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

Auditor’s report
on the consolidated annual accounts
and the consolidated Directors’ report
December 31, 2019

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the consolidated annual accounts

To the shareholders of Ibercaja Banco, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Ibercaja Banco, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, the statement of recognised income and expense, the statement of changes in total equity, the statement of cash flows and the related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis of opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated annual accounts section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit matters	How our audit addressed the key audit matter
Impairment of financial assets for credit risk and foreclosed assets	

Key Audit matters

Impairment of financial assets for credit risk and foreclosed assets

The estimation of the impairment of financial assets for credit risk and foreclosed assets is one of the most significant and complex estimates in the preparation of the consolidated annual accounts, therefore we consider this estimation as a key audit matter. This impairment is based on individual and collective estimations, using different Group models. Mentioned estimations are included within the International Financial Reporting Standards 9 (IFRS 9) and considers elements such as:

- The classification of the different credit portfolios by their risk and asset type.
- The identification and classification by stages of the impaired assets and the assets with a significant increase in credit risk (SICR).
- The use of assumptions such as macroeconomic scenarios, useful life and segmentation criteria.
- The ddevelopment of parameters for these models such as the probabilities of default (PD) and the loss given default (LGD).
- The value of the collaterals and personal guarantees that are considered effective. The Group has developed internal methodologies to estimate the recoverable value of those collaterals based on haircuts according to their own sale experience on similar assets. The Group also uses information provided by external valuation experts.
- Regular retrospective testing (back-testing and monitoring) on the different parameters included within the model are performed.

The Group, regularly, performs adjustments on its models in order to optimise the estimates, updating, when needed, the data or the algorythms used.

The impairment of the foreclosed assets possess by the Group on the execution of the guarantee is consistent with the criteria used to determine the value of the collaterals.

How our audit addressed the key audit matter

Our work over the estimation of the impairment of financial assets for credit risk has focused on the analysis and assessment of the internal control, as well as the performance of tests of details over credit risk provisions estimated collectively and individually.

With respect to internal control, we have focused on the following procedures:

- Verify that the internal policies, the procedures and the internal model comply with the regulation applicable requirements.
- Review of the periodic assessment of credit files and follow-up alerts designed by the Group to check the classification and the impairment.

In addition, we performed the following tests of details:

- Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology utilized for the estimation of the expected loss parameters; iii) methodology used for the generation of the macroeconomic scenarios; iv) information used in the calculation and generation; v) criteria for significant increase in credit risk and loan staging classification; and vi) restrospective methodologies for the most relevant parameters .
- Review of the impairment calculations for the main portfolios.
- Review the foreclosed assets model and the impairment related to them.
- Review, on a sample basis, individual credit files to test its classification and booking, its cash flows discounts and the impairment related to them.

Regarding the assets portfolio sales, we have performed the following procedures:

- Obtained and analysed the evidence for the sale agreements .
- Verify the control transfer requirements referred to the financial assets and consequently, its derecognition from the consolidated balance sheet.

Key Audit matters	How our audit addressed the key audit matter
On 27 June 2019 and 24 December 2019, Ibercaja Banco, S.A. sold two portfolios of assets, mostlynon performing ones assets. The loss is registered within the Financial Statement line “Gains/losses on non-trading financial assets mandatorily measured at fair value through profit or loss, net” of the consolidated income statement (Note 11.4). Refer to notes 2.3 and 11.4 of the consolidated annual accounts as of December 31, 2019.	• Check the estimated results from the operation and booked within the consolidated annual accounts. We have not identified exceptions outside of a reasonable range in the tests outlined above.
Goodwill impairment test	
On annual basis or when there is any evidence of impairment, the Group performs an evaluation to determine if an impairment of the Goodwill exists. In connection with the consolidated annual accounts, the Group’s Management assesses the existence of evidence of impairment in the Cash Generating Unit (CGU) since the previous year-end close. This goodwill is related to one CGU, agreeing with the total consolidated balance sheet, using for the estimation the discounted potencial dividends derived from the business projections. These estimations are inherently uncertain and include a high level of judgement as they are based on aspects such as macroeconomic evolution and key hypothesis (credit growth, customer deposits, interest rates, capital requirements, etc..) which determined the cash flows, the discount rates and the long term growth rates used. These estimations are sensitive to variables and assumptions used, which based on their own nature are subject to the risk of material misstatement when being valued. Due to the high level of estimation, we consider this impairment as a key audit matter Refer to note 2.16.1 and 16.1 of the consolidated annual accounts as of December 31, 2019.	We have understood and analysed the estimation process carried by the Group, and performed the following: • Obtained the criteria to decide the Group CGU related to the goodwill. • Assess of the methodology used to estimate the goodwill impairment. Assess the annual valuation report from a third party used to perform the impairment testing. Additionally, we performed analisys of the budget for the main CGUs, considering the regulation, the market and the specific requirements by the sector. This analysis obtained to get comfort over the relevant hypothesis such as the growth rate, the discount rate and the impact of the deviations identified against the budget and the rates that allowed the Group to identify potential evidence of impairment. Finally, we have observed the annual accounts disclosures on this topic. As a result of the above procedures, we believe that the evaluation carried out by Management is reasonable and the estimations of key assumptions employed are not outside a reasonable range in the context of the consolidated annual accounts.

Key Audit matters	How our audit addressed the key audit matter
Legal, tax and regulatory provisions	
As a result of the Group´s ordinary course of its operations, it is party to a range of tax and legal proceedings, including administrative and regulatory. There are also situations that even though still not subject to any legal proceedings, are nevertheless required from the Group to recognise provisions; these include customer conduct related matters and the related compensation. These may include the cancellations from the regulatory organism of the “Floor clauses” or the application of the “Royal Decree 1/2017” to protects the customers regarding the aforementioned clause. These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the applicable legislation prevailing in the various jurisdictions in which the Group operates. The Group's Management decide when to recognise a provision for these proceedings based on estimates made using reasonable calculation procedures that are consistent with the uncertainty intrinsic to the obligations they cover. Litigations is one of the estimation areas that requires more judgement, therefore, we consider it as a key audit matter. Refer to note 21 of consolidated annual accounts.	We have obtained our understanding and evaluated the estimation process of the litigation, legal, tax and regulatory provisions performed by the Group and the analysis of the internal control on the mentioned process including the following: • Understanding the process of update of the databases that contain the ongoing litigation and provision needs based on the accounting standards. • Analysis of the main claims, both individually and collectively ones. • Obtaining confirmation letters from Group´s legal department to agree their evaluation with the litigations, provisions and possible unrecorded liabilities. • Follow-up the open inspections using the help of our internal tax and legal experts and evaluation of the final results for the more significant tax open procedures and possible contingencies related to the open to inspection years. • Provisions booking, estimation and movement analysis. Specifically, for the claims and conduct matters related to the “Floor clauses”, our procedures focused on: • Understanding the internal control related to the provision to compensate the customers calculations. • Evaluation of the methodology and hypothesis used by the Group, and verify that they are aligned with the ones used in the market. • Sensitivity analysis over the models due to possible deviations on the main assumptions. As result of the work mentioned above, we consider that the judgements and assumptions made by the Group are reasonable based on the available information.

Key Audit matters	How our audit addressed the key audit matter
Valuation of the liabilities related to life insurance contracts The Group operates in the life insurance business offering saving, life insurance and unit linked products. In relation to the life savings insurance products, the Group registers the liabilities related to these contracts in accordance with the Spanish regulation which includes a certain amount of judgement from Group management in the calculation of the mathematical provision. The Group's calculation of mathematical provision is determined by the methodology used and certain critical assumptions made my management which include the determination of the discount rates, future expense assumptions or mortality tables. Due to aforementioned factors included in this estimate, consider mathematical provision as a key audit matter. Refer to note 20 of consolidated annual accounts.	We have obtained an understanding of the processes and registration related to the valuation and account the liabilities for the life insurance contracts included within the mathematical provision. Additionally, we evaluated the internal control environment, including the related IT controls. In collaboration with the Actuarial experts, we have performed determined procedures focused on the following: • Understanding and assessing the methodologies used in the calculation of the mathematical provision for life insurance liabilities, as well as validating consistency year on year • Validation of the appropriate accounting of the life insurance contracts, including the validation of the movements and payments made during the year. • Corroborate the completeness and accuracy of the Actuarial Data used for the calculations. • Recalculation of the mathematical provision for a sample of policies and validating the biometrical assumptions as per current regulation. • Validation of the immunization exercise performed by Management for a sample of groups of policies • Validation of the adequacy of future expenses assumptions. As result of the procedures described above, we consider that the calculations performed by Management related to the mathematical provision for life insurance products are within a reasonable range in the context of the consolidated annual accounts.

Key Audit matters	How our audit addressed the key audit matter
Risk related to IT systems The Group, as per its nature and specifically in the accounting and financial information generating process is dependent of the IT systems. This occurs both because of the platform that runs the majority of the Group´s activity and the personnel that managed it. Therefore, an adequate control over them is relevant to ensure the right recording and flow of information. In addition, as the IT systems become with more complex systems, some functions are externalised, the risks related to the IT systems and the information that runs on them increases. In this context, it is vital to evaluate aspects such as the organisation of the Group's technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations. Therefore, the assessment of risk related to IT systems and the internal control environment are a key audit matter.	We have assessed, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support the core business activity and have an impact on the Group's financial reporting. For the relevant IT systems related to the financial reporting process, we have performed the following procedures: • Testing the Group internal controls for the development and maintenance of the systems trying to minimize the risk on the program changes. • Check the authorisation access and application limits procedures. On those where can be found some weakness over the access control we identified compensating controls either in the IT or business department. We performed the following procedures: • Obtained comfort over the compensating controls that allow to detect problems in the completeness and accuracy of the information. • On those situations where compensating controls has been implemented, we have increased samples in the test of details performed to verify them. As result of our procedures and testings mentioned above, we have not found any relevant issue affecting the consolidated annual accounts.

Other information: Consolidated director's report

Other information comprises only the consolidated Directors' report for the 2019 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Directors' report. Our responsibility regarding the information contained in the consolidated Directors' report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the consolidated Directors' report or, if appropriate, that the consolidated Directors' report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated Directors' report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated Directors' report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated Directors' report and that the rest of the information contained in the consolidated Directors' report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated March 2, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on April 10, 2018 appointed us as auditors of the Group for a period of three years, from the year ended December 31, 2018.

Previously, we were appointed by resolution of the General Shareholders' Meeting and we have audited the accounts continuously since the year ended December 31, 1989.

Services provided

PricewaterhouseCoopers Auditores, S.L. has provided to the Group, services different to the audit ones, including the issuance of *comfort letters*, assurance services and other regulatory reviews required to the auditor.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Julián González Gómez (20179)

March 2, 2020

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

Consolidated financial statements at 31 December 2019 and
consolidated directors' report for 2019

IBERCAJA BANCO, S.A.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED DIRECTORS' REPORT

At its meeting on 28 February 2020 in Zaragoza, pursuant to the prevailing legislation, the Board of Directors of Ibercaja Banco, S.A. resolved to authorise for issue the 2019 consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the consolidated financial statements (Notes 1 to 45 and Appendices I to III) and the 2019 consolidated directors' report, which were set forth on official stamped paper and were numbered correlatively. Those documents were approved by means of the Directors' signatures, which appear below.

To the best of our knowledge, the 2019 consolidated financial statements, prepared in accordance with the applicable accounting principles, present fairly the equity, financial position, results and cash flows of the Company and subsidiaries forming the Ibercaja Banco Group. Likewise, the 2019 consolidated directors' report presents fairly the performance, results and position of the Company and subsidiaries forming the Ibercaja Banco Group, together with a description of the main risks and uncertainties facing them.

SIGNATORIES:

MR JOSÉ LUIS AGUIRRE LOASO
Tax ID No.: 17,109,813-K
Chairman

MR JESÚS BUENO ARRESE
Tax ID No.: 17,841,677-W
First Deputy Chairman

MR VÍCTOR IGLESIAS RUIZ
Tax ID No.: 25,143,242-X
CEO

Ms GABRIELA GONZÁLEZ-BUENO LILLO
Tax ID No.: 50,264,111-A
Director

MR JESÚS SOLCHAGA LOITEGUI
Tax ID No.: 17,085,671-Y
Member

MR EMILIO JIMÉNEZ LABRADOR
Tax ID No.: 8,792,511-W
Member

MR VICENTE CÓNDOR LÓPEZ
Tax ID No.: 17,187,842-B
Director

MR FÉLIX LONGÁS LAFUENTE
Tax ID No.: 17,140,782-D
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MR JESÚS TEJEL GIMÉNEZ
Tax ID No.: 17,144,682-E
Member

MR ENRIQUE ARRUFAT GUERRA
Tax ID No.: 17,852,947-W
Member

Ms MARÍA PILAR SEGURA BAS
Tax ID No.: 17,856,825-Q
Member

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

Consolidated financial statements at
31 December 2019

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Thousands of euros)

ASSETS	Note	31/12/2019	31/12/2018 (*)
Cash and cash balances at central banks and other demand deposits	**6**	**3,929,202**	**1,118,206**
Financial assets held for trading	**7**	**8,963**	**7,411**
Derivatives		8,963	7,411
Debt securities		-	-
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	**8**	**375,885**	**141,315**
Equity instruments		284,905	38,852
Debt securities		78,783	82,733
Loans and advances		12,197	19,730
Customers		*12,197*	*19,730*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Financial assets at fair value through profit or loss	**9**	**8,939**	**9,575**
Debt securities		8,939	9,575
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		-	-
Financial assets at fair value through other comprehensive income	**10**	**8,086,430**	**8,754,640**
Equity instruments		397,831	340,000
Debt securities		7,688,599	8,414,640
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		*461,199*	*1,060,771*
Financial assets at amortised cost	**11**	**39,768,768**	**39,378,416**
Debt securities		7,218,228	6,544,456
Loans and advances		32,550,540	32,833,960
Credit institutions		*643,792*	*248,856*
Customers		*31,906,748*	*32,585,104*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge		4,924,586	*5,603,706*
Derivatives - Hedge accounting	**12.1**	**137,210**	**161,371**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging		**-**	**-**
Investments in joint ventures and associates	**13**	**109,815**	**126,235**
Joint ventures		28,161	28,462
Associates		81,654	97,773
Assets under insurance or reinsurance contracts	**14**	**539**	**719**
Tangible assets	**15**	**983,710**	**941,991**
Property, plant and equipment		719,045	637,704
For own use		*645,064*	*592,611*
Assigned under operating lease		*73,981*	*45,093*
Investment property		264,665	304,287
of which: assigned under operating lease		*53,796*	*100,701*
Memorandum items: acquired under finance lease		-	-
Intangible assets	**16**	**212,673**	**203,877**
Goodwill		144,934	144,934
Other intangible assets		67,739	58,943
Tax assets	**25**	**1,339,805**	**1,383,560**
Current tax assets		13,097	18,467
Deferred tax assets		1,326,708	1,365,093
Other assets	**17**	**192,867**	**189,833**
Inventories		135,284	152,397
Other assets		57,583	37,436
Non-current assets and disposal groups classified as held for sale	**18**	**267,209**	**288,590**
TOTAL ASSETS		**55,422,015**	**52,705,739**

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Thousands of euros)

LIABILITIES	Note	31/12/2019	31/12/2018 (*)
Financial liabilities held for trading	**7**	**9,469**	**8,691**
Derivatives		9,469	8,691
Financial liabilities at fair value through profit or loss		**-**	**-**
Memorandum items: subordinated liabilities		-	-
Financial liabilities at amortised cost	**19**	**43,448,320**	**41,141,636**
Deposits		40,857,849	38,658,120
Central banks		*1,628,990*	*3,341,085*
Credit institutions		*4,304,232*	*1,236,219*
Customers		*34,924,627*	*34,080,816*
Debt securities issued		1,480,421	1,640,432
Other financial liabilities		1,110,050	843,084
Memorandum items: subordinated liabilities		*508,997*	*586,614*
Derivatives - Hedge accounting	**12.1**	**233,888**	**155,200**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging	**12.2**	**37,617**	**24,961**
Liabilities under insurance or reinsurance contracts	**20**	**7,784,537**	**7,514,769**
Provisions	**21**	**315,695**	**348,811**
Pensions and other post-employment defined benefit obligations		123,610	124,265
Other long-term employee remuneration		466	1,931
Lawsuits and litigation for outstanding taxes		7,930	9,027
Commitments and guarantees given		22,515	33,465
Other provisions		161,174	180,123
Tax liabilities		**178,164**	**181,263**
Current tax liabilities		1,551	2,295
Deferred tax liabilities	25.4	176,613	178,968
Other liabilities	**22**	**173,228**	**170,181**
Liabilities within disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**52,180,918**	**49,545,512**

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018

(Thousands of euros)

EQUITY	Note	31/12/2019	31/12/2018 (*)
Shareholders' equity	**23**	**3,139,017**	**3,091,665**
Capital		214,428	2,144,276
Paid-in capital		*214,428*	*2,144,276*
Called-up capital		-	-
Memorandum items: uncalled capital		-	-
Share premium		-	-
Equity instruments issued other than capital		350,000	350,000
Equity component of compound financial instruments		-	-
Other equity instruments issued		*350,000*	*350,000*
Other equity items		-	-
Retained earnings		545,893	521,762
Revaluation reserves		3,305	3,313
Other reserves		1,941,402	31,510
Accumulated reserves or losses on investments in jointly-controlled entities and associates		*(43,089)*	*(44,004)*
Other		*1,984,491*	*75,514*
(Treasury shares)		-	-
Profit attributable to owners of the parent		83,989	40,804
(Interim dividends)		-	-
Other accumulated comprehensive income		**102,080**	**68,562**
Items that will not be reclassified to profit or loss		48,162	18,464
Actuarial gains/(losses) on defined benefit pension plans	*24.1*	*(24,286)*	*(17,367)*
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised in joint ventures and associates		-	-
Changes in the fair value of equity instruments measured at fair value changes through other comprehensive income	*24.3*	*72,448*	*35,831*
Ineffectiveness of fair value hedges of equity instruments measured at fair value through other comprehensive income		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	-
Items that may be reclassified to profit or loss		53,918	50,098
Hedges of net investment in foreign operations (effective portion)		-	-
Foreign currency translation		-	-
Hedging derivatives. Cash flow hedge reserve (effective portion)	*24.2*	*8,524*	*9,288*
Changes in the fair value of debt instruments measured at fair value through other comprehensive income	*24.3*	*45,509*	*40,200*
Hedging instruments (undesignated items)			
Non-current assets and disposal groups classified as held for sale		-	-
Share in other income and expense recognised at joint ventures and associates		*(115)*	*610*
Non-controlling interests	**23.2**	**-**	**-**
Accumulated other comprehensive income		-	-
Other items		-	-
TOTAL EQUITY		**3,241,097**	**3,160,227**
TOTAL EQUITY AND LIABILITIES		**55,422,015**	**52,705,739**
Memorandum items: off-balance sheet exposures			
Loan commitments given	**27.3**	**2,966,973**	**2,970,560**
Financial guarantees granted	**27.1**	**76,204**	**79,289**
Other commitments given		**856,027**	**908,335**

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated balance sheet at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Thousands of euros)

	Note	2019	2018 (*)
Interest income	**28**	**663,561**	**660,894**
Financial assets at fair value through other comprehensive income		131,258	146,763
Financial assets at amortised cost		536,531	530,121
Other		(4,228)	(15,990)
(Interest expense)	**29**	**116,315**	**88,743**
(Expenses on share capital repayable on demand)		**-**	**-**
NET INTEREST INCOME		**547,246**	**572,151**
Dividend income	**30**	**12,652**	**11,487**
Share of profit of entities accounted for using the equity method	**31**	**431**	**(642)**
Fee and commission income	**32**	**412,375**	**391,622**
(Fee and commission expenses)	**33**	**18,636**	**16,707**
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**34**	**8,261**	**42,802**
Financial assets at amortised cost		(23,757)	1,542
Remaining financial assets and liabilities		32,018	41,260
Net gains or (-) losses on financial assets and liabilities held for trading	**34**	**1,220**	**404**
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		1,220	404
Gains/(losses) on non-trading financial assets valued mandatorily at fair value through profit or loss, net	**34**	**(3,718)**	**(885)**
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(3,718)	(885)
Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss, net	**34**	**747**	**792**
Net gains or (-) losses from hedge accounting	**34**	**567**	**511**
Net exchange differences	**35**	**1,104**	**646**
Other operating income	**36**	**37,073**	**42,399**
(Other operating expenses)	**37**	**72,473**	**77,567**
Income from assets covered by insurance and reinsurance contracts	**20.2**	**940,528**	**1,327,536**
(Liability expenses covered by insurance or reinsurance contracts)	**20.2**	**940,798**	**1,327,955**
GROSS INCOME		**926,579**	**966,594**
(Administration expenses)		**532,859**	**617,556**
(Staff expenses)	38	360,944	419,505
(Other administration expenses)	39	171,915	198,051
(Amortisation and depreciation)	**15, 16**	**67,228**	**51,291**
(Provisions or (-) reversal of provisions)	**21**	**37,330**	**(32,870)**
(Impairment or (-) reversal of impairment on financial assets not measured fair value through profit or loss or (-) net gain on change)		**124,637**	**154,724**
(Financial assets at fair value through other comprehensive income)	10	(1,242)	3,895
(Financial assets at amortised cost)	11.5	125,879	150,829
(Impairment or (-) reversal of impairment on investments in joint businesses or associates)		**-**	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	**40**	**5,612**	**4,962**
(Tangible assets)		569	1,449
(Intangible assets)		-	673
(Other)		5,043	2,840
Gains/(losses) on derecognition of non-financial assets, net	**41**	**(6,544)**	**(19,201)**
Negative goodwill recognised in profit or loss		**-**	**-**
Gains (losses) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	**42**	**(23,732)**	**(70,900)**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**128,637**	**80,830**
(Expense or (-) income from taxes on income from continuing operations)	**25**	**44,648**	**40,026**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**83,989**	**40,804**
Profit/(loss) after tax from discontinued activities		**-**	**-**
PROFIT/(LOSS) FOR THE YEAR		**83,989**	**40,804**
Attributable to non-controlling interests		-	-
Attributable to owners of the parent		83,989	40,804

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated income statement for 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(Thousands of euros)

	Note	2019	2018 (*)
PROFIT/(LOSS) FOR THE YEAR		**83,989**	**40,804**
OTHER COMPREHENSIVE INCOME	**24**	**31,813**	**(74,678)**
Items that will not be reclassified to profit or loss		**27,991**	**(42,506)**
Actuarial gains/(losses) on defined benefit pension plans		**(9,884)**	**(8,229)**
Non-current assets and disposal groups of items held for sale		-	-
Share in other income and expense recognised in joint ventures and and associates		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		**42,816**	**(53,560)**
Gains/(losses) resulting from hedge accounting of equity instruments at fair value through other comprehensive income, net		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		-	-
Changes in fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	-
Income tax relating to items not to be reclassified	25.4	(4,941)	19,283
Items that may be reclassified to profit or loss		**3,822**	**(32,172)**
Hedges of net investment in foreign operations (effective portion)		-	-
Valuation gains/(losses) taken to equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Currency translation		-	-
Valuation gains/(losses) taken to equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Cash flow hedges (effective portion)		(1,091)	14,939
Valuation gains/(losses) taken to equity		*(1,091)*	*14,939*
Transferred to the income statement		-	-
Transferred to initial carrying amount of hedge items			
Other reclassifications		-	-
Hedging instruments (undesignated items)		-	-
Valuation gains/(losses) taken to equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		7,587	(62,270)
Valuation gains/(losses) taken to equity		*38,256*	*(22,771)*
Transferred to the income statement	*34*	*(30,669)*	*(39,499)*
Other reclassifications		-	-
Non-current assets and disposal groups of items held for sale		-	-
Valuation gains/(losses) taken to equity		-	-
Transferred to the income statement		-	-
Other reclassifications		-	-
Share in other income and expense recognised in joint ventures and associates		(725)	960
Income tax relating to items that may be reclassified to profit or loss	25.4	(1,949)	14,199
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**115,802**	**(33,874)**
Attributable to non-controlling interests		-	-
Attributable to owners of the parent		115,802	(33,874)

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of recognised income and expense at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(Thousands of euros)

												Non-controlling interests		
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Attributable to owners of the parent (Note 4)**	**(Interim dividends)**	**Accumulated other comprehensive income (Note 24)**	**Other accumulated comprehensive income**	**Other items**	**Total (Note 23)**
I. Closing balance at 31/12/2018	**2,144,276**	**-**	**350,000**	**-**	**521,762**	**3,313**	**31,510**	**-**	**40,804**	**-**	**68,562**	**-**	**-**	**3,160,227**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**350,000**	**-**	**521,762**	**3,313**	**31,510**	**-**	**40,804**	**-**	**68,562**	**-**	**-**	**3,160,227**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**83,989**	**-**	**31,813**	**-**	**-**	**115,802**
Other changes in equity	**(1,929,848)**	**-**	**-**	**-**	**24,131**	**(8)**	**1,909,892**	**-**	**(40,804)**	**-**	**1,705**	**-**	**-**	**(34,932)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments (Note 23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction (Note 23)	(1,929,848)	-	-	-	-	-	1,929,848	-	-	-	-	-	-	-
Dividends (or other shareholder remuneration) (Note 4)	-	-	-	-	(17,500)	-	-	-	-	-	-	-	-	(17,500)
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	41,631	(8)	(2,524)	-	(40,804)	-	1,705	-	-	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other increases/(decreases) in equity	-	-	-	-	-	-	(17,432)	-	-	-	-	-	-	(17,432)
III. Closing balance at 31/12/2019	**214,428**	**-**	**350,000**	**-**	**545,893**	**3,305**	**1,941,402**	**-**	**83,989**	**-**	**102,080**	**-**	**-**	**3,241,097**

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of total changes in equity at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

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

(Thousands of euros)

	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(Treasury shares)	Attributable to owners of the parent (Note 4)	(Interim dividends)	Accumulated other comprehensive income (Note 24)	Non-controlling interests		Total (Note 23)
												Other accumulated comprehensive income	Other items	
I. Closing balance at 31/12/2017	**2,144,276**	**-**	**-**	**-**	**418,783**	**3,321**	**150,168**	**-**	**138,367**	**-**	**144,077**	**-**	**300**	**2,999,292**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	(115,872)	-	-	-	(2,045)	-	-	(117,917)
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**418,783**	**3,321**	**34,296**	**-**	**138,367**	**-**	**142,032**	**-**	**300**	**2,881,375**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**40,804**	**-**	**(74,678)**	**-**	**-**	**(33,874)**
Other changes in equity	**-**	**-**	**350,000**	**-**	**102,979**	**(8)**	**(2,786)**	**-**	**(138,367)**	**-**	**1,208**	**-**	**(300)**	**312,726**
Issuance of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments (Note 23)	-	-	350,000	-	-	-	(2,940)	-	-	-	-	-	-	347,060
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or other shareholder remuneration) (Note 4)	-	-	-	-	(17,500)	-	-	-	-	-	-	-	-	(17,500)
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	120,479	(8)	16,701	-	(138,367)	-	1,195	-	-	**-**
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(300)	(300)
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other increases/(decreases) in equity	-	-	-	-	-	-	(16,547)	-	-	-	13	-	-	(16,534)
III. Closing balance at 31/12/2019	**2,144,276**	**-**	**350,000**	**-**	**521,762**	**3,313**	**31,510**	**-**	**40,804**	**-**	**68,562**	**-**	**-**	**3,160,227**

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

The accompanying Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of total changes in equity at 31 December 2019.

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Thousands of euros)

	Note	2019	2018 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**2,916,558**	**(2,899,748)**
Profit/(loss) for the year	**23**	**83,989**	**40,804**
Adjustments to obtain cash flows from operating activities		**329,262**	**316,000**
Amortisation and depreciation	15 and 16	67,228	51,291
Other adjustments		262,034	264,709
Net increase/decrease in operating assets		**(322,634)**	**(2,671,039)**
Financial assets held for trading		(1,552)	1,961
Non-trading financial assets mandatorily measured at fair value through profit or loss		(234,570)	3,613
Financial assets at fair value through profit or loss		636	1,937
Financial assets at fair value through other comprehensive income		621,899	(335,698)
Financial assets at amortised cost		(740,435)	(2,438,856)
Other operating assets		31,388	96,004
Net increase/(decrease) in operating liabilities		**2,591,541**	**(451,573)**
Financial liabilities held for trading		778	1,390
Financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		2,397,800	(1,030,134)
Other operating liabilities		192,963	577,171
Income tax credit/(payments)		**234,400**	**(133,940)**
B) CASH FLOWS FROM INVESTING ACTIVITIES		**22,854**	**260,804**
Payments		**(106,584)**	**(162,854)**
Tangible assets		(78,534)	(66,077)
Intangible assets		(23,427)	(19,216)
Investments in joint ventures and associates		(559)	(10,587)
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		(4,064)	(66,974)
Other payments related to investing activities		-	-
Receipts		**129,438**	**423,658**
Tangible assets		55,998	93,206
Intangible assets		424	-
Investments in joint ventures and associates		5,164	5,031
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		67,852	325,421
Other receipts related to investing activities		-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		**(119,801)**	**270,637**
Payments		**(119,801)**	**(75,164)**
Dividends	4	(17,500)	(17,500)
Subordinated liabilities	19.4	(77,801)	(45,414)
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		(24,500)	(12,250)
Receipts		**-**	**345,801**
Subordinated liabilities		-	-
Issuance of own equity instruments		-	345,801
Disposal of own equity instruments		-	-
Other receipts related to financing activities		-	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS		**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**2,819,611**	**(2,368,307)**
F) CASH AND CASH EQUIVALENTS AT START OF PERIOD		**1,099,290**	**3,467,597**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,918,901**	**1,099,290**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
of which: in the possession of Group companies but not drawable by the Group		-	-
Cash	6	227,234	212,847
Cash equivalents at central banks	6	3,444,265	675,568
Other financial assets	6 and 19.2	247,402	210,875
Less: bank overdrafts repayable on demand		-	-

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

Notes 1 to 45 and the Appendices are an integral part of the consolidated statement of cash flows at 31 December 2019.

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2019

Contents

Ibercaja Banco, S.A. and subsidiaries

Notes to the consolidated financial statements for the
year ended 31 December 2019

1. Introduction, basis of presentation and other information

1.1 Introduction

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

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

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

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

Likewise, the Foundation also prepares consolidated financial statements of the Group of which it is the parent (Ibercaja Group).

Note 45 contains the Bank's balance sheets, income statements, statements of recognised income and expense, statements of total changes in equity and statements of cash flows for the years ended 31 December 2019 and 2018, in accordance with the same accounting policies and measurement bases applied in the Group's consolidated financial statements.

1.2 Basis of presentation of the consolidated financial statements

The consolidated financial statements of the Ibercaja Banco Group for 2019 were authorised for issue by the Company's directors at its Board of Directors' meeting held on 28 February 2020, and have not yet been approved by its Annual General Meeting. However, the Bank's directors believe that they will be approved without any significant modifications. The Group's 2018 consolidated financial statements were approved at the Bank's Annual General Meeting held on 9 April 2019.

The consolidated financial statements have been prepared having regard to the applicable accounting principles, standards and measurement bases in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter EU-IFRS) and with Bank of Spain Circular 4/2017 of 27 November (hereinafter "Circular 4/2017") as amended, which replaced Circular 4/2004 of 22 December on 1 January 2018, so as to provide a true and fair view of the Group's equity and financial position at 31 December 2019, of the results of its consolidated operations and of the consolidated cash flows for the year then ended.

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

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

These financial statements, unless stated otherwise, are prepared in thousands of euros from the accounting records kept by the Company and by other entities included in the Group. However, given that the accounting policies and valuation standards used by some of the Group companies may differ from those used in preparing the Group's financial statements for 2019, adjustments and reclassifications have been made as necessary in the consolidation process to make said accounting policies and valuation standards consistent with the EU-IFRS used by the Company.

1.3 Estimates made

The consolidated financial statements corresponding to 2019 contained opinions and estimates have been made on certain occasions to quantify the value of certain assets, liabilities, revenues, expenses and obligations recorded therein. These estimates basically relate to:

- impairment losses on certain assets and the estimate of related security (Notes 10, 11, 13, 15 to 18), in particular as regards the changes arising from changes in portfolios as a result of specific business models, the consideration of the "significant increase in credit risk (SICR)" and "default", and the introduction of forward-looking information
- the assumptions used in the actuarial calculation of post-employment remuneration liabilities and commitments and other long-term obligations to employees (Notes 2.13, 38.2 and 38.3), and those used to calculate liabilities arising under insurance contracts (Note 20),
- the measurement of goodwill and other intangible assets (Note 16).
- useful life of tangible and intangible assets (Notes 2.15 and 2.16),
- the probability of occurrence of those events deemed to be contingent liabilities and, where appropriate, the provisions required to cover such events (Notes 2.20 and 21),
- the fair value of certain financial assets (Note 26),
- the income tax expense and the recoverability of deferred tax assets (Notes 2.14, 25.3 and 25.4),
- the valuation of investments in joint ventures and associates (Note 13),
- the determination of returns from investments in joint ventures and associates (Note 13) and
- the discount used in the measurement of the lease liability (see Note 1.11 "Standards and interpretations that entered into force in 2019" and Note 2.10).

Although these estimates were made on the basis of the best information available at 31 December 2019 on the events analysed, future events may require them to be modified in coming years, which would occur in accordance with prevailing regulations, with a prospective recognition of the effects of modified estimate in the consolidated financial statements for the years in question.

1.4 Comparative information relating to 2018

Under the regulations in force, the information contained in these consolidated financial statements for 2018 is presented exclusively for the purpose of comparison with the information for 2019, in order to aid understanding.

As permitted by legislation, the Group has opted not to restate the comparative information for 2018 by applying the classification and measurement criteria of IFRS 16 and, instead, to recognise at 1 January 2019 the cumulative impact arising from the entry into force of this standard in the Group's consolidated financial statements. This impact is disclosed in Note 1.11 Changes in accounting estimates and criteria.

1.5 Agency agreements

Neither at year-end 2019 and 2018 nor at any time during the two years did the Group have any "agency agreements" in force within the meaning of article 21 of Royal Decree 84/2015, of 13 February.

1.6 Investments in credit institutions

Pursuant to article 28 of Royal Decree 84/2015, neither at 31 December 2019 and 2018 nor at any time during the two years did the Group own direct or indirect equity interests in the capital of Spanish or foreign credit institutions exceeding 5% of the share capital or voting rights of such entities.

1.7 Capital management and requirements

1.7.1 Regulatory framework

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

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

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

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

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

In June 2019, the European govening bodies enacted the new capital regulatory framework, which modifies the previous one (CRR/CRD IV). The reform package included the adoption of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers, and capital preservation measures (hereinafter CRD V), and Regulation (EU) 2019/876 of the European Parliament and of the Council, of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, eligible capital and liability requirements, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements, and Regulation (EU) 648/2012 ('CRR II').

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

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

1.7.2 Quantitative information

At 31 December 2019, the Ibercaja Banco Group was complying with the minimum solvency ratios (Basel Pilar I) demanded by current regulations, as detailed in the following table:

	2019	2018
Capital ratios		
Eligible common equity tier 1 (thousands of euros) (a)	2,498,314	2,495,554
Additional eligible equity tier 1 (thousands of euros) (b)	350,000	350,000
Eligible equity tier 2 (thousands of euros) (c)	482,800	487,640
Risks (thousands of euros) (d)	20,362,850	21,379,068
Common equity tier 1 ratio (CET 1) (A)=(a)/(d)	12.27%	11.67%
Additional tier 1 capital ratio (AT 1) (B)=(b)/(d)	1.72%	1.64%
Tier 1 capital ratio (Tier 1) (A)+(B)	13.99%	13.31%
Tier 2 capital ratio (Tier 2) (C)=(c)/(d)	2.37%	2.28%
Total capital ratio (A)+(B)+(C)	**16.36%**	**15.59%**

	2019	2018
Market leverage		
Tier 1 capital (thousands of euros) (a)	2,848,314	2,845,554
Exposure (thousands of euros) (b)	48,684,555	47,133,663
Leverage ratio (a)/(b)	**5.85%**	**6.04%**

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

Accordingly, the European Central Bank (ECB) has notified its decision with respect to the prudent minimum capital requirements for 2020 applicable to Ibercaja Banco, following the supervisory review and evaluation process (SREP).

The decision means that Ibercaja Banco must maintain a phased-in Common Equity Tier 1 (CET1) ratio of 9% and a total capital ratio of 12.50%. This total capital requirement includes the minimum required by Pillar 1 (4.5% of CET1 and 8% of total capital), the Pillar 2 requirement (2%) and the capital conservation buffer (2.5%).

At 31 December 2019, Ibercaja Banco's ratios on a consolidated basis, CET1 of 12.27% and total capital of 16.36%, were 3.27 and 3.86 points, respectively, above the regulatory requirements established for 2020. The total capital ratio includes the Bank's issue in April 2018 of preference shares for a nominal amount of €350 million carried out. The issue is eligible as Additional Tier 1 capital (AT1) (Note 23).

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

	Thousands of euros	
	2019	**2018**
Share capital	*214,428*	*2,144,276*
Equity instruments issued other than capital	*350,000*	*350,000*
Retained earnings	*545,893*	*521,762*
Revaluation reserves	*3,305*	*3,313*
Other reserves	*1,941,402*	*31,510*
Profit/(loss) attributed to the parent	*83,989*	*40,804*
Shareholders' equity in public balance sheet	3,139,017	3,091,665
Other accumulated comprehensive income	102,080	68,562
Non-controlling interests	-	-
Equity in public balance sheet	**3,241,097**	**3,160,227**
Intangible assets	*(221,292)*	*(212,496)*
Deferred tax assets	*(249,936)*	*(187,411)*
Ineligible valuation adjustments	-	-
Transitional adjustment for first-time application of IFRS9 9	*89,423*	*99,945*
Proposed distribution of dividends	*(17,500)*	*(17,500)*
Securitisations deduction	-	*(2,082)*
Equity instruments ineligible as CET1	*(350,000)*	*(350,000)*
Contingent convertible bonds	-	-
Differences in public equity for prudential purposes	*6,522*	*4,871*
Total adjustments and deductions	(742,783)	(664,673)
Total common equity tier 1 (CET1)	2,498,314	2,495,554
Equity instruments eligible as AT1	*350,000*	*350,000*
Other temporary adjustments for additional tier 1 capital	-	-
Total additional tier 1 capital (AT1)	350,000	350,000
Total tier 1 capital (T1)	2,848,314	2,845,554
Subordinated financing and other	482,800	487,640
Total tier 2 capital (T2)	482,800	487,640
Total eligible shareholders' equity	**3,331,114**	**3,333,194**

Below are the details at 31 December 2019 and 2018 of the consolidable Group's eligible own funds, indicating each of its components and deductions, broken down into common equity tier 1 instruments, additional tier 1 capital instruments and tier 2 capital instruments:

	Thousands of euros	
	2019	**2018**
TOTAL ELIGIBLE SHAREHOLDERS' EQUITY	**3,331,114**	**3,333,194**
Tier 1 capital (T1)	**2,848,314**	**2,845,554**
Common equity tier 1 (CET1)	**2,498,314**	**2,495,554**
Equity instruments disbursed	214,428	2,144,276
Retained earnings and other reserves	2,487,289	553,812
Admissible results	66,489	23,304
Revaluation reserves	3,305	3,313
Common equity tier 1 instruments in previous system	-	-
Non-controlling interests	-	-
Valuation adjustments of financial assets at fair value through other comprehensive income	115,478	70,061
Actuarial losses and gains on defined benefit plans	(6,870)	2,832
Transitional adjustment for first-time application of IFRS9 9	89,423	99,945
Deductions of common equity tier 1 instruments (CET 1)	(471,228)	(401,989)
Securitisations	-	*(2,082)*
Intangible assets	*(221,292)*	*(212,496)*
Deferred tax assets dependent on future earnings	*(249,936)*	*(187,411)*
Additional tier 1 capital (AT1)	**350,000**	**350,000**
Additional tier 1 capital instruments in previous system	350,000	350,000
Deductions of additional tier 1 capital instruments (AT 1)	-	-
Tier 2 capital (T2)	**482,800**	**487,640**
Subordinated financing, subordinated loans and others	482,800	487,640

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

1.7.3 Capital management

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

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

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

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

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

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

1.7.4 Information of Prudential Relevance

In order to comply with market disclosure requirements, the Board of Directors approved the information of prudential relevance disclosure policy (Basel Pillar III); consequently, the Ibercaja Group will make such information public on its web page prior to the publication and approval of the 2019 consolidated financial statements.

1.7.5 Credit ratings granted

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

	Date		Short-term		Long-term		Outlook	
Company	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Standard&Poors	May 2019	May 2018	B	B	BB+	BB+	Stable	Positive
Moody's	March 2019	November 2018	NP	NP	Ba3	Ba3	Positive	Stable
Fitch Ratings	March 2019	May 2018	B	B	BB+	BB+	Positive	Positive

1.7.6 Stock market launch

The Company maintains its plans for going public on the stock exchange within the period established by current regulations, before the end of 2020. To prepare for this process, begun in 2018, the Company has engaged an institution with significant and successful experience in the execution of these projects as an independent financial advisor.

1.8 Single Resolution Fund and Deposit Insurance Fund

1.8.1 Single Resolution Fund

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

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

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

In 2019, the expense incurred as a result of the contribution to this body was 10,350 thousand euros (11,538 thousand euros in 2018; Note 37).

1.8.2 Deposit Guarantee Fund

The Company is a member of the Deposit Guarantee Fund of Credit Institutions.

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

In 2019, the Management Committee of the Deposit Guarantee Fund for credit institutions, pursuant to article 6 of Royal Decree-Law 16/2011 and article 3 of Royal Decree 2606/1996, set the contribution to be made for all members of the deposit guarantee compartment at 1.8/1000 of the amount of the deposits guaranteed at 30 June 2019. The contribution of each entity will be calculated on the basis of the amount of the deposits guaranteed and of its risk profile, taking into consideration indicators such as capital adequacy and the rating of assets and liabilities, which have been developed by the Bank of Spain Circular 5/2016, of 27 May, amended by Circular 1/2018 of 31 January. Likewise, the contribution to the securities guarantee compartment was set at 2/1000 of 5% of the guaranteed amount of the securities and other financial instruments at 31 December 2019.

The expense for ordinary contributions referred to in the preceding paragraph accrue in full at year end, accordingly, at that time, the balance sheet included the liability for the contribution paid in the first quarter of the subsequent year (41,486 thousand euros and 39,704 thousand euros at 31 December 2019 and 2018, respectively; Note 22).

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

In 2019, the expense incurred as a result of all contributions made to this body was 49,247 thousand euros (47,680 thousand euros in 2018). This amount was recognised under "Other operating expenses" (48,520 thousand euros and 46,738 thousand euros in 2019 and 2018, respectively; Note 37) and "Interest costs" (727 thousand euros and 943 thousand euros in 2019 and 2018, respectively; Note 29).

1.9 Minimum reserve ratio

At 31 December 2019, and throughout 2019, the Company complied with the minimums required by the minimum reserve ratio. In compliance with the legal obligations prescribed by the European Central Bank, the daily average of the minimum reserves to be held at 31 December 2019 amounted to 319,247 thousand euros (306,044 thousand euros at 31 December 2018).

1.10 Events after the reporting period

On 8 January 2020, Ibercaja Banco, S.A. agreed to make a buyback offer in cash to all holders of the subordinated obligations issue called "500,000,000 Fixed Rate Reset Subordinated Notes due 28 July 2025". Following this offer, Ibercaja accepted the purchase of Notes for a nominal amount of 281,900 thousand euros, which was settled on 23 January 2020.

On 16 January 2020, Ibercaja Banco, S.A. set the economic terms of an issue of subordinated obligations with a par value of 500 million euros and maturing on 23 July 2030. The issue price of the subordinated obligations was 100% and they will bear a fixed annual coupon of 2.75% until 23 July 2025, when Ibercaja has the option of carrying out early redemption. From this date, they will bear a fixed interest equal to the applicable 5 year Mid-Swap Rate plus a margin of 2,882%. The disbursement and closure of this issue took place on 23 January 2020.

The new bonds shall qualify as Tier 2 capital instruments for the purposes of the own funds requirements to which it is subject under Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms.

On 24 January 2020, Ibercaja Banco, S.A. signed a contract of sale with Helvetia Schweizerische Versicherungsgesellschaft AG for part of its shareholding in Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"), which represents 4.45% of the share capital and voting rights of this company, for approximately 51 million euros.

The positive impact of this sale on Ibercaja's fully-loaded Common Equity Tier 1 (CET1) ratio is estimated at approximately 22 basis points.

After the formalisation of the aforementioned purchase-sale, Ibercaja will maintain a 9.5% shareholding in Caser and will also enter into with Caser (through the linked bancassurance operator, Ibercaja Mediación de Seguros, S.A.U.), an agreement for a modifying novation of its non-life insurance distribution contract once the purchase-sale described in the purchase-sale agreement has been formalised.

This novation will mean for Ibercaja, in addition to the maintenance of the distribution fees, the collection of an initial fixed fee of 70 million euros not subject to review and not adjustable for any circumstance or event as supplementary consideration for the performance of insurance mediation activities, plus additional charges for a share in the business results of up to 50 million euros over the next 10 years.

The effectiveness of the aforementioned purchase-sale is subject to obtaining the appropriate regulatory and competition authority authorisations.

On 23 January 2020, the Board of Directors of Ibercaja Banco, S.A. authorised the commencement of talks to reach an agreement with the trade union representatives in relation to the employee termination proposal. Prior to the formal commencement of this process, and in accordance with the Collective Bargaining Agreement for Savings Banks and Financial Institutions, a period of prior negotiation, limited in time, must be initiated with the workers' representatives once the committee representing them has been set up. This negotiation period began on 12 February 2020.

1.11 Changes in accounting estimates and criteria

In 2019, amendments were made to the accounting regulations applicable to the Group with respect to those applied in the previous period. The changes considered to be most important are listed below.

The mandatory standards, amendments and interpretations for the years commencing on 1 January 2019 were as follows:

Standards and Interpretations	**Title**
IFRS 16	Leases
Amendment to IFRS 9	Prepayment features with negative compensation
IFRIC 23	Uncertainty over company tax treatment
Amendment to IAS 28	Long-term interests in associates and joint ventures
Amendment to IAS 19	Plan amendment, curtailment or settlement
Annual improvements to IFRS	Cycle 2015-2017

Adoption of IFRS 16 "Leases".

On 1 January 2019, IFRS 16 "Leases" entered into force which replaced IAS 17 "Leases", and has brought about a change in all accounting requirements for the recognition, measurement, presentation and disclosure of leases in order to ensure that both lessee and lessor provide relevant information that presents a true and fair view of these transactions. The Group has adopted the amended standard retrospectively since 1 January 2019, without restating the comparative financial statements for 2018, as permitted under the specific transitional provisions of the standard.

The adoption of IFRS 16 has led to changes in the Group's accounting policies for the recognition, measurement, presentation and disclosure of leases (see Note 2.10).

With the adoption of IFRS 16, the Group recognised lease liabilities for leases that had previously been classified as "operating leases" under the principles of IAS 17 Leases, in force at 31 December 2018. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessee on 1 January 2019. At that date of first application, the weighted average discount rate was 2.54%.

The reconciliation between operating lease commitments at 31 December 2018 and lease liabilities at 1 January 2019 is shown below:

	Thousands of euros
Operating lease commitments at 31 December 2018	**82,342**
Leases subject to the exemption rules recorded as a straight-line expense	(14,468)
Adjustments resulting from application of the estimated discount rate	(5,867)
Lease liabilities at 1 January 2019	**62,007**

As a result of the entry into force of IFRS 16, the impact of first-time application recognised by the Group relates mainly to the recognition of right-of-use assets amounting to 62 million euros and lease liabilities of the same amount. The first application of this rule had no impact on the Group's consolidated equity, although it reduced the common equity ratio (Tier 1 - CET 1) by 4 b.p.

Amendments to IFRS 9 "Prepayment Features with Negative Compensation"

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

IFRIC 23 "Uncertainty over Income Tax Treatments"

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

IAS 28 (Amendment) "Long-term interests in associates and joint ventures"

This limited amendment of scope clarifies that the long-term interests in an associate or joint venture that substantially form part of the net investment of an associate or joint venture, but which are not accounted for using the equity method, are recognised in line with IFRS 9 "Financial instruments". Likewise, the IASB has published an example of how the requirements of IAS 28 and IFRS 9 must be applied with respect to these long-term interests.

Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”.

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

Cycle 2015-2017

These improvements introduce minor amendments to IAS 12 “Income Taxes”, IAS 23 “Borrowing Costs”, IFRS 3 “Business combinations” and IFRS 11 “Joint arrangements”.

Application of these modifications of accounting standards and interpretations has not had a material effect on the Group’s consolidated financial statements.

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

Approved for use in the EU

Standards and Interpretations	**Title**
Amendment to IAS 1 and IAS 8 (*)	Definition of “material”
Amendment to IFRS (*)	Conceptual framework
Amendments to IFRS 9, IAS 39 and IFRS 7 (*) and (**)	Interest rate benchmark reform

(*) Applicable for financial years beginning on or after 1 January 2020.
(**) These amendments have been approved for application in the EU subsequent to the close of financial year 2019.

Amendments to IAS 1 and IAS 8 “Definition of Material”.

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

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

Amendments to references to the IFRS Conceptual Framework

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

The revised Framework entered into force in March 2019 and, among other things, reintroduces the concept of prudence, modifies the definitions of assets and liabilities, introduces clarifications on the recognition and derecognition of assets and liabilities and on the basis of measurement of financial statement items, and places profit or loss as the key indicator of an entity’s performance.

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

Amendment of IFRS 9, IAS 39 and IFRS 7 “Interest rate benchmark reform”

These amendments involve replacing the current benchmark interest rate that are the basis for the contractual cash flows of the accounting hedges, both of the hedged items and of the hedging instruments, with an alternative interest rate or modifying its calculation methodology, in order to adapt it to the new regulatory requirements.

The amendments to the standard allow, in the period prior to the modification of the hedge flows, exceptions to compliance with the following requirements: highly probable; prospective and retrospective testing (exemption from compliance with the 80-125% effectiveness ratio) and separately identifiable risk component; it also establishes new disclosure requirements related to the application of these exemptions. These amendments will apply from 1 January 2020, with early adoption permitted.

Not approved for use in the EU

Standards and Interpretations	**Title**
Amendment to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate/joint venture
IFRS 17 (**)	Insurance contracts
Amendment to IAS 1 (***)	Classification of liabilities as current or non-current
Amendment to IFRS 3 (*)	Definition of a business

(*) Applicable for financial years beginning on or after 1 January 2020.
(**) Applicable for financial years beginning on or after 1 January 2021.
(***) Applicable for financial years beginning on or after 1 January 2022.

IFRS 10 and IAS 28 (Amendment) “Sale or allocation of assets between an investor and its associates or joint ventures”

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

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

IFRS 17 “Insurance Contracts”.

In May 2018, the IASB completed its long-term project to implement an accounting standard on insurance policies, publishing IFRS 17, “Insurance contracts”. IFRS 17 replaces IFRS 4 “Insurance contracts”, which currently enables a wide variety of accounting practices. IFRS 17 will fundamentally change accounting for all entities that arrange insurance contracts and investment contracts with discretionary participation components.

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

Amendments to IAS 1 “Classification of liabilities as current or non-current”

The IASB has issued limited amendments to IAS 1 to clarify that liabilities are classified as current or non-current, depending on the rights that exist at the end of the reporting period. The classification is not affected by the entity’s expectations or events after the end of the period (eg receipt of a waiver or breach of the pact). The amendment also clarifies what is meant in IAS 1 when it refers to the “settlement” of a liability.

These amendments are effective for years commencing as from 1 January 2022, with early adoption permitted.

Amendments to IFRS 3 "Business Combinations"

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

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

2. Accounting policies and measurement bases

The accounting policies and measurement bases used in the preparation of the Group's 2019 consolidated financial statements were as follows:

2.1 Business combinations and consolidation

2.1.1 Subsidiaries

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

Appendices I and II provide significant information on these companies.

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

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

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

2.1.2 Jointly controlled entities

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

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

Appendices I and II provide significant information on these companies.

2.1.3 Associates

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

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

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

Appendices I and II provide significant information on these entities.

2.1.4 Structured entities

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

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

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

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

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

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

2.1.5 Business combinations

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

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

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

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

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

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

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

2.2 Financial instruments

2.2.1 Initial recognition of financial instruments

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

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

2.2.2 Derecognition of financial instruments

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

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

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

2.2.3 Fair value and amortised cost of the financial instruments

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

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

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

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

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

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

The effective interest rate is the discount rate that matches the gross carrying amount of a financial asset or the carrying amount of a financial liability to estimated cash flows over the expected life of the instrument, based on the contractual terms and disregarding expected credit losses. For fixed-rate financial instruments, the effective interest rate is the contractual interest rate set upon acquisition, adjusted by any fees and transaction costs that in accordance with current legislation form part of the effective yield or cost of the instrument and must therefore be considered in the calculation of the effective interest rate. For financial instruments at variable interest rates, the effective interest rate is estimated in a similar way to the transactions at a fixed interest rate, with the contractual interest rate of the transaction being recalculated on each review date, taking into account the changes to future cash flows from the transaction.

2.2.4 Classification and measurement of financial assets and liabilities

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

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

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

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

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

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

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

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

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

- Other financial assets:

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

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

The main function of this test is to discriminate which products contained in the "holding of financial assets to receive their contractual cash flows" and "mixed model" business models can be measured at amortised cost and at fair value through other comprehensive income, or, conversely, must be measured at fair value through profit or loss.

The following are the judgements that guide the analysis to determine that the contractual cash flows of a financial instrument are only payments of principal and interest on the amount of principal outstanding:

- Principal: variables such as leverage or transaction currency are taken into account.

- Interest: account is taken of variables such as the time value of money, credit risk, other basic risks and costs such as liquidity risk or administrative costs associated with holding the financial asset and the profit margin.

- Contract terms that change the timing or amount of contractual cash flows.

- De minimis or non-genuine features: instruments that do not pass the SPPI test provided that the impact identified is considered to be insignificant or that the event affecting compliance with the SPPI test is extremely exceptional, highly abnormal and very unlikely to occur.

- Non-recourse assets: instruments with contractual cash flows that are described as principal and interest but that are not solely payments of principal and interest on the outstanding amount of principal.

- Contractually related instruments: situations in which an institution prioritises payments to holders of multiple contractually related instruments that create credit concentration risk.

<u>Classification and portfolios of financial instruments for presentation and measurement purposes</u>

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

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

This portfolio includes financing to third parties from typical credit and lending activities, debt securities satisfying the two conditions set out above, and debts incurred by purchasers of goods and by users of services. Finance leases in which the Group acts as lessor are also included.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Financial liabilities at amortised cost**: this category of financial instruments includes those financial liabilities that do not belong to any of the above categories and reflect the typical funding activities of financial institutions.
  Financial liabilities included in this category are initially measured at fair value, adjusted by the transaction costs directly attributable to their issue. Subsequently, they are valued at their amortised cost, calculated through the application of the effective interest rate method.

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

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

2.3 Impairment of financial assets

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

- in the case of debt instruments (loans and advances and debt securities), have an adverse impact on future cash flows as estimated at the time of entering into the transaction.

- in the case of other exposures involving credit risk other than debt instruments, an adverse impact on the future cash flows that would be due in the case of the drawdown of the loan commitment and the cash flows that are expected to be collected if the loan commitment is drawn, or in the case of financial security granted, on the payments that the entity expects to make.

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

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

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

The calculation of the impairment of financial assets is based on the type of instrument and on other circumstances that may affect them, once the guarantees received have been taken into account. For debt instruments at amortised cost, the Group recognises both allowance accounts, when provisions for bad debts are recognised to cover estimated losses, and direct write-offs against the asset, when it is considered that the likelihood of recovery is remote.

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

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

Debt instruments and other exposures involving credit risk

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

Credit risk management constitutes a priority for the Group, in order to provide sustainable balanced growth and to guarantee the soundness of the Bank’s financial and equity position at all times and to optimise the return/risk ratio. These principles are followed in the “Loan and discount risk management policy and procedure manual”.

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

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

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

The Group has established criteria to identify borrowers and bond issuers displaying significant increases in risk or objective evidence of impairment and classify them on the basis of their credit risk.

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

Classification category definitions

Credit exposures are classified according to credit risk as follows:

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

- Performing on special watch (stage 2): when the risk has significantly increased from the date on which the transaction was initially recognised, but without leading to impairment, the transaction will be classified to stage 2. Where appropriate, the amount of the impairment loss allowance will reflect the expected losses arising from *default* during the residual life of the financial instrument.

- Non-performing (stage 3): a transaction will be catalogued as stage 3 when it shows effective signs of impairment as a result of one or more events that have already occurred and will lead to a loss. Where appropriate, the amount of the impairment loss allowance will reflect the expected losses due to credit risk during the expected residual life of the financial instrument.

    - Due to borrower default: transactions with some part of the principal, interest or contractually agreed expenses is past-due, generally speaking, more than 90 days, unless they should be classified as written-off. Guarantees provided shall also be included in this category when the guarantor has defaulted under the guaranteed transaction. Furthermore, the amounts of all transactions of a single holder are included when the transactions with overdue sums, generally speaking, and as mentioned above, are past-due more than 90 days, account for more than 20% of the amounts receivable.

    - For reasons other than borrower default: transactions in which, not classifiable as written-off or non-performing due to default, there are reasonable doubts about their full repayment under the contractual terms; in addition to off-balance-sheet exposures not classified as non-performing due to default, concerning which payment by the Group is likely and recovery is doubtful.

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

Transactions purchased or originated with credit impairment

As at 31 December 2019, there were no transactions purchased or originated with credit impairment. In recent years, the Bank has not acquired assets at a significant discount in accordance with the materiality threshold established by Group management. The assets acquired at the greatest discount in prior years are not in the portfolio at the current date because they were written off by Group management or because they were converted into repossessed assets.

Transaction classification criteria

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

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

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

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

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

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

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

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

Individual classification

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

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

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

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

- *Triggers* with different pre-alert thresholds to identify increased risk and signs of impairment
- Specific triggers that indicate a significant increase in risk.
- Specific triggers that indicate signs of impairment.

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

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

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

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

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

Collective classification

Both for borrowers that exceed the aforementioned materiality threshold and those that do not exceed the materiality threshold, and additionally have not been classified as doubtful or under special watch by the automatic classification algorithm, the Group has constructed a synthetic indicator to identify exposures that display significantly increased risk or weaknesses which could entail losses that are higher than those in other similar transactions classified as performing. In this respect the Group has laid down thresholds that, once exceeded, entail an automatic classification as performing exposure under special watch due to the significant increase in risk or weaknesses.

The methods used to determine whether the credit risk of an instrument has increased significantly since initial recognition must take into account the characteristics of the instrument (or group of instruments) and past default patterns in comparable financial instruments. In order to define the significant increase in risk (SICR) at the Group, qualitative variables and quantitative measurement indicators used in ordinary credit risk management are taken into account. The latter include increases in the probability of default (PD) with respect to the PD at the time of the origin of the operation, based on a series of thresholds.

For debtors assessed in line with a group approximation, thresholds were defined based on the comparison of PD during the expected lifetime of the operation. If insufficient past information of a granular nature is available, thresholds were defined based on the comparison of a current 12 months PD PIT versus a PD PIT involving 12 months of origination for such period. These thresholds were determined in such a way that the NPL rates observed, for a sufficiently long period, are statistically different.

Refinancing and restructuring

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

The following refinancing or restructuring operations are classified as doubtful:

- Operations reclassified from doubtful exposures or which are refinanced to avoid their classification as doubtful due to default.
- Operations with a grace period exceeding 24 months.
- Operations with reductions higher than the impairment that would be applicable if they were classified under exposures subject to special watch.
- Transactions based on an unsuitable payment plan - because the plan has been repeatedly breached, because it has been modified to avoid default, or because it is based on expectations that are not properly supported by macroeconomic forecasts.

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

- It has been concluded, following an exhaustive review of the borrower’s assets and financial position, that it is unlikely the borrower will encounter financial difficulties.
- One year has elapsed from the date of refinancing or restructuring.
- Accrued principal repayments and interest payments must be met, reducing the renegotiated capital. The transaction cannot have overdue amounts.
- The principal and interest due at the time of the refinancing or which were written off as a result thereof must be paid, or other objective criteria evidencing the borrower’s payment capacity must be attested to. The presence of contractual terms that delay repayment, such as grace periods, entails that the transaction remains under special watch.
- The borrower must not have any other operations involving amounts overdue by more than 90 days on the date of the potential reclassification.

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

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

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

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

- The principal and interest due at the time of the refinancing or which were written off as a result thereof must be paid, or other objective criteria evidencing the borrower's payment capacity must be attested to. The presence of contractual terms that delay repayment, such as grace periods, will imply that the operation remains under special watch.

- The borrower must not have any other operations involving amounts overdue by more than 30 days at the end of the trial period.

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

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

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

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

Determination of provisions

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

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

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

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

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

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

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

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

The application of a range of scenarios to reflect the effect of non-linearity of losses entails estimation of the allowances required in different scenarios, including those that are unlikely but plausible. Specifically, three macroeconomic scenarios were considered, a base case scenario, an adverse scenario and a favourable scenario, which were specified at Group level, with their probability of occurrence standing at 60%, 20% and 20% respectively. Timescales of three years are considered to cast these projections and the variables considered are the performance of GDP, the unemployment rate and housing prices, among others.

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

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

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

- <u>Adverse scenario:</u>

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

- <u>Favourable scenario:</u>

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

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

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

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

For transactions classified as non-performing, an estimate is made of expected losses, defined as the difference between the current exposure amount and the estimated future cash flows, as described below.

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

The various Group methodologies are described in the following paragraphs.

Individualised provision estimates

In order to estimate the credit risk provisions due to the insolvency of a financial instrument, the Group makes an individualised estimate of the expected credit losses of those financial instruments that are considered to be material and with sufficient information to make such calculation.

The Group has developed a method for estimating these allowances: calculating the difference between the carrying amount of the asset and the present value of the future cash flows expected to be collected (excluding future credit losses not incurred), discounted at the current effective interest rate of the financial asset. Furthermore, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from enforcement of the security, less costs of obtaining and selling the collateral, whether or not enforcement is probable, with application of a haircut to the collateral.

The following methods for calculating the recoverable amount of assets tested individually have been established:

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

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

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

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

Collective provision estimates

The Group estimates expected credit losses as a group in cases where they are not estimated individually.

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

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

- Home purchases,
- Credit cards and
- Companies.

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

- Consumption,
- Self-employed,
- Large corporations and
- Property developers.

For the excluded portfolios, apart from the borrowers that are subject to individual analysis, the Group makes a group calculation of coverage based on the models prepared at sector level by the Bank of Spain on the basis of experience and the information it has on the Spanish banking sector, as well as forecasts of future conditions. In any case, these models are periodically checked retrospectively to ensure the reasonableness of the provision.

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

- The impairment estimate process takes into account all credit exposures except performing loans with no appreciable risk for which impairment estimation methods are used based on statistical data and models that aggregate the average behaviour across Spanish banking institutions. The Group recognises an impairment loss equal to the best available estimate under internal models, bearing in mind all available relevant information on conditions at the end of the period to which the calculation relates. The Group has identified the following transactions without appreciable risk for the estimation of credit risk allowances:

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

- In order to make a group assessment of impairment, financial assets are grouped according to the similarity in characteristics relating to credit risk (such as type of product, purpose of financing, trade identifier, guarantees, etc.) in order to estimate differentiated risk parameters for each homogeneous group. This segmentation is different according to the estimated risk parameter and allows for a more precise calculation of expected losses by taking into account the different elasticities of the risk parameters to the cycle and maturity. The segmentation takes into account historical loss experience observed for a uniform group of assets (segment), once the present economic situation has been analysed, which is representative of the unreported losses incurred that will take place in that segment. This segmentation distinguishes risk, and is aligned with management and is being used in the Group’s internal models, having been applied on various occasions by the internal control units and the supervisor. Finally, it is subjected to backtesting and the regular update and review of estimates to include all available information.

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

- Probability of impairment (PI): probability of an asset becoming impaired (corresponding to a borrower or uniform borrower group) within a specific time horizon (appropriate to the period for the identification/emergence of impairment).

- Probability of recovery: probability of asset being recovered expressed as a percentage, in the event of the impairment event occurring (determined using the PI parameter).

- Discounting of guarantees: percentage loss in the value of guarantees.

- Exposure at the time of Default: Group's exposure when the borrower impairment materialises (on the basis of which the above-mentioned probability of impairment is determined).

Classification and Provision for credit risk due to country risk

Country risk is considered to be the risk arising in counterparties resident in a specific country due to circumstances other than ordinary commercial risk (sovereign risk, transfer risk or risks arising from international financial activity). The Group classifies transactions with third parties into groups according to the economic performance of the respective countries, their political situation, regulatory and institutional framework, and payment ability and history.

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

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

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

Guarantees

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

Under no circumstances are guarantees whose efficiency depends substantially on the credit quality of the debtor or corporate group to which the debtor belongs regarded as admissible as efficient guarantees.

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

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

2.4 Accounting hedges

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.5 Foreign currency transactions

2.5.1 Functional currency

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

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

	Equivalent value in thousand euro			
	2019		2018	
	Assets	Liabilities/Equity	Assets	Liabilities/Equity
Breakdown by type of portfolio -				
Financial assets/liabilities at fair value with changes in equity	9,660	-	77,438	1,884
Financial assets/liabilities at amortised cost	67,190	40,785	59,400	51,291
Other	-	1,208	-	996
	76,850	**41,993**	**136,838**	**54,171**
Breakdown by type of currency -				
US dollar	61,879	37,546	128,291	47,295
Pound sterling	8,351	2,588	5,254	2,160
Swiss franc	1,423	1,322	1,267	936
Japanese yen	1,066	16	1,097	32
Canadian dollar	33	8	76	10
Norwegian krone	3,616	30	50	12
Other	481	483	803	3,726
	76,850	**41,993**	**136,838**	**54,171**

2.5.2 Conversion criteria for foreign currency balances

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

Furthermore:

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

2.5.3 Recognition of exchange rate differences

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

Exchange differences arising on foreign currency equity instruments whose fair value is adjusted against equity are recognised in consolidated equity under "Other accumulated comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value through other comprehensive income" in the consolidated balance sheet until they are realised. When an equity instrument at fair value through other comprehensive income is derecognised, the amount of exchange differences arising on these financial instruments is not reclassified to profit or loss, but to an item of reserves alongside the gains or losses recorded in accumulated other comprehensive income from changes in fair value.

2.6 Recognition of income and expenses

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

2.6.1 Interest income, interest expenses, dividends and similar items

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

2.6.2 Fees, commissions and similar items

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

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

2.6.3 Non-financial income and expense

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

2.6.4 Deferred receipts and payments

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

2.6.5 Contributions to the Single Resolution Fund and Deposit Insurance Fund

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

2.7 Offsetting of financial instruments

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

2.8 Transfers of financial assets

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

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

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

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

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

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

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

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

2.9 Financial guarantees and provisions made thereon

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

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

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

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

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

2.10 Accounting of operating leases

The Group should identify at the beginning of the lease whether a contract is a lease or contains a lease component and this conclusion will only be reassessed in the event of a change in the terms and conditions of the contract. According to the criteria of the Standard, a contract is a lease if it gives the customer the right to exercise control over the use of the asset identified in the contract for a period of time in exchange for a consideration.

The Standard provides two exemptions from the recognition of lease assets and liabilities, which may be applied in the case of short-term contracts and those whose underlying asset is of low value, which the Group has decided to use.

<u>Leases in which the bank acts as lessee</u>

The lease term corresponds to the non-cancellable period of a lease, plus the periods covered by the option to extend the lease if it is reasonably certain that the lessee will exercise the option and the periods covered by the option to terminate the lease if it is reasonably certain that the lessee will not exercise the option.

The lease liabilities, which are initially recognised under "Financial liabilities at amortised cost - other financial liabilities" in the balance sheet, include the net present value of the following lease payments:

- fixed payments (including essentially fixed payments), less any lease incentive receivable,
- variable lease payments that depend on an index or rate,
- amounts expected to be paid by the lessee as residual value guarantees,
- the exercise price of a call option if the lessee is reasonably certain that it will exercise that option, and
- lease termination penalty payments, if the term of the lease reflects the lessee's exercise of that option.

Subsequent to their initial recognition, they are measured at amortised cost using the effective interest rate method.

Lease payments are discounted using the interest rate implicit in the lease. The discount rate used was determined by the institution’s Capital Strategy and Balance Sheet Unit, which calculated a financing curve that approximates the cost of funding the Group through senior debt.

When the implicit interest rate cannot be readily calculated, use is made of the incremental interest rate, which is defined as the interest rate that a lessee would have to pay for borrowing, for a term similar to the duration of the lease and with similar security, funds necessary to obtain an asset of similar value to the asset by right of use in a similar economic environment.

Each lease payment is allocated between liabilities and finance expense. The interest expense is charged to income over the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. Interest expense on lease liabilities are recognised in the consolidated statement of profit or loss under “Interest expense - Other liabilities”.

Right-of-use assets are initially measured at cost, which includes the following:

- the amount of the initial valuation of the lease liability,
- any lease payment made on or before the start date less any lease incentive received,
- any initial direct cost and
- restoration costs.

Such assets are measured subsequent to initial recognition at cost less:

- Accumulated depreciation and impairment, and
- Any revaluation of the corresponding lease liability.

Depreciation is calculated over the useful life of the asset or the shorter of the two lease terms on a straight-line basis. The provisions for the depreciation of tangible assets are recognised under “Amortisation and depreciation” in the consolidated statement of profit or loss.

The criteria for impairment of these assets are similar to those used for tangible assets (see Note 2.15).

<u>Leases in which the bank acts as lessor</u>

Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased item of an underlying asset.

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

Note 27.7.1 sets out information on these leases.

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased item of an underlying asset.

When the consolidated entities act as lessors in operating leases, the acquisition cost of the leased assets is presented under “Tangible assets” as “Investment property” or as “Other assets leased out under operating lease”, depending on the substance of the leased assets. These assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated statement of profit or loss on a straight-line basis under “Other operating income”.

Note 27.7.2 sets out information on these leases.

2.11 Assets managed

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

2.12 Investment funds and pension funds managed by the Group

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

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

2.13 Staff expenses

2.13.1 Post-employment benefits

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

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

Defined contribution plans

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

Defined contribution plans are recognised under “Personnel expenses” in the consolidated statement of profit or loss. The contributions made by the defined contribution plan promoters amounted to €15,030 thousand in 2019 and €15,888 thousand in 2018 (Note 38).

Defined benefit plans

With respect to defined benefit plans, the Group recognises the present value of post-employment obligations less the fair value of the plan assets, under “Provisions - Pensions and other post-employment defined benefit obligations” and “Provisions - Other long-term employee remuneration” on the liabilities side of the balance sheet. The liabilities for defined benefits are calculated annually by independent actuaries using the projected unit credit method.

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

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

The Group records its reimbursement right under assets on the balance sheet under “Other assets”.

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

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

Post-employment benefits are recognised as follows:

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

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

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

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

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

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

2.13.2 Other long term employee remuneration

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

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

2.13.3 Severance payments

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

2.13.4 Other employee benefits

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

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

- Home loans: the maximum amount to be granted is that determined by the value of the dwelling plus the expenses inherent to the acquisition thereof, which must be duly supported and may not exceed five annuities, which are considered as comprising the items referred to in Article 39 of the Collective Agreement, plus the family support. If this second limit is applicable, the resulting amount may not be less than €200,000 under a Resolution of the Board of Directors. The maximum term is 35 years and the applicable interest rate is equal to 60% of the one-year Euribor rate in April and October, subject to a minimum of 0.50% and a maximum of 5.25%.
- Personal loan/credit: the maximum capital to be financed is 25% of the employee's annual remuneration with respect to the corresponding items from those provided for in Article 39 of the Collective Agreement, plus the family support. However, any employee may obtain up to €30,000. The maximum term is 10 years and the applicable interest rate is the one-year Euribor rate in October.
- Welfare support: to meet fully justified essential needs. The amount will not exceed six gross monthly payments, including all fixed items that make up the monthly salary, and will be repaid in monthly instalments consisting of 10% of the gross salary.

2.14 Income tax

The income tax expense for the is calculated as the tax payable on the taxable profit for the year, adjusted for the changes arising during the financial year in the assets and liabilities recognised as a result of temporary differences, tax credits and relief and possible tax loss carryforwards (Note 25).

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

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

Temporary differences, tax-loss carryforwards yet to be offset and tax deductions not yet applied are recorded as deferred tax assets and/or liabilities. The amounts are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled.

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

Tax credits and relief, and credits for tax loss carryforwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met, provided that the Group considers it probable that they will be used in future periods. Note 25 gives details of the assets recorded in this respect.

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

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

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

2.15 Tangible assets

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

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

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

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

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

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

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

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

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

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

Repair and maintenance expenses relating to fixed assets for own use are charged to "Other administrative expenses" on the consolidated statement of profit or loss (Note 39).

2.16 Intangible assets

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

2.16.1 Goodwill

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

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

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

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

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

To detect possible indications of goodwill impairment, value appraisals are undertaken generally based on the medium-term dividend discount model, having regard to the following parameters:

- Key business assumptions. The cash flow projections used in the measurement are based on these assumptions. For businesses engaging in financial operations, projections are made for variables such as: changes in lending volumes, default rates, customer deposits and interest rates, as well as capital requirements.

- The period covered by the projections: This is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take account of the economic outlook at the time of the valuation.
- Discount rate. The present value of estimated future dividends, from which a value in use is derived, is calculated from a discount rate taken as the capital cost of the entity from the standpoint of a market participant. To do this the Capital Asset Pricing Model (CAPM) is used.
- The rate of growth used to extrapolate cash flow projections beyond the year in which they are considered standardised. Based on long-term estimates for the main macroeconomic numbers and key business variables, and bearing in mind the current financial market outlook at all times, a rate of growth in perpetuity is estimated.

Goodwill impairment losses are not reversed in a subsequent period.

2.16.2 Other intangible assets

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

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

Intangible assets with a finite useful life are amortised over the useful life, applying policies similar to those followed for the depreciation of tangible assets. Annual amortisation of intangible assets with a definite useful life is recognised in "Amortisation- Intangible assets" in the statement of profit or loss and is calculated on the basis of the useful lives initially estimated, generally 3 to 5 years, except for intangible assets relating to customer relations described in Note 16.2, in which an estimated useful life of 10 years has been estimated for relations associated with sight deposits and 6 years to those associated with term deposits.

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

2.17 Inventories

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

- hold for sale in the ordinary course of business,
- are in the process of making, building or developing for such purposes, or
- expect to consume in production or the provision of services.

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

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

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

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

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

Under this heading, assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are recognised, provided that the sale is considered highly probable.

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

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

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

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

- To determine the fair value of selling costs, the repossessed assets or assets received in settlement of debts are measured initially on the basis, as a reference value, of the market value calculated in complete individual appraisals applying the policies and criteria described under Guarantees in Note 2.3. In addition, the Group assesses whether it is necessary to apply a discount to this reference value given its experience in sales and the average time that similar assets are held on the balance sheet.

  With the exception of the certain properties, which do not account for a significant amount in this portfolio, classified under Other properties, to which the discount on the reference value provided by the Bank of Spain is applied as an alternative solution given its experience and the information it has on the Spanish banking sector, the Group has developed internal methodologies for estimating discounts on reference values and selling costs, taking into account its experience in selling similar assets.

For the purposes of determining impairment after the foreclosure date or receipt as payment, when the fair value of costs to sell exceeds the carrying amount, the difference is recognised in the consolidated statement of profit or loss as income from impairment reversals, subject to the limit of the accumulated impairment since the initial recognition of said assets. When an asset has surpassed the average period for holding properties, the Company reviews the procedure for determining fair value. Therefore, no impairment reversal income is recognised for these assets.

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

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

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

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

2.19 Insurance transactions

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

The most significant accruals and deferrals made by the consolidated entities in relation to direct insurance purchased by them are: unearned premiums, benefits, life insurance when the investment risk is assumed by the policyholder, share in profits and returned premiums.

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

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

The adjustment consists of symmetrically recognising the changes in the fair value of the financial assets linked to insurance activity classified in the categories “Financial assets not held for trading mandatorily measured at fair value through profit or loss” and “Financial assets at fair value through other comprehensive income”.

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

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

The technical provisions for direct insurance and accepted reinsurance recognised by the consolidated insurance company to cover the obligations arising from the insurance contracts in force at the end of the period are presented in the consolidated balance sheet under “Liabilities under insurance or reinsurance contracts” (Note 20).

Life insurance provisions

They represent the value of the institution’s obligations net of the Policyholder’s obligations for life insurance at the end of the financial year.

Life insurance reserves are broken down into the unearned premium reserve for insurance whose period of coverage is equal to or less than one year plus, where appropriate, the provision for current risks and, for other insurance, the mathematical reserves.

- **Unearned premium reserve**

  The unearned premium reserve relates to the fraction of the premiums in the year that is allocated to the period between the year-end date and the end of the contract coverage period. The reserve is calculated for each individual policy, applying the actuarial bases contained in its technical notes.

- **Provision for current risks**

  This provision is set up for each line of insurance in so far as the amount of the unearned premium reserve is not sufficient to reflect the value of all the risks and expenses to be covered by the institution for the coverage period not elapsed at the end of the financial year.

  The necessary claims study was carried out to determine the need for a provision for current risks based on the provisions of Article 31 of the Insurance Regulation. This yielded a positive balance, which shows the lack of obligation to make such a provision.

- **Mathematical reserves**

  The mathematical reserves represents the difference between the actuarial present value of the entity's future obligations and those of the policyholder or, if applicable, the insured party. Its calculation is made policy by policy, via an individual system and applying a prospective method, taking as a basis for calculation the inventory premium accrued in the year.

  Calculation of the mathematical reserves was based on the provisions of the Regulation for the Organisation and Supervision of Private Insurance approved by Royal Decree 2486/1998 of 20 November, Royal Decree 239/2007 of 16 February and Order EHA/339/2007 of 16 February, as well as its subsequent amendments and the Resolutions of the Directorate General of Insurance of 6 July 2012 and 9 March 2015.

  However, pursuant to the Second Transitional Provision of the Regulations, for insurance contracted before the entry into force of the Regulation for the Organisation and Supervision of Private Insurance, if the real yield obtained from the investments concerned in the financial year was lower than the technical rate used, the Company would calculate the mathematical reserves by applying an interest rate equal to the yield actually obtained.

  The insurance company calculates the mathematical reserves of a significant part of its insurance portfolio in accordance with article 33.2 of the Regulation for the Organisation and Supervision of Private Insurance, measuring it by the maximum interest rate derived from the internal rate of return of certain investments allocated to the product, provided that certain requirements established in the applicable regulations are met by means of matching flows.

  On 2 December 2015, Royal Decree 1060/2015 of 20 November was published on the organisation, supervision and solvency of insurance and reinsurance undertakings. It came into force on 1 January 2016 and its main purpose is to complete the transposition of European Solvency II regulations into Spanish law.

  As a result of the foregoing, the institution has applied the fifth additional provision, which is mandatory for it, in relation to the interest rate for the calculation of technical provisions for accounting purposes of life insurance with respect to contracts entered into on or after 1 January 2016.

In 2017, the insurance company, pursuant to the provisions of section 1 of the fifth additional provision of Royal Decree 1060/2015, of 20 November, on the Regulation, Supervision and Solvency of Insurance and Reinsurance Undertakings, accepted, with regard to the interest rate to be used in the calculation of the life insurance provision for contracts concluded before 1 January 2016 and whose calculation is governed by the provisions of sections 1.a.1 and 1.b)1 of article 33 of the Regulation for the Organisation and Supervision of Private Insurance, to the option of adapting to the relevant temporary structure of risk-free interest rates provided for in article 54 of this Royal Decree, including, where appropriate, the component relating to the adjustment for volatility provided for in article 57 of this Royal Decree.

Reserves for benefits pending payment

These include:

- **Reserves for benefits pending payment**

  This represents the amount of the institution's outstanding obligations arising from claims occurring prior to the year-end date, which is equal to the difference between its total estimated or certain cost, including external and internal file management and administration expenses, and all the amounts already paid in respect of such claims.

  In order to determine their amount, claims are classified by year of occurrence, with each claim being measured individually.

- **Reserves for benefits pending declaration**

  The reserves for claims pending declaration has been estimated based on the information and experience in previous years of the Insurer, as established in article 41 of the Royal Decree 239/2007, of 16 February, amending the Regulation on the Organisation and Supervision of Private Insurance approved by Royal Decree 2486/1998 of 20 November.

- **Provision for claim settlement expenses**

  It reflect the amount sufficient to cover the internal expenses of the institution necessary for the total settlement of the claims. The provision for benefits for settlement expenses has been estimated as set out in article 42 of Royal Decree 239/2007, of 16 February, amending the Regulation on the Organisation and Supervision of Private Insurance approved by Royal Decree 2486/1998 of 20 November.

Provision for profit sharing and returned premiums

It contains the amount of the benefits accrued in favour of the policyholders, insured parties or beneficiaries and the amount of the premiums that should be returned to the policyholders or insured parties, if applicable, by virtue of the behaviour experienced by the insured risk, as long as they have not been allocated individually to each of them.

Provisions for life insurance in which the investment risk is borne by the policyholders

The provision for life insurance in which it is contractually estimated that the risk of the investment is borne by the policyholder is determined on the basis of the technical notes for each type and on the basis of the investments concerned in order to establish the economic value of the policyholder's rights.

The Group carries out various procedures and has implemented controls to ensure the sufficiency of technical reserves, including:

- With regard to insurance reserves with mortality risk: the provision for current risks is calculated annually as detailed above. This calculation involves the preparation of a profit or loss account for the last two years of mortality risk in order to determine that the premiums collected, determined with the same mortality tables used for the calculation of technical reserves, are higher than the claims actually incurred. The fact that the mortality business yields profits ensures the sufficiency of the provisions made.

- With regard to insurance reserves with longevity risk: each year, the Group obtains real historical mortality assumptions in relation to this activity, for application in the Solvency II calculations (Best Estimate Liability and Capital Requirements (SCR)). For this generation of assumptions, the company's historical mortality rate in these products compared with the mortality tables applied in the collection of premiums and in the calculation of technical reserves. The fact that the reality does not differ from the tables applied ensures the sufficiency of the provisions made with these tables.

- Every month, from the second line of defence (control), the results obtained by the company are monitored by product, differentiating the financial result from the technical result (result associated with insurance risk). The observation that positive technical results are being generated in the different products ensures the sufficiency of the technical provisions set up.

- The Group has a specific Internal Audit function for the insurance activity which is set up as a third line of defence, independent from the rest of the company's units, which, as part of its action planning, periodically reviews the adequacy of the technical reserves associated with each insurance line.

- Lastly, the Group's external auditor issues the "Report on the Financial Condition and Solvency of the insurance company".

2.20 Provisions and contingent liabilities

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

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

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

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

Provisions considered necessary in accordance with the above criteria are debited or credited to "Provisions or reversal of provisions" on the consolidated statement of profit or loss.

At year end, certain litigation and claims were ongoing against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the outcome of such lawsuits and proceedings will not have a material effect on the consolidated financial statements in the years in which they are settled.

2.21 Consolidated statements of recognised income and expenses

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

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

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

Therefore, this statement shows:

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

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

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

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

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

2.22 Total statement of changes in equity

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

a) Adjustments due to changes in accounting principles and correction of errors: Includes changes in consolidated equity due to the retroactive adjustment to financial statement balances because of changes in accounting principles or to correct errors.

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

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

2.23 Consolidated statement of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, understood as on-demand investments.
- Operating activities: the ordinary activities of credit institutions. Activities performed with financial instruments are treated as operating activities, with some exceptions, such as financial assets in the portfolio of financial assets at amortised cost, equity instruments classified as financial assets at fair value through other comprehensive income that are strategic investments, and subordinated financial liabilities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and liabilities do not form part of operating activities.

For the purposes of preparing the consolidated cash flow statement, “cash and cash equivalents” are considered to be short-term, highly liquid investments with an insignificant risk of changes in value. The Group therefore treats the following financial assets and liabilities as cash or cash equivalents:

- The Group’s own cash, which is recognised in the consolidated balance sheet under “Cash and cash balances at central banks and other demand deposits” (Note 6).
- Net demand balances held with Central Banks, recognised in the consolidated balance sheet under “Cash and cash balances at central banks and other demand deposits” (Note 6).
- Net balances of demand deposits at credit institutions other than the balances at central banks. Debtor balances are recognised in the consolidated balance sheet under “Cash and cash balances at central banks and other demand deposits” (Note 6). Creditor balances are recognised under liabilities on the consolidated balance sheet under the heading “Financial liabilities at amortised cost – Deposits – Credit institutions” (Note 19.2).

3. Risk management

3.1 General principles

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

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

3.2 Catalogue of material risks for the Ibercaja Group

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

- Credit risk: the risk of loss due to borrowers’ breach of payment obligations, and loss of value due to impairment in borrowers’ credit quality. Includes the following sub-categories:
    - Concentration risk: These are defined as the risk of incurring losses as a result of a position or group of positions that are sufficiently important with respect to capital, total assets or the general risk level, and could endanger the solidity of the Group.
    - Real estate risk: Risk of impairment of properties used as collateral in financing transactions or acquired through foreclosure arising from periods of crisis in the real estate market.
    - Sovereign risk: This relates to the risk that the country in which the investment is made, often in the form of purchase of bonds and government debt, will default on its payment obligations, outside the normal risks of a common credit operation.
- Operational Risk: reflects potential loss resulting from a failure to adequately design or implement processes, personnel and internal systems, or a loss arising from external events. Includes the following sub-categories:
    - Reputational risk: Risk tied to the perception of stakeholders (customers, investors, employees, suppliers and others), from which economic losses may derive.
    - Legal risk: the possibility of financial loss due to failure to comply with applicable legal and administrative provisions, issuance of unfavourable administrative and judicial decisions, application

of fines or sanctions in relation to any of the bank's operations, processes or activities, such as errors in legal opinions, contracts, bonds or any legal document, such as to preclude enforceability of a right or determine the legal impossibility of enforcing a contract due to failures of legal implementation.

  - Technological risk: the probability that the bank's ICT (information and communication technologies) services or infrastructure will not achieve the service levels necessary to support business processes with sufficient effectiveness, as a consequence of an event that affects the availability, integrity or confidentiality of the data, applications and networks that make up such infrastructure, causing economic loss or other types of loss.

- Market risk: the possibility of incurring losses due to maintaining market positions as a result of adverse movements in financial variables or risk factors (interest rates, exchange rates, share prices, commodity prices, etc.) that determine the value of those positions. This risk affects the trading portfolio and the "hold to collect and sell" portfolio.

- Interest rate risk: the risk that the financial margin or economic value of the Bank are affected by adverse variations in interest rates that impact the cash flows of financial instruments.

- Liquidity and financing risk: the possibility of incurring losses due to not having access to sufficient liquid funds to meet payment obligations.

- Business and profitability risk: the probability of incurring losses as a result of not generating sufficient profitable business volume to cover the costs incurred. In addition, the risk encompasses extraordinary threats, which may endanger the continuity of the business or the Bank.

- Insurance business risk. In addition to its banking business risk, Ibercaja Banco, as a financial conglomerate, must specifically manage and control its insurance business risk. Material risks of this business include interest rate risk, spread risk, concentration risk, counterparty risk, underwriting risk, operational risk and sovereign risk.

3.3 Global risk management processes and tools

Risk Appetite Framework (RAF)

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

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

The management of the various risks has the objective of attaining a risk profile that falls within the desired appetite level defined based on established limits and the most adequate management measures to do so are implemented.

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

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

- Alignment with the strategic plan and capital planning.
- Integration into the Bank's risk culture, with the involvement of all levels of responsibility.
- Flexibility, capable of adapting to changes in the businesses and market conditions and therefore it must be regularly reviewed at least on an annual basis.
- Associated with the information management systems.

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

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

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

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

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

Recovery Plan

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

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

- To design the internal and external communication plan to be carried out in a recovery situation.
- To describe preparatory measures.

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

3.4 Governance Model

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

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

3.4.1 Governing Bodies

Board of Directors

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

Its risk management and control duties and powers include:

- Establishing and approving the Ibercaja Group's Risk Appetite Framework (RAF) after a report from the Large Exposures and Solvency Committee, and review it at least once a year or whenever necessary depending on the circumstances.
- Evaluating and supervising the risk profile and its alignment with the established framework and the Group's strategy, and approving the internal capital and liquidity adequacy assessment process (ICAAP & ILAAP) reports.
- To approve and periodically review the strategies and policies for accepting, managing, supervising and reducing the risks to which the Group is or may be exposed, including risks posed by the macroeconomic situation in which it operates in relation to the current stage of the economic cycle.
- To actively participate in the management of material risks covered by solvency regulations and ensure that the organisation has adequate resources for such management.
- To ensure that the necessary action plans and corrective measures are in place to manage limit overshoots.
- To establish and supervise the Group's risk information and control systems, following a report from the Large Exposures and Solvency Committee.
- To ensure that all aspects of capital planning are integrated with management in line with the scenarios used in the Strategic Plan, the Risk Appetite Framework and the Financing Plan.

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

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

Large Exposures and Solvency Committee

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

Its risk management duties and powers include:

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

Strategy Committee

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

Audit and Compliance Committee

The committee's duties are expressly stipulated in the Regulations of the Board of Directors. In particular: to inform the general meeting regarding any matters raised by shareholders with respect to areas under its authority; to supervise the effectiveness of the Bank's internal control, internal audit and risk management systems, including tax risks; to supervise the process of preparing and presenting regulated financial information; to propose the designation or re-election of the financial auditor; to establish appropriate relations with the external auditor and to receive information regarding its independence; to receive annual information from the external auditor confirming its independence with respect to the Bank or its Group; and to issue the relevant report.

3.4.2 Executive Committees

Global Risk Committee

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

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

Audit Committee

The Audit Committee is responsible for preparing the Internal Audit Annual Operating Plan presented to the Audit and Compliance Committee, receiving regular information regarding the results set out in the internal audit reports and implementing the proposed improvement recommendations to mitigate any observed weaknesses.

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

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

3.5 Exposure to credit risk

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

3.5.1 Strategies and policies for the credit risk management

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

The Board of Directors approves the management framework, strategies, policies and limits for the management of this risk, following a report from the Large Exposures and Solvency Committee, documented in the "Credit Risk Management Framework", the "Irregular Assets Management Framework" and the "Risk Models Management Framework" and the various policy manuals that implement those frameworks. . The manuals include, inter alia, the action guidelines for the main operating segments and maximum risk lines with the main borrowers, sectors, markets and products. The Board of Directors is responsible for authorising risks that exceed the competence of the operating circuit.

3.5.2 Credit risk granting, monitoring and recovery policies

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

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

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

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

The Bank has in place, under its "Acceptance Policy Manual", risk acceptance policies in line with Law 2/2011 of 4 March, on the Sustainable Economy, Order EHA/2899/2011 of 28 October, on banking services transparency and customer protection, and Bank of Spain Circular 5/2012 of 27 June, on transparency in banking services and responsibility in the granting of loans and credit facilities.

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

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

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

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

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

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

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

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

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

3.5.3 Country risk

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

Countries are classified into six groups in accordance with Bank of Spain Circular 4/2017, on the basis of their rating, economic performance, political situation, regulatory and institutional framework, payment capacity and payment record.

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

3.5.4 Information on the credit risk of financial instruments

The classification on the basis of the level of risk of the Group's loans and receivables, fixed-income assets and contingent risks that are performing, have not become impaired and are subject to collective impairment testing is as follows:

	Thousands of euros	
	2019	**2018**
No appreciable risk	18,287,767	17,373,015
Low risk	19,218,092	19,488,127
Medium-low risk	2,413,087	590,218
Medium risk	7,432,656	6,879,476
Medium-high risk	1,297,121	1,544,971
High risk	179,644	176,324
	48,828,367	**46,052,131**

The breakdown of exposures with no appreciable risk, by type, is as follows:

	Thousands of euros	
	2019	**2018**
Central banks	3,444,265	675,568
Public administrations and enterprises	11,841,204	12,768,513
Financial institutions	3,002,298	3,928,934
	18,287,767	**17,373,015**

There follows a description of the credit quality of the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss (Note 8) and of the portfolio of financial assets at amortised cost (Note 11) at 31 December 2019 and 2018:

	Thousands of euros			
	31/12/2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross amount	**37,807,997**	**1,403,209**	**1,293,161**	**40,504,367**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	**-**	**-**	**2,231**	**2,231**
Allowances for impairment of assets	**60,248**	**65,200**	**516,940**	**642,388**
Of which: calculated collectively	60,248	55,091	392,072	507,411
Of which: calculated separately	-	10,109	124,868	134,977
Net amount	**37,747,749**	**1,338,009**	**773,990**	**39,859,748**

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

Impairment adjustments to collectively calculated assets amount to €65 thousand at 31 December 2019 (€33 thousand at 31 December 2018) due to country risk.

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

	Thousands of euros	
	2019	2018
Public sector	6,114,085	4,854,084
Credit institutions	795,337	461,791
Real estate construction and development	1,203,767	1,574,908
Other production activities	11,118,667	11,330,182
Housing acquisition and refurbishment	19,553,933	20,345,619
Consumer and other household lending	816,234	710,357
Other sectors not classified	902,344	1,323,140
	40,504,367	**40,600,081**

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

	Thousands of euros	
	2019	2018
Mortgage guarantees	22,857,231	24,440,560
Pledges - financial assets	58,096	28,669
Off-balance sheet guarantees – public sector, credit institutions, mutual guarantee funds	1,826,296	1,954,234
Guarantees - public sector debt	1,722,143	1,703,749
	26,463,766	**28,127,212**

Guarantees received and financial guarantees granted break down as follows at 31 December 2019 and 2018:

	Thousands of euros	
	2019	2018
Value of collateral	22,303,745	23,504,074
Of which: guarantees risks on special watch	*981,695*	*1,153,800*
Of which: guarantees non-performing risks	*844,728*	*1,509,131*
Value of other collateral	6,995,125	7,500,057
Of which: guarantees risks on special watch	*495,054*	*562,002*
Of which: guarantees non-performing risks	*396,071*	*626,528*
Total value of the collateral received	**29,298,870**	**31,004,131**

	Thousands of euros	
	2019	2018
Loan commitments given (Note 27.3)	**2,966,973**	**2,970,560**
Of which: classified as non-performing	*8,048*	*14,518*
Amount recognised under liabilities on the balance sheet (Note 21)	6,896	7,974
Financial guarantees granted (Note 27.1)	**76,204**	**79,289**
Of which: classified as non-performing	*5,255*	*5,795*
Amount recognised under liabilities on the balance sheet (Note 21)	5,687	6,189
Other commitments given	**856,027**	**908,335**
Of which: classified as non-performing	*36,726*	*33,688*
Amount recognised under liabilities on the balance sheet (Note 21)	9,932	19,302

At December 2019 the LTV (loan to value, reflecting the relationship between the financial transaction balance and the value of the guarantee associated with that transaction) of the Ibercaja Group's mortgage portfolio stood at 51.82% (51.78% at December 2018).

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

	Thousands of euros	
	2019	2018
Customer default	1,052,257	1,832,307
Other factors	240,904	442,251
	1,293,161	**2,274,558**

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

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

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

3.5.5 Information concerning risk concentration, refinancing and restructuring

3.5.5.1 Information concerning risk concentration

Below is a breakdown of the carrying amount of the distribution of customer loans by activity at 31 December 2019 and 2018:

	Thousands of euros							
	31/12/2019							
	Total	Of which: mortgage collateral	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (loan to value)				
				Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
Public administrations	**757,563**	**58,355**	**-**	**5,070**	**17,931**	**31,256**	**3,028**	**1,070**
Other financial companies and individual entrepreneurs (financial business activity)	**1,622,378**	**3,374**	**1,615,432**	**1,070**	**883**	**1,421**	**1,615,432**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**7,968,585**	**2,803,036**	**23,468**	**827,072**	**750,442**	**497,818**	**314,988**	**436,184**
Real estate construction and development (including land)	1,128,816	1,081,306	3	84,162	215,128	232,029	238,566	311,424
Civil engineering	21,840	36	-	36	-	-	-	-
Other purposes	6,817,929	1,721,694	23,465	742,874	535,314	265,789	76,422	124,760
Large corporations	*1,226,303*	*20,212*	*76*	*10,552*	*2,520*	*6,766*	*50*	*400*
SMEs and individual entrepreneurs	*5,591,626*	*1,701,482*	*23,389*	*732,322*	*532,794*	*259,023*	*76,372*	*124,360*
Other households and non-profit institutions serving households	**20,921,694**	**19,657,099**	**19,805**	**5,878,744**	**7,632,680**	**5,142,441**	**646,574**	**376,465**
Homes	19,374,025	19,127,294	6,710	5,588,720	7,500,874	5,058,499	626,565	359,346
Consumption	794,168	137,445	8,728	99,975	27,227	12,857	4,613	1,501
Other purposes	753,501	392,360	4,367	190,049	104,579	71,085	15,396	15,618
Total	**31,270,220**	**22,521,864**	**1,658,705**	**6,711,956**	**8,401,936**	**5,672,936**	**2,580,022**	**813,719**
Memorandum items: refinancing, refinanced and restructured operations	**745,056**	**671,738**	**133**	**120,625**	**122,113**	**156,026**	**106,042**	**167,065**

	Thousands of euros							
	31/12/2018							
	Total	Of which: mortgage collateral	Of which: other collateral	Collateralised loans Carrying amount based on latest available appraisal (loan to value)				
				Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
Public administrations	**248,501**	**62,310**	**-**	**4,744**	**17,132**	**37,123**	**3,311**	**-**
Other financial companies and individual entrepreneurs (financial business activity)	**1,718,978**	**2,825**	**1,703,612**	**976**	**1,196**	**498**	**1,703,767**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**8,230,436**	**3,181,008**	**25,248**	**1,248,452**	**981,492**	**622,335**	**176,553**	**177,424**
Real estate construction and development (including land)	1,236,085	1,190,702	2	404,039	398,298	272,100	60,849	55,418
Civil engineering	22,585	39	-	39	-	-	-	-
Other purposes	6,971,766	1,990,267	25,246	844,374	583,194	350,235	115,704	122,006
Large corporations	*1,047,464*	*17,784*	*162*	*8,552*	*2,663*	*5,922*	*83*	*726*
SMEs and individual entrepreneurs	*5,924,302*	*1,972,483*	*25,084*	*835,822*	*580,531*	*344,313*	*115,621*	*121,280*
Other households and non-profit institutions serving households	**21,667,278**	**20,417,059**	**19,576**	**5,789,262**	**7,710,932**	**5,687,230**	**781,287**	**467,924**
Homes	20,087,031	19,831,216	4,548	5,477,141	7,559,292	5,594,006	756,809	448,516
Consumption	687,627	141,787	6,522	101,081	28,541	13,985	2,503	2,199
Other purposes	892,620	444,056	8,506	211,040	123,099	79,239	21,975	17,209
Total	**31,865,193**	**23,663,202**	**1,748,436**	**7,043,434**	**8,710,752**	**6,347,186**	**2,664,918**	**645,348**
Memorandum items: refinancing, refinanced and restructured operations	**1,230,637**	**1,137,616**	**728**	**207,357**	**203,306**	**281,508**	**184,084**	**262,089**

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

- Total activity:

	Thousands of euros				
	31/12/2019				
	Spain	Rest of the EU	America	Rest of the world	Total
Central banks and credit institutions	**4,749,638**	**502,009**	**7,473**	**13**	**5,259,133**
Public administrations	**10,732,786**	**1,113,967**	**-**	**-**	**11,846,753**
Central government	9,660,044	1,113,967	-	-	10,774,011
Other public administrations	1,072,742	-	-	-	1,072,742
Other financial companies and individual entrepreneurs (financial business activity)	**3,769,951**	**222,757**	**12,423**	**-**	**4,005,131**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**9,681,952**	**1,087,006**	**23,854**	**13,633**	**10,806,445**
Real estate construction and development (including land)	1,469,957	-	-	-	1,469,957
Civil engineering	19,767	-	-	2,073	21,840
Other purposes	8,192,228	1,087,006	23,854	11,560	9,314,648
Large corporations	*1,675,088*	*1,042,337*	*6,504*	*10,837*	*2,734,766*
SMEs and individual entrepreneurs	*6,517,140*	*44,669*	*17,350*	*723*	*6,579,882*
Other households and non-profit institutions serving households	**20,954,878**	**72,359**	**13,859**	**34,124**	**21,075,220**
Homes	19,261,281	67,470	12,377	33,705	19,374,833
Consumption	791,752	1,095	971	350	794,168
Other purposes	901,845	3,794	511	69	906,219
Total	**49,889,205**	**2,998,098**	**57,609**	**47,770**	**52,992,682**

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

- Activity in Spain:

	Thousands of euros								
	31/12/2019								
	Aragon	Madrid	Catalonia	Comm. of Valencia	Andalusia	Castilla León	Castilla La Mancha	Other	Total
Central banks and credit institutions	**1,022,968**	**3,553,141**	**-**	**4,232**	**60,037**	**-**	**-**	**109,260**	**4,749,638**
Public administrations	**183,731**	**125,291**	**8,079**	**109,948**	**5,247**	**71,795**	**57,905**	**510,746**	**10,732,786**
Central government (*)	-	-	-	-	-	-	-	-	9,660,044
Other public administrations	183,731	125,291	8,079	109,948	5,247	71,795	57,905	510,746	1,072,742
Other financial companies and individual entrepreneurs (financial business activity)	**51,344**	**3,707,140**	**1,495**	**433**	**5,273**	**1,749**	**330**	**2,187**	**3,769,951**
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**3,197,910**	**2,245,892**	**1,000,688**	**615,562**	**525,354**	**566,415**	**288,037**	**1,242,094**	**9,681,952**
Real estate construction and development (including land)	348,546	743,736	59,244	75,860	80,917	75,898	30,188	55,568	1,469,957
Civil engineering	2,273	16,886	13	-	80	321	-	194	19,767
Other purposes	2,847,091	1,485,270	941,431	539,702	444,357	490,196	257,849	1,186,332	8,192,228
Large corporations	*463,191*	*469,100*	*227,302*	*123,575*	*67,478*	*68,111*	*38,517*	*217,814*	*1,675,088*
SMEs and individual entrepreneurs	*2,383,900*	*1,016,170*	*714,129*	*416,127*	*376,879*	*422,085*	*219,332*	*968,518*	*6,517,140*
Other households and non-profit institutions serving households	**5,663,265**	**5,289,365**	**1,970,890**	**1,786,924**	**1,321,902**	**963,989**	**1,326,638**	**2,631,905**	**20,954,878**
Homes	4,810,810	5,047,076	1,860,728	1,702,736	1,270,680	881,341	1,251,635	2,436,275	19,261,281
Consumption	309,288	128,036	56,532	45,456	29,815	47,191	43,475	131,959	791,752
Other purposes	543,167	114,253	53,630	38,732	21,407	35,457	31,528	63,671	901,845
Total	**10,119,218**	**14,920,829**	**2,981,152**	**2,517,099**	**1,917,813**	**1,603,948**	**1,672,910**	**4,496,192**	**49,889,205**

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

	Thousands of euros								
	31/12/2018								
	Aragon	Madrid	Catalonia	Comm. of Valencia	Andalusia	Castilla León	Castilla La Mancha	Other	Total
Central banks and credit institutions	**1,131,396**	**813,189**	**-**	**10,133**	**53,931**	**1**	**-**	**49,324**	**2,057,974**
Public administrations	**85,981**	**138,893**	**11,600**	**105,221**	**113,230**	**77,992**	**25,694**	**332,787**	**10,083,006**
Central government (*)	-	-	-	-	-	-	-	-	9,191,608
Other public administrations	85,981	138,893	11,600	105,221	113,230	77,992	25,694	332,787	891,398
Other financial companies and individual entrepreneurs (financial business activity)	**64,099**	**3,932,896**	**1,627**	**523**	**690**	**1,450**	**404**	**1,045**	**4,002,734**
Non-financial companies and	**3,096,939**	**2,231,105**	**1,080,140**	**650,403**	**550,352**	**599,254**	**328,860**	**1,276,364**	**9,813,417**

individual entrepreneurs (non-financial business activity) (broken down by purpose)									
Real estate construction and development (including land)	259,582	702,881	77,541	91,984	107,925	77,694	62,689	103,982	1,484,278
Civil engineering	1,554	18,206	24	-	106	303	-	234	20,427
Other purposes	2,835,803	1,510,018	1,002,575	558,419	442,321	521,257	266,171	1,172,148	8,308,712
Large corporations	*264,727*	*331,255*	*255,494*	*108,311*	*61,382*	*61,393*	*32,196*	*168,254*	*1,283,012*
SMEs and individual entrepreneurs	*2,571,076*	*1,178,763*	*747,081*	*450,108*	*380,939*	*459,864*	*233,975*	*1,003,894*	*7,025,700*
Other households and non-profit institutions serving households	**5,985,974**	**5,412,466**	**2,010,586**	**1,856,943**	**1,380,956**	**1,019,028**	**1,386,127**	**2,732,692**	**21,784,772**
Homes	5,040,146	5,166,208	1,896,720	1,769,598	1,327,314	933,230	1,308,370	2,533,414	19,975,000
Consumption	261,832	111,560	48,071	38,899	26,086	43,746	38,552	117,346	686,092
Other purposes	683,996	134,698	65,795	48,446	27,556	42,052	39,205	81,932	1,123,680
Total	**10,364,389**	**12,528,549**	**3,103,953**	**2,623,223**	**2,099,159**	**1,697,725**	**1,741,085**	**4,392,212**	**47,741,903**

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

The concentration of credit quality risk in debt securities based on the counterparty's rating at 31 December 2019 and 2018 is detailed below:

	Thousands of euros			
	2019			
	Financial assets not held for trading mandatorily measured at fair value through profit or loss	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**
AAA / AA	48,340	-	153,743	7,936
A	20,312	5,612	4,929,037	4,690,054
BBB	10,131	3,327	2,545,886	2,439,855
BB	-	-	59,423	75,408
B	-	-	-	4,975
CCC	-	-	510	-
Unrated	-	-	-	-
Total	**78,783**	**8,939**	**7,688,599**	**7,218,228**

	Thousands of euros			
	2018			
	Financial assets not held for trading mandatorily measured at fair value through profit or loss	**Financial assets at fair value through profit or loss**	**Financial assets at fair value through other comprehensive income**	**Financial assets at amortised cost**
AAA / AA	30,651	-	216,192	5,911
A	41,910	6,079	5,273,102	4,217,762
BBB	10,172	2,130	2,832,261	2,275,118
BB	-	1,366	80,341	45,665
B	-	-	5,846	-
CCC	-	-	6,898	-
Unrated	-	-	-	-
Total	**82,733**	**9,575**	**8,414,640**	**6,544,456**

3.5.5.2 Information concerning refinancing and restructuring

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

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

Acceptance of transactions:

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

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

Sanctions:

The branch network is not authorised to sanction refinancing or restructuring operations. Transactions are authorised by the Recoveries Department of the Credit Risk Area, which is entirely separate from the Commercial Network.

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

A breakdown of refinancing and restructuring balances at 31 December 2019 and 2018 can be seen below:

	Thousands of euros			
	2019		2018	
	Total	Of which: default/not-performing	Total	Of which: default/not-performing
Gross amount	**988,179**	**686,062**	**1,878,722**	**1,451,618**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	**2,231**	**2,231**	**2,222**	**2,222**
Allowances for impairment of assets	**240,892**	**219,013**	**645,863**	**607,988**
Of which: collective	151,683	134,385	286,453	252,714
Of which: individual	89,209	84,628	359,410	355,274
Net amount	**745,056**	**464,818**	**1,230,637**	**841,408**
Value of the collateral received	**1,050,843**	**706,263**	**1,878,568**	**1,399,619**
Value of collateral	741,144	499,644	1,358,376	1,015,222
Value of other collateral	309,700	206,619	520,192	384,397

The reconciliation of the gross amounts of refinanced and restructured operations at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Opening balance	**1,878,722**	**2,500,207**

(+) Refinancing and restructuring in the period	73,700	57,298
Memorandum items: impact recognised in the statement of profit and loss for the period	*19,473*	*16,091*
(-) Debt repayments	244,438	284,521
(-) Foreclosures	41,693	36,976
(-) Derecognitions (reclassification to written-off assets)	43,238	113,428
(+)/(-) Other changes (*)	(634,874)	(243,858)
Closing balance	**988,179**	**1,878,722**

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

On 31 December 2019, the details of the refinanced and restructured transactions are as follows:

	Thousands of euros							
	Total							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public administrations	**3**	**2,844**	**5**	**2,705**	**2,044**	**-**	**2,228**	**3,321**
Other financial companies and individual entrepreneurs (financial business activity)	**-**	**-**	**1**	**29**	**29**	**-**	**-**	**29**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,368**	**107,573**	**1,489**	**295,351**	**183,715**	**50**	**150,450**	**252,474**
of which: financing for real estate construction and development (including land)	*12*	*8,748*	*201*	*122,567*	*75,119*	*-*	*49,683*	*81,632*
Other household	**2,886**	**29,366**	**6,078**	**550,311**	**439,049**	**40**	**90,445**	**489,232**
Total	**4,257**	**139,783**	**7,573**	**848,396**	**624,837**	**90**	**243,123**	**745,056**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Thousands of euros							
	of which: default/non-performing							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Public administrations	**2**	**1,866**	**2**	**874**	**213**	**-**	**2,228**	**512**
Other financial companies and individual entrepreneurs (financial business activity)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**808**	**69,954**	**1,039**	**215,474**	**118,122**	**-**	**138,548**	**146,880**
of which: financing for real estate construction and development (including land)	*9*	*8,464*	*170*	*102,120*	*56,134*	*-*	*48,327*	*62,257*
Other household	**1,557**	**18,961**	**4,083**	**378,933**	**287,323**	**16**	**80,468**	**317,426**
Total	**2,367**	**90,781**	**5,124**	**595,281**	**405,658**	**16**	**221,244**	**464,818**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

On 31 December 2018, the details of the refinanced and restructured transactions are as follows:

	Thousands of euros							
	Total							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	-	-	-	-	-	-	-	-
Public administrations	**7**	**3,777**	**8**	**4,074**	**3,473**	**-**	**1,056**	**6,795**
Other financial companies and individual entrepreneurs (financial business activity)	**6**	**176**	**3**	**132**	**119**	**-**	**157**	**151**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,833**	**180,906**	**2,621**	**884,404**	**493,237**	**324**	**489,299**	**576,011**
of which: financing for real estate construction and development (including land)	*91*	*48,074*	*519*	*512,212*	*255,706*	*-*	*289,311*	*270,975*
Other household	**4,602**	**42,604**	**8,247**	**762,649**	**598,322**	**44**	**157,573**	**647,680**
Total	**6,448**	**227,463**	**10,879**	**1,651,259**	**1,095,151**	**368**	**648,085**	**1,230,637**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-	-

	Thousands of euros							
	of which: default/non-performing							
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk	Carrying amount
	No. of transactions	Gross carrying amount	No. of transactions	Gross carrying amount	Maximum amount of the collateral that can be considered			
					Real estate collateral	Other collateral		
Credit institutions	-	-	-	-	-	-	-	-
Public administrations	**3**	**1,941**	**2**	**874**	**273**	**-**	**1,056**	**1,759**
Other financial companies and individual entrepreneurs (financial business activity)	**4**	**140**	**2**	**99**	**87**	**-**	**154**	**85**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**1,158**	**138,982**	**1,908**	**759,598**	**384,790**	**172**	**472,875**	**425,705**
of which: financing for real estate construction and development (including land)	*88*	*47,274*	*464*	*474,087*	*220,128*	*-*	*287,103*	*234,258*
Other household	**2,522**	**27,663**	**5,379**	**522,321**	**389,427**	**25**	**136,125**	**413,859**
Total	**3,687**	**168,726**	**7,291**	**1,282,892**	**774,577**	**197**	**610,210**	**841,408**
Additional information								
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-	-

The detail of the refinanced or restructured transactions is attached that, after the restructuring or refinancing, have been classified as non-performing during financial years 2019 and 2018:

	Thousands of euros	
	2019	2018
Public administrations	**-**	**-**
Other legal persons and individual entrepreneurs	**11,611**	**48,946**
Of which: financing for real estate construction and development	771	28,662
Other individuals	**21,152**	**46,986**
Total	**32,763**	**95,932**

On 31 December 2019, the Group assessed the renegotiated transactions, and according to their better judgement identified and provided those that having not mediated renegotiation could have been past-due or impaired, for a global risk amount of 302,117 thousand euros (427,104 thousand euros on 31 December 2018).

3.5.6 Policies for the management of problematic assets

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

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

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

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

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

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

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

On 31 December 2019 and 2018, the details of the financing for the real estate construction and development and the hedging thereof is the following:

	Thousands of euros							
	Gross carrying amount		Excess of the gross exposure on the maximum recoverable amount of the effective collateral (*)		Accumulated impairment		Net value	
	2019	2018	2019	2018	2019	2018	2019	2018
Financing for real estate construction and development (including land) (businesses in Spain)	**1,205,703**	**1,586,107**	**128,728**	**430,806**	**76,785**	**339,426**	**1,128,918**	**1,246,681**
Of which: default/non-performing	134,243	600,566	64,937	352,142	69,631	331,647	64,612	268,919
Memorandum items: written-off assets	**205,094**	**254,431**	**-**	**-**	**-**	**-**	**-**	**-**

(*) Excess of the gross exposure on the maximum recoverable amount of the effective collateral calculated according to Circular 04/2018. That is, the positive difference between the gross carrying amount of the financial assets and the maximum recoverable amount of the effective collateral.

	Thousands of euros	
	Carrying amount	
Memorandum items: Data from the public consolidated balance sheet	**2019**	**2018**
Loans to customers, excluding Public Administrations (businesses in Spain)	30,512,657	31,616,692
Total consolidated asset (total businesses)	55,422,015	52,705,739
Impairment loss and provisions for exposures classified as normal (total businesses)	141,815	163,438

The breakdown of the heading of the financing for the real estate construction and development (including land), on 31 December 2019 and 2018 is the following:

	Thousands of euros	
	Gross carrying amount	
	2019	2018
Without real estate collateral	**41,683**	**73,946**
With real estate collateral (breakdown as per the type of asset received in collateral)	**1,164,020**	**1,512,161**
Buildings and other completed constructions	341,916	437,106
Housing	*318,930*	*386,825*
Other	*22,986*	*50,281*
Buildings and other constructions under construction	712,869	645,769
Housing	*711,995*	*644,502*
Other	*874*	*1,267*
Land	109,235	429,286
Consolidated urban land	*105,398*	*399,261*
Other land	*3,837*	*30,025*
Total	**1,205,703**	**1,586,107**

Below a detail of the collateral received and financial guarantees granted in relation to the financing for property construction and development is shown (including undeveloped land) on 31 December 2019 and 2018.

Collateral received:

	Thousands of euros	
	2019	2018
Value of collateral	1,158,053	1,349,752
Of which: guarantees default/non-performing risks	*79,052*	*335,138*
Value of other collateral	380,462	427,366
Of which: guarantees default/non-performing risks	*20,847*	*87,398*
Total value of the collateral received	**1,538,515**	**1,777,118**

Financial guarantees granted:

	Thousands of euros	
	2019	2018
Financial guarantees granted related to real estate construction and development	**6,525**	**9,125**
Amount recognised under liabilities on the balance sheet	2,808	3,146

On 31 December 2019 and 2018, the breakdown of loans to households for housing acquisition, is the following:

	Thousands of euros			
	Gross amount		Of which: default/non-performing	
	2019	2018	2019	2018
Housing acquisition loans	**19,158,732**	**19,916,029**	**596,978**	**820,226**
Without mortgage loan	231,885	257,738	9,949	27,776
With mortgage loan	18,926,847	19,658,291	587,030	792,450

The breakdown of the loans with mortgage loan to households for housing acquisition according to the percentage that implies the gross carrying amount over the latest appraisal amount (loan to value) on 31 December 2019 and 2018 is the following:

	Thousands of euros					
	2019					
	Gross carrying amount based on latest appraisal amount (loan to value)					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%	Total
Gross carrying amount	5,399,679	7,431,020	5,069,678	645,985	380,485	**18,926,847**
Of which: default/non-performing	58,751	117,035	196,025	95,001	120,218	**587,030**

	Thousands of euros					
	2018					
	Gross carrying amount based on latest appraisal amount (loan to value)					
	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%	Total
Gross carrying amount	5,277,125	7,485,817	5,616,639	789,707	489,003	**19,658,291**
Of which: default/non-performing	64,351	141,930	265,953	143,146	177,070	**792,450**

On 31 December 2019 95% of the housing acquisition loan with real estate collateral has an LTV lower than 80% (93% on 31 December 2018).

3.5.6.2 Foreclosed or received assets in payment for debts.

As at 31 December 2019 and 2018, the following information relates to assets repossessed or accepted as payment for debts:

	Thousands of euros			
	31/12/2019			
	Gross carrying amount (*)	Total allowances for impairment losses	Of which: Allowances for impairment losses from the time of the foreclosure	Carrying amount
Real estate assets acquired from loans for real estate construction and development	**535,894**	**(306,974)**	**(180,591)**	**228,920**
Buildings and other completed constructions	63,644	(26,991)	(13,659)	36,653
Housing	*17,483*	*(8,008)*	*(3,931)*	*9,475*
Other	*46,161*	*(18,983)*	*(9,728)*	*27,178*
Buildings and other constructions under construction	12,261	(4,750)	(1,352)	7,511
Housing	*9,830*	*(3,681)*	*(1,055)*	*6,149*
Other	*2,431*	*(1,069)*	*(297)*	*1,362*
Land	459,989	(275,233)	(165,580)	184,756
Consolidated urban land	*172,131*	*(99,105)*	*(52,650)*	*73,026*
Other land	*287,858*	*(176,128)*	*(112,930)*	*111,730*
Real estate assets acquired in mortgage loans to households for housing acquisition	**62,194**	**(23,474)**	**(8,300)**	**38,720**
Other foreclosed or received real estate assets in payment of debt	**26,802**	**(15,585)**	**(5,306)**	**11,217**
	624,890	**(346,033)**	**(194,197)**	**278,857**

(*) Amount before deducting the allowances for impairment loss

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

(*) Amount before deducting the allowances for impairment loss

On 28 December 2019, the Ibercaja Group entered into an agreement for the contribution of a foreclosed real estate portfolio with a combined gross book value of approximately €641 million and a combined net book value of approximately €285 million. The portfolio was acquired by a new company, Northwind Finco, S.L., 80% owned by Intrum AB and the remaining 20% owned by the Ibercaja Group (Note 12.3). The transaction had a loss of €31 million, mainly recorded under "Gains/losses on derecognition of non-financial assets, net" and "Gains/losses arising from non-current assets and disposal groups held for sale that are ineligible for classification as discontinued operations" in the consolidated income statement (Note 41 and Note 42, respectively).

The breakdown of the carrying amount of assets foreclosed or received as payment for debts classified by balance sheet item as at 31 December 2019 and 2018 is as follows:

	Thousands of euros				
	31/12/2019				
	Gross carrying amount	Allowances for impairment losses from lending	Accumulated depreciation	Allowances for impairment losses from the time of the foreclosure	Carrying amount
Tangible assets - Investment property	12,500	(1,898)	(503)	(2,886)	7,213
Intangible assets	-	-	-	-	-
Other assets - Inventories	188,479	(36,473)	-	(86,713)	65,293
Non-current assets and disposal groups classified as held for sale	423,911	(112,770)	(192)	(104,598)	206,351
	624,890	**(151,141)**	**(695)**	**(194,197)**	**278,857**

	Thousands of euros				
	31/12/2018				
	Gross carrying amount	Allowances for impairment losses from lending	Accumulated depreciation	Allowances for impairment losses from the time of the foreclosure	Carrying amount
Tangible assets - Investment property	19,679	(9,343)	(742)	1,963	11,557
Intangible assets	1,616	-	(857)	-	759
Other assets - Inventories	250,644	(30,744)	-	(137,697)	82,203
Non-current assets and disposal groups classified as held for sale	495,028	(128,718)	(494)	(140,137)	225,679
	766,967	**(168,805)**	**(2,093)**	**(275,871)**	**320,198**

3.6 Exposure to operational risk

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

3.6.1 Strategies and policies for the operational risk management

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

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

- General aspects: definition of operational risk, categorisation and assessment of risks.
- Methodologies applied for the identification, assessment and measuring of operational risks.
- Scope of application of the methodologies and personnel that participate in the management of this risk.
- Indicators, limits and tolerance ranges.

- Generation of stress scenarios.
- Models of support to the management (management, control and mitigation of the operational risk): information derived from the previous methodologies and implementation of measures directed at the mitigation of this risk.

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

Its application and effective use in each of the units and subsidiary companies are developed in a decentralised manner. For its part, the Market, Operational and Reputational Risk Control Unit, together with other units and subsidiaries, coordinates risk measurement and carries out risk monitoring, analysis and communication.

3.6.2 Procedures for measurement, management and control

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

- Qualitative methodology, based on the identification and expert assessment of operational risks and the existing controls in the processes and activities, together with the breakdown and analysis of risk indicators. During financial year 2019 they reviewed and self-assessed 586 operational risks, concluding in this process, a low risk profile.
- Quantitative methodology, supported in the identification and analysis of the real losses fluctuations in the Group, which are recorded in the database established for that purpose (BDP).

The quantification of real losses recorded in the data base of losses in 2019 shows the total annual net losses (net of direct recoveries and insurance) for operational risk events came to €22,145 thousand, corresponding to 7,988 events, of which 619 events for €9,018 thousand derive from write-downs linked to floor clauses (return of interest totalling €7,427 thousand and legal costs of €1,591 thousand). If the provisions linked to these losses from "floor clauses" and other provisions associated with different losses, which were also extraordinary, are discounted, the total annual net loss is €5,728 thousand.

Stripping out the exceptional impact certain losses such as floor clauses, real operational losses were small in relation to capital requirements, consistently with the overall result of the qualitative assessment mentioned above.

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

3.7 Exposure to the interest rate risk

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

The sources of the interest rate risk are the gap, base or optionality risks. In particular, gap risk arises from the different timing of interest rate-sensitive balance sheet instruments, as a result of differences in the timing of their repricing or maturities. Basis risk derives from the different benchmark indices used for repricing, interest rate-sensitive asset and liability instruments. Optionality risk arises from embedded or explicit options that arise when either the Entity or the customer have the option of altering future cash flows if it benefits them.

3.7.1 Strategies and policies for the interest rate risk management

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

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

3.7.2 Procedures for measurement and control

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

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

As to optionality risk, behavioural models are available that provide the key assumptions on the sensitivity and duration of demand savings transactions, as their maturity date is not contractually specified, and on early repayments on loans, early redemption of time deposits, and duration of non-performing assets, always based on historical experience for different scenarios.

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

Below, the sensitivity profile is shown of the balance of the Group to the interest rate risk on 31 December 2019 and on 31 December 2018, indicating the carrying amount of those financial assets and liabilities affected by this risk, which appear classified depending on the estimated term until the review date of the interest rate or maturity.

On 31 December 2019:

	€ million						
	Terms until the review of the effective interest rate or maturity						
	Up to 1 month	**1 to 3 months**	**Between 3 months and 1 year**	**Sensitive Balance**	**Insensitive Balance**	**1 to 5 years**	**Over 5 years**
Assets	**10,533**	**8,642**	**16,439**	**35,614**	**12,675**	**2,592**	**10,083**
Financial assets with fixed interest rates and other assets without determined maturity	5,702	1,184	2,490	9,376	9,360	1,965	7,395
Financial assets at fixed rate hedged with derivatives	71	(19)	1,299	1,351	2,357	399	1,958
Financial assets at variable interest rate	4,760	7,477	12,650	24,887	958	228	730
Liabilities	**10,850**	**3,658**	**12,284**	**26,792**	**21,497**	**15,578**	**5,919**
Financial liabilities with fixed interest rates and other liabilities without determined maturity	10,634	1,808	8,923	21,365	22,313	16,052	6,261
Financial liabilities at fixed rate hedged with derivatives	110	1,404	3,357	4,871	(813)	(474)	(339)
Financial liabilities at variable interest rate	106	446	4	556	(3)	-	(3)
Difference or Gap in the period	**(317)**	**4,984**	**4,155**	**8,822**	**(8,822)**	**(12,986)**	**4,164**
Difference or accumulated Gap	**(317)**	**4,667**	**8,822**	**8,822**	**(8,822)**	**(4,164)**	**-**
Average gap	(318)	3,420	3,419	5,594			
% of total assets	(0,66)	7,08	7,08	11,58			

On 31 December 2018:

	€ million						
	Terms until the review of the effective interest rate or maturity						
	Up to 1 month	**1 to 3 months**	**Between 3 months and 1 year**	**Sensitive Balance**	**Insensitive Balance**	**1 to 5 years**	**Over 5 years**
Assets	**7,696**	**8,982**	**15,843**	**32,521**	**13,480**	**5,096**	**8,384**
Financial assets with fixed interest rates and other assets without determined maturity	2,916	850	2,257	6,023	8,655	2,513	6,142
Financial assets at fixed rate hedged with derivatives	27	267	230	524	3,473	2,399	1,074
Financial assets at variable interest rate	4,753	7,865	13,356	25,974	1,352	184	1,168
Liabilities	**7,199**	**3,623**	**11,995**	**22,817**	**23,184**	**17,651**	**5,533**
Financial liabilities with fixed interest rates and other liabilities without determined maturity	6,817	1,721	8,209	16,747	22,356	16,375	5,981
Financial liabilities at fixed rate hedged with derivatives	109	1,415	3,783	5,307	912	1,273	-361
Financial liabilities at variable interest rate	273	487	3	763	-84	3	-87
Difference or Gap in the period	**497**	**5,359**	**3,848**	**9,704**	**(9,704)**	**(12,555)**	**2,851**
Difference or accumulated Gap	**497**	**5,856**	**9,704**	**9,704**	**(9,704)**	**(2,851)**	**-**
Average gap	497	4,516	2,768	5,944			
% of total assets	1,08	9,82	6,02	12,92			

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

The Gap that appears in the box represents the difference between the sensitive assets and liabilities in each period, i.e., the net balance exposed to changes in prices. The average gap of the period is 5,593.5 million euros, 11.58% of the asset (5,943.8 million euros, 12.92% of the asset on 31 December 2018).

With data as at 31 December 2019, the impact on the Company's net interest income in the event of a 200-basis point rise in interest rates is 90.38 million euros, 21.88% of the net interest income for the next 12 months and in the event of a 200-basis point fall it is 64.58 million euros, -15.63% of the net interest income for the next 12 months (in December 2018, 104.34 million and 19.56% in the event of increases and -2.23 million and -0.42% in the event of decreases) under the assumption that the size and structure of the balance sheet is remains the same and that interest rate movements occur instantly and are the same at all points on the curve, with a progressive floor going from less than 100 bp, rising by 5 bp each year to zero (in December 2018 floor on the 0% curve).

In turn, the impact on the economic value of the Company in the event of a 200-basis point rise in interest rates is 28.80 million euros, 0.46% of the economic value of equity and in the event of a 200-basis point fall it is 157.36 million euros, 2.54% of the economic value of equity (in December 2018, 301.81 million euros and 4.82% in the event of a rise and 214.03 million and 3.42% in the event of a fall) on the assumption that interest rate movements occur instantly and are the same at all points on the curve, with a progressive floor that goes from minus 100 bp, rising by 5 bp each year to zero (in December 2018 floor on the 0% curve).

3.8 Exposure to liquidity risk

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

3.8.1 Strategies and policies for the liquidity risk management

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

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

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

3.8.2 Procedures for measurement and control

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

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

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

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

At 31 December 2019, the Company's available liquidity amounted to €11,468 million (€10,917 million at 31 December 2018), coupled with an issuance capacity of €7,307 million (€6,290 million at 31 December 2018). Total availability stood at €18,775 million (€17,207 million at 31 December 2018), €1,569 million up on the close of last year. During 2019, wholesale maturities were outstanding for a nominal amount of 701 million euros: covered bonds (€530 million), securitisation bonds owned by third parties (€111 million), subordinated bonds (€60 million). In addition, they have carried out repurchases of issuances for 24 million euros, instrumented in Securitisation bonds.

The collateral facility with the ECB includes pledged assets with a discounted value of 6,609 million euros at December 31, 2019 (8,133 million euros at 31 December 2018), of which 1,650 million euros have been drawn down (1,722 million euros maturing in June 2020 have been repaid early), leaving 4,959 million euros available (4,761 million euros at 31 December 2018) to meet its liquidity needs.

In addition to the policy mentioned, the Company has very different sources of financing. There is a large base of retail deposits of €29,386 million (€28,866 million as at 31 December 2018), of which 85% had stable balances. The Bank also has financing collateralised by securities in the amount of €5,603 million (€4,494 million at 31 December 2018), €2,520 million of which is transacted with central counterparties. In addition, wholesale issues of a total €3,808 million euros (€4,375 million at 31 December 2018), characterised by diversification of maturities, and deposits from the Group's financial institutions amounting to €736 million (€640 million at 31 December 2018), and deposits from other customers of €2,794 million (€2,241 million at 31 December 2018), among others.

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

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

- Financing received from investment funds and pension plans with clauses that cause the reimbursement depending on reversals in the credit qualification of Ibercaja Banco. At the end of 2019, there was no amount affected by the reversal of a qualification scale.
- Liability derivatives for 77 million euros, that have required the contribution of additional guarantees for 82 million as well as asset derivatives for 27 million euros, for those that have received additional guarantees for 27 million euros. In addition, those transacted through the clearinghouse required additional collateral of €84 million.

- Financing collateralised by securities of €3,809 million, which required the provision of additional collateral of €509 million in cash (collateral includes both repurchase agreements and reverse repurchase agreements).
- Financing of the BEI of 535 million, which requires a contribution of guarantees of 508 million euros in fixed income.

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

Below a breakdown is offered of the available liquidity:

	Thousands of euros	
	2019	**2018**
Cash and central banks	3,671,499	888,415
Available in policy	4,982,938	4,760,526
Eligible assets not included in the policy	2,432,048	4,835,712
Other marketable assets not eligible by the Central Bank	381,397	432,195
Accumulated available balance	**11,467,882**	**10,916,848**

On 31 December 2019, the capacity to issue covered bonds was €7,307 million (€6,290 million euros on 31 December 2018).

The LCR (Liquidity Coverage Ratio) of the Ibercaja Group on 31 December 2019 was 307% (307% on 31 December 2018), while the NSFR (Net Stable Funding Ratio) on 31 December 2019 was at 131% (130% at 31 December 2018). The breakdown of liquid assets at 31 December 2019 under the criteria established for calculating the LCR ratio is as follows:

	Thousands of euros					
	31/12/2019			31/12/2018		
	Balance sheet figure	**Weighting (%)**	**Weighted balance**	**Balance sheet figure**	**Weighting (%)**	**Weighted balance**
Cash and central banks	3,350,643	100	3,350,643	578,747	100	578,747
Tier 1 fixed-income	4,293,282	100	4,293,282	7,649,620	100	7,649,620
Central government sovereign debt	*4,033,129*	*100*	*4,033,129*	*4,145,591*	*100*	*4,145,591*
Regional government sovereign debt	*645,317*	*100*	*645,317*	*673,493*	*100*	*673,493*
Foreign government debt	*210,580*	*100*	*210,580*	*228,939*	*100*	*228,939*
SAREB/ICO	*1,740,939*	*100*	*1,740,939*	*1,799,309*	*100*	*1,799,309*
FADE/FROB/State-backed bonds	*-*	*100*	*-*	*205,355*	*100*	*205,355*
Reverse repurchase agreement for Tier 1 fixed-income assets	*1,625,780*	*100*	*1,625,780*	*1,700,205*	*100*	*1,700,205*
Fixed-income repos	*(3,962,463)*	*100*	*(3,962,463)*	*(1,103,272)*	*100*	*(1,103,272)*
NCC1 covered bonds	-	93	-	-	93	-
TIER 1 ASSETS	**7,643,925**		**7,643,925**	**8,228,367**		**8,228,367**
Non-financial entity NCC1 bonds	-	85	-	-	85	-
NCC2 covered bonds	132,917	85	112,980	26,130	85	22,210
TIER 2A ASSETS	**132,917**		**112,980**	**26,130**		**22,210**
NCC1 securitisations	-	75	-	-	75	-
Non-financial entity NCC 2/3 bonds	21,773	50	10,887	39,236	50	19,618
NCC3 covered bonds	26,931	70	18,852	27,857	70	19,500
Disposable equities	123,918	50	61,959	108,512	50	54,256
TIER 2B ASSETS	**172,622**		**91,698**	**175,605**		**93,374**
LIQUID ASSETS	**7,949,464**		**7,848,603**	**8,430,102**		**8,343,951**

The LCR ratio data for the Ibercaja Group are:

	Thousands of euros					
	31/12/2019			31/12/2018		
	Balance sheet figure	**Weighting (%)**	**Weighted balance**	**Balance sheet figure**	**Weighting (%)**	**Weighted balance**
TIER 1 ASSETS (70% limit)	7,643,925	100	7,643,925	8,228,367	100	8,228,367
TIER 2 ASSETS	132,917	85	112,980	26,130	85	22,210
TIER 2B ASSETS	172,622	53	91,698	175,605	53	93,374
LIQUID ASSETS	**7,949,464**		**7,848,603**	**8,430,102**		**8,343,951**
Stable deposits	*24,982,087*	*5*	*1,249,104*	*23,004,936*	*5*	*1,150,247*
Non-stable deposits	*4,197,591*	*10*	*419,759*	*6,112,303*	*10*	*611,230*
RETAIL CUSTOMER DEPOSITS	29,179,678	6	1,668,863	29,117,239	6	1,761,477
Unsecured wholesale financing	3,422,802	36	1,218,068	2,401,881	37	881,140
Additional requirements	3,562,482	6	223,310	4,014,979	14	557,396
GROSS OUTFLOWS			**3,110,241**			**3,200,013**
INFLOWS- Maximum allowed inflows (75% outflows)	1,033,408	53	554,308	903,888	53	480,132
NET OUTFLOWS			**2,555,933**			**2,719,881**
LIQUIDITY COVERAGE RATIO (LCR)			**307.07%**			**306.78%**

Below the breakdown by terms of the contractual maturities of assets and liabilities is presented (liquidity gap) on 31 December 2019 and 31 December 2018:

	Thousands of euros						
	On demand	**Up to 1 month**	**Between one and three months**	**Between three months and one year**	**Between one and five years**	**After 5 years**	**Total**
ASSET							
Deposits in credit institutions	39,720	3,556	57,200	-	-	149,239	249,715
Loans to other financial institutions	-	21,090	9,270	206	810	-	31,376
Temporary acquisitions of securities and securities lending	-	1,581,606	34,147	-	106,391	-	1,722,144
Loans (including matured, non-performing, written-off and foreclosed)	-	857,558	1,253,044	2,854,929	7,775,397	19,194,259	31,935,187
Securities portfolio settlement	-	(800)	490,544	47,101	1,299,976	5,149,661	6,986,482
Hedging derivatives	-	(338)	15,136	31,516	73,604	5,272	125,190
Trading derivatives	-	-	-	-	-	-	-
Net interest income	-	35,163	61,630	275,547	-	-	372,340
Total on 31 December 2019	**39,720**	**2,497,835**	**1,920,971**	**3,209,299**	**9,256,178**	**24,498,431**	**41,422,434**
Total on 31 December 2018	**37,351**	**2,505,733**	**1,607,989**	**3,307,746**	**9,804,802**	**26,004,171**	**43,267,792**
LIABILITY							
Wholesale issues	-	3,556	223,211	741,598	1,640,708	1,199,015	3,808,088
Deposits from credit entities	4,134	14,836	-	2,000	600	2,386	23,956
Deposits from other financial institutions and bodies	655,631	303	544	31,105	170,660	-	858,243
Deposits from large non-financial companies	86,184	-	-	-	-	-	86,184
Financing from the rest of the customers	27,746,615	575,149	960,513	2,515,253	382,093	972	32,180,595
Funds for brokered loans	-	16,781	21,034	151,985	358,798	120,779	669,377
Financing with secured securities	-	3,870,525	82,019	1,650,000	-	-	5,602,544
Other net outflows	-	34,418	55,396	298,006	92,841	(24,556)	456,105
Hedging derivatives	-	38	3,283	15,250	40,857	(3,927)	55,501
Formalised loans pending settlement	-	434,866	-	-	-	-	434,866
Commitments available for third parties	2,966,973	-	-	-	-	-	2,966,973
Financial guarantees issued	7	2,973	34	181	5,916	13,403	22,514
Total on 31 December 2019	**31,459,544**	**4,953,445**	**1,346,034**	**5,405,378**	**2,692,473**	**1,308,072**	**47,164,946**
Total on 31 December 2018	**29,328,835**	**2,167,766**	**1,347,540**	**4,142,607**	**6,864,350**	**1,360,184**	**45,211,282**
2019 gap period	**(31,419,824)**	**(2,455,610)**	**574,937**	**(2,196,079)**	**6,563,705**	**23,190,359**	
2018 gap period	**(29,291,484)**	**337,967**	**260,449**	**(834,861)**	**2,940,452**	**24,643,987**	
Accumulated gap (without demand savings) 2019	**-**	**(2,455,610)**	**(1,880,673)**	**(4,076,752)**	**2,486,953**	**25,677,312**	
Accumulated gap (without demand savings) 2018	**-**	**337,967**	**598,416**	**(236,445)**	**2,704,007**	**27,347,994**	

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

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

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

Loan commitments amounted to €2,967 million (€2,971 million at 31 December 2018). While these commitments are available immediately for the customers, and therefore would have "demand" nature in accordance with IFRS 7, in the practice of cash flow outputs they are distributed in all the time slots.

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

The Group only hopes to produce a cash outflow in relation to financial guarantee contracts that have qualified as non-performing and special watch. The amount that is expected to be settled of these contracts is recorded under "Provisions for contingent risks and commitments", in "Provisions" (Note 21), for an amount of €22.52 million (€33.46 euros on 31 December 2018).

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

On 31 December 2019:

	Thousands of euros						
	On demand	Up to 1 month	1 to 3 months	Between 3 months and 1 year	1 to 5 years	Over 5 years	Total
Senior debt	-	-	-	-	-	-	-
Government-backed debt	-	-	-	-	-	-	-
Subordinated and preferential	-	-	-	500,000	350,000	-	850,000
Bonds and mortgage- and sector-covered bonds	-	-	216,667	210,000	1,119,444	1,006,026	2,552,137
Securitisations	-	3,556	6,544	31,598	171,264	192,989	405,951
Promissory notes and certificates of deposit	-	-	-	-	-	-	-
Wholesale issues	**-**	**3,556**	**223,211**	**741,598**	**1,640,708**	**1,199,015**	**3,808,088**
Financing with long-term secured securities	**-**	**-**	**-**	**1,650,000**	**-**	**-**	**1,650,000**
Maturities in the period	**-**	**3,556**	**223,211**	**2,391,598**	**1,640,708**	**1,199,015**	**5,458,088**
Accumulated maturities	**-**	**3,556**	**226,766**	**2,618,365**	**4,259,073**	**5,458,088**	**-**

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

On 31 December 2018:

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

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

The diversification policy at the time of the maturities of the wholesale issues, will permit the Company to cover the maturities of the next financial years, maintaining ample liquidity. Thus, keeping in mind the available liquidity (11,468 billion euros), the Company could cover the total of the maturities of the long-term wholesale financing (3,808 billion euros). Additionally, it is able to issue 7,307 billion euros (total availability of 18,775 billion euros).

3.9 Exposure to other risks

3.9.1 Exposure to market and counterparty risk

3.9.1.1 Strategies and policies for the market and counterparty risk management

a) Market risk

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

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

The Board of Directors approves the strategies, policies and limits for the management of this risk, following a report from the Large Exposures and Solvency Committee, as documented in the “Capital Markets Department Policy Manual”.

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

b) Counterparty risk

The possibility of default by counterparties in financial transactions (fixed income, interbank, derivatives, etc.).

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

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

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

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

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

3.9.1.2 Procedures for measurement and control

a) Market Risk

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

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

The VaR calculation is carried out with different methodologies:

- The parametric VaR assumes normalcy of the relative variations of the risk factors for the calculation of the expected loss of the portfolio given a trust level of 99% and a time horizon (1 day or 10 days).
- The diversified parametric VaR keeps in mind the diversification offered by the correlations of the risk factors (interest rates, exchange rates, shares listing, etc.). It is the standard measure.
- The non-diversified parametric VaR assumes the lack of diversification among those factors (correlations equal to 1 or -1 according to the case), and is useful in stress or change periods of the risk factors correlations.

- The Historic Simulation VaR uses the relative variations made in the last year of the risk factors to generate the scenarios in which the loss potential of the portfolio is evaluated given a trust level of 99% and a time horizon.

- The Shortfall VaR measures, given a calculated VaR at 99% and with a time horizon of 1 day, the expected loss in 1% of the worst results beyond the VaR. It provides an average of the losses in case of breakage of the VaR.

- In any case, the impact in absolute terms of the VaR is relativised regarding capital.

Thus, at 31 December 2019, the measurement of VaR presents the following values:

Thousands of euros **Confidence level: 99%**	**Parametric diversified VaR**	**Parametric VaR vs *PR.***	**Parametric non-diversified VaR**	**Parametric non-diversified VaR vs *PR.***	**Historical Simulation VaR**	**Historical Simulation VaR vs PR.**	**Shortfall VaR**	**Shortfall VaR vs PR.**
Time horizon: 1 day	(29,832)	0.90%	(51,035)	1.53%	(71,550)	2.15%	(85,077)	2.55%
Time horizon: 10 days	(94,337)	2.83%	(161,387)	4.84%				

The calculation on 31 December 2018 of the VaR, presented the following values:

Thousands of euros **Confidence level: 99%**	**Parametric diversified VaR**	**Parametric VaR vs *PR.***	**Parametric non-diversified VaR**	**Parametric non-diversified VaR vs *PR.***	**Historical Simulation VaR**	**Historical Simulation VaR vs PR.**	**Shortfall VaR**	**Shortfall VaR vs PR.**
Time horizon: 1 day	(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%				

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

b) Counterparty risk

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

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

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

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

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

3.9.2 Exchange rate risk management

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

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

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

3.9.3 Exposure to sovereign debt

Below, the following information is detailed regarding the exposure to sovereign debt, which includes all the positions with public entities, on 31 December 2019 and 2018:

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

	Thousands of euros	
	2019	**2018**
Spain	10,730,565	10,071,844
Italy	1,031,382	996,636
Portugal	52,617	75,123
France	22,760	23,887
United States	-	63,802
Other	6,646	9,185
	11,843,970	**11,240,477**
of which: from the insurance company	5,257,410	5,113,817

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

	Thousands of euros	
	2019	**2018**
Financial assets held for trading	-	-
Financial assets at fair value through profit or loss	7,504	6,079
Financial assets at fair value through other comprehensive income	5,723,384	6,380,314
Financial assets at amortised cost	6,113,082	4,854,084
	11,843,970	**11,240,477**
of which: from the insurance company	5,257,410	5,113,817

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

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

	Thousands of euros					
	2019					
	Up to 3 months	**From 3 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**Total**
Financial assets at fair value through profit or loss	-	-	-	5,612	1,892	**7,504**
Financial assets at fair value through other comprehensive income	306,219	504,136	1,027,786	823,322	3,061,921	**5,723,384**
Financial assets at amortised cost	134,545	95,109	489,323	396,816	4,997,289	**6,113,082**
Total	**440,764**	**599,245**	**1,517,109**	**1,225,750**	**8,061,102**	**11,843,970**
of which: from the insurance company	180,313	504,136	982,417	812,324	2,778,220	5,257,410

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

- Other information

  - Fair value. The fair value of instruments in the portfolio of financial assets held for trading, the portfolio of financial assets designated at fair value through profit or loss and the portfolio of financial assets at fair value through other comprehensive income matches the carrying amount indicated above.

Note 26 specifies the valuation methodology of the portfolio of financial assets at amortised cost, in which it is observed that the fair value detailed does not differ significantly from the carrying amount. The fair value associated with sovereign risk is obtained via valuation techniques from level 1 (the description of them is given in Note 26).

- A 100-basis point shift in the interest rate would have an effect on fair value of -6.76% (-6.24% in 2018).

3.9.4 Reputational risk management

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

The management of this risk aims at protecting one of the main intangible assets, corporate reputation, by preventing events that may have an adverse effect.

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

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

The Group grants, therefore, the maximum relevancy to the management of the corporate reputation as a method to prevent, avoid and/or manage possible reputational risks, and for its positive impact on the creation of value. Reputation metrics are constructed and regularly measured so as to monitor the perception of the Company by the general public, customers and employees and the Group's evolving footprint in social media. The results are the basis for identifying strong points, improvement areas, possible focuses for reputational risk and to elaborate the action plans to improve the reputation.

In 2019, the Company continued to measure its reputational risk, identifying strengths and areas for improvement and continuing action plans to enhance its reputation involving the Company's main areas.

4. Appropriation of profit and earnings per share

4.1 Appropriation of profit

The proposed appropriation of the profit of Ibercaja Banco, S.A. from financial year 2019, which the Board of Directors will propose for its approval to the General Shareholders' Meeting, and that which was approved from financial year 2018 are the following:

	Thousands of euros	
	2019	**2018**
Distribution		
To dividends:	17,500	17,500
To retained earnings:		
Legal reserve	-	*25,578*
Voluntary reserve	*54,693*	*212,702*
Profit/(loss) for the year	**72,193**	**255,780**

The General Meeting of Ibercaja Banco held on 9 April 2019 approved the distribution of a dividend out of the profit for 2018 amounting to €17,500 thousand, which was paid on 10 April 2019. In addition, the Board of Directors will propose to the General Meeting that it distribute a dividend charged to 2019 profits in the amount of €17,500 thousand.

4.2 Earnings per share

Basic earnings per share: is determined by dividing the net profit attributable to the Group for the year by the weighted average number of outstanding shares, excluding the average number of treasury shares held, during that period.

Diluted earnings per share: for its calculation, both the amount of profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted for all dilutive effects inherent in potential ordinary shares (share options, warrants and convertible debt).

Basic and diluted earnings per share at 31 December 2019 and 2018 are detailed below:

	31/12/2019	31/12/2018
Earnings per share numerator		
Profit/(loss) attributed to the parent (thousands of euros)	83,989	40,804
Adjusted profit (thousands of euros)	83,989	40,804
Earnings per share denominator		
Average weighted number of shares	737,865,930	2,144,275,998
Basic and diluted earnings per share (euros)	**0,11 €**	**0,02 €**

5. Information on the Board of Directors and Senior Management

Under the provisions of the Bank of Spain Circular 4/2017, the “key management personnel and executives” at Ibercaja Banco, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any member of the Board of Directors and Senior Management. By virtue of their positions, this group of persons is considered a “related party” and, as such, subject to the disclosure requirements described in this Note.

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

5.1 Remuneration to the Board of Directors

The remunerations and other benefits received in 2019 by the members of the Board of Directors of the Company, in their status as Directors, is detailed below by item individually:

		Thousands of euros						
Members of the Board of Directors	Position	Remuneration		Attendance fees	Life insurance premiums	Remuneration for membership on board committees	Other items	Total
		Fixed	Variable					
José Luis Aguirre Loaso	Chairman	358.0	-	26.6	12.6	-	6.7	403.9
Jesús Bueno Arrese	First Deputy Chairman	-	-	42.7	27.8	-	4.2	74.7
Victor Iglesias Ruiz	Chief Executive Officer	389.6	118.7	26.6	1.5	-	5.5	541.9
Jesús Solchaga Loitegui	Member	-	-	20.3	-	30.4	5.5	56.2
Gabriela González-Bueno Lillo	Member	-	-	31.5	5.9	45.6	1.8	84.8
Vicente Cóndor López	Member	-	-	43.4	4.4	45.6	3.0	96.4
Jesús Tejel Giménez	Member	-	-	26.6	3.2	-	5.5	35.3
Félix Longás Lafuente	Member	-	-	19.6	3.5	-	6.7	29.8
Emilio Jiménez Labrador	Member	-	-	28.0	-	-	0.6	28.6
Enrique Arrufat Guerra	Member	-	-	16.8	4.3	-	6.7	27.8
María Pilar Segura Bas	Member	-	-	18.2	2.2	-	5.4	25.8
Jesús Barreiro Sanz (1)	Non-Director Secretary	-	-	52.5	4.7	-	6.7	63.9
Jorge Simón Rodríguez (2)	Member	-	-	7.7	1.9	-	0.4	10.0
Juan María Pemán Gavín (2)	Member	-	-	21.7	2.3	-	0.4	24.4

(1) Director of the Company who resigned as a member on 29 August 2019. However, he continues to hold the position of Secretary to the Board of Directors and its committees as a non-director secretary.
(2) Company Director who resigned from his/her position on 29 August 2019

The remuneration and other benefits received in 2018 by the members of the Board of Directors of the Company, in their status as Directors, is detailed below by item individually:

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

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

The information regarding the variable remuneration of Mr José Luis Aguirre Loaso corresponds to that accrued in previous years in his position as executive director, which was subject to deferral and paid in 2018.

With respect to the attendance allowances to be received by the proprietary director appointed by the shareholder foundation Fundación Ordinaria Caja Badajoz

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

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

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

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

5.2 Remuneration of Senior Management

For the purposes of preparing the financial statements, those who have held the position of Chief Executive Officer were considered to be Senior Management staff, as well as employees of the Ibercaja Banco S.A. management team (Management Committee).

As at 31 December 2019, the Management Committee (including the Chief Executive Officer) is made up of 12 people, jointly identified as Senior Management.

The remuneration accrued by Senior Management are shown in the following table, as was previously defined, for 2019 and 2018:

Thousands of euros	Short-term remuneration		Post-employment benefits		Total	
	2019	2018	2019	2018	2019	2018
Senior Management	2,417	2,397	150	148	**2,567**	**2,545**

Remuneration for pensions or life insurance premiums were not registered in the year for former members of Senior Management.

5.3 Duties of loyalty of the Directors

As of 31 December 2019, with respect to the requirements of articles 229 and 230 of the Corporate Enterprises Act, the members of the Ibercaja Banco Board of Directors, as well as the persons related thereto referenced in article 231 of the aforementioned Law, have confirmed that they do not carry out, on their own account or the account of others, activities which actually or potentially constitute effective competition with those carried out by the Company or which, in any other way, permanently conflict with the Company's interests.

5.4 Transactions with significant shareholders

During 2019 and 2018, there have been no transactions outside the ordinary course of business or other than at arm's length with significant shareholders, except:

- Service level agreement (legal, fiscal, technological, marketing, communication, etc. council) formalised with Fundación Bancaria Ibercaja for the amount of 247,794 euros (236,703 euros as at 31 December 2018).
- Rental of Ibercaja Banco property used by Fundación Bancaria Ibercaja to carry out its activities for the amount of €134,630 euros (€133,053 as at 31 December 2018).
- Service level agreement (use and management of installations, artistic assets, etc.) by Fundación Bancaria Ibercaja to Ibercaja Banco for the amount of 860,437 euros (858,286 euros as at 31 December 2018).

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

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

The balances in this consolidated balance sheet heading as at 31 December 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Cash	227,234	212,847
Cash balances at central banks	3,444,265	675,568
Other demand deposits	257,703	229,791
	3,929,202	**1,118,206**

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 0.01% (0.01% during 2018).

7. Financial assets and liabilities held for trading

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

The financial assets included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	7,268	7,033
Rest of the countries in the European Monetary Union	1,562	261
Rest of the world	133	117
	8,963	**7,411**
By counterparty classes		
Credit institutions	5,115	3,887
Resident public administrations	-	-
Other resident sectors	3,848	3,524
	8,963	**7,411**
By type of instruments		
Debt securities	-	-
Derivatives not traded in organised markets	8,963	7,411
	8,963	**7,411**

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

7.2 Breakdown of the balance - credit balances

The financial liabilities included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	7,163	6,893
Rest of the countries in the European Monetary Union	714	489
Rest of the world	1,592	1,309
	9,469	**8,691**
By counterparty classes		
Credit institutions	9,469	7,715
Other resident sectors	-	976
Other non-resident sectors	-	-
	9,469	**8,691**
By type of instruments		
Derivatives not traded in organised markets	9,469	8,691
Of which: segregated embedded derivatives of hybrid financial instruments	-	*4*
	9,469	**8,691**

7.3 Financial derivatives held for trading

The details, by product type, of the fair and notional value of the financial derivatives held for trading as at 31 December 2019 and 2018 are shown below:

	Thousands of euros			
	Fair value			
	Tax receivables		**Tax payables**	
	2019	**2018**	**2019**	**2018**
Not matured foreign currency purchases and sales	**157**	**490**	**-**	**-**
Security/index options	**-**	**4**	**387**	**153**
Interest rate options	**12**	**46**	**707**	**1,040**
Other interest rate transactions	**8,794**	**6,871**	**8,375**	**7,498**
Interest rate swaps (IRSs)	8,794	6,871	8,375	7,498
	8,963	**7,411**	**9,469**	**8,691**

	Thousands of euros	
	Notional	
	2019	**2018**

Not matured foreign currency purchases and sales	**40,882**	**102,266**
Security/index options	**10,259**	**156,856**
Interest rate options	**-**	**-**
Security/index embedded derivatives	**-**	**153,949**
Other interest rate transactions	**239,538**	**348,207**
Interest rate swap embedded derivatives	-	-
Retail market derivatives	127,797	219,739
Distribution of derivatives	111,741	128,468
	290,679	**761,278**

In addition to the balances detailed in the previous table, the notional value of the securities options (credit balances) derived from the return guarantee granted by the Group to Investment Funds commercialised by it amounts to 1,025,238 thousand euros as at 31 December 2019 (785,345 thousand euros as of 31 December 2018).

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

The financial assets included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	309,683	74,358
Rest of the countries in the European Monetary Union	40,145	20,348
Rest of the world	28,288	48,831
Total gross amount	**378,116**	**143,537**
Accumulated negative changes in fair value due to credit risk from non-performing exposures	(2,231)	(2,222)
Total net amount	**375,885**	**141,315**
Of which: equity instruments related to the insurance activity	*284,905*	*38,852*
Of which: debt securities related to the insurance activity	*68,433*	*69,179*
By counterparty classes		
Credit institutions	68,433	69,580
Other resident sectors	309,683	73,957
	378,116	**143,537**
By type of instruments		
Debt securities	78,783	82,733
Credits and loans	14,428	21,952
Shares	-	400
Ownership interests in Investment Funds	284,905	38,452
	378,116	**143,537**

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

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

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 0.38% (0.58% during 2018).

9. Financial assets at fair value through profit or loss

The financial assets included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	5,612	6,079
Rest of the countries in the European Monetary Union	3,327	961
Rest of the world	-	2,535
	8,939	**9,575**
By counterparty classes		
Credit institutions	1,435	1,367
Resident public administrations	5,612	6,079
Non-resident public administrations	1,892	-
Other resident sectors	-	-
Other non-resident sectors	-	2,129
	8,939	**9,575**
By type of instruments		
Debt securities	8,939	9,575
Ownership interests in Investment Funds	-	-
	8,939	**9,575**

The Group classifies to this portfolio the fixed-income assets that are managed jointly with insurance contract liabilities (“Unit linked”) measured at fair value.

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

10. Financial assets at fair value through other comprehensive income

10.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	6,185,832	6,524,929
Rest of the countries in the European Monetary Union	1,326,637	879,536
Rest of Europe	208,201	19,413
Rest of the world	373,759	1,341,636
Total gross amount	**8,094,429**	**8,765,514**
(Impairment losses)	(7,999)	(10,874)
Total net amount	**8,086,430**	**8,754,640**
Of which: equity instruments related to the insurance activity	*27,285*	*22,493*
Of which: debt securities related to the insurance activity	*6,939,326*	*6,727,949*
By counterparty classes		
Credit institutions	630,981	744,755
Resident public administrations	5,303,196	5,887,859
Non-resident public administrations	420,188	493,138
Other resident sectors	564,268	655,362
Other non-resident sectors	1,175,796	984,400
Total gross amount	**8,094,429**	**8,765,514**
By type of instruments		
Debt securities:	7,696,598	8,425,514
Public sector debt	*5,042,960*	*5,887,177*
Other public administrations	*260,808*	*312,655*
Foreign government debt securities	*419,616*	*493,137*
Issued by financial institutions	*625,411*	*739,819*
Other fixed-income securities	*1,347,803*	*992,726*
Other equity instruments:	397,831	340,000
Shares in listed Spanish companies	*67,878*	*55,329*
Shares in non-listed Spanish companies	*184,649*	*174,722*
Shares in listed foreign companies	*103,281*	*99,419*
Shares in non-listed foreign companies	*45*	*51*
Ownership interests in Investment Funds	*33,234*	*1,009*
Ownership interests in Venture Capital Funds	*8,744*	*9,470*
Total gross amount	**8,094,429**	**8,765,514**

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

In 2019, the Group, on the basis of the latest Business Plan approved by Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB), has decreased the value of the interest it holds in this entity by €7,147 thousand, with a charge to consolidated equity. At 31 December 2019, the decrease in the fair value of this ownership interest amounted to €48,629 thousand and the ownership interest was fully impaired (carrying amount of €7,147 thousand at 31 December 2018).

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

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 1.80% (1.75% during 2018), which includes the effect of the revenue reversals from risk hedging for interest rate risk.

10.2 Impaired debt securities

At 31 December 2019 and 2018 there were no impaired debt securities.

10.3 Credit risk hedges and others

The changes in the impairment losses recognised to cover the credit risk of the debt instruments included in this portfolio in 2019 and 2018 are presented below:

	Thousands of euros	
	2019	**2018**
Opening balance	**10,874**	**3,071**
First-time application of NIIF9 9	-	3,688
Transfer charged to profit for the year	8,745	9,914
Reversal of provisions taken to income statement	(9,987)	(6,019)
Amounts used	(1,956)	-
Exchange differences and other movements	323	220
Closing balance	**7,999**	**10,874**
Of which:		
- Individually determined	1,748	4,820
- Collectively determined	6,251	6,054

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

11. Financial assets at amortised cost

The items making up this consolidated balance sheet caption at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	**2018**
Debt securities (Note 11.2)	7,218,228	6,544,456
Loans and advances	32,550,540	32,833,960
Credit institutions (Note 11.3)	643,792	248,856
Customers (Note 11.4)	31,906,748	32,585,104
	39,768,768	**39,378,416**

11.1 Breakdown of the balance and maximum credit risk

The financial assets included in this category as at 31 December 2019 and 2018 are detailed below, classified by geographical areas, counterparty classes and type of instrument:

	Thousands of euros	
	2019	**2018**
By geographical areas		
Spain	38,947,449	39,590,641
Rest of the world	1,463,707	904,755
Total gross amount	**40,411,156**	**40,495,396**
(Impairment losses)	(642,388)	(1,116,980)
Total net amount	**39,768,768**	**39,378,416**
Of which: debt securities related to the insurance activity	*186,262*	*198,034*
Of which: loans and advances related to the insurance activity	*43,811*	*30,369*
By counterparty classes		
Credit institutions	726,904	392,211
Resident public administrations	5,422,601	4,177,997
Non-resident public administrations	691,484	676,087
Other resident sectors	33,349,874	35,065,550
Other non-resident sectors	220,293	183,551
Total gross amount	**40,411,156**	**40,495,396**
By type of instruments		
Debt securities	7,218,577	6,544,728
Credits and loans	30,284,184	31,258,559
Reverse repurchase agreements	1,722,144	1,803,612
Other	1,186,251	888,497
Total gross amount	**40,411,156**	**40,495,396**

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

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

- The asset corresponding to the current value of the fees outstanding on financial guarantees, registered under “Other” (in the breakdown by type of instruments), amounts to 1,703 thousand euros as at 31 December 2019 (1,707 thousand euros as at 31 December 2018). In Note 27.1, the nominal value of the financial guarantees is broken down, which implies the maximum level of exposure to the credit risk. This item also includes the balances of “other financial assets” detailed in notes 11.3 and 11.4.
- The assets transferred to securitisation funds that were not derecognised from the balance, in accordance with that stipulated in Note 2.8, shall be registered under heading “Credits and loans” (in the breakdown by type of instruments) and as at 31 December 2019 they amounted to 2,746,243 thousand euros (3,104,109 thousand euros as at 31 December 2018), with their breakdown detailed in Note 27.5. The maximum level of exposure to credit risk is collected by the value of all the positions of the Group in the mentioned securitisation funds, which amounts to 2,514,856 thousand euros as at 31 December 2019 (2,763,148 thousand euros as at 31 December 2018). The amount of the bonds issued by the securitisation funds that were subscribed by third parties outside to the Group amounts to 377,655 thousand euros as at 31 December 2019 (461,029 thousand euros as at 31 December 2018), with their breakdown detailed in Note 19.4.

11.2 Debt securities

The breakdown by financial assets included in the debt securities category as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Debt securities	**7,218,577**	**6,544,728**
Impaired assets	-	-
Total gross amount	**7,218,577**	**6,544,728**
(Impairment losses)	(349)	(272)
Total net amount	**7,218,228**	**6,544,456**

This heading includes, among others, SAREB bonds, with an irrevocable guarantee from the Spanish central government, whose nominal value at 31 December 2019 was 1,702,200 million euros (1,794,500 million euros at 31 December 2018).

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 0.88% (1.04% during 2018).

11.3 Credit institutions

The breakdown of the financial assets included in the “credit institutions” category at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Time or at notice:	**106,391**	**107,622**
Reverse repurchase agreement	106,391	100,000
Other accounts	-	7,622
Other financial assets:	**537,498**	**141,092**
Cheques payable by credit institutions	1,152	665
Cash guarantees	395,853	43,672
Other items	140,493	96,755
Impaired assets	**-**	**-**
Valuation adjustments	**(97)**	**142**
Total gross amount	**643,792**	**248,856**
(Impairment losses)	**-**	**-**
Total net amount	**643,792**	**248,856**

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 0.05% (0.10% during 2018).

11.4 Customers

The breakdown by financial assets included in the Loans and advances to customers category as at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Credits and loans	**30,284,184**	**31,258,559**
Commercial loans	578,278	573,237
Secured loans	21,397,683	22,056,364
Other term loans	5,883,115	5,325,825
Finance leases (Note 27.7)	525,452	499,297
Receivables on demand and others	542,924	491,370
Impaired assets	1,290,930	2,272,336
Valuation adjustments	65,802	40,130
Reverse repurchase agreement	**1,615,753**	**1,703,612**
Other financial assets	**648,850**	**739,641**
Financial transactions pending settlement	9,007	12,826
Cash guarantees	230,902	230,141
Financial guarantee fees	1,828	1,707
Other items	407,113	494,967
Total gross amount	**32,548,787**	**33,701,812**
(Impairment losses)	(642,039)	(1,116,708)
Total net amount	**31,906,748**	**32,585,104**

On 27 June 2019, Ibercaja Banco, S.A. entered into a contract for the sale of a book of mostly doubtful loans with a nominal value of 534 million euros to Melf Investment Holding II, S.A.R.L. The negative impact of the operation, 27 million euros, is registered under heading “Net gains or losses derecognised in financial asset and liability accounts not measured at fair value through profit or loss” of the profit and loss account (Note 34).

Also, on 24 December 2019, Ibercaja Banco, S.A. arranged the sale to DSSV, S.A.R.L. of a loan book in doubtful status for a overall nominal debt amount of 73 million euros. The negative impact of the operation, 15 million euros, is registered under heading “Net gains or losses derecognised in financial asset and liability accounts not measured at fair value through profit or loss” of the profit and loss account (Note 34).

“Valuation adjustments” at 31 December 2019 included an amount of 42.6 million euros corresponding to the adjustment to the amortised cost of the covered assets pending accrual after the interruption of the macro-hedges described in Note 12.2 (61.1 million euros at 31 December 2018).

The average effective interest rate on debt instruments classified in this portfolio during 2019 was 1.38% (1.33% during 2018).

11.4.1. Overdue, impaired and unimpaired assets

There follows a breakdown of credit to customers considered to be impaired because of credit risk at 31 December 2019 and 2018, classified according to the period elapsed since the maturity of the oldest unpaid amount of each transaction at those dates:

	Thousands of euros					
	Not yet due	Up to 6 months	6 to 9 months	9 to 12 months	Over 12 months	Total
Balances at 31 December 2019	209,976	102,602	54,770	44,413	879,169	**1,290,930**
Balances at 31 December 2018	412,237	164,299	102,664	107,329	1,485,807	**2,272,336**

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

	Thousands of euros	
	2019	**2018**
Resident public administrations	2,741	2,833
Other resident sectors	1,283,201	2,261,753
Other non-resident sectors	4,988	7,750
	1,290,930	**2,272,336**

In general, the matured assets are not considered impaired until the length of service of the default surpasses 90 days. The detail of the unimpaired matured assets by counterparty classes and length of service as at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	2019			
	Less than one Month	**1 to 2 months**	**Between 2 months and 90 days**	**Total**
Credit institutions	-	-	-	-
Resident public administrations	41	51	-	92
Other resident sectors	34,839	12,939	9,993	57,771
Other non-resident sectors	79	18	9	106
	34,959	**13,008**	**10,002**	**57,969**

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

11.5 Credit risk hedges and others

The changes in the gross balance of financial assets included in this category in 2019 and 2018 are presented below:

	Thousands of euros			
	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross balance at 1 January	**36,671,116**	**1,551,944**	**2,272,336**	**40,495,396**
Transfers:	(22,846)	(10,419)	33,265	-
from stage 1 to stage 2:	*(654,619)*	*654,619*	-	-
from stage 1 to stage 3	*(54,766)*	-	*54,766*	-
from stage 2 to stage 3	-	*(110,484)*	*110,484*	-
from stage 3 to stage 2	-	*128,666*	*(128,666)*	-
from stage 2 to stage 1	*683,220*	*(683,220)*	-	-
from stage 3 to stage 1	*3,319*	-	*(3,319)*	-
Increases	10,724,637	154,302	68,170	10,947,109
Decreases	(9,655,890)	(292,618)	(828,006)	(10,776,514)
Transfers to write-offs	-	-	(254,835)	(254,835)
Other movements	-	-	-	-
Gross balance at 31 December	**37,717,017**	**1,403,209**	**1,290,930**	**40,411,156**

	Thousands of euros			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross balance at 1 January	**33,614,785**	**2,063,919**	**2,556,949**	**38,235,653**
Transfers:	190,416	(352,327)	161,911	-
from stage 1 to stage 2:	*(599,574)*	*599,574*	-	-
from stage 1 to stage 3	*(73,041)*	-	*73,041*	-
from stage 2 to stage 3	-	*(197,213)*	*197,213*	-
from stage 3 to stage 2	-	*99,984*	*(99,984)*	-
from stage 2 to stage 1	*854,672*	*(854,672)*	-	-
from stage 3 to stage 1	*8,359*	-	*(8,359)*	-
Increases	7,889,316	114,451	63,615	8,067,382
Decreases	(5,023,401)	(274,099)	(267,346)	(5,564,846)
Transfers to write-offs	-	-	(242,793)	(242,793)
Other movements	-	-	-	-
Gross balance at 31 December	**36,671,116**	**1,551,944**	**2,272,336**	**40,495,396**

The changes in impairment losses recognised to cover the credit risk of financial assets included in this category in 2019 and 2018 are presented below:

	Thousands of euros			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	**55,379**	**85,351**	**976,250**	**1,116,980**
Of which:				
- Individually determined	-	*9,171*	*436,856*	*446,027*
- Collectively determined	*55,379*	*76,180*	*539,394*	*670,953*
Changes through profit or loss:	**(93,348)**	**61,001**	**166,552**	**134,205**
Increases in origination	34,561	-	-	34,561
Changes due to changes in credit risk	(105,082)	70,908	194,409	160,235
Changes in calculation method	-	-	-	-
Other	(22,827)	(9,907)	(27,857)	(60,591)
Changes other than through profit or loss:	**98,217**	**(81,152)**	**(625,862)**	**(608,797)**
Transfers:	98,217	(81,152)	(17,065)	-
from stage 1 to stage 2:	*(20,554)*	*20,554*	-	-
from stage 1 to stage 3:	*(360)*	-	*360*	-
from stage 2 to stage 3:	-	*(17,680)*	*17,680*	-
from stage 3 to stage 2	-	*31,822*	*(31,822)*	-
from stage 2 to stage 1	*115,848*	*(115,848)*	-	-
from stage 3 to stage 1	*3,283*	-	*(3,283)*	-
Existing provisions utilised	-	-	(591,357)	(591,357)
Other movements	-	-	(17,440)	(17,440)
Balance at 31 December	**60,248**	**65,200**	**516,940**	**642,388**
Of which:				
- Individually determined	-	*10,109*	*124,868*	*134,977*
- Collectively determined	*60,248*	*55,091*	*392,072*	*507,411*

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

The balance of uses in 2019 includes mainly provisions for transactions derecognised from the consolidated balance sheet amounting to 252,587 thousand euros (188,177 thousand euros in 2018). The balance of uses in 2019 also includes provisions derecognised from the loan portfolio, mostly doubtful, sold to Melf Investment Holding II, S.A.R.L. for 305,035 thousand euros and the loan book sold to DSSV, S.A.R.L., amounting to 22,446 thousand euros.

"Other" includes releases generated by the write-downs of provisions for operations cancelled due to collections during the period. Write-downs of provisions in operations that have been removed from the balance sheet are included in the concept of "Use of provisions".

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

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

	Thousands of euros	
	2019	2018
Resident public administrations	2,229	1,074
Other resident sectors	637,581	1,112,825
Other non-resident sectors	2,578	3,081
	642,388	**1,116,980**

The various items recognised in 2019 and 2018 under "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Financial assets at amortised cost" in the consolidated income statements for those years are presented below:

	Thousands of euros	
	2019	2018
Impairment losses credited to allowances for assets	134,205	156,952
Recovery of written-off assets	(8,326)	(6,123)
	125,879	**150,829**

The movement of the consolidated Loans and receivables derecognised in 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Balances at the start of the year	**732,549**	**592,922**
Use of the Accumulated impairment balance	173,485	242,793
Contractually required interests	33,248	17,136
Direct write-down to the profit and loss account	-	-
Main cash payment to the counterparties	(8,106)	(5,855)
Interest cash payment to the counterparties	(220)	(268)
Forgiveness	(53,640)	(43,164)
Limitation period	(4,406)	(19,309)
Foreclosure of tangible assets	(4,178)	-
Debt refinancing or restructuring	-	-
Sales	(38,527)	(131)
Other items	(11,751)	(51,575)
Balance at the close of the year	**818,454**	**732,549**

"Sales" in 2019 mainly includes the sale of a portfolio of mostly doubtful loans for a total of 38 million euros to Melf Investment Holding II, S.AR.L.

The accrued interest pending payment, registered in memorandum accounts, associated with impaired financial assets, amounts to 62,950 million euros as at 31 December 2019 (106,593 million euros as at 31 December 2018).

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

12.1 Derivatives - Hedge accounting

The breakdown, by product type, of the fair value of the financial derivatives designated as hedging instruments in fair value hedge and cash flow transactions at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2019	**2018**	**2019**	**2018**
Interest rate swaps (IRSs)	137,210	161,371	233,888	155,200
	137,210	**161,371**	**233,888**	**155,200**

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

The Company has not offset the financial instruments that give rise to these guarantee deposits and has maintained the separate recognition of assets and liabilities without recording a net position, as the conditions described in Note 2.7 are not fulfilled. The breakdown of the carrying amount of the financial instruments associated with these agreements and asset and liability deposits that are generated with the counterparties (for both the hedging and trading derivatives that are detailed in Note 7.3), is as follows:

	Thousands of euros	
	Instruments subject to offset arrangements.	
	2019	**2018**
Derivative assets	30,080	90,788
Derivative liabilities	71,702	76,839

	Thousands of euros	
	Deposits subject to derivative offset arrangements	
	2019	2018
Deposits recognised under assets	82,117	63,420
Deposits recognised under liabilities	26,790	70,480

The purpose of all fair value hedges carried out by the Company is to hedge the risk of changes in the fair value of debt instruments, assets or liabilities issued at a fixed rate, due to changes in the reference interest rate. This risk is established in the increase of the fair value of the financial liabilities against reference interest rate decreases and decreases in the fair value of the financial assets in the event of their increases. To mitigate this risk, the Group arranges interest rate swaps, the value of which varies similarly and symmetrically to the changes in value of the hedged items.

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

In the event of ineffectiveness in fair value or cash flow hedges, the Bank mainly considers the following causes:

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

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

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

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

A breakdown of the maturities of the notional amounts of the hedging instruments used by the Group at 31 December 2019 and 2018 is shown below:

	Thousands of euros					
	2019					
	Up to 1 month	**1 to 3 months**	**Between 3 months and 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Fair value hedges	**-**	**62,800**	**1,866,667**	**2,667,337**	**2,145,897**	**6,742,701**
Interest rate swaps (IRSs)	-	62,800	1,866,667	2,667,337	2,145,897	6,742,701
Average interest rate	-	4.88%	0.33%	0.03%	1.51%	0.54%
Cash flow hedges	**-**	**-**	**-**	**200,000**	**415,000**	**615,000**
Interest rate swaps (IRSs)	-	-	-	200,000	415,000	615,000
Average interest rate	-	-	-	-	-	-

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

A breakdown of the hedging instruments used by the Group at 31 December 2019 and 2018 is shown below:

	Thousands of euros			
	2019			
	Notional	Assets	Liabilities	Change in the FV used to calculate hedging ineffectiveness
Fair value hedges	**6,742,701**	**118,466**	**149,653**	**(144,058)**
Interest rate swaps (IRSs)	6,742,701	118,466	149,653	(144,058)
Cash flow hedges	**615,000**	**18,744**	**84,235**	**8,524**
Interest rate swaps (IRSs)	615,000	18,744	84,235	8,524

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

A breakdown of the items hedged the Group at 31 December 2019 and 2018 is shown below:

	Thousands of euros					
	2019					
	Carrying amount of the hedged item		Adjustment of cumulative FV in the hedged instrument		Change in the FV used to calculate hedging ineffectiveness	Cash flow hedges reserve
	Assets	Liabilities	Assets	Liabilities		
Fair value hedges	**1,450,908**	**4,894,576**	**142,762**	**(103,438)**	**144,625**	**-**
Transactions with clients	-	182,478	-	(3,243)	(2,232)	-
Loans	-	2,133,108	-	(85,350)	19,555	-
Fixed Income	1,450,908	-	142,762	-	128,179	-
Deposits taken (Money Market)	-	1,628,990	-	(2,475)	578	-
Equities	-	-	-	-	409	-
Savings demand deposit hedge	-	950,000	-	(12,370)	(1,864)	-
Cash flow hedges	**695,965**	**-**	**-**	**-**	**-**	**8,524**
Fixed Income	695,965	-	-	-	-	8,524

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

The following table shows the impact on the consolidated income statement and consolidated statement of other comprehensive income of the hedging relationships designated by the Group at 31 December 2019 and 2018:

	Thousands of euros			
	2019			
	Change in value of hedging instrument recognised in other comprehensive income	Ineffectiveness recognised in profit or loss	Amount reclassified from equity to profit or loss	
			Hedging interruption	*Recognition in profit or loss of the hedged transaction*
Fair value hedges	**-**	**567**	**-**	**-**
Transactions with clients	-	81	-	-
Loans	-	230	-	-
Fixed Income	-	(41)	-	-
Deposits taken (Money Market)	-	297	-	-
Equities	-	-	-	-
Cash flow hedges	**(764)**	**-**	**-**	**4,411**
Fixed Income	(764)	-		4,411

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

At 31 December 2019 and 2018, there were no accounting hedges that failed the effectiveness test.

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

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

The breakdown of adjustments to financial assets and liabilities via macro-hedges at 31 December 2019 and 2018 is as follows:

	Thousands of euros			
	Fair value			
	Tax receivables		Tax payables	
	2019	2018	2019	2018
Mortgage loans	-	-	-	-
Financial liabilities	-	-	37,617	24,961
	-	**-**	**37,617**	**24,961**

With respect to the assets affecting the micro-hedges, Banco Grupo Cajatres, S.A.U. signed an option contract on interest rates in 2012, for which it would pay the positive difference between the floor rate and Euribor rate at 12 months (or zero if this difference is negative) on the current notional in each period in 2013-2026. The starting and maximum notional value of the option amounted to 2,672 billion euros, covering the cost of the floor value included in the mortgage loans in the portfolio on interest rate variations. In 2015 the Group decided to interrupt the micro-hedge. The change to the amortised cost of the hedged assets on the hedge interruption date, for an amount of 140.9 million euros, is accrued over the initially designated hedging period. At 31 December 2019, the adjustment pending accrual amounts to 42.6 million euros (61.1 million euros at 31 December 2018) and has been recorded since the interruption of the hedge under the heading "Financial assets at amortised cost - Customers" on the asset side of the balance sheet (Note 11.4). The cancellation of the derivative with the counterparty was made on the same day.

The nominal amount of financial liabilities corresponding to own issues, covered bonds, deposits and transactions with customers, covered by interest rate swaps (IRSs), amounted to 450,897 thousand euros at 31 December 2019 (450,897 thousand euros at 31 December 2018).

At 31 December 2019 and 2018, there were no accounting hedges that failed the effectiveness test.

13. Investments in joint ventures and associates

13.1 Investments in associates

This heading of investments in associates in the consolidated balance sheets as at 31 December 2019 and 2018 is broken down as follows:

	Thousands of euros	
	2019	2018
Equity instruments	81,783	97,902
(Impairment losses)	(129)	(129)
Total net amount	**81,654**	**97,773**

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

The balance of "Investments in subsidiaries, joint ventures and associates – Associates" of the consolidated balance sheets as at 31 December 2019 and 2018 included goodwill associated with these investments. The breakdown of this goodwill, based on the entity in which they originated, is shown below:

	Thousands of euros	
Company	**2019**	**2018**
Henneo	11,149	11,149
Total net amount	**11,149**	**11,149**

The movement of the impairment losses of the associated entities in 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Opening balance	**129**	**129**
Net allowances	**-**	**-**
Transfer charged to profit for the year	-	-
Recovered amount credited to profit for the year	-	-
Recovered amount credited to profit for the previous years	**-**	**-**
Amounts used	**-**	**-**
Other movements	**-**	**-**
Closing balance	**129**	**129**

13.2 Investments in joint ventures

Appendices I and II show a breakdown of the investments in joint ventures held by the Group at 31 December 2019 and 2018, with related details.

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

14. Assets under insurance or reinsurance contracts

As at 31 December 2019 and 2018, the entirety of the budget under this heading of consolidated balances corresponds to the profit-sharing of the reinsured policies.

The reconciliation between the opening and closing balances under this heading in 2019 and 2018 is as follows:

	Thousands of euros
Balances at 31 December 2017	**395**
Transfers	324
Balances at 31 December 2018	**719**
Transfers	(180)
Balances at 31 December 2019	**539**

15. Tangible assets

Movements in this consolidated balance sheet heading in 2019 and 2018 are as follows:

	Thousands of euros			
	For own use	Investment property	Assigned under operating lease	Total
Cost				
Balances at 1 January 2018	**1,321,589**	**609,534**	**33,398**	**1,964,521**
Additions	20,833	11,643	33,601	66,077
Disposals due to sales or through other means	(51,071)	(126,059)	(13,168)	(190,298)
Other transfers and other movements	(863)	(13,119)	-	(13,982)
Balances at 31 December 2018	**1,290,488**	**481,999**	**53,831**	**1,826,318**
Additions (*)	95,001	19,521	42,669	157,191
Disposals due to sales or through other means	(31,636)	(106,166)	(14,362)	(152,164)
Other transfers and other movements	(4,514)	15,625	5,578	16,689
Balances at 31 December 2019	**1,349,339**	**410,979**	**87,716**	**1,848,034**
Accumulated depreciation				
Balances at 1 January 2018	**(705,204)**	**(134,656)**	**(7,850)**	**(847,710)**
Disposals due to sales or through other means	30,096	23,227	4,270	57,593
Allowances recognised in profit or loss	(23,037)	(8,749)	(5,158)	(36,944)
Other transfers and other movements	780	(1,509)	-	(729)
Balances at 31 December 2018	**(697,365)**	**(121,687)**	**(8,738)**	**(827,790)**
Disposals due to sales or through other means	30,223	31,708	3,733	65,664
Allowances recognised in profit or loss	(36,704)	(7,163)	(8,730)	(52,597)
Other transfers and other movements	(229)	49	-	(180)
Balances at 31 December 2019	**(704,075)**	**(97,093)**	**(13,735)**	**(814,903)**
Impairment losses				
Balances at 1 January 2018	**(956)**	**(86,441)**	**-**	**(87,397)**
Transfer charged to profit for the year (Note 40)	(806)	(649)	-	(1,455)
Recovered amount credited to profits (Note 40)	-	6	-	6
Applications and other movements	1,250	31,059	-	32,309
Balances at 31 December 2018	**(512)**	**(56,025)**	**-**	**(56,537)**
Transfer charged to profit for the year (Note 40)	(115)	(1,532)	-	(1,647)
Recovered amount credited to profits (Note 40)	-	1,078	-	1,078
Applications and other movements	427	7,258	-	7,685
Balances at 31 December 2019	**(200)**	**(49,221)**	**-**	**(49,421)**
Net tangible assets				
Balances at 31 December 2018	**592,611**	**304,287**	**45,093**	**941,991**
Balances at 31 December 2019	**645,064**	**264,665**	**73,981**	**983,710**

(*) At 31 December 2019, the cost of property, plant and equipment for own use includes the right-of use assets corresponding to the leased tangible assets in which the Group acts as the lessee, amounting to 78,657 thousand euros, of which 15,643 thousand euros had been depreciated at that date (see "IFRS 16 - Leases" in Note 1.11).

As at 31 December 2019, fully-amortised assets still in use amounted to 427,194 thousand euros (431,481 at 31 December 2018).

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

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

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

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

15.1 Property, plant and equipment for own use

The breakdown, according to its nature, of the parties that include the balance under this heading of the consolidated balance as at 31 December 2019 and 2018 is the following:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment losses	Net balance
Computer equipment and installations	228,006	(201,049)	-	26,957
Furniture, vehicles and other installations	404,159	(353,865)	-	50,294
Buildings	651,779	(142,451)	(512)	508,816
Construction in progress	6,544	-	-	6,544
Balances at 31 December 2018	**1,290,488**	**(697,365)**	**(512)**	**592,611**
Computer equipment and installations	225,058	(189,901)	-	35,157
Furniture, vehicles and other installations	398,986	(348,671)	-	50,315
Buildings	639,715	(149,860)	(200)	489,655
Construction in progress	6,923	-	-	6,923
Use rights under lease	78,657	(15,643)	-	63,014
Balances at 31 December 2019	**1,349,339**	**(704,075)**	**(200)**	**645,064**

No third party termination benefits were received in 2019 for asset impairment, and there were no pending termination benefits to be received as at 31 December 2018.

There are no significant material asset acquisition commitments for its own use or restrictions on its ownership as at 31 December 2019 and 2018.

15.2 Investment property

The rental income coming from the Group's investment properties amounted to 5,376 thousand euros in 2019 (8,963 thousand euros in 2018) (Note 36), other related expenses amounted to 1,977 thousand euros (2,037 thousand euros in 2018) (Note 37) and operating expenses were incurred due to depreciation and amortisation in an amount of 7,163 thousand euros (8,749 thousand euros in 2018) (Note 15).

89% of the net carrying amount of the investment properties (93.73% in 2018) is based on appraisals made by experts with recognised professional capacity and recent experience in the location and category of the investment properties subject to assessment. The appraisals of these properties were performed out by appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

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

The following table displays a classification by type of asset of the investment properties. The carrying amount (excluding impairment losses) of these assets, which was valued by an independent surveyor, is as follows:

	Thousands of euros			
	carrying amount (without impairment losses)		Of which: appraised by an independent appraiser	
	2019	2018	2019	2018
Investment property	**313,886**	**360,312**	**260,213**	**322,675**
Residential	24,483	22,896	17,839	16,538
Commercial and industrial	284,513	330,063	237,484	298,783
Agricultural	4,890	7,353	4,890	7,354

The fair value calculated by independent appraisals for the assets amounts to €287,772 thousand at 31 December 2019 (€337,719 thousand at 31 December 2018).

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

There are no significant commitments for the acquisition or maintenance of investment properties, nor restrictions on their ownership as at 31 December 2019 and 2018.

15.3 Property, plant and equipment assigned under operating lease

The Group includes the assets associated with renting contracts under this heading, which amount to 73,981 thousand euros at 31 December 2019 (45,093 thousand euros at 31 December 2018). In 2019, the rental income coming from these assets amounted to 14,276 thousand euros (8,537 thousand euros in 2018) (Note 36) and the operating expenses due to amortisation and other expenses related to them amounted to 8,730 and 1,977 thousand euros, respectively (5,158 and 2,037 thousand euros in 2018) (Note 37).

15.4 Impairment losses

In 2019, 115 thousand euros of impairment losses on property, plant and equipment for own use and 454 thousand euros of impairment losses on investment property were recognised (impairment losses of 806 thousand euros and 643 thousand euros in 2018, respectively) (Note 40).

16. Intangible assets

16.1 Goodwill

The breakdown of the parties that include the balance of this heading of the consolidated balance as at 31 December 2019 and 2018 is the following:

	Thousands of euros	
Company	**2019**	**2018**
Banco Grupo Cajatres, S.A.U.	128,065	128,065
Caja Badajoz Vida y Pensiones, S.A. de Seguros	16,869	16,869
	144,934	**144,934**

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

On 25 July 2013, after satisfaction of the conditions precedent and the required administrative exemptions and authorisations having been secured, Ibercaja Banco became the owner of 100% of the share capital of Banco Grupo Cajatres, S.A. To this end, Ibercaja Banco carried out a 325.5 million euro capital increase subscribed for by the shareholders of Banco Grupo Cajatres, S.A. in exchange for all that bank's share capital. The new shareholders thereby obtained a joint holding of 12.20% in the share capital of Ibercaja Banco.

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

The goodwill associated with the company Caja Badajoz Vida y Pensiones, S.A de Seguros was established as a consequence of the acquisition of 50% of this entity on 3 September 2014 that was not owned by the Group at the close of 2013.

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

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

The Group calculated the value in use by the cash-generating unit which constitutes Ibercaja Banco at the close of the year based on the valuation made by an independent expert. It was concluded that there was no need to record any impairment of the same.

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

- Explicit projection up to 2024.
- Normalised projection for the determination of the estimated perpetual rate for 2036 and thereafter, calculating for the remaining period a residual value that has been determined considering a distributable cash flow of 447 million euros and a 2% growth rate of this flow.

Considering these two components, the expected flows were projected by discounting the generated dividends, assuming the capital ratio as a restriction according to the regulatory requirements and security margins consistent with comparable market observations. These flows have been discounted using market rates and adjusted at the average cost of capital, 9.71%.

A sensitivity analyses of the valuation was made against the possible reasonable changes in the key variables of the valuation (distributable cash flow used to calculate the terminal value, rate of growth in perpetuity of this cash flow and discount rate), observing that with a variation of +0.5% in the discount rate, the calculated value in use would be lower than the carrying amount of the cash-generating unit, which would imply an impairment of goodwill. The discount rate should vary around 28 bp so that, after incorporating the effects at the recoverable amount that are a consequence of this change to other variables, the value in use of the unit is equal to its value carrying amount.

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

- Cash flows estimated from the Company’s business plan
  - Recovery of interest income and fees in the coming years, as a consequence of the increase and subsequent stabilisation of the rate curve.
  - Reduction of the personnel and general expenses, as a consequence of the different rationalisation plans set in place by the Bank.
  - Normalisation of provisions for asset impairment
- Discount rate

  This magnitude is based on the average yield observed in the 2010-2019 period for the Spanish 10Y bond of 2.89%, an adjusted beta as the average of the one-year beta across listed Spanish banks of 1.24 and a market risk premium of 5.5%.
- Rate of growth in perpetuity of the cash flow starting in 2036.

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

16.2 Other intangible assets

The detail of this heading is as follows:

	Thousands of euros			
	Cost	**Accumulated depreciation**	**Impairment losses (Note 40)**	**Net balance**
Computer software	138,484	(94,824)	(673)	42,987
Trade mark	7,500	(7,500)	-	-
Customer relationships (Core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(29,833)	-	15,198
Other	1,616	(858)	-	758
Balances at 31 December 2018	**192,631**	**(133,015)**	**(673)**	**58,943**
Computer software	162,637	(105,148)	(673)	56,816
Trade mark	7,500	(7,500)	-	-
Customer relationships (Core deposits) of Banco Grupo Cajatres, S.A.U.	45,031	(34,108)	-	10,923
Other	-	-	-	-
Balances at 31 December 2019	**215,168**	**(146,756)**	**(673)**	**67,739**

The “trademark” includes the estimated value of the brands of the now extinct savings banks that gave rise to Banco Grupo Cajatres, S.A. (CAI, Caja Círculo and Caja Badajoz).

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

Movements in this consolidated balance sheet heading throughout 2019 and 2018 are as follows:

	Thousands of euros				
	Computer software	**Trade mark**	**Customer relationships of Banco Grupo Cajatres**	**Other**	**Total**
Cost					
Balances at 1 January 2018	**119,267**	**7,500**	**45,031**	**1,616**	**173,414**
Additions	19,217	-	-	-	19,217
Disposals due to sales or through other means	-	-	-	-	-
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2018	**138,484**	**7,500**	**45,031**	**1,616**	**192,631**
Additions	23,427	-	-	-	23,427
Disposals due to sales or through other means	-	-	-	(1,616)	(1,616)
Other transfers and other movements	726	-	-	-	726
Balances at 31 December 2019	**162,637**	**7,500**	**45,031**	**-**	**215,168**
Accumulated depreciation					
Balances at 1 January 2018	**(86,783)**	**(6,750)**	**(24,409)**	**(726)**	**(118,668)**
Disposals due to sales or through other means	-	-	-	-	-
Allowances recognised in profit or loss	(8,041)	(750)	(5,424)	(132)	(14,347)
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2018	**(94,824)**	**(7,500)**	**(29,833)**	**(858)**	**(133,015)**
Disposals due to sales or through other means	-	-	-	890	890
Allowances recognised in profit or loss	(10,324)	-	(4,275)	(32)	(14,631)
Other transfers and other movements	-	-	-	-	-
Balances at 31 December 2019	**(105,148)**	**(7,500)**	**(34,108)**	**-**	**(146,756)**
Impairment losses					
Balances at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Transfer charged to profit for the year	(673)	-	-	-	(673)
Recovered amount credited to profit for the year	-	-	-	-	-
Applications and other movements	-	-	-	-	-
Balances at 31 December 2018	**(673)**	**-**	**-**	**-**	**(673)**
Transfer charged to profit for the year					-
Recovered amount credited to profit for the year					-
Applications and other movements					-
Balances at 31 December 2019	**(673)**	**-**	**-**	**-**	**(673)**
Net intangible assets					
Balances at 31 December 2018	**42,987**	**-**	**15,198**	**758**	**58,943**
Balances at 31 December 2019	**56,816**	**-**	**10,923**	**-**	**67,739**

At 31 December 2019, fully-amortised intangible assets still in use amounted to €113,560 thousand (€79,305 thousand at 31 December 2018).

17. Other assets

This heading in the consolidated balance sheets at 31 December 2019 and 2018 breaks down as follows:

	Thousands of euros	
	2019	**2018**
Accruals and deferred income	50,614	32,822
Inventories	236,774	303,137
Transactions in transit	3,601	1,902
Other	3,368	2,712
Total gross amount	**294,357**	**340,573**
(Impairment losses)	(101,490)	(150,740)
Total net amount	**192,867**	**189,833**

Impairment analysed in the above table relates entirely to Inventories.

Movements in Inventories during 2019 and 2018 are as follows:

	Thousands of euros		
	Foreclosed assets	Other assets	Total
Cost			
Balances at 1 January 2018	**332,370**	**97,787**	**430,157**
Additions	29,164	-	29,164
Disposals due to sales or through other means	(129,639)	(14,550)	(144,189)
Other transfers and other movements	(11,995)	-	(11,995)
Balances at 31 December 2018	**219,900**	**83,237**	**303,137**
Additions	2,018	1,531	3,549
Disposals due to sales or through other means	(64,607)	-	(64,607)
Other transfers and other movements	(5,305)	-	(5,305)
Balances at 31 December 2019	**152,006**	**84,768**	**236,774**
Impairment losses			
Balances at 1 January 2018	**(191,321)**	**(13,285)**	**(204,606)**
Transfer charged to profit for the year (Note 40)	(2,526)	(365)	(2,891)
Recovered amount credited to profits (Note 40)	51	-	51
Applications and other movements	56,099	607	56,706
Balances at 31 December 2018	**(137,697)**	**(13,043)**	**(150,740)**
Transfer charged to profit for the year (Note 40)	(5,083)	-	(5,083)
Recovered amount credited to profits (Note 40)	40	-	40
Applications and other movements	56,027	(1,734)	54,293
Balances at 31 December 2019	**(86,713)**	**(14,777)**	**(101,490)**
Net inventories			
Balances at 31 December 2018	**82,203**	**70,194**	**152,397**
Balances at 31 December 2019	**65,293**	**69,991**	**135,284**

In inventories, all foreclosed assets consist of real estate.

The valuations of the above assets have been restated principally in the last year. The valuations have at all times been carried out by experts with recognised professional capacity and recent experience in the location and category of the assets valued. The valuations of these elements of real estate have been carried out by appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

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

The breakdown of the inventory-related expenses for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Costs to sell inventories sold during the year	20,100	74,620
Impairment losses on inventories (Note 40)	5,043	2,840
Impairment write-downs	5,083	2,891
Reversals of impairment write-downs	(40)	(51)
Total net amount	**25,143**	**77,460**

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

At 31 December 2019 and 2018, this consolidated balance sheet item breaks down as follows:

	Thousands of euros	
	2019	**2018**
Foreclosed assets	**310,949**	**365,816**
Residential	263,154	304,467
Industrial	36,337	44,800
Agricultural	11,458	16,549
Other assets	**63,798**	**64,612**
Residential	37,766	39,507
Industrial	22,901	21,974
Agricultural	3,131	3,131
Total gross amount	**374,747**	**430,428**
(Impairment losses)	(107,538)	(141,838)
Total net amount	**267,209**	**288,590**

Movements in this consolidated balance sheet heading in 2019 and 2018 are as follows:

	Thousands of euros		
	Foreclosed assets	**Other assets**	**Total**
Cost			
Balances at 1 January 2018	**752,681**	**81,699**	**834,380**
Additions	90,284	36,759	127,043
Disposals due to sales or through other means	(490,038)	(53,846)	(543,884)
Other transfers and other movements	12,889	-	12,889
Balances at 31 December 2018	**365,816**	**64,612**	**430,428**
Additions	75,321	969	76,290
Disposals due to sales or through other means	(136,816)	(1,783)	(138,599)
Other transfers and other movements	6,628	-	6,628
Balances at 31 December 2019	**310,949**	**63,798**	**374,747**
Impairment losses			
Balances at 1 January 2018	**(278,309)**	**(3,315)**	**(281,624)**
Net transfer charged to profit for the year (Note 42)	(40,523)	-	(40,523)
Applications and other movements	178,695	1,614	180,309
Balances at 31 December 2018	**(140,137)**	**(1,701)**	**(141,838)**
Net transfer charged to profit for the year (Note 42)	(15,691)	(1,266)	(16,957)
Applications and other movements	51,230	27	51,257
Balances at 31 December 2019	**(104,598)**	**(2,940)**	**(107,538)**
Net non-current assets held for sale			
Balances at 31 December 2018	**225,679**	**62,911**	**288,590**
Balances at 31 December 2019	**206,351**	**60,858**	**267,209**

The Group has a Realisation Plan for non-current assets held for sale, which includes the Sales financing policy. The Plan entails the collaboration of the real estate agent network, the disclosure of specific information on the Company's web page and the existence of a unit dedicated to the disposal of assets foreclosed as payment for debts.

According to the Group's historical experience, non-current assets held for sale remain on the balance sheet for an average of between one and three years. Since the majority relate to real estate assets, the Group considers it possible that part of these assets may remain on the balance sheet for longer than the Group's historical experience would indicate in view of the market situation.

Non-current assets are realised in cash, with a deferral for a prudent time period to preserve the Group's interests through adequate legal formulae or financing secured by mortgage under the usual conditions for this type of transactions.

There are no gains pending recognition since sales fulfil the following conditions:

- the purchaser is not controlled by the seller,
- the Group retains none of the significant risks or rewards associated with ownership of the asset sold,
- the Group does not retain any involvement in the asset's current management associated with ownership and does not retain effective control,
- the percentage of the sale financed by the entity for the purchase does not exceed that which the latter would obtain from a non-related credit institution,
- the purchaser's present and future payment capacity is sufficient to repay the loan, and
- the financing plan and conditions are similar to those granted by the Group to finance acquisitions of similar assets not owned by it.

In 2019, the Group financed 17.09% of sales (17.61% in 2018).

Loans granted during the year to finance sales of this type of assets amount to €14,373 thousand (€85,193 thousand at 31 December 2018) and the accumulated amount of loans granted is €559,437 thousand (€545,064 thousand at 31 December 2018).

The following table sets out a classification by type of asset of non-current assets for sale. In addition, the balance appraised by an independent appraiser is indicated.

	Thousands of euros			
	carrying amount (without impairment losses)		**Of which: appraised by an independent appraiser**	
	2019	**2018**	**2019**	**2018**
Non-current assets held for sale	**374,747**	**430,428**	**360,519**	**415,569**
Residential	300,920	343,974	293,828	338,575
Industrial	59,238	66,774	52,963	58,175
Agricultural	14,589	19,680	13,728	18,819

The fair value calculated by independent appraisals for the assets amounts to €403,978 thousand at 31 December 2019 (€434,476 thousand at 31 December 2018).

The Group has a corporate policy that ensures the professional competence, independence and objectivity of external appraisal companies, in accordance with the provisions of the regulations, which require appraisal companies to meet the requirements of neutrality and credibility so that the use of their estimates does not undermine the reliability of their appraisals. This policy establishes that all the appraisal companies with which the Group works must be registered with the Official Register of the Bank of Spain and their appraisals must be carried out in accordance with the methodology established in Order ECO/805/2003 of 27 March.

The appraisal techniques are used generally by all appraisal companies depending on the type of real estate asset. By regulatory requirement, these companies generally employ observable market data and other factors that market participants would consider in setting the price, limiting as much as possible the use of subjective considerations and unobservable or unverifiable data.

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

- Residual method: The final market value is determined on the basis of the projected selling prices of the units to be built. This amount is reduced by development, construction and financial costs and the developer's industrial margin, to arrive at the price of the land. In those cases where the management and development period is higher than the normal average for a development, a project timeline is estimated and forecast cash flows are discounted at an appropriate market rate (dynamic residual method).
- Discounted cash flow method: In order to determine the value of property rentals, the present value is calculated according to the market rent and/or present rent, taking into account the return required on each type of asset.

- Comparison method: This takes as a starting point the principle of replacement under which the property to be valued is compared with other properties, the value of which is known. The methodology is based on the obtainment of comparable homogeneous products, taking into account purchase-sales operations in the area, the supply of similar properties and the opinions of other real estate market operators. In order to arrive at a definitive value, the value obtained is adapted to the specific characteristics of the property, according to its physical and structural condition, the design and lay-out of its surface area, location and other factors (planning status, immediate environment etc.).

Thus, assets for rent and finished buildings and building items have a level 2 in the fair value hierarchy, while land and buildings under construction have a level 3.

The valuations were carried out by the following appraisers approved by the Group: TINSA, Sociedad de Tasación, Tasvalor, UVE Valoraciones, General de Valoraciones, S.A., Gesvalt, Tecnitasa, Eurovaloraciones and ARCO Valoraciones.

19. Financial liabilities at amortised cost

The items making up this consolidated balance sheet caption at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	**2018**
Deposits	**40,857,849**	**38,658,120**
Central banks (Note 19.1)	1,628,990	3,341,085
Credit institutions (Note 19.2)	4,304,232	1,236,219
Customers (Note 19.3)	34,924,627	34,080,816
Debt securities issued (Note 19.4)	**1,480,421**	**1,640,432**
Other financial liabilities (Note 19.5)	**1,110,050**	**843,084**
	43,448,320	**41,141,636**

19.1 Deposits - Central Banks

The breakdown, by transaction type, of the balances of this item in the accompanying consolidated balance sheets at 31 December 2019 and 2018 is shown below:

	Thousands of euros	
	2019	**2018**
European Central Bank	1,650,000	3,372,460
Valuation adjustments	(21,010)	(31,375)
	1,628,990	**3,341,085**

At 31 December 2019 and 2018 this caption includes financing obtained from the European Central Bank via targeted longer-term refinancing operations (TLTRO II) maturing in 2020.

The average effective interest rate on debt instruments classified in this caption during 2019 was -0.52% (0.52% at 31 December 2018).

19.2 Deposits - Credit institutions

The breakdown, by transaction type, of the balances of this item in the accompanying consolidated balance sheets at 31 December 2019 and 2018 is shown below:

	Thousands of euros	
	2019	**2018**
On demand	**10,301**	**18,916**
Other accounts	10,301	18,916
Time or at notice	**4,294,052**	**1,216,984**
Fixed-term deposits	670,535	560,152
Assets sold under repurchase agreements	3,611,022	647,308
Other accounts	12,495	9,524
Valuation adjustments	**(121)**	**319**
	4,304,232	**1,236,219**

The average effective interest rate on debt instruments classified in this caption during 2019 was 0.17% (0.26% during 2018).

19.3 Deposits - Customer

The breakdown of the balance under this heading in the consolidated balance sheets at 31 December 2019 and 2018, based on the geographical location, nature and counterparties of the transaction concerned, is indicated below:

	Thousands of euros	
	2019	**2018**
Geographic location		
Spain	34,796,186	33,950,989
Rest of the world	128,441	129,827
	34,924,627	**34,080,816**
By nature		
Demand deposits	28,509,031	26,316,080
Current Accounts	*21,514,545*	*19,605,008*
Savings accounts	*6,961,871*	*6,655,077*
Other demand deposits	*32,615*	*55,995*
Term deposits	6,009,517	7,384,711
Fixed-term deposits	*4,113,508*	*4,895,932*
Non-marketable mortgage covered bonds and bonds issued (Note 44.1)	*1,842,137*	*2,271,771*
Hybrid deposits	-	*153,708*
Other term deposits	*53,872*	*63,300*
Assets sold under repurchase agreements	197,319	121,286
Valuation adjustments	208,760	258,739
	34,924,627	**34,080,816**
By counterparties		
Resident public administrations	1,158,839	1,100,777
Other resident sectors	33,637,347	32,850,212
Non-resident public administrations	13	9
Other non-resident sectors	128,428	129,818
	34,924,627	**34,080,816**

The average effective interest rate on debt instruments classified in this caption during 2019 was 0.13% (0.14% during 2018).

The item "Non-marketable mortgage covered bonds and bonds issued" (in the breakdown by nature) includes unique mortgage covered bonds issued under Law 2/1981 (25 March) governing the Mortgage Market in the amount of €1,842,137 thousand (€2,271,771 thousand at 31 December 2018). The mortgage covered bonds were issued at variable or fixed rates of interest. The fixed-interest issues are hedged for interest-rate risk by means of interest rate swaps.

19.4 Debt securities issued

This heading in the consolidated balance sheets at 31 December 2019 and 2018 breaks down as follows:

	Thousands of euros	
	2019	2018
Nominal value of mortgage covered bonds (Note 44.1)	3,900,000	4,650,000
Treasury shares	(3,319,808)	(4,067,057)
Nominal value of other securities linked to transferred financial assets	377,655	461,029
Nominal value of preference shares	-	5,000
Nominal value of subordinated bonds	500,030	572,819
Valuation adjustments	22,544	18,641
	1,480,421	**1,640,432**

During 2019, mortgage covered bonds matured in the nominal amount of 1,180 million euros. In addition, in January 2019, preference shares with a nominal amount of 5 million euros were redeemed.

A breakdown of the security issues associated with financial assets transferred is as follows:

					Thousands of euros	
					Amount subscribed	
Type	**Nominal interest**	**Issuance date**	**Maturity date**	**Nominal value of issue**	**2019**	**2018**
TDA2 securitisation bonds	Variable	13.10,2005	(*)	904,500	74,817	87,142
TDA3 securitisation bonds	Variable	12.05,2006	(*)	1,007,000	71,293	81,436
TDA4 securitisation bonds	Variable	18.10,2006	(*)	1,410,500	88,513	100,926
TDA5 securitisation bonds	Variable	11.05,2007	(*)	1,207,000	47,964	80,059
TDA6 securitisation bonds	Variable	25.06,2008	(*)	1,521,000	15,054	16,750
TDA ICO-FTVPO securitisation bonds	Variable	15.07,2009	(*)	447,200	80,014	94,716
TDA7 securitisation bonds	Variable	18.12,2009	(*)	2,070,000	-	-
					377,655	**461,029**

(*) These bonds are redeemed as the mortgage loans that have been assigned to the relevant securitisation fund are repaid.

The average effective interest rate on debt instruments classified in this caption during 2019 was 0.21% (0.26% during 2018).

Details regarding each issue of subordinated bonds are as follows:

			Thousands of euros	
			Nominal amount	
Issue	**Nominal interest**	**Maturity**	**2019**	**2018**
25 April 2007	Variable	25 April 2019 (*)	-	72,789
15 June 2007	Mixed	15 June 2022	30	30
28 July 2015	Fixed	28 July 2025 (**)	500,000	500,000
			500,030	**572,819**

(*) The Group reserves the right to redeem these issues once seven years have elapsed as from the issue date and subject to authorisation from the competent regulator.
(**) The Group reserves the right to redeem these issues once five years have elapsed as from the issue date. Early redemption by the issuer is also possible within five years as from the issue date for causes deriving from a change in the tax treatment of the product and/or its treatment as an equity instrument. Such redemption must be authorised by the competent regulator.

These issues are subordinated and come behind all common creditors with respect to debt seniority.

Issues of subordinated bonds have been authorised by the competent Regulator to be classified as eligible own funds.

Interest accrued on the subordinated liabilities amounts to €25,408 thousand at 31 December 2019 (€25,847 thousand at 31 December 2018).

The average effective interest rate on debt instruments classified in this caption during 2019 was 4.79% (4.32% during 2018).

Below follows a reconciliation of the carrying value of the liabilities originating from financing activities according to changes that generate cash flows and those that do not:

	Thousands of euros	
	2019	**2018**
Opening balance	**586,614**	**631,751**
Cash flows	(77,801)	(45,414)
Redemption of subordinate bonds issued by Ibercaja Banco, S.A.	*(72,801)*	*(45,414)*
Redemption of preference shares	*(5,000)*	-
No impact on cash flows	184	277
Valuation adjustments	*184*	*277*
Closing balance	**508,997**	**586,614**

19.5 Other financial liabilities

This heading in the consolidated balance sheets at 31 December 2019 and 2018 breaks down as follows:

	Thousands of euros	
	2019	**2018**
Bonds payable	23,568	43,607
Guarantees received	4,958	5,513
Collection accounts	604,955	482,466
Special accounts	40,795	45,065
Financial guarantees	3,056	2,362
Other items	432,718	264,071
	1,110,050	**843,084**

“Other items” include deposits arranged for the net value of assets purchased or sold under repurchase agreements with the same counterparty on the basis of the offset agreements concluded for repos or reverse repos. Also, the balance includes lease liabilities amounting to 63,756 thousand euros due to the entry into force of IFRS 16 (see Notes 1.11 and 2.10).

The Group has not offset the financial instruments that give rise to these guarantee deposits and has maintained the separate recognition of assets and liabilities without recording a net position, as the conditions described in Note 2.7 are not fulfilled. The carrying value of financial instruments covered by these agreements and deposits payable and receivable generated with the counterparties are as follows:

	Thousands of euros	
	Instruments subject to offset arrangements.	
	2019	**2018**
Assets under repos	-	4,619
Liabilities under repos	4,376	40,344

	Thousands of euros	
	Deposits subject to repo offset arrangements.	
	2019	**2018**
Deposits recognised under assets	3,270	30
Deposits recognised under liabilities	-	4,118

19.6 Information on average payment period for suppliers. Additional Provision Three. "Disclosure requirement" of Law 15/2010 of 5 July

Pursuant to Final Provision Two of Law 31/2014, of 3 December, amending Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on measures to combat late payment in commercial transactions, and in connection with the information to be included in the notes to the financial statements on the deferral of payments to suppliers in commercial transactions, calculated in accordance with the Spanish Institute of Accounting and Auditing's Ruling of 29 January 2016, the information for 2019 and 2018 is as follows:

	2019	2018
	Days	
Average supplier payment period	20	18
Ratio of settled transactions	19	17
Ratio of transactions pending payment	96	76
	Thousands of euros	
Total payments made	630,686	701,308
Total payments outstanding	10,862	13,020

20. <u>Liabilities under insurance or reinsurance contracts</u>

At 31 December 2019 and 2018, the balances in this consolidated balance sheet heading were as follows:

	Thousands of euros	
	2019	**2018**
Technical reserves for:		
Unearned premium reserves (non-life)	-	-
Life insurance:	7,393,305	7,383,670
Unearned premium reserve and current risks	*22,856*	*21,930*
Mathematical reserves	*7,370,449*	*7,361,740*
Benefits pending payment	71,710	63,788
Profit sharing and returned premiums	5,026	3,397
Life insurance in which the investment risk is borne by the policyholders	314,496	63,914
	7,784,537	**7,514,769**

There is no accepted reinsurance at 31 December 2019 or 31 December 2018.

The reconciliation between the opening and closing balances under this heading in 2018 and 2019 is as follows:

	Thousands of euros
Balances at 31 December 2017	**7,019,204**
Transfers	517,989
Transfers	*1,327,694*
Reversals	*(809,705)*
Other movements	(22,424)
Balances at 31 December 2018	**7,514,769**
Transfers	26,394
Transfers	*1,153,535*
Reversals	*(1,127,141)*
Other movements	243,374
Balances at 31 December 2019	**7,784,537**

20.1 Risk management under insurance contracts

The Group is exposed to market (interest rate, concentration, spread and variable income), liquidity, counterparty, operational and underwriting (life) risks under insurance contracts arranged and related transactions.

Ibercaja Vida has policies describing the management and control strategies applied to each of the abovementioned risks. These policies meet the Solvency II requirements that came into force on 1 January 2016 and have been approved by the Board of Directors.

Additionally, the Three Lines of Defence Model has been deployed in the Entity to assure effective risk management and supervision.

Market, liquidity, counterparty and operational risks affecting this activity are managed consistently throughout the Ibercaja group as indicated in Note 3 on Risk Management. Insurance business risk relates to life underwriting, which is the risk of incurring losses due to an increase in the value of liabilities as a result of a departure from the assumptions (mortality, longevity, policy lapse, expenses, etc.) on the basis of which they were contracted. This risk spans a number of sub-risks, the most significant being:

- Longevity risk: the risk of incurring losses due to an increase in the survival of insured parties in relation to forecasts. Its impact derives from the arrangement of life annuities and liability policies managed by the insurance company. Concerning longevity risk, the insurer performs a monthly follow-up of the technical results from portfolios affected, analysing which portion of these results are affected by survival risk.

- Policy lapse risk: the risk of incurring losses due to variance in surrender rates in relation to forecasts. Its impact relates to volatility in the savings insurance and life-risk insurance lines. The insurer manages policy lapse risk by monitoring historical surrender levels, taking into account prior-year experience. The assumptions obtained from this analysis are used when calculating liabilities for matching flows (joint management of assets and liabilities) so that they reflect the actual situation as accurately as possible at all times. In this way, assurance is obtained that the flows expected from the assets are sufficient in time and quantity to meet expected future commitments.

  Additionally, a mass surrender stress test is performed monthly on products in which interest rates are guaranteed for more than one year, analysing the behaviour of the asset and the liability and thus the impact on results should a mass surrender force an asset sale.

- Mortality risk: the risk of incurring losses due to an increase in mortality rates in relation to forecasts. Its impact relates mainly to the life-risk line. Mortality risk is managed using a pricing system that takes into account the personal characteristics of each insured party in order to arrive at the premium to be charged.

  In order to assess the risk accepted when the policy is contracted, the customer must answer a number of personal questions. The circumstances of insured parties that could aggravate risks accepted are therefore analysed by the Company before contracting, so the premium is in line with the risk level.

  The pricing system is periodically reviewed by the Risk Control Department and is accepted by the reinsurance companies to which Ibercaja Vida cedes a part of its risks.

For the purposes of mortality risk control and monitoring, the Company performs monthly monitoring of the claim rate associated with each product sold, analysing the adequacy of the mortality tables, claim frequency and average cost of claims, as well as of the Entity’s management expenditure. The impact of mortality risk on the income statement for each product and departures from claim forecasts are analysed.
Irrespective of the mortality table applied to calculate the premium, which depends on the type of product, date on which it is first sold or other aspects, the PERM/F-2000P mortality tables approved by the Resolution of 3 October 2000 of the Directorate General for Insurance and Pension Funds, which conforms to number 5 of Transitional Provision Two of the Private Insurance Regulations, have been taken as a reference.

Set out below is the behaviour of the claims ratio for direct life insurance as compared with forecast claims.

	Life-savings insurance		**Life annuities**		**Unit linked insurance**		**Individual life-risk insurance**		**Total life insurance**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Portfolio at 31 December (number of contract)	418,590	459,277	67,470	64,331	36,748	6,844	384,323	394,973	907,131	925,425
No. claims expected	1,668	1,828	2,898	2,741	50	55	602	606	5,218	5,230
No. actual claims	981	972	2,348	2,240	29	49	484	467	3,842	3,728
Percentage (actual/expected)	58.81%	53.18%	81.02%	81.71%	58.00%	89.69%	80.40%	77.03%	73.63%	71.28%

The insurance company has a policy for ceding risks to leading reinsurers so as to mitigate both dispersion risk affecting sums insured and the accumulation of claims caused by a single event. The adequacy of this reinsurance policy with respect to business volume was validated in 2008 by an insurance company's actuarial studies department. During 2014 and 2015, Ibercaja Vida's Technical Department completed an extensive review of the reinsurance policy due to the integration of the life insurance business of CAI Vida y Pensiones and Caja Badajoz Vida y Pensiones. Since the entry into force of Solvency II, the Actuarial Function established by this regulation has been implemented in Ibercaja Vida, one of its tasks being the validation of the company's reinsurance and underwriting policies. This Actuarial Function submits a report to the Board of Directors.

The main actuarial assumptions used in measuring the mathematical provisions of the various forms of insurance in the portfolio for 2019 and 2018 are detailed below:

	2019						
	Coverage type	Tables used	Profit sharing: With or without profit sharing	Profit sharing: Amount to be distributed	Form of distribution	Form of payment	Guaranteed average rate
Systematic savings	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular premiums	0.32%
Savings-investment	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Single premium	0.31%
Life annuities	Mixed	GR95/PER2000P	No profit sharing	-	Individual	Single premium	2.21%
Systematic insured benefit plans	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular premiums	0.57%
Investment insured benefit plans	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Single premium	1.59%
Unit linked	Policyholder risk	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular/single premium	-
Pension plans of inactive employees	Income	GK95/PER2000P	With/without profit sharing	6	Group	Single premium	4.29%
Other groups	Mixed	GK80/GK95	With profit sharing	99	Group	Regular/single premium	1.45%
Individual life-risk	Performing	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular/single premium	-
Group life-risk	Performing	GK80/GK95/PASEM2010	With profit sharing	1,350	Group	Regular premiums	-
Accidents	Accidents	Market	With profit sharing	34	Group	Regular premiums	-

	2018						
	Coverage type	Tables used	Profit sharing: With or without profit sharing	Profit sharing: Amount to be distributed	Form of distribution	Form of payment	Guaranteed average rate
Systematic savings	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular premiums	0.33%
Savings-investment	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Single premium	0.31%
Life annuities	Mixed	GR95/PER2000P	No profit sharing	-	Individual	Single premium	2.38%
Systematic insured benefit plans	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular premiums	0.59%
Investment insured benefit plans	Mixed	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Single premium	1.55%
Unit linked	Policyholder risk	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular/single premium	-
Pension plans of inactive employees	Income	GK95/PER2000P	With/without profit sharing	28	Group	Single premium	4.29%
Other groups	Mixed	GK80/GK95	With profit sharing	134	Group	Regular/single premium	1.44%
Individual life-risk	Performing	GK80/GK95/PASEM2010	No profit sharing	-	Individual	Regular/single premium	-
Group life-risk	Performing	GK80/GK95/PASEM2010	With profit sharing	1,226	Group	Regular premiums	-
Accidents	Accidents	Market	With profit sharing	59	Group	Regular premiums	-

20.2 Classification of insurance risk

The Group has a policy of diversifying insurance risks and there are mechanisms in place to detect any type of risk concentration. It is common practice to use treaty reinsurance to mitigate the risk of concentration or accumulation of guarantees above the maximum acceptance levels.

Set out below are the premiums issued classified based on their characteristics:

	Thousands of euros	
	2019	**2018**
Life insurance premiums	75,209	72,675
Savings insurance premiums	862,247	1,251,876
	937,456	**1,324,551**
Premiums under individual policies	932,421	1,319,707
Premiums under group policies	5,035	4,844
	937,456	**1,324,551**
Regular premiums	400,540	434,994
Single premiums	536,916	889,557
	937,456	**1,324,551**
Premiums for policies with no profit-sharing	675,027	1,314,637
Premiums for policies with profit-sharing	4,822	4,368
Premiums for policies where the investment risk is assumed by the policyholder	257,607	5,546
	937,456	**1,324,551**

The premiums under the insurance contracts detailed in the table above are presented in the income statement item “Income from assets under insurance or reinsurance contracts”, which amounted to €940,528 thousand at 31 December 2019 (€1,327,536 thousand at 31 December 2018). This heading also reflects income from reinsurance amounting to €3,072 thousand at 31 December 2019 (€2,985 thousand at 31 December 2018).

According to the Directorate General of Insurance, individual insurance policies are those in which, despite a group policy being formalised, the premium payment obligations and inherent rights pertain to the insured. All insurance policies were arranged in Spanish territory.

Expenses under insurance and reinsurance contracts recognised in the income statement for 2019 amounting to €940,798 thousand (€1,327,955 thousand in 2018) relate to the technical reserves associated with such contracts.

20.3 Sensitivity to insurance risk

The Group carries out a sensitivity analysis regularly, stressing each of the risk components of its portfolio on a stand-alone basis, affecting both the asset and liability and following Solvency II methodology.

Asset and liability flows are discounted at the euroswap curve rate at 31 December 2019, while the impact resulting from a variation in the interest rate curve is as follows:

- A parallel increase of 50 basis points in the discount curve entails a reduction of 2.65% in the value of the asset and 2.34% in the value of the liability.
- A parallel fall of 50 base points in the discount curve entails an increase of 2.67% in the value of the asset and 2.41% in the value of the liability.

As most of the insurer’s portfolios are immunised and bearing in mind their classification for accounting purposes, any upward or downward change in the interest rate structure would not have a significant impact on the income statement.

21. Provisions

The breakdown of movements in 2019 and 2018 indicating the purpose of the provisions recognised in the consolidated balance sheet at 31 December 2019 and 2018, is as follows:

	Thousands of euros				
	Pensions and other post-employment defined benefit obligations	Other long term employee remuneration	Lawsuits and litigation for outstanding taxes	Commitments and guarantees given	Other provisions
Balances at 1 January 2018	**120,751**	**3,863**	**12,814**	**31,656**	**203,695**
Allowances charged to income statement					
Interest expense	2	-	-	-	-
Allowances to provisions and other	-	527	-	36,970	35,650
Staff costs (Note 38)	2,482	-	-	-	55,752
Reversal of provisions taken to income statement	-	(315)	(3,589)	(43,790)	(58,323)
Provisions utilised	(8,496)	(2,144)	-	-	(57,189)
Other movements	9,526	-	(198)	8,629	538
Balances at 31 December 2018	**124,265**	**1,931**	**9,027**	**33,465**	**180,123**
Allowances charged to income statement					
Interest expense	2	-	-	-	-
Allowances to provisions and other	-	603	333	26,298	50,568
Staff costs (Note 38)	2,225	-	-	-	-
Reversal of provisions taken to income statement	-	-	-	(37,271)	(3,201)
Provisions utilised	(317)	(2,068)	(1,430)	-	(67,452)
Other movements	(2,565)	-	-	23	1,136
Balances at 31 December 2019	**123,610**	**466**	**7,930**	**22,515**	**161,174**

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

The caption “Provision – Commitments and guarantees given” reflects impairment losses associated with financial guarantees (Note 27.1) and other off-balance-sheet exposures (Note 27.3) granted by the Group.

The item “Other provisions” breaks down as follows:

- A significant portion of the balance relates to the labour cost of redundancy proceedings in 2013, 2014, 2015 and 2018 pending payment (€75,350 thousand at 31 December 2019 and 2018).

- With regard to the possible impact of the refund of the amounts perceived as a result of the application of the so-called floor clauses, either as a result of the hypothetical cancellation by the courts of the floor clauses, either through the application of Royal Decree Law 1/2018, of 20 January, on measures to protect consumers regarding floor clauses, the Company has reserves to cover a hypothetical legal risk deriving from the potential elimination of the floor clauses in mortgages which would cover, where applicable, the maximum estimated amount of €13 million.

  At 31 December 2019, 728.3 million euros of the 848.8 million euros of the balance drawn down on loans containing floor clauses relates to loans amended in negotiated agreements.

Neither the European Court of Justice's judgement published on 21 December 2016 nor Royal Decree-Law 1/2017 (20 January) presuppose or prejudge the validity of the floor clauses in mortgages granted by the Entity, which does business with a firm commitment to transparent customer relations. The Group has also negotiated agreements declared valid by the Supreme Court, with some of the borrowers of mortgage portfolios that contain interest rate floor clauses. On 26 June and 12 December 2018, a Lower Court requested a preliminary ruling from the Court of Justice of the European Union ("CJEU") based on an apparent conflict between the preliminary ruling of the Spanish Supreme Court that confirms the validity of these amendment agreements and EU legislation on unfair terms in consumer contracts. At the date of these consolidated financial statements, the Attorney General of the European Union has still not issued the decision on this matter, but is expected to do so shortly. The effect of an unfavourable decision of the CJEU is difficult to quantify beforehand, as it depends on a variety of factors, including: (i) the criteria that the court may determine to consider whether the negotiated agreement is unfair and the application of those criteria in each specific case, given that the circumstances in which each of the loans were modified were specific and should be evaluated under the new criteria, on a case-by-case basis; and (ii) the number of well-founded claims that will be brought in the Spanish courts and the degree of success of those claims.

On 12 December 2019, the Supreme Court issued a ruling declaring that the termination of a mortgage agreement with interest rate floor clauses does not deprive those who were borrowers of the right to bring an action to obtain the declaration of nullity of the floor clause, as being abusive, and the restitution of what was unduly paid in application of such clause.

- A preliminary ruling has been submitted to the CJEU that questions the validity, due to supposed lack of transparency, of the agreements on mortgage loans subject to the Mortgage Loan Reference Index (MLRI). This preliminary ruling was presented by a Lower Investigation Court several months after the Spanish Supreme Court established the legal status of these contracts on 14 December 2017. On 10 September 2019, the Attorney General of the European Union declared his judgment on this matter (Judgment of the Attorney General) according to which (i) Directive 93/13 is applicable to the matter of reference and (ii) the national judges should be the competent authority to supervise the transparency of the clause in dispute and verify the following, taking into consideration all the circumstances affecting the signing of the contract at the time of execution, (a) if the agreement establishes a transparent method to calculate the interest rate, thereby allowing the consumer to assess the economic consequences that would affect them based in accurate and intelligible criteria (b) if the agreement meets all the information requirements set forth in national regulations. The Judgment of the Attorney General does not consider whether the MLRI or the clause that includes it in the pertinent loan agreements are, per se, abusive or null.

  Pending a pronouncement by the CJEU, in the event that the latter resolves the issue in a manner different from the case law established by the Supreme Court, it is difficult to estimate a priori the impact of such a decision, although, in any case, it is not considered material for the Group. The impact may vary depending on issues such as the interest rate applicable to the financing; whether it recognises any degree of retroactivity, which is not raised in the question referred for a preliminary ruling; and in any event, the conditions required for a supposed lack of transparency.

- The remainder of the balance relates to the coverage of other ordinary business risks of the Group.

As mentioned in Note 2.13, the Group has undertaken certain post-employment commitments with personnel. These pension and long-term remuneration commitments, carried as provisions in the balance sheet at 31 December 2019 and 2018, are analysed below:

	Thousands of euros	
	2019	**2018**
Liabilities		
Early retirement agreement	-	43
Externalised post-employment benefits	116,743	118,024
Non-externalised post-employment benefits	6,867	6,241
Fund for labour-related costs of the restructuring plan	466	1,888
	124,076	**126,196**

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

	Thousands of euros	
	2019	**2018**

Commitments relating to:		
Post-employment benefits (Note 38.2)	(30,141)	(26,048)
Other long-term remuneration - pre-retirement (Note 38.3)	(466)	(1,931)
(Shortfall)/Surplus	**(30,607)**	**(27,979)**
Impact of limit on assets	(568)	(388)
Net asset (liability) on balance sheet:	**(31,175)**	**(28,367)**
Assets linked to pensions (*)	89,215	93,264
Net pension assets (**)	3,686	4,565
Net pension (provision)	(124,076)	(126,196)

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

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

	Thousands of euros	
	2019	2018
Defined benefit plans	(2,225)	(2,482)
Contributions to defined contribution plans	(15,030)	(15,888)
interest expense and similar charges (net)	13	72
Transfers to provisions (*)	(519)	(527)
Actuarial gains (-) losses on long-term employee benefits	(84)	315
	(17,845)	**(18,510)**

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

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

	Thousands of euros	
	2019	2018
Actuarial gains or losses on post-employment benefits	(9,704)	(8,227)
Limitation on assets	(180)	(2)
	(9,884)	**(8,229)**

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

	2019	2018
Technical interest rate	0.00% - 1.09%	0.00% - 2.06%
Expected return on assets	0.59% - 1.09%	1.56% - 2.06%
Annual pension revision rate	0.00% - 2.00%	0.00% - 2.00%
Annual salary increase rate	2.00%	2.00%
Growth in Social Security contribution bases	1.00%	1.00%
Retirement age	63 - 67 years	63 - 67 years
Mortality tables	PER 2000P - PER 2000C	PERM/F 2000P
Life expectancy		
Employees retiring in FY 2018/2016		
Men	22,54	22,42
Women	27,03	26,91
Employees retiring in FY 2037/2036		
Men	24,84	24,73
Women	29,12	29,03

The technical interest rates taken into account for calculating the present value of benefit flows are applied based on the duration of each commitment and the reference curve has been determined taking as a reference high-quality AA corporate bonds issued in the same currency and within the payment period estimated for the payment of the benefits at the date referred to in the financial statements. The method applied for building the discount rate curve is based on high-quality Euro-Denominated Corporate bonds (AA) selected by reference to Bloomberg data as the principal source.

The average weighted duration of the post-employment obligations is 11.2 years and the weighted average discount rate was 0.69%.

22. Other liabilities

This heading in the consolidated balance sheets at 31 December 2019 and 2018 breaks down as follows:

	Thousands of euros	
	2019	**2018**
Personnel expense apportionment	18,091	16,560
Transactions in transit	7,007	12,845
Contribution to Deposit Guarantee Fund (Note 1.8.2)	41,486	39,704
Other	106,644	101,072
	173,228	**170,181**

At 31 December 2019 and 2018, “Other” mainly includes supplier expenses that have been accrued by the Group.

23. Shareholders’ funds and non-controlling interests

23.1 Shareholders’ equity

The breakdown of shareholders’ equity at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Capital	214,428	2,144,276
Equity instruments issued other than capital	350,000	350,000
Retained earnings	545,893	521,762
Legal reserve	*59,215*	*33,637*
Goodwill reserve	*12,807*	*12,807*
Voluntary reserves	*454,543*	*475,318*
Capitalisation reserves	*19,328*	-
Revaluation reserves	3,305	3,313
Other reserves	1,941,402	31,510
Legal reserve	*13,671*	*214,428*
Accumulated reserves or losses on investments in jointly-controlled entities and associates	*(43,089)*	*(44,004)*
Other reserves	*1,970,820*	*(138,914)*
Of which: from the application of IFRS 9	*(115,872)*	*(115,872)*
Of which: from the issue of equity instruments other than capital	*(32,720)*	*(15,570)*
Profit/(loss) for the year	83,989	40,804
Total	**3,139,017**	**3,091,665**

In 2019 capital was reduced by 1,929,848 thousand euros in order to set up a restricted voluntary reserve for this amount. This reduction was achieved by reducing the nominal value of all the shares into which the share capital is divided by 90%, and then grouping the number of outstanding shares by exchanging each 10 pre-existing shares of ten euro cents in nominal value for a new share of one euro at nominal value. The reduction in capital affects all the Company’s shares equally, and there is no disparity in treatment between them.

In addition, part of the legal reserve has been allocated to the creation of a voluntary reserve of 200 million euros. The legal reserve after the operation amounts to 73 million euros.

In addition, in connection with this restructuring of the Bank’s equity, a capitalisation reserve amounting to 19 million euros was set up, with a charge to voluntary reserves, in accordance with Article 25 of the Corporate Income Tax Law.

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

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

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

Accrual and payment of the dividend of these instruments is recognised in “Other reserves” of equity. At 31 December 2019, payment of this dividend amounts to 24,500 thousand euros.

23.1.1 Capital

Share capital at 31 December 2019 consists of 214,428 shares (2,144,275,998 shares at 31 December 2018), with a par value of €1 each, fully subscribed and paid out, of the same class and series. The Bank’s shares are represented by registered certificates.

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

	Thousands of euros	
	31/12/2019	**31/12/2018**
Fundación Bancaria Ibercaja	87.80%	87.80%
Fundación Caja de Ahorros de la Inmaculada de Aragón	4.85%	4.85%
Cajacírculo Fundación Bancaria	3.45%	3.45%
Fundación Ordinaria Caja de Badajoz	3.90%	3.90%

23.1.2 Reserves

Appendix II includes a breakdown by company of the balance in “Accumulated reserves or losses on investments in jointly-controlled entities and associates” and the other accumulated reserves.

23.1.2.1 Legal reserve

In accordance with the consolidated text of the Corporate Enterprises Act, companies that record profits for the financial year must transfer 10% of the profits to the legal reserve until the balance in the reserve reaches at least 20% of share capital. The legal reserve may not be used to offset losses unless it exceeds the aforementioned limit and no other sufficient reserves are available for such purpose.

The legal reserve may be used to increase the share capital provided that the remaining reserve balance does not fall below 10% of the balance of share capital after the increase.

23.1.2.2 Goodwill reserve

The goodwill reserve is recognised pursuant to the previous Article 273.4 of the Corporate Enterprises Act, (eliminated in financial statements for periods commencing on or after 1 January 2016) and is not available for distribution. Law 22/2015 of 20 July on the Auditing of Accounts stipulates that in periods commencing on or after 1 January 2016, the goodwill reserve will be reclassified to voluntary reserves and will be unrestricted as from that date in an amount that exceeds the goodwill recognised on the assets side of the balance sheet.

23.1.2.3 Revaluation reserves

The revaluation reserves are the result of the accounting restatement carried out on the first-time adoption of IFRS-EU and may not be distributed, directly or indirectly, unless the capital gain has been realised, this being understood as when:

a) The part of the restated assets corresponding to the reserve has been depreciated.

b) The restated assets have been transferred or written off the balance sheet.

23.2 Non-controlling interests

The Group had no non-controlling interests in 2019.

Movements in non-controlling interests in 2018 are set out below for each subsidiary included in the balance:

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

24. Other accumulated comprehensive income

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

At 31 December 2019, cumulative actuarial losses on defined benefit pension plans amount to €24,286 thousand (€17,367 thousand at 31 December 2018).

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

At 31 December 2019, the amount of gains taken to equity for cash flow hedges amounted to €8,524 thousand (31 December 2018: losses of €9,288 thousand).

24.3 Financial assets at fair value through other comprehensive income

This heading on the consolidated balance sheets reflects the net amount of changes in fair value of assets which, as described in Note 2, must be classified as an integral part of the Group's consolidated equity, net of the relevant tax effect (detailed in Note 25.4).

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

	Thousands of euros				
	2019				
	Valuation adjustments	**Fair value**	**Fair value hierarchy**		
			Level 1	**Level 2**	**Level 3**
Listed equity instruments	3,152	206,897	197,261	9,636	-
Unlisted equity instruments	69,296	190,934	-	160,440	30,494
Listed fixed income	45,509	7,688,599	7,447,877	240,722	-
Total	**117,957**	**8,086,430**	**7,645,138**	**410,798**	**30,494**

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

25. Tax position

25.1 Consolidated Tax Group

Within the framework of the spin-off process, and in accordance with applicable legislation, in 2011 Ibercaja Banco and la Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (now Fundación Bancaria Ibercaja) decided to form a Corporate Income Tax Consolidated Group (No. 579/11). Since 2012, the other Group companies that could join the tax group have been included and therefore corporate income tax is assessed on a consolidated basis.

As a result of the securities exchange in July 2013 in which Ibercaja Banco acquired control over Banco Grupo Cajatres, as from the tax period starting 1 January 2014, Banco Grupo Cajatres and its investees that met the relevant requirements were included in the consolidated tax group.

Fundación Bancaria Ibercaja is also the parent entity of the VAT group (No. 78/11) which includes all qualifying group companies which have voluntarily agreed to join.

25.2 Years open to inspection

The Group and its companies are subject to inspection by the tax authorities for corporate income tax for 2013 and subsequent years; in terms of other taxes, they are subject to inspection for periods from December 2015 onwards.

Due to possible different interpretations of the applicable tax regulations, there may be certain tax contingencies which cannot be objectively quantified. However, in the opinion of the Group's Board of Directors and Management, should these contingencies result in actual liabilities they will not have a significant effect on the financial position and the results obtained by the Group.

25.3 Reconciliation of book and tax income

The reconciliation of consolidated profit before taxes for 2019 and 2018 and corporate income tax expense is as follows:

	Thousands of euros	
	2019	**2018**
Consolidated profit(loss) before tax	**128,637**	**80,830**
Corporate income tax at the 30% tax rate	38,591	24,249
Effect of permanent differences	1,296	8,874
Other adjustments on consolidation	(129)	193
Tax deductions and tax credits	(1,062)	(417)
Write-off of deferred tax assets	-	7,127
Corporate income tax expense for the year	**38,696**	**40,026**
Adjustments to prior-year tax expense	5,952	-
Total corporate income tax expense	**44,648**	**40,026**
of which: current tax expense	*8,618*	*5,901*
of which: deferred tax expense	*36,030*	*34,125*

The item "Effect of permanent differences" includes 6,111 thousand euros (7,285 thousand euros at 31 December 2018) relating to the straight-line reversal over five years of impairment losses on shareholdings that were tax deductible in periods prior to 2013, under Royal Decree-Law 3/2016 of 2 December.

In 2019, pursuant to the provisions of Transitional Provision 16 of the Corporate Income Tax Law, in line with the wording used in Royal Law Decree 3/2016 of 2 December, which adopts tax measures that pursue the consolidation of public finances and other urgent social matters, the Bank has included 25,671 thousand euros in its taxable base to reverse impairment losses on debt securities in the equity of entities that were tax deductible from the Corporate Income Tax base during the tax periods prior to 1 January 2013. Furthermore, as a result of the sale and liquidation of Companies during the year, it will no longer be necessary to include income of 3,097 thousand euros. The amount pending inclusion in the taxable base at the end of the year and for the aforementioned holdings comes to approximately 24,997 thousand euros.

Corporate Income Tax expense increased by 49,641 thousand euros in 2019 due to the deferred taxes related to the origination and reversal of temporary differences (increase of 51,140 thousand euros in 2018).

Years prior to 2015, income was generated that qualified for the then-applicable tax credit for reinvestment of extraordinary profits, the relevant reinvestment commitment having been fulfilled. The following table shows the extraordinary gains that resulted in the tax credit:

	Thousands of euros	
Year income obtained	**Income**	**Year of reinvestment**
1998	3,498	2001
1999	190	2001
2001	6,001	2002
2002	6,017	2002
2003	4,181	2003
2004	6,707	2004
2005	4,486	2007
2006	14,633	2005-2007
2007	3,380	2007
2008	101,953	2007-2011
2009	1,598	2008-2012
2010	4,403	2009-2010
2011	17,729	2010-2011
2012	1,406	2012
2013	1,165	2012-2013
2014	9,229	2013-2014

Note: data for 2010 and prior years relate to operations of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (now Fundación Bancaria Ibercaja).

25.4 Deferred tax assets and liabilities

Based on tax legislation in force in Spain, there are certain timing differences and tax credits that should be taken into account when calculating consolidated corporate income tax expense. The balance of and movements in the deferred tax assets and liabilities recorded in the consolidated balance sheets at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	Deferred tax liabilities	**Deferred tax assets**
Balance at 1 January 2018	**1,313,418**	**188,478**
Prior-year restatement and other	4,277	19,584
Generated during the year	98,874	513
Applied during the year	(108,862)	(3,105)
Change in deferred tax assets and liabilities applied to equity	6,980	(26,502)
Adjustment for first-time application of IFRS 9	50,406	-
Balance at 31 December 2018	**1,365,093**	**178,968**
Prior-year restatement and other	(15,639)	(6,756)
Generated during the year	25,295	2,044
Applied during the year	(50,186)	(6,678)
Change in deferred tax assets and liabilities applied to equity	2,145	9,035
Balance at 31 December 2019	**1,326,708**	**176,613**

In accordance with the provisions of transitional provision thirty-nine of the Corporate Income Tax Law, as amended by Royal Decree-Law 27/2019, of 28 December, the income or expense recorded directly in reserves as a result of the first application of Circular 4/2017 that have tax effects will be included in equal parts in the tax base of each of the first three years starting on or after 1 January 2018. The amount included in the tax base for 2019 in this connection was 10,733 thousand euros, and 10,733 thousand euros have yet to be included in 2020.

Below follows a breakdown of the Group's deferred tax assets and liabilities by type of temporary difference and tax credit:

	Thousands of euros			
	Deferred tax assets		Deferred tax liabilities	
	2019	2018	2019	2018
Impairment of financial assets	713,660	747,507	1,511	7,747
Pension commitments and other provisions	55,763	63,293	-	-
Fixed assets	13,407	11,092	113,273	113,852
Foreclosed assets	2,193	2,955	-	-
Other adjustments	69,796	91,003	35,231	39,806
Total temporary differences with a balancing item in income statement	**854,819**	**915,850**	**150,015**	**161,405**
Temporary differences with a balancing item in equity	**19,892**	**17,747**	**26,598**	**17,563**
Tax credit for tax-loss carryforwards	435,075	414,215	-	-
Tax credit for deductions pending application	16,922	17,281	-	-
Total tax credits	**451,997**	**431,496**	**-**	**-**
	1,326,708	**1,365,093**	**176,613**	**178,968**

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

	Thousands of euros	
	2019	2018
Actuarial losses and gains on defined benefit pension plans	2,965	2,469
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(7,906)	16,814
Items that will not be reclassified to profit or loss	**(4,941)**	**19,283**
Debt instruments at fair value through other comprehensive income	(2,276)	18,681
Valuation gains/(losses) taken to equity	*(11,477)*	*6,831*
Transferred to the income statement	*9,201*	*11,850*
Cash flow hedges	327	(4,482)
Other recognised income and expenses	-	-
Items that may be reclassified to profit or loss	**(1,949)**	**14,199**
	(6,890)	**33,482**

No significant temporary differences associated with investments in subsidiaries, branches and associates or interests in joint arrangements have arisen which could give rise to deferred tax liabilities not recognised on the balance sheet.

Under current tax and accounting regulations, certain temporary differences must be taken into account when quantifying the relevant corporate income tax expense on continuing operations.

In 2013, Royal Decree-Law 14/2013 classed as assets guaranteed by Spain's Central Government those tax assets generated by impairment losses on loans or other assets as a result of the possible insolvency of debtors unrelated to the taxpayer; this status was subsequently extended to impairment losses on public corporations and on provisions for or contributions to pension plans and, if applicable, pre-retirement plans ("monetisable tax assets").

Monetisable tax assets may be converted into debt claims against the tax administration in the event that the taxpayer records book losses or the entity is liquidated or declared to be insolvent by a court. They may also be exchange for government securities once 18 years have elapsed as from the last day of the tax period in which the assets were recognised in the accounts. In order to maintain the Central Government's guarantee, the assets are subject to an annual charge of 1.5% of their amount as from 2016 (Note 37).

In 2019, the net amount of deferred tax assets and liabilities related to temporary differences amounted to 698,098 thousand euros (754,629 thousand euros at 31 December 2018). There are no deductible temporary differences, losses or tax credits for which deferred tax assets have not been recognised on the balance sheet.

As noted above, a portion of deferred tax assets arising from temporary differences are enforceable against the public authorities in the above circumstances (monetisable assets), meaning that recoverability is not dependent on the existence of future taxable profits, so the recognition of the relevant amounts is justified. As at 31 December 2019, deferred tax assets amounted to 643 million euros (654 million euros at 31 December 2018).

In addition, at 31 December 2019 there are deferred tax assets for tax-loss carryforwards and for unused tax credits amounting to 451,997 thousand euros (431,496 thousand euros at 31 December 2018). The vast majority of these tax assets result from the prior-year losses, which were extraordinary and non-recurring, due basically to the write-down of real estate assets in 2012 and of renegotiated assets in 2013, as disclosed in the financial statements for those years.

The tax credits described in the preceding paragraph were recorded for accounting purposes on the premise that future tax benefits might be obtained that will allow the tax-loss carryforwards to be offset in a reasonably short period of time. According to applicable regulations, there is no time limit for offsetting these deferred tax assets.

According to Ibercaja Banco's business plan, which has provided the basis for the valuation of the Bank at 31 December 2019, sufficient future taxable profits will be generated to enable the recovery of these deferred tax assets and therefore the Company considers that there is convincing objective evidence for the recognition of the deferred tax assets. Note 16.1 describes the grounds for the basic assumptions used in determining the business plan taken into consideration by the Company.

According to the business plan estimates referred to above, in 2019 the estimated period for recovering these deferred tax assets is no more than 15 years.

26. Fair value of financial assets and liabilities

Set out below is the breakdown of the fair value of financial assets and liabilities at 31 December 2019 and 2018 compared with their corresponding carrying value reflected in the balance sheet at that same date. Similarly, a breakdown of fair value is included on the basis of the appraisal system (levels 1, 2 and 3):

	Thousands of euros				
	2019				
	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash and cash balances at central banks and other demand deposits	3,929,202	3,929,202	-	3,929,202	-
Financial assets held for trading	8,963	8,963	-	8,963	-
Financial assets not held for trading mandatorily measured at fair value through profit or loss	375,885	375,885	284,905	-	90,980
Financial assets at fair value through profit or loss	8,939	8,939	8,939	-	-
Financial assets at fair value through other comprehensive income	8,086,430	8,086,430	7,645,138	410,798	30,494
Financial assets at amortised cost	39,768,768	42,611,057	5,057,476	3,717,483	33,836,098
Derivatives - Hedge accounting	137,210	137,210	-	137,210	-
Total financial assets	**52,315,397**	**55,157,686**	**12,996,458**	**8,203,656**	**33,957,572**
Financial liabilities held for trading	9,469	9,469	-	9,082	387
Financial liabilities at amortised cost	43,448,320	43,830,956	-	43,830,956	-
Derivatives - Hedge accounting	233,888	233,888	-	233,888	-
Total financial liabilities	**43,691,677**	**44,074,313**	**-**	**44,073,926**	**387**

	Thousands of euros				
	2018				
	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Cash and cash balances at central banks and other demand deposits	1,118,206	1,118,205	-	1,118,205	-
Financial assets held for trading	7,411	7,411	-	7,407	4
Financial assets not held for trading mandatorily measured at fair value through profit or loss	141,315	141,315	38,852	-	102,463
Financial assets at fair value through profit or loss	9,575	9,575	9,575	-	-
Financial assets at fair value through other comprehensive income	8,754,640	8,754,640	8,281,432	288,962	184,246
Financial assets at amortised cost	39,378,416	42,230,289	4,509,540	3,737,045	33,983,704
Derivatives - Hedge accounting	161,371	161,371	-	161,371	-
Total financial assets	**49,570,934**	**52,422,806**	**12,839,399**	**5,312,990**	**34,270,417**
Financial liabilities held for trading	8,691	8,691	-	8,538	153
Financial liabilities at amortised cost	41,141,636	41,259,598	-	41,259,598	-
Derivatives - Hedge accounting	155,200	155,200	-	155,200	-
Total financial liabilities	**41,305,527**	**41,423,489**	**-**	**41,423,336**	**153**

The criteria used to determine fair value have been as follows:

- Level 1: using prices quoted on active markets for financial instruments.
- Level 2: using prices quoted on active markets for similar instruments or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.
- Level 3: using valuation techniques in which some significant inputs are not based on observable market data.

In particular, the valuation techniques used in levels 2 and 3 and assumptions used to determine fair value have been:

- Debt securities and interest rate swaps: Valuation techniques based on discounted flows using the interest rate curve and the market spread for similar instruments have been used.
- Options: valued by applying models accepted as standard in the market. In those cases where no valuation model is available, they are valued through the quotation provided by counterparties.
- Equity instruments measured at fair value: In general, provided that directly or indirectly observable market data is available, their fair value is obtained from listed prices or transactions in active markets for similar instruments. If sufficient market information is not available, fair value is determined by discounting the estimated cash flows, which are derived from business plans of the investees, generally for a period of five years, calculating a residual value for the remaining period. These flows have been discounted using market rates and adjusted at the average cost of capital.
- Financial assets at amortised cost – Loans and advances - Customers: The valuation technique used is based on discounting the estimated future cash flows, considering maturity and repricing dates and calculating interest based on the interbank interest rate curve. Additionally, the early amortisation of 5% of the total has been taken into account. This percentage is based on the Group’s historical data and is used in internal management.

  The impact of a 100 basis point rise in the interbank interest rate curve would bring about a -1.52% reduction in fair value.

In this case, it is estimated that there are no major differences owing to the credit risk between the carrying value and fair value of customer loans since the Group has quantified the level of credit risk provisions for its loan risk portfolio in accordance with applicable accounting legislation and which is considered sufficient to cover that risk. Nonetheless, since there is no market for those financial assets, the amount at which they may be exchanged between interested parties could differ from the net value reflected since the potential acquirer would take into account the expected losses and recorded in accordance with applicable legislation and their best estimates of possible future losses.

- Customer deposits: The valuation technique used has been based on discounting the estimated future cash flows, considering maturity and repricing dates and calculating interest based on the interbank interest rate curve.

- Marketable debt securities and subordinated liabilities: Valued using market prices or spreads for similar instruments.

The reasons why there may be differences between the fair value and carrying value of financial instruments are as follows:

- In the fixed-income instruments issued, the fair value of the instrument varies depending on the evolution of market interest rates. The longer the residual life of the instrument, the greater the variation.
- In variable income instruments, fair value may differ from carrying value if margins relative to the reference interest rate have changed since the issuing of the instrument. If margins remain constant, the fair value coincides with the carrying value only on repricing dates. On all other dates, there is an interest rate risk for the flows that have already been calculated.

The Group performs an analysis to assess whether levels of fair value hierarchy in which financial instruments are classified may have changed. If transfers between these levels occur, they are treated has having taken place at the end of the quarter in which they are identified. During 2019 and 2018 there were no financial instruments no longer measured using level 2 and 3 criteria and which have been measured with level 1 criteria.

For certain financial instruments (mainly the portfolio of financial assets and liabilities held for trading, the portfolio of non-trading financial assets mandatorily measured at fair value through profit or loss and trading related to financial derivatives), there is a balancing entry in the income statement for fair value changes. Details of the effect on the income statement arising from changes in fair value are as follows, classified on the basis of the hierarchical level of the instrument's fair value:

	Thousands of euros	
	2019	**2018**
Level 1	156	(375)
Level 2	1,237	1,129
Level 3	(3,815)	(724)
	(2,422)	**30**

Set out below in the fair value hierarchy of Level 3 fair value, there is a reconciliation of opening balances to closing balances, separately revealing changes during the year attributable to the following:

	Thousands of euros			
	Financial assets held for trading	Financial assets not held for trading mandatorily measured at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities held for trading
Balance at 1 January 2019	**4**	**102,463**	**184,246**	**153**
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	-	(3,935)	(7,089)	45
Purchases	-	-	260	342
Sales	-	-	(2,945)	-
Issues	-	-	-	-
Settlements and maturities	(4)	(7,548)	-	(153)
Transfers from or to Level 3 in or outside the portfolios described	-	-	(143,978)	-
Balance at 31 December 2019	**-**	**90,980**	**30,494**	**387**

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

Financial liabilities and assets held for trading with Level 3 fair values are related, respectively, to embedded derivatives in structured deposits arranged with customers and to derivatives arranged with counterparties to cover the risk of those embedded derivatives. As shown in the table included at the beginning of this Note, the values of both derivatives offset each other since they have the same features and almost the same nominal values. The Group measures both derivatives according to the quotations offered by the counterparty.

The fair value of investments in venture capital funds is determined according to the valuations regularly provided by the fund manager. The valuation criteria are generally based on the guidelines set by the EVCA (European Private Equity Venture Capital Association).

Considering the amount of these investments, the Group believes that the changes that would occur in their fair value as a result of reasonably possible changes in the variables that determine the value would not have a significant impact on the results, total assets or equity of the Group.

27. Other significant information

27.1 Contingent risks

The following table breaks down financial guarantees granted at 31 December 2019 and 2018 in accordance with the maximum risk assumed by the Group:

	Thousands of euros	
	2019	**2018**
Guarantees and other sureties	**768,899**	**784,275**
Financial guarantees	76,204	79,289
Guarantees and other sureties	692,695	704,986
Irrevocable letters of credit	**25,571**	**30,681**
Irrevocable documents issued	25,551	30,562
Irrevocable documents confirmed	20	119
Assets associated with third-party obligations	**234**	**234**
	794,704	**815,190**

A significant portion of these amounts will mature without any payment obligation arising for the Group and therefore the full amount recorded for these commitments cannot be considered to be an actual future need for financing or liquidity to be granted to third parties.

The income obtained from collateral instruments is recorded under the headings “Fee and commission income” and “Interest income” (in the amount relating to the restatement of the commission values) in the consolidated income statement and are calculated by applying the rate established contractually based on the nominal amount of the guarantee.

Provisions recorded to cover these guarantees, which have been calculated by applying criteria similar to those for the calculation of the impairment of financial assets at amortised cost, are included under the heading “Provisions - Commitments and guarantees given” in the balance sheet (Note 21).

At 31 December 2019 and 2018, the Group had not identified any contingent liability.

27.2 Assets loaned or pledged

The breakdown of these assets is as follows:

	Thousands of euros	
	2019	**2018**
Assets under repos	2,663,926	505,760
Assets associated with Bank of Spain policy (*)	2,210,195	2,901,623
Other	511,664	203,974
	5,385,785	**3,611,357**

(*) There is an additional 4,399,276 million euros (5,197,076 million euros in 2018) relating to own securitisation bonds and mortgage covered bonds that are also associated with the Bank of Spain policy obtained to secure monetary policy operations in the Eurosystem.

27.3 Contingent commitments

At 31 December 2019 and 2018, the limits on financing contracts granted and the undrawn balances were as follows:

	Thousands of euros			
	2019		**2018**	
	Limit granted	**Undrawn balance**	**Limit granted**	**Undrawn balance**
Drawable by third parties	**5,906,818**	**2,966,973**	**5,793,090**	**2,970,560**
Available immediately	2,831,634	1,924,342	2,716,651	1,932,945
Available subject to conditions	3,075,184	1,042,631	3,076,439	1,037,615
Securities subscribed pending disbursement	**-**	**1,268**	**-**	**1,267**
Documents in clearing houses	**-**	**136,259**	**-**	**171,167**
	5,906,818	**3,104,500**	**5,793,090**	**3,142,994**

The amounts available relate to variable interest operations.

Provisions recorded to cover these exposures, which have been calculated by applying criteria similar to those for the calculation of the impairment of financial assets at amortised cost, are included under the caption "Provisions - Commitments and guarantees given" in the balance sheet (Note 21).

27.4 Third-party funds managed and marketed by the Group and securities depository

Details of the balance of off-balance sheet customer funds that have been marketed by the Group in 2019 and 2018 are indicated in the following table:

	Thousands of euros	
	2019	**2018**
Collective Investment Institutions	14,708,533	12,821,484
Pension funds	5,668,503	5,068,609
Insurance products	113,853	124,744
Discretionary portfolio management (*)	5,044,760	5,651,758
	25,535,649	**23,666,595**
Of which: managed by the Group	24,744,802	23,086,922

(*) Mainly includes discretionary managed Collective Investment Institutions.

Set out below is a breakdown of the securities deposited by third parties with the Group at 31 December 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Fixed Income	7,584,401	7,706,087
Equities	2,826,839	4,690,219
	10,411,239	**12,396,307**

27.5 Securitisation of assets

The Group performed an operation to securitise assets before 1 January 2004, which were derecognised from the consolidated balance sheet (Note 2.8). Securitised assets outstanding at 31 December 2018 and that the Group amortised in July 2019, are shown below:

	Thousands of euros	
	2019	**2018**
Assets transferred to TDA Ibercaja 1, FTA in 2003	-	62,696
	-	**62,696**

In addition, the Group has securitised assets by assigning loans from its portfolio to a securitisation fund in which, due to the agreed transfer terms, the Company has continued to bear the substantial risks and rewards of the securitised assets and therefore these assets have been retained in full in the balance sheet. Details of the balances recorded in relation to these operations are set out below:

	Thousands of euros	
	2019	**2018**
Assets transferred to TDA Ibercaja 2, FTA in 2005	162,491	190,439
Assets transferred to TDA Ibercaja 3, FTA in 2006	227,274	261,093
Assets transferred to TDA Ibercaja 4, FTA in 2006	349,489	401,181
Assets transferred to TDA Ibercaja 5, FTA in 2007	353,239	403,940
Assets transferred to TDA Ibercaja 6, FTA in 2008	547,365	618,990
Assets transferred to TDA Ibercaja ICO-FTVPO, FTH in 2009	116,089	138,921
Assets transferred to TDA Ibercaja 7, FTA in 2009	990,296	1,089,545
	2,746,243	**3,104,109**

Note 11.1 provides details concerning the Company's exposure in securitisation funds and the amount of securitisation fund liabilities that have been subscribed by non-Group third parties.

Note 26 details the calculation criteria for estimating the fair value of customer loans, under which the securitised assets included in the above table are recorded.

The fair value of the liabilities issued by securitisation funds at 31 December 2019 and 2018, which are backed by the transferred assets mentioned above, is as follows:

	Thousands of euros	
	2019	**2018**
Liabilities issued by TDA Ibercaja 2, FTA in 2005	162,223	188,381
Liabilities issued by TDA Ibercaja 3, FTA in 2006	225,239	256,106
Liabilities issued by TDA Ibercaja 4, FTA in 2006	347,407	394,402
Liabilities issued by TDA Ibercaja 5, FTA in 2007	341,852	388,362
Liabilities issued by TDA Ibercaja 6, FTA in 2008	538,936	600,730
Liabilities issued by TDA Ibercaja ICO-FTVPO, FTH in 2009	113,558	134,656
Liabilities issued by TDA Ibercaja 7, FTA in 2009	917,807	982,769
	2,647,023	**2,945,406**

27.6 Assets received under guarantees

Assets received under guarantees at 31 December 2019 amount to €11,359 thousand (€11,359 thousand at 31 December 2018).

27.7 Leases

27.7.1 Finance leases

Finance leases in which the Group is the lessor are described below:

- The interest rate is variable.
- There is a purchase option in the lessee's favour arranged as the last instalment of the contract, through which the lessee may obtain the ownership of the asset at a cost which is significantly lower than the asset's market value at that time. As it may be considered reasonably certain that the lessee will exercise this purchase option, its value is recorded as a debt claim together with the rest of the minimum payments to be made by the lessee.

Details of finance leases for the year are as follows:

- At 31 December 2019, the gross investment totals €500,607 thousand (€475,357 thousand at 31 December 2018).
- The present value of future minimum lease payments receivable during the non-cancellable part of the lease period (assuming that any existing rights to extend the lease or purchase options are not exercised) at 31 December 2019 is €174,362 thousand within one year, €298,620 thousand in one to five years and €31,420 after more than five years.
- Unaccrued interest income totals €25,470 thousand in 2019 (€29,301 thousand in 2018).
- The residual value of these leases amounts to €41,410 thousand at 31 December 2019 (€38,307 thousand at 31 December 2018).
- Impairment adjustments to finance leases amount to €10,604 thousand at 31 December 2019 (€11,034 thousand at 31 December 2018).

27.7.2 Operating leases

Most operating leases in which the Group participates may be cancelled and normally the initial term of the lease is five years. Rental income is adjusted annually based on the consumer price index.

Nonetheless, for a set of properties, there are leases that establish a 15-year mandatory compliance period, with a total term of up to 35 years. At 31 December 2019, there are 100 leases in force (56 concluded in 2012, 26 in 2013 and 18 in 2014) which were entered into at the same time as the sale of the property and include a purchase option at market prices at lease expiration. The rental income associated with these properties is updated annually based on the Consumer Price Index (without any correction factor). The value of instalments payable within the mandatory compliance period amounts to €2,925 thousand within one year, €12,322 thousand within one to five years and €11,054 thousand in more than 5 years. The embedded derivative consisting of updating rentals based on the CPI has not been separated from the main lease contract because the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the main contract.

Refurbishing expenses and capital investment relating to leased assets for which the Group is the lessee, net of depreciation, total €45,315 thousand at 31 December 2019 (€45,663 thousand at 31 December 2018).

27.8 Environment

The Group's operations as a whole are subject to environmental protection legislation. The Group considers that it complies substantially with these laws and that it has procedures in place designed to ensure they are met.

The Group has adopted the appropriate measures to protect and improve the environment and to minimise possible environmental impacts, and complies with current environmental legislation. During 2019 and 2018, no significant environment-related investments were made and no significant environment-related contingencies are considered to exist.

27.9 Segmentation

The ultimate decision-making body responsible for defining the operating segments is the Group's Management Committee. The Group has concluded that there are no distinct segments, as the results of its activities are not examined on an independent basis by Management, for the following reasons:

- The types of products marketed by the Group's insurance companies are, in part, substitutes for bank savings products and are subject to similar risks.
- The use of the commercial network of Ibercaja Banco, S.A. as the majority distribution channel for the products of the Group's insurance companies affects the relationship of dependence between the two sectors.
- The existence of a common customer base and the linkage of the two brands from the consumer's point of view mean that operational risk is interrelated between the two sectors of banking and insurance.
- All strategic, commercial and regulatory analysis is carried out at the Group level.

Nevertheless, in accordance with applicable regulations, information on the distribution of the Group's revenues by geographical area and product type have been included in this Note.

The Group carries out all its activity in Spain. The Group therefore considers it has a single geographical segment for operating purposes.

The breakdown of the Group's ordinary revenue (which includes interest income, dividend income, fees and commissions received, gains on financial assets and liabilities and other operating income) by type of product or service is as follows.

	Thousands of euros			
	Ordinary revenue from third-party customers		Gross margin excl. gains on financial assets and liabilities	
	2019	2018	2019	2018
Banking	978,775	1,012,280	805,030	797,689
Insurance	1,095,595	1,467,895	113,368	127,921
Other	-	(1,967)	-	(3,286)
	2,074,370	**2,478,208**	**918,398**	**922,324**

The reconciliation between total ordinary income and gross income excluding gains and losses on financial transactions is shown below:

	Thousands of euros	
	2019	2018
Ordinary revenue from third-party customers	**2,074,370**	**2,478,208**
(Interest expense)	116,315	88,743
Share of profit of entities accounted for using the equity method	431	(642)
(Fee and commission expenses)	18,636	16,707
(Net gains or (-) losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss)	8,261	42,802
(Net gains or (-) losses on financial assets and liabilities held for trading)	1,220	404
(Net gains or (-) losses on financial assets not held for trading mandatorily measured at fair value through profit or loss)	(3,718)	(885)
(Net gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss)	747	792
(Net gains or (-) losses from hedge accounting)	567	511
(Net exchange differences)	1,104	646
(Other operating expenses)	72,473	77,567
(Liability expenses covered by insurance or reinsurance contracts)	940,798	1,327,955
Gross margin excl. gains on financial assets and liabilities	**918,398**	**922,324**

28. Interest income

The breakdown of the balance under this consolidated income statement heading in 2019 and 2018, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2019	2018
Financial assets held for trading	-	3
Non-trading financial assets mandatorily valued at fair value through profit or loss	420	628
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	131,258	146,763
Financial assets at amortised cost	536,531	530,121
Interest rate hedging derivatives	(19,709)	(33,304)
Other assets	751	1,199
Interest income from liabilities	14,310	15,484
	663,561	**660,894**

29. Interest expense

The breakdown of the balance under this consolidated income statement heading in 2019 and 2018, based on the financial instrument portfolios from which the income originates, is as follows:

	Thousands of euros	
	2019	**2018**
Financial liabilities at amortised cost	135,198	155,504
Interest rate hedging derivatives	(78,143)	(86,237)
Insurance contracts	32,078	8,329
Other liabilities	15,465	6,378
Interest expense from assets	11,717	4,769
	116,315	**88,743**

"Other liabilities" includes interest expense arising from the contribution made to the Deposit Guarantee Fund amounting to 727 thousand euros (943 thousand euros at 31 December 2018) (Note 1.8). Also, at 31 December 2019, it includes 1,410 thousand euros relating to interest expenses on lease liabilities (Note 2.10).

30. Dividend income

The amount recorded under this heading relates in full to dividends from equity instruments in the portfolio of financial assets at fair value through portfolio other comprehensive income amounting to 12,652 thousand euros at 31 December 2019 (11,487 thousand at 31 December 2018).

31. Share of profit of entities accounted for using the equity method

Appendix II provides a breakdown by company of the balance under this consolidated income statement heading in 2019 and 2018.

32. Fee and commission income

Fee and commission income accrued in 2019 and 2018, classified in accordance with the item generating the fees and commissions, is reflected in the following table:

	Thousands of euros	
	2019	**2018**
Contingent risk fees	10,102	10,003
Contingent commitment fees	3,653	3,921
Foreign currency exchange fees	267	288
Collection and payment services fees	117,601	115,253
Securities services fees	61,501	40,381
Non-bank financial product marketing fees	195,389	188,176
Other fees	23,862	33,600
	412,375	**391,622**

33. Fee and commission expenses

Expenses for fees and commissions accrued in 2019 and 2018, classified in accordance with the item generating the fees and commissions, are reflected in the following table:

	Thousands of euros	
	2019	**2018**
Fees and commissions assigned to other entities	7,597	7,094
Fees for securities transactions	1,791	2,003
Other fees	9,248	7,610
	18,636	**16,707**

34. Gains/(losses) on financial assets and liabilities

The breakdown of the balance under this consolidated income statement heading in 2019 and 2018, based on the financial instrument portfolios from which the balances originate, is as follows:

	Thousands of euros	
	2019	**2018**
Net gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss.	**8,261**	**42,802**
Financial assets at fair value through other comprehensive income	30,669	40,150
Financial assets at amortised cost	(23,757)	1,542
Financial liabilities at amortised cost	477	818
Other	872	292
Net gains/(losses) on financial assets and liabilities held for trading	**1,220**	**404**
Gains/losses on financial assets not held for trading mandatorily measured at fair value through profit or loss, net	**(3,718)**	**(885)**
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	**747**	**792**
Net gain/(loss) from hedge accounting	**567**	**511**
Adjustments to hedged instruments (fair value hedge)	144,625	50,708
Hedge derivative (fair value hedge)	(144,058)	(50,197)
	7,077	**43,624**

35. Exchange differences

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Translation into euro of monetary items denominated in foreign currency	1,194	1,557
Foreign currency trading	(90)	(911)
	1,104	**646**

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

36. Other operating income

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Income from investment property (Note 15.2)	5,376	8,963
Income from other operating leases (Note 15.3)	14,276	8,537
Sales and income from provision of services	5,344	6,054
Other items	12,077	18,845
	37,073	**42,399**

37. Other operating expenses

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	**2018**
Operating expenses on investment properties (Note 15.2)	1,977	2,037
Contribution to National Resolution Fund (Note 1.8.1)	10,350	11,538
Contribution to Deposit Guarantee Fund (Note 1.8.2)	48,520	46,738
Other items	11,626	17,254
	72,473	**77,567**

At 31 December 2018, “Other items” includes the charge of €3,211 thousand (€2,845 thousand at 31 December 2018) for converting deferred tax assets into debt claims against the Spanish tax administration (Note 25.4).

38. Staff expenses

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	2018
Wages and salaries	270,066	276,135
Social security contributions	71,018	66,346
Defined benefit plans	2,225	2,482
Contributions to defined contribution plans	15,030	15,888
Severance payments	-	55,752
Other staff costs	2,605	2,902
	360,944	**419,505**

In May 2017, the Management of Ibercaja and to the representatives of the employees, as part of workforce adjustment, reached an agreement in which 590 employees may opt for voluntary redundancy due to age or the closure of the work centre.

The exit of up to a maximum of 65% of these employees occurred gradually up until December 2018. On 28 March 2019, depending on business requirements and in accordance with the progress of the restructuring process, the Board of Directors of Ibercaja Banco approved the implementation of the rest of the outstanding agreed terminations, which were carried out in the first six months of 2019.

This plan has incurred staff costs of €55,752 thousand in the consolidated profit or loss account for 2018, with a balancing entry under provisions on the liability side of the balance sheet (Note 21).

38.1 Number of employees

The distribution by category and gender of the Group's employees at 31 December 2019 and 2018 is as follows:

	31/12/2019			31/12/2018		
	Men	Women	Total	Men	Women	Total
GR. 1 Senior Management	9	3	12	9	3	12
GR. 1 Levels I to V	1,374	734	2,108	1,340	711	2,051
GR. 1 Levels VI to X	1,185	1,620	2,805	1,212	1,631	2,843
GR. 1 Levels XI to VIII	151	203	354	152	217	369
GR. 2 and Cleaning service	23	3	26	23	4	27
	2,741	**2,563**	**5,304**	**2,736**	**2,566**	**5,302**

At 31 December 2019 and 2018, the entire workforce is based in Spain.

The average number of Group employees in 2019 and 2018 is as follows:

	2019	2018
GR. 1 Senior Management	12	12
GR. 1 Levels I to V	2,093	2,076
GR. 1 Levels VI to X	2,813	2,854
GR. 1 Levels XI to VIII	432	459
GR. 2 and Cleaning service	27	28
	5,377	**5,429**

At 31 December 2019, the average number of Group employees with a disability of 33% or more is 50 (46 employees at 31 December 2018).

38.2 Staff costs - post-employment benefits

Net figures recognised in the balance sheet for defined benefit post-employment plans at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	**2018**
Present value of obligations financed	(265,205)	(256,700)
Fair value of plan assets	235,064	230,652
(**Shortfall)/Surplus**	**(30,141)**	**(26,048)**
Impact of limit on assets	(568)	(388)
Net asset (liability) on balance sheet:	**(30,709)**	**(26,436)**
Assets linked to pensions (Note 21) (*)	89,215	93,264
Net pension assets (Note 21) (**)	3,686	4,565
Net pension (provision) (Note 21)	(123,610)	(124,265)

(*) Financial assets at the subsidiary Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.
(**) Amount recorded under “Other assets” in the consolidated balance sheet.

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan obligations during 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Initial value of obligations financed	**(256,700)**	**(264,016)**
Cost of services for the current year	(2,225)	(2,482)
Interest expense	(634)	(690)
Past service cost	-	-
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:		
Gains/(losses) on changes in demographic assumptions	-	-
Gains/(losses) on changes in financial assumptions	(23,796)	(6,756)
Gains/(losses) due to experience	(2,411)	(2,032)
Benefits paid	20,561	19,276
Transfers and other	-	-
Final present value of obligations	**(265,205)**	**(256,700)**

The reconciliation of opening and closing balances reflecting the present value of post-employment defined benefit plan assets during 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Initial fair value of plan assets	**230,264**	**253,009**
Interest income	645	702
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:		
Yield on plan assets excluding interest (expense)/income	-	-
Gains/(losses) on changes in financial assumptions	15,528	1,200
Gains/(losses) due to experience	970	(645)
Change in asset limit, excluding interest expense	(175)	4
Employer contributions	7,510	(5,056)
Member contributions	-	-
Benefits paid	(20,246)	(18,950)
Transfers and other	-	-
Final fair value of plan assets	**234,496**	**230,264**

The breakdown of the main types of plan assets at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Shares	12.26%	10.96%
Debt instruments	83.02%	84.95%
Constructions	-	-
Demand deposits	4.72%	4.09%
Other assets	-	-
Total	**100.00%**	**100.00%**

The analysis of the expected termination of non-discounted post-employment benefits in the coming 10 years is as follows:

	Thousands of euros					
	2020	2021	2022	2023	2024	2025-2029
Probable post-employment benefits	17,835	17,283	16,689	16,067	15,413	66,766

Changes in the main assumptions will give rise to changes in the calculation of the obligations. The sensitivity of post-employment plan obligations to changes in the main assumptions is detailed below:

	Change in bps	Increase in assumptions	Decrease in assumptions
Discount rate	50 bp	(5.35%)	5.96%
Pension increase rate	50 bp	5.75%	(5.24%)
Salary increase rate	50 bp	0.14%	(0.14%)

The sensitivity analysis relates to individual changes in each assumption while the remainder remain constant.

The value of the obligation and the fair value of the assets for the purposes of the post-employment defined benefit plan for the current year and the previous four are as follows:

	2019	2018	2017	2016	2015
Present value of obligations financed	(265,205)	(256,700)	(264,016)	(294,053)	(301,251)
Fair value of plan assets	235,064	230,652	253,395	270,289	283,805
Surplus/(Shortfall)	**(30,141)**	**(26,048)**	**(10,621)**	**(23,764)**	**(17,446)**
Impact of limit on assets (Note 21)	(568)	(388)	(386)	(235)	(2,058)
Net asset (liability) on balance sheet:	**(30,709)**	**(26,436)**	**(11,007)**	**(23,999)**	**(19,504)**
Insurance contracts related to pensions (Note 21)	89,215	93,264	105,483	112,416	114,827
Net pension assets (Note 21)	3,686	4,565	4,261	3,405	6,296
Net pension assets (Provision) (Note 21)	(123,610)	(124,265)	(120,751)	(139,820)	(140,627)

38.3 Staff costs - long-term remuneration for early retirees

The net figures recognised in the balance sheet for long-term remuneration payable to early retirees under defined benefit plans at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
Present value of obligations financed	**(466)**	**(1,931)**
Fair value of plan assets	-	-
Net liability on balance sheet:	**(466)**	**(1,931)**
Assets linked to pensions	-	-
Net pension assets	-	-
Net pension (provision) (Note 21)	(466)	(1,931)

The reconciliation of opening and closing balances reflecting the present value of obligations under defined benefit plans for early retirees during 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Initial value of obligations financed	**(1,931)**	**(3,863)**
Cost of services for the current year	-	-
Interest expense	-	-
Past service cost	-	-
Gains/(losses) on plan settlements and reductions	-	-
Recalculation of values:	-	-
Gains/(losses) on changes in demographic assumptions	-	-
Gains/(losses) on changes in financial assumptions	(84)	615
Gains/(losses) due to experience	-	(300)
Benefits paid	1,549	1,617
Transfers	-	-
Final present value of obligations	**(466)**	**(1,931)**

The analysis of the expected termination of other non-discounted long-term employee remuneration in the coming 10 years is as follows:

	Thousands of euros					
	2020	2021	2022	2023	2024	2025-2029
Probable long-term staff obligations	344	122	-	-	-	-

Changes in the main assumptions will give rise to changes in the calculation of the obligations. The sensitivity of the obligations due to other long-term early retiree remuneration in the event of changes in the main assumptions is detailed below:

	Change in bps	Increase in assumptions	Decrease in assumptions
Discount rate	50 bp	(0.40%)	0.40%
Pension increase rate	50 bp	0.63%	(0.62%)

The sensitivity analysis relates to individual changes in each assumption while the remainder remain constant.

39. Other administration expenses

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	2018
Buildings, installations and office equipment	30,744	47,872
Equipment maintenance, licences, works and computer software	21,776	19,035
Communications	12,096	14,842
Advertising and publicity	6,493	7,395
Charges and taxes	19,766	25,177
Other management and administration expenses	81,040	83,730
	171,915	**198,051**

The item “Charges and taxes” includes the Tax on Deposits in Credit Institutions amounting to €10,117 thousand at 31 December 2019 (€12,209 thousand in 2018).

- Other information

Fees payable to PricewaterhouseCoopers Auditores, S.L. for auditing the 2019 annual accounts of Ibercaja Bank and its group companies (including the audit of the interim financial statements and securitisation funds) amount to €1,133 thousand (€801 thousand in 2018).

In addition, the audit firm received fees amounting to €326 thousand (€489 thousand in 2018) for other audit work and €1,142 thousand (€551 thousand in 2018) for other services.

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

In 2019 and 2018, no services have been provided by other companies that use the PricewaterhouseCoopers brand.

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

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	2018
Tangible assets (Note 15)	**569**	**1,449**
Property, plant and equipment	115	806
Investment property	454	643
Intangible assets (Note 16)	**-**	**673**
Goodwill	-	-
Other intangible assets	-	673
Other (Note 17)	**5,043**	**2,840**
	5,612	**4,962**

41. Gains/(losses) on derecognition of non-financial assets, net

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	2018
Gains (losses) on disposal of assets not classified as non-current assets held for sale	(6,576)	(19,333)
Gains/(losses) on disposal of shareholdings	32	136
Other gains/(losses)	-	(4)
	(6,544)	**(19,201)**

42. Profit or loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

This consolidated income statement heading is analysed below for 2019 and 2018:

	Thousands of euros	
	2019	2018
Impairment gains/(losses) on other non-current assets for sale (Note 18)	(16,957)	(40,523)
Gains/(losses) on disposal of other non-current assets for sale	(6,775)	(30,377)
	(23,732)	**(70,900)**

43. Related parties

The balances recorded on the consolidated balance sheets at 31 December 2019 and 2018 and in the consolidated income statements for 2019 and 2018 are as follows:

	Thousands of euros									
	2019					2018				
	Shareholder	Associates	Associates entities	Other related parties (*)	Related individuals (**)	Shareholder	Associates	Jointly cont. entities	Other related parties (*)	Related individuals (**)
ASSETS										
Loans and receivables	143,433	2,808	5,782	-	8,767	375,314	1,837	8,211	-	8,383
Counterparties under insurance contracts	-	-	-	-	-	-	-	-	-	-
LIABILITIES										
Deposits	147,107	14,383	689	367,753	19,758	407,408	12,482	251	290,223	19,397
Liabilities under insurance contracts linked to pensions	-	-	-	-	-	-	-	-	-	-
Provisions	-	2	-	-	-	-	33	-	-	-
PROFIT / (LOSS)										
Expenses										
Interest expense	111	-	2	-	10	153	1	4	124	10
Fees, commissions and other expenses	909	-	-	-	2	908	-	-	-	2
Income										
Interest income	-	28	104	405	69	-	27	107	-	71
Fees, commissions and other income	382	-	-	-	5	370	-	-	-	9
Dividends	17,500	-	-	-	-	17,500	-	-	-	-
OTHER										
Contingent liabilities	1	3,809	-	-	5	1,145	9,219	-	-	358
Commitments	-	69	4,418	-	406	-	73	6,790	-	435

(*) Investment funds and companies and pension funds.
(**) Senior management, Board of Directors, relatives to the second degree and their related entities.

The financial operations included have been carried out in accordance with the usual operating processes of the Group's parent entity and at arm's length. Arm's length terms are also applied in other operations with related parties. For these purposes, the preferred valuation method taken into account is the comparable uncontrolled price method.

44. Other disclosure requirements

44.1 Information on the mortgage market

In accordance with Royal Decree 716/2009, of 24 April, whereby certain aspects of Law 2/1981, of 25 March, governing the mortgage market and other rules on the financial mortgage system were developed, and Bank of Spain Circular 3/2010, of 29 June, the Board of Directors approved the "Loan and discount risk management policy and procedure manual" drawn up by the Company to guarantee compliance with legislation governing the mortgage market, including guidance on the following:

- The relationship between the amount of the loan and appraisal value (in accordance with MO ECO/805/2003) of the mortgaged property and the selection of valuation companies authorised by the Bank of Spain.
- The relationship between the debt and the borrower's capacity to generate income, verification of the information provided by the borrower and the borrower's solvency, and the existence of other additional guarantees.
- The balance between the flows deriving from the hedging portfolio and those deriving from the payments due on the instruments issued.

The General Shareholders' Meeting of Ibercaja Banco, S.A. is authorised to issue debentures or other fixed income securities and has empowered the Board of Directors to issue any kind of loans for a maximum amount, including mortgage securities.

Mortgage certificates are issued in accordance with Spanish legislation on the mortgage and securities markets. Under applicable legislation, the volume of mortgage covered bonds issued by an entity and not matured may not exceed 80% of the unamortised principal of all loans and mortgages in the eligible portfolio. The Company's Board of Directors approved a more restrictive limit, and therefore the above percentage of mortgage covered bonds issued may not exceed 65%. At 31 December 2019, the figure was 36.51% (42.28% at 31 December 2018).

Mortgage covered bonds are securities especially guaranteed by the issuer where the entire portfolio of mortgage loans arranged in its favour guarantees compliance with its payment commitments.

The level of overcollateralisation or backing of mortgage covered bonds by the eligible mortgage portfolio is 273.92% at 31 December 2019 (236.51% at 31 December 2018).

At that date 99.43% of transactions in the mortgage portfolio have been formalised through loans (99.36% at 31 December 2018). Of these, instalments are collected on a monthly basis for 97.50% (97.29% at 31 December 2018). The operations formalised at variable interest rates are 99.53% of the total (99.52% at 31 December 2018) and of these, 82.31% are tied to Euribor (83.36% at 31 December 2018).

Set out below is information on the mortgage market:

- Information concerning the issue of mortgage covered bonds. Total amount of loans and mortgages pending repayment (irrespective of LTV level and including securitizations written off the balance sheet):

	Thousands of euros	
	Nominal value	
	2019	**2018**
Total loans	**22,911,795**	**24,575,457**
Mortgage participations issued	**1,139,991**	**1,342,807**
Of which: loans recognised on asset side of balance sheet	1,139,991	1,302,055
Mortgage transfer certificates issued	**1,606,253**	**1,823,997**
Of which: loans recognised on asset side of balance sheet	1,606,253	1,802,053
Mortgage loans pledged in guarantee for financing received	**-**	**-**
Loans backing mortgage bonds issues and covered bond issues	**20,165,551**	**21,408,653**
Non-eligible loans	4,420,677	5,012,268
Fulfil requirements to be eligible except for limit under Article 5.1 of Royal Decree 716/2009	3,946,110	4,248,933
Other non-eligible loans	474,567	763,335
Eligible loans	15,744,874	16,396,385
Loans backing mortgage bond issues	-	-
Loans suitable for backing mortgage bond issues	15,744,874	16,396,385
Non-computable amounts	16,092	25,536
Computable amounts	15,728,782	16,370,849
Memorandum items	**Updated value**	
Loans backing mortgage bond issues	-	-

Note 3.5.4 sets out the carrying amount of mortgage backed loans and its reconciliation with mortgage market information.

- Information on eligible loans and mortgages:

	Thousands of euros				
	2019				
	Loan to value (LTV) ratio				
	Less than or equal to 40%	**Greater than 40% and less than or equal to 60%**	**Greater than 60% and less than or equal to 80%**	**Greater than 80%**	**Total**
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					**15,744,874**
Residential	4,252,019	6,296,233	4,182,029	-	14,730,281
Other properties	554,869	419,121	40,603		1,014,593

	Thousands of euros				
	2018				
	Loan to value (LTV) ratio				
	Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					**16,396,385**
Residential	4,369,429	6,388,295	4,494,184	-	15,251,908
Other properties	644,149	455,999	44,329		1,144,477

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

	Thousands of euros			
	2019		2018	
	Loans backing mortgage bonds issues and covered bond issues	Of which: Eligible loans	Loans backing mortgage bonds issues and covered bond issues	Of which: Eligible loans
Total	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Origin of operations	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Originated by the Entity	13,663,715	10,106,878	14,357,138	10,448,388
Subrogated from other entities	394,539	377,953	444,327	420,161
Other	6,107,297	5,260,043	6,607,188	5,527,836
Currency	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Euro	20,163,463	15,744,874	21,406,433	16,396,385
Other currencies	2,088	-	2,220	-
Payment status	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Payment normality	19,235,732	15,606,856	19,641,277	16,153,050
Other situations	929,819	138,018	1,767,376	243,335
Average residual period to maturity	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Up to 10 years	2,726,453	1,929,909	3,285,935	1,962,845
More than 10 years and up to 20 years	7,402,721	6,174,767	7,569,936	6,140,648
More than 20 years and up to 30 years	8,914,821	6,897,928	8,879,369	7,066,727
More than 30 years	1,121,556	742,270	1,673,413	1,226,165
Interest rate	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Fixed interest rate	135,984	59,763	255,544	57,477
Variable interest rate	18,520,574	14,490,121	19,446,363	14,945,641
Mixed interest rate	1,508,993	1,194,990	1,706,746	1,393,267
Holders	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Legal entities and individual entrepreneurs (business activities)	3,097,908	1,372,245	3,829,992	1,907,919
Of which: real estate construction and development (including land)	*1,316,248*	*292,666*	*1,689,779*	*746,958*
Other household	17,067,643	14,372,629	17,578,661	14,488,466
Type of collateral	**20,165,551**	**15,744,874**	**21,408,653**	**16,396,385**
Finished assets/buildings	19,314,007	15,394,792	20,134,352	16,007,109
Homes	18,539,543	14,890,977	19,215,328	15,470,561
of which: state-subsidised housing	*1,390,668*	*1,295,392*	*1,563,662*	*1,460,017*
Offices and commercial premises	388,633	264,558	474,841	286,430
Other buildings and constructions	385,831	239,257	444,183	250,118
Assets/buildings under construction	391,409	198,093	467,236	229,053
Homes	94,033	3,273	141,490	29,518
of which: state-subsidised housing	*3,197*	*1,196*	*7,446*	*1,508*
Offices and commercial premises	-	-	-	-
Other buildings and constructions	297,376	194,820	325,746	199,535
Land	460,135	151,989	807,065	160,223
Consolidated urban land	192,372	1,493	487,312	3,966
Other land	267,763	150,496	319,753	156,257

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

	Thousands of euros	
	Nominal value	
	2019	2018
Mortgage covered bonds (Note 19.4)	**3,900,000**	**4,650,000**
Ibercaja April II 2010	100,000	100,000
Ibercaja March 2012 II	-	750,000
Ibercaja September 2012	800,000	800,000
Ibercaja October 2016	500,000	500,000
Ibercaja September 2018 I	750,000	750,000
Ibercaja September 2018 II	750,000	750,000
Ibercaja December 2018	1,000,000	1,000,000
AYT mortgage covered bonds (Note 19.3)	**1,042,137**	**1,171,771**
AYT 8 Single Covered Bond (15 years)	-	104,634
AYT 9 Single Covered Bond (15 years)	216,667	216,667
AYT 10 Single Covered Bond (20 years)	341,026	341,026
AYT Global 2021 Single Covered Bond	225,000	225,000
AYT Global 2022 Single Covered Bond Series III	19,444	19,444
AYT Cajas Global 2023 Covered Bond Series X	75,000	75,000
AYT Cajas Global 2027 Covered Bond Series XIII	165,000	165,000
AYT Cajas Global 2019 Covered Bond Series XIV	-	25,000
TDA mortgage covered bonds (Note 19.3)	**800,000**	**1,100,000**
TDA 5 Single Covered Bond	-	300,000
TDA 6 Single Covered Bond	250,000	250,000
TDA 6 Single Covered Bond (Extension)	250,000	250,000
TDA Single Covered Bond Series A4	300,000	300,000

- Information on the residual maturity of mortgage market securities:

	Thousands of euros			
	2019		2018	
	Nominal value	Average res. mat. (months)	Nominal value	Average res. mat. (months)
Mortgage bonds issued	-	-	-	-
of which: recognised under liabilities	-	-	-	-
Mortgage covered bonds issued	**5,742,137**	**-**	**6,921,771**	**-**
of which: recognised under liabilities	*2,552,137*	-	*2,971,771*	-
Debt securities. Issued through public offering	-	-	-	-
Debt securities. Other issues (Note 19.4)	3,900,000	-	4,650,000	-
Residual maturity up to one year	900,000	-	1,550,000	-
Residual maturity greater than one year and up to two years	-	-	100,000	-
Residual maturity greater than two years and up to three years	750,000	-	-	-
Residual maturity greater than three years and up to five years	1,250,000	-	1,250,000	-
Residual maturity greater than five years and up to ten years	1,000,000	-	1,750,000	-
Residual maturity greater than ten years	-	-	-	-
Deposits	1,842,137	-	2,271,771	-
Residual maturity up to one year	216,667	-	429,634	-
Residual maturity greater than one year and up to two years	525,000	-	216,667	-
Residual maturity greater than two years and up to three years	19,444	-	525,000	-
Residual maturity greater than three years and up to five years	75,000	-	94,444	-
Residual maturity greater than five years and up to ten years	1,006,026	-	1,006,026	-
Residual maturity greater than ten years	-	-	-	-
Mortgage participations issued	**1,139,991**	**99**	**1,302,055**	**99**
Issued through public offering	-	-	-	-
Other issues	1,139,991	99	1,302,055	99
Mortgage transfer certificates issued	**1,606,253**	**114**	**1,802,053**	**114**
Issued through public offering	-	-	-	-
Other issues	1,606,253	114	1,802,053	114

None of the issues has been made through a public offering and all are denominated in euros. The Company does not issue mortgage bonds and nor does it have replacement assets assigned to them.

- Information on mortgage loans backing the issue of mortgage bonds (bonos hipotectarios) and secured mortgage covered bonds (cédulas hipotecarias) (eligible and non-eligible):

	Thousands of euros			
	2019		2018	
	Eligible loans	Non-eligible loans	Eligible loans	Non-eligible loans
Opening balance	**16,396,385**	**5,012,268**	**17,389,805**	**4,713,590**
Write-offs in the year	**1,691,972**	**989,843**	**2,368,973**	**762,160**
Due principal received in cash	867,698	462,768	1,107,340	444,700
Repaid early	406,513	194,630	401,304	260,517
Subrogated by other entities	1,665	635	2,806	1,556
Other write-offs	416,096	331,810	857,523	55,387
Additions in the year	**1,040,461**	**398,252**	**1,375,553**	**1,060,838**
Originated by the Entity	804,708	354,343	1,100,151	294,782
Subrogated from other entities	1,429	-	8,277	720
Other additions	234,324	43,909	267,125	765,336
Closing balance	**15,744,874**	**4,420,677**	**16,396,385**	**5,012,268**

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

	Thousands of euros	
	2019	2018
Total	**645,714**	**155,438**
Potentially eligible	624,197	128,186
Non-eligible	21,517	27,252

At 31 December 2019 and 2018, the Company had no replacement assets in connection with issues of secured mortgage covered bonds and mortgage bonds.

44.2 Customer service

Law 44/2002, of 22 November, on measures to reform the financial system, established a series of measures to protect the customers of financial institutions by establishing, for these purposes, the obligation of management companies, credit institutions, insurance companies and investment services companies to attend to and resolve any complaints and claims that their customers may present in relation to their legally recognised interests and rights, and to do so they must have a customer service department or service and, where appropriate, a customer ombudsman. By virtue of Order ECO/734/2004, of 11 March, on the customer service department and service and the customer ombudsman of financial institutions, the obligation is established for each institution or group to approve a set of Customer Defence Regulations regulating the activity of the customer service department and, where appropriate, the customer ombudsman, as well as the relations between the two. Subsequently, other regulations have established special features in this area, as is the case with Royal Decree-Law 19/2018, which reduces to 15 working days the period for resolution by the customer service department in relation to claims arising from the provision of payment services, and Law 7/2017 of 2 November, which relates to alternative resolution of consumer disputes.

The Board of Directors of Ibercaja Banco S.A. ("Ibercaja Banco") in compliance with the aforementioned provisions, and to undertake in the most effective manner the commitment to improve relations with its customers and with those of the companies belonging to its Group that are obliged to set up the customer service department, Ibercaja Leasing y Financiación, S.A., E.F.C., Ibercaja Gestión S.G.I.I.C., S.A, Ibercaja Vida, Compañía de Seguros y Reaseguros, S.A.U., Ibercaja Mediación, S.A.U. and Ibercaja Pensión, E.G.F.P., S.A.-, in an effort to preserve their confidence and to provide them with an adequate level of protection, approved on 24 October 2019 a new Customer Defence Regulation, the definitive verification of which was communicated to the Chief Executive Officer of Ibercaja banco S.A. on 22 January 2020.

The new Regulation can be viewed at any Ibercaja Group branch and on the website www.ibercaja.es. Users can also visit any branch or access the website to lodge complaints or claims and find out how to do so.

For the purposes of this report, the Ibercaja Group comprises Ibercaja Banco, S.A. and the following companies: Ibercaja Leasing y Financiación, S.A., Establecimiento Financiero de Crédito; Ibercaja Gestión, S.A., Sociedad Gestora de Instituciones de Inversión Colectiva; Ibercaja Vida, S.A., Compañía de Seguros y Reaseguros; Ibercaja Pensión, S.A., Sociedad Gestora de Fondos de Pensiones; and Ibercaja Mediación de Seguros, S.A.

In accordance with the regulations and law just discussed, the Customer Service at the Ibercaja Group will present a statistical report to the Board of Directors of Ibercaja Banco S.A. regarding complaints and claims handled, the decisions taken, the general criteria followed when reaching these decisions and the recommendations or suggestions made to improve the Group's actions. A summary of this information is included below:

a) Claims processed

In 2019, the Customer Care Service (CCS) of the Ibercaja Group managed a total of 11,102 cases, which can be classified into three groups:

- Claims and grievances regarding mortgage arrangement costs and other clauses included in mortgage loan contracts: 3,738.

- Other claims, grievances and suggestions: 7,175, divided into 3,569 claims, 3,570 complaints and 36 suggestions.

- 189 requests relating to exercise of other GDPR rights.

b) Special out-of-court procedure for resolving claims relating to floor clauses under the terms of Royal Legislative Decree 1 of 20 January 2018

A total of 596 claims were registered and processed in 2019 under the framework of this Royal Decree-Law.

The average term for resolving complaints and claims in 2019 was 17 days for the CCS and 22 days for the special floor clause service, both within current legislation and significantly lower than in previous years. The Company is making a clear effort to resolve all complaints and claims within the maximum period of one month provided for in Law 7/2018 of 2 November incorporating into Spanish law Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on dispute alternative resolution for consumer disputes, which supervisors have been applying de facto to institutions, despite the fact that the special law for the protection of financial customers provided for in its first additional provision has not yet been enacted.

General criteria contained in the decisions

The decisions have been issued with the utmost regard for good corporate governance and banking practices, transparency and consumer protection, taking into account the views formally expressed by customers and the reports issued by the branches, departments and Group companies concerned. Moreover, all decisions were reached on the basis of the contractual documents signed with the customers.

45. Financial statements of Ibercaja Banco, S.A. for the years ended 31 December 2019 and 2018

Set out below are the balance sheets at 31 December 2019 and 2018, together with the income statements, statements of recognised income and expense, total statements of changes in equity and statements of cash flow of the parent entity for the years ended 31 December 2019 and 2018, all such statements drawn up in accordance with Bank of Spain Circular 4/2017, as discussed in Note 1.2 to the individual annual accounts of Ibercaja Banco at 31 December 2019.

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Thousands of euros)

ASSETS	31/12/2019	31/12/2018 (*)
Cash and cash balances at central banks and other demand deposits	**3,710,877**	**917,825**
Financial assets held for trading	**6,097**	**5,632**
Derivatives	6,097	5,632
Debt securities	-	-
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	**22,547**	**33,284**
Equity instruments	-	-
Debt securities	10,350	13,554
Loans and advances	12,197	19,730
Customers	*12,197*	*19,730*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Financial assets at fair value through profit or loss	**-**	**-**
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	-	-
Financial assets at fair value through other comprehensive income	**1,053,432**	**1,939,719**
Equity instruments	360,456	314,295
Debt securities	692,976	1,625,424
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*561,476*	*1,060,771*
Financial assets at amortised cost	**39,937,627**	**39,816,547**
Debt securities	7,124,375	6,446,612
Loans and advances	32,813,252	33,369,935
Credit institutions	*579,467*	*207,728*
Customers	*32,233,785*	*33,162,207*
Memorandum items: loaned or delivered as collateral with the right to sell or pledge	*4,967,409*	*5,956,715*
Derivatives - Hedge accounting	**137,210**	**161,371**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging	-	**-**
Investments in subsidiaries, joint ventures and associates	**995,891**	**759,221**
Subsidiaries	903,175	650,949
Joint ventures	38,226	38,226
Associates	54,490	70,046
Tangible assets	**783,263**	**736,446**
Property, plant and equipment	567,677	491,318
For own use	*567,677*	*491,318*
Assigned under operating lease	-	-
Investment property	215,586	245,128
of which: assigned under operating lease	*32,342*	*71,842*
Memorandum items: acquired under finance lease	-	-
Intangible assets	**118,531**	**122,760**
Goodwill	51,226	64,033
Other intangible assets	67,305	58,727
Tax assets	**1,275,150**	**1,387,513**
Current tax assets	6,168	7,061
Deferred tax assets	1,268,982	1,380,452
Other assets	**218,648**	**210,566**
Insurance contracts linked to pensions	98,470	97,238
Inventories	820	1,083
Other assets	119,358	112,245
Non-current assets and disposal groups classified as held for sale	**64,898**	**68,681**
TOTAL ASSETS	**48,324,171**	**46,159,565**

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

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Thousands of euros)

LIABILITIES	31/12/2019	31/12/2018 (*)
Financial liabilities held for trading	**4,888**	**5,147**
Derivatives	4,888	5,147
Financial liabilities at fair value through profit or loss	**-**	**-**
Memorandum items: subordinated liabilities	-	-
Financial liabilities at amortised cost	**44,238,959**	**42,160,453**
Deposits	41,901,746	40,070,662
Central banks	*1,628,990*	*3,341,085*
Credit institutions	*4,305,679*	*1,236,203*
Customers	*35,967,077*	*35,493,374*
Debt securities issued	1,232,325	1,300,189
Other financial liabilities	1,104,888	789,602
Memorandum items: subordinated liabilities	*508,997*	*590,619*
Derivatives - Hedge accounting	**233,888**	**155,200**
Fair value changes of the hedged items in a portfolio with interest rate risk hedging	**37,617**	**24,961**
Provisions	**295,053**	**326,811**
Pensions and other post-employment defined benefit obligations	105,622	103,479
Other long-term employee remuneration	466	1,931
Lawsuits and litigation for outstanding taxes	6,385	6,435
Commitments and guarantees given	22,727	33,645
Other provisions	159,853	181,321
Tax liabilities	**146,321**	**157,831**
Current tax liabilities	-	-
Deferred tax liabilities	146,321	157,831
Other liabilities	**181,841**	**187,133**
Liabilities within disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**45,138,567**	**43,017,536**

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

IBERCAJA BANCO, S.A.

BALANCE SHEETS AT 31 DECEMBER 2019 AND 2018
(Thousands of euros)

EQUITY	31/12/2019	31/12/2018 (*)
Shareholders' equity	**3,115,698**	**3,080,081**
Capital	214,428	2,144,276
Paid-in capital	*214,428*	*2,144,276*
Called-up capital	-	-
Memorandum items: uncalled capital	-	-
Share premium	-	-
Equity instruments issued other than capital	350,000	350,000
Equity component of compound financial instruments	-	-
Other equity instruments issued	*350,000*	*350,000*
Other equity items	-	-
Retained earnings	507,825	269,545
Revaluation reserves	2,327	2,327
Other reserves	1,968,925	58,153
(Treasury shares)	-	-
Profit/(loss) for the year	72,193	255,780
(Interim dividends)		-
Other accumulated comprehensive income	**69,906**	**61,948**
Items that will not be reclassified to profit or loss	63,651	41,582
Actuarial gains/(losses) on defined benefit pension plans	(6,870)	*2,832*
Non-current assets and disposal groups classified as held for sale	-	-
Changes in the fair value of equity instruments measured at fair value changes through other comprehensive income	*70,521*	*38,750*
Ineffectiveness of fair value hedges of equity instruments measured at fair value through other comprehensive income	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	-
Items that may be reclassified to profit or loss	6,255	20,366
Hedges of net investment in foreign operations (effective portion)	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedge reserve (effective portion)	*8,524*	*9,288*
Changes in the fair value of debt instruments measured at fair value through other comprehensive income	*(2,269)*	*11,078*
Hedging instruments (undesignated items)	-	-
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**3,185,604**	**3,142,029**
TOTAL EQUITY AND LIABILITIES	**48,324,171**	**46,159,565**
Memorandum items: off-balance sheet exposures		
Loan commitments given	**3,509,793**	**3,215,623**
Financial guarantees granted	**77,200**	**80,285**
Other commitments given	**859,952**	**912,239**

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

IBERCAJA BANCO, S.A.

INCOME STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(Thousands of euros)

	2019	2018 (*)
Interest income	**531,276**	**533,824**
Financial assets at fair value through other comprehensive income	9,658	21,757
Financial assets at amortised cost	511,482	523,611
Other	10,136	(11,544)
(Interest expenses)	**110,047**	**96,072**
(Expenses on share capital repayable on demand)	**-**	**-**
NET INTEREST INCOME	**421,229**	**437,752**
Dividend income	**197,270**	**315,854**
Fee and commission income	**305,063**	**285,587**
(Fee and commission expenses)	**11,419**	**10,655**
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**5,281**	**38,332**
(Financial assets at amortised cost)	(22,178)	1,542
(Remaining financial assets and liabilities)	27,459	36,790
Net gains or (-) losses on financial assets and liabilities held for trading	**1,220**	**406**
(Reclassification of financial assets from fair value through other comprehensive income)	-	-
(Reclassification of financial assets from amortised cost)	-	-
(Other gains or (-) losses)	1,220	406
Gains/(losses) on non-trading financial assets valued mandatorily at fair value through profit or loss, net	**(3,189)**	**(393)**
(Reclassification of financial assets from fair value through other comprehensive income)	-	-
(Reclassification of financial assets from amortised cost)	-	-
(Other gains or (-) losses)	(3,189)	(393)
Gains/(losses) on financial assets and liabilities at fair value through profit or loss, net	**-**	**-**
Net gains or (-) losses) from hedge accounting	**567**	**511**
Net exchange differences	**1,104**	**646**
Other operating income	**50,074**	**57,591**
(Other operating expenses)	**66,746**	**70,869**
GROSS INCOME	**900,454**	**1,054,762**
(Administration expenses)	**504,717**	**582,126**
(Staff expenses)	349,058	406,533
(Other administration expenses)	155,659	175,593
(Amortisation and depreciation)	**72,692**	**54,278**
(Provisions or (-) reversal of provisions)	**36,496**	**(34,647)**
(Impairment or (-) reversal of impairment on financial assets not measured fair value through profit or loss or (-) net gain on change)	**122,981**	**278,339**
(Financial assets at fair value through other comprehensive income)	(197)	(230)
(Financial assets at amortised cost)	123,178	278,569
(Impairment or (-) reversal of impairment on investments in subsidiaries, joint ventures and associates)	**(681)**	**(189,917)**
(Impairment or (-) reversal of impairment on non-financial assets)	**301**	**2,334**
(Tangible assets)	298	1,613
(Intangible assets)	-	673
(Other)	3	48
Gains/(losses) on derecognition of non-financial assets, net	**(11,597)**	**(6,898)**
Negative goodwill recognised in profit or loss	**-**	**-**
Profit or (-) loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**(2,003)**	**(12,270)**
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**150,348**	**343,081**
Expense or (-) income from taxes on income from continuing operations	**78,155**	**87,301**
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**72,193**	**255,780**
Profit/(loss) after tax from discontinued activities	**-**	**-**
PROFIT/(LOSS) FOR THE YEAR	**72,193**	**255,780**

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

IBERCAJA BANCO, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Thousands of euros)

	2019	2018 (*)
PROFIT/(LOSS) FOR THE YEAR	**72,193**	**255,780**
OTHER COMPREHENSIVE INCOME	**6,252**	**(49,687)**
Items that will not be reclassified to profit or loss	**20,362**	**(34,810)**
Actuarial gains/(losses) on defined benefit pension plans	(13,860)	(3,366)
Non-current assets and disposal groups of items held for sale	-	-
Changes in the fair value of equity instruments measured at fair value		
through other comprehensive income	35,894	(47,885)
Gains/(losses) resulting from hedge accounting of		
equity instruments at fair value through other comprehensive income, net	-	-
Changes in the fair value of equity instruments measured at fair value		
through other comprehensive income (hedged item)	-	-
Changes in the fair value of equity instruments measured at fair value		
through other comprehensive income (hedging instrument)	-	-
Changes in fair value of financial liabilities at fair value through		
profit or loss attributable to changes in credit risk	-	-
Income tax relating to items not to be reclassified	(1,672)	16,441
Items that may be reclassified to profit or loss	**(14,110)**	**(14,877)**
Hedges of net investment in foreign operations (effective portion)	-	-
Valuation gains/(losses) taken to equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Currency translation	-	-
Valuation gains/(losses) taken to equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	(1,091)	14,939
Valuation gains/(losses) taken to equity	*(1,091)*	*14,939*
Transferred to the income statement	-	-
Transferred to initial carrying amount of hedge items		
Other reclassifications	-	-
	-	-
Hedging instruments (undesignated items)	-	-
Valuation gains/(losses) taken to equity	-	-
Transferred to the income statement	-	-
Other reclassifications		
Debt instruments at fair value through other comprehensive income	(19,066)	(36,192)
Valuation gains/(losses) taken to equity	*1,276*	*(1,069)*
Transferred to the income statement	*(20,342)*	*(35,123)*
Other reclassifications	-	-
Non-current assets and disposal groups of items held for sale	-	-
Valuation gains/(losses) taken to equity	-	-
Transferred to the income statement	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit or loss	6,047	6,376
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**78,445**	**206,093**

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

IBERCAJA BANCO, S.A.

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019
(Thousands of euros)

	Thousands of euros											
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Profit/(loss) for the year**	**(Interim dividends)**	**Other accumulated comprehensive income**	**Total**
I. Closing balance at 31/12/2018	**2,144,276**	**-**	**350,000**	**-**	**269,545**	**2,327**	**58,153**	**-**	**255,780**	**-**	**61,948**	**3,142,029**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
II. Adjusted opening balance	**2,144,276**	**-**	**350,000**	**-**	**269,545**	**2,327**	**58,153**	**-**	**255,780**	**-**	**61,948**	**3,142,029**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**72,193**	**-**	**6,252**	**78,445**
Other changes in equity	**(1,929,848)**	**-**	**-**	**-**	**238,280**	**-**	**1,910,772**	**-**	**(255,780)**	**-**	**1,706**	**(34,870)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments (Note 20)	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction (Note 20)	(1,929,848)	-	-	-	-	-	1,929,848	-	-	-	-	-
Dividends (or other shareholder remuneration) (Note 4)	-	-	-	-	(17,500)	-	-	-	-	-	-	(17,500)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	255,780	-	(1,706)	-	(255,780)	-	1,706	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	(17,370)	-	-	-	-	(17,370)
III. Closing balance at 31/12/2019	**214,428**	**-**	**350,000**	**-**	**507,825**	**2,327**	**1,968,925**	**-**	**72,193**	**-**	**69,906**	**3,185,604**

IBERCAJA BANCO, S.A.

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

(Thousands of euros)

	Thousands of euros											
	Capital	**Share premium**	**Equity instruments issued other than capital**	**Other equity items**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**(Treasury shares)**	**Profit/(loss) for the year**	**(Interim dividends)**	**Other accumulated comprehensive income**	**Total**
I. Closing balance at 31/12/2017	**2,144,276**	**-**	**-**	**-**	**187,357**	**2,327**	**190,981**	**-**	**99,688**	**-**	**113,550**	**2,738,179**
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	(114,372)	-	-	-	(2,045)	(116,417)
II. Adjusted opening balance	**2,144,276**	**-**	**-**	**-**	**187,357**	**2,327**	**76,609**	**-**	**99,688**	**-**	**111,505**	**2,621,762**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255,780**	**-**	**(49,687)**	**206,093**
Other changes in equity	**-**	**-**	**350,000**	**-**	**82,188**	**-**	**(18,456)**	-	**(99,688)**	-	**130**	**314,174**
Issuance of common shares	-	-		-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-		-	-	-	-	-	-	-	-	-
Issuance of other equity instruments (Note 20)	-	-	350,000	-	-	-	(2,940)	-	-	-	-	347,060
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or other shareholder remuneration) (Note 4)	-	-	-	-	(17,500)	-	-	-	-	-	-	(17,500)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or redemption of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	99,688	-	(130)	-	(99,688)	-	130	-
Increase/(decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases/(decreases) in equity	-	-	-	-	-	-	(15,386)	-	-	-	-	(15,386)
III. Closing balance at 31/12/2018	**2,144,276**	-	**350,000**	-	**269,545**	**2,327**	**58,153**	-	**255,780**	**-**	**61,948**	**3,142,029**

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

IBERCAJA BANCO, S.A.

STATEMENTS OF CASH FLOWS FOR THE THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(Thousands of euros)

	2019	2018 (*)
H) CASH FLOWS FROM OPERATING ACTIVITIES	**2,936,079**	**(2,660,460)**
Profit/(loss) for the year	**72,193**	**255,780**
Adjustments to obtain cash flows from operating activities	**293,178**	**123,763**
Amortisation and depreciation	72,692	54,278
Other adjustments	220,486	69,485
Net increase/decrease in operating assets	**383,942**	**(1,803,924)**
Financial assets held for trading	(465)	3,740
Non-trading financial assets mandatorily measured at fair value with changes through profit or loss	10,737	1,706
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	835,180	544,902
Financial assets at amortised cost	(489,244)	(2,407,105)
Other operating assets	27,734	52,833
Net increase/(decrease) in operating liabilities	**2,063,978**	**(1,157,651)**
Financial liabilities held for trading	(259)	(2,154)
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	2,176,501	(1,219,628)
Other operating liabilities	(112,264)	64,131
Income tax credit/(payments)	**122,788**	**(78,428)**
I) CASH FLOWS FROM INVESTING ACTIVITIES	**(10,607)**	**24,897**
Payments	**(54,214)**	**(82,528)**
Tangible assets	(30,076)	(28,732)
Intangible assets	(23,098)	(19,165)
Investments in subsidiaries, joint ventures and associates	(81)	(10,469)
Other business units	-	-
Non-current assets and liabilities classified as held for sale	(959)	(24,162)
Other payments related to investing activities	-	-
Receipts	**43,607**	**107,425**
Tangible assets	42,030	46,506
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	33	4,186
Other business units	-	-
Non-current assets and liabilities classified as held for sale	1,544	56,733
Other receipts related to investing activities	-	**-**
J) CASH FLOWS FROM FINANCING ACTIVITIES	**(123,805)**	**270,635**
Payments	**(123,805)**	**(75,165)**
Dividends	(17,500)	(17,500)
Subordinated liabilities	(81,805)	(45,414)
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(24,500)	(12,251)
Receipts	**-**	**345,800**
Subordinated liabilities	-	-
Issuance of own equity instruments	-	345,800
Disposal of own equity instruments	-	-
Other receipts related to financing activities	-	-
K) EFFECT OF EXCHANGE RATE FLUCTUATIONS	**-**	**-**
L) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**2,801,667**	**(2,364,928)**
M) CASH AND CASH EQUIVALENTS AT START OF PERIOD	**898,909**	**3,263,837**
N) CASH AND CASH EQUIVALENTS AT END OF PERIOD	**3,700,576**	**898,909**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash	227,232	212,846
Cash equivalents at central banks	3,444,265	675,568
Other financial assets	29,079	10,495
Less: bank overdrafts repayable on demand	-	-

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

APPENDIX I

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

Group companies:

Company	Address	Country of residence	Shareholding (%) 2019		2018	
			Direct	Indirect	Direct	Indirect
Badajoz Siglo XXI, S.A.	Pº Fluvial, 15, Badajoz	Spain	100.00%	-	100.00%	-
CAI Inmuebles, S.A. (in liquidation)	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Cerro Goya, S.L.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	98.70%	1.30%	98.70%	1.30%
Cerro Murillo, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	99.77%	0.23%	99.77%	0.23%
Espacio Industrial Cronos, S.A.(*)	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	-	100.00%	-
Ibercaja Gestión de Inmuebles, S.A.	Pº Constitución, 10, entlo. izda., Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Gestión, S.G.I.I.C., S.A.	Pº Constitución, 4, 3ª planta, Zaragoza	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Leasing y Financiación, S.A.	Pº Constitución, 4, 1ª planta, Zaragoza	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Mediación de Seguros, S.A.	Pº Constitución, 4, 1ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Pensión, E.G.F.P., S.A.	Pº Constitución, 4, 8ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Vida, S.A.	Pº Constitución, 4, 8ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Cajaragón, S.A.U.	Pza. Basilio Paraíso, 2, Zaragoza	Spain	100.00%	-	100.00%	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	-	100.00%	-	100.00%
Residencial Murillo, S.A.	Pº Constitución, 4, 5ª planta, Zaragoza	Spain	100.00%	-	100.00%	-
Ibercaja Connect, S.L.	C/ Bari, 49, Zaragoza	Spain	95.00%	5.00%	95.00%	5.00%

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

Jointly-controlled entities:

Company	Address	Country of residence	Shareholding (%) 2019		2018	
			Direct	Indirect	Direct	Indirect
Aramón Montañas de Aragón, S.A.	Pza. Aragón,1, Zaragoza	Spain	50.00%	-	50.00%	-
Ciudad del Corredor, S.L.	C/ Gran Vía, 15, Of. 1-3, Madrid	Spain	-	50.00%	-	50.00%
Corredor del Iregua, S.L.	Avda. Pío XXI, 1, Bajo, Logroño	Spain	-	50.00%	-	50.00%
Montis Locare, S.L. (in liquidation)	Pza. Aragón, 11, Zaragoza	Spain	47.73%	-	47.73%	-
Promociones Palacete del Cerrillo, S.L (*).	Pº Castellana, 95, 18ª pta., Of. 18-24, Madrid	Spain	-	-	-	33.33%

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

Associates:

Company	Address	Country of residence	Shareholding (%) 2019		2018	
			Direct	Indirect	Direct	Indirect
C y E Badajoz Servicios Sociosanitarios, S.A.	Avda. Juan Carlos I, 17, entpta., Badajoz	Spain	33.00%	-	33.00%	-
Centro de Transportes Aduana de Burgos, S.A.	Ctra. Madrid-Irún (Villafría), (KM 245), Burgos	Spain	25.45%	-	25.45%	-
Cerro de Mahí, S.L.	Pza. Roma, F-1, 1ª planta, of. 5, Zaragoza	Spain	-	33.33%	-	33.33%
Concessia Cartera y Gestión de Infraest., S.A.	C/ Severo Ochoa, 3, of 4B, Las Rozas Madrid	Spain	30.15%	-	30.15%	-
Districlima Zaragoza, S.L.	Avda. Ranillas, 107, Zaragoza	Spain	35.00%	-	35.00%	-
Henneo (formerly Grupo Heraldo)	Pº Independencia, 29, Zaragoza	Spain	39.94%	-	39.94%	-
Ibercaja Global Internacional SICAV (**)	Cl Boulevard Prince Henri, 9 L-1724 , Luxembourg.	Luxembourg	-	-	-	-
Mobart Circulo Participaciones, S.L.(*)	Ctra. Madrid-Irún (Villafría), (KM 245), Burgos	Spain	-	-	50.00%	-
Northwind Finco, S.L	C/ Vía de los Poblados, 3, Ed.1,Parque Empresarial Cristalia, Madrid	Spain	-	20.00%	-	-
Nuevos Materiales de Construcción, S.A.	C/ San Norberto, 26, Madrid	Spain	21.93%	-	21.93%	-
Proyectos y Realizaciones Aragonesas de Montaña, Escalada y Senderismo, S.A.	Camino Molinos, 32, Zaragoza	Spain	31.29%	-	31.28%	-
Rioja Nueva Economía, S.A.	Gran Vía Rey Juan Carlos I, 9, Logroño	Spain	42.55%	-	42.55%	-
Sociedad Gestora del Conjunto Paleontológico de Teruel, S.A.	Pol. Ind. Los Llanos, s/n, Teruel	Spain	23.42%	-	23.41%	-
Sociedad para la Promoción y Desarrollo Empresarial de Teruel, S.A.	C/ Los Enebros, 74, Teruel	Spain	22.17%	-	22.16%	-
Solavanti, S.L.	Avda. Academia Gral. Militar, 52, Zaragoza	Spain	-	20.00%	-	20.00%
Turolense del Viento, S.L.	C/ Los Enebros, 74, Ed. Galileo, 2ª planta, Teruel	Spain	-	20.00%	-	20.00%
Viacajas, S.L.	C/ Alcalá, 27, Madrid	Spain	16.13%	-	15.87%	-

(*) Write-offs due to dissolution and/or liquidation.
(**) Exclusion from consolidation due to dilution of equity.

APPENDIX II

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

Group companies:

Company	Date of financial statements	Contribution to consolidated earnings		Contribution to consolidated reserves		Non-controlling interests	
		2019	2018	2019	2018	2019	2018
Badajoz Siglo XXI	Dec-19	(1,387)	(1,286)	(16,530)	(15,249)	-	-
CAI Inmuebles, S.A. (in liquidation)	Dec-19	1,813	(2,504)	(12,440)	(10,429)	-	-
Cerro Goya, S.L.	Dec-19	(341)	(139)	(2,706)	(2,161)	-	-
Cerro Murillo, S.A.	Dec-19	(91,181)	(220,655)	286,058	318,349	-	-
Dopar Servicios, S.L.	-	-	(43)	-	-	-	-
Enclama, S.L.	-	-	(11)	-	-	-	-
Espacio Industrial Cronos, S.A.	-	-	(2)	-	(9,340)	-	-
Gedeco Zona Centro, S.L.	-	-	(5)	-	-	-	-
Ibercaja Cajaragón, S.A.U.	Dec-19	(500)	(389)	5,178	5,057	-	-
Ibercaja Banco, S.A.	Dec-19	57,749	284,706	1,931,000	50,565	-	-
Ibercaja Gestión, S.A.	Dec-19	22,240	23,391	10,358	9,690	-	-
Ibercaja Gestión de Inmuebles, S.A.	Dec-19	22	(27)	240	267	-	-
Ibercaja Leasing y Financiación, S.A.	Dec-19	3,332	1,511	22,975	21,466	-	-
Ibercaja Mediación de Seguros, S.A.	Dec-19	25,679	24,687	9,370	9,369	-	-
Ibercaja Pensión, S.A.	Dec-19	11,130	11,641	9,461	9,382	-	-
Ibercaja Viajes, S.A.	-	-	(70)	-	69	-	-
Ibercaja Vida, S.A.	Dec-19	74,883	73,934	202,763	206,660	-	-
Iberprofin, S.L.	-	-	59	-	-	-	-
Inmobiliaria Impulso XXI, S.A.	-	-	295	-	-	-	-
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-19	1,998	375	34,189	33,710	-	-
Residencial Murillo, S.A.	Dec-19	(21,933)	(154,044)	53,675	(26,912)	-	-
Ibercaja Connect, S.L.	Dec-19	54	22	98	96	-	-

Company	Date of financial statements	Financial information					
		2019			2018		
		Capital	Reserves and val. adj.	Profit/(loss)	Capital	Reserves and val. adj.	Profit/(loss)
Badajoz Siglo XXI	Dec-19	40,950	(2,880)	(1,382)	40,950	(1,615)	(1,280)
CAI Inmuebles, S.A. (in liquidation)	Dec-19	64	(13,005)	2,375	64	(6,834)	(604)
Cerro Goya, S.L.	Dec-19	5,024	(1,917)	(363)	5,024	(1,351)	(600)
Cerro Murillo, S.A. (*)	Dec-19	206,385	10	(35,600)	98,354	(75,836)	(57,258)
Dopar Servicios, S.L.	-	-	-	-	-	43	(43)
Enclama, S.L.	-	-	-	-	-	11	(11)
Espacio Industrial Cronos, S.A.	-	-	88	(88)	28	(9,340)	(2)
Gedeco Zona Centro, S.L.	-	-	-	-	-	5	(5)
Ibercaja Cajaragón, S.A.U.	Dec-19	58,041	6,030	(783)	58,041	5,714	315
Ibercaja Banco, S.A.	Dec-19	214,428	2,898,983	72,193	2,144,276	391,973	255,780
Ibercaja Gestión, S.A.	Dec-19	2,705	(7,987)	22,176	2,705	10,679	22,646
Ibercaja Gestión de Inmuebles, S.A.	Dec-19	120	242	22	120	247	(4)
Ibercaja Leasing y Financiación, S.A.	Dec-19	3,006	25,954	5,331	3,006	21,858	4,216
Ibercaja Mediación de Seguros, S.A.	Dec-19	60	(13,653)	25,693	60	9,393	2,479
Ibercaja Pensión, S.A.	Dec-19	11,010	416	11,209	11,010	10,511	11,639
Ibercaja Viajes, S.A.	-	-	-	-	-	71	(71)
Ibercaja Vida, S.A.	Dec-19	135,065	178,444	70,388	135,065	223,496	74,966
Iberprofin, S.L.	-	-	-	-	-	(59)	59
Inmobiliaria Impulso XXI, S.A.	-	-	-	-	-	(315)	315
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-19	40,051	27,719	1,970	40,051	27,485	217
Residencial Murillo, S.A. (*)	Dec-19	197,306	15,400	(23,155)	132,012	(179,442)	(45,428)
Ibercaja Connect, S.L.	Dec-19	480	98	54	480	96	21

Jointly-controlled entities:

Company	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2019	2018	2019	2018	2019	2018
Aramón Montañas de Aragón, S.A. (*)	418	361	(29,416)	(29,776)	28,161	27,743
Other companies	(719)	87	(11,000)	(13,786)	-	719

	Thousands of euros			
	Financial information			
	2019		2018	
Company	Aramon, Montañas de Aragón, S.A. (*)	Other	Aramon, Montañas de Aragón, S.A. (*)	Other
Current assets	3,709	-	4,057	-
Non-current assets	118,585	-	125,326	-
Cash and cash equivalents	400	-	675	-
Current liabilities	11,587	-	17,254	-
Non-current liabilities	32,285	-	35,577	-
Current financial liabilities	4,734	-	4,583	-
Non-current financial liabilities	29,624	-	32,863	-
Ordinary income	42,871	-	47,649	-
Dividends paid	-	-	-	-
Total recognised income and expense	275	(1,437)	619	(3)
Profit/(loss) from ordinary activities	275	(1,437)	*619*	*(3)*
Profit/(loss) after tax from discontinued operations	-	-	-	-
Other recognised income and expense	-	-	-	-
Depreciation	626	-	1,832	-
Amortisation/Depreciation	10,552	-	11,395	-
Interest income	-	-	5	-
Interest expense	1,619	-	2,034	-
Income tax expense/(income)	50	-	(46)	-

(*) The financial information corresponding to these companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.

Associates:

Company	Contribution to consolidated earnings		Contribution to consolidated reserves		Value of shareholding	
	2019	2018	2019	2018	2019	2018
Concessia Cartera y Gestión de Infraestructuras, S.A. (*)	712	42	37	(13)	5,955	10,368
Henneo (formerly Grupo Heraldo) (*)	(582)	(787)	259	1,179	31,097	31,811
Other companies	602	(345)	(2,969)	(1,608)	44,602	55,594

	Thousands of euros					
	Financial information					
	2019			2018		
Company	Concessia Cartera y Gestión de Infra. , S.A. (*)	Henneo (formerly Grupo Heraldo)(*)	Other	Concessia Cartera y Gestión de Infra. , S.A. (*)	Henneo (formerly Grupo Heraldo)(*)	Other
Current assets	7,201	56,022	-	20,350	59,764	-
Non-current assets	13,730	44,942	-	14,414	50,867	-
Current liabilities	112	31,585	-	382	32,946	-
Non-current liabilities	1,027	11,950	-	-	16,376	-
Ordinary income	64	98,491	64	-	122,169	-
Dividends paid	-	-	-	-	-	-
Total recognised income and expense	2,269		2,269	112	(1,935)	7,051
Profit/(loss) from ordinary activities	*2,269*	*2,290*	*2,269*	*112*	*(1,935)*	*7,051*
Profit/(loss) after tax from discontinued operations	-	-	-	-	-	-
Other recognised income and expense	-	-	-			

(*) The financial information corresponding to these companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.

APPENDIX III

ANNUAL BANKING REPORT

On 27 June 2014, the Official State Gazette published Act 10/2014 on the organisation, supervision and solvency of credit institutions, which transposed Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC (CRD IV) and repealing Directives 2006/48/EC and 2006/49/EC.

In compliance with Article 87 and Transitional Provision 12 of Act 10/2014, credit institutions are required to publish, as an appendix to their audited financial statements and for each country in which they operate, the following information on a consolidated basis for the last completed financial year:

a) Name, nature and geographical location of the activity
b) Business volume
c) Number of equivalent full-time employees
d) Gross profit/(loss) before tax
e) Corporate income tax
f) Grants and public aid received

Accordingly, all this information is set out below.

a) Name, nature and geographical location of the activity

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

Ibercaja Banco, S.A. engages in the banking business and is subject to the standards and regulations governing banking institutions operating in Spain.

In addition to the operations carried out directly, the Bank is the parent of a group of dependent entities that engage in various activities and that, together with it, make up the Ibercaja Banco Group. The Bank is therefore required to draw up the Group's consolidated annul accounts, as well as its own individual annual accounts.

The consolidated Group carries out all its activity in Spain.

b) Business volume

Information on consolidated business volume is as follows, by country. Business volume for these purposes means gross income, as shown on the Group's consolidated income statement at the end of 2019.

	Thousands of euros
	31/12/2019
Spain	926,580
	926,580

c) Number of equivalent full-time employees

Equivalent full time employees by country were as follows at year-end 2019:

	Thousands of euros
	31/12/2019
Spain	5,304
	5,304

d) Gross profit/(loss) before tax

	Thousands of euros
	31/12/2019
Spain	128,637
	128,637

e) Corporate income tax

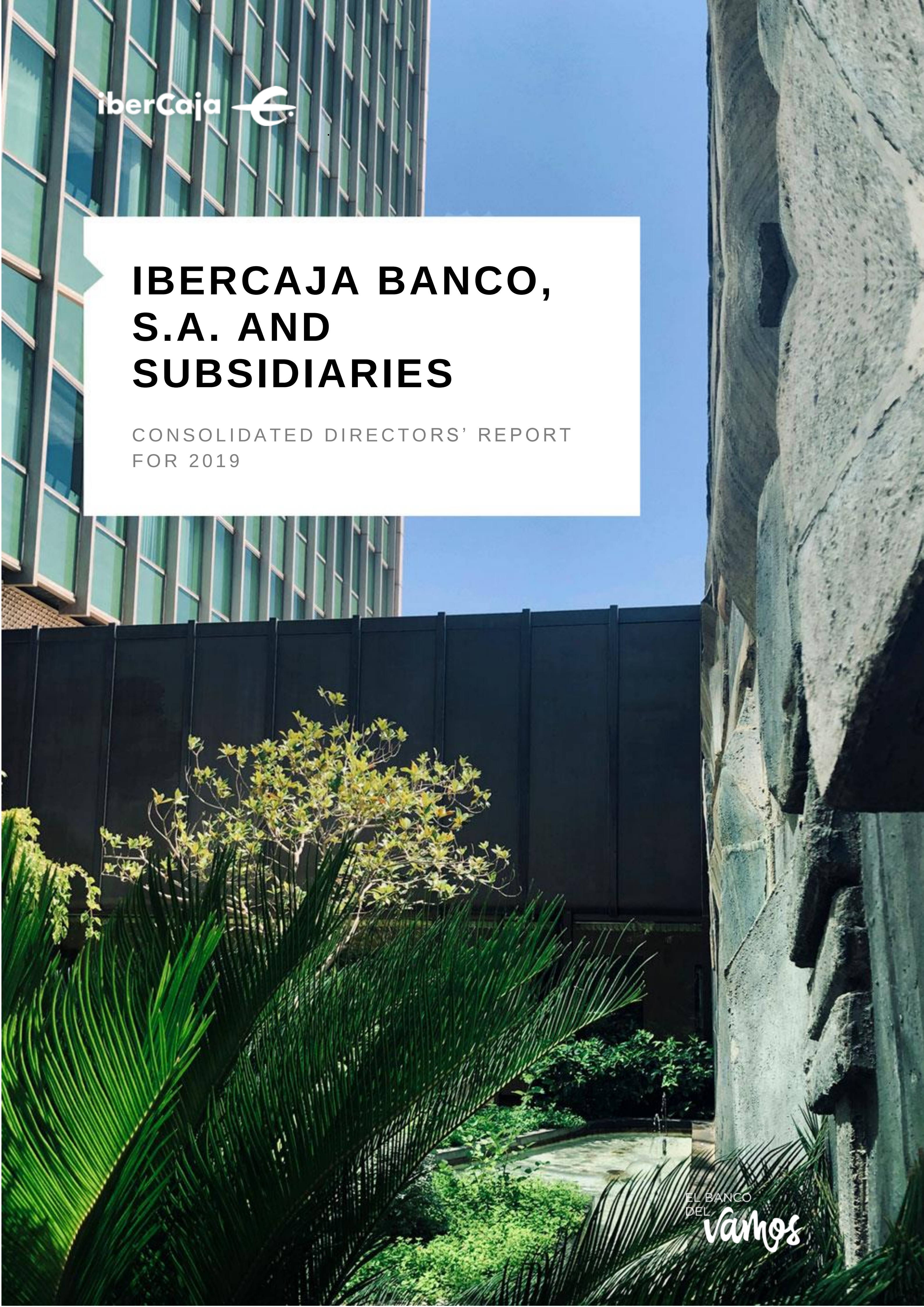
	Thousands of euros
	31/12/2019
Spain	44,648
	44,648

f) Grants and public aid received

No grants or public aid were received by Ibercaja Banco, S.A. or any Group company in 2019.

Other information

The return on the Group's assets during the year, calculated as net profit divided by the total balance sheet, was 0.15%.



IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT FOR 2019

IBERCAJA BANCO, S.A. AND SUBSIDIARIES

CONSOLIDATED DIRECTORS' REPORT FOR 2019

CONTENTS

1

THE IBERCAJA GROUP: CURRENT SITUATION

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1.1. DESCRIPTION, SHAREHOLDING AND ORGANISATIONAL STRUCTURE

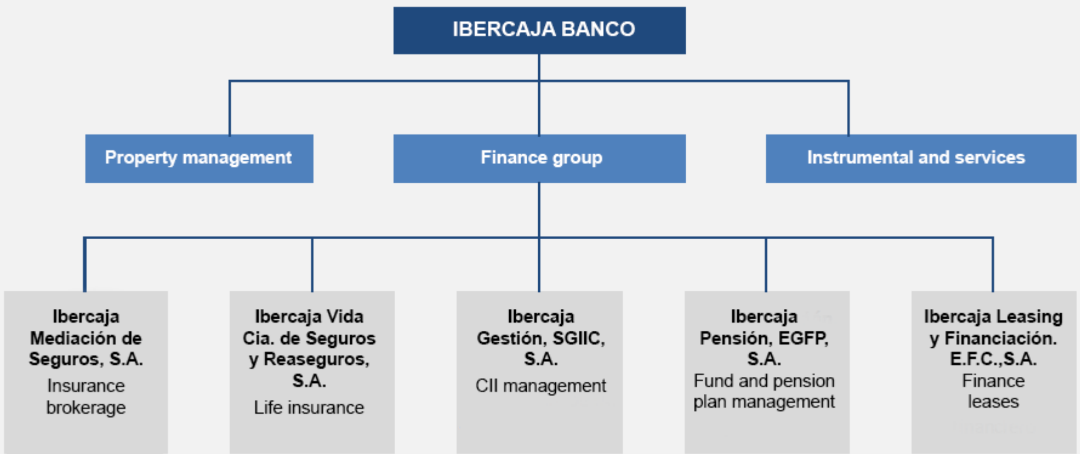
IBERCAJA IS A NATIONAL BANKING ENTITY SPECIALISED IN THE BUSINESS OF INDIVIDUALS AND COMPANIES, WHOSE OBJECTIVE IS TO GENERATE VALUE FOR ITS CUSTOMERS, SHAREHOLDERS AND SOCIETY IN GENERAL.

The **Group primarily engages in retail banking** and carries out practically all of its business in Spain. Its corporate purpose extends to all manner of general banking activities, transactions, business, contracts and services permitted under prevailing law and regulations, including the provision of investment and auxiliary services.

The majority shareholder of Ibercaja Banco is Fundación Bancaria Ibercaja, which owns 87.80% of its capital. Following the acquisition in June 2013 of Banco Grupo Caja3, the following companies are also shareholders of Ibercaja: Fundación Caja Inmaculada (4.85%), Fundación Caja Badajoz (3.90%) and Fundación Bancaria Caja Círculo (3.45%).

From an organisational standpoint, the **Bank is the parent of a group of subsidiaries**. Of these, the most notable - due to their wide range of banking products and high levels of profitability - belong to the **Financial Group**, which comprises companies specialising in investment funds, savings and pensions, bancassurance and leasing and rentals.

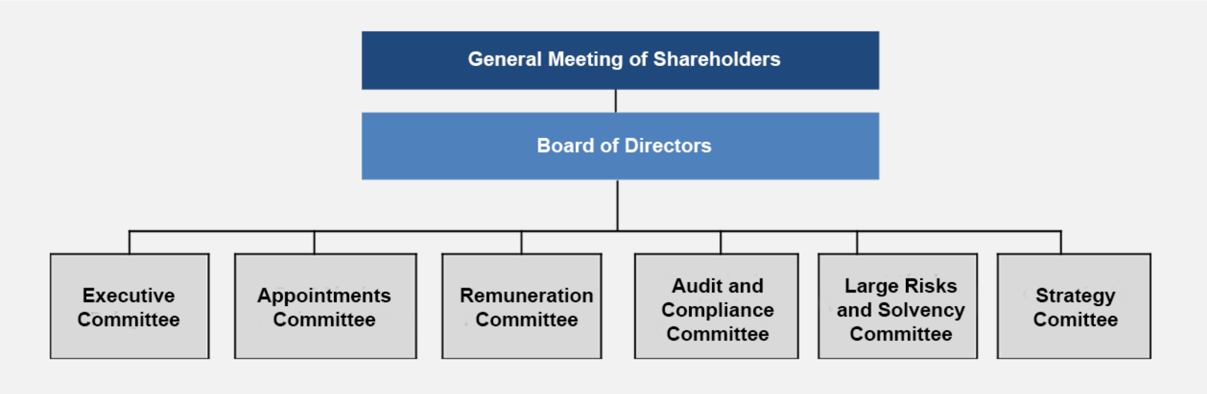
THE KEY COMPANIES THAT MAKE UP THE SCOPE OF CONSOLIDATION ARE:



1.2 CORPORATE GOVERNANCE

IBERCAJA'S GOVERNANCE STRUCTURE CARRIES OUT ITS FUNCTIONS EFFICIENTLY GUIDED BY THE RULES AND CODES OF GOOD CORPORATE GOVERNANCE.

Ibercaja Banco's **governance model** consists of the **General Shareholders' Meeting** and the **Board of Directors**, which in turn has six committees.



The Ibercaja Group's governing bodies, along with their composition and their internal rules, are governed by the **Bylaws** and the **Regulations of the Board of Directors**, the contents of which are compliant, among other regulations, with the law on the organisation, supervision and solvency of credit institutions, the Corporate Enterprises Act, the Audit Act, the guidelines issued by international bodies such as the EBA or the ESMA, and the Code of Good Governance of Listed Companies, which is taken as a benchmark of best practices in this field.

GENERAL SHAREHOLDERS' MEETING

General Shareholders' Meeting **is the most senior decision-making body at the Bank** and its resolutions are binding on the Board of Directors. The General Meeting has the broadest of authorities to govern the Bank and may validly adopt resolutions regarding any matters submitted for deliberation, in accordance with applicable law and the Bank's own Bylaws.

BOARD OF DIRECTORS

Board of Directors **has the broadest of authorities to manage, administer and represent the Bank and, except for those matters reserved for the General Meeting,** it is the highest decision-making body at the Bank. The Board has six committees: Executive, Nominations, Compensation, Audit and Compliance, Large Risk and Solvency, and Strategy.

EXECUTIVE COMMITTEE

The **permanent delegation of Board authority** to the Executive Committee covers all such authorities, except for those that cannot be delegated in accordance with the law, the Bylaws or the Board Regulations.

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NOMINATIONS COMMITTEE

The Nominations Committee is responsible for **proposing nominations** to the Board of Directors. It is specifically responsible for: evaluating the suitability of directors, establishing a target for the gender less represented on the Board, making, together with shareholders at a general meeting, proposals for the nomination, re-election or removal of independent directors, reporting on motions to nominate or remove senior executives and key office holders, including the basic terms of their contracts, and examining and organising the succession of the Chairman and the CEO.

COMPENSATION COMMITTEE

The Compensation Committee **has the duty of reporting, advising and proposing matters regarding compensation for directors, general managers and similar personnel, as** well as for the persons whose professional activity has a significant impact on the Bank’s risk profile.

AUDIT AND COMPLIANCE COMMITTEE

The committee's duties are expressly stipulated in the Regulations of the Board of Directors. In particular: to inform the general meeting regarding any matters raised by shareholders with respect to areas under its authority; to **supervise the effectiveness of the Bank's internal control, internal audit and risk management systems, including tax risks**; to supervise the process of preparing and presenting regulated financial information; to propose the designation or re-election of the financial auditor; to establish appropriate relations with the external auditor and to receive information regarding its independence; to receive annual information from the external auditor confirming its independence with respect to the Bank or its Group; and to issue the relevant report.

LARGE EXPOSURES AND SOLVENCY COMMITTEE

The Committee has the primary duty of advising **the Board as to the overall current and future risk appetite** of the Bank and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by the senior management by monitoring the Bank's solvency levels and proposing any action deemed appropriate for improvement.

STRATEGY COMMITTEE

The Strategy Committee has the core function of reporting to the Board of Directors on the Company's strategic policy while ensuring there is a specific organisation in place for implementing this strategy. The committee regularly **evaluated the Strategic Plan** approved by the Board of Directors, which is of great importance for the proper management of the Bank in the medium and long-term. It also implemented **quarterly follow-up measures regarding the development of the budget** and the specific implementation of the mandates set out in the Strategic Plan, reporting the conclusions obtained to the Board of Directors.

Information on the **composition of the different governing bodies** and the **remuneration policy** is disclosed in the **Annual Corporate Governance Report** and which is available on the website of the Bank under the section titled “Shareholders and investors - Corporate Governance and Remuneration Policy”.

CONTROL FUNCTIONS

The Group has an internal control system in place to oversee the financial and operational risks inherent in its business activities. The **General Secretary's Office and Control area** brings together the **second line of defence**, formed by the Risk Control department and the Compliance department. The General Secretary of the Bank is also the Chief Risk Officer.

The Risk Control Department **verifies compliance with the risk limits approved by the Board of Directors and the** Regulatory Compliance Department **supervises observance of the laws that govern the Group's business activities.** Ibercaja also has an **Internal Audit Department** that reviews the proper functioning of the risk control systems, while verifying compliance with established policies, procedures and standards. The **Audit and Compliance Committee** supervises the effectiveness of internal audit and control and of the risk management systems.

The head of the Risk Control Department reports regularly to the Large Risk and Solvency Committee, while the heads of the Regulatory Compliance Department and the Internal Audit Department report regularly to the Audit and Compliance Committee. The chairmen of the committees, as well as the CRO, report to the plenary session of the Board of Directors within the scope of their respective areas of concern.

1.3 BUSINESS MODEL AND STRATEGIC PLAN 2018-2020

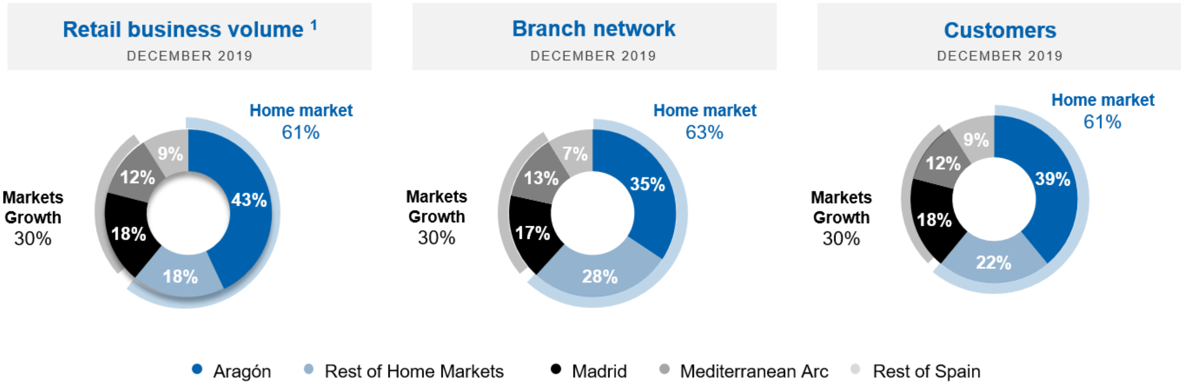
IBERCAJA'S BUSINESS MODEL, WITH A STRONG RETAIL PROFILE, COMBINES UNIVERSALITY WITH SPECIALISATION BY SEGMENTS.

1.3.1 BUSINESS POSITIONING AND MARKETS IN WHICH IT OPERATES

The Group, the **tenth largest in the Spanish banking system, has assets of €55,422 million. It primarily engages** in **retail banking**, focusing on the financing of households, particularly first home mortgages, and SMEs, savings management and other financial services. The eminently retail nature of the business is reflected in the structure of the balance sheet, where loans to individuals and small and medium-size enterprises account for almost 90% of loans and advances to customers, and retail deposits 77% of borrowings. On a national scale, the Group has a **market share** of **2.6%** household and non-financial enterprise **loans, and of 3.9% in the segment of residential property purchases by individuals.** (Source: Bank of Spain), and **3.5% in customer funds** (2.8% in retail deposits and 4.8% in asset management and life insurance) (Source: Bank of Spain, INVERCO and ICEA).

The Bank is **well positioned in its traditional area of operation** (Aragon, La Rioja, Guadalajara, Burgos and Badajoz), where **61% of customers** are concentrated and where it obtains **61% of retail business volume**. The market share in this territory, **31% in private sector deposits** and **24% in credit**, is 43% and 34%, respectively, in Aragon. (Source: Banco de España.) It also has **a significant presence in other areas of major economic significance such as Madrid and the Mediterranean coast** (Catalonia and Valencia), which account for 18% and 12% of customers and 18% and 12% of the business volume.

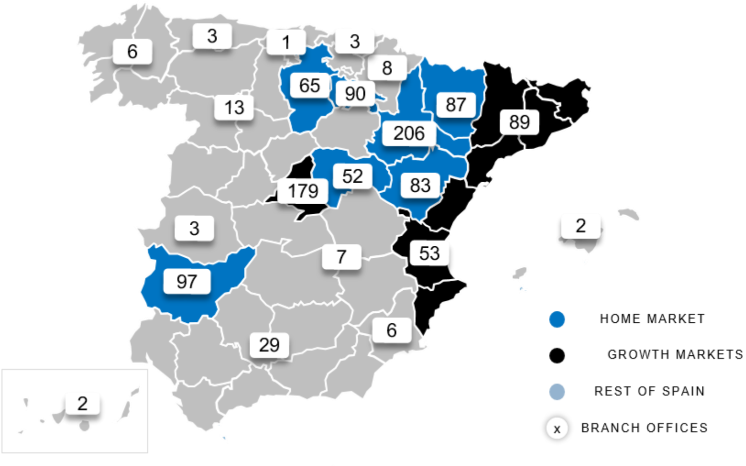
DISTRIBUTION OF TURNOVER, NETWORK AND CUSTOMERS BY AREA OF OPERATION:



[1]RETAIL BUSINESS VOLUME IN NORMAL COURSE OF BUSINESS: LOANS AND ADVANCES TO CUSTOMERS EX REVERSE REPOS OF ASSETS AND DOUBTFUL ASSETS + RETAIL DEPOSITS + ASSET MANAGEMENT AND INSURANCE

As of December 2019, the **network** accounted for **4.4%** of the national total with **1,084 branches**, of which 310 are rural. The distribution of the network by autonomous regions is as follows: 376 points of sale in Aragon, 179 in the Community of Madrid, 100 in Extremadura, 90 in La Rioja, 78 in Castile and León, 89 in Catalonia, 59 in Castilla-La Mancha, 53 in the Community of Valencia, 29 in Andalusia and 31 in the other autonomous regions of Spain. **The Group has a total of 5,304 employees (5,053 in the parent).**

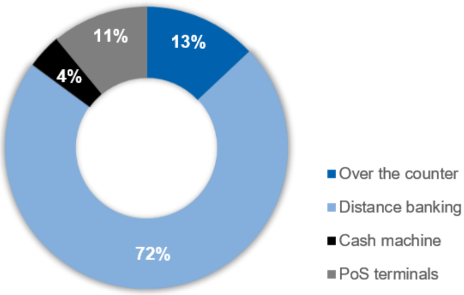
DISTRIBUTION OF IBERCAJA BANCO'S BRANCH NETWORK:



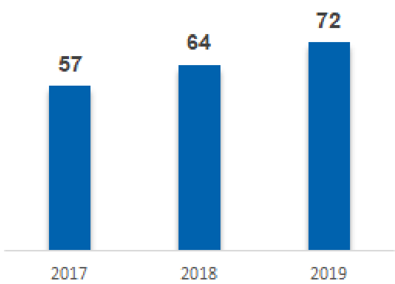
The branch network is complemented by remote channels so that customers can carry out transactions in the most practical and simple remote environment, whether on the Internet or by mobile phone. **Digital banking accounts for 72% of the number of transactions carried out in 2019**. **The number of digital banking customers** who used one of the different channels in the last month reached **766,000**, with a 22% growth since December 2017. **Users of the Ibercaja app** for mobile banking increased to **432,200**; the increase during 2019 is 39% and 78% compared to 2017.

DISTRIBUTION OF NUMBER OF TRANSACTIONS BY CHANNEL AND CHANGE OVER TIME DISTANCE BANKING:

Distr. transactions per channel (%)
2019



Trend in % of distance banking transactions



1.3.2 GOALS AND STRATEGIES

In 2019 the Bank has worked under the guidance of the **"Plan+ 2020" Strategic Plan**, whose objective is to make Ibercaja the best financial institution in the country in terms of having the most satisfied customers and being most commercially efficient bank, anticipating the needs of stakeholders and supporting the transition towards a sustainable economy. **Three major programmes** have been defined to address this challenge: **Customer, Value and Transformation Drivers** that implement the guidelines to compete successfully in an environment of rapid changes affecting consumer habits, technology, the economic and business context and the regulatory framework. **The Plan will end with Ibercaja being listed on the Stock Exchange,** thus complying with the regulations affecting the Ibercaja Banking Foundation (Fundación Bancaria Ibercaja) and becoming standardised with most competitors in Spain and Europe as a listed bank.

At the halfway point of the Plan, most of the proposed milestones have been achieved, so a satisfactory assessment can be made of its performance.

CUSTOMER PROGRAMME

Our customers are the basic foundation underlying the transformation of the business model. To improve the relationship with customers and contribute to the growth of our business, work is being done to strengthen distance channels. **Mobile Banking** incorporated new features such as **Digital On Boarding**, which allows you to become a customer without having to go to the branch, **the payment service through Apple Pay, Samsung Pay and Google Pay and the aggregation of accounts from other banks**. The **website** **www.ibercaja.es** was revamped to offer solutions that are better suited to the financial needs of individuals and the **new Digital Banking for Companies** was developed. Likewise, a **new Commercial and Management System** is being deployed throughout the network, which will contribute to an integrated and streamlined management of customers, focused on acquiring them and with an agenda governed by the manager him/herself. The reform of the organisational model of the branch network, in which "head" and "satellite" branches with different levels of specialisation will coexist, is another of the tasks addressed within the customer programme.

VALUE PROGRAMME

The Value programme seeks to ensure that our business is geared towards the most profitable opportunities. It relates to the reduction of unproductive assets, the development of risk management processes, the more efficient allocation of prices and capital and the optimisation of information systems, all with a view to increasing the Bank's profitability and solvency. Within the framework of this programme, a **new model for the recovery of irregular investment** was implemented and tools were developed for control and monitoring. Unproductive assets fell significantly, allowing the **NPA ratio at year-end to stand at 5.78%, six percentage points lower than at the start of the Plan**. In addition, the Bank is working to implement a **new form of pricing based on risk-adjusted returns.**

TRANSFORMATION DRIVERS PROGRAMME

The Transformation Drivers programme, the third pillar of the Plan, **encompasses technology, processes and people**.

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

- Ibercaja **optimises its processes** to be more efficient, modernising and rationalising applications and infrastructure, so that the network is freed from administrative tasks and can focus on the marketing effort. Progress was made by outsourcing low value-added tasks and initiating pilot experiments for the robotisation of repetitive processes such as document control and database reconstruction.

  Reporting quality supports the credibility of the Bank facing regulators, credit rating agencies and investors. To optimise it, information systems were strengthened and the **Data Governance framework** was established, which involves a modification of organisational structure, the definition of roles, responsibilities, policies and principles regarding data, and adaptation of technological architecture.

- **People** are the key to change. The success of the Plan depends on the capacity and commitment of the staff working in the Bank, for which we need to boost opportunities for professional and personal growth. The People Area works on measures to improve talent and promote the skills of the Group's employees. Among them, the roll-out of **the Inspirational Leadership Model**, a framework for people who lead teams to exercise a uniform and consistent leadership aligned with Ibercaja's strategy.

  The Bank has obtained the **"Empresa Familiarmente Responsible" (efr)** Certification, which endorses the organization's involvement in generating a culture based on efficiency, flexibility and commitment to people. With this achievement, Ibercaja takes an important step forward in terms of equality and balance of personal, family and professional life.

Financial institutions have a key role in sustainable development, mobilizing the necessary capital flows and integrating environmental, social and corporate governance risks and opportunities into management. **Aware of this, Ibercaja has moved forward in a series of projects that show its commitment to sustainability.** A cross-cutting **Sustainable Finance** team was created, involving all business areas, to work on the Bank's sustainability roadmap and incorporate ESG aspects into strategy and decision-making. The organisation's commitment to sustainability was demonstrated by the **signing of the United Nations Principles for Responsible Banking, together with the Bank's adherence to the New Deal for Europe “CEO's call to action” initiative and the recommendations of the Task Force for Climate Related Financial Disclosures (TCDF).**

1.3.3 BUSINESS MODEL LINES OF THE GROUP

Ibercaja is committed to a **full-service banking model** focused on the retail business and based on service quality and innovation. It serves **a stable base of 1.9 million customers** (management units): comprising households, companies and public and private institutions. It has specific channels, special products adapted to different customer segments, and offers basic banking services with products such as insurance, investment funds and pension plans, all marketed through its highly specialised financial group.

In **Ibercaja's business model**, which is strongly retail and customer-focused, there are **three main areas** depending on the commercial strategy defined for each type of customer:

RETAIL BANKING:

- Households
- Personal Banking
- Private Banking

BUSINESSES AND INSTITUTIONS

- Companies business
- Stores
- Institutions

OTHER BUSINESS LINES

- Financial markets
- Business shareholdings

RETAIL BANKING

The Bank manages **1.7 million customers who contribute more than 80% of the retail turnover**. Their high level of engagement with the Bank can be seen in the average age of 20 years, and in the number of products or services contracted, 6.8. **Retail banking includes the household, personal and private banking segments.**

Households provide the largest number of clients, 1.4 million, and the highest percentages of managed resources and credit investment. The management of the branch network in this segment focuses on capturing new customers and consolidating the loyalty of existing ones. The Bank carries out its mission through proposals adapted to personal needs, depending on the risk profile and available income. Ibercaja has historically specialised in financing homes for individuals. 21.11% of new financing was allocated for this purpose, with the granting of fixed-rate mortgages being particularly important. **The Bank launched new products, both for assets and liabilities, linked to the communication concept "El Banco del Vamos"**, which incorporates attractive conditions and is helping to expand the customer base. The **"Cuenta Vamos"** marked a new stage in the capture of savings from individual customers, achieving a balance of more than €390 million at the end of the year.

The **youngest members of the household unit** have a specific product line. Highlights include the "Cuenta+ Joven", aimed at customers up to the age of 18, and the "Cuenta Joven" which, together with the "Visa One" card, is designed for customers up to the age of 30. This younger group has the benefit of free account maintenance fees, card fees and Internet transfers. In order to give children the benefit of advantages in training, leisure and free time activities, the Bank created the "Iberfan" club, which now has 18,500 members.

The **personal and private banking segment** comprises nearly **275,000 customers** who, with an average of 12.3 products or services, provide a high volume of retail customer funds, **almost 38.2 billion**, mainly 54%, in asset management and insurance.

- Those customers with a savings balance of **more than €100,000 euros or €75,000 euros outside the Home Market** belong to **personal banking**. The model of service to this group is based on a personal manager who proposes the best investment strategy to the saver. The **490 specialised managers**, based on their knowledge of the customer, offer him/her investment alternatives, mainly funds, pension plans and insurance, adjusted to his/her risk profile, objectives and experience in financial products. Advice to personal banking clients is certified according to ISO 22222:2010, which the Bank renewed in 2018 for the seventh consecutive year.

- The **private banking activity** is aimed at people with financial assets that have increased to **500,000 euros** since January 2019. The customer is assisted by a private banking manager who analyses their needs and provides them with the best investment strategies and financial-tax planning. The range of financial assets available to the private banking community is very wide: securities listed on national and international markets, investment funds, both of Ibercaja and of its external suppliers, SICAVs, structured deposits… The team assigned to the private banking service, **75 people**, is distributed in the different offices in Madrid, Zaragoza, Logroño, Valencia, Guadalajara, Barcelona, Burgos, Seville and Badajoz, as well as in the customer service offices in Huesca, Teruel and Pamplona.

Investment products with a socially responsible profile have been well received by savers. **Ibercaja Megatrends** has joined the **Sustainable and Solidarity Investment Fund**, which, after identifying three trends: technology, environment and sustainability and demography, channels savings by investing, under these criteria, in companies all over the world. In pension plans, Ibercaja Pensión incorporated the **Sustainable Europe Pension Plan** into its catalogue, which complements the already existing **Sustainable and Solidarity Pension Plan**. The latter has the special feature of donating part of the management fee to projects of a social or environmental nature.

The main strategic challenges and trends that will mark the activity of Retail Banking in the near future are: increase customer loyalty by improving their experience and enhancing digital channels, consolidate the progress of the personal and private banking lines with personalised advice as a differentiating factor, and expand the range of investment and financing products based on ESG criteria.

BUSINESSES AND INSTITUTIONS

This area comprises more than **180,000 customers** (management units), companies, retailers, institutions and others and contributes **nearly 16% of the retail business volume**.

Within this group, **80,000 customers** form part of the **strategic business group of corporates**. The companies with the highest potential, business volume and most complex operations, numbering approximately 38,000, are served by 223 specialised managers, supported by 381 office directors. Microenterprises and SMEs, with a turnover of less than €50 million, provide more than 80% of our business volume with companies.

In 2019, progress was made on the roadmap set out in the Plan+ 2020 to position Ibercaja as one of the leading financial institutions in the business world. The goal is to provide a swift and tailored response to the demands of companies, so as to generate a global relationship, profitable for both parties and sustainable over time.

At the network level, **two new business centres have been opened in Bilbao and Alicante**, which join the six existing ones in Zaragoza, Madrid, Alcobendas, Valencia and Barcelona. These centres are responsible for managing customers with a turnover of more than €6 million or €10 million, depending on the area of operation, and who require a greater degree of specialisation.

The **new digital business banking**, framed within the line of digital transformation of the Strategic Plan, is a leading platform that aims to be a benchmark in the sector. Its roll-out, carried out in the last months of the year, enables the user to browse on any device, can be customised to the customer's taste and allows the entire transaction range of the company to be carried out.

More than **16,000 shops**, customers of Ibercaja, require personalised management and generate significant business opportunities in the field of financing, insurance and collection and payment services. The range of products and services adapted to the needs of small and medium-sized businesses ranges from daily cash management to help in the internationalisation of the business, including a range of point of sale terminals with the latest technology or, for those who make their sales through online channels, virtual devices that guarantee the security of the operation and control of the business activity over the Internet. Likewise, the Bank collaborates with **public and private institutions** of state and territorial scope through financing agreements and other specific commercial offers.

The main strategic challenges and trends that will mark the activity of the Businesses and Institutions division in the near future are to cement Ibercaja's establishment within the business segment by growing in market share, to publicise the new digital banking and its functions, to intensify the participation of professionals and companies in the “Ecosystem+ Companies” initiative and to offer specialised solutions for shops, businesses and the agricultural sector.

OTHER BUSINESS LINES

Business at the Group’s Financial Markets area has focused on ensuring the availability of liquid funds on the balance sheet, managing portfolios of fixed-income and equity instruments, planning placements and buybacks of instruments and hedging structured and other deposits.

The Group has **business interests** in several sectors, including **tourism, real estate, media, logistics and services.** Investment in investees aims to support the productive fabric, preferably SMEs, in projects that contribute to creating wealth and jobs in areas where the Bank operates, while helping entrepreneurs. Hence the economic benefit to the Bank also implies a return for the community. Ibercaja seeks to encourage investments in sustainable projects with environmental value and in those companies with high levels of corporate social responsibility.

The **2018-2020 Plan** envisages an active policy of divestment from non-strategic business interests and entrenched projects that have reached a sufficient degree of development and autonomy. The Plan also raises the possibility of investing in initiatives that meet the criteria required by the Bank (profitability, sustainability and development).

FACTORS AND TRENDS THAT MAY AFFECT THE FUTURE PERFORMANCE OF THE GROUP

Trends for 2020 are framed within a context characterised by the prolongation of the negative interest rate situation, the weakening of the Spanish economy, competition between banks and the rise of new challengers coming from the technological world with a growing offer of financial services. In this scenario, in which revenues from lending are under great pressure, the Group's objectives and strategies are **geared towards boosting alternative sources of income**, less dependent on changes in interest rates, and **providing customers with value-added products**

and services. Ibercaja therefore plans to maintain the growth rate of the asset management and insurance business, while strengthening the Personal and Private Banking lines.

At the same time, we must **preserve the profitability of the business** by defending margins, directing new loan originations towards the most profitable segments and continuing to focus on **containing costs and reducing non-performing assets on the balance sheet**. The **progress of digitalisation** in all areas of business is also a priority goal to accelerate efficiency and customer satisfaction by staying ahead of society's rapidly changing habits. **Finally, the transition to a sustainable economy must be encouraged.**

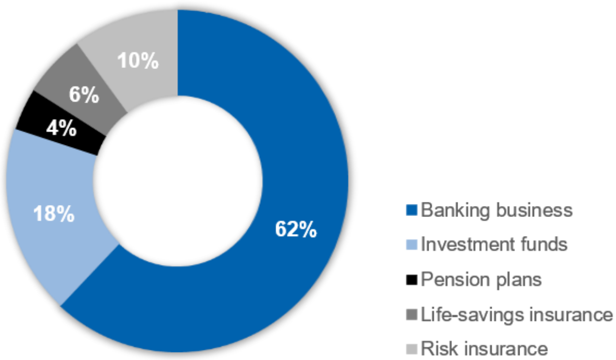
The **specific strategic challenges of each of the business areas** in the short and medium term are described above in the relevant sections.

1.3.4 FINANCIAL GROUP

The Group is **a source of business diversification and generation of recurring revenue**. It provides the branch network with a first-class marketing tool by designing and managing financial products of recognised prestige. Created in 1988 and wholly owned by Ibercaja, the division is made up of **companies specialising in investment funds, savings and pension plans, bancassurance and leasing**. Innovative capacity and specialised offerings place the Financial Group in a prominent position among Spanish financial institutions. Its products, targeted at both individuals and businesses, are marketed and sold through the branch network and supplement the Bank's extensive range of banking services.

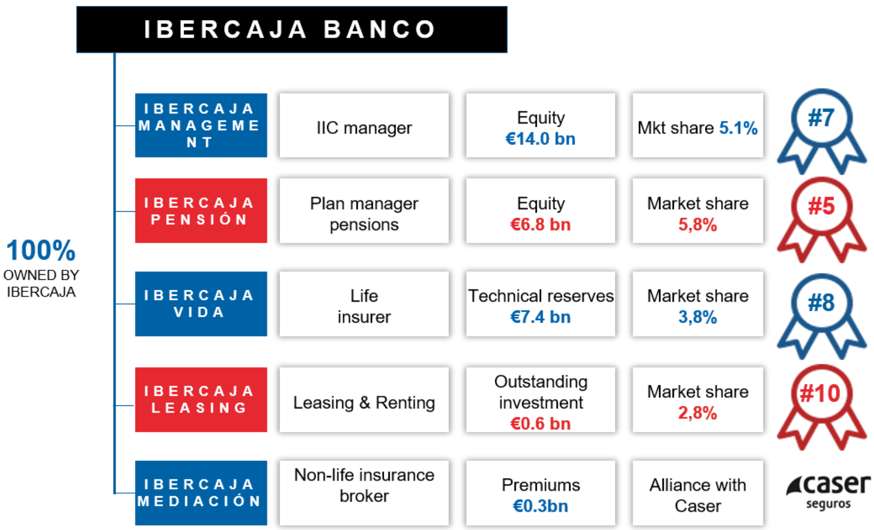
CONTRIBUTION TO RECURRING REVENUE:

Assets under management and insurance provide **38% of the Group's recurring revenues and account for 46% of retail customer funds** managed by the Bank. Our market share in this business, 4.8%, places Ibercaja in the sixth position in the industry ranking.



The Financial Group has an **ESG Committee** whose objective is to promote the implementation of responsible investment strategies in asset management. It also forms part of the **Sustainable Finance Team created by Ibercaja Banco** to design and implement the sustainability roadmap, facilitating the Group's adaptation to the regulatory environment derived from the European Sustainable Finance Action Plan, the transition to a low-carbon economy and the United Nations Principles for Responsible Banking, signed by the Bank at the end of the year.

THE KEY COMPANIES THAT ARE PART OF THE FINANCIAL GROUP ARE:



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MANAGEMENT OF COLLECTIVE INVESTMENT UNDERTAKINGS

Ibercaja Gestión, SGIIC, S.A. is the company tasked with managing the Group's CIUs. It closed the year with assets under management of €13,981 million, 13.43% more than a year earlier, which is a historic record and consolidates the Bank in **seventh position in the sector ranking** (Source: INVERCO). By growth, in percentage terms, it ranks third among the ten largest management companies in our country. Net contributions, €735 million, are 57% higher than in 2018. Almost 99% of our funds ended the year with capital gains (weighted average revaluation of 7.63%). Returns obtained by the equity funds, thirteen of which were over 20%, stand out.

Ibercaja Gestión's market share, **5.06%** (Source: INVERCO), marks a new high for the sixth consecutive year, after **increasing** by **27 basis points**. Since December 2015 the management company's market share in the fund industry has increased by 113 basis points.

Ibercaja Gestión has 63 investment funds tailored to each investor and capable of obtaining returns in any market situation. It also manages 10 SICAVs in Spain with a volume of €60 million and one registered in Luxembourg, with assets of almost €70 million, for private banking customers. The launch of eight new funds in 2019 and the change in investment policy in three others highlights the innovative nature of the management firm.

The **commitment to socially responsible investment** is evident in two funds, with assets of almost €250 million, which respond to the commitment reflected in Ibercaja's Corporate Social Responsibility Policy to offer its customers profitable investments with a socially responsible and supportive profile.

PENSION PLAN MANAGEMENT

Ibercaja Pensión, EGFP, S.A. is the Group company engaged in managing different kinds of pension plans. The company is a signatory of the United Nations Principles for Responsible Investment and a founding member of Spainsif, the Spanish forum for Socially Responsible Investment.

The assets managed at the end of the year, €6,794 million, are 9.50% higher than in 2018. **Market share reached an all-time high of 5.84%**, after adding 4 basis points in the year, and the management company remains in **fifth position in the sector ranking** (Source: INVERCO).

Savings managed in individual system pension plans increased by 14.48% to €2,574 million. Market share, **3.22%, increased 11 basis points** since December 2018, keeping the company in **eighth position in the sector** ranking (Source: INVERCO). The number of customers with individual plans increased by 8,268 to a total of 198,465. Net contributions, €215 million, increased by almost 20% as a result of marketing actions and the advisory work to customers carried out by Ibercaja's branch network.

Assets managed in **employment plans** amount to €4,220 million, 6.64% more than in 2018. **Market share**, **11.82%**, **increased by 17 basis points** in the year and the company consolidated its position as the **third largest Spanish management company**. The average return achieved in 2019 by the employment plans, 9.8%, is more than one percentage point higher than the average for the sector.

The offer of savings instruments with a socially responsible investment profile was reinforced with the launch at the end of 2019 of the **Sustainable Europe Pension Plan**, which joins the already **existing Ibercaja Sustainable and Solidarity Pension Plan**.

INSURANCE BUSINESS

The Group's insurance business is carried on through **two companies operating in the life and non-life lines**, providing products and specialised support to Ibercaja Banco's branch network:

- **Ibercaja Vida Compañía de Seguros y Reaseguros S.A.U.** is a life insurance company that specialises in the bancassurance business since 1996. Its objective is to provide the customer with savings insurance (systematic, investment and income) and unit-linked insurance to cover their needs. Personal provision for death or disability is another of the pillars of its activity. The insurance company ranks eighth in the sector, with a share of 3.79%. (Source: ICEA).
- **Ibercaja Mediación de Seguros, S.A.U.** is engaged in general insurance brokerage. It markets and sells risk and retirement savings insurance for individuals and companies through the Ibercaja branch network.

LIFE-SAVINGS INSURANCE

Provisions for life and savings insurance, €7,270 million, remained practically stable in a year when low interest rates particularly affected the range of guaranteed savings products. **Deferred capital insurance**, **€2.3 billion**, represents 32% of the volume managed in life insurance savings. **Life and temporary annuities**, which account for 30% of the total, increased by almost 5% to **€2,160 million**. **Systematic individual savings plans ("PIAS")** account for 27%, with a volume of nearly **€2 billion**. To make savings profitable in the current interest rate environment and to maintain the tax advantages associated with PIAS, at the end of 2018 **PIAS LINK** was launched: four investment baskets with different weights of equity. The current balance is more than €300 million.

RISK INSURANCE

Risk insurance premiums increased by 3.51% to **€276 million**, distributed between life and non-life insurance.

- **Non-life insurance premiums**, at **€198 million**, increased by 3.73% and the number of policies rose to 641,540. The boost to the activity is the outcome of the commercial effort, the alliance with Caser for distribution through the network of offices of this type of insurance and the effectiveness of the campaigns and promotions carried out throughout the year.
- **Revenues from life insurance risk**, **€78 million**, grew by 2.96%. Ibercaja Vida is the main support for this type of insurance within the "Risk Project".

LEASING AND RENTING

Ibercaja Leasing y Financiación S.A. specialises in financing productive activities through leasing and renting. It provides the branch network with products for SMEs and professionals to finance their investments in fixed assets and access goods under operating leases.

Outstanding exposure, **€619 million**, increased by 10.33% during 2019, a percentage that greatly exceeds the average growth of the industry (6.41%). **Market share, 2.84%**, **totalled 10 basis points** in the last twelve months (Source: Asociación Española de Leasing). Renting performed well, with a 63% increase in outstanding investment and a 71% increase in the vehicle fleet (4,535 units).

2 BUSINESS PERFORMANCE AND RESULTS

EL BANCO DEL Vamos

2.1. ECONOMIC AND FINANCIAL ENVIRONMENT

THE SPANISH ECONOMY HAS WEATHERED THE GLOBAL DOWNTURN, MAINTAINING A GROWTH RATE THAT, ALTHOUGH LOWER THAN THAT OF 2019, IS WELL ABOVE THE EUROPEAN AVERAGE.

WORLD ECONOMIC LANDSCAPE

The **world economy** **slowed in 2019**, with an estimated advance of less than 3%, below the average achieved over the past ten years. The slowdown is due to a number of factors, including: the trade war between the United States and China, uncertainty about the outcome of Brexit, the crisis in the automotive sector due to increased environmental pressures, the adverse effects on emerging countries of the rate hike in the United States in 2018, the appreciation of the dollar and the social conflicts that spread through some Latin American countries.

China's GDP growth of around 6% **is losing momentum, influenced by disputes with the United States** and government control to prevent excessive indebtedness. On the other hand, the transition towards a model based more on domestic demand and less dependent on exports in itself leads to slower growth in the Asian giant than seen in recent years.

The change in **Japanese GDP** for the year as a whole is estimated at close to 0.9%. Public spending emerged as an engine of growth after the government rolled out an ambitious infrastructure plan and implemented fiscal stimulus measures. Private consumption was boosted by the increase in VAT, as purchasing decisions were brought forward, and by the boom in the labour market, where the unemployment rate is less than 2.5%. Exports were hurt by the struggle between China and the United States, Japan's two main customers.

The **US economy**, despite slowing down, maintains an estimated rate of growth of close to 2.3% year-on-year. **Consumption displays great strength**, supported by an unemployment rate at historic lows and a vigorous increase, above 3%, in wages. Investment weakened after the strong push of 2018, while **exports are suffering from the global economic slowdown**, the climate of trade uncertainty and the appreciation of the dollar.

The **growth of the Eurozone** was **modest**. The year-on-year change in GDP, pending final data, could stand at 1.2%. The international environment and the weakening of world trade are taking their toll on a very open economy such as the European one, slowing down exports and hurting sales in the industrial sector. **The German economy was the hardest hit**, bordering even on recession, because of its greater dependence on manufacturing. Consumption behaved well and became the main driver of growth. Strong employment data - the unemployment rate has fallen to 7.5% - together with higher wages and financial tailwinds stimulated household spending. Inflation stood at 1.3% in December, well short from the ECB's target of close to 2% and at a similar level to underlying inflation.

MONETARY POLICY AND FINANCIAL MARKETS

Central banks turned around their monetary policies, as fears of a weakening of activity were confirmed, and adopted expansionary measures to revive the economy. The **Fed** cut the benchmark interest rate three times, bringing it down to the 1.5%-1.75% range. However, according to the statement after the December meeting, the Fed believes that the risks have been mitigated and does not expect further cuts in the short term. In September the ECB updated its monetary stimulus by linking any change in rates to inflation being close to 2%. The Bank set the marginal deposit facility at -0.50%, improved the financing conditions for targeted operations (TLTRO III) and in November resumed the asset purchase programme at a rate of €20 billion per month. It also decided to apply a new remuneration system to the reserves deposited by banks with the ECB, exempting the marginal deposit facility from payment in an amount equal to six times minimum reserves.

Equity markets had an especially good year. The main indices achieved advances of over 20%, driven by high available liquidity and a scarcity of profitable investment alternatives. In Europe, the Eurostoxx 50 was up 24.78%, the German Dax 25.48%, the French Cac 26.37% and the Italian FTSE 28.28%. In Spain, the increase of the Ibex 35, 11.82%, was dragged down by the high weight of the banking sector, which put in the worst relative performance. US markets displayed excellent tone, reaching levels close to historic highs. The Dow Jones closed the year with a 22.34% appreciation, while the Nasdaq, which lists the main technology companies, rose 35.23%.

In **fixed income markets**, expectations of a global economic slowdown and the shift towards more expansionary central bank monetary policies put pressure on sovereign and corporate debt rates. However, in the latter part of the year, in parallel with a general sense of improvement in the financial markets, there was a **rebound**, with fewer falls. In the United States, the 10-year government bond yield was around 1.8%, falling by more than 80 basis points during the year, while in Europe the German bond closed in a negative range of 0.3% to 0.35%.

SPANISH ECONOMY

The Spanish economy continued its expansionary phase with a more moderate advance than in previous years. **GDP growth**, **2% year-on-year**, showed a **clear slowdown compared to 2018, but was higher than the average for the Eurozone and the most advanced peer countries.**

Domestic demand contributes **1.5 percentage points to growth**. Household consumption, although slowing down, was the most important pillar of activity, favoured by wage increases and financing tailwinds. The investment faltered due to symptoms of depletion in the construction sector, while capital goods investment retained more dynamism. The household savings rate, after falling to historical lows in 2018, is recovering in line with expectations of a less benign economic scenario.

The **external sector** contributes **0.4 percentage points to GDP growth**, in a scenario where exports of goods have revived in the latter part of the year and the contribution of tourism, with increases in expenditure and number of visitors, remains key.

The decline in **employment data** and the trend in unemployment suggest that the slowdown is beginning to be transferred to the labour market. The number of unemployed, 3.2 million people, is **3.4% lower** than in December 2018. The Labour Force Survey shows an unemployment rate of 13.78%, 67 basis points lower than at the beginning of the year. The number of Social Security members reached 19.4 million, with an increase of almost 385,000 people, the lowest since 2013.

Inflation remains contained. The year-on-year rate of change in the CPI, after reaching lows in September and October, recovered slightly, due to the rise in fuel prices, to reach 0.8% in December, 20 basis points below that of a year earlier. This figure, which compares favourably with the European average of 1.3%, enables the Spanish economy to become more competitive in foreign markets. Core inflation, without unprocessed food and energy, 1%, remains virtually unchanged.

BANKING AND REGULATORY ENVIRONMENT

In the Spanish banking sector, **the interest rates context continued to adversely affect profitability.** The expansionary about-face in the ECB's policy, postponing once again the rate hike, adds pressure to a difficult situation and makes it necessary to continue to promote alternative sources of income and to influence the reduction of problem assets and cost containment through rationalisation of branch networks and extension of digitalisation.

Retail credit fell by 1.19%, moderating its rate of decline in line with the positive performance of the Spanish economy. Lending for productive activities recorded a fall of 2.25%, due to the excess liquidity amassed by companies and the use of alternative sources of financing. Household lending saw a slight contraction (-0.55%), explained by the decline in loans for home purchases (-0.78%), while consumption moderated its advance to 6.35% as a result of a more uncertain economic environment that encourages savings.

Retail customer funds **increased by 5.64% year-on-year**. Deposits from households and companies are up more than 5%, while mutual funds are up 7.56%, thanks to the gains obtained from the good performance of the markets.

The **volume of problem assets was significantly reduced**. The NPL ratio for credit to the private sector for all deposit institutions, 4.99% at November, fell by 85 basis points since December 2018. However, there was a slower pace of net recoveries, in line with the weakening of the economic cycle.

In the **regulatory sphere**, on 1 January 2019 IFRS 16 came into force, which establishes the principles for the recognition, measurement, presentation and breakdown of leases in order to ensure that the accounting information presents a true and fair view of these transactions. Law 5/2019 of 15 March regulating Real Estate Credit Contracts (LCCI) has been in force since 16 June. This Law transposes Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 into Spanish law with the aim of establishing certain rules for the protection of natural persons who are debtors or guarantors of the loans to which it refers. The law regulates the legal regime of lenders and intermediaries and contains rules of transparency and conduct that are binding upon them. In August the ECB published a review of its supervisory expectations on prudential provisions for new bad loans as a result of the enactment of Regulation 2019/630 of the European Parliament and of the Council amending minimum loss coverage for non-performing exposures. On 7 November the European Banking Authority (EBA) released the methodology and draft templates for the 2020 European banking stress test. This exercise, which will be carried out in the first half of 2020, will assess the resilience of banks to a hypothetical adverse economic shock and will serve as the basis for determining PRES capital requirements in 2020.

2.2 HIGHLIGHTS FOR THE PERIOD AT THE IBERCAJA GROUP

PROBLEM EXPOSURE DECLINED BY 37% AND THE CET1 FULLY LOADED RATIO ADVANCED 82 BASIS POINTS.

Against a backdrop of low interest rates, the Ibercaja Group's activity was aimed at protecting the profitability of the business by defending margins and diversifying sources of income, boosting the most profitable segments of lending, in addition to the asset management business and insurance. In addition, we highlight the reduction in recurring operating costs, the dynamic management of non-productive assets on the balance sheet and the significant increase in the Group's solvency ratios.

HIGHLIGHTS IN THE PERIOD WERE ESSENTIALLY AS FOLLOWS:

IBERCAJA EARNED A NET PROFIT OF €84 MILLION, DOUBLE THAT OBTAINED A YEAR EARLIER, DUE TO THE STABILISATION OF RECURRING REVENUE, A DECREASE IN OPERATING EXPENSES AND GRADUAL NORMALISATION OF THE COST OF RISK.

- **The decline in net interest income**, mainly due to the effect of interest rates on wholesale activity, **is almost entirely offset by the increase in non-banking fees.** The good performance of retail business was reflected in the increase in the return on loans and the lower cost of liabilities, which meant that the customer spread, 1.43%, rose by 4 basis points in the year.

Fee income accounted for 42% of recurring revenue, after growing 5.13%, due to the 13.55% increase in fees linked to asset management.

Recurring operating expenses, excluding those associated with the workforce adjustment of 2018, decreased by **2.12%.** Cost control led to a 99 bp improvement in the recurring cost-to-income of 63.70% in the last twelve months.

Recurring income before write-downs (net interest and fee income less ordinary operating expenses) came to **€342 million**, with a year-on-year change of 2.21%.

The reduction in non-performing assets translates into lower provisioning requirements, so that the cost of risk, **40 basis points**, fell 14 basis points compared to December 2018.

THE GOOD COMMERCIAL DYNAMICS ARE REFLECTED IN THE PROGRESSIVE STABILISATION OF HEALTHY LENDING, THE GROWTH OF RETAIL FUNDS, ESPECIALLY THOSE ASSOCIATED WITH ASSET MANAGEMENT AND INSURANCE, AND THE SUCCESSFUL LAUNCH OF NEW PRODUCTS AND THE IMPROVEMENT OF DIGITAL CHANNELS FOR CUSTOMER RELATIONS

Healthy lending is progressively stabilising owing to the contracting of new transactions, such that the year-on-year decrease is down to **0.31%,** compared to 0.53% a year ago. The generalised decline throughout the Spanish banking system in financing for home purchases is the main obstacle to achieving positive rates of change.

The growth in retail funds of **6.56%** is due to the good performance of the balance sheet (3.91%) and especially to asset management and insurance, the volume of which increased by 9.86%. Ibercaja Gestión and Ibercaja Pensión gained market shares of 5.06% (+27 bp vs. December 2018) and 5.84% (+4 bp vs. December 2018), respectively.

Ibercaja launched new asset and liability products linked to the "Banco del Vamos" communication concept. They feature attractive conditions that are helping attract new customers. Over the year, more than 52,000 "Vamos" accounts were opened, reaching a balance of **€390 million**.

In the area of **digital transformation**, customer relations channels have continued to improve and their use has been encouraged. The number of transactions carried out through distance banking is close to 72% of the total. **Active users** of digital banking now number almost **766,000** and those of mobile banking are up to **432,200.**

SOLID FUNDING STRUCTURE AND SIGNIFICANT IMPROVEMENT IN THE BANK'S RISK PROFILE DUE TO THE REDUCTION OF NON-PERFORMING ASSETS AND THE STRENGTHENING OF SOLVENCY RATIOS

Non-performing assets fell by more than 40% in the year, with the NPA ratio falling 277 basis points to below 4%. The balance of foreclosed properties contracted by 18.52% and their net proportion of the balance sheet barely surpasses 0.50%.

The aggregate of problem exposure, doubtful and foreclosed assets was reduced by €1,124 million in twelve months. The **problem asset** ratio, **5.78%,** fell by more than 3 percentage points, exceeding the target for this year of 6%. The coverage ratio of these assets was 51.63%.

The generation of income and the cleaning up of the balance sheet led to an improvement in solvency indicators. The **CET1 fully loaded ratio, 11.35%**, rose 82 basis points, while the total capital ratio rose to 15.45% (+95 bp vs. December 2018), comfortably exceeding, in both cases, the PRES 2020 requirements.

The Group has a **sound funding structure** based on the **deposits of retail** customers who account for 77% of outside funding, so the loan-to-deposit ratio (LTD) ratio is below 100%. The Group's **liquid assets** account for **20.69%** of the balance sheet and comfortably cover all wholesale debt maturities.

KEY INDICATORS:

FIGURES ROUNDED TO MILLION EUROS AND %

BALANCE SHEET	31/12/2019	31/12/2018	Change (%)
Total assets	55,422	52,706	5.15
Gross loans and advances to customers	32,563	33,724	(3.44)
Performing loan portfolio exc. reverse repurchase agreements	29,654	29,746	(0.31)
Total retail funds	60,643	56,907	6.56
Equity	3,241	3,160	2.56
Retail business volume	90,297	86,653	4.21

RESULTS	31/12/2019	31/12/2018	Change (%)
Net interest income	547	572	(4.35)
Gross income	927	967	(4.14)
Profit/(loss) before write-downs	326	298	9.65
Profit/(loss) attributable to the Parent	84	41	105.84

EFFICIENCY AND PROFITABILITY	31/12/2019	31/12/2018	Change
Recurring cost-to-income (ordinary expenses/recurring revenues)	63.70	64.69	(0.99) pp
ROA (profit attributable to the parent company/total average assets)	0.16	0.08	0.08 pp
RORWA (profit attributable to the parent company/RWA)	0.41	0.19	0.22 pp
ROE (profit attributable to the parent company/average own funds)	2.99	1.47	1.52 pp
ROTE (profit attributable to the parent company/average tangible own funds)	3.22	1.59	1.63 pp

RISK MANAGEMENT	31/12/2019	31/12/2018	Change
Non-performing balances (loans and advances to customers)	1,293	2,275	(43.15)
Non-performance rate of loans and advances to customers (%)	3.97	6.74	(2.77) pp
Ratio of Problem assets (%)	5.78	8.82	(3.04) pp
NPL coverage ratio	644	1,119	(42.42)
Coverage of non-performing exposures (%)	49.82	49.19	0.63 pp
Coverage of exposure to distressed assets (%)	51.63	51.48	0.15 pp

LIQUIDITY	31/12/2019	31/12/2018	Change
Available liquidity / total assets	20.69	20.71	(0.02) pp
Loan-to-deposit ratio (LtD)	92.47	97.98	(5.51) pp
LCR ratio (%)	307.07	306.78	0.29 pp
NSFR ratio (%)	131.42	130.45	0.97 pp

SOLVENCY	31/12/2019	31/12/2018	Change
CET1, phase-in (%)	12.27	11.67	0.60 pp
Solvency ratio, phase-in (%)	13.99	13.31	0.68 pp
Leverage ratio, phase-in (%)	5.85	6.04	(0.19) pp
CET1 - fully loaded (%)	11.35	10.53	0.82 pp
Total capital, fully loaded (%)	15.45	14.50	0.95 pp
Leverage ratio, fully loaded (%)	5.48	5.48	0.00 pp

ADDITIONAL INFORMATION	31/12/2019	31/12/2018	Change (%)
No. Group employees	5,304	5,302	(0.04)
No. of offices	1,084	1,115	(2.78)

2.3 ANALYSIS OF THE MAIN BALANCE SHEET FIGURES

A HIGHLIGHT WAS THE STRONG PROGRESS MADE IN RETAIL FUNDS AS A RESULT OF DYNAMIC COMMERCIAL ACTIVITY AND THE CLEANING-UP OF THE BALANCE SHEET.

KEY FIGURES ON THE CONSOLIDATED BALANCE SHEET:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Cash and credit institutions	4,573	1,367	3,206	251.38
Loans and advances to customers	31,919	32,605	(686)	(2.10)
Securities portfolio	15,787	15,556	231	1.48
Tangible assets	984	942	42	4.43
Intangible assets	213	204	9	4.31
Other assets	1,947	2,031	(85)	(4.18)
Total assets	**55,422**	**52,706**	**2,716**	**5.15**
Deposits from credit institutions and central banks	5,933	4,577	1,356	29.62
Customer deposits	34,925	34,081	844	2.48
Debt securities issued	1,480	1,640	(160)	(9.75)
Liabilities under insurance contracts	7,785	7,515	270	3.59
Provisions	316	349	(33)	(9.49)
Other liabilities	1,742	1,383	359	25.95
Total liabilities	**52,181**	**49,546**	**2,635**	**5.32**
Equity	**3,241**	**3,160**	**81**	**2.56**
Total equity and liabilities	**55,422**	**52,706**	**2,716**	**5.15**

ASSETS

Total assets on the consolidated balance sheet come to **€55,422 million**, 5.15% more than at year-end 2018.

Loans and advances to customers recognised as financial assets at amortised cost and financial assets not held for trading which must be measured at fair value through profit or loss came to **€31,919 million**, 2.10% less than at year-end 2018. In gross terms, i.e., without value adjustments for impairment of assets and other impairments, the loan portfolio amounted to €32,563 million. The 3.44% drop during the year is mainly due to the decrease in doubtful credit (-43.15%), which explains more than 80% of the drop. Sound investment, excluding non-performing assets and the temporary acquisition of assets, at €29,654 million, fell by only 0.31%, consolidating the trend towards stabilisation.

Loan and credit formalisations total €5,434 million. Of new production, 52.43% related to non-property production activities, in line with the growth target in this credit segment. 21.11% was allocated to housing financing for individuals, with the granting of fixed-rate mortgages accounting for 41% of the total. Property development accounted for 13.69% of loans and the rest was directed to consumer credit and other purposes. By geographical markets, the Home Markets and Madrid accounted for 37.49% and 30.61%, respectively, of lending in the year, while 17.16% was for the Mediterranean Basin. companies, €7,643 million, were up 8.46%.

DISTRIBUTION OF LOANS AND ADVANCES TO CUSTOMERS BY PURPOSE:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Loans to households	20,434	20,999	(564)	(2.69)
Housing	18,932	19,492	(560)	(2.87)
Consumer loans and other	1,502	1,507	(5)	(0.32)
Loans to companies	7,807	7,745	62	0.80
Real estate development	1,058	959	99	10.28
Non-real estate productive activities	6,750	6,786	(36)	(0.53)
Public sector and other	1,412	1,002	411	41.01
Gross loans, ex impairments and reverse repos	**29,654**	**29,746**	**(91)**	**(0.31)**
Reverse repurchase agreement	1,616	1,704	(88)	(5.16)
Impaired assets	1,293	2,275	(981)	(43.15)
Gross loans and advances to customers	**32,563**	**33,724**	**(1,160)**	**(3.44)**
Impairment losses and others	(644)	(1,119)	475	42.42
Loans and advances to customers	**31,919**	**32,605**	**(686)**	**(2.10)**

Performing credit allocated to productive activities reached €7,807 million, showing growth of 0.80%. Within this segment, financing to non-residential production activities fell slightly, while financing to real estate development rose by 10.28%, reflecting the incipient recovery of this sector. The balance of loans for **home acquisition** and renovation fell by 2.87% as a result of the deleveraging still being seen in the mortgage segment and the brake brought about by the entry into force of the new Ley de Crédito Inmobiliario (Real Estate Credit Act) in mid-year. **Consumer credit and other household financing** remained virtually flat, limited by the prudent policy for exposure expansion in the consumer business and the loss of pace in household spending. **Financing to the public sector and others** increased by 41.01%, although its weight in the portfolio, 4.76%, is limited.

DISTRIBUTION OF LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF COLLATERAL:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Commercial loans	578	573	5	0.88
Loans secured with collateral	21,398	22,056	(659)	(2.99)
Other term loans	5,895	5,346	550	10.28
Finance leases	525	499	26	5.24
Receivables on demand and other	543	491	52	10.49
Valuation adjustments	66	40	26	64.29
Other financial assets	649	740	(91)	(12.28)
Gross loans, ex impairments and reverse repos	**29,654**	**29,746**	**(91)**	**(0.31)**
Reverse repurchase agreement	1,616	1,704	(88)	(5.16)
Impaired assets	1,293	2,275	(981)	(43.15)
Gross loans and advances to customers	**32,563**	**33,724**	**(1,161)**	**(3.44)**
Impairment losses and others	(644)	(1,119)	475	42.42
Loans and advances to customers	**31,919**	**32,605**	**(686)**	**(2.10)**

On the subject of loan security, lending secured by collateral (i.e. secured by real property) - mainly first home mortgages granted to individuals - was down 2.99%. Originations are insufficient to offset natural portfolio maturities and early redemptions. The strong growth in lending to productive activities can be seen in commercial lending (+0.88%), other term loans (+10.28%) and finance leases (+5.24%).

Asset quality indicators performed favourably, and doubtful loans accelerated the pace of reduction they experienced in 2018 due to lower entries into default, increased recoveries and sales of doubtful loan portfolios, with a nominal value of €607 million, carried out during the year. As a result, impaired loans and advances to customers, at €1,293 million, fell by 43.15% during the year. The NPA rate, 3.97%, fell 277 basis points from the previous December. The housing acquisition rate, the highest exposure in the Group's portfolio, is 3.18%, and its doubtful assets, with a lower expected loss from related collateral, represent 48% of total impaired assets vs. 30% sector. The coverage ratio of non-performing exposures rose 63 basis points to 49.82%.

ASSET QUALITY INDICATORS (NON-PERFORMANCE RATE, FORECLOSED ASSETS AND COVERAGE):

€ MILLION AND %

	31/12/2019	31/12/2018
Non-performing loans and advances to customers	1,293	2,275
Loans and advances to customers (gross)	32,563	33,724
Non-performance rate of loans and advances to customers (%)	**3.97**	**6.74**
Distressed assets (non-performing loans and advances to customers + repossessions)	1,918	3,042
Exposure (loans and advances to customers + repossessed assets)	33,188	34,491
Problem asset index (%)	**5.78**	**8.82**
Non-performing loans and advances to customers	1,293	2,275
Coverage of non-performing exposures	644	1,119
Coverage of non-performing exposures (%)	**49.82**	**49.19**
Foreclosed assets (gross carrying amount)	625	767
Coverage of foreclosed assets	346	447
Coverage of foreclosed assets (%)	**55.38**	**58.25**
Distressed assets (non-performing loans and advances to customers + repossessions)	1,918	3,042
Coverage of Problem assets	990	1,566
Coverage rate of Problem assets (%)	**51.63**	**51.48**
Distressed assets (non-performing loans and advances to customers + repossessions)	1,918	3,042
Equity and problem asset coverage	3,812	4,323
Texas Ratio (%)	**50.32**	**70.36**

The **portfolio of foreclosed properties** recorded under the balance sheet captions “investment property”, “inventories” and “non-current assets held for sale” totals **€625 million** gross, 18.52% less than at the end of 2018, as a result of the 30% drop in new entries. The coverage of these real estate assets is 55.38%, or 59.83% for unbuilt land. The net value of foreclosed properties stood at €279 million, representing just 0.50% of the balance sheet.

Problem assets, amounting to **€1,918 million**, the sum of non-performing loans and advances to customers and foreclosed properties, fell €1,124 million or 36.94% in relative terms. After deducting coverage, they account for 1.67% of assets. The problem asset ratio, 5.78%, fell by 3.04 percentage points in the last year and the coverage ratio was 51.63%. The Texas ratio, which relates non-performing assets to equity and coverage, decreased to 50.32%, thus improving by more than 20 percentage points.

The main aim of the Group's refinancing and debt restructuring policy is to help borrowers experiencing temporary financial difficulties meet their obligations and also, where possible, to improve risk quality by securing additional collateral. **Refinanced loans** amounted to **€988 million**, down 47.40% on year-end 2018 and accounting for 3.03% of gross loans and advances to customers. 69,43% of refinanced loans are classified as non-performing and their coverage is 32.25%.

The **portfolio of fixed income** securities, shares and other equity interests in companies totalled **€15,787 million**, of which €7,515 million relate to the insurance business. The increase, €231 million, was due mainly to the increase in equity, €287 million, owing to Ibercaja Vida's increased investment in units in investment funds that are managed jointly with liabilities under insurance contracts (unit-linked) measured at fair value. Fixed income declined by 57 million.

BREAKDOWN OF THE SECURITIES PORTFOLIO:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Financial assets held for trading	**0**	**0**	**0**	**---**
Debt securities	0	0	0	---
Financial assets not held for trading mandatorily measured at fair value through profit or loss	**364**	**122**	**242**	**199.12**
Debt securities	79	83	(4)	(4.77)
Equity instruments	285	39	246	---
Financial assets at fair value through profit or loss	**9**	**10**	**(1)**	**(6.64)**
Debt securities	9	10	(1)	(6.64)
Financial assets at fair value through other comprehensive income	**8,086**	**8,755**	**(668)**	**(7.63)**
Debt securities	7,689	8,415	(726)	(8.63)
Equity instruments	398	340	58	17.01
Financial assets at amortised cost	7,218	6,544	674	10.30
Investments in joint ventures and associates	110	126	(16)	(13.01)
Total securities portfolio	**15,787**	**15,556**	**231**	**1.48**
Fixed income	**14,995**	**15,051**	**(57)**	**(0.38)**
. of which: ALCO portfolio	7,725	7,972	(247)	(3.10)
Equities	**793**	**505**	**287**	**56.91**
Investments in joint ventures and associates	110	126	(16)	(13.01)
Other equity instruments	683	379	304	80.21

According to the accounting classification, financial assets at fair value through other comprehensive income had a weight of 51.22%, financial assets at amortised cost represented 45.72% and the rest were non-trading financial assets mandatorily at fair value through profit or loss, together with investments in joint ventures and associates.

By type, fixed income, €14,995 million, accounted for 94.98% of the total. Stripping out the insurance business, the ALCO portfolio managed by the parent company, €7,725 million, is made up of low-risk bonds, mainly Spanish government debt and Sareb bonds, with an average duration of 4.07 years. The objective here is to soundly manage balance sheet interest rate risk, generate recurring earnings to strengthen net interest income and help maintain comfortable levels of liquidity. During the year, there was a decrease of €247 million, mainly in private fixed income and Spanish government debt. **Equities**, **€793 million**, mainly comprised listed shares of domestic and foreign companies, and interests in unlisted companies in strategic sectors for the Bank or intended for the territorial development of the regions in which the Bank operates.

The balance of assets at central banks and credit institutions and in cash, **€4,573 million**, increased by €3,206 million, and mainly concentrated in cash balances at central banks. **Liability positions in central banks and credit institutions** amounted to **€5,933 million**, €1,356 million more than in December 2018. The financing from the ECB, €1,629 million, was reduced by €1,712 million, since part of the financing from the TLTRO II programme maturing in 2020 has been repaid in advance. Deposits from credit institutions, €4,304 million, increased by €3,068 million, due to the higher volume of repurchase agreements with other institutions, partly as a result of the aforementioned early repayment of the TLTRO II program and the rest as a result of short-term transactions in the money market, with the higher balance of cash at central banks referred to above as an asset.

BREAKDOWN OF CASH AND ASSETS AT CREDIT INSTITUTIONS AND DEPOSITS FROM CREDIT INSTITUTIONS AND CENTRAL BANKS:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Cash and cash balances at central banks and other demand deposits	3,929	1,118	2,811	251.38
Credit institutions (financial assets at amortised cost)	644	249	395	158.70
Cash and credit institutions	**4,573**	**1,367**	**3,206**	**234.51**
Deposits - central banks	1,629	3,341	(1,712)	(51.24)
Deposits from credit entities	4,304	1,236	3,068	248.18
Deposits from credit institutions and central banks	**5,933**	**4,577**	**1,356**	**29.62**

Tangible assets amounted to **€984 million**, an increase of 4.43% in the year, mostly due to the impact of the initial application of IFRS 16 on 1 January 2019, which led to the recognition of €62 million in right-of-use assets. **Intangible assets** totalled **€213 million**, consisting mainly of goodwill, other items generated from the acquisition of Caja3 and computer software. The variation in the year, 4.31%, is due to the increase in investment in strategic projects derived from the Plan+ 2020 after deducting amortisation for the period.

Tax assets total **€1,340 million** and, within this, monetisable assets, whose recoverability does not depend on future tax earnings, amount to €643 million.

LIABILITIES AND EQUITY

Customer deposits, at **€34,925 million**, increased by €844 million or 2.48% in relative terms. The increase in retail deposits offsets the maturity of single mortgage-backed covered bonds (€430 million). Retail deposits, demand savings and traditional time deposits without mortgage-backed covered bonds or repurchase agreements grew by 3.91%. In the breakdown, the most liquid deposits, demand accounts, increased by 8.33%, including, together with mutual funds, the transfer of traditional time deposits, which fell by 18.38%, due to low profitability in line with the performance of market interest rates.

Debt securities issued, **€1,480 million**, fell by €160 million, due to the maturity of securitisation liabilities (€83 million in nominal value), wholesale subordinated debt (€73 million in nominal value) and the early redemption of preference shares (€5 million in nominal value).

Liabilities under insurance or reinsurance contracts, **€7,785 million**, were up 3.59% owing to the increase in technical provisions related to life insurance and other liabilities.

Retail customer funds, **€60,643 million**, increased by 6.56%. The balance of asset management and insurance, which accounted for 46% of the total, grew 9.86%, driven by the bank's policy of directing savings towards products with greater expectations of returns for the customer and by the capital gains accumulated during the year. The personal banking segment generated 60% of that growth, which, by geographical market, was particularly intense, almost 11%, in Madrid and Mediterranean Basin. The Group's market share in assets under management (excluding products marketed by third parties) and insurance, 4.80%, rose by 10 basis points over the year. (Source: INVERCO and ICEA).

BREAKDOWN OF CUSTOMER RETAIL FUNDS:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Retail customer deposits	32,772	31,540	1,233	3.91
Demand deposits	28,509	26,316	2,193	8.33
Term deposits (exc. covered bonds)	4,263	5,223	(960)	(18.38)
Asset management and insurance	27,870	25,638	2,502	9.86
Total retail customer funds	**60,643**	**56,907**	**3,735**	**6.56**

Provisions for on-balance sheet liabilities (**€316 million**) comprise funds for pensions and similar commitments, outstanding labour costs and other provisions, which include those covering risks associated with floor clauses in mortgage loan agreements (€13 million). The use of balances from previous years and new allowances in 2019 triggered a reduction of €33 million in this heading.

Equity totals **€3,241 million**, €81 million more than at the end of 2018. Growth in equity, €47 million, was the result of the period's earnings after deduction of the dividend payment, which was charged to the 2018 results, and of the coupon on the preference shares eligible as AT1. At the end of June, the Bank reduced capital by €1,930 million and, at the same time, set up a voluntary restricted reserve for the same amount. The transaction is purely technical in nature and does not alter the Group's equity or solvency ratios. Accumulated "Other comprehensive income" rose by €34 million, mainly due to the increase in unrealised capital gains on equity instruments (€37 million) and debt securities (€5 million), partially reduced by actuarial losses on defined benefit pension plans.

2.4 INCOME STATEMENT

IBERCAJA EARNED A NET PROFIT OF €84 MILLION, DOUBLE THAT OBTAINED A YEAR EARLIER, DUE TO THE STABILISATION OF RECURRING REVENUE, A DECREASE IN OPERATING EXPENSES AND GRADUAL NORMALISATION OF THE COST OF RISK.

MAIN HEADINGS OF THE INCOME STATEMENT:

FIGURES ROUNDED TO MILLION EUROS	31/12/2019	31/12/2018	CHANGE	CHANGE (%)	% ATA (*) DEC-19	% ATA (*) DEC-18
Net interest income	**547**	**572**	**(25)**	**(4.35)**	**1.04**	**1.09**
Net fees and commissions and exchange differences	395	376	19	5.13	0.75	0.72
Gains/(losses) on financial assets and liabilities	7	44	(37)	(83.78)	0.01	0.08
Other operating profit/(loss)	(23)	(25)	2	8.71	(0.04)	(0.05)
Other operating income/expense	(36)	(36)	0	0.23	(0.07)	(0.07)
Dividends	13	11	1	10.14	0.02	0.02
Earnings at equity-accounted entities	0	(1)	1	167.13	0.00	0.00
Gross income	**927**	**967**	**(40)**	**(4.14)**	**1.76**	**1.85**
Operating expenses	600	669	(69)	(10.28)	1.14	1.28
. Of which: Recurring expenses	600	613	(13)	(2.12)	1.14	1.17
Profit before write-downs	**326**	**298**	**29**	**9.65**	**0.62**	**0.57**
Provisions, impairment and other write-downs	185	167	17	10.28	0.35	0.32
Other gains/(losses)	(13)	(50)	36	73.14	(0.03)	(0.09)
Profit/(loss) before tax	**129**	**81**	**48**	**59.15**	**0.24**	**0.15**
Taxes	45	40	5	11.55	0.08	0.08
Consolidated profit/(loss) for the year	**84**	**41**	**43**	**105.84**	**0.16**	**0.08**
Profit/(loss) attributable to the Parent	**84**	**41**	**43**	**105.84**	**0.16**	**0.08**
(*) AVERAGE TOTAL ASSETS	**52,780**	**52,303**	**477**	**0.91**		

Net interest income, at **€547 million**, fell by 4.35% year-on-year, mainly due to the lower contribution of the fixed-income portfolio, the excess liquidity remunerated at negative rates, the higher finance cost resulting from the application of IFRS 16 to leases, and the lower contribution of the Group's insurance business. The **good performance of the retail business** was reflected in the increase in the yield on loans and the lower cost of liabilities.

Loan revenues increased 1.17%. The decline in the average balance, mainly due to portfolio sales, was offset by the higher unit return. The average rate, 1.45%, added 4 basis points in one year, essentially as a result of the favourable impact of new transactions with higher returns and the slight recovery in the level of rates in the first part of the year before the turnaround in central banks' monetary policies. In turn, the cost of retail savings, 0.02%, remained virtually unchanged, with current savings gaining weight in the structure over traditional term deposits. As a result, the **customer spread**, 1.43%, rose by 4 basis points in the year.

The **return on the fixed-income portfolio**, **€69 million**, represents 10.40% of total interest income. The decrease, 14.58%, is due to the lower average balance (-10.44%) and the lower rate (0.97% vs. 1.02% in 2018) after sales and portfolio turnover.

The **spread on the Group's balance** sheet was **1.04%** at the end of 2019, 6 basis points lower than in 2018.

BREAKDOWN OF NET INTEREST INCOME:

	2019			2018			CHANGE 2019 / 2018		
(€ MILLION)	BALANCE AVERAGE	RETURN / COST	RETURN / COST (%)	BALANCE AVERAGE	RETURN / COST	RETURN / COST (%)	EFFECT VOLUME	EFFECT RATE	CHANGE NET
Financial intermediaries	3,868	14	0.36	2,474	16	0.65	9	(11)	(2)
Loans and advances to customers (a)	29,919	435	1.45	30,502	430	1.41	(8)	13	5
Securities portfolio	7,115	69	0.97	7,944	81	1.02	(8)	(3)	(12)
Income from insurance activity	7,511	145	1.92	6,798	133	1.95	14	(2)	12
Other assets	4,367	1	---	4,585	1	---	---	---	0
ASSETS (c)	**52,780**	**664**	**1.26**	**52,303**	**661**	**1.26**	**6**	**3**	**3**
Financial intermediaries	4,211	10	0.24	4,979	4	0.08	(1)	7	6
Retail deposits (b)	31,688	5	0.02	30,829	5	0.02	0	0	0
. Demand	26,920	2	0.01	25,032	1	0.01	0	1	1
. Term	4,767	3	0.06	5,797	4	0.06	(1)	0	(1)
Wholesale issues	3,877	66	1.69	4,373	70	1.59	(8)	4	(4)
Costs of insurance activity	7,765	32	0.41	7,306	8	0.11	1	23	24
Other liabilities	5,239	4	---	4,816	2	---	---	---	2
LIABILITIES & EQUITY (d)	**52,780**	**116**	**0.22**	**52,303**	**89**	**0.17**	**1**	**27**	**28**
Customer spread (a-b)			**1.43**			**1.39**			
Balance sheet spread (c-d)			**1.04**			**1.09**			

Note: In accordance with accounting rules, income from the application of negative rates is allocated according to its nature. "Financial intermediaries" on the assets side includes the negative interest on the financial intermediaries' balances on the liabilities side, the most significant of which is the income from TLTRO II. Symmetrically, "Financial intermediaries" on the liabilities side includes negative interest on the balances of financial intermediaries on the assets side.

Net fees and exchange differences totalled **€395 million**, with year-on-year growth of 5.13%. Fees from marketing and asset management rose by 13.55% due to the increase in fees linked to funds and portfolio management, offsetting the decrease (-6.02%) in fees linked to banking activity, which impacted by the reversal of fees for claiming unpaid balances.

BREAKDOWN OF NET FEES:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Fees for contingent liabilities and commitments	14	14	0	(1.21)
Collection and payment services fees	118	115	2	2.04
Securities services fees	62	40	21	52.30
Non-bank financial product marketing fees	195	188	7	3.83
Other fees	24	34	(10)	(28.80)
Fees received	**412**	**392**	**21**	**5.30**
Fees paid	**19**	**17**	**2**	**11.55**
Exchange differences	**1**	**1**	**0**	**70.90**
Net fees and commissions and exchange differences	**395**	**376**	**19**	**5.13**
Fees for marketing and asset management	243	214	29	13.55
Banking fees and commissions	152	162	(10)	(6.02)

Gains on financial transactions, **€7 million**, was 83.78% lower than in 2018. The realisation of gains on fixed-income securities offset the €42 million in losses resulting from the sale of two loan portfolios and the €3.2 million impairment of the subordinated debt of Sareb.

The **net of other operating income and expenses detracts** **€36 million** from the gross margin, a figure very similar to that of 2018. This section caption, among others, income and expenses covered by insurance or reinsurance contracts, income and expenses from non-financial activities and contributions to the Deposit Guarantee Fund (€48.5 million), the National Resolution Fund (€10.4 million) and the expense (€3.2 million) of the provision for conversion of deferred tax assets into an account receivable from the Spanish tax authorities.

After adding the balance of €13 million of the remaining items (return on equity instruments and profit/(loss) of companies accounted for using the equity method), **gross income** totalled **€927 million**. The 4.14% decline is basically the result of the reduction in net trading income, as recurring revenue, the sum of net interest income and net fees and commissions, remained practically stable.

Operating expenses, **€600 million**, were down 10.28%. Excluding the impact of workforce adjustment costs in 2018, the decline is 2,12%, in line with the strategic objective of cost containment and improved efficiency. Personnel expenses without extraordinary items fell by 0.77%, due mainly to the decrease in salary costs and contributions to pension plans, as a result of staff layoffs. The implementation of IFRS 16 makes it advisable to examine as a whole the other general administrative expenses and amortisation, since it has resulted in a reduction in rental expenses and, simultaneously, a similar increase in amortisation. As a result, other general administrative expenses and amortisation and depreciation fell 4.09%. The increase in expenditure linked to systems maintenance, licences and IT development and software is offset by a reduction in contributions and taxes, advertising and publicity, together with communications.

The **cost-to-income ratio**, defined as the quotient of ordinary operating expenses and gross income, stood at **64.76%.** The **recurring cost-to-income ratio**, measured as ordinary expenses over recurring revenue, **63.70%,** improved by almost one percentage point from one year earlier.

BREAKDOWN OF OPERATING EXPENSES:

FIGURES ROUNDED TO MILLION EUROS

	31/12/2019	31/12/2018	CHANGE	CHANGE (%)
Wages and salaries	270	276	(6)	(2.20)
Social security contributions	71	66	5	7.04
Contribution to pension funds and insurance policies	17	18	(1)	(6.07)
Severance payments	---	56	(56)	---
Other personnel costs	3	3	0	(10.23)
Personnel expenses	**361**	**420**	**(59)**	**(13.96)**
Buildings, installations and office equipment	31	48	(17)	(35.78)
Systems maintenance, licences, IT development and software	22	19	3	14.40
Communications	12	15	(3)	(18.50)
Advertising and publicity	6	7	(1)	(12.20)
Charges and taxes	20	25	(5)	(21.49)
Other management and administration expenses	81	84	(3)	(3.21)
Other general administrative expenses	**172**	**198**	**(26)**	**(13.20)**
Depreciation and amortisation	**67**	**51**	**16**	**31.07**
Operating expenses	**600**	**669**	**(69)**	**(10.28)**
Operating expenses without workforce adjustment costs	**600**	**613**	**(13)**	**(2.12)**
Personnel expenses ex WAP costs	361	364	(3)	(0.77)
Other general administrative expenses + amortisation	239	249	(10)	(4.09)

Recurring income before provisions, defined as net interest and fee income less ordinary operating expenses, came to **€342 million**, 2.21% more than a year earlier. Provisions and write-downs reported as losses on impairment of financial assets, non-financial assets, non-current assets held for sale and allowances for provisions totalled €185 million. **Write-downs on loans and real estate assets** amounted to **€134 million**, down 28.11%, due to a decrease in new NPLs, an increase in recoveries and a decrease in foreclosed assets and the lesser impact of revised appraisals than in 2018. **The cost of the Group's risk**, calculated as the percentage of impairments on loans and real estate in relation to average exposure, is **40 basis points**, which is 14 basis points less than at December 2018.

"Provisions", which includes provisions for pensions, litigation, pending tax disputes, commitments and guarantees granted and other provisions, gives a net expense of €37 million.

"Other gains and losses" include the results of the sale of property, plant and equipment and business interests, as well as the payment of fees for the marketing of foreclosed properties. This caption detracts **€13 million** from results, compared to €50 million last year, when higher losses were recorded associated with the sale of a portfolio of foreclosed properties and other assets.

The **Group's pre-tax** profit amounted to **€129 million**. After deducting the corporate income tax expense, **profit attributable to the parent** is **€84 million**, almost double that of 2018.

3 FUNDING AND LIQUIDITY STRUCTURE

EL BANCO DEL Vamos

RETAIL DEPOSITS ARE THE MAIN SOURCE OF OUTSIDE FUNDING.

Ibercaja has traditionally employed a **conservative liquidity policy** **as it seeks to finance its lending activity with retail customer funds**. The Bank prudently manages its liquidity and ensures that its sources of financing are balanced and well-diversified, anticipating needs so as to honour its obligations as these fall due without compromising its investment activity.

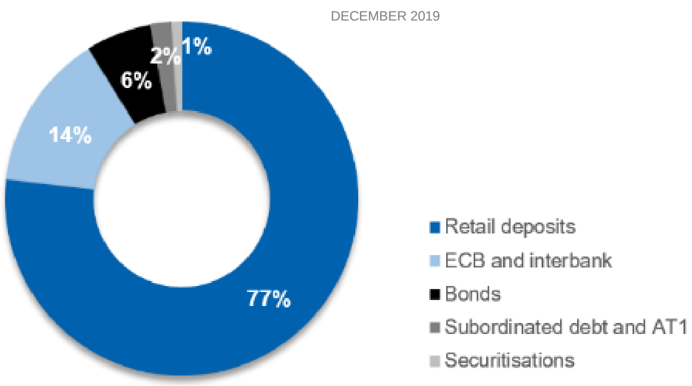
The basic principles governing this strategy are as follows: active management through a continuing control system based on internal limits and indicators documented in the Liquidity Manual; establishing measures and actions to respond to crisis scenarios (Contingency Plan); harnessing the various alternatives offered by the market to diversify investments in relation to their duration and ensure a suitable mix of highly-liquid instruments; and maintaining a significant asset buffer to at the ECB to cover possible tensions.

Liquidity risk is measured by taking into account the estimated cash flows from assets and liabilities, as well as any additional collateral or instruments that may be needed so as to ensure alternative sources of liquidity. Short, medium and long-term outlooks are prepared in order to gauge financing needs and limit compliance. These forecasts take into account the latest macroeconomic trends because of their impact on the performance of the assets and liabilities shown on the balance sheet, as well as contingent liabilities and derivative products. Liquidity risk is also controlled by establishing exposure limits, thus keeping the Bank's exposure within ranges that are compatible with the approved policies.

Note 3.8. to the annual accounts for 2019 provides a more detailed explanation of the Bank's strategy and policies for managing liquidity risk, as well as the associated measurement and control procedures.

BREAKDOWN OF FINANCING STRUCTURE:

Retail customer deposits are **the main source of outside funding, accounting for 77% of the total**. Nearly 80% of the total is classified as stable, based on Bank of Spain regulations, which illustrates the engagement and trust our customers place in the Bank. The loan to deposit ratio (LTD) stands at 92.47%.



Wholesale funding supplements funding obtained from individuals and companies. It is centred on the medium and long term and includes repos and balances held by the Group at the ECB, mortgage bonds, securitisations, subordinated liabilities and other issues.

Central bank deposits, at **€1,629 million**, fell by 51.24% due to the early repayment of part of the financing under the TLTRO II programme maturing in 2020. As a result, their weight in the total of outside financing decreased from 8.22% in December 2018 to 3.82% at the end of 2019.

Deposits from credit institutions, **€4,304 million**, represent 10.09% of outside financing, compared to 3.04% at the end of 2018. The increase of €3,068 million was due to the higher volume (€2,964 million) of repurchase agreements with other institutions whose assets comprise a higher cash balance at central banks.

Customer deposits, which account for 81.88% of total financing (83.87% in 2018), rose 2.48% from €34,081 million in December 2018 to **€34,925 million** in December 2019. The growth in retail deposits, 3.91%, offset the maturity of single mortgage bonds (€430 million in nominal terms).

Debt securities issued, **€1,480 million**, fell 9.75%, representing 3.47% of outside financing (4.04% in 2018). The decrease is the result of the falling due of securitisation liabilities (€83 million in nominal value), wholesale subordinated debt (€73 million in nominal value) and early redemption of preference shares (€5 million in nominal value).

BREAKDOWN OF OUTSIDE FUNDING:

FIGURES ROUNDED TO MILLION EUROS AND %

	31/12/2019		31/12/2018		CHANGE	
	BALANCE	%	BALANCE	%	BALANCE	%
Deposits - central banks	1,629	3.82	3,341	8.22	(1,712)	(51.24)
Deposits from credit entities	4,304	10.09	1,236	3.04	3,068	248.18
Customer deposits	34,925	81.88	34,081	83.87	844	2.48
Of which: retail deposits	32,772	76.83	31,540	77.62	1,233	3.91
Debt securities issued	1,480	3.47	1,640	4.04	(160)	(9.75)
AT1 issue	317	0.74	334	0.82	(17)	(5.13)
Outside Funding	**42,656**	**100.00**	**40,633**	**100.00**	**2,023**	**4.98**
Retail financing	32,772	76.83	31,540	77.62	1,233	3.91
Wholesale financing	9,883	23.17	9,093	22.38	790	8.68

Available liquidity, **€11,468 million**, increased by 5.05% to 20.69% of assets. Virtually all of these assets are eligible as collateral with the ECB. Meanwhile, the Bank's capacity to issue mortgage covered bonds and public sector covered bonds was €7,307 million, bringing total fund availability to €18,775 million.

The liquidity coverage ratio **(LCR)**, which measures the level of high-quality liquid assets free of charges needed to overcome a liquidity stress scenario at 30 days, stands at 307.07%, well clear of the 100% regulatory requirement. The **NSFR** ratio is **131.42%.** This indicator shows the proportion of funding for one year covered by stable liabilities, the aim being to ensure an even balance sheet structure that limits excessive reliance on short-term wholesale funding.

Available funds under the ECB facility amounted to €4,983 million. Almost all of the Bank's other eligible assets not pledged under ECB facilities are Spanish public debt and would allow the Bank to obtain further liquidity immediately if needed.

The Bank's maturities of wholesale market issuances present a staggered redemption schedule through to 2027. In 2020 and 2021, redemptions, net of treasury shares, will total €927 million and €525 million, respectively, jointly representing 2,6% of the Bank's assets. All these placements can be comfortably redeemed using available liquidity.

LIQUIDITY INDICATORS:

FIGURES ROUNDED TO MILLION EUROS AND %

	31/12/2019	31/12/2018
Cash and central banks	3,671	888
Available in policy	4,983	4,761
Eligible assets not included in the policy	2,432	4,836
Other assets not eligible for ECB	381	432
Available liquidity	**11,468**	**10,917**
Issuance capacity for mortgage covered and public sector covered bonds	7,307	6,290
Total availability of liquidity	**18,775**	**17,207**
Available liquidity / total assets (%)	20.69	20.71
Loan-to-deposit ratio (%)	92.47	97.98
LCR (%)	307.07	306.78
NSFR (%)	131.42	130.45

With regard to **the expected trends and fluctuations in liquidity**, the outlook for the business would indicate that the Group will have adequate levels of liquidity in the short and medium term, and in line with both internal management and regulatory limits, given the scant significance of wholesale maturities, the high weight of retail funding and the situation of capital markets.

4 CAPITAL MANAGEMENT

IBERCAJA HAS STRENGTHENED ITS CAPITAL RATIOS, WHICH FAR EXCEED REGULATORY REQUIREMENTS.

The **Group's capital management** is designed **to ensure that regulatory requirements are fulfilled at all times and to maintain an adequate relationship between the risk profile and own funds.** Capital adequacy is self-assessed on a regular basis through processes to identify, measure and aggregate risks in order to determine the capital needed to cover them. Above and beyond minimum regulatory capital requirements, the Group sets itself a capital target that exceeds actual needs and it forecasts capital sources and consumption on the basis of business performance and expected results in the mid term.

Based on the expected changes in Ibercaja Banco's capital and solvency ratios, the Bank will be able to cope with potential stress scenarios. However, in the event that an extraordinarily adverse change in the macroeconomic climate, in applicable regulations or in the banking business requires the Group to resort to alternative capital sources in order to cover a possible shortfall, the Group, following European Banking Association (EBA) guidelines and recommendations, as well as the provisions of Law 11 of 18 June 2015, on the recovery and resolution of credit institutions and investment firms, has defined a recovery plan aimed at prevention and at guaranteeing its capacity to respond accordingly to any possible deterioration in its solvency or funding capacity. The ultimate aim here is to maintain sufficient capital and liquidity with which to absorb unexpected losses under severe stress situations.

The ECB has notified its decision with respect to the prudent **minimum capital requirements for 2020** applicable to Ibercaja Banco, following the supervisory review and evaluation process (SREP). The decision, which is unchanged with respect to 2019, means that Ibercaja Banco must maintain a common equity tier 1 (CET1) ratio of 9.0% and a total capital ratio of 12.5%. This total capital requirement includes the minimum demanded for Pillar 1 (4.5% CET 1 and 8% of total capital), the Pillar 2 requirement (2.0%) and the capital conservation buffer (2.5%). In addition, the Single Resolution Board has established that Ibercaja must achieve from 1 January 2023 a minimum volume of own funds and eligible liabilities **(MREL requirement)** of 20.54% in terms of risk-weighted assets calculated at the close of financial year 2017. As of December 2019, this ratio amounts to 16.40%.

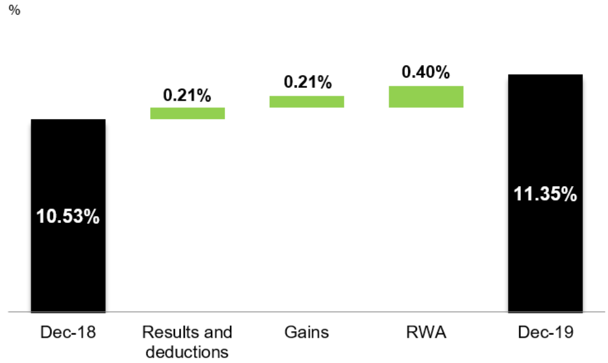
SOLVENCY PERFORMANCE AND KEY INDICES:

(MILLIONS OF EUROS AND %)	PHASED IN		FULLY LOADED	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Tier 1 capital	2,848	2,846	2,656	2,570
Common Equity Tier 1	2,498	2,496	2,306	2,220
Additional Tier 1 capital	350	350	350	350
Tier 2 capital	483	488	483	488
Eligible own funds	3,331	3,333	3,138	3,057
Risk-weighted assets	20,363	21,379	20,312	21,084
RWA density (RWAs/total assets)	36.74	40.56	---	---
CET1 (%)	**12.27**	**11.67**	**11.35**	**10.53**
AT1 (%)	**1.72**	**1.64**	**1.72**	**1.66**
Tier I (%)	**13.99**	**13.31**	**13.07**	**12.19**
Tier 2 (%)	**2.37**	**2.28**	**2.38**	**2.31**
Solvency ratio (%)	**16.36**	**15.59**	**15.45**	**14.50**
Leverage ratio (%)	**5.85**	**6.04**	**5.48**	**5.48**
MREL ratio (%)	**16.40**	**15.81**		

Total eligible own funds come to €3,331 million and represents a solvency ratio of 16.36%, with an increase of 77 basis points in the year. The phased-in CET1 ratio, which measures the relationship between Tier 1 capital and risk-weighted assets, was 12.27%, increasing 60 basis points in the year. These capital levels imply, based on the SREP requirements communicated by the Supervisor, an excess of CET1 and total Capital of 3.27 and 3.86 percentage points, respectively.

In fully loaded terms, CET1 amounts to 11.35%, representing a growth of 82 basis points in the year, while the total capital ratio adds 95 basis points, to 15.45%. The Group strengthened its solvency through the organic generation of capital via earnings, the decline in doubtful assets which reduced the risk weighting and the healthy performance of latent capital gains in fixed-income and equity portfolios. The leverage ratio, 5.48%, is well above the minimum requirements.

BREAKDOWN OF CET1 FULLY LOADED RATIO:



In accordance with the definition of distributable items in the CRR regulation, the balance of these items in Ibercaja Banco individually, as at 31 December 2019, amounted to €313 million.

5

RISK MANAGEMENT

EL BANCO DEL Vamos

RISK MANAGEMENT, BOTH FINANCIAL AND NON-FINANCIAL, IS KEY IN IBERCAJA'S BUSINESS DEVELOPMENT STRATEGY.

Global risk management is essential to preserving the Bank's solvency and capital adequacy. Its **strategic priorities** include the development of systems, tools and structures that will allow for the permanent measurement, monitoring and control of risk exposure levels, while assuring an adequate relationship with the Bank's own funds and responding to the requirements of regulators, supervisors and markets.

Risk management is organised through the **Risk Appetite Framework**, the key aim of which is to establish a set of principles, procedures, controls and systems through which the Group's risk appetite is specified, communicated and monitored. Risk appetite is the level or profile of risk that the Bank is willing to accept and maintain, in terms of type and amount. Risk appetite must be geared towards achieving the targets of the Strategic Plan, in accordance with the established lines of action.

While **credit risk** is the most significant threat to the Bank's business, risk management also covers counterparty, concentration, market, liquidity, interest rate, operational, business, reputational and insurance risks. Additionally, the Bank established a range of measures and procedures to minimise **non-financial risks**, such as reputational and compliance risks, and takes into account risks related to social issues, human rights and sustainability, analysing and incorporating them progressively in the Risk Appetite Framework. Ibercaja hence joined the **United Nations Global Compact** in 2006 and in October 2019 signed the **United Nations Principles for Responsible Banking**, ratifying its commitment to sustainability. Since 2016, the Bank has had a **Corporate Social Responsibility Policy** that sets out the principles of action and commitments to responsible management that it assumes. In addition, it is developing the **Integrated Sustainability Plan** for the integration of environmental, social and good governance aspects into business and decision-making at all levels. It has an appropriate governance structure that is detailed in the Non-Financial Statement. Also in 2019, the Bank signed the "Business Commitment for a Fair Transition and Decent Green Jobs" promoted by the CEOE, the New Deal for Europe initiative, "CEOs call to action", which shows the commitment of European companies to sustainability, the CEOPorLaDiversidad Alliance, led by the Adecco Foundation and the CEOE Foundation, and the Collective Commitment to Climate Action of the Spanish financial sector, presented at the COP25 summit in Madrid.

Note 3 to the Grupo Ibercaja Banco's 2019 consolidated financial statements provides more extensive and detailed information on the management of each type of risk.

6 RESEARCH, DEVELOPMENT AND TECHNOLOGY

EL BANCO DEL Vamos

IBERCAJA, AWARE OF THE NEW CHALLENGES THAT THE BANKING SECTOR MUST FACE, IS IMMERSED IN AN AMBITIOUS PROGRAMME OF DIGITAL TRANSFORMATION.

Technological innovation plays a key role in the banking sector at a time of significant change for the sector: transformation of customer habits, need to improve the efficiency of operational processes to gain competitiveness, emergence of new players, fintech, which are making inroads in the retailing of financial products, and regulation in continuous change.

Ibercaja, aware of the need to face the new challenges, has devised an ambitious **programme of digital transformation** within its Strategic Plan 2018-2020. Its objective is to satisfy the customer needs and expectations, boost competitive advantages by enhancing omnichannel as a supplement to the personal attention given by managers, and ensure maximum agility and efficiency of the operational processes of both the branch network and central services.

THE MOST RELEVANT ACTIONS BEING TAKEN IN THIS AREA, SOME OF WHICH ARE COMPLETE AND OTHERS IN PROGRESS, INCLUDE THE FOLLOWING:

Deployment of the new Commercial and Management System, aligned with the Leadership Model, which contributes to driving change in the way offices work, makes them more efficient and, at the same time, improves the experience of both customers and employees.

Completion of the **irregular risk management tool** that optimises recovery processes, making them more effective in recovery and in the building of viability solutions.

As part of the strategic project for the **implementation and development of a Data Governance Framework**, progress has continued to be made towards promoting continuous improvement in the standardisation, traceability, quality and availability of data in order to maximise the value of data as an engine for generating business. Governance and data quality procedures have been deployed in two areas selected as pilots: Datamart of guarantees and regulatory reporting of non-performing assets.

The **Ibercaja App for mobile banking** has evolved and incorporates new functionalities, such as the payment of taxes by taking a photo, the ability to sign documents without having to go to an office and the new functionality of aggregation of positions in other financial institutions. The sale of the main non-life risk insurance lines (health, car and home) is planned through this channel in the near future.

The **digitalisation of processes** facing the end customer, such as the omnichannel signature of documents that can be done through any mobile device prior to generation of a copy of the document that is sent to the client's mailbox for verification and consultation.

The new website www.ibercaja.es and digital banking for companies focused on enhancing user experience and promoting business and the relationship with Ibercaja.

Ibercaja is developing **the first chat bot in insurance that answers specialised questions** through artificial intelligence.

Renovation and updating of the **ATM park** to offer maximum simplicity and ease of use and incorporate new functionalities that allow users improved interaction and better accessibility for people with functional diversity and support multiple transactions with less waiting time. In addition to a cash withdrawal, it is possible to deposit cash, recharge one's mobile phone, buy tickets for shows and pay tax, among others.

7 CONSOLIDATED NON-FINANCIAL STATEMENT

EL BANCO DEL VAMOS

7.1 INTRODUCTION

This statement is in response to **Law 11/2018** amending the Commercial Code, the consolidated text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on the Auditing of Accounts, in the area of **non-financial information and diversity**. This statement has been prepared taking into account the **European Commission's Guidelines** on non-financial reporting and its supplement on **climate-related information**, as well as the recommendations provided by the CNMV to the Bank.

The **scope of the report** coincides with that of the consolidated financial statements, except for those aspects indicated in the final table of this section “Requirements of Spanish Law 11/2018 regarding Non-financial Information and Diversity”.

Ibercaja has adhered to the recommendations of the **Task Force for Climate Related Financial Disclosures**, as a guide for the development of climate related information, and signed in October the United Nations **Principles for Responsible Banking**, as a framework for action for a financial system that acts as a lever for sustainable development.

This **Non-Financial Statement** contains significant information for the Bank on environmental, social and personnel issues, on respect for human rights, on the fight against corruption and bribery and on society. It also includes a number of key non-financial performance indicators of the Entity.

The selection of significant aspects in these questions reflects the **materiality analysis** carried out by the Bank last year. The analysis identified, through surveys, those issues that are most relevant to stakeholders, both internally and externally, and which therefore form an essential part of this report.

THE MATERIALITY MATRIX WAS CARRIED OUT IN FOUR PHASES:

1. REVIEW OF MATERIAL ISSUES
2. ASSESSMENT OF MATERIAL ISSUES
3. PRODUCTION OF THE MATERIALITY MATRIX
4. INTEGRATION WITH STANDARD GRI

THE MATERIAL ISSUES IDENTIFIED WERE:

1. Corporate governance of the Bank	6. Marketing model and advice to customers	11. Talent attraction and retention
2. Solvency/profitability/ financial strength	7. IT security and data protection	12. Social action/projects in support of the community
3. Ethical conduct and integrity	8. Digital transformation and multichannel model	13. High social or environmental value financial products
4. Risk management and compliance	9. Respect for human rights	14. Environmental management
5. Transparency in customer relations and communications	10. Diversity and work-life balance	15. Relations with suppliers and partners

AN INTERNAL AND EXTERNAL CONSULTATION WAS CARRIED OUT BY MEANS OF PERSONALISED ONLINE SURVEYS WITH THE MAIN STAKEHOLDERS:

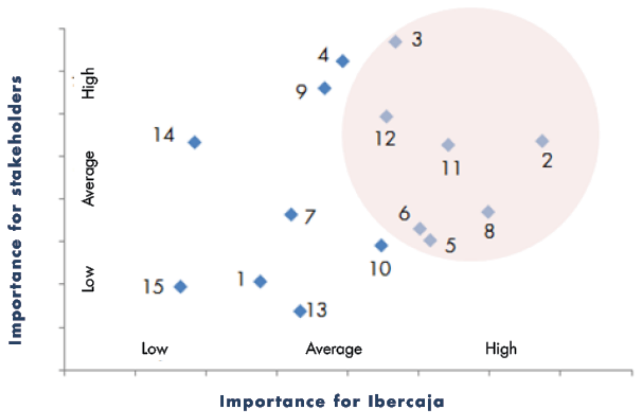
EXTERNAL CONSULTATION

- CUSTOMERS
- SUPPLIERS
- SOCIETY
- SHAREHOLDERS
- EMPLOYEES
- INVESTORS
- ADVISORY BOARD OF THE REVISTA DE ECONOMÍA ARAGONESA

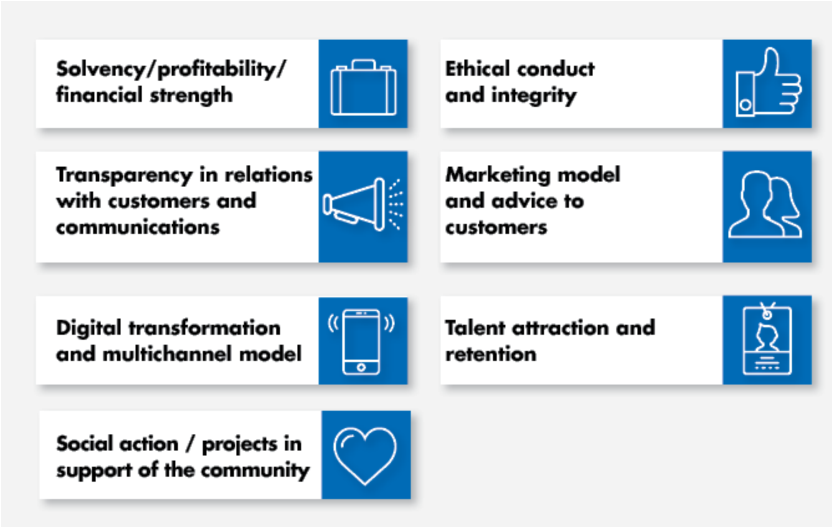
INTERNAL CONSULTATION

- EXECUTIVES
- FINANCIAL AREA (STRATEGY)
- FINANCIAL GROUP

The **survey results** are the basis of the matrix constructed (attached graph), which identifies the material aspects that are addressed in this non-financial statement and in the Annual Report of the Ibercaja Banco Group:



MATERIAL ASPECTS IDENTIFIED:



Ibercaja has included all such non-financial information in this directors' report. It also draws up an **Annual Report**, which explains the Bank's social and environmental policies and its commitment and performance when it comes to Sustainability. In it, the Bank provides detailed information on its actions in the matters described above.

For the preparation of non-financial information, Ibercaja follows the Standards of the Global Reporting Initiative (GRI). **The selection of GRI standards included, in response to the study of materiality, is shown in the following table:**

LIST OF MATERIAL ISSUES AND STANDARD GRI

MATERIAL ISSUES IDENTIFIED	RELATED GRI STANDARDS
SOLVENCY / PROFITABILITY /FINANCIAL STRENGTH	Financial performance * Market presence Indirect economic impacts
ETHICAL CONDUCT AND INTEGRITY	Ethics and integrity * Governance Unfair competition Anticorruption * Audit Non-discrimination *
TRANSPARENCY IN RELATIONS WITH CUSTOMERS AND COMMUNICATIONS	Organisation profile Customer privacy * Customer health and safety Marketing and labelling * Active ownership
MARKETING MODEL AND ADVICE TO CUSTOMERS	Customer health and safety Customer privacy Marketing and labelling Product portfolio *
DIGITAL TRANSFORMATION AND MULTICHANNEL MODEL	Strategy
TALENT ATTRACTION AND RETENTION	Employment * Worker-employer relations * Training and education * Occupational health and safety *
SOCIAL ACTION / PROJECTS IN SUPPORT OF THE COMMUNITY	Local communities * Socioeconomic compliance
ENVIRONMENTAL MANAGEMENT	Materials; Energy; Waters, Emissions; Effluents and wastes * Environmental compliance

* MATERIAL ASPECTS INCLUDED IN THE NON-FINANCIAL STATEMENT, IN COMPLIANCE WITH LAW 11/2018 ON NON-FINANCIAL INFORMATION AND DIVERSITY. (CNMV RECOMMENDATION 13.I)

Ibercaja's **Corporate Purpose** is

"TO HELP PEOPLE BUILD
THE STORY OF THEIR LIVES,
BECAUSE IT WILL BECOME OUR STORY."

Ibercaja is hence committed to a universal banking model focused on the retail business, with **customers at the heart of its strategy** and with **quality service** and **sound advice** as its **hallmarks**.

When carrying on its financial activity, the Bank firmly believes that its plans and actions should help ensure well-balanced economic growth, social cohesion and environmental protection. Sustainable action is part and parcel of the Bank's internal management model and inspires all its business activities: Ibercaja is committed to the **Sustainable Development Goals** of the United Nations, and each year it deepens the implementation of actions in the SDGs where we can have a greater impact.

Risk control, identification, measurement and monitoring are key to Ibercaja's business. The Bank takes into consideration both financial and **non-financial risks** (operational, reputational, technological and legal), the latter of which are becoming ever more important in global risk management. These risks were analysed and, in some cases, progressively incorporated into the Bank's Risk Appetite Framework, and are taken into account for management, both in the short and long term. In identifying reputational risks, those having an environmental source are also considered. Likewise, within the framework of the Bank's Environmental Management System, risks and opportunities relating to climate change were identified.

Ibercaja Banco has a **Corporate Social Responsibility Policy**, approved by the Board of Directors in 2016, which includes the principles of action and commitments of responsible management that the Bank takes on facing its main stakeholders, which are: **customers, people, investors and shareholders, suppliers, environment and the wider community.**

Corporate Social Responsibility is part of the **Comprehensive Sustainability Plan** being developed by the Bank. The Bank has the following governance structure for **managing sustainability** and integrating environmental, social and **governance issues** into its business and strategy:

- **BRAND, REPUTATION AND SUSTAINABILITY UNIT**, reporting directly to the CEO, is tasked with promoting, defining and coordinating the sustainability strategy of Ibercaja Banco while collaborating with the areas involved in implementing that strategy.

- **REPUTATION AND SUSTAINABILITY COMMITTEE**, operating at senior management level and chaired by the CEO, is responsible for validating and supervising the Bank's Sustainability Strategy, as well as all programmes and initiatives that are launched under the strategy. The Unit refers to the Strategy Committee the relevant matters to be approved by the Board of Directors (CSR Policy, Code of Ethics, Corporate Purpose).

- **SUSTAINABLE FINANCES TEAM**, a transversal task force comprising the Bank's main business areas, is responsible for defining and implementing **the sustainability road map** at the Ibercaja Banco Group.

- **ENVIRONMENT COMMITTEE**, oversees compliance with the current Environmental Policy and promotes good environmental management at the Bank by ensuring the sound and proper functioning of the Environmental Management System.
- **ENVIRONMENT TEAM,** comprising volunteer employees from various areas and departments, who are asked to come up with actions for raising awareness and driving best environmental practices across the Group.
- **EFR COMMITTEE,** responsible for implementing the efr plan to ensure a healthy balance between the personal, family and working lives of employees. Ibercaja has earned the **EFR** (empresa familiarmente responsable in Spanish) badge, which certifies the Bank's proactive commitment to ensuring a suitable work-life balance.

Ibercaja has been a signatory to the **UN Global Compact since 2006**, thus ratifying that its activities are carried out in accordance with the principles enshrined in the Global Compact. The Annual Report describes the progress made in implementing the ten principles of the UN Global Compact when it comes to corporate social responsibility.

IN 2019, RATIFYING ITS COMMITMENT TO SUSTAINABILITY, IBERCAJA JOINED THE FOLLOWING INITIATIVES:

- **Business Commitment for a Fair Transition and Green Jobs**, promoted by CEOE, which was presented at the United Nations Climate Action Summit on October 23, 2019.
- Ibercaja's CEO signed the Bank's adherence to the **New Deal For Europe initiative, "CEOs call to action"**, which shows the commitment of European companies to sustainability.
- **Alliance #CEOPorLaDiversidad**, led by the Adecco Foundation and the CEOE Foundation, which reinforces the inclusive model that the entity works on, promoting a diverse workforce and fostering the integration of disability.
- **Collective Commitment to Climate Action**: On 9 December 2019, Ibercaja signed a climate action commitment by the Spanish financial sector in the framework of COP25, promoted by the AEB, the CECA and the ICO. The agreement specifies the collective commitment of the main Spanish banks to measure the carbon footprint of their balance sheets and reduce the climate impact of their financial activity.

7.2 MATTERS RELATING TO THE ENVIRONMENT

To advance in the integration of climate change in reporting, following the guidelines developed at international level, **Ibercaja adhered to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)**. In its annual report, the Bank sets out a first approach to each of the areas proposed by the TCFD: governance, strategy, risk management and metrics and objectives, which will serve to advance the identification of risks and opportunities related to climate change.

THE IBERCAJA GROUP IS AWARE OF ITS IMPORTANT ROLE IN THE PROTECTION OF THE ENVIRONMENT, THE FIGHT AGAINST CLIMATE CHANGE AND SUSTAINABLE DEVELOPMENT. THE BANK TAKES ON THIS COMMITMENT, WHICH IT IMPLEMENTS THROUGH THE FOLLOWING VECTORS:

ENVIRONMENTAL POLICY

Approved by the Board of Directors, and published: The policy is based on the **observance of general law** and regulations, **preventing pollution and contamination** from its own processes, ensuring **proper waste management**, raising **employee awareness** regarding the responsible use of natural resources and **disseminating good practices** among customers and suppliers to raise their awareness.

ENVIRONMENT COMMITTEE

At the management level, it is responsible for **ensuring compliance**.

ENVIRONMENTAL MANAGEMENT SYSTEM

Supervised by the Environmental Committee, it has a Coordinator and a specific budget for correct implementation, which supports the launch of environmental initiatives proposed by the **Environmental Team**: made up of 19 volunteer employees, the team proposes, implements and promotes initiatives in the field of environmental protection

The Environmental Management System (EMS) has been in place since 2007, and is externally certified by AENOR, which verifies compliance by the headquarters office building with the requirements of the ISO 14001:2015 standard. As a requirement of this Standard, the **risks and opportunities** arising from the system are identified, as well as the actions to be taken for each risk. The risks include the impact of climate change on financial activity, which will be developed as part of the Bank's sustainability roadmap in accordance with the TCFD approach (transition risks and physical risks). Opportunities include those arising from the transition to a more sustainable economy: SRI drive, green finance, environmental solidarity initiatives, etc.

In 2019 Ibercaja renewed its certification under the 14001:2015 standard, which evaluates the environmental management carried out by the Bank, highlighting the important work of internal and external awareness carried out, the inclusion of environmental criteria in the design of financial products, and the obtaining of the RSA+2019 seal, within the framework of the Social Responsibility Plan, promoted by the Government of Aragon.

IN 2019 THE MAIN LINES OF ACTION WERE THE FOLLOWING:

USE OF RESOURCES MANAGEMENT

One of the Bank's objectives is efficient consumption, and it implements initiatives aimed at optimising resources, especially those that are material for Ibercaja: water, energy and paper, as well as raising awareness of their proper use.

TOTAL CONSUMPTION	2018	2019
Water consumption (m3)	41,197	41,451
Energy consumption (GJ)**	147,162,9***	138,107,1***
Paper consumption in Tm *	480,7	369,4

* 96% of DIN A4 paper consumed is recycled

** The total electricity consumption at Headquarters comes from renewable sources.

*** In 2019, the calculation of energy consumption in the branch network (electricity consumption) was based on the calculation of the electricity bills of the utilities, achieving an improvement in data accuracy. The recalculation for the years 2016, 2017 and 2018 was done with this same criterion (2018 data in bold)

Highlights in 2019:

- **Energy efficiency:** since 2017, energy was sourced from renewable sources for the Zaragoza headquarters.

  In all the reforms, works and maintenance actions carried out in branch offices, the criterion of replacing, as far as possible, the existing lighting with LED systems and improving air conditioning systems with more efficient equipment was maintained.

  In addition, the design and creation of new centres and spaces took into account policies for the optimisation of resources and the correct management of waste.

- **No Plastics Team:** In response to the concern expressed internally about the amount of single-use plastics generated in our professional activity and personal life, this team, made up of 14 volunteer employees, was created with the aim of working to achieve better use of plastics and raise awareness internally.

- **Environmental Sustainability Mailbox:** focusing on promoting employee involvement in efficient use of resources, the Internal Improvement Service - IBERSIM - introduced an environmental sustainability mailbox that enables employees to express concerns and suggestions for the improvement of environmental performance in their activity.

CIRCULAR ECONOMY AND WASTE MANAGEMENT

The waste generated is segregated, ensuring the correct destination of each in order to reduce their environmental impact at all stages of the value chain. The Waste Coordinator is in charge of their integral management. **In 2019, efforts focused on the continuous improvement of waste management, highlights being:**

- Preparation of a **waste management protocol** for warehouses owned by the Bank, which has been distributed to the people in charge of the areas of the organisation affected by this task. Training and awareness-raising activities for internal and external personnel directly involved in environmental and waste management.
- **Internal and external environmental awareness and information actions**, aligned with key global events related to recycling and environmental education.

EMISSIONS

The Bank works to **reduce CO2 emissions** based on a calculation of the carbon footprint. In 2019, the Bank registered the organisation's carbon footprint for the years 2016, 2017 and 2018 with the Ministry of Ecological Transition's (MITECO) Carbon Footprint, Offset and Carbon Dioxide Absorption Projects Register.

In 2019, total emissions in Tn of CO2eq (Scope 1 and 2) amounted to 11,682, which represents a reduction of 10.5% compared to the previous year. (The percentage reduction in emissions was calculated based on the data from the recalculation of electricity consumption in 2018.)

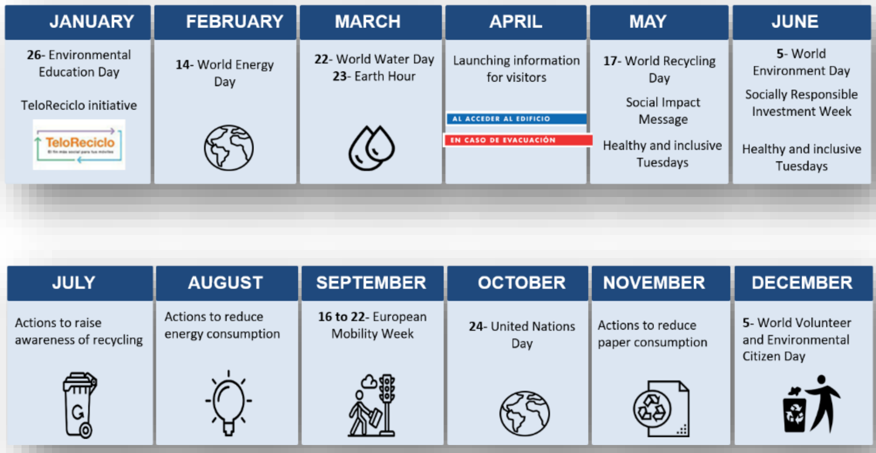
The Bank's commitment to the environment is reflected in our **Emission Reduction Plan**, which includes **emissions neutrality in 2030** as its main goal.

Standout measures planned and implemented during 2019 to reduce the carbon footprint include gradual **replacement of the vehicle fleet** under sustainable criteria.

AWARENESS-RAISING AND COMMUNICATION

This is a key **aspect for Ibercaja** because of the impact it could have internally and externally. **Environmental content is planned and scheduled** annually, aligned where appropriate with global awareness initiatives relating to environmental preservation and the fight against climate change. Dissemination is carried out through a range of channels, both internal and external, operated by the Bank.

2019 ENVIRONMENTAL COMMUNICATIONS TIMETABLE



ENVIRONMENTAL ALLIANCES

Ibercaja, within the framework of the promotion of SDG 17 (alliances), promotes cooperation and participation in environmental initiatives and the fight against climate change.

This is part of **COEPLAN** (Coalition of Companies for the Planet), an initiative that promotes innovative and sustainable companies.

It also participates in the **Sustainable Finance Sector Working Group** to analyse and adapt to legislative proposals supported by the European Commission in its Action Plan on Financing Sustainable Growth.

As part of the COP25, the Bank signed the **"Collective Commitment to Climate Action"** of the Spanish financial sector, promoted by the United Nations Environment Programme Finance Initiative, and joined the commitment to measure and reduce the carbon footprint.

7.3 EMPLOYEE-RELATED MATTERS

AT IBERCAJA WE BELIEVE THAT THE PEOPLE WHO WORK IN THE ORGANISATION ARE THE KEY TO SUCCESS, AND THEIR TALENT IS A COMPETITIVE EDGE AND A FUNDAMENTAL PILLAR ON WHICH OUR BUSINESS PROJECT IS BASED.

People are the **main underpinning** on which Ibercaja rests: they increase the value of the Bank with their dedication, professionalism, involvement and commitment, and contribute significantly to its progress.

The human resource policy focuses on individual development and is governed by strict respect of the law, equal opportunities, non-discrimination due to gender or any other circumstance, social dialogue and a commitment to the reconciliation of family and working lives.

The Group has **5,304 employees**, of which 5,053 work for the parent company. **97%** of the Ibercaja Banco workforce have **permanent contracts**, the average length of service stands at 20 years and the average age is 46. **Men** make up **52%** of employees while **women** make up the remaining **48%**. Women make up 51% of employees that are 50 years of age or less. The employees of Ibercaja Banco are fully covered by the collective agreement.

The following tables present the distribution of the workforce of Ibercaja Banco by gender, job category, age and type of contract in terms of average number of days. The information for 2018 was reconstructed according to the new classification of job categories applied in 2019:

2018 JOB CATEGORY**	GENDER		TOTAL	AVERAGE AGE
	MEN	WOMEN		
Executives	667	287	954	46
Middle managers	587	520	1,107	46
Technicians	667	812	1,479	45
Clerical staff	724	797	1,521	45
Total	**2,645**	**2,416**	**5,061**	**45**

2019 JOB CATEGORY**	GENDER		TOTAL	AVERAGE AGE
	MEN	WOMEN		
Executives	649	279	928	47
Middle managers	593	524	1,117	46
Technicians	699	851	1,550	45
Clerical staff	707	751	1,458	47
Total	**2,648**	**2,405**	**5,053**	**46**

** Job categories are defined as:

- EXECUTIVES: up to branch managers
- MIDDLE MANAGERS: up to assistant managers-officers
- TECHNICIANS: specialised branch office roles and Head Office Technicians/Experts
- CLERICAL STAFF: branch network and Head Office employees

2018 AGE	GENDER		TOTAL
	MEN	WOMEN	
Under 30 years	99	125	224
31 - 40 years	537	568	1,105
41 - 50 years	1,099	1,136	2,235
51 - 60 years	903	585	1,488
61 - 70 years	7	2	9
Total	**2,645**	**2,416**	**5,061**

2019 AGE	GENDER		TOTAL
	MEN	WOMEN	
Under 30 years	106	122	228
31 - 40 years	426	459	885
41 - 50 years	1,076	1,109	2,185
51 - 60 years	1,032	714	1,746
61 - 70 years	8	1	9
Total	**2,648**	**2,405**	**5,053**

AVERAGE NUMBER OF DAYS BY GENDER, TYPE OF CONTRACT AND JOB CATEGORY

In 2018 and 2019, there were no part-time employees.

	PERMANENT			TEMPORARY*		
2018	M	F	TOTAL	M	F	TOTAL
1-EXECUTIVES	100.00%	99.83%	99.95%	0.00%	0.17%	0.05%
2-MIDDLE MANAGERS	99.92%	100.00%	99.96%	0.08%	0.00%	0.04%
3-TECHNICIANS	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%
4-CLERICAL STAFF	84.11%	81.79%	82.92%	15.89%	18.21%	17.08%
Total	**95.34%**	**93.74%**	**94.58%**	**4.66%**	**6.26%**	**5.42%**

* In job categories 2 and 3 there are no people on staff with temporary contracts.

	PERMANENT			TEMPORARY		
2019	M	F	TOTAL	M	F	TOTAL
1-EXECUTIVES	100%	100%	100%	0%	0%	0%
2-MIDDLE MANAGERS	100%	100%	100%	0%	0%	0%
3-TECHNICIANS	100%	100%	100%	0%	0%	0%
4-CLERICAL STAFF	84.91%	83.24%	84.05%	15.09%	16.76%	15.95%
Total	**95.80%**	**94.54%**	**95.20%**	**4.20%**	**5.46%**	**4.80%**

* In job categories 1, 2 and 3 there are no people on staff with temporary contracts.

AVERAGE NUMBER OF DAYS BY GENDER, TYPE OF CONTRACT AND AGE RANGE

In 2019, there were no part-time employees.

	PERMANENT			TEMPORARY		
2018	M	F	TOTAL	M	F	TOTAL
UNDER 30 YEARS	15.10%	15.06%	15.08%	84.90%	84.94%	84.92%
31 - 40 YEARS	96.04%	97.21%	96.64%	3.96%	2.79%	3.36%
41 - 50 YEARS	99.70%	99.47%	99.58%	0.30%	0.53%	0.42%
51 - 60 YEARS	99.85%	99.84%	99.85%	0.15%	0.16%	0.15%
61 - 70 YEARS	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%
Total	**95.34%**	**93.74%**	**94.58%**	**4.66%**	**6.26%**	**5.42%**

	PERMANENT			TEMPORARY		
2019	M	F	TOTAL	M	F	TOTAL
21 - 30 YEARS	26.05%	25.97%	26.01%	73.95%	74.03%	73.99%
31 - 40 YEARS	97.75%	98.35%	98.06%	2.25%	1.65%	1.94%
41 - 50 YEARS	100.00%	99.70%	99.85%	0.00%	0.30%	0.15%
51 - 60 YEARS	100.00%	99.93%	99.97%	0.00%	0.07%	0.03%
61 - 70 YEARS	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%
Total	**95.80%**	**94.54%**	**95.20%**	**4.20%**	**5.46%**	**4.80%**

In 2019, the number of **permanent employees** **increased by 26**; 14 people were laid off due to dismissal or termination of contract, with an average age of 47, and none of them is under 35 nor has children under 12.

2018 JOB CATEGORY	GENDER		TOTAL	AVERAGE AGE
	MEN	WOMEN		
Executives	27	4	31	57
Middle managers	30	11	41	57
Technicians	27	15	42	57
Clerical staff	108	35	143	57
Total	**192**	**65**	**257**	**57**

2019 JOB CATEGORY	GENDER		TOTAL	AVERAGE AGE
	MEN	WOMEN		
Executives	0	0	0	
Middle managers	2	0	2	43
Technicians	1	1	2	44
Clerical staff	4	6	10	49
Total	**7**	**7**	**14**	**47**

Ibercaja's activity is carried out entirely in Spain and its workforce is made up of people of different nationalities.

92% of employees are on a **continuing working day** basis (except Thursdays in winter). The Collective Agreement for the years 2015-2018 establishes an annual working time of 1,680 hours of effective work. Abiding by this timetable, and without prejudice to its being irregularly distributed, in accordance with current legislation and applicable industry regulations, **working hours** are as follows:

- From 1 May to 30 September, the schedule is from Monday to Friday: from 8 to 15 hours.
- From 1 October to 30 April, the schedule is, on Monday, Tuesday, Wednesday and Friday: from 8 to 15 hours. Thursdays: 8 to 14 hours and 16 to 19 hours.

In Ibercaja there are 414 employees subject to tailored schedules, requested on a voluntary basis. Of these, 88% requested three afternoons, 3% two afternoons and 8% one afternoon.

The Bank has in place various measures aimed at **improving the psychosocial climate**, with **the aim of contributing to the reduction of stress and to disconnection** during rest periods, promoting the welfare of the individual through networking between peers in a different and enjoyable way. Some of these initiatives are: **Ibercaja CoffeeWork**, a multipurpose space to facilitate the relationship between employees, generate ideas and share leisure and relaxation time; and **the promotion of sports activities** in free time through 12 cultural and sports sections.

Within the strategic commitment to continue advancing towards a new culture focused on the welfare of the person, improvement in quality of life and social commitment, the initiative **"Healthy and Inclusive Tuesdays"** was launched in 2019 at the Ibercaja CoffeeWork space.

The space was inaugurated with two **cycles of programmed activities** for Tuesday afternoons, to which all employees had access voluntarily and free of charge, in person or via streaming, in the form of different proposals:

HEALTHY SPACE

"Health and Wellness Workshops": health care and promotion of healthy habits among employees

SHOW COOKING

Healthy cooking workshops for a responsible, sustainable and environmentally friendly diet.

CONVERSATIONS WITH ...

Examples of overcoming difficulties and social awareness and #TalentWithoutLabels. Spaces for dialogue with first-hand testimony of outstanding talent, examples of self-improvement and motivation, to generate a space for opinion on disability, diversity and solidarity.

As of today, the **"digital disconnection"** is being negotiated as part of the Collective Bargaining Agreement which will remain in force until June 2020.

7.3.1. CULTIVATING TALENT

The **human resource policy** has the **objective of developing professional and personal capacities**, as well as adapting profiles to each job post and there is an employee evaluation system that measures performance and competencies and identifies capacities and areas for improvement.

The 2019 Career Development Plan was drawn up looking to the future with the strategic challenge of making Ibercaja the best financial institution in Spain in terms of being the bank with the most satisfied customers and the most commercially efficient operations. New lines of work were accordingly introduced, with which it is intended to respond to business needs, focusing primarily on two of the major goals of the 2018-2020 Strategic Plan. Plan+ 2020: **Customers and Transformation.** In 2019 new proposals were accordingly introduced through the **six schools** of Paraninfo: **Transforma, Colabora, Lidera, Avanza, Especialista and Ibercampus+**, with the following goals:

CUSTOMER FOCUS
Training actions to adapt to new ways of working

DIGITALISATION
Customised training pathways adapted to the level of digitalisation

CROSS-CUTTING
Actions aimed at promoting new work methodologies, encouraging cooperation

SELF-DEVELOPMENT
Courses to promote personal and professional growth

SPECIALISATION
Specialised content by business segment

LEADERSHIP
Consolidation of the Inspirational Leadership Programme

The Bank encourages talent development through training programs and internal promotion for the highest number of employees possible. In **2019**, **764 people** received professional promotions through the application of the criteria defined in each of the professional career plans, length of service, unrestricted designations and office classifications. There are professional career plans for all central service departments and for the strategic company and personal and private banking segments. There is a **total of 1,117 professionals pertaining to these promotion plans.**

The aim of the training programmes is to **promote professional** development meeting the needs that arise in an environment as dynamic environment as banking. Among the main training programs undertaken are those related to tools and operations, products and services, standards/regulation, taxation, development of attitude and personal motivation, digital environment and new trends. A total of **28,802 hours of face-to-face training** was provided, and **306,090** hours of **distance training**, and by job category the distribution is as follows:

JOB CATEGORY (2018)	TRAINING HOURS
Executives	52,216
Middle managers	83,107
Technicians	103,663
Clerical staff	148,040
Total	**387,026**

JOB CATEGORY (2019)	TRAINING HOURS
Executives	71,124
Middle managers	78,229
Technicians	98,865
Clerical staff	86,674
Total	**334,892**

EL BANCO DEL Vamos

7.3.2. EQUALITY AND WORK-LIFE BALANCE:

In July 2019 Ibercaja achieved the **efr (empresa familiarmente responsible in Spanish) certification**, one of the milestones highlighted as relevant in its Strategic Plan 2018-2020, thus **reinforcing its commitment to the people who are part of the organisation**, in accordance with its purpose and corporate values.

This certificate is a **recognition** of the work done so far in the field of work-life balance and equality and the **commitment to the welfare of employees**, and promotes the active management of work-life balance and equality through a **management model based on continuous improvement**. Achieving the certificate is a firm **commitment of Management**, showcasing the leadership model of Ibercaja.

To achieve the efr certification, an **exhaustive diagnosis** was conducted: the policies of the organisation, the positions, the management of work-life balance and equality were analysed and the involvement of all employees and the Management Committee was key for the identification and detection of the real needs of our staff.

Based on the results of this diagnosis, **the more than one hundred work-life balance and equality measures that Ibercaja has in place for its employees** (exceeding statutory requirements) were grouped into the categories stipulated in the efr 1000-1 standard, and Ibercaja's efr Plan was drawn up for the first certification cycle (2019-2021).

The efr Plan is based on **5 quantitative and measurable goals**, with concrete action plans for each goal, including: **implementation of flexibility** and enhancing the positioning of **women in management positions**.

To achieve the goals set out in the efr Plan, the **efr Committee** was set up at management level for decision-making, as well as the **efr Team**, a multidisciplinary team made up of 10 people from different areas and profiles (People Area, Internal Audit and Brand, Reputation and Sustainability) that works with a cross-cutting brief for the progress of the project.

UPDATE OF THE EQUALITY PLAN:

In parallel to achieving efr certification in 2019, Ibercaja started **updating the Equality Plan**, which promotes equal opportunities between the sexes and a work-life balance so as to contribute to the welfare of our employees and their families.

The Equality Plan, which has been agreed with employee representatives, faces the challenge of **attaining a balanced composition of men and women at any professional level.** These principles are present in all aspects of human resource management, such as recruitment, hiring, promotion, remuneration and communication.

Given the relevance of some of the goals under the efr plan and on the occasion of the updating of the Equality Plan, the following were added as areas of action for this plan:

IMPLEMENTATION OF FLEXIBILITY MEASURES

Flexibility at work facilitates the organisation of work and family life, positioning it as one of the levers for improving work-life balance. A study was conducted of the alternatives for the implementation of flexibility measures in Ibercaja to be specified in the update of the Equality Plan (flexible hours at the beginning and end of the day, meeting procedure, etc).

PAID LEAVE

As part of the negotiation of the equality plan, modifications were proposed to some of the paid leave options that employees currently enjoy, improving the conditions set out in legislation (Workers' Statute, collective agreement, etc).

ENHANCE THE POSITIONING OF WOMEN IN MANAGEMENT POSITIONS:

To achieve this, we shall promote the "**Plan Lidera**" women's leadership programme, with lines of action to promote gender equality and strengthen the role of women in the company and society at large.

Taking into account the preferences expressed by women and the fact that the women's representation in Ibercaja stands at 48%, professional development opportunities in **2019** have been carried out on the **basis of equality**.

Women received **51%** of the **promotions in 2019.** The positioning of women in positions of responsibility is continually advancing. Over the year, 36% of Bank Manager positions, 54% of Assistant Manager positions and **63%** of Personal Banking Manager positions were awarded to women. **Every year, more positions are applied for by, and awarded to, women. The presence of women in management positions is increasing.**

Employees benefit from measures to **reconcile working and family** lives that expand or improve those set out in labour legislation and in the collective bargaining agreements. During the year, **272** employees have taken leaves of absence, working time reductions and maternity leave in order to perform family care.

In relation to the **integration of people with disabilities**, Ibercaja, in addition to complying with the General Disability Law, promotes the participation of disabled people through agreements with social entities and awareness through training and volunteer actions. Currently, **50** people with disabilities work at the Bank **(6.38% more than the previous year)**.

The Bank has **protocols in place for dealing with any type of discrimination**, including cases of sexual harassment and harassment for reasons of gender.

7.3.3. REMUNERATION POLICY

In line with the rest of Ibercaja's Human Resources policies, the Remuneration Policy is based on the principle of equality between men and women, with no type of salary differentiation between genders.

The following are details of the **average remuneration received** by the employees of Ibercaja as at 31 December **2019**. These remunerations are made up of fixed remuneration, salary complements and variable remuneration received in 2019.

AVERAGE TOTAL REMUNERATION BY GENDER (IN EUROS)

	FIXED + BONUS 2019	INCR. RESP. 2018	FIXED + BONUS 2018
Men	52,456	0.74%	52,072
Women	45,475	1.07%	44,993
Total	**49,133**	**0.90%**	**48,693**

AVERAGE TOTAL REMUNERATION BY AGE RANGE (IN EUROS):

AGE RANGES	FIXED + BONUS 2019	INCR. RESP. 2018	FIXED + BONUS 2018
21 - 30 YEARS	23,717	7.45%	22,072
31 - 40 YEARS	41,942	0.42%	41,768
41 - 50 YEARS	49,379	-1.14%	49,948
51 - 60 YEARS	55,563	-0.39%	55,781
61 - 70 YEARS	92,983	19.41%	77,867
Total	**49,133**	**0.90%**	**48,693**

AVERAGE TOTAL REMUNERATION BY JOB CATEGORY (IN EUROS):

JOB GROUPING	FIXED + BONUS 2019	INCR. RESP. 2018	FIXED + BONUS 2018	INCR. RESP. 2017	FIXED + BONUS 2017
1-EXECUTIVES	63,306	1.16%	62,581	-0.18%	62,694
2-MIDDLE MANAGERS	51,703	0.36%	51,516	-0.24%	51,643
3-TECHNICIANS	45,899	-0.38%	46,074	1.39%	45,441
4-CLERICAL STAFF	41,589	2.79%	40,461	-0.62%	40,715
Total	**49,133**	**0.90%**	**48,693**	**0.59%**	**48,408**

In relation to the wage gap, if the base salary of the collective agreement is taken as a reference and the additional remuneration for length of service, social benefits or other benefits is excepted, the male/female wage ratio in Ibercaja is 1.

Analysing this information weighted by job grouping (executives, middle management, technical and clerical), a salary gap of 9.03% was determined in 2019.

The wage difference shown by the results is in line with the sector, mainly generated by the historical gender composition of the company, which translates into a higher average length of service of men compared to women. Evidence of this is **the reduction of the gap with respect to 2018 by 2.25%**, **from 13.59% to 13.3%** and with **respect to 2017 by 9.77%**, **from 14.30% to 13.3%.**

This calculation takes into account fixed remuneration, wage complements and variable remuneration received in 2019.

This trend is partly due to the measures developed to reduce it:

- **Increase in the representation of women in management positions.**
- **51% of promotions in 2019 went to women.**

ASPECTS RELATING TO THE REMUNERATION OF DIRECTORS

The position of member of the Board of Directors is remunerated, in accordance with article 34 of the Bylaws. Only the Chief Executive Officer and the Chairman receive a salary for the performance of their duties, as well as allowances for attending meetings of governing bodies, in accordance with the provisions of the Bylaws. The remuneration of the other directors, in their capacity as such, consists of (a) allowances for attending meetings of the Board of Directors and its committees, and (b) an annual allocation to be determined by the Board for directors with special dedication and duties (chair of the internal committees of the Board of Directors).

Hence the average remuneration of directors, including the CEO and the Chairman, amounted to €107 thousand. On the other hand, the average remuneration of directors in their capacity as such is €45.5 thousand (the average remuneration of male directors is €43.8 thousand and that of female directors is €55.3 thousand.

As a result of the resolutions adopted by the shareholders at the General Meeting held on 29 August 2019, the number of directors at 31 December 2019 was 11 (9 men and 2 women), although the above data includes the remuneration of all directors, including those who did not hold their position during the entire year.

Information on directors' remuneration is disclosed on the Bank's corporate website (www.ibercaja.com), in the section on Corporate governance and remuneration policy and in the Annual Corporate Governance Report.

ASPECTS RELATING TO THE REMUNERATION OF SENIOR MANAGEMENT

The members of the Bank's Management Committee, made up of 11 people (8 men and 3 women) at 31 December 2019, are considered senior management. Information on senior management remuneration includes both fixed and variable remuneration, long-term pension systems and any other payments. The average remuneration is €182 thousand (average remuneration of executives of €193 thousand and €153 thousand in the case of executives, which is mainly affected by the length of service of the officials in the Bank).

7.3.4. SOCIAL DIALOGUE

Labour relations are based on **open and transparent dialogue** with employee representatives. These relationships attempt to facilitate mutual implication and commitment, in order to make advances in the improvement of the employment conditions for the professionals that work at Ibercaja.

Thus, the Bank encourages social dialogue, in accordance with the provisions of the collective bargaining agreement for savings banks and financial institutions, by means of information, consultation and negotiation with the employees' representatives in all significant matters.

7.3.5. OCCUPATIONAL HEALTH AND SAFETY.

Ibercaja is committed to the **safety and protection of its employees** to ensure their well-being and occupational health, by minimizing risks and assigning the resources that are necessary to implement preventive actions.

The Bank accords priority and its utmost support to the Prevention of Occupational Risks as a means of protecting the health and safety of its employees, which is why it has a **Policy on the Prevention of Occupational Risks**, which sets out the commitments acquired by the company in the area of prevention.

The Bank has its own **prevention service**, as it is a company with more than 500 workers. The in-house prevention service is a specific organisational unit covering two of the four prevention disciplines (“Health Surveillance” and “Ergonomics and Applied Psychosociology”) provided for in Article 34 of the regulations. The preventive specialities of “Safety in the Workplace” and “Industrial Health” are agreed with an external prevention service: “MÁS PREVENCIÓN”.

The Bank has implemented an **occupational risk prevention plan**, with the aim of integrating preventive activity into management.

The Bank has set up a **Health and Safety Committee**, composed of 10 members: 5 of them are the Prevention Officers and the other 5 are representatives of Ibercaja. Ibercaja's Health and Safety Committee has its own internal regulations that govern its functioning.

Given the activity carried out, no specific risk or illness for employees is identified.

In 2019 there were 25 **occupational accidents** (12 men and 13 women), **34% less than in the previous year**, and the total number of hours of absenteeism was 331,274 (314,559 in 2018).

2019*	TOTAL	MEN	WOMEN
FREQUENCY INDEX (**)	1.2273	0.9789	1.4989
SEVERITY INDEX (**)	0.0001	0.0001	0.0001

* Information for 2018 is not included since this calculation was not made due to unavailability of the baseline data.

(**) IdF= $\frac{\text{Number of occupational accidents with sick leave (ex in itinere)}}{\text{Total number of hours actually worked}} \cdot 10^6$

(***) IdG= $\frac{\text{Number of days not worked due to an accident at work, with leave}}{\text{Total number of hours actually worked}} \cdot 10^3$

Ibercaja is **committed to the welfare and health of its employees** and hence works on the **Ibercaja Saludable** project. Thus, in 2019 the **Healthy Team (Equipo Saludable)** was created, made up of employees from different areas, with the aim of arriving at an initial diagnosis and an action plan to promote healthy living habits among the people of the Organisation.

In this new strategic cycle 2018-2020, the people management model once again aligned its strategic objectives with the Corporate Purpose and the objectives set out in the Plan+ 2020. These include **improving the Employee Value Proposition** by promoting a healthy and social working environment that favours the well-being of employees and the sustainability of the working environment.

For this purpose, and also included in the Ibercaja efr Plan, the cross-cutting work team **“Empresa Saludable”** (Healthy Company) was formed, made up of people with different profiles and who carry out different roles within the Bank (Brand, Reputation and Sustainability, Talent Development, Global Compensation, Labour Relations and Prevention Service, Real Estate, Manager of efr...) with a threefold goal:

“HEALTHY COMPANY”

Arrive at a **diagnosis of the current situation**, which includes actions in the field of welfare already being carried out in Ibercaja.

Detect new needs in this area as they arise among employees.

Establish a Healthy Business Action Plan as a reference framework.

A wide range of initiatives are currently being promoted in Ibercaja **in the area of employee welfare**: those carried out by the Prevention Service itself (medical check-ups, prevention campaigns, good health practices, etc), through the more than 15 sports sections of the Cultural Group, the Healthy Space and Show Cooking workshops that promote a healthy lifestyle and diet, or all the courses available on the Talent Management platform collected in a single programme “Me, the key to my success”, where we contribute to acquisition of necessary and useful skills for career and personal development: Positive Attitude, Public Speaking, Mindfulness or Time Management.

7.4 HUMAN RIGHTS MATTERS

Ibercaja conducts its banking business responsibly, respecting and encouraging human rights in accordance with prevailing legislation and international standards: The Bank is always mindful of the UN Universal Declaration of Human Rights, and it has been a signatory to the UN Global Compact since 2006, so its activities are carried out in accordance with the principles enshrined in this initiative.

One of the commitments of the Ibercaja Corporate Social Responsibility Policy is defending human rights, which is a principle that encompasses the entire organisation and all its members. This is reflected in the Bank's **Code of Ethics**, approved by the Board of Directors, as a key element that reinforces the corporate culture and ethical approach of the Bank's management. The Code contains the **Bank’s ethical commitments and the principles of action** that must be present in the day-to-day work of the people who make up Ibercaja, so as to make its corporate values tangible. Employees have an **Whistleblower Channel** to communicate possible violations of the Code or doubts about its interpretation. The Bank continues to work on raising awareness its Code of Ethics, through communication and development of training, for the internalisation of the Code by employees.

Ibercaja also promotes respect for human rights, in **line with the SDGs of the 2030 Agenda**, conveying this commitment to the people, companies and institutions with which it relates, incorporating the safeguarding of these rights in investment and project financing decisions, and in its relations with customers and suppliers. To strengthen this bond, it has a **Code of Conduct for suppliers** that specifies the values that are fostered responsible contracting, many of which are related to human rights.

It should be noted that the institution has not been involved in any incidents involving violation of human rights.

7.5 MATTERS RELATING TO THE FIGHT AGAINST CORRUPTION AND BRIBERY

7.5.1 MEASURES TO COMBAT CORRUPTION AND BRIBERY

The Bank has a **criminal risk prevention system**, the purpose of which is to mitigate the risk of commission of actions by members of the organisation that may constitute crimes. The system has express policies and procedures in place to avoid corruption and bribery in its business, which are understood to be the offer, promise, request or acceptance of an unjustified benefit or advantage of any nature as compensation for unduly favouring others in commercial relationships.

This system will also include the **criminal compliance and anti-bribery policy**, promoted by the Regulatory Compliance Department, as a formal statement of the intention of the Board of Directors and senior management of the Bank to establish and uphold, as one of its fundamental values, that the actions of all members of the organisation shall always comply with the legal system in general and with criminal law, in particular, by fostering a culture of preventive compliance, based on the principle of “zero tolerance” with the commission of unlawful acts (including bribery), and promoting ethical and responsible conduct. This intention is also included in Ibercaja’s Code of Ethics, as approved by the Board of Directors.

95% of Ibercaja Banco's current workforce has received **training in criminal risk prevention**, including the crime of corruption and bribery.

DURING THE YEAR, THERE WERE NO COMMUNICATIONS NOR WERE ANY CONDUCTS DETECTED THAT COULD CONSTITUTE THE CRIME OF CORRUPTION OR BRIBERY.

7.5.2. MEASURES TO COMBAT MONEY LAUNDERING

Ibercaja Banco has the status of "reporting Bank" under **anti-money laundering and counter-terrorism financing regulation** (AML/CTF) and, therefore, it must apply the measures to prevent the Bank from being used for this purpose. To this end, it has adequate internal control and communication procedures and bodies in order to uncover, impede and prevent the carrying out of transactions that may be related to money laundering or the financing of terrorist activities.

These procedures and bodies, which are described in the corresponding Manual, as well as their organisation, meet the principles of swiftness, security, efficiency, quality and coordination, both in the internal transmission and in the analysis and reporting to the competent authorities of the relevant information pursuant to regulations on the prevention of suspicious transactions.

A basic pillar of the AML/CTF system are the due diligence measures referred to in Articles 3 to 7 of Law 10/2010 and the provisions of Royal Decree 304/2014 that implement them: identification of the formal and beneficial owner, as well as knowledge of the activity of the same, which will include knowing the origin of the funds with which the client tries to operate with the Bank.

Consequently, and in line with the risk prevention and management model based on **three lines of defence implemented in the Bank**, the first filter of the AML/CTF system is the **establishment of the relationship with customers**, and this relationship is the responsibility of the business units that act as the first line of defence against the risk of money laundering and the financing of terrorism.

In the second line of defence, in addition to the risk control function, there is the **regulatory compliance function** performed by the Regulatory Compliance Department, which includes the AML/CTF Unit which, as a technical unit specialised in this field, has an essential (although not exclusive) role in the application, supervision and monitoring of the internal procedures established by AML/CTF, with the Internal Audit Department assuming the functions of the third line of defence.

Such AML/CTF procedures and measures **are applied with a risk-based approach**, so that in cases in which there is a greater risk that the Bank may be used for money laundering or terrorist financing, these measures are applied with a greater degree of intensity.

DURING THE YEAR, NEARLY 300 FILES WERE OPENED FOR THE ANALYSIS OF TRANSACTIONS SUSPECTED OF BEING RELATED TO MONEY LAUNDERING OR THE FINANCING OF TERRORISM. SEPBLAC WAS INFORMED OF 82 CASES WHERE SPECIFIC ANALYSIS SUGGESTED THERE WAS EVIDENCE TO BE FURTHER EXAMINED.

7.5.3. CONTRIBUTIONS TO FOUNDATIONS AND NOT-FOR-PROFIT ENTITIES

To the extent that contributions of economic nature by the Bank to foundations and not-for-profit entities are made through accounts held in Ibercaja, the entities benefiting from these contributions are subject to the same **controls for prevention of money laundering and financing of terrorism as other customers**. In addition, given that due to their very nature, such entities are categorised as medium risk customers, in addition to the application of due diligence measures that are carried out in each customer registration or monitoring of the business relationship (e.g. check against blacklists), the Bank adopts additional control measures for the adequate management of the risk of money laundering or financing of terrorism.

7.6 SOCIAL MATTERS

7.6.1 COMMITMENT TO SOCIETY

Ibercaja's vision concerns the development of a banking model based on **social commitment** in line with its Corporate Purpose. From its origins, the Bank includes among its founding principles that of **contributing to the socio-economic development** of its areas of operation, taking into account the needs of society and its stakeholders.

Ibercaja has a **Map of Stakeholders**, which analyses the expectations and interests of each stakeholder group, classifies them and sets priorities to help the institution to actively listen to and engage with them.

THE PRIORITY STAKEHOLDERS FOR THE BANK, ON WHICH ITS CORPORATE SOCIAL RESPONSIBILITY POLICY IS BASED, ARE:

Ibercaja encourages **active listening and dialogue** with its stakeholders to identify their needs and expectations and respond to them. Hence it implements specific channels and tools that favour continuous, two-way communication.

MAJOR COMMUNICATION CHANNELS INCLUDE:

- CORPORATE WEBSITE AND MARKETING WEBSITE
- CUSTOMER SERVICE
- FREE HELPLINES AND E-MAILBOXES
- ACTIVE LISTENING ON SOCIAL MEDIA
- CUSTOMER SATISFACTION SURVEYS
- EMPLOYEE SATISFACTION SURVEYS
- REPUTATION MEASUREMENT SURVEYS
- BRAND RECOGNITION SURVEYS
- NEWSLETTERS AND ONLINE SCORING QUESTIONNAIRES
- PRESS RELEASES AND CONTRIBUTIONS AND OTHER MEDIA
- MEETINGS AND FOCUS GROUPS WITH EMPLOYEES, CUSTOMERS AND THE GENERAL PUBLIC
- SYSTEMATIC AND ONGOING RELATIONS WITH INSTITUTIONS AND SOCIAL ACTORS TO FOLLOW TRENDS AND EXPECTATIONS AND EXCHANGE GOOD PRACTICES (AEC, CEOE, CHAMBERS OF COMMERCE, FORÉTICA, CECABANK, ETC)
- SUPPLIERS PORTAL

Every year, the Bank produces a **Social Impact** report that reflects its contribution to the generation of wealth and well-being in the territories where it operates. This contribution is not only economic, but also social and environmental.

The following indicators, among others, stand out:

DEVELOPMENT AND EMPLOYMENT

238 students and interns carried out occupational training at Ibercaja.

SOCIAL ACTION

€17 million was allocated to social action through the Fundación Ibercaja.

COMMUNITY

681 Ibercaja volunteers at the service of the community.

ENTERPRISE

In 2019, **434** Training/information days were held for client and non-customer companies, attended by **29,889** people.

7.6.1.1. SOCIAL ACTION:

Ibercaja's Call for Social Projects is aimed at **programmes that improve people's employability**, generate real opportunities for social and labour insertion or cover the basic needs of groups in situation or at risk of exclusion. The initiative is channelled through the shareholder Foundations, which in its fourteenth edition, allocated **€866,500** to 319 proposals, **which benefited 197,540 people**.

In addition to providing direct aid to social projects, **Fundación Ibercaja** collaborates with third sector entities in programmes and activities that provide a specific response to the needs of certain groups such as families with limited resources, the elderly, young people outside the education system or people with disabilities.

These are the headline social programmes with which Fundación Ibercaja has maintained its commitment in 2019: TOPI Catering School of Fundación Picarral, Sumando Empleo de Cáritas Autonómica de Aragón, Prevention Plan of Fundación Centro Solidaridad, Placement Agency of Fundación DFA, Aragón Solidario awards with Heraldo de Aragón, Good Citizenship Practices award with Ebrópolis and CERMI Aragón, through the painting and sculpture competition “Trazos de igualdad”.

In 2019, the third edition of **Impulso Solidario** was launched, an internal initiative in which Ibercaja Group employees themselves present and select social projects of which they are particularly aware. The 8 receiving the most votes receive financial support for their development.

7.6.1.2. ALLIANCES:

In 2019, Ibercaja has continued to develop an intense **activity of transmission and dissemination of economic, business and financial knowledge** for families and companies throughout the country, with special emphasis on its traditional areas of operation, with a focus on proximity and adaptation to the needs of each territory and group. Ibercaja relied on alliances with public bodies (regional governments, provincial councils, town halls, etc.), private entities (business and trade union organisations, Chambers of Commerce and Industry, clusters, etc.) and private companies (Microsoft, BSH, CASER, ESIC, etc.).

In addition, with the aim of improving accessibility to information, training and solutions offered through these initiatives, the Bank strengthened its digital assets in this area, providing them with more content, as is the case, for example, with the Ecosystem+ Enterprise platform.

7.6.1.3. AWARDS AND RECOGNITION:

Ibercaja achieved, for the fourth consecutive year, the **RSA+ Seal, awarded by the Government of Aragon**, which recognises the entity's drive in key aspects of CSR, such as equality, work-life balance, volunteering and promotion of culture.

In 2019 Ibercaja achieved the **efr certification**, which accredits the Bank as a family responsible company, which promotes work-life balance and equality, and recognises its commitment to the welfare of employees.

7.6.1.4. SPONSORSHIPS:

In addition, Ibercaja collaborates in local development through **sponsorship actions**, mainly in the **field of sports**, youth, culture, and entrepreneurship, as it believes that this is the best vehicle for conveying the Bank’s values; it also collaborates in cultural activities and business events through agreements signed with numerous associations.

Many of the sports events promoted (Madrid Marathon, Valencia 10K, Cursa dels Nasos in Barcelona, Ibercaja Popular Race in Zaragoza, etc), include a **social focus** by channelling donations from runners and participating companies to social organisations and causes, to help the most disadvantaged people.

Ibercaja's sponsorship strategy works on both internal activation, promoting employee involvement, and external activation, which boosts brand visibility. Thus, in 2019, nearly **1,500 employee entries in our events** were added, especially in sports events (as athletes and volunteers), which contributes to strengthen corporate engagement and favours healthy business practices.

7.6.1.5. VOLUNTEER WORK

Ibercaja encourages active and retired employees to participate in solidarity activities that improve society and contribute to the development of people. **Ibercaja's Volunteer** programme seeks to **motivate employees to contribute to equal opportunities in society**, improve the quality of life of the most needy, preserve the natural environment or promote social cohesion and development, through its own initiatives or in collaboration with other institutions and entities.

Among the activities carried out by Ibercaja's volunteers in 2019 are the celebration of the **Company Solidarity Day**, in which they share corporate volunteer activities with the aim of visualising the power of change that this group has in society; the **Great Food Collection**, in ten different cities, collaborating this year for the first time in Valencia, or the **Ibercaja Race for Integration** in Zaragoza, which this year celebrated its 40th anniversary.

In 2019, Ibercaja **volunteers dedicated more than 2,000 hours to the wider community**, getting involved in solidarity activities organised in Zaragoza, Huesca, Guadalajara, Logroño, Madrid, Burgos, Badajoz, Seville and Valencia.

7.6.1.6. FINANCIAL LITERACY

Ibercaja's Financial Literacy programme, managed by the Ibercaja Foundation, follows since 2013 the Bank's commitment to the National Financial Literacy Plan, led by the Bank of Spain and the CNMV. It aims to drive basic **'financial literacy'** for all citizens and all of its activities are free. The program extends to all of Spain through the platform aulaenred.ibercaja.es.

In 2019, a total of **3,418 people** participated in this program, improving their financial culture through **workshops and basic finance days for schoolchildren and activities for the general public.**

7.6.2. SUBCONTRACTING AND SUPPLIERS

Ibercaja, in its relationship with suppliers, demands from them an appropriate degree of commitment to socially responsible practices that are compatible with the Bank's Code of Ethics. To ensure compliance with these socially responsible practices and to encourage application of the principles of the Global Compact, Ibercaja has a **Supplier Code of Conduct**. In Ibercaja's contracts with its suppliers, the latter are obliged to assume the principles of the United Nations Global Compact on Human Rights, Labour Rights, Environmental Protection and Anti-Corruption, committing themselves to Ibercaja's organisation to adopt the measures that are conducive to compliance with these principles, and to encourage third parties with whom they enter into contract to comply with them. Likewise, suppliers are obliged to comply with and enforce, within their sphere of influence, the regulations in force at any given time regarding environmental protection, in particular waste management, establishing and maintaining a business policy of sustainable development, making their best efforts to make progress in improving their environmental practices.

In November 2019, a **new supplier management tool** was launched with a more evolved and complete website, which will enable the improvement and systematisation of the supplier risk approval and management processes, facilitating the Bank's relations and active listening with suppliers. The new portal includes, within the documentation requirements, social and environmental standards (ISO14001, OHSAS 18001, ISO 26001), and matters relating to corporate social responsibility. As to transparency of non-financial information, suppliers are consulted as to whether they make an annual publication in this area, whether it follows any international reporting standards (e.g. GRI) and whether such information is verified by an independent external expert.

On the other hand, the Supplier Code of Conduct is currently being revised to reflect all the progress made in sustainability at the Bank.

In 2019, a certification **process was performed involving leading suppliers (160)**, which **account for 86% of total** purchase volumes managed, of which 111 have renewed their certification and 48 obtained such certification for the first time.

Within the framework of the Entity's Environmental Management System, the supervision of suppliers assigned to it is carried out from the environmental point of view, in the corresponding external audits (AENOR) for the follow-up and/or renewal of ISO 14001, which the organisation has had since 2007.

7.6.3. CUSTOMERS

Ibercaja has established a **communication circuit with its customers** (Customer Service, SAC) so that they can submit their complaints, claims, suggestions and proposals for improvement. A total of 11,698 requests were processed during the year. Details of the data, and evolution with respect to 2018, are included below:

REQUESTS ATTENDED TO BY CUSTOMER SERVICE

TYPES	2018	2019	VAR. 18/19
Floor clauses	1,254	596	-52.5%
Arrangement fees	6,877	3,738	-45.6%
Claims and complaints	6,279	7,139	13.7%
GDPR rights	141	189	34.0%
Suggestions	65	36	-44.6%
Total	**14,616**	**11,698**	**-20.0%**

Arrangement fee incidents reflect the increasing recourse to court for this type of claim. As to floor clauses, recent figures reflect the Bank's work in recent years to resolve this type of claim.

The average time for resolution of complaints and claims is around 17 days in the Customer Service unit and 22 days in the special floor clause service, both of which are time limits under current regulations. As at 31 December 2019, **Customer Service had managed 95.2% of all incidents received**.

In response to its commitment to promote universal accessibility to financial services, Ibercaja launched a **service for deaf people** for all the Bank's customers who need it. The new service, coordinated by an employee qualified as a Spanish Sign Language Interpreter and Guide and a specialist in the Deaf Community, aims to facilitate the relationship with the entity for people with hearing disabilities, so that they can carry out their procedures more quickly and closely.

7.6.4. TAX INFORMATION

The Group achieved a **pre-tax profit of €128,637 thousand** (€80,830 thousand in 2018). **Corporate income tax** amounted to **€44,648 thousand** (€40,026 thousand in 2018) (estimated corporate income tax expense for 2019).

Ibercaja joined the **"Empresa Solidaria"** initiative in 2019, allocating 0.7% of corporate income tax to social purposes. These funds help finance government programmes to move towards a more egalitarian, inclusive and just society, and support the achievement of the Sustainable Development Goals of the United Nations 2030 Agenda.

During the year Ibercaja Banco and the Group companies did not receive any public subsidies or aid.

REQUIREMENTS OF SPANISH LAW 11/2018 REGARDING NON-FINANCIAL INFORMATION AND DIVERSITY

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
BUSINESS MODEL	Brief description of the business model of the group, which will include: 1.) its business environment, 2.) its organisation and structure, 3.) the markets in which it operates, 4.) its objectives and strategies, 5.) the main factors and trends that may affect its future performance.	-	Ibercaja Banco Group	102-1 / 102-2 / 102-3 / 102-4 / 102-6 / 102-7	1.3. Business Model and Strategic Plan 2018-2020	-
POLICIES	A description of the policies that the group applies with respect to those issues, which it will include:1.(a) the due diligence procedures applied for the identification, assessment, prevention and mitigation of significant risks and impacts2.) the verification and control procedures, including what measures have been taken.	-	Ibercaja Banco Group	103 Management approaches in each area within the economic, environmental and social dimensions	7.1 Introduction See the detail of non-financial policies in the following blocks.	-
ST, MT and LT RISKS	The main risks associated with those issues that are linked to the activities of the group, including, where relevant and proportionate, its business relationships, products or services that may have an adverse effect on those areas; and • how the Group manages these risks, • explaining the procedures used to detect and evaluate them in accordance with the national, EU or international reference frameworks for each subject. • Must include information on the impacts that have been detected and a breakdown of these, in particular on the main short-, medium- and long-term risks.	-	Ibercaja Banco Group	102-15	5. Risk management 7.1 Introduction	-
KPIs	Key non-financial performance indicators that are relevant to the particular business and that meet the criteria of comparability, materiality, relevance and reliability. • In order to facilitate the comparison of information, both over time and between banks, special use will be made of generally applicable non-financial key indicator standards that comply with the European Commission's guidelines in this area and the Global Reporting Initiative standards, and the report should mention the national, European or international framework used for each area. • Non-financial key performance indicators should be applied to each of the items in the statement of non-financial information. • These indicators should be useful, take into account specific circumstances and be consistent with the parameters used in their internal risk management and assessment procedures. • In any event, the information presented must be accurate, comparable and verifiable.	-	Ibercaja Banco Group	General or specific GRI standards of the economic, environmental and social dimensions that are reported in the following blocks	7.1 Introduction See the detail of the KPIs reported in the following blocks.	-

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
	Global Environment					

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ENVIRONMENTAL MATTERS	1.) Detailed information on the current and foreseeable effects of the company's activities on the environment and, where appropriate, health and safety, environmental assessment or certification procedures;2.) The resources dedicated to the prevention of environmental risks;3.) The application of the precautionary principle, the amount of provisions and guarantees for environmental risks. (e.g. derived from the Environmental Liability Law)	YES	Ibercaja Banco Group	103 Management Approach to each area within the Environmental dimension	7.2 Matters relating to the environment	Although the impact of Ibercaja's activities on the environment is small, the Bank has an Environmental Policy and actively manages this impact. This is why quantitative information is reported on water consumption, paper consumption, energy consumption and GHG emissions.
	Pollution					
	Measures to prevent, reduce or repair carbon emissions that severely affect the environment; taking into account any form of air pollution specific to an activity, including noise and light pollution.	NO	-	103 Management approach of Emissions and Biodiversity	-	-
	Circular economy and waste prevention and management					
	Circular economy Waste: Measures for prevention, recycling, reuse, other forms of recovery and disposal of waste. Actions to combat food waste.	NO	-	103 Effluent and waste management approach	-	-
	Sustainable use of resources					
	The consumption of water and water supply according to local constraints.	YES	Ibercaja Banco Group	303-1	7.2 Matters relating to the environment/Resource management	-
	Consumption of raw materials and measures taken to improve the efficiency of their use;	YES		103 Management approach of Materials 301-1 / 301-2		-
	Consumption, direct and indirect, of energy, measures taken to improve energy efficiency and the use of renewable energies.	YES		103 Management approach of energy 302-1		-
	Climate Change					
	The important elements of the greenhouse gas emissions generated as a result of the company's activities, including the use of the goods and services it produces;	YES	Ibercaja Banco Group	103 Management approach of Emissions 305-1 / 305-2	7.2 Matters relating to the environment / Emissions	-
	The measures adopted to adapt to the consequences of climate change;	YES		103 Management approach of Emissions		-
	Voluntary medium- and long-term reduction targets to reduce greenhouse gas emissions and the means implemented to for that purpose.	YES		103 Management approach of Emissions		-
	Protection of biodiversity					
	Measures taken to preserve or restore biodiversity;	NO	-	103 Management approach of Biodiversity	-	-
	Impacts caused by activities or operations in protected areas.	NO	-	304-2	-	-

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
	Employment					

SOCIAL AND PERSONNEL ASPECTS	Total number and distribution of employees by gender, age, country and job category;	YES		103 Employment management approach 102-8 / 405-1		-
	Total number and distribution of employment contract types,	YES		102-8	7.3 Employee-related matters	-
	Annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and job category,	YES		102-8 / 405-1		-
	Number of dismissals by gender, age and occupational classification;	YES		401-1		-
	The average remuneration and its evolution disaggregated by gender, age and professional classification or equal value; Salary gap, the remuneration of equal or average jobs in the company,	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Diversity and equal opportunities management approach 405-2	7.3.3 Remuneration policy	-
	The average remuneration of directors and executives, including variable remuneration, allowances, indemnities, payment to long-term savings pension schemes and any other payments broken down by gender,	YES		103 Diversity and equal opportunities management approach	7.3.3 Remuneration policy	-
	Implementation of occupational disconnection policies,	YES		103 Employment management approach	7.3 Employee-related matters	-
	Employees with disability.	YES		405-1	7.3.2 Equality and reconciliation	-
	Organisation of work					
	Organisation of working time	YES		103 Employment management approach	7.3 Employee-related matters	-
	Number of hours of absenteeism	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	403-2	7.3.5 Occupational health and safety	-
	Measures aimed at facilitating the enjoyment of the work-life balance and encourage co-responsible exercise by both parents.	YES		103 Employment management approach	7.3.2 Equality and reconciliation	-
	Health and safety					
	Health and safety conditions at work;	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Employment management approach	7.3.5 Occupational health and safety	-
	Occupational accidents, particularly their frequency and severity, occupational ailments, broken down by gender.	YES		403-2		-

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
SOCIAL AND PERSONNEL ASPECTS	**Social relations**					
	Organisation of social dialogue, including procedures for informing, consulting and negotiating with them;	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Employer-employee relationship management approach	7.3.4 Social dialogue	-
	Percentage of employees covered by collective bargaining agreements by country;	YES		102-41	7.3 Employee-related matters	-
	The balance of collective agreements, particularly in the field of health and safety at work.	YES	-	403-1	7.3.5 Occupational health and safety	-
	Training					
	Policies implemented in training;	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Training and education management approach	7.3.1 Cultivating talent	-
	The total number of training hours by job categories.	YES		404-1		-
	Universal accessibility for persons with disability	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Diversity and equal opportunities and non-discrimination management approach	7.3.2 Equality and reconciliation	-
	Equality					
	Measures adopted to foster equal treatment and opportunities between women and men;	YES	Ibercaja Banco S.A. (accounts for 95% of the Group's total workforce)	103 Diversity and equal opportunities and non-discrimination management approach	7.3.2 Equality and reconciliation	-
	Equality plans (Chapter III of Spanish Organic Law 3/2007, of 22 March, for the effective equality of women and men), measures taken to promote employment, protocols against sexual and gender-based harassment, integration and universal accessibility of persons with disabilities;	YES				-
	The policy against all types of discrimination and, as applicable, management of diversity.	YES				-

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
HUMAN RIGHTS	Application of due diligence procedures in the field of human rightsPrevention of risks of human rights violations and, where appropriate, measures to mitigate, manage and redress any abuses committed;	NO	-	103 Management approach to human rights assessment and non-discrimination 102-16 / 102-17		
	Complaints for cases of human rights violations;	NO	-	406-1	7.4 Human rights matters	Although the risk of human rights violations in Ibercaja's activities is low, the Bank has several mechanisms to prevent and mitigate any risk in this area.
	Promotion and compliance of the provisions of the fundamental Conventions of the International Labour Organization related to respect for freedom of association and the right to collective bargaining;	NO	-	407-1		
	The elimination of discrimination in employment and occupations;	NO	-	103 Non-discrimination management approach		
	The elimination of forced or compulsory work;	NO	-	409-1		
	The effective abolition of child labour.	NO	-	408-1		
CORRUPTION AND BRIBERY	Measures taken to prevent corruption and bribery;	YES	Ibercaja Banco Group	103 Anti-corruption management approach 102-16 / 102-17	7.5 Matters relating to the fight against corruption and bribery	-
	Measures to combat money laundering,	YES				-
	Contributions to foundations and not-for-profit entities.	YES		413-1	7.6.1 Commitment to society	-

AREAS	CONTENT	MATERIAL ISSUE (YES/NO)	SCOPE/PERIMETER	RELATED GRI STANDARDS	SECTION WHERE REPORTED	ADDITIONAL REMARKS
COMMUNITY	**Company's commitments to sustainable development**					
	The impact of the company's activity on local employment and development;	YES	Ibercaja Banco Group	103 Local community and indirect economic impacts management approach 203-1 / 413-1	7.6.1 Commitment to society	-
	The impact of the company's activity on local communities and the territory;	YES				-
	The relationships with local community actors and the types of dialogue with them;	YES		102-43		-
	Actions of partnership or sponsorship.	YES		102-12 / 102-13		-
	Subcontracting and suppliers					
	Inclusion in the procurement policy of social, gender equality and environmental issues; Consideration in the dealings with suppliers and subcontractors of their social and environmental responsibility;	YES	Ibercaja Banco Group	103 Management approach to purchase practices 102-9 / 204-1	7.6.2 Subcontracting and suppliers	-
	Systems of supervision and audits and results thereof.	YES				-
	Consumers					
	Measures for consumer health and safety;	NO	-	103 Customer health and safety management approach, Marketing and labelling and customer privacy	-	-
	Complaint systems, complaints received and their resolution.	YES	Ibercaja Banco Group		7.6.3 Customers	-
	Tax information					
	Profits country by country Income taxes paid	YES	Ibercaja Banco Group	103 Economic performance management approach	7.6.4 Tax information	-
	Public grants received	YES		201-4		-

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8 INFORMATION REGARDING TREASURY SHARES

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There have been no transactions involving Treasury shares in 2019.

9 OTHER INFORMATION

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9.1 DIVIDEND POLICY

The **distribution of dividends** is determined at the **General Meeting of Shareholders** on the basis of the proposal made by the Board of Directors.

At the General Meeting held on 9 April 2019 shareholders approved the distribution of a dividend totalling €17.5 million by charging the profits obtained by the Bank in 2018, and the payment was made on 10 April 2019.

The **proposed distribution of dividends charged to 2019 profits** that the Board of Directors will present for approval of shareholders at the General Meeting is **€17.5 million euros**, the same amount as the previous year.

Taking into account the earnings projection for the coming years and the capacity to generate organic capital, the Bank intends to continue its shareholder remuneration policy. The Bank has no restriction or limitation on the payment of dividends. However, it shall distribute its profit in a prudent manner so as not to affect the objective of maintaining an adequate level of capital, even in the event of deterioration of the economic situation and financial conditions.

9.2 CREDIT AGENCY RATINGS

In May 2019, **Standard & Poor's** ratified the rating of Ibercaja Banco at “BB+/B”, lowering the outlook from positive to stable. The rating is based on Ibercaja's stable retail franchise in its Home Markets, the Bank's conservative culture and management, its ample liquidity and its retail funding profile. The stable outlook indicates that the agency does not expect the Bank's financial profile to change substantially in the next 12 to 18 months, in an environment where low interest rates and strong competition in the Spanish banking market put downward pressure on profitability, limiting the strengthening of capital via results.

Moody's affirmed in March the rating of long-term deposits at “Ba3” and improved the outlook from stable to positive. This change reflects the agency's expectation that Ibercaja's credit profile will be strengthened over the next 12 to 18 months, mainly in terms of asset quality. Moody's positively assesses Ibercaja’s franchise in Aragon, the favourable liquidity situation and the Bank’s stable deposit base.

The credit rating agency **Fitch** ratified Ibercaja's long-term rating of “BB+” in March 2019, noting the strength of its regional franchise, the adequate financing and liquidity position and the contribution of the insurance business as a source of diversification and generation of recurring revenue, within a context of profitability under pressure due to the low interest rates and business volumes that are still in a recovery stage. The positive outlook reflects the favourable expectations regarding the performance of capital, the plans for going public and the reduction in non-performing assets.

CREDIT AGENCY RATINGS:

	LONG-TERM	SHORT-TERM	OUTLOOK
Standard & Poors	BB+	B	Stable
Moody’s (rating for deposits)	Ba3	NP	Positive
Fitch Ratings	BB+	B	Positive

9.3 AVERAGE SUPPLIER PAYMENT PERIOD

The average payment period for suppliers in 2019 was **20 days**, well within the legal maximum of 60 days established by Law 15/2010 (5 July) that establishes measures to combat against late payments in commercial transactions.

10 BUSINESS OUTLOOK

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MACROECONOMIC LANDSCAPE

Projections for 2020 point to **slower growth, 1.6%, of the Spanish economy** after the outstanding advances of previous years. Domestic demand will remain strong, although slower, thanks to wage growth, which will compensate for worse employment data, and the improvement in the wealth of households and businesses.

The contribution of exports will be smaller, due to the increase in imports, after slowing down in 2019, and the worse performance of exports in a framework in which the main international bodies have lowered the growth forecasts for the world and European economy, as a result of trade tensions, geopolitical risks in the Middle East, together with other factors that particularly affect Europe, such as the negotiations for the United Kingdom's exit from the European Union or the crisis in the car industry.

OVERVIEW AND PROSPECTS OF THE IBERCAJA GROUP

In a tough environment for the financial sector due to the impact of the ECB's monetary policy on margins, Ibercaja managed to stabilise typical banking revenues, maintain progress in personal and private banking lines and continue to improve its drive towards the corporate segment.

The asset management and insurance business achieved record market shares in mutual funds, pension plans and life insurance. Steps taken in the transformation of the operating and customer relationship model, together with the deployment of projects and investment in digitalisation, lay the foundations for improving the Group's efficiency and competitiveness.

The **balance sheet clean-up** significantly reduced the weight of non-performing assets by lowering the non-performing loan ratio to below the average for the Spanish banking sector. Solvency indicators are evolving favourably, reaching comfortable levels in relation to the risk assumed by the Bank.

IBERCAJA WILL CONTINUE TO WORK ALONG THE LINES SET OUT SO FAR, WITH THE 2018-2020 STRATEGIC PLAN AS A GUIDELINE. THE MAIN ASPECTS AND OBJECTIVES THAT WILL FOCUS THE ACTIVITY ARE:

- **Accelerate growth of the business,** aiming marketing efforts to cement the Corporate, Personal and Private Banking Plans, as these are the segments that generate the highest levels of profitability.
- **Maximise profitability** by increasing loan revenue, with risk-adjusted rates, generating fees for services that provide added value to the customer, mainly through asset management and insurance.
- **Enhance excellence** in customer service as a guideline for management and an edge in an increasingly competitive market.
- **Improve balance sheet quality** by reducing non-performing assets through ordinary management and extraordinary sales transactions.
- **Normalise the cost of risk** by building upon the work already carried out in write-downs and the reduction of Problem assets.
- **Increase efficiency and productivity** by maintaining strict cost control and moving ahead decisively with the digitisation of the business.
- **Support the transition to a more sustainable economy** by allowing the flow of savings to go into sustainable investments.

Finally, the **main corporate challenge** that Ibercaja faces, due to its size and importance for the future of the institution, is to **successfully achieve the planned IPO** in order to comply with the regulations that affect the Ibercaja Banking Foundation and to stand on the same footing as the majority of competitors in Spain and Europe as a listed bank. With this aim in mind, the Bank will continue to work to meet the expectations of investors.

11 EVENTS AFTER THE REPORTING PERIOD

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- On 8 January 2020, Ibercaja Banco, S.A. agreed to make a buyback **offer in cash to all holders of the subordinated obligations issue** called “500,000,000 Fixed Rate Reset Subordinated Notes due 28 July 2025”. Following this offer, Ibercaja accepted the purchase of Notes for a nominal amount of 281,900 thousand euros, which was settled on 23 January 2020.

- On 16 January 2020, Ibercaja Banco, S.A. set the economic terms of an **issue of subordinated obligations with a par value of 500 million euros** and maturing on 23 July 2030. The issue price of the subordinated obligations was 100% and they will bear a fixed annual coupon of 2.75% until 23 July 2025, when Ibercaja has the option of carrying out early redemption. From this date, they will bear a fixed interest equal to the applicable 5 year Mid-Swap Rate plus a margin of 2,882%. The disbursement and closure of this issue took place on 23 January 2020. The new bonds shall qualify as Tier 2 capital instruments for the purposes of the own funds requirements to which it is subject under Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms.

- On 24 January 2020, Ibercaja Banco, S.A. signed a contract of sale with Helvetia Schweizerische Versicherungsgesellschaft AG for part of its sh**areholding in Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (“Caser”)**, which represents 4.45% of the share capital and voting rights of this company, for approximately 51 million euros. The positive impact of this sale on Ibercaja's fully-loaded Common Equity Tier 1 (CET1) ratio is estimated at approximately 22 basis points.

  After the formalisation of the aforementioned purchase-sale, Ibercaja will maintain a 9.5% shareholding in Caser and will also enter into with Caser (through the linked bancassurance operator, Ibercaja Mediación de Seguros, S.A.U.), an agreement for a modifying novation of its non-life insurance distribution contract with Caser once the purchase-sale described in the purchase-sale agreement has been formalised.

  This novation will mean for Ibercaja, in addition to the maintenance of the distribution fees, the collection of an initial fixed fee of 70 million euros not subject to review and not adjustable for any circumstance or event as supplementary consideration for the performance of insurance mediation activities, plus additional charges for a share in the business results of up to 50 million euros over the next 10 years.

  The effectiveness of the aforementioned purchase-sale is subject to obtaining the appropriate regulatory and competition authority authorisations.

- On 23 January 2020, the Board of Directors of Ibercaja Banco, S.A. authorised the commencement of talks to reach an agreement with the trade union representatives in relation to the **employee termination proposal**. Prior to the formal commencement of this process, and in accordance with the Collective Bargaining Agreement for Savings Banks and Financial Institutions, a period of prior negotiation, limited in time, must be initiated with the workers' representatives once the committee representing them has been set up. This negotiation period began on 12 February 2020.

12

ALTERNATIVE PERFORMANCE MEASURES

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In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA/2015/1415es), the **Alternative Performance Measures (APMs)** used in this report are **defined below, alongside a reconciliation with the balance sheet and income statement items** used to calculate them.

Ibercaja uses a range of APMs, which are unaudited, to aid understanding of the company's financial performance. APMs should be regarded as additional information. They do not replace financial information prepared under IFRS. The way in which the Group defines and calculates APMs may differ from performance measures calculated by other companies and, therefore, the APMs may not be comparable.

APMS RELATED TO THE INCOME STATEMENT

RECURRING REVENUE: net interest income plus net fee and commission income and net exchange differences (APM defined and calculated below). We use this APM to measure the performance of income directly related to typical banking activity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Net interest income [1]	547,246	572,151
+	Net fees and commissions and exchange differences [2]	394,843	375,561
=	**Recurring revenue**	**942,089**	**947,712**

(1) Source: consolidated income statement in the financial statements.
(2) APM. See definition and calculation below.

NET FEES AND COMMISSIONS AND EXCHANGE DIFFERENCES: Fee and commission income minus fee and commission expense plus net exchange differences. We use this APM to measure the income generated via fees and commissions.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Fee and commission income	412,375	391,622
-	Fee and commission expenses	18,636	16,707
+	Net exchange differences	1,104	646
=	**Net fees and commissions and exchange differences**	**394,843**	**375,561**

Source: consolidated income statement in the financial statements.

NET GAIN/(LOSS) ON FINANCIAL TRANSACTIONS: addition of gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains/losses on financial assets and financial liabilities held for trading, gains/losses on financial assets not held for trading mandatorily measured at fair value through profit or loss, gains/losses on financial assets and financial liabilities designated at fair value through profit or loss and gains/losses resulting from hedge accounting. We use this APM to determine the amount of income related to financial activity but which, by their nature, cannot be considered as recurring revenues.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Gains or losses on the disposal of financial asset and liability accounts not measured at fair value through profit or loss.	8,261	42,802
+	Gains/(losses) on financial assets and liabilities held for trading	1,220	404
+	Gains/(losses) on financial assets not held for trading		
	mandatorily measured at fair value through profit or loss	(3,718)	(885)
+	Gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	747	792
+	Gains/(losses) from hedge accounting	567	511
=	**Gains/(losses) on financial assets and liabilities**	**7,077**	**43,624**

Source: consolidated income statement in the financial statements.

OTHER OPERATING INCOME/(EXPENSES): sum of the net amount of other operating income and expenses and income and expenses on assets and liabilities covered by insurance or reinsurance contracts. We use this APM to measure income and expense that are not wholly derived from financial activity but which are related to our business.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Other operating income	37,073	42,399
-	Other operating expenses	72,473	77,567
+	Income from assets covered by insurance and reinsurance contracts	940,528	1,327,536
-	Liability expenses covered by insurance or reinsurance contracts	940,798	1,327,955
=	**Other operating income and expense**	**(35,670)**	**(35,587)**

Source: consolidated income statement in the financial statements.

OPERATING EXPENSES: sum of personnel expenses, other administration expenses and depreciation/amortisation. We use this APM as an indicator of expenses incurred in our activity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Personnel costs	360,944	419,505
+	Other administration expenses	171,915	198,051
+	Amortisation and depreciation	67,228	51,291
=	**Operating expenses**	**600,087**	**668,847**

Source: consolidated income statement in the financial statements.

RECURRING OPERATING EXPENSES: operating expenses (APM defined and calculated above) excluding non-recurring items. We use this APM to measure the evolution of ordinary expenses generated by our activity (banking business, asset management and bancassurance), excluding non-recurring items, such as expenses associated with the 2017-2018 workforce adjustment plan.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Operating expenses (1)	600,087	668,847
-	Non-recurring expenses (2)	-	55,752
=	**Recurring operating expenses**	**600,087**	**613,095**

(1) APM. See definition and calculation above.

(2) Source: Note 38 to the financial statements.

PROFIT/(LOSS) BEFORE WRITE-DOWNS: gross margin last operating expenses (administrative expenses and depreciation and amortisation). We use this APM to show profitability before write-downs.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Gross income	926,579	966,594
-	Administrative expenses	532,859	617,556
-	Amortisation and depreciation	67,228	51,291
=	**Profit before write-downs**	**326,492**	**297,747**

Source: consolidated income statement in the financial statements.

RECURRING INCOME BEFORE WRITE-DOWNS: recurring revenue less recurring operating expenses (APMs defined and calculated above). We use this APM to measure the recurring profitability of the business before write-downs.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Recurring revenue [1]	942,089	947,712
-	Recurring operating expenses [1]	600,087	613,095
=	**Recurring income before write-downs**	**342,002**	**334,617**

(1) APM. See definition and calculation above.

PROVISIONS, IMPAIRMENT AND OTHER WRITE-DOWNS: sum of provisions, impairment of financial assets not measured at fair value through profit or loss, impairment of investments in joint ventures and associates, impairment of non-financial assets and gains or losses on non-current assets and disposal groups classified as held for sale and not qualifying as discontinued operations, corresponding to impairment losses on other non-current assets held for sale. We use this APM as an indicator of the cost of allowances made during the year to cover the impairment of the value of our assets.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Provisions or (-) reversal of provisions	37,330	(32,870)
+	impairment or (-) reversal of the impairment of financial assets not measured at fair value through profit or loss.	124,637	154,724
+	Impairment or (-) reversal of impairment on investments in joint businesses or associates	-	-
+	Impairment or (-) reversal of impairment of non-financial assets	5,612	4,962
+	Impairment losses on other non-current assets for sale	16,957	40,523
=	**Provisions, impairment and other write-downs**	**184,536**	**167,339**

Source: consolidated income statement and Note 42 to the financial statements

OTHER GAINS/(LOSSES): sum of gains/(losses) on the disposal non-financial assets and shareholdings and gains/(losses) on disposal of other non-current assets and held for sale within gains/(losses) on non-current assets and disposal groups of items classified as held for sale and not eligible for classification as discontinued operations. We use this APM as an indicator of the impact on our income statement of the derecognition/disposal of assets not related to ordinary activity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Gains or (-) losses on the derecognition of net non-financial assets and shareholders (1)	(6,544)	(19,201)
+	Gains/(losses) on disposal of other non-current assets for sale [2]	(6,775)	(30,377)
=	**Other gains/(losses)**	**(13,319)**	**(49,578)**

(1) Source: consolidated income statement in the financial statements.
(2) Source: Note 42 to the financial statements.

APMS RELATED TO THE PROFITABILITY

CUSTOMER SPREAD (%): difference between the average loan portfolio performance and the cost of retail deposits. We use this APM as a profitability indicator of our retail business.

	(%)	2019	2018
+	Yields from consumer loans *Interest revenue from the portfolio of registered loans in the year divided by the average customer loan balance*	1.45	1.41
-	Cost of retail deposits *Interest expense on retail deposits recognised in the balance sheet in the year divided by the average retail deposit balance*	0.02	0.02
=	**Customer spread (%)**	**1.43**	**1.39**

Source: internal Bank information.

NET INTEREST INCOME TO ATA: the ratio of net interest income to average consolidated total assets. We use this APM to put net interest income in relation to the balance sheet in order to allow better comparability between periods.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Net interest income [1]	547,246	572,151
Denominator	Average consolidated total assets assets [2]	52,779,955	52,303,404
=	**Net interest income (%/ATA)**	**1.04**	**1.09**

(1) Source: published consolidated income statement in the financial statements.

(2) The total average asset balance for 2019 was calculated as a simple average of the monthly asset balances, and the 2018 balance was restated using the same calculation criterion.

WEIGHT OF THE FIXED-INCOME PORTFOLIO TO INTEREST INCOME: income from the fixed-income portfolio divided by interest income. We use this APM to measure the contribution of the fixed income portfolio to our interest income.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Income from fixed income portfolio [1]	69,023	80,805
Denominator	Interest income [2]	663,561	660,894
=	**Weight of fixed income portfolio in interest income (%)**	**10.40**	**12.23**

(1) Source: internal Bank information. Calculated as the income from the Group's debt portfolio excluding the insurance activity of Ibercaja Vida.

(2) Source: consolidated income statement in the financial statements.

NET FEES AND EXCHANGE RATE DIFFERENCES TO ATA: the ratio of net fees and commissions and exchange differences (APM defined and calculated previously) to average consolidated total assets. We use this APM to put fee income in relation to the balance sheet in order to allow better comparability between periods.

	(THOUSANDS OF EUROS)	31/12/19	31/12/18
Numerator	Net fees and commissions and exchange differences (1)	394,843	375,561
Denominator	Average consolidated total assets (2)	52,779,955	52,303,404
=	**Net fees and commissions and exchange differences (% of ATA)**	**0.75**	**0.72**

(1) APM. See definition and calculation above.

(2) See net interest income to ATA.

NET FEES AND EXCHANGE DIFFERENCES TO RECURRING REVENUE: net fees and commissions and exchange difference divided by recurring revenues (APMs defined and calculated above). We use this APM to measure the contribution of fees and commissions to recurring revenues.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Net fees and commissions and exchange differences (1)	394,843	375,561
Denominator	Recurring revenue (1)	942,089	947,712
=	**Net fees and commissions out of recurring revenues**	**41.91**	**39.63**

(1) APM. See definition and calculation above.

RECURRING REVENUE TO ATA: ratio of recurring revenue (APM defined and calculated above) to average consolidated total assets. We use this APM to put recurring revenue in relation to the balance sheet in order to allow better comparability between periods.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Recurring revenues (1)	942,089	947,712
Denominator	Average consolidated total assets (2)	52,779,955	52,303,404
=	**Recurring income (% of ATA)**	**1.78**	**1.81**

(1) APM. See definition and calculation above.

(2) See net interest income to ATA.

RECURRING OPERATING EXPENSES TO ATA: ratio of recurring operating expenses (APM defined and calculated above) to average consolidated total assets. We use this APM to put recurring expenses in relation to the balance sheet in order to allow better comparability between periods.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Recurring operating expenses [1]	600,087	613,095
Denominator	Average consolidated total assets [2]	52,779,955	52,303,404
=	**Recurring operating expenses (% of ATA)**	**1.14**	**1.17**

(1) APM. See definition and calculation above.

(2) See net interest income to ATA.

COST-TO-INCOME RATIO: recurring operating expenses (APM defined and calculated above) divided by gross income. We use this APM to measure our operating efficiency.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Recurring operating expenses [1]	600,087	613,095
Denominator	Gross income [2]	926,579	966,594
=	**Cost-to-income ratio (%)**	**64.76**	**63.43**

(1) APM. See definition and calculation above.

(2) Source: consolidated income statement in the financial statements.

RECURRING COST-TO-INCOME RATIO: recurring operating expenses divided by recurring revenues (APMs defined and calculated above). We use this APM to measure the efficiency of our recurring activity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Recurring operating expenses [1]	600,087	613,095
Denominator	Recurring revenue [1]	942,089	947,712
=	**Recurring cost-to-income (%)**	**63.70**	**64.69**

(1) APM. See definition and calculation above.

RECURRING PROFIT BEFORE PROVISIONS TO AVERAGE TOTAL ASSETS: the difference between recurring income and recurring operating expenses in relation to the consolidated average total assets. We use this APM to put profit before provisions in relation to the balance sheet in order to allow better comparability between periods.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Recurring revenue (% ATA) (1)	1.78	1.81
-	Recurring operating expenses (% ATA) (1)	1.14	1.17
=	**Recurring profit before write-downs (% ATA)**	**0.64**	**0.64**

(1) APM. See definition and calculation above.

ROA: Profit attributable to the parent (annualised figure) divided by consolidated average total assets. We use this APM to measure the profitability of our assets.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Profit/(loss) attributed to the parent (1)	83,989	40,804
Denominator	Consolidated average total assets (2)	52,779,955	52,303,404
=	**ROA (%)**	**0.16**	**0.08**

(1) Source: consolidated income statement in the financial statements.

(2) See net interest income to ATA.

RORWA: parent company profits (annualised figure) divided by risk-weighted assets. We use this APM to measure the profitability of our risk-weighted assets.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Profit/(loss) attributed to the parent(1)	83,989	40,804
Denominator	Risk-weighted assets phased in(2)	20,362,850	21,379,068
=	**RORWA (%)**	**0.41**	**0.19**

(1) Source: consolidated income statement in the financial statements.
(2) Source: Note 1.7.2 to the financial statements.

ROE: Profit attributable to the parent divided by consolidated average equity. Excluded is the issue of AT1 of €350 million recorded as net shareholders' equity of other reserves arising from the issue of equity instruments other than equity (including accrued interest and costs of the AT1 issue). We use this APM to measure profitability in relation to shareholders' equity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Profit/(loss) attributed to the parent (1)	83,989	40,804
Denominator	Average consolidated shareholders' equity (2)	2,810,747	2,768,039
=	**ROE (%)**	**2.99**	**1.47**

(1) Source: consolidated income statement in the financial statements.

(2) Calculated as a simple average of the quarterly closings since the previous December included, the first and last quarter being weighted by 0.5 and the rest by 1.

ROTE: Profit attributable to the parent divided by consolidated average tangible equity. Excluded is the issue of AT1 of €350 million recorded as net shareholders' equity of other reserves arising from the issue of equity instruments other than equity (including accrued interest and costs of the AT1 issue). We use this APM to measure profitability in relation to tangible equity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Profit/(loss) attributed to the parent (1)	83,989	40,804
Denominator	Average tangible consolidated shareholders' equity (2)	2,608,245	2,571,850
=	**ROTE (%)**	**3.22**	**1.59**

(1) Source: consolidated income statement in the condensed interim financial statements.

(2) Calculated as a simple average of the quarterly closings since the previous December included, the first and last quarter being weighted by 0.5 and the rest by 1.

SOLVENCY-RELATED APM

RWA DENSITY: Risk-weighted assets divided by total assets. We use this APM to measure the risk profile of our balance sheet.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Risk-weighted assets phased in [1]	20,362,850	21,379,068
Denominator	Total consolidated assets[2]	55,422,015	52,705,739
=	**RWA density (%)**	**36.74**	**40.56**

(1) Source: Note 1.7.2 to the financial statements.

(2) Source: consolidated balance sheet in the financial statements.

APMS RELATED TO ASSET QUALITY

PROBLEM ASSETS: the aggregation of impaired assets from loans and advances to customers and the gross value of foreclosed assets. We use this APM to evaluate the size of our portfolio of non-performing assets in gross terms.

	(thousands of euros)	31/12/2019	31/12/2018
+	Impaired assets loans and advances to customers [1]	1,293,161	2,274,558
+	Gross value of foreclosed assets[2]	624,890	766,967
=	**Problem assets**	**1,918,051**	**3,041,525**

(1) Source: Note 3.5.4 to the financial statements.

(2) Source: Note 3.5.6.2 to the financial statements.

RATIO OF NON-PERFORMING LOANS AND ADVANCES TO CUSTOMERS: non-performing loans on the consolidated balance sheet divided by gross loans and advances to customers. We use this APM to monitor the quality of the loan portfolio.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Impaired assets loans and advances to customers[1]	1,293,161	2,274,558
Denominator	Gross loans and advances to customers[2]	32,563,215	33,723,764
=	**Non-performing loans ratio ptmos and advances to customers (%)**	**3.97**	**6.74**

(1) Source: Note 3.5.4 to the financial statements.

(2) Source: Notes 8 and 11.4 to the financial statements.

PROBLEM ASSET RATIO: ratio between Problem assets (APM defined and calculated above) and the value of the exposure. We use this APM to evaluate the size of our portfolio of non-performing assets in relative terms.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Problem assets [1]	1,918,051	3,041,525
Denominator	(a) Gross loans and advances to customers	32,563,215	33,723,764
	(b) Gross value of foreclosed assets	624,890	766,967
	(a) + (b) Value of exposure [2]	33,188,105	34,490,731
=	**Problem asset index (%)**	**5.78**	**8.82**

(1) Source: APM. See definition and calculation above.

(2) Source: notes 3.5.6.2, 8 and 11.4 to the financial statements

COST OF RISK: percentage of write-offs associated with loans and advances to customers and foreclosed properties in relation to the average exposure, which is the sum of gross loans and advances to customers and foreclosed properties. We use this APM to monitor the cost of allowances for the loan portfolio and foreclosed assets.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Write-downs of loans and foreclosed properties (1)	134,139	186,591
Denominator	Average exposure (gross credit and real estate) (2)	33,676,679	34,677,199
=	**Cost of risk (%)**	**0.40**	**0.54**

(1) Source: internal Bank information. The write-down of the loan is the sum of the impairment of financial assets at amortised cost and the provisioning (reversal) of provisions for commitments and guarantees given. Foreclosed properties are classified according to their nature as non-current assets held for sale, investment property or inventories. Impairment losses are recognised under "Impairment or Reversal of Impairment Losses on Non-Financial Assets (Investment Property and Other)" (see note 40 to the consolidated financial statements) and "Impairment Losses on Non-Current Assets Held for Sale" (see note 42 to the consolidated financial statements).

(2) Calculated as a simple average of the quarterly closings since the previous December included, the first and last quarter being weighted by 0.5 and the rest by 1.

COVERAGE OF NON-PERFORMING EXPOSURES: sum of impairment losses on loans and advances to customers and negative cumulative changes in fair value due to credit risk on non-performing exposures. This includes the impairment losses of stages 1, 2 and 3. We use this APM to monitor the extent to which provisions associated with credit risk cover bad debts.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Impairment losses on loans and advances to customers (1)	642,039	1,116,708
+	Accumulated negative changes in fair value of doubtful exposures (2)	2,231	2,222
=	**Coverage of non-performing exposures**	**644,270**	**1,118,930**

(1) Source: Note 11.4 to the financial statements.

(2) Source: Note 8 to the financial statements.

COVERAGE RATIO OF NON-PERFORMING EXPOSURES: ratio of provisions for impairment of assets (APM as defined and calculated above) to impaired loans and advances to customers. We use this APM to monitor the extent to which provisions associated with credit risk cover doubtful loans.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Coverage of non-performing exposures (1)	644,270	1,118,930
Denominator	Impaired assets, loans and advances to customers (2)	1,293,161	2,274,558
=	**Coverage of non-performing exposures (%)**	**49.82**	**49.19**

(1) Source APM. See definition and calculation above.

(2) Source: Note 3.5.4 to the financial statements.

COVERAGE RATIO OF FORECLOSED ASSETS: Impairment losses on foreclosed assets (since loan origination) divided by the gross value of foreclosed assets. We use this MAR to monitor the extent to which provisions associated with foreclosed properties cover the gross value of these properties.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Correction of the impairment of foreclosed assets (1)	346,033	446,769
Denominator	Gross value of foreclosed assets(1)	624,890	766,967
=	**Coverage of foreclosed assets (%)**	**55.38**	**58.25**

(1) Source: Note 3.5.6.2 to the financial statements.

COVERAGE RATIO OF FORECLOSED LAND: Impairment losses on foreclosed land (since loan origination) divided by the gross value of foreclosed land. We use this MAR to monitor the extent to which provisions associated with land cover the gross value of these properties.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Land value adjustments (1)	275,233	365,543
Denominator	Gross value of land(1)	459,989	570,979
=	**Foreclosed land cover rate (%)**	**59.83**	**64.02**

(1) Source: Note 3.5.6.2 to the financial statements.

COVERAGE RATIO OF PROBLEM ASSETS: coverage of non-performing exposures and foreclosed assets divided by Problem exposure (APM defined and calculated above). We use this MAR to monitor the extent to which provisions associated with non-performing loans and foreclosed properties cover the gross value of such exposure.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	(a) Coverage of non-performing exposures (2)	644,270	1,118,930
	(b) Correction of the impairment of foreclosed assets (1)	346,033	446,769
	(a) + (b) Coverage of problem assets	990,303	1,565,699
Denominator	Problem assets (2)	1,918,051	3,041,525
=	**Coverage rate of problem assets (%)**	**51.63**	**51.48**

(1) Source: note 3.5.6.2 to the financial statements.
(2) Source: APM. See definition and calculation above.

NET PROBLEM ASSETS TO TOTAL ASSETS: ratio between Problem assets net of coverage (APM defined and calculated above) to total assets. We use this APM to measure the weight of Problem assets, after deducting the provisions linked to those assets, on the balance sheet.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	(a) Problem assets[1]	1,918,051	3,041,525
	(b) Coverage of Problem assets [1]	990,303	1,565,699
	(a) - (b) Problem assets net of coverage	927,748	1,475,826
Denominator	Total assets[2]	55,422,015	52,705,739
=	**Net non-performing assets over total assets (%)**	**1.67**	**2.80**

(1) Source: APM. See definition and calculation above.

(2) Source: consolidated balance sheet in the financial statements.

TEXAS RATIO: problem assets (APM defined and calculated above) divided by shareholders' equity and coverage. Excluded is the issue of AT1 of €350 million recorded as net shareholders' equity of other reserves arising from the issue of equity instruments other than equity (including accrued interest and costs of the AT1 issue). We use this APM to measure the capacity of absorption of potential losses of our Problem assets with the coverage in place and shareholders' equity.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Problem assets [1]	1,918,051	3,041,525
Denominator	(b) Coverage of Problem assets[1]	990,303	1,565,699
	(b) Shareholders' equity[2]	3,139,017	3,091,665
	(c) Equity instruments issued other than capital [2]	350,000	350,000
	(d) Other reserves from the issue of equity instruments other than capital[2]	32,720	15,570
	(a) + (b) – (c) + (d)	3,812,040	4,322,934
=	**Texas Ratio (%)**	**50.32**	**70.36**

(1) Source: APM. See definition and calculation above.

(2) Source: Note 23.1 to the financial statements.

APMS RELATED TO BUSINESS VOLUME

RETAIL DEPOSITS: sum of demand savings and term deposits ex covered bonds or repurchase agreements of assets recognised in customer deposits of consolidated balance sheet. We use this APM as an indicator of retail funding on the balance sheet.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Demand deposits [1]	28,509,031	26,316,080
+	Term deposits [1]	6,009,517	7,384,711
-	Mortgage covered bonds (including nominal amount and share premium)	1,746,096	2,161,279
	Nominal amount of mortgage covered bonds [1]	1,842,137	2,271,771
	Mortgage covered bond issue premium[2]	(96,040)	(110,492)
=	**Retail deposits**	**32,772,452**	**31,539,512**

(1) Source: Note 19.3 to the financial statements.

(2) Source: internal Bank information.

ASSET MANAGEMENT AND INSURANCE: Sum of the assets managed by investment firms and funds (including third-party funds but excluding the assets of funds that themselves invest in Ibercaja Gestión funds), pension plans and insurance. This indicator is significant because of the importance for Ibercaja of off-balance sheet savings as a source of the Group's income.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Investment companies and funds [1]	14,708,533	12,821,484
+	Pension funds[1]	5,668,503	5,068,609
+	Insurance products [2]	7,493,363	7,477,860
=	**Asset management and insurance**	**27,870,399**	**25,367,953**

(1) Source: Note 27.4 to the consolidated financial statements

(2) Source: Note 24.4 to the separate financial statements

TOTAL RETAIL FUNDS: sum of retail deposits and asset management and insurance (APMs defined and calculated above). We use this APM as an indicator of the volume of retail savings managed by Ibercaja.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Retail deposits[1]	32,772,452	31,539,512
+	Asset management and insurance[2]	27,870,399	25,367,953
=	**Total retail funds**	**60,642,851**	**56,907,465**

(1) Source: APM. See definition and calculation above.

RETAIL BUSINESS VOLUME: sum of gross loans and advances to customers ex repurchase agreements and total retail funds (APM defined and calculated above). We use this APM as an indicator of the savings and credit of our retail customers managed by Ibercaja.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Loans and advances to customers ex impaired assets and reverse repos (1)	29,654,301	29,745,594
+	Total retail funds (2)	60,642,851	56,907,465
=	**Retail business volume**	**90,297,152**	**86,653,059**

(1) Source: Notes 8 and 11.4 to the financial statements.

(2) Source: APM. See definition and calculation above.

APMS RELATED TO LIQUIDITY

CREDIT TO RETAIL FUNDING RATIO (LTD): net loans and advances to customers less repurchase agreements divided by retail deposits (APM defined and calculated above). We use this MAR to measure the proportion of loans and advances to customers financed by retail deposits.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	(a) Net loans and advances to customers[1]	31,918,945	32,604,834
	(b) Reverse repurchase agreements [2]	1,615,753	1,703,612
	(a) – (b) Net loans ex reverse repos	30,303,192	30,901,222
Denominator	Retail deposits[3]	32,772,452	31,539,512
=	**LTD (%)**	**92.47**	**97.98**

(1) Source: consolidated balance sheet in the financial statements.

(2) Source: Note 11.4 to the financial statements.

(3) Source: APM. See definition and calculation above.

AVAILABLE LIQUIDITY: Sum of cash and central bank accounts, collateral available for ECB operations, collateral available for ECB operations outside of ECB guarantee pool and other marketable assets not eligible for ECB, in accordance with Banco de España statement LQ 2.2. We use this APM to calculate the volume of our available assets in the event of an outflow of customer deposits.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Cash and central banks	3,671,499	888,415
+	Available in policy	4,982,938	4,760,526
+	Eligible assets not included in the policy	2,432,048	4,835,712
+	Other marketable assets not eligible by the Central Bank	381,397	432,195
=	**Available liquidity**	**11,467,882**	**10,916,848**

Source: Note 3.8.2 to the financial statements.

AVAILABLE LIQUIDITY TO TOTAL ASSETS: ratio of available liquidity (APM as defined and calculated above) to total assets. We use this APM to ascertain the weight of available liquidity to total assets.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
Numerator	Available liquidity [1]	11,467,882	10,916,848
Denominator	Total assets[2]	55,422,015	52,705,739
=	**Available liquidity to total assets (%)**	**20.69**	**20.71**

(1) Source: APM. See definition and calculation above.

(2) Source: consolidated balance sheet in the financial statements.

TOTAL AVAILABLE LIQUIDITY: aggregation of available liquidity (APM defined and calculated above) and mortgage covered bond issuance capacity. We use this APM to calculate the volume of our available assets in the event of an outflow of customer deposits.

	(THOUSANDS OF EUROS)	31/12/2019	31/12/2018
+	Available liquidity [(1)]	11,467,882	10,916,848
+	Capacity to issue mortgage bonds [(2)]	7,307,407	6,289,715
=	**Total availability of liquidity**	**18,775,289**	**17,206,563**

(1) Source: APM. See definition and calculation above.

(2) Source: Note 3.8.2 to the financial statements.

Notes

The calculation of the ROE, ROTE and Texas Ratio for 2019 includes in the denominator the costs and interest accrued from the issue of AT1, with the figure published in 2018 being restated.

Retail funds (retail deposits and asset management) are restated according to the criteria adopted for their calculation in 2019.

ibercaja

ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES OTHER THAN SAVINGS BANKS OR STATE-OWNED COMMERCIAL COMPANIES OR PUBLIC ENTITIES THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

IDENTIFICATION DETAILS OF THE ISSUER

Financial year end: 31/12/2019

Spanish Company Tax ID (CIF): A99319030

Corporate name:

IBERCAJA BANCO, S.A.

Registered office:

PZ. BASILIO PARAISO N.2 (ZARAGOZA)

A. OWNERSHIP STRUCTURE

A.1. Details regarding shareholders or most significant members of the company at the year end:

Name or corporate name of significant shareholder or member	% of share capital
CAJA BADAJOZ FOUNDATION	3.90
CAJA CÍRCULO BANKING FOUNDATION	3.45
IBERCAJA BANKING FOUNDATION	87.80
CAJA DE AHORROS DE LA INMACULADA DE ARAGÓN FOUNDATION	4.85

A.2. Indicate if there are family, commercial, contractual or corporate relationships between significant shareholdings or members and, to the extent that the company has knowledge of them, detail them below unless they are scantly relevant or arise from ordinary commercial transactions:

Names of related person or company	Type of relationship	Brief description
No data		

A.3. Indicate if there are commercial, contractual or corporate relationships between the owners of significant shareholdings or members and the company, detail them below unless they are scantly relevant or arise from ordinary commercial transactions:

Names of related person or company	Type of relationship	Brief description
IBERCAJA BANKING FOUNDATION, IBERCAJA BANKING FOUNDATION	Corporate	Protocol for the management of the financial interest held by the Foundation in Ibercaja Banco, S.A. in accordance with the provisions of Law 26/2013 (27 December).

A.4. Indicate whether there are any restrictions (statutory, legislative or otherwise) on the transfer of securities and/or any restrictions on voting rights. In particular, the existence of any type of restriction that could hinder the taking control of the company by means of the acquisition of its shares in the market, as well as those authorisation or prior notices systems that, on the acquisitions or transfers of financial instruments of the company, are applicable to it through industry regulations, will be disclosed:

[√] Yes
[   ] No

Description of the restrictions

The acquisition or transfer of significant interests in share capital are subject to the prior authorisation of the competent authorities in accordance with the industry regulations applicable to credit institutions, considering for this purpose that a significant interest is any indirect or direct interest of at least 10% of share capital or voting rights, or any interest below that figure that allows notable influence to be exercised. The same pre-authorisation process will be applicable when the holder of a significant interest intends to increase that interest, acquiring control over the entity or exceeding a 20%, 30% or 50% interest.

Article 23 of the Bylaws establishes that shareholders who are considered to be banking foundations under Law 26/2013 of 27 December on savings banks and banking foundations not establishing a reserve fund under the terms of said law, may not issue, individually or together with the entities of their group or with persons acting in concert with them, a number of votes greater than those corresponding to shares representing a percentage of forty percent (40%) of the share capital with calculated voting rights, even when the number of shares they hold exceeds forty percent (40%) of the total share capital. This limitation shall only have effect with regard to Banking Foundations which, individually or together with the entities of their group or with persons acting in concert with the them, hold a number of shares exceeding forty percent (40%) of the share capital of the Company. However, this limitation was not applicable on 31 December 2019, in accordance with the second transitional provision of the Bylaws.

B. GENERAL MEETING OR EQUIVALENT BODY

B.1. List the quorum that is necessary to validly call to order a general meeting or equivalent body as established in the bylaws. Describe how this is different from the minimum system established by the Spanish Companies Act or any other applicable legislation.

A General Meeting, whether ordinary or extraordinary, will be validly called to order on first call or on second call when the shareholders that are present or represented hold the percentage of voting rights established by law. Notwithstanding the above, a General Meeting will be validly called to order as a Universal Meeting provided that all share capital is present or represented and those in attendance unanimously agree to hold the meeting and approve the agenda. The validity of calling the meeting to order will be determined with respect to each of the resolutions that must be adopted and any absences that take place once the General Meeting has been validly called to order will not affect the holding of the meeting. In order to validly call the meeting to order, even if held as a Universal Meeting, the attendance of the Company's administrators is not necessary.

For the purposes of establishing the percentage of capital with voting rights, the limitations established in Article 23 of the Bylaws will be taken into account. In this way, the percentage of forty percent (40%) of the share capital with voting rights will be calculated on the share capital obtained by subtracting the amount of share capital corresponding to the shares of the shareholder Banking Foundation (and of entities in its group and persons acting in concert with them) from the total share capital representing the excess over forty percent (40%) of the total share capital. The limitation of voting rights did not apply on 31 December 2019 and in any case will not apply until the second transitional provision of the Bylaws is fulfilled.

B.2. Explain the rules governing the adoption of resolutions. Describe how this is different from the system established by the Spanish Companies Act or any other applicable legislation.

The system for adopting corporate resolutions is in line with the system established by the Spanish Companies Act.

Except in those cases in which the law or the bylaws establish a qualified majority, resolutions will be adopted by the ordinary majority of votes cast shareholders present or represented at the meeting, and a resolution will be understood to be accepted when it obtains more votes in favour than against.

Those attending the General Meeting will have one vote for each share they hold or represent, taking into account, however, the limitations on voting rights affecting banking foundations, as established in Article 23 of the Bylaws, which at 31 December 2019 were applicable, in view of the provisions of the Second Transitory Provision of the Bylaws.

Once a resolution has been submitted to a vote and the votes have been counted, the Chairman will report the results and declare, if appropriate, the resolution validly adopted.

B.3. Briefly indicate the Resolutions adopted by shareholders at a General Meeting or equivalent body held during the year to which this report refers and the percentage of votes with which each Resolution was adopted.

On 9 April 2019, an Ordinary General Meeting was held in which it was unanimously agreed: (i) to approve the individual and consolidated financial statements of Ibercaja Banco, S.A. for 2018 (ii) to approve the management of the Board of Directors; (iii) the application of the result for the year and the non-financial information statement for 2018. Also unanimously, the Meeting approved, in a consultative capacity, the Annual Report on Directors' Remuneration; and established the maximum amount of annual remuneration of all the directors, authorising the Board to distribute the remuneration among the different directors, taking into account the functions and responsibilities attributed to each of them. It was also unanimously agreed to reappoint Mr Condor López as an independent director for a period of five years. Finally, and also unanimously, the Meeting authorised the Board to proceed with the issuance of loans on the institutional and retail markets for up to a maximum amount of 3,000 million euros.

On the same date, an Extraordinary Shareholders' Meeting was held, at which it was unanimously agreed to carry out a capital reduction by reducing the par value of the shares in order to constitute a restricted voluntary reserve; the grouping of the outstanding shares, the modification of the book-entry share representation system and the consequent modification of the bylaws in order to include the aforementioned agreements as well as others that were considered necessary or appropriate for the Entity potentially going public.

On 29 August 2019, an Extraordinary General Shareholders' Meeting was held at which, as a result, the termination of the commitments acquired by the shareholder foundations, as well as of the agreement reached by Caja de Ahorros de la Inmaculada Foundation and Caja Badajoz Foundation to group their shares and arrange their votes, it was unanimously agreed: to remove Mr Juan María Pemán Gavín and Mr Jorge Simón Rodríguez from their posts as directors and from their committees; and to extend the appointment of Mr Emilio Jiménez Labrador as a proprietary director, for a period of four years. Likewise, and in order to reduce the number of proprietary directors appointed by Ibercaja Banking Foundation, the Board unanimously agreed to remove Mr Jesús Barreiro Sanz from his position as a director (who shall continue to hold the position of Secretary to the Board of Directors and its committees as a non-director secretary). The Meeting also unanimously agreed to keep Mr Víctor Iglesias Ruiz as a director, with the category of executive, for a period of four years (by virtue of a resolution of the Board of Directors, at its meeting held on 29 August, Mr Iglesias Ruiz would continue to hold the position of CEO). Finally, and as a result of the above resolutions, the Shareholders' Meeting unanimously agreed to reduce the number of members of the Entity's Board of Directors to eleven (11). All Board of Directors proposals raised to the Shareholders' Meeting regarding the above resolutions were previously informed favourably by the Appointments Committee.

On 19 December 2019 an Extraordinary General Shareholders' Meeting was held, which, at the proposal of the Board of Directors and following a report in the same sense by the Audit and Compliance Committee, unanimously agreed to appoint ERNST&YOUNG AUDITORES S.L. as the auditing firm for the bank's individual and consolidated financial statements for 2021, 2022 and 2023.

B.4. Indicate whether at the general meetings or equivalent bodies held during the year there were any items on the agenda that were not approved by the shareholders.

At the general meetings held during the year, no item on the agenda was not approved by the shareholders.

B.5. State the address and manner of accessing the entity's website to obtain information regarding corporate governance.

The information on corporate governance of Ibercaja Banco is accessible through the website's https://www.ibercaja.com, "Shareholders and Investors" section
https://www.ibercaja.com/accionistas-e-inversores/gobierno-corporativo-y-politica-de-remuneraciones

B.6. Indicate whether or not meetings have been held with any unions that may exist, holders of securities issued by the entity, the purpose of the meetings held during the year to which this report relates and the main agreements reached.

In 2019 no meeting was held with the various syndicates of the holders of securities issued by Ibercaja Banco or Banco Grupo Cajatres.

C. COMPANY MANAGEMENT STRUCTURE

C.1. Board or governing body

C.1.1 State the maximum and minimum numbers of Directors stipulated in the bylaws:

Maximum number of Directors / members of the governing body	15
Minimum number of Directors / members of the governing body	5
Maximum number of directors/members of the governing body set by general meeting or assembly	11

C.1.2 Complete the following table regarding the members of the Board of Directors or Governing Body, and their status:

Name of the Director/Member of the governing body	Representative	Latest date of appointment
MR JESUS SOLCHAGA LOITEGUI		13/11/2018
MR JOSE LUIS AGUIRRE LOASO		30/08/2016
MR FELIX SANTIAGO LONGAS LAFUENTE		30/08/2016
MR JESUS TEJEL GIMÉNEZ		30/08/2016
MR VICENTE CONDOR LOPEZ		09/04/2019
MR JESUS MAXIMO BUENO ARRESE		30/08/2016
MR LUIS ENRIQUE ARRUFAT GUERRA		30/08/2017
MS MARIA PILAR SEGURA BAS		30/08/2017
MR VICTOR MANUEL IGLESIAS RUIZ		29/08/2019
MS GABRIELA GONZÁLEZ-BUENO LILLO		13/11/2018
MR EMILIO JIMÉNEZ LABRADOR		29/08/2019

Mr Jesús Barreiro Sanz became non-director Secretary as per the resolutions adopted by the General Meeting of Shareholders and the Board of Directors on 29 August 2019.

C.1.3 Name the Board or governing body members, if any, who are also directors, representatives of directors, or executives of other companies in the same group as the entity:

Name of the Director/Member of the governing body	Name of the group company	Position
No data		

C.1.4 Fill-in the following table with information regarding the number of female Directors on the Board Directors and Committees, and the development of this figure over the past four years:

	Number of female Directors							
	2019		2018		2017		2016	
	Number	%	Number	%	Number	%	Number	%
Board of directors	2	18.18	2	14.28	2	14.28	1	7.14
Audit and Compliance	1	20.00	1	20.00	1	20.00	1	20.00
Committee	1	16.66	1	14.28	1	14.28	1	14.28
Strategy		0.00		0.00	1	20.00		0.00
Large Risk and Solvency	2	40.00	1	20.00		0.00		0.00
Appointments	1	25.00	1	20.00		0.00		0.00
Remuneration	1	25.00	1	20.00		0.00		0.00

C.1.5 Indicate whether the company has diversity policies in relation to the company's administrative, management and supervisory bodies with regard to issues such as age, gender, disability or professional training and experience. Small and medium-sized entities, according to the definition contained in the Auditing Act, shall report, as a minimum, on the policy it has established in relation to gender diversity.

[√] Yes
[ ] No
[ ] Partial policies

If yes, describe this diversity policy, its objectives, the measures and manner in which it has been implemented and its results for the year. The specific measures adopted by the administrative body and the Appointments and Remuneration Committee to achieve a balanced and diverse presence of directors or administrators must also be indicated.

If the company does not apply a diversity policy, explain the reasons why it does not do so.

Royal Decree Law 18/2017, of 24 November, which amends the Commercial Code, the Capital Companies Law and the Accounts Audit Law, establishes a general policy for listed companies, but also for entities of public interest, as is the case of the Entity, to have a Diversity Policy applied in relation to the Board of Directors, which shall include issues such as training and professional experience, age, disability and gender, which shall refer to the measures, if any, adopted to ensure that the Board of Directors includes a number of women that allows a balanced presence of women and men.

At its meeting held on 28 June 2018, the Board of Directors approved the Suitability and Diversity Policy for the members of the Board of Directors, at the proposal of the Appointments Committee, highlighting the main novelties: the express mention of the principle of independence of criteria (independence of ideas) as an aspect to be assessed in the suitability assessment process; the introduction of criteria for the assessment of the capacity for dedication of time on the part of the person to be appointed for the performance of the post for which it is proposed; the specification of the cases that will determine the need to carry out a (re)assessment of the collective suitability of the Board of Directors; as well as the introduction of a specific section, called “principles to encourage diversity of directors. Thus, it is expressly established that in the selection of candidates to form part of the Board of Directors, the following principles will be taken into account in order to promote the diversity of its members:

- The candidate selection process will be based on a prior analysis of the Entity's needs, based on the report made by the Appointments Committee.
- It shall be ensured that the number of independent directors is adequate in relation to the total number of directors, bearing in mind, in any case, the regulatory requirements relating to the composition and positions to be occupied by this category of directors in internal committees of the Board of Directors.
- Care shall be taken to ensure that the selection criteria take account of the diversity of knowledge, training, professional experience, age and gender, and are not implicitly biased in a way that could lead to discrimination (in particular on grounds of gender, ethnic origin, age or disability).

This is all intended to encourage a diverse and balanced composition on the whole which, in addition to meeting the requirements established with respect to knowledge and experience, enrich the analysis, debate and taking of decisions.

C.1.6 Fill in the following table regarding aggregate compensation for Directors or members of the Governing Body that accrued during the year:

Compensation	Thousands of euros	
	Individual	Group
Fixed remuneration	748	
Variable remuneration	118	
Attendance fees	382	
Other Remuneration	255	
TOTAL	1,503	

"Other remuneration" indicates the compensation received by Directors for their membership on internal Board committees, other than the per diems received for attending meetings and insurance premiums.

Incomplete years: Although a director has not carried out his or her activity during the entire period subject to information, the remuneration he or she has received is included under this heading.

C.1.7 Identify the members of senior management who are not Executive Directors or members of the governing body and indicate the aggregate compensation accrued to them during the year:

Name or corporate name	Position
MR RODRIGO GALÁN GALLARDO	Deputy Director - Group Finance Director
MS ANA JESÚS SANGRÓS ORDEN	Director of Corporate Information and Management Analysis
MR FRANCISCO JOSÉ SERRANO GILL DE ALBORNOZ	Assistant General Manager-General Secretary and Director of Internal Control

Name or corporate name	Position
MR JOSÉ IGNACIO OTO RIBATE	Deputy Director - Network Director
MR ANTONIO MARTÍNEZ MARTÍNEZ	Deputy Director - Finance Director
MS MARIA TERESA FERNÁNDEZ FORTÚN	Deputy Director - Director People Area
MR JOSE PALMA SERRANO	Deputy Director - Resources Director
MR LUIS MIGUEL CARRASCO MIGUEL	Assistant General Director - Real Estate Director
MR ANGEL CARLOS SERRANO VILLAVIEJA	Deputy Director - Director Internal Audit
MS MARIA RAQUEL MARTÍNEZ CABAÑERO	Deputy Director - Credit Risk Director
MR IGNACIO TORRE SOLÁ	Director of Marketing and Digital Strategy

Total remuneration received by senior management (in thousands of euros)	2,005

Senior management is understood to be the general managers and assimilated managers who carry out their management functions under the direct dependence of the administrative bodies, executive committees or the managing director. As a result, the members of the Management Committee are considered to be "senior management" for the purposes of this report. In order to calculate the "senior management remuneration", the same remuneration items of section C.1.6 that are applicable to them have been taken into account. Contributions to pension funds are included.

C.1.8 Indicate whether the bylaws or the Board Regulations establish any limit on the term of office for Directors or members of the Governing Body:

[√] Yes
[ ] No

Maximum number of years in office	4

C.1.9 Indicate whether the individual and consolidated annual accounts presented to the Board or Governing Body for approval are previously certified:

[ ] Yes
[√] No

If appropriate, name the person(s) who certify the Entity’s individual or consolidated financial statements before they are approved by the Board or Governing Body:

Name	Position
No data	

Both the individual and consolidated financial statements, are considered to be “certified” when they are presented to the governing body with a statement signed by the persons certifying them declaring that they reflect, in all material respects, the true and fair view of the financial situation at the year-end, as well as the results of the entity's operations and any changes in its financial situation during the year, and that they contain the necessary and sufficient information for an adequate understanding, in accordance with applicable legislation.

C.1.10 Explain the mechanisms, if any, established by the Board or Governing Body to avoid a qualified audit report on the individual and consolidated annual accounts from being presented to shareholders at a General Meeting or equivalent body.

The Audit and Compliance Committee authorities granted by the bylaws and internal regulations are intended to serve as a conduit for communication between the Board of Directors and the auditors, evaluating the results of each audit and the responses of the management team to the auditors' recommendations, and mediating in cases of disagreements between the auditors and the management team regarding the principles and criteria applicable in the preparation of the financial statements. In addition, the Audit and Compliance Committee is also responsible for receiving information regarding the audit plan from the external auditor as well as the results of its execution and verifying that senior management takes into account the recommendations made, ensuring that the opinion on the annual accounts and the main content of the audit report are worded clearly and precisely.

C.1.11 Is the Secretary to the Board of Directors or Governing Body a Director?

[ ] Yes
[√] No

If the secretary does not have the status of a director, fill in the following table:

Name or corporate name of the secretary	Representative
MR JESÚS BARREIRO SANZ	

Mr Barreiro became non-director secretary as a result of the resolutions adopted by the General Shareholders' Meeting on 29 August 2019, in order to reduce the number of proprietary directors.

C.1.12 Describe any mechanisms established by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice:

Among the duties assigned to the Audit and Compliance Committee, Article 19 of the Board Regulations includes the duty of ensuring the independence of the external audit, establishing the appropriate relationships with the auditor to receive information regarding those issues that may put the auditor's independence at risk.

The Entity has a policy to safeguard the independence of the auditor in accordance with the provisions of the Audit Act, and it is intended to establish a relationship between the external auditor, particularly with respect to the process of the selection and appointment of the auditor, the authorisation of services other than the audit of the Ibercaja Banco accounts in accordance with the requirements established by the Audit Act, as well as the tasks attributed by the bylaws and the Regulations for the Board of Directors and the Audit and Compliance Committee in this respect.

In any event, the Audit and Compliance Committee annually receives a written statement of independence from the auditor with respect to the Entity or any directly or indirectly related companies, as well as information regarding additional services of any nature rendered to these companies by the auditor, or by persons or companies associated with the auditor in accordance with the provisions of Law on Audits.

The Committee will issue, prior to the issue of the audit report, an annual report expressing its opinion as to the auditor's independence. In any event, this report must contain an evaluation of the rendering of the additional services referred to in the preceding section, taken individually or as a whole, other than the legal audit and with respect to the independence system or audit regulations. This is intended to ensure that the company and the auditor respect rules in force regarding the rendering of services other than audit services, business concentration limits affecting the auditor and, in general, all of the rules established to ensure the independence of auditors and examine the circumstances of any resignation of an external auditor.

C.2. Board of Directors or Governing Body Committees

C.2.1 List the Board of Directors or Governing Body Committees:

Name of the Committee	Number of members
Audit and Compliance	5
Committee	6
Strategy	5
Large Risk and Solvency	5
Appointments	4
Remuneration	4

C.2.2 List all of the Board or governing body committees, their members and the proportion of executive, proprietary, independent and other outside directors holding positions (the entities that are not legal capital companies will not complete the category of director in the relevant box and will provide an explanation of the category of each director in the text box in accordance with their legal form and the manner in which they comply with the conditions relating to the composition of the audit, appointments and compensation committees):

Audit and Compliance		
Name	Position	Category
MR VICENTE CONDOR LOPEZ	CHAIRMAN	Independent
MR JESUS MAXIMO BUENO ARRESE	DIRECTOR	Proprietary
MS GABRIELA GONZÁLEZ-BUENO LILLO	DIRECTOR	Independent
MR EMILIO JIMÉNEZ LABRADOR	DIRECTOR	Proprietary
MR JESUS TEJEL GIMÉNEZ	DIRECTOR	Independent

% of Executive Directors	0.00
% of proprietary Directors	40.00
% of independent Directors	60.00
% of other external Directors	0.00
Number of meetings	14

Ms Gabriela González Bueno Lillo, Mr Vicente Cóndor López, Mr Jesús Bueno Arrese and Mr Jesús Tejel Giménez have been appointed taking into account their knowledge and experience in accounting, auditing or both.

Explain the duties, including, if applicable, those additional to those provided for by law, attributed to this committee, and describe the procedures and rules of organisation and operation of the committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The committee's duties are expressly stipulated in the Regulations of the Board of Directors. In particular:

- Inform the Shareholders' Meeting about issues raised by shareholders regarding matters within its sphere of competence.
- Monitor the effectiveness of internal control: regulatory compliance and internal audit.
- Supervise the process of preparing and presenting regulated financial information.
- Propose the designation or re-election of the auditor.
- Establish appropriate relationships with the external auditor to receive information regarding matters relating to the auditor's independence.
- Receive annual written confirmation from the auditor regarding its independence respect to the Entity or the group, issue of the relevant report.

The Chairman shall be an independent Director must be replaced every four years and may be re-elected once a period of one year from his departure has transpired.
The Secretary to the committee will be the Secretary to the Board of Directors.

The Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

The Committee will meet as many times as called by the Committee or its Chairman and at least once per quarter. The Committee may request the attendance of the Company's auditor. One of its meetings will be necessarily dedicated to evaluating the efficiency and compliance with the rules and procedures for the governance of the Company and prepare information that the Board must approve and include in the annual financial reporting documentation.

The Committee was informed during the year of all requests and notifications received from supervisory bodies within the scope of its competencies. It has received information regarding and reported on the transactions to be carried out with related parties and it has received regular reports regarding compliance with regulations and on internal audits, as well as the reports issued by the external auditor. It has received and supervised the process of preparing and presenting regulated financial information. It has reviewed the Entity's annual accounts and the financial information to be provided on a regular basis to the markets by the Board and supervisory bodies.

Identify the directors pertaining to the audit committee that have been designated based on their knowledge and experience with accounting, audit or both, and report the date of appointment of Chair of this committee in the position.

Names of the directors with experience	MR VICENTE CONDOR LOPEZ / MR JESUS TEJEL GIMÉNEZ
Date of appointment of the chair in the position	01/03/2018

Committee		
Name	Position	Category
MR JOSE LUIS AGUIRRE LOASO	CHAIRMAN	Proprietary
MR VICENTE CONDOR LOPEZ	DIRECTOR	Independent
MR JESUS MAXIMO BUENO ARRESE	DIRECTOR	Proprietary
MR VICTOR MANUEL IGLESIAS RUIZ	DIRECTOR	Executive
MS GABRIELA GONZÁLEZ-BUENO LILLO	DIRECTOR	Independent
MR EMILIO JIMÉNEZ LABRADOR	DIRECTOR	Proprietary

% of Executive Directors	16.67
% of proprietary Directors	50.00
% of independent Directors	33.33
% of other external Directors	0.00
Number of meetings	24

Explain the duties attributed to this Committee, and describe the procedures and rules for organising and operating the Committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The Bylaws and the Regulations of the Board of Directors delegate the following Board of Directors authorities to the Delegate Committee:

- Hear and adopt resolutions regarding proposals to grant, modify, novate or cancel risk transactions which, that fall within its authority in accordance with the provisions of the Loan Risk Management Policies and Procedures Manual approved by the Board of Directors. It will also hear and adopt resolutions regarding proposals to acquire assets by the Entity in lieu of receivables that must be submitted to the Committee in accordance with the Asset Management Policies and Manuals.
- Hear and adopt resolutions regarding personnel matters (disciplinary cases, granting of leaves of absences, etc.) except in those cases in which the decision falls to the CEO or the full Board of Directors due to involving employees that directly report to the CEO.
- Hear and adopt resolutions regarding matters relating to the Entity's assets (properties, expenses, purchases, etc.) and investments and divestments in investee companies that must be submitted for its consideration in accordance with internal Policies and Manuals, except for those that must be decided by shareholders at a General Meeting in accordance with the law.
- When appropriate, grant the authority that is necessary or advisable to execute the resolutions adopted.

Its resolutions are valid and binding without the full board having to subsequently ratify the decision. However, In those cases in which, in the opinion of the Chairman, CEO or three members of the committee, the importance of the matter so merits, the resolutions adopted by the committee will be ratified by the full Board.

The Executive Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

During the course of its regular ordinary meetings the Executive Committee has received reports from the Chair and CEO regarding, among other things, the main macro-economic figures and the evolution of information regarding the Bank: balance sheet and income statement, development of the Company's securities portfolio, customer funds and customer loans, market share, liquidity management, non-performing and coverage rates, business volumes and the results obtained by the Group's subsidiaries. It has also issued its opinions regarding the financing operations that have been submitted for its consideration when its authorisation or ratification is required due to the amount concerned or the status of the applicants. It has ratified the transactions approved, denied or ratified by the Credit Risk Committee, it has adopted several resolutions to divest from investee companies and received disciplinary case files in the terms established by employment legislation and in the collective agreement.

Strategy		
Name	Position	Category
MR JESUS SOLCHAGA LOITEGUI	DIRECTOR	Independent
MR JOSE LUIS AGUIRRE LOASO	CHAIRMAN	Proprietary
MR FELIX SANTIAGO LONGAS LAFUENTE	DIRECTOR	Independent
MR LUIS ENRIQUE ARRUFAT GUERRA	DIRECTOR	Proprietary
MR EMILIO JIMÉNEZ LABRADOR	DIRECTOR	Proprietary

% of Executive Directors	0.00
% of proprietary Directors	60.00
% of independent Directors	40.00
% of other external Directors	0.00
Number of meetings	12

Explain the duties attributed to this Committee, and describe the procedures and rules for organising and operating the Committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organisation for its implementation.

The Committee will have a minimum of 3 and a maximum of 5 members that will be designated based on their knowledge, aptitudes and experience of the Directors with respect to the Committee's duties. The Board of Directors will designate the chair, and the Secretary will be the Secretary to the Board.

The Committee will meet as many times as called by the Committee or its Chair and at least once per quarter. The Committee will adopt its resolutions by a majority vote of the directors who form part of the committee and are present or represented at the meeting, and the Chair will have a casting vote. A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

The Committee regularly monitored the Strategic Plan approved by the Board of Directors. It also implemented quarterly follow-up measures regarding the development of the budget (and the mandates set out in the Strategic Plan), reporting the conclusions obtained to the Board of Directors together with the advances made with respect to the new Strategic Plan.

Large Risk and Solvency		
Name	Position	Category
MR JESUS TEJEL GIMÉNEZ	DIRECTOR	Independent
MR VICENTE CONDOR LOPEZ	DIRECTOR	Independent
MR JESUS MAXIMO BUENO ARRESE	DIRECTOR	Proprietary
MS MARIA PILAR SEGURA BAS	DIRECTOR	Other External Directors
MS GABRIELA GONZÁLEZ-BUENO LILLO	CHAIRMAN	Independent

% of Executive Directors	0.00
% of proprietary Directors	20.00
% of independent Directors	60.00
% of other external Directors	20.00
Number of meetings	10

Explain the duties attributed to this Committee, and describe the procedures and rules for organising and operating the Committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The Committee has the primary duty of advising the Board of Directors as to the overall current and future risk appetite of the Entity and its Group, and the strategy in this respect. It also assists the Board with supervising the application of that strategy by senior management by monitoring the Bank’s solvency levels and proposing any action deemed appropriate for improvement.

It will consist of a minimum of three and a maximum of five Directors, who will not perform executive duties at the Entity and which possess the appropriate knowledge, capacity and experience to understand and control the risk strategy and the Entity's appetite for risk. At least one third of the members will be independent and the Chair will be independent in any case. The Committee will adopt its resolutions by a majority vote of the directors that form part of the committee and are present or represented at the meeting, and the Chair will have a casting vote.

During the year Committee informed the Board of Directors of the Entity’s Risk Appetite Framework, the quarterly monitoring reports as well as the annual capital and liquidity self-assessment report for the year

2017. The Committee informed the Board of proposals to amend the Risk Management Procedures and Policies Manuals.

Appointments		
Name	Position	Category
MR JESUS SOLCHAGA LOITEGUI	CHAIRMAN	Independent
MR FELIX SANTIAGO LONGAS LAFUENTE	DIRECTOR	Independent
MS MARIA PILAR SEGURA BAS	DIRECTOR	Other External Directors
MR JESUS TEJEL GIMÉNEZ	DIRECTOR	Independent

% of Executive Directors	0.00
% of proprietary Directors	0.00
% of independent Directors	75.00
% of other external Directors	25.00
Number of meetings	2

Explain the duties, including, if applicable, those additional to those provided for by law, attributed to this committee, and describe the procedures and rules of organisation and operation of the committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The Appointments Committee is responsible for proposing nominations to the Board of Directors. It is specifically responsible for:

- Evaluating the suitability of the Directors.
- Establishing a representation target for the gender less represented on the board.
- Make proposals for the nomination, re-election or removal of independent directors for Shareholders at a general meeting.
- Report proposed nominations and removal of senior executives and employees with key duties and the basic conditions of their contracts.
- Examine and organize the succession of the Chair and the CEO.

The Committee will have a minimum of three and a maximum of five non-executive members, at least two of which must be independent Directors. The Committee will meet as many times as called by the Committee or its Chairman and at least once per quarter. The Chairman (independent in any case) of the meeting will cast the deciding vote in the event of a tie.

A minutes book will indicate the resolutions that have been adopted and be made available to all members of Board of Directors.

During the year the Committee reported the appointment of new directors and the new members of the Entity's Management Committee.

Remuneration		
Name	Position	Category
MR JESUS SOLCHAGA LOITEGUI	CHAIRMAN	Independent
MR FELIX SANTIAGO LONGAS LAFUENTE	DIRECTOR	Independent
MS MARIA PILAR SEGURA BAS	DIRECTOR	Other External Directors
MR JESUS TEJEL GIMÉNEZ	DIRECTOR	Independent

% of Executive Directors	0.00
% of proprietary Directors	0.00
% of independent Directors	75.00
% of other external Directors	25.00
Number of meetings	1

Explain the duties, including, if applicable, those additional to those provided for by law, attributed to this committee, and describe the procedures and rules of organisation and operation of the committee. For each of these functions, indicate its most important actions during the year and how it has exercised in practice each of the functions attributed to it, whether through law or the bylaws or other corporate resolutions.

The Compensation Committee has the duty of reporting, advising and proposing matters regarding compensation for directors, general managers and similar personnel, as well as for the persons whose professional activity has a significant impact on the Entity’s risk profile.

The Compensation Committee shall be made up of a minimum of 3 and a maximum of 5 non-executive directors, at least two of whom must be independent directors (and, in any case, its Chairman).

The Committee will be validly called to order with one-half plus one of the members present or represented. In case of a tie in the voting, the Chairman shall have the casting vote. A minutes book will indicate the resolutions that have been adopted through a majority vote of the members of the committee and be made available to all members of Board of Directors.

During the year, the Compensation Committee informed, advised and presented to the Board of Directors proposals regarding compensation for directors, senior executives, as well as for the persons whose professional activity has a significant impact on the Entity’s risk profile.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1. Provide details of the transactions carried out between the Company or its group companies, and shareholders, cooperative members, proprietary rights holders or those of any other equivalent nature at the Company.

Name or corporate name of significant shareholder or member	Name or corporate name of the company or entity in its group	Nature of the relationship	Type of operation	Amounts (thousands of euros)
IBERCAJA BANKING FOUNDATION	IBERCAJA BANCO SA	Contractual	Provision of services	843
IBERCAJA BANCO, S.A.	IBERCAJA BANKING FOUNDATION	Contractual	Provision of services	248
IBERCAJA BANKING FOUNDATION	IBERCAJA BANCO	Contractual	Operating lease agreements	17
IBERCAJA BANCO, S.A.	IBERCAJA BANKING FOUNDATION	Contractual	Operating lease agreements	135
CAJA BADAJOZ FOUNDATION	IBERCAJA BANCO	Contractual	Other	

The amount of the profit for 2018 earmarked for dividends was distributed among the shareholders on the basis of their interest in the share capital.

The Board of Directors of Ibercaja Banco, following a favourable report from the Audit and Compliance Committee, authorised the transfer of the use of premises owned by Fundación Caja Badajoz.

The rental of premises owned by Ibercaja Banco to Fundación Bancaria Ibercaja amounted to 135 thousand euros, while the rental of premises owned by Fundación Bancaria Ibercaja to the Bank amounted to 17 thousand euros.

D.2. List any transactions between the Company or group companies and directors or members of the governing body or company executives.

Name or corporate name of the directors or executives	Name or corporate name of the related party	Relation	Nature of the operation	Amounts (thousands of euros)
No data				

In accordance with the instructions received from the CNMV on producing the report, with respect to definitions, criteria and type of aggregation, the provisions of Order EHA/3050/2004 of 15 September on the obligatory disclosure of transactions with related parties by companies issuing shares traded on official secondary markets shall apply. As a result, transactions between group companies that have been eliminated from the consolidated financial statements and which form part of the ordinary course of the business of those companies with respect to their purpose and conditions are not reported, nor are those that relate to the company's ordinary course of business, those that are carried out under normal market conditions and are of little importance, which are understood to be those whose reporting is not necessary to express the true and fair view of the equity, financial situation and the results obtained by the Entity.

D.3. Details of intra-group transactions

Name of the group company	Brief description of operation	Amounts (thousands of euros)
No data		

During the year no significant intra-group transactions were carried out.

D.4. Explain the mechanisms established to detect and resolve possible conflicts of interest between the Entity or its Group and its Directors, or members of the governing body, or executives.

The Directors have the obligation adopt the measures that are necessary to avoid situations in which there may be a conflict of interest with the business and their duties to the Entity, as is stipulated by Article 33 of the Board of Directors Regulations.

Directors must inform the Board of Directors of any direct or indirect conflict situation that they, or persons related to them, may have with respect to the interests of the Company or its group companies, as well as all positions that they hold and the duties that they perform at other companies or entities and, in general, any event or situation that may be relevant to their duties as a Company Director. Directors must abstain from participating in the deliberation and voting of resolutions or decisions in which the Director or a related person (as defined by Article 36 of the Regulations), has a direct or indirect conflict of interest.

The situations of conflict of interest incurred by directors would, where appropriate, be the subject of information in the annual report.

In addition, the Entity has internal procedures to prevent the granting of credit, guarantees or security without the prior authorisation of the competent governing bodies, under the terms established in the Law on the Organisation, Supervision and Solvency of Credit Institutions.

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the Risk Management and Control System:

The Group's risk management is organised through the "Risk Appetite Framework" (RAF). Ibercaja's RAF has the key objective of establishing a group of principles, procedures, controls and systems that define, report and monitor the Group's risk appetite. This is understood to be the level of risk profile that Ibercaja Group is willing to assume and maintain in terms of type and amount, as well as its tolerance level. It must be oriented towards attaining the objectives of the strategic plan in accordance with the lines of action established therein.

Ibercaja Group also has a risk management policy and a procedures manuals that are reviewed and approved by the Board of Directors on an annual basis.

The Risk Appetite Framework is consistent with the capital and liquidity planning in Basel Pillar II, which is intended to ensure an adequate relationship between the Company's risk profile and the equity it effectively has on hand. The Entity carries out a recurring process of self-assessment of capital and liquidity through the identification, measurement and aggregation of risks, determines the capital and liquidity necessary to cover them, plans the capital and liquidity in the medium term and establishes the objective of own resources and liquidity that allows it to maintain an adequate clearance over the minimum legal requirements and supervisory guidelines.

Following the entry into force of the Single Supervisory Mechanism (SSM) in November 2014, European financial institutions are obliged to adapt their risk policies and procedures as well as their control environment. The "Supervisory Review and Evaluation Process" (SREP) is how the SSM performs continuous evaluations of entities.

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

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

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

The Risk Management System operates in an integral and continuous manner, consolidating that management by business area, geographic zone or subsidiary at the corporate level.

E.2. Identify the governing bodies at the entity that are responsible for preparing and executing the Risk Management and Control System:

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

- The Board of Directors is responsible for establishing and supervising the risk reporting and control systems, approving the Risk Appetite Framework as well as for the policies, manuals and procedures relating to risk management.
- Among other responsibilities, the Large Risk and Solvency Committee proposes the establishment of limits by type of risk and business, reporting the Group's Risk Appetite Framework in a manner consistent with the Entity's other strategic policies and frameworks, to assess risk management in the Group, review risk control systems and propose measures to mitigate the impact of identified risks.
- The Strategy Committee has the core function of informing the Board of Directors of the Company's strategic policy, ensuring that there is precise organisation for its implementation.
- The Audit and Compliance Committee, which supervises the effectiveness of internal control, internal audit and risk management systems, regularly reviews the matters so that primary risks are identified, managed and adequately reported.

The following Executive Committees have been created with the involvement of the Entity's senior management.

The Comprehensive Risk Committee is responsible for defining and monitoring the Group's risk strategies and policies, establishing objectives and strategies to develop the structure and composition of balance sheet items, analysing the sensitivity of results and the Company's equity in various scenarios, analysing compliance with the tolerance levels that have been established, as well as planning the Group's medium-term capital.

The Audit Committee is responsible for preparing the Internal Audit Annual Operating Plan presented to the Audit and Compliance Committee, receiving regular information regarding the results set out in the internal audit reports and implementing the proposed improvement recommendations to mitigate any observed weaknesses.

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

E.3. Indicate the primary risks that could affect the attainment of business objectives:

The material financial and non-financial risks affecting Ibercaja Group that are taken into account in the Risk Appetite Framework are as follows:

- Business and profitability risk: Possibility of incurring losses as a result of not generating sufficient profitable business volume to cover the costs incurred.
- Credit risk: Possibility of losses being generated due to borrowers defaulting on their payment and losses in value due to the impairment of borrowers' credit ratings.
- Concentration risk: Possibility of incurring losses as a result of a position or group of positions that are sufficiently important with respect to capital, total assets or the general risk level, and could endanger the solidity of the Entity.
- Operational Risk: Risk of loss resulting from a failure to adequately design or implement processes, personnel and internal systems, or it may derive from external events.
- Interest rate risk: The possibility that the financial margin or the Entity's equity will be affected by adverse changes in market interest rates to which asset, liability or off-book transaction positions are referenced.
- Market risk: The possibility of incurring losses due to maintaining market positions as a result of adverse movements in financial variables or risk factors (interest rates, exchange rates, share prices, etc.) that determine the value of those positions.
- Liquidity risk: Possibility of incurring losses due to not having access to sufficient liquid funds to meet payment obligations.
- Reputational and compliance risk: The risk of legal or regulatory penalties, significant financial loss, or loss of reputation, suffered by an Entity due to the breach of laws, regulations, rules, standards for the self-regulation of the organisation, and codes of conduct applicable in its financial activities; this risk is inherent to such activities, given that they are highly regulated and subject to on-going supervision by the authorities.

E.4. State whether the entity has risk tolerance levels:

As mentioned in section E.1, Group risk management is organised through the "Risk Appetite Framework". Ibercaja's RAF has the key objective of establishing a group of principles, procedures, controls and systems that define, report and monitor the Group's risk appetite. This is understood to be the level of risk profile that Ibercaja Group is willing to assume and maintain in terms of type and amount, as well as its tolerance level. It must be oriented towards attaining the objectives of the strategic plan in accordance with the lines of action established therein.

The management of the various risks has the objective of attaining a risk profile that falls within the desired appetite level defined based on established limits and the most adequate management measures to do so are implemented.

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

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

- Alignment with the strategic plan and capital planning.
- Integration into the entity's risk culture, with the involvement of all levels of responsibility.
- Flexibility, capable of adapting to changes in the businesses and market conditions and therefore it must be regularly reviewed at least on an annual basis.
- Associated with the information management systems.

The RAF takes a comprehensive view of the Consolidated Group and takes into consideration all risks that affect the performance of the Group's business and attaining its business objectives described in section E.3.

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

E.5. State the risks that have materialised during the year:

The risks that affect the Group are inherent to the financial activity carried out by the Entity, and are described in section E.3.

During 2019 there have been no material events that have significantly affected the Entity's risk profile.

Notable financial risks include the continuity of the current low interest rate scenario, which has a negative effect on margins and profitability, although the Entity's capacity to generate value in the medium and long-term is high.

E.6. Explain the response and supervision plans for the entity's primary risks, and the procedures followed by the company to ensure that the board of directors responds to the new emerging challenges:

The thresholds that allow the risk profile to be placed into the following categories have been defined for each of the metrics taken into consideration in the Risk Appetite Framework:

- Compliance: the risk level that the Entity is willing to assume to in accordance with its strategic and business objectives. This is a normal risk situation at the target risk level.

- Alert: this is an intermediate level of monitoring the risk appetite with the objective of detecting whether or not the risk profile is significantly deviating from tolerance levels and, therefore, requires additional monitoring.

- Non-compliance: limit at which a non-compliance situation commences that activates specific action plans for measures.

The Comprehensive Risk Committee is the management and control body that is responsible for establishing an action plan to attain the target risk level and must report on the monitoring of the situation at least on a quarterly basis to the Large Risk and Solvency Committee (or more frequently if considered necessary).

The action plans to be implemented will consist of one of the following:

- Proposal of measures to reduce the risk to compliance levels.
- Evaluation of the adequacy of the limits or thresholds as a result of unexpected events or changes in the strategic targets or the Entity's business.
- Temporary approval to exceed limits.

F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICRMS)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1. Control environment at the Entity.

Specify at least the following components with a description of their main characteristics:

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Entity's Board of Directors and Senior Management are conscious of the importance of guaranteeing the reliability of financial information reported to the market for investors and therefore these bodies are fully involved in the development of the IFRCS.

The Board of Directors assumes the responsibility of establishing and supervising the risk control and reporting systems, as is formally stated in its Regulations and this responsibility covers the IFRCS.

One of the authorities falling to the Board that cannot be delegated in accordance with the Board Regulations is "to be informed of and supervise the procedures that guarantee the quality and integrity of information, as well as the reports that the Audit and Compliance Committee may submit to it for said purpose; to prepare, after a report from the Audit and Compliance Committee, the individual and consolidated financial statements, as well as the proposal for application of the Company's result; To approve, following a report from the Audit and Compliance Committee, the capital self-assessment report, and to agree on its submission to the Bank of Spain; to approve the annual banking report required by the regulations on the organisation, supervision and solvency of credit institutions in force at any given time; to be aware of the contents of the report with prudential relevance, following a report from the Audit and Compliance Committee, on the information not covered by the audit of the financial statements and to approve and agree on the submission to the CNMV of the half-yearly financial report".

The Company has a Financial Information Disclosure Policy that was approved by the Board of Directors on 1 March 2019 and establishes the actions and procedures that encourage the highest level of transparency with the ultimate objective of ensuring that the disclosed financial information is clear, relevant, reliable and comparable, as defined by Rule Seven of Bank of Spain Circular 4/2017, as well as within the conceptual framework of IFRS.

Senior management has assumed the responsibility of designing and implementing the IFRCS through the Corporate Information and Management Analysis Department since it centralizes most of the activities intended to attain the adequate operation of the IFRCS.

Finally, the Audit and Compliance Committee, in accordance with the Board Regulations, has been delegated the following basic responsibilities relating to the information, internal control and financial reporting systems:

With respect to the reporting and internal control systems, "verify the adequacy and integrity of the internal control systems, supervise the effectiveness of the internal control and risk management systems, including tax systems, regularly reviewing those systems so that the main risks are identified, managed and reported adequately and discuss any significant weaknesses in the internal control system detected during the audit with the auditor."

Regarding the financial information, "to know and supervise the process of preparation and presentation of regulated financial information relating to the Company and, where appropriate, to the Group, as well as its integrity, reviewing compliance with regulatory requirements, the appropriate delimitation of the scope of consolidation and the correct application of accounting criteria; to review the Company's accounts, to monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as reporting on proposals to modify accounting principles and criteria suggested by management; reviewing the periodic financial information that the Board must provide to the markets and their supervisory bodies, and in particular, the information not covered by the audit of the annual accounts contained in the Information with Prudential Relevance; to know and supervise the preparation of the regulated financial information that the Company must make public periodically and ensure that the interim accounts are prepared using the same accounting criteria as the annual accounts and, to this end fin, to consider the appropriateness of a limited review by the external auditor".

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

· The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity:

In accordance with the provisions of the Board regulations the Appointments Committee assists the Board with nominations, elections and the removal of directors and senior executives.

The Organisation Department at Ibercaja Banco is responsible for ensuring an efficient organisational structure at the Entity, the finding the most productive distribution of tasks and resources, as is stated in its mission statement and it contributes, by defining duties, resources and responsibilities, to the adequate operation of the internal control system with respect to the preparation of financial information.

The Human Resources Department, through the Talent Development Unit, is responsible for establishing the competencies of each position within the framework of the duties assigned to each unit, as well as determining the functional and hierarchical dependencies that are coherently appropriate in coordination with the department involved.

The current executive structure and the definition of the primary duties has been approved by the Board of Directors of Ibercaja at the proposal of the CEO. In turn, each Department, together with the Organisation Department, has defined the structure of its area into Units or Departments, specifying the associated duties, which have been ratified by the CEO.

This structure is available to all employees in the Regulations published on the Entity's intranet and it is revised should there be any organisational change made. With regard to the financial information preparation process, this is carried out by the Department of Corporate Information and Management Analysis, which includes the Units of General Accounting, Management Planning and Analysis, Data Governance and Quality, Corporate Information and Analysis, and Supervisor Service and Regulatory Support. The Corporate Information and Management Analysis Department and, in particular, the General Accounting Unit, is responsible for the General accounting process at Ibercaja and for the Group's consolidation for accounting purposes as subsidiary accounting is decentralised and they are responsible for the management and preparation of their individual accounts in accordance with the guidelines issued by the parent company.

The persons responsible for the Corporate Information and Management Analysis Department are those that define the lines of responsibility and authority and assign tasks and duties for each job post, applying criteria of efficiency and effectiveness and ensuring that there is an adequate segregation of tasks in this process, as well as guaranteeing continuity of those tasks and duties.

· Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action:

The Professional Ethics and Conduct Standards are set out in the regulations and are regularly distributed for the general knowledge of employees through various channels. Ibercaja Banco employees must follow these rules as part of a daily working attitude, not just as imposed obligations, and they form part of the Entity's culture, values and manner of operating.

The objective is to provide information regarding professional integrity and ethics, the handling of information, personal data protection, securities market regulations, money-laundering prevention and other areas that are applicable to the Financial Institution and for which Ibercaja provides the necessary information and training through various channels.

The monthly bulletin "RRHH Informa" reports modifications to the Professional Ethics and Conduct Rules.

The Entity has a Memorandum of Rules of Conduct and Operating Security that summarises standards, actions and criteria that must be taken into account by all employees. In particular, emphasis is placed on the importance of the proper entry of information into automated systems that affects the reliability and the guarantees for the processes carried out subsequently, particularly with respect to risk operations. This document is available on the Entity's Intranet.
In addition, the Entity has a Code of Ethics, which contains the principles that govern the behaviour of the Entity's employees, commitments that transfer corporate values to the daily exercise of their responsibilities. An independent, autonomous and confidential communication channel has also been set up to facilitate communications on possible misconduct in the area of ethics and to raise doubts about the interpretation of the Code of Ethics, which is available to all staff.

Finally, the Group's Internal Audit Charter includes the ethical standards applicable to the Internal Audit function that are known and accepted by all Internal Audit staff.

· "Whistle-blowing" channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

In addition to the communication channel relating to the code of ethics, all employees of Ibercaja Banco, through the intranet, have a “Criminal Risk Prevention Reporting Channel” to inform, by e-mail, the Regulatory Compliance Unit of possible risks and breaches of criminal regulations, including those of a financial and accounting nature, that may occur within the organisation in the course of its activities.

The Regulatory Compliance Department maintains a computerised register of all complaints received and processes them in accordance with the provisions of the criminal risk prevention and management model, guaranteeing the confidentiality of the complainant at all times.

The Regulatory Compliance Department periodically issues a report to the Audit and Compliance Committee, which includes, where appropriate, information on the complaints received and their outcome. The Board of Directors is informed of the actions taken in this area at least once per year.

· Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting standards, auditing, internal control and risk management:

The Entity has an annual Training Plan, which is designed in accordance with the professional category and the Management/Unit to which the staff belongs. These training actions are given by external and internal personnel, both online and in a classroom setting.

It also has mechanisms that allow it to ensure that the personnel directly involved with the preparation of financial information, as well as its supervision, have the capacity and professional competency that is necessary to carry out their
duties. In this connection, employees are constantly informed of current legislative requirements and have sufficient capacity to efficiently perform their tasks and duties.

The persons responsible for each Unit and Department identify training needs and manage the necessary training action in cooperation with the Human Resources Department through the Talent Development Unit, and keep records of the training given.

The technical updates are received by the General Accounting Unit within the Bank of Spain Financial Reporting Department and they are also received through other channels such as the Spanish Confederation of Savings Banks (CECA).
Alerts are also received from various professional services firms providing technical updates.

The Paraninfo e-learning platform is a virtual training space housing courses and other training resources of very diverse types available to all employees and it allows training in essential areas for the development of the Bank's business. skills, products and services, financial regulations, banking business, financial platforms, etc.

The training regarding accounting, audit, internal control and risk management that has been provided throughout 2019 was particularly focused on internal training sessions at the Department level covered internal control, risk management and, in particular, legislative novelties regarding accounting and audit and the impact that those changes have on the normal performance of their duties.

External training is fundamentally for new employees who attend accounting courses provided by CECA covering specific training needs that may be identified, and they materialise in seminars or meetings with consultants or regulators.

F.2. Risk assessment in financial reporting.

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

· The process exists and is documented:

In 2019, Ibercaja has updated its procedure to identify the material areas or headings in the financial statements and critical management processes involving the potential impact of error and fraud risks that could significantly affect the Group's financial information.
This procedure is set out in the Policies for identifying processes and relevant areas and the associated risks, and the execution responsibility falls to the Corporate Information and Management Analysis Department, while supervision is the responsibility of the Audit and Compliance Committee. This policy has been revised during the update of the general framework of the IFRS carried out during financial year 2019. The Audit and Compliance Committee has taken note of this update through the review of the general framework of the Internal Control over Financial Reporting (ICFR) system carried out by the Entity's Internal Audit Function. The update of this Policy will be approved by the Board of Directors during the first half of 2020.

· The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency:

The procedure has been designed taking into account all the objectives of the financial information contemplated in the Internal Control Document on financial information in listed companies issued by the CNMV (existence, integrity, valuation, presentation and breakdown and rights and obligations).

This procedure is expected to be applied at least once per year using the most recent financial information. Furthermore, this risk evaluation will be carried out when circumstances arise that have not been previously identified that reveal possible errors in the financial information or when there are substantial changes in operations that could give rise to the identification of new risks.

· A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc:

In this connection, and with respect to the sources of information used to apply the procedure, any changes in the Group's structure such as modifications to the scope of consolidation or to the lines of business, or other relevant events are taken into account, among other things. Ibercaja therefore has a specific procedure for reviewing the scope of consolidation that is applied by the General Accounting Unit.

The possible risks relating to the proper identification of the scope of consolidation are documented in the defined accounting close procedures and the Preparation of the Consolidated Financial Statements, which are two of the four transversal processes at the Bank.

· The process addresses other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) insofar as they may affect the financial statements:

The criteria to be followed for all types of risks to be identified and that are included in the design of the procedure are both quantitative (balance and granularity) and qualitative (degree of process automation, standardisation of operations, level of accounting complexity, changes with respect to the preceding year, identified control weaknesses, etc.). In addition to considering the identification of error and fraud risks involving publish financial information, it also takes into account the effect of other types of risks such as operating, technology, financial, legal, tax, reputational or environmental risks.

This evaluation process covers all financial reporting objectives: (i) existence and occurrence; (ii) integrity; (iii) measurement;
(iv) (iv) presentation; (v) and rights and obligations; and it effectively takes into consideration other types of risks (operating, technological, financial, legal, tax, reputational, environmental, etc.).

· Finally, which of the entity's governing bodies is responsible for overseeing the process:

The Board of Directors Regulations stipulate that one of the Board's duties is to define and review the structure of the group of companies of which the Bank is the parent at least once per year and after having received a report from the Strategy Committee.

The Audit and Compliance Committee must review the adequate demarcation of the scope of consolidation and is responsible for informing the Board of Directors, as is stipulated in the Board Regulations, regarding the creation or acquisition of shareholdings in special-purpose vehicles or companies domiciled in countries or territories that are classified as tax havens, as well as any other similar transaction or operation which, due to its complexity, could harm the transparency of Ibercaja Bank Group.
Through this procedure in 2019 Ibercaja has updated the process to identify the transactions, areas and processes that are relevant with respect to the generation of the Group's financial information in order to identify error risks that affect those areas.

F.3. CONTROL activities.

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections

As was shown in section F.1.1. above, the Financial Information Disclosure Policy contains a list of the financial information to be published in the markets, its characteristics within the control environment as well as the persons responsible for its preparation, review, approval and distribution to supervisory bodies or to the market. The generation, elaboration and review of financial information is carried out by the Corporate Information and Management Analysis Department, which obtains the necessary collaboration from the rest of areas at the Entity to obtain the level of detail in that information that is considered to be necessary.

The professional profile of the persons involved with the review and authorisation procedure for the financial information is adequate and covers broad knowledge and experience in the areas of accounting, audit and/or risk management. The technical measures and information systems see the reliability and integrity of the financial information through the established control mechanisms.

The Entity has established control and supervisory mechanisms at different levels of information and they are prepared and supported using three lines of defence.

a) A first line of control at the Business, Management and Support Units.

Under the general principle that the primary party responsible for control must be person responsible for each business area, they must have effective risk management processes (identification, measurement or evaluation, vigilance, mitigation and communication of risks).

b) A second centralised and independent control line.

In order to supervise the exercising of the primary controls, and to exercise specialised financial operating and management controls, the Entity has systems that guarantee: effective and efficient operations, adequate risk control, prudent business conduct, the reliability of financial and non-financial information that is reported or disclosed (internally and externally), as well as compliance with laws, regulations, supervisory requirements and the entity's internal policies and procedures. These systems cover the entire organisation, including the activities of all business, support and control units.

c) An Internal Audit Unit

This third line of defence is responsible for performing an independent review of the first two "lines of defence". This area includes the participation of the governing bodies and senior management.
Ibercaja carries out various control activities intended to mitigate the risk of error, omission or fraud that could affect the reliability of the financial information and which were identified in accordance with the previously explained process.

Specifically, and with respect to processes where material risks have been detected, including error and fraud, Ibercaja has developed uniform documentation, consisting of:

- A description of the activities relating to the process from the start, indicating the particularities that may apply to a certain product or operation.
- The risk and control matrix, which contains the relevant risks with a material impact on the Entity’s financial statements and their association with the mitigating controls, as well as all the evidence regarding their application. These controls include those that are considered to be key to the process and which, in any event, ensure the adequate recognition, measurement, presentation and disclosure of transactions in the financial information.

In addition, during 2019 the entity has worked on the implementation of an IFRS risk management tool that will facilitate the control and monitoring of the system and will cover the management of the map of processes, risks and controls defined in the system, as well as the procedure for certification of controls at the bottom up. The tool is expected to be fully implemented during the first half of 2020.

The documents allow a quick and clear visualisation of which part of the processes include identified risks and key controls. Each of the risk matrices help to identify the risk that affects each of the objectives of the financial information, the controls mitigating that risk, as well as their characteristics, the persons responsible for the control mechanism, the frequency with which it must be applied and the associated evidence.

The details of the significant processes (making a distinction between areas of the business and transversal business process) associated with the Entity's financial areas and for which the aforementioned documentation is available, are set out below:

Transversal processes

- The procedures for closing the financial year and preparing the consolidated financial statements. The group has specific procedures for closing the financial year and this responsibility falls to each of its subsidiaries, although it is the General Accounting Unit that prepares the consolidated information based on the individual reports.

- The process of issuing judgments, estimates, measurements and projections that are relevant including, among other things, the measurement of goodwill, the useful life of property, plant and equipment and intangible assets, the measurement of certain financial assets (illiquid assets), impairment losses affecting property, plant and equipment and intangible assets, the measurement of adjudicated assets or the calculation of liabilities and commitments for post-employment compensation.

- The general computer controls established by the Group at the technology and systems level, physical security, computer security, maintenance and development.

- The Requirements Procedure and calculation of own funds describes the different phases and tasks carried out by different areas of the Entity to comply with Regulation (EU) No. 575 / 2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

Business Areas

- Granting, recording and performance of consolidated loans.
- Granting, recording and performance of consolidated loans related to syndicated loans.
- Classification and estimation of the deterioration of consolidated loans.
- Investment, recording and valuation of debt securities, deposits, repos and capital (fixed income and equity).
- Investment, recording and valuation of Investee Companies, Associates and Jointly Controlled Entities.
- Investment, recording and valuation of derivative instruments (trading and hedging) - professional counterparties and customers.
- Recording and valuation of received assets in payment for debts.
- Recognition, recording and cost of customer deposits - Retail financing.
- Recognition, recording and cost of corporate issues - Wholesale financing.
- Insurance activity - insurance contract liabilities.
- Estimation of pension commitments – post-employment commitments to employees.
- Estimated provisions for taxes - tax area.
- Estimation of other provisions - legal area.

In general terms, the Corporate Information and Management Analysis Department is responsible for establishing the accounting policies that are applicable to new transactions in accordance with the criteria established in current legislation. As regards the critical judgments relating to the application of accounting policies and relevant estimates, this Unit establishes the criteria to be applied within the legislative framework. The application of these criteria may be carried out directly by the Units (with supervision) or the Bodies in which Senior Management is present (Committees).

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes regarding the preparation and publication of financial information.

The Entity has a general computer control procedure with the relevant risk and control matrix that provides details of the risks and controls relating to access security, change controls, operations, operating continuity and the segregation of duties.

The Technology and Systems Department and, specifically, the Technological Services Unit, is responsible for supporting and maintaining the operating system, communications and data administration and its duties include the analysis of systems and standards that allow a proper degree of protection and recovery of data and programs, ensuring compliance with legislation and legally required security measures. The Information Security Management and Control Unit is responsible for proposing information security measures and a policy for applying and maintaining proactive contact with the sector to obtain sufficient information regarding technological advances and regulatory compliance in the area of Information Systems Security and their application to Ibercaja Group.
Ibercaja has a series of standards and codes of good practices for final users that are set out in the Regulations available on the intranet. In addition, it has defined global policies and procedures that are uniform regarding the required security in the information systems involved in the preparation of financial information, including physical and logical security, data processing security and end user security.

The information servers are located at the central and back-up processing centres and only authorised personnel have access (generally operations) together with subcontractors.

The Group has a Business Continuity Plan for the areas involved with the process of preparing and reporting financial information. It covers the existing information systems at the parent company, which is where the preparation of financial information primarily takes place.

Finally, the Group has mechanisms that ensure the daily preparation of a backup copy of critical environments and in order to make improvements it is implementing formal information recovery test procedures.

Finally, the Audit Department, through the Audit Unit for Computer Processes is responsible for reviewing computer processes and the Group's information systems, systematically analysing and reviewing technological controls that have been implemented, as well as making proposals to expand and/or improve the systems.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Group has subcontracted third parties to carry out certain duties that are not very significant but which affect the process of the preparation of financial information through certain measurements, calculations and estimates used to generate the individual and consolidated financial statements that are published in the stock market.

In accordance with the Board Regulations the Board cannot delegate the approval and review of outsourcing policy.

The policy currently includes supervision and review procedures for both subcontracted activities and the calculations or measurements prepared by independent experts that are relevant to the process of generating financial information and which are included in the formal review process that forms part of the defined IFRCS framework, in order to comply with the specifications of that system and best practices in the market.

The procedures carried out thus specify the following aspects:

- Formal designation of the persons responsible for carrying out the various actions.

- Analysis prior to contracting, and there is a formal process that is implemented at the time the need to externalise a service or obtain the services of an independent expert arises and this process examines different proposals that define the persons responsible for approving the contractual relationship.

- Supervision and review of the information generated or the service provided:

- For subcontracted activities: request for regular reports; obligation to be audited by a third party; regular review of the capacity and accreditation of the external expert. In those cases in which the relevance of the externalised service with respect to financial information is high, requests for reports from independent third parties regarding the control activities carried out by the company rendering the service.

- For measurements prepared by external experts: review controls regarding the validity of the information provided; regular review of the capacity and accreditation of the expert.

In 2019 the activities that were assigned to third parties with respect to appraisals and calculations by independent experts related to:

- The actuarial calculation of commitments assumed with employees.
- The appraisal of foreclosed properties and properties that are used to secure loans granted by the Company.
- Certain tax and legal advisory services.
- Measurement of the Ibercaja Group.

F.4. Information and communications.

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

The Corporate Information and Management Analysis Department, through the General Accounting Unit, the Control Department is responsible for defining, reviewing and updating the accounting procedures that must be implemented at the Entity and at the various Group companies, which requires the collaboration of the Internal Audit Department and the General Secretary's Office (Legislation Compliance Unit) with respect to legal aspects in order to ensure rigorous compliance with the law. This task of analysing accounting legislation, evaluating and proposing action to implement or adapt procedures that are necessary is guaranteed through the resources that are currently attributed to this Unit, bearing in mind the size of the Entity and the Group.

In addition, Ibercaja does not have a single Accounting Policies Manual, but its accounting policies as a whole consist of the International Financial Reporting Standards (IFRS), the Bank of Spain Circular (Circular 4/2017), the policies whose development is required by current regulations, as well as the specific policies prepared by the Entity. Based on the relevance of the content of accounting standards, the appropriate level of approval is established ranging from the Board of Directors to Head of General Accounting. However, in the context of updating the general framework of the IFRS that has been carried out during 2019, work has begun on developing an Accounting Policy Manual, which is expected to be approved by the Board of Directors during the first half of 2020.

The Corporate Information and Management Analysis Department is responsible for resolving any doubt or conflict regarding interpretation arising from the application of the accounting policies, maintaining fluid communications with the various persons responsible for the areas at the parent company and the rest of the Group's subsidiaries that are involved in the process of preparing financial information.

With respect to the Group's subsidiaries, if they prepare their own accounts on a decentralised manner in accordance with their own procedures, the accounting policies must comply with the rules and guidelines issued from General Accounting, which is also responsible for supervising the preparation of that information. It should be noted that the subsidiaries prepare their own financial information based on formats that have already been agreed with the parent company in order to obtain the financial statements in the most uniform format possible to facilitate the presentation of the Group's consolidated information. They must comply with the accounting standards or criteria issued by General Accounting.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Ibercaja has applications and computer systems that allow individual accounts to be aggregated and unified from the various areas and subsidiaries that make up the Group, including the necessary level of disclosure, and, finally, generate the individual and consolidated financial statements that are reported together with other financial information published in the market. The Corporate Information and Management Analysis Department is responsible for aggregating, unifying and reporting the information, using common systems and applications.

Each subsidiary is responsible for preparing its own accounts in systems established for that purpose and, in any event, the accounting information is recorded in GAP format (General Accounting Plan). They therefore prepare their own financial statements, always using the guidelines of the Corporate Information and Management Analysis Department.

The subsidiaries send the necessary supplementary information to both verify the information that has been sent, and to harmonise and unify accounting policies. They also send the consolidation packages that are necessary to prepare the relevant disclosures in the financial statements and auxiliary statements that are necessary to cover the remaining reporting needs.

The General Accounting Unit is responsible for the preparation and update of internal financial reporting control systems (matrices and controls) for the various areas and processes and establishes controls and obtains evidence in this respect, while implementing any necessary improvements.

Finally, the Internal Audit Department is responsible for reviewing the circuits and operating procedures that have been implemented at Control Units or subsidiaries, determining the reliability of the information that they generate and compliance with applicable internal requirements.

F.5. System monitoring.

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The monitoring activities undertaken by the Audit Committee and whether the Entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate the findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The internal audit function is the responsibility of Ibercaja Banco's Internal Audit Department, which reports hierarchically to the Board of Directors through the Audit and Compliance Committee.

This Department is configured into the following Units to fulfil its duties: Audit of the Distribution Network, Credit Risk Audit, Computer Process Audit and Financial Audit.

The internal audit function is tasked to perform programmed reviews of the systems implemented to control all risks, internal operating procedures and compliance with applicable internal and external regulations. Among the current duties assigned to the Internal Audit Department are set out in the Entity's internal regulations is the constant evaluation of the adequacy and proper operation of the financial, regulatory management and internal control reporting systems at Ibercaja Group that are inherent to the Entity's or the Group's businesses, and proposing any recommendations for improvement in accordance with a preventative approach.

In order to obtain its objectives and fulfil the assigned duties, the Internal Audit Department prepared a multi-year Strategic Plan in 2015 within the framework of the Entity's Strategic Plans that covers the strategic objectives to be attained during the period, the duties, tools and projects to be carried out and the projected calendar for completion. Among the action plans, the review efforts by the IFRCS is a fundamental pillar, establishing annual reviews of the Entity's critical procedures.

The Annual Operating Plan for Internal Audit includes the specific audits to be performed in each Specialized Unit during the year, at least on a quarterly basis, and the resources that are available for their execution, together with the training activities that must be carried out by the auditors in the various Units. The Internal Audit Department must regularly inform the Board of Directors or the Audit and Compliance Committee and Senior Management of the operation of the internal control reporting systems, the internal audit annual plan and compliance with the objectives set out therein.

Both the Internal Audit Strategic plan and the Annual Operating Plan have been submitted for the approval of the Audit and Compliance Committee.

The efforts made by internal audit and carried out through the execution of the Annual Audit Operating Plan is essential to the supervision of the IFRCS.

Among the actions carried out in the Annual Internal Audit Operating Plan, the audit of the updated general framework of the Internal Financial Information Control System should be highlighted. The review that is carried out may result in audit recommendations that are prioritised in accordance with their relative importance and they are continuously monitored until fully implemented.

F.5.2 Is there a discussion procedure through which the auditor (in accordance with the provisions of the Technical Audit Standards (TAS)), internal audit and other experts may communicate with senior management and the Audit Committee or Directors at the entity to report significant weaknesses in internal control identified during the review of the annual accounts or any other accounts being reviewed. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

In accordance with the Board Regulations, the Audit and Compliance Committee is responsible for regularly receiving information from the external auditor regarding the audit plan and the results of its execution and to verify that senior management takes into account the recommendations made, as well as discussing with the auditor any significant internal control weaknesses detected during the performance of the audit.

Currently, the Audit and Compliance Committee meets with the external auditors at least quarterly, at which time any significant weakness that may have been detected can be reported. Any action plans or measures necessary to implement them are specified at these meetings and the parties responsible for such implementation are also designated. Subsequently, there are mechanisms that guarantee that they are carried out and the mitigation of the weaknesses is verified.

The Audit and Compliance Committee has the responsibility to supervise the main conclusions relating to the internal audit work performed and to do so the person responsible for the Audit Department attends the meetings and provides a summary of the main were carried out over the last accounting period.

In order to define the action plans that will allow any weakness in the internal control system to be mitigated, the Internal Audit Department makes the reports resulting from its review work available to the responsible members of management. These reports are sent to the Executive Internal Audit Committee at which the detected weaknesses are discussed and, any that are significant or critical for the Entity are covered by action plans involving the various areas concerned, defining the persons responsible and the projected resolution deadline.

The resolutions adopted by the Internal Audit Committee with respect to the action plans are included in the minutes that are presented to the CEO. These items are monitored by senior management and, specifically, by the Departments involved by holding meetings with the aforementioned Committee. Finally, the most relevant items are reported to the Audit and Compliance Committee at bi-yearly meetings.

F.6. Other relevant information.

Nothing of note.

F.7. External auditor's report.

Report from:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group has submitted information regarding the "Financial Reporting Internal Control Systems" to the external auditor for review and is set out in section F of the ACGR for 2019. The scope of the auditor's review is in line with Circular E 14/2013 issued by the Audit Institute of Spain on 19 July 2013.

The resulting report will be included as an appendix to this Annual Corporate Governance Report.

G. OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company or groups companies that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the entity is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

Also state whether the entity voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, the entity will identify the Code in question and the date of adoption.

All the information that must be included in the report and is outside of the control of the Entity, is provided based on the knowledge held by the Company, the reports that have been made in compliance with current legislation and information stated in public registries.

This Annual Corporate Governance Report was approved by the Company's Board of Directors at its Meeting on:

28/02/2020

List any Directors or members of the governing body that voted against, or abstained from voting on, the adoption of this Report.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)" OF IBERCAJA BANCO S.A. AND ITS SUBSIDIARIES FOR THE 2019 FINANCIAL YEAR

To the Board of Directors of Ibercaja Banco, S.A.

In accordance with the request of the Board of Directors of Ibercaja Banco, S.A. (hereafter "the Entity") and our engagement letter dated January 23, 2020, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in the section "F Information regarding the Internal Control System over Financial Reporting" ("ICSFR")" of the Annual Corporate Governance Report of Ibercaja Banco and its subsidiaries (hereafter "Grupo Ibercaja Banco" or "the Group") for the 2019 financial year, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2019 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

In addition, as this special engagement is not an audit of financial statements and is not subject to the revised Auditing Act approved by Royal Decree Law 1/2011, of July 1, we do not express an audit opinion under the terms of the aforementioned legislation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Group´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Julián González Gómez

March 2, 2020

Ibercaja Banco, S.A.
and subsidiaries

Independent Verification Report
on the Consolidated State of non-financial information
31st December 2019

A free translation from the original in Spanish

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent verification report

To the shareholders of Ibercaja Banco, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the Consolidated State of non-financial information ("NFIS") for the year ended 31 December 2019 of Ibercaja Banco, S.A. (the Parent company) and subsidiaries (hereinafter 'Ibercaja Banco' or 'the Group') which forms part of the accompanying Group's Management Report.

The content of the Management Report includes additional information to that required by the current mercantile legislation related to non-financial information reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in table 'Requirements of Spanish Law 11/2018 regarding Non-financial Information and Diversity' of the accompanying Management Report.

Responsibility of the Board of Directors of the Parent company

The preparation of the NFIS included in the Ibercaja Banco's Management Report and the content thereof are the responsibility of the Board of Directors of Ibercaja Banco, S.A. The NFIS has been drawn up in accordance with the provisions of current mercantile legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in line with the details provided for each matter in table 'Requirements of Spanish Law 11/2018 regarding Non-financial Information and Diversity' of the mentioned Management Report.

This responsibility also includes the design, implementation and maintenance of the internal control considered necessary to allow the NFIS to be free of any immaterial misstatement due to fraud or error.

The directors of Ibercaja Banco, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFIS is obtained.

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Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system, which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited verification report based on the work carried out. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are less extensive than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to management and several Ibercaja Banco units that were involved in the preparation of the NFIS, in the review of the processes for compiling and validating the information presented in the NFIS, and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Ibercaja Banco personnel to ascertain the business model, policies and management approaches applied, the main risks related to these matters and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the contents included in the NFIS for 2019, based on the materiality analysis carried out by the Group and described in section 'Introduction', considering the content required under current mercantile legislation.

- Analysis of the procedures used to compile and validate the information presented in NFIS for 2019.

- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFIS for 2019.

- Verification, through sample testing, of the information relating to the content of the NFIS for 2019 and its adequate compilation using data supplied by the Group's sources of information.

- Obtainment of a management representation letter from the Directors and Management of the Parent company.

Conclusion

Based on the procedures performed and the evidence we have obtained, no matters have come to light that might lead us to believe that Ibercaja Banco's NFIS for the year ended 31 December 2019 has not been prepared, in all its significant aspects, in accordance with the provisions of current mercantile legislation and the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the mentioned in each subject in table 'Requirements of Spanish Law 11/2018 regarding Non-financial Information and Diversity' of the mentioned Management Report.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish mercantile legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Marga de Rosselló Carril

March 2nd, 2020