compatible with the approved policies.

In addition, the Bank is prepared to face eventual crisis, both internal and of the markets in which it operates, with action plans that guarantee sufficient liquidity at the lowest possible cost.

A set of liquidity risk dashboards, limits and alerts have been established, which are communicated quarterly to the Global Risk Committee (first and second level metrics), as well as to the Major Risks and Solvency Commission and the Board of Directors (first level metrics).

- *Policies for hedging and reducing liquidity risk and strategies for supervising its effectiveness*

The Entity has mitigation measures for Liquidity Risk that are generally used in management. Thus, the Global Risk Committee has at its disposal the adoption of measures in the retail field (strengthening of the collection of stable liabilities, deceleration of the rhythm of investments, transfer of off-balance sheet resources (funds, insurance, plans ...), self-financing of commercial activity, etc.) or in the wholesale field (recourse to the wholesale market, diversification of maturities of wholesale financing, diversification of issues and financial instruments, etc.)

With regards to action plans, the Global Risk Committee is responsible for taking corrective measures, after the analysis of all available information, including escalation to the Governing Bodies, in the event of stress situations.

- *Statements approved by the management body regarding liquidity risk*

a) Regarding the adequacy of the liquidity risk management systems established in relation to the entity's profile and strategy.

   The Risk Appetite Framework is consistent with the internal liquidity adequacy assessment process (ILAAP), which ensures the adequate relationship between the financing profile and the availability of liquid assets of the Group.

   To this end, the Group has developed a self-assessment methodology, based mainly on the metrics and thresholds defined and approved in its RAF to determine the inherent and residual liquidity risk. In addition, the control environment is evaluated according to the SREP methodology, assessing the areas of governance, risk appetite and the internal risk management and control framework. As a result of the above, the liquidity risk profile of the Ibercaja Group stands, at December 2018, at a low level, with broad availability of liquid assets. In this way, the relationship between the financing profile and the availability of liquid assets of the Group is adequate.

   The Entity carries out a recurrent internal liquidity adequacy assessment process (ILAAP) to ensure the adequate relationship between its liquidity and financing risk profile and the liquid assets it has. The "Liquidity Adequacy Statement" is approved annually by the Board of Directors.

b) Statement on the entity's general liquidity risk profile, associated with the business strategy.

Ibercaja Banco has traditionally been characterized by adopting a prudent policy in the management of liquidity risk, based on a clear vocation to finance the growth of lending activity with retail resources, with a limited appeal to wholesale markets. This circumstance has allowed the Group to maintain a comfortable liquidity position and a reduced dependence on wholesale financing.

There is a high quality liquid assets buffer free of charge as insurance against liquidity stress scenarios.

This buffer is made up of high-quality liquid assets, public debt or similar instruments, designed to protect the Group against stress scenarios of greater intensity as demonstrated by the level of the LCR ratio as of December 31, 2018, which stands at 307%, well above the minimum requirements set at 100%.

The size of the liquid assets buffer is established in accordance with the level of risk tolerance set by Ibercaja in the RAF.

Similarly, the "Available liquidity over assets" ratio reaches 21.55% as of December 31, 2018.

For less intense, but longer duration, scenarios there is a portfolio of eligible assets free of charge, which can be converted into cash without incurring excessive losses or discounts.

Long-term obligations are also met through a variety of stable financing instruments, as shown by the net stable financing ratio (NSFR), which reaches 130% at December 31, 2018, well above the minimum requirements set at 100%.

Based on the liquidity situation analyzed in the previous sections and the assessment made of the inherent and residual risk, the Ibercaja Group does not consider it necessary to have additional liquidity buffers.

Other coefficients and key figures justifying the liquidity risk profile are included in Annex II and in section 11 of this report.

Exposure to other risks

Exposure to Market Risk and Counterparty Risk

- *Strategies and policies for Market Risk and Counterparty Risk Management*
  a) Market risk

It is defined as the possibility of incurring losses by the maintenance of positions in markets as a result of an adverse movement of financial variables or risk factors (interest rates, exchange rates, stock prices ...) which determine the value of such positions.

The Entity manages market risk, trying to obtain an adequate financial return in relation to the assumed risk level, taking into account certain levels of global exposure, exposure by segmentation type (portfolios, instruments, and ratings), portfolio structure and risk/return objectives. In its management and control, sensitivity analyses and simulation of stress scenarios are performed to estimate their impact on results and capital.

The Board of Directors approves the strategies, policies and limits to manage this risk, prior report from the Major Risks and Solvency Commission, all documented in the "Capital market Risk Management Policies Manual".

To manage market risk, there are identification, measurement, monitoring, control and mitigation policies as well as operational policies regarding trading, positions' revaluation, portfolios' classification and valuation, transactions' cancellation, new products' approval, relations with intermediaries and delegation of functions.

b) Counterparty risk

It is defined as the possibility of defaults by counterparties in financial transactions (fixed income, interbank, derivatives...).

The Board of Directors approves the strategies, policies and limits to manage this risk, prior report from the Major Risks and Solvency Commission, all documented in the "Risk Lines Manual" of Ibercaja Banco.

To manage counterparty risk, the Company has policies of identification, measurement, monitoring, control and mitigation. Furthermore, the "Risk lines Manual" establishes the criteria, methods and procedures for the granting of risk lines, the limits proposal, the process of formalization and documentation of transactions, as well as risk monitoring and control procedures for financial institutions, public administrations with rating and listed and/or qualified companies, except for promoting companies.

Risk lines are basically established based on the ratings granted by rating agencies, on the reports issued by such agencies and expert analysis of its financial statements.

For the granting of counterparty risk related transactions to the previously mentioned institutions, Capital Markets Management and the Governance Bodies will be responsible for managing the assumption of risk, taking into account the limits for credit lines.

The Entity utilizes specialized tools to manage, control and measure the counterparty risk, in order to consider the risk consumption of each product and to collect under the same application the risks calculated at Group level.

- *Management, control and measurement procedures*

a) Market risk

Portfolios exposed to Market Risk are characterized by their high liquidity and by the absence of materiality in the "trading" activity, which means that the assumed market risk is insignificant as a whole.

Since 2009, the evolution of the management portfolio's expected loss is monitored given a confidence level of 99% and a time horizon (1 day or 10 days) as a result of changes in risk factors that determine the price of financial assets through the VaR indicator (value at risk).

The VaR calculation is carried out using different methodologies:

- The parametric VaR assumes normality of the relative variations of the risk factors for the calculation of the expected loss of the portfolio, given a confidence level of 99% and a time horizon (1 day or 10 days).
- The diversified parametric VaR takes into account the diversification offered by the correlations of risk factors (interest rates, exchange rates, share prices...). It is the standard measure.
- The non-diversified parametric VaR assumes no diversification between these factors (correlations equal to 1 or -1 depending on the cases), and is useful in periods of stress or changes in correlation of risk factors.
- The Historical Simulation VaR uses the relative changes made in the last year of the risk factors to generate the scenarios in which the potential loss of the portfolio is evaluated, given a 99% confidence level and a time horizon.
- The VaR Shortfall measures, given a 99% VaR and with a time horizon of 1 day, the expected loss in 1% of the worst results beyond the VaR. It provides a measure of losses in case of VaR break.
- In any case, the impact in absolute terms of the VaR is relativized on own resources.

The VaR measurement, as of December 31, 2018:

(thousands of euros) **Confidence level: 99%**	Diversified Parametric VaR	Parametric VaR vs Own Resources.	Non-diversified parametric VaR	Non-diversified parametric VaR vs Own Resources	Historical Simulation VaR	Historical Simulation VaR vs Own Resources	VaR Shortfall	VaR Shortfall vs Own Resources
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 VaR measurement, as of December 31, 2017:

(thousands of euros) **Confidence level: 99%**	Diversified Parametric VaR	Parametric VaR vs Own Resources.	Non-diversified parametric VaR	Non-diversified parametric VaR vs Own Resources	Historical Simulation VaR	Historical Simulation VaR vs Own Resources	VaR Shortfall	VaR Shortfall vs Own Resources
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%	-61,607	1.99%	-	-	-	-

Likewise, and complementing the VaR analysis, stress tests have been carried out analyzing the impact of different scenarios of risk factors on the value of the portfolio under measurement.

b) Counterparty risk

The limits authorized by the Board of Directors are set by investment volume weighted by credit quality of the borrower, investment period and type of instrument.

In addition, legal limits on the concentration and large exposures are observed pursuant to Regulation (EU) No 575/2013.

Monitoring systems ensure that consumed risks are framed at all times within the established limits. They incorporate controls on rating changes and solvency of creditors.

Counterparty risk mitigation techniques include netting contracts, guarantees contracts, portfolio reduction in case of adverse credit events, reduction of risk lines, in case of lower rating or negative news of any company, and timely monitoring of companies' financial information.

With those entities with risk compensation and a collateralization agreements, in accordance with the requirements demanded by the Bank of Spain, the risk may be computed by the resulting net figure.

Exposure to Foreign Exchange risk

It is defined as the possibility of incurring losses arising from adverse fluctuations in the exchange rates of the currencies in which the Entity's assets, liabilities and off-balance-sheet operations are denominated.

Currently, the Group does not hold significant positions in foreign currency of a speculative nature or open positions in foreign currency of non-speculative nature of a significant amount.

The Bank's policy is to limit this type of risk mitigating it, generally, when it materializes through the contracting of active or passive symmetric operations or through financial derivatives that allow its coverage.

Exposure to Reputational risk

It is defined as the unfavorable impact that an event can cause on the corporate reputation of the entities that are part of the Group. It is associated with a negative perception from interest groups (customers, employees, society in general, regulators, shareholders, suppliers, counterparts, investors, market analysts ...) that affects the Group's ability to maintain existing commercial relationships or establish new ones.

The objective of reputational risk management is the preservation of corporate reputation, avoiding the appearance of events that may have a negative effect on it.

This risk is closely related to the rest, either because of the amplifying effect it may have on them, or because it often arises from the materialization of other risks, especially from regulatory compliance breaches (imposition of sanctions, especially in cases of public dissemination). For this reason, policies and procedures have been set up to ensure compliance with applicable regulations, whether internal or external.

In addition, and as a key control function to mitigate the risk of possible negative impacts derived from regulatory breaches, the company and various financial entities of the Group have a function of verification of regulatory compliance, with supervisory competencies in particularly relevant areas such as the anti-money laundering and the financing of terrorism, investor protection in the commercialization of financial instruments and the provision of investment services (MIFID), norms of conduct in the field of the Securities Markets, the regulations on communication of suspicious operations of market abuse, etc.

Therefore, the Group attaches maximum importance to the management of corporate reputation as a method to prevent, avoid and/or manage potential reputational risks, and its positive impact on value generation. Reputation metrics are drawn up, with recurrent periodic measurements, to monitor the perception that general population, customers and employees have of the Entity, as well as the evolution of the Group in Social Networks. The results are the basis for identifying strengths, areas for improvement, possible sources of reputational risk and developing action plans to improve reputation.

During the year 2018 the measurement of the Entity's reputational risk continued, identifying strengths and areas of improvement and continuing with action plans to improve the reputation that involve the main areas of the Entity.

6.2.4 - The Board of Directors' Functions

In the area of risk management, the Board of Directors is responsible of the following functions:

- Establish and supervise the risk information and management systems of the Entity and the Group, prior report from the Major Risk and Solvency Commission.
- Approve the Risk Appetite Framework of the Entity and formulate the Risk Appetite Statement (RAS), prior report from the Major Risk and Solvency Commission.
- Approve, prior report from relevant commissions in subject , risk management policies, manuals and procedures (liquidity, credit, interest, tax, capital markets...) including those posed by the macroeconomic situation in which it operates in relation to the economic cycle phase.
- Actively participate in the management of all material risks addressed in the solvency regulations, ensuring the allocation of adequate resources to their management.
- Approve and review, following a report from the Strategy Committee, the New Products Approval Policy that addresses the development of new markets, products and services, and significant changes in existing ones.

6.2.5 - Internal Audit and Regulatory Compliance Area Functions

Internal Audit Directorate

Internal Audit reports directly to the Audit and Compliance Commission.

The scope of Internal Audit within the group is total, influenced by both the parent company and its dependent subsidiaries, so that no activity, information system or internal control system is excluded from its scope.

The Internal Audit functions in the field of risk are the following:

- Propose, through the Audit and Compliance Committee, for approval by the Board of Directors, the Internal Audit Charter of Ibercaja Group, which will establish the position of the Internal Audit Function in the Entity, its responsibilities, the way they are going to develop them; and the procedure for reporting the results of its verifications to the Board of Directors and Senior Management.
- Plan, coordinate and develop the Strategic Plan and the Annual Internal Audit Operational Plan.
- Propose to the Audit and Compliance Committee the Strategic Plan and the Annual Internal Audit Operational Plan, and inform them periodically of their degree of monitoring.
- Ensure the quality of the methodologies, actions and reports of the Internal Audit functions.
- Permanently evaluate adequacy and proper functioning of the governance framework, the information and internal control systems inherent to the activities of the Entity or its Group, proposing, with a preventive approach, recommendations for improvement on the latter.
- Inform the Chief Executive Officer, Senior Management and the Internal Audit Committee about the main conclusions and recommendations resulting from the internal audits carried out; as well as the degree of implementation of these recommendations.
- According to its dependence, periodically inform the Board of Directors, through its Audit and Compliance Committee, about the results of the verifiable work carried out by Internal Audit and the degree of implementations of the recommendations.
- Participate in the dialogue with the regulatory or supervisory bodies, within the scope of their functions, and coordinate with them the scope and content of the Internal Audit reports required by the aforementioned bodies.

Specifically, the Internal Audit area has the following functions:

- Functions related to technical and quality supervision:
    - Coordinate the preparation and follow-up of the Strategic Plan and the Annual Internal Audit Operational Plan.

- Coordinate the preparation of the documentation for the Internal Audit Committee and the Governing Bodies of the Entity in relation to the internal audit function.
- Prepare the information requirements of the Supervisory Bodies in relation to the internal audit function.
- Coordinate and / or execute the work determined at each moment by the Internal Audit Department, in particular those that imply cross-sectional scope.
- Maintain updated the Internal Audit Statute, procedures and "normative" knowledge in matters of internal audit.

- Functions related to the protection of technological and informational assets:
  - Guarantee the correct administration and control of the technological and informational assets assigned to the Area or Dependent Units and of the data deposited or managed in the latter applications, databases or other tools

- Functions related to the data property and quality within the functions of the area:
  - Collaborate in the correct functional description of the data, files or reports assigned to the Area or Dependent Units, defining rules that allow to perform an effective control of the level of quality and establish tolerance and error thresholds.
  - Perform the correct data entry according to established procedures, identifying improvements that minimize operational risk.
  - Analyze data quality errors, recording incidents in the corporate database and define remediation and improvement plans to achieve the required quality levels. Collaborate in the supervision and/or execution of those remediation plans that are determined in Data Government Framework.

- Functions related to informational demand:
  - Control the informational demand of the Area or Dependent Units, prioritizing the attention according to the value contribution to the Entity and the available budgetary framework, documenting completely the requirements and certifying the result of the requests of the Area or Dependent Units.

Regulatory Compliance Area

The Regulatory Compliance area depends hierarchically on the General Secretariat and functionally on the Audit and Compliance Commission of the Board of Ibercaja Banco SA. The scope of action of this area covers the entire Group.

The general functions performed in the area in relation to the risk control and review are the following:

- Perform the internal control competences attributed to the regulatory compliance function in the regulations of credit institutions and entities that provide investment services.
- Ensure compliance with the regulations on matters of its competence that may affect the development of the activity of Ibercaja or of the Group companies, non-compliance with which may cause regulatory sanctions and reputational risk for the Entity.
- Ensure the correct application of the procedures established in the transparency and client protection regulations (both for banking products and investment services) -*customer compliance*-.
- Collaborate in the development of content, ensure the correct diffusion and update of the mandatory minimum contents that should be disclosed to the public through the Entity's corporate website, especially in relation to corporate governance and with regards to information for investors.
- Ensure the proper application of the procedures related to the Customer Service in accordance with the provisions of Orden ECO/734/2004, of March 11, on customer service departments and services and the ombudsman in financial entities, and in Orden ECC/2502/2012, of November 16, which regulates the procedure for submitting claims to the claims services of the Bank of Spain, the National Securities Market Commission and the General Directorate of Insurance and Pension Funds.
- Carry out, in collaboration with the Customer Service Department, Legal Advice and Digital Marketing and Strategy Directorates, and Network Area, a systematic assessment of claims with the aim of identifying and correcting its origin and mitigating possible associated risks.
- Ensure that the development and updating of the Policies and Manuals of the Entity are in line with current regulations, the guidelines and agreements adopted by the governing bodies of the Entity, as well as the consistency and absence of inconsistencies between them.
- Verify, in coordination with the different competent Directorates and Units, the correct identification and fulfillment of their legal obligations within the scope of their respective competences, overseeing the effective application of the procedures and controls established for this purpose, in particular, regarding anti-money laundering, in fiscal matters, the protection of personal data, the protection of consumers and users, and the provision of services in the field of the securities market.
- Coordinate the implementation and monitoring of the criminal risk prevention model in the Entity, as well as the application by the Directorates and Units involved of the high-level and specific controls in the different areas of action of the Entity.

Specifically, the Compliance area has the following functions:

- Functions related to branch offices Information and Service:
    - Prepare, in coordination with the Regulatory Unit, the instructions and guidelines related to the subjects of their competence, proposing their publication and ensuring their permanent updating.
    - Collaborate with the SIC for the efficient resolution of user queries related to matters of its competence.

- Training-related functions:
    - Collaborate with the Personnel Area and with Legal Advice in the preparation and definition of contents of training programs for directors and employees in the field of regulatory compliance in the securities market environment, anti-money laundering and financing of terrorism.

Functions related to the Headquarters:

- Prepare and periodically monitor the effective application of the Regulatory Compliance Program approved by the governing bodies of the Entity.
- Report to the senior management and the governing bodies, through the General Secretary, the corresponding periodic reports within the scope of their competencies, as well as the periodic reports related to the degree of compliance with the Compliance Program, assisting them in the establishment of improvement or update plans, where appropriate.
- Act as intermediary, within the scope of its powers, with supervisory bodies (Bank of Spain, European Central Bank, SEPBLAC, CNMV), which includes the control of the coordination of responses to requirements and the review of compliance with recommendations.

In relation to the control of conduct rules in the securities market, the Compliance Unit has the following functions:

Concerning the Internal Code of Conduct:

- Carry out the controls provided for in the Internal Code of Conduct (ICC) in the field of Securities Markets, in particular:
    - Periodically inform the Audit and Compliance Committee about compliance with the ICC.
    - Maintain the register of people subject to the ICC updated.
    - Resolve any conflicts of interest.
    - Maintain records related to privileged information
    - Perform the control of the personal transactions regime of the Persons Subject to the ICC, in accordance with its provisions, in the Securities Market Law and its implementing regulations.
    - Carry out the control of the mandatory information for the subject persons and other controls foreseen in the ICC.

Concerning the Prevention of market abuse

- Apply the procedures related to the detection, analysis and communication of suspicious transactions regarding market abuse.
- Carry out the controls envisaged in the Manual on "Detection, Analysis and Communication of Suspicious Market Abuse Operations," particularly those related to:

    - Reception and registration of detected operations, both centralized and decentralized, with some indication of possible market abuse.
    - Expert analysis of the operations detected in order to determine if they are suspicious operations of Market Abuse.
    - Communication, where appropriate, of suspicious transactions of market abuse to the CNMV.
- Ensure the proper application of the procedures for reporting transactions to the CNMV (transaction reporting).

Concerning Investor Protection (customer compliance) in the provision of investment services

- Verify, at least, compliance with:

    - Procedures for managing conflicts of interest and related transactions to avoid harm to customers in accordance with the Securities Market Law and its implementing regulations.
    - Procedures for the safeguarding of financial instruments and funds entrusted by clients in the field of the provision of investment services.
    - Procedures for the approval and design of new products and services.
    - Procedures related to compliance with the rules of conduct for the protection of clients and potential clients. Among others, those related to the following areas:
        - Marketing of products and investment services and benefits, which includes the control of policies and procedures related to:
            - ✓ Client classification.
            - ✓ Cataloging of financial instruments.
            - ✓ Adequacy assessment.
            - ✓ Evaluation of the suitability of clients in the field portfolio management and assessment.
            - ✓ Pre and post contractual information to clients.

        - The tariffs and contractual documents scheme.
        - Procedures for processing and better execution of orders.
        - Procedures for maintaining mandatory records on financial instruments and investment services required by current regulations.

Concerning anti-money laundering and financing of terrorism

Ensure adequate compliance with the obligations of the Entity and its Group companies subject to the legislation on anti-money laundering and the financing of terrorism (AML&FT), bound by obligation, in particular, those relating to:

- Identification, knowledge, acceptance and classification of clients.
- Analysis and communication of suspicious transactions.
- Declaration of movements of means of payment.

Particularly:

- Maintain the AML&FT Manual duly updated according to current legislation and update the procedures to it.
- Periodically update the self-assessment report on the risk of money laundering and financing of terrorism, in order to collect new risk scenarios and design and implement the controls that must be developed for mitigation.
- Verify and control the application by the Network of Offices of the due diligence measures to the clients, according to their AML risk level.
- Carry out continuous monitoring and control of the relationship with customers based on their AML&FT risk level, in order to update this level.
- Analyze and manage the alerts originated by the prevention tools.
- Prepare structured reports of special examination of transactions with possible indications of money laundering and preparation and submission, where appropriate, of the communication to SEPBLAC.
- Proceed to the freezing of funds of persons designated in terrorism lists and their communication to the Secretariat of the Anti-Money Laundering Commission.
- Collaborate in carrying out inspections that could be performed by the supervisory bodies (Bank of Spain or SEPBLAC) related to anti-money laundering
- Collaborate in carrying out the mandatory review of the external expert, as well as the supervision actions that the internal audit function can perform
- Prepare periodic information to the AML&FT Committee and Senior Management on activities carried out regarding AML&FT.

6.2.6 – Risk Reporting

Ibercaja Group has determined, for each of the significant risks identified in the Risk Appetite Framework, a set of metrics that allow to reflect and manage the Group's risk profile and business model.

Two types of metrics can be distinguished, quantitative and qualitative. Quantitative metrics for those risks that can be measured or quantified will be defined, while other risks such as regulatory compliance risk will be monitored by qualitative criteria.

Likewise, the metrics are divided into:

- First level metrics: high-level indicators with threshold setting, periodically followed by the Global Risk Commission, the Major Risks and Solvency Commission and Creditworthiness and the Board of Directors.
- Operating or second level limits: management and risk control limits whose requirement ensures the risk appetite compliance defined by the Group. Operating limits are developed in the corresponding risk management policy and procedures manuals. The monitoring of these limits is carried out by the Global Risk Commission, submitting to higher bodies in cases deemed necessary.



Likewise, a set of dashboards, limits and warnings has been established, submitted on a quarterly basis to the Global Risk Commission members (including first and second level metrics), to the Major Risks and Solvency Commission and to the Board of Directors (only top-level metrics).

In this way, each Area Director knows the current situation of the relevant risks, and channels this information into the corresponding units and risk takers, thus facilitating the integration of the risk appetite framework in the Entity's risk culture.

7. Credit Risk

7.1 - Accounting definitions and methodological descriptions

Credit Risk management, a priority for the Entity, is oriented towards facilitating sustainable and balanced growth, ensuring at all times the financial and patrimonial soundness and optimizing the risk-return relationship. These criteria are comprised in the Manual of Accounting Policies for Credit Risk Management.

A financial asset is considered impaired and its book value is corrected when there is objective evidence that events have occurred that give rise to:

- In the case of debt instruments (loans and advances, and debt securities), a negative impact on the future cash flows that were estimated at the time the transaction was formalized.
- In the case of Other exposures that involve credit risk, other than debt instruments, a negative impact on the future cash flows that would be due in the case of the provision of the loan commitment and expected cash flows, if available, or in the case of financial guarantees granted, in the payments that the Entity expects to make.

Doubtful assets are classified as:

- Due to the late payment of the holder: transactions with any principal amount, interest or contractually agreed expenses due, generally, with more than 90 days, unless it is classified as defaulted. Also included in this category are the guarantees granted when the guarantor has defaulted in the guaranteed operation. Likewise, the amount of all the operations of a particular holder are included when the operations with general amounts due, as indicated above, with more than 90 days, are greater than 20% of the amounts receivable.
- For reasons other than the default of the holder: transactions in which, without the circumstances to classify them in the categories of default or doubtful, there are reasonable doubts about their total reimbursement in the terms contractually agreed; as well as off-balance sheet exposures that are not classified as doubtful due to late payment for which the Group is likely to pay and its recovery is unlikely.

Based on the descriptions captured in section 2.2.4 of the Notes to the Annual Accounts, the following accounting criteria are considered within the Group:

- Impairment losses for the period in which the debt instruments are recognized as an expense under "Impairment or reversal of impairment of financial assets not recognized at fair value through profit or loss and net gains or losses due to modification" of the consolidated profit and loss account. In debt instruments classified as financial assets at amortized cost, these impairment losses are recognized against a corrective account that reduces the carrying amount of the asset, while in debt instruments classified at fair value with changes in other comprehensive income, impairment losses are recognized against "other accumulated global result".

- Hedges for impairment losses on exposures that involve credit risk, other than debt instruments, are recorded in the liability of the balance sheet as a provision. Impairment losses for the period for these exposures are recorded as an expense in the consolidated income statement.
- Subsequent reversals of hedges for previously recognized impairment losses are recorded immediately as income in the consolidated income statement for the period.

7.2 - Credit Risk exposures

It is defined as "credit risk exposures" the group of asset and off-balance-sheet items which incorporate credit risk and have not been deducted from Own Funds.

7.2.1 – Credit risk exposure 2018

The following table includes the credit risk exposures of the Group are presented as of 31 December 2018, after adjustments indicated in part third, title II, chapter 1 of the Regulation (EU) 575/2013 (CRR), value adjustments by impairment, effects of credit risk mitigation techniques and the application of conversion factors for off-balance-sheet items; as well as the average amount of such year, disaggregated by risk categories:

Table 26: Exposure by risk category (standard)

Exposure by risk category		
(thousands of euros)	Average exposure 2018	Exposure December 2018
Central governments or central banks	7,934,097	9,230,560
Regional governments and local authorities	885,526	821,660
Public sector entities and other non-profit public institutions	1,834,063	631,665
Multilateral development banks	12,176	14,189
International organizations	-	-
Institutions	643,065	518,262
Corporates	4,269,615	4,311,055
Retail customers	6,404,403	6,306,735
Exposures secured by real estate	19,012,254	19,050,105
Exposure in default situation	1,513,564	1,433,334
High-risk exposures	9,504	8,101
Covered Bonds	40,985	54,208
Exposures to institutions and corporates with a short-term credit rating	-	-
Exposure to collective investment institutions	8,049	11,040
Equity exposures	831,981	765,492
Other exposures	1,981,996	1,693,788
Securitisation exposures	183,435	6,137
TOTAL	**45,564,713**	**44,856,331**

7.2.2 - Geographical distribution of exposures

Hereafter, detail on the value of credit risk exposures of the Group as of 31 December 2018, net of the adjustments indicated in part third, title II, chapter 1 of Regulation (EU) 575/2013 (CRR), from impairment losses, effects of credit risk reduction and the application of conversion factors for off-balance-sheet items, disaggregated by geographical areas:

Table 27: Exposures by great geographical area

Exposures by great geographical areas		
(thousands of euros)	Exposure Value 2018	Exposure Value 2017
Spain	43,604,766	45,797,140
Other EU countries	1,056,154	876,073
Other European countries	34,492	34,427
USA	123,916	31,228
Rest of the world	37,003	33,985
TOTAL GEOGRAPHICAL AREAS	**44,856,331**	**46,772,853**

7.2.3 - Exposure by economic sector

Detail on the value of credit risk exposures of the Group as of 31 December 2018, net of the adjustments indicated in part third, title II, chapter 1 of Regulation (EU) 575/2013 (CRR), from impairment losses, effects of credit risk reduction and the application of conversion factors for off-balance-sheet items, disaggregated by economic sector, is the following:

Table 28: Distribution by economic sector

Exposure by economic sector		
(thousands of euros)	Exposure Value 2018	Exposure Value 2017
Agriculture, farming and fishing	1,095,910	1,112,113
Extractive industry	33,552	32,157
Manufacturing industry	1,672,050	1,593,531
Production and distribution of energy, water and gas	191,578	231,303
Construction	1,102,612	1,170,215
Commerce and repairs	2,249,286	2,192,765
Catering industry	619,981	647,844
Transport, storage and communications	887,533	827,489
Financial intermediation	3,136,181	3,269,004
Real estate activities and business services	4,049,934	4,013,288
Other services	897,034	882,954
Public administrations	5,825,743	4,121,486
Central banks, credit institutions, intermediation and other financial services	317,781	611,380
Other activities	22,777,156	26,067,324
TOTAL	**44,856,331**	**46,772,853**

7.2.4 - Residual maturity of exposures

Hereafter there is a presentation of the distribution, by term of residual maturity, of the value of the credit risk exposures as of 31 December 2018, net of adjustments, impairment losses, effects of the reduction by credit risk and application of conversion factors to off-balance-sheet items:

Table 29: Exposure by risk category and maturity

Exposure by risk category and maturity					
(thousands of euros)	< 3 months	3 months – 1 year	1 year – 5 years	> 5 years	Sum
Central governments or central banks	1,795,590	-	1,937,294	5,497,676	9,230,560
Regional governments and local authorities	37,735	73,234	458,625	252,066	821,660
Public sector entities and other non-profit public institutions	2,180	106,284	186,929	336,272	631,665
Multilateral development banks	-	204	8,022	5,963	14,189
International organizations	-	-	-	-	-
Institutions	293,876	17,013	90,287	117,086	518,262
Corporates	704,329	642,187	773,338	2,191,201	4,311,055
Retail customers	643,206	975,116	1,457,647	3,230,766	6,306,735
Exposures secured by real estate	1,719	16,525	528,754	18,503,107	19,050,105
Exposure in default situation	267,530	35,320	99,661	1,030,823	1,433,334
High-risk exposures	-	-	8,101	-	8,101
Covered Bonds	-	-	54,208	-	54,208
Exposures to institutions and corporates with a short-term credit rating	-	-	-	-	-
Exposure to collective investment institutions	-	-	-	11,040	11,040
Equity exposures	-	-	-	765,492	765,492
Other exposures	940	12,184	49,301	1,631,363	1,693,788
Securitization exposures	-	2,082	-	4,055	6,137
CATEGORY TOTAL	**3,747,105**	**1,880,149**	**5,663,207**	**33,565,870**	**44,856,331**

7.2.5 - Geographical distribution and by counterparty of impaired positions

Impaired exposures by category

Hereafter the value of impaired exposures as of 31 December 2018 is presented, disaggregated by counterparty types, jointly with the amount of impairment losses and risk provisions and contingent commitments constituted over the impaired exposures on such date, as well as allowances made during the 2018 business year:

Table 30: Impaired exposures by category

Impaired exposures by category				
(thousands of euros)	Impaired exposures (*)	Exposure in default situation	Impaired exposures losses and provision for contingent commitment risks	Business year allowances for impaired exposures and contingent risks and commitments
Central governments or central banks	-	-	-	-
Regional governments and local authorities	1,166	1,166	22	-181
Public sector entities and other non-profit public institutions	7,362	7,362	5,070	1,644
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Institutions	34	34	34	-28
Corporates	827,887	827,887	471,214	48,323
Retail customers	1,067,442	1,067,442	489,254	99,051
Exposures secured by real estate	418,866	418,866	30,918	3,463
High-risk exposures	-	-	-	-
Covered Bonds	-	-	-	-
Exposures to institutions and capital with short-term credit rating	-	-	-	-
Exposure to collective investment institutions	-	-	-	-
Equity exposures	129	-	129	-
Other exposures	5,632	5,632	1,388	-
TOTAL CATEGORY	**2,328,518**	**2,328,389**	**998,029**	**152,272**

(*) Includes those exposures (credit, fixed income and equity) for which some type of impairment has been registered, including exposures in default situation.

Impaired exposures by geographical area

Detail is shown on the value of impaired exposures as of 31 December 2018, disaggregated by relevant geographical areas, jointly with the amount of impairment losses and allowances for contingent risks and commitments constituted over impaired exposures:

Table 31: Impaired exposures by great geographical areas

Impaired exposures by great geographical areas				
(thousands of euros)	Impaired exposures (*)	Exposures in default situation	Impaired exposures losses and provision for contingent commitment risks	Business year allowances for impaired exposures and contingent risks and commitments
Spain	2,320,732	2,320,603	995,828	151,756
Other EU countries	5,962	5,962	1,758	514
Other European countries	1,737	1,737	393	-14
USA	47	47	18	-3
Rest of the world	40	40	32	19
TOTAL GEOGRAPHICAL AREAS	**2,328,518**	**2,328,389**	**998,029**	**152,272**

(*) Includes those exposures (credit, fixed income and equity) for which some type of impairment has been registered, including exposures in default situation.

Impaired exposures by economic sector

The value of the impaired exposures as of 31 December 2018, disaggregated by economic sector, jointly with the amount of impairment losses and the allowances for contingent risks and contingent commitments constituted over the impaired exposures, are the following:

Table 32: Impaired exposures by economic sector

Impaired exposures by economic sector				
(thousands of euros)	Impaired exposures (*)	Exposures in default situation	Impaired exposures losses and provision for contingent commitment risks	Business year allowances for impaired exposures and contingent risks and commitments
Agriculture, farming and fishing	35,158	35,158	14,541	5,131
Extractive industry	3,425	3,425	1,074	242
Manufacturing industry	98,736	98,736	48,779	11,141
Production and distribution of energy, water and gas	3,709	3,709	1,596	228
Construction	189,591	189,591	76,689	10,897
Commerce and repairs	155,982	155,982	72,859	21,417
Catering	119,276	119,276	49,887	3,073
Transport, storage and communications	50,262	50,262	23,532	10,776
Financial intermediation	4,865	4,865	1,463	366
Real estate activities and business services	840,143	840,143	425,696	44,845
Other services	62,198	62,198	30,197	184
Public administrations	1,520	1,520	99	-294
Central banks, credit institutions, intermediation and other financial services	20	20	13	11
Other activities	763,633	763,504	251,604	44,255
TOTAL	**2,328,518**	**2,328,389**	**998,029**	**152,272**

(*) Includes those exposures (credit, fixed income and equity) for which some type of impairment has been registered, including exposures in default situation.

7.2.6 – Variations during 2018 in impairment losses and provisions for risks and contingent commitments for credit risk

The changes in 2018 in the impairment losses due to credit risk recorded by the Group and in the provisions for contingent risks and commitments are in accordance with Annex IX of Bank of Spain Circular 4/2017, both in the type of losses and provisions recorded and in the methodology used to calculate them.

Detail of movements during the 2018 business year is shown below:

Table 33: Value adjustments by impairments

Value adjustments by impairments from credit risk		
(thousands of euros)	Losses by assets impairments	Allowances for contingent risks and commitments
Balance as of December 31, 2017	**1,098,232**	**31,656**
First application Annex IX	147,795	8,635
Balance as of January 1, 2018	**1,246,027**	**40,291**
Allowances charge to profit and loss	634,192	36,970
Reversals credit to profit and loss	-477,602	-43,790
Amount applied during the business year	-249,003	-
Effect from foreign currency exchange rate differences	-	-
Variations produced by business combinations	-	-
Variations in the scope of consolidation	-	-
Transfers	-	-
Other movements	-29,114	-6
Balance as of December 31, 2018	**1,124,500**	**33,465**

In 2018 the Group has registered 6,123 thousand euro as income in the consolidated profit and loss account from the reversal of written-off assets.

7.3 - Information on Group counterparty credit risk

Counterparty credit risk is considered to be the credit risk incurred by the Group in the operations carried out with derivative financial instruments and in transactions with repurchase agreements, securities lending or commodities, on deferred settlement and secured financing.

The Group has established procedures to set limits on exposures subject to credit and counterparty risk, including deposits, fixed income, derivatives, loans and listed equities operations.

Limits are set based on the ratings assigned by credit rating agencies. However, for the most significant counterparties, as well as for non-rated counterparties, the financial statements (indebtedness, solvency, profitability, etc.) area analyzed for the fixing of risk lines, as well as reports prepared by third parties. These limits are approved by the Board of Directors of the Entity.

The consumption of the risk line by derivative financial instruments is deducted in the corresponding percentage, according to the original risk method, from the same line as that existing for interbank deposits or fixed income issued from the bank counterparties.

In the Group, most of the risks assumed in operating derivative instruments with financial institutions are covered by the signing of standardised ISDA and/or CMOF contracts, which provide in their clauses, in the event of the insolvency of one of the parties, for offsetting the present value of the outstanding collection and payment flows between the parties. In addition, with the most active counterparties in the negotiation of derivative instruments, collateral assignment agreements have been entered into (collateral agreements) in which the parties undertake to deliver an asset (generally cash) as collateral to cover the net credit risk position arising from the derivative instruments contracted under the aforementioned agreements. Risk is quantified through the revaluation, at market prices, of all outstanding operations, usually daily or in some cases weekly.

As of today, the decrease in credit ratings does not imply a direct impact on the increase in collateral. However, the Entity has control mechanisms against fluctuations in Sovereign Risk and its credit quality.

With respect to the *wrong-way risk*, two types can be defined:

- General adverse correlation risk: arises when the probability of default of counterparts is positively correlated with general market risk factors;
- Specific adverse correlation risk: arises when the future exposure to a specific counterparty is correlated most certainly with the probability of default of the counterparty due to the nature of the operations with the latter (in other words, inversely related to the credit quality of the counterparty). An entity is considered to be exposed to the specific wrong-way risk if it is foreseeable that the future exposure to a specific counterparty will be high when the probability of default of the counterparty is also high.

Exposure to this type of risk is not material in the Entity. Ibercaja takes it into account in specific operations and does not admit exchange of collateral with an entity in which the assets it receives are also issued by the counterparty.



Detail of the Group's credit exposure to counterparty risk for its transactions subject to counterparty risk is presented as of 31 December 2018, estimated as the amount of the credit exposure of the Group for these financial instruments, net of the effect of the corresponding contractual compensation agreements and of the guarantees received from the counterparties of the transactions:

Table 34: Counterparty risk by derivatives operations

Counterparty risk by derivatives operations		
(thousands of euros)	Amount 2018	Amount 2017
Positive fair value of the contracts	1,097,887	1,583,079
Minus: Effect from settlement agreements	252,942	259,506
Credit exposure after settlement	844,945	1,323,573
Minus: Effect of collateral received	433,999	811,345
Credit exposure to derivatives after settlement and collateral	**410,946**	**512,228**

Information on the calculation method

Hereafter, exposure to counterparty credit risk of the Consolidated Group, as of 31 December 2018, disaggregated according to the method applied for the calculation of minimum requirements on own resources associated with this risk:

Table 35: Counterparty credit risk – Calculation method

Method applied		
(thousands of euros)	Amount 2018	Amount 2017
Mark-to-Market Method	410,946	512,228
Original Risk Method	-	-
Standard Method	-	-
Internal Models Method	-	-
TOTAL ORIGINAL EXPOSURE	**410,946**	**512,228**

The value of the exposure has been calculated, according to the mark-to-market valuation method, in compliance with the established in part third, title II, chapter 6 of Regulation (EU) 575/2013 (CRR). Through the application of this method, the exposure's value is determined from the result of adding the replacement cost of all contracts with positive value (determined through the allocation of a market price to the contracts and transactions) to the amount of future potential credit risk of each instrument or transaction, calculated in accordance with the established in article 274 of Regulation (EU) 575/2013 (CRR) and taking into account the particularities contained in such article. In the calculation of the potential risk amount, the ranges contained in table 1 of section 2 of this article have been applied.

7.4 - Identification of external rating agencies

The Group uses the ratings available from rating agencies authorized from the Bank of Spain; these are Moody's, Standard and Poor's, Fitch Rating and Dominion Bond Rating Service Limited, with the following distribution:

Table 36: External rating agencies

External rating agencies				
(thousands of euros)	Standard and Poor's	Fitch Ratings	Moody's	Dominion Bond Rating Service
Central governments or central banks	X	X	X	X
Regional governments and local authorities	X	X	X	X
Public sector entities and other non-profit public institutions	X	X	X	X
Multilateral development banks				
International organizations				
Institutions	X	X	X	X
Corporates	X	X	X	
Retail customers				
Exposures secured by real estate				
Exposures in default situation	X	X	X	X
High-risk exposures				
Covered bonds	X	X		X
Exposures to institutions and corporates with a short-term credit rating				
Exposures to collective investment institutions				
Equity exposures	X	X	X	X
Other exposures	X	X	X	X
Securitization positions				

There is currently no process for the transfer of the credit ratings of issues and issuers to comparable assets that are not included in the trading portfolio.

7.5 - Effect on risk exposures from the application of risk mitigation techniques

The application of risk mitigation techniques based on the utilization of pledge and personal collateral have, as of 31 December 2018, the following effect on value adjustment net exposures:

Table 37: Value adjustment net exposures

Value adjustment net exposures		
(thousands of euros)	Amount 2018	Amount 2017
Net Exposure of Adjustments and Allowances	48,503,718	50,866,906
Exposure Full Adjusted Value	48,051,828	50,055,561
Effect application of mitigation techniques (*)	451,890	811,345

(*) Does not include exposures with Central Counterparties as they count with a settlement mechanism with the constitution of deposits in outstanding daily guarantees. Neither does it include guarantees received in contractual settlement agreements.

Hereafter disaggregated detail are presented by exposure categories and credit quality degrees (measured in function of the percentage applied for purposes of calculating the value of the risk-weighted exposure) which are affected by the application of mitigation techniques:

Table 38: Exposure categories and degree of quality

Disaggregation by exposure categories and degrees of quality								
(thousands of euros) Risk Category	Measurement	0%	20%	50%	75%	100%	150%	Total
Central governments or central banks	Net exposure	6,958,665	-	-	-	-	-	6,958,665
	Adjusted value	8,801,941	-	-	-	-	-	8,801,941
Regional governments and local authorities	Net exposure	911,907	-	-	-	-	-	911,907
	Adjusted value	920,499	-	-	-	-	-	920,499
Public sector entities and other non-profit public institutions	Net exposure	-	150,197	104,814	-	-	-	255,011
	Adjusted value	-	142,326	62,062	-	-	-	204,388
Multilateral development banks	Net exposure	-	-	-	-	-	-	-
	Adjusted value	14,189	-	-	-	-	-	14,189
International Organizations	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Institutions	Net exposure	-	288,444	104,557	-	-	-	393,001
	Adjusted value	-	376,621	98,574	-	-	-	475,195
Corporates	Net exposure	-	-	-	-	7,286,472	-	7,286,472
	Adjusted value	-	--			5,047,966	-	5,047,966
Retail Customers	Net exposure	-	-	-	7,886,502	-	-	7,886,502
	Adjusted value	-	-	-	7,777,546	-	-	7,777,546
Exposures secured by real estate	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Exposures in default situation	Net exposure	-	-	-	-	1,326,876	125,941	1,452,817
	Adjusted value	-	-	-	-	1,325,037	125,724	1,450,761
High-risk exposures	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Covered bonds	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit rating	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Exposures to collective investment institutions	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Equity exposures	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Other exposures	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
Securitization exposures	Net exposure	-	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-	-
TOTAL	**Net exposure**	**7,870,572**	**438,641**	**209,371**	**7,886,527**	**8,613,359**	**125,948**	**25,144,375**
	Adjusted value	**9,736,629**	**518,947**	**160,636**	**7,777,572**	**6,373,013**	**125,731**	**24,692,485**
TOTAL MITIGATION EFFECT		**-1,866,057**	**-80,306**	**48,735**	**108,955**	**2,240,346**	**217**	**451,890**

7.6 - Securitizations

7.6.1 - General description and objectives

According to the CRR the regulatory definitions associated to securitizations are:

Securitization: operation or financial mechanism by virtue of which the credit risk associated with an exposure or set of exposures is divided into tranches and has the following two characteristics:

- Payments for the operation or the mechanism depend on the performance of the exposure or set of securitized exposures.
- The subordination of the tranches determines the distribution of losses during the period of validity of the operation or mechanism.

Traditional securitization: Securitization which implies the economic transfer of the securitized exposures to a SPV (Special Purpose Vehicle) which issues securities. The transaction can take place through the sale by the originator entity of the ownership of the securitized exposures or through sub-participation, which will include, for these purposes, the subscription of mortgage participations, mortgage transfer certificates and similar securities by the SPVs. Securities issued by the SPV do not represent payment obligations of the originator.

Synthetic securitization: securitization in which the risk transfer is carried out through the use of credit derivatives or guarantees and the securitized exposures continue to be exposures of the originating entity.

Securitization position: exposure to securitization. For this purpose, the suppliers of credit risk hedges with respect to positions of a specific securitization will be considered to hold positions in that securitization.

Tranche: segment of credit risk, established contractually, associated with an exposure or set of exposures, so that a position in the segment involves a greater or lesser risk of credit loss than a position of the same amount in each of the others segments, without taking into account the credit risk coverage offered by third parties directly to the holders of the positions in the segment in question or in the other segments. For these purposes, any securitization position either forms part of a tranche or constitutes a tranche in itself. In this way, the following can be defined:

- First loss tranche: the most subordinated tranche of a securitization that is the first tranche to bear the losses incurred in relation to the securitized exposures and, therefore, offers protection to the second loss tranche and, where applicable, to the sections of higher priority.
- Intermediate risk tranche: it is the tranche, other than the first loss tranche, that has lower priority in payments than the higher priority position in the securitization payments and lower priority than any securitization position in the scheme rated with 1st credit quality level, when it is a securitization treated under the standard approach.
- Senior tranche: It is all tranche other than a first loss or intermediate risk tranche. Within the senior tranche, it will be understood as “maximum preference tranche” that tranche which is ranked first in the order of precedence of securitization payments, without taking into account, for these purposes, amounts due in accordance with derivatives contracts regarding interest rates or currencies, brokerages or other similar payments.

The assessment of these features for purposes of determining the existence or not of a securitization scheme is carried on attending to both to its legal form and economic content.

The Group develops securitization schemes for both assets and liabilities (bonds), which on the one hand ensure liquidity through the movement of part of its credit investment portfolio, homogenizing heterogeneous assets of its portfolio for the purposes of conducting more efficient management of them with third parties or the market

The securitization operations in which the Entity acts as originator are configured as an ideal instrument for the following purposes:

- Credit risk management of the securitized portfolio (risk transfer).
- Management of the Entity's own resources.
- Financing in the institutional market for retail credit activity.
- Obtaining collateral for use as collateral in the monetary policy operations of the ECB.

Therefore, the securitization of assets is not configured as a business in itself. The origination of the loans is not intended for their subsequent and systematic distribution or assignment to a securitization fund.

On the other hand, the quality of the portfolio to be securitized is analyzed in detail in terms of LTV, seasoning, geographical diversification, granularity, etc... The portfolio to be securitized is compared with the typical portfolio of the Entity with the objective of maintaining in the balance sheet a portfolio of at least the same quality as the securitized portfolio.

7.6.2 - Risks of Group securitization activity

The securitization activity implies a better management of liquidity and risks. However, there are risks associated with the securitization activity that are basically assumed by the originating entity and/or by the investment entities:

- **Credit Risk**: risk that the borrower does not meet the contractual obligations assumed in a timely manner, in such a way that the underlying asset that is supporting the originated securitization positions deteriorates. It is the main risk that is transmitted to investors through the securities issued in the securitization. The Entity carries out continuous monitoring of the published data on default of the underlying, credit quality of the originator, and ratings.
- **Prepayment Risk**: risk derived from the early amortization, total or partial, of the underlying assets of the securitization, which implies that the actual maturity of the securitization positions is shorter than the contractual maturity of the underlying assets. The assumptions of the early amortization rates of the underlying assets must be taken into account in the monitoring of this risk.
- **Base Risk:** takes place when the interest rates, or maturities of the securitized assets, do not coincide with those of the securitization positions. This risk can be covered by swaps.
- **Liquidity Risk:** the liquidity risk is reduced with the securitization process, which is based on the transformation of illiquid assets into negotiable debt securities in organized financial markets, so, from the originator's point of view, the risk of liquidity is mitigated. Although, in some securitisations, from the point of view of the investor, there is no certainty that a negotiation of the bonds with the minimum frequency or volume that allows the undoing of the positions at a specific moment takes place in the market.

It should be noted that the Entity does not have exposure to securitization operations as an investor entity at the reference date.

Generally, the Group covers part of the credit risk associated with the issues made by the asset securitization funds in which it acts as the originating entity, through the acquisition of certain subordinated tranches of these issues ("First loss tranches") issued by the securitization funds.

However, there is no implicit support commitment to the securitization transactions carried out by the Group.

The Entity's investment policy in securitization operations is sporadically directed towards:

a) Bonds issued by securitisation funds whose assets are made up of mortgage bonds of other entities (multi-cedent bonds). In practice, the bonds are equivalent to mortgage bonds in which the securitisation fund is used as a vehicle for issuing homogeneous securities guaranteed by bonds issued by several entities. In this case, the issues in which the investment is made must be of good credit quality and must present a high degree of diversification and quality of the entities issuing the underlying mortgage bonds (in addition to the rating and solvency of the entities, it is important to know, among other factors, their mortgage delinquency and the level of overcollateralization of the bonds issued to date).
b) Bonds issued by securitisation funds whose assets consist of various assets, generally mortgage loans. In this case, the issues in which the investment is made must be of high credit quality and an analysis of the risk parameters of the securitised portfolio (average LTV, % of high LTVs, seasoning, geographical diversification, etc.) and of the credit enhancements that the tranches subject to investment may enjoy must be carried out beforehand.

Pursuant to Article 405 of Regulation (EU) No. 575/2013, the Entity may only invest in securitisation positions if the original sponsor, originator or creditor has explicitly disclosed that it intends to retain, on a continuing basis, a significant net economic interest, which in any event may not be less than 5%.

Before investing and following article 406 of Regulation (EU) No. 575/2013, the Entity acknowledges the securitization position in its entirety by applying the appropriate formal policies and procedures in proportion to the risk profile of its investments in securitized positions, consigning:

- The information disclosed by the originators or sponsors to specify the net economic interest they maintain, on a constant basis, in the securitization;
- The risk characteristics of each securitisation position;
- The risk characteristics of the exposures underlying the securitisation position;
- The reputation and loss history in previous securitisations of the originators or sponsors with respect to the relevant exposure categories underlying the securitisation position;
- Statements and disclosures by originators or sponsors regarding the due diligence on the securitised exposures and, if applicable, the quality of the collateral supporting the securitised exposures;

- Where applicable, the methodologies and concepts underlying the valuation of collateral supporting the securitised exposures and the policies adopted by the originator or sponsor in view of ensuring the independence of the valuer, and any structural features of the securitisation that may have a significant impact on the evolution of the securitisation position;
- All structural characteristics of the securitisation that may have a significant impact on the evolution of the Entity's securitisation position, such as the contractual order of priority of payments and related triggers, credit and liquidity enhancements, market value triggers and specific default definitions for each transaction.

In the event that the requirements contained in Articles 405 and 406 of Regulation (EU) No. 575/2013 are not met in relation to any material aspects due to the negligence or omission of the Entity, as stipulated in Article 407 of the aforementioned Regulation, the competent authorities will impose a proportional risk weight, not less than 250% of the risk weight (with a maximum limit of 1,250%), which will be applied to the relevant securitisation positions.

7.6.3 - Roles played in securitization processes and degree of involvement

The main roles that the Group performs in securitization schemes in which it participates are the following:

- Originator of credit rights: in its securitisation activity, the Group may participate in various securitisation funds.
- Transferor and Administrator of the assets transferred to the Securitisation Funds: the Entity in its securitisation activity may transfer part of its loans and act as administrator of the securitised assets, managing the collection of amortizations and interest, recovery service and monitoring and recovery of impaired assets.
- The management of the securitisation funds of which the Group is the originator is carried out by TDA, S.G.F.T., S.A. However, in the case of new securitisation operations, the choice of management company would be based on the capabilities and experience of the potential candidates.
- Investment Entity through the acquisition of securitization bonds issued by other entities: The Group may hold positions in securitisation funds originated by entities outside the Group, the underlying assets of which consist mainly of loans to companies, SMEs and mortgages.

Monitoring and/or follow-up process of the variations of the associated risk:

With regards to the processes applied to monitor variations in the Credit Risk of securitisation exposures, in addition to periodically reviewing the corresponding external credit rating of the exposures, a periodic, continuous and timely monitoring shall be carried out, in proportion to the risk profile of the investments in securitisation positions and of the information relating to the evolution of the exposures underlying the securitisation positions, which may be analyzed, among other parameters and provided that the information is applicable and available, the exposure class, the percentage of loans more than 30, 60 and 90 days past due, default rates, early repayment rates, foreclosed loans, the type and occupancy of collateral, the frequency distribution of credit quality measures of the various underlying exposures, sectoral and geographical diversification, the frequency distribution of loan/value ratios, with bandwidths that facilitate adequate sensitivity analysis, or others.

Finally, the Entity's asset securitisation process is described:

- The securitisation must be approved by the Entity's Governing Bodies.
- To this end, the General Shareholders' Meeting is periodically requested to authorize the Board of Directors to agree on the securitisation of assets for a certain amount when market conditions so advice.
- With this agreement in force, the Global Risk Committee decides on the most appropriate time to carry out a securitisation and establishes for certain relevant parameters ranges in which the securitisation operation may be carried out. Among others, the parameters to be determined are the following:
    - Volume to be securitized.
    - Minimum rating to be obtained by rating agencies.
    - Quality of the loan portfolio to be securitised (LTV, seasoning, geographical diversification, granularity, etc.).
    - Financial costs and expenses to be assumed in the operation.
    - Degree of risk transfer that should occur in the securitisation.
    - Impact on solvency ratios as a consequence of securitisation.
- The Financial Markets Department determines with the rating agencies the necessary credit improvements (reserve fund, subordination under the highest credit rating bracket, interest rate swap differential, etc.) to obtain the credit rating requested.
- Similarly, the Directorate of Financial Markets will take into account the provisions of Article 409 of Regulation (EU) No. 575/2013 in relation to Ibercaja, as the originator of a securitisation operation, will communicate to investors the level of its commitment to maintain a net economic interest in the securitisation, confirming Article 405 of the aforementioned Regulation. In addition, as originator, it shall ensure that investors have easy access to all relevant data on the credit quality and performance of the various underlying exposures, cash flows and collateral supporting a securitisation exposure, as well as to all information to conduct thorough and documented stress tests on the cash flows and value of the collateral supporting the underlying exposures.
- On the basis of the information obtained, the General Accounting Unit verifies that the degree of risk transfer and the effect on the solvency ratios obtained are within the range approved by the Global Risk Committee. Otherwise, the Global Risk Committee will have to re-discuss the suitability of the securitisation transaction.

- In addition, at the time of the securitisation transaction, the Chief Executive Officer requests authorization from the Board of Directors to carry it out.
- Once the securitisation operation has been carried out, the tasks of administration, risk monitoring and recovery of the irregular investment are carried out in the same way for the securitised loans as for the rest of the Entity's credit operations. The classification as securitised of a loan or, in general, of an asset does not therefore affect the investment offices so that such operations are treated in the same way as those of the non-securitised portfolio.
- The portfolio of loans to be securitised must be adequately documented in order to be approved by the external audit required by the CNMV. To this end, the documentation of all transactions in the portfolio to be securitised shall be reviewed in order to previously correct possible errors in its main characteristics (purpose of the loan, holders, formalization date, maturity date, reference interest rate, spread, outstanding balance, appraisal, etc.) prior to the aforementioned audit.
- All legal documentation is examined by the Legal Department. The main documents are the public deed of constitution of the Asset Securitization Fund and the Securities Note of the issue of securitization bonds which will be verified by the CNMV. The Entity works in coordination with the securitisation manager, the rating agencies and the CNMV throughout this process.

The Group's asset securitisation procedure is supported by internal controls included in documentation such as the Manual of Policies and Procedures of the Capital Markets Department of Ibercaja.

7.6.4 - Accounting treatment of financial asset transfers

In accordance with Bank of Spain Circular 4/2017, for securitisation transactions originated before 1 January 2004, the assets associated with the securitisation are removed from the balance sheet. This is the case of the assets securitised in TDA Ibercaja 1.

For operations carried out after that date, Circular 4/2017 determines that the securitisations in which the transferor assumes subordinated financing or other types of credit enhancements for part of the transferred asset are operations in which the risks and benefits associated with ownership of the financial asset are not substantially transferred, this being a necessary condition to be able to derecognize the securitised assets.

According to Bank of Spain Circular 4/2017, the accounting treatment of financial asset transfers is conditioned by the way in which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the risks and rewards of the transferred assets are substantially transferred to third parties, the transferred financial asset is derecognized and any rights or obligations retained or created as a result of the transfer are simultaneously recognized.
- If the risks and rewards associated with the transferred financial asset are substantially retained, in the case of securitisations of financial assets in which subordinated financing or other types of credit enhancements are maintained that substantially absorb the expected credit losses for the securitized assets, the transferred financial asset is not derecognized from the consolidated balance sheet and continues to be measured using the same criteria used prior to the transfer. On the contrary, they are recognized for accounting purposes without offsetting each other:

- An associated financial liability for an amount equal to the consideration received, which is subsequently measured at amortized cost.
- Both the income from the financial asset transferred, but not derecognized, and the expenses of the new financial liability.

Accordingly, financial assets are only derecognized from the consolidated balance sheet when the cash flows they generate have been extinguished or when the risks and rewards associated with them have been substantially transferred to third parties.

The foregoing treatment is applicable to all transactions arising after January 1, 2004 in accordance with Bank of Spain Circular 4/2017, and therefore the financial assets transferred before that date have been removed from the consolidated balance sheet.

The securitisation transactions carried out by the Group are considered to be traditional securitisation transactions and no synthetic securitisation transactions have been carried out.

7.6.5 - Originated securitizations

At 31 December 2018, the Group held positions in securitisations in which it participated as originator. The Group does not hold positions in re-securitisations nor does it hold securitisation positions in the trading portfolio.

As a general criterion, the bonds issued in the first loss tranche are rated by a rating agency and the remaining tranches are rated for two. The external rating agencies used in the securitisations carried out to date have been Standard and Poor's and Moody's.

Currently, the Group has no assets pending securitisation or securitised credit lines subject to early amortization treatment. The Group's securitised exposures at 31 December 2018 are shown below:

Table 39: Types of securitizations

Types of securitizations	
(thousands of euros)	Amount 2018
Covered Bonds	2,271,771
Mortgage loans	3,082,692
On-balance	3,020,426
Off-balance	62,266

The following table presents detail on the positions held in securitization schemes by the Consolidated Group as of 31 December 2018.

Table 40: Types of securitization positions

Types of securitization positions		
(thousands of euros)	2018	
	Exposure Amount	Subject to the standard method under part third, title III, Chapter 5 CRR
A) Positions held on securitizations in which the Group acts as originator	2,790,428	4,055
A.1) Positions held in traditional securitizations	2,790,428	4,055
A.1.1) Positions held in multi-transfer securitizations	-	-
A.1.2) Positions held in the rest of securitizations	2,790,428	4,055
B) Positions acquired in securitizations in which the Group does not act as originator	2,082	2,082
B.1) Positions held in traditional securitizations	2,082	2,082
B.1.1) Positions held in multi-transfer securitizations	2,082	2,082
B.1.2) Positions held in the rest of securitizations	-	-
B.2) Positions held in synthetic securitizations	-	-

7.6.6 - Calculation of risk-weighted exposures in securitization positions

The Group calculates its own funds requirements for positions held in securitisation transactions by applying the standardized method defined in Part Three, Title II, Chapter 5, Section Three, Subsection Three of Regulation (EU) 575/2013 (CRR).

For its own securitisations, the Group calculates the regulatory capital for the positions held in the securitisation only if the securitisation fund complies with the regulatory conditions determining the effective and significant transfer of risk established in Article 245 of Regulation (EU) 575/2013. Otherwise, capital is calculated for securitised exposures as if they had not been securitised.

For the securitisations indicated below, the underlying securitised assets are computed as credit risk, as there is no substantial risk transfer, in accordance with what is indicated in Article 245 of Regulation (EU) 575/2013 (CRR):

- Securitisation carried out in 2005, with a year-end balance of € 204,285 thousand and retained positions of € 114,339 thousand.
- Securitisations made in 2006, with a year-end balance of € 705,918 thousand and with retained positions of € 469,162 thousand.
- Securitisation carried out in 2007, with a year-end balance of € 418,737 thousand and with retained positions of € 332,600 thousand.
- Securitisation carried out in 2008, with a balance at year-end of € 659,323 thousand and with retained positions amounting to € 624,943 thousand.
- Securitisations made in 2009, with a balance at year-end of € 1,351,619 thousand and with retained positions amounting to € 1,245,330 thousand.

The detail of the positions in securitisation transactions held by the Group at 31 December 2018, broken down by the risk weighting bands to which they are assigned, is as follows:

Table 41: Types of securitization positions according to the Standard Method

Types of securitization positions - Standard Method	
(thousands of euros)	Exposure Amount 2018
Breakdown of the value of the exposure subject to risk weightings	
Rated (credit quality levels):	-
- Level 1 (weighted at 20%)	-
- Level 2 (weighted at 50%)	-
- Level 3 (weighted at 100%)	-
- Level 4 (weighted at 350%)	-
- No rating (weighted at 1,250%)	-
- Other levels	-
Rated (credit quality levels)	-
Particular treatment:	-
- Transparency approach	4,055

(*) The amount of credit risk-weighted exposures has been limited to the corresponding to the exposures if they were not subject to securitization. The amount of credit risk requirements amounts to 1,798 thousand euros.

The Group has deducted € 2,082 thousand from equity for securitisation positions.

The detail of the outstanding balance at 31 December 2018 of the assets securitised by the Group in transactions to which the regime contained in Part Three, Title II, Chapter 5 of Regulation (EU) 575/2013 (CRR) is being applied for the calculation of credit risk weighted exposures for the purposes of determining capital requirements is as follows:

Table 42: Types of securitization positions

Types of securitization positions			
(thousands of euros)	Outstanding balance	Outstanding balance default and impaired operations	Impairment losses amount
A) Traditional securitizations	62,434	753	168
- Assets with mortgage guarantee	62,434	753	168
- Corporate banking transactions	-	-	-
- Other assets	-	-	-
B) Synthetic securitizations	-	-	-
- Assets with mortgage guarantee	-	-	-
- Corporate banking transactions	-	-	-
- Other assets	-	-	-

7.7 - Risk mitigation techniques

7.7.1 – General information

Within the guarantees accepted in the standard calculation as eligible credit risk mitigation techniques provided for in Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 (CRR), the Group mainly admits and manages the following:

- Financial collateral: includes cash deposits; debt securities issued by governments, central banks, institutions or corporations; quoted stocks or convertible bonds; investment fund shares and gold.
- Personal guarantees provided by solvent coverage providers such as: central administrations and banks, regional and local administrations, multilateral development banks, international organizations, public sector entities, institutions and insurance companies.
- Master netting agreements relating to transactions linked to the capital market, where agreements have been concluded for the assignment of guarantees, generally cash deposits, in order to cover the net position of credit risk arising.

The Group has defined the legal requirements and criteria that must be contemplated for the formalization and execution of these guarantees. Each type of guarantee has its own admission, concession, formalization and control circuit that contemplates its volatility and effectiveness.

Of the credit risk mitigation techniques referred to above, the Group is including personal guarantees, collateral materialized in reverse repurchase transactions and *netting* agreements with collateral agreements in the calculation of credit risk mitigation.

Credit risk management in Ibercaja is carried out dynamically. This means, among other things, continuously assessing the degree of coverage of the guarantees provided.

In Ibercaja, the main types of available collateral are the following, as detailed in the Admission Policy, approved by the Board of Directors:

- Mortgage guarantees

  Fundamentally constituted by housing in the operations that the owners correspond to Families and Individuals, with the general criterion of not exceeding 80% of the appraisal value. In the case of operations carried out by customers in the Productive Activities segment, excluding developers, the real estate affected are mainly warehouses, premises and rustic properties and, to a lesser extent, premises. The general criterion of not exceeding 70% of the appraisal value has been established, although it will be modulated downwards according to the quality of the asset covered by the guarantee. In financing the developer segment, the guarantees are constituted by the land on which future projects will be carried out or, in the case of development of real estate projects on the whole of the land and work in progress.

  The value of the mortgage collateral provided must be supported by an up-to-date appraisal. The Entity has specialized appraisal agencies that provide specific support for the necessary risk coverage. In the event that the appraisal has not been carried out by these companies, it will be specifically stated in the file, studying each case individually.

Subrogation operations of property development loans for housing acquisition are not required to obtain an updated appraisal of the property. This exception is without prejudice to the fact that, at the expert's discretion, it may be considered appropriate to request a new valuation.

- Collateralization of deposits and account balances

These presuppose the existence of a certain monetary guarantee which, in the event of non-payment, allows the recovery (total or partial) of the financing operation. They therefore constitute a reduction in the risk of the operation and, in turn, increase the repayment capacity of the operation.

The deposits and pledged accounts are formalized in Ibercaja and their disposal is blocked as long as the financing operation is alive.

The bodies that authorize the different operations are responsible for assessing the actions for unblocking or disposition in the event of cancellations or extraordinary situations.

In addition, Ibercaja accepts other real and personal guarantees, under an individualized study of each case, being among them:

- Pledging of investment funds and real estate securities

The value of these assets may be altered during the life of the risk, so the funds or securities pledged must be deposited in Ibercaja or in the Group's Management Entity, and their availability will be blocked when the financing operation is formalized.

- Pledged goods
- Assignment of credit rights: Subsidies, rents, VAT, etc. and Advance certifications Public Bodies
- Guarantors and Third Party Guarantors (S.G.R., Financial Institutions, Public Bodies, ...)
- Comfort letter
- Assignment of insurance claims
- CESCE Insurance in *Factoring*
- Depreciation insurance in one-man operations of significant amount

The Entity has defined protocols for action, evaluation and control of risks for each of the types of guarantees accepted. With a recurrent periodicity, established for each type, control and monitoring exercises are carried out, such as revaluations, updating of amounts, values...

7.7.2 - Quantitative information

The following table details the distribution of the Group's credit risk exposure at 31 December 2018, broken down according to whether or not credit risk mitigation techniques have been applied and, where applicable, the mitigation technique applied (the exposure data refer to exposures prior to the application of risk mitigation):

Table 43: Exposure to credit risk by mitigation technique

Exposure to credit risk by mitigation technique		
(thousands of euros)	Exposure Value 2018	Exposure Value 2017
A) Exposures to which no credit risk mitigation technique is applied	47,132,668	51,256,138
B) Exposure to which a credit risk mitigation technique is applied	2,796,259	3,293,119
• Netting agreements for balance sheet transactions	-	-
• Master netting agreements relating to repurchase agreements, securities or commodity lending transactions or other capital market-related transactions	379,423	296,786
• Security interests	462,602	847,107
• Other security interests	-	-
• Coverage based on personal guarantees	1,954,234	2,149,226
• Credit derivative hedges	-	-

The following table shows the total value of the exposures at 31 December 2018 that are covered by the application of risk reduction techniques based on the use of collateral:

Table 44: Total value of exposure covered by collateral-based risk mitigation techniques

Exposure covered by collateral-based risk mitigation techniques						
(thousands of euros)	With eligible financial guarantees		With other admissible security rights		Total	
	2018	2017	2018	2017	2018	2017
TOTAL RISK CATEGORIES	**462,602**	**847,107**	**-**	**-**	**462,602**	**847,107**
Central governments or central banks	-	-	-	-	-	-
Regional governments and local authorities	-	-	-	-	-	-
Public sector entities and other non-profit public institutions	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organizations	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	448,152	818,807	-	-	448,152	818,807
Retail customers	14,057	26,000	-	-	14,057	26,000
Exposures secured by real estate	-	-	-	-	-	-
Exposures in default situation	393	-	-	-	393	-
High-risk exposures	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit rating	-	-	-	-	-	-
Exposures to collective investment institutions	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-

The following table shows the value of the exposures at 31 December 2018 covered by the application of risk reduction techniques consisting of the use of personal guarantees:

Table 45: Value of exposure covered by risk reduction techniques based on personal guarantees

Exposure covered by risk reduction techniques based on personal guarantees				
(thousands of euros)	With personal guarantees		Total	
	2018	2017	2018	2017
TOTAL RISK CATEGORIES	**1,954,234**	**2,149,226**	**1,954,234**	**2,149,226**
Central governments or central banks	-	-	-	-
Regional governments and local authorities	-	-	-	-
Public sector entities and other non-profit public institutions	50,624	108,846	50,624	108,846
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Institutions	5,983	20,841	5,983	20,841
Corporates	1,801,066	1,941,948	1,801,066	1,941,948
Retail customers	94,898	77,186	94,898	77,186
Exposures secured by real estate	-	-	-	-
Exposures in default situation	1,663	405	1,663	405
High-risk exposures	-	-	-	-
Covered bonds	-	-	-	-
Exposures to institutions and corporates with a short-term credit rating	-	-	-	-
Exposures to collective investment institutions	-	-	-	-
Equity exposures	-	-	-	-
Other exposures	-	-	-	-
Securitization positions	-	-	-	-

8. Operational Risk

Operational Risk is defined as "the risk of losses due to the inadequacy or failure of internal procedures, persons and systems, or to external events, including legal risk" under Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), both of 26 June 2013.

Specifically, Title III of the CRR sets out the capital requirements for Operational Risk and the general principles governing the use of the different methods for its calculation.

Law 10/2014 of 26 June on the organization, supervision and solvency of credit institutions has as its main objective to adapt our legislation to the regulatory changes imposed at international level and Article 39 establishes that Regulation (EU) No. 575/2013 of 26 June constitutes solvency legislation for credit institutions.

In this context, Ibercaja has an organizational, methodological and risk management model, which includes operational risk, with tools, procedures and models that favor efficient management and, in particular, in the case of Operational Risk, which enable the measurement of capital requirements using the standard method.

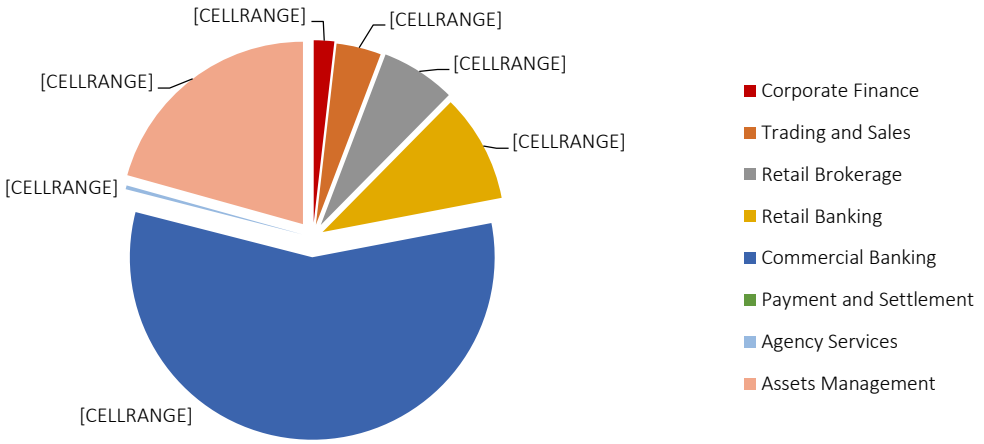
8.1 – Capital requirements for Operational Risk

The Ibercaja Group has opted for the application of the Standardized Method for the determination of equity by operational risk.

In compliance with Regulation (EU) No. 575/2013 (CRR), article 318, the Entity has developed and documented specific policies and criteria to integrate the relevant indicator of its business lines and activities within the framework of the standard method.

The distribution by Business Line as of December 2018 of the RPA's of equity by Operational risk is as follows:

Illustration 8: Distribution by Business Line of the RWA of Own Resources for Operational Risk



8.2 - Operational Risk Management. Objectives and justification

The main objective of Operational Risk Management at Ibercaja is "to improve the quality and safety of business processes and support, providing information on operational risks, defining and developing measures for their mitigation and control and ensuring compliance with the established regulatory framework".

Improving quality in the management of processes implies:

- Continuous assessment of the operational risks associated with the activity,
- Determination of the desired level of exposure in the management of the business and its monitoring,
- The establishment, in different areas, of techniques that facilitate the management of these risks: contingency plans, insurance, increasing the effectiveness of controls, etc.

Thus, in order to achieve the objectives of managing this risk, the Entity must, among other aspects, identify its operational risk exposures and record data on losses arising from this type of risk, also identifying the type of loss event in accordance with the categories established by the Regulations.

8.3 - Structure and Organization of Operational Risk Management

The day-to-day management of operational risk falls to the business and support units, as well as to the subsidiaries. To this end, an operational risk coordinator is identified in each of them, responsible for identifying, managing and reporting operational risks in their area of activity and all processes under their responsibility.

The Market, Operational and Reputational Risk Control Unit, which reports to the Risk Control Division and, in turn, to the General Secretariat as the second line of defense, defines and applies operational risk evaluation and measurement methodologies; analyzes, informs and advises the different business units and corporate management on the best way to measure, analyze and report operational risk; and generates information to support decision-making by senior management.

Finally, Internal Audit acts as a third line of defense, supervising the actions of the first and second lines. Within the framework of the Ibercaja Group, the scope of the internal audit is total, with influence therefore on the parent company and its dependent subsidiaries, so that no activity, information system or internal control system is excluded from its scope of action.

8.4 - Operational Risk Categories

Ibercaja has defined its main risk/event categorization based on the analysis (identification and definition) of specific operational risks, carried out in the different units and subsidiaries, homogeneously for the entire Group, allowing the link between qualitative and quantitative methodologies, the latter based on the identification and recording of operational losses in a specific database.

The main risk/event categorization in Ibercaja has been based on levels 1 and 2 defined by Basel, additionally identifying specific individual risks through the particularization of level 2 typologies in a process and a unit of the Entity. Likewise, new subcategories of operational risk have been defined, adopting the definition established in EBA/GL/2014/13, in the section on Operational Risk Assessment.

This methodology has made it possible to obtain subcategories of Operational Risk: new Risk Brands associated with individual Risks are included. These subcategories include, but are not limited to, the following risks:

- Conduct Risk
- ICT risk
- Model Risk

8.5 - Operational Risk Measurement Methodologies

Ibercaja combines the following operational risk measurement methodologies:



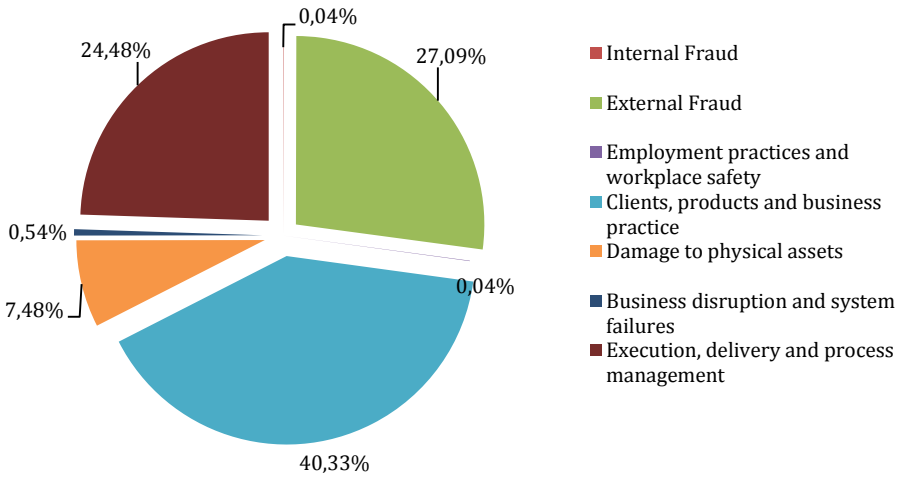
- **Quantitative methodologies** based on:
  - Identification, recording of losses derived from operational risk in a loss database and evolutionary analysis of the same.
- **Qualitative methodologies** based on:
  - Operational Risk Map (MRO), consisting of the identification and evaluation of operational risks and existing controls in processes and activities (self-assessments).
  - Compilation and analysis of operational risk indicators.
- **Management support solutions** based on:
  - A management information model for the generation of monitoring reports on Ibercaja's exposure to operational risk.
  - Identification and monitoring of action plans to mitigate this risk.

8.6 – Loss Database

The internal Loss Database is one of the pillars on which the measurement and management of operational risk in the Entity is based. In this sense, Ibercaja has a series of processes and power supplies that allow the capture of events at source, automatically recording them in the database, with the minimum information required for registration and classification.

The following illustration shows the distribution of the Group's operating loss events in 2018 by regulatory category:

Illustration 9: Loss Events by Risk Category



All capture processes, both manual and automatic, have a control or filtering system that requires subsequent validation by the corresponding unit or subsidiary, or by the Market, Operational and Reputational Risk Control Unit, giving greater reliability and integrity to the BDP data and the homogeneous application of criteria.

8.7 – Self-assessments

This self-assessment process, which has been carried out annually, is one of the pillars on which operational risk management revolves and supports, together with other tools and methodologies, the identification of operational risk exposures.

Among the objectives of the qualitative methodology are:

- Identify and evaluate the different operational risks that could potentially affect the different processes, in terms of frequency and impact.
- Obtain information on the existence and effectiveness of the control structure implemented for mitigation.
- Identify opportunities for improvement in activities with greater exposure.

This process also incorporates an assessment of the reputational impact of risks, responding to regulatory recommendations in this area.

During 2018, the annual update of the self-assessment of operational risks (more than 600 risks) was completed, concluding this process with a medium-low risk profile.

8.8 – Operational Risk Indicators (KRIs)

Risk indicators or metrics, often financial, may reveal the risks to which the Entity is or may be exposed. The evolution of these indicators should be reviewed periodically to alert to changes that may reveal exposures to certain risks.

The use of risk indicators pursues the following fundamental objectives through the measurement of variables affecting risk:

- Identify the causes that generate the risks.
- To act as warning signals in the event of an increase in the level of risk.
- To check the effectiveness of the controls and improvements made to them.

8.9 – Action Plans

One of the objectives of the implementation of the operational risk management model in the Ibercaja Group refers to the establishment by the units and subsidiaries of procedures to improve operating processes and the existing control structure.

Thus, together with obtaining the Entity's operational risk profile, the Ibercaja Group periodically adopts measures aimed at mitigating operational risk, using procedures and tools that allow for the establishment and monitoring of mitigation plans.



9. Holdings and equity instruments not included in the trading portfolio

9.1 - Classification, valuation and accounting criteria

Notes 2.1 and 2.2.4 to the Group's Consolidated Report for 2018 include a description of the portfolios in which the Group's investments and equity instruments are classified, together with the accounting recognition and measurement bases applied to each of them. These notes also indicate the models and assumptions used to determine the value of the instruments included in each portfolio.

The Annual Report forms part of the annual financial statements, which are available on the Ibercaja Banco website (https://www.ibercaja.com/shareholders-and-investors/financial-information/periodic-information).

The Group has interests in entities in whose management and decision-making processes it intervenes to a greater or lesser extent in pursuit of the objectives that form part of the Group's strategy and in which there is an intention to maintain a relationship of permanence in its shareholding ("strategic interests"). It also has interests in other entities with different objectives, basically consisting of maximizing the results obtained through management ("Financial assets at fair value through profit or loss").

The Group's shares and equity instruments are held for strategic purposes and are classified for accounting purposes in the category of Group companies, associated companies and multigroup. Also, there are certain investments classified in the category of financial assets at fair value with changes in other comprehensive income that are also held strategically.

9.2 - Quantitative information

The carrying amount of the investments owned by the Group at 31 December 2018 that are not included in the trading portfolio is € 493,160 thousand.

Following is a detail of the exposures to equity investments and capital instruments held by the Group at 31 December 2018, excluding exposures to instruments forming part of the trading portfolio, as defined for the purposes of equity requirements in section 9.1 above of this report:

Table 46: Value of the exposure to equity and capital instruments

Exposure to equity and capital instruments		
(thousands of euros)	Exposure amount 2018	Exposure amount 2017
Equity instruments listed on organized markets	133,261	89,252
Equity instruments not traded on organized markets	677,406	786,959
TOTAL	**810,667**	**876,211**

The amount of losses recorded by the Group in 2018 on the sale of investments forming part of the consolidable Group amounted to € 8,866 thousand.

In addition to the foregoing paragraph, the Group recognized a decrease in equity as a result of changes in the value of investments in equity instruments other than those included in the trading portfolio amounting to € 32,996 thousand, taking into account that the *phase-in* calendar can no longer be applied in 2018.



10. Structural interest rate risk

Interest rate risk is defined as the possibility that the Group's net interest margin or economic value will be affected by adverse changes in interest rates that affect the cash flows of financial instruments.

The sources of interest rate risk are:

- Revaluation risk: derives from temporary differences in the maturity or revision of the Group's assets, liabilities and off-balance sheet transactions.
- Curve risk: maturing and repricing balances are also exposed to changes in the slope of the interest rate curve.
- Optionality risk: deriving from the implicit options that exist in certain financial products, the exercise of which entails the alteration of the expected flows (early repayments of mortgages, disposals of current savings, etc.).
- Base risk: derives from the imperfect correlation between the prices of the Group's various products and between these and market interest rates, such that variations in the latter are not automatically transmitted to the same extent.

10.1 – Changes in interest rates

The sensitivity profile of the Group's balance sheet to interest rate risk at 31 December 2018 is shown below, indicating the carrying amount of the financial assets and liabilities affected by this risk, which are classified according to the estimated period until the interest rate or maturity review date.

As at 31 December 2018:

Table 47: Balance sheet sensitivity profile at 31 December 2018

	Terms until the review of effective interest rate or maturity						
(millions of €)	< 1 month	1-3 months	3 months – 1 year	Sensitive balance	Non-sensitive balance	1-5 years	>5 years
Assets	7,696	8,982	15,843	32,521	13,480	5,096	8,384
Liabilities	7,199	3,623	11,995	22,817	23,184	17,651	5,533
Gap Period	497	5,359	3,848	9,704	-9,704	-12,555	2,851

Sensitive balances are those whose maturity or revaluation occurs in the next twelve months. This period is used as a reference to quantify the effect of changes in interest rates on the Group's annual net interest income.

The Gap shown in the table represents the difference between the sensitive assets and liabilities in each period, i.e. the net balance exposed to price changes. The average Gap for the period was 5,944 million euros, 12.92% of assets.

The impact of the balance sheet structural interest rate risk on the margin and the economic value of changes in interest rates is presented below:

Table 48: Impact of changes in interest rates

Terms until the review of effective interest rates or maturity					
		2018		2017	
		Increase	Decrease	Increase	Decrease
Impact on the Group's interest margin	200 points	19.56%	-0.42%	27.35%	-0.80%
Impact on Economic Value	200 points	4.82%	3.42%	7.22%	1.76%

With data as of December 31, 2018, the impact on the Entity's net interest income from a 200 basis points increase in interest rates is 104.34 million euros, 19.56% on the net interest income for the next 12 months and from a 200 basis points decrease is -2.23 million euros, -0.42% on the net interest income for the next 12 months (in December 2017), 136.07 million euros and 27.35% before increases and -3.96 million euros and -0.80% before decreases) under the assumption of static balance sheet and maintenance of balance sheet size and structure, assuming that interest rate movements occur instantaneously and are the same for all points on the curve, with a floor of 0%.

For its part, the impact on the economic value of the Entity before a rise of 200 basis points in interest rates is 301.81 million euros, 4.82% on the economic value of assets and before a drop of 200 basis points is 214.04 million euros, 3.42% of the economic value of assets (in December 2017, 539.42 million euros and 7.22% before increases and 131.77 million euros and 1.76% before decreases) under the hypothesis that interest rates occur instantaneously and are the same for all points of the curve, with a floor of 0%.

Information on assumptions relating to early repayments of loans and the behavior of deposits without maturities is included in point 6 of this document.



11. Liquidity and financing risk

Liquidity risk is defined as the possibility of incurring losses as a result of not having or not being able to have access to sufficient liquid funds to meet payment obligations.

At 31 December 2018, the Entity's available liquidity amounted to 10,917 million euros (10,328 million euros at 31 December 2017), and the capacity to issue mortgage bonds amounted to 6,290 million euros (6,688 million euros at 31 December 2017). Total availability was 17,207 million euros, an increase of 190 million euros over the end of last year. During 2018, wholesale maturities were serviced for a nominal amount of 664 million euros: mortgage bonds (422 million euros), securitization bonds owned by third parties (227 million euros), subordinated bonds (15 million euros). Also, 78 million euros repurchases of own issues have been carried out, instrumented in securitization bonds.

A breakdown of available liquidity is given below:

Table 49: Liquidity disaggregation

Liquidity disaggregation		
(thousands of euros)	2018	2017
Cash and central banks	888,415	3,280,943
Available in policy	4,760,526	5,065,044
Eligible out-of-policy assets	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**

350 million euros were issued in April 2018 to strengthen the Entity's own resources. Likewise, in December 2018, a mortgage bond was issued for an amount of 1,000 million euros, maturing in the year 2028, subscribing as an auto-portfolio and becoming part of the guarantee policy before the ECB.

This policy includes assets pledged for a discountable value of 8,133 million euros at December 31, 2018, of which 3,372 million euros have been drawn down, so that the Entity has an available amount of 4,761 million euros which it can access to satisfy its liquidity needs.

In addition to the aforementioned policy, the Entity has very diverse sources of financing:

- Thus, the broad base of retail deposits stands out for 28,866 million euros, of which 80% correspond to stable balances.
- The entity has collateral financing of 4,494 million euros, of which 365 million euros are contracted in central counterparty entities.
- Wholesale issues for 4,375 million euros characterized by the diversification of their maturities.
- Deposits from Group financial institutions of 640 million euros
- Deposits from other customers of 2,241 million euros, among others.

The Entity's balance sheet does not present significant concentrations of liquidity risk in its assets nor in its sources of financing.

The detail, by term, of the contractual maturities of assets and liabilities (liquidity gap) at 31 December 2018 and 31 December 2017 is as follows:

Table 50: Breakdown by maturity of contractual maturities of assets and liabilities

(thousands of euros)	On demand	1 month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years	Total
ASSETS							
Loans and advances to 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
Reverse repurchase agreements and securities lending	-	1,620,623	-	83,126	100,000	-	1,803,749
Loans (including past due, doubtful, failed 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
Derivatives trading	-	-	4	-	-	-	4
Net interest income	-	34,996	77,819	294,699	-	-	407,514
Total at 31 December 2018	**37,351**	**2,505,733**	**1,607,989**	**3,307,746**	**9,804,802**	**26,004,171**	**43,267,792**
Total at 31 December 2017	**26,315**	**1,720,129**	**1,277,399**	**3,389,952**	**9,820,818**	**25,770,790**	**42,005,403**
LIABILITIES							
Wholesale issues	-	9,538	109,021	516,972	2,477,047	1,262,673	4,375,251
Deposits from credit institutions	13,749	14,692	2,000	900	-	-	31,341
Deposits from other financial institutions and agencies	611,926	-5,021	19,894	85,440	69,860	-	782,099
Deposits from large non-financial corporations	-	-	-	-	-	-	-
Financing of the rest of the clientele	25,732,586	722,083	1,144,540	3,115,568	388,333	3,418	31,106,528
Funds for mediation credits	-	13,808	20,123	151,768	286,585	84,966	557,250
Financing with collateral of 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
Formalized loans pending disbursement	-	469,992	-	-	-	-	469,992
Commitments available from third parties	2,970,560	-	-	-	-	-	2,970,560
Financial guarantees issued	14	4,498	32	215	6,550	22,155	33,464
Total at 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 at 31 December 2017	**27,865,150**	**3,127,330**	**1,506,201**	**4,872,750**	**6,588,037**	**2,079,082**	**46,038,550**
Gap for the period 2018	**(29,291,484)**	**337,967**	**260,449**	**(834,861)**	**2,940,452**	**24,643,987**	**-**
Gap for the period 2017	**(27,838,835)**	**(1,407,201)**	**(228,802)**	**(1,482,798)**	**3,232,781**	**23,691,708**	**-**
Cumulative Gap (without on-demand savings) 2018	**-**	**337,967**	**598,416**	**(236,445)**	**2,704,007**	**27,347,994**	**-**
Accumulated Gap (without on-demand savings) 2017	**-**	**(1,407,201)**	**(1,636,003)**	**(3,118,801)**	**113,980**	**23,805,688**	**-**

* Includes principal and interest maturities and no new business assumptions are assumed.

The maturity of overnight deposits is not contractually determined. It has been reported in the first time band (on demand) although for the most part, these deposits are stable.

The financing of other customers includes the embedded derivative in structured deposits.

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

- Financing received from investment funds and pension plans with clauses that lead to repayment based on lower credit ratings of Ibercaja Banco. At the end of 2018, there was no amount affected by the downgrading of the rating by one step.
- Derivatives liabilities of 57 million euros, which required the provision of additional guarantees of 63 million euros, and derivatives assets of 71 million euros, for which additional guarantees of 70 million euros were received. In addition, those carried out by camera required additional guarantees for 51 million euros.

- Financing with collateral of securities for 661 million euros, which required the provision of additional guarantees for 194 million euros in cash (guarantees include both repos and repurchase agreements).
- EIB financing of € 392 million, requiring the provision of € 408 million in fixed-income guarantees.

Ibercaja Banco has also signed *netting* framework contracts and their guarantee exchange annexes with all the entities with which it operates in OTC derivatives (*over the counter*) and simultaneous operations. Their signature is a prerequisite for those entities with which this type of operation is to be initiated. Ibercaja Banco participates as a direct member of the central clearing houses of simultaneous operations *LCH Clearnet* and *MEFFClear*, and in *Eurex* for the operation with some types of interest rate derivatives, being a habitual market practice that has spread among participants after the entry into force of EMIR regulations.

In relation to issued financial guarantee contracts, the nominal amount of the guarantee need not necessarily represent a real disbursement obligation or liquidity needs, which will depend on whether the conditions for the amount of the committed guarantee to be disbursed are met.

The Ibercaja Group does not hold speculative foreign currency positions.

Nor does it hold open positions in foreign currency of a non-speculative nature of a significant amount (the largest global net position in foreign currencies in Statement C.22 does not exceed 2% of total computable capital).

The main intragroup liquidity policies and flows are summarized below:

Financial Group

- The Ibercaja Group receives the Financial Group's contribution to the consolidated income statement in the form of dividends and commissions.
    - Ibercaja Banco receives dividends from the Financial Group's subsidiaries,
    - The parent company charges commissions for the provision of marketing and advisory services to subsidiaries of the Financial Group.
- Investment activity of the Financial Group's subsidiaries in the parent company: the main subsidiaries of the Financial Group maintain with the parent company asset positions materialized in time deposits, current accounts or other financial instruments, linked to the management of its treasury and own resources.
- Ibercaja Leasing activity: as Ibercaja Leasing's credit activity increases, the parent company provides financing either directly or through agreements with the Instituto de Crédito Oficial - ICO.

Real Estate Group

- The Real Estate Group also contributes to the consolidated results of the Ibercaja Group. Ibercaja Banco finances its member companies through capital increases, as well as loans for the purchase of assets (real estate or land) from foreclosures or dations in payment arising from credit operations of the parent company.

Instruments and services

- As for the subsidiaries providing services, there are no significant financial relationships.

Financing Vehicles

- With regard to securitisation funds, Ibercaja Banco carried out securitisations until 2009 with the aim of obtaining liquidity, improving the consumption of own resources and transferring credit risk. Most of it was placed in the wholesale market except for the last securitisations (2008 - 2009) which were retained by the Bank to serve as collateral in the ECB's guarantee policy.
- Subsequent to the issue, the Bank carried out repurchases from third parties in order to strengthen its balance sheet, which resulted in a self-portfolio of securitised bonds.

No other additional items were considered relevant for the calculation of LCRs, not included in this section, but relevant to their liquidity profile.

11.1 - Quarterly evolution of the LCR in 2018

The level of liquid assets available to the Group makes it possible to manage and control short- and medium-term liquidity needs, avoiding misalignments of the business model even under periods of stress or in the face of significant variations in market conditions.

The LCR ratio is a good indicator of the ability to cover liquidity needs.

The LCR (Liquidity Coverage Ratio) of the Ibercaja Group at 31 December 2018 was 306.78% (281.15% at 31 December 2017), while the NSFR (Net Stable Financing Ratio) at 31 December 2018 was 130.45% (124.42% at 31 December 2017).

The values for each quarter of 2018 are shown below, on a consolidated basis:

Table 51: Quarterly evolution of LCR- values at 31 March 2018

(thousands of euros)	Total unweighted value	Weighted total value
End date Quarter	31-mar-18	31-mar-17
Number of data used for calculation	3	3
Liquidity Buffer	7,258	7,464
Total net cash outflow	2,736	2,978
Liquidity Coverage Ratio (%)	265%	251%

Table 52: Quarterly evolution of LCR- values at 30 June 2018

(thousands of euros)	Total unweighted value	Weighted total value
End date Quarter	30-jun-18	30-jun-17
Number of data used for calculation	3	3
Liquidity Buffer	7,552	6,441
Total net cash outflow	2,702	3,171
Liquidity Coverage Ratio (%)	280%	203%

Table 53: Quarterly evolution of LCR- values at 30 September 2018

(thousands of euros)	Total unweighted value	Weighted total value
End date Quarter	30-sep-18	30-sep-17
Number of data used for calculation	3	3
Liquidity Buffer	7,084	6,950
Total net cash outflow	2,511	3,090
Liquidity Coverage Ratio (%)	282%	225%

Table 54: Quarterly evolution of LCR- values at 31 December 2018

(thousands of euros)	Total unweighted value	Weighted total value
End date Quarter	31-dec-18	31-dec-17
Number of data used for calculation	3	3
Liquidity Buffer	8,344	7,192
Total net cash outflow	2,720	2,871
Liquidity Coverage Ratio (%)	307%	251%

11.2 - Liquidity and financing perspective

The table below shows the maturities of long-term wholesale financing at 31 December 2018:

Table 55: Maturities of wholesale financing

(thousands of euros)	On demand	1 month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years	Total
Senior Debt	-	-	-	-	-	-	-
State-guaranteed debt	-	-	-	-	-	-	-
Subordinate and preferential	-	5,000	-	54,837	850,000	-	909,837
Mortgage and Territorial Bonds and Notes	-	-	100,000	429,634	1,436,111	1,006,026	2,971,771
Securitizations	-	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**
Collateralized financing of long-term securities		**-**	**-**	**-**	**3,372,460**	**-**	**3,372,460**
Expiry dates of 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**	**-**

Wholesale issues are net of treasury stock. However, multi-cedent bonds are shown for their gross amount issued while treasury stock is shown as available liquidity in accordance with the criteria used to prepare the Bank of Spain's LQ statements.

The policy of time diversification of the maturities of wholesale issues will allow the Entity to cover the maturities of the coming years, maintaining a comfortable liquidity position. Thus, taking into account the available liquidity (10,917 million euros), the Entity could cover the total maturities of long-term wholesale financing (4,375 million euros). It also has an issuance capacity of 6,290 million euros (total availability of 17,207 million euros).

12. Asset encumbrance

12.1 – General information

The concept of *asset encumbrance* refers to the part of the Entity's assets that is committed as a result of its use in secured financing operations.

In this regard, the European Banking Authority has developed Guidelines for the disclosure of information on encumbered and unencumbered assets in compliance with the mandate contained in Regulation 575/2013 on Capital Requirements.

In accordance with the EBA guidelines for the disclosure of information relating to encumbered and unencumbered assets (EBA/GL/2014/3), an asset is considered to be encumbered when it has been pledged or is subject to any type of agreement, from which it cannot be freely drawn, by virtue of which it is intended to serve as collateral or to improve the credit quality of any balance sheet or off-balance sheet transaction.

The process of encumbering assets consists of using these assets to secure or collateralize by the Group specific obligations with certain creditors.

The Group has established identification and management policies and has developed procedures for measuring and monitoring the exposure of encumbered assets.

12.2 - Quantitative information

Information on taxed assets is presented below. This information has been prepared in accordance with the EBA Guidelines for the disclosure of information on unencumbered and unencumbered assets, using the median of the previous twelve months' moving quarterly values (according to Commission Delegated Regulation EU 2017/2295).

There are no significant differences between the perimeter used in this document and the perimeter of liquidity management on a consolidated basis, as required by CRR 575/2013.

Table 56. Amount of encumbered and unencumbered assets, as of 31 December 2018

Encumbered and unencumbered assets				
(thousands of euros)	Book value of encumbered assets	Fair value of encumbered assets	Book value of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting entity	**10,004,967**	**-**	**36,196,594**	**-**
Loans and credits	7,481,909	-	26,095,650	-
Equity instruments	687	687	377,244	377,244
Debt instruments	2,522,371	2,553,681	5,433,367	5,613,405
Other assets	-	-	4,290,333	-

Below is information on the collateral received that does not qualify for recognition on the balance sheet in accordance with the applicable accounting standard and is therefore held off-balance sheet. A distinction is made between the collateral received that acts as a hedge of another position and that which is unencumbered:

Table 57. Security interests received by type of asset, year 2018

Security interests		
(thousands of euros)	Fair value of guarantees received on own securities or debt securities issued (encumbered)	Fair value of guarantees received or own issued debt securities (available for encumbrance)
Guarantees received by the reporting entity	**45,010**	**1,005,272**
Loans and credits	-	-
Equity instruments	-	-
Debt instruments	45,010	1,005,272
Other guarantees received	-	-
Own debt securities issued, other than covered bonds or securitisation of own assets	-	-

Finally, liabilities associated to encumbered assets and the collateral received are shown.

Table 58. Liabilities associated with encumbered assets and collateral received, year 2018

Liabilities		
(thousands of euros)	Related liabilities, contingent liabilities or pledged securities	Assets, guarantees received and own debt securities issued, other than covered bonds and securitization bonds of encumbered assets
Book value of selected financial liabilities	8,676,932	10,170,846

Assets and guarantees received with charges amount to 10,004,967 thousand euros. Loans and credits account for 75% of encumbered assets. For the most part, these are mortgage loans that act as the underlying in mortgage bond and securitisation bond transactions, either sold to third parties or retained in treasury stock and subsequently pledged and arranged in an ECB policy. On the other hand, fixed-income securities acting as collateral in repurchase agreements and ECB policy drawdowns account for 25% of the total.

The taxed assets and guarantees belong to the parent company Ibercaja Banco S.A.

As for the assets without burdens, the entity does not consider as available for encumbrance, in the normal course of its operations, 4,290,333 thousand euros under the heading "other assets", including intangible assets, deferred tax assets, tangible assets and derivatives assets.

Encumbered assets act as collateral for certain obligations. Thus, sources of encumbrance amounted to 8,676,932 thousand euros and include mortgage bonds, drawn down in an ECB policy and financing through fixed-income repurchase agreements. To a lesser extent, securitisation bonds and passive derivatives with collateral requirements.

In 2018, the financing of fixed-income securities, mortgage bonds, securitization bonds and derivatives, among others, was reduced through repurchase agreements. The position is maintained in ECB policy provisions. This reduces burdens on mortgage loans and fixed-income securities. On a net basis, there is a reduction in the assets and guarantees received with charges. The percentage of assets with charges over the total assets and guarantees received was 21.27% at 31 December 2018, expressed in annual average terms.

13. Leverage

13.1 – General information

The leverage ratio is a measure that complements the other capital indicators, the objective of which is to guarantee prudence in the financing structures of institutions, limiting excessive dependence on third-party resources and avoiding destabilization of the economy and the banking system.

In order to reduce risk, the entry into force of Basel III brought with it the measurement of the leverage ratio as the ratio between top-quality capital (*Tier 1* Capital) and risk exposure, both on-balance sheet and off-balance sheet, without taking into account risk weights. The leverage ratio gives an overview of the percentage of assets that are financed with Tier 1 Capital.

Its calculation is set out in Article 429 of Regulation (EU) No 575/2013 (CRR). In October 2014, the European Commission amended the CRR (by means of a delegated act) to adopt the new form of calculation. This ratio is calculated as the quotient between *Tier 1* calculated in accordance with solvency regulations, divided by leverage exposure calculated as the sum of balance sheet assets, memorandum accounts, derivative exposures and securities financing and adjustments that ensure consistency with the numerator.

During 2017, the Basel Committee has reviewed the definition of the leverage ratio and a number of technical adjustments have been made to the method of calculating total exposure (denominator), mainly in relation to derivative exposures and the treatment of off-balance-sheet exposures. The final calibration of the leverage ratio was set at 3% for all entities.

The purpose of the leverage ratio is to provide additional protection against so-called "model risk", i.e. to underestimate the necessary regulatory capital through a computation through sophisticated models permitted by Basel II and III.

The Group is monitored semi-annually by the European Banking Authority (EBA) as part of the calibration process.

At 31 December 2018, the Group had a leverage ratio of 6.04%:

Table 59: Leverage ratio

Leverage ratio		
EU-22	Leverage ratio	6.04%
	Choice of transitional provisions and amount of trust elements derecognized	
EU-23	Choice of transitional provisions for the definition of the capital measure	With transitional measures
EU-24	Amount of fiduciary elements deregistered pursuant to Article 429(11) of Regulation (EU) No 575/2013	-

13.2 - Disaggregation of the total exposure measure

In calculating the leverage ratio, the following is taken into account:

- The exposure measure used to calculate the leverage ratio is the carrying amount of all asset items, with the exception of derivatives, which include their net value (less collateral if they meet certain criteria) plus a surcharge for potential future exposure.
- The assets that are deducted and those that are part of TIER I transitional adjustments are subtracted from the exposure measure to avoid double counting.
- For off-balance-sheet transactions (off-balance-sheet items), the balance will be weighted by different percentages in accordance with Article 429 of Regulation (EU) 575/2013 (CRR).

The breakdown of the measure of the total exposure corresponding to the leverage ratio at 31 December 2018, according to the templates "LRCom" and "LRSpl" defined in Annex I of the Implementing Regulation (EU) 200/2016, is presented below:

Table 60: LRSpl Table: Breakdown of on-balance-sheet exposures (excluding derivatives, SFT and excluded exposures)

LRSpl Table: Breakdown of on-balance-sheet exposures (excluding derivatives, SFT and excluded exposures)		
(thousands of euros)		Exposures corresponding to the CRR leverage ratio
EU-1	On-balance-sheet total exposures (excluding derivatives, SFT and excluded exposures), of which:	43,970,178
EU-2	Trading portfolio exposures	40,695
EU-3	Exposures from the bank portfolio, of which:	43,929,483
EU-4	Guaranteed Bonds	54,208
EU-5	Exposures assimilated to exposures to sovereign issuers	10,146,229
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities not assimilated to exposures to sovereign issuers	103,793
EU-7	Entities	420,540
EU-8	Secured by mortgages on real estate	19,009,103
EU-9	Retail Exposures	6,061,088
EU-10	Corporates	3,388,653
EU-11	Exposures in a situation of non-payment	1,416,239
EU-12	Other exposures (e.g. equities, securitisations and other assets other than credit bonds)	3,329,630

Table 61: LRCom Table: Common disclosure table of the leverage ratio

LRCom Table: Common disclosure table of the leverage ratio		
(thousands of euros)		Exposures corresponding to the CRR leverage ratio
On-balance sheet exposures (excluding derivatives and SFTs)		-
1	On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including collateral)	44,027,248
2	(Assets amounts deducted in determining Tier 1 capital)	-304,751
3	Total on-balance sheet exposures (excluding derivatives, SFT and fiduciary assets) (sum of lines 1 and 2) 16.2.2016 L 39/9 Official Journey of the European Union ES	43,722,497
Derivative exposures		-
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	124,428
EU-5ª	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-57,070
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivatives exposures (sum of lines 4 to 10)	67,178
SFT Exposures		-
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,803,749
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14ª	Exception for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15ª	(Exempted CCP component of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	1,803,749
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	4,543,595
18	(Adjustments for conversion to credit equivalent amounts)	-3,003,356
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1,540,239
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		-
EU-19ª	(Intragroup exposures (individual basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
20	Tier 1 capital	2,845,554
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	47,133,663
22	Leverage ratio	6.04%
EU-23	Choice of transitional provisions for the definition of the capital measurement	With transition measures
EU-24	Amount of fiduciaries withdrawn under Article 429 (11) of Regulation (EU) No 575/2013	-

13.2.1 - Conciliation of the Leverage Ratio with published financial statements

The following table presents the reconciliation of the measure of the total exposure corresponding to the leverage ratio to the information in the financial statements published at 31 December 2018, in accordance with the "LRSum" template defined in Annex I of the Implementing Regulation (EU) 200/2016:

Table 62: LRSum Table: Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio

LRSum Table: Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio		
(thousands of euros)	Book value of encumbered assets	Fair value of encumbered assets
1	Total assets according to published financial statements	45,999,779
2	Adjustment for entities that are consolidated for accounting purposes, but that fall outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognized in the balance sheet in accordance with the applicable accounting framework, but excluded from the measurement of the exposure corresponding to the leverage ratio under Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	-44,534
5	Adjustment for securities financing transactions (SFT)	-
6	Off-balance-sheet adjustment (i.e. conversion of off-balance-sheet exposures to credit equivalents)	1,540,239
EU-6ª	(Adjustment for intra-group exposures excluded from the measure of the total exposure corresponding to the leverage ratio according to Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the measure of the total exposure corresponding to the leverage ratio according to Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-361,821
8	Measure of total exposure corresponding to the leverage ratio	47,133,663

13.3 - Information on qualitative aspects

The information required in the "LRQua" qualitative information template in Annex I of the Implementing Regulation (EU) 200/2016 on the procedures applied to manage the risk of excessive leverage, and the factors that have influenced the leverage ratio published at 31 December 2018, is detailed below.

13.3.1 - Procedures applied to manage excessive leverage risk

The leverage ratio forms part of the first level metrics of the Ibercaja Group's Risk Appetite Framework, where tolerance thresholds are established.

This information is reviewed quarterly by the Governing Bodies. In the event of a situation of alert or non-compliance, appropriate measures would be established in accordance with the RAF governance model for the management of the risk of excessive leverage.

With an annual periodicity, a three-year projection is carried out in which both the numerator (*Tier I*) and the denominator (exposure value, total accounting asset) are shown, so that the Entity has measurements of the *forward looking* leverage ratio. These measurements are compared with the thresholds of the risk appetite framework, so that in the event of detecting non-compliance there would be sufficient clearance for the necessary remedial action to be taken.

13.3.2 - Factors influencing the Leverage Ratio

The leverage ratio has remained stable from 5.41% in Dec-17 to 6.04% in Dec-18.

In 2018 the leverage ratio was affected by the issue of 350 million euros of computable instruments such as AT1 and by the reduction in assets.



14. Remunerations

This section details quantitative and qualitative aspects of Ibercaja Banco's remuneration policy for members of the Entity included in the "Identified Group", due to its significant impact on the Entity's risk profile.

The objective is to make public the Entity's remuneration policy and practices in accordance with the provisions of Law 10/2014, Royal Decree 84/2015, Bank of Spain Circular 2/2016 and Articles 13 and 450 of Regulation (EU) No. 575/2013.

14.1 - Background

Since 2012, Ibercaja Banco has had a remuneration policy associated with risk, which is applicable to members of the Entity whose professional activities have a significant impact on the Entity's risk profile (the so-called "Identified Group") and whose purpose is, on the one hand, to combine the interests and business objectives of the Entity with the effort and professional motivation of the Identified Group and, on the other hand, to favor a solid and effective risk management that does not stimulate, in those who make up the Identified Group, an assumption of risks that differ from those established in the Risk Appetite Framework (RAF) approved by the Board of Directors.

The provisions of this Policy are complemented by the remuneration policy of the members of the Board of Directors of the Entity in force at any given time.

14.2 - Purpose and Scope of the Remuneration Policy

Ibercaja Banco's General Remuneration Policy aims to achieve an appropriate balance between the interests and business objectives of the Entity and the effort and professional motivation of the Identified Group. It also favors sound and effective risk management that does not involve excessive risk taking by the Identified Group. There are no differences with respect to remunerations at the level of the group, the parent company and the subsidiaries since the group entities subject to the regulations governing remunerations follow the same guidelines and criteria as those established by the parent company, Ibercaja Banco.

The Remuneration Policy contains specific provisions that are applicable to the persons who make up the Identified Group, defined in accordance with the qualitative and quantitative criteria set out in Delegate Regulation (EU) No. 604/2014 and other applicable legislation in force (Law 10/2014, RD 84/2015 and Bank of Spain Circular 2/2016).

Special mention should be made of the inclusion in the identified group of those responsible for units whose functions have a material impact on the control structure of the Entity, and whose remuneration is determined on the basis of the achievement of objectives linked to their function, regardless of the results obtained by the business units controlled by them; without prejudice to this, the Entity's overall results may be taken into account in their remuneration, which they have no possibility of influencing due to their activities.

The persons who make up the Identified Group, as well as the quantitative and qualitative criteria to be taken into consideration for the inclusion or exclusion of employees in it, are described in the Entity's Remuneration Policy.

Even if they do not form part of the Identified Group, the principles that inform the Remuneration Policy apply to all employees of Central Services included in the system of variable remuneration by objectives. In compliance with current regulations, part of the variable remuneration by objectives of the CEO and the members of the Management Committee is paid in the form of instruments based on the revaluation or depreciation of theoretical shares into which the share capital is divided ("*phantom shares*"): 50% of the non-deferred variable remuneration and 55% of the variable remuneration subject to deferral will be paid in the form of these instruments.

14.3 – Principles of the Remuneration Policy

The principles that inspire the Remuneration Policy are the following:

- Transparency.
- Coherence with the business strategy, objectives, values and long-term interests of the Entity.
- Remuneration schemes shall present a balanced and efficient relationship between the fixed and the variable part, in such a way that the variable part constitutes a sufficiently high part of the total remuneration.
- The fixed component of the remuneration is determined by the salary tables of the collective agreement applicable to the personnel, as well as the different types of attachments to the basic salary.
- Where applicable, the variable component of remuneration:
  - It will be referenced, in any case, to the performance of the beneficiaries according to the global and specific objectives approved annually by the competent body.
  - The system of variable remuneration must not imply, at any time, a future cost for the Entity for the purposes of retirement of the recipients, without prejudice to the fact that they may voluntarily assign all or part of their amount to deferred remuneration, after deduction of the corresponding taxes, expenses and charges.
  - The variable component shall have sufficient flexibility to allow its modulation, to the extent that it can be completely removed, if necessary.
  - Under no circumstances may it exceed the percentage of the fixed remuneration established for each employee level.
- Promotion of adequate and effective risk management, within the framework of risk appetite defined by the Entity, which is consistent with the capital self-assessment process, and which does not encourage the assumption of risks incompatible with said risk profile.
- Proportionality between remuneration and risk assumed, according to the different levels of responsibility and risk profiles identified.

14.4 - Main characteristics of the Remuneration Policy

The elements that make up the remuneration of the people who make up the Identified Group are a fixed component and a variable component, which are approved annually by the Board of Directors.

The fixed component of remuneration is determined by the salary tables in the collective agreement applicable to the personnel.

The variable component of the remuneration is referenced, in any case, to the performance of the recipients according to the global and specific objectives approved annually by the Board of Directors at the proposal of the Chief Executive Officer, following a report from the Remuneration Committee, and must not imply, at any time, a future cost for the Entity for the purposes of the retirement of the preceptors. It shall have sufficient flexibility to allow for its modulation, to the extent that it is possible to eliminate it completely, if necessary, and may under no circumstances exceed 40% of the fixed remuneration established for each executive level.

14.5 - Decision-making process followed to establish the Remuneration Policy of the identified Group

The Remuneration Committee is responsible for proposing and reporting the following to the Board of Directors:

- The Directors' remuneration policy and the other conditions of their contracts.
- Periodic review of remuneration programs, weighing their suitability and performance.
- Transparency of remuneration and observance of the remuneration policy established by the Entity.

The main remuneration activities carried out by the Committee have consisted of reporting to the Board of Directors on the degree of monitoring and compliance with the objectives established in the previous year, as well as determining the objectives that will determine, where appropriate, the accrual of the variable remuneration of the Identified Group.

On the other hand, at least once a year, an independent evaluation is made of the application of the remuneration policy associated with risk management, in order to verify whether the adopted remuneration guidelines and procedures are being complied with. The Remuneration Committee is informed of the conclusions of the evaluation carried out by the external expert so that it can make the appropriate recommendations and proposals for modification to the Board of Directors.

The Commission's proposals and reports are submitted to the Board of Directors:

- Approve the system of variable remuneration for people included in the Identified Group.
- To verify, as an integral part of the general supervisory function referred to in the Regulations of the Board of Directors, the correct and effective application of variable remuneration.

- Adopt, where appropriate, the necessary or appropriate corrective measures for the adequate and effective application of the provisions of the Policy.
- Agree on the inclusion or removal of people in the Identified Group.

14.6 - Characteristics of the remuneration system for members of the governing bodies

In accordance with the provisions of the Entity's Articles of Association, the position of director is remunerated, distinguishing between non-executive and executive directors. The purpose of this distinction is to adequately remunerate the "senior management" services provided by the Directors, taking into account, in any case, not only the principles underlying this Policy but also the remuneration items used by other entities in the sector.

According to the minutes of the single-member decision appropriation, dated 22 September 2011, it was agreed to empower the Board of Directors of the Entity to set the attendance allowance for members of governing bodies at the meetings called, with the limit of the amount paid at that time by the Parent Entity, Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, as a per diem for attendance and expenses.

On the basis of this authorization, the Board of Directors, at its meeting held on 22 September 2011, agreed to set the amount of the attendance allowance for meetings of members of the Group's governing bodies at 700 euros gross per session.

14.6.1 - Remuneration of the CEO

The remuneration system of the CEO, the company's chief executive, is made up of the following remuneration items:

- a fixed part, appropriate to the services and responsibilities assumed;
- a variable part, correlated with some indicator of the performance of the director or of the Entity;
- an assistance part, which will include the appropriate welfare and insurance systems; and
- compensation in the event of separation or any other form of extinction of the legal relationship with the Entity not due to non-compliance attributable to the director.

The contract signed with the Chief Executive Officer details all the items for which remuneration may be obtained for the performance of executive functions, including, where appropriate, any compensation for early termination of such functions and the amounts to be paid by the Entity for insurance premiums or contributions to savings systems.

The managing director may not receive any remuneration for the performance of executive functions whose amounts or concepts are not provided for in the aforementioned contract.

14.6.2 - Remuneration of Directors by their condition

In accordance with the Bylaws and the Directors' Remuneration Policy, the remuneration scheme for directors in their capacity as such and the specific remuneration scheme for the Chairman and Managing Director is as follows:

- **Directors in their capacity as such**

The components that make up the remuneration of directors in their capacity as such are, in accordance with the Bylaws (i) allowances for attending meetings of the Board of Directors and its committees, without prejudice to the reimbursement of the corresponding expenses, and (ii) an annual allocation to be determined by the Board for directors with special dedication and functions, who are the Chairmen of the Board Committees, in addition to the Chairman of the Board.

- **Chairman of the Board**

For the performance of his duties and his exclusive dedication, the Chairman of the Board of Directors receives a remuneration consisting of an assignment of a fixed amount established by the Board of Directors. Such remuneration is independent of the daily subsistence allowance for attending meetings of the governing bodies of which it forms part.

- **Chief Executive Officer**

According to the Articles of Association, the Managing Director, the Entity's sole executive director, shall be entitled to receive remuneration consisting of (a) a fixed part, appropriate to the services and responsibilities assumed; (b) a variable part, correlated with some indicator of the performance of the director or the company; (c) a welfare part, which shall include the appropriate pension and insurance systems; and (d) compensation in the event of separation or any other form of termination of the legal relationship with the Entity not due to non-compliance attributable to the director.

The amount of the remuneration that the Entity may pay to all its directors for these items does not exceed the amount determined for this purpose by the general meeting. The amount thus fixed shall remain unchanged until such time as it is amended by a new agreement of the general meeting. The fixing of the exact amount to be paid within this limit, its distribution among the different directors, and the periodicity of its perception corresponds to the Board of Directors. Comparable credit institutions (*peers*) have been taken into account in the definition of the Entity's remuneration policy and the firm E&Y has collaborated in its preparation as an external advisor.

14.7 - Characteristics of the executive remuneration system

The remuneration of executive personnel is made up of the following remuneration items:

- a fixed part, which shall be governed by the salary tables of the applicable collective agreement, comprising the basic salary or wages and the allowances or bonuses applicable in each case,
- a variable part, to be determined in accordance with the parameters and criteria below:

14.7. 1 - Setting objectives

The Board of Directors, at the proposal of the Remuneration Committee, shall determine and review annually, for each professional category included in the Identified Group, the proportion that the variable remuneration component should represent with respect to its fixed remuneration, as well as the percentage of weighting between the Global Objectives and Specific Objectives applicable in each case.

The setting of global and specific objectives for variable remuneration is linked to prudent risk management, some of the main characteristics of which are related to the ex ante adjustments set out below:

- Dependent and appropriate to the individual performance of employees and to the Entity's results, considering the impact of the underlying economic cycle, as well as present and future risks.
- Flexibility and alignment with the Entity's strategic interests, without limiting the capacity to reinforce its solvency.
- Establishment of certain upper and lower limits that provide a clear mitigation of risks associated with their potential impact on the Entity's income statement and own resources.

In accordance with the above, the annual objectives that apply to the Identified Group are generally measured on the basis of two types of indicators:

- Overall objectives: these objectives are both quantitative (profit and loss account) and qualitative (customer satisfaction/quality of service).
- Specific objectives: depending on the activity and area of responsibility of each member of the Identified Group, both quantitative and qualitative indicators are defined that are linked to the Strategic Plan and the annual Budget.

In general, overall and specific objectives are weighted by 50%, except for Deputy Directors-General whose overall objectives are weighted by 70% and specific objectives by 30%.

The variable component of the remuneration is not guaranteed, and is flexible enough to allow for modulation, to the extent that it can be completely abolished, if necessary. In other words, it will only be paid if it is sustainable in accordance with the situation of the Entity as a whole, and if it is justified in terms of the Entity's results and the degree of performance of the people considered.

The definition of these objectives shall include the decisions adopted by the Board of Directors, within the framework of the remuneration policy approved by the General Shareholders' Meeting, under the terms established in the applicable legislation in force. In any case, a substantial part and, in any case, at least 40% of the variable remuneration element, is deferred throughout the duration of the Strategic Plan in order to take into account the economic cycle, the nature of the business, its risks and the activities of the employee in question, but in no case may the deferral period be less than three years.

14.7.2 – Performance evaluation

This is a systematic process of estimating how those responsible carry out the activities and assume the responsibilities of the positions they hold.

The variable component of the remuneration is determined on the basis of the achievement by the member of the Identified Group of the Global Objectives and Specific Objectives that have been approved for each financial year by the Board of Directors, at the proposal of the Managing Director and following a favorable report from the Remuneration Committee, and that will be subject to weighting, paying special attention to the professional category of the person under consideration.

The evaluation of the results taken as a reference for the determination of variable remuneration will be included in the multiannual framework coinciding with the Strategic Plan in order to guarantee that the evaluation process is based on long-term results and that it takes into account the underlying economic cycle of the Entity and its risks.

14.8 - Deferral

The Board of Directors, at the proposal of the Chief Executive Officer and following a report from the Remuneration Committee, is responsible for establishing and reviewing the criteria for temporary deferral of the variable remuneration element, as well as the criteria for determining its composition (whether or not deferred), distributing it between payment in cash and payment by means of non-pecuniary instruments, if applicable.

A substantial part and, in any case, at least 40% of the variable remuneration element, will be deferred throughout the duration of the Strategic Plan in order to take into account the economic cycle, the nature of the business, its risks and the activities of the employee in question, but in no case may the period of deferral be less than three years.

Notwithstanding the foregoing, the variable remuneration of the Chief Executive Officer shall be subject to the following deferral clause:

- 60 per cent of the variable remuneration element will be deferred for a period of five years.
- This deferred remuneration shall be paid during the five years immediately following receipt of the part that has not been deferred in equal parts, and the remuneration payable under the deferral provisions shall not be received more rapidly than proportionally.

Exceptionally, in the hypothetical event of a particularly high variable remuneration element in the future, notwithstanding the fact that this provision does not currently apply, the deferral percentage would be increased to 60 per cent of the variable remuneration element, at a rate of 20 per cent per year. For these purposes, any variable remuneration in an amount equivalent to that of the Chief Executive Officer shall be considered to be a particularly high amount.

Finally, deferred amounts will not give rise to the payment of interest or dividends.

The variable remuneration, including the deferred part, shall only be paid if it is sustainable in accordance with the situation of the Entity as a whole, and if it is justified on the basis of the results of the Entity, the business unit and the employee in question.

14.9 – Malus clauses

The malus clauses are activated in the event that the Entity worsens its relative situation in the fundamental financial parameters (solvency, creditworthiness and liquidity) established in each case by the Board of Directors, following a report from the Remuneration Committee.

The parameters of comparison determining, where applicable, the application of the malus clauses are established by the Board of Directors on an annual basis, following a report from the Remuneration Committee.

The activation of malus clauses will lead to a reduction or even the elimination of the variable component of remuneration, depending on the degree of deviation of the financial parameters from those of comparison.

14.10 - Remuneration received

The information regarding the remuneration received by the members of the Entity's management body is detailed in sections 5.1 and 5.2 of the notes to the annual report.

The aggregate quantitative information received by the members of the Board of Directors in 2018 (in thousands of euros) is detailed below:

Table 63: Breakdown of the aggregate remuneration of the Board of Directors

Aggregate remuneration of the Board of Directors	
(thousands of euros)	2018
Fixed remuneration	739
Variable remuneration	139
Assistance allowances	389
Other remuneration	263
TOTAL	**1,530**

(Information corresponding to the Annual Corporate Governance Statement)

No member of the Identified Group receives remuneration in excess of one million euros per financial year.

Hereinafter, the quantitative (aggregated) information for the Identified Group is presented:

Table 64: Remuneration of the Identified Group

	BUSINESS AREAS						
(thousands of euros)	Investment Banking[1]	Commercial Banking[2]	Asset Management[3]	Corporate Functions[4]	Independent Control Functions[5]	Rest[6]	Total
1. Identified group (employees or not)							
2. Number of identified[7] full-time equivalent[8] employees (at 31-12-2018)	5	23	2	18	9	5	62
Of which: senior management[9]	1	3	1	4	1	1	11
Of which: in control functions[10]		-	-	-	8		8
3. Total fixed remuneration amount[11]	422	2,211	263	1,920	747	568	6,130
Of which: in cash (no indemnities)	422	2,211	263	1,920	747	568	6,130
Of which: in shares or related instruments	-	-	-	-	-	-	-
Of which: in other types of instruments	-	-	-	-	-	-	-
4. Total variable remuneration amount[12]	45	419	59	267	52	136	978
Of which: in cash	26	380	43	191	38	100	778
Of which: in shares or related instruments	19	39	16	75	15	36	200
Of which: in other types of instruments[13]	-	-	-	-	-	-	-
5. Total variable remuneration accrued in the year being deferred[14]	15	30	13	58	11	27	154
Of which: in cash	7	13	6	26	5	12	69
Of which: in shares or related instruments	8	16	7	32	6	15	85
Of which: in other types of instruments[15]	-	-	-	-	-	-	-
Additional information on the total amount of variable remuneration	-	-	-	-	-	-	-
6. Total amount of deferred variable remuneration accrued in previous years	24	58	32	143	23	63	342
7. Amount of explicit ex post performance adjustment applied in the year for remuneration accrued in previous years	-	-	-	-	-	-	-
8. Number of beneficiaries of guaranteed variable remuneration[16]	-	-	-	-	-	-	-
9. Total amount of variable remuneration guaranteed in the year	-	-	-	-	-	-	-
10. Number of beneficiaries of severance pay for early termination of contract.	-	-	-	-	-		-
11. Total amount of early termination indemnities paid in the year.	-	-	-	-	-	-	-
12. Maximum amount of compensation for early termination of a contract paid to a person under Article 450.1(h)(v) of Regulation (EU) No 575/2013.	-	-	-	-	-	-	-
13. Number of beneficiaries of discretionary pension benefit contributions made in the financial year[17]	-	-	-	-	-	-	-
14. Total amount of discretionary pension benefit contributions in the financial year	-	-	-	-	-	-	-

[1] Includes advisory services to companies in corporate finance, venture capital, capital markets, sales and negotiation.
[2] Includes all lending activity (to individuals and companies).
[3] Includes portfolio management, management of collective investment institutions and other forms of asset management.
[4] All functions that have responsibility for the entity as a whole, at a consolidated and/or individual level, e.g. human resources or information systems.
[5] Risk management, compliance and internal audit unit personnel. Information on these functions should be at a consolidated and/or individual level.
[6] This column will include those employees who cannot be located in one of the indicated business areas. In this case, the entity will include qualitative information on the line corresponding to the total number of employees indicating the activity they carry out.
[7] Employees whose professional activities have a significant impact on the entity's risk profile, in accordance with Articles 2, 3 and 4 of Delegate Regulation (EU) No. 604/20014.
[8] The number must be expressed in full-time equivalent employees and refer to the number of active employees in the entity at the end of the year.
[9] Senior executives, representing those individuals who exercise executive functions in the Entity and who are responsible for its day-to-day management and are accountable to the management body.
[10] The control functions include risk management, regulatory compliance and internal audit functions, as well as the control units dependent on the business areas.
[11] Fixed remuneration includes payments, regular (non-discretionary) contributions to pension funds or benefits (which do not depend on the action of the recipient).
[12] Variable remuneration includes additional payments or other remunerations that depend on performance or, in exceptional circumstances, other contractual elements, but not those that form part of normal employee packages (such as health care, child support or normal contributions provided to pension plans). Both pecuniary and non-pecuniary remuneration should be included. Amounts must be declared gross, without applying the variable remuneration (v.r.) discount rate, which applies to total v.r., to v.r. in cash, to v.r. in shares and instruments linked to shares and to v.r. in other types of instruments.
[13] Instruments in accordance with article 34.1.l)2º of Law 10/2014.
[14] Deferred remuneration in accordance with article 34.1.m) of Law 10/2014. The amounts must be declared gross, without applying the variable remuneration (v.r.) discount rate applied to total v.r., to v.r. in cash, to v.r. in shares and instruments linked to shares and to v.r. in other types of instruments.
[15] Explicit expost adjustment as defined in Article 34.1.n) of Law 10/2014.
[16] Variable remuneration guaranteed with the clarifications established in sections d) and e) of article 34.1 of Law 10/2014.
[17] As defined in point (73) of article 4.1. of Regulation (EU) no. 575/2013

Signed: Víctor Iglesias Ruiz
Chief Executive Officer

ANNEXES

ANNEX I: Main Characteristics of Capital Instruments

Main Characteristics of the Capital Instruments of CET 1 and TIER 1 additional			
1	Issuer	Ibercaja Banco, S.A.	Ibercaja Banco, S.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	n/a	ES0844251001
3	Governing law(s) of the instrument	REGULATION (EU) NO 575/2013	REGULATION (EU) No 575/2013
	Regulatory treatment		
4	Transitional CRR tools	Tier 1 Capital	Additional Tier 1 Capital
5	Post-Transitional CRR tools	Tier 1 Capital	Additional Tier 1 Capital
6	Eligible on an individual/(sub)consolidated basis	Individual and (sub)consolidated	Individual and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Actions	Preferred Shares
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	2,144	350
9	Nominal amount of instrument	2,144	350
9a	Issue price	n/a	1
9b	Redemption price	n/a	1
10	Accounting classification	Net Assets	Net Assets
11	Original date of issuance	n/a	06/04/2018
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	06/04/2023, and at any time for tax reasons or a capital event, and with the prior consent of the Competent Authority. Repurchase price, 100%.
16	Subsequent call dates, if applicable	n/a	Each payment date after the first early repayment date.
	Coupons/ dividends		
17	Fixed or floating dividend /coupon	Variable	From fixed to variable
18	Coupon rate and any related index	n/a	7% payable quarterly until 06/04/2023. Thereafter MS 5 years + 680.9 bsp.
19	Existence of a dividend stopper	No	Yes
20a	Fully discretionary, party discretionary or mandatory (in terms of timing)	Fully discretionary	Fully Discretionary
20b	Fully discretionary, party discretionary or mandatory (in terms of amount)	Fully discretionary	Fully Discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Cumulative or non-cumulative	Non-cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of the instrument it converts into	n/a	n/a
30	Write-down features	n/a	Yes
31	If write-down, write-down triggers	n/a	CET1 ratio below 5.125%.
32	If write-down, full or partial	n/a	Partial, being able to be total
33	If write-down, permanent or temporary	n/a	Temporary
34	If temporary write-down, description of write-up mechanism	n/a	Mechanism defined in the Issuance Document
35	Positions in subordination hierarchy in liquidation	Last position	After the subordinate payables
36	Non-compliant transitional features	No	No
37	If yes, specify non-compliant features	n/a	n/a

Main Characteristics of TIER 2 Capital Instruments

1	Issuer	Ibercaja Banco, S.A.	Ibercaja Banco, S.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	ES0244251007	ES0214954150
3	Governing law(s) of the instrument	REGULATION (UE) Nº 575/2013	REGULATION (UE) n.º 575/2013
	Regulatory treatment		
4	Transitional CRR tools	Tier 2 Capital	Tier 2 Capital
5	Post-Transitional CRR tools	Tier 2 Capital	Tier 2 Capital
6	Eligible on an individual/(sub)consolidated basis	Individual and (sub)consolidated	Individual and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debentures	Subordinated debentures
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	500	5
9	Nominal amount of instrument	500	77
9a	Issue price	1	1
9b	Redemption price	1	1
10	Accounting classification	Liabilities (at amortized cost)	Liabilities (at amortized cost)
11	Original date of issuance	28/07/2015	25/04/2007
12	Perpetual or dated	Maturity determined	Maturity determined
13	Original maturity date	28/07/2025	25/04/2019
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	28/07/2020, and at any time for tax reasons or a capital event, and with the prior consent of the Bank of Spain. Repurchase price, 100%.	25/04/2014, and on any subsequent payment date, with the prior consent of the Bank of Spain. Repurchase price, 100%.
16	Subsequent call dates, if applicable	n/a	25/7, 25/10, 25/1 and 25/4 from 25/07/2014
	Coupons/dividends		
17	Fixed or floating dividend /coupon	From fixed to variable	Variable
18	Coupon rate and any related index	5% until 28/7/2020. Thereafter, MS5 years + 455.1 bps.	Euribor 3m + 0.36% until 25/4/2014. From that date, 3-month Euribor +0.86%.
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, party discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, party discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of an increase in the coupon or other incentives for reimbursement	No	Yes
22	Cumulative or non-cumulative	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of the instrument it converts into	n/a	n/a
30	Write-down features	n/a	n/a
31	If write-down, write-down triggers	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a
35	Position in the subordinate hierarchy in the settlement (specify the type of instrument with the next higher range) Position in subordination hierarchy in settlement	After the common creditors Last position	After the common creditors After creditors holding preferred participations and/or preferred shares
36	Non-compliant transitional features	No	Yes
37	If yes, specify non-compliant features	n/a	Coupon increase as of the first possible redemption date

ANNEX II: Information on transitory own funds

INFORMATION ON TRANSITORY OWN FUNDS				
	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013
Common Equity Tier 1 (CET 1) capital Instruments and reserves				
1	Capital instruments and the related share Premium accounts	2,144,276	26 (1), 27, 28, 29, EBA list 26 (3)	-
	of which: ordinary shares	2,144,276	List of EBA 26 (3)	-
	of which: instruments type 2	-	List of EBA 26 (3)	-
	of which: instruments type 3	-	List of EBA 26 (3)	-
2	Retained earnings	546,481	26 (1) (c)	-
3	Accumulated and other comprehensive income (and other reserves)	186,189	26 (1)	-
3a	Funds for general banking risk	-	26 (1) (f)	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1	-	486 (2)	-
	Capital contributions of the public sector exempt until 1 January 2018	-	483 (2)	-
5	Minority interests (amount allowed in consolidated CET1)	-	84, 479, 480	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	23,303	26 (2)	-
6	Common equity tier 1 (CET1) capital Regulatory adjustments	2,900,249	Sum of rows 1 to 5a	-
Common Equity Tier 1 (CET 1) capital Regulatory adjustments				
7	Additional value adjustments (negative amount)	-2,706	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	-212,496	36 (1) (b), 37, 472 (4)	-
9	Empty field in the EU	-		-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-187,411	36 (1) (c), 38, 472 (5)	146,553
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)	-
13	Any increase in equity that results from securitized assets (negative amount)	-	32 (1)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)	-
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)	-
17	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	-
20	Empty set in the EU	-		-
20a	Exposure amount of the following items, which may receive a risk weight of 1 250 %, if the entity chooses the deduction	-2,082	36 (1) (k)	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91	-
20c	of which: securitization positions (negative amount)	-2,082	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	-
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	-
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)	-
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)	-
24	Empty set in the EU	-		-

INFORMATION ON TRANSITORY OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	-
25a	Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	36 (1) (l)	-
26	Regulatory adjustments applied to CET1 relative to amounts subject to treatment prior to CRR	-		-
26a	Regulatory adjustments relative to non-realized gains and losses by virtue of articles 467 and 468	-		-
	Of which: non-realized gains from equity instruments	-	467	-
	Of which: non-realized gains from debt instruments	-	467	-
	Of which: ... filter for non-realized gains 1	-	468	-
	Of which: ... filter for non-realized gains 2	-	468	-
26b	Amount to be deducted or added to CET1 referring to other filters and deductions required prior to CRR	-	481	-
	Of which: ...	-	481	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)	-
28	Total regulatory adjustments to common Tier 1 (T2) capital	-404,695	Sum of rows 7 to 20a, 21, 22 and 25a to 27	146,553
29	COMMON EQUITY TIER 1 (CET1) CAPITAL	2,495,554	Row 6 minus row 28	146,553
	Additional Tier 1 capital instruments: Instruments			
30	Capital instruments and the related share premium accounts	350,000	51, 52	-
31	of which: classified as equity under applicable accounting standards	350,000		-
32	of which: classified as liabilities under applicable accounting standards	-		-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-	486 (3)	-
	Capital contributions of the public sector exempt until 1 January 2018	-	483 (3)	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86,480	-
35	of which: instruments issued by subsidiaries subject to phase-out	-	486 (3)	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	350,000	Sum of rows 30, 33 and 34	-
	Additional Tier 1 (AT1) Capital: Regulatory Adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)	-
38	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)	-
39	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)	-
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-
	Of which intangible assets	-		-
41b	Residual amounts deducted from AT1 with regard to T2 capital during the transitory period, by virtue of article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)	-
	Of which, elements which shall be detailed line by line, for instance, cross-holdings of non-significant investments in the capital of other financial sector entities, etc.	-		-
41c	Amount to be deducted or added to AT1 referring to other filters and deductions required prior to CRR	-	467, 468, 481	-
	Of which: ... possible filter for non-realized losses	-	467	-
	Of which: ... possible filter for non-realized gains	-	468	-

INFORMATION ON TRANSITORY OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013
	Of which: ...	-	481	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	Sum of rows 37 to 42	-
44	Additional Tier 1 (AT1) Capital	350,000	Row 36 minus row 43	-
45	Tier 1 Capital (T1 = CET1 + AT1)	2,845,554	Addition of row 29 and row 44	146,553
Tier 2 Capital: Instruments and Reserves				
46	Capital instruments and the related share premium accounts	504,840	62, 63	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	486 (4)	-
	Capital contributions of the public sector exempt until 1 January 2018	-	483 (4)	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	486 (4)	-
50	Credit risk adjustments	-	62 (c) and (d)	-
51	Tier 2 (T2) capital before regulatory adjustments	504,840		-
Tier 2: Regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)	-
54a	Of which, new holdings not subject to transitory mechanisms	-		-
54b	Of which, existing holdings before 1 January 2013 and subject to transitory mechanisms	-		-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-17,200	66 (d), 69, 79, 477 (4)	-
56	Reglamentary adjustments applied to T2 capital with regard to the amounts subject to the treatment prior to the CRR and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the CRR)	-		-
56a	Residual amounts deducted from T2 capital with regard to the CET1 deduction during the transitory period, by virtue of article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-
	Of which: elements which shall be detailed line by line, for instance, significant provisional net losses, intangible assets, insufficient allowances for expected losses, etc.	-		-
56b	Residual amounts deducted from T2 capital with regard to the AT1 deduction during the transitory period, as provided in article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)	-
	Of which: elements which shall be detailed line by line, for instance, cross-holdings of AT1 capital instruments, direct holdings of non-significant investments in the equity of other financial sector entities	-		-
56c	Amount to be deducted or added to T2 referring to other filters and deductions required prior to CRR	-	467, 468, 481	-
	Of which: ... possible filter for non-realized losses		467	-
	Of which: ... possible filter for non-realized gains	-	468	-
	Of which: ...	-	481	-
57	Total regulatory adjustments to Tier 2 (T2) capital	-17,200	Sum of rows 52 to 56	-
58	Tier 2 (T2) Capital	487,640	Row 51 minus row 57	-
59	Total Capital (TC = T1 + T2)	3,333,194	Sum of row 45 and row 58	146,553
59a	Risk-weighted assets with regard to the amounts subject to the prior treatment to CRR and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the CRR)	-		-
	Of which: ...elements not deducted from CET1 [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, deferred tax assets which depend on future results net of taxes associated, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	-

INFORMATION ON TRANSITORY OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013
	Of which: ...elements not deducted from AT1items [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, cross-holdings of T2 capital instruments, direct holdings of non-significant investments in the equity of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	-
	Elements not deducted from T2 capital items [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, indirect holdings of T2 own capital instruments, non-significant indirect holdings of investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	-
60	Total Risk-Weighted Assets	21,379,068		-
Capital Ratios and Capital Buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.67%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of total risk exposure amount)	13.31%	92 (2) (b), 465	-
63	Total capital (as a percentage of total risk exposure amount)	15.59%	92 (2) (c)	-
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	-	DRC 128, 129 and 130	-
65	of which: capital conservation buffer requirement	-		-
66	of which: countercyclical capital buffer requirement	-		-
67	of which: systemic risk buffer requirement	-		-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	DRC 131	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.17%	DRC 128	-
69	[not applicable under EU regulation]	-		-
70	[not applicable under EU regulation]	-		-
71	[not applicable under EU regulation]	-		-
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	11,726	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	2,611	36 (1) (i), 45, 48, 470, 472 (11)	-
74	Empty set in the UE	-		-
75	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	177,826	36 (1) (c), 38, 48, 470, 472 (5)	-
Applicable caps on the inclusion of provisions in tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	62	-
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	-	62	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62	-
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2) and (5)	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) and (5)	-
82	Current cap on AT1 instruments subject to phase-out arrangements	-	484 (4), 486 (3) and (5)	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) and (5)	-
84	Current cap on T2 instruments subject to phase-out arrangements	-	484 (5), 486 (4) and (5)	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) and (5)	-

(*)Except transitional provisions of IFRS9

ANNEX III: Own funds and *phase-in* and *fully-loaded* capital requirements

Own Resources and Capital Requirements Phase-in and Fully-loaded		
(thousands of euros)	2018 *phase-in*	2018 *fully-loaded*
TOTAL COMPUTABLE OWN FUNDS	**3,333,194**	**3,057,202**
Tier 1 capital (T1)	**2,845,554**	**2,569,562**
Ordinary Tier 1 Capital (CET1)	**2,495,554**	**2,219,562**
Disbursed Equity Instruments	2,144,276	2,144,276
Share premium	-	-
Retained earnings from previous years	546,481	546,481
Eligible results	23,303	23,303
Other reserves	110,589	10,645
Ordinary Tier 1 Capital Instruments	-	-
Minority interests	-	-
Valuation adjustments of financial asset portfolio at fair value with changes in other comprehensive income	72,894	72,894
Deductions from ordinary capital instruments level 1 (CET 1)	-401,989	-578,037
Losses for the current year	-	-
Intangible assets	-212,496	-212,496
Defined benefit pension fund assets	-	-
Treasury stock: Direct holdings of instruments of CET1	-	-
Reciprocal holding of CET1 instruments	-	-
Deferred tax assets that depend on future returns	-187,411	-333,964
Holdings in financial sector entities with significant influence	-	-
Excess shareholdings in entities in the financial sector over which there is no significant influence	-	-
Exposures that would weigh 1250% not included in the requirements	-2,082	-2,082
Other deductions from Tier 1 ordinary capital	-	-29,495
Additional Tier 1 Capital (AT1)	**350,000**	**350,000**
Additional Tier 1 Capital Instruments	350,000	350,000
Deductions from additional Tier 1 capital instruments (AT 1)	-	-
Treasury stock: Direct holdings of AT1 instruments	-	-
Reciprocal holdings of AT1 instruments	-	-
Intangible assets	-	-
Holdings in financial sector entities with significant influence	-	-
Excess shareholdings in entities in the financial sector over which there is no significant influence	-	-
Other deductions from Tier 1 additional capital	-	-
Tier 2 capital (T2)	**487,640**	**487,640**
Subordinated financing and subordinated loans and other	504,840	504,840
Deductions from equity instruments level 2 (T2)	-17,200	-17,200
Treasury stock: Direct holdings of AT1 instruments	-	-
Reciprocal holdings of AT2 instruments	-	-
Subordinated ptmos and subordinated debt in financial sector entities with significant influence	-17,200	-17,200
Excess shareholdings in entities in the financial sector over which there is no significant influence	-	-
Other deductions from Tier 2 capital	-	-
Total capital requirements	**1,710,325**	**1,686,731**
Capital requirements for credit risk, counterparty and incomplete transactions	1,596,504	1,572,910
Market risk capital requirements	-	-
Capital requirements for operational risk	111,410	111,410
Capital requirements for credit valuation adjustment (CVA)	2,411	2,411
Risk-weighted assets	**21,379,068**	**21,084,142**

ANNEX IV: *Phase-in* and *fully-loaded* Capital Ratios

***Phase-in* and *fully-loaded* capital ratios**		
	2018 phase-in	*2018 fully-loaded*
Ordinary Tier 1 Capital Ratio (CET1)	**11.67%**	**10.53%**
Minimum required CET1	4.50%	4.50%
Tier 1 capital ratio (T1)	**13.31%**	**12.19%**
Minimum required T1	6.00%	6.00%
Total capital ratio	**15.59%**	**14.50%**
Minimum required total capital	8.00%	8.00%
Total capital requirements	**1,710,325**	**1,686,731**
Capital requirements for credit risk, counterparty and incomplete transactions	1,596,504	1,572,910
Market risk capital requirements	-	-
Capital requirements for operational risk	111,410	111,410
Capital requirements for credit valuation adjustment (CVA)	2,411	2,411
Risk-weighted assets	**21,379,068**	**21,084,142**
Leverage Ratio	**6.04%**	**-**

ANNEX V: Template IFRS 9-FL: Own funds, capital and leverage ratios under IFRS 9/analogous ECLs transitional arrangements compared to fully loaded IFRS 9/analogous ECLs

Ibercaja Group applies the transitional provisions of IFRS 9 established in Article 473 bis of Regulation No. 575/2013 (introduced in Article 1 of Regulation 2395/2017), mitigating the impact of the adoption of IFRS 9 by applying a static *phase* in its capital ratios. In this way, the Group does not apply a dynamic *phase in* as defined in paragraph 4, so it has set the A4 amount referred to in paragraph 1 at zero.

(thousands of euros)		dic-18
Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	2,495,554
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied	2,395,610
3	Tier 1 capital	2,845,554
4	Tier 1 capital as if IFRS 9 transitional arrangements were not applied	2,745,610
5	Total capital	3,333,194
6	Total capital as if IFRS 9 transitional arrangements were not applied	3,233,250
Risk-weighted assets (amounts)		
7	Total risk-weighted assets	21,379,068
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21,501,220
Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	11.67%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.14%
11	Tier 1 (as a percentage of risk exposure amount)	13.31%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.77%
13	Total capital (as a percentage of risk exposure amount)	15.59%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.04%
Leverage ratio		
15	Leverage ratio total exposure measure	47,133,663
16	Leverage ratio	6.04%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.84%

Tables Index

Table 1: Members of the Board of Directors 27
Table 2: Composition of the Board of Directors 27
Table 3: Composition of the Executive Commission 28
Table 4: Composition of the Audit and Compliance Commission 29
Table 5: Composition of the Appointments Commission 30
Table 6: Composition of the Remuneration Commission 31
Table 7: Composition of the Major Risks and Solvency Commission 31
Table 8: Composition of the Strategy Commission 32
Table 9: Subsidiary Companies, full consolidation 37
Table 10: Subsidiary or multi-group companies, equity method 38
Table 11: Multi-group companies, proportional consolidation method 38
Table 12: Significant holdings in assurance companies 38
Table 13: Scope Modifications 39
Table 14: Conciliation accounting and regulatory scope 40
Table 15: Own Resources Ibercaja Gestión 42
Table 16: Own Resources Ibercaja Pensión 43
Table 17: Transitional period solvency requirements 45
Table 18: Conciliation of Own Funds with Financial Statements 46
Table 19: Computable Own Funds 47
Table 20: Minimum Own Funds Requirements 48
Table 21: Own resources requirements for Credit Risk 49
Table 22: Own resources requirements for Counterparty Risk 50
Table 23: SMEs correction exposures 50
Table 24: Own resources requirements for Operational Risk 51
Table 25: Own resources requirements for CVA 51
Table 26: Exposure by risk category (standard) 74
Table 27: Exposures by great geographical area 75
Table 28: Distribution by economic sector 75
Table 29: Exposure by risk category and maturity 76
Table 30: Impaired exposures by category 77
Table 31: Impaired exposures by great geographical areas 78
Table 32: Impaired exposures by economic sector 78
Table 33: Value adjustments by impairments 79
Table 34: Counterparty risk by derivatives operations 81
Table 35: Counterparty credit risk – Calculation method 81
Table 36: External rating agencies 82
Table 37: Value adjustment net exposures 82
Table 38: Exposure categories and degree of quality 83
Table 39: Types of securitizations 90
Table 40: Types of securitization positions 91
Table 41: Types of securitization positions according to the Standard Method 92
Table 42: Types of securitization positions 92
Table 43: Exposure to credit risk by mitigation technique 95
Table 44: Total value of exposure covered by collateral-based risk mitigation techniques 95
Table 45: Value of exposure covered by risk reduction techniques based on personal guarantees 96

Table 46: Value of the exposure to equity and capital instruments 102
Table 47: Balance sheet sensitivity profile at 31 December 2018 104
Table 48: Impact of changes in interest rates 105
Table 49: Liquidity disaggregation 106
Table 50: Breakdown by maturity of contractual maturities of assets and liabilities 107
Table 51: Quarterly evolution of LCR- values at 31 March 2018 109
Table 52: Quarterly evolution of LCR- values at 30 June 2018 109
Table 53: Quarterly evolution of LCR- values at 30 September 2018 110
Table 54: Quarterly evolution of LCR- values at 31 December 2018 110
Table 55: Maturities of wholesale financing 110
Table 56. Amount of encumbered and unencumbered assets, as of 31 December 2018 111
Table 57. Security interests received by type of asset, year 2018 112
Table 58. Liabilities associated with encumbered assets and collateral received, year 2018 112
Table 59: Leverage ratio 113
Table 60: LRSpl Table: Breakdown of on-balance-sheet exposures (excluding derivatives, SFT and excluded exposures) 114
Table 61: LRCom Table: Common disclosure table of the leverage ratio 115
Table 62: LRSum Table: Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio 116
Table 63: Breakdown of the aggregate remuneration of the Board of Directors 125
Table 64: Remuneration of the Identified Group 126

Illustrations Index

Illustration 1: Major milestones 16
Illustration 2: Distribution of business volume, network and customers 17
Illustration 3: Consolidation perimeter 25
Illustration 4: Governing Bodies 26
Illustration 5: Commissions of the Board of Directors 28
Illustration 6: Consolidation Scope entities 35
Illustration 7: Minimum Own Funds Requirements 48
Illustration 8: Distribution by Business Line of the RWA of Own Resources for Operational Risk 97
Illustration 9: Loss Events by Risk Category 100