

CNMV  
Markets Directorate General  
C/Edison, 4  
28006 Madrid

Zaragoza, 2 February 2022

Dear Sirs,

In accordance with our correspondence with you, pursuant to the provisions of Articles 36 and 122 of the TRLMV [consolidated text of the Spanish statute on the securities market], in which you request additional information on the consolidated condensed interim financial statements for the nine months ended 30 September 2021 of the Ibercaja Banco Group, and in order to comply with the issues raised, we provide the following information:

**1. CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME:  
EXPLANATION OF THE MOST SIGNIFICANT CHANGES**

The most significant changes in this consolidated condensed statement are explained below:

***1.1. Items not to be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value through profit or loss - Changes in the fair value of equity instruments measured at fair value through other comprehensive income***

This caption records the effects of changes in the fair value of the equity instruments held in this portfolio.

***1.2. Items that may be reclassified to profit or loss - Cash flow hedges (effective portion)***

This caption records the cumulative change in the present value of the expected future cash flows hedged.

As for the previous point, the balances recorded under this caption in both years reflect the effect of the behaviour of the interest rate curve on the expected cash flows of the items hedged by these derivatives.

***1.3. Items that may be reclassified to profit or loss - Debt instruments at fair value through other comprehensive income***

This caption records the effects of changes in the fair value of the debt securities held in this portfolio and the results from the sale of the securities comprising this portfolio.

**2. EXPLANATION OF THE BEHAVIOUR OF THE IMPAIRMENT PROVISION FOR  
FINANCIAL ASSETS AT AMORTISED COST**

***2.1. Behaviour of provisions recognised during the period***

The amount of net impairment losses on financial assets at 30 September 2021 amounts to €63,841 thousand (€180,278 thousand at 30 September 2020). This decrease of €116,437 thousand is largely explained by the extraordinary provision made for Covid-19 at 30 September 2020 in the amount of €90,124 thousand.

During the second quarter of 2020, there were numerous communications and recommendations from domestic and international regulators and supervisors on the treatment that credit institutions should apply when managing the credit risk of their financial assets in view of the high uncertainty at the time of the pandemic. It is worth mentioning the IASB's communication of 27 March regarding the adaptation of IFRS 9 to the situation created by Covid-19 (*IFRS 9 and Covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic*) in which institutions were encouraged to make "overlays" or post-model adjustments to reflect factors that were not captured by credit risk models, and the ECB communication of 1 April, which also refers to the use of post-model adjustments to reflect the effects of the exceptional situation, which were not captured by the "ordinary" credit risk models of financial institutions. Therefore, in order to record the worst-case macroeconomic outlook forecast at that time, since internal credit risk models had not been recalibrated, a provision of €90 million was recorded at 30 September 2020, based on estimates made by the Bank's management.

Disregarding this extraordinary provision, the balance at 30 September 2020 would amount to €89,944 thousand, representing a change of €26,103 thousand compared to the same period in 2019.

For year-end 2020, given that the macroeconomic effect was already reflected by the recalibration of credit risk models, the Group's management, as mentioned in Note 11.6.3 to the Consolidated Financial Statements for 2020, recorded €52 million as a post-model adjustment to cover the increase in credit risk of customers who were not in default at the end of 2020, but who, due to the ongoing deterioration of the macroeconomic situation, were expected to move to Stage 2 in 2021, since the potential effect of transitions between stages is not reflected by the internal models. This allocation was made in response to the communications and recommendations of the ECB and other domestic and supranational bodies, in which they urged institutions to hedge against the "cliff effect" that borrowers would suffer once the flexibility and economic support measures were terminated. However, given that the economic effects of this pandemic have been protracted over a longer time than expected and that measures to ease and boost economic activity continue to be applied to mitigate these effects, the portfolio of borrowers most likely to move to Stage 2 has benefited from these measures. This has avoided, for the time being, the "cliff effect" forecast by the Group in its projections for 2021.

This fact is evidenced in the analysis carried out by the Bank on transactions of this kind that have seen their accounting classification modified from Stage 1 in December 2020 to Stage 2 in September 2021. The impact on the impairment of these transactions amounts to approximately €5 million, an immaterial amount when compared to the total write-downs made during the year and the subsequent adjustment to the model recorded in the Group's consolidated balance sheet. This vindicates the prudent approach followed by Group management in maintaining unchanged, at 30 September 2021, the adjustment to the model of €52 million recorded at the end of 2020.

To explain the variation in provisions in the reference period, it should be considered that the recalibration in force at 30 September 2021 corresponds to year-end 2020, while the recalibration of 30 September 2020 corresponds to year-end 2019, so the differences in the parameters between the two models are factors to be considered in the explanation of the behaviour of provisions. As mentioned in Note 5.6.3 to the 30 September 2021 consolidated condensed interim financial statements, the Bank is currently working on recalibrating its internal credit risk models and, for the sake of prudence, has decided not to incorporate the improved economic outlook for this period, and has not made any subsequent adjustment to the model as it did in the same period of 2020 for this item.

At the date of writing this reply, the Bank is considering the impacts of the changes made to both the parameters and the macroeconomic scenarios, in line with the Bank of Spain's published forecasts. In addition, sensitivity analyses are being conducted on the new scenario weighting used, whose distribution is now as follows:

	2021	2020
Best-case scenario	10%	10%
Baseline scenario	60%	70%
Worst-case scenario	30%	20%

Finally, in accordance with the recommendations of ESMA, the Group is assessing the assumptions of the subsequent adjustment to the model explained above, so as to make the necessary adjustments and adapt it as best as possible to the expected transition between stages of the transactions subject to ICO-Covid, which, as explained above, are the transactions with the highest probability of transition, both due to the segment of customers affected and the nature of these government measures.

In any case, we would like to inform you that we do not expect any significant adjustments due to either the recalibration of the credit risk models or the potential modifications in the subsequent adjustment to the model.

## 2.2. Changes in the classification by stages of financial assets at amortised cost

Below we present the behaviour of financial assets at amortised cost by accounting stage, as well as the performance of collective hedges for each of the stages:

Thousands of euros				
30/09/2021				
	Stage 1	Stage 2	Stage 3	Total
Gross amount	38,530,811	1,621,159	841,123	40,993,093
Provisions for impairment of assets	51,285	123,242	414,725	589,252
Of which: calculated collectively	51,285	111,658	320,618	483,561
Of which: calculated separately	-	11,584	94,107	105,691
Net amount	38,479,526	1,497,917	426,398	40,403,841
Collective hedging	0.13%	6.89%	38.12%	1.18%

Thousands of euros				
31/12/2020				
	Stage 1	Stage 2	Stage 3	Total
Gross amount	37,683,374	1,677,854	1,010,697	40,371,925
Provisions for impairment of assets	52,154	132,330	460,616	645,100
Of which: calculated collectively	52,154	120,060	363,511	535,725
Of which: calculated separately	-	12,270	97,105	109,375
Net amount	37,631,220	1,545,524	550,081	39,726,825
Collective hedging	0.14%	7.16%	35.97%	1.33%

As can be seen in these tables, both Stage 1 and Stage 2 remained relatively stable during the first nine months of 2021, with the most significant variation occurring in Stage 3, whose decline, as shown in Note 5.4.4 to the September 2021 consolidated condensed interim financial statements, is mainly explained by the collections and exits of arrears and foreclosures made during the year, and a reduction in the volume of entries in Stage 3 with respect to the same period of the previous year.

### 3. PROVISIONS: DETAIL AND BEHAVIOUR OF OTHER PROVISIONS

Below is the movement during the nine months of 2021 in “Provisions - Other provisions” in the consolidated balance sheet, showing the detail of contingencies covered by these funds:

	Thousands of euros					Balance at 30/09/2021
	Balance at 31/12/2020	Transfers	Reversals	Amounts used	Other movements	
Floor clauses	20,659	5,516	-	(11,295)	-	14,880
ERE funds	207,379	3,491	-	(49,880)	-	160,990
Mortgage expense claims	5,367	940	-	(4,543)	-	1,764
Unsecured and secured buyer claims	10,330	588	(850)	(2,234)	-	7,834
Other ordinary business risks	653	240	(153)	-	-	740
Provisions of subsidiaries	2,208	11	(3)	(1,053)	26	1,189
<b>Total remaining provisions</b>	<b>246,596</b>	<b>10,786</b>	<b>(1,006)</b>	<b>(69,005)</b>	<b>26</b>	<b>187,397</b>

The legal justification for the most significant provisions is explained in Note 9 to the consolidated condensed financial statements. Minor provisions are made for legal contingencies or potential losses arising from the Group's ordinary activities and are recorded in accordance with the requirements of point 14 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

During the third quarter of 2021, a provision of €3 million was made for a contingency related to labour costs arising from restructuring processes in previous years.

### 4. RECOGNITION OF INCOME FROM INTEREST ON LIABILITIES

As described in Note 6.1 to the consolidated condensed interim financial statements, the European Central Bank, in order to further support the granting of credit to households and companies to mitigate the economic effects of the pandemic, in April 2020 modified some of the terms and conditions associated with the TLTRO III programme by subsidising the interest rate by 0.5% with respect to the average rate of the deposit facilities during the period from 24 June 2020 to 23 June 2021, so that the interest rate on these facilities would be -1%.

Additionally, these terms were extended on 10 December 2020, to stipulate that, if a certain volume of eligible loans is met between 1 October 2020 and 31 December 2021, the -1% interest rate may be applied for the period from June 2021 to June 2022.

As mentioned in this note, the Group has chosen to accrue interest in accordance with the specific periods of adjustment to market rates, so that the interest relating to such period (i.e. -1%) will be recognised, assuming that the threshold of eligible loans giving rise to the extra rate is met.

This approach is subject to the assumption that the probability of meeting the funding target set by the ECB, i.e., that there will be growth in the eligible portfolio of more than 0%, is highly probable. For this purpose, the Group has relied on the growth and development estimates used in the Business Plan and on the performance of the portfolio's actual origination after several months of monitoring.

In addition, the Group monthly monitors the origination performed to ensure compliance with the assumptions. To date, there is a comfortable margin over the limits established by the ECB, which endorses the Bank's assumptions for the recognition of the accrual of interest generated by these liquidity auctions.

## 5. OTHER MATTERS RELATING TO THE SEPTEMBER FINANCIAL STATEMENTS

### 5.1 Treatment of level 3 of the fair value hierarchy for financial assets

A table reconciling the opening balances to the balance for the nine-month period ended 30 September 2021 for the fair value hierarchy for Level 3 valuations is presented in Note 11 to the consolidated condensed interim financial statements on page 56 of the document.

This table shows the valuations of non-trading financial assets mandatorily measured at fair value through profit or loss, and the valuations of financial liabilities held for trading, which, as you have pointed out, have not changed with respect to the breakdowns presented in the interim financial information for the first half of the year. The Bank has decided to maintain these measurements as at 30 September 2021 since these transactions are either in the negotiation process or have not changed significantly. In any case, these measurements will be reviewed at year-end.

### 5.2. Explanation of the variation in interest expense

Note 15.2 to the consolidated condensed interim financial statements presents the breakdown of interest expense, both in the current and prior year, mistakenly. The table with the correct figures is presented below:

	Thousands of euros	
	30/09/2021	30/09/2020
Financial liabilities at amortised cost	60,127	84,698
Interest rate hedging derivatives	(38,251)	(45,359)
Insurance contracts	1,420	10,424
Other liabilities	4,899	2,137
Interest expense from assets	16,420	7,758
	<b>44,615</b>	<b>59,658</b>

### 5.3. Explanation of changes in “Gains and losses on derecognition of non-financial assets, net” and “Net gains and losses on non-current assets classified as held for sale not eligible as discontinued operations”

Note 15.11 shows the results obtained from the derecognition of non-financial assets, of which practically the entire amount comprises derecognitions from the disposal of tangible assets, including a land sale by a property subsidiary that generated a loss of €4.4 million. The remaining transactions were immaterial and in line with the transactions recorded in the same period of the previous year.

In addition, Note 15.12 shows the results obtained from impairment and disposal of non-current assets held for sale. The variation reflected both the increase in provisions for these assets and the increase in the results obtained from disposal, which mitigated the negative effect of the provisions.

The increase in provisions reflected the effects of the 2020 recalibration at the end of September 2020, which was partially offset by the use of a fund earmarked in principle for a foreclosed asset sale transaction, thus accounting for the increase in impairment losses in 2021.

The increase in sales results is mainly explained by the economic recovery that has taken place in 2021, allowing for an increase in the volume of sales.

#### **5.4. Status of implementation of IFRS 17 Insurance contracts**

As stated in Note 2.3 to the consolidated condensed interim financial statements for September 2021, the Group has an IFRS 17 implementation project in order to identify the impacts and changes necessary to adapt to the new standard.

During the first nine months of the year, the Group specified the structure of the financial statements to comply with the measurement, presentation and disclosure requirements of IFRS 17. In addition, the Group is in the process of specifying the chart of accounts to link the output information from the measurement engines with the accounting events and thus be able to subsequently set relevant parameters in the insurance company's accounting tool.

The implementation of the standard and the assessment of the impact on the Group's financial statements is still in progress and preliminary figures are not yet available, since the Group, like the rest of the sector, is currently working on its implementation, which, as we have said, will have an impact on information systems, accounting and IT tools for generating information.

#### **6. LONG-TERM INCENTIVE PLAN**

In April 2021, the Board of Directors approved the implementation of a Long-Term Incentive Plan with the objective of aligning the interests of the Bank's key executives with corporate strategy and with value creation for the Bank and its shareholders.

Since at 30 September 2021 the Entity was assessing the percentage of compliance with the multi-year objectives set by this Plan, no cost or provision was recognised in this respect, although the amount to be recorded would in any case be immaterial for the consolidated condensed interim financial statements because the Strategic Plan to which these incentives refer was approved this same year.

At year-end, the Bank will have more information to estimate the extent of compliance with the objectives of the management team during the last strategic plan and will recognise the cost for this item in accordance with the provisions of IAS 19 Employee Benefits.

All the answers included in this letter will be taken into consideration for the authorisation for issue of the financial statements for future years in order to provide the information with the utmost transparency.

Please do not hesitate to contact us should you require any further clarification or information.

Signed Francisco Serrano Gill de Albornoz  
General Secretary  
Ibercaja Banco, S.A.