
iberCaja
PILLAR 3
DISCLOSURE
2019
EL BANCO DEL
vamos

This version of Pilar III Disclosure 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.

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1

EXECUTIVE SUMMARY

1. Executive Summary

The present Pillar III Disclosures comply with what is established in Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council (hereinafter CRR - Capital Requirements Regulation), on "Entity Disclosure", and with the further development of the EBA RTS/ITS guidelines and documents, under Pillar III of the Basel Committee Capital Accord.

Pillar III promotes market discipline by developing a series of information disclosure requirements that enable the various agents to assess the Entity's risk exposure, risk assessment, management and control processes, the Group's capital adequacy and internal governance.

This report contains the information required by current regulations:

- The regulatory framework, governing bodies, scope of capital requirements, information disclosure policy and risk management policies and objectives
- The Group's computable own resources and solvency level, the features of the risk profile in its various types: credit, market, operational, holdings or capital instruments not included in the trading portfolio, structural interest rate, liquidity and securitizations.
- Leverage, unencumbered assets and remuneration policy.

Ibercaja Banco Group (hereinafter Ibercaja or the Group) is the tenth largest Spanish banking group in terms of assets. Its main activity is focused on retail banking, developing all its business in Spain.

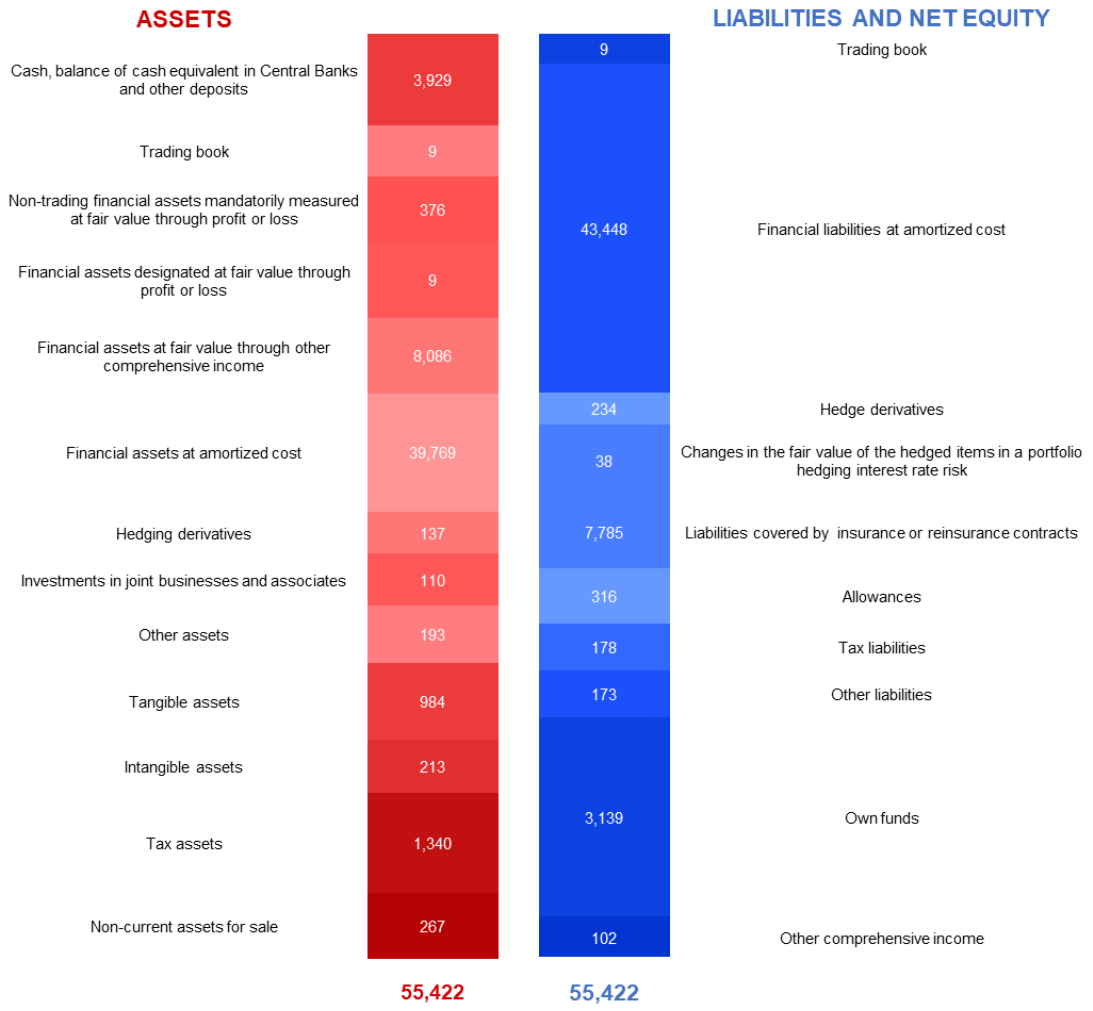
The corporate purpose is the performance of all kinds of activities, operations, acts, contracts and services inherent to the banking business in general, as well as the provision of investment and ancillary services, always in accordance with the legislation in force at any given time.

The entity's mission is to help manage the finances of families and companies, offering a global and personalized service. To this end, it seeks to offer excellent solutions to the financial needs of its almost three million customers.

In 2019, the Group achieved a net profit of €84 million. The decrease 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. It is worth mentioning the good performance of retail business, reflected in the increase in the yield on loans and the lower cost of liabilities, which meant that the customer spread, 1.43%, rose by 4 b.p. in the year.

The following sections contain the most relevant aspects, which are developed further in the report.

Consolidated Balance Sheet at December 31, 2019 (in millions of euros)



Equity and solvency ratios

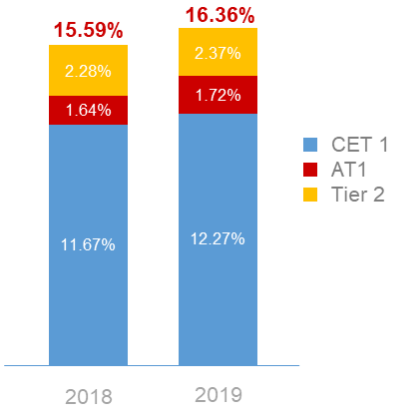
The Group's own resources are:

Computable Own Funds	
(thousands of euros)	Amount
Computable Own Funds 2019	3,331,114
Computable Own Funds 2018	3,333,194

In accordance with the current regulations regarding the Basel Capital Accord framework for solvency determination, at December 31, 2019, Ibercaja Banco Group complies with the minimum solvency ratios (Basel Pillar I) required. Ibercaja's ratios on a consolidated basis, a CET1 of 12.27% and own funds of 16.36% (both phase-in), are 3.27 and 3.86 points over the total capital decision communicated to the Bank as a result of the Supervisory Evaluation and Review Process (SREP). This decision is equivalent to a CET 1 phase-in ratio of 9% and a total capital ratio of 12.5% for 2020.

Based on the criteria foreseen for the end of the transitional period prior to the full implementation of Basel III, the CET1 fully loaded ratio stands at 11.35%.

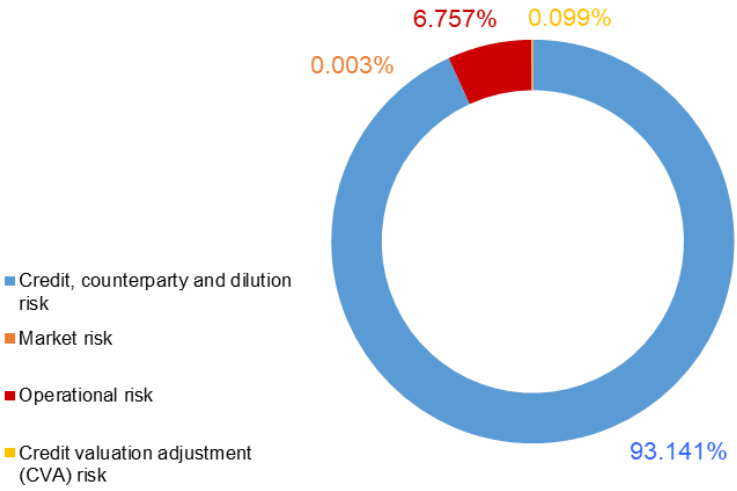
Capital Ratios	
	%
Common Equity Tier 1 ratio (CET1)	12.27%
Minimum required CET1	4.50%
Tier 1 ratio (T1)	13.99%
Minimum required T1	6.00%
Total Capital ratio	16.36%
Minimum required Total Capital	8.00%



Annex IV incorporates the capital ratios without applying transitional measures (fully loaded).

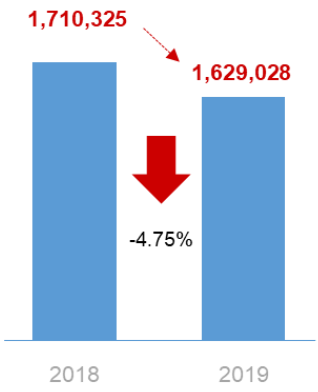
Capital requirements

During 2019, credit risk requirements accounted for 93.14% of capital requirements, while operational risk requirements accounted for 6.76%.



Minimum capital requirements	
(thousands of euros)	Amount
Minimum capital requirements	**1,629,028**
Capital requirements for credit, counterparty and dilution risk	1,517,287
Capital requirements for market risk	46
Capital requirements for operational risk	110,077
Capital requirements for credit valuation adjustment (CVA)	1,618
Risk-weighted assets	**20,362,850**

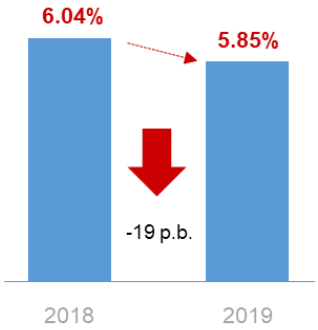
Minimum risk capital requirements for Pillar I have decreased by 4.75% with respect to 2018, reaching a figure equal to €1.63bn



*Amount in thousands of euros

Leverage ratio

The leverage ratio has decreased 19 b.p. from 6.04% at December 2018 to 5.85% at December 2019.



Regulatory framework for own resources and supervision of entities

Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR) of June 26, 2013 on prudential requirements for credit institutions and investment firms, jointly with the Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, constitute the current regulation for own resources and supervision of Spanish credit institutions on a consolidated basis.

Pillar III information disclosure. Information of Prudential Relevance

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

In accordance with the eighth part of chapter one of the CRR and article 85 of Law 10/2014, entities must publish, at least annually, relevant information for the adequate understanding of their business profile, their exposure to different risks, the composition of their capital base and their risk management policies and objectives. This report sets out the compliance with these requirements at December 31, 2019 by the consolidable group of Ibercaja Banco S.A. and was published on March 27, 2020 on the website of Ibercaja Banco. (https://www.ibercaja.com/shareholders-and-investors/financial-information/information-of-prudential-relevance).

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

The Entity considers that the activity and the risk weighted assets (RWA) of the business have been stable during 2019 and therefore it is not necessary to publish information on Pillar III with a periodicity of more than one year. In this regard, the Entity refers to the final document on disclosure requirements under Part Eight of Regulation (EU) no. 575/2013, issued by the EBA in December 2016. These guidelines set out the best practices for entities to comply with the CRR and the Basel Committee, applicable as of December 31, 2017.

The areas responsible for carrying out the Prudential Report and their functions are defined below:

a) Corporate Information and Management Analysis Department: responsible for coordination, adaptation to current regulations and comparison with the Group's various information sources. The General Accounting Department collaborates in this area in order to provide quantitative and qualitative information on equity, capital requirements for different types of risk (credit, counterparty, trading portfolio, market, equity positions, etc.), credit risk mitigation, capital buffers and securitisations.

b) General Secretariat and Control Directorate. Within the area they collaborate:

   i. Risk Control Department: provision of information relating to RAF, leverage, unencumbered assets, structural interest rate and liquidity risk, and capital requirements for operational risk.

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

c) Personnel Area Management: provides quantitative information on remuneration.

Pursuant to Standard 59 of Bank of Spain Circular 2/2016, the Group has assigned an independent expert (the Auditor of the 2019 Financial Statements - *PwC)* to conduct an adequacy review of the information in this Pillar III Disclosure Report and to verify its compliance with current regulatory requirements.

In accordance with the "*Policy for the disclosure and verification of information of prudential relevance of Ibercaja Banco, S.A. and its Consolidated Group*" approved by the Board of Directors, this report was prepared by the Corporate Information and Management Analysis Area Management, reviewed by the Audit and Compliance Committee and approved by the Board of Directors.

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

- The Guidelines, RTS (Regulatory Technical Standard*)* and ITS (Implementing Technical Standards*)* documents issued by the EBA, where the eighth part of the CRR is further developed in the areas of materiality policy, confidentiality and periodicity, leverage, encumbered assets, counter-cyclical buffer and liquidity;

- The best practices described in "*On Bank's Transparency in their 2014 Pillar 3 Reports*", issued by the EBA, which evaluates the information disclosed by 17 European banks on different capital and risk aspects, as well as the recommendations included by the Basel Committee in the report "*Revised Pillar 3 Disclosure Requirements",* published in January 2015;

- The final document *"Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013",* issued by the EBA in December 2016, which establishes criteria and information to be published at different frequencies. The Bank aims to continue to evolve in line with the best practices derived from this document, by gradually implementing the recommendations of the supervisors gathered here.

- Guidelines on uniform disclosures in accordance with Article 473a of Regulation (EU) No 575/2013 regarding the transitional provisions for the mitigation of the impact on own funds of the introduction of IFRS 9.

- Guidelines on disclosure of impaired and restructured/refined exposures, issued by the EBA in December 2018, regarding the uniform content and formats to be used by credit institutions on disclosure of non-performing and forborne exposures.

The Pillar III Report of the Group is structured in 15 chapters and 6 annexes. The first chapter describes the most relevant figures, which are subsequently developed in the report. The second chapter describes the relevant events that have occurred in 2019 and have affected the Group and the regulatory environment. The third chapter describes the general aspects of the Group's Pillar III and all the information relating to the governing bodies and the scope of consolidation. Chapters 4 and 5 describe all the information relating to solvency, from qualitative to quantitative information, on the Group's capital and equity requirements. Chapters 6 through 14 describe the Group's risk function and detail by section the aspects relating to credit risk, securitisation, operational, liquidity, interest rate and leverage. Chapter 15 contains information on remuneration policies.

The annexes include information on the Main Characteristics of Equity Instruments, Transitional Own Funds, Phase in and Fully Loaded Own Funds and Capital Requirements, Phase in and Fully Loaded Capital Ratios, Template NIIF9-FL and a compliance map with the items in Part Eight of the CRR. An index of tables and an index of illustrations is provided at the end of the document.

The Pillar 3 Disclosure 2019 is available on the website of Ibercaja Banco. (https://www.ibercaja.com/shareholders-and-investors/financial-information/information-of-prudential-relevance).



2 REGULATORY CONTEXT OF THE GROUP

2. Regulatory context of the Group

2.1 - Macroeconomic context

The world economy has lost pace of growth in 2019, with an estimated progress of less than 3%, below the average achieved over the last ten years. This slowdown is due to several factors, including: the trade war between the United States and China, uncertainty about the outcome of the Brexit, the crisis in the automotive sector due to increased environmental pressure, the adverse effects on emerging countries of the interest rate increase in the United States during 2018, the appreciation of the dollar and the social conflicts that have spread through some Latin American countries.

The growth of the Eurozone has been modest. The year-on-year change in GDP, pending final data, could be 1.2%. The international environment and the weakening of global trade are taking their toll on a very open economy such as Europe's, holding back exports and reducing sales in the industrial sector. In this context, consumption continues to perform well and is the main driver of growth. The good employment data, the unemployment rate has fallen to 7.5%, together with the increase in wages and favourable financial conditions stimulate household spending. Inflation stood at 1.3% in December, short of the ECB's target around 2%, and at a similar level to the underlying one.

Central banks have turned around their monetary policies, as fears of a weakening of activity were confirmed, adopting expansionary measures to boost the economy. The Fed cut the reference interest rate three times, bringing it down to a range of 1.5%-1.75%. However, in the statement after the December meeting, it estimates that the risks have diminished and does not anticipate 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 (TLRO 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 them from paying the marginal deposit facility at an amount equal to six times the minimum reserves.

The equity markets closed a particularly positive year. The major indices achieved advances of over 20%, favored by the high liquidity available and the scarcity of profitable investment alternatives. In Europe, the Eurostoxx 50 rose 24.78%, the German Dax 25.48%, the French Cac 26.37% and the Italian FTSE 28.28%. In Spain, the Ibex 35, which rose 11.82%, was weighed down by the high weight of the banking sector, which had the worst relative performance. The US markets were excellent, reaching levels close to record highs. The Dow Jones closed the year up 22.34%, while the Nasdaq, which groups the main technology companies, rose 35.23%.

The Spanish economy continues its expansionary phase with a more moderate growth, compared to previous years. GDP growth, 2% year-on-year, shows a clear slowdown with respect to 2018, but is higher than the average for the Eurozone and the most advanced countries in our environment. Domestic demand contributes 1.5 percentage points to growth. Household consumption, although slowing down, is the most important pillar of activity, helped by wage increases and financing facilities. Investment has lost strength due to the signs of exhaustion in the construction sector, while investment in capital goods remains more dynamic. The household savings rate, after falling to historical lows in 2018, is recovering in line with expectations of a less benign economic scenario. The foreign sector contributes 0.4 percentage points to GDP growth, in a scenario in which exports of goods have reactivated in the last part of the year and the contribution of tourism, with increases in expenditure and number of visitors, continues to be key.

The loss of strength of employment data and the evolution of unemployment suggest that the cooling of activity 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 EPA shows an unemployment rate of 13.78%, 67 basis points lower than at the beginning of the year. The number of people registered with Social Security reaches 19.4 million, with an increase of almost 385,000 people, the lowest since 2013.

In the Spanish banking sector, the interest rate environment continues to negatively affect profitability. The expansive turn of the ECB's policy, postponing once again the rise in rates, adds pressure to a difficult situation and makes it necessary to continue to strengthen alternative sources of income and influence the reduction of problem assets and cost containment via the rationalization of networks and the extension of digitalization.

2.1.1 - Subsequent events

Due to the exceptional circumstances that arose after the 2019 financial year end with the publication of Royal Decree 463/2020 on March 14, 2020, which declared the state of alarm for the management of the health crisis situation generated by the coronavirus (Covid-19), and which came into force on the same day, 14 March, Ibercaja has activated the contingency plans envisaged for these circumstances, which have allowed the continuity of the business, trying as far as possible to bring it back to normal. To this end, organizational measures have been implemented to manage the crisis, both individually (management of situations of contagion or isolation) and collectively. These measures have proved to be perfectly compatible with the continuity of activity and business, standing in a position of being able to extend them for as long as the authority disposes, without compromising the fundamental activity of society.

2.2 - The Ibercaja Group

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

As part of the process of restructuring the Spanish financial system, the General Assembly of the savings bank, at an extraordinary session held on July 26, 2011, approved the creation of Ibercaja Banco S.A., to which it transferred all the assets and liabilities allocated to its financial activity.

On July 25, 2013 Ibercaja Banco acquired *Banco Grupo Cajatres*. The integration process culminated in October 2014 with the merger by absorption of the acquired entity.

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

In 2019 the Entity has worked under the guidance of the "*Plan+ 2020*" Strategic Plan, which aims to make Ibercaja the best financial entity in the country, in terms of being the bank with the most satisfied customers and the most commercially efficient, anticipating the needs of its stakeholders and supporting the transition towards a sustainable economy. To address this challenge, three major programmes have been defined: Customer, Value and Drivers of Transformation, which develop the guidelines for competing successfully in an environment of rapid change 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 and becoming standardised with the majority of competitors in Spain and Europe as a listed bank.

Most of the proposed milestones have been achieved at the halfway point in the Plan, so a satisfactory balance can be made of its evolution:

Customer Programme

The Customer is the cornerstone on which the transformation of the business model is based. In order to improve the relationship with them and contribute to the growth of the activity, work is being done to strengthen the remote channels. Mobile Banking has incorporated new features such as Digital On Boarding, which allows customers to become customers without having to go to the branch, payment services through Apple Pay, Samsung Pay and Google Pay, and the aggregation of accounts from other entities. The website http://www.ibercaja.es has been revamped to offer solutions that are better suited to the financial needs of individuals, and the new Digital Banking for Companies has been developed. Likewise, the new Commercial and Management System is being rolled out to the entire network, which will contribute to an integrated management of customers, simplified, focused on attracting customers and with an agenda governed by the manager himself. The reform of the organizational model of the branch network, in which "head" and "satellite" branches with different levels of specialization will coexist, is another of the tasks addressed within the client programme.

Value Programme

The Value programme seeks to ensure that the activity is oriented towards the most profitable business opportunities. It focuses on reducing non-productive assets, developing risk management processes, allocating prices and capital more efficiently and optimizing 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 has been implemented and tools have been developed for its monitoring. Unproductive assets have fallen 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 return.

Transformation Drivers Programme

The Transformation Drivers programme, the third pillar of the Plan, covers technology, processes and people.

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

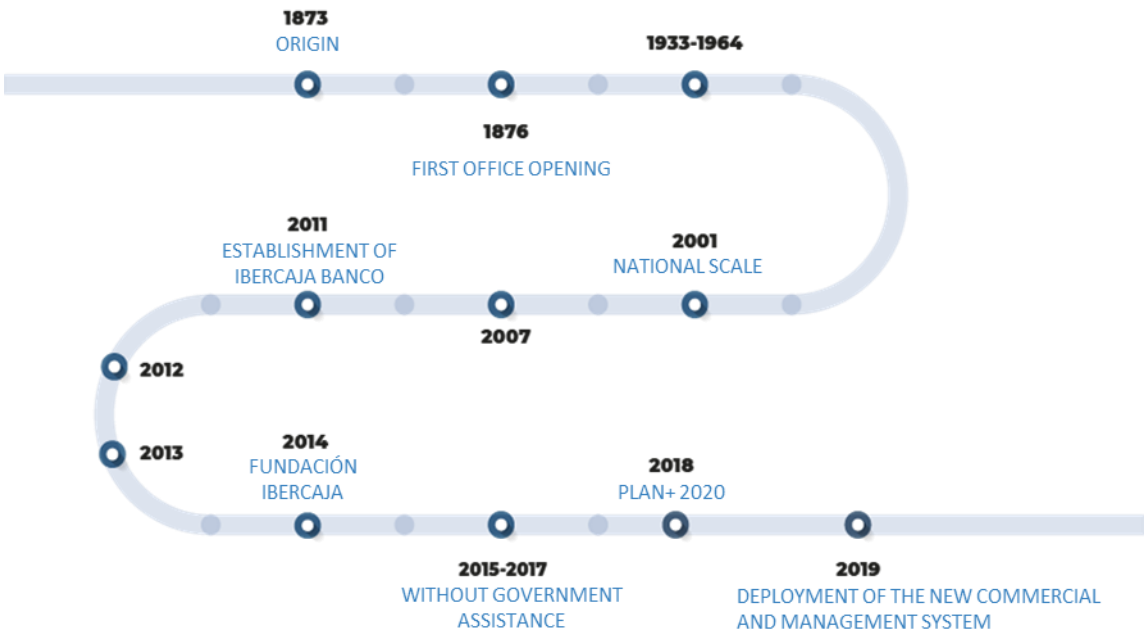
Ibercaja optimizes its processes to be more efficient, modernizing and rationalizing applications and infrastructure, so that the network is freed from administrative tasks and can focus on the commercial effort. In this sense, progress has been made by outsourcing low value-added tasks and initiating pilot experiences for the robotization of repetitive processes such as document control and database reconstruction.

The quality of the information supports the credibility of the Entity before regulators, credit rating agencies and investors. To optimize it, the information systems have been strengthened and the Data Governance framework has been established, which involves a modification of the organizational structure, the definition of roles, responsibilities, policies and principles regarding data, as well as the adaptation of the technological architecture.

People are the key to change, the success of the Plan depends on the capacity and commitment of the professionals working in the Entity, which makes it necessary to promote opportunities for professional and personal growth. The People Area is working on measures to improve talent and foster the skills of the Group's employees. These include the deployment of the Inspirational Leadership Model, a reference framework for people who lead teams to exercise a homogeneous, coherent influence on them, in line with Ibercaja's strategy.

Major milestones in the 145 years of Ibercaja's history

Illustration 1: Major milestones



Ibercaja is the tenth banking group in Spain, with a history of more than 145 years providing quality financial services and the highest professional rigor. Its mission and vision are based on the values that have guided the Bank's path since its foundation and that have allowed it to establish a solid and fruitful relationship with customers, employees, investors and society in general.



2.3 - Shareholding and functional structure

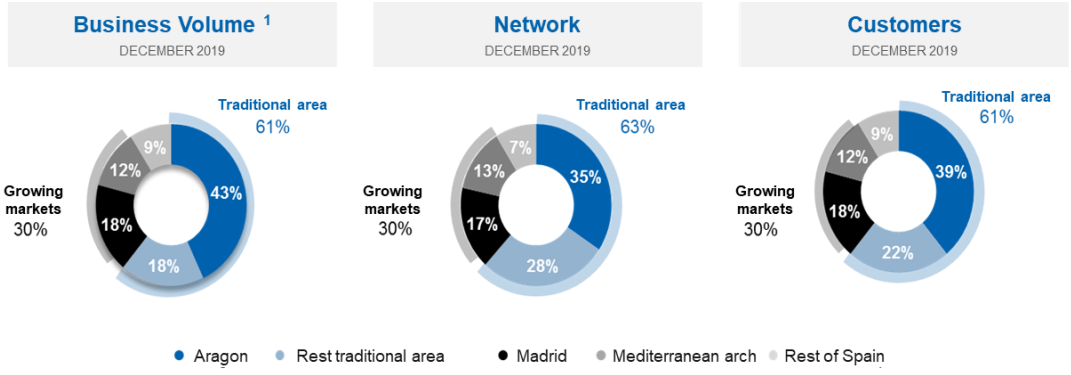
Ibercaja Banco is majority-owned, with 87.80% of its capital, by *Fundación Bancaria Ibercaja*. As a result of the acquisition of *Banco Grupo Caja3* in July 2013, the following are also shareholders of Ibercaja: *Fundación Caja Inmaculada* (4.85%), *Fundación Caja Badajoz* (3.90%) and *Fundación Bancaria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

The Group, the tenth largest in the Spanish banking system, has assets of €55,422 million. Its main activity is retail banking, focused on financing families, particularly first mortgages, and SMEs, savings management and other financial services. The eminently retail nature of the business is reflected in the structure of the balance sheet, where loans to individuals and small and medium enterprises account for almost 90% of loans and advances to customers and retail deposits for 77% of third-party financing. At national level, it has a 2.6% market share in lending to households and non-financial corporations, reaching 3.9% in the individual home purchase segment, and 3.5% in customer funds (2.8% in retail deposits and 4.8% in asset management and life insurance).

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 the retail business volume. The market share in this territory, 31% in private sector deposits and 24% in loans, reaches 43% and 34%, respectively, in Aragon. It is also well established in other important economic areas such as Madrid and Arco Mediterráneo (Catalonia and Valencia), which together account for 18% and 12% of customers and 18% and 12% of business volume.

Distribution of business volume, network and customers by area of operation

Illustration 2: Distribution of turnover, network and customers



[1]Retail business volume in normal situation: credit to customers ex-retirement acquisition of assets and doubtful assets + retail deposits + asset management and insurance

2.4 - 2019 in the Ibercaja Group

In a context of low interest rates, the Ibercaja Group's activity has been directed at protecting the profitability of the business by defending margins and diversifying income sources by strengthening the most profitable credit segments and boosting the asset management and insurance business. In addition, it is worth highlighting 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.

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 yield 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 recurrent revenues, after growing 5.13%, due to the 13.55% increase in those linked to asset management.

Recurring operating expenses, excluding those associated with the 2018 ERE, decreased by 2.12%. Cost control meant that the recurrent efficiency ratio, 63.70%, improved by 99 b.p. in the last twelve months.

Recurring earnings before provisions (net interest income and net fees and commissions minus operating costs) amounted to 342 million, a year-on-year increase of 2.21%.

The reduction in non-performing assets translates into lower provisioning requirements, so that the cost of risk, at 40 basis points, falls by 14 basis points compared to December 2018.

Sound lending is gradually stabilizing thanks to new operations, so that the year-on-year decrease is down to 0.31%, compared to 0.53% a year ago. The general decline in financing for house purchases throughout the Spanish banking system is the main obstacle to achieving positive rates of change.

The 6.56% growth in retail funds was due to the good performance of on-balance sheet funds (3.91%) and, in particular, 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 b.p. vs. December 2018) and 5.84% (+4 b.p. vs. December 2018), respectively.

The Bank has launched new products for both assets and liabilities, linked to the communication concept "*El Banco del Vamos*", through the incorporation of attractive conditions that are helping to attract new customers. More than 52,000 *Vamos* accounts were opened during the year, with a balance of €390 million.

In the area of digital transformation, customer relationship channels have continued to be improved by encouraging their use. The number of operations carried out through remote banking is close to 72% of the total, with almost 766,000 active digital banking users and 432,200 mobile banking users.

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 value in relation to the balance sheet barely exceeded 0.50%.

The aggregate of problematic exposure, doubtful and foreclosed assets, was reduced by €1,124 million in twelve months. The problematic 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 results and the cleaning up of the balance sheet lead to an improvement in the solvency indicators. The CET1 fully loaded ratio, 11.35%, rose 82 basis points, while the total capital ratio was 15.45% (+95 b.p. vs. December 2018), comfortably exceeding, in both cases, the SREP 2020 requirements.

The Group has a strong funding structure based on retail customer deposits which account for 77% of the funding of others, so that the credit to retail funding (LRR) ratio is below 100%. Liquid assets account for 20.69% of the balance sheet and amply cover all wholesale debt maturities.

2.5 - Regulatory framework

2.5.1 - Introduction

In December 2010, the Banking Supervision Committee published a new global regulatory framework for international capital standards (Basel III) that expanded on the requirements of the previous frameworks (Basel I, Basel II and Basel 2.5) to improve the quality, consistency and transparency of the capital base and risk coverage. On June 26, 2013, the Basel III legal framework was incorporated into European legislation through Directive 2013/36 on the taking up and pursuit of the business of credit institutions (hereinafter CRD IV), which repeals Directives 2006/48 and 2006/49, and Regulation (EU) No 575/2013 on the prudential requirements for credit institutions and investment firms (hereinafter CRR).

The Basel regulatory framework is based on three pillars: Pillar I establishes the minimum capital requirement and includes the possibility of using ratings and internal models for the calculation of risk-weighted exposures. Pillar II establishes a system of supervisory review of capital adequacy based on the risk profile and internal management of capital. Pillar III refers to information disclosure and market discipline.

The CRD IV was transposed into Spanish legislation by Law 10/2014 on the organisation, supervision and solvency of credit institutions and its subsequent regulatory development by Royal Decree 84/2015 and Bank of Spain Circular 2/2016, which completed its adaptation to the Spanish legal system. This Circular repeals most of Circular 3/2008 (although it remains in force for issues in which Circular 5/2008, on minimum capital and mandatory reporting by mutual guarantee societies, refers), on the determination and control of capital; as well as a section of Circular 2/2014, referring to the exercise of various regulatory options contained in the CRR.

Regulation (EU) No. 575/2013 is directly binding on the Member States of the European Union as from January 1, 2014 and repeals any lower-ranking regulations that entail additional capital requirements. This regulation includes a transitional implementation schedule that allows for a progressive adaptation to the new requirements. This calendar has been incorporated into Spanish regulations through Bank of Spain Circular 2/2014, affecting new deductions, issues and equity items that are no longer eligible under this new regulation. Regulation 2016/445/EU, published by the ECB in March 2016, amends some calendars established in Bank of Spain Circular 2/2014. The capital buffers provided for in CRD IV are also subject to a gradual implementation between 2016 and 2019.

In June 2019, the final texts of the revision of the capital framework and the resolution framework were published, incorporating the Basel standards in accordance with the European Commission's draft of the new CRR (CRR II) and the new CRD IV (CRD V) of November 23, 2016, such as the Fundamental Review of the Trading Book for market risk, the Net Stable Funding Ratio for liquidity risk or the SA-CCR for calculating the EAD for counterparty risk. Changes have also been made to the treatment of central counterparties, the MDA, Pillar II, the leverage ratio, and Pillar III, among others. The most important new feature is the implementation of the TLAC Term Sheet issued by the FSB (Financial Stability Board) in the capital framework, so that systemic institutions will have to comply with the TLAC (or MREL at European level) requirements in Pillar I, while non-systemic institutions will only have to comply with MREL in Pillar II, which the resolution authority will communicate on a case-by-case basis. These latter developments will be incorporated in the amendment of the BRRD Resolution Directive and replaced by the BRRD II.

CRR II will come into force as of June 28, 2021, excluding certain provisions whose period of entry into force extends from January 1, 2019 to June 28, 2023, highlighting the entry into force of the main changes regarding equity, capital deductions, standard and IRB credit risk and authorisations.

CRD V entered into force on June 27, 2019, although it is not yet applicable as Member States have until December 28, 2020 to transpose it into national law.

2.5.2 - Solvency

The CRR and CRD IV transpose Basel III into European law. The progressive adaptation of these regulations to the European framework places the computable own funds and the capital buffer requirements above the minimum regulatory levels, and therefore regulates the capital levels and the composition of the equity that institutions must have.

In addition, in order to ensure a uniform implementation of the new regulations throughout the European Union, the European Banking Authority (EBA) is developing the more specific aspects of the CRR through the publication of more specific guidelines. To this end, the EBA has issued the final document *"Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013",* which establishes criteria to ensure consistency and uniformity in the disclosure of information to allow greater comparability between credit institutions.

2.5.3 - Liquidity

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

In addition, the Net Stable Funding Ratio (NSFR) disclosure standards were published in June 2015. These requirements will improve the transparency of regulatory funding requirements, reinforce the Principles for the Sound Management and Supervision of Liquidity Risk, strengthen market discipline and reduce uncertainty in the markets when applying the NSFR.

Following prior consultations in 2016, the EBA published in 2017 the final proposals for the disclosure of the Liquidity Coverage Ratio (LCR) and Asset Encumbrance, which are intended to be implemented.

The new regulatory package, which is articulated through CRR II and CRD V, implements a number of elements agreed upon in the Basel Committee and the FSB, including the Net Stable Funding Ratio (NSFR).

2.5.4 - Securitisations

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

In May 2018, the Basel Committee published the Capital treatment *for* simple, transparent and comparable short-term securitisations (STC) and the criteria for identifying such securitisations in "*Capital treatment for short-term simple, transparent and comparable securitisations" and "Criteria for identifying simple, transparent and comparable short-term securitisations*".

2.5.5 - Banking Restructuring and Resolution

In 2014, Directive 2014/59/EU of the European Parliament and of the Council of May 15, 2014 was approved, which defines the framework for restructuring and resolution of European credit and investment services institutions, so that post-crisis measures of financial institutions in Europe are harmonized, minimizing the cost to the contributors.

In July 2016, the Commission published the Delegated Regulation 2016/1075, on restructuring and resolution plans, in accordance with BRRD, where it is detailed: the content of restructuring plans, resolution plans and group resolution plans, the minimum criteria to be assessed by the competent authority as regards restructuring plans and group restructuring plans, the conditions for group financial support, the requirements for independent valuers, the contractual recognition of depreciation and conversion powers, the procedure in relation to notification requirements and the announcement of suspension and the content of these and the operational functioning of the colleges of resolution authorities.

Over the past few years, the Basel Committee and the Financial Stability Board (FSB) have continued the steps begun previously. In 2015, the standard for requiring a minimum of sufficient loss absorption capacity to recapitalize an entity in the event of a resolution, namely Total Loss Absorbing Capacity (TLAC), was closed for entities classified as Global Systemically Important Banks *(*G-SIBs). In 2017, the FSB published the following:

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

In 2019, the FSB issued a report regarding the implementation of the TLAC in the different jurisdictions, concluding that no modifications were necessary.

2.5.6 - Models for calculating regulatory capital

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

This review of the frameworks for the calculation of capital requirements for credit, market and operational risk aims to ensure that they are simplified, comparable and more sensitive to risk, and that the variability of risk-weighted assets not justified by the different risk profiles is reduced.

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

This final framework includes significant improvements with respect to the proposals initially put forward by the Basel Committee, to be highlighted:

Floors:

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

Credit risk:

The revision to the standardised approach for calculating credit risk capital introduces the use of external ratings on a non-mechanical basis for exposures to banks and corporates and greater risk sensitivity for certain exposures.

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

- It establishes limitations in the estimation of parameters through floors at the exposure level.

- It standardizes the methodology for estimating risk parameters.
- The treatment of risk mitigation techniques is reviewed.

Credit Valuation Adjustments (CVA):

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

Operational risk:

A new standard approach for calculating operational risk capital is introduced, combining size with indicators of past event losses. This new approach will replace the current internal AMA models and standard methods and will be implemented in 2022.

Leverage:

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

In June, the Basel Committee published the final document on the treatment of the leverage ratio of derivatives cleared in Central Counterparty Clearing Houses, with the aim of maintaining linearity with the Standardised Approach to Counterparty Risk (SA-CCR).

2.5.7 - Other EBA initiatives

In relation to the Basel III Framework, approved in 2017, the EBA has issued two advisory reports in 2019 on its implementation, including the assessment of the impact of capital requirements on European banks, with recommendations.

In October 2019, the European Commission launched a consultative document "Implementing the final reforms of Basel III in the European Union", which includes additional topics to the Basel III Framework.

Also in March 2018, the Commission published its package of measures to address non-performing loans (NPLs) in Europe. In early 2019, the Commission's proposal for a regulation on minimum coverage of losses on non-performing loans was approved.

2.5.8 - Single Supervisory and Resolution Mechanism

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

In line with the intense supervision agenda under the framework of the Supervisory Review and Evaluation Process (SREP), the SSM has continued to make a great effort in 2019, on the one hand, to harmonize supervisory policies among countries and, on the other, to make its expectations transparent.

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

The SRM is working together with national resolution authorities in the development of MREL (Minimum Requirement of Eligible Liabilities) policies. Entities must comply with their MREL requirement after receiving the requirement from the SRM, in a transitional period not exceeding four years. Non-compliance may result in the consideration that the entity cannot be resolved.

In addition to the above, the SRM also manages the Single Resolution Fund. The period of progressive mutualization of the Single Resolution Fund will allow the transition from the National Resolution Funds, in force in several countries of the Euro zone until 2016, to the Single Resolution Fund, which will be fully implemented in 2024. The objective of financing this fund is 1% of guaranteed deposits in 2024.



3

PILLAR III GENERAL ASPECTS

3. Pillar III General Aspects

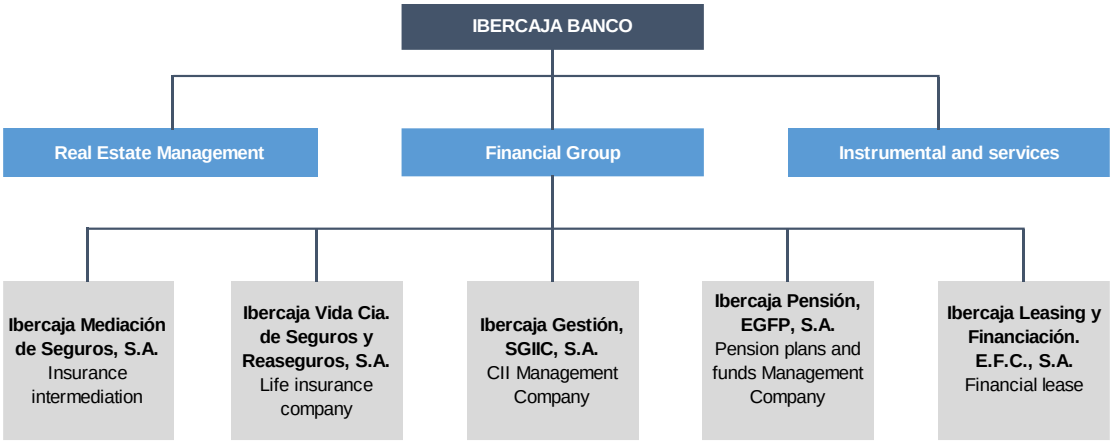
3.1 - Introduction

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

The Bank is the head of a group of dependent entities. The entities that make up the consolidable group carry out activities of a different nature. Of particular importance, from the standpoint of both diversification of the range of financial products and profitability, are those of the Financial Group, which comprises entities specializing in investment funds, savings and pension plans, insurance banking and leasing.

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

Illustration 3: Scope of consolidation



Its mission is to help manage the finances of families and companies, offering a global and personalized service, which will facilitate them to achieve their own objectives. To this end, it seeks to offer solutions that are appropriate to the financial needs of its almost three million customers.

Its activity is supported by an infrastructure of 1,084 offices located throughout Spain.

For further details on the Bank, please consult the Ibercaja Banco website. (www.ibercaja.com).

3.2 - Governing bodies

The governing bodies of the Ibercaja Group, their composition and standards of operation are regulated by the Bylaws and the Regulations of the Board of Directors, the content of which is in accordance with Law 10/2014 of June 26, on the organisation, supervision and solvency of credit institutions and its implementing regulations, Royal Decree Law 1/2010 of July 2, which approves the revised text of the Law on Corporations and the Unified Code of Good Governance. The composition and members of the different governing bodies and the management team are detailed in the Corporate Governance Report.

A summary table of the composition of the Board of Directors and the Committees is shown below. In addition, the main governing bodies are detailed below, as well as the policies that ensure the suitability and diversity of the members of the Board of Directors, according to article 435.2 of the CRR.

Illustration 4: Governing bodies

		Board of Directors				Comissions					
		Dominical	Independent	Executive	External	Executive Commission	Audit and Compliance Commission	Appointments Commission	Remunerations Commission	Major Risks and Solvency Commission	Strategy Commission
Chairman	Mr. José Luis Aguirre Loaso	■				C					C
1st Vice-Chairman	Mr. Jesús Máximo Bueno Arrese	■				M	M			M	
CEO	Mr. Víctor Iglesias Ruiz			■		E					
Secretary Non-Counsellor	Mr. Jesús Barreiro Sanz *					S	S	S	S	S	S
Members	Mrs. Gabriela González-Bueno Lillo		■			M	M			C	
	Mr. Jesús Solchaga Loitegui		■					C	C		M
	Mr. Vicente Cóndor López		■			M	C			M	
	Mr. Jesús Tejel Giménez		■				M	M	M	M	
	Mr. Félix Longás Lafuente		■					M	M		M
	Mr. Emilio Jiménez Labrador	■				M	M				M
	Mr. Enrique Arrufat Guerra	■									M
	Mrs. María Pilar Segura Bas				■			M	M	M	

* Mr. Jesús Barreiro Sanz became Non-Director Secretary by virtue of the resolutions adopted by the General Shareholders' Meeting and the Board of Directors on August 29, 2019.

C	Chairman
M	Member
S	Secretary Non-Counsellor
E	CEO

3.2.1 - Board of Directors

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

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

Table 1: Members of the Board of Directors

Board of Directors			
Position	Name	Categorization	Date of last appointment
Chairman	Mr. José Luis Aguirre Loaso	Dominical	30/08/2016
1st Vice Chairman	Mr. Jesus Máximo Bueno Arrese	Dominical	30/08/2016
CEO	Mr. Víctor Iglesias Ruiz	Executive	29/08/2019
Member	Mrs. Gabriela González-Bueno Lillo	Independent	13/11/2018
Member	Mr Jesús Solchaga Loitegui	Independent	13/11/2018
Member	Mr. Emilio Jiménez Labrador	Dominical	29/08/2019
Member	Mr. Vicente Cóndor López	Independent	09/04/2019
Member	Mr. Félix Longás Lafuente	Independent	30/08/2016
Member	Mr. Jesús Tejel Giménez	Independent	30/08/2016
Member	Mr. Enrique Arrufat Guerra	Dominical	30/08/2017
Member	Mrs. María Pilar Segura Bas	Other External	30/08/2017

In the 2019 Financial Statements, the powers of the Board of Directors in relation to risk management and control are developed.

Hereinafter the information on the knowledge and experience of the members of the Board of Directors:

	Training	Experience
Mr. José Luis Aguirre Loaso	Degree in Economics and Law from the University of Deusto and Master's degree in Organizational Development from the IOD in Leuven (Belgium).	He has been General Manager of the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, and Managing Director of Ibercaja Banco. He has been a member of the American Bank Marketing Association and the European Financial Management Association (EFMA), Chairman of the VISA Committee of the Euro 6000 System and has been a member of the Boards of Directors of, among others, Banco de Huesca, S.A. and EBN Banco, S.A. Also, within the Ibercaja Group, he has been Chairman of Ibercaja Vida, S.A, Ibercaja Leasing, S.A. and Ibercaja Gestión, S.A. and director of Banco Grupo Caja3, S.A.U. until it was absorbed by Ibercaja Banco. He has been Deputy Chairman of CECABANK, S.A., and member of the Board of Directors of CASER. Member of the Board of Directors of Confederación Española de Cajas de Ahorros (CECA).
Mr. Jesus Bueno Arrese	Professor of commerce at the *Escuela Superior de Comercio de Zaragoza*, certified auditor, graduate in business management from IESE (University of Navarra), and Master's degree in Applied Social Sciences (University of Zaragoza).	He has been a trustee of the Fundación Bancaria Ibercaja, Chairman of the Board of Directors of Ibercaja Vida, S.A., and a member of the Board of Directors of Ibercaja Mediación Seguros, S.A. He has also been a member of the Board of Directors of Banco Grupo Cajatrés, S.A.U. until it was absorbed by Ibercaja Banco.

Mr. Víctor Iglesias Ruiz	Degree in Economics from the University of Zaragoza.	He has developed his entire professional career in various strategic areas of the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja and, following the segregation of financial activity, in Ibercaja Banco, being appointed Deputy General Manager, Director of Capital Markets and Credit Investments, Director of the Branch Network and member of the Management Committee. In 2010 he was appointed Business Area Director until his appointment as Ibercaja Banco's CEO in 2015. He has also been a member of the Board of Directors of Heraldo de Aragón, member of the Business Strategy Committee of CASER and Chairman of the Board of Directors of Ibercaja Mediación de Seguros S.A.U. He is a member of the Board of Directors of CECABANK.
Mrs. Gabriela González-Bueno Lillo	Degree in Economics and Business Studies from the Universidad Complutense de Madrid. Insurance Actuary, Inspector of the Insurance and Savings Inspectorate.	She belongs to the State Body of Financial Inspectors (on leave). Actuary auditor registered in the Register of Auditors of the I.A.E. She has been a member of the Board of the Insurance Companies Liquidation Committee (CLEA) by appointment of the Ministry of Economy and Finance, and General Manager and Member of the Board of Directors of CASER. She has also been a member of the Board, Chairman of the Audit and Compliance Committee and of the Appointments and Remuneration Commission of Banco Grupo Cajatres, until it was absorbed by Ibercaja Banco. She has also been Chairman of the Audit and Compliance Committee of Ibercaja Banco. Manager of Centro de Investigación del Seguro, S.L., Instituto para la Formación Empresarial, S.L.U. and Energías Renovables de la Vera, S.L.
Mr Jesús Solchaga Loitegui	Degree in Law from the University of Zaragoza.	State Attorney (1967-2010). Associate of the Civil and Commercial Court of Arbitration (CIMA) of Madrid since its creation. He has been General Counsel, Member of the Board of Directors (2002-2008), and Chairman of the Control Committee of the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (2008-2013), freely appointed member of the Territorial Council of Aragón, member of the Advisory Council of the Government of Aragón and member of the Court for the Defence of Competition of Aragón. He has been a member of the boards of directors of the companies in the Ibercaja Residencial Murillo Group, Cerro Murillo, S.A. and Ibercaja Mediación de Seguros, S.A.U.
Mr. Vicente Cóndor López	Graduate and Doctor in Economic and Business Sciences from the University of Valencia.	Certified Public Accountant and Auditor registered in the ROAC. He has been a member of the Board of Directors (1998-2006) and Chairman of the Control Committee (2006-2008) of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, and a member of the Board of Directors of SODIAR (1998-2008) and Avalia (2008-2012). He has also been Chairman of the Bank's Major Risks and Solvency Committee.
Mr. Jesús Tejel Giménez	Degree in Economics and Business Studies from the University of Zaragoza (Spain) and Certified Public Accountant and Diploma in General Management from IESE Business School.	He has been a member of the Association of Economists of Aragon, Patron of the ETNOR Foundation - Business Ethics - and of the Foundation for Stock Market and Financial Studies - FEBF - and Managing Partner of the Areas of Aragon and Rioja, and the Community of Valencia and Murcia of DELOITTE, S.L. until 2013. Professor of Business Management in university degrees given by EDEM Escuela de Empresarios. Member of the Board of Directors of Pangea Oncology, S.A.
Mr. Félix Longás Lafuente	Degree in Industrial Psychology (specialization in Work and Organization) from the National University of Distance Education.	He has held senior management positions in commercial companies, with a turnover of around €175 million and over a thousand employees (Agora-La Zaragozana Group). He has been Vice-president of the Regional Confederation of Businessmen of Aragon (CREA) and President of its Economy Commission, he has been President of the Association for the Progress of the Management of Aragon (APD) and Member of the Economic and Social Council of Aragon.
Mr. Emilio Jiménez Labrador	Diploma in Business Studies (specialising in Accounting) and Degree in Economics and Business Studies.	In 1984 he joined Monte de Piedad y Caja General de Ahorros de Badajoz (Caja Badajoz), holding various positions and posts. From 28 September 2009 to 11 December 2013, she held the position of Deputy General Manager, Director of the Media Area and General Secretary and member of the Management Committee of Caja Badajoz. He has also held various positions in other financial and banking insurance companies: Caja Badajoz Sociedad de Agencia de Seguros del Monte de Piedad y Caja General de Ahorros de Badajoz, S.L., Mastercajas, S.A. and Viacajas, S.A. (companies linked to means of payment). Member of the Board of Directors of Sociedad de Garantía Recíproca Extremeña de Avales, S.G.R., Iniciativas Pacenses, S.A. and Estacionamientos y Servicios Extremeños, S.A.

Mrs. María Pilar Segura Bas	Degree in Economics and Business Studies from the University of Deusto (Bilbao).	Since 1980 she has held various positions and posts in the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (CAMPZAR) until the segregation of its financial activity in favour of Ibercaja Banco, in October 2011: Head of the Analytical and Budgetary Accounting Department (1987-1999), Head of the Information Systems and Management Control Department (1999-2004) and as Director of Information Systems and Management Control (from June 2004 to September 2011). She was subsequently appointed Deputy Director General of the Entity (Control Directorate), a position she held until 1 March 2017. She has held management positions in various companies of the Ibercaja Group (Member and Chairman of the Board of Directors of Tipo Línea, S.A., Member of the Board of Directors of Ibercaja Gestión S.G.I.I.C., S.A. and Chairman of the Board of Directors of Servicios a Distancia IBD, S.L
Mr. Luis Enrique Arrufat Guerra	D. in Mathematics, in 1987 he completed a higher course in international finance, the PDD Management Development Programme at IESE (96/97 academic year) and the Senior Management Programme at Instituto de Empresa in 2005.	He has carried out his professional activity in the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (CAMPZAR), until the segregation of his financial activity in Ibercaja Banco: Capital Market Operator, Head of Treasury, appointed Deputy Director (May 2001), Head of Resources (from December 1997 until 31 July 2002), Deputy General Director (June 2004), Marketing Director (July 2002 until October 2011). In January 2010 he was appointed Deputy Managing Director and in October 2011 (with the segregation of CAMPZAR's financial activity in Ibercaja Banco) he took over the management of the Financial Area, a position he held until February 2015, when he was appointed Deputy CEO. In addition, he has held various management positions in companies in the Ibercaja Financial Group: Ibercaja Pensión E.G.F.P., S.A., Ibercaja Gestión S.G.I.I.C., S.A. and Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.; real estate subsidiaries (Ibercaja Servicios Inmobiliarios and Cerro Murillo, S.A.). Outside the Ibercaja Group, he has held the position of Chairman of the Board of Directors of Euro6000, S.A., and Member of the Board of Directors of EBN Banco de Negocios, S.a. and Viacajas, S.A.

Table 2: Composition of the Board of Directors

Composition	
Category	%
% Executive Directors	9.1%
% Dominical Directors	36.3%
% Independent Directors	45.5%
% Other externals	9.1%
Number of meetings (2019)	14

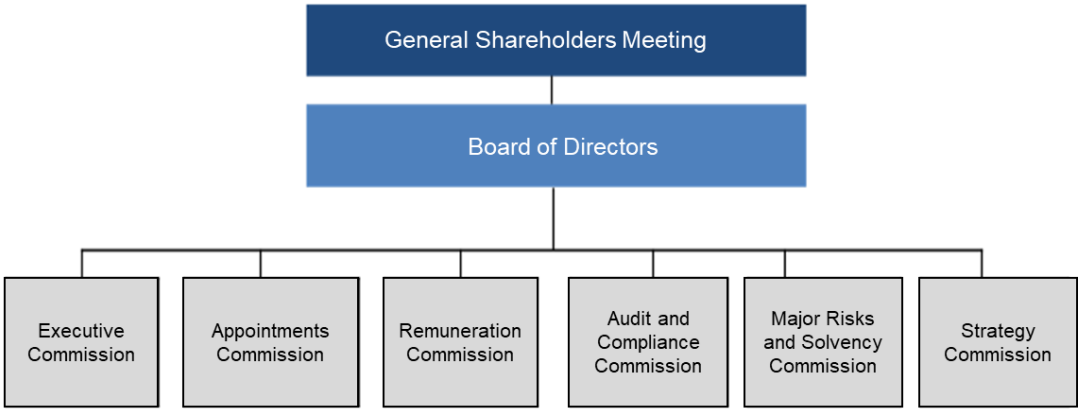
On August 29, 2019, an Extraordinary General Shareholders' Meeting was held in which, as a result, on the one hand, of the extinction of the commitments acquired by the shareholder foundations, and, on the other, of the agreement reached by Fundación Caja de Ahorros de la Inmaculada and Fundación Caja Badajoz to group their shares and coordinate their votes, it was unanimously agreed: to remove Mr. Juan María Pemán Gavín and Mr. Jorge Simón Rodríguez from their positions as directors and from their committees; and to renew the mandate of Mr. Emilio Jiménez Labrador as dominical director, for a period of four years. Likewise, and in order to reduce the number of dominical directors appointed by the Fundación Bancaria Ibercaja, the Board unanimously agreed to remove Mr. Jesús Barreiro Sanz from his position as a director (who will continue to hold the position of Secretary to the Board of Directors and its committees, as a non-director secretary).

The General Meeting also unanimously agreed to renew Mr. Victor Iglesias Ruiz as a Director with executive category, for a period of four years (by virtue of a resolution of the Board of Directors, at its meeting held on August 29, Mr. Iglesias Ruiz would continue to hold the position of Managing Director). Finally, as a result of the above resolutions, the Meeting unanimously agreed to reduce the number of members of the Bank's Board of Directors to eleven. All the proposals of the Board of Directors submitted to the Meeting in relation to the above resolutions were previously reported favourably by the Appointments Committee.

All appointments of members of the Board of Directors have been reported favourably by the Appointments Committee. Currently, there are no directors holding administrative or executive positions in other entities that form part of the Group.

3.2.2 - Commissions of the Board of Directors

Illustration 5: Commissions of the Board of Directors



Executive Commission

Table 3: Composition of the Executive Commission

Composition	
Category	%
% Executive Directors	16.7%
% Dominical Directors	50.0%
% Independent Directors	33.3%
% Other externals	-
Number of meetings (2019)	24

In accordance with the provisions of the Bylaws and the Regulations of the Board of Directors, the Executive Commission has been delegated the following powers by the Board of Directors:

- Acknowledge of and agree on proposals for the granting, modification or novation and cancellation of risk operations which, in accordance with the provisions of the Manual of Policies and Procedures for Risk Management in Credit Investment approved by the Board of Directors, are within its competence. Likewise, it will be aware of and resolve the proposals for the acquisition of assets by the Bank in or for payment of debts that must be submitted for its consideration in accordance with the Asset Management Policies and Manuals.

- Acknowledge and agree on matters relating to personnel (disciplinary proceedings, granting of leave of absence, etc.) except those cases in which the decision corresponds to the Chief Executive Officer or to the plenary session of the Board of Directors, as these are employees who report directly to the CEO.

- Acknowledge of and agree on matters related to the Bank's assets (real estate, expense records, purchase records, etc.) and investments and divestments in investee companies, which must be submitted to its consideration in accordance with internal policies and manuals, except those that by law correspond to the General Shareholders' Meeting.

- Grant, when appropriate, the powers that are necessary or convenient for the execution of the adopted agreements.

Its resolutions are valid and binding without the need for subsequent ratification by the plenary session of the Board. However, in those cases in which, in the opinion of the Chairman, the CEO or three members of the Commission, the importance of the matter so requires, the resolutions adopted by the Commission shall be submitted to the Board for ratification.

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

In the course of its regular meetings, the Executive Commission has had access to the reports of the Chairman and the CEO, which have reported, among other issues, the main macroeconomic magnitudes and the performance of the Bank's data: balance sheet and income statement; performance of the Bank's securities portfolio; customer funds and loans to customers; market shares; liquidity management; non-performing loans and coverage ratios; business volumes; and the results of the Group's subsidiaries. It also gave its opinion on the financing operations submitted for its consideration, as it is authorized or ratified by the Bank on the basis of the amount or the status of the applicants. It also ratified the transactions approved, rejected or ratified by the Credit Risk Committee, adopted various resolutions on the divestment of investments in investees and took cognizance of the disciplinary proceedings under the terms of labour legislation and the Collective Labour Agreement.

Audit and Compliance Commission

Table 4: Composition of the Audit and Compliance Commission

Composition	
Category	%
% Executive Directors	-
% Dominical Directors	40%
% Independent Directors	60%
% Other externals	-
Number of meetings (2019)	14

The functions of the Commission are expressly gathered in the Regulations of the Board of Directors. In particular:

- Report to the General Meeting on issues raised by shareholders on matters within its competence.

- Monitor the effectiveness of internal control: the compliance function and internal audit.

- Supervise the process of preparing and presenting regulated financial information.
- Propose the appointment or re-election of the auditor.
- Establish the appropriate relations with the external auditor in order to receive information on matters relating to its independence.
- Receive annual written confirmation from the external auditor of its independence from the Entity or its Group, issuing the corresponding report.

The Commission is chaired by an independent director, who must be replaced every four years and may be re-elected after a period of one year has elapsed since he left office. The Secretary of the Board of Directors shall act as Secretary of the Commission.

It shall be validly constituted with the attendance, present or represented, of at least half plus one of its members; and it shall adopt its resolutions by a majority of the votes of the directors who are members of the commission, present or represented at the meeting, with the chairman having the casting vote. The resolutions shall be kept in a book of minutes, available to all members of the Board of Directors.

The commission shall meet as often as it is convened by agreement of the committee itself or its chairman and at least once per quarter. The commission may also request the attendance of the bank's auditor. One of its meetings will necessarily be devoted to evaluating the efficiency of and compliance with the Bank's governance standards and procedures and to preparing the information to be approved by the Board and included in the annual public documentation.

During the year, the Commission was informed of the requirements and communications received from the supervisory bodies within the scope of their competencies; it was aware of and informed of the transactions to be carried out with related parties; it was informed of the periodic reports of the regulatory compliance and internal audit functions, as well as the reports issued by the external auditor. In relation to financial information, it was aware of and supervised the process of preparing and presenting regulated financial information, reviewed the Bank's financial statements and the periodic financial information to be provided by the Board to the markets and supervisory bodies.

Appointments Commission

Table 5: Composition of the Appointments Commission

Composition	
Category	%
% Executive Directors	-
% Dominical Directors	-
% Independent Directors	75%
% Other externals	25%
Number of meetings (2019)	2

The Appointments Commission is responsible for reporting to the Board on proposals for appointments. In particular, it is responsible for:

- Assessing the suitability of advisors.
- Establishing a representation target for the under-represented sex on the Board of Directors.
- Submitting proposals to the General Meeting for the appointment, re-election or removal of independent directors.
- Reporting on proposals for the appointment and removal of senior managers and persons with key functions and the basic conditions of their contracts.
- Examining and organizing the succession of the Chairman and the Chief Executive Officer.

The Commission shall be composed of a minimum of three and a maximum of five non-executive directors, at least two of whom must be independent directors. The commission will meet as often as it is convened by agreement of the commission itself and at least once per quarter. The Chairman (who shall in any case be independent) shall have the casting vote in the event of a tie.

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

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

Remuneration Commission

Table 6: Composition of the Remuneration Commission

Composition	
Category	%
% Executive Directors	-
% Dominical Directors	-
% Independent Directors	75%
% Other externals	25%
Number of meetings (2019)	1

The Remuneration Commission is responsible for informing, advising and proposing on the remuneration of directors, general managers or similar, and persons whose professional activity has a significant impact on the Bank's risk profile.

The Remuneration Commission will 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 commission shall be validly constituted when half plus one of the directors are present or represented. The Chairman shall have the casting vote in the event of a tie. The resolutions, which shall be adopted by a majority of the committee members, shall be kept in a minute book, available to all members of the Board of Directors.

During the 2019 financial year, the Commission has informed, advised and made proposals to the Board of Directors regarding the remuneration of directors, senior management and persons whose professional activity has a significant impact on the Bank's risk profile.

Major Risks and Solvency Commission

Table 7: Composition of the Major Risk and Solvency Commision

Composition	
Category	%
% Executive Directors	-
% Dominical Directors	20%
% Independent Directors	60%
% Other externals	20%
Number of meetings (2019)	10

The main function of the Commission is to advise the Board of Directors on the current and future overall risk appetite of the Bank and its Group and its strategy in this area, and to assist the Board in monitoring the implementation of that strategy by senior management and to monitor the Bank's solvency levels and propose the actions it considers appropriate for their improvement.

It will be made up of a minimum of 3 and a maximum of 5 directors, who do not perform executive functions and have the knowledge, ability and experience to understand and control the strategy and risk propensity of the entity. At least one third of the members shall be independent and in any case its Chairman. The Commission shall adopt its resolutions by a majority of the votes of the directors who are members of the Commission, the Chairman being the Chairman in the event of a tie.

During 2019, the Commission informed the Board of Directors about the Bank's Risk Appetite Framework and Recovery Plan, the quarterly monitoring reports, the annual capital and liquidity self-assessment report for 2018, as well as the quarterly monitoring and control of non-performing loans and credit risk management, and the proposal for new debt issues.

Strategy Commission

Table 8: Composition of the Strategy Commission

Composition	
Category	%
% Executive Directors	-
% Dominical Directors	60%
% Independent Directors	40%
% Other externals	-
Number of meetings (2019)	12

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

The Commission will be made up of a minimum of 3 and a maximum of 5 directors, who will be appointed taking into account the knowledge, skills and experience of the directors and the tasks of the committee. The Board of Directors will appoint its Chairman, and the Secretary will be the Secretary of the Board.

The commission shall meet as often as it is convened by agreement of the commission itself or its chairman and at least quarterly. The committee shall adopt its resolutions by a majority vote of the directors who are members of the committee, with the chairman acting as chairman in the event of a tie. The resolutions adopted appear in the corresponding book of minutes, which is available to all members of the Board of Directors.

The Commission has periodically monitored the Strategic Plan approved by the Board of Directors, as well as the quarterly monitoring of the budgetary evolution (as a specification of the mandates contained in the aforementioned Strategic Plan), reporting to the Board of Directors the conclusions obtained, as well as the progress of the new Strategic Plan.

Information on the Group's corporate governance can be accessed through the corporate website www.ibercaja.com in the Corporate Governance and General Remuneration Policy section. (https://www.ibercaja.com/shareholders-and-investors/corporate-governance-and-remuneration-policy/corporate-documents)

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

The Entity has a Policy for the evaluation of the suitability and diversity of the members of the Board of Directors and the suitability of persons with key functions, approved by the Board of Directors, and which is reviewed and, where appropriate, updated on an annual basis. This policy defines the criteria that the Bank will apply to evaluate the suitability of the members of the Board of Directors, General Managers or similar, responsible for internal control functions and other relevant positions in the development of the Bank's activity.

At a meeting held on June 28, 2018, the Board of Directors approved an update of the Policy of Suitability and Diversity of the members of the Board of Directors, as proposed by the Appointments Commission, highlighting the main new features: the express mention of the principle of independence of criteria (independence of ideas) as an aspect to be assessed in the suitability evaluation process; the introduction of criteria for the assessment of the capacity to devote time by the person to be appointed to the performance of the position for which he/she is proposed; the specification of the assumptions that will determine the need to carry out a collective suitability re-evaluation of the Board of Directors.

In implementing the above policy, the main functions of the Appointments Commission are as follows:

- Define the criteria for the composition of the Board of Directors and ensure that the procedures for selecting candidates reflect diversity of gender, experience and knowledge and are not biased by any discrimination

- To assess the skills, knowledge and experience required in the Board of Directors, defining the precise functions and capabilities of the candidates, and to evaluate the time and dedication required for them to carry out their duties.

- To communicate to the Board of Directors the proposals for the appointment of Directors and independent Directors to be submitted to the General Meeting of Shareholders, as well as the proposals for the re-election or separation of such Directors by the General Meeting of Shareholders.

- To report on the proposals for appointment and removal of senior executives proposed by the chief executive to the Board of Directors.

In assessing the suitability of the persons who are to form part of the Board of Directors, account is taken of their commercial and professional honesty, their knowledge and experience, as well as their willingness to govern the Bank well: capacity for dedication (limiting the maximum number of positions that may be held in other companies), independence and the absence of conflicts of interest. Therefore, it has been defined the maximum number of positions that directors can hold simultaneously on the governing bodies of different entities.

It must be verified, on an annual basis, that the members of the identified group do not incur in causes of incompatibility that have occurred, without prejudice to the obligation of all of them to communicate such circumstances, in the hypothetical case that they occur.

The policy for assessing suitability is available to the supervisory authorities.

3.2.4 - Policy on the dedication of Directors

This policy develops the criteria that guarantee the willingness of the members of the Board of Directors for the good governance of the Entity and that they can dedicate sufficient time to the performance of their duties. It is worth highlighting the duty of diligence; the obligation to attend the meetings of the governing bodies of which they form part; the right to information and their obligations as directors; or the limitation on the maximum number of governing bodies of other entities of which they may form part.

3.2.5 - Training actions for the Board of Directors on risks and regulation

Based on article 435 of the CRR regarding the knowledge and competencies of the Board of Directors, the Entity provides training sessions to the members of the Board of Directors. During the year, training sessions were held for directors, relating to the new Real Estate Credit Law, as well as a training session on the economic environment and the financial sector given by Analistas Financieros Internacionales.

3.2.6 - Diversity in Governing Bodies

The Entity ensures at all times that its internal governance standards do not contain any discrimination or implicit biases that prevent diversity (of gender, age, geographical origin, etc.) in the selection of persons to be appointed as members of the governing bodies and senior management.

Although there is currently no minimum percentage defined as a representation target for the under-represented sex on the Board of Directors, it has been expressly stated in its Regulations that the responsibility for establishing a representation target for the under-represented sex on the Board of Directors and setting out how this target is to be achieved falls to the Appointments Commission.

In addition, a specific section called "Principles for Promoting Diversity of Directors" was introduced into the Policy for Assessing the Suitability and Diversity of Directors approved by the Board of Directors at its meeting held on June 28, 2018, at the proposal of the Appointments Commission, and referred to above. Thus, it is expressly established that in the selection of candidates to form part of the Board of Directors, the following principles shall be taken into account to encourage the diversity of its members:

- The selection process for candidates will be based on a prior analysis of the entity's needs, based on a report by the Appointments Commission.
- 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 event, the regulatory requirements regarding the composition and positions to be held by this category of directors in internal committees of the Board of Directors.
- Care shall be taken to ensure that selection criteria take account of the diversity of knowledge, training, professional experience, age and gender, and that they are not implicitly biased in such a way as to entail discrimination (in particular on grounds of sex, ethnic origin, age or disability).

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

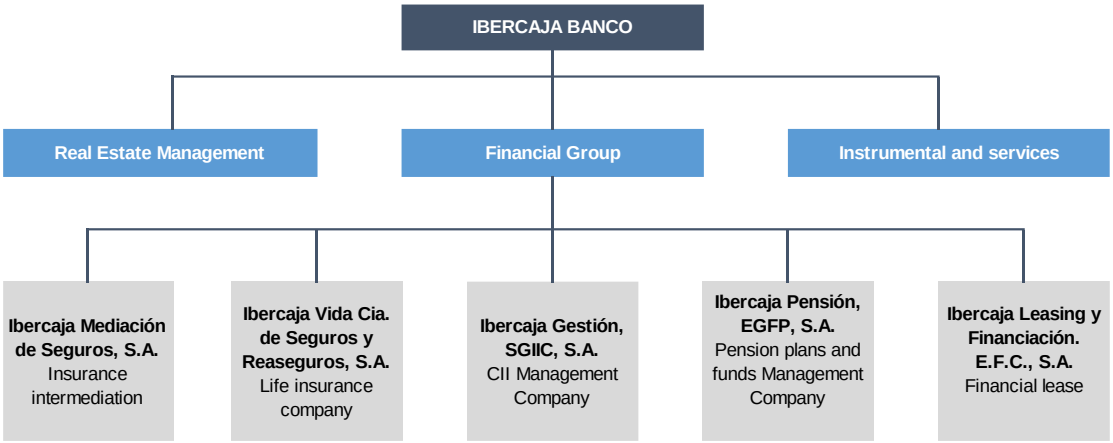
3.3 - Perimeter of Consolidation

The information contained in this report refers to the consolidable group of credit institutions whose parent entity is Ibercaja Banco S.A.

From an organizational point of view, the Bank is the head of a group of subsidiaries, among which those of the Financial Group, formed by companies specialized in investment funds, savings and pension plans, assets and leasing, stand out for their importance, both from the point of view of diversification of the range of banking products and profitability.

The most relevant companies that make up the consolidation perimeter are

Illustration 6: Companies within the consolidation perimeter



The main differences in the accounting principles, policies and valuation criteria applied in preparing the Group's consolidated financial statements for 2019, in accordance with Regulation (EU) no. 575/2013 and for the purposes of the third standard of Bank of Spain Circular 4/2017 of 27 November, are described below.

Subsidiaries

Subsidiaries are defined as entities over which the Entity has the capacity to exercise control, which is generally, but not exclusively, presumed to exist when the Entity owns, directly or indirectly, more than 50% of the voting power of the investees or, even if this percentage is lower or zero, when there are other circumstances or agreements that give control. In accordance with current legislation, control is understood to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In preparing the financial statements, the subsidiaries were consolidated using the full consolidation method, as defined in Bank of Spain Circular 4/2017 of November 27. Consequently, all significant balances arising from transactions between the consolidated entities using this method were eliminated on consolidation.

Additionally, the participation of third parties in:

- the Group's equity is presented under "Minority Interests" in the consolidated balance sheet,
- the consolidated results for the year are presented under "Profit for the Year Attributable to Minority Interests" in the consolidated income statement.

The results generated by the subsidiaries acquired in a given year are consolidated only for the period from the date of acquisition to the end of that year. Similarly, the results generated by the subsidiaries sold in a given year are consolidated only for the period from the beginning of the year to the date of sale.

Multi-group entities

Multi-group entities are defined as entities over which, although not subsidiaries, there are contractual arrangements for joint control, whereby decisions on relevant activities are taken unanimously by the entities that share control and are entitled to their net assets.

These holdings are valued in accordance with the "equity method", as defined in Standard 49 of Bank of Spain Circular 4/2017.

Holdings in multi-group entities that are in turn consolidable due to their activity are consolidated by applying the proportional integration method, as defined in Standard 48 of Bank of Spain Circular 4/2017, for the purposes of applying the solvency requirements. Holdings in jointly controlled entities that are not consolidable due to their activity are valued by applying the equity method, as defined in Standard 49 of Bank of Spain Circular 4/2017.

Associated entities

Associated entities are defined as those over which the Group has the capacity to exercise significant influence, although they do not constitute a decision-making unit with the Group and are not under joint control. In general, but not exclusively, this capacity is presumed to exist when an interest (direct or indirect) of 20% or more of the voting power of the investee is held.

In the consolidated financial statements, associated entities are accounted for using the equity method, as defined in Standard 49 of Bank of Spain Circular 4/2017.

If, as a result of losses incurred by an associate, its equity were negative, it would be recognised in the consolidated balance sheet with a zero value, unless the Group was obliged to provide financial support for it, in which case a provision for liabilities would be recognised under "Provisions" on the liability side of the balance sheet.

Structured entities

A structured entity is an entity that has been designed so that voting and/or similar rights are not the decisive factor in deciding who controls it.

In those cases in which the Group participates or constitutes entities for the transfer of risks, or with the objective of allowing access to certain investments, it is determined whether control exists and, therefore, whether the entities constituted should be subject to consolidation, taking into account, mainly, the following factors:

- Analysis of the Group's influence on the Entity's activities, which is relevant to determining its performance.
- Implicit or explicit commitments to provide financial support to the entity.
- Significant exposure of the Group to the variable returns on the Entity's assets.

These entities include the so-called "asset securitisation funds" which the Group consolidates as there are contractual financial support agreements (commonly used in the securitisation market). In all the securitisations carried out by the Group, the risks transferred cannot be removed from the assets side of the balance sheet and the issues of the securitisation funds are recorded as liabilities in the Group's balance sheet.

The companies and the investment and pension funds managed by the Group do not comply with the requirements of the regulatory framework to be considered structured entities and, therefore, are not consolidated.

In accordance with the above criteria, the following is a detail of the companies comprising the Group at December 31, 2019

a) Subsidiaries of the consolidable Group for solvency purposes, to which the full integration method has been applied:

Table 9: Subsidiaries, full consolidation

Entity name	
Ibercaja Banco, S.A.	TDA 2 Ibercaja Securitisation Fund
Ibercaja Leasing, S.A.	TDA 3 Ibercaja Securitisation Fund
Ibercaja Gestión, S.A.	TDA 4 Ibercaja Securitisation Fund
Ibercaja Pensión, S.A.	TDA 5 Ibercaja Securitisation Fund
Ibercaja Mediación de Seguros, S.A.	TDA 6 Ibercaja Securitisation Fund
Ibercaja Cajaragon, S.A.U.	TDA 7 Ibercaja Securitisation Fund
Ibercaja Connect, S.L.	TDA ICO Ibercaja Securitisation Fund
Inmobinsa Inversiones Inmobiliarias, S.A.	Badajoz Siglo XXI, S.L.
Cerro Murillo, S.A.	CAI Inmuebles, S.A.
Cerro Goya, S.A.	Residencial Murillo, S.A.
Ibercaja Gestión de Inmuebles, S.A.	

b) Subsidiaries or multigroup companies are those which, in the preparation of the consolidated financial statements of the consolidable Group for solvency purposes, were not fully integrated and were accounted for using the equity method:

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

Entity name
Ibercaja Vida, S.A.

c) Multigroup companies to which the proportional consolidation method has been applied:

Table 11: Multigroup companies, proportional consolidation method

Entity name
Montis Locare S. L.

Hereinafter, a detail of the significant holdings in insurance companies owned by the consolidable Group at December 31, 2019 which, belonging to the economic group as defined in Bank of Spain Circular 4/2017, their underlying book value was not deducted directly from equity but, for the purposes of calculating the minimum equity requirements, was included with a 100% weighting in risk-weighted assets, in accordance with Article 49 of Regulation (EU) 575/2013 and as authorised by the Bank of Spain's Executive Committee:

Table 12: Significant holdings in insurance companies

Entity name
Ibercaja Vida S. A.

Changes in the scope of consolidation and corporate transactions

The changes in the scope of consolidation resulting from the corporate transactions carried out during 2019 are presented below:

Table 13: Changes to the perimeter

Changes to the perimeter
Companies liquidated in 2019
Espacio Industrial Cronos, S.L.

3.4 - Differences between the accounting and regulatory capital consolidation methods.

The following table shows the reconciliation between the Public Balance Sheet and the Balance Sheet for the purposes of credit institution solvency regulations (Prudential Balance Sheet) at December 13, 2019. This is intended to show the transition between accounting information and prudential information.

Table 14: Reconciliation of accounting and regulatory scope

(thousands of euros)	DISTRIBUTION				
ASSETS	**CONSOLIDABLE GROUP OF CREDIT INSTITUTIONS**	**INSURANCE COMPANIES**	**OTHER ENTITIES**	**ADJUSTMENTS AND DELETIONS**	**TOTAL PUBLIC BALANCE**
Cash, balances in cash at central banks and other demand deposits	**3,920,967**	**169,298**	**-**	**(161,063)**	**3,929,202**
Financial assets held for trading	**8,963**	**-**	**-**	**-**	**8,963**
Derivatives	8,963	-	-	-	8,963
Debt securities	-	-	-	-	-
Non-trading financial assets mandatorily measured at fair value through profit or loss	**22,547**	**353,157**	**-**	**181**	**375,885**
Equity instruments	-	284,905	-	-	284,905
Debt securities	10,350	68,252	-	181	78,783
Loans and advances	12,197	-	-	-	12,197
Clients	*12,197*	-	-	-	*12,197*
Financial assets designated at fair value through profit or loss	**-**	**8,939**	**-**	**-**	**8,939**
Debt securities	-	8,939	-	-	8,939
Financial assets at fair value through other comprehensive income	**1,119,819**	**7,104,940**	**-**	**(138,329)**	**8,086,430**
Equity instruments	370,546	27,285	-	-	397,831
Debt securities	749,273	7,077,655	-	(138,329)	7,688,599
Financial assets at amortised cost	39,546,930	611,412	-	(389,574)	39,768,768
Debt securities	7,031,966	209,450	-	(23,188)	7,218,228
Loans and advances	32,514,964	401,962	-	(366,386)	32,550,540
Credit institutions	*593,775*	*401,735*	-	*(351,718)*	*643,792*
Clients	*31,921,189*	*227*	-	*(14,668)*	*31,906,748*
Derivatives - hedge accounting	**137,210**	**-**	**-**	**-**	**137,210**
Changes in the fair value of the hedged items in a portfolio hedging interest rate risk	**-**	**-**	**-**	**-**	**-**
Investments in joint ventures and associates	**500,183**	**-**	**-**	**(390,368)**	**109,815**
Group	390,368	-	-	(390,368)	-
Joint businesses	28,161	-	-	-	28,161
Associated	81,654	-	-	-	81,654
Assets covered by insurance or reinsurance contracts	**-**	**539**	**-**	**-**	**539**
Tangible assets	**948,117**	**55,040**	**-**	**(19,447)**	**983,710**
Tangible fixed assets	687,818	50,674	-	(19,447)	719,045
For own usage	*613,837*	*50,674*	-	*(19,447)*	*645,064*
Leased out under an operating lease	*73,981*	-	-	-	*73,981*
Real estate investments	260,299	4,366	-	-	264,665
Intangible Assets	**195,804**	**-**	**-**	**16,869**	**212,673**
Goodwill	128,065	-	-	16,869	144,934
Other intangible assets	67,739	-	-	-	67,739
Tax assets	**1,329,392**	**2,097**	**-**	**8,316**	**1,339,805**
Current tax assets	13,099	-	-	(2)	13,097
Deferred tax assets	1,316,293	2,097	-	8,318	1,326,708
Other assets	**289,047**	**2,590**	**-**	**(98,770)**	**192,867**
Insurance contracts linked to pensions	98,470	-	-	(98,470)	-
Stocks	135,284	-	-	-	135,284
Rest of other assets	55,293	2,590	-	(300)	57,583
Non-current assets and disposal groups classified as held for sale	**270,561**	**-**	**-**	**(3,352)**	**267,209**
Total Assets	**48,289,540**	**8,308,012**	**-**	**(1,175,537)**	**55,422,015**

(thousands of euros)	DISTRIBUTION				
LIABILITIES	**CONSOLIDABLE GROUP OF CREDIT INSTITUTIONS**	**INSURANCE COMPANIES**	**OTHER ENTITIES**	**ADJUSTMENTS AND DELETIONS**	**TOTAL PUBLIC BALANCE**
Financial liabilities held for trading	**9,469**	**-**	**-**	**-**	**9,469**
Derivatives	9,469	-	-	-	9,469
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**
Financial liabilities at amortised cost	**44,124,746**	**20,912**	**-**	**(697,338)**	**43,448,320**
Deposits	41,368,122	-	-	(510,273)	40,857,849
Central banks	*1,628,990*	-	-	-	*1,628,990*
Credit institutions	*4,304,232*	-	-	-	*4,304,232*
Clients	*35,434,900*	-	-	*(510,273)*	*34,924,627*
Debt securities issued	1,633,178	-	-	(152,757)	1,480,421
Other financial liabilities	1,123,446	20,912	-	(34,308)	1,110,050
Derivatives - hedge accounting	**233,888**	**-**	**-**	**-**	**233,888**
Changes in the fair value of the hedged items in a portfolio hedging interest rate risk	**37,617**	**-**	**-**	**-**	**37,617**
Liabilities covered by insurance or reinsurance contracts	**-**	**7,876,047**	**-**	**(91,510)**	**7,784,537**
Provisions	**297,707**	**-**	**-**	**17,988**	**315,695**
Pensions and other post-employment defined benefit obligations	105,622	-	-	17,988	123,610
Other long-term employee benefits	466	-	-	-	466
Procedural issues and pending tax litigation	7,930	-	-	-	7,930
Commitments and guarantees granted	22,515	-	-	-	22,515
Remaining provisions	161,174	-	-	-	161,174
Tax liabilities	**155,149**	**23,731**	**-**	**(716)**	**178,164**
Current tax liabilities	1,550	1	-	-	1,551
Deferred tax liabilities	153,599	23,730	-	(716)	176,613
Other liabilities	**172,457**	**3,425**	**-**	**(2,654)**	**173,228**
Liabilities included in disposal groups of items that have been classified as held for sale	**-**	**-**	**-**	**-**	**-**
Total Liabilities	**45,031,033**	**7,924,115**	**-**	**(774,230)**	**52,180,918**

(thousands of euros)	DISTRIBUTION				
EQUITY	**CONSOLIDABLE GROUP OF CREDIT INSTITUTIONS**	**INSURANCE COMPANIES**	**OTHER ENTITIES**	**ADJUSTMENTS AND DELETIONS**	**TOTAL PUBLIC BALANCE**
Equity	**3,139,010**	**336,936**	**-**	**(336,929)**	**3,139,017**
Capital	214,428	135,065	-	(135,065)	214,428
Issued capital	*214,428*	*135,065*	-	*(135,065)*	*214,428*
Non-called up required capital	-	-	-	-	-
Share premium	-	-	-	-	-
Issued equity instruments other than equity	350,000	-	-	-	350,000
Equity component of compound financial instruments	-	-	-	-	-
Other equity instruments issued	*350,000*	-	-	-	*350,000*
Other equity items	-	-	-	-	-
Accumulated earnings	569,185	197,783	88	(221,163)	545,893
Revaluation reserves	3,305	-	-	-	3,305
Other reserves	1,918,103	-	-	23,299	1,941,402
Reserve or accumulated losses on investments in joint ventures and associates	*(69,438)*	-	-	*26,349*	*(43,089)*
Others	*1,987,541*	-	-	*(3,050)*	*1,984,491*
(Own shares)	-	-	-	-	-
Profit attributable to the owners of the parent entity	83,989	70,388	(88)	(70,300)	83,989
(Interim Dividends)	-	(66,300)	-	66,300	-
Other accumulated overall result	**119,497**	**46,961**	**-**	**(64,378)**	**102,080**
Items that will not be reclassified to profit and loss	65,305	273	-	(17,416)	48,162
Actuarial gains/losses on defined benefit pension plans	*(6,870)*	-	-	*(17,416)*	*(24,286)*
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-
Share in other recognised income and expense of investments in joint ventures and associates	-	-	-	-	-
Changes in fair value of equity instruments measured at fair value through other comprehensive income	*72,175*	*273*	-	-	*72,448*
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 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 and loss attributable to changes in credit risk	-	-	-	-	-
Items that can be reclassified in results	54,192	46,688	-	(46,962)	53,918
Coverage of net investments in foreign businesses (effective portion)	-	-	-	-	-
Currency Conversion	-	-	-	-	-
Hedge derivatives. Cash flow hedge reserve (effective portion)	*8,524*	-	-	-	*8,524*
Changes in fair value of debt instruments measured at fair value through other comprehensive income	*(1,110)*	*46,688*	-	*(69)*	*45,509*
Hedging instruments (undesignated items)	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-
Share of other income and expenses recognised in investments in joint ventures and associates	*46,778*	-	-	*(46,893)*	*(115)*
Minority interests	**-**	**-**	**-**	**-**	**-**
Other accumulated overall result	-	-	-	-	-
Other items	-	-	-	-	-
Total Net Assets	**3,258,507**	**383,897**		**(401,307)**	**3,241,097**
Total Equity and Liabilities	**48,289,540**	**8,308,012**		**(1,175,537)**	**55,422,015**

3.5 - Identification of subsidiaries with equity below the minimum requirement

At December 31, 2019, all subsidiaries, which are subject to individual minimum equity requirements and are not included in the Group, complied with the requirements established by the regulations.

The subsidiaries included in the consolidable group (Ibercaja Gestión and Ibercaja Pensión) also comply with the minimum equity requirements applicable to them under their specific regulations.

Table 15: Own Resources Ibercaja Gestión

Own Resources Ibercaja Gestión	
(thousands of euros)	2019 data
Own Resources	13,051
Minimum Requirements Own Resources	9,769
Surplus	3,282

Table 16: Own Resources Ibercaja Pensión

Own Resources Ibercaja Pensión	
(thousands of euros)	2019 data
Own Resources	20,411
Minimum Requirements Own Resources	10,724
Surplus	9,687

There are no legal or practical impediments to the transfer of equity or the repayment of liabilities between subsidiaries and their parent entity.

3.6 - Exemptions from requirements

As laid down in Article 7 of Regulation (EU) No 575/2013, the competent authorities may exempt any subsidiary of an institution as well as the parent institution from complying on an individual and, where appropriate, sub-consolidated basis with the minimum capital requirement for credit and dilution risk, for counterparty risk, for position and liquidation risk of the trading book, for foreign exchange risk and for gold position risk, and for operational risk; as well as internal corporate governance requirements, and limits on the concentration of major risks, when both the subsidiary and the parent entity are subject to authorisation and supervision by the Bank of Spain and are included in consolidated supervision.

Since there are no material, practical or legal impediments to the immediate transfer of equity or to the repayment of liabilities between the Group's subsidiaries and the Bank, and there is no indication that such impediments might exist in the future, the parent entity and Ibercaja Leasing SA requested the aforementioned exemption.

Ibercaja Leasing SA, as a 100%-owned subsidiary credit institution, has been exempted, by agreement of the Executive Committee of the Bank of Spain dated July 30, 2010, from individual compliance with the obligations regarding capital requirements and limits on major risks and corporate governance. Ibercaja Banco S.A. also has the exemption granted by the European Central Bank.



4

COMPUTABLE OWN RESOURCES

4. Computable own resources

The different levels of capital that make up the Entity's own funds, as well as the items that comprise them, are set out in Title I of Part Two of Regulation (EU) No. 575/2013 of the European Parliament and of the Council. Bank of Spain Circulars 2/2014 and 2/2016 complete the adaptation of the Spanish legal system to EU Directive 2013/36 and Regulation (EU) 575/2013 and specify the calendars of progressive application to be used when computing certain items.

There are 3 categories within the Group's computable own funds:

1) **Common Equity Tier I instruments**, as defined in Part Two, Title I, Chapter 2 of Regulation (EU) No 575/2013 (CRR), are characterised by the fact that they are components of own resources that can be used immediately and without restriction to cover risks or losses as soon as they occur, their amount being recorded free of any foreseeable tax at the time of calculation. These elements show a stability and permanence in time, a priori, superior to Additional Tier 1 capital instruments. As indicated in section 4.2 below, the Group's Common Equity Tier 1 instruments at December 31, 2019 comprised:

   - Equity.
   - Retained earnings and other reserves, including revaluation reserves.
   - The net profit for 2019 that the Bank plans to allocate to reserves.
   - Valuation adjustments of financial assets at fair value with changes in other comprehensive income

   These items are deducted:

   - Valuation adjustments due to prudent valuation requirements.
   - Intangible assets and goodwill recorded in the Group's balance sheet.
   - Deferred tax assets that are dependent on future income and do not receive the alternative treatment provided for in the applicable regulations for those arising from temporary differences, after applying the schedule provided for in CBE 2/2014 and EU 2016/445.

2) **Additional Tier 1 capital instruments,** as defined in Part 2, Title I, Chapter 3 of Regulation (EU) No 575/2013. These own resources are characterised by an, a priori, higher volatility or lower degree of permanence than items considered as Common Equity Tier 1 capital instruments. As detailed in section 4.2 below, at December 31, 2019 the Group's Additional Tier 1 capital instruments consisted of:

   - Preferred shares.

3) **Tier 2 capital instruments**, as defined in Part Two, Title I, Chapter 4 of Regulation (EU) No 575/2013. As detailed in section 4.2 below, at December 31, 2019 the Group's Tier 2 capital instruments comprise:

   - Subordinate debt.

   The following is deducted:

   - Subordinated debt in financial sector entities with significant influence.

Supervisory Review and Evaluation Process (SREP) and Capital Buffers

The ECB has communicated the final results of the Supervisory Review and Assessment Process (SREP) which sets out each bank's individual capital requirements for 2020 based on the business model, capital risk, liquidity and funding risk, governance and internal control. Ibercaja must maintain a *Common Equity Tier 1* (CET1) ratio of 9% and a total capital ratio of 12.5%. This total capital requirement includes the minimum required by Pillar 1 (4.5% CET1 and 8% of total capital), the Pillar 2 requirement (2%) and the capital conservation buffer (2.5%).

According to the Bank of Spain, Ibercaja has no requirement for a counter-cyclical buffer for 2019.

The following table shows in detail the requirements:

Table 17: Solvency requirements

Solvency requirements	
% over APR's	2019
Min. CET1	4.50%
Min. Tier I	6.00%
Min. solvency ratio	8.00%
Capital Conservation Buffer	2.50%
Min. Pillar II	2.00%
Min. CET1 + Cap. Cons. Buffer + Pillar II	9.00%
Min. Tier I + Cap. Cons. Buffer + Pillar II	10.50%
Min. solvency ratio + Cap. Cons. Buffer + Pillar II	12.50%

4.1 - Reconciliation of regulatory capital and stockholders' equity on the consolidated balance sheet

There are differences between regulatory consolidation and accounting consolidation, specifically between the information used in calculating computable own funds and own funds in published financial statements.

The reconciliation between regulatory own funds and accounting own funds according to the method set out in Annex I to implementing Regulation 1423/2013 is presented below:

Table 18: Reconciliation of Equity with Financial Statements

Full reconciliation of equity items to the audited financial statements		
(thousands of euros)	2019	2018
Subscribed capital	214,428	2,144,276
Issued equity instruments other than equity	350,000	350,000
Accumulated earnings	545,893	521,762
Revaluation reserves	3,305	3,313
Other reserves	1,941,402	31,510
Profit attributable to the parent entity	83,989	40,804
Equity on the public balance sheet	**3,139,017**	**3,091,665**
Other accumulated overall result	102,080	68,562
Minority interests	-	-
Equity on the public balance sheet	**3,241,097**	**3,160,227**
Intangible Assets	(221,292)	(212,496)
Deferred tax assets	(249,936)	(187,411)
Non-computable valuation adjustments	-	-
Transitional adjustment first application IFRS9	89,423	99,945
Dividend distribution proposal	(17,500)	(17,500)
Deduction of securitisations	-	(2,082)
Equity instruments non-computable as CET1	(350,000)	(350,000)
Convertible contingent liabilities	-	-
Differences in public equity and for prudential purposes	6,522	4,871
Total Common Equity Tier 1 (CET1)	**2,498,314**	**2,495,554**
Equity instruments computable as AT1	350,000	350,000
Other transitional adjustments to the 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 others	482,800	487,640
Total Tier 2 Capital (T2)	**482,800**	**487,640**
Total computable Own Funds	**3,331,114**	**3,333,194**

4.2 - Equity details

The detail at December 31, 2019 and 2018 of the consolidable Group's eligible capital, indicating each of its components and deductions, and broken down into Common Equity Tier 1 instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments, is as follows:

Table 19: Computable Own Funds

Computable Own Funds		
(thousands of euros)	Amount 2019	Amount 2018
TOTAL COMPUTABLE OWN FUNDS	**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**
DIsbursed capital instruments	214,428	2,144,276
Retained earnings and other reserves	2,487,289	553,812
Eligible results	66,489	23,304
Revaluation reserves	3,305	3,313
Common Equity Tier 1 instruments under the precedence regime	-	-
Minority interests	-	-
Valuation adjustments to the portfolio of assets at fair value through other comprehensive income	117,548	72,767
Valuation adjustments due to prudent valuation requirements	(2,070)	(2,706)
Actuarial gains and losses on defined benefit plans	(6,870)	2,832
Transitional adjustment first application IFRS9	89,423	99,945
Deductions from 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 returns	(249,936)	(187,411)
Additional Tier 1 Capital (AT1)	**350,000**	**350,000**
Additional Tier 1 Capital instruments under the precedence regime	350,000	350,000
Additional Tier 1 Capital Instrument Deductions (AT1)	-	-
Tier 2 Capital (T2)	**482,800**	**487,640**
Subordinated financing and subordinated loans and others	482,800	487,640

In compliance with the Implementing Regulation 1423/2013 it is included in Annex II: Information on transitional own funds.

Changes in Own Funds during the year 2019

In 2019 capital was reduced by €1,929,848 thousand in order to establish a restricted voluntary reserve for this amount. This reduction was carried out by reducing by 90% the par value of all the shares into which the share capital is divided and then grouping together the number of shares in circulation by exchanging every ten pre-existing shares with a par value of one euro for a new share with a par value of one euro. The capital reduction affects all the shares of Ibercaja Banco S.A. equally. The capital reduction affects all the shares of Ibercaja Banco S.A. equally, without any disparity in treatment between them.

In addition, part of the legal reserve has been set aside for a voluntary reserve of €200 million. The legal reserve after the operation has an amount of €73 million.

In addition, in connection with this restructuring of the Bank's equity, a capitalization reserve was set up, with a charge to voluntary reserves, in accordance with Article 25 of the Corporate Income Tax Law, amounting to €19 million.



5

MINIMUM REQUIREMENTS ON OWN RESOURCES

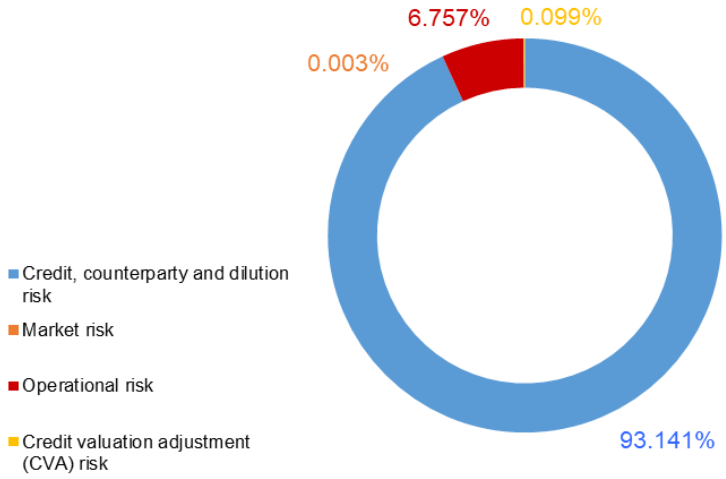
5. Minimum requirements on own resources

The following table shows the capital requirements at December 31, 2019 and 2018 in accordance with Part Three of Regulation (EU) No. 575/2013 for each type of risk, calculated as 8% of risk-weighted assets.

Table 20: Minimum capital requirements

Own Resource Requirements		
(thousands of euros)	2019	2018
Credit, Counterparty and Dilution Risk	1,517,287	1,596,504
Market Risk	46	-
Operational Risk	110,077	111,410
CVA Risk	1,618	2,411
Total Pillar 1 requirements	**1,629,028**	**1,710,325**

Illustration 7: Minimum capital requirements



5.1 - Procedures applied to assess the adequacy of internal capital

Basel's Pillar II aims to guarantee the appropriate relationship between the Group's risk profile and the own resources it actually holds.

To this end, the Group carries out a recurring capital self-assessment process, in which it:

- Applies a series of risk identification and measurement procedures.
- Determines the capital required to cover it. In addition to the minimum requirements, it maintains a level in line with the risks inherent in its activity, the economic environment in which it operates, the management and control it carries out of these risks, the governance and internal audit systems it has in place and its strategic business plan.

- Plans the capital in the medium term.
- Sets the capital target.

In order to plan the Group's future capital needs, projections have been made of capital sources and consumption derived from the evolution of the activity and the expected results with a three-year time horizon. The Group also estimates the projected capital levels under adverse scenarios.

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

The Bank's Board of Directors approves the "Declaration of Capital Adequacy" which is submitted to the supervisor. The self-assessment report is the basis for dialogue with the supervisor on the Bank's risk profile, capital adequacy, and medium-term plans.

5.2 - Capital requirements for credit, counterparty and dilution risk

The following table shows the minimum capital requirements of the consolidable Group for credit risk at December 31, 2019, calculated as 8% of the risk-weighted exposures for each of the categories to which the standardised method has been applied:

Table 21: Capital requirements for credit risk

Capital requirements for credit risk		
(thousands of euros)	2019	2018
Central governments or central banks	80,119	87,042
Regional administrations and local authorities	-	-
Public sector entities and other non-profit public institutions	333	2,850
Multilateral Development Banks	-	-
International Organizations	-	-
Institutions	12,488	10,507
Corporates	296,044	310,314
Retail customers	285,996	327,932
Exposures secured by real estate	532,128	531,672
Exposures in default	66,124	119,204
High-risk exposures	43,281	972
Covered bonds	854	867
Exposures to institutions and companies with short-term credit ratings	-	-
Exposure to collective investment institutions (CIIs)	2,616	883
Equity exposures	85,002	92,652
Other exposures	112,302	109,811
Securitisation positions	-	1,798
Total capital requirements for credit risk	**1,517,287**	**1,596,504**

(*) The items included in each of these categories are in accordance with Regulation (EU) No 575/2013.

The above requirements for credit risk include those corresponding to counterparty risk for the following amount:

Table 22: Capital requirements for counterparty risk

Capital requirements for counterparty risk		
(thousands of euros)	2019	2018
Market-to-Market Method	5,950	3,659
Original risk method	-	-
Standard method	-	-
Internal models method	-	-
Total capital requirements	**5,950**	**3,659**

As indicated in the table, the requirements for counterparty risk have been calculated using the mark-to-market method, which is determined by the result of adding the replacement cost of all contracts with a positive value and the amount of potential future credit risk of each instrument or transaction, calculated in accordance with Article 274 of Regulation (EU) No 575/2013.

5.3 - SME supporting factor

Law 14/2013 of September 27, on support for entrepreneurs, in its fourteenth additional provision, establishes a "supporting factor" of 0.7619 applicable to the credit risk weighted exposure of small and medium-sized enterprises. For the application of this factor, the provisions of Article 501.2 of Regulation (EU) No 575/2013 on the prudential requirements for credit institutions and investment firms shall be taken into account, in which turnover (< 50 million) and risk with the institution (< 1.5 million) are set as parameters.

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

Table 23: SME exposures subject to supporting factor

SME exposures subject to supporting factor		
(thousands of euros)	2019	2018
Requirements for exposures applying the supporting factor	204,950	213,371
Requirements for exposures without applying the supporting factor	268,999	280,051
Total supporting factor adjustment of capital requirements	**(64,049)**	**(66,680)**

5.4 - Capital requirements for position risk

At December 31, 2019 the Group's position risk requirements are as follows:

Table 24: Capital Requirements for position risk

Capital Requirements for position risk		
(thousands of euros)	2019	2018
Positions in debt instruments	-	-
Equity positions	46	-
Total capital requirements	**46**	**-**

The Group has calculated the requirements using the Standard Method, in accordance with the indications set out in Article 326 et seq. of Regulation (EU) No. 575/2013.

5.5 - Capital requirements for foreign exchange risk

In accordance with Article 351 of Regulation (EU) No. 575/2013, the Group's capital requirements at December 31, 2019 for foreign exchange risk and the gold position are zero, since the sum of the net overall positions in foreign currencies, gold and instrumental currencies, regardless of their sign, does not exceed 2% of total eligible capital.

5.6 - Capital requirements for operational risk

At December 31, 2019 the Group's operational risk requirements are as follows:

Table 25: Capital requirements for operational risk

Capital requirements for operational risk		
(thousands of euros)	2019	2018
Basic indicator method	-	-
Standard method	110,077	111,410
Alternative standard method	-	-
Advanced methods	-	-
Total capital requirements	**110,077**	**111,410**

The Group has calculated the requirements by the Standardised Approach, by meeting the requirements indicated in Article 320 of Regulation (EU) No. 575/2013, as a simple average of the last three years of aggregation, for each year, of the maximum value between zero and the sum of the relevant revenues of each of the business lines referred to in Table 2 of Article 317(4) of Regulation (EU) No. 575/2013 multiplied by the corresponding weighting coefficients provided for in that table: Retail Brokerage, Retail Banking and Asset Management at 12%; Commercial Banking and Agency Services at 15%; Corporate Finance, Trading and Sales and Payment and Settlement at 18%.

5.7 - Capital requirements for credit valuation adjustment (CVA)

In accordance with Part Three, Title VI of Regulation (EU) No 575/2013 'credit valuation adjustment' means a valuation adjustment to mid-market prices of the portfolio of transactions with counterparties. This adjustment reflects the current market value of the counterparty's credit towards the Entity.

At December 31, 2019, the Group's credit risk requirements are as follows:

Table 26: Capital requirements for CVA

Capital requirements for credit valuation adjustment (CVA)		
(thousands of euros)	2019	2018
Advanced method	-	-
Standard method	1,618	2,411
Based on the original exposure method	-	-
Total equity requirements	**1,618**	**2,411**

The requirements have been calculated by the standard method in accordance with Article 384 of Regulation (EU) No 575/2013.



6

RISKS

6. Risks

6.1 - Risk management policies and objectives

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

- Maintenance of a medium-low risk profile.
- Compliance with regulatory requirements at all times, as well as with the capital and liquidity objectives established in the capital and liquidity self-assessment processes.
- Maintenance of appropriate levels of risk-adjusted returns to ensure that performance targets are met.
- Avoid the concentration of risks in any of their manifestations (individual, economic groups, sectorial...).
- Avoid the materialization of operational, regulatory, legal or reputational risks through active and constant management of them.
- Good risk governance with the effective involvement of senior management and the Board of Directors
- Fostering a risk culture and facilitating a better understanding by the Entity of the level and nature of risks to which it is exposed
- Maintain and promote the confidence of customers, investors, employees, suppliers and other agents.

The Group's risk management is ordered through the *Risk Appetite Framework* (hereinafter RAF). The fundamental objective of the Ibercaja Group's RAF is to establish a set of principles, procedures, controls and systems through which the Entity's risk appetite is defined, communicated and monitored.

Risk appetite is considered to be the risk level or profile that the Ibercaja Group is willing to assume and maintain, both in terms of its type and amount, as well as its tolerance level, and must be oriented towards achieving the objectives of the strategic plan, in accordance with the lines of action established therein.

The objective in the management of the different risks is to achieve a risk profile that is within the desired level of appetite, defined from the established limits, carrying out those management measures that are considered most appropriate for achieving this.

6.2 - Corporate governance of risk management

6.2.1 - Framework for action and management

The Board of Directors ensures that the risk management systems are in line with the Bank's risk appetite and strategy.

The Risk Appetite Framework also includes a statement of the limits, tolerance and appetite for risk, as well as the roles and responsibilities of the various governance and management bodies that oversee implementation and monitor risk.

The risk profile defined by the Board of Directors is characterized by:

- Being aligned with the strategic plan and capital planning.
- Being integrated into the Bank's risk culture, involving all levels of responsibility.
- Being flexible, capable of adapting to changes in business and market conditions, and therefore be subject to periodic review, at least annually.
- Being linked to information management systems.

The RAF has a global vision of the consolidated Group and considers all the risks that affect the development of the Group's activity and the achievement of its business objectives, as described above.

The Ibercaja Group's Risk Appetite Framework is based on strategic, corporate governance and risk management principles that together constitute the Group's Risk Appetite Statement. The risks considered are as follows: business and profitability risk, credit risk, concentration risk, operational risk (which includes the subcategories of reputational risk, legal risk and ICT risk), interest rate risk, market risk, liquidity and financing risk and insurance business risk.

Additionally, the Ibercaja Group has risk management policy and procedure manuals that are reviewed and approved by the Board of Directors on an annual basis.

The Risk Appetite Framework is consistent with capital and liquidity planning of Basel’s Pillar II, which aims to ensure an appropriate relationship between the Entity's risk profile and its actual capital. 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 required to cover them, plans the capital and liquidity in the medium term and establishes the capital and liquidity objective that allows it to maintain an adequate gap over the minimum legal requirements and supervisory guidelines.

The entry into force of the Single Supervisory Mechanism (SSM) in November 2014 meant that the risk policies and procedures of the European financial sector, as well as its control environment, were adapted. The "Supervisory Assessment and Review Process" (SREP) is the procedure for the continuous assessment of entities by the SSM.

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

In addition, Ibercaja Group has a Recovery Plan prepared in accordance with the Banking Recovery and Resolution Directive (Directive 2014/59, BRRD), as well as the guidelines and recommendations of the EBA, which lays the foundations for the process of restoring the Group's financial strength and viability, should a situation of severe stress arise.

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

The Risk Management System operates in an integral, continuous manner, consolidating such management by business area, geographical zones and subsidiaries at the corporate level.

6.2.2 - Governance structure

The Entity has a robust organizational structure that ensures effective risk management and control. The governing bodies are structured as follows:

- The Board of Directors is the body responsible for establishing and supervising the information and risk control systems, for approving the Risk Appetite Framework, as well as the policies, manuals and procedures relating to risk management.

- The Major Risks and Solvency Commission, whose powers include proposing the establishment of limits by type of risk and business, reporting on the Group's Risk Appetite Framework in a manner consistent with the Entity's other policies and strategic frameworks, assessing risk management in the Group, reviewing risk control systems and proposing measures to mitigate the impact of the risks identified.

- The Strategy Commission is mainly responsible for informing the Board of Directors about the Entity's strategic policy, ensuring that there is a precise organization for its implementation.

- The Audit and Compliance Commission, whose powers include the supervision of the effectiveness of internal control, internal audit and risk management systems, periodically reviewing them so that the main risks are properly identified, managed and disclosed.

In addition, the following Executive Committees have been set up with the participation of the Bank's Senior Management:

- The Global Risk Committee is responsible for defining and monitoring the Group's strategies and risk policies. The Committee's functions and responsibilities include: periodically report to the Major Risks and Solvency Commission on the degree of compliance with the metrics established in the Risk Appetite Statement, proposing, where appropriate, the necessary action plans to remedy excesses or failures to comply; to submit the RAF proposal, the internal capital and liquidity adequacy assessment reports (ICAAP & ILAAP) and the Recovery Plan to the Major Risks and Solvency Committee for evaluation and analysis of their consistency with the Group's risk management policy and strategic plan; to evaluate and approve the action plans on situations of alert or excess, prior to their submission to the Major Risks and Solvency Commission; and to ensure that the Group has the appropriate procedures and means for identifying, measuring, following up and monitoring the risk profile.

- Among the functions of the Audit Committee is to be aware of the annual Operational Plan of the Internal Audit function that is presented to the Audit and Compliance Committee, to be informed periodically of the results of the internal audit reports and to promote the implementation of the improvement recommendations proposed to mitigate the weaknesses observed.

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

- First line of defence: Configured by the Group's business and support units, which are the risk takers.
- Second line of defence: Organizationally located in the General Secretariat-Directorate of Control as the holder of the second line, it acts independently of the business units. It is made up of the Risk Control functions, which follow up and report on risks and review the application of management policies and control procedures by the first line, and the Regulatory Compliance function, which is responsible for reviewing that operations are being carried out 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 improvement of risk management and control processes.

6.2.3 - Risk management, control and measurement strategies

Below are the main policies and strategies for the most relevant risks, as described in the Annual Report.

Credit risk

It is defined as the possibility of incurring losses arising from the failure of borrowers to meet their payment obligations, as well as losses in value due to the deterioration of their credit quality.

- *Strategies and policies for credit risk management*

Credit risk management is aimed at facilitating the growth of lending in a sustained and balanced manner, guaranteeing at all times the financial and asset strength of the Bank, with the objective of optimizing the risk/return ratio within the tolerance levels set by the Board of Directors based on the management principles and action policies defined.

The Board of Directors approves the management framework, strategies, policies and limits for risk management, following a report from the Major Risks and Solvency Commission, documented in the "Credit Risk Management Framework", "Irregular Assets Management Framework" and "Risk Model Management Framework", as well as the various policy manuals developed from them. These manuals include, among other, the criteria for action in the main segments of activity and the maximum lines of risk with the main borrowers, sectors, markets and products. The Board of Directors is responsible for authorizing risks that exceed the competence of the operating circuit.

- *Credit risk granting, monitoring and recovery policies*

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

a) In the area of **credit risk granting,** the following policies are established:

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

The credit risk management structure presents a decentralized scheme for granting operations, which is based on a formally established delegation of powers and reflected in the risk manuals.

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

In the granting of loans, the manual considers as fundamental criteria the reasonableness of the proposal, the analysis of the borrower's ability to pay and the prudent valuation of the guarantees. In the case of real estate guarantees, they are always appraised by an independent third party (appraisal companies authorised by the Bank of Spain).

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

- The current rates (interest rates, commissions and expenses) applied to the various financial products are displayed in the branches.
- The Bank of Spain is informed quarterly of the current rates.
- On the Entity's website (http://contransparencia.ibercaja.es) gives access the rates applied to its various products.
- A document with the contractual conditions is delivered to the client before signing. A copy of the contract is then delivered.

- Annually, in January, the customer receives a personal communication detailing the interest, commissions and expenses applied during the previous year in the different products he has contracted.

Internal Audit, as part of the controls carried out on offices, is responsible for ensuring compliance with established policies and procedures.

b) **Risk monitoring**.

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

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

Part of the credit risk monitoring carried out at the Bank, including the classification and estimation of coverage of exposures, is based on the provisions of Annex 9, Analysis and Coverage of Credit Risk, of Bank of Spain Circular 4/2017, of November 27. This standard establishes that institutions must have policies for the assessment, monitoring and control of credit risk that require the utmost care and diligence in the study and rigorous assessment of the credit risk of transactions, not only at the time of their granting, but also during its life. Within the scope of this Circular, the Bank considers as individually significant borrowers those with exposure exceeding €3 million.

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

c) **Recoveries**.

Integral risk management is completed with recovery policies, aimed at avoiding or minimizing possible losses through specific recovery circuits depending on the amount and type of operation and with the intervention of different internal and external managers to adapt the necessary actions to each situation.

Country risk

It is defined as the possibility of incurring losses arising from the failure of a country to meet its payment obligations as a whole due to circumstances other than normal commercial risk. It includes sovereign risk, transfer risk and other risks arising from international financial activity.

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

With regard to sovereign risk, the Bank has established maximum limits for public debt issued by the European Union and other states, also based on their rating.

Operational Risk

It is defined as the risk of loss resulting from the inadequacy or failure of internal processes, personnel and systems, or from external events, and therefore includes subcategories of risk such as behavioural risk, technological risk or model risk, among others.

- *Strategies and policies for operational risk management*

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

The Group currently has a model for managing and evaluating this risk, which basically covers the following points:

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

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

Its application and effective use in each of the units and subsidiaries is decentralized. The Market, Operational and Reputational Risk Control Unit coordinates risk measurement with the subsidiary units and companies, and monitors, analyses and communicates risk.

- *Management, control and measurement procedures*

In application of the model adopted for operational risk management, the Group uses a combination of the following methodologies, which are supported by specific IT tools:

- Qualitative methodology, based on the identification and expert evaluation of operational risks and existing controls in processes and activities, together with the collection and analysis of risk indicators. During the year 2019, 586 operational risks have been reviewed and self-assessed, concluding from this process, a low risk profile.
- Quantitative methodology, supported by the identification and analysis of actual losses incurred in the Group, which are recorded in the database established for this purpose.

The quantification of the actual losses recorded in the loss database in 2019 shows that the total annual amount of losses (net of direct and insurance recoveries) from operational risk events is €22,145 thousand corresponding to 7,988 events, of which 619 events for €9,018 thousand derive from breaches linked to floor clauses (interest refunds for €7,427 thousand and legal costs for €1,591 thousand). If we discount the provisions associated with these losses due to floor clauses, as well as other provisions associated with various extraordinary losses, the total net annual loss is €5,728 thousand.

Excluding the aforementioned extraordinary impact of floor clauses, actual operating losses are reduced in relation to capital requirements, consistent with the overall result of the above-mentioned qualitative assessment.

The progress made in the management and control processes for operational risk as a result of the established policies, allows the Entity to calculate, from December 2010, the capital consumption for Operational Risk by standard method, in accordance with the provisions of Regulation (EU) No. 575/2013.

Interest rate risk

It is defined as the current or future risk to the Bank's capital or earnings from adverse interest rate fluctuations affecting its investment portfolio positions.

The sources of interest rate risk are gap, base and optionality risks. In particular, gap risk derives from the different time structure of interest rate-sensitive balance sheet instruments, which arises from differences in the timing of their repricing or maturity, basis risk derives from the different benchmark index used for their repricing, interest rate-sensitive asset and liability instruments, and optionality risk derives from implicit or explicit options, which arise when either the entity or the customer has the option to alter future cash flows if it is beneficial to them.

- *Strategies and policies for interest rate risk management*

The objective of managing this risk is to contribute to maintaining current and future profitability at appropriate levels, preserving the economic value of the Entity.

The Board of Directors establishes the strategies, policies and limits for the management of this risk, following a report from the Major Risks and Solvency Commission, documented in the "Manual of Policies and Procedures for the Management of Interest Rate Risk".

- *Measurement and control procedures*

The Group manages the exposure to risk arising from its portfolio transactions, both at the time they are arranged and in their subsequent monitoring, and incorporates into its analysis horizon the expected performance of the business and expectations regarding interest rates, as well as management and hedging proposals, simulating different performance scenarios.

The tools available to the Entity enable it to measure the effects of changes in interest rates on net interest income and economic value, simulate scenarios based on the hypotheses of changes in interest rates and commercial activity, and estimate the potential impact on capital and earnings arising from abnormal market fluctuations so that the results can be considered when establishing and reviewing policies and risk limits and in the planning and decision-making process.

With regard to the risk of optionality, there are behavioural models that establish the essential assumptions about the sensitivity and duration of demand savings transactions, since their maturity date is not contractually established, as well as about early loan repayments, early cancellation of time deposits, and the duration of non-performing assets, all based on historical experience for different scenarios.

Similarly, the effect that interest rate changes have on the net interest margin and economic value is controlled through the establishment of exposure limits. The limits enable exposure to interest rate risk to be kept within the levels compatible with the approved policies.

Liquidity risk

It is defined as the possibility of incurring a loss due to a lack of availability or access to sufficient liquid funds to meet payment obligations.

- *Strategies and policies for liquidity risk management*

The management and control of liquidity risk is governed by the principles of financial autonomy and balance sheet equilibrium, ensuring business continuity and the availability of sufficient liquid resources to meet payment commitments associated with the cancellation of liabilities on their respective due dates without compromising the ability to respond to strategic market opportunities.

The Board of Directors establishes the strategies, policies and limits for the management of this risk, following a report from the Major Risks and Solvency Commission, documented in the "Manual of Policies and Procedures for the Management of Liquidity Risk".

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

- *Management, control and measurement procedures*

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

It also incorporates the expected performance of the business and expectations regarding interest rates, as well as management and hedging proposals, simulating different performance scenarios. These procedures and analysis techniques are reviewed as often as necessary to ensure their proper functioning.

Short, medium and long-term forecasts are made to ascertain financing needs and compliance with limits, which take into account the most recent macroeconomic trends, given their impact on the evolution of the various assets and liabilities on the balance sheet, as well as on contingent liabilities and derivatives. Similarly, liquidity risk is controlled through the establishment of tolerance thresholds compatible with approved policies.

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

- *Liquidity risk hedging and reduction policies and strategies for monitoring their effectiveness*

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

With regard to the action plans, the Global Risk Committee, after analysing all the available information, will be responsible for taking corrective measures, including escalating them to the governing bodies, in the event of situations of tension.

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

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

The Risk Appetite Framework is consistent with the internal liquidity adequacy assessment process (ILAAP) which ensures the appropriate relationship between the funding profile and the Group's liquid asset holdings.

To this end, the Group has developed a self-assessment methodology, based mainly on the metrics and thresholds defined and approved in its RAF to determine inherent and residual liquidity risk. In addition, the control environment is assessed in accordance with the SREP methodology, evaluating the areas of governance, risk appetite and the internal risk management and control framework. As a result, the Ibercaja Group's liquidity risk profile at December 2019 was low, with ample availability of liquid assets. Accordingly, the relationship between the financing profile and the Group's availability of liquid assets is appropriate.

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

b) Statement on the general profile of the liquidity risk of the Entity associated with the business strategy.

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

A buffer of high-quality, unencumbered liquid assets is available as insurance against liquidity stress scenarios.

This buffer is made up of a core of high-quality liquid assets, government debt or similar instruments, designed to protect the Group against the most intense stress scenarios as shown by the level of the LCR ratio at December 31, 2019, which stands at 307%, well above the minimum requirements set at 100%.

The size of the liquid asset buffer is set in line with the risk tolerance level set by Ibercaja in the RAF.

Along the same lines, the "Available liquidity over assets" ratio reached 20.69% at December 31, 2019.

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

Long-term obligations are also met through a variety of stable financing instruments, as shown by the stable financing ratio (NSFR) which reached 131% at 31 December 2019, well above the minimum requirements set at 100%.

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

See further ratios and key figures supporting the liquidity risk profile in Annex II and Chapter 12 of this report.

Exposure to other risks

Exposure to market and counterparty risk

- *Strategies and policies for market and counterparty risk management*

  a) Market risk

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

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

The Board of Directors approves the strategies, policies and limits for the management of this risk, following a report from the Major Risks and Solvency Commission, which is documented in the "Capital Market Department Policy Manual".

For the management of market risk, there are policies for the identification, measurement, monitoring, control and mitigation, as well as operation policies regarding trading, revaluation of positions, classification and valuation of portfolios, cancellation of operations, approval of new products, relations with intermediaries and delegation of functions.

b) Counterparty risk

It is defined as 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 Major Risks and Solvency Commission, documented in Ibercaja Banco's "Risk Lines Manual".

For the management of counterparty risk, the Entity has policies for identification, measurement, monitoring, control and mitigation. In addition, the Ibercaja Banco's "Risk Lines Manual" establishes the criteria, methods and procedures for the granting of risk lines, the proposal of limits, the process of formalisation and documentation of transactions, and the risk monitoring and control procedures for financial institutions, rated public authorities and listed and/or rated companies, with the exception of development companies.

The lines of risk are established on the basis of the ratings assigned by the credit rating agencies, the reports issued by these agencies and the expert analysis of their financial statements.

For the granting of transactions related to counterparty risk to the above-mentioned entities, the Capital and Balance Sheet Management Unit and the Governing Bodies will be responsible for managing the assumption of risk, in accordance with the limits set for the credit lines.

For the management, control and measurement of counterparty risk, the Entity uses specialized tools in order to consider the risk consumption of each product and collect the calculation of risks at Group level under a single application.

- *Management, control and measurement procedures*

a) Market risk

The portfolios exposed to Market Risk are characterised by their high liquidity and the absence of materiality in the trading activity, which means that the Market Risk assumed by the trading activity is not significant overall.

The Bank monitors the evolution of the expected loss of the management portfolio given a confidence level of 99% and a time horizon (1 day or 10 days) as a result of changes in the risk factors that determine the price of financial assets through the VaR (Value at Risk) indicator.

The calculation of VaR is carried out with different methodologies:

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

Thus, at December 31, 2019, VaR measurement shows the following values:

(thousands of euros) **Confidence level: 99%.**	Diversified Parametric VaR	Parametric VaR vs. Own Resources	Non-diversified Parametric VaR	Non-diversified Parametric VaR vs. Own Resources	VaR Historical Simulation	VaR Historical Simulation vs. Own Resources	VaR Shortfall	VaR Shortfall vs. Own Resources
Temp. horizon: 1 day	(29,832)	0.90%	(51,035)	1.53%	(71,550)	2.15%	(85,077)	2.55%
Temp. horizon: 10 days	(94,337)	2.83%	(161,387)	4.84%	-	-	-	-

The calculation of VaR at December 31, 2018 showed the following values:

(thousands of euros) **Confidence level: 99%.**	Diversified Parametric VaR	Parametric VaR vs. Own Resources	Non-diversified Parametric VaR	Non-diversified Parametric VaR vs. Own Resources	VaR Historical Simulation	VaR Historical Simulation vs. Own Resources	VaR *Shortfall*	VaR Shortfall vs. Own Resources
Temp. horizon: 1 day	(20,876)	0.63%	(35,374)	1.06%	(22,062)	(0.66%)	(27,499)	(0.83%)
Temp. horizon: 10 days	(66,108)	1.98%	(111,864)	3.36%	-	-	-	-

In addition, and complementing the VaR analysis, stress tests have been carried out to analyse the impact of different risk factor scenarios on the value of the portfolio being measured.

b) Counterparty risk

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

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

Monitoring systems ensure that the risks consumed are always within the established limits. They incorporate controls on the variations produced in the ratings, and in general on the solvency of the borrowers.

Counterparty risk mitigation techniques include netting agreements, guarantee agreements, portfolio reduction in the event of adverse credit events, reduction of risk lines in the event of rating downgrades or negative entity news, and timely monitoring of entity financial information.

With those entities with which a risk compensation and guarantee provision agreement is agreed, in accordance with the requirements of the Bank of Spain, the risk may be computed by the resulting net position.

Exchange Rate Risk Exposure

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

The Bank does not hold significant speculative foreign currency positions. Nor does it maintain open positions in foreign currency of a non-speculative nature of a significant amount.

The Entity's policy is to limit this type of risk, generally mitigating it when it arises by contracting symmetrical active or passive operations or through financial derivatives that enable it to be covered.

Exposure to Reputational Risk

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

The aim of managing this risk is to protect one of the main intangible assets, namely corporate reputation, by preventing the occurrence of events that could have a negative effect on it.

Reputational risk is closely related to other risks because of the amplifying effect it can have on them. In most cases, reputational risk arises from the materialisation of other risks that may affect any of the Group's entities, especially regulatory risk or risk of non-compliance with regulations (imposition of sanctions, especially in the event that they are publicly disclosed). Therefore, policies and procedures have been put in place to ensure compliance with applicable regulations, whether internal or external.

In addition, and as a key control function, to mitigate the risk of suffering possible negative impacts arising from regulatory breaches, the Bank and various financial entities in the Group have a regulatory compliance verification function, with supervisory powers in particularly relevant areas such as anti-money laundering and the financing of terrorism, investor protection in the marketing of financial instruments and the provision of investment services (MiFID), rules of conduct in the field of the securities markets, regulations on the reporting of transactions suspected of market abuse, etc.

The Group therefore attaches the utmost importance to the management of corporate reputation as a method for preventing, avoiding and/or managing possible reputational risks, and for its positive impact on the generation of value. Reputation metrics are prepared, with periodic recurrent measurements, to monitor the perception of the general public, customers and employees about the entity, as well as the Group's performance on social networks. The results are the basis for identifying strengths, areas of improvement, possible sources of reputational risk and for drawing up action plans to improve reputation.

During 2019, the measurement of the Entity's reputational risk continued, identifying strengths and areas for improvement and continuing with action plans to improve reputation involving the main areas of the Entity.

6.2.4 - Functions of the Board of Directors

The Board of Directors is responsible for ensuring a strong risk culture, establishing strategic lines of management and control and approving risk management policies, manuals and procedures. Its competencies in relation to risk management and control include the following:

- Establish and approve the Risk Appetite Framework (RAF) of the Ibercaja Group following a report from the Major Risks and Solvency Commission and to review it at least annually or when necessary depending on the circumstances.
- Assess and monitor the risk profile and its adequacy to the established framework and the Group's strategy and approve the capital and liquidity adequacy assessment processes (ICAAP & ILAAP).
- Approve and periodically review the strategies and policies for assuming, managing, supervising and reducing the risks to which the Group is or may be exposed, including those presented by the macroeconomic situation in which it operates in relation to the phase of the economic cycle.
- Actively participate in the management of the substantial risks contemplated in the solvency regulations and ensure that the organisation has adequate resources for such management.
- Ensure that the necessary action plans and corrective measures are established for the management of limit exceedances.
- Establish and supervise the Group's information and risk control systems, following a report from the Major Risks and Solvency Commission.

- Ensure that all aspects of capital planning are integrated into management in line with the scenarios used in the Strategic Plan, the Risk Appetite Framework and the Financing Plan.

6.2.5 - Functions of the Internal Audit and Compliance Area

Internal Audit Department

The Internal Audit area reports directly to the Audit and Compliance Commission.

In the framework of the Ibercaja Group, the scope of internal audit is total, with influence therefore on the parent entity and its subsidiaries, so that no activity, information system or internal control system may be excluded from its scope of action.

The general functions of the Internal Audit area in the area of risks are as follows:

- Propose, through the Audit and Compliance Commission, for approval by the Board of Directors, the Internal Audit Charter of the Ibercaja Group, which will establish the position of the Internal Audit Function in the organisation, its responsibilities, the way in which these will be developed; and the procedure for reporting the results of its verifications to the Board of Directors and Senior Management.

- Plan, coordinate and develop the Strategic Plan and the Annual Operational Plan of the Internal Audit Department.

- Propose to the Audit and Compliance Commission the Strategic Plan and the Annual Internal Audit Operating Plan, and to report periodically on the degree of their monitoring.

- Ensure the quality of the methodologies, actions and reports of the Internal Audit functions.

- Evaluate on an ongoing basis the adequacy and proper functioning of the governance framework, the internal control information systems and the risk management systems inherent to the activities of the Bank or its Group, proposing, with a preventive approach, recommendations for improvement.

- Inform the CEO, Senior Management and the Internal Audit Committee of the main conclusions and recommendations resulting from the internal audits carried out; as well as the degree of implementation of these recommendations.

- According to its report, to periodically report to the Board of Directors, through its Audit and Compliance Commission, the results of the verification work carried out by Internal Audit and the degree of implementation of the recommendations.

- Participate in the dialogue with the regulatory or supervisory bodies, within the scope of its functions, and to coordinate with them the scope and content of the Internal Audit reports required by the aforementioned bodies.

Specifically, the Internal Audit area has the following specific functions

- Technical and quality supervision functions:
  - Coordinate the preparation and monitoring of the Strategic Plan and the Annual Operational Plan of the Internal Audit Department.
  - Coordinate the preparation of documentation for the Internal Audit Committee and the Entity's governing bodies in relation to the internal audit function.
  - Prepare the information requirements of the Supervisory Bodies in relation to the internal audit function
  - Coordinate and/or execute the work determined at each moment by the Internal Audit Department, in particular those that involve a transversal scope.
  - Keep the Internal Audit Statute, procedures and "regulatory" knowledge of internal audit updated.
- Functions related to the protection of technological and information assets:
  - Guarantee the correct administration and control of the technological and information assets assigned to the Area or dependent Units and of the data deposited or managed in the latter applications, databases or other tools.
- Functions related to data ownership and quality within the scope of the area's functions
  - Collaborate in the correct functional description of the data, files or reports assigned to the Area or dependent Units, defining standards that allow an effective control of the quality level of the same and establish tolerance and error thresholds.
  - Perform correct data entry according to established procedures, identifying improvements that minimize operational risk.
  - Analyse data quality errors, recording incidents in the corporate database if they are not, and define remediation and improvement plans to achieve the required quality levels. Collaborate in the supervision and/or execution of those remediation plans that are determined within the framework of Data Governance.
- Functions related to information demand:
  - Control the information demand of the Area or Dependent Units, prioritizing the attention according to the value contribution for the Entity and the available budgetary framework, documenting in a complete way the required needs and certifying the result of the requests of the Area or Dependent Units.

- Operational risk functions

    - Manage the Operational Risk implicit in the Area's functions, identifying and assessing the possible operational risks associated with them, promoting systems of continuous improvement and complying with the Operational Risk Management Framework.

Regulatory Compliance Unit

The area of Regulatory Compliance reports to the General Secretariat and the Control Department. The scope of its functions covers the entire Ibercaja Group.

The functions carried out in the Regulatory Compliance Unit in relation to the control and review of risks, in general:

- Carry out the internal control competencies attributed to the regulatory compliance function in the regulation of credit institutions and entities that provide investment services.

- Ensure compliance with the regulations on matters within its competence, which may affect the performance of Ibercaja's or the Group's companies' activities, and non-compliance with which may give rise to risks of sanction by regulators and of the Bank's reputation.

- Ensure the correct application of the procedures established in the regulations on transparency and customer protection (both for banking products and in the area of investment services) -*customer compliance*-.

- Collaborate in the development of content, ensure the correct diffusion and updating of the minimum mandatory content that must be disclosed to the public through the Bank's corporate website, especially in relation to corporate governance and investor information.

- Ensure the proper application of the procedures related to the Customer Care Service in accordance with the provisions of Order ECO/734/2004, of March 11, on customer care departments and services and the customer ombudsman of financial institutions, and Order ECC/2502/2012, of November 16, regulating the procedure for filing complaints with the complaints services of the Bank of Spain, the National Securities Market Commission and the Directorate General of Insurance and Pension Funds.

- Carry out, in collaboration with the Customer Service, Legal Department and the Marketing and Digital Strategy and Network Area Departments, a systematic evaluation of complaints in order to identify and correct the origin of the same and to mitigate possible associated risks.

- Ensure that the development and updating of the Bank's Policies and Manuals comply with the regulations in force, with the guidelines and agreements adopted by the Bank's governing bodies, and with the coherence and absence of inconsistencies between them.

- Verify, in coordination with the various competent Directorates and Units, the correct identification and compliance with their legal obligations within the scope of their respective competencies, supervising the effective application of the procedures and controls established for this purpose, in particular, with regard to anti-money laundering, tax matters, the protection of personal data, the protection of consumers and users, and the provision of services in the area of the securities market.

- Coordinate the implementation and monitoring of the criminal risk prevention model in the Entity, as well as the application by the Directorates and Units involved of high-level and specific controls in the different areas of activity of the Entity.

Specifically, the Regulatory Compliance area has the following specific functions:

- Functions related to Information and Office Services:

    - Prepare, in coordination with the Regulations Unit, the instructions and guidelines referred to the subjects of its competence, proposing their publication and ensuring their permanent updating.

    - Collaborate with the Internal Consultation System for the efficient resolution of user queries regarding matters within its competence.

- Functions related to Training:

    - Collaborate with the Personnel Area and with the Legal Department in the preparation and definition of the contents of training programmes for directors and employees in the field of regulatory compliance in the securities market environment, prevention of money laundering and financing of terrorism.

- Management functions:

    - Prepare and periodically supervise the effective implementation of the Regulatory Compliance Programme approved by the Entity's governing bodies.

    - Submit to senior management and the governing bodies, through the General Secretary, the periodic reports that fall within the scope of their competencies, as well as the periodic reports on the degree of monitoring of the Regulatory Compliance Programme, assisting them in establishing improvement or updating plans where appropriate.

    - Act as an interlocutor, within the scope of its competencies, with supervisory bodies (Bank of Spain, European Central Bank, SEPBLAC, CNMV), which includes the control of the coordination of responses to requirements and the review of compliance with recommendations.

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

Regarding the Internal Code of Conduct:

- Carry out the controls provided for in the Internal Code of Conduct (ICC) in the area of the Securities Markets, in particular:
  - Periodically inform the Audit and Compliance Commission about the compliance with the ICC.
  - Keep the register of persons subject to the ICC updated.
  - Resolve possible conflicts of interest.
  - Maintain records related to insider information.
  - Control the regime of personal transactions of the persons subject to the ICC, in accordance with the provisions of the same, the Securities Market Law and its implementing regulations.
  - Carry out the control of the obligatory information for the subject persons and other controls foreseen in the ICC.

Referring to the Prevention of Market Abuse:

- Implement procedures related to the detection, analysis and reporting of suspicious market abuse transactions.
- Carry out the controls provided for in the Manual on "Detection, Analysis and Reporting of Suspected Market Abuse Transactions", in particular those related to:
  - Reception and registration of the operations detected, both in a centralised and decentralised manner, with some indication of possible market abuse.
  - Expert analysis of the transactions detected in order to determine if they are suspicious transactions of Market Abuse.
  - Reporting, if applicable, of transactions suspected of market abuse to the CNMV.
- Ensure that the procedures for reporting transactions to the CNMV (transaction reporting) are properly applied.

Concerning the protection of the investor (*customer compliance) in the* provision of investment services:

- Check, at least, compliance with:
  - Procedures for managing conflicts of interest and related transactions to prevent them from harming clients in accordance with the Securities Market Law and its implementing regulations.
  - Procedures for safeguarding financial instruments and funds entrusted by clients in the field of the provision of investment services.

- Procedures for the approval and design of new products and services.
- Procedures related to compliance with the rules of conduct for the protection of customers and potential customers. Among others, those related to the following areas:
  - Marketing of investment products and services, including the control of policies and procedures related to:
    - ✓ Classification of customers.
    - ✓ Cataloguing of financial instruments.
    - ✓ Convenience assessment.
    - ✓ Evaluation of the suitability of clients in the field of advice and portfolio management.
    - ✓ Pre and post contractual information to clients.
  - Regime of tariffs and contract documents.
  - Procedures for processing and best execution of orders.
  - Mandatory record-keeping procedures on financial instruments and investment services required by current regulations.

Related to the field of prevention of money laundering and financing of terrorism:

Ensure adequate compliance with the obligations of the Bank and its Group companies subject to legislation for the anti- money laundering and the financing of terrorism (AML&FT), in their capacity as obligated parties, particularly those relating to:

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

In particular:

- Keep the AML&FT Manual duly updated in accordance with the legislation in force and update the procedures to the same.
- Periodically update the self-assessment report on the risk of money laundering and financing of terrorism, in order to include new risk scenarios and to design and implement the controls to be developed for their mitigation.
- Verify and control the application by the Branch Network of customer due diligence measures, according to their level of money laundering risk.

- Carry out continuous control and monitoring of the relationship with clients according to their level of AML&FT risk, in order to update this level.
- Analyse and manage the alerts originated by the prevention tools.
- Prepare structured Special Examination Reports of operations with possible indications of money laundering and prepare and send, if necessary, the communication to the SEPBLAC.
- Proceed to the freezing of funds of persons designated in terrorist lists and their communication to the Secretariat of the Commission for Anti-Money Laundering.
- Collaborate in the performance of inspections that may be carried out by the supervisory bodies (Bank of Spain or SEPBLAC) related to the prevention of money laundering.
- Collaborate in carrying out the obligatory review by the external expert, as well as with the supervisory actions that the internal audit function may carry out.
- Prepare periodic information to the AML&FT Committee and Senior Management on activities developed in the field of AML&FT.

Relating to the scope of control of regulatory monitoring:

- Study and monitor regulatory standards (in particular the EBA Guidelines or any other body or authority with competence in banking matters) and supervisory standards and criteria in the area of internal governance of the institution, transparency and rules of conduct in the provision of banking and investment services to customers, as well as risk management and control.
- Analyse the impact that the aforementioned regulations and criteria may have on the entity's internal policies and manuals, sending the necessary reports to the units involved for their consideration.
- Ensure that the Regulatory Programmes Unit, which reports to the Directorate of Organisation, together with the various Area Directorates and competent Units, undertake the projects and actions required to adapt to the new provisions in force in the aforementioned areas, based on the impact map and the corresponding GAP analysis that these Directorates have carried out.
- Periodically inform the Regulation and Supervision Committee of the follow-up of the projects of adaptation to the new regulatory provisions that are most relevant for the Entity in the area of its competencies.
- Promote knowledge of changes in regulatory and supervisory standards in the aforementioned areas among the units involved, participating, where appropriate, in training tasks in coordination with the Personnel Area and the Regulations Unit.

- Participate, in coordination with the Personnel Area, in training programmes for employees who are to perform functions related to the regulatory and supervisory environment, promoting and preparing, where appropriate, the contents of such training.

6.2.6 - Risk Information Reporting

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

A distinction can be made between quantitative and qualitative metrics. Quantitative metrics will be identified for those risks that can be measured or quantified, as opposed to other risks such as regulatory compliance that will be monitored using qualitative criteria.

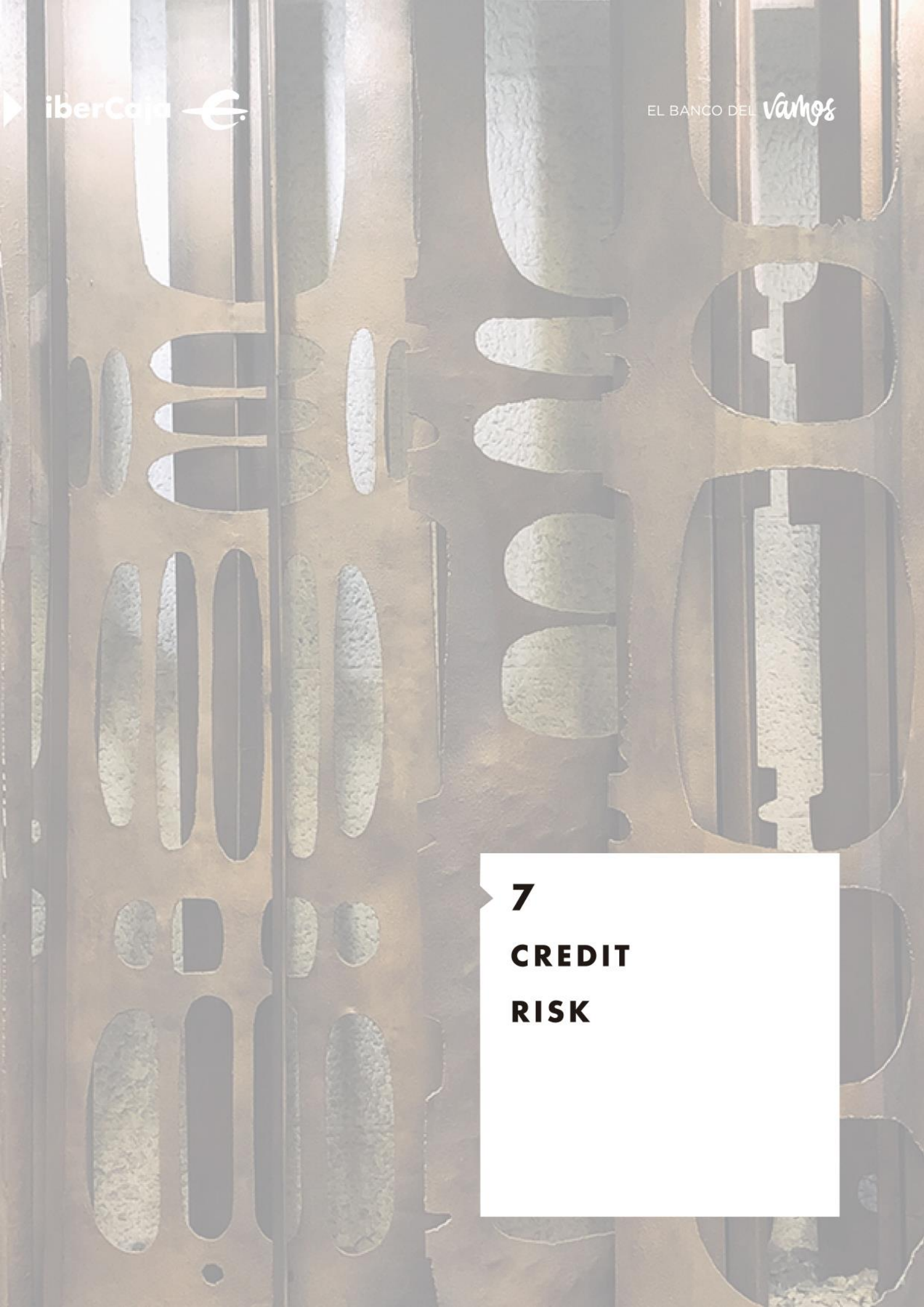
Metrics are also divided into:

- First-level metrics: High-level indicators with the setting of thresholds, periodically monitored by the Global Risk Committee, the Major Risks and Solvency Commission and the Board of Directors.

- Operating or second-level limits: Risk management and control limits whose requirement makes it possible to ensure compliance with the risk appetite defined by the Group. The operating limits are developed in the corresponding risk management policy and procedure manuals. These limits are monitored by the Global Risk Committee, which is elevated to higher bodies in those cases where it is deemed necessary.

In addition, a set of dashboards, limits and alerts have been established, which are sent quarterly to the members of the Global Risk Committee (including first and second level metrics), as well as to the Major Risks and Solvency Commission and the Board of Directors (first level metrics only).

Thus, each Area Manager is aware of the current situation of the relevant risks and channels this information to the corresponding units and risk takers, thus facilitating the integration of the Risk Appetite Framework into the Entity's risk culture.



7

CREDIT RISK

7. Credit risk

7.1 - Accounting definitions and methodological descriptions

Credit risk management is aimed at facilitating the growth of credit investment in a sustained and balanced manner, guaranteeing at all times the financial and asset strength of the Entity, in order to optimise the risk-return ratio within the tolerance levels set by the Board of Directors on the basis of the management principles and action policies defined.

The Board of Directors approves the management framework, strategies, policies and limits for the management of this risk, following a report from the Major Risks and Solvency Commission, documented in the "Credit Risk Management Framework", "Irregular Assets Management Framework" and "Risk Model Management Framework", as well as the various policy manuals developed from them.

A financial asset or other exposure that involves credit risk is considered to be impaired and its carrying amount is corrected when there is objective evidence that events have occurred that give rise to it:

- In the case of debt instruments (loans and advances, and debt securities), a negative impact on the future cash flows that were estimated at the time the transaction was formalized.

- In the case of other exposures involving credit risk, other than debt instruments, a negative impact on the future cash flows that would be due in the case of the drawdown of the loan commitment and the cash flows expected to be received if the loan is drawn down, or in the case of financial guarantees provided, on the payments that the Entity expects to make.

Doubtful assets are classified as:

- By reason of the holder's default: operations with some amount due by principal, interest or expenses agreed contractually, in general, with more than 90 days, unless it is appropriate to classify them as failed. Also included in this category are guarantees granted when the guaranteed party has defaulted on the guaranteed transaction. Also included are the amounts of all the transactions of a holder when the transactions with amounts generally due, as indicated above, more than 90 days, are more than 20% of the amounts pending collection.

- For reasons other than the holder's default: transactions in which, without the circumstances for classifying them in the bad or doubtful categories by reason of the default, there are reasonable doubts as to their full repayment on the terms contractually agreed; and off-balance-sheet exposures not classified as doubtful by reason of the default for which payment by the Group is probable and their recovery is doubtful.

Based on the descriptions set out in section 2.3. of the 2019 Notes to the Financial Statements, the following accounting criteria are considered within the Group:

- Impairment losses on debt instruments during the year are recognised as an expense under "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains or losses due to modifications" in the consolidated income statement. For debt instruments classified as financial assets at amortised cost, these impairment losses are recognised against an allowance account that reduces the carrying amount of the asset, whereas for debt instruments classified at fair value through profit or loss, impairment losses are recognised against "accumulated other comprehensive income".
- Hedges for impairment losses on exposures involving credit risk other than debt instruments are recorded on the liabilities side of the balance sheet as a provision. Impairment losses for the period for these exposures are recorded as an expense in the consolidated income statement.
- Subsequent reversals of previously recognised impairment losses are recognised immediately as income in the consolidated income statement for the year.

7.2 - Credit risk exposure

7.2.1 - Credit risk exposure 2019

The following table shows the Group's credit risk exposure at December 31, 2019, after the adjustments indicated in Part Three, Title II Chapter 1 of Regulation (EU) No. 575/2013 (CRR), value adjustments for impairment, the effects of credit risk mitigation techniques and the application of conversion factors for items included in memorandum accounts; and the average amount for the year, broken down by risk category:

Table 27: Exposure by risk category (standard)

Exposure by risk category (standard)		
(thousands of euros)	Exposure Average 2019	Exposure December 2019
Central governments or central banks	9,934,533	11,674,293
Regional administrations and local authorities	913,195	999,908
Public sector entities and other non-profit public institutions	364,786	285,271
Multilateral Development Banks	13,985	13,963
International Organizations	-	-
Institutions	626,848	1,123,405
Corporates	3,979,042	4,083,806
Retail customers	5,732,818	5,523,927
Exposures secured by real estate	19,049,339	19,022,468
Exposures in default	950,458	807,680
High-risk exposures	413,982	360,675
Covered bonds	53,646	53,344
Exposures to institutions and companies with short-term credit ratings	-	-
Exposure to collective investment institutions (CIIs)	22,364	32,695
Equity exposures	815,599	817,891
Other exposures	1,860,845	1,921,303
Securitisation positions	-	-
Total	**44,731,440**	**46,720,629**

7.2.2 - Geographical distribution of exposures

The following table shows the value of the Group's credit risk exposure at December 31, 2019, net of the adjustments indicated in Part Three, Title II, Chapter 1 of Regulation (EU) No. 575/2013, of impairment losses, of the effects of credit risk mitigation and of the application of conversion factors for items included in memorandum accounts, broken down by geographical area:

Table 28: Exposure by large geographical area

Exposure by large geographical areas		
(thousands of euros)	2019 Exposure Value	2018 Exposure Value
Spain	45,133,321	43,604,766
Other countries European Union	1,480,128	1,056,154
Rest of Europe	34,078	34,492
United States	36,873	123,916
Rest of the world	36,229	37,003
Total geographical areas	**46,720,629**	**44,856,331**

7.2.3 - Distribution of exposures by sector

The value of the Group's credit risk exposure at December 31, 2019, net of the adjustments indicated in Part Three, Title II, Chapter 1 of Regulation (EU) No 575/2013, of impairment losses, of the effects of credit risk mitigation and of the application of conversion factors for off-balance-sheet items, distributed by economic sector, is as follows

Table 29: Exposure by economic sector

Exposure by economic sector		
(thousands of euros)	2019 Exposure Value	2018 Exposure Value
Agriculture, farming and fishing	1,073,304	1,095,910
Extractive industries	36,275	33,552
Manufacturing Industries	1,604,993	1,672,050
Energy, water and gas production and distribution	223,133	191,578
Construction	1,019,177	1,102,612
Commerce and repairs	2,230,843	2,249,286
Hospitality Industries	546,554	619,981
Transport, storage and communications	802,246	887,533
Financial Intermediation	3,282,900	3,136,181
Real estate activities and business services	3,626,658	4,049,934
Other services	860,252	897,034
General Governments	6,508,006	5,825,743
Central banks, credit institutions, intermediation and other financial services	589,804	317,781
Other activities	7,490,107	5,136,695
Individuals with no economic activity	16,826,377	17,640,461
Total	**46,720,629**	**44,856,331**

7.2.4 - Residual maturity of exposures

The following table shows the distribution, by residual maturity, of the value of the exposure to credit risk at December 31, 2019, net of adjustments, impairment losses, the effects of credit risk mitigation and the application of conversion factors to the memorandum accounts:

Table 30: Exposure by risk category and maturity

Exposure by risk category and maturity					
(thousands of euros)	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Sum
Central governments or central banks	647,200	-	2,729,554	8,297,539	11,674,293
Regional administrations and local authorities	9,409	334,389	154,121	501,989	999,908
Public sector entities and other non-profit public institutions	126	6,273	3,469	275,403	285,271
Multilateral Development Banks	-	411	9,193	4,359	13,963
International Organizations	-	-	-	-	-
Institutions	876,519	60,057	74,569	112,260	1,123,405
Corporates	697,594	629,849	797,768	1,958,595	4,083,806
Retail customers	654,783	944,944	1,390,960	2,533,240	5,523,927
Exposures secured by real estate	2,066	19,021	570,478	18,430,903	19,022,468
Exposures in default	89,831	12,636	61,848	643,365	807,680
High-risk exposures	28,345	20,612	27,857	283,861	360,675
Covered bonds	-	31,506	21,838	-	53,344
Exposures to institutions and companies with short-term credit ratings	-	-	-	-	-
Exposure to collective investment institutions (CIIs)	-	-	-	32,695	32,695
Equity exposures	-	-	-	817,891	817,891
Other exposures	1,382	25,367	82,674	1,811,880	1,921,303
Securitisation positions	-	-	-	-	-
Total categories	**3,007,255**	**2,085,065**	**5,924,329**	**35,703,980**	**46,720,629**

7.2.5 - Geographical and counterpart distribution of impaired positions

The following table details the gross carrying amount at December 31, 2019 of performing and non-performing exposures and related accumulated impairment, provisions, accumulated changes in fair value due to credit risk, accumulated partial defaults and collateral and financial guarantees received, in accordance with the scope of prudential consolidation under Part 1, Title II, Chapter 2 of Regulation (EU) No 575/2013.

Table 31: Performing and non-performing exposures and related provisions

Performing and non-performing exposures and related provisions															
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
(thousands of euros)		Of which: in stage 1	Of which: in stage 2		Of which: in stage 2	Of which: in stage 3		Of which: in stage 1	Of which: in stage 2		Of which: in stage 2	Of which: in stage 3			
Loans and advances	**35,572,247**	**34,196,262**	**1,375,985**	**1,293,100**	**-**	**1,293,100**	**(125,102)**	**(62,363)**	**(62,746)**	**(519,424)**	**-**	**(519,424)**	**-**	**21,333,364**	**672,474**
Central banks	3,444,265	3,444,265	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	757,319	754,436	2,883	2,743	-	2,743	-	-	-	(2,229)	-	(2,229)	-	50,634	213
Credit institutions	830,026	830,026	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,963,656	1,963,636	20	11	-	11	(177)	(176)	(2)	-	-	-	-	1,606	10
Non-financial corporations	6,797,637	6,283,169	514,468	481,533	-	481,533	(71,786)	(41,735)	(30,051)	(293,911)	-	(293,911)	-	2,023,695	123,671
Of which: SMEs	5,518,938	5,086,288	432,650	465,272	-	465,272	(63,778)	(36,770)	(27,008)	(280,790)	-	(280,790)	-	1,948,947	122,859
Households	21,779,344	20,920,730	858,614	808,813	-	808,813	(53,139)	(20,453)	(32,694)	(223,284)	-	(223,284)	-	19,257,429	548,580
Debt securities	**7,781,852**	**7,781,852**	**-**	**-**	**-**	**-**	**(613)**	**(613)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	5,826,768	5,826,768	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	121,704	121,704	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,761,349	1,761,349	-	-	-	-	(268)	(268)	-	-	-	-	-	-	-
Non-financial corporations	72,031	72,031	-	-	-	-	(345)	(345)	-	-	-	-	-	-	-
Off-balance sheet exposures	**3,850,028**	**3,786,924**	**62,251**	**49,178**	**-**	**49,178**	**(8,502)**	**(6,989)**	**(1,513)**	**(14,014)**	**-**	**(14,014)**		**1,086,677**	**3,966**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
General governments	119,502	119,500	2	121	-	121	-	-	-	(46)	-	(46)		4,687	75
Credit institutions	136,311	136,311	-	-	-	-	-	()	-	-	-	-		-	-
Other financial corporations	5,027	5,025	1	-	-	-	(3)	(3)	-	-	-	-		118,573	-
Non-financial corporations	2,495,107	2,437,030	57,225	46,127	-	46,127	(7,855)	(6,441)	(1,413)	(13,218)	-	(13,218)		844,843	3,167
Households	1,094,081	1,089,058	5,023	2,930	-	2,930	(644)	(544)	(100)	(750)	-	(750)		118,573	724
Total	**47,204,127**	**45,765,038**	**1,438,235**	**1,342,278**	**-**	**1,342,278**	**(134,217)**	**(69,965)**	**(64,260)**	**(533,438)**	**-**	**(533,438)**	**-**	**22,420,040**	**676,440**

In addition, the Group has impaired exposures to equities amounting to €129 thousand.

Impaired exposures by geographic area

The following table shows the value of the impaired exposures at December 31, 2019, broken down by significant geographical area, together with the amount of the impairment losses and the provisions for contingent liabilities and commitments recognised for the impaired exposures:

Table 32: Impaired exposures by large geographical area

Impaired exposures by geographic area				
(thousands of euros)	Impaired exposures (*)	Exposures in default situation	Impaired exposures losses and provision for contingent commitment risks	Business year allowances for impaired exposures and contingent risks and commitments
Spain	1,337,174	1,337,045	532,055	131,034
Other EU countries	4,241	4,241	1,287	267
Rest of Europe	948	948	210	46
United States	39	39	12	2
Rest of the world	5	5	3	2
Total geographical areas	**1,342,407**	**1,342,278**	**533,567**	**131,351**

(*) Includes those exposures (credit, fixed income and equity) for which some type of impairment has been recorded, including non-performing exposures.

Impaired exposures by economic sector

The following table shows the value of the impaired exposures at December 31, 2019, distributed by economic sector, together with the amount of the impairment losses and the provisions for contingent liabilities and commitments established on the impaired exposures:

Table 33: Impaired exposures by economic sector

Impaired exposures by economic sector				
(thousands of euros)	Impaired exposures (*)	Exposures in default	Impaired exposure losses and provision for contingent liabilities and commitments	Provisions for the year for impaired exposures and contingent liabilities and commitments
Agriculture, farming and fishing	28,713	28,713	12,924	3,545
Extractive industries	2,916	2,916	1,180	352
Manufacturing Industries	72,734	72,734	40,129	13,809
Production and distribution of energy, water and gas	2,305	2,305	976	223
Construction	100,791	100,791	35,149	2,234
Trade and repairs	128,936	128,936	65,352	21,677
Hospitality Industries	56,416	56,416	21,247	4,700
Transport, storage and communications	46,287	46,287	22,502	6,578
Financial Intermediation	2,862	2,862	679	(177)
Real estate activities and business services	302,284	302,284	122,032	40,520
Other services	39,512	39,512	20,576	2,282
General governments	1,065	1,065	594	216
Central banks, credit institutions, intermediation and other financial services	45	45	3	2
Individuals with no economic activity and other activities	557,541	557,412	190,224	35,390
Total	**1,342,407**	**1,342,278**	**533,567**	**131,351**

(*) Includes those exposures (credit, fixed income and equity) for which some type of impairment has been recorded, including non-performing exposures.

7.2.6 - Forborne Exposures

The gross carrying amount of the forborne exposures and related accumulated impairment, provisions, accumulated changes in fair value due to credit risk, and collateral and financial guarantees received, in accordance with the scope of prudential consolidation under Part 1, Title II, Chapter 2 of Regulation (EU) No 575/2013, are presented below as at December 31, 2019.

Table 34: Credit quality of forborne exposures

Credit quality of forborne exposures

(thousands of euros)	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances	**302,116**	**686,063**	**686,063**	**683,832**	**(21,879)**	**(221,244)**	**625,333**	**405,928**
Central banks	-	-	-	-	-	-	-	-
General governments	*2,809*	*2,741*	*2,741*	*2,741*	-	*(2,228)*	*2,044*	*213*
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	*98,427*	*238,077*	*238,077*	*235,846*	*(11,186)*	*(126,629)*	*134,538*	*84,111*
Households	*200,880*	*445,245*	*445,245*	*445,245*	*(10,693)*	*(92,387)*	*488,751*	*321,604*
Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loan commitments given	**2,041**	**3,433**	**3,433**	**3,433**	**97**	**831**	**1,455**	**938**
Total	**304,157**	**689,496**	**689,496**	**687,265**	**(21,782)**	**(220,413)**	**626,788**	**406,866**

7.2.7 - Changes in 2019 in impairment losses and provisions for contingent liabilities and commitments for credit risk

The changes in 2019 in the impairment losses due to credit risk recorded by the Group and in the provisions for contingent liabilities and commitments are in accordance with the provisions of Annex IX to Bank of Spain Circular 4/2017, both in terms of the type of losses and provisions recorded and the methodology applied for their calculation.

The detail of movements in 2019 is as follows:

Table 35: Impairment adjustments

Impairment adjustments for credit risk		
(thousands of euros)	Losses from impairment of assets	Provisions for contingent liabilities and commitments
Balances at December 31, 2018	**1,124,500**	**33,465**
Allocations charged to results	605,632	26,298
Recovery credited to results	(471,730)	(37,271)
Amounts applied in the year	(598,179)	-
Effect of foreign exchange differences	-	-
Variations produced by business combinations	-	-
Changes in the scope of consolidation	-	-
Transfers	-	-
Other movements	(14,954)	23
Balances at December 31, 2019	**645,269**	**22,515**

In 2019 the Group recognised €8,326 thousand as income in the consolidated income statement for the recovery of failed assets.

The gross carrying amount of doubtful and non-doubtful exposures as at 31 December 2019 is presented below in accordance with the scope of prudential consolidation as provided for in Chapter 2 of Title II of Part 1 of Regulation (EU) No 575/2013:

Table 36: Credit quality of performing and non-performing exposures by past due days

Credit quality of performing and non-performing exposures by past due days

(thousands of euros)	Gross book amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**35,572,247**	**35,403,506**	**168,740**	**1,293,100**	**259,692**	**60,607**	**92,995**	**215,054**	**360,940**	**178,409**	**125,403**	**1,293,100**
Central banks	3,444,265	3,444,265	-	-	-	-	-	-	-	-	-	-
General governments	757,319	757,246	73	2,743	1,174	-	-	-	-	1,569	-	2,743
Credit institutions	830,026	830,025	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,963,656	1,963,636	20	11	-	-	-	-	-	10	-	11
Non-financial corporations	6,797,637	6,723,385	74,252	481,533	91,229	23,172	37,873	128,673	114,763	42,270	43,554	481,533
Of which: SMEs	5,518,938	5,446,378	72,560	465,272	86,236	20,653	35,699	126,675	111,174	41,281	43,554	465,272
Households	21,779,344	21,684,949	94,395	808,813	167,289	37,435	55,122	86,381	246,178	134,560	81,849	808,813
Debt securities	**7,781,852**	**7,781,852**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	5,826,768	5,826,768	-	-	-	-	-	-	-	-	-	-
Credit institutions	121,704	121,704	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,761,349	1,761,349	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	72,031	72,031	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	**3,850,028**			**49,178**								**49,178**
Central banks	-			-								-
General governments	119,502			121								121
Credit institutions	136,311			-								-
Other financial corporations	5,027			-								-
Non-financial corporations	2,495,107			46,127								46,127
Households	1,094,081			2,930								2,930
Total	**47,204,127**	**43,185,358**	**168,740**	**1,342,278**	**259,692**	**60,607**	**92,995**	**215,054**	**360,940**	**178,409**	**125,403**	**1,342,278**

7.2.8 - Security interests obtained through takeover and enforcement processes

In addition, information is presented on the instruments cancelled in exchange for the security right obtained by taking possession, and on the value of the security right obtained by taking possession at December 31, 2019:

Table 37: Collateral obtained by taking possession and execution processes

Collateral obtained by taking possession and execution processes

(thousands of euros)	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**-**	**-**
Other than PP&E	**473,054**	**194,197**
Residential immovable property	417,511	176,113
Commercial immovable property	42,317	11,185
Movable property (auto, shipping, etc.)	85	38
Equity and debt instruments	-	-
Other	13,141	6,861
Total	**473,054**	**194,197**

7.3 - Information on the Group's counterparty credit risk

Counterparty credit risk is defined as the credit risk incurred by the Group in transactions involving financial derivative instruments and in transactions involving repurchase agreements, securities or commodities loans, deferred settlement and collateral financing.

The Group has established procedures for setting limits to credit and counterparty risk exposures, including deposit, fixed income, derivative, credit and listed equity transactions.

The limits are set according to the ratings assigned by the credit rating agencies. However, for the most significant borrowers, as well as for those counterparties that are not rated, the financial statements (indebtedness, solvency, profitability, etc.) are analysed in order to establish risk lines, as well as reports prepared by third parties. These limits are approved by the Bank's Board of Directors.

The use of risk lines for derivative financial instruments is calculated on the basis of market value plus a potential future credit risk, which is obtained by multiplying the notional value of each instrument by percentages based on its residual maturity, deducting the same line as that for interbank deposits, fixed income issued by banking counterparties or any other risk operation.

In relation to derivatives operations, the entity applies various techniques to mitigate counterparty risk. On the one hand, and for all those derivatives that, in application of EMIR regulations, are susceptible to centralised settlement in a central clearing house, the entity has the means to ensure that these transactions are made with a central entity, which, through its internal risk and collateral management, ensures an effective reduction in counterparty risk for all entities that settle transactions with it. In addition, and for operations not settled centrally, the entity has signed netting and collateral agreements with all its financial counterparties that enable it to manage counterparty risk. It should be mentioned that the agreements signed are in line with the recommendations of the regulators regarding best practices in terms of daily valuation, non-establishment of thresholds, exchange of cash and non-securities, etc.

The situation is similar with regard to repo operations, simultaneous operations or securities loans. On the one hand, the Entity has access to central clearing houses that ensure a reduction of counterparty risk and, on the other hand, for bilateral operations it applies mechanisms to reduce counterparty risk by signing clearing and collateral agreements (GMRA, EMA, GMSLA).

These actions are described in the Policies and Procedures Manual of the Financial Markets Department. Additionally, the Manual describes the procedure for calculating the CVA and DVA at the accounting level, which reflect the provision to be made for a deterioration in the credit quality of the counterparties in operations that generate counterparty risk.

Currently, the Group has no contractual agreements dependent on the level of rating, so a downgrade in credit rating would not have a direct impact on the increase in collateral. In addition, Risk Control analyses the impact on Central Bank policies of the part corresponding to the drop in the price of the bonds held, which is a loss of the available amount of the policy that would not entail the additional provision of guarantees. However, the Bank has control mechanisms in place to deal with fluctuations in sovereign risk and its credit quality.

With regard to wrong-way risk, two types can be defined:

- General adverse correlation risk: Arises when the probability of counterparty default is positively correlated with general market risk factors;

- Specific adverse correlation risk: This arises when future exposure to a specific counterparty is strongly correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty (i.e. inversely related to the credit quality of the counterparty). An institution shall be deemed to be exposed to specific adverse correlation risk if the future exposure to a specific counterparty is expected to be high when the probability of default of the counterparty is also high.

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

The following table details the Group's credit exposure to counterparty risk for transactions subject to counterparty risk at December 31, 2019, estimated as the amount of the Group's credit exposure for these financial instruments, net of the effect of the related contractual netting agreements and the guarantees received from the counterparties to the transactions:

Table 38: Counterparty risk for transactions subject to counterparty risk

Counterparty risk for transactions subject to counterparty risk		
(thousands of euros)	Amount 2019	Amount 2018
Positive fair value of contracts	1,418,333	1,097,887
Minus: Effect of Settlement Agreements	288,708	252,942
Credit exposure after netting	1,129,625	844,945
Minus: Effect of collateral received	187,637	433,999
Credit exposure in derivatives after clearing and guarantees	**941,988**	**410,946**

Information on the calculation method

The following table shows the amount of the Group's consolidable exposure to credit risk by counterparty at December 31, 2019, broken down according to the method applied to calculate the minimum capital requirements associated with this risk:

Table 39: Counterparty risk - calculation method

Method applied		
(thousands of euros)	Amount 2019	Amount 2018
Mark-to-Market Method	941,988	410,946
Original risk method	-	-
Standard method	-	-
Internal models method	-	-
TOTAL ORIGINAL EXPOSURE	**941,988**	**410,946**

The value of the exposure has been calculated, using the mark-to-market valuation method, in accordance with the provisions of Part Three, Title II, Chapter 6 of Regulation (EU) No 575/2013 (CRR). By applying this method, the value of the exposure is determined by the result of the sum of the replacement cost of all contracts with a positive value (determined by attributing a market price to the contracts and transactions) and the amount of the potential future credit risk of each instrument or transaction, calculated in accordance with the provisions of Article 274 of Regulation (EU) No 575/2013 (CRR) and taking into account the particularities contained in that article. The ranges contained in Table 1 of point 2 of that Article have been applied in the calculation of the amount of potential risk.

7.4 - Identification of external rating agencies

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

Table 40: External rating agencies

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

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

7.5 - Effect on risk exposures of applying risk reduction techniques

The application of risk mitigation techniques based on the use of pledge and personal guarantees has, at December, 31 2019, the following effect on exposures net of value adjustments:

Table 41: Exposure net of value adjustments

Exposure net of value adjustments		
(thousands of euros)	Amount 2019	Amount 2018
Exposure net of corrections and provisions	49,951,730	48,503,718
Fully adjusted exposure value	49,743,439	48,051,828
Effect of applying reduction techniques (*)	208,291	451,890

(*) Does not include exposures with Central Counterparties, as it has a compensation mechanism with the constitution of deposits in guarantees that are demanded daily, nor the guarantees received in the contractual compensation agreements.

The following table provides a breakdown by category of exposure and by credit quality levels (measured by the percentage applied for the purposes of calculating the risk-weighted exposure value) that are affected by the application of mitigation techniques:

Table 42: Exposure categories and quality levels

Breakdown by exposure categories and credit quality levels (thousands of euros)

Risk Category	Measurement	0%	20%	75%	100%	150%	Total
Central governments or central banks	Net exposure	9,191,091	-	-	-	-	9,191,091
	Adjusted value	10,893,291	-	-	-	-	10,893,291
Regional governments and local authorities	Net exposure	1,085,200	-	-	-	-	1,085,200
	Adjusted value	1,090,196	-	-	-	-	1,090,196
Public sector entities and other non-profit public institutions	Net exposure	-	5,558	-	-	-	5,558
	Adjusted value	-	5,558	-	-	-	5,558
Multilateral Development Banks	Net exposure	-	-	-	-	-	-
	Adjusted value	13,963	-	-	-	-	13,963
International Organizations	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Institutions	Net exposure	-	514,572	-	-	-	514,572
	Adjusted value	-	619,709	-	-	-	619,709
Corporates	Net exposure	-	-	-	6,875,944	-	6,875,944
	Adjusted value	-	-	-	4,968,554	-	4,968,554
Retail customers	Net exposure	-	-	7,179,076	-	-	7,179,076
	Adjusted value	-	-	7,054,517	-	-	7,054,517
Exposures secured by real estate	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Exposures in default	Net exposure	-	-	-	783,030	53,150	836,180
	Adjusted value	-	-	-	780,544	52,998	833,542
High-risk exposures	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Covered bonds	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit rating	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Exposure to collective investment institutions (CIIs)	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Equity exposures	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Other exposures	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Securitisation positions	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
TOTAL	**Net exposure**	**10,276,291**	**520,130**	**7,179,076**	**7,658,974**	**53,150**	**25,687,621**
	Adjusted value	**11,997,450**	**625,267**	**7,054,517**	**5,749,098**	**52,998**	**25,479,330**
FULL REDUCTION EFFECT		**(1,721,159)**	**(105,137)**	**124,559**	**1,909,876**	**152**	**208,291**

7.6 - Securitisations

7.6.1 - General description and objectives

Securitisations are defined below from the regulatory perspective, in accordance with Regulation (EU) No. 575/2013:

Securitisation: a financial transaction or mechanism whereby the credit risk associated with an exposure or set of exposures is divided into tranches and which has the following two characteristics:

- The payments of the transaction or facility depend on the performance of the securitised exposure or pool of exposures.
- The subordination of the tranches determines the distribution of losses during the period of validity of the operation or mechanism.

Traditional securitisation: securitisation that involves the economic transfer of the securitised exposures to a special purpose securitisation vehicle that issues securities. The transaction may be conducted through the sale by the originator of the ownership of the securitised exposures or through sub-participation, which for these purposes shall include the underwriting of mortgage-backed securities, mortgage transfer certificates and similar securities by the special purpose vehicle. The securities issued by the vehicle do not represent payment obligations of the originator.

Synthetic securitisation: securitisation in which the transfer of risk is carried out through the use of credit derivatives or guarantees, and the securitised exposures remain the exposures of the originator.

Securitisation position: exposure to a securitisation. For this purpose, providers of credit protection with respect of positions in a particular securitisation shall be deemed to hold positions in that securitisation.

Tranche: a contractually established segment of credit risk associated with an exposure or set of exposures, such that a position in the segment involves a risk of credit loss that is greater or less than a position of the same amount in each of the other segments, without taking into account the credit protection offered by third parties directly to the holders of the positions in the segment in question or in the other segments. For these purposes, any securitisation position is either part of a tranche or constitutes a tranche in itself. The following can thus be defined:

- First loss tranche: the most subordinate tranche of a securitisation which is the first tranche to bear the losses incurred in relation to the securitised exposures and therefore provides protection to the second loss tranche and, where appropriate, to the higher-ranking tranches.

- Intermediate risk tranche: this is the tranche, other than a first loss tranche, that has a lower priority in payments than the position with the highest priority in payments of the securitisation and a lower priority than any securitisation position in the same to which a credit quality level 1 is assigned, when it is a securitisation treated under the standard approach.

- Senior tranche: this is any tranche other than a first loss or intermediate risk tranche. Within the senior tranche, the 'maximum preference tranche' means the tranche that ranks first in the order of priority of the securitisation payments, without taking into account, for these purposes, the amounts due under interest rate or currency derivatives contracts, brokerage or other similar payments.

The assessment of these characteristics for the purpose of determining whether or not a securitisation transaction exists is made on the basis of both the legal form and the economic substance of the transaction.

The Group carries out both asset and liability (covered bonds) securitisation transactions, which enable it to obtain liquidity by mobilising part of its loan portfolio, homogenising heterogeneous assets in its portfolio in order to manage them more efficiently with third parties or the market.

Securitisation transactions in which the institution acts as originator are configured as an ideal instrument for the following purposes:

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

Asset securitisation is therefore not a business in itself. The origination of the loans is not intended for their subsequent and systematic distribution or assignment to a securitisation fund.

Furthermore, the quality of the portfolio to be securitised is analysed in detail in terms of LTV, seasoning, geographical diversification, granularity, etc. The portfolio to be securitised is compared with the standard portfolio of the institution in order to maintain on the balance sheet a portfolio of at least the same quality as the securitised portfolio.

7.6.2 - Risks of the Group's securitisation activity

Securitisation activity means better liquidity and risk management. However, there are risks associated with the securitisation activity that are mainly assumed by the originator and/or the investing entities:

- **Credit risk**: risk that the borrower will not meet the contractual obligations assumed in a timely manner, such that the underlying asset that is supporting the originated securitization positions will deteriorate. This is the main risk that is transmitted to investors through the securities issued in the securitisation. The Entity carries out continuous monitoring of the published data on the underlying's default, the originator's credit quality and ratings.

- **Prepayment risk**: risk arising from the total or partial early amortisation of the securitisation's underlying assets, which means that the actual maturity of the securitisation positions is shorter than the contractual maturity of the underlying assets. The assumptions on the early amortisation rates of the underlying assets should be taken into account in monitoring this risk.

- **Base Risk**: occurs when interest rates, or the terms of the securitized assets do not match those of the securitization positions. This risk can be covered by an interest rate swap.

- **Liquidity risk**: liquidity risk is reduced by the securitisation process, which is based on the transformation of illiquid assets into debt securities traded in organised financial markets, so that, from the originator's point of view, liquidity risk is mitigated. Although, in some securitisations, from the investor's point of view, there is no certainty that the bonds will actually be traded in the market with the minimum frequency or volume that will allow positions to be undone at any given time.

In general, the Group hedges part of the credit risk associated with the issues made by the asset securitization funds in which it acts as the originator, by acquiring certain subordinate tranches of these issues ("First loss tranches") issued by the securitization funds.

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

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

a) Bonds issued by securitisation funds whose assets are composed of mortgage bonds from other entities (multicedent bonds). In practice, the bonds are equivalent to mortgage bonds in which the securitisation fund is used as a vehicle to issue homogeneous securities guaranteed by bonds from various entities. In this case, the issues invested in must be of good credit quality and must present a high degree of diversification and quality of the entities issuing the underlying mortgage bonds (in addition to the rating and solvency of the entities, it is important to know, among other factors, their mortgage delinquency and the level of over-collateralisation of the bonds issued to date).

b) Bonds issued by securitisation funds whose assets are composed of various assets, generally mortgage loans. In this case, the issues invested in must be of high credit quality and an analysis of the risk parameters of the securitised portfolio must be carried out beforehand (average LTV, % of high LTV, seasoning, geographical diversification, etc.) and the credit enhancements that the tranches to be invested may enjoy.

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

Prior to investing and following Article 406 of Regulation (EU) No 575/2013, the institution is aware of the entire securitisation position by applying the appropriate formal policies and procedures in proportion to the risk profile of its investments in securitised positions, recording:

- The information disclosed by the originators or sponsors to specify the net economic interest they hold, on an ongoing basis, in the securitisation;
- The risk characteristics of each securitisation position;
- The risk characteristics of the exposures underlying the securitisation position;
- The reputation and loss history in prior securitisations of the originators or sponsors in respect of the relevant categories of exposure underlying the securitisation position;
- Statements and disclosures by originators or sponsors regarding the due diligence on the securitised exposures and, if applicable, on the quality of the collateral supporting the securitised exposures;
- Where appropriate, the methodologies and concepts on which the valuation of the collateral supporting the securitised exposures is based and the policies adopted by the originator or sponsor with a view to ensuring the independence of the appraiser, and all the structural features of the securitisation that may have a significant impact on the evolution of the securitisation position;
- All structural features of the securitisation that may have a significant impact on the evolution of the institution's securitisation position, such as the contractual order of priority of payments and related triggers, credit and liquidity enhancements, market value triggers and transaction-specific definitions of default.

In the event that the requirements of Articles 405 and 406 of Regulation (EU) No 575/2013 are not met in any material respect due to any negligence or omission of the institution, in accordance with Article 407 of that Regulation, the competent authorities shall impose a proportionate risk weight of not less than 250% of the risk weight (with a maximum limit of 1,250%) to be applied to the relevant securitisation positions.

7.6.3 - Functions performed in the securitisation processes and degree of involvement

The main functions that the Group performs in the securitisation operations in which it participates are the following:

- Originator of the credit rights: in its securitisation activity, the Group may participate in various securitisation funds.
- Assignor and Administrator of the assets assigned to the Securitisation Funds: in its securitisation activity, the Entity may assign part of its loans and act as administrator of the securitised assets, managing the collection of amortisations and interest, recovery service and monitoring and recovery of impaired assets.
- The management of the securitisation funds originated by the Group is carried out by TDA, S.G.F.T., S.A. However, in the case of new securitisation transactions, the choice of management entity would be made taking into account the capabilities and experience of the potential candidates.
- Investor entity through the acquisition of securitization bonds issued by other entities: The Group may hold positions in securitization funds originated by entities outside the Group, whose underlying assets are mainly loans to companies, SMEs and mortgages.

Process of monitoring and/or tracking variations in the associated risk:

With regard to the processes applied to monitor changes in the credit risk of securitisation exposures, in addition to periodically reviewing the corresponding external credit rating of the exposures, periodic, ongoing and timely monitoring shall be performed in proportion to the risk profile of the investments in securitisation positions and the information on the evolution of the exposures underlying the securitisation positions, which may be analysed, among other parameters, and provided that the information is applicable and available, the type of exposures, the percentage of loans more than 30, 60 and 90 days past due, default rates, early repayment rates, loans subject to foreclosure, the type and occupancy of collateral, the frequency distribution of credit quality measures of the various underlying exposures, sector and geographic diversification, the frequency distribution of loan-to-value ratios, with bandwidths to facilitate appropriate sensitivity analysis, or other.

Finally, the process of securitisation of the Entity's assets is described:

- Securitisation must be approved by the Entity's governing bodies.
- To this end, the General Shareholders' Meeting is periodically asked to authorise the Board of Directors to agree to the securitisation of assets for a certain amount at the time when market conditions so advise.

- With this agreement in force, the Global Risk Committee decides on the most appropriate time to carry out a securitisation and establishes ranges in which the securitisation transaction can be carried out for certain relevant parameters. Among others, the parameters it must determine are the following:
    - Volume to be securitized.
    - Minimum rating to be obtained by the rating agencies.
    - Quality of the loan portfolio to be securitised (LTV, *seasoning,* geographical diversification, granularity, etc.).
    - Financial costs and expenses to be assumed in the operation
    - Degree of risk transfer that should occur in the securitisation.
    - Impact on solvency ratios as a result of securitisation.
- The Financial Markets Department determines with the rating agencies the necessary credit improvements (reserve fund, subordination below the highest credit rating bracket, interest rate swap differential, etc.) to obtain the requested credit rating.
- Similarly, the Financial Markets Department will take into account the provisions of article 409 of Regulation (EU) No. 575/2013 in relation to Ibercaja, as the originator of a securitisation transaction, communicating to investors the level of its commitment to maintain a net economic interest in the securitisation, confirming article 405 of the aforementioned Regulation. In addition, as an originator, it shall ensure that investors have easy access to all relevant data on the credit quality and performance of the various underlying exposures, cash flows and collateral supporting a securitisation exposure, as well as all information necessary to conduct thorough and documented stress tests on the cash flows and value of the collateral supporting the underlying exposures.
- With the information obtained, the General Accounting Unit verifies that the degree of risk transfer and the effect on the solvency ratios obtained are within the range approved by the Global Risk Committee. If this is not the case, the Global Risk Committee must again discuss the suitability of the securitisation transaction.
- In addition, at the time of carrying out this securitisation transaction, the Managing Director requests authorisation from the Board of Directors to carry it out.
- Once the securitisation operation has been carried out, the tasks of administration, risk monitoring and recovery of the irregular investment are carried out in the same way for the securitised loans as for the rest of the Entity's credit operations. The classification of a loan or, in general, of an asset as securitised does not therefore affect the investing offices so that such operations are treated in the same way as those of the non-securitised portfolio.
- The loan portfolio to be securitized must be adequately documented in order to be approved by the external audit required by the CNMV. To this end, the documentation of all the operations in the portfolio to be securitised will be reviewed in order to previously correct any possible errors in its main characteristics (purpose of the loan, holders, date of formalisation, date of maturity, reference interest rate, spread, outstanding balance, valuation, etc.) prior to the aforementioned audit.

- All legal documentation is examined by the Legal Department. The main documents are the public deed of incorporation of the Asset Securitization Fund and the Securities Note of the securitization bond issue which will be verified by the CNMV. The entity works in coordination with the securitization manager, the rating agencies and the CNMV throughout this process.

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

7.6.4 - Accounting treatment of transfers of financial assets

In accordance with Bank of Spain Circular 4/2017, for securitisation transactions originating before January 1, 2004, the assets associated with the securitisation are removed from the balance sheet.

For operations carried out after the mentioned date, Circular 4/2017 determines that securitisations in which the assignor assumes subordinated financing or another type of credit improvement for a part of the transferred asset are operations where the risks and benefits associated to the ownership of the financial asset are not substantially transferred, this being a necessary condition to be able to remove the securitised assets from the balance sheet.

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

- If the risks and rewards of the transferred assets are transferred substantially to third parties, the transferred financial asset is derecognised and any rights or obligations retained or created as a result of the transfer are simultaneously recognised.

- If the risks and rewards associated with the transferred financial asset are substantially retained, in the case of financial asset securitisations in which subordinated financing or other types of credit enhancement are held that substantially absorb the expected credit losses for the securitised assets, the transferred financial asset is not derecognised from the consolidated balance sheet and continues to be measured using the same criteria as those used prior to the transfer. On the contrary, they are recognized for accounting purposes, without offsetting each other:

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

  - Both the income from the financial asset transferred, but not derecognised, and the expenses of the new financial liability.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the risks and rewards associated with the transferred assets have been transferred to third parties.

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

7.6.5 - Originated securitisations

At December 31, 2019, the Group held positions in securitisations in which it had participated as an originator. The Group does not hold positions in re-securitisations nor does it hold securitisation positions in the trading portfolio.

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

Currently, the Group has no assets pending securitisation or securitised credit lines subject to early repayment treatment. The following table shows the Group's securitised exposures at December 31, 2019:

Table 43: Types of securitisation

Type of securitisation	
(thousands of euros)	Amount 2019
Covered bonds	1,842,137
Mortgage loans	2,707,842
On-balance	2,707,842
Off-balance	-

The following table shows a detail of the positions held in securitisation transactions by the consolidable Group at December 31, 2019.

Table 44: Types of securitisation positions

Type of securitisation positions		
	2019	
(thousands of euros)	Exposure amount	Subject to the standard method under part third, title III, Chapter 5 CRR
A) Positions held on securitizations in which the Group acts as originator	2,546,636	-
A.1) Positions held in traditional securitizations	2,546,636	-
A.1.1) Positions held in multi-transfer securitizations	-	-
A.1.2) Positions held in the rest of securitizations	2,546,636	-
B) Positions acquired in securitizations in which the Group does not act as originator	-	-
B.1) Positions held in traditional securitizations	-	-
B.1.1) Positions held in multi-transfer securitizations	-	-
B.1.2) Positions held in the rest of securitizations	-	-
B.2) Positions held in synthetic securitizations	-	-

7.6.6 - Calculation of risk-weighted exposure amounts for securitisation positions

The Group calculates its capital requirements for positions held in securitisation transactions by applying the standard method defined in Part Three, Title II, Chapter 5, Section Three, Subsection Three of Regulation (EU) No 575/2013 (CRR).

For own securitisations, the Group calculates the regulatory capital for the positions held in the securitisation only if the securitisation fund meets the regulatory conditions determining effective and significant risk transfer set out in article 244 of Regulation (EU) No 575/2013. Otherwise, capital is calculated for the securitized exposures as if they had not been securitized.

For the securitisations indicated below, the securitised underlying assets compute as credit risk, in the absence of substantial risk transfer, in accordance with Article 244 of Regulation (EU) No. 575/2013 (CRR):

- Securitisation carried out in 2005, with a balance at year-end of €176,227 thousand and retained positions of €99,552 thousand.
- Securitisations carried out in 2006, with a balance at year-end of €620,694 thousand and with positions retained of €413,252 thousand.
- Securitisation carried out in 2007, with a balance at year-end of €370,272 thousand and with positions retained of €319,825 thousand.
- Securitisation carried out in 2008, with a balance at year-end of €595,352 thousand and with positions retained of €572,787 thousand.
- Securitisations carried out in 2009, with a balance at year-end of €1,227,379 thousand and with positions retained of €1,141,220 thousand.

At December 31, 2019, there was no outstanding balance of assets securitised by the Group in transactions to which the regime contained in Part Three, Title II, Chapter 5 of Regulation (EU) No. 575/2013 (CRR) for the calculation of weighted exposure amounts for credit risk for the purpose of determining capital requirements applies, due to the fact that in July 2019 the Group amortised these assets.

7.7 - Risk Mitigation Techniques

7.7.1 - General information

Within the guarantees admitted in the standard calculation as eligible credit risk mitigation techniques provided for in Part Three, Title II, Chapter 4 of Regulation (EU) No. 575/2013 (CRR), the Group admits and manages mainly the following:

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

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

Of the credit risk reduction techniques referred to above, the Group is including in the credit risk mitigation calculation the personal guarantees, the real guarantees materialised in temporary acquisition transactions and the netting agreements with collateral agreements.

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

In Ibercaja, the main types of security interests available are as follows, as detailed in the Admission Policy, approved by the Board of Directors:

- Mortgage guarantees

Fundamentally constituted by households in the operations that the holders correspond to Families and Individuals, with the general criterion of not exceeding 80% of the appraisal value. In the case of transactions by customers of the Productive Activities segment, excluding developers, the real estate affected is mainly warehouses, premises and rustic properties and, to a lesser extent, premises. The general criterion of not exceeding 70% of the appraisal value has been established, although this will be modulated downwards depending on the quality of the asset subject to the guarantee.

In financing the developer segment, guarantees are provided for land on which future projects will be carried out or, in the case of real estate projects, for all the land and work in progress.

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

The subrogation operations of property development loans for the acquisition of housing do not require obtaining an updated valuation of the property. This exception is made without prejudice to the fact that, at the expert's discretion, it is considered appropriate to request a new valuation.

- Pledging of deposits and account balances

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

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

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

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

- Pledging of investment funds and real estate.

  The value of these assets may change over the life of the risk and, therefore, the funds or securities pledged must be deposited with Ibercaja or the Group's management entity, and their availability to formalise the financing transaction is blocked.

- Pledging of goods.
- Assignment of credit rights (subsidies, rents, VAT, etc.) and advance payment of certifications from public bodies.
- Guarantors and third-party guarantees (S.G.R., Financial Institutions, Public Bodies...)
- Comfort letter.
- Assignment of insurance collection rights.
- CESCE insurance in Factoring.
- Depreciation insurance in single-person operations of significant amount.

The Entity has defined protocols for action, evaluation and control of the risks for each of the types of guarantees admitted. Control and monitoring exercises are carried out on a recurring basis, established for each type, such as re-evaluations, updating of amounts, values, etc.

7.7.2 - Quantitative information

The following table details the distribution of the Group's credit risk exposure at December 31, 2019, broken down according to whether or not credit risk mitigation techniques are applied and, if so, the mitigation technique applied (the exposure data refer to exposures prior to the application of risk mitigation):

Table 45: Credit risk exposure by mitigation technique

Credit risk exposure by mitigation technique		
(thousands of euros)	Exposure value 2019	Exposure value 2018
A) Exposures to which no credit risk mitigation technique is applied	47,848,524	47,132,668
B) Exposure to which a credit risk mitigation technique is applied	2,962,222	2,796,259
• Netting agreements for balance sheet transactions	-	-
• Master netting agreements relating to repurchase agreements, securities or commodity lending transactions or other capital market-related transactions	924,566	379,423
• Security interests	211,359	462,602
• Other security interests	-	-
• Coverage based on personal guarantees	1,826,297	1,954,234
• Credit derivative hedges	-	-

The following table shows the total value of the exposures at December 31, 2019 that are covered by the application of risk mitigation techniques based on the use of collateral:

Table 46: Total value of exposure covered by collateral-based risk reduction techniques

Exposure covered by collateral-based risk mitigation techniques						
(thousands of euros)	With eligible financial guarantees		With other eligible security interests		Total	
	2019	2018	2019	2018	2019	2018
TOTAL RISK CATEGORIES	**211,359**	**462,602**	**-**	**-**	**211,359**	**462,602**
Central governments or central banks	-	-	-	-	-	-
Regional governments and local authorities	-	-	-	-	-	-
Public sector entities and other non-profit public institutions	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-
International Organizations	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	193,114	448,152	-	-	193,114	448,152
Retail customers	17,893	14,057	-	-	17,893	14,057
Exposures secured by real estate	-	-	-	-	-	-
Exposures in default	352	393	-	-	352	393
High-risk exposures	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Exposures to institutions and companies with short-term credit ratings	-	-	-	-	-	-
Exposure to collective investment institutions (CIIs)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-

The following table shows the value of the exposures at December 31, 2019 covered by the application of risk mitigation techniques consisting of the use of personal guarantees:

Table 47: Value of exposure covered by risk reduction techniques based on personal guarantees

Exposure covered by risk reduction techniques based on personal guarantees				
(thousands of euros)	With personal guarantees		Total	
	2019	2018	2019	2018
TOTAL RISK CATEGORIES	**1,826,297**	**1,954,234**	**1,826,297**	**1,954,234**
Central governments or central banks	-	-	-	-
Regional governments and local authorities	-	-	-	-
Public sector entities and other non-profit public institutions	-	50,624	-	50,624
Multilateral Development Banks	-	-	-	-
International Organizations	-	-	-	-
Institutions	-	5,983	-	5,983
Corporates	1,717,345	1,801,066	1,717,345	1,801,066
Retail customers	106,666	94,898	106,666	94,898
Exposures secured by real estate	-	-	-	-
Exposures in default	2,286	1,663	2,286	1,663
High-risk exposures	-	-	-	-
Covered bonds	-	-	-	-
Exposures to institutions and companies with short-term credit ratings	-	-	-	-
Exposure to collective investment institutions (CIIs)	-	-	-	-
Equity exposures	-	-	-	-
Other exposures	-	-	-	-
Securitisation positions	-	-	-	-



8

MARKET RISK

8. Market Risk

8.1 - Definition of market risk

Market risk is defined as the possibility of incurring losses from maintaining market positions as a result of an adverse movement in financial variables or risk factors (interest rates, exchange rates, share prices, commodity prices), which determine the value of such positions.

Among the activities included in the Group's market risk management is the trading of cash positions and derivatives on fixed-income and/or equity instruments with the aim of obtaining profits from their purchase and sale in the short and/or medium term. Therefore, it affects the trading portfolio with speculative purposes, which is documented in the "Capital Markets Department Policy Manual".

8.2 - Market risk management

The group has tools for measuring, controlling and monitoring the market risk area and the authorised limits for it, in particular Value at Risk (VaR) analysis and stress tests that analyse the impact of different risk factor scenarios on the value of the portfolio being measured.

This process of evaluation and analysis of market risk is established through the development of functions such as market data management, measurement and control.

In addition, the system of admission, management and supervision of market risk is based on the establishment of limits and diversification, thus controlling exposure to market risk. The Entity carries out various operations in the financial markets within a defined action framework.

The Entity also defines limits in order to avoid excessively concentrated market risk exposures.

For market risk management, the Entity documents the strategies, policies and limits in the "Capital Market Management Policy Manual", approved by the Board of Directors, which implies its active participation in the risk management process.



9 OPERATIONAL RISK

9. Operational risk

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

Specifically, Title III of the CRR develops the equity requirements for operational risk and the general principles governing the use of the various methods for their calculation.

The main purpose of Law 10/2014 of June 26 on the organisation, supervision and solvency of credit institutions is to adapt our legislation to the regulatory changes imposed at international level. Article 39 of this law states that Regulation (EU) No. 575/2013 of June 26 constitutes solvency regulations for credit institutions.

In this context, Ibercaja has an organisational, methodological and risk management model, including operational risk, which has tools, procedures and models that favour efficient management and, particularly, in the case of operational risk, that enable the measurement of capital requirements using the standard method.

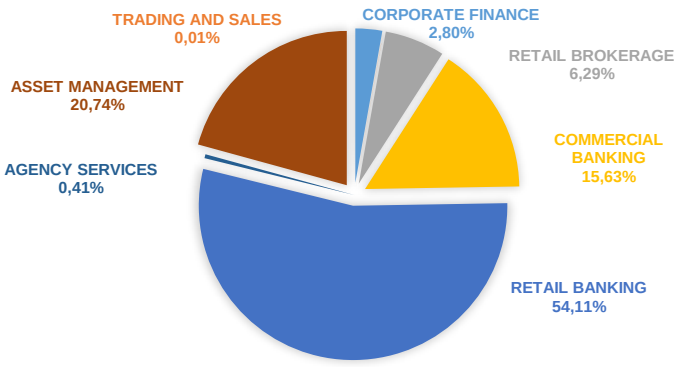
9.1 - Capital requirements for operational risk

The Ibercaja Group has opted for the application of the Standardised Approach to determine operational risk capital.

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

The distribution by Business Line at December 2019 of the RWA of operational risk capital is as follows:

Illustration 8: Distribution by Business Line of the RWA of Operational Risk Capital in %.



9.2 - Operational Risk Management. Objectives and justification

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

Improving quality in process management implies:

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

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

9.3 - Structure and Organization of Operational Risk Management

The day-to-day management of operational risk is the responsibility of the business and support units and the subsidiaries. To this end, each unit identifies an operational risk coordinator who is responsible for identifying, managing and reporting on operational risks in its area of activity and any processes under its responsibility.

The Market, Operational and Reputational Risk Control Unit, which reports to the Risk Control Department and, in turn, to the General Secretariat and Control Department as a second line of defence, defines and coordinates the application of methodologies for evaluating and measuring operational risk; analyses, informs and advises the various business units and corporate departments on the best way to measure, analyse and report operational risk; and generates the information to support decision-making by senior management.

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

9.4 - Operational Risk Categories

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

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

This methodology has made it possible to obtain subcategories of Operational Risk: new risk typoligies associated with individual risks are included. These subcategories include, among others, the following risks

- Conduct Risk
- ICT risk
- Model Risk

9.5 - Methodologies for measuring Operational Risk

Ibercaja uses a combination of the following operational risk measurement methodologies

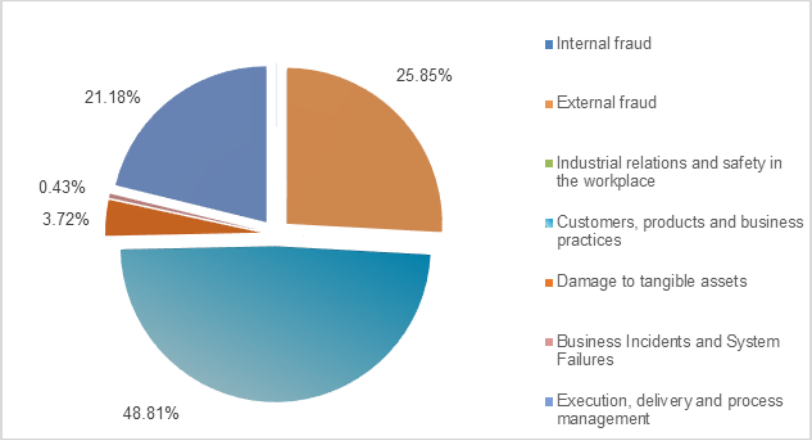
- **Quantitative methodologies based on:**
  - Identification, recording of losses derived from operational risk in a loss database and evolutionary analysis of the latter.
- **Qualitative methodologies based on:**
  - Operational risk map, consisting of the identification and evaluation of operational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

9.6 - Loss Database

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

Below is a graph showing the distribution of the Group's operating loss events during 2019 by regulatory category:

Illustration 9: Loss events by risk category in %



The Operational Loss Database has a control or filtering system that, depending on the amount, requires subsequent validation by the corresponding unit or subsidiary, or by the Market, Operational and Reputational Risk Control Unit, giving greater reliability and integrity to the data and the homogeneous application of criteria.

9.7 - Self-assessments

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

Among the objectives of the qualitative methodology are:

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

Likewise, this process incorporates the assessment of the reputational impact of the risks, responding to the regulatory recommendations on the matter.

During 2019, the annual update of the operational risk self-assessment was completed (around 600 risks), concluding with a medium-low risk profile.

9.8 - Operational Risk Indicators

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

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

- Identify the causes that generate the risks.
- Act as a warning signal for increased levels of risk.
- Check the effectiveness of controls and improvements made to them.

9.9 - Action Plans

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

Thus, together with obtaining the Entity's operational risk profile, the Ibercaja Group periodically adopts measures aimed at mitigating operational risk, using procedures that enable mitigation plans to be established and monitored.

10 HOLDINGS AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

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

10.1 - Classification, valuation and accounting criteria

Notes 2.1 and 2.2.4 to the Group's consolidated financial statements for 2019 include a description of the portfolios into which the Group's investments and equity instruments are classified, together with the accounting policies and measurement bases applied to each of them. These notes also indicate the models and assumptions applied to determine the value of the instruments included in each portfolio.

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

The Group has interests in entities in whose management and decision-making processes it participates to a greater or lesser extent and with which it seeks to achieve objectives that form part of the Group's strategy and in which it intends to maintain a permanent relationship with its shareholders ("strategic investments"). It also has interests in other entities with different objectives, basically consisting of maximising the results obtained through their management ("Financial assets at fair value through other comprehensive income").

The Group's holdings and equity instruments are held for strategic purposes and are classified for accounting purposes in the category of Group companies, associates and jointly controlled entities. Also, certain investments classified in the category of financial assets at fair value through profit or loss are also held strategically.

Among the strategic investments classified in the category of financial assets at fair value through other comprehensive income is the investment in Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (Caser). As presented in Note 1.10 to the 2019 financial statements, on January 24, 2020, Ibercaja Banco, S.A. entered into a purchase and sale agreement with Helvetia Schweizerische Versicherungsgesellschaft AG in relation to a portion of its ownership interest in Caser, representing 4.45% of the share capital and voting rights of this entity. The positive impact of this sale on Ibercaja's fully-loaded Common Equity Tier 1 (CET1) ratio is estimated at approximately 22 basis points.

10.2 - Quantitative information

The carrying amount of the investments owned by the Group at December31, 2019 that are not included in the trading portfolio is €500,183 thousand.

The following is a detail of the exposure to equity investments and instruments held by the Group at December 31, 2019, excluding the exposure to instruments forming part of the trading portfolio, as defined for the purposes of equity requirements in section 10.1 above:

Table 48: Value of exposures to equity and capital instruments

Exposure to equity and capital instruments		
(thousands of euros)	Exposure amount 2019	Exposure amount 2018
Listed equity instruments	159,890	133,261
Unlisted equity instruments	710,839	677,406
TOTAL	**870,729**	**810,667**

The amount of the profits recorded by the Group in 2019 for sales of investments forming part of the consolidable Group amounted to €32 thousand.

In addition to the above, the Group has recorded an increase in equity as a result of changes in the value of holdings in equity instruments other than those included in the trading portfolio, amounting to €32,980 thousand.

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11 STRUCTURAL INTEREST RATE RISK

11. Structural interest rate risk

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

The sources of interest rate risk are:

- Gap risk: risk associated with the different time structure of interest-rate-sensitive balance sheet instruments, arising from differences in the timing of their repricing or maturity.
- Basis risk: Risk arising from the different benchmarks used for their repricing, the asset and liability instruments that are sensitive to interest rates.
- Optionality risk: risk arising from implicit or explicit options, which arises when either the entity or the customer has the option to alter future cash flows if it is beneficial to them. It includes the risk of customer behaviour according to the evolution of interest rates (behavioural option).

11.1 - Changes in interest rates

Following is a detail of the sensitivity profile of the Group's balance sheet to interest rate risk at December 31, 2019, indicating the carrying amount of the financial assets and liabilities affected by this risk, which are classified on the basis of the estimated period to the interest rate review or maturity date.

As of December 31, 2019:

Table 49: Balance sheet sensitivity profile at December 31, 2019

	Terms until the effective interest rate or maturity adjustment						
(million euros)	< 1 month	Between 1 and 3 months	3 months to 1 year	Sensitive Balance	Non-sensitive balance	Between 1 and 5 years	> 5 years
Assets	10,533	8,642	16,439	35,614	12,675	2,592	10,083
Liabilities	10,850	3,658	12,284	26,792	21,497	15,578	5,919
Gap Period	(317)	4,984	4,155	8,822	(8,822)	(12,986)	4,164

Sensitive balances are considered to be those maturing or being revalued in the next twelve months. This period is established as a reference for quantifying the effect of changes in interest rates on the Group's annual net interest income.

The Gap shown in the table represents the difference between the sensitive assets and liabilities in each period, i.e. the net balance exposed to price changes. The average Gap in the period amounted to €5,594 million, i.e. 11.58% of assets.

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

Table 50: Impact of changes in interest rates

Terms until the effective interest rate or maturity adjustment					
		2019		2018	
		Increase	Decrease	Increase	Decrease
Impact on the Group's net interest income	200 points	21.88%	(15.63)%	19.56%	(0.42)%
Impact on the Economic Value /Own Funds	200 points	0.46%	2.54%	4.82%	3.42%

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

In turn, the impact on the economic value of the Entity of a 200-basis point rise in interest rates is €28.80 million, 0.86% of the economic value of assets, and in the face of a 200-basis point fall it is €157.36 million, 4,72% on the economic value of assets (in December 2018, €301.81 million and 4.82% on increases and €214.04 million and 3.42% on decreases) on the assumption that movements in interest rates occur instantly and are the same for all points on the curve, with a floor of 0%.

Information on the assumptions regarding early loan repayments and the behaviour of non-maturity deposits is set out in Chapter 6 of this document.



12 LIQUIDITY AND FINANCING RISK

12. Liquidity and financing risk

Liquidity risk is defined as the possibility of incurring losses because sufficient liquid funds are not available or cannot be accessed to meet payment obligations.

At December 31, 2019, the Entity's available liquidity amounted to €11,468 million (€10,917 million at December 31, 2018) and its issuance capacity was €7,307 million (€6,290 million at December 31, 2018). Thus, total availability stands at €18,775 million (€17,207 million at December 31, 2018), an increase of €1,569 million compared to the end of last year. During 2019, wholesale maturities were serviced for a nominal amount of €701 million: mortgage bonds (€530 million), securitization bonds owned by third parties (€111 million), subordinated bonds (€60 million). In addition, repurchases of own issues for €24 million, instrumented in asset-backed securities, were carried out.

A breakdown of the available liquidity is given below:

Table 51: Breakdown of available liquidity

Breakdown of 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 out-of-policy assets	2,432,048	4,835,712
Other marketable assets not eligible for the Central Bank	381,397	432,195
Accumulated available balance	**11,467,882**	**10,916,848**

The guarantee policy with the ECB includes pledged assets amounting to €6,609 million at December 31, 2019 (€8,133 million at December 31, 2018), of which €1,650 million have been drawn down (€1,722 million maturing in June 2020 have been repaid in advance), leaving €4,983 million available (€4,761 million at December 31, 2018) to meet its liquidity needs.

In addition to the aforementioned policy, the Entity has a wide range of funding sources:

- Thus, the broad base of retail deposits stands out for €29,386 million, of which 85% correspond to stable balances.
- The entity has collateral financing of €5,603 million, of which €2,520 million are contracted in central counterparty entities.
- Wholesale issues for €3,808 million characterized by the diversification of their maturities.
- Deposits from Group financial institutions of €736 million.
- Deposits from other customers of €2,794 million, among others

The Entity's balance sheet does not present significant concentrations of liquidity risk in its assets or sources of financing.

The following table shows the breakdown by term of the contractual maturities of assets and liabilities (liquidity gap) at December 31, 2019 and December 31, 2018:

Table 52: Breakdown by term of contractual maturities of assets and liabilities

	Breakdown by term of contractual maturities of assets and liabilities						
(thousands of euros)	On demand	1 month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years	Total
ASSETS							
Loans and advances to credit institutions	39,720	3,556	57,200	-	-	149,239	249,715
Loans to other financial institutions	-	21,090	9,270	206	810	-	31,376
Reverse repurchase agreements and securities lending	-	1,581,606	34,147	-	106,391	-	1,722,144
Loans (including past-due, doubtful, failed 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
Hedge 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 at December 31, 2019	**39,720**	**2,497,835**	**1,920,971**	**3,209,299**	**9,256,178**	**24,498,431**	**41,422,434**
Total at December 31, 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 institutions	4,134	14,836	-	2,000	600	2,386	23,956
Deposits from other financial institutions and agencies	655,631	303	544	31,105	170,660	-	858,243
Deposits of large non-financial corporations	86,184	-	-	-	-	-	86,184
Financing from the rest of the clientele	27,746,615	575,149	960,513	2,515,253	382,093	972	32,180,595
Funds for mediation credits	-	16,781	21,034	151,985	358,798	120,779	669,377
Financing with securities collateral	-	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
Hedge derivatives	-	38	3,283	15,250	40,857	(3,927)	55,501
Formalised loans pending disbursement	-	434,866	-	-	-	-	434,866
Commitments available from third parties	2,966,973	-	-	-	-	-	2,966,973
Financial guarantees issued	7	2,973	34	181	5,916	13,403	22,514
Total at December 31, 2019	**31,459,544**	**4,953,445**	**1,346,034**	**5,405,378**	**2,692,473**	**1,308,072**	**47,164,946**
Total at December 31, 2018	**29,328,835**	**2,167,766**	**1,347,540**	**4,142,607**	**6,864,350**	**1,360,184**	**45,211,282**
Gap of the period 2019	**(31,419,824)**	**(2,455,610)**	**574,937**	**(2,196,079)**	**6,563,705**	**23,190,359**	
Gap of the period 2018	**(29,291,484)**	**337,967**	**260,449**	**(834,861)**	**2,940,452**	**24,643,987**	
Accumulated Gap (without on-demand savings) 2019		**(2,455,610)**	**(1,880,673)**	**(4,076,752)**	**2,486,953**	**25,677,312**	
Accumulated Gap (without on-demand savings) 2018		**337,967**	**598,416**	**(236,445)**	**2,704,007**	**27,347,994**	

*Includes principal and interest maturities and no assumptions of new business.

The maturity of demand deposits is not determined contractually. It has been recorded in the first time window (overnight) although these deposits are mostly stable.

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

With regard to other contingent risks, the Group controls the position of:

- Financing received from mutual funds and pension plans with clauses that trigger repayment based on credit rating downgrades by Ibercaja Banco. At the end of 2019, there was no amount affected by the downgrading of the rating.

- Liability derivatives for €77 million, which required additional guarantees for €82 million, and active derivatives for €27 million, for which additional guarantees for €27 million were received. Additionally, those made by the camera have required additional guarantees for €84 million.

- Financing with collateral of securities for €3,809 million, which required the provision of additional guarantees for €509 million in cash (guarantees include both repos and repurchase agreements).

- EIB financing of €535 million, requiring the provision of €508 million in fixed-income guarantees.

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

In relation to the financial guarantee contracts issued, the nominal amount of the guarantee does not necessarily represent an actual disbursement obligation or liquidity requirement, which will depend on the fulfilment of the conditions for the disbursement of the amount of the guarantee committed.

On the other hand, the Ibercaja Group does not hold speculative foreign currency positions.

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

The main intra-group liquidity policies and flows are summarised below:

Financial Group

- The Ibercaja Group receives the Financial Group's contribution to the consolidated income statement in the form of dividends and fees.
    - Ibercaja Banco receives dividends from the subsidiaries of the Financial Group,
    - The parent entity charges fees for marketing and advisory services to subsidiaries of the Financial Group.
- Investment activity of the Financial Group's subsidiaries in the parent entity: the Financial Group's main subsidiaries maintain active positions with the parent entity in term deposits, current accounts or other financial instruments, linked to the management of their cash and equity.
- Ibercaja Leasing's activity: as Ibercaja Leasing's credit activity increases, the parent entity provides financing either directly or through agreements with the Instituto de Crédito Oficial - ICO.

Real Estate Group

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

Instruments and services

- As for the service provision subsidiaries, there are no significant financial relationships.

Financing Vehicles

- With regard to the Securitisation Funds, Ibercaja Banco carried out securitisations until 2009 with the aim of obtaining liquidity, improving the consumption of own resources and transferring credit risk. Most were placed on the wholesale market except for the latest securitisations (2008 - 2009) which were retained by the Bank to serve as collateral in the ECB's guarantee policy.
- After the issue, the Bank carried out buybacks from third parties in order to strengthen its balance sheet, which resulted in a portfolio of securitized bonds.

No other additional items, not included in this section, but relevant to its liquidity profile, have been considered relevant for the calculation of the LCR.

12.1 - Quarterly evolution of the LCR in 2019

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

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

The LCR (Liquidity Coverage Ratio) of the Ibercaja Group at December 31, 2019 was 307.07% (306.78% at December 31, 2018), while the NSFR (Net Stable Funding Ratio) at December 31, 2019 was 131.41% (130.45% at December 31, 2018).

The values for each quarter of 2019 and 2018 are shown below, in consolidated terms:

Table 53: Quarterly evolution of the LCR - values at March 31, 2019

(thousands of euros)		
Quarter end date	31-Mar-19	31-Mar-18
Liquidity buffer	8,848	7,258
Total net cash outflow	2,491	2,736
Liquidity Coverage Ratio (%)	355%	265%

Table 54: Quarterly evolution of the LCR - values at June 30, 2019

(thousands of euros)		
Quarter end date	30-Jun-19	30-Jun-18
Liquidity buffer	9,268	7,552
Total net cash outflow	2,569	2,702
Liquidity Coverage Ratio (%)	361%	280%

Table 55: Quarterly evolution of the LCR - values at September 30, 2019

(thousands of euros)		
Quarter end date	30-sep-19	30-sep-18
Liquidity buffer	9,012	7,084
Total net cash outflow	2,350	2,511
Liquidity Coverage Ratio (%)	384%	282%

Table 56: Quarterly evolution of the LCR - values at December 31, 2019

(thousands of euros)		
Quarter end date	31-Dec-19	31-Dec-18
Liquidity buffer	7,849	8,344
Total net cash outflow	2,556	2,720
Liquidity Coverage Ratio (%)	307%	307%

12.2 - Liquidity and financing perspective

The following table shows the maturities of the long-term wholesale financing at December 31, 2019:

Table 57: Maturities of wholesale financing

	Wholesale financing maturities						
(thousands of euros)	On demand	1 month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years	Total
Senior debt	-	-	-	-	-	-	-
State-guaranteed debt	-	-	-	-	-	-	-
Subordinate and preferential	-	-	-	500,000	350,000	-	850,000
Mortgage and territorial bonds and certificates	-	-	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 emissions	**-**	**3,556**	**223,211**	**741,598**	**1,640,708**	**1,199,015**	**3,808,088**
Long-term securities collateral financing		**-**	**-**	**1,650,000**	**-**	**-**	**1,650,000**
Expiry dates of 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**	**-**

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

The policy of diversifying the maturities of wholesale issues over time will enable the Entity to cover the maturities of the coming years, maintaining a comfortable liquidity position. Thus, taking into account the available liquidity (€11,468 million), the Entity could cover the total maturities of the long-term wholesale financing (€3,808 million). It also has an issuance capacity of €7,307 million (total availability of €18,775 million).



13

ASSET ENCUMBRANCE

13. Asset encumbrance

13.1 - General information

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

In this regard, the European Banking Authority has developed Guidelines on the disclosure of information on both charged and uncharged assets in compliance with the mandate set out in the Capital Requirements Regulation (EU) No 575/2013.

According to the EBA Guidelines for Disclosure of Charged and Uncharged Assets (EBA/GL/2014/3), an asset is considered to be encumbered when it has been pledged or is subject to any form of agreement, from which it cannot be freely drawn, under which it is intended to serve as security or to enhance the credit quality of any on-balance-sheet or off-balance-sheet transaction.

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

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

13.2 - Quantitative information

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

There are no significant differences between the scope used in this document and the scope of liquidity management on a consolidated basis, as required by Regulation (EU) No 575/2013.

Table 58. Encumbered and unencumbered assets, year 2019

Encumbered and unencumbered assets, as at December 31, 2019								
(thousands of euros)	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting entity	**8,910,863**	**1,495,958**			**37,026,370**	**7,080,908**		
Equity instruments	-	-			346,643	113,354		
Debt securities	1,454,230	1,400,473	1,467,816	1,411,889	5,270,248	5,145,616	5,518,227	5,346,944
of which: covered bonds	2,418	2,469	2,418	2,469	33,093	32,690	34,059	33,581
of which asset-backed securities	22,768	22,768	22,792	22,792	28,300	22,449	28,324	22,473
Of which: issued by general governments	579,124	522,964	590,857	533,375	4,216,012	4,242,335	4,462,244	4,442,803
Of which: issued by financial corporations	869,991	888,698	871,843	889,902	1,033,661	902,648	1,088,085	904,730
Of which: issued by non-financial corporations	-	-	-	-	67,489	12,671	67,419	12,852
Other assets	7,383,535	38,912			31,421,644	1,772,978		

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

Table 59. Collateral received, year 2019

Collateral received				
(thousands of euros)	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**127,946**	**127,946**	**1,686,709**	**1,596,909**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	127,946	127,946	1,686,709	1,596,909
of which: covered bonds	-	-	-	-
of which asset-backed securities	-	-	-	-
Of which: issued by general governments	*127,946*	*127,946*	*1,401,141*	*1,401,141*
Of which: issued by financial corporations	-	-	*265,123*	*195,768*
Of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than covered bonds or own asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			3,233,051	-
Total assets, collateral received and own debt securities issued	**9,038,808**	**1,799,569**		

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

Table 60. Sources of encumbrance, year 2019

Sources of encumbrance		
(thousands of euros)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	7,558,408	9,038,158

The encumbered assets and collateral received amount to €8,910,863 thousand. 83% of the encumbered assets correspond to loans and credits. Most of these are mortgage loans which act as the underlying in mortgage bond and asset-backed security transactions, either sold to third parties or retained in treasury stock and subsequently pledged and drawn down in an ECB policy. In addition, fixed-income securities acting as collateral in repurchase agreements and drawdowns under ECB policies account for 17% of the total.

The encumbered assets and guarantees belong to the parent entity Ibercaja Banco S.A.

Encumbered assets, which are mostly of high quality, act as collateral for certain obligations. Thus, sources of encumbrance amounted to €7,558,408 thousand and include mortgage bonds, drawn on ECB policies and fixed-income repo financing. To a lesser extent, securitisation bonds and passive derivatives with collateral requirements.

In 2019, funding was reduced by drawing on ECB policies, mortgage bonds and asset-backed securities and increased by fixed-income repurchase agreements. Charges on mortgage loans were reduced and increased on fixed-income securities. In net terms, there is a reduction in encumbered assets and collateral. The percentage of encumbered assets over total assets and guarantees received was 21.17% at December 31, 2019, expressed in average annual terms.



14

LEVERAGE

14. Leverage

14.1 - General information

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

In order to reduce risk, the entry into force of Basel III resulted in the measurement of the leverage ratio as the ratio of top-quality capital (Tier 1 capital) to risk exposure, both on and off the balance sheet, without taking into account risk weights. The leverage ratio provides a view of the percentage of assets that are financed with Tier 1 capital.

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

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

The leverage ratio is intended to provide additional protection against so-called "model risk", i.e. underestimating the regulatory capital required by calculating through sophisticated models allowed by Basel II and III.

The Group is monitored every six months by the European Banking Authority (EBA) as part of the calibration process.

At December 31, 2019 the Group had a leverage ratio of 5.85%:

Table 61: Leverage ratio

Leverage ratio		
EU-22	Leverage ratio	5.85%
	Choice of transitional provisions and amount of terminated trust elements	
EU-23	Choice of transitional provisions for the definition of the capital measure	With transitional measures
EU-24	Amount of trust items deleted in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

14.2 - Breakdown of total exposure measure

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

- The exposure measure used to calculate the leverage ratio is the carrying amount of all asset items, except for derivatives, where the net value of the assets is included (less collateral if they meet certain criteria) plus a surcharge for potential future exposure.
- The assets that are deducted and those that are part of Tier I transitional adjustments are subtracted from the exposure measure to avoid double counting.
- For off-balance-sheet transactions (memoranda accounts), the balance is weighted by different percentages in accordance with Article 429 of Regulation (EU) No 575/2013 (CRR).

The following is a breakdown of the total exposure measure for the leverage ratio as at December 31, 2019, according to the 'LRCom' and 'LRSpl' templates defined in Annex I of the Implementing Regulation (EU) 200/2016:

Table 62: LRSpl: Breakdown of on-balance sheet exposures (excluding derivatives, SFT and excluded exposures)

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

(thousands of euros)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFT and excluded exposures), of which	46,344,846
EU-2	Trading book exposures	31,510
EU-3	Bank book exposures, of which:	46,313,336
EU-4	Covered bonds	53,344
EU-5	Exposures treated as sovereigns	12,945,194
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	8,621
EU-7	Institutions	439,060
EU-8	Secured by mortgages of immovable properties	18,975,980
EU-9	Retail exposures	5,378,139
EU-10	Corporates	3,411,370
EU-11	Exposures in default	798,992
EU-12	Other exposures (e.g. equities, securitisations and other non-credit obligation assets)	4,302,636

Table 63: LRCom: Leverage ratio common disclosure

Table LRCom: Leverage ratio common disclosure		
(thousands of euros)		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	46,421,223
2	(Asset amounts deducted in determining Tier 1 capital)	(383,875)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	46,037,348
Derivatives exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	93,635
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(76,377)
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	17,258
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,722,144
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	1,722,144
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	3,732,477
18	(Adjustments for conversion to credit equivalent amounts)	(2,824,671)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	907,806
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off-balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	-
Capital and total exposure measure		
20	Tier 1 capital	2,848,314
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	48,684,555
22	Leverage ratio	5.85%
EU-23	Choice on transitional arrangements for the definition of the capital measure	With transitional measures
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

14.2.1 - Reconciliation of the leverage ratio with the published financial statements

The following table presents the reconciliation of the measure of total exposure corresponding to the leverage ratio to the information in the financial statements published as at 31 December 2019, in accordance with the "LRSum" template defined in Annex I of the Implementing Regulation (EU) 200/2016:

Table 64: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amount
1	Total assets as per published financial statements	48,289,540
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	(52,538)
5	Adjustment for securities financing transactions (SFT)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	907,806
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(460,253)
8	Leverage ratio total exposure measure	48,684,555

14.3 - Information on qualitative aspects

The information required in the qualitative disclosure template "LRQua" in Annex I of the Implementing Regulation (EU) 200/2016 on the procedures applied to manage the risk of excessive leverage and the factors that have affected the published leverage ratio as of December 31, 2019, is detailed below:

14.3.1 - Procedures applied to manage the risk of excessive leverage

The leverage ratio forms part of the Ibercaja Group's Risk Appetite Framework, which establishes compliance and non-compliance thresholds.

This information is reviewed quarterly and presented to the various governing bodies, where, if deficiencies in this ratio were found, action plans would be established to remedy them.

A three-year projection is carried out annually, in which both the numerator (Tier I) and the denominator (exposure value, total accounting assets) are shown, so that the Entity has measurements of the forward looking leverage ratio. These measurements are compared with the thresholds of the risk appetite framework, so that in the event of detecting non-compliance there would be sufficient clearance for taking the measures required for remediation.

14.3.2 - Factors that have influenced the Leverage Ratio

The leverage ratio has remained stable from 6.04% in December 2018 to 5.85% in December 2019.

In 2019 the capital base (Tier 1) remained stable, while the exposure value increased by €1,551 million as a result of one-off operations.



15

REMUNERATIONS

15. Remunerations

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

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

15.1 - Background

Ibercaja Banco has, since 2012, a Risk Associated Remuneration Policy, which applies to members of the Entity whose professional activities have a significant impact on the Entity's risk profile (the "Identified Group"), to , on one hand, combine the interests and business objectives of the Bank and the effort and professional motivation of the Identified Group and, on the other hand, to encourage sound and effective risk management, which does not encourage those in the Identified Group to take risks that differ from those established in the Risk Appetite Framework (RAF) approved by the Board of Directors.

These provisions have been included in the Bank's General Remuneration Policy approved by the Board of Directors at its meeting held on February 21, 2019, which is reviewed and updated annually, as appropriate.

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

15.2 - Purpose and scope of the Remuneration Policy

Ibercaja Banco's General Remuneration Policy aims to achieve an appropriate balance between the Bank's interests and business objectives and the professional effort and motivation of the Identified Group. Likewise, it favours a solid and effective risk management, which does not involve the assumption of excessive risks by the Identified Group. There are no differences with respect to remuneration at group, parent entity and subsidiary level, since the group entities subject to the regulations on remuneration follow the same guidelines and criteria as those established by the parent entity, Ibercaja Banco.

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

Special mention should be made of the inclusion in the Identified Group of the heads of units whose functions have a material impact on the Entity's control structure, and whose remuneration is determined on the basis of the achievement of objectives linked to their function, regardless of the results of the business units they control.

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

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

15.3 - Principles of the Remuneration Policy

The principles that inspire the Remuneration Policy are the following:

- Transparency.
- Consistency with the business strategy, objectives, values and long-term interests of the Entity.
- Remuneration schemes shall present a balanced and efficient relationship between the fixed and the variable part, so that the variable part constitutes a sufficiently high part of the total remuneration.
- The fixed component of the remuneration is determined by the salary tables of the collective agreement applicable to the staff, as well as the different types of supplements to the basic salary attached.
- Where applicable, the variable component of the remuneration:
  - It will be linked, in any case, to the performance of the beneficiaries in accordance with the global and specific objectives approved annually by the competent body.
  - The variable remuneration system must not, at any time, entail a future cost for the Bank for the purposes of the recipients' retirement, without prejudice to the possibility that the latter may voluntarily allocate all or part of their amount to deferred remuneration, after deduction of the related taxes, expenses and charges.
  - The variable component shall have sufficient flexibility to allow for its modulation, to the extent that it can be removed entirely, if necessary.
  - Under no circumstances may it exceed the percentage of fixed remuneration established for each level of employee.
- Promotion of appropriate and effective risk management, within the risk appetite framework defined by the Entity, which is consistent with the internal capital adequacy assessment process, and which does not encourage the assumption of risks that are incompatible with that risk profile.

- Proportionality between remuneration and risk assumed, according to the different levels of responsibility and risk profiles identified.

15.4 - Main characteristics of the Remuneration Policy

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

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

The variable component of the remuneration is linked, in any case, to the performance of the recipients in accordance with the overall and specific objectives approved each year by the Board of Directors at the proposal of the CEO, following a report by the Remuneration Commissionn, and must not at any time entail a future cost for the Bank for the purpose of the recipients' retirement. It shall have sufficient flexibility to allow for its modulation, to the extent that it may be totally eliminated, if necessary, and may not under any circumstances exceed 40% of the fixed remuneration established for each management level.

15.5 - Decision-making process followed to establish the Remuneration Policy for the Identified Group

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

- The policy for the remuneration of the Directors and the other conditions of their contracts.
- The periodic review of the remuneration programmes, weighing their suitability and performance.
- The transparency of remuneration and compliance with the remuneration policy established by the Bank.

The main activities carried out by the Commission in the area of remuneration consisted of informing the Board of Directors of the degree of monitoring and compliance with the objectives established in the previous year, as well as the determination of the objectives that will determine, if applicable, the accrual of the variable remuneration of the Identified Group.

In addition, at least once a year, an independent evaluation of the application of the Remuneration Policy is carried out in order to verify whether the adopted remuneration guidelines and procedures are being complied with. The conclusions of the evaluation carried out by the external expert are reported to the Remuneration Commission so that it can make any appropriate recommendations and proposals for changes to the Board of Directors.

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

- Approve the variable remuneration system for the people included in the Identified Group.
- To verify, as an integral part of the general supervisory function referred to in the Regulations of the Board of Directors, the correct and effective application of variable remuneration.
- To adopt, if necessary, the corrective measures that were necessary or convenient for the adequate and effective application of the provisions of the Policy.
- Agree on the inclusion or removal of persons in the Identified Group.

15.6 - Characteristics of the remuneration system of the members of the governing bodies

In accordance with the Bank's Articles of Association, the position of director is remunerated, with a distinction being made between non-executive and executive directors. The purpose of this distinction is to appropriately remunerate the "senior management" services provided by the Directors, taking into account, in any case, not only the principles that inspire this Policy but also the remuneration concepts used by other entities in the sector.

According to the minutes of the single shareholder's decision, on September 22, 2011, the Board of Directors of the Bank was empowered to set the attendance allowance of the members of the governing bodies at the meetings called, up to the amount paid at that time by the parent bank, Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, as an attendance and expense allowance.

On the basis of this authorisation, the Board of Directors, at its meeting held on September 22, 2011, agreed to set the amount of the allowance for attendance at the meetings of the members of the Group's governing bodies at the gross amount of €700 per meeting, without this amount being changed subsequently.

15.6.1 - Remuneration of the CEO

The remuneration system for the CEO, the Entity's Chief Executive Officer, consists of the following remuneration items:

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

The contract signed with the CEO details all the items for which he may obtain remuneration for the performance of executive functions, including, where appropriate, any compensation for early termination of such functions and the amounts to be paid by the Bank as insurance premiums or contributions to savings schemes.

The CEO may not receive any remuneration for the performance of executive duties for which the amounts or concepts are not provided for in the aforementioned contract.

15.6.2 - Remuneration of Directors in their capacity as such

In accordance with the provisions of the Articles of Association and the Policy on the Remuneration of Directors, the remuneration scheme for directors in their capacity as such and the specific scheme for the Chairman and Chief Executive Officer is as follows:

- **Directors in their capacity as such**

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

- **Chairman of the Board**

Due to the performance of his office and his exclusive dedication, the Chairman of the Board of Directors receives a remuneration consisting of a fixed amount, established by the Board of Directors. This remuneration is independent of the allowances for attending the meetings of the governing bodies of which he is a member.

- **Chief Executive Officer**

The CEO, the only executive director of the Bank, according to the Articles of Association, shall be entitled to receive a remuneration composed of: (a) a fixed part, appropriate to the services and responsibilities assumed; (b) a variable part, correlated to some indicator of the director's or Entity's performance; (c) a welfare part, which shall contemplate the appropriate welfare and insurance systems; and (d) a compensation in the event of separation or any other form of termination of the legal relationship with the Entity not due to a breach attributable to the CEO.

The amount of the remuneration that the Entity may pay to all its directors for these items does not exceed the amount determined for this purpose by the General Meeting. The amount fixed shall remain unchanged until it is amended by a new resolution of the General Meeting. The Board of Directors is responsible for setting the exact amount to be paid within this limit, its distribution among the various directors and the frequency with which it is to be received. In defining the Bank's remuneration policy, comparable credit institutions (peers) have been taken into account and the firm E&Y has collaborated in its preparation as an external advisor.

15.7 - Characteristics of the senior management remuneration system

The remuneration of senior management consists of the following items:

- a fixed component, which shall be governed by the salary tables in the applicable collective agreement, comprising the basic salary or wage and any supplements or bonuses applicable in each case;

- a variable component, to be determined in accordance with the parameters and criteria set out below.

15.7.1 - Determination of objectives

It is the responsibility of the Board of Directors, at the proposal of the Remuneration Commission, to determine and review, on an annual basis, for each professional category included in the Identified Group, the proportion that the variable remuneration component should represent in relation to its fixed remuneration, as well as the percentage of weighting between the Global Objectives and Specific Objectives applicable in each case.

The setting of global and specific targets for variable remuneration is linked to prudent risk management, some of the main features of which are related to ex ante adjustments:

- Dependent and appropriate to the individual performance of the employees and to the results of the Entity, considering the impact of the underlying economic cycle, as well as the present and future risks.

- Flexibility and alignment with the Bank's strategic interests, without limiting the capacity to strengthen its solvency.

- Establishment of certain upper and lower limits that provide a clear mitigation of risks associated with their potential impact on the Entity's income statement and equity.

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

- Overall objectives: these objectives are both quantitative (profit and loss account) and qualitative (customer satisfaction/quality of service).

- Specific objectives: depending on the activity and area of responsibility of each member of the Identified Group, both quantitative and qualitative indicators are defined and linked to the Strategic Plan and the annual Budget.

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

The variable component of the remuneration is not guaranteed, and has sufficient flexibility to allow for its modulation, to the extent that it can be removed entirely, if necessary. In other words, it will be paid only if it is sustainable in accordance with the situation of the Entity as a whole, and if it is justified in terms of the Entity's results and the degree of performance of the persons concerned.

The definition of these objectives will be based on the decisions adopted by the Board of Directors, within the framework of the Remuneration Policy approved by the General Meeting of Shareholders, in the terms provided for in the applicable regulations in force. In any case, a substantial part, and in any case at least 40%, of the variable remuneration element is deferred over the duration of the Strategic Plan in order to take into account the economic cycle, the nature of the business, its risks and the activities of the employee concerned, and in no case may the deferral period be less than three years.

15.7.2 - Performance Assessment

This is a systematic process of assessing how managers carry out activities and assume responsibilities for the positions they hold.

The variable component of the remuneration is determined according to the achievement by the member of the Identified Group of the Global Objectives and the Specific Objectives that have been approved for each financial year by the Board of Directors, at the proposal of the Managing Director and following a favourable report from the Remuneration Commission, and which will be subject to a weighting taking into account especially the professional category of the person concerned.

The evaluation of the results taken as a reference for determining variable remuneration will be included in the multi-year framework coinciding with the Strategic Plan to ensure that the evaluation process is based on long-term results and that it takes into account the Entity's underlying business cycle and its risks.

15.8 - Payment with instruments and retention period

In general, 50% of the variable remuneration, both deferred and non-deferred, will be paid in instruments linked to the value and performance of the Bank.

Notwithstanding the above, in the case of the Managing Director and the members of the Management Committee, 50% of the non-deferred variable remuneration and 55% of the deferred variable remuneration will be paid in instruments.

To comply with the provisions of this section, the Entity will use a payment system based on the revaluation or depreciation of theoretical shares into which the share capital is divided ("phantom shares" or "instruments" without distinction).

The instruments granted will be valued at underlying book value on the grant date of the non-deferred part of the variable remuneration, and on each anniversary of that date.

15.9 - Deferral

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

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

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

- 60% of the variable remuneration element will be deferred for a period of five years.
- This deferred remuneration shall be paid over the five years immediately following the receipt of the non-deferred component in equal parts, the remuneration payable under the deferral provisions not being received more rapidly than proportionally.

By way of exception, in the hypothetical event that a particularly high variable remuneration element were to occur in the future, notwithstanding the fact that this provision does not apply currently, the deferral rate would be 60% of the variable remuneration element, at a rate of 20% per year. For this purpose, any variable remuneration in an amount equivalent to that of the CEO will be considered a particularly high amount.

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

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

15.10 - Malus clauses

The malus clauses are activated in the event that the Bank's relative situation worsens in the fundamental financial parameters (solvency, credit quality and liquidity) established in each case by the Board of Directors, following a report from the Remuneration Commission.

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

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

15.11 - Claw Back Clauses

When, during the deferral period and the retention period of the instruments applicable to the variable remuneration granted for the performance of a given year, regardless of the payment procedure in accordance with this Policy, the Entity reformulates its financial statements for the year to which the variable remuneration refers, and provided that, in accordance with the aforementioned reformulation, if the variable remuneration to be settled is lower than that initially accrued or if no remuneration has been paid in accordance with the variable remuneration system implemented by Ibercaja Banco, the gross variable remuneration already paid, both in cash and in instruments, whether deferred or not, will be recovered in a proportion equivalent to the impact that the reformulation of the financial statements has had on the level of achievement of the variable remuneration of the member of the Identified Group.

The gross variable remuneration already paid, both in cash and in instruments, whether or not it has been deferred, will be 100% recovered when, during the period of deferral and the period of retention of the instruments applicable to the variable remuneration granted for the performance of a given year, it is demonstrated that the payment of the variable remuneration was due to objectives whose fulfilment was achieved as a direct or indirect consequence of one of the following circumstances:

- A fraudulent action by the member of the Identified Group that leads to a very serious infringement in accordance with the provisions of the collective agreement for savings banks and financial institutions.

- That the member of the Identified Group has been sanctioned for an infringement of the rules of order and discipline referred to in Title IV of Law 10/2014 of 26 June, on the order, supervision and solvency of credit institutions, classified as serious or very serious.

When during the deferral period and the retention period of the instruments applicable to the variable remuneration granted for the performance of a given year, it is demonstrated that the payment of the variable remuneration was due to objectives whose fulfilment was achieved as a consequence, directly or indirectly, of a fraudulent action by the member of the Identified Group that leads to the commission of a serious or minor infringement in accordance with the provisions of the collective agreement for savings banks and financial institutions, the gross variable remuneration already paid, both in cash and in instruments, whether deferred or not, shall be subject to recovery in the proportion determined by the Board of Directors in each case.

The determination by the Board of Directors, following a report from the Remuneration Commission, that the circumstances that should trigger the application of this clause have occurred and the percentage that should be returned to the Entity, based on the above, and the procedure by which the Entity can claim the proportional refund of the gross amount paid or even compensate it against other remunerations of any nature that the individual is entitled to receive, as well as the obligation of the individual to refund part or all of the gross amount to the Entity, will be made in accordance with the policy for the application of the clause for the refund of remunerations attached as Appendix V to this Policy.

15.12 - Remuneration received

The information relating to the remuneration received by the members of the Bank's management body is detailed in sections 5.1 and 5.2 of the Financial Statements for the 2019 financial year.

The aggregate quantitative information received by the members of the Board of Directors in 2019 (in thousands of euros) is detailed below:

Table 65: Breakdown of aggregate remuneration of the Board of Directors

Aggregate remuneration of the Board of Directors	
(thousands of euros)	2019
Fixed remuneration	748
Variable remuneration	118
Assistance allowances	382
Other remunerations	255
Total	**1,503**

(Information corresponding to the Annual Corporate Governance Report)

No member of the Identified Group receives remuneration exceeding €1 million per financial year.

Below is the quantitative (aggregate) information of the Identified Group:

Table 66: Remuneration of the Identified Group

	BUSINESS AREAS						
(thousands of euros)	Investment Banking[1]	Commercial Banking[2]	Asset Management[3]	Corporate functions[4]	Independent control functions[5]	Rest[6]	Total
1. Identified group (employees or not)[7]	-	-	-	-	-	-	-
2. Number of identified full-time equivalent employees (as of 31-12-2019)[8]	3	23	3	19	10	5	63
Of which: senior management[9]	1	3	1	4	1	1	11
Of which: in control functions[10]	-	-	-	-	9	-	9
3. Amount of total fixed remuneration[11]	282	2,241	329	1,932	889	568	6,243
Of which: in cash (not compensation)	282	2,241	329	1,932	889	568	6,243
Of which: in shares or related instruments	-	-	-	-	-	-	-
Of which: in other types of instruments	-	-	-	-	-	-	-
4. Amount of total variable remuneration[12]	54	494	75	312	68	137	1,141
Of which: in cash	36	443	57	226	51	97	910
Of which: in shares or related instruments	19	51	18	86	17	40	231
Of which: in other types of instruments[13]	-	-	-	-	-	-	-
5. Total variable remuneration accrued in the year deferred[14]	15	39	14	66	13	31	178
Of which: in cash	7	18	6	30	6	14	80
Of which: in shares or related instruments	8	22	7	36	7	17	98
Of which: in other types of instruments [13]	-	-	-	-	-	-	-
Additional information on the total amount of variable remuneration	-	-	-	-	-	-	-
6. Total amount of deferred variable remuneration accrued in previous years	31	69	32	142	26	65	364
7. Amount of the explicit ex-post performance adjustment applied in the year for remuneration accrued in previous years[15]	-	-	-	-	-	-	-
8. Number of beneficiaries of guaranteed variable remuneration[16]	-	-	-	-	-	-	-
9. Total amount of guaranteed variable remuneration for the year	-	-	-	-	-	-	-
10. Number of beneficiaries of compensation for dismissal due to early termination of the contract.	-	-	-	-	-	-	-
11. Total amount of compensation for early termination of contract paid during the year.	-	-	-	-	-	-	-
12. Maximum amount of compensation for early termination of contract paid to a person, according to Article 450.1(h)(v) of Regulation (EU) No. 575/2013.	-	-	-	-	-	-	-
13. Number of beneficiaries of discretionary pension benefit contributions made in the year[17]	-	-	-	-	-	-	-
14. Total amount of contributions to discretionary pension benefits in the year[17]	-	-	-	-	-	-	-

1 It includes advisory services to companies on corporate finance, venture capital, capital markets, sales and trading.

2 Includes all lending activity (to individuals and businesses).

3 It includes portfolio management, management of collective investment institutions and other forms of asset management.

4 All functions that have responsibility for the entity as a whole, at the consolidated and/or individual level, for example human resources or information systems.

5 Personnel from the risk, compliance and internal audit unit. Information on these functions must be provided at a consolidated and/or individual level.

6 This column will include those employees who cannot be placed in one of the business areas listed. In this case, the entity will include qualitative information in the line corresponding to the total number of employees indicating the activity they perform.

7 Employees whose professional activities have a significant impact on the entity's risk profile, in accordance with Articles 2, 3 and 4 of the Delegated Regulation (EU) No. 604/2014.

8 The number should be expressed in full-time equivalent employees and referred to the number of active employees in the entity at the end of the year.

9 Senior managers, understood as those individuals who exercise executive functions in the entity and who are responsible for its day-to-day management and must report to the management body.

10 The control functions comprise the risk management, regulatory compliance and internal audit functions, as well as the control units reporting to the business areas.

11 Fixed remuneration includes oagis, regular (non-discretionary) contributions to pension funds or benefits (not dependent on the performance of the recipient).

12 Variable remuneration includes additional payments or other remuneration that is dependent on performance or, in exceptional circumstances, other contractual elements, but not those that are part of normal employee packages (such as health care, child support or normal and proportionate contributions to pension plans). Both cash and non-cash remuneration should be included. The amounts should be reported gross, without applying the variable remuneration (v.r.) discount rate, which applies to total v.r., cash v.r., v.r. on shares and share-related instruments and v.r. on other types of instruments.

13 Instruments according to Article 34.1 l).2ª of Law 10/2014

14 Deferred remuneration in accordance with Article 34.1 m) of Law 10/2014 The amounts must be declared gross, without applying the discount rate for variable remuneration (v.r.), which applies to total v.r., cash v.r., v.r. on shares and share-related instruments and v.r. on other types of instruments.

15 Explicit ex-post adjustment as defined in Article 34.1.n) of Law 10/2014

16 Variable remuneration guaranteed with the details set out in Article 34.1 (d) and (e) of Law 10/2014.

17 As defined in point (73) of Article 4.1 of Regulation (EU) No. 575/2013.



ANNEXES

ANNEXES

ANNEX I: Main Characteristics of Equity Instruments

Main Characteristics of CET 1 and additional TIER 1 Capital Instruments			
1	Issuer	Ibercaja Banco, S.A.	Ibercaja Banco, S.A.
2	Unique identifier (e.g. CUSIP, ISIN or *Bloomberg* identifier for private placement of securities)	n/a	ES0844251001
3	Legislation applicable to the instrument	REGULATION (EU) NO. 575/2013	REGULATION (EU) No 575/2013
	Regulatory treatment		
4	Transitional rules for the CRR	Tier 1 Capital	Additional Tier 1 Capital
5	Post-transition CRR rules	Tier 1 Capital	Additional Tier 1 Capital
6	Individually / (sub)consolidated (Individually and (sub)consolidated)	Individual and (sub)consolidated	Individual and (sub)consolidated
7	Type of instrument (each country will specify the relevant types)	Actions	Preference shares
8	Amount recognized in regulatory capital (currency in millions, at date of last notification)	214	350
9	Nominal amount of instrument	214	350
9a	Issue price	n/a	1
9b	Redemption price	n/a	1
10	Accounting classification	Net Worth	Net Worth
11	Initial Issue Date	n/a	06/04/2018
12	Perpetual or expired	Perpetual	Perpetual
13	Initial maturity date	No expiry date	No expiry date
14	Issuer's call option subject to prior supervisory approval	No	Yes
15	Optional date of exercise of the call option, contingent exercise dates and amount to be reimbursed	n/a	06/04/2023, and at any time for tax reasons or a capital event, and with the prior consent of the Competent Authority. Repurchase price, 100%.
16	Subsequent exercise date, if applicable	n/a	Each payment date after the first early redemption date.
	Coupons/Dividends		
17	Fixed or variable dividend or coupon	Variable	From fixed to variable
18	Coupon rate and any related index	n/a	7% payable quarterly until 06/04/2023. Thereafter MS 5 years + 680.9 bps.
19	Existence of limitations on dividend payments	No	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully Discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of quantity)	Fully discretionary	Fully Discretionary
21	Existence of a coupon increase and other incentives for reimbursement	No	No
22	Cumulative or non-cumulative	Non-cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-convertible	Non Convertible
24	If they are convertible, factor(s) that trigger the conversion	n/a	n/a
25	If they are convertible, in whole or in part	n/a	n/a
26	If convertible, applicable conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If they are convertible, specify the type of instrument into which they can be converted	n/a	n/a
29	If convertible, specify the issuer of the instrument being converted	n/a	n/a
30	Depreciation characteristics	n/a	Yes
31	In case of depreciation, factor(s) that trigger it	n/a	CET1 ratio below 5.125%
32	In case of depreciation, total or partial	n/a	Partial, and may become total
33	In case of depreciation, permanent or temporary	n/a	Temporary
34	If the depreciation is provisional, description of the assessment mechanism	n/a	Mechanism defined in the Issue Document
35	Position in the subordination hierarchy in the settlement	Last position	After subordinate creditors
36	Non-compliant features after transition	No	No
37	If yes, please specify the non-conforming characteristics	n/a	n/a

Main Characteristics of TIER 2 Capital Instruments

1	Issuer	Ibercaja Banco, S.A.
2	Unique identifier (e.g. CUSIP, ISIN or *Bloomberg* identifier for private placement of securities)	ES0244251007
3	Legislation applicable to the instrument	REGULATION (EU) NO. 575/2013
	Regulatory treatment	
4	Transitional rules for the CRR	Tier 2 Capital
5	Post-transition CRR rules	Tier 2 Capital
6	Individually / (sub)consolidated(Individually and (sub)consolidated)	Individual and (sub)consolidated
7	Type of instrument (each country will specify the relevant types)	Subordinated Liabilities
8	Amount recognized in regulatory capital (currency in millions, at date of last notification)	500
9	Nominal amount of instrument	500
9a	Issue price	1
9b	Redemption Price	1
10	Accounting classification	Liabilities (at amortised cost)
11	Initial Issue Date	28/07/2015
12	Perpetual or expired	Due date determined
13*	Initial maturty date	28/07/2025
14	Issuer's call option subject to prior supervisory approval	Yes
15	Optional date of exercise of the call option, contingent exercise dates and amount to be reimbursed	28/07/2020, and at any time for tax reasons or a capital event, and with the prior consent of the Bank of Spain. Repurchase price, 100%.
16	Subsequent exercise date, if applicable	n/a
	Coupons/Dividends	
17	Fixed or variable dividend or coupon	From fixed to variable
18	Coupon rate and any related index	5% up to 7/28/2020. Thereafter, MS5 years + 455.1 bps.
19	Existence of limitations on dividend payments	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of quantity)	Mandatory
21	Existence of a coupon increase and other incentives for reimbursement	No
22	Cumulative or non-cumulative	n/a
23	Convertible or non-convertible	Non-convertible
24	If they are convertible, factor(s) that trigger the conversion	n/a
25	If they are convertible, in whole or in part	n/a
26	If convertible, applicable conversion rate	n/a
27	If convertible, mandatory or optional conversion	n/a
28	If they are convertible, specify the type of instrument into which they can be converted	n/a
29	If convertible, specify the issuer of the instrument being converted	n/a
30	Depreciation characteristics	n/a
31	In case of depreciation, factor(s) that trigger it	n/a
32	In case of depreciation, total or partial	n/a
33	In case of depreciation, permanent or temporary	n/a
34	If the depreciation is provisional, description of the assessment mechanism	n/a
35	Position in the subordination hierarchy in the settlement (specify the next higher ranking instrument type) Position in the subordination hierarchy in the settlement	After the common creditors Last position
36	Non-compliant features after transition	No
37	If yes, please specify the non-conforming characteristics	n/a

** On January 8, 2020, Ibercaja Banco, S.A. agreed to carry out a cash repurchase offer to all holders of the subordinated bond issue called "€500,000,000 Fixed Rate Reset Subordinated Notes due 28 July 2025". Following the completion of this offer, Ibercaja accepted the purchase of Bonds for a nominal amount of €281,900 thousand, which was settled on January 23, 2020. On January 16, 2020, Ibercaja Banco, S.A. set the economic terms of an issue of subordinated bonds for a nominal amount of €500 million maturing on July, 23 2030. The issue price of the Subordinated Bonds was 100% and they will bear a fixed annual coupon of 2.75% until July, 23 2025, when Ibercaja has the option to carry out an 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%. This issue was paid and closed on January 23, 2020.*

The new bonds shall qualify as Tier 2 capital instruments for the purposes of the own funds requirements to which they are subject under Regulation (EU) No 575/2013 of June, 26 2013 on the prudential requirements for credit institutions and investment firms.

ANNEX II: Information on transitional own funds

INFORMATION ON TRANSITIONAL OWN FUNDS				
	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and related share premium accounts	214,428	26 (1), 27, 28, 29, EBA list 26 (3)	-
	of which: common shares	214,428	EBA List 26 (3)	-
	Of which: instrument type 2	-	EBA List 26 (3)	-
	Of which: instrument type 3	-	EBA List 26 (3)	-
2	Retained earnings	569,186	26 (1) (c)	-
3	Accumulated other comprehensive income (and other reserves)	2,121,509	26 (1)	-
3a	Funds for general banking risks	-	26 (1) (f)	-
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	-	486 (2)	-
	Public sector capital injections grandfathered until 1 January 2018	-	483 (2)	-
5	Minority interests (amount allowed in consolidated CET1)	-	84, 479, 480	-
5a	Independently verified interim profits, net of any foreseeable charge or dividend	66,489	26 (2)	-
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,971,612	Sum of rows 1 to 5a	-
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(2,070)	34, 105	-
8	Intangible assets (net of related tax liabilities) (negative amount)	(221,292)	36 (1) (b), 37, 472 (4)	-
9	Empty set in the EU	-		-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liabilities where the conditions in Article 38(3) are met) (negative amount)	(249,936)	36 (1) (c), 38, 472 (5)	101,981
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (1) (a)	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)	-
13	Any increase in equity resulting from the securitised assets (negative amount)	-	32 (1)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (1) (b)	-
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e), 41, 472 (7)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)	-
17	Holdings of CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)	-
18	Direct and indirect holdings by the institutions of CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	-
19	Direct, indirect and synthetic holdings by the institutions of the CET1 instruments of financial sector entities where the institution holds a significant investment in those entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	-
20	Empty set in the EU	-		-
20a	Exposure amount of the following items, which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-	36 (1) (k)	-
20b	Of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91	-
20c	Of which: securitisation positions (negative amount)	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	-
20d	Of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)	-
21	Deferred tax assets arising from temporary differences (amount above the 10 % threshold, net of related tax liability where the conditions set out in Article 38(3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	-
22	Amount exceeding the 15 % threshold (negative amount)	-	48 (1)	-
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)	-
24	Empty set in the EU	-		-
25	Of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	-

INFORMATION ON TRANSITIONAL OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
25a	Loss for the current financial year (negative amount)	-	36 (1) (a), 472 (3)	-
25b	Foreseeable taxes charges relating to CET1 items (negative amount)	-	36 (1) (l)	-
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-		-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-		-
	Of which: unrealised gains on equity instruments	-	467	-
	Of which: unrealised gains on debt instruments	-	467	-
	Of which: ... filter for unrealised gains 1	-	468	-
	Of which: ... filter for unrealised gains 2	-	468	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481	-
	Of which: ...	-	481	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) (j)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(473,298)	Sum of rows 7 to 20a, 21, 22 and 25a to 27	101,981
29	Common Equity Tier 1 (CET1) capital	2,498,314	Row 6 minus row 28	101,981
	Additional Tier 1 (AT1) capital: instruments			
30	Equity instruments and related share premium accounts	350,000	51, 52	-
31	of which: classified as equity under applicable accounting standards	350,000		-
32	of which: classified as a liability under the applicable accounting standards	-		-
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	-	486 (3)	-
	Public sector capital injections grandfathered until 1 January 2018	-	483 (3)	-
34	Qualifying Tier 1 capital included in consolidation AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86,480	-
35	Of which: instruments issued by subsidiaries subject to phase out	-	486 (3)	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	350,000	Sum of rows 30, 33 and 34	-
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution own AT1 instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)	-
40	Direct and indirect holdings of the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in these entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)	-
41	Regulatory adjustments applied to additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		-
41a	Residual amounts deducted from the Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-
	Of which: intangible assets	-		-
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)	-
	Of which items to be detailed line by line, e.g. reciprocal cross holdings of Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	-		-
41c	Amount to be deducted from or added to additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	467, 468, 481	-
	Of which: ... possible filter for unrealised losses	-	467	-
	Of which: ... possible filter for unrealised gains	-	468	-
	Of which: ...	-	481	-
42	Quantifying T2 capital deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)	-

INFORMATION ON TRANSITIONAL OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
43	Total regulatory adjustments to additional Tier 1 (AT1) capital	-	Sum of rows 37 to 42	-
44	Additional Tier 1 (AT1) Capital	350,000	Row 36 minus row 43	-
45	Tier 1 capital (T1 = CET1 + AT1)	2,848,314	Sum of row 29 and row 44	101,981
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and related share premium accounts	500,000	62, 63	-
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	486 (4)	-
	Public sector capital injections grandfathered until 1 January 2018	-	483 (4)	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480	-
49	Of which: instruments issued by subsidiaries subject to phase out	-	486 (4)	-
50	Credit risk adjustments	-	62 (c) and (d)	-
51	Tier 2 (T2) capital before regulatory adjustments	500,000		-
	Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)	-
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have a reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10 % threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)	-
54a	Of which new holdings not subject to transitional arrangements	-		-
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-		-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(17,200)	66 (d), 69, 79, 477 (4)	-
56	Regulatory adjustments applied to Tier 2 in respect of amounts subject to the pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		-
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-
	Of which: items to be detailed line by line, e.g. material net interim losses, intangibles, shsortfall of provisions to expected losses, etc.	-		-
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)	-
	Of which: items to be detailed line by line, e.g. reciprocal cross holdings in AT1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	-		-
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	-	467, 468, 481	-
	Of which: ... possible filter for unrealised losses	-	467	-
	Of which: ... possible filter for unrealised gains	-	468	-
	Of which: ...	-	481	-
57	Total regulatory adjustments to Tier 2 (T2) capital	(17,200)	Sum of the rows 52 to 56	-
58	Tier 2 (T2) capital	482,800	Row 51 minus row 57	-
59	Total Capital (TC = T1 + T2)	3,331,114	Sum of row 45 and row 58	101,981
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-		-
	Of which:…items not deducted from CET1 (Regulation (EU) No 575/2013, residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	-

INFORMATION ON TRANSITIONAL OWN FUNDS

	Item	(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) NO 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
	Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013, residual amounts) (items to be detailed line by line, e.g. reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013, residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	-
60	Total risk-weighted assets	20,362,850		-
	Capital Ratios and Buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.27%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of risk exposure amount)	13.99%	92 (2) (b), 465	-
63	Total capital (as a percentage of risk exposure amount)	16.36%	92 (2) (c)	-
64	Institution-specific buffer requirements (CET1 requirement in accordance with Article 92(1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institutions buffer (G-SII o O-SII buffer), expressed as a percentage of risk exposure amount)	-	DRC 128, 129 and 130	-
65	of which: capital conservation buffer requirement	-		-
66	of which: countercyclical buffer requirement	-		-
67	of which: systemic risk buffer requirement	-		-
67a	of which: Global Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII) buffer	-	DRC 131	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.77%	DRC 128	-
69	[non relevant in EU regulations]	-		-
70	[non relevant in EU regulations]	-		-
71	[non relevant in EU regulations]	-		-
	Capital ratios and buffers			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10 % threshold and net of eligible short positions)	32,491	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)	-
73	Direct and indirect holdings of Common Equity Tier 1 capital instruments of financial sector entities where the entity holds a significant investment in these entities (amount below 10 % threshold and net of eligible short positions)	163,092	36 (1) (i), 45, 48, 470, 472 (11)	-
74	Empty set in the EU	-		-
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	179,295	36 (1) (c), 38, 48, 470, 472 (5)	-
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to the Standardised Approach (prior to the application of the cap)	-	62	-
77	Cap on the inclusion of credit risk adjustments in T2 under the standardised approach	-	62	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings based approach (prior to the application of the cap)	-	62	-
79	Cap for inclusion of credit risk adjustments in T2 under the internal ratings based approach	-	62	-
	Capital instruments subject to phase-out provision arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	484 (3), 486 (2) y (5)	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) y (5)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (4), 486 (3) y (5)	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) y (5)	-
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (5), 486 (4) y (5)	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) y (5)	-

(*) Except for the transitional provisions of IFRS9

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

Own Funds and phase-in and fully-loaded capital requirements		
(thousands of euros)	2019 phase-in	2019 fully-loaded
TOTAL COMPUTABLE OWN FUNDS	**3,331,114**	**3,138,336**
Tier 1 Capital (T1)	**2,848,314**	**2,655,536**
Common Equity Tier 1 Capital (CET1)	**2,498,314**	**2,305,536**
Disbursed equity instruments	214,428	214,428
Share premium	-	-
Retained earnings from previous years	569,186	569,186
Eligible results	66,489	66,489
Other reserves	2,010,831	1,921,408
Common Equity Tier 1 Capital Instruments under the preemptive regime	-	-
Minority interests	-	-
Other accumulated comprehensive income	108,608	108,608
Deductions from Common Equity Tier 1 (CET 1) capital instruments	(471,228)	(574,583)
Losses for the current year	-	-
Intangible assets	(221,292)	(221,292)
Defined benefit pension fund assets	-	-
Treasury stock: Direct holdings of CET1 instruments	-	-
Reciprocal holdings of CET1 instruments	-	-
Deferred tax assets dependent on future returns	(249,936)	(351,917)
Holdings in financial sector entities with significant influence	-	-
Excess shareholdings in financial sector entities in which there is no significant influence	-	-
Exposures that would be weighted at 1250% not included in the requirements	-	-
Other deductions from Common Equity Tier 1 (CET1) capital	-	(1,374)
Additional Tier 1 Capital (AT1)	**350,000**	**350,000**
Additional Tier 1 capital instruments under the preemptive regime	350,000	350,000
Deductions from Additional Tier 1 (AT1) capital instrument	-	-
Treasury stock: Direct holdings of AT1 instruments	-	-
Reciprocal holdings of AT1 instruments	-	-
Intangible assets	-	-
Holdings in financial sector entities with significant influence	-	-
Excess shareholdings in financial sector entities in which there is no significant influence	-	-
Other Deductions from Additional Tier 1 Capital	-	-
Tier 2 Capital (T2)	**482,800**	**482,800**
Subordinated financing and subordinated loans and others	500,000	500,000
Deductions from Tier 2 (T2) capital instruments	(17,200)	(17,200)
Treasury stock: Direct holdings of AT1 instruments	-	-
Reciprocal holdings of T2 instruments	-	-
Subordinated debt and subordinated debt in financial sector entities with significant influence	(17,200)	(17,200)
Excess shareholdings in financial sector entities in which there is no significant influence	-	-
Other Tier 2 capital deductions	-	-
Total capital requirements	**1,629,028**	**1,624,954**
Capital requirements for credit, counterparty and dilution risk	1,517,287	1,513,213
Capital requirements for market risk	46	46
Capital requirements for operational risk	110,077	110,077
Capital requirements for credit valuation adjustment (CVA)	1,618	1,618
Risk-weighted assets	**20,362,850**	**20,311,932**

ANNEX IV: Phase-in and fully-loaded capital ratios

Phase-in and fully-loaded capital ratios		
	2019 phase-in	*2019* fully-loaded
Common Equity Tier 1 capital ratio (CET1)	**12.27%**	**11.35%**
Minimum required CET1	4.50%	4.50%
Tier 1 Capital Ratio (T1)	**13.99%**	**13.07%**
Minimum required T1	6.00%	6.00%
Total capital ratio	**16.36%**	**15.45%**
Minimum total capital requirement	8.00%	8.00%
Total capital requirements	**1,629,028**	**1,624,954**
Capital requirements for credit, counterparty and dilution risk	1,517,287	1,513,213
Capital requirements for market risk	46	46
Capital requirements for operational risk	110,077	110,077
Capital requirements for credit valuation adjustment (CVA)	1,618	1,618
Risk-weighted assets	**20,362,850**	**20,311,932**
Leverage ratio	**5.85%**	**-**

ANNEX V: Template IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

Grupo Ibercaja applies the transitional provisions of IFRS 9 established in Article 473a of Regulation 575/2013 (introduced in Article 1 of Regulation 2395/2017), mitigating the impact of the adoption of IFRS 9 by applying a static *phase in* its capital ratios. Thus, the Group does not apply a dynamic *phase in* as defined in paragraph 4 and has therefore set the amount A4 referred to in paragraph 1 at zero.

(thousands of euros)		Dec-19
Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	2,498,314
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,408,891
3	Tier 1 Capital (T1)	2,848,314
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,758,891
5	Total capital	3,331,114
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,241,691
Risk-weighted assets (amounts)		
7	Total risk-weighted assets	20,362,850
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	20,311,931
Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.27%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.86%
11	Tier 1 (as a percentage of risk exposure amount)	13.99%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.58%
13	Total capital (as a percentage of risk exposure amount)	16.36%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.96%
Leverage ratio		
15	Leverage ratio total exposure measure	48,684,555
16	Leverage ratio	5.85%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.67%

ANNEX VI: CRR Mapping

CRR Mapppping			
Article	Content	Location in the IRP 2019	Tables
431. Scope of disclosure requirements			
431.1	Requirement to publish Pillar 3 disclosures	Information of Prudential Relevance (Ibercaja Group website)	
431.2	Permission granted by the competent authorities under Part Three for the instruments and methodologies referred to in Title III shall be subject to the public disclosure by institutions of the information laid down therein.	Chapter 1	
431.3	Institution must have a policy covering the frequency of disclosures, their verification, comprehensiveness and appropriateness, as well as policies for assuring the overall comprehension of their risk profile by market participants.	Policy for the disclosure and verification of information with prudential relevance of Ibercaja Banco, S.A. and its Consolidated Group	
431.4	Explanation of SMEs ratings decision upon request.	N/A	
432. Non-material, proprietary or confidential information			
432.1	Institutions may omit information that is not material if certain conditions are respected.	Chapter 1	
432.2	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	Chapter 1	
432.3	Where 432.2 applies this must be stated in the disclosures, and more general information must be disclosed.	Chapter 1	
432.4	Use of 432.1, 432.2 or 432.3 is without prejudice to scope of liability for failure to disclose material information.	Chapter 1	
433. Frequency of disclosure			
433	Disclosures must be published on an annual basis at a minimum, and more frequently if necessary.	Chapter 1	
434. Means of dissemination			
434.1	To include all disclosures in one appropriate medium, or provide clear cross-references to the similar information in the other media.	Paragraph 1	
434.2	Disclosures made under other requirements (e.g. accounting, listing) can be used to satisfy Pillar 3 requirements, if appropriate	Paragraph 1	
435. Risk management objectives and policies			
435.1	Disclose information for each separate category of risk:		
435.1.a	The strategies and processes to manage risks.	Chapter 6.2.3.	
435.1.b	Structure and organization of the risk management function.	Chapters 6.2.2, 6.2.4 and 6.2.5	
435.1.c	Risk reporting and measurement systems	Chapters 6.2.3 and 6.2.6	
435.1.d	Hedging and mitigating risk - policies, strategies and processes.	Chapters 6.2.1 and 6.2.3	
435.1.e	A declaration of adequacy of risk management arrangements approved by the Board.	Chapters 6.1 and 6.2.1	

435.1.f	Inclusion of a concise risk statement approved by the Board.	Chapter 6.2.1	
435.2	Information on governance arrangements, including information on Board composition and recruitment, and risk committees.		
435.2.a	Number of directorships held by Board members.	Chapter 3.2.1	
435.2.b	Recruitment policy for the selection of Board members, their actual knowledge, skills and expertise.	Chapters 3.2.2 and 3.2.3 Cross reference to the Notes to the Financial Statements	
435.2.c	Policy on diversity of Board membership, objectives, and achievement status.	Chapter 3.2.6	
435.2.d	Existence of a dedicated risk committee, and number of meetings during the year.	Chapter 3.2.2	
435.2.e	Description of the information flow on risk to the Board.	Chapter 3.2.2	
436. Scope of application of the requirements			
436	Institutions shall disclose the following information regarding the scope of application of the requirements of this Regulation in accordance with Directive 2013/36/EU:		
436.a	Name of institution to which the requirements of this Regulation applies.	Chapters 1 and 3	
436.b	Difference in the basis of consolidation for accounting and prudential purposes, briefly describing entities that are: (i) fully consolidated (ii) proportionally consolidated (iii) deducted from own funds (iv) neither consolidated nor deducted	Chapters 3.3 and 3.4	Table 14
436.c	Impediments to transfer of own funds between parent and subsidiaries.	Chapters 3.5	
436.d	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Chapters 3.5	Tables 15 and 16
436.e	The circumstance of making use of articles on derogations from: a) Prudential requirements b) Liquidity requirements for individual subsidiaries/entities.	Chapters 3.6	
437. Own funds			
437.1	Institutions shall disclose the following information regarding their own funds:		
437.1.a	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution.	Chapter 4.1	Table 18
437.1.b	Description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution.		Annex I
437.1.c	Dull terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.		Annex I

437.1.d	Disclosure of the nature and amounts of the following: (i) Each prudential filter applied pursuant to Articles 32 to 35; (ii) Each deduction made pursuant to Articles 36, 56 and 66; (iii) Items not deducted in accordance with Articles 47, 51, 56, 66 and 79.		Annex II
437.1.e	Description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply.	Chapter 4	Annex III
437.1.f	Explanation of the calculation basis of the disclosed capital ratios estimated using elements of own funds determined, on a basis other than that laid down in this Regulation.	N/A	
438. Capital requirements			
438	Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU:		
438.a	Summary of the institution's approach to assessing adequacy of capital levels.	Chapter 5.1	
438.b	Result of ICAAP on demand from authorities.	Chapter 5.1	
438.c	Capital requirements for each Standardised approach credit risk exposure class.	Chapter 5.2	Table 21
438.d	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	N/A	
438.e	Capital requirements for market risk or settlement risk.	Chapters 5.4 and 5.5	
438.f	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	Chapter 5.6	Table 20
438 last paragraph	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	N/A	
439. Exposure to counterparty credit risk			
439	Institutions shall disclose the following information regarding the institution's exposure to counterparty credit risk as referred to in Part Three, Title II, Chapter 6:		
439.a	Description of process to assign internal capital and credit limits to CCR exposures.	Chapter 7.3	
439.b	Discussion of policies for securing collateral and establishing credit reserves.	Chapter 7.3	
439.c	Discussion of management of wrong-way risk exposures.	Chapter 7.3	
439.d	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Chapter 7.3	
439.e	Derivation of net derivative credit exposure.	Chapter 7.3	Table 38
439.f	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Chapters 5.2 and 7.3	Tables 22 and 39
439.g	Notional value of credit derivative hedges and distribution of current credit exposure by type of exposure.	N/A	
439.h	Notional amounts of credit derivative transactions.	N/A	

439.i	Estimate of alpha, if applicable.	N/A	
440. Capital buffers			
440	Disclosure of the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:		
440.a	Geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer.	N/A	
440.b	Amount of the specific countercyclical capital Buffer.	N/A	
441. Indicators of lobal systemic importance			
441	Disclosure of the indicators of global systemic importance.	N/A	
442. Credit risk adjustments			
442	Institutions shall disclose the following information regarding the institution's exposure to credit risk and dilution risk:		
442.a	Definitions, for accounting purposes, of past due and impaired exposures.	Chapter 7.1	
442.b	Description of the approaches adopted for calculating specific and general credit risk adjustments.	Chapter 7.1	
442.c	Disclosure of pre-CRM (credit risk mitigation) EAD by exposure class.	Chapter 7.2.1	Table 27
442.d	Disclosure of pre-CRM (credit risk mitigation) EAD by geography and exposure class.	Chapter 7.2.2	Table 28
442.e	Disclosure of pre-CRM (credit risk mitigation) EAD by industry and exposure class.	Chapter 7.2.3	Table 29
442.f	Disclosure of pre-CRM (credit risk mitigation) EAD by residual maturity and exposure class.	Chapter 7.2.4	Table 30
442.g	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period, by industry.	Chapter 7	Tables 30, 31 32, 33, 36 and 45
442.h	Impaired and past due exposures, broken down by geographical area, and the amounts of specific and general credit risk adjustments related to each geographical area.	Chapter 7	Table 32
442.i	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	Chapter 7.2.6	Tables 34 and 35
442 last paragraph	Specific credit risk adjustments recorded to income statement are disclosed separately.	Chapter 7.2.7	Table 35
443. Unencumbered assets			
443	Disclosure of unencumbered assets	Chapter 13	
444. Use of ECAIs			
444	For institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2, the following information shall be disclosed for each of the exposure classes specified in Article 112:		
444.a	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes.	Chapter 7.4	Table 40

444.b	Exposure classes associated with each ECAI.	Chapter 7.4	Table 40
444.c	Description of the process used to transfer credit assessments to non-trading book items.	Chapter 7.4	
444.d	Mapping of external rating to credit quality steps (CQS).	N/A	
444.e	Exposure value pre and post-credit risk mitigation, by CQS.	Chapter 7.4	Tables 40 and 42
445. Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Chapters 1 and 5.4	Annex III
446. Operational risk			
446	Scope of approaches used to calculate operational risk.	Chapter 9	
447. Exposures in equities not included in the trading book			
447	Institutions shall disclose the following information regarding the exposures in equities not included in the trading book:		
447.a	Differentiation of exposures based on their objectives and an overview of accounting techniques and valuation methodologies used.	Chapter 10.1 Cross-reference to the Notes to the Financial Statements	
447.b	The balance sheet value, the fair value and, for those exchange- traded, a comparison to the market price where it is materially different from the fair value.	Chapter 10.2	Table 48
447.c	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures.	Chapter 10	
447.d	Cumulative realised gains or losses arising from sales and liquidations in the period.	Chapter 10.2	
447.e	Total unrealised gains or losses, total unrealised revaluation gains or losses, and any such amounts included in original or additional equity	Chapter 10.2	
448. Exposure to interest rate risk on positions not included in the trading book			
448	Institutions shall disclose the following information on their exposure to interest rate risk on positions not included in the trading book:		
448.a	Nature of the interest rate risk and the key assumptions, and frequency of measurement of the interest rate risk.	Chapter 6.2.3.	
448.b	Variation in earnings, economic value or other relevant measure used by the bank for upward and downward rate shocks according to the banks method for measuring the interest rate risk, broken down by currency.	Chapter 11.1	Table 50

449. Exposure to securitisation positions		
449	Institutions calculating risk weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Article 337 or 338 shall disclose the following information, where relevant, separately for their trading and non-trading book:	
449.a	Objectives in relation to securitisation activity.	Chapter 7.6.1
449.b	Nature of other risks in securitised assets, including liquidity.	Chapter 7.6.2
449.c	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	Chapter 7.6.2
449.d	Roles played by the institution in the securitisation process.	Chapter 7.6.3
449.e	Extent of the institution's involvement in each of the securitisation roles.	Chapter 7.6.3
449.f	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Chapter 7.6.3
449.g	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties, by relevant type of risk exposure.	Chapter 7.6.2
449.h	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures.	Chapter 7.6.6
449.i	Types of SSPEs used to securitise third-party exposures as a sponsor.	N/A
449.j	A summary of the institution's accounting policies for securitisation activities, including: (i) whether the transactions are treated as sales or financings; (ii) the recognition of gains on sales; (iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions; (iv) the treatment of synthetic securitisations if not covered by other accounting policies; (v) how assets awaiting securitisation are valued and whether they are recorded in the institution's nontrading book or the trading book; (vi) policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support for securitised assets.	Chapter 7.6.4
449.k	Names of ECAIs used for securitisations and type.	Chapter 7.6.5
449.l	Full description of Internal Assessment Approach.	N/A
449.m	Explanation of significant changes in quantitative disclosures, since the last reporting period.	N/A

449.n	As appropriate, separately for the Banking and trading book securitisation exposures: (i) amount of outstanding exposures securitised; (ii) on balance sheet securitisation retained or purchased, and off balance sheet exposures; (iii) amount of assets awaiting securitisation; (iv) early amortisation treatment, aggregate drawn exposures and capital requirements for securitised facilities; (v) Deducted or 1250%-weighted securitisation positions; (vi) summary of the securitisation activity of the current period.	N/A	
449.o	Banking and trading book securitisations: (i) Retained and purchased positions and associated capital requirements, broken down by risk-weight bands; (ii) Retained and purchased re-securitisation positions before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	N/A	
449.p	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	N/A	
449.q	Exposure and capital requirements for trading book securitisations, separated into traditional and synthetic, and exposure type.	N/A	
449.r	Whether the institution has provided noncontractual financial support to securitisation vehicles.	N/A	
450. Remuneration policy			
450	Remuneration disclosures (Material Risk Takers):		
450.1.a	Information on the decision-making process followed to establish the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the year.	Chapters 3.2.2 and 15	
450.1.b	Information on the link between remuneration and results.	Chapters 15.7.1 and 15.7.2	
450.1.c	The most important features of the design of the remuneration system, specifying information on the criteria applied in the evaluation of results and their adjustment for risk, the deferral policy and the criteria for acquiring rights.	Chapters 15.4, 15.7.1, 15.9	
450.1.d	The ratios between fixed and variable remuneration established.	Chapters 15.4	
450.1.e	Information on the performance criteria on which the right to shares, options or variable components of remuneration is based.	Chapters 15.2, 15.7.1 and 15.7.2	
450.1.f	The main parameters and motivation for possible variable remuneration schemes and other non-monetary benefits.	Chapters 15.4, 15.7.1, 15.7.2	
450.1.g	Aggregated quantitative information on remuneration, broken down by field of activity.	Chapters 15.12	Table 66

450.1.h	Aggregate quantitative information on compensation, broken down by senior management and employees whose activities have a material impact on the risk profile of the entity, including: (i) the amounts of compensation for the financial year, divided into fixed and variable compensation, and the number of beneficiaries, (ii) the amounts and form of variable remuneration, divided into cash benefits, shares, share-related instruments and other forms of remuneration, (iii) the amounts of deferred remuneration payable, broken down into attributed and unattributed portions, (iv) the amounts of deferred remuneration granted during the financial period, as paid and reduced by performance adjustments, (v) payments on rehire and termination payments made during the financial period, and the number of beneficiaries of such payments, (vi) the amounts of termination payments granted during the financial period, the number of beneficiaries and the maximum amount of such payments made to each beneficiary.	Chapters 15.12	Table 66
450.1.i	The number of persons receiving remuneration of €1 million or more per financial year, broken down into steps of €500,000 for remuneration between €1 million and €5 million, and broken down into steps of €1 million for remuneration of e 5 million or more.	Chapters 14.12	
450.1.j	At the request of the Member State or the competent authority, the total remuneration of each member of the management body or senior management.	Chapter 15.12 Cross-reference to notes 5.1 and 5.2 of the Financial Statements	
450.2	For entities which are significant in terms of their size, internal organisation and the nature, range and complexity of their activities, the quantitative information referred to in this Article shall also be made available to the public as regards the members of the entity's management body.	N/A	
451. Leverage			
451.a	Leverage ratio.	Chapter 14	
451.b	A breakdown of the total exposure measures, including the reconciliation to financial statements.	Chapter 14.2	
451.c	If applicable, the total amount of the derecognized fiduciary items.	Chapter 14.1	Table 61
451.d	Description of the processes used to manage the risk of excessive leverage	Chapter 14.3.1	
451.e	Description of the factors that impacted the leverage ratio during the year.	Chapter 14.3.2	
452. Use of the IRB Approach to credit risk			
452	Institutions calculating the risk-weighted exposure amounts under the IRB Approach shall disclose the following information:		
452.a	Permission for use of the IRB approach from the competent authority.	N/A	

452.b	Explanation and review of: (i) Structure of internal rating systems and relation between internal and external ratings; (ii) Use of internal ratings for purposes other than capital requirement calculations; (iii) Management and recognition of credit risk mitigation process; (iv) Controls mechanisms for rating systems.	N/A	
452.c	Description of ratings processes for each IRB asset class, provided separately.	N/A	
452.d	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	N/A	
452.e	For each exposure class, disclosed separately by obligor grade, institutions shall disclose: total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	N/A	
452.f	For the retail exposure class, the disclosures outlined in article 452.e, to allow for a meaningful differentiation of credit risk on a pooled basis.	N/A	
452.g	Actual specific risk adjustments for the period and explanation of changes.	N/A	
452.h	Description of the factors that impacted on the loss experience in the preceding period.	N/A	
452.i	Analysis of the historical estimates of losses against actual losses in each exposure, to help assess the performance of the rating system over a sufficient period.	N/A	
452.j	For all IRB exposure classes: Where applicable, PD and LGD by each country where the bank operates.	N/A	

453. Use of credit risk mitigation techniques			
453	Institutions applying credit risk mitigation techniques shall disclose the following information:		
453.a	Use of on and off-balance sheet netting.	Chapters 6.2.3 and 7.7	
453.b	How collateral valuation is managed.	Chapter 7.7.1	
453.c	Description of types of collateral used by the institution.	Chapter 7.7.1	
453.d	Main types of guarantor and credit derivative counterparty, creditworthiness.	Chapter 7.7.2	
453.e	Market or credit risk concentrations within risk mitigation exposures.	Chapter 7.7	
453.f	Standardised or Foundation IRB Approach, exposure value covered by eligible collateral.	Chapters 7.2.1 and 7.7.2	Tables 27 and 46
453.g	Exposures covered by guarantees or credit derivatives.	Chapter 7.7.2	Table 47

454. Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	N/A
455. Use of internal market risk models		
455	Institutions calculating their capital requirements in accordance with Article 363 shall disclose the following information:	N/A
455.a	For each sub-portfolios covered: (i) Disclosure of the characteristics of the market risk models used; (ii) Disclosure of the methodologies used to measure incremental default and migration risk; (iii) Descriptions of stress tests applied to the portfolios; (iv) Methodology for back-testing and validating the models.	N/A
455.b	Scope of permission for use of the models.	N/A
455.c	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	N/A
455.d	High/Low/Mean values over the year of VaR, SVaR and incremental risk charge.	N/A
455.e	The elements of the own fund calculation.	N/A
455.f	Weighted average liquidity horizons for each sub-portfolio covered by internal models.	N/A
455.g	Comparison of end-of-day value-at-risk (VaR) measures compared with one-day changes in the portfolio's value.	N/A

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ERRATUM:

On 16 September Table 59. Collateral received, year 2019 has been replaced on page 136.

Replaced table:

Table 59. Collateral received, year 2019

Collateral received				
	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
(thousands of euros)		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**127,946**	**127,946**	**1,686,709**	**1,596,909**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	127,946	127,946	1,686,709	1,596,909
of which: covered bonds	-	-	-	-
of which asset-backed securities	-	-	-	-
Of which: issued by general governments	*127,946*	*127,946*	*1,401,141*	*1,401,141*
Of which: issued by financial corporations	-	-	*265,123*	*195,768*
Of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than covered bonds or own asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
Total assets, collateral received and own debt securities issued	**9,038,808**	**1,799,569**		

Current table:

Table 59. Collateral received, year 2019

Collateral received				
	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
(thousands of euros)		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**127,946**	**127,946**	**1,686,709**	**1,596,909**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	127,946	127,946	1,686,709	1,596,909
of which: covered bonds	-	-	-	-
of which asset-backed securities	-	-	-	-
Of which: issued by general governments	*127,946*	*127,946*	*1,401,141*	*1,401,141*
Of which: issued by financial corporations	-	-	*265,123*	*195,768*
Of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than covered bonds or own asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			3,233,051	-
Total assets, collateral received and own debt securities issued	**9,038,808**	**1,799,569**		