iberCaja

Annual Report 2011

Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja

Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja
–IBERCAJA–

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CONTENTS

I. FINANCIAL AND BUSINESS REPORT IBERCAJA GROUP

CONTENTS

I. Financial and Business Report Ibercaja Group

1 INTRODUCING THE GROUP

The Spanish savings bank Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja is a lending institution whose surplus is used for charitable purposes, was established by the economic development organization Real Sociedad Económica Aragonesa de Amigos del País. It was chartered by a Royal Order of January 28, 1873, and started up operations on May 28, 1876.

The Savings Bank is registered as entity number 51 in folio 31 of the Special Register of Spanish Savings Banks, under a Royal Order of December 13, 1930, and is also registered at the Mercantile Registry Office of Zaragoza, in volume 1,194, folio 23, page Z-4,862, entry number 1.

The registered office of the Savings Bank is situated in the City of Zaragoza, at number 2 Don Basilio Paraíso square. Its Articles of Association or Bye-laws currently in force were approved through orders of the councilors for Economics, Finance and Employment of the Regional Government of Aragón of June 12, 2001, September 19, 2005, April 12, 2011, and September 16, 2011.

ESTABLISHMENT OF IBERCAJA BANCO

Royal Decree-Law 11/2010, on the Governing Bodies and Other Legal Aspects of Savings Banks, opened the possibility of engaging in the financial business of a savings bank indirectly, by means of a commercial bank.

Under the new legal framework, the Board of Directors of the Savings Bank, at a meeting held on April 14, 2011, after reviewing the changes taking place in the financial system, resolved to begin the procedure of establishing a wholly-owned commercial banking subsidiary called Ibercaja Banco. The aim was to develop a mercantile-law structure that would enable Ibercaja to compete on equal terms with the rest of the market operators, endowing the Savings Bank with the tools it needed to continue to grow and leaving open as many options as possible to adjust to the new financial regulations and capital requirements.

The Spin-off Project undertaken by the Board called for the Savings Bank to switch to carrying on its financial activity indirectly through a newly-established commercial bank, spinning off to the latter all the assets and liabilities linked to its financial activity except only for those that were essential for carrying on the Social and Cultural Work as well as the Pawn Shop activities.

The Spin-off Project was filed with the Mercantile Registry Office of Zaragoza on May 20, 2011, pursuant to the provisions of Section 32 read together with Section 73 of the Corporate Reorganizations Act and of Section 226 of the Mercantile Registry Regulation.

The Assembly of Members of Ibercaja, at a special meeting held on July 26, 2011, approved establishing Ibercaja Banco, SAU, and transferring the financial activity to the new commercial bank, a corporation sole whose stockholder is the Savings Bank.

Ibercaja Banco was incorporated on September 22, 2011, and was registered at the Zaragoza Mercantile Registry Office, in volume 3,865, folio 1, page Z-52186, entry No. 1, on September 23, 2011. On September 30, 2011, Ibercaja Banco was granted the administrative approval foreseen in Royal Decree No. 1245/1995 on the establishment of banks, cross-border business and other questions relating to the legal system of lending entities, and was registered in the Administrative Register of Banks and Bankers carried by the Bank of Spain as bank number 2085 and Spanish corporate taxpayer No. A99319030, with a registered office at No. 2 Basilio Paraíso square, in the City of Zaragoza, ZIP code No. 50008.

The net book value of the asset and liability items of the Savings Bank spun off to Ibercaja Banco is 2,610,792,000 euro. The Bank has an initial stock capital of 2,134,500,000 euro, divided into a similar number of shares of stock having a nominal value of one euro each. The assets and liabilities that have not been spun off are: those allocated to the Pawn Shop and the Social and Cultural Work, the items listed as works of art belonging to the Savings Bank, and the related tax assets and liabilities.

On October 1, 2011, Ibercaja Banco started up business under the same management model as the Savings Bank and with the mission of providing top quality financial services to families and business customers. The Savings Bank will continue to use its surplus –other than the part it is required to appropriate to reserves under the regulations in force– to funding the operations of the Social and Cultural Work. Consequently, even though the Savings Bank will conduct its financial activity indirectly through the newly-formed bank, the Social and Cultural Work will continue to be managed according to the principles that have historically been observed in connection with such Work.

The Board of Directors of the commercial banking subsidiary is headed by the chairman of the Savings Bank, Mr. Amado Franco Lahoz, and its managing director is the general manager of the Savings Bank, Mr. José Luis Aguirre Loaso. The Board of the commercial bank has five other members, three of whom belong to the Board of Directors of the Savings Bank while two are independent directors.

When Ibercaja Banco, SAU, started up business, its Board of Directors approved the new management structure. This comprises five area departments (the Office of the Secretary General, the Business Department, the Credit Risk Department and the Human Resources and Means Department) as well as three staff departments (the Audit Department, the Management Control Department and the Office of the Technical Secretary).

The Savings Bank and Ibercaja Banco, SAU, along with the latter's subsidiaries, form the *Ibercaja Group*.

DIAGRAM OF THE IBERCAJA GROUP

Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja

100%

Ibercaja Banco, SAU

100%

Financial Subsidiaries

Ibercaja Gestión, SGIIC, S.A.

Ibercaja Pensión, EGFP, S.A.

Ibercaja Vida
Compañía de Seguros y Reaseguros, S.A.

Ibercaja Mediación de Seguros, S.A.

Ibercaja Leasing y Financiación, S.A., EFC

Ibercaja Patrimonios, SGC, S.A.

Other Affiliates

KEY FIGURES

(Thousand euro)	2011	2010	2009
IBERCAJA GROUP			
Total assets	45,237,138	44,988,820	44,691,025
Loans and advances to customers	32,934,776	33,776,151	34,212,526
Securities portfolio	9,016,029	8,111,114	6,854,520
Total resources managed	47,317,876	48,313,299	48,843,920
–Off-balance sheet resources	8,564,033	9,151,095	9,284,379
Reserves	2,654,169	2,581,894	2,475,822
Eligible own funds	3,211,502	3,387,398	3,437,184
Delinquency ratio (%)	4.16	3.67	3.34
Total cover of non-performing loans (%)	60.21	63.37	77.34
BIS ratio (%)	14.40	14.29	13.59
Core capital (%)	10.42	9.70	8.78
Principal capital (%)*	10.91	10.23	
** Principal capital requirement: 8%*			
Net interest margin	491,425	531,116	679,393
Gross margin	792,284	806,388	967,856
Surplus before tax	69,575	133,527	181,566
Net surplus (attributed to the parent Entity)	57,426	103,604	143,701
OTHER SIGNIFICANT FACTS[1]			
Number of offices	1,052	1,076	1,085
Number of employees (total number on payroll)	4,816	4,920	4,946
Number of automatic teller machines	1,144	1,181	1,207
Turnover per office[2]	76,286	76,291	76,550
Turnover per employee[2]	16,664	16,685	16,793

[1] The office and ATM figures of 2011 are for Ibercaja Banco, SAU.
[2] Turnover: Loans and advances to customers + Customer funds.

CREDIT RATING OF IBERCAJA BANCO, SAU	Short Term	Long Term
Moody's	P - 2	Baa1
Standard & Poor's	A - 2	BBB+

The quantitative figures and detailed information included in this Annual Report to describe performance are provided according to the criteria used in the internal management information systems.

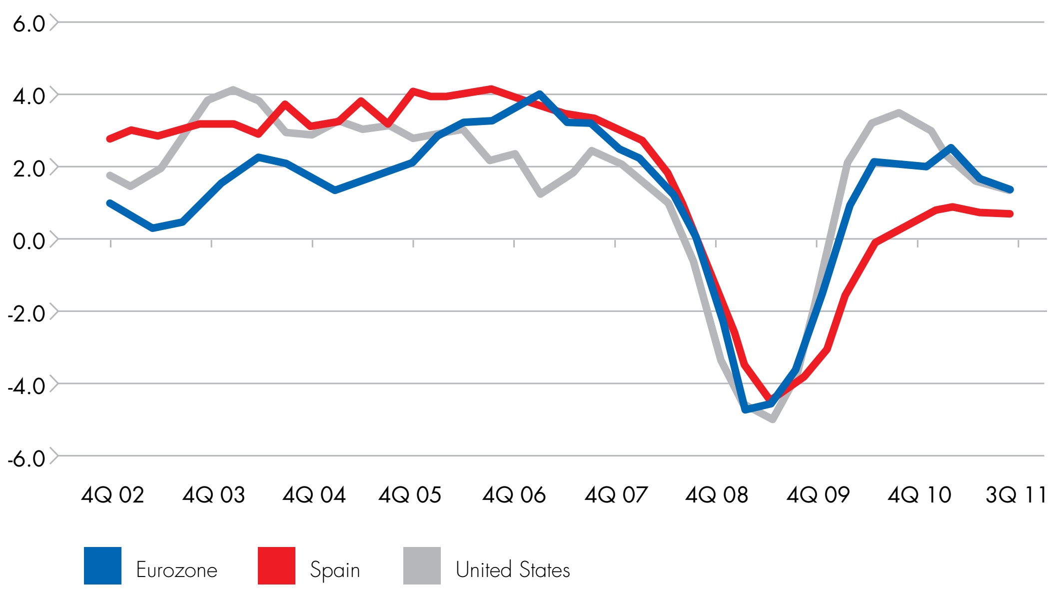
2 ECONOMIC AND FINANCIAL ENVIRONMENT

After a promising beginning of the year, economic expectations at the global level worsened significantly. Despite that, the rate of growth foreseen for the world economy in 2011 by the International Monetary Fund remained high, at around 4%. Growth was not balanced, however, as the GDP of emerging countries rose about 6.5% while developed countries showed very weak growth.

In the United States, the rebound of consumer and capital expenditure encouraged by the expansive money policy of the Federal Reserve cleared away the risk of recession, while in Japan a 1.5% quarter-on-quarter rise of the GDP confirmed it has recovered from the effects of the tsunami and the subsequent nuclear accident.

In Europe the sovereign debt crisis gathered momentum to the point of putting the continued existence of the euro at risk. Its effects spread to the real economy, so it seems that the GDP for the Eurozone as a whole will show a slight downturn in the fourth quarter. Given this scenario, forecasts for 2012 are unfavorable.

YEAR-ON-YEAR GROWTH OF SPAIN'S GDP



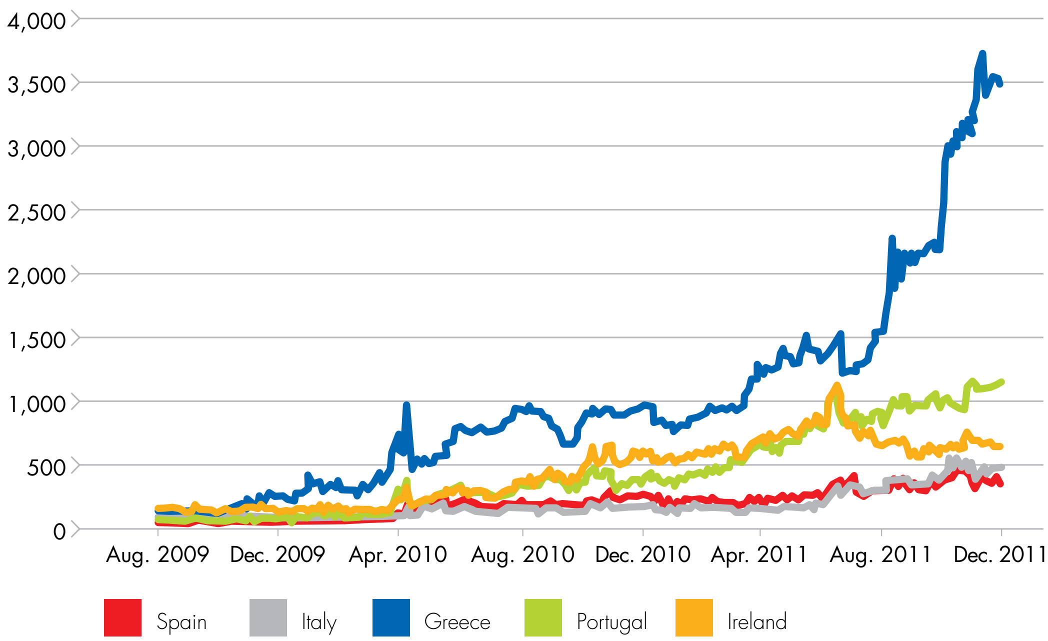
The Spanish economy had a complicated year. The moderate pace at which it grew in the first half gave way to stagnation in the third quarter and to a downturn of 0.3% in the last quarter. Domestic demand was very weak mainly as a consequence of the worsening labor market picture with unemployment at around 20%. Other factors at play at the end of the year were the tax adjustment, the difficulties with financing which became more expensive, and a weaker external sector.

The CPI for the Eurozone showed a 2.8% year-on-year rise in December, reflecting higher raw material prices. To prevent inflation from picking up again the ECB raised the benchmark interest rate twice by July, to 1.5% from 1% previously. This trend was reversed in the last part of the year, as tensions built up in the markets and the economic cycle went into a weaker phase. The one-year Euribor rate rose to 2.004%, 48 basis points above its level of December 2010.

The main European stock exchange indices showed substantial volatility, especially reflecting the trend in the securities of financial undertakings. The Ibex 35 index was down 13.11% on balance for the year, while the Eurostoxx 50 index fell 17.05%. US stock prices, on the contrary, showed a 5.52% rise (as measured by the Dow Jones index).

The sovereign debt crisis has hit mainly the countries that have resorted to the rescue procedure –Greece, Portugal and Ireland– as well as other countries such as Italy and Spain with a substantial public and private debt burden. The lack of coordination and the delay in taking steps to stabilize the market have worsened the picture. At times, the risk premium for Spain's public debt hit a peak of about 500 basis points, dragging up with it corporate debt differentials, especially those for debt issued by financial institutions. These saw spreads for their debt widen considerably, or were unable to borrow on the wholesale markets.

SPREADS BETWEEN SOME 10-YEAR BONDS AND THE GERMANY'S BUND (BASIS POINTS)



At its December meeting, the ECB approved an important package of measures designed to bring stability to the financing of European banks, having announced two 36-month liquidity auctions, a more flexible approach to the range of collateral instruments it is prepared to accept for discount purposes and a reduction of the minimum cash requirement to 1%, from 2% previously. At the European Summit Meeting of December 9, for its part, decisions were taken to implement a penalty system for states that fail to comply with deficit ceilings and to bring down to a majority of 85%, from a unanimous vote required previously, the number of votes required to trigger the rescue procedure *(European Stability Mechanism).*

Spanish banking sector turnover has slowed down as a consequence of the economic situation, of the deleveraging process affecting families and businesses as well as of the need to limit the growth of risk-weighted assets to meet the new capital requirements. The liquidity shortage has reawakened competition for retail liabilities with high rates for both traditional deposits and alternative products, promissory notes, bonds and subordinated debt. Thus, the more expensive financing has led to narrower margins.

The increase in doubtful assets and shrinking loans and advances to customers have driven the delinquency ratio for the system as a whole to 7.67%, up 192 basis points from December 2010. At the same time, on-balance sheet real estate assets have continued to grow.

The restructuring of the Spanish financial system has continued, with the capitalization process sparked by the new Tier 1 capital requirements of Royal Decree No. 2/2011, being completed in September. The European Banking Authority (EBA), for its part, at its October meeting, increased the ‘principal capital’ requirements for some banks rated as systemic entities.

3 OPERATIONS OF THE IBERCAJA GROUP

The business year just closed has been featured by a worsening economic situation and growing financial instability in the Eurozone, as the debt crisis deepened. Spain has reached the verge of recession, while at the same time the country risk climbed because of a lack of confidence in our economy and its ability to reverse the substantial public sector deficit. Falling employment and lower disposable income levels have resulted in shrinking consumer and capital expenditure. Only a sound performance in tourist services and export sales has countered the overall trend. The turnover of financial institutions has declined, while the difficulty of raising financing and the need to fund provisions for doubtful debts and write off bad debts put pressure on the margins and results.

In the circumstances described above, Ibercaja has preserved its financial strengths –solvency, liquidity and the quality of assets– carrying on with its retail banking model based on elements of differentiation such as proximity to customers, service quality and innovative products generated by Group member companies. The top priority objectives have been to protect earnings in a highly competitive environment and to strengthen the Group's capitalization. Thus, the Group has achieved a reputed surplus of 57 million euro after increasing provisions for bad and doubtful debts by 37.38%.

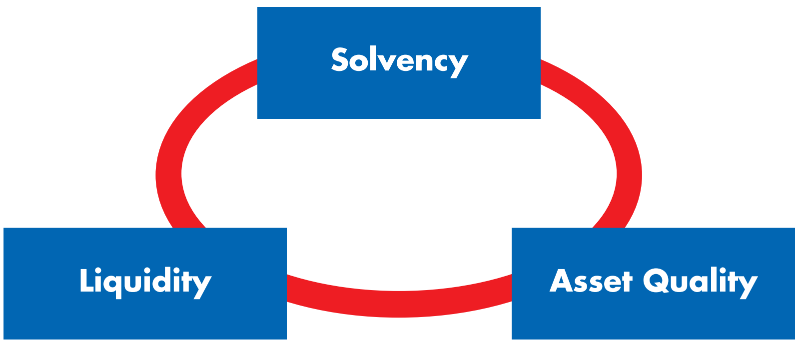
As part of the restructuring process that the whole sector is undergoing, the Ibercaja Group has been reorganized by forming Ibercaja Banco, a commercial bank through which all of its financial activity is now carried out. This is designed to provide a more flexible mercantile-law structure through which it can better adjust to meet the new regulatory and capital requirements. The Savings Bank remains fully committed to its Social and Cultural Work.

Commercial activity has been intense in 2011, with the number of customers having reached 2.2 million and turnover 80,253 million euro. Once again last year, the Group has succeeded in increasing its share of the investment fund, pension plan and life insurance markets. We must note –considering the complicated environment described above– that the Group has also succeeded in increasing its market share in loans and advances to customers, and in consolidating its share in retail customers' funds.

The 2008-2011 Strategic Plan

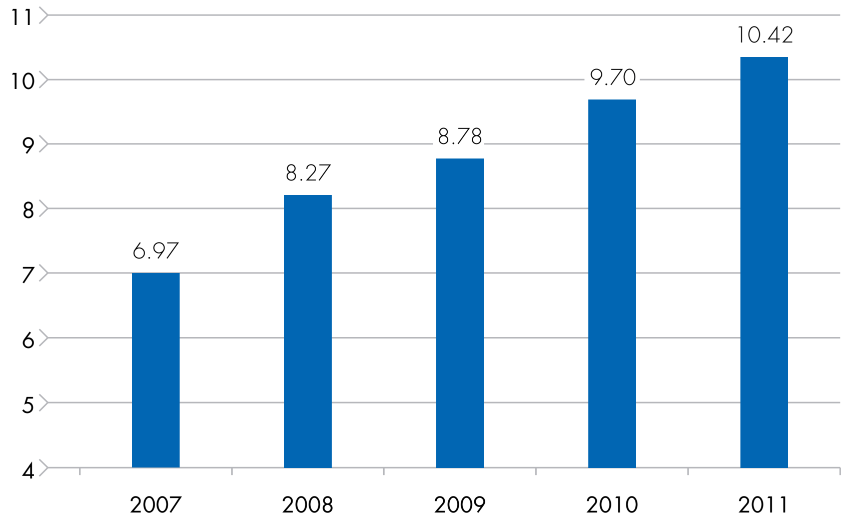
In the 2011 business year Ibercaja has completed its 2008-2011 Strategic Plan, having achieved the principal targets that may be summed up as: consolidating Ibercaja as an entity of reference in the Spanish banking sector because of its financial strength and because of the quality of service to customers.

FINANCIAL STRENGTHS OF THE IBERCAJA GROUP



1) *Solvency:* during the period covered by the Plan, Ibercaja has increased its basic own resources of maximum quality by 3.45 percentage points, bringing its core capital to 10.42%, one of the highest in the industry.

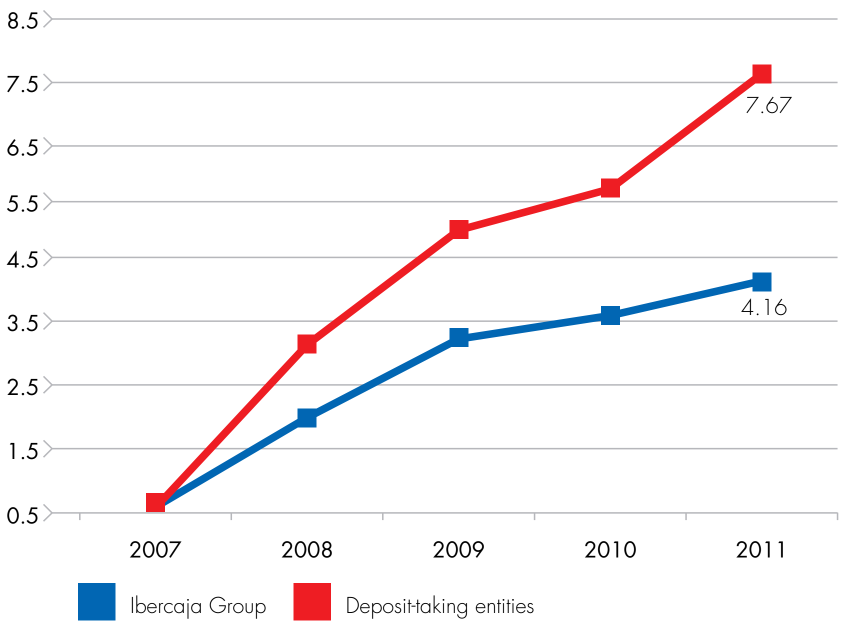
CORE CAPITAL



2) Ibercaja has given preference to maintaining a comfortable *liquidity position* and its basically retail-based *financing,* having limited its dependence on wholesale markets. This approach has prevented liquidity tightness during the most sensitive moments of the economic cycle.

3) The *quality of assets* is another basic pillar of the Group's solvency. The prudent risk policy implemented by the Entity has resulted in a wide differential between its ratio of delinquency and that of Spanish entities as a whole.

DELINQUENCY EVOLUTION



The main lines of action under the Plan have been:

–*Business diversification* by developing strategies for specialist relationships with segments of customers, such as in personal and corporate banking areas in which Ibercaja has growth potential.

The personal banking project started to be implemented more than two years ago. Business with this segment of customers already accounts for more than 27% of office network turnover. There are 172 personal banking managers providing a personalized service to a customer base of 113,000.

The corporate business is another pillar of the Group diversification process. The Corporate Business Unit, developed to serve preferentially SMEs with a certain level of turnover, has 100 managers who specialize in providing solutions tailored to meet customer requirements in various areas such as financing, treasury management, foreign trade, etc. The team of professionals is supported by the office managers who handle small-sized undertakings and self-employed individuals. The main objective in 2011 has been to boost links between entrepreneurs and Ibercaja by offering customers specific commercial products as well as by improving advisory services through campaigns such as that conducted in respect of risk insurance. As a result of such specialization the number of customers in this area of business stood at more than 55,000 at the end of the year.

–*Diversification of savings:* a major effort has been carried out in that respect, with the Group's subsidiaries specializing in investment funds, pension plans and insurance having played a noteworthy role by making available a wide range of products and services through the office network, adjusted to fit individual customer profiles.

MARKET POSITION OF THE FINANCIAL MEMBER COMPANIES OF THE IBERCAJA GROUP

	Share at Dec. 2007	Share at Dec. 2011	Current Position
Investment Funds	2.41%	3.45%	7.ª
Pension Plans	4.77%	5.51%	6.ª
Insurance (provisions)	2.53%	2.96%	10.ª

SOURCE: Inverco, ICEA and own figures.

–*Consolidating the nation-wide presence:* during the period, Ibercaja has worked on achieving profitability at the offices opened during the 2005-2007 Strategic Plan, by providing them with specific commercial products designed to increase turnover and the customer base as well as to link customers more closely to the Entity. The measures that have been put into effect have boosted the productivity and overall profitability of that set of branch offices.

–*Commercial management of real estate:* as part of its risk management policy Ibercaja has taken steps to market the real estate assets it has been awarded or acquired in settlement of debt-claims and to facilitate the sale of developments financed by the Entity.

–*Service quality:* excellence in the quality of service forms part of the Ibercaja culture. It gives the Entity a competitive edge and is a very valuable element of differentiation that becomes all the more important in difficult times when business shrinks. Independent consultants have acknowledged Ibercaja's steady commitment to quality. Since 2007, Ibercaja holds the highest award for excellence that a European organization can receive: the European 500+ Gold Seal of Excellence. This award has been earned by Ibercaja for the second time in 2011, having surpassed the 600-point level.

3.1. BANKING PERFORMANCE AND DISTRIBUTION CHANNELS

3.1.1. CUSTOMERS' FUNDS

In a complicated economic and financial environment the ability of financial institutions to attract funds has been undermined by the worsening sovereign debt crisis and by the closure of wholesale markets. Thus, tapping retail sources of funds has become a matter of high priority, unleashing strong competition among banks that has barely been mitigated by Royal Decree No. 771/2011, designed to hold down the pressure on the cost of liabilities. Investment funds, in turn, have been adversely affected by the high yields on term deposits and market volatility that have resulted in assets being transferred from them to other investment products.

At the end of 2011, customer funds held by the Ibercaja Group totalled 47,318 million euro. Those on the Balance Sheet, including Deposits from Other Creditors, Debt Certificates Including Bonds, Subordinated Liabilities and Liabilities under Insurance Contracts, were 38,754 million euro.

BREAKDOWN OF CUSTOMERS' FUNDS

(Thousand euro)	Dec. 2011	Dec. 2010	Increase	Incr. %
Demand deposits - public sector customers	236,877	360,880	–124,003	–34.36
Demand deposits - other customers	8,656,702	8,621,985	34,718	0.40
Time deposits	12,737,239	13,454,208	–716,970	–5.33
–Non-structured and borrowings	8,218,263	9,728,472	–1,510,209	–15.52
–Structured	4,518,976	3,725,736	793,240	21.29
Repurchase agreements	122,261	200,579	–78,318	–39.05
On-balance sheet resources managed by the office network	21,753,079	22,637,652	–884,574	–3.91
Held-to-maturity investments	445,852	117,756	328,096	278.62
Investment funds and multi-funds	4,469,291	4,664,842	–195,551	–4.19
Pension plans	1,969,377	1,941,779	27,598	1.42
Systematic savings insurance products	2,122,102	2,020,126	101,976	5.05
Savings-and-investment insurance products	1,567,516	1,065,043	502,473	47.18
Off-balance sheet resources managed by the office network	10,574,138	9,809,546	764,592	7.79
TOTAL CUSTOMERS' FUNDS MANAGED BY THE OFFICE NETWORK	32,327,216	32,447,198	–119,982	–0.37
TOTAL CUSTOMERS' FUNDS MANAGED BY THE GROUP	47,317,876	48,313,296	–995,422	–2.06

The resources of the office network, at 32,327 million euro, have remained virtually unchanged from 2010, despite the difficulties described above. Their composition, however, has changed because of the need to protect margins through active management of the price and to offer products that are attractive to customers and encourage them to tighten their links with the Entity. The most noteworthy are structured deposits, which grew 21.29% on balance from the previous year. A very wide range of classes and terms have been offered for such products, to facilitate the diversification of investments by customers. Ibercaja has marketed both those that combine a premium deposit at an attractive rate of interest and one that is tied to the performance of different indices or shares of stock, as well as others whose reference rate is Euribor.

Demand deposits other than those by public sector customers have increased 0.40%, while non-structured deposits have fallen 19.79% in the context of the 'liabilities war', in which Ibercaja has tried to avoid becoming involved as far as possible.

In October, Ibercaja Banco registered with Spain's National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV) its first promissory notes program aimed at retail and institutional customers. At the close of the business year, the balance outstanding of promissory notes placed through the office network stood at 400 million euro.

The off-balance sheet resources of the retail network grew 7.79%. Regarding the volume of assets managed through investment funds, which fell 4%, Ibercaja did better than the system as a whole, so the Group's share of this market rose 14 basis points to 3.45%. The market share of pension plans also increased, by 18 basis points, from December 2010. Lastly, the balance held under systematic and investment savings insurance products showed a sharp increase of 19.59%.

With reference to wholesale financing, the following facilities matured during the year: 600 million euro in straight bonds, 175 million euro in mortgage and the so-called territorial or covered bonds, as well as 150 million euro in Schuldshein loans. The following bonds were floated: 500 million euro in senior secured debt and 1,030 million euro in mortgage bonds of which a number worth 1,000 million euro are being held by the treasury of Ibercaja itself.

3.1.2. LOANS AND ADVANCES TO CUSTOMERS

The gross total amount of Loans and Advances to Customers was 32,935 million euro, down 2.49% from the end of the previous year. Demand was limited by a stagnant Spanish economy, the labor market picture and the need to adjust financing terms to market conditions. Notwithstanding that, Ibercaja succeeded in increasing its market share by two basis points.

During 2011, more than 67,200 new loans have been granted and leasing operations have been arranged with private individuals and corporate customers, for a total of 4,220 million euro. In particular, 64.52% was in the form of facilities to finance productive activities, while 23.69% was for building and buying homes by private individuals and 11.79% was to finance consumer spending and for other purposes. These figures show that, despite the adverse economic climate, the Group remains committed to making available the necessary financing for viable projects.

By customer segment, Loans and Advances to the Public Sector, having a reduced weight of 1.43% in the portfolio, increased 18.14% or 472 million euro. Financing of other customers resident in Spain, at 30,521 million euro, was down 4.64%, while financing of non-residents rose 1.87% to 116 million euro.

BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS OF THE IBERCAJA GROUP BY SECTOR

(Thousand euro)	Dec. 2011	Dec. 2010	Increase	Incr. %
Loans and advances to the public sector	471,650	399,232	72,418	18.14
Loans and advances to the private sector	30,520,753	32,006,945	−1,486,192	−4.64
Loans and advances to non-resident sector	116,428	114,293	2,136	1.87
Impaired assets	1,369,702	1,237,494	132,209	10.68
Reverse repos and other financial assets	464,132	42,946	421,185	980.73
Measurement adjustments	−7,888	−24,758	16,870	−68.14
GROSS LOANS AND ADVANCES TO CUSTOMERS	32,934,776	33,776,151	−841,375	−2.49
Impairment allowances	−800,386	−759,743	−40,643	5.35
NET LOANS AND ADVANCES TO CUSTOMERS	32,134,390	33,016,408	−882,018	−2.67

Secured Loans, granted basically to private individuals for acquiring a first home, accounted for 79.44% of the total, a similar percentage to that reported at the end of the previous business year, although in absolute terms such loans fell 4.06%. The slow pace of business among corporate customers resulted in the balances for Commercial Credit and Finance Leases falling 8.56% and 8.36%, respectively, while Personal Loans, included under Other Term Loans/Receivables, were down 10.52%.

BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS OF THE IBERCAJA GROUP

(Thousand euro)	Dec. 2011	Dec. 2010	Increase	Incr. %
Commercial credit	286,093	312,877	−26,784	−8.56
Secured loans/Secured receivables	26,162,411	27,268,458	−1,106,047	−4.06
Other term loans/receivables	3,438,863	3,867,483	−428,621	−11.08
Finance leases	204,535	223,183	−18,648	−8.36
Receivables on demand and other	1,016,928	848,468	168,460	19.85
Impaired assets	1,369,702	1,237,494	132,209	10.68
Other financial assets	464,132	42,946	421,185	980.73
Measurement adjustments	−7,888	−24,758	16,870	−68.14
GROSS LOANS AND ADVANCES TO CUSTOMERS	32,934,776	33,776,151	−841,375	−2.49
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FINANCING OF INDIVIDUALS

The bulk of Loans and Advances to the Private Sector was financing of individuals. At 22,669 million euro –down 580 million from the end of 2010– this made up 70.68% of the total of such Loans and Advances. More than 94% was granted for the purpose of financing the acquisition of homes, and of most of these facilities (99%) were secured with mortgages. Ibercaja traditionally has a prominent position in this low-risk area of business.

The diversified range of mortgage-backed products offered by Ibercaja has continued to grow to better fit the needs of individual customers. The Discounted-rate Superplus Opportunity Mortgage *(Hipoteca Bonificada Superplus Oportunidad)* includes an attractive initial rate of interest, an extensive waiting period until starting to repay the principal, and a flexible repayment scheme. This type of new generation mortgages reward borrowers who are closely tied to the Entity, which has contributed to the excellent degree of acceptance they have met among customers.

In 2011, Ibercaja was chosen by the Development Ministry as one of the cooperating lending entity that are given preference for the purposes of financing officially sponsored projects in the framework of the 2009-2012 National Government Home Building and Renovation Plan. Agreements with other groups such as professional associations, civil servants and employees of large businesses have remained in force during 2011, as has the Youth Mortgage Agreement *(Convenio Hipoteca Joven)* with the Regional Government of La Rioja.

Consumer credit, which fell 7.76% on balance for the year, to 1,343 million euro, was adversely affected by low confidence on the part of families and shrinking disposable income.

FINANCING OF INDUSTRIAL ACTIVITIES

One of the aims of Ibercaja is to diversify business by boosting the volume of financing granted to small- and medium-sized enterprises.

At the end of 2011, loans and advances granted for productive activities other than real estate development and construction amounted to 5,311 million euro, down 4.08% on balance for the year. The trend reflected reduced investment needs on the part of corporate customers, in the face of sluggish consumer demand and the consequent excess installed capacity.

The Group has taken part in arranging loans granted out of several lines of financing provided by the Government lending agency *Instituto de Crédito Oficial (ICO)*. One of these, the Investment 2011 *(Inversión 2011)* line, is for sustainable investment projects by corporate customers and public authorities that involve a more efficient use of resources or a reduction of environmental impacts. Another one is the Liquidity 2011 *(Liquidez 2011) line,* to provide working capital and help reschedule the liabilities of corporate customers undergoing temporary liquidity shortages. More than 2,800 operations have been arranged under agreements with the ICO, for a total of 181 million euro.

There are agreements in force with various regional governments for granting loans subsidized by the Ministry of Agriculture to borrowers seeking to update livestock raising operations and carry out irrigation infrastructure projects.

3.1.3. THE OFFICE NETWORK

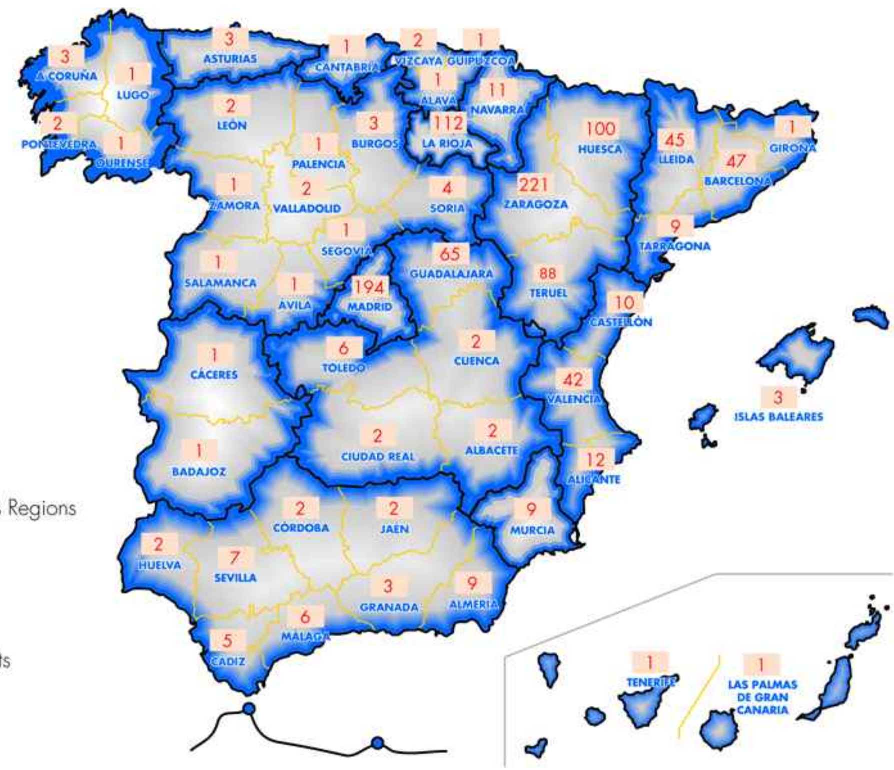
Ibercaja has an extensive office network reinforced with other alternative channels. It has 1,052 branch offices spread over the 50 province capital cities and a total of 671 municipal districts.

The Entity has a leading position in its traditional territory (Aragón, La Rioja and Guadalajara) where its market share is 23.54% of overall credit and deposits in the area and where 46.97% of its total turnover is generated. It also has a very outstanding position in Madrid, as a result of the bold territorial diversification drive undertaken by the Entity at the end of the 1980s.

The breakdown of the commercial network by Autonomous Regions is: 409 points of sale in Aragón, 194 in the Comunidad Autónoma de Madrid, 112 in La Rioja, 102 in Cataluña, 77 in Castilla-La Mancha, 64 in the Comunidad Valenciana, 36 in Andalucía, 16 in Castilla-León, 11 in Navarra, 9 in Murcia, 7 in Galicia, 4 in the País Vasco, 3 in the Islas Baleares, 3 in Asturias, 2 in the Islas Canarias, 2 in Extremadura and 1 in Cantabria. During 2011, 24 offices have been closed down or merged with others to adjust the installed capacity to the current financial and economic situation.

As a supplement to the office network, the Group has 100 managers specializing in corporate banking, 172 specializing in personal banking, and six centers engaging specifically in private banking.

IBERCAJA - OFFICE NETWORK



17
Autonomous Regions

50
Provinces

671
Local Districts

1,052
Offices

All the Ibercaja offices follow a model aimed to provide an agreeable atmosphere to customers and to rationalize operating efficiency and commercial effectiveness. They are designed to make a distinction between self-service, fast service and teller areas as opposed to individualized service zones, in benefit of privacy and a personalized commercial relationship. Besides, the model unifies commercial action at all Ibercaja points of sale, promoting teamwork and the use of specialist technological supports and tools.

3.1.4. MULTI-CHANNEL STRATEGY

Ibercaja's multi-channel strategy is aimed at bringing services closer to customers, so that they can use the services at any place and at any time. In that respect, Ibercaja continuously works to innovate, to introduce the latest technology and contents, as well as to improve accessibility.

E-BANKING

The new information and communication technologies enable the Group to offer permanent connectivity to customers through various remote access channels. Operations with products and services can be carried out over the internet through Ibercaja Directo as well as using fixed and mobile phones.

Ibercaja Directo, which celebrated its 10th anniversary in 2011, is the most frequently used platform. In the past year, as a result of the enhancements made, the number of customers has increased by 7%. The number of operations carried out through this service has continued to grow, to 141 million.

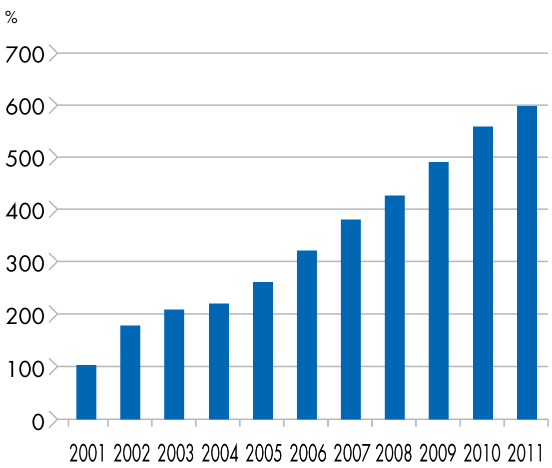
A new development concerning Ibercaja Directo in 2011 has been the introduction of the CRM Multicanal strategy of personalizing commercial offerings and information on products and services to suit the profile of each customer.

With a view to the personal banking segment, Ibercaja has continued developing Ib Broker, a new online brokerage service for buying and selling listed securities. A Management Agreements service has also been implemented for these customers.

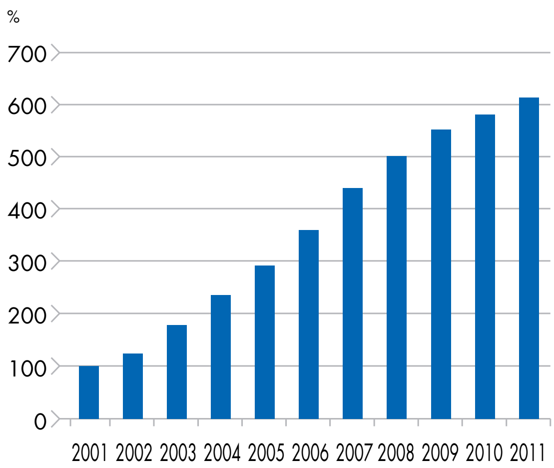
Besides, an online mail service is now available to all customers of Ibercaja Directo, both private individuals and corporate customers, as a faster, safer and less expensive channel for sending letters and documents.

Lastly, progress has been made in transactional security, enhancements that facilitate and simplify carrying out the more usual transactions, and a wider range of products and services are being offered commercially and have been made available through the various operating modes of Ibercaja Directo.

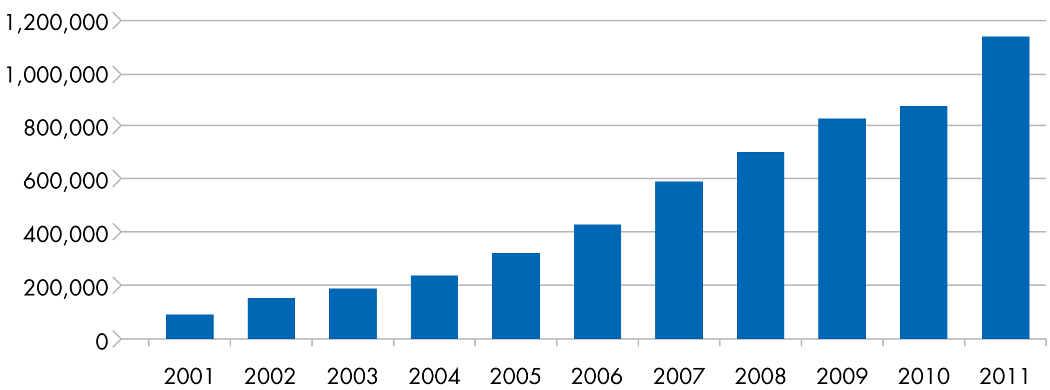
TREND IN THE NUMBER OF PRIVATE INDIVIDUAL CUSTOMERS WHO USE IBERCAJA DIRECTO EACH MONTH (2001 = 100)



TREND IN THE NUMBER OF CUSTOMERS WHO USE IBERCAJA DIRECTO NEGOCIOS (2001 = 100)



AVERAGE NUMBER OF OPERATIONS PERFORMED THROUGH IBERCAJA DIRECTO EACH MONTH



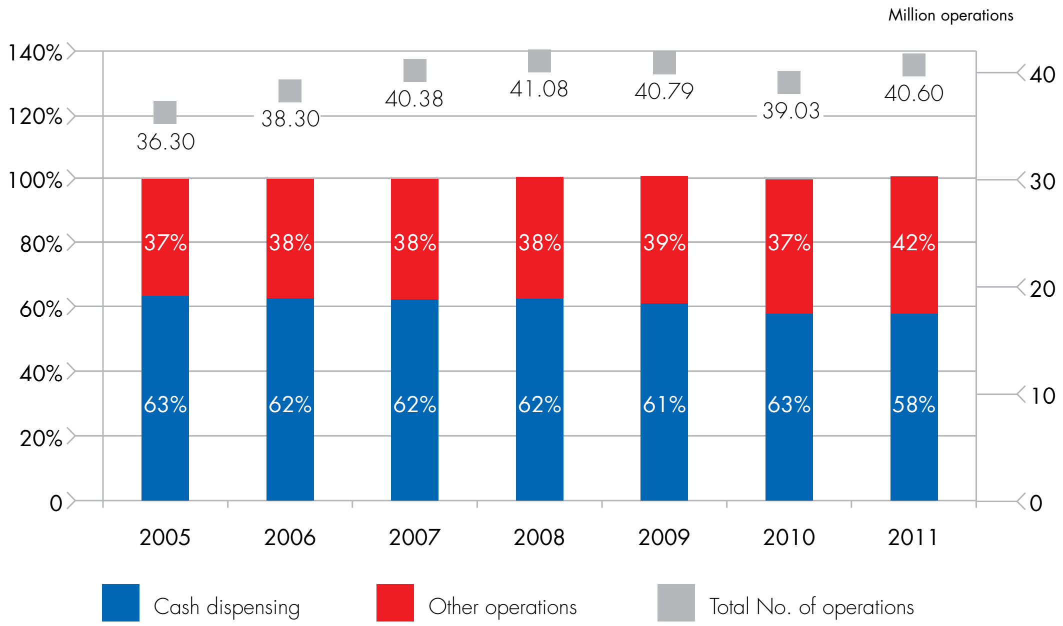
As for the Open Website (www.ibercaja.es) the number of hits it received increased by nearly 40% from the previous year. A project has been completed to encourage interaction with customers incorporating a warning subscription service, a page where users can leave their opinions and another through which customers can furnish and update their personal particulars. Lastly, more comprehensive tools have been made available for retrieving information or applying for and arranging transactions, including the simulators and comparative tables used in analyzing products.

SELF-SERVICE

The customers of Ibercaja have performed more than 100 million self-service operations during the year. Thus, the process of transferring lower value-added operations to alternative channels has continued to grow, to reduce the burden of administrative tasks performed by the network of offices so as to boost their commercial and advisory activity.

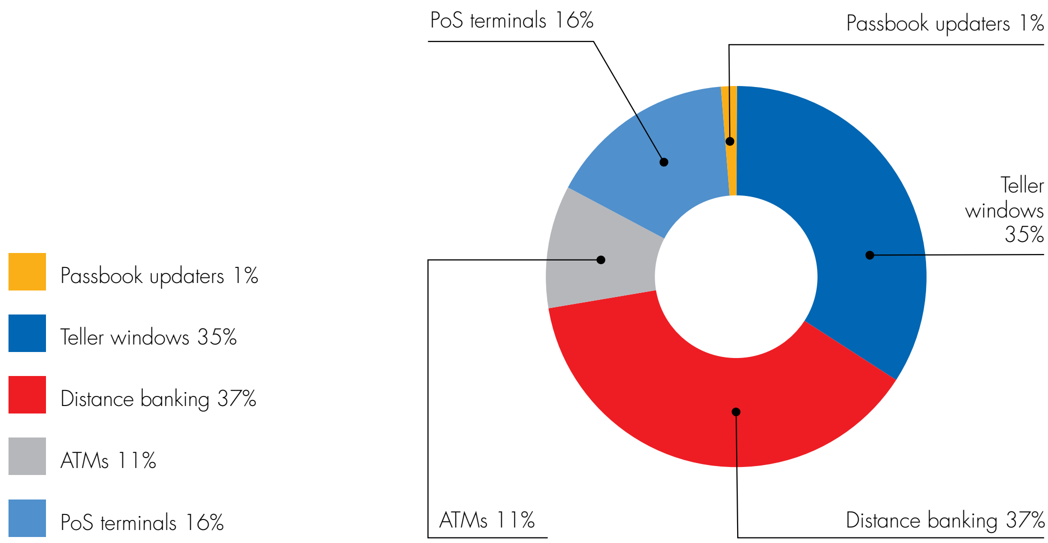
The most usual operations are those of dispensing cash and retrieving information on account balances or movements. These are carried out through 1,144 automatic teller machines and 409 passbook updating machines. The automatic teller machines also allow customers to pay bills, activate cards, recharge mobile phones and buy tickets to shows.

OPERATIONS THROUGH ATMs OF IBERCAJA



Leaving out information retrieval operations, the number of self-service operations actually performed by customers is 80% of the total number of operations that are liable to be performed using this channel.

BREAKDOWN OF OPERATIONS PER CHANNEL



The ATM network and Ibercaja Directo offer an entrance ticket selling service that can be used by both customers and non-customers. During 2011, more than 200,000 entrance tickets have been sold, for a large part of the principal shows and other events that have taken place all over Spain.

MEANS OF PAYMENT

There are more than 1,150,000 cards in use issued by Ibercaja, of which 57% are debit cards, 35% are credit cards, and 8% are prepaid cards. In line with what has happened in rest of the Spanish financial system, the number of customers who hold cards to their name has fallen slightly, because of the general economic situation and prudence on the part of the Entity in granting risks.

By December 31, the process of migrating active cards to the EMV standard based on the CHIP technology, promoted by world means of payment systems, had virtually been completed.

The new *Negocios (Business) card* is aimed at self-employed individuals, small businesspersons and professionals. It includes discounts for fuel purchases and other promotional benefits. Besides, Ibercaja has implemented schemes designed to win the loyalty of customers who use means of payment by not charging fees to cardholders who spend a certain floor amount and providing discounts of up to 10% at certain establishments.

Ibercaja has 16,981 Point-of-Sale (PoS) terminals at stores all Spain. The changes in legislation and security have opened up opportunities to improve this service by tailoring it to meet the needs of each customer.

3.2. BUSINESS DIVERSIFICATION

3.2.1. CUSTOMER STRATEGY

Ibercaja follows a universal banking model that focuses on the retail business and is based on quality service as well as innovation. The Group serves more than 2.2 million customers: families, corporate customers and public as well as private institutions. The strategy is implemented by using specific channels and differentiated products tailored to meet the profiles of the different customer segments. The high-priority objectives currently include strengthening the Group's position in personal and corporate banking, where there is potential for growth in the medium-term.

PERSONAL BANKING

The Personal Banking project has been under way for more than two years now. Besides a well-known brand image, Ibercaja offers this group of customers a management model based on a personal manager who advises them on their investments, a range of products specifically designed for them in which the different member companies of the Financial Group play a significant role, and detailed information on the assets included in the portfolio and their performance.

Ibercaja has more than 113,000 personal customers who account for more than 18,500 million euro in turnover.

The network of personal banking managers is made up of 172 persons assigned to those offices where there is a critical mass of customers that justifies their presence. Besides, the managers and deputy managers of offices also take care of this group of customers, and the private banking subsidiary of the Group, Ibercaja Patrimonios, gives support to the managers and provides advice.

The tool called *Comprehensive Customer Guidance System (Sistema Integrado de Orientación Comercial - SIOC)* allows preparing investment proposals and closely following up on them. The range of specific products and services offered to personal banking customers has been widened in 2011, by introducing *investment fund management agreements*. Through these, customers may delegate active management of their fund portfolio in the experts with member companies of the Financial Group. Besides, a new fund called *Ibercaja BP Selección Global* has started to be marketed, designed to give customers access to the best international funds of the most well-known managers in the world.

Communications with customers have become more fluent by putting a specific hotline into operation and by improving applications available at the Ibercaja website.

CORPORATE CUSTOMERS

The corporate banking unit has nearly 56,000 customers. The bigger undertakings involving more complex operations are handled by a team of more than one hundred corporate banking and corporate account managers who, with the support of the office managers, work solely to meet the needs of such customers and provide full financial advisory services to them.

In 2011, most Spanish businesses experienced a decline in turnover which in turn limited their investments. Even so, Ibercaja continued to play a significant role in marketing the credit lines of the official lending institute ICO for 2011: *Investment 2011* and *Sustainable Investment*. During the year, Ibercaja consolidated its position as one of the more active entities involved in managing this type of loans.

In the context of specific campaigns to boost renting, factoring and insurance the corporate banking business area arranged more than 75% of the vehicle leasing operations concluded by the Entity. With respect to factoring, even though this product was launched comparatively recently, there were already 140 live lines by the end of 2011, and the corporate insurance portfolio showed remarkable growth, with more than 3,700 new contracts.

Through the *Comercio Exterior Solidario* campaign 20% of the fees paid for cross-border bank transfers by business customers that voluntarily support the project are allocated to an NGO involved in development aid they may choose from among five NGOs selected for the purpose. The Ibercaja Social and Cultural Work supplemented such aid by giving a similar amount to that thus contributed by the customers.

For the second year in a row, the quality of the service provided by the corporate banking unit has been measured. The average mark has been 8.64 points, higher than that achieved in 2010.

FAMILIES

Home economies remain the segment with the greatest weight measured by the number of customers. The office network has concentrated its efforts on strengthening links to achieve a more stable and profitable relationship with them. Various campaigns have been carried out to that end. Among savings products, Ibercaja has designed the *Depósito Confianza Ibercaja 10* and the *Depósito a la última,* that offer an attractive remuneration, and has launched the *Ahorro Flexible* and *Depósito Acierto Nómina Tablet* promotional products, which are savings options in which the remuneration is paid with goods in advance. Other campaigns have been carried out in connection with direct crediting of salaries, investment funds, pension plans and general insurance. Besides, special emphasis has been placed on the quality of service and on providing value-added services.

Attracting youths is one of the ways of achieving a balanced customer base to ensure future business. In the year to December, Ibercaja attracted 30,000 additional customers under 30. The Entity has an extensive range of products for youths such as the Pack Joven comprising a bank account, a card and access to Ibercaja Directo for young customers, involving a number of financial and non-financial benefits. The *Plan Ahorro + Joven* savings scheme, started up in 2011 for individuals with small savings and a limited capacity to save, calls for contributing monthly sums towards a savings account in exchange for discounts at a large number of leisure centers.

In the youth segment it is mandatory to pay special attention to distance channels linked to the new technology. Ibercaja maintains virtual spaces for youths within its *Web Joven* and through a distance banking tool designed specifically for them, called *Ibercaja Directo Joven*.

As a supplementary activity, Ibercaja is a party to official credit line agreements to provide financial assistance to youths, among which the most noteworthy are the *Hipoteca Joven de La Rioja* mortgage line, designed to help them buy homes of their own, and *Aprendiendo a Emprender,* an agreement made with the Regional Government of Aragón to promote an enterprising spirit among youths, in which 14 educational centers and more than 400 students have taken part.

RETAILERS

Even though small retailers have been especially hard hit by the economic crisis and the consequent reduction in consumer spending, Ibercaja has done well in this area of business, having added 1,600 new customers, bringing their total number to more than 26,000.

During the year, different commercial campaigns have been carried out, including one to promote the PoS Terminal service under highly competitive terms. Ibercaja has continued developing the distance banking tool specifically designed for retailers, *Ibercaja Directo Comercios*, to facilitate the usual operations of this type of undertakings, and the *Inventa* application to enable retailers to analyze their sales and conduct promotional campaigns among their customers.

The Entity has entered into cooperation agreements with different province chambers of commerce, retailers associations and business organizations, to provide financial services to their members under favorable terms.

PUBLIC AUTHORITIES AND OTHER GROUPS

Ibercaja cooperates with national, regional and local authorities as a way of gaining access to an important source of business and to assist customers in dealing with the Administration.

The Entity is among those that process a larger number of PIT returns with the Spanish Tax Agency AEAT. At the regional level, Ibercaja manages most of the taxes levied by the Government of Aragón and cooperates with various regional government bodies such as the Aragonese Health Service, the Aragonese Employment Institute, the Office of the Director General for Families, etc. Ibercaja also has cooperation arrangements with several other Regional Governments such as those of La Rioja, Cataluña, Castilla-León, Castilla-La Mancha, the Comunidad Valenciana, Navarra, Galicia and the autonomous treasuries of the País Vasco.

At the province and local levels, Ibercaja has agreements in force to assist in collecting taxes for the province governments of Zaragoza, Huesca, Teruel, Guadalajara and other provinces, as well as for a large number of Town Halls. These tasks are performed through the full-service tax collection unit *Servicio de Gestión Integral de Recaudación (GIR)*, that enables public authorities to delegate the collection of taxes in the GIR and makes available to them continuously updated online information on their position.

Ibercaja plans to play an active role in implementing the Electronic Administration at public-sector bodies, to give citizens a better service and reduce the administrative work burden. A virtual PoS Terminal will be made available shortly, to allow taxes to be paid with a card through the Ibercaja website.

Other private-sector groups have benefited from a new management system recently put into operation that allows launching exclusive offers addressed to members of professional associations, public-sector employees and employees of large companies, or condominium homeowners.

FARMING SECTOR

The historic presence and leading position of Ibercaja in predominantly farming districts of Aragón and La Rioja has resulted in Ibercaja having a comprehensive range of products and services designed for this customer segment. In particular, Ibercaja provides support to farmers and livestock breeders in filing applications for aid in the framework of the European Common Agricultural Policy (CAP). In 2011, the Ibercaja office network has managed 29,000 applications for customers that will generate income of about 200 euro from the European Union.

3.2.2. THE FINANCIAL GROUP

The Financial Group is made up of specialist subsidiaries engaging in the business of managing investment funds, savings and pension plans, bankassurance, asset management and leasing-renting operations. The Group, formed in 1988, is wholly-owned by Ibercaja and currently holds a leading position among Spanish financial entities. The purpose of the Group is to supplement the banking services offered by the Entity with a wide range of products for both private and corporate customers. The Group is featured by its innovative ability as well as by the high-quality specialist products it offers.

Despite the difficult debt market conditions and the easier trend in stock markets, investors have continued to show their trust in the sound management of the Group, which has enabled the Group to increase its market share in investment funds, pension plans and life insurance.

This set of financial subsidiaries has accounted for a very large part of the consolidated profit of the Group in 2011, and has confirmed its role as a key pillar of the Group's profitability.

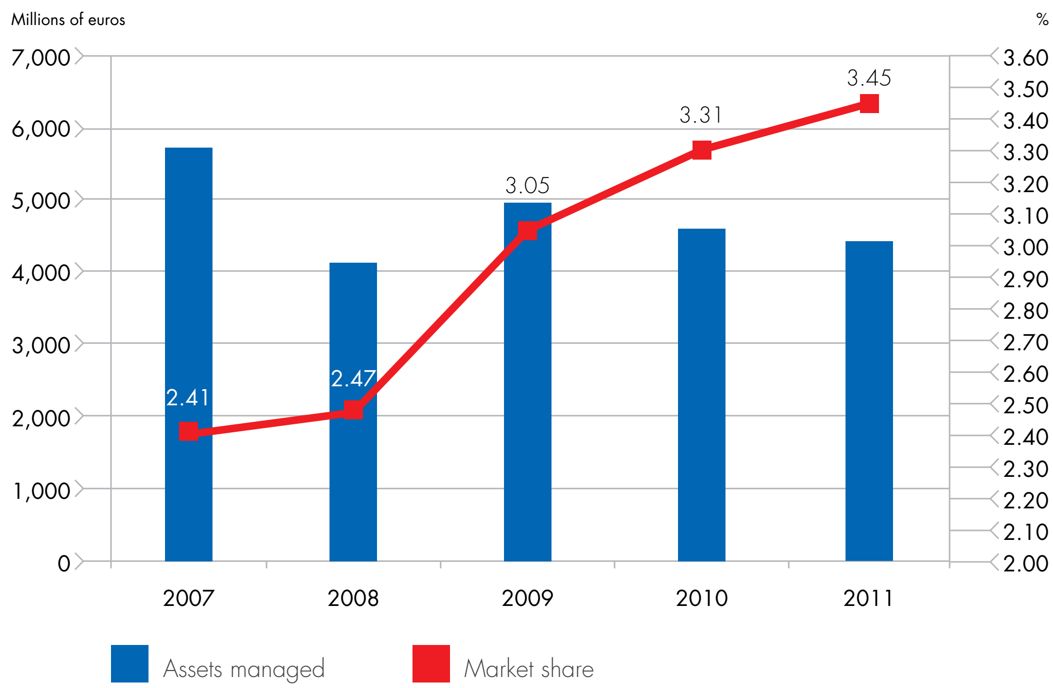
3.2.2.1. IBERCAJA GESTIÓN, SGIIC, S.A.

Ibercaja Gestión is the mutual investment fund manager.

In 2011, the volume of assets managed by investment fund managers shrunk once again. One of the reasons for that has been the competition from high-yield bank deposits and risk aversion on the part of investors because of the tensions they have lived through in the debt and stock markets.

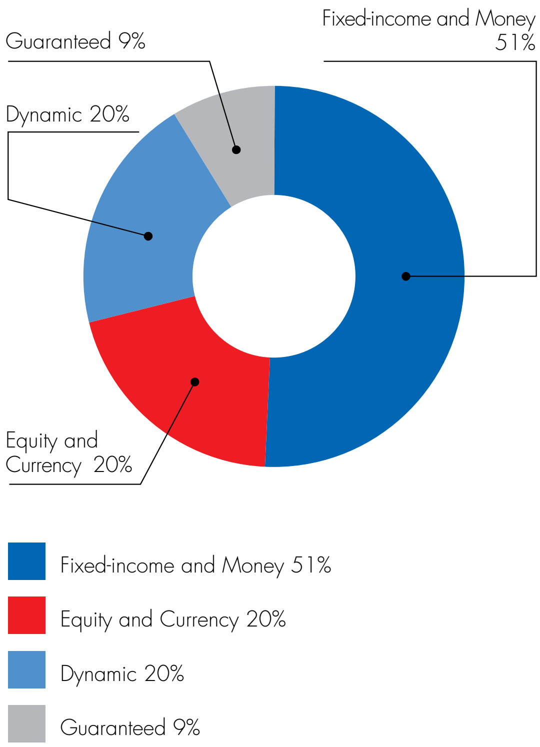
The volume of assets managed by Ibercaja in investment funds was 4,409 million euro at the end of the year, down 3.68% from the December 2010. This was much less than the reduction seen in the system as a whole, so the market share of Ibercaja increased for the tenth year in a row, by 14 basis points from the end of 2010, to 3.45%. Ibercaja Gestión ranks seventh among Spanish fund managers and showed the third best performance among the 10 larger ones in 2011.

TREND IN THE ASSETS AND THE MARKET SHARE OF IBERCAJA'S INVESTMENT FUNDS

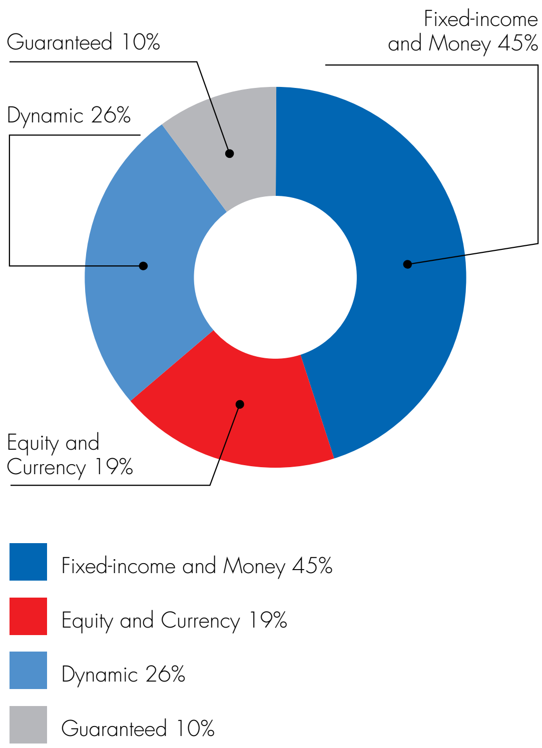


Regarding the composition of the portfolio of funds, the more conservative fixed-interest and money funds gained weight at the expense of dynamic funds. Nevertheless, when individually considered, the larger contributions have flowed towards target expected return funds and towards *Ibercaja Alpha,* which has an active management approach and invests in equity stocks, fixed-interest securities as well as derivative instruments indistinctly around the world.

ASSETS AT DEC. 2011



ASSETS AT DEC. 2010



The investment fund manager has a range of funds to fit any market circumstances and the profiles of individual investors. In 2011, anticipating customer requirements given the volatility of the markets, it has continued working to innovate. A range of target return funds has been developed, called *Ibercaja Renta Fija 2014,* as an alternative to time deposits and guaranteed funds. These are designed for conservative investors with a 3- or 4-year investment horizon and two exit windows. The previous year (2010) Ibercaja was a pioneer in launching this type of product.

For customers with a conservative profile yet who seek to benefit from current low equity stock price levels, a fund called *Ibercaja Gestión Garantizado 8* has been launched. This is a guaranteed equity fund tied to one fixed-income and three equity indices.

The investment fund manager has marketed the *Ibercaja BP Selección Global* fund that gives customers, mainly personal and private banking customers, access to the best global fixed-income and equity funds of major managers around the world. The portfolio of the fund is made up of a diversified set of funds whose actual composition and weight is determined by a team of expert analysts from time to time.

Having added two new open-end investment companies (known as SICAV in Spain, for *Sociedad de Inversión de Capital Variable*), the number of such companies it manages increased to 16, with aggregate assets of 87 million euro.

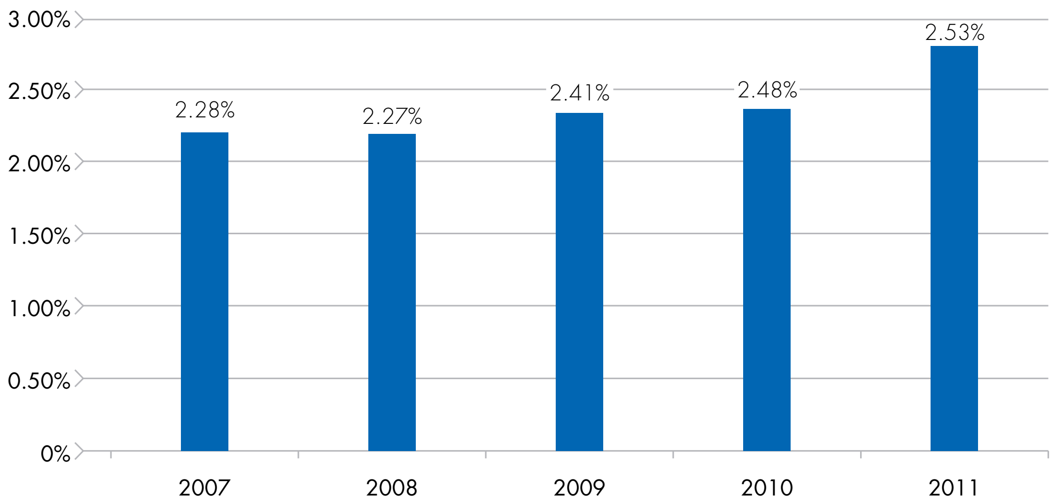
Even though 2011 has been a difficult year, more than 60% of the manager company's investment funds are ranked by specialist publications in the top two quartiles among those offering the highest return.

3.2.2.2. IBERCAJA PENSIÓN, EGFP, S.A.

The assets managed by the pension fund and pension plan manager have reached 4,572 million euro, under both employee and personal pension schemes. Ibercaja Pension ranks six in the industry, with a market share of 5.51%. This has increased by 18 basis points in 2011.

The assets of personal pension plans managed by the company are 1,293 million euro. The market share in this segment has increased by five basis points from December 2010, to 2.53%, and the number of participants is more than 170,000. In terms of returns, the percentage of plans in the first quartile over 1-, 3-, 5- and 10-year periods is 38%.

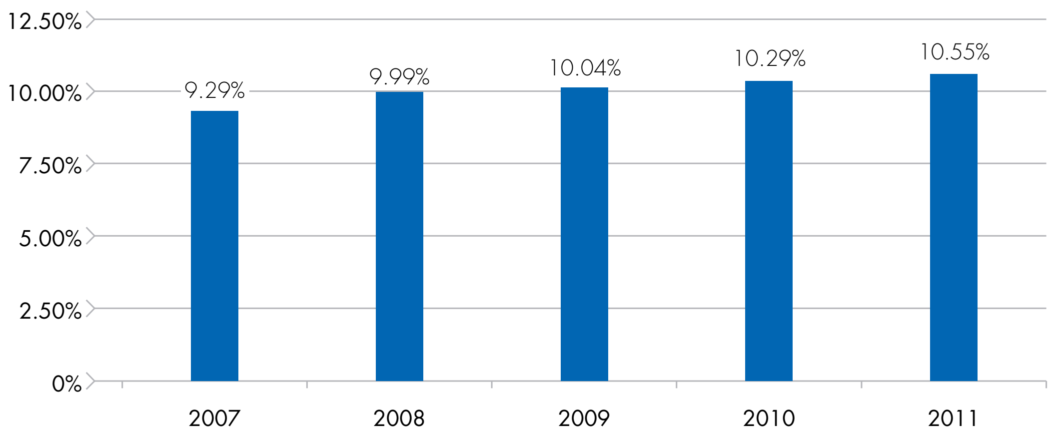
TREND IN IPP MARKET SHARE



One new pension plan, called *Plan Solidez 2011*, has been created during the year, for customers with a very conservative profile who are not too far off from retirement. The fund invests in public debt and private fixed-income securities in the euro zone, guaranteeing 100% of the principal and an effective annual rate of return of close to 3%. Besides, in response to the new financial and economic circumstances, the investment policies of the *Plan Dividendo* and the *Plan Nuevas Oportunidades* have been updated.

The assets of employee pension plans managed by this company are 3,279 million euro. In terms of its market share in this segment, which is 10.55%, up 26 basis points from the end of 2010, the Entity now ranks third among Spanish managers of pension funds and pension plans. The company manages 19 plans with more than 70,000 participants in all, including important groups such as the employees of different bodies of the Public Administration of Aragón, the Bank of Spain, Endesa, and major local authorities all over Spain.

TREND IN THE EMPLOYEE PENSION PLANS MARKET SHARE



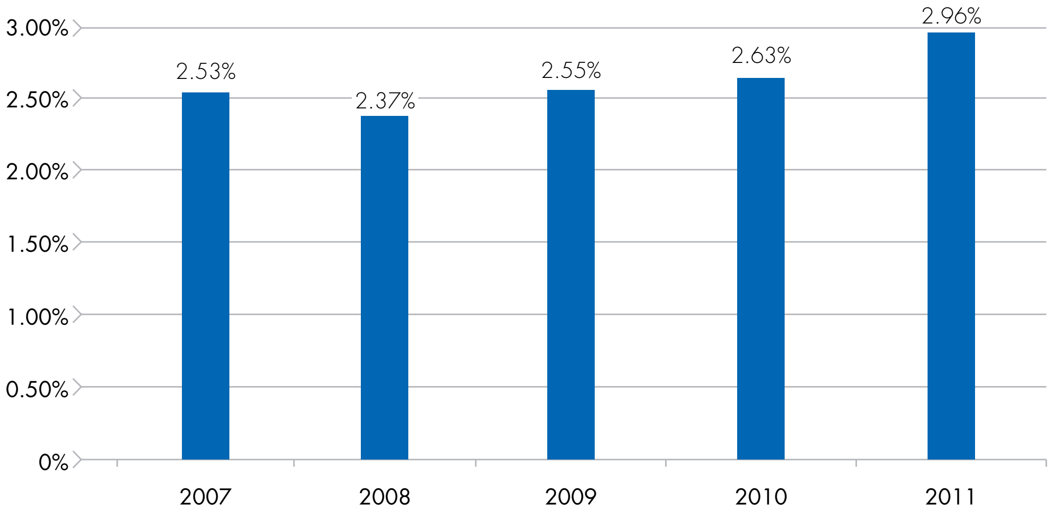
3.2.2.3. GROUP'S INSURANCE BUSINESS

The Group's insurance business is carried out through two companies that operate in the life and non-life branches.

Ibercaja Vida Compañía de Seguros y Reaseguros, SA, specializing in bank assurance, focuses on underwriting savings and investment insurance plans as well as as well as life insurance policies distributed through the office network of Ibercaja.

The volume of technical provisions has grown substantially, by 18.45%, much more than the average for the industry, to 4,568 million euro. According to the latest figures published by ICEA, the company ranks 10th among life insurers, with a market share of 2.96%, up 33 basis points from the end of the previous year.

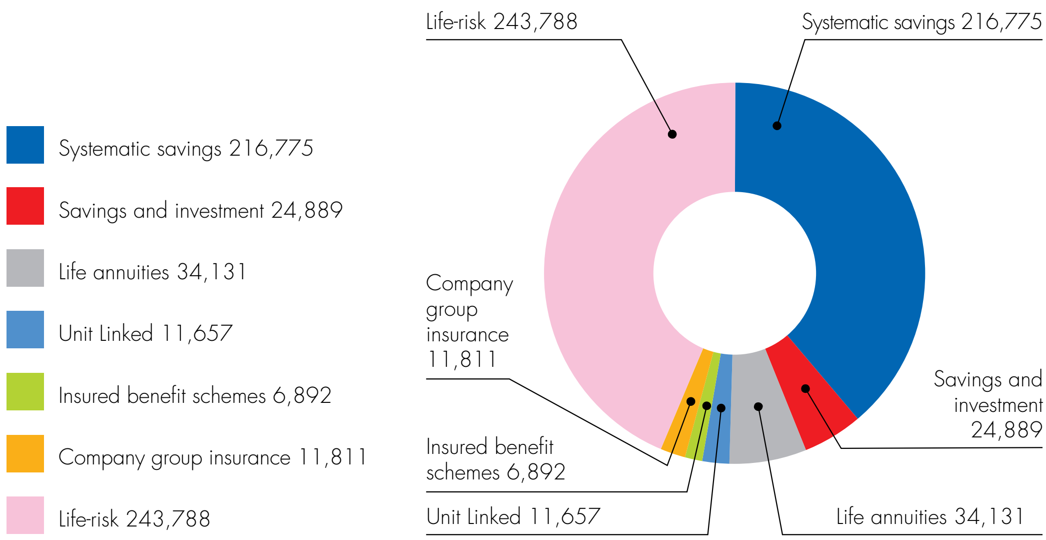
SHARE OF LIFE INSURANCE MARKET (MATHEMATICAL PROVISION)



Premiums collected have totaled 1,501 million euro, and the number of insured has increased by 6% from 2010, to nearly 550,000. In this branch of business Ibercaja Vida ranks fourth, having increased its market share by 77 basis points, to 5.20%.

The good performance in this branch of business has been based on offering a wide range of products: ISSPs, annuities, systematic savings plans... Once again in 2011, there was a noteworthy increase (of 23%) in individual systematic savings plans (ISSPs), with which the insurance company has consolidated its leading position in this type of product, having achieved a market share of 18.6% in terms of assets insured and a market share of 16.6% in terms of the number of policies. Besides, we must note the excellent performance in annuities, which have increased by 30% reflecting the fact that a growing number of customers value the safety and profitability of this investment.

BREAKDOWN OF THE NUMBER OF INSURED BY TYPE OF PRODUCT



Ibercaja Mediación de Seguros, SA, is the Group member company operating as an intermediary in general insurance. It gives advice to the office network and to customers in entering into insurance contracts and then assists them in the event of a loss.

In 2011, the company has carried out a special home and automobile insurance campaign for personal banking customers. Another noteworthy development has been the marketing of *Ibervida 50,* a life-risk insurance product providing extensive financial coverage in the event of an accident, allowing flexibility to choose the premium to be paid and rewarding the customer's loyalty.

In cooperation with the office network and the corporate business unit, the company has implemented the first phase of a plan to sell insurance products designed specifically for SMEs, having worked intensively on providing training, building up contacts, giving advice and making proposals to improve results in this area in the future.

The risk insurance portfolio managed by *Ibercaja Mediación* has generated 134 million euro in premiums. Life-risk insurance has been the best performer in the field of personal insurance. In property insurance the best performing products have been those covering automobiles, in the context of the campaign referred to above, and multi-risk policies. The total number of policies stands at more than 690,000.

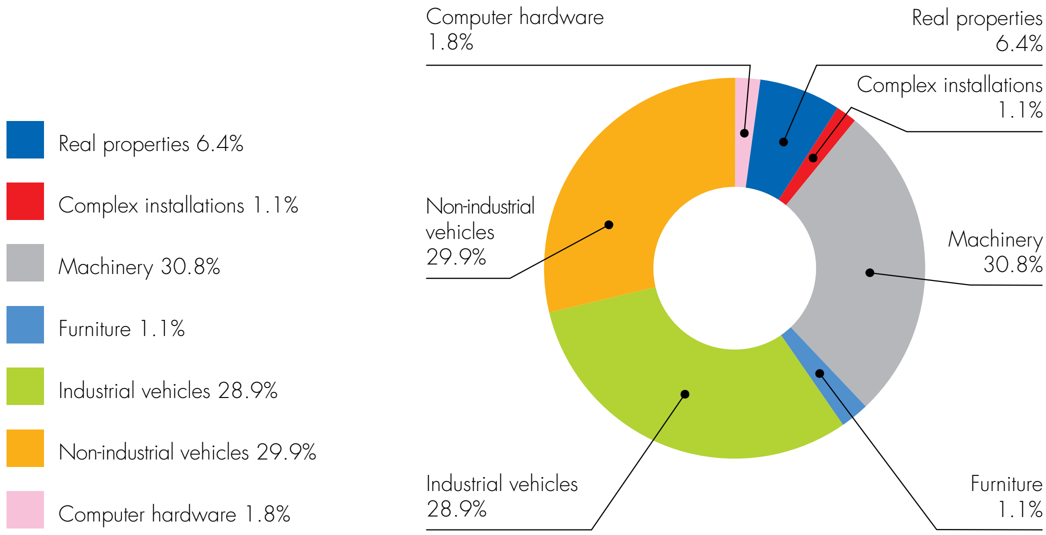
3.2.2.4. IBERCAJA LEASING Y FINANCIACIÓN, S.A., EFC

This is a specialist company that finances business activities through leasing, renting and factoring. The company makes available to the Ibercaja office network specific products that allow SMEs and professionals to finance investments in fixed assets and hold items of property under operating leases.

The weak demand that is not expected to recover has led undertakings to put off investing on earning assets. The Spanish leasing industry has thus contracted sharply, with the balance outstanding of investments, according to the figures available up to the month of September, having fallen by 16%.

During the year, 1,483 new agreements were made, 2.21% more than those made the previous year, for a total amount of 64 million euro. The average amount per agreement, of 43,100 euro, shows that the new operations have been arranged mainly with small- and medium-sized enterprises, professionals and self-employed individuals. Of the total investment made in the operations agreed during the year, 59% has been to finance vehicles, 31% has been for machinery, 6% for real properties and the remaining 4% for installations, computer hardware and furniture.

BREAKDOWN OF LEASING AGREEMENTS MADE IN 2011



At Ibercaja Leasing the balance outstanding has fallen 9% -less than in the system as a whole- to 238 million euro.

In the renting area the company has developed a special line for commercial vehicles that has proved remarkably successful among SMEs. In 2011, 408 new agreements have been made, with the active fleet standing at 1,212 vehicles. The *Ibercaja Motor* website has had 144,000 hits and has become the website of reference for both renting offers and information on motor vehicles. The website displays an attractive range of passenger cars, delivery trucks and other commercial vehicles, and has a tool that allows prospective customers to simulate renting transactions by calculating the installments for different automobiles and contract terms.

The delinquency ratio of Ibercaja Leasing, at 4.75%, is well below the average for the Spanish leasing industry (8.4% in December) and the relevant allowance is equal to 107% of the doubtful balances.

3.2.2.5. IBERCAJA PATRIMONIOS, SGC, S.A.

This is the portfolio management company that handles the private banking business of the Group.

The assets under advisory and discretionary management have increased by 10%, to 1,607 million euro. Those under discretionary management make up 45% of the total.

Ibercaja Patrimonios has implemented with remarkable success, despite having been in operation since only a few months ago, a new service for investment fund portfolios. This allows actively managing portfolios of that type designed by experts with a view to fulfilling the customer's investment objective. The funds are the same available to any saver, yet an adequate composition and diversification of the basket allow achieving an optimal return over the medium term. By the end of the year, agreements for a volume in excess of 147 million euro had been executed.

The commercial structure is made up of six branch offices, of which two are situated in Madrid and one each in Zaragoza, Logroño, Valencia and Barcelona, as well as other points attending to customers in Guadalajara, Huesca, Teruel and Pamplona. In addition, the asset managers of this company give support to the office network by providing training on the financial markets and help in advising customers on investments.

3.2.3. DIVERSIFYING INTO OTHER LINES OF BUSINESS

A) OPERATIONS IN CAPITAL MARKETS

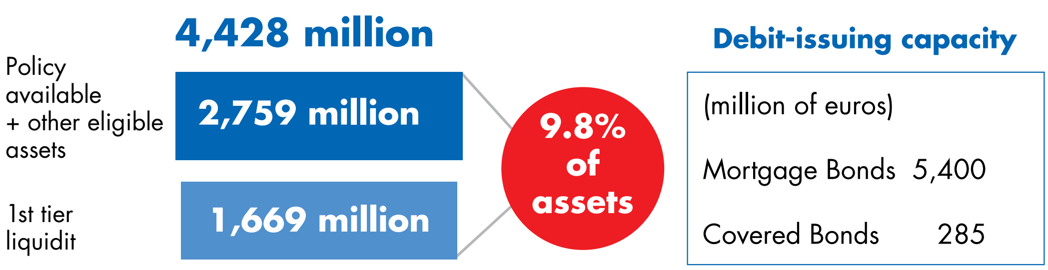
The stresses in financial markets have resulted in wholesale financing for Spanish banks being virtually non-existent as from April, as a consequence of a widespread confidence crisis regarding the solvency of the peripheral countries, including Spain, and of the financial entities.

Ibercaja, benefitting from the interest of private investors, has issued 500 million euro in senior secured debt and 1,030 million euro in mortgage bonds. Of the latter, 1,000 million are being held by the treasury of Ibercaja itself. Besides, 158 million euro in existing on-balance sheet securitization instruments have been sold on the market. These operations along with the Entity's comfortable overall liquidity position have allowed it to repay without difficulty 925 million euro in Ibercaja debt securities as these matured in 2011.

In October, the first promissory notes program of Ibercaja Banco, SAU, has been registered with the CNMV. This will allow the Entity to place own commercial paper among both retail and institutional customers.

Ibercaja has a high level of liquidity through conservative management, seeking to anticipate future needs in order not to curtail the investment activity. During 2011, the liquidity position has remained comfortable, so at the close of the year the first tier holdings (net position in the money market and public debt not ceded) amount to 1,669 million euro. If the policy available with the ECB and other eligible fixed-interest assets are included, such holdings amount to 4,428 million, equal to 9.79% of Ibercaja's assets. In addition, Ibercaja has a mortgage and covered bond issuing capacity of 5,685 million euro. The degree of over-collateralization, measured as the ratio of eligible assets to outstanding mortgage bills, is 289.46%, well above the required statutory minimum of 125%, and the average for Spanish financial entities as a whole. We must note that, by 31 December, the Group had issued only 500 million euro in secured debt out of the 2,837 million it could have issued.

LIQUIDITY AND DEBT-ISSUING CAPACITY

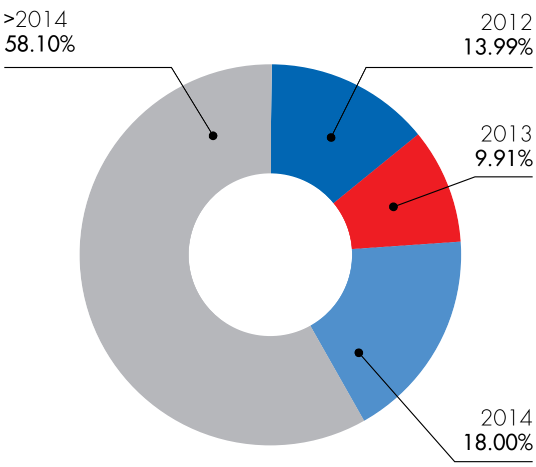


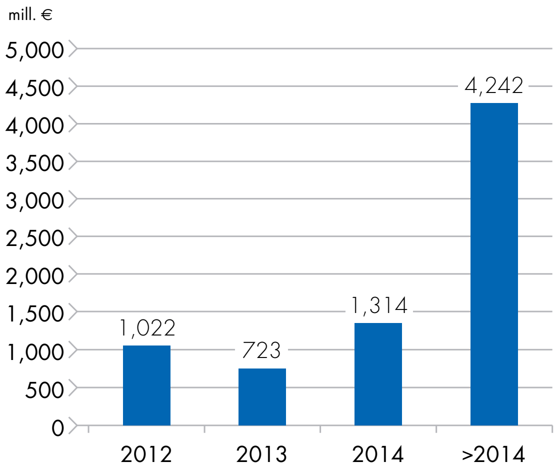
1st tier liquidity: net money market position + public debt not ceded.

Retail customers' deposits are the most significant source of external financing and a significant element of stability. The structural liquidity ratio in the sense of retail deposits to loans has shown a favorable trend, to 110.74% at the end of 2011 from 125.42% in 2007.

The Group has a wholesale financing coefficient, i.e. the proportion of credit covered with funds raised in institutional markets net of liquid assets, of less than 20%. Maturities are diversified in terms of both the dates of maturity and of the financial instruments, to avoid sizeable concentrations. The total amount maturing in 2012 is 1,022 million euro, and the rest of maturities are spread out in a balanced way until 2025.

BREAKDOWN OF MEDIUM- AND LONG-TERM DEBT FLOATED ON THE WHOLESALE MARKET FALLING DUE IN FORTHCOMING YEARS





Note: includes mortgage bonds, senior debt, secured debt, subordinated debentures and preference shares.

The portfolio of fixed-interest securities, shares of stock and equity stakes in undertakings amounted to 9,016 million euro or 19.93% of the Consolidated Balance Sheet figure at the end of 2011, up 11.16% or 905 million euro from the end of the previous year.

The bulk are available-for-sale financial assets, at 6,164 million euro or 68.37% of the total. Held-to-maturity investments, at 2,248 million euro or 24.93% of the total, showed the greatest increase during the year, of 529 million euro, mainly in the form of investments in Spanish public debt securities.

PORTFOLIO OF INVESTMENTS

(Balance at December 31, 2011)	Balance		Increase
	Euro '000	Share (%)	Euro '000
Held for trading	9,673	0.11	8,111
–Debt securities	8,743	0.10	7,181
–Other equity instruments	930	0.01	930
Other financial assets at fair value through profit or loss	117,254	1.30	–11,546
–Debt securities	58,146	0.64	113
–Other equity instruments	59,108	0.66	–11,659
Available-for-sale financial assets	6,163,904	68.37	331,085
–Debt securities	5,654,743	62.72	398,227
–Other equity instruments	509,161	5.65	–67,142
Loans and receivables	262,755	2.91	55,352
–Debt securities	262,755	2.91	55,352
Held-to-maturity investments	2,247,648	24.93	529,274
Shareholdings	214,795	2.38	–7,361
SECURITIES PORTFOLIO	9,016,029	100.00	904,915
Portfolio of fixed-interest securities	8,232,035	91.30	990,147
Portfolio of equity securities	783,994	8.70	–85,232
–Stocks	214,795	2.38	–7,361
–Other	569,199	6.31	–77,871

By type of asset, fixed-interest securities at 8,232 million euro make up 91.30% of the total. The increase seen during the year, of 990 million euro, mainly reflects the acquisition of Spanish public debt securities. Equity Securities, for which the balance is 784 million euro, comprises stocks issued by domestic companies and foreign companies. The stock market corrections seen during the year have been used to increase the exposure to undertakings showing a high degree of international diversification in their income statement, an attractive dividend yield and a proven financial solidity.

The capital market unit has hedged the structured deposits marketed through the Ibercaja office network and has continued to distribute hedging products that allow customers, mainly corporate customers, to protect themselves against certain business risks such as interest rate movements and foreign exchange rate fluctuations. These products are either tailored to meet the requirements of the individual customers or tendered for subscription on the open market.

B) SHAREHOLDINGS

The Ibercaja Group holds long-term investments in undertakings that operate in various industries such as tourism, real estate, the media, manufacturing, logistics, services, venture capital, and other areas of business. The purpose of these investments is to support businesses, particularly medium-sized enterprises, in significant projects, thereby helping to create wealth and, especially, in the current circumstances, jobs. Besides, these investments are a way of diversifying income sources to include types of business other than banking.

The investments held in manufacturing and services are spread among 89 undertakings that operate in different areas of business. The idea is to diversify to avoid a concentration of risks. The amounts invested in the different sectors are well balanced. However, investments in the financial and insurance sectors have a greater weight, at 25.27%, followed by those in manufacturing and logistic services, the media and tourism. Investments in venture capital firms make up 15.35% of the total, and are designed to make financial resources available for innovative and profitable projects.

Through a specialist team, Ibercaja seeks out and analyzes new investment opportunities, and closely monitors the undertakings in which equity investments are made.

In the real estate industry the Entity supports developers having traditional ties with Ibercaja, in carrying out viable projects, preferentially those that consist of building officially sponsored housing. The Entity participates in, among other ventures, Arcosur in Zaragoza, as well as in several projects in Mostoles and Alcala de Henares.

3.3. SERVICE QUALITY

The management model of Ibercaja is based on steadily improving the quality of service to customers, taking as a reference the European Model of Excellence (EFQM) which values, besides the implementation of new management systems, methods and practices, the continuous improvement of existing ones.

During the 2011 year, work has proceeded along the following strategic axes: consolidating and improving the management practices implemented in 2010, designing new ones and winning once again the European 500+ Seal of Excellence, all of which with the aim of continuing to deserve the trust of customers and being valued by them as one of the financial entities offering the best service.

PERCEIVED AND OBJECTIVE SERVICE QUALITY

More than 34,000 interviews have been conducted during the year among customers to find out their opinion of the service they receive. The interviews have yielded a quality indicator through which the offices can be aware of the degree of satisfaction of their customers and apply suitable improvement measures.

OFFICE QUALITY INDEX

ATTRIBUTES (average satisfaction)	2011
Waiting time	7.79
Time devoted to the customer	8.75
Affability of employees	8.90
Care shown for the customer's needs	8.12
Technical capability	8.39
Clarification of doubts	8.37
Office quality index (attributes average)	8.39
REFERRAL RATE	85.4%
LOYALTY RATE	89.7%

The expert observation method has been used too, in visits to 671 offices. The results of both surveys have been above 8, indicating a high quality service.

EXPERT OBSERVATION

	2011	2010	2009	2008
Expert observation	8.36	8.29	8.16	8.18

Supplementing Ibercaja's own studies, the independent consultancy firm STIGA has published the results of its EQUOS study, after visiting nearly 5,000 bank offices of the whole financial system. According to this study Ibercaja holds a very satisfactory position, ranking first among domestic banks.

MANAGEMENT MODEL

In the *2011 Internal Customer* survey carried out once every other year, the offices, managers and corporate account managers have appraised the services provided by the central departments, furnishing a very valuable source of information to identify opportunities for improving the service they get from internal suppliers.

During the year, the quality management system for individual pension plans has been redesigned. From a product-oriented system, Ibercaja has switched to a new concept of quality in which it seeks to identify and satisfy customer expectations in the long term, i.e. when they retire. Besides, the scope of the system has been extended to include defined benefit schemes.

A new software application was scheduled to go into operation in 2011 to streamline communication between the Innovation and Excellence Unit, the Customer Care Center and various Entity units and departments. By using the new tool, the different centers will be able to coordinate their efforts more closely, which will lead to an improvement in quality.

CERTIFICATIONS AND AWARDS

Ibercaja has again been awarded the *European 500+ Gold Seal of Excellence* it had already been awarded in 2007, having exceeded the 600-point level in the relevant appraisal, an objective that had been fixed in the Strategic Plan for the three-year period ending in 2011. We must note that very few European organizations have achieved that degree of excellence. The award is the highest given to undertakings that use the management criteria required by the EFQM model. It shows the Entity is committed to improve continuously, works permanently to ensure customer satisfaction, and definitely seeks to innovate and remain up-to-date.

The Group hold the *Madrid Excelente* seal awarded by the Madrid Regional Government through the Madrid Foundation for Excellence to undertakings that operate in the Autonomous Region of Madrid and are well-known for the quality and excellence of their management. Besides, Ibercaja has passed an audit to renew the certification of its Environmental Management System implemented to meet the requirements of the ISO 14001 standard.

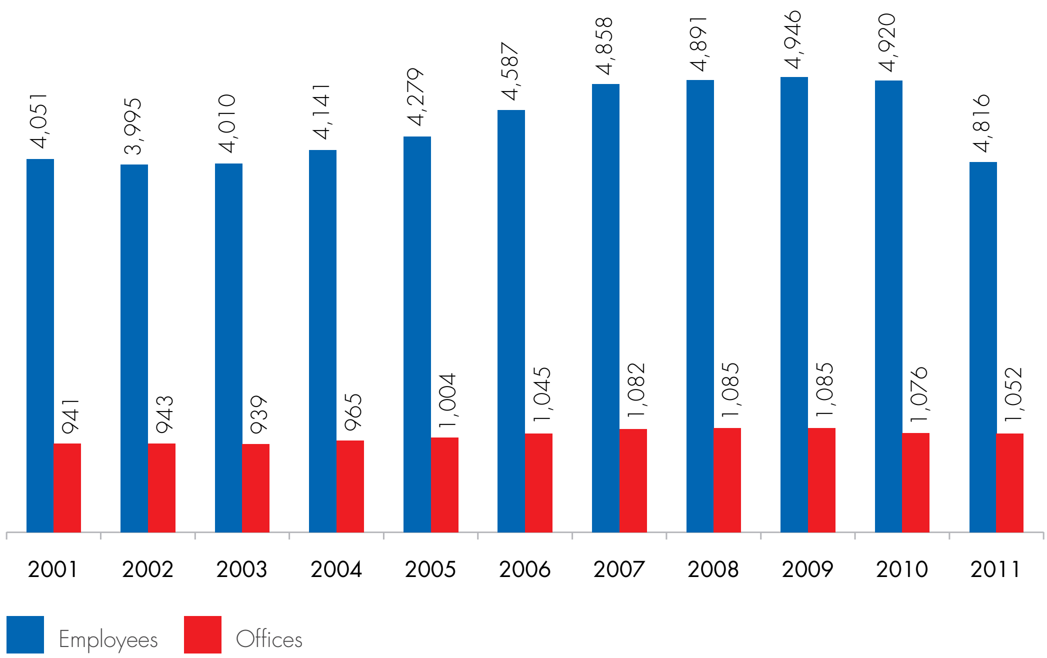
4 EMPLOYEES

In the current changing and demanding environment, the degree of qualification and motivation of the staff is one of the most important assets of any financial entity. The human resources policy of Ibercaja is governed by the principles of respect for legality, social dialogue, internal communication, equal opportunity, and employee career development.

4.1. TREND AND PROFILE OF THE WORK FORCE

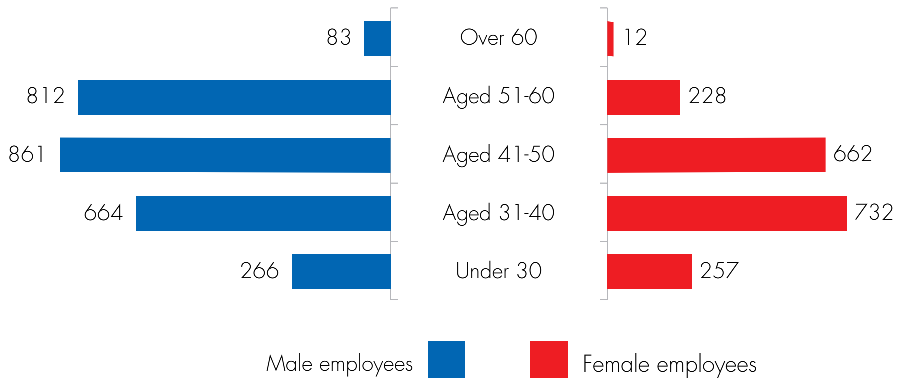
There are 4,816 individuals on payroll with Ibercaja, including 222 employees working under contract to cover the remaining hours of semi-retired employees.

TREND IN WORK FORCE



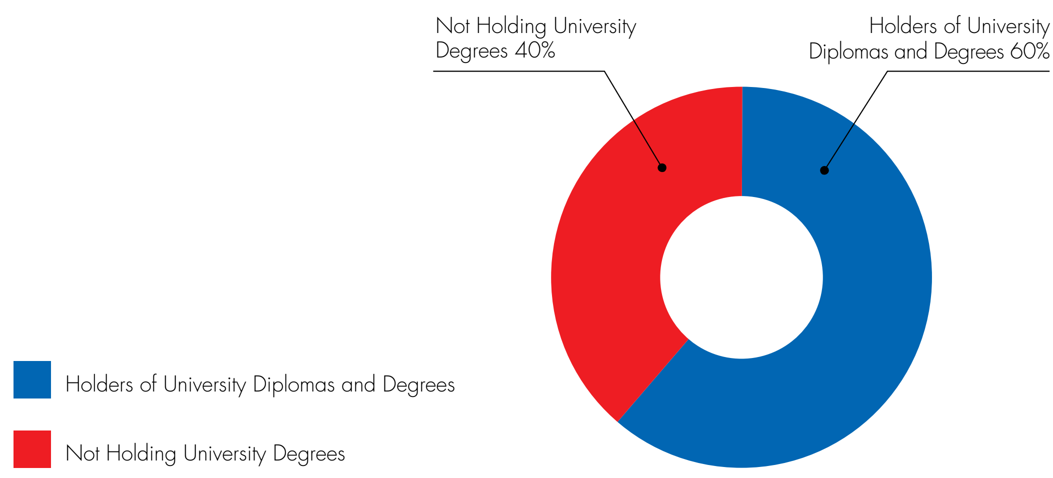
Those working under open-end employment contracts with Ibercaja Banco, other than semi-retired, replacement and temporary personnel, number 4,348. Their average age is 43, and their average seniority is 18 years. Of the total number of employees, 59% are men and 41% are women. Among those under 40, however, 52% of the employees are women.

BREAKDOWN OF THE WORK FORCE BY AGE AND GENDER



As for their academic qualifications, 60% of the employees hold intermediate- or higher-level University degrees in Business Science, Economics, Law, as well as in Business Administration and Management.

WORK FORCE QUALIFICATIONS



In 2011, the performance and skills of 3,930 individuals have been evaluated, having identified areas for improvement so as to help allocate a career development plan to each employee.

There are 670 employees working on assignment at the central service units and in specific corporate and personal banking offices as part of their career planning. Of these, 95 have been promoted to a higher level under career plans in 2011. In the course of 2011, 174 management-level employees have been appointed in the office network, as well as 32 personal banking managers and 24 customer account managers.

With respect to equal opportunity, Ibercaja signed an Effective Equal Opportunity Plan with the representatives of employees in December, 2010. The principal aim of the Plan is to assure equal treatment and opportunity to male and female employees. Consistent with the spirit of the Plan, 50% of those promoted to a higher level in 2011 were women.

With reference to reconciling work and family life, the employees of Ibercaja have been able to choose arrangements such as leaves of absence, reducing their working time and going on sabbatical leaves, some of which extend or improve those foreseen in the legislation in force and in the Collective Bargaining Agreement for Savings Banks.

4.2. TRAINING AND EDUCATION

The purpose of training programs is to promote the career development of the individuals on payroll and to help put new projects into effect.

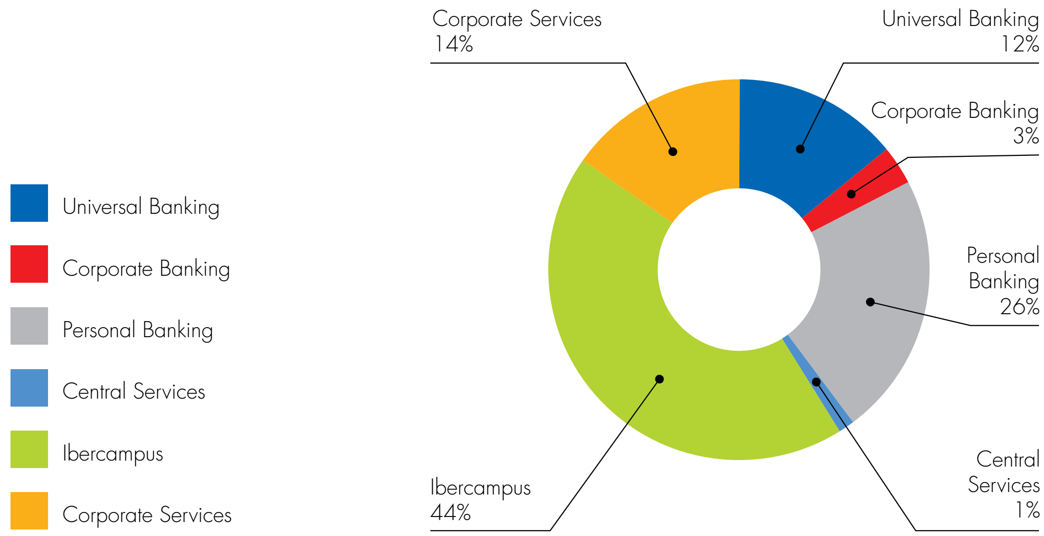
The training plan for 2011 has been based on different training programs and actions designed for the different sources of business: Universal Banking, Merchant Banking, Personal Banking and supporting corporate projects.

Besides, training programs have been carried out with a view to implementing the Comprehensive Customer Guidance Service *(Servicio Integral de Orientación al Cliente - SIOC)* and other services relating to pension plans and insurance, in compliance with the legislation in force.

A new edition of the Advanced Course on European Financial Counselling and Asset Management began in October 2011, in cooperation with the Polytechnic University of Valencia. Sixty employees are attending the course, which will continue in 2012. Besides, 2,898 individuals have attended in person different centralized and decentralized training actions, and 3,523 have taken part in distance courses. Thus, 87% of the work force has benefited from improved training. As an educational supplement, the *Library* space is being boosted within the Ibercampus online platform, a utility giving access to a number of links and didactical material of interest.

Ibercaja has cooperation agreements in force with universities all over Spain, to help supplement the theoretical training given to students at the universities with practical work done at different Ibercaja offices. In 2011, 189 university students who are taking courses relating to the financial business, have participated in such schemes.

BREAKDOWN OF THE NUMBER OF HOURS OF TRAINING BY SOURCE OF BUSINESS



DEMOGRAPHICS

Total number of employees: 4,816 (including 229 temporary, 222 semi-retired and 17 assigned to the Social and Cultural Work)

Employees working under open-end contracts with Ibercaja Banco: 4,348

Average age of employees with open-end contracts: 43

Average seniority of employees with open-end contracts: 18 years

Breakdown by sex: 59% male – 41% female

Breakdown by type of office: 85% Network (3,711 individuals) and 15% Central Services (637 individuals)

TURNOVER

Resignations among those working under open-end contracts: 2

Terminated: 12

Resigned during Trial Period: 0

WORK FORCE QUALIFICATIONS

Holders of higher education degrees: 60% of the work force

Not holding higher education degrees: 40% of the work force

CAREER DEVELOPMENT

Office managers appointed in network: 174

Personal Banking managers appointed: 32

Corporate and Retail Banking managers appointed: 24

Promotions to a higher category: 715 (Men: 361 – Women: 354)

Evaluation of performance and skills: 3,930 individuals evaluated

Employees under career plans: 670

Employees promoted under career plans: 95 (Men: 47 – Women: 48)

TRAINING

Number of employees attending in-person training courses: 2,898 (64% of work force)

Number of employees taking part in distance training activities: 3,523 (78% of work force)

Of the total number of hours of training courses, 32% were taught as in-person courses and the rest, 68%, as distance courses.

RECONCILING WORK WITH FAMILY LIFE

Number taking maternity/paternity leaves: 43 (Men: 1 – Women: 42)

Leaves of absence to take care of family members: 5 (Men: 2 – Women: 3)

Number on reduced working time for family reasons: 113 (Men: 12 – Women: 101)

5 TECHNOLOGY RESOURCES

Ibercaja has continued working to rationalize the information systems in order to improve operating efficiency, meet the requirements of the business, provide alternative ways to communicate with and give service to customers, and adjust to the requirements of the new regulatory environment.

Some of the technology projects completed in 2011 or under way to boost internal efficiency and achieve organizational improvements have been:

- A document management platform to digitize the documents of the Group.
- The Comprehensive Customer Guidance System (Sistema Integrado de Orientación Comercial - SIOC): in the second phase of development of this system, the commercial guidance engine has been put into operation, and this has been linked to the advisory services module. The project will be completed in forthcoming years with new applications to support commercial management.
- Multi-channel CRM system: this tool, that started to be designed in 2009, is aimed at providing Ibercaja with a means of directing commercial actions towards the most suitable channels to optimize the results of such actions.
- Real estate management: an application that will enable the Ibercaja Group to streamline the management and marketing of properties held for sale.
- Integral Risk Program: this is aimed at improving the management and assessment of risks to which the Group is exposed.
- Social and Cultural Work Systems Plan: a software program for comprehensive management of the Social and Cultural Work.

Some of the main actions undertaken to improve communication with customers and the multi-channel services provided to them have been:

- E-invoice: allows corporate customers of Ibercaja to issue invoices through this system and, at the same time, enables the suppliers of Group member companies to bill them in the same way, thereby reducing the operational burden.
- E-banking through Smartphones and Tablets: a project undertaken in 2011 to enable nearly 30 different types of financial operations to be carried out using intelligent telephones and electronic tablets.
- Commissioning of the investment fund portfolio management system.

6 SOLVENCY AND QUALITY OF ASSETS

As the debt crisis became more serious and liquidity problems arose, it became clear that banking entities needed to have more capital and proportionately more liquid investments with which to face possible stress situations.

Through Royal Decree No. 2/2011, the Spanish Government introduced bigger capital requirements for domestic financial entities, which affected mainly the savings banks, driving these to become more like commercial banks.

The Group's solvency ratios cover the new capital requirements by a wide margin without any need to resort to external assistance. In addition, the Group has a low-risk asset structure, a low degree of dependence on wholesale markets, and a high percentage of liquid assets.

For the second year in a row, Ibercaja has passed without difficulty the stress tests performed by the European Banking Authority (EBA) on a set of European entities. According to figures published by the Bank of Spain as of July 15, 2011, given the worst macro-economic scenario, by December 2012 the Entity would still have a Tier I to Core Capital ratio of 6.7%, above the floor of 5%, without having to resort to the FROB or to public-sector assistance.

At the end of December, 2011, the Group had total eligible own funds of 3,212 million euro, equal to a solvency coefficient of 14.40%, 11 basis points above the level a year earlier. The excess over the minimum own funds requirement of 8% was 1,428 million euro.

Risk-weighted assets were 22,295 million euro. Practically all of the resources required are for the Ibercaja's exposure to credit risks.

SOLVENCY

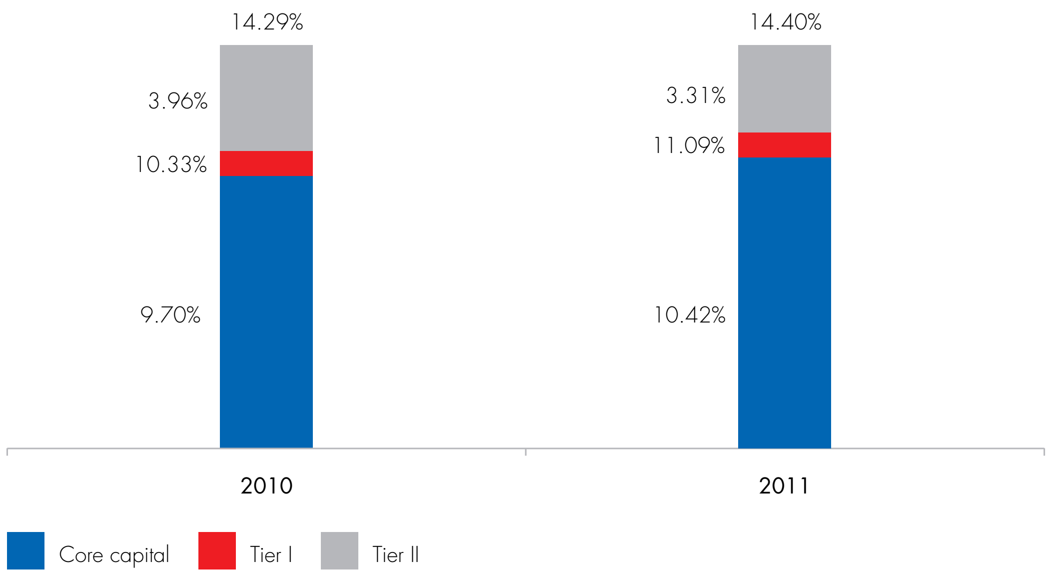
(Thousand euro)	Dic. 2011	Dic. 2010	Var.
Eligible equity	3,211,502	3,387,399	–175,897
–Core capital	2,431,420	2,425,250	6,170
–Tier I equity	2,473,016	2,448,900	24,116
–Tier II equity	738,486	938,499	–200,013
Risk-weighted assets	22,295,013	23,696,813	–1,401,800
Minimum capital requirement	1,783,601	1,895,745	–112,144
Excess over the statutory minimum	1,427,901	1,491,654	–63,753
Solvency ratio (%)	14.40	14.29	0.11
–Core capital (%)	10.42	9.70	0.72
*–Principal capital (%)** **The minimum principal capital requirement is: 8%*	10.91	10.23	0.68
–Tier I (%)	11.09	10.33	0.76
–Tier II (%)	3.31	3.96	–0.65

The core capital or basic own funds, net of preference stocks, was 2,323 million euro and assured the Group's solvency. The figure was equal to 10.42% of the weighted risks and made up 72.35% of eligible own funds, having increased 72 basis points from 2010 reflecting organic growth of own funds by way of earnings and a fall in risk-weighted assets.

The 'principal capital' ratio as defined in Royal Order-in-Council No. 2/2011 on strengthening the financial system rose 68 basis points in 2011, to 10.91%, well above the 8% required from the Entity by the regulations in force. We must note that Ibercaja is one of a small number of Spanish savings banks that have not received any type of public-sector assistance to boost its assets.

The basic or Tier I own funds stood at 2,473 million euro, equal to 11.09% of risk-weighted assets. This was 76 basis points up from the previous year. The Tier II own funds, comprising mainly subordinated financing and excess generic provisions up to the ceilings foreseen in the applicable regulations, amounted to 738 million euro, so the Tier II ratio was 3.31%.

TREND IN SOLVENCY FIGURES



The ratings of the main financial entities reflect the lower rating of the Kingdom of Spain and the poor prospects of the Spanish financial system in the current economic circumstances.

In March, a few days after downgrading the sovereign debt, Moody's adjusted the rating of Ibercaja downward to "Baa1", along with that of another twenty Spanish commercial and savings banks. In October, the agency confirmed this mark for Ibercaja Banco.

Standard & Poor's, in the process of revising the credit rating of various entities in December, gave Ibercaja Banco a "BBB+", as a consequence of having applied new criteria and methods.

CREDIT RATING IBERCAJA BANCO, SAU

	Short Term	Long Term	Outlook
Moody's	P - 2	Baa1	Under review
Standard & Poor's	A - 2	BBB+	Under review

The Group's exposure to credit risks was equal to 72.80% of its Consolidated Balance Sheet figure and took up more than 90% of the capital requirements.

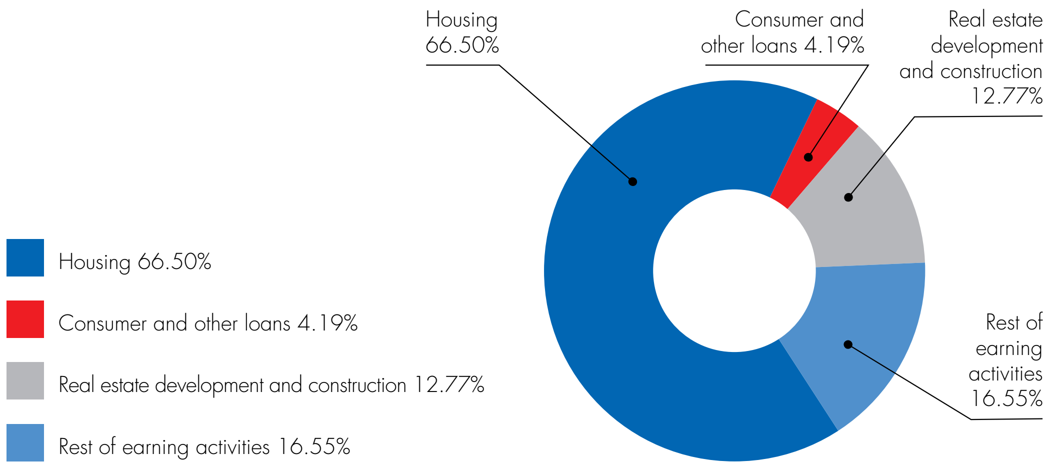
As a result of its prudent lending policy, Ibercaja's investments in loans and advances are concentrated in low-risk segments, secured to a high degree, as well as fragmented among many different borrowers and scattered over several different territorial areas.

Financing of private individuals makes up 70.68% of total loans and advances to the resident private sector. Of such financing, more than 94% has been granted to acquire homes, with 99% of the loans being secured with mortgages. In most cases (90.28%) the mortgages have been created on first homes. The LTV ratio, measuring the amount of the loans outstanding to the value of the guarantee when the homes were last appraised, is 61.34%, and for 88.08% of the portfolio of mortgage loans granted to acquire a home the LTV is less than 80%. As for granularity, the average amount of the facilities is approximately 80.000 euro, and 70% of the agreements are for less than 120,000 euro. These investments are diversified territorially, although Ibercaja remains solidly implanted in its original territories of Aragón, La Rioja and Guadalajara, as well as in Madrid, with 60.12% of loans of this type being concentrated in these zones.

Loans and advances to corporate customers make up 29.32% of the Group's portfolio. The percentage granted for real estate development and construction, at 12.77%, is low compared with the average for the Spanish financial system as a whole, reflecting steps taken by the Entity to limit its growth at the time when it was expanding most. Of the exposure to mortgage-backed risks, at 93.32% of the total lending risks, 46.50% are finished buildings or buildings at an advanced stage of execution. The land on which they are built is situated preferentially in urban zones, with 52% in towns of more than 100,000 inhabitants and 21% in towns of between 25,000 and 100,000 inhabitants, which favors future development and mitigates the risk. The rest of loans and advances to finance earning activities have a weight of 16.55% in the portfolio.

They have been granted preferentially to SMEs operating in the primary sector, manufacturing and services. These loans and advances are highly diversified by branches of business, and the facilities are for comparatively small amounts on average.

GROUP LOANS AND ADVANCES - BREAKDOWN BY PURPOSE



The delinquency ratio for the Group at the end of 2011 was 4.16%. This has increased much less than the average delinquency ratio for Spanish deposit-taking entities as a whole, with the differential in favor of Ibercaja having widened to 3.51 percentage points. We must note that the delinquency rate relating to loans and advances to families for the purpose of acquiring homes, which make up the bulk of Ibercaja's total portfolio of loans and advances, at 1.43%, is particularly low, and rose only nine basis points in 2011. Besides, coverage of the total amount of doubtful risks is 60.21%.

The portfolio of real properties awarded to the Group or acquired by the Group in settlement of debts, is 917 million euro, net of provisions funded, which is equal to 2.03% of assets and to 4% of gross loans and advances to customers. The coverage associated to these assets is 30.67%. As part of its risk management policy Ibercaja has special purpose companies for marketing and renting out real properties that actively manage the portfolio with a view to divesting or renting out such properties.

7 YEAR'S RESULT

The timid economic recovery seen in the first few months of the year has lost steam in the second half of 2011. As a consequence, the picture before the Spanish financial industry has been dominated by a climate of uncertainty, market stresses and the restructuring process it is undergoing. As for earnings, the re-pricing of the mortgage portfolio and higher rates charged on new facilities have not sufficed to absorb the impact of other unfavorable factors such as slower business, difficulties in tapping sources of financing, the fact that this has become more expensive, and the need to fund more provisions in the face of an increase in doubtful debts and real estate awarded to Ibercaja.

In the context described above, the Ibercaja Group has earned an attributed net surplus of 57 million euro. The pressure on margins resulting from increases in the cost of funds and write-downs that on the whole have risen 37.38%, driving up the coverage of assets beyond what is required by the regulations in force, explain why the Group's earnings have fallen 44.57% from 2010.

Total assets on the Consolidated Balance Sheet rose 0.55% to 45,237 million euro. Among the main Asset items, Loans and Advances to Other Debtors totaled 32,134 million euro, with a relative weight of 71.04%, while that of the Securities Portfolio was 19,93%. Among Liabilities, Customer Funds that comprise Deposits from Other Customers, Trading Derivatives, Other Financial Liabilities and Liabilities under Insurance Contracts totaled 38,754 million euro. Shareholders' Equity, Reserves and the Year's Profit rose in the aggregate by 0.97%, to 2.712 million euro.

The Interest Margin at 491 million euro was down 7.47% from the previous year. Even though Financial Income increased because of the re-pricing of the portfolio and an improved margin on new facilities, the increase was not enough to offset the impact of slower turnover and the higher cost of liabilities because of the conditions prevailing in the markets.

The Return on Equity Instruments, of 19 million euro, was up 14.36% from 2010 because of higher dividend yields on the equity portfolio. Meanwhile, Fee Income and Exchange Differences contributed 233 million euro, 1.19% more than the previous year. Those from banking services showed the best performance, having risen 6,33%. On the other hand, the fall in the average volume of assets managed under investment funds and pension plans has resulted in Fee Income and Exchange Differences relating to these falling 3.37%.

The balance under Other Operating Income and Expenses, that reflects earnings of non-financial subsidiaries consolidated by overall integration and miscellaneous income and expense items, totaled 12 million euro, 10 million euro more than the previous year, because of improved results reported by the consolidated companies and other income relating to insurance commissions.

Income on Financing Operations was 45 million euro, down 1.20% from the previous year. Most of this income –44 million euro– was earned through the sale and repurchase of assets.

The Gross Margin, after adding the Results in Entities Measured Under the Equity Method, was 792 million euro, down 1.75% from 2010.

Operating Expenses fell 0.99% in 2011 from the previous year. Staff costs remained virtually unchanged, while Other General Administrative Expenses and Amortization rose 1.77% reflecting higher rates and taxes paid in connection with real estate holdings and other expenses relating to the spin-off of the commercial banking business of the Savings Bank.

The efficiency ratio, calculated as Personnel Expenses and Other Administrative Expenses divided by the Gross Margin, stood at 60.74% at the close of the year.

The Net Operating Margin before provisions for write-downs was 268 million euro, down 6.68% from 2010. Financial asset impairment losses, provisions and other write-downs recognized under different headings in the Net Operating Margin account were an aggregate 212 million euro. Even though the need to fund specific provisions for credit risks and real estate has eased, the volume of generic provisions released in 2011 has been smaller than the previous year, so on the whole provisioning increased by 37.38%.

The balance for Other Gains and Losses reflects income of 13 million from sales of real properties and impairment losses on non-current assets held for sale.

The Surplus before Taxes has been 70 million euro. After subtracting Corporate Income Tax and the part attributed to minority interests, the Surplus Attributed to the Group has been 57 million euro.

PUBLIC CONSOLIDATED BALANCE SHEET OF THE IBERCAJA GROUP

	Balance			Increase 11/10		Increase 10/09	
	2011	2010	2009	Euro'000	%	Euro'000	%
Cash hand and on deposit at central banks	527,927	427,028	1,404,633	100,899	23.63	–977,605	–69.60
Held for trading	43,775	43,875	62,885	–100	–0.23	–19,010	–30.23
Other financial assets at fair value through profit or loss	117,254	128,800	139,955	–11,546	–8.96	–11,155	–7.97
Available for-sale financial assets	6,163,904	5,832,819	4,609,275	331,085	5.68	1,223,544	26.55
Loans and receivables	33,035,640	34,282,701	34,405,286	–1,247,061	–3.64	–122,585	–0.36
Held-to-maturity investment portfolio	2,247,648	1,718,374	1,605,069	529,274	30.80	113,305	7.06
Hedging derivatives	729,603	459,203	405,223	270,400	58.88	53,980	13.32
Non current assets held for sale	625,887	453,723	385,764	172,164	37.94	67,959	17.62
Shareholdings	214,795	222,156	244,292	–7,361	–3.31	–22,136	–9.06
Other assets	1,530,705	1,420,141	1,428,643	110,564	7.79	–8,502	–0.60
TOTAL ASSETS	45,237,138	44,988,820	44,691,025	248,318	0.55	297,795	0.67
Held for trading	24,405	34,791	37,065	–10,386	–29.85	–2,274	–6.14
Financial liabilities at amortised cost	37,415,085	37,804,716	37,557,329	–389,631	–1.03	247,387	0.66
Hedging derivatives	211,107	161,254	96,652	49,853	30.92	64,602	66.84
Insurance contract liabilities	4,405,035	3,686,799	3,580,798	718,236	19.48	106,001	2.96
Provisions	162,600	250,881	361,676	–88,281	–35.19	–110,795	–30.63
Other liabilities	310,977	320,068	353,258	–9,091	–2.84	–33,190	–9.40
TOTAL LIABILITIES	42,529,209	42,258,509	41,986,778	270,700	0.64	271,731	0.65
Shareholders' funds	2,711,595	2,685,497	2,619,523	26,098	0.97	65,974	2.52
Measurement adjustments	–10,125	38,984	74,227	–49,109	–125.97	–35,243	47.48
Minority interests	6,459	5,830	10,497	629	10.79	–4,667	–44.46
TOTAL EQUITY	2,707,929	2,730,311	2,704,247	–22,382	–0.82	26,064	0.96
TOTAL LIABILITIES AND EQUITY	45,237,138	44,988,820	44,691,025	248,318	0.55	297,795	0.67

PUBLIC CONSOLIDATED INCOME STATEMENT OF THE IBERCAJA GROUP

	Amount			Increase 11/10		Increase 10/09	
	2011	2010	2009	Euro'000	%	Euro'000	%
Interest and similar income	1,231,507	1,098,103	1,575,508	133,404	12.15	–477,405	–30.30
Interest and similar charges	740,082	566,987	896,115	173,095	30.53	–329,128	–36.73
INTEREST MARGIN	491,425	531,116	679,393	–39,691	–7.47	–148,277	–21.82
Return on equity instruments	19,299	16,875	14,841	2,424	14.36	2,034	13.71
Net fee income and exchange differences	233,018	230,281	205,681	2,737	1.19	24,600	11.96
Results in entities measured under the equity method	–8,529	–19,590	–20,662	11,061	56.46	1,072	5.19
Income on financing operations (net)	45,259	45,810	75,981	–551	–1.20	–30,171	–39.71
Other operating income and charges	11,812	1,896	12,621	9,916	523.00	–10,725	–84.98
GROSS MARGIN	792,284	806,388	967,855	–14,104	–1.75	–161,467	–16.68
Operating expenses	523,804	518,694	522,804	5,110	0.99	–4,110	–0.79
–Staff costs	327,895	326,186	319,781	1,709	0.52	6,405	2.00
–Other general administrative expenses	153,313	146,865	157,290	6,448	4.39	–10,425	–6.63
–Amortization	42,596	45,643	45,733	–3,047	–6.68	–90	–0.20
NET OPERATING MARGIN	268,480	287,694	445,051	–19,214	–6.68	–157,357	–35.36
Provisions (net)	–85,424	–101,364	38,033	15,940	15.73	–139,397	–366.52
Financial asset impairment losses (net)	247,334	123,341	187,719	123,993	100.53	–64,378	–34.29
INCOME FROM OPERATING ACTIVITIES	106,570	265,717	219,299	–159,147	–59.89	46,418	21.17
Other asset impairment losses (net)	13,506	62,700	14,140	–49,194	–78.46	48,560	343.42
Other gains and losses	–23,489	–69,490	–23,594	46,001	66.20	–45,896	–194.52
PROFIT/(LOSS) BEFORE TAXES	69,575	133,527	181,565	–63,952	–47.89	–48,038	–26.46
Corporate income tax	12,791	32,294	38,522	–19,503	–60.39	–6,228	–16.17
PROFIT/(LOSS) FOR THE YEAR	56,784	101,233	143,043	–44,449	–43.91	–41,810	–29.23
Profit attributed to the parent entity	57,426	103,604	143,701	–46,178	–44.57	–40,097	–27.90
Profit attributed to minority interests	–642	–2,371	–657	1,729	72.92	–1,714	–260.88

8 THE IBERCAJA SOCIAL WORK

Since 1876, the Ibercaja Social Work contributes towards the development and progress of the community through many initiatives and programs with the aim of achieving a better and more egalitarian future for all.

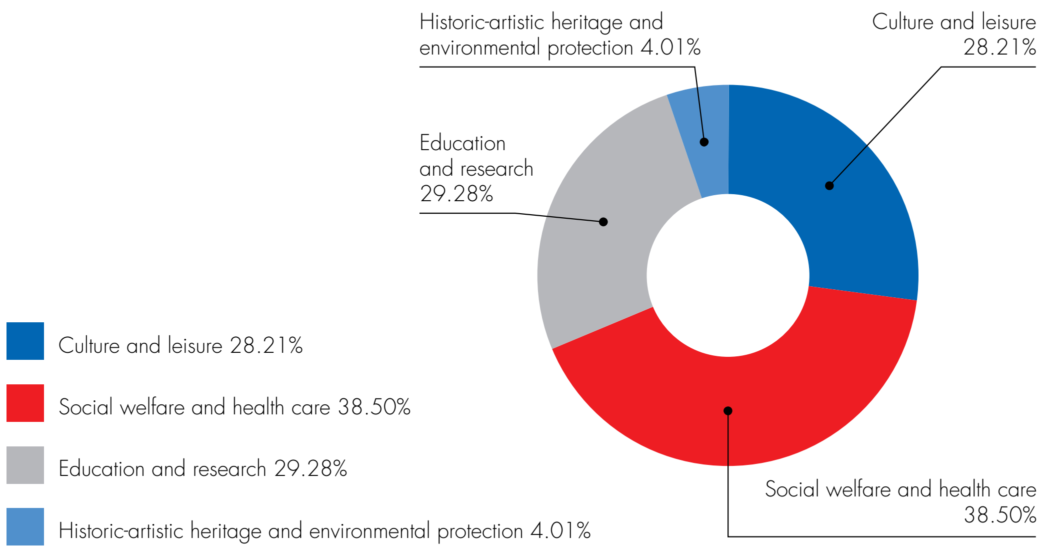
Dealing with some of the principal sources of concern to citizens, in 2011 the Social Work has undertaken projects along three strategic lines in addition to its historic work. One of them is aimed at improving the chances of unemployed individuals of finding jobs, through courses for the jobless and jobholders seeking to increase their capability of adjusting to changes in the labor market. Another, in the educational field, is designed to prevent students from failing at school and support youths as to their future options. Lastly, a third strategic line is designed to help the underprivileged to meet their basic needs such as food and housing.

In the course of the year, 30 million euro have been appropriated to carry out the activities of the Social Work. Of that amount, 63% has been spent on maintenance, fixed assets and the activities of the Social Work itself, while 37% has been channeled towards the community in the form of assistance to public-sector bodies and institutions, private associations and non-profit foundations.

SOCIAL WORK BUDGET SETTLEMENT FOR 2011

(Thousand euro)	Own work	Work in collaboration	Total	%
Culture and leisure	5,579	2,874	8,453	28.21
Social welfare and health care	7,318	4,219	11,537	38.50
Education and research	5,942	2,830	8,772	29.28
Historic-artistic heritage and environmental protection	25	1,176	1,201	4.01
TOTAL	18,864	11,099	29,963	100.00

SOCIAL WORK BUDGET SETTLEMENT FOR 2011



Out of the PROFIT reported by Ibercaja Banco, SAU, individually, this company has paid out to the Savings Bank, its sole stockholder, an interim dividend of 12.8 million euro.

BREAKDOWN OF THE PROFIT OF IBERCAJA BANCO, SAU

	Euro'000	%
Profit for the year	28,685	100.00
–To Dividends	12,800	44.62
–To Reserves	15,885	55.38

Out of the PROFIT of the Savings Bank individually, upon the proposed distribution being approved by the General Assembly, 15 million euro will be allocated to meet the needs of the Social Work.

BREAKDOWN OF THE PROFIT OF CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA

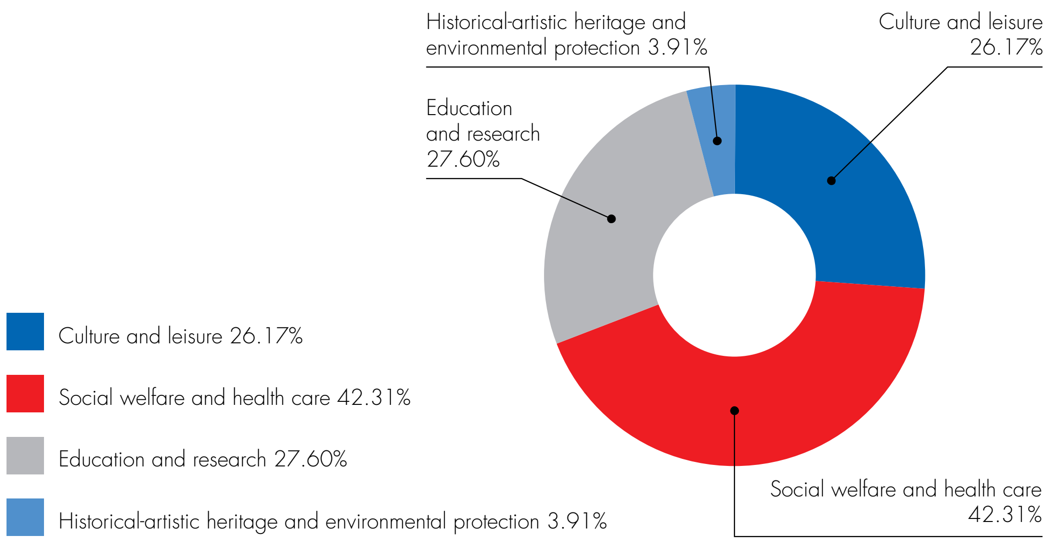
	Euro'000	%
Profit for the year	15,312	100.00
–To Social Work	15,000	97.96
–To Reserves	312	2.04
Social Work Budget for 2012	23,000	

The Expenditure Budget of the Social Work for 2012 is 23 million euro. The breakdown is as follows: 42% to social welfare and health care, 28% to education and research, 26% to culture and leisure, and 4% to the historical-artistic heritage and environmental protection.

EXPENDITURE BUDGET OF THE SOCIAL WORK FOR 2012

(Thousand euro)	Own Work	Work in collaboration	Total	%
Culture and leisure	3,802	2,218	6,020	26.17
Social welfare and health care	8,282	1,450	9,732	42.31
Education and research	4,406	1,942	6,348	27.60
Historic-artistic heritage and environmental protection	–	900	900	3.91
TOTAL	16,490	6,510	23,000	100.00

SOCIAL WORK EXPENDITURE BUDGET FOR 2012



9 OTHER INFORMATION ON THE IBERCAJA GROUP

GOVERNING BODIES CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA

BOARD OF DIRECTORS CAJA DE AHORROS
Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA

CONTROL COMMITTEE CAJA DE AHORROS
Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA

COMPOSITION OF THE GENERAL ASSEMBLY

LIST OF MEMBERS

Zaragoza district
María Pilar Arana Pardo
Francisca Arnal Castillo
María Jesús Blecua Lis
Ángel Bondía Hernando
Antonio Campos Hernández
Ismael García Santamaría
Darío García Soria
María Pilar Garín Ordovás
Santiago Tomás Gil Arguedas
María Esther González Torrellas
María Pilar Herrero Hernando
Miguel Ángel Luna Capapé
Isabel Marco Sanjuán
Enrique Monzón Simón
Miriam Oliva Alcubierre
José Antonio Pueo Salvate
Jesús Serrano Sáenz
Aurelio Sicilia Pérez
Luis Valiño García
Joaquín Vallespín Tena

Huesca district
Roberto Buisán Aristimuño
Myriam Virginia Ciprés Aznar
Luis Gómez Caldú
Ana Isabel Ordás Escó
Alberto Palacio Aylagas
Sonia Vidal Laguardia

Teruel district
José Ramón Barea Benedicto
María Pilar Descalzo Rodríguez
Manuel Vicente Giménez Gascón
Ángel Torrijo Luna

La Rioja district
Carlos Angulo Ramos
María Cristina Azpeitia Larrea
María Carmen de la Fuente Ramos
Luis Miguel Jubera Olarte
Raquel Miranda Mendoza
José Luis Soldevilla Mayor

Guadalajara district
Filoromo Bartolomé Pérez
Julia Pilar Paton Delgado
María Rosa Pérez del Río
Beatriz Santamaría González
Enrique Viejo Ximénez (Not a Member of the General Assembly)

Madrid district
María de los Ángeles Anguita Fernández
Francisca Bravo de Lucas
María Luisa Capitán Lominchar
Enrique Carbajosa Hernández
Mateo Estaún Díaz de Villegas
Celso Forniés López
Alberto Galindo Tixaire
Antonio Horrillo Ramos
Carlos Huélamo Fernández
Patricio José Novales Pac
José Manuel Pomar Sasot
Manuel Roglan Lombarte

Catalonia-Balearic Isles district
Lorenzo Bergua Lorente
Francesc Farré Coll
Gemma Gilabert Belinchón
Juan Mallol Estany

Valencia-Murcia district

Antonio Adrien Peris
Luis Latorre Moreno
Silvia López Trigueros
María Isabel Ube Ibáñez

Rest of Provinces district

María Vanesa Aranda García
Pedro Sánchez Guerrero

AUTONOMOUS REGION OF ARAGÓN

Manuel Alquézar Burillo
Salvador Ariste Latre
José Carlos Arnal Losilla
Juan Ramón Aso Bailo
Ángeles Aylón Baquedano
Antonio Barrachina Lupon
Martín Beneded Campo
Primitivo Cardenal Portero
Fernando Cavero López
Lorenzo Delso Ibáñez
Luis Ramón García Carús
Silvia Inés Gimeno Gascón
José Gracia Nerín
Manuel Hernández Laplana
Joaquín Pascual Juste Sanz
Sergio Larraga Martínez (Until Sept. 8, 2011)
Julián López Babier
Octavio Adolfo López Rodríguez
(Until Nov. 29, 2011)
Ángel Carlos Lorén Villa
Emilio Manrique Persiva
Gregorio Martín Francos
Eugenio Nadal Reimat
Miguel Pamplona Abad
Jesús Pérez Pérez
Victoria Pérez Pérez
Salvador Plana Marsal
Carlos Queralt Solari
Eva Romeo Longares
Carmen Sánchez Asín
Pascual Germán Sanromán Sesé
Ricardo Sesé Giner
Mercedes Zagalá Pérez

LOCAL AUTHORITIES

Zaragoza district

Local Authorities of Zaragoza
Jesús Solchaga Loitegui
José Enrique Rodríguez Furriel

Local Authorities of Aguilón
Andrés Herrando Oliván

Local Authorities of Calatayud

Until July 11, 2011
Víctor Javier Ruiz de Diego

Since September 8, 2011
José Antonio Gonzalo López

Local Authorities of Ejea de los Caballeros
Domingo Malo Arilla

Local Authorities of Gallur
Antonio Liz Gaspar

Local Authorities of Utebo
Miguel Carmelo Dalmau Blanco

Huesca district

Local Authorities of Aragüés del Puerto
Joaquín Molinos Follos

Local Authorities of Huesca
Pending to be appointed

Until January 7, 2011
José Félix Saenz Lorenzo (r.i.p.)

Local Authorities of Monzón
José Gabriel Albas Oncins

Teruel district

Jesús Bueno Arrese (Not a Member of the General Assembly)

Local Authorities of Teruel
Lucía Gómez García

Local Authorities of Alcañiz
Amor Pascual Carceller

Local Authorities of Vivel del Río Martín
Ángel Valiente Moreno

La Rioja district

Local Authorities of Logroño
José Luis Prado Prado

Local Authorities of Calahorra
Luis Martínez-Portillo Subero

Local Authorities of Tricio
Carlos Benito Benito

Guadalajara district

Local Authorities of Guadalajara

Until July 11, 2011
Antonio Román Jasanada

Since July 26, 2011
Juan Antonio Pérez Borda

Local Authorities of Tortuera
Jesús Ángel Sola Perdiguero

Madrid district

Local Authorities of Madrid
Leocadio Bueso Zaera
José Salinas Lecina

Local Authorities of Alcalá de Henares
Evaristo Luis Vargas Méndez

Local Authorities of Aranjuez
Francisco J. Fernández del Valle

Local Authorities of Fuenlabrada
José Santiago Sánchez Luque

Local Authorities of Rivas Vaciamadrid
Guillermo Magadán Cuesta

Catalonia-Balearic Isles district

Local Authorities of Barcelona
Pending to be appointed

Until November 2, 2011
Montserrat Ballarín i Espuña

Local Authorities of Lleida
Marta Camps Torrens

Local Authorities of Granollers
Pending to be appointed

Valencia-Murcia district

Local Authorities of Valencia
Joaquín Salvo Aranda

Local Authorities of Almassora
Pending to be appointed

Rest of provinces district

Local Authorities of A Coruña
Xosé Enrique Rafael Tello León

Local Authorities of Sevilla
Antonio Rodríguez Galindo

Local Authorities of Toledo
Emiliano García-Page Sánchez

EMPLOYEES

Zaragoza district
José Luis Delatas Pellejero
José María Fernández Bañeres
Ignacio Ramón Liria Lafarga
Alberto Peralta Bayo

Huesca-Teruel district
Luis Miguel Español Viñola

La Rioja district
José Luis Lagunilla Martínez

Madrid-Guadalajara district
José Manuel Novo Balado
Jaime Zaro Jiménez

Catalonia-Balearic Isles district
Miguel Ángel de la Fuente Aige

Valencia-Murcia district
Santiago Pino Valle

Rest of Provinces district
Manuel Jesús Martín Molina

FOUNDING ENTITY

José María Abós Ferrer
Mariano Bergua Lacasta
Benjamín Blasco Segura
Valeriano Castillón Salas
Emilio Eiroa García
Amado Franco Lahoz
Emiliano Martínez Castillo
Gabriel Morales Ruiz
María Isabel Oliván Jarque
José I. Pascual de Quinto y de los Ríos
José María Ruiz-Tapiador Trallero
José María Valero Adán
Aurelio Vallespín Tena
Fernando Vicente Thomas

ENTITIES REPRESENTING OTHER STAKEHOLDER GROUPS (EROSG)

(Since July 26, 2011)

Carlos Guerrero Rica
(Virgen del Pueyo Foundation)

Pedro Herraiz Bayod
(International Cooperation NGO)

Bernardo Jiménez Moreno
(Ramón Rey Ardid Foundation)

José Luis Lucea Lafuente
(Federico Ozanam Foundation)

José Antonio Méndez Gil
(Spanish Society Against Cancer)

Francisco Juan Ratia Sopena
(Coordinator of Associations of Disabled Individuals of Huesca –Cadis Huesca–)

María Teresa Soro Andiano (Picarral Foundation)

BOARD OF DIRECTORS

President	Mr. Amado Franco Lahoz (Founding Entity)
Honorary presidents	Mr. José Luis Martínez Candial Mr. Manuel Pizarro Moreno
1st Vice President	Mr. Eugenio Nadal Reimat (Aut. Region of Aragón)
2nd Vice President	Mr. Alberto Palacio Aylagas (Depositors)
Secretary	Mr. Jesús Bueno Arrese (Local Authorities)
Members	Mr. Lorenzo Bergua Lorente (Depositors) Mr. Manuel Vicente Giménez Gascón (Depositors) Mr. Julián López Babier (Aut. Reg. of Aragón) Mr. Joaquín Molinos Follos (Munic. Council) Mr. Fernando Cavero López (Aut. Reg. of Aragón) Ms. María Carmen Sánchez Asín (Aut. Reg. of Aragón) Ms. Isabel Marco Sanjuán (Depositors) Mr. Enrique Monzón Simón (Depositors) Ms. María Cristina Azpeitia Larrea (Depositors) Mr. Enrique Viejo Ximénez (Depositors) Mr. Mateo Estaún Díaz de Villegas (Depositors) Mr. Leocadio Bueso Zaera (Local Authorities) Mr. Mariano Bergua Lacasta (Founding Entity) Mr. Jesús Martín Molina (Employees) Until January 7, 2011 Mr. José Félix Saenz Lorenzo (Local Authorities) (†) Since January 27, 2011 Ms. Lucía Gómez García (Local Authorities) Since July 26, 2011 Mr. Francisco Juan Ratia Sopena (EROSG)

CONTROL COMMITTEE

President	Mr. Jesús Solchaga Loitegui (Local Authorities)
Vice President	Mr. Luis Ramón García Carús (Com. Aut. Aragón)
Secretary	Mr. Fernando Vicente Thomas (Founding Entity)
Members	Mr. José Manuel Pomar Sasot (Depositors) Ms. María Jesús Blecua Lis (Depositors) Mr. Luis Miguel Español Viñola (Employees) Since July 26, 2011 Ms. M.ª Teresa Soro Andiano (EROSG)
Represent. Gov. of Aragón	Until July 26, 2011 Ms. Natividad Blasco de las Heras

EXECUTIVE COMMITTEE

President	Mr. Amado Franco Lahoz (Founding Entity)
Secretary	Mr. Jesús Bueno Arrese (Local Authorities)
Full members	Mr. Eugenio Nadal Reimat (Com. Aut. Aragón) Mr. Alberto Palacio Aylagas (Depositors) Mr. Joaquín Molinos Follos (Local Auth.) Mr. Mariano Bergua Lacasta (Founding Entity) Mr. Jesús Martín Molina (Employees) Since July 26, 2011 Mr. Francisco Juan Ratia Sopena (EROSG)

SOCIAL AND CULTURAL WORK COMMISSION

President	Mr. Amado Franco Lahoz (Founding Entity)
Vice President	Mr. Leocadio Bueso Zaera (Local Authorities)
Secretary	Mr. Lorenzo Bergua Lorente (Depositors)
Members	Mr. Julián López Babier (Aut. Reg. of Aragón) Mr. Enrique Viejo Ximénez (Depositors) Ms. M.ª Cristina Azpeitia Larrea (Depositors)

REMUNERATION COMMITTEE

President	Mr. Alberto Palacio Aylagas (Depositors)
Secretary	Mr. Jesús Bueno Arrese (Local Authorities)
Member	Mr. Mariano Bergua Lacasta (Founding Entity)

INVESTMENTS COMMITTEE

President	Mr. Amado Franco Lahoz (Founding Entity)
Secretary	Mr. Jesús Bueno Arrese (Local Authorities)
Member	Mr. Eugenio Nadal Reimat (Aut. Reg. Aragón)

ACTIVITIES OF THE GOVERNING BODIES IN 2011

GENERAL ASSEMBLY

This Governing Body of Ibercaja has held two regular meetings in 2011, on in each half of the calendar year as required by the Bye-laws, on March 14 and November 24, as well as a Special Meeting on July 26.

At the first regular meeting, that of March 14, 2011, the General Assembly reviewed the reports of the Control Committee and of the External Auditors and, as proposed by the Board of Directors, approved the Annual Accounts and the Consolidated Annual Accounts of Ibercaja for the year ended at December 31, 2010, comprising the Balance Sheet, the Income Statement as of that date with the consequent surplus distribution, the Statement of Changes in Net Assets and Cash Flows as well as the Notes to the Annual Financial Statements and the Management Reports. The General Assembly also approved the Conduct of the Affairs and Settlement of Expenses of the Charitable-Social Work for the 2010 year and its Budget for 2011.

Besides, the Assembly approved the proposed amendments of the Bye-laws and Election Rules of Ibercaja to adjust them to meet the requirements of Royal Order-in-Council No. 11/2010 and of the Aragón Regional Act No. 10/2010, covering the main aspects to which the amendments refer, i.e. the rules on shares in the equity capital, the basic rules on the Governing Bodies that include among the groups represented in them a new group made up of entities representing other stakeholders, and add more disqualifying circumstances that prevent a person from being a Member of the Assembly or Covenantor, the rules governing Institutional Protection Systems of which Savings Banks form part, and new rules designed to enable savings banks to engage in the financial business indirectly through other types of entities.

At this meeting the General Assembly also approved a proposal by the Board of Directors to hire specialist entities to manage two Social Work centers of Ibercaja: the Padre Piquer home for the elderly in Teruel and the San José nursery in Zaragoza.

At the Special Meeting of July 26, 2011, the General Assembly authorized the financial activities of CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA –IBERCAJA– to be carried on indirectly through a new wholly-owned banking subsidiary called IBERCAJA BANCO, SA, which pursuant to the provisions of Act 3/2009, on the reorganization of companies, was to be formed through a spin-off split.

To that effect, considering that a spin-off split involves the transfer as a whole, by universal succession, of the assets and liabilities that make up the business unit through which Ibercaja engages in the financial business, so Ibercaja Banco shall substitute for Ibercaja in all of its rights, claims, duties, responsibilities and liabilities in respect of the Assets Spun Off, as well as of the human and tangible resources linked to operating that busines, the Assembly approved the audited Balance Sheet of the Entity at December 31, 2010, as the Spin-off Balance Sheet; the Project for Spinning Off the financial business of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja to Ibercaja Banco, SA, that had been formulated by the Board of Directors at a meeting of May 19, 2011; the spinning off of the asset and liability items used in carrying on the financial business of the Savings Bank to Ibercaja Banco, SA, with the sole exception of items relating to the non-financial and foundation-like activities of Ibercaja: the Social and Cultural Work, the Pawn Shop and the Artistic Assets; as well as applying for the spin-off split to be carried out under the special tax rules of Title VII, Chapter VIII of the Spanish Corporate Income Tax (Consolidating) Act approved through Royal Order-in-Council No. 4/2004.

At the same Special Meeting, the General Assembly approved further amendments of the Bye-laws and Election Rules of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, for the particular purpose of mentioning the fact that the business to be carried on indirectly must meet the requirements of the national and regional regulations in force for Savings Banks.

Lastly, the General Assembly debated a proposal to elect a Full Member and an Alternate member of the Board of Directors as well as a Full Member and an Alternate Member of the Control Committee to represent the entities representing other stakeholder groups, in accordance with the Bye-laws and Election Rules of Ibercaja.

At the second regular meeting of the General Assembly, that of the second half of 2011, held on November 24, after the Members of the Assembly were informed that Ibercaja Banco, SA, had been incorporated on September 22 and had started up business on October 1, the General Assembly heard the report of the Control Committee and debated on the lines of action for the 2012 year.

BOARD OF DIRECTORS

In performance of its duties of conducting the financial business and running the Entity, the Board of Directors held 14 meetings during 2011.

At the meeting of January 27, 2011, Ms. María Lucía Gómez García, who had been appointed Alternate Director at the meeting of the General Assembly of May 30, 2010, joined the Board of Directors to fill the vacancy left by Mr. José Félix Sanez Lorenzo (r.i.p.).

At the meeting of February 17, 2011, the Board approved the proposal to amend the Bye-laws and Election Rules, to be submitted for approval by the General Assembly, to adjust them to meet the requirements of Act No. 31/1985, on the Basic Provisions governing Savings Banks, as worded according to Royal Order-in-Council No. 11/2010, on the Governing Bodies and other Rules governing Savings Banks, as well as to meet the provisions of Act No. 10/2010, amending those of Act 1/1991, Regulating Savings Banks in Aragón, by allowing seven new Members to be added to the General Assembly to represent a group of Entities representing other stakeholders.

At the meeting of May 19, 2011, the Board of Directors resolved to undertake the necessary procedure to transfer the financial business to a newly-created commercial banking entity called Ibercaja Banco, SA, by spinning off to it the financial business of the Savings Bank, taking the Savings Bank's individual Balance Sheet at December 31, 2010, as the spin-off balance sheet.

Besides, at the meeting of June 17, 2011, the Board approved a new proposal to be presented to the General Assembly to amend the Bye-laws and Election Rules to adjust them to the changes involved by the financial business being exercised indirectly through Ibercaja Banco, SA.

At the same meeting, the Board resolved to designate the Federico Ozanam Foundation, the Virgen del Pueyo Foundation, the Spanish Association Against Cancer, the Ramon Rey Ardid Foundation, the Picarral Foundation, the Coordinator of Associations of Disabled Persons of Huesca (Cadis Huesca), and the International Cooperation NGO, as entities representing the interests of stakeholder groups entitled to appoint Members of the General Assembly, pursuant to the provisions of rule 36 of the Election Rules for Ibercaja Governing Bodies.

At the meeting of August 30, 2011, a new member joined the Board of Directors to represent the group of entities representing the interests of stakeholder groups. The new Board member, Mr. Francisco Juan Ratia Sopena, had been appointed at the Special General Assembly of July 26, 2011.

CONTROL COMMITTEE

In performance of its duties of reviewing the conduct of the economic and financial affairs of Ibercaja, of monitoring the legality of the resolutions of the Board of Directors, of liaising with the external auditors and of assuring the transparency of the election procedures, this Committee, being explicitly charged with acting as Audit Committee, held a total of 11 meetings and formulated in due course the requisite half-year reports submitted to the General Assembly, the Regional Government of Aragón and the Bank of Spain.

At the meeting held on September 8, 2011, a new member joined the Committee, Ms. María Teresa Soro Andiano, appointed by the Special General Assembly on July 26, 2011 to represent the Group of Entities representing other stakeholders.

EXECUTIVE COMMITTEE

This Committee held a total of 19 meetings during the year, having decided on proposals made by the General Manager using the powers delegated in the Committee by the Board of Directors, having considered with special care the proposals on granting or denying risks.

SOCIAL WORK COMMITTEE

This Committee held three meetings in 2011, having closely monitored compliance with the expenditure budget for Charitable Social and Cultural Work approved at the Regular General Assembly meeting held on March 14 and having contributed initiatives that have been put before the Board of Directors.

REMUNERATION COMMITTEE

During 2011, this Committee held one meeting at which it issued the relevant reports to the Board on the attendance fees for members of the Governing Bodies as well as on the general pay policy and incentives for senior staff.

INVESTMENTS COMMITTEE

The Committee held a meeting on January 27, 2011, at which it issued the annual report on strategic investments and disinvestments carried out in the 2010 year, which has submitted to the Board of Directors.

Note: Following implementation of the resolution on carrying on the financial business of the Savings Bank through a commercial banking subsidiary, pursuant to the regulations in force the governing bodies of the Savings Bank are now solely the General Assembly, the Board of Directors and the Control Committee.

GOVERNING BODIES IBERCAJA BANCO, SAU

BOARD OF DIRECTORS IBERCAJA BANCO, SAU

BOARD OF DIRECTORS

President	Mr. Amado Franco Lahoz
Chief Executive Officer	Mr. José Luis Aguirre Loaso
Members	Mr. Eugenio Nadal Reimat Mr. Alberto Palacio Aylagas Mr. Jesús Bueno Arrese Mr. Manuel Pizarro Moreno Mr. Miguel Fernández de Pinedo López
Secretary (Not a Director)	Mr. Jesús Barreiro Sanz

AUDIT AND COMPLIANCE COMMITTEE

President	Mr. Miguel Fernández de Pinedo López
Members	Mr. Eugenio Nadal Reimat Mr. Jesús Bueno Arrese
Secretary (Not a Director)	Mr. Jesús Barreiro Sanz

APPOINTMENTS AND REMUNERATION COMMITTEE

President	Mr. Manuel Pizarro Moreno
Members	Mr. Alberto Palacio Aylagas Mr. Miguel Fernández de Pinedo López
Secretary (Not a Director)	Mr. Jesús Barreiro Sanz

MANAGEMENT

Chief Executive Officer
Mr. José Luis Aguirre Loaso

Assistant General Manager – Secretary General
Mr. Jesús Barreiro Sanz

Assistant General Manager – Manager Financial Area
Mr. Luis Enrique Arrufat Guerra

Assistant General Manager – Manager Business Area
Mr. Víctor Iglesias Ruiz

Deputy General Manager – Manager Human Resources and Means
Mr. José Luis Rodrigo Molla

Deputy General Manager – Manager Credit Risk Area
Mr. José Palma Serrano

Deputy General Manager – Manager Technology and Systems
Mr. José Luis Lázaro Crespo

Deputy General Manager – Manager Financial Group
Mr. Francisco Javier Palomar Gómez

Deputy General Manager – Manager Organizational Development
Mr. José Manuel Merino Aspiazu

Deputy General Manager – Manager Management Control
Ms. María Pilar Segura Bas

Deputy Manager – Manager Affiliates
Mr. Joaquín Rodríguez de Almeida Pérez Surio

Deputy Manager – Manager for Expansion into New Areas
Mr. José Morales Paúles

Deputy Manager – Manager Traditional Network
Mr. Luis Fernando Allué Escobar

Deputy Manager – Chief Legal Counsel
Mr. Francisco Serrano Gil de Albornoz

Deputy Manager – Manager Operations and Back Office
Mr. José Javier Pomar Martín

ACTIVITIES OF THE GOVERNING BODIES IN 2011

STOCKHOLDER MEETING

Since Ibercaja Banco, SAU, was incorporated in September, 2011, its sole stockholder, Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, represented by its President Mr. Amado Franco Lahoz, has held a Stockholder Meeting twice during the year.

At the meeting of September 22, 2011, in performance of the resolutions approved by the Board of Directors of the Savings Bank at a meeting of September 15, 2011, the sole stockholder approved, among other resolutions, a resolution authorizing the Board of Directors to issue debt securities on the institutional market and on the retail market, when the market conditions make it advisable to do so, up to a ceiling amount of 5,000 million euro, in the form of senior debt, subordinated debt, mortgage bills, 'territorial' or covered bills, debentures and bonds, preference shares, promissory notes, Schuldschein loans, structured bonds or debentures and other instruments, as well as to securitize on-balance-sheet assets up to a ceiling amount of 3,000 million euros.

Lastly, it was resolved to treat IBERCAJA BANCO, SAU, as a controlled entity for the purposes of filing a consolidated tax return under the provisions of Title VII, Chapter VII of the Corporate Income Tax (Consolidating) Act approved through Royal Order-in-Council No. 4/2004.

At the meeting of December 22, 2011, upon the Board of Directors of Ibercaja Banco SAU having drawn up the interim statement of account foreseen in Section 277 of Spain's Joint-Stock Companies Act, the Stockholder Meeting resolved to pay out TWELVE MILLION EIGHT HUNDRED THOUSAND EURO as an interim dividend for the 2011 year to Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, as its sole stockholder.

BOARD OF DIRECTORS

The Board of Directors of Ibercaja Banco, SAU, held seven meetings in the 2011 year.

The first of them, held on September 22, 2011, deserves special mention. It was held prior to Ibercaja Banco, SAU, starting up business on October 1, 2011, to approve resolutions to enable the Bank to operate and those required for the Governing Bodies to act as such.

At that meeting, the Board resolved, among other things, to approve the Rules of the Board of Directors, the Customer Defense Rules, the Money Laundering Prevention Manual, several in-house manuals, and the accession to several bodies and organizations that Ibercaja Banco, SAU, is required to join in order to start up business, including among others the Deposit Guarantee Fund, The Inter-bank Deposit Settlement Service, the Spanish Stock Exchanges and Markets, Iberclear, AIAF, MEFFCLEAR y Latibex.

Besides, the Board resolved to accept as binding, in its entirety and without reservations, the agreement executed on July 6, 2011 by the Human Resources Department and all existing labor union Sections and Associations at Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (ACI, CCOO, CGT, CSICA and UGT) for the work force of the Savings Bank to be taken over by IBERCAJA BANCO, SAU.

Besides, under the authority granted to the Board by the Stockholder Meeting, it was resolved to float promissory notes in the amount of 1,000 million euro, with an option to increase the figure to 2,000 million euro.

AUDIT AND COMPLIANCE COMMITTEE

The Committee held two meetings in 2011.

At the first meeting held on October 25, 2011, the Committee was constituted with the powers explicitly allocated to it in Section 13 of the Rules of the Board of Directors, including that of ensuring that risk evaluation mechanisms are implemented, that the systems to ensure compliance with regulatory provisions work properly, and that the external audit firm performs its duties, conveying to the Board the information it obtains and proposing such decisions as may be in order.

The Committee also established the method of work it would use to carry out its activities in respect of the control structure and to review the risks existing in the entity, and, at its meeting of November 23, 2011, heard the report of the External Auditor and the audit plan for the Ibercaja Group in the 2011 year.

APPOINTMENTS AND REMUNERATION COMMITTEE

The Committee held three meetings in 2011.

It was constituted at a meeting on October 25, 2011, taking over the duties explicitly allocated to it in Section 14 of the Rules of the Board of Director, and heard a report by the Hay Group consultancy firm on the remuneration of governing bodies of financial entities.

At meetings held on November 8 and 23, the Committee established the criteria to be observed on attendance allowances and other emoluments of the members of the Governing Bodies of Ibercaja Banco, SAU.

II. IBERCAJA BANCO GROUP

CONTENT

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

AUDITOR'S REPORT, CONSOLIDATED ANUAL ACCOUNTS AT 31 DECEMBER 2011
AND CONSOLIDATED DIRECTORS' REPORT FOR 2011

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

AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the sole shareholder of Ibercaja Banco, S.A.U.:

We have audited the consolidated annual accounts of Ibercaja Banco, S.A.U. and its subsidiaries which comprise the Ibercaja Banco Group, consisting of the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of recognised income and expense, the total consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 1.2, the directors are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards, as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2011 present fairly, in all material respects, the consolidated financial position of Ibercaja Banco, S.A.U. and its subsidiaries as at 31 December 2011 and the consolidated results of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

While not affecting our opinion, we call your attention to Note 1.1 to the accompanying consolidated annual accounts, indicating that the Company was incorporated in 2011, as a result of the transfer by its parent Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja) of all its assets and liabilities used in its financial activities.

The accompanying consolidated directors' report for 2011 contains the explanations which the directors of Ibercaja Banco, S.A.U. consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated directors' report is in agreement with that of the consolidated annual accounts for 2011. Our work as auditors is limited to checking the consolidated Directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Ibercaja Banco, S.A.U. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S. L.

Original in Spanish signed by
Alejandro Esnal Elorrieta
Partner

2 April 2012

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IBERCAJA BANCO, SAU

PREPARATION OF THE CONSOLIDATED ANUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT

On 30 March 2012, the Board of Directors of Ibercaja Banco, SAU, have met in Zaragoza and, in compliance with prevailing legislation, have drawn up the consolidated anual accounts for 2011, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of recognised income and expense, the total statement of changes in consolidated equity, the consolidated cash flow statement and the notes to the consolidated anual accounts (Notes 1 to 42 and Appendices I and II) and the consolidated directors' report for 2011. These documents have been extended on official government paper and numbered correlatively

To the best of our knowledge, the consolidated annual accounts for 2011, prepared in accordance with applicable accounting principles, express fairly the financial position, results and cash flows of the Entity and subsidiaries that make up the Ibercaja Banco Group. Similarly, the consolidated directors' report for 2011 includes a fair analysis of the performance, results and position of the Entity and subsidiaries that comprise the Ibercaja Banco Group.

SIGNATORIES:

Mr. AMADO FRANCO LAHOZ
National ID number: 17.817.393 Y
Chairman

Mr. JOSÉ LUIS AGUIRRE LOASO
National ID number: 17.109.813 K
Chief Executive Officer

Mr. EUGENIO NADAL REIMAT
National ID number: 40.826.634 R
Board member

Mr. ALBERTO PALACIO AYLAGAS
National ID number: 17.803.857 V
Board member

Mr. JESÚS BUENO ARRESE
National ID number: 17.841.677 W
Board member

Mr. MANUEL PIZARRO MORENO
National ID number: 18.402.368 E
Board member

Mr. MIGUEL FERNÁNDEZ DE PINEDO LÓPEZ
National ID number: 14.215.722 C
Board member

Mr. JESÚS BARREIRO SANZ
National ID number: 17.846.451 S
Non-voting secretary

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED ANUAL ACCOUNTS 31 DECEMBER 2011

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2011 AND 2010

(Thousand euros) ASSETS	Note	2011	2010 (*)
Cash on hand and on deposit at central banks	6	527,866	377,028
Held for trading	7	43,776	43,875
Debt securities		8,743	1,562
Equity instruments		931	–
Derivatives held for trading		34,102	42,313
Memorandum item: loaned or pledged		*82*	–
Other financial assets at fair value through profit or loss	8	117,254	128,800
Debt securities		58,146	58,033
Other equity instruments		59,108	70,767
Memorandum item: loaned or pledged		–	–
Available-for-sale financial assets	9	6,163,904	5,832,819
Debt securities		5,654,743	5,256,516
Other equity instruments		509,161	576,303
Memorandum item: loaned or pledged	*27.2*	*1,300,020*	*1,388,050*
Loans and receivables	10	33,031,263	34,277,306
Deposits at credit institutions		640,923	1,058,890
Customer loans		32,127,585	33,011,013
Debt securities		262,755	207,403
Memorandum item: loaned or pledged	*27.2*	*5,767,360*	*6,223,365*
Held-to-maturity investment portfolio	11	2,247,648	1,718,374
Memorandum item: loaned or pledged	*27.2*	*1,300,767*	*1,656,563*
Hedging derivatives	12	729,603	459,203
Non-current assets held for sale	13	625,887	453,723
Shareholdings	14	214,795	222,156
Associates		155,697	160,621
Jointly-controlled entities		59,098	61,535
Assets held for reinsurance	15	491	704
Property, plant and equipment	16	728,938	753,535
Property, plant and equipment		605,202	629,610
For own use		585,509	605,363
Assigned under operating lease		19,693	23,497
Assigned to Community Projects		–	750
Investment properties		123,736	123,925
Memorandum item: Acquired under finance leases		–	–
Intangible assets	17	18,434	25,341
Other intangible assets		18,434	25,341
Tax assets		333,508	265,280
Current		17,926	13,786
Deferred	25	315,582	251,494
Other assets	18	360,257	267,723
TOTAL ASSETS		45,143,624	44,825,867
Memorandum item			
Contingent exposures	27.1	558,399	644,427
Contingent commitments	27.3	2,520,753	3,000,685

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2011 AND 2010

(Thousand euros) LIABILITIES AND EQUITY	Note	2011	2010 (*)
Held for trading	7	24,405	34,791
Derivatives held for trading		24,405	34,791
Financial liabilities at amortised cost	19	37,442,435	37,804,062
Deposits from central banks		900,246	–
Deposits from credit institutions		1,980,476	2,075,240
Customer funds		27,903,354	29,104,264
Marketable debt securities		5,668,282	5,594,282
Subordinated debt financing		777,172	776,205
Other financial liabilities		212,905	254,071
Hedging derivatives	12	211,108	161,254
Insurance contract liabilities	20	4,405,035	3,686,799
Provisions	21	161,200	249,408
Pension funds and obligations of a similar nature		122,891	126,275
Provisions for taxes and other legal contingencies		8,532	15,435
Provisions for contingent exposures and commitments		8,152	9,791
Other provisions		21,625	97,907
Tax liabilities		157,159	154,232
Current		35,441	23,593
Deferred	25	121,718	130,639
Other liabilities	22	75,281	56,659
TOTAL LIABILITIES		42,476,623	42,147,205
Shareholders' funds		2,670,667	2,633,848
Capital		2,134,500	–
Reserves	24	494,053	2,536,823
Accumulated reserves		518,213	2,541,426
Reserves in entities carried under the equity method		(24,160)	(4,603)
Profit attributed to the parent Entity		54,914	97,025
Dividends and remuneration		(12,800)	–
Measurement adjustments	23	(10,126)	38,984
Available-for-sale financial assets		(49,940)	5,965
Entities under the Equity method		322	844
Other measurement adjustments		39,492	32,175
Minority interests		6,460	5,830
Measurement adjustments		2,691	1,570
Other		3,769	4,260
TOTAL EQUITY		2,667,001	2,678,662
TOTAL LIABILITIES AND EQUITY		45,143,624	44,825,867

(*) See Note 1.4

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousand euros)	Note	2011	2010 (*)
Interest and similar income	28	1,231,351	1,097,932
Interest and similar charges	29	740,181	566,987
INTEREST MARGIN		491,170	530,945
Return on equity instruments	30	19,299	16,875
Results in entities measured under the equity method		(8,529)	(19,590)
Fees received	31	244,078	242,333
Fees paid	32	12,884	13,177
Income from financing operations (net)	33	45,259	45,810
Held for trading		3,466	4,842
Other financial instruments at fair value through profit or loss		1,993	884
Financial instruments not carried at fair value through profit or loss		44,062	35,127
Other		(4,262)	4,957
Exchange differences (net)	34	1,824	1,125
Other operating income		1,554,051	1,186,510
Income from insurance and reinsurance contracts issued	20.2	1,505,588	1,144,082
Sales and revenues from provision of non-financial services		25,585	24,453
Other operating income		22,878	17,975
Other operating charges		1,542,499	1,184,826
Insurance and reinsurance contract expenses		1,504,593	1,145,161
Other operating charges		37,906	39,665
GROSS MARGIN		791,769	806,005
Administration expenses		478,725	470,618
Staff costs	35	327,665	325,930
Other general administration expenses	36	151,060	144,688
Amortisation/depreciation	16 and 17	42,009	45,291
Provisions (net)	21	(85,426)	(101,364)
Financial asset impairment losses (net)		247,258	123,341
Loans and receivables	10.6	214,173	103,582
Other financial instruments not carried at fair value through profit or loss	9.3	33,085	19,759
INCOME FROM OPERATING ACTIVITIES		109,203	268,119
Other asset impairment losses (net)	37	13,506	62,700
Goodwill and other intangible assets		–	3,290
Other assets		13,506	59,410
Gains (losses) from disposals of assets not classified as non-current for sale	38	11,406	2,641
Negative difference on business combinations		–	–
Gains (losses) from non-current assets for sale not classified as discontinued operations	39	(34,895)	(72,131)
PROFIT/(LOSS) BEFORE TAX		72,208	135,929
Corporate income tax	25	17,938	41,275
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS		54,270	94,654
Profit (loss) from discontinued operations (net)		–	–
PROFIT/(LOSS) FOR THE YEAR		54,270	94,654
Attributed to the parent Entity		54,914	97,025
Attributed to minority interests		(644)	(2,371)

(*) See Note 1.4.

IBERCAJA BANCO, SAU, Y AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousand euros)	2011	2010 (*)
PROFIT/(LOSS) FOR THE YEAR	54,270	94,654
OTHER RECOGNISED INCOME AND EXPENSE	(53,283)	(34,871)
Available-for-sale financial assets	(79,864)	(137,851)
Measurement gains/(losses)	(81,921)	(132,862)
Amounts transferred to income statement	2,057	(4,989)
Other reclassifications	–	–
Cash flow hedging	–	–
Measurement gains/(losses)	–	–
Amounts transferred to income statement	–	–
Amounts transferred at initial value of hedged items	–	–
Other reclassifications	–	–
Hedges of a net investment in a foreign operation	–	–
Measurement gains/(losses)	–	–
Amounts transferred to income statement	–	–
Other reclassifications		
Exchange differences	–	–
Measurement gains/(losses)	–	–
Amounts transferred to income statement	–	–
Other reclassifications	–	–
Non-current assets held for sale	–	–
Measurement gains/(losses)	–	–
Amounts transferred to income statement	–	–
Other reclassifications	–	–
Actuarial gains/(losses) on pension plans	(1,785)	145
Entities measured under the equity method	(521)	1,826
Measurement gains/(losses)	(521)	1,826
Amounts transferred to income statement	–	–
Other reclassifications	–	–
Other recognised income and expense	7,882	85,218
Corporate income tax	21,005	15,791
TOTAL RECOGNISED INCOME AND EXPENSE	987	59,783

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE YEAR ENDED 31 DECEMBER 2011

(Thousand euros)	SHAREHOLDERS' FUNDS								
	Capital	Accu-mulated reserves	Reserves in entities carried under equity method	Profit for year attributed to the parent Entity	Dividends and remune-ration	Total share-holders' funds	Mea-surement adjustments	Minority interests	Total equity
I. Closing balance at 31/12/2010 (*)	–	2,541,426	(4,603)	97,025	–	2,633,848	38,984	5,830	2,678,662
Adjustments due to changes in accounting standards	–	–	–	–	–	–	–	–	–
Adjustments due to errors	–	–	–	–	–	–	–	–	–
II. Adjusted opening balance	–	2,541,426	(4,603)	97,025	–	2,633,848	38,984	5,830	2,678,662
Total recognised income and expense	–	(5,295)	–	54,914	–	49,619	(49,110)	478	987
Other changes in equity	2,134,500	(2,017,918)	(19,557)	(97,025)	(12,800)	(12,800)	–	152	(12,648)
Capital increases	–	–	–	–	–	–	–	–	–
Conversion of financial liabilities into capital	–	–	–	–	–	–	–	–	–
Increase in other equity instruments	–	–	–	–	–	–	–	–	–
Reclassification of financial liabilities to other equity instruments	–	–	–	–	–	–	–	–	–
Reclassification of other equity instruments to financial liabilities	–	–	–	–	–	–	–	–	–
Distribution of dividends	–	–	–	–	(12,800)	(12,800)	–	–	(12,800)
Operations with own equity instruments (net)	–	–	–	–	–	–	–	–	–
Transfers between equity items	2,134,500	(2,017,918)	(19,557)	(97,025)	–	–	–	–	–
Increases (reductions) on business combinations	–	–	–	–	–	–	–	152	152
Payments with equity instruments	–	–	–	–	–	–	–	–	–
Other increases (reductions) in equity	–	–	–	–	–	–	–	–	–
III. Closing balance at 31/12/2011	2,134,500	518,213	(24,160)	54,914	(12,800)	2,670,667	(10,126)	6,460	2,667,001

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

TOTAL STATEMENT OF CHANGES IN CONSOLIDATED EQUITY IN THE YEAR ENDED 31 DECEMBER 2010

(Thousand euros)	SHAREHOLDERS' FUNDS						
	Accu-mulated reserves	Reserves in entities carried under equity method	Profit for year attributed to the parent Entity	Total share-holders' funds	Mea-surement adjustments	Minority interests	Total equity
I. Closing balance at 31/12/2009 (*)	2,414,933	15,819	143,701	2,574,453	74,227	10,496	2,659,176
Adjustments due to changes in accounting standards	–	–	–	–	–	–	–
Adjustments due to errors	–	–	–	–	–	–	–
II. Adjusted opening balance	2,414,933	15,819	143,701	2,574,453	74,227	10,496	2,659,176
Total recognised income and expense	370	–	97,025	97,395	(35,243)	(2,369)	59,783
Other changes in equity	126,123	(20,422)	(143,701)	(38,000)	–	(2,297)	(40,297)
Increase in share capital / assigned capital	–	–	–	–	–	–	–
Conversion of financial liabilities into capital	–	–	–	–	–	–	–
Increase in other equity instruments	–	–	–	–	–	–	–
Reclassification of financial liabilities to other equity instruments	–	–	–	–	–	–	–
Reclassification of other equity instruments to financial liabilities	–	–	–	–	–	–	–
Distribution of dividends	–	–	–	–	–	–	–
Operations with own equity instruments (net)	–	–	–	–	–	–	–
Transfers between equity items	126,123	(20,422)	(105,701)	–	–	–	–
Increases (reductions) on business combinations	–	–	–	–	–	(2,297)	(2,297)
Discretionary appropriation to community projects and social funds	–	–	(38,000)	(38,000)	–	–	(38,000)
Payments with equity instruments	–	–	–	–	–	–	–
Other increases (reductions) in equity	–	–	–	–	–	–	–
III. Closing balance at 31/12/2010 (*)	2,541,426	(4,603)	97,025	2,633,848	38,984	5,830	2,678,662

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousand euros)	2011	2010 (*)
CASH FLOWS FROM OPERATING ACTIVITIES	835,014	(887,795)
Profit/(loss) for year	54,270	94,654
Adjustments to obtain cash flows from operating activities	171,659	256,410
Amortisation/depreciation	42,009	45,291
Other adjustments	129,650	211,119
Net increase/decrease in operating assets	339,697	(1,645,749)
Held for trading	100	19,010
Other financial assets at fair value through profit or loss	11,546	11,155
Available-for-sale financial assets	(378,797)	(1,383,957)
Loans and receivables	1,003,574	(260,166)
Other operating assets	(296,726)	(31,791)
Net increase/decrease in operating liabilities	326,494	438,836
Held for trading	(10,386)	(2,274)
Other financial liabilities at fair value through profit or loss	–	–
Financial liabilities at amortised cost	(422,442)	276,026
Other operating liabilities	759,322	165,084
Corporate income tax collections/payments	(57,106)	(31,946)
CASH FLOWS FROM INVESTING ACTIVITIES	(461,058)	(100,725)
Payments	(556,816)	(160,969)
Property, plant and equipment	(30,425)	(27,093)
Intangible assets	(2,697)	(4,510)
Shareholdings	(1,830)	(5,673)
Other business units	–	–
Non-current assets and associated liabilities for sale	(5,499)	(4,121)
Held-to-maturity investement portfolio	(516,365)	(119,572)
Other payments related to investing activities	–	–
Collections	95,758	60,244
Property, plant and equipment	35,201	6,525
Intangible assets	–	–
Shareholdings	–	47
Other business units	–	–
Non-current assets and associated liabilities for sale	60,557	53,672
Held-to-maturity investement portfolio	–	–
Other collections related to investing activities	–	–

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(Thousand euros)	2011	2010 (*)
CASH FLOWS FROM FINANCING ACTIVITIES	(12,800)	–
Payments	(12,800)	–
Dividends	(12,800)	–
Subordinated debt financing	–	–
Other payments related to financing activities	–	–
Collections	–	–
Subordinated debt financing	–	–
Other collections related to financing activities	–	–
EFFECT OF EXCHANGE RATE FLUCTUATIONS	–	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	361,156	(988,520)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	382,276	1,370,796
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	743,432	382,276
Memorandum item:		
Components of cash and cash equivalents at the year end		
Cash	152,560	96,139
Cash equivalent balances in central banks	375,306	280,889
Other financial assets	215,566	5,248
Less: Reimbursable bank overdrafts	–	–
Total cash and cash equivalents at the year end	743,432	382,276

(*) See Note 1.4.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 INTRODUCTION, BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

1.1. INTRODUCTION

Ibercaja Banco, SAU (Ibercaja Banco, the Bank, the Entity or the Company), is a credit institution, fully owned by Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (the Caja or Ibercaja), and incorporated in accordance with Royal Decree 1245/1995, on the creation of banks, cross-border activities and other matters connected with the Legal Regime applicable to Credit Institutions.

Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja – the parent of the Ibercaja Group – was founded by Real y Excma. Sociedad Económica Aragonesa de Amigos del País, and approved by the Royal Order of 28 January 1873. It started up operations on 28 May 1876 and is entered in the Special Register of Popular Savings Banks under number 51, page 31, through the Royal Order of 13 December 1930, and the Mercantile Register of Zaragoza, volume 1.194, sheet 23, page Z-4.862, entry 1.

After analysing the changes in the Spanish financial system since 2010 – and, in particular, the legislative amendments and measures adopted to strengthen it – Ibercaja's General Assembly, during their extraordinary meeting of 26 July 2011, approved the creation of a new bank, that operates under the name Ibercaja Banco for legal and economic purposes and to which all assets and liabilities used in its financial activities were transferred. Following its split, Ibercaja retained its Community and Cultural Projects, Pawnshop services and historical and artistic assets.

The indirect performance of activities does not change the way of working with customers, employees, suppliers and society in general and the Bank's business name, Ibercaja, has remained unchanged. In short, the aim has been to develop in order to strengthen competitiveness within the Spanish financial scenario and enhance its usefulness for society. These principles and values have given rise to Ibercaja Banco, a credit institution through which Ibercaja carries out its financial operations indirectly as from 1 October 2011.

Ibercaja Banco's registered office is located at Plaza de Basilio Paraíso no. 2. It is entered in the Mercantile Register of Zaragoza, volume 3865, book 0, sheet 1, page Z-52186, entry 1, and the Bank of Spain Special Register, under number 2085. Its corporate webpage (electronic head office) is www.ibercaja.es, where its bylaws and other public information can be accessed.

Its corporate objects consist of the performance of all kinds of activities, operations, acts, contracts and services, associated with banking in general and which it is authorised to carry out under legislation in effect, including the rendering of investment and auxiliary services.

As credit institutions, Ibercaja and Ibercaja Banco are supervised by the Bank of Spain while Ibercaja Banco is also supervised by the National Securities Market Commission (CNMV).

The individual financial statements of Ibercaja and Ibercaja Banco, SAU, contain an explanation of the accounting effects that this spin-off process has had thereon.

With respect to the effects of the spin-off process on the consolidated financial statements, the following should be taken into account given that the business spun off to the Bank already existed previously:

- Comparative prior year figures should be presented together with current year figures.
- The process has had no effect on the measurement of the assets and liabilities received, which are measured at their carrying amount in the Caja's consolidated financial statements for 2010.

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

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

Note 42 contains the Bank's balance sheet, income statement, statement of recognised income and expenses, total statement of changes in equity and cash flow statement for the financial years ended 31 December 2011 and 2010, prepared in accordance with the same accounting principles and standards and measurement methods applied in the Group's consolidated financial statements.

1.2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2011 consolidated financial statements of the Ibercaja Banco Group were prepared by the Company's Directors during the Board meeting held on 30 March 2012 and are pending approval by the General Shareholders' Meeting. Nonetheless, the Bank's Board of Directors expects these financial statements to be approved without significant changes.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS-EU") and Bank of Spain Circular 4/2004 of 22 December 2004 (hereinafter "Circular 4/2004").

Circular 4/2004 on "Public and reserved financial information and standard financial statements of credit institutions" aims bring the accounting regime for credit institutions into line with the accounting environment deriving from the European Union's adoption of International Financial Reporting Standards in order to ensure full compatibility, taking into account the conceptual framework on which it is based.

The consolidated financial statements have been prepared taking into account all accounting principles and standards to ensure that they present fairly the Group's equity and financial position at 31 December 2011 and the results of operations and consolidated cash flows in the Group during the year then ended.

Note 2 contains a summary of the most significant accounting principles and standards and measurement methods applied to prepare the consolidated financial statements.

These consolidated financial statements have been prepared on the basis of the accounting records of the Company and the rest of the Group companies. However, as the accounting principles and measurement methods applied to prepare the Group's 2011 accounts may differ from the ones employed by some of the Group companies, the necessary adjustments and reclassifications have been made during the consolidation process to ensure consistency and to bring them into line with the IFRS-EU applied by the Company.

1.3. ESTIMATES MADE

In the 2011 consolidated financial statements, estimates are sometimes used to quantify certain assets, liabilities, income, expenses and commitments recognised. These estimates relate basically to the following:

- Impairment losses on certain assets (Notes 9 ,10, 13, 14, 16 and 18).
- Assumptions used in actuarial calculations of liabilities and commitments relating to post-employment benefits and other long-term commitments with employees (Notes 2.13 and 35.2).
- Useful lives of property, plant and equipment and intangible assets (Notes 16 and 17).
- The probability of occurrence of those events considered contingent liabilities and, if appropriate, the necessary provisions to cover these events.
- Fair value of certain unlisted assets (Note 26).

The above-mentioned estimates were made based on the best information available at 31 December 2011 in connection with the facts analysed; nonetheless, future events could generate adjustments in coming years, which would be made prospectively, in accordance with prevailing regulations, to recognise the impact of the change in the estimate on the consolidated income statement for the years in question.

1.4. INFORMATION RELATING TO 2010

As mentioned in Note 1.1, comparative figures for the previous year are presented together with the current year figures as the business received by the Bank already existed prior to the spin-off.

In any event, as the Ibercaja Banco Group did not exist as such in 2010, pro-forma financial information has been built and is presented in these notes.

1.5. AGENCY CONTRACTS

The consolidated entities had no "agency contracts" in force at year-end 2011 or during the financial year, in the form envisaged in Article 22 of Royal Decree 1245/1995 (14 July 1995).

1.6. SHAREHOLDINGS IN CREDIT INSTITUTIONS

In accordance with Article 20 of Royal Decree 1245/1995, there follows a list of the Group's shareholdings in domestic and foreign credit institutions that exceed 5% of their capital or voting rights:

	% INTEREST	
ENTITY	2011	2010
Sociedad Española de Banca de Negocios, S.A.	20.00%	20.00%
Celeris Servicios Financieros, S.A., E.F.C.	6.75%	6.75%

1.7. CAPITAL RATIOS

1.7.1. MINIMUM EQUITY RATIO

Bank of Spain Circular 3/2008 of 22 May 2008 concerning the calculation and control of minimum equity levels (hereinafter "Circular 3/2008") and its subsequent amendments governs the minimum equity to be recorded by Spanish credit institutions – at both individual and consolidated group level – and the way in which such equity should be calculated as well as the processes for the self-assessment of capital to be carried out by entities and the public information that they should report to the market in this respect.

Minimum equity requirements established in that Circular (Pillar I) are calculated on the basis of the Group's exposure to the credit, exchange, trading portfolio, market and operational risk. Additionally, the Group is subject to compliance with the risk concentration limits established in that Circular.

With respect to Pillar II, the Circular lays down the obligation to prepare a capital self-assessment report, the aim of which is to ensure the adequate relationship between the risk profile of credit institutions and equity effectively held and set the target equity and ensure medium-term capital planning.

Lastly, on the basis of Pillar III, the Circular lays down that entities should prepare at least annually, a document named "Relevant information for prudence purposes", which should include whatsoever explanations and disclosures as may be required in relation to computable capital and equity requirements on the basis of the levels of risk assumed and other additional reporting requirements.

Additionally, Royal Decree Law 2/2011, on the Strengthening of the Financial System requires credit institutions to have a minimum core capital ratio of 8% (obtained as the ratio between the highest quality of own resources, with certain deductions, and risk weighted assets). This ratio should be 10% if there are no private investors in the entity's capital for amounts of more than 20% or if its reliance on wholesale financing exceeds 20%.

1.7.2. QUANTITATIVE INFORMATION

As at 31 December 2011, the Ibercaja Banco Group easily meets the minimum capital requirement (Pillar I Basel) established by current banking regulations (8%), the Group's figure being 14.18%, as is detailed below:

	THOUSAND EUROS	
	2011	2010
Tier one capital	2,461,704	2,415,380
Tier two capital	691,832	889,648
Group's total computable capital	**3,153,536**	**3,305,028**
Capital requirements	1,779,458	1,891,438
Surplus	**1,374,078**	**1,413,590**

	GROUP'S POSITION	
	2011	2010
Core capital	10.40%	9.58%
Tier I	11.07%	10.22%
Solvency ratio	14.18%	13.98%
Core capital	10.88%	10.12%

At 31 December 2011 core capital, 10,88%, exceeds the minimum applicable to the Group (8%).

During their meeting of 12 September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements and endorsed the agreements reached on 26 July 2010 (Basel III). Application of the Basel III Accord will commence on 1 January 2013. Prior to that date, countries should write the content of the agreement into their respective regulations and legislation. Group management has analysed the main changes that will be introduced through this Accord and has started to plan and manage the consequences that derive from the novelties included with respect to equity requirements.

1.7.3. CAPITAL MANAGEMENT

The objective of Basel Pillar II is to ensure an appropriate ratio between the Group's risk profile and its resources. To this end, the Group is carrying out a recurring process which, in accordance Circular 3/2008 on Solvency:

- Applies a series of procedures for identifying, measuring and aggregating risks.
- Determines the necessary capital to cover them: in addition to the minimum capital requirement, it maintains a level of resources in line with the risks inherent to its business, the economic environment in which it operates, the management and supervision in place with respect to these risks, corporate governance and internal audit systems and its strategic business plan.
- Plans capital in the medium term.
- Establishes target equity.

The Company sets a capital objective which allows it to remain comfortably above the Pillar I legal requirements, ensuring the correct relationship between its risk profile and its equity.

In the quantification of internal capital needs, the Group has applied the following procedures related to each of its risks:

- Credit risk: The standard method established in the Solvency Circular has been applied.
- Credit concentration risk: The simplified option has been applied and the industry and individual concentration ratios established by the Bank of Spain for this purpose have been calculated.
- Operational risk: The standard method has been applied.
- Balance sheet structural interest rate risk: The simplified option has been applied.
- Liquidity risk: The Group does not consider that there are any capital needs associated with this risk, after having analysed the liquidity policy, control systems and contingency plans.
- Other risks: The capital needs related to risks other than those mentioned above have been estimated at 5% of the Group's total equity requirements as provided in the Solvency Circular.

The total necessary capital for the Group has been estimated as the aggregate of the capital needs associated with each risk.

In order to adequately plan the Group's future capital needs, projections have been made of capital sources and consumption derived from expected performance of the business and income over a three year timeline.

The Group also makes estimates in stress scenarios, such as:

- General deterioration derived from a major decline in business activity.
- Specific deterioration in market segments that impact the Group's business.
- Volatility and tension in the money markets and other financial product markets.
- Significant stock market decline.
- Liquidity crisis scenarios

1.7.4. RELEVANT INFORMATION FOR PRUDENCE PURPOSES

To comply with market reporting obligations, the Board of Directors approved the policy for disclosing information which is relevant for prudence purposes (Basel Pillar III). The Ibercaja Group will place a "Report on information which is relevant for prudence purposes" on its web site when the consolidated financial statements for 2011 are approved and published.

1.8. DEPOSIT GUARANTEE FUND

The Group is a member of the Deposit Guarantee Fund.

Royal Decree Law 16/2011, creating the Credit Institution Deposit Guarantee Fund, came into effect on 15 October 2011. Article 2 declares that the Guarantee Deposit Fund in Savings Banks, the Guarantee Deposit Fund in Banking Establishments and the Guarantee Deposit Fund in Credit Cooperatives have been dissolved and the related assets are included in the Credit Institution Deposit Guarantee Fund, which is subrogated to all the rights and obligations of the later. Therefore, as from that date the Entity is a member of the Credit Institution Deposit Guarantee Fund.

Circular 3/2011 lays down the obligation for additional quarterly contributions to be made by those member entities that arrange term deposits or settle demand accounts at interest rates that exceed certain rates, according to the term of the deposit or their "on demand" nature. That contribution would result from weighting the deposits arranged or settled in excess of such rates by 500%.

On 2 December 2011 Royal Decree-Law 19/2011 came into effect, amending Royal Decree-Law 16/2011, which lays down that the amount of the contributions by Entities to the Credit Institution Deposit Guarantee Fund will be increased by up to 2 per thousand of the calculation base. The aforementioned Royal Decree is applicable to contributions made as from its entry into effect. In 2011 the amount of the contributions was set at 1 per thousand.

In 2011, the expense incurred by Ibercaja in respect of contributions to this Fund totalled €23,988 thousand and is recognised under "Other operating charges" in the accompanying consolidated income statement.

1.9. MINIMUM RESERVES RATIO

In accordance with monetary Circular 1/1998, which came into effect on 1 January 1999, the ten-year cash ratio was replaced with the minimum reserve ratio.

At 31 December 2011 and 2010, and throughout 2011 and 2010, the Group complied with the minimum ratios required by applicable Spanish regulations.

In accordance with the legal obligations established by the European Central Bank, the daily average of minimum reserves to be held at 31 December 2011 amounted to €423,063 thousand (€434,579 thousand at 31 December 2010). The amount of cash held by the Entity in the Bank of Spain account for such purposes totalled €376,344 thousand at 31 December 2011 (€280,760 thousand at 31 December 2010).

In January 2012 the amendment came into effect of legislation applicable to minimum reserves such that the required reserve ratio will fall from 2% to 1%.

1.10. INFORMATION ON THE MORTGAGE MARKET

In accordance with Royal Decree 716/2009 whereby certain aspects of Law 2/1981 governing the mortgage market and other rules on the financial mortgage system were developed and Bank of Spain Circular 3/2012, the Board of Directors has approved the "Loan and discount risk management policy and procedure manual" drawn up by the Entity to guarantee compliance with legislation governing the mortgage market, including guidance on the following:

- The relationship between the amount of the loan and appraisal value (in accordance with MO ECO/805/2003) of the mortgaged property and the selection of valuation entities authorised by the Bank of Spain.
- The relationship between the debt and the borrower's capacity to generate income, verification of the information provided by him and his solvency and the existence of other additional guarantees.
- The balance between the flows deriving from the hedging portfolio and those deriving from the payments due on the instruments issued.

The General Shareholders' Meeting of Ibercaja Banco, SAU, is authorised to issue debentures or other fixed income securities and has empowered the Board of Directors to issue any kind of loans for a maximum amount, including mortgage securities.

Mortgage certificates are issued in accordance with Spanish legislation on the mortgage and securities markets. Under applicable legislation, the volume of mortgage bonds issued by an entity and not matured may not exceed 80% of unamortised capital on all loans and mortgages in the eligible portfolio. At 31 December 2011 this ratio stood at 45.45% in Ibercaja.

Mortgage bonds are securities especially guaranteed by the issuer where the entire portfolio of mortgage loans arranged in its favour guarantee compliance with its payment commitments.

The level of overcollateralization or backing of mortgage bonds is 220% at 31 December 2011.

At that date 99% of transactions in the mortgage portfolio have been formalised through loans. Of these, instalments are collected on a monthly basis for 85% . The operations formalised at variable interest rates are 98% of the total and of these, 88% are tied to Euribor.

Set out below is information on the mortgage market:

- Information concerning the issue of mortgage bonds. Total amount of loans and mortgages pending repayment (irrespective of LTV level and including securitizations written off the balance sheet):

	NOMINAL VALUE	
(Thousand euros)	2011	2010
Total loans	**28,487,017**	**29,282,253**
Mortgage bond holdings	**2,819,899**	**3,077,503**
Of which: loans on the balance sheet	2,684,151	2,922,727
Mortgage transfer certificates	**3,133,467**	**3,369,663**
Of which: loans on the balance sheet	3,078,887	3,309,064
Mortgage loans assigned as security for financing received	**–**	**–**
Loans backing the issue of secured bonds and mortgage bonds	**22,533,651**	**22,835,087**
Ineligible loans	6,888,731	7,181,609
Fulfil requirements to be eligible except for limit under Article 5.1 of Royal Decree 716/2009	5,868,259	6,205,605
Other	1,020,472	976,004
Eligible loans	15,644,920	15,653,478
Non-computable amounts	13,728	11,800
Computable amounts	15,631,192	15,641,678
Loans covering mortgage bond issues	–	–
Qualifying loans to cover mortgage bond issues	15,631,192	15,641,678

Note 3.1.4 sets out the carrying amount of loans secured by mortgage and its reconciliation to mortgage market information.

- Information on eligible loans and mortgages:

RISK WITH RESPECT TO LATEST AVAILABLE VALUATION FOR PURPOSES OF MORTGAGE MARKET (LOAN TO VALUE)

2011

(Thousand euros)	Less than 40%	More than 40% and less than or equal to 60%	More than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Eligible loans for the issue of secured bonds and mortgage bonds						15,644.920
Home	2,493,604	4,371,050		7,639,669	12,947	14,517,270
Over other assets	389,634	629,812	108,204			1,127,650

RISK WITH RESPECT TO LATEST AVAILABLE VALUATION FOR PURPOSES OF MORTGAGE MARKET (LOAN TO VALUE)

2010

(Thousand euros)	Less than 40%	More than 40% and less than or equal to 60%	More than 60%	More than 60% and less than or equal to 80%	More than 80%	Total
Eligible loans for the issue of secured bonds and mortgage bonds						15,653,478
Home	2,460,805	4,178,412		7,912,806	10,775	14,562,798
Over other assets	378,343	592,439	119,898			1,090,680

- Information concerning the issue of mortgage bonds. Loans and mortgages pending repayment:

(Thousand euros)	2011		2010	
	Loans backing the issue of secured bonds and mortgage bonds	Of which: Eligible loans	Loans backing the issue of secured bonds and mortgage bonds	Of which: Eligible loans
Total	22,533,651	15,644,920	22,835,087	15,653,478
Origin of operations	22,533,651	15,644,920	22,835,087	15,653,478
Arranged by the entity	21,759,714	14,894,917	22,008,002	14,849,738
Subrogated other entities	773,937	750,003	827,085	803,740
Currency	22,533,651	15,644,920	22,835,087	15,653,478
Euro	22,528,280	15,644,920	22,829,137	15,653,478
Other currencies	5,371	–	5,950	–
Payment status	22,533,651	15,644,920	22,835,087	15,653,478
Payment normality	21,635,945	15,484,067	22,012,150	15,495,363
Other	897,706	160,853	822,937	158,115
Average period to maturity	22,533,651	15,644,920	22,835,087	15,653,478
Up to 10 years	3,153,258	1,049,196	3,112,646	984,239
More than 10 years and up to 20 years	4,671,817	3,429,487	4,709,777	3,379,222
More than 20 years and up to 30 years	9,736,189	7,519,592	9,726,106	7,503,617
More than 30 years	4,972,387	3,646,645	5,286,558	3,786,400
Interest rate	22,533,651	15,644,920	22,835,087	15,653,478
Fixed	120,055	46,303	110,255	47,740
Variable	21,137,369	14,821,010	20,684,250	14,055,928
Mixed	1,276,227	777,607	2,040,582	1,549,810
Holders	22,533,651	15,644,920	22,835,087	15,653,478
Entities and individual entrepreneurs	6,468,627	2,766,957	6,762,338	2,882,829
Of which: real estate developments	4,157,639	1,776,809	4,600,941	1,965,099
Other home-help individuals and non-profit institutions	16,065,024	12,877,963	16,072,749	12,770,649
Type of guarantee	22,533,651	15,644,920	22,835,087	15,653,478
Assets/finished buildings	19,124,373	14,795,723	19,127,800	14,764,900
Residential	18,326,913	14,308,910	18,299,859	14,299,644
Of which: Official housing	1,710,245	1,600,887	1,676,293	1,571,314
Business	493,553	293,581	509,914	286,368
Other	303,907	193,232	318,027	178,888
Assets/buildings under construction	1,494,605	531,342	1,713,117	593,448
Residential	981,824	278,442	1,212,019	335,841
Of which: Official housing	142,685	62,450	145,709	64,771
Business	5,077	1,860	4,615	1,481
Other	507,704	251,040	496,483	256,126
Land	1,914,673	317,855	1,994,170	295,130
Developed	1,439,328	51,111	1,539,951	45,435
Other	475,345	266,744	454,219	249,695

- Nominal value of the bonds issued by the Entity:

NOMINAL VALUE

(Thousand euros)	2011	2010
Mortgage bonds (Notes 19.3 and 19.4)	7,105,000	6,175,000
Singular mortgage bonds	4,700,000	4,800,000
Mortgage bonds October 2009	225,000	225,000
Mortgage bonds November 2009	500,000	500,000
Mortgage bonds January 2010	50,000	50,000
Mortgage bonds April 2010	500,000	500,000
Mortgage bonds April-II 2010	100,000	100,000
Mortgage bonds March 2011	30,000	–
Mortgage bonds December 2011	1,000,000	–

- Information on the time to maturity of mortgage market instruments:

	2011		2010	
(Thousand euros)	Amount	Average period to maturity	Amount	Average period to maturity
Outstanding mortgage bonds issued	–	–	–	–
Mortgage bonds issued	7,105,000	–	6,175,000	–
Of which: Not reflected under liabilities on the balance sheet	1,000,000	–	–	–
Debt securities Issued through public offering	–	–	–	–
Debt securities Other issues	2,405,000	–	1,375,000	–
Time to maturity up to one year	–	–	–	–
Time to maturity more than one year and up to two years	275,000	–	–	–
Time to maturity more than two years and up to three years	500,000	–	275,000	–
Time to maturity more than three years and up to five years	530,000	–	1,000,000	–
Time to maturity more than five years and up to 10 years	1,100,000	–	100,000	–
Time to maturity more than 10 years	–	–	–	–
Deposits	4,700,000	–	4,800,000	–
Time to maturity up to one year	750,000	–	100,000	–
Time to maturity more than one year and up to two years	448,387	–	750,000	–
Time to maturity more than two years and up to three years	319,512	–	448,387	–
Time to maturity more than three years and up to five years	828,205	–	797,717	–
Time to maturity more than five years and up to 10 years	1,648,767	–	1,548,767	–
Time to maturity more than 10 years	705,129	–	1,155,129	–
Mortgage bond holdings	2,684,151	132	3,077,502	135
Other issues	2,684,151	132	3,077,502	135
Mortgage transfer certificates	3,078,887	165	3,369,663	167
Other issues	3,078,887	165	3,369,663	167

None of the issues has been completed through a public offering and all are denominated in euro. The Entity does not issue mortgage bonds and nor does it have replacement assets assigned to them.

- Information on mortgage loans backing the issue of secured bonds and mortgage bonds (eligible and non-eligible):

	2011	
	Eligible loans	Ineligible loans
Opening balance	15,653,478	7,181,610
Disposals in the year	939,605	1,089,008
Repayment at maturity	10,241	38,736
Early repayment	147,482	65,325
Subrogation other entities	4,957	755
Other	776,925	984,192
Additions in the year	931,047	796,129
Arranged by the entity	927,691	794,967
Subrogation other entities	3,356	1,162
Closing balance	15,644,920	6,888,731

- Information on mortgage loans backing the issue of secured bonds and mortgage bonds: Available balances:

(Thousand euros)	2011	2010
Total	243,131	354,070
– Potentially eligible	114,793	186,475
– Ineligible	128,338	167,595

1.11. EVENTS AFTER THE BALANCE SHEET DATE

On 4 February 2012 Royal Decree Law 2/2012 was published on the reorganisation of the financial sector which pursues to enhance confidence, credibility and the strength of the sector and facilitate financing of economic growth and job creation. The aforementioned Royal Decree Law lays down new requirements for provisions and allowances and additional capital, focusing on covering impairment of assets related to real estate operations, both financing and assets foreclosed or received as payment for debts.

Entities should fulfil the new legal requirements by 31 December 2012 although those carrying out integration processes in 2012 will have 12 months from the date of authorisation of the integration to meet them.

On 8 February 2012 Ibercaja Banco, SAU, reported a significant event to the National Securities Market Commission, informing them that the provisions to be established by Ibercaja Banco, SAU, to comply with the new requirements to cover financing and foreclosure assets related to the real estate sector would amount to €467 million net of tax and the estimated amount of new capital requirements would amount to €317 million, such figures being subject to the changes that may derive from the pertinent enabling regulations of Royal Decree Law 2/2012.

As mentioned in the significant event reported, Ibercaja Banco, SAU, is planning to absorb the impact of the write-downs and additional capital requirement in 2012 through the generation of profits and surplus equity as at the 2011 year end, its core capital ratio amounts to 10.88% which exceeds the 8% legally required of the Entity.

Additionally, on 29 February 2012, the Entity reported to the National Securities Market Commission that the Boards of Directors of Ibercaja Banco, SAU and Banco Grupo Cajatres, SA, have agreed, during the meetings held on that date, to initiate the formalities to undertake an integration process within the framework of the legislative reforms being carried out in order to strengthen the financial system.

The integration will be carried out by Ibercaja Banco, SAU, through a merger by absorption and enable the resulting entity – in which the shareholders of Banco Grupo Cajatres, SA, will hold a 20% stake in the capital, in proportion to their current interest in that credit institution – to retain a solid financial base in the current economic scenario and increase its income generating capacity to continue developing what have historically been its shareholders' basic aims.

1.12. CHANGES IN ACCOUNTING METHODS AND ESTIMATES

1.12.1. CHANGES IN ACCOUNTING CRITERIA

a) Standards and interpretations effective in 2011

During 2011 the following International Financial Reporting Standards have become mandatory and have been applied in the preparation of the Group's consolidated financial statements for 2011:

Standards, amendments and interpretations	Description	Application mandatory as from years starting on
Amendment to IAS 32	Classification of Rights Issues	1 February 2010
Review of IAS 24	Related-Party Disclosures	1 January 2011
Amendment to IFRIC 14	Minimum Mandatory Advance Payments	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendment to IFRS 7	Financial instruments: transfer of financial assets	1 July 2011

In 2011 the following EU regulations were published in the Official Journal of the European Union in relation to the adoption of IASB standards and interpretations:

- Commission Regulation EU/149/2011, of 18 February 2011, amending Regulation EC/1126/2008, through which certain international accounting standards are adopted in accordance with Regulation EC/1606/2002 of the European Parliament and Council, with respect to Improvements to International Financial Reporting Standards (IFRS).
- Commission Regulation EU/1205/2011, of 22 November 2011, amending Regulation EC/1126/2008, through which certain international accounting standards are adopted in accordance with Regulation EC/1606/2002 of the European Parliament and Council, with respect to International Financial Reporting Standard - IFRS 7.

b) Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the following standards and interpretations (the most important adopted to that date) that had been published by the IASB had not come into effect either because their effective date is subsequent to the date of these consolidated financial statements or because they have not yet been adopted by the European Union:

Standards, amendments and interpretations	Description	Application mandatory as from years starting on
IFRS 9	Financial instruments	1 January 2013
IAS 27	Consolidated and separate financial statements	1 January 2013
IAS 28	Investments in associates and joint ventures	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
Amendment of IAS 19	Employee benefits	1 January 2013
Amendment of IAS 1	Presentation of financial statements	1 July 2012

1.12.2. CHANGES IN ACCOUNTING ESTIMATES

There have been no significant changes in the accounting estimates applied during the year.

1.13. CREDIT RATINGSS

	DATE		SHORT-TERM		LONG-TERM		OUTLOOK	
Entity	2011	2010	2011	2010	2011	2010	2011	2010
Standard & Poor's	December	July	A-2	A-1	BBB+	A	Under review	Negative
Moody's	December	December	P-2	P-1	Baa1	A2	Under review	Under review

Credit ratings related to 2011 pertain to Ibercaja Banco, SAU.

2 ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT METHODS APPLIED

During the preparation of the Group's 2011 consolidated financial statements, the following accounting principles and policies and measurement methods have been applied:

2.1. CONSOLIDATION

2.1.1. SUBSIDIARIES

"Subsidiaries" are those in which the Entity has the capacity to exercise control. This is generally, though not exclusively, reflected by the direct or indirect ownership interests of at least 50% of the voting rights or, if lower, or where no voting rights are held, by other circumstances or agreements that give control to the Entity. In accordance with prevailing legislation, control is deemed to be the power to direct an entity's financial and operational policies in order to benefit from its activities.

Schedules I and II provide significant information on these companies. The subsidiaries' financial statements are consolidated using the full consolidation method, as stipulated in prevailing regulations. Consequently, all significant balances deriving from transactions between the fully-consolidated companies have been eliminated during consolidation. Additionally, third-party interests in the:

- The Group's equity is presented in "Minority interests" in the consolidated balance sheet.
- Consolidated results for the year, are presented in "Profit attributed to minority interests" in the consolidated income statement.

Results generated by subsidiaries acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year end. Results generated by subsidiaries sold during the year are consolidated taking into account only the amounts for the period running from the beginning of the year to the date of sale.

2.1.2. JOINTLY-CONTROLLED ENTITIES

"Jointly-controlled entities" are shareholdings in entities that are not subsidiaries and are controlled jointly by two or more unrelated entities.

The Group has opted to measure these interests using the equity method (Note 2.1.3), on the understanding that this method gives the fairest view.

Note 14.2 contains a breakdown of the effect on the main items and margins recognised in the consolidated balance sheet and consolidated income statement, respectively, had the proportionate consolidation method been applied to these shareholdings.

Schedules I and II provide relevant information on these companies.

2.1.3. ASSOCIATES

Associates are those entities where the Entity is able to exercise significant capacity although they do not form a decision-making unit with the same and nor are they under joint control. Significant influence generally accompanies a direct or indirect shareholding of 20% or more of the voting rights.

In the consolidated financial statements, associates are consolidated using the equity method, as defined in prevailing legislation.

Should an associate reflect negative equity as a result of losses, the consolidated balance sheet shows a zero balance, unless the Group is required to provide financial support.

Schedules I and II provide relevant information on these entities.

2.2. FINANCIAL INSTRUMENTS

2.2.1. INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS

Financial instruments are initially recognised in the consolidated balance sheet when the Group becomes party to the relevant contract, in accordance with the terms of that contract. Specifically, debt instruments such as loans and deposits in cash are recognised on the date on which the legal right to receive or the legal obligation to pay the cash is generated, respectively. In general, derivative financial instruments are recognised on the date they are contracted.

Purchases and sales of financial assets under conventional contracts are recognised on the date on which the owner's profits, risks, rights and obligations are transferred to the acquiring party which, depending on the type of financial asset purchased or sold, could be the contract date or the settlement or delivery date. Specifically, transactions effected in the foreign exchange spot market are recognised at the settlement date, transactions effected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions effected using debt instruments traded in Spanish securities markets are recognised at the settlement date.

2.2.2. DISPOSAL OF FINANCIAL INSTRUMENTS

A financial asset is written off the consolidated balance sheet in any of the following circumstances:

- The contractual rights to the cash flows generated have expired; or
- The financial asset is transferred together with substantial risks and returns, or control is transferred, even where the asset is not transferred and substantial risks and returns are not retained (Note 2.7).

A financial liability is written off the balance sheet on expiration of related obligations or when it is repurchased by the Group.

2.2.3. FAIR VALUE AND AMORTISED COST OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument at a given date is understood to be the amount at which it may be purchased or sold at that date between duly informed parties in an arm's length transaction. The most objective and common reference value for a financial instrument's fair value is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

In the absence of a market price for a specific financial instrument, its fair value is estimated on the basis of recent transactions involving similar instruments or, failing this, using valuation techniques that are acceptable to the international financial community, taking into account the specific features of the instrument to be measured and, above all, the different types of associated risks.

Specifically, the fair value of held-for-trading derivative financial instruments traded in organised, transparent and deep markets is the same as their daily market price. If, in exceptional circumstances, the price cannot be established on a given date, they are measured using similar methods to those applied to derivatives not traded in organised markets.

The fair value of derivatives not traded in organised markets, or traded in organised markets that are not deep or transparent, is equal to the sum of the future cash flows generated by the instrument, discounted at the measurement date ("present value" or "theoretical close"), employing valuation techniques accepted by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortised cost is the acquisition cost of a financial asset or liability adjusted for capital and interest repayments and, where applicable, for the portion (recognised in the consolidated income statement applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortised cost of financial assets also includes impairment adjustments.

The effective interest rate is the discount rate that brings the initial value of a financial instrument into line with total estimated cash flows throughout its residual life, not taking into account losses on future loan exposure. In the case of fixed-income financial instruments, the effective interest rate is equal to the contractual rate defined on acquisition, adjusted for commissions and transaction costs that must be included in the calculation of the effective interest rate, under applicable regulations. The effective interest rate for variable-rate financial instruments is estimated in the same way as for fixed-income transactions and is recalculated at each interest review date stated in the contract, taking into consideration changes in the transaction's future cash flows.

2.2.4. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments are classified into the following categories in the Group's consolidated balance sheet:

- **Financial assets and liabilities at fair value through profit or loss:** this category includes the following financial instruments:
  - **Held-for-trading financial assets:** financial assets acquired in order to be realised in the short term, which form part of a portfolio of financial instruments managed individually or together for which there is evidence of recent actions taken to obtain short-term gains, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial instruments in accordance with applicable regulations.
  - **Held-for-trading financial liabilities:** financial liabilities issued in order to be repurchased in the near future, which form part of a portfolio of financial instruments managed individually or together for which there is evidence of recent actions to obtain short-term gains, short positions in securities arising from sales of assets acquired under non-optional repurchase agreements and loans of securities, and derivative financial instruments which do not comply with the definition financial guarantee contract and have not been designated as hedge instruments, including instruments segregated from hybrid financial instruments in accordance with applicable regulations.
  - **Other financial assets or liabilities at fair value through profit or loss:** hybrid financial instruments simultaneously comprising an embedded derivative and a host instrument that, while not forming part of the trading portfolio, fulfil the requirements of prevailing regulations to be carried separately, and the value of the embedded derivative cannot be reliably measured.

  Financial instruments at fair value through profit or loss are initially measured at fair value. Changes in their fair value arising from the return (or charges) obtained on the financial instrument are recognised in the captions "Interest and similar income", "Interest and similar charges" or "Return on equity instruments" in the consolidated income statement, depending on their nature. The returns on debt instruments included in this category are calculated using the effective interest method. A balancing entry is made in "Gain/(loss) on financial operations" in the consolidated income statement with respect to other changes in that fair value.

This notwithstanding, derivative financial instruments whose underlying assets are equity instruments the fair value of which cannot be determined in a sufficiently objective manner and which are settled by delivering the instruments, are stated at cost.

- Held-to-maturity investment portfolio: this category includes debt securities traded on an active market having fixed maturities and identified or identifiable cash flows from their acquisition and at any subsequent date based on the positive intention and financial capacity to hold them to maturity. There is financial capacity when the Group has funds available to finance the investments to maturity.

  Debt securities included in this category are initially stated at fair value, adjusted by the amount of the transaction costs directly attributable to the acquisition of the financial asset.

  Subsequently, they are measured at amortised cost and the interest accrued on the securities, calculated using the effective interest method, is recognised in the caption "Interest and similar income" in the consolidated income statement.

- Loans and discounts: this category includes debt securities which are not traded on an active market, financing provided to third parties arising from the Entity's ordinary credit and loan activities, and debts incurred by asset buyers and by service users. This also includes finance lease transactions in which the Entity is the lessor.

  Financial assets included in this category are initially stated at fair value, adjusted by the amount of the fees and transaction costs directly attributable to the acquisition of the financial asset. After their acquisition, the assets included in this category are stated at amortised cost through the application of the effective interest rate method.

  Assets acquired at a discount are recorded in the cash amount paid and the difference between the repayment value and that cash amount is recognised as financial income applying the effective interest method during the period to maturity.

  The interest accrued on these assets, calculated using the effective interest method, is recognised in the caption "Interest and similar income" in the consolidated income statement.

  In general, the consolidated entities intend to hold the loans and credits granted to their final maturity dates and they are therefore carried at amortised cost in the consolidated balance sheet.

- Available-for-sale financial assets: this category includes debt securities not classed as held to maturity, such as loans and receivables, or as at fair value through the income statement, and equity instruments relating to non-dependent entities, multi-group entities or associates, which have not been classed as at fair value through profit or loss.

The instruments included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the asset's acquisition, which are recognised in the consolidated income statement to maturity using the effective interest rate method. Following acquisition, the financial assets included in this category are carried at fair value.

Nonetheless, equity instruments whose fair value cannot be determined in a sufficiently objective manner are carried at cost in these financial statements, net of impairment calculated as explained in Note 2.8.

Balancing entries are made in "Interest and similar income" (calculated using the effective interest method) and "Return on equity instruments" in the consolidated income statement, with respect to changes in the fair value of financial assets classed as available for sale, relating to interest or dividends accrued, respectively.

The remaining changes in fair value are recorded with a balancing entry in Group equity under the caption Equity – Measurement adjustments – Available-for-sale until the financial asset is written off, when the balance is taken to Gain/(loss) from financial operations (net) – financial instruments not measured at fair value through profit or loss or under Gains/(losses) from non-current assets available for sale not classified as discontinued operations in the case of equity instruments classified as available for sale which are strategic investments.

An investment in equity instruments is regarded as strategic when it has been performed for the purpose of establishing or maintaining a long-term operational relationship with the investee company concerned, in accordance with the cases provided for in current legislation.

- Financial liabilities at amortised cost: this category of financial instruments relates to financial liabilities that are not classed in any of the previous categories.

  Financial liabilities in this category are stated initially at fair value, adjusted by the amount of transaction costs directly attributable to their issue. Subsequently, they are carried at amortised cost, calculated using the effective interest method.

  The interest accrued on these securities, calculated using the effective interest method, is recognised in the caption "Interest and similar charges" in the consolidated income statement.

This notwithstanding, financial instruments that must be treated as non-current assets held for sale in accordance with prevailing regulations are recognised in the consolidated financial statements as explained in Note 2.18.

2.3. ACCOUNTING HEDGES

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

The Group designates a transaction as a hedge from inception. The hedge documentation identifies the hedged items and the hedging instruments, as well as the nature of the risk hedged and the criteria or methods used by the Group to assess effectiveness throughout the term of the hedge.

Only transactions that are highly effective throughout the hedge term are treated as hedge transactions. A hedge is highly effective if practically all the changes in the fair value attributed to the hedged risk are offset by changes in the fair value of the hedging instruments.

In order to measure the effectiveness of hedge transactions, the Group assesses whether, from inception to the end of the defined term, the changes in the fair value of the hedged item attributable to the risk covered may prospectively be expected to be offset almost entirely by changes in the fair value of the hedging instruments and, retrospectively, whether the results of the hedge fluctuate within a range of between 80% and 125% of the results of the hedged item.

The Group contracts fair value hedges of financial assets and liabilities or of firm commitments not yet recognised, or of an identified portion of such items, attributable to a specific risk, provided the consolidated income statement is affected. Differences in both hedging instruments and hedged items, with respect to the type of risk hedged, are recognised directly in the consolidated income statement.

The Group interrupts hedge accounting when the hedging instrument expires or is sold, when a hedge no longer meets the criteria for hedge accounting or when the transaction ceases to be classed as a hedge.

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

2.4. FOREIGN CURRENCY TRANSACTIONS

2.4.1. FUNCTIONAL CURRENCY

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

Set out below is a breakdown of the equivalent value of the main consolidated asset and liability balances denominated in foreign currencies, showing the nature of the items and the most significant currencies:

EQUIVALENT VALUE IN THOUSAND EURO

	2011		2010	
	Assets	Liabilities / equity	Assets	Liabilities / equity
Breakdown by portfolio type				
Financial assets/liabilities at fair value through equity	48,300	(3,912)	49,340	(2,154)
Loans and discounts / Liabilities at amortised cost	42,106	72,309	50,182	73,872
Other	207	1,106	7	722
	90,613	69,503	99,529	72,440
Breakdown by currency type				
US dollars	46,301	30,946	54,939	28,832
Pounds sterling	13,955	13,484	21,511	21,109
Swiss francs	24,300	19,443	17,262	17,020
Japanese yen	3,693	3,543	4,307	4,234
Other	2,364	2,087	1,510	1,245
	90,613	69,503	99,529	72,440

2.4.2. FOREIGN CURRENCY TRANSLATION METHODS

Foreign currency transactions are initially recognised at their equivalent value in euro, using the exchange rates prevailing at the dates of the transactions. Monetary balances denominated in foreign currencies are subsequently translated into the functional currency using the exchange rates in force at the financial reporting date.

Additionally:

1. Non-monetary items carried at historical cost are translated into the functional currency using the exchange rate prevailing at their acquisition date.
2. Non-monetary items carried at fair value are translated into the functional currency using the exchange rate in force at the date on which the fair value was measured.

2.4.3. ACCOUNTING FOR EXCHANGE DIFFERENCES

Exchange differences arising from the translation of foreign currency balances into the functional currency of the consolidated entities are generally recognised at their net amount in "Exchange differences (net)" in the consolidated income statement, except for differences in financial instruments carried at fair value through profit or loss, which are recognised in the consolidated income statement under "Gains/(losses) on financial transactions (net)" together with any other changes in their fair value.

This notwithstanding, exchange differences in equity instruments whose fair value is adjusted by means of a balancing entry in equity are recognised in "Equity – Measurement adjustments – Exchange differences" in the consolidated balance sheet, until they are realised.

At 31 December 2011 and 2010 there is no balance in that caption, since equity instruments denominated in foreign currencies are hedged against foreign exchange risks by means of fair value hedges in which the hedging instruments are interbank deposits, allowing changes in value caused by foreign exchange fluctuations to be recognised in the income statement.

2.5. RECOGNITION OF INCOME AND EXPENSES

Set out below is a summary of the most significant accounting policies employed by the Group to recognise income and expense:

2.5.1. INTEREST INCOME AND EXPENSE, DIVIDENDS AND SIMILAR ITEMS

In general, interest income and expense and similar items are accounted for on an accruals basis, applying the effective interest rate method. Dividends received from other companies are recognised in the income statement when the consolidated entities become entitled to receive them.

2.5.2. COMMISSIONS, FEES AND SIMILAR ITEMS

Income and expense relating to commissions and similar fees, which are not included in the calculation of the effective interest rate of operations and/or do not form part of the acquisition cost of financial assets or liabilities, except for those carried at fair value through profit or loss, are recognised in the consolidated income statement using different methods depending on their nature. The most significant methods used are explained below:

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through the income statement are recognised in the income statement at the settlement date.
- Amounts arising from long-term transactions or services are recognised in the consolidated income statement over the term of such transactions or services.
- Amounts relating to a one-off event are recorded in the income statement when that event takes place.

2.5.3. NON-FINANCIAL INCOME AND EXPENSE

These amounts are accounted for on an accruals basis.

2.5.4. DEFERRED COLLECTIONS AND PAYMENTS

Deferred collections and payments are carried at the amount obtained by discounting forecast cash flows at market rates.

2.6. OFFSET OF BALANCES

Only debtor and creditor balances arising on transactions which, under contract or legislation, provide for possible offset and are to be settled at their net amount, or simultaneously realised and paid, are offset and therefore presented in the consolidated balance sheet at their net amount.

2.7. TRANSFERS OF FINANCIAL ASSETS

The accounting treatment of transfers of financial assets is subject to the manner in which the risks and returns associated with the assets are transferred to third parties:

- If the risks and returns relating to the transferred assets are substantially transferred to third parties, the asset is written off the balance sheet and any right or obligation retained or created as a result of the transfer is simultaneously recognised.
- If the risks and returns relating to the transferred financial asset are substantially retained, as in the case of securitized financial assets in respect of which the Group retains subordinated financing or other credit enhancement arrangements that substantially absorb the credit losses expected from the securitized assets, the transferred financial asset is not written off the consolidated balance sheet and continues to be measured using the same methods applied prior to the transfer. Conversely, the following items are recognised and not offset:
  - An associated financial liability in an amount equal to the price received, which is subsequently measured at amortised cost.
  - Both income from the financial asset transferred but not written off and expense from the new financial liability.
- If the risks and returns associated with the transferred financial asset are neither substantially transferred nor substantially retained, the following distinction is made:
  - If the Group does not retain control of the financial asset transferred: the asset is written off the consolidated balance sheet and any right or obligation retained or created as a result of the transfer is recognised.

– If the Group retains control of the financial asset transferred: the asset continues to be recognised in the consolidated balance sheet at an amount equal to its exposure to value changes that could arise, also recognising an associated financial liability.

Accordingly, financial assets are only written off the consolidated balance sheet when the cash flows they generate have been exhausted or when related risks and returns have been substantially transferred to third parties.

However, financial assets transferred prior to 1 January 2004 have been written off, irrespective of the transfer of related risks and returns, in accordance with applicable regulations.

Note 27.5 summarises the most significant circumstances of the main asset transfers recorded by the Group at year end.

2.8. FINANCIAL ASSET IMPAIRMENT

A financial asset is deemed to be impaired and its carrying amount is therefore adjusted on the basis of objective evidence of the following events:

- In the case of debt instruments (loans, credit and debt securities), an adverse impact on the future cash flows estimated when the transaction was completed is identified.
- In the case of equity instruments, their carrying amount cannot be fully recovered.

In this respect, the situations considered by the Group as objective evidence that a financial instrument may be impaired and giving rise to a specific analysis in order to determine the amount of the possible impairment, include those indicated in section 59 of IAS 39 and in particular, for debt instruments, those indicated in Schedule IX of Bank of Spain Circular 4/2004. These situations include the following:

a) major financial difficulties in the issuer or party required to make payment;

b) non-compliance with contractual clauses, such as default or delay in payment of interest or the principal;

c) when the Group, for economic or legal reasons related to the borrower's financial difficulties, grants the borrower concessions or advantages which it would otherwise not grant, at all times taking into account the requirements contained in legislation applicable to the Bank;

d) when it is considered probable that the borrower will be involved in bankruptcy proceedings or in any situation involving a financial restructuring brought about by difficulties in covering payment commitments;

e) the disappearance of an active market for the financial asset in question due to the financial difficulties of the debtor or counterparty of the risk incurred by the Group or

f) if the observable data point to the existence of a decrease in estimated future cash flows in a group of financial assets with homogeneous characteristics from the time of their initial recognition although the decrease may not yet be identified with the group's individual financial assets, including:

   i) adverse changes in the payment terms of a homogeneous group of borrowers who, for example, reflect a growing number of delays in payment or present an inappropriate financial structure, or

   ii) local or national economic conditions that match defaults in a group of assets or adverse changes in the conditions of a sector affecting a group of borrowers.

g) for equity instruments, information is taken into account on significant changes which, having an adverse effect, have taken place in the technological, market, economic or legal environment where the issuer operates and specific situations affecting the entities invested in and which may point to the fact that the cost of the equity investment may not be recoverable. A prolonged or marked fall in the fair value of an equity investment to below cost is also objective evidence of impairment although it requires the pertinent testing by the Group of whether such decrease really relates to the impairment of the investment leading to the conclusion that the amount invested will not be recovered.

In particular, assets are regarded as doubtful due to customer default when the customer concerned owes an amount with respect to the principal or interest which is over 3 months overdue, and this has not been written off the consolidated balance sheet as it has been regarded as a bad debt.

In addition, all operations, except non-financial guarantees, are regarded as doubtful due to customer default when the balances classified as doubtful are more than 25% higher than the amounts pending collection.

Risks are regarded as doubtful for reasons other than customer default when the relate to debt instruments and contingent risks and commitments which, without involving the conditions required for them to be regarded as doubtful due to customer default, entail reasonable doubts as to their full repayment in the contractually agreed terms, and those contingent risks and commitments the payment of which by the Entity is probable, and the recovery of which is doubtful. This category includes operations, among others, in which customers are in situations which reflect a deterioration in their solvency, such as negative equity, continued losses, generalised delays in payments, inadequate economic or financial structure, lack of opportunities for obtaining additional financing or insufficient cash flow to meet their payment obligations, existence of debt claims and legal repayment claims, operations in which the debtor is involved in litigation on which collection will depend, lease operations in which the entity has decided to terminate the lease to recover possession of the property, customers which have been or are expected to be declared bankrupt, customers with balances classified as doubtful due to default with respect to which, even if the above-mentioned percentages for considering all their operations to be doubtful are not met, the conclusion is reached that there are reasonable doubts as to the payment of their debts, contingent risks in which the guaranteed parties are insolvent, etc.

In addition to doubtful risks, the Group regards as "substandard", due to customer risk, those debt instruments and contingent risks which, without meeting the conditions for regarding them doubtful as per the foregoing paragraphs, show weaknesses as a whole which may cause it to incur losses which are greater than the coverage of the deterioration of risks in normal situations. This category includes, among others, customer operations which belong to a certain class which is in difficulty, such as those relating to a depressed geographical area or to an economic sector which could be experiencing difficulties due to its particular characteristics.

The impairment adjustment to the carrying amount of financial instruments is charged to the consolidated income statement for the period in which impairment arises and any recoveries of previously recorded impairment losses are recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

Where the recovery of an impairment loss is deemed remote, the relevant amount is eliminated from the consolidated balance sheet, notwithstanding any collection actions that may be taken by the consolidated entities until their rights are definitively extinguished due to lapsing, remission or other causes.

The methods applied by the Group to identify possible impairment losses for each category of financial instruments and to calculate accounting provisions for impairment are described below.

2.8.1. DEBT INSTRUMENTS MEASURED AT AMORTISED COST

Impairment losses are equal to the positive difference between their respective carrying amounts and the present value of their forecast future cash flows. The market value of quoted debt instruments is treated as a reasonable estimate of the present value of future cash flows.

Subsequently, the cash flows are discounted at the instrument's effective interest rate (where a fixed rate was contracted) or at the effective contractual interest rate at the discount date (where a variable rate was contracted).

As regards impairment losses caused by the insolvency of a party liable for payment (credit risk), a debt instrument is impaired:

- when there is evidence of a reduction in the party's payment capacity due to default or other causes, and/or
- in the event that country-risk materialises in respect of debtors resident in a country affected by circumstances other than ordinary commercial risks.

The following process is followed to assess potential impairment losses on these assets:

- Individually, for all significant debt instruments and those which, though not significant, cannot be classified into homogeneous groups of instruments of a similar type, business sector and geographic area of the debtor's activity, guarantee type, age of past due amounts, etc.

- Collectively: The Group classifies operations into different groups based on the nature of the liable parties and the circumstances in their countries of residence, status of the operation and type of guarantee, age of past due amounts, etc., and, for each risk group, applies the impairment losses ("identified losses") that must be recognised in the consolidated entities' financial statements.

In addition to the identified losses, the Group recognises an overall loss for the impairment of risks classed as "normal status" risks that have not therefore been specifically identified This loss is quantified by applying the parameters defined by the Bank of Spain based on its experience and on Spanish banking industry data.

2.8.2. AVAILABLE-FOR-SALE DEBT INSTRUMENTS

Impairment losses, if applicable, are equal to the positive difference between the acquisition cost (net of principal repayments) and fair value, after deducting any impairment loss previously recognised in the consolidated income statement.

In the case of impairment losses arising from the insolvency of the issuer of available-for-sale debt securities, the Group calculates the losses using the same procedure explained above in Note 2.8.1 for debt instruments carried at amortised cost.

Where there is objective evidence that the negative differences measured in these assets are caused by impairment, the relevant amounts are removed from the Equity caption "Measurement adjustments – Available-for-sale financial assets" and the entire amount accumulated to that date is recognised in the consolidated income statement. Should all of part of the impairment losses be subsequently recovered, the recovery is recognised in the consolidated income statement for the period in which the losses are recovered.

2.8.3. AVAILABLE-FOR-SALE EQUITY INSTRUMENTS

Impairment losses, if applicable, are equal to the positive difference between the acquisition cost and fair value, after deducting any impairment loss previously recognised in the consolidated income statement.

The methods applied to measure impairment losses on available-for-sale equity instruments are similar to those applied to debt instruments (as explained in Note 2.8.2), except for the fact that any recoveries are recognised in the Equity caption "Measurement adjustments – Available-for-sale financial assets".

For listed equity instruments, in order to determine whether there is any indication of impairment, the Group bases itself first on timing or comparison percentage bands of the average listed price of the instrument. In particular, the timing or percentage bands contained in the Group's policies are a fall of 40% in the listed price with respect to the average acquisition cost or a sustained fall in the listed price over an 18 month period. The Group considers that situations in which the issuer is declared or will probably be declared involved in bankruptcy proceedings or has major financial difficulties are evidence of impairment.

In this respect, objective evidence is strengthened in the event of a fall of 40% of the price over a constant period of one and a half years.

Under the above parameters, once indications of impairment are considered to exist, a specific analysis is performed of the instrument confirming or rejecting the need for provision.

At 31 December 2011 and 2010 there were no securities which, simultaneously fulfilling the percentage and timing range indicated above, were not impaired.

2.8.4. EQUITY INSTRUMENTS MEASURED AT COST

Impairment losses, where applicable, are equal to the difference between the carrying amount and the present value of forecast future cash flows, discounted at the market rate for returns from other similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise, directly reducing the cost of the equity instrument. Such losses may only be recovered when the assets are sold.

2.9. FINANCIAL GUARANTEES AND RELATED PROVISIONS

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

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

Financial guarantees, irrespective of the holder or form, are analysed periodically in order to determine credit risk and, if applicable, estimate the need for provisions. The methods employed are similar to those applied to calculate impairment losses on debt instruments measured at amortised cost, as explained in Note 2.8.1 above.

Provisions for financial guarantees are recorded in the caption "Provisions – Provisions for contingent risks and commitments" under liabilities in the consolidated balance sheet. A balancing entry is made in the caption "Transfer to Provisions (net)" in the consolidated income statement in respect of provisions recognised and reversed.

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

2.10. ACCOUNTING FOR LEASES

2.10.1. FINANCE LEASES

Finance leases are those in which substantially all the risks and rewards carried by the leased asset are transferred to the lessee.

The factors taken into account by the Group to determine whether a lease contract is a finance lease include the following:

- That the lease contract covers most of the asset's useful life, taking into account for such purposes the indicative parameter established in other legislation not specifically applicable to the Group, namely that the contract covers more than 75 of the asset's useful life.

- That the purchase option exercise price is less than the fair value of the asset's residual value at the end of the contract.
- That the present value of the minimum lease payments at inception is equivalent to practically the total fair value of the leased asset, using by way of an indication for such purposes the criterion established in other legislation not specifically applicable to the Group that this fair value exceeds 90% of the present value of the leased asset.
- That the asset's use is limited to the lessee.

Where the consolidated entities act as the lessors of an asset in a finance lease operation, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value is recognised as financing granted to third parties and therefore carried in "Loans and receivables" in the consolidated balance sheet, based on the nature of the lessee.

When the consolidated entities act as the lessees in a finance lease operation, the cost of the leased assets is recorded in the consolidated balance sheet on the basis of the nature of the asset leased and a liability is carried in the same amount, which will be the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if appropriate, the purchase option exercise price. These assets are depreciated at similar rates to those applied to the Group's property, plant and equipment for own use (see Note 2.15).

In both cases, the financial income and expense on finance leases is credited and charged, respectively, to the consolidated income statement captions "Interest and similar income" and "Interest and similar charges", applying the effective interest rate on the lease to estimate accrual.

2.10.2. OPERATING LEASES

In operating leases, ownership of the leased asset and substantially all risks and rewards of ownership are retained by the lessor.

Where the consolidated entities act as the lessors in operating lease agreements, the acquisition cost of the leased asset is carried under "Property, plant and equipment" in "Investment property" or "Other assets assigned under operating leases", depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated income statement on a straight-line basis in the caption "Other operating revenue".

Where the consolidated entities act as the lessees in operating lease agreements, the lease costs, including any incentives granted by the lessor, are charged on a straight-line basis to the consolidated income statement caption "Other general administration expenses".

2.11. ASSETS MANAGED

Third-party assets managed by the consolidated entities are not recognised in the consolidated balance sheet. Fees generated by this activity are recorded in "Fees received" in the consolidated income statement. Note 27.4 provides details of third-party assets managed at the year end.

2.12. INVESTMENT FUNDS AND PENSION FUNDS MANAGED BY THE GROUP

Investment and pension funds managed by the consolidated entities are not recognised in the Group's consolidated balance sheet as the fund assets are owned by third parties. Fees accrued for services rendered to the funds by the Group entities (asset management, portfolio depository services, etc.) are recorded in "Fees received" in the consolidated income statement.

2.13. STAFF COSTS

2.13.1. POST-EMPLOYMENT, DEATH AND DISABILITY BENEFITS

The Group's post-employment commitments with its employees are treated as "defined-contribution commitments" when the Group makes predetermined contributions to a separate entity, without any real or effective obligation to make additional contributions were the separate entity unable to pay benefits to the employees for the services rendered in the current year and in prior years. Post-employment commitments that do not fulfil the above-mentioned conditions are treated as "defined-benefit commitments".

The spin-off of financial activities by Ibercaja to Ibercaja Banco, SAU, described in Note 1.1 has not entailed any change in employees' pre-existing rights.

In accordance with the prevailing collective bargaining agreement, Savings banks are required to supplement the social security benefits of their employees and their beneficiaries on retirement, disability and death. In order to externalise these commitments, the Entity set up the Ibercaja Employee Pension Plan under Law 8/1987, which distinguished between a group of employees with defined-benefit commitments for all contingencies and a group of employees with defined-contribution commitments for retirement and related contingencies and defined-benefit commitments for disability and work-related death.

At 31 December 2011 and 2010, the commitments not covered by the above-mentioned Pension Plan are covered by internal funds recognised in "Provisions – Funds for pensions and similar obligations" in the balance sheet and by insurance policies (basically with Ibercaja Vida, SA).

In the caption "Provisions – Provisions for pensions and similar obligations" on the liabilities side of the balance sheet (or on the assets side, in the caption "Other assets – Rest", depending on whether the difference is positive or negative and provided the conditions laid down in applicable regulations are fulfilled), the Group recognises the present value of its defined-benefit pension commitments, net of the fair value of the plan assets and of deferred past service costs, as explained below.

Plan assets are assets linked to a specific defined-benefit commitment that will be directly used to settle these obligations and that fulfil the following conditions:

- They are not owned by the Group but by a separate legal entity unrelated to the Group.
- They are only available to pay or finance post-employment benefits.
- They may not return to the Group, unless the remaining plan assets are sufficient to fulfil all the plan obligations and the Group's obligations related to benefits for current or past employees, or to reimburse the employee benefits already paid by the Group.

Actuarial gains and losses derive from differences between prior actuarial assumptions and actual events, and from changes in the actuarial assumptions used. Actuarial gains or losses relating to the Group's post-employment commitments are charged or credited directly to reserves through the consolidated recognised statement of income and expense in the year they arise.

Estimated differences arising from actuarial departures in connection with the Pension Plan and the insurance policies referred to above are recognised in "Provisions – Funds for pensions and similar obligations" in the balance sheet at 31 December 2011 and 2010.

Post-employment remuneration is recognised in the consolidated income statement as follows:

- Current service costs, i.e. the increase in the present value of the obligations arising from the services provided by employees in the current year, are recognised in "Staff costs".
- Interest costs, i.e. the increase in the present value of the obligations that occurs during the year due to the passage of time, are recognised in "Interest and similar charges".

The commitments assumed by the Group to cover the death and disability of current employees are covered by insurance policies contracted with Ibercaja Vida, SA. The amount accrued in relation to these policies in 2011 and 2010 is recorded in "Staff costs" in the income statement in an amount equal to the insurance premiums accrued each year.

This amount is not eliminated on consolidation because the premium is paid by the Group to the Pension Plan which for consolidation purposes is a third party and it is the Pension Plan that guarantees contingencies with Ibercaja Vida, SA.

2.13.2. OTHER LONG-TERM BENEFITS PRE-RETIREMENT

In previous years, the Group offered certain employees the possibility of retiring before reaching the retirement age stipulated in the applicable collective bargaining agreement. In this respect, provisions were recorded in 2011 and 2010 to cover commitments acquired with pre-retired employees in relation to salaries and welfare charges from the pre-retirement date to the effective retirement date.

For accounting purposes, pre-retirement commitments are recognised using the same methods explained previously for post-employment defined-benefit commitments, with the exception that all past service costs are recognised as soon as they arise.

At 31 December 2011 and 2010, pre-retirement commitments totalled €1,407 thousand and €1,881 thousand, respectively, and are recognised in "Provisions – Funds for pensions and similar obligations" in the balance sheet (Note 35).

2.13.3. TERMINATION BENEFITS

The Group is required to recognise severance indemnities in the income statement with respect to employees that are unfairly dismissed and severance indemnities agreed with executives. There is no staff reduction plan in respect of which a provision must be recorded for severance indemnities.

2.13.4. OTHER WELFARE BENEFITS

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

In general, current employees with indefinite contracts are entitled to request loans or credit facilities, subject to a maximum limit based on their annual salary, once their trial period has ended:

- Home purchase loans: the maximum amount financed is the value of the dwelling plus acquisition costs, subject to a maximum of five annual salaries (minimum of €200 thousand). The maximum term is 35 years and the applicable interest rate is equal to 60% of the one-year Euribor rate.
- Loan for sundry purposes: the maximum amount financed is 25% of the annual salary (minimum of €30 thousand). The maximum term is 10 years and the applicable interest rate is the one-year Euribor rate.
- Salary advance: in order to meet fully justified urgent needs, employees may request an interest-free advance of up to nine monthly salaries. Monthly repayments are equal to 10% of the gross salary.

2.14. CORPORATE INCOME TAX

Income tax expense is calculated as tax payable on taxable income for the year, as adjusted for variations during the year in asset and liability balances arising from timing differences, tax credits and allowances, and any tax-loss carryforwards (Note 25).

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

Tax credits and allowances and tax credits for tax-loss carryforwards are amounts that, though generated on completion of an activity or obtainment of a result, are not applied for tax purposes in the relevant tax return until the conditions stipulated in tax legislation are fulfilled, and provided the Group considers that application in future years is probable. Note 25 sets outs the assets reflected in this respect.

Current tax assets and liabilities are amounts that the Group expects to recover from or pay to the corresponding tax administration within 12 months of the year end. Deferred tax assets and liabilities are amounts that the Group expects to recover from or pay to the corresponding tax administration in future years.

Deferred tax liabilities are recognised for practically all temporary differences. This notwithstanding, a deferred tax liability is recognised for temporary differences derived from investments in subsidiaries and associates, and for holdings in jointly-controlled entities, except where the Group is in a position to control the reversal of the temporary differences and reversal is not probable in the foreseeable future.

At each accounting close, deferred tax assets and liabilities are analysed to ensure that they remain valid and any necessary adjustments are made accordingly.

2.15. PROPERTY, PLANT AND EQUIPMENT

2.15.1. PROPERTY, PLANT AND EQUIPMENT FOR OWN USE

Property, plant and equipment for own use comprise assets owned or being acquired under finance leases that the Group holds for current or future use for the production or supply of goods and which are expected to be used for more than one financial year. Among other assets, this category includes property, plant and equipment received by the consolidated entities to fully or partially settle financial assets representing debt claims against third parties and which the Group plans to use itself on a continuous basis. Property, plant and equipment for own use is carried in the balance sheet at acquisition cost, which is the fair value of any consideration paid plus all cash payments made or committed, less:

- accumulated depreciation, and
- If applicable, estimated losses calculated by comparing each asset's carrying amount with its recoverable amount.

To this end, the acquisition cost of assets received and included in the Group's property, plant and equipment for own use is equal to the carrying amount of the financial assets settled.

Depreciation is calculated on a straight-line basis over the acquisition cost of the assets less their residual value, on the understanding that the land on which the buildings and other constructions stand has an indefinite life and is therefore not subject to depreciation.

The annual depreciation charge for property, plant and equipment is made against "Depreciation – Property, plant and equipment" in the consolidated income statement, calculated over the following estimated useful lives:

	Estimated useful lives (years)
Buildings for own use	50 to 100
Furnishings	6 to 12.5
Plant	5 to 16.6
Computer equipment and facilities	4 to 8

At each accounting close, the consolidated entities check for internal or external indications that the carrying amount of their property, plant and equipment exceeds the recoverable amount, in which case the carrying amount of the asset in question is written down to its recoverable amount and future depreciation charges are adjusted in proportion to the adjusted carrying amount and the new residual useful life, should a new estimate be necessary. If applicable, this write-down of book value is charged to the consolidated income statement caption "Asset impairment losses (net) – Property, plant and equipment".

Similarly, where there are indications that the value of impaired property, plant and equipment has been recovered, the consolidated entities recognise the reversal of the impairment loss shown in previous periods by crediting the consolidated income statement caption "Asset impairment losses (net) – Property, plant and equipment" and adjusting future depreciation charges accordingly.

Additionally, the estimated useful lives of property, plant and equipment for own use are reviewed at least yearly to detect significant changes. If necessary, adjustments are made to depreciation charges for future years in the consolidated income statement on the basis of the new useful lives.

Repair and maintenance costs for property, plant and equipment for own use are charged to the consolidated income statement during the financial period in which they are incurred, in the caption "Other general administration expenses". Financial costs incurred to finance property, plant and equipment for own use are recognised in the income statement when they accrue and do not form part of the acquisition cost of the assets.

2.15.2. OTHER ASSETS ASSIGNED UNDER OPERATING LEASE

The consolidated balance sheet heading "Property Plant and equipment – tangible assets – assigned under operating leases" records the carrying amounts of property, plant and equipment other than land and buildings assigned by the Group under operating leases.

The same methods applied to property, plant and equipment for own use (Note 2.15.1) are used to recognise acquisition cost, depreciation, estimated useful life and impairment losses in respect of investment property.

2.15.3. INVESTMENT PROPERTIES

The caption "Property plant and equipment – Investment property" in the consolidated balance sheet includes the carrying amounts of land, buildings and other constructions held either for rental or to obtain a possible gain on the sale of the property as a result of future market price increases.

The same methods applied to property, plant and equipment for own use (Note 2.15.1) are used to recognise acquisition cost, depreciation, estimated useful life and impairment losses in respect of investment property.

Foreclosure assets which, according to their nature and use, are classified as investment properties are initially accounted for at the lower of fair value net of costs of sale and acquisition cost, understood as the carrying value of the related debts, calculated in accordance with legislation applicable to the Company. Foreclosure assets are subsequently subject to the estimation of the corresponding impairment losses on such assets and at least those established in Appendix IX of Bank of Spain Circular 4/2004.

2.16. INTANGIBLE ASSETS

Intangible assets are identifiable non-monetary and non-physical assets that arise from legal business or have been developed internally by the consolidated entities. Intangible assets are only recognised when their cost may be reliably and objectively estimated and the consolidated entities consider they will probably generate future economic benefits.

2.16.1. GOODWILL

The excess of the cost of shareholdings in entities measured using the equity method over their acquired carrying amounts, adjusted at the date of first consolidation, and is allocated as follows:

- If it is allocable to specific items in the companies or businesses acquired, by increasing or decreasing the value of the assets or liabilities in order to ensure that they are carried at fair value when this differs from the amounts at which they are carried in the balance sheets of the acquired entities.
- If they are allocable to specific intangible assets which are not previously reflected by the entities or businesses acquired, by recognising them explicitly in the consolidated balance sheet provided that their fair value may be reliably determined at the acquisition date.
- The remaining amount is recognised as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is only recognised when acquired for valuable consideration and therefore represents advance payments made by the acquiring entity in respect of future economic benefits deriving from the acquired entity's assets that cannot be individually and separately identified and recognised.

Any goodwill in associates is included in the carrying amount of the shareholdings.

Goodwill acquired as from 1 January 2004 is shown at acquisition cost, while goodwill acquired before that date is carried at the net amount recognised at 31 December 2003, calculated in accordance with the regulations previously applied by the Group (Bank of Spain Circular 4/1991).

At the year end, if there are any indications of impairment of the investment in the associate, the recoverable amount is estimated and it is determined whether that investment has suffered impairment . Impairment losses reflected in associates of may be reversed subsequently.

2.16.2. OTHER INTANGIBLE ASSETS

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

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

Intangible assets with a definite life are amortised over their useful life at rates similar to those applied to property, plant and equipment. The annual amortisation charge for these intangible assets is carried in the income statement caption "Amortisation – Intangible assets".

The Group recognises any impairment loss and makes a balancing entry in the caption "Other asset impairment losses (net) – Goodwill and other intangible assets" in the consolidated income statement. The methods applied to recognise impairment losses on these assets and, if appropriate, the recovery of impairment losses recognised in prior years are similar to those applied to property, plant and equipment (Note 2.15.1).

2.17. INVENTORIES

This consolidated balance sheet caption records the non-financial assets that the consolidated entities:

- Hold for sale in the ordinary course of business.
- Are in the process of making, building or developing for such purposes.
- Plan to consume in the production process or in the provision of services.

Inventories are stated at the lower of cost, which includes all amounts paid to acquire and transform the inventories and all direct and indirect costs incurred to bring them to their present condition and location, and net realisable value. The net realisable value of inventories is their estimated selling price in the ordinary course of business, less the estimated cost of completing production and selling expenses.

The cost of inventories that are not ordinarily interchangeable is determined individually and the cost of the rest of the inventories is determined using the weighted average cost method. Decreases in and, if applicable, subsequent recoveries of the net realisable value of inventories, below their carrying amount, are recognised in the consolidated income statement in the financial year they are incurred, in the caption "Other asset impairment losses (net) – Other assets".

The carrying value of inventories is written off the consolidated balance sheet and is charged to expense in the consolidated income statement under "Other operating charges" in the year the income from their sale is recognised.

Foreclosure assets which, according to their nature and use (under production, construction or development), whether classified as inventories by the Group, are initially accounted for at the lower of fair value net of costs of sale and acquisition cost, understood as the carrying value of the related debts, calculated in accordance with legislation applicable to the Company. Foreclosure assets are subsequently subject to the estimation of the corresponding impairment losses on such assets and at least those established in Appendix IX of Bank of Spain Circular 4/2004.

2.18. NON-CURRENT ASSETS HELD FOR SALE

The consolidated balance sheet caption "Non-current assets held for sale" consists of items whose carrying amount is to be recovered through the highly probable sale of the asset, in its current condition, within one year as from the date of the consolidated financial statements.

Non-current assets held for sale also include holdings in associates or jointly-controlled entities that meet the requirements stated in the previous paragraph. Consequently, the carrying amount of these items, which may be financial or non-financial in nature, is likely to be recovered through their selling price rather than through continued use.

Specifically, real estate assets or other non-current assets received by the consolidated entities to fulfil, totally or partly, the payment obligations of the related debtors are considered non-current assets for sale, except if the decision has been taken, on the basis of their nature and use, that they should be classified as own tangible assets, investment property or inventories. They are reflected initially at the lower of fair value net of costs of sale and acquisition cost, understood as the carrying value of the related debts, which is calculated in accordance with legislation applicable to the Company. While included in this category, amortisable/depreciable assets by nature, are not depreciated or amortised.

Subsequently, in the event that the carrying amount exceeds the fair value of the assets, net of cost of sales, the Group adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption "Gains/(losses) on non-current assets available for sale not classified as discontinued operations" in the consolidated income statement. In the event that the fair value of the assets increases at a later date, the Group reverses the losses previously recognised by increasing the carrying amount subject to the limit of the carrying amount prior to any impairment. A balancing entry is made in the same caption as mentioned above in the consolidated income statement.

2.19. INSURANCE OPERATIONS

In accordance with the accounting practices generally applied in the insurance industry, the consolidated insurance companies recognise premiums in the income statement when the policy is issued and recognise claim costs in the income statement when they are known. These accounting practices require insurance companies to apportion at the year end the amounts credited to the income statement and not accrued at that date.

The most significant accruals established by consolidated entities with respect to the direct insurance arranged by them are: unearned premiums, benefits, life insurance when the investment risk is assumed by the policyholder, share in profits and returned premiums.

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

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

The correction consists of recognising symmetrically the changes in the fair value of the assets classified in "Available-for-sale financial assets" and "Other financial assets at fair value through profit and loss".

The balancing entry for such variations has been the provision for life insurance when required by the Private Insurance Regulations and other applicable legislation or a liability account (with a positive or negative balance) for the part reflected as a life insurance provision that is presented under "Other liabilities" on the consolidated balance sheet.

Underwriting reserves for ceded reinsurance, calculated on the basis of the relevant reinsurance treaties applying the same criteria as for direct insurance, are recognised in the caption "Assets held for reinsurance" in the consolidated balance sheet (Note 15).

2.20. PROVISIONS AND CONTINGENT LIABILITIES

When preparing the consolidated entities' financial statements, their respective directors distinguish between:

- Provisions: creditor balances that cover obligations in force at the balance sheet date deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, their amount and/or settlement date cannot be determined.
- Contingent liabilities: possible obligations resulting from past events, the future materialisation of which is contingent upon the occurrence or otherwise of one or more events independent of the consolidated companies' intentions.

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

Provisions are quantified using the best information available on the consequences of the event that justifies them and are re-estimated should new information be obtained or at least annually. They are applied to meet the specific obligations for which they were originally recognised and fully or partially reversed should such obligations cease to exist or decrease.

Provisions deemed necessary as stated above are charged or credited to the consolidated income statement caption "Transfers to provisions (net)".

At the year end, a number of legal proceedings and claims had been initiated against the consolidated entities, arising in the ordinary course of business. The Group's legal advisors and directors consider that the outcome of these proceedings and claims will have no significant impact on the consolidated financial statements for the years in which the rulings are issued.

2.21. BUSINESS COMBINATIONS

Business combinations are operations in which two or more entities or economic units of the same entity or group of companies are combined. The result of a business combination is the obtainment of control over one or more entities. Combinations are recognised using the purchase method of accounting.

The purchase method addresses business combinations from the viewpoint of the acquiring party, which must recognise the acquired assets and liabilities and the assumed contingent liabilities at fair value.

2.22. CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES

In accordance with the alternatives contained in section 8.1 of IAS 1, the Group has opted to present separately a statement showing the components of the consolidated profit ("Consolidated income statement") and a second statement that taking the consolidated profit for the year, shows the components of other income and expenses for the year ("Consolidated statement of recognised income and expenses").

The consolidated statement of recognised income and expenses presents the income and expenses generated by the Group as a result of its operations during the year and differentiates between the income and expenses reflected in the consolidated income statement for the year and other income and expenses reflected, in accordance with current legislation, directly in consolidated equity.

Therefore this statement presents:

a) Consolidated profit for the year.

b) Net income and expenses recognised transitionally as measurement adjustments in consolidated equity.

c) Net income and expenses recognised definitively in consolidated equity.

d) Corporate income tax accrued in respect of the items indicated in b) and c) above, except for the valuation adjustments resulting from holdings in associates or jointly controlled entities measured using the equity method and which are presented net.

e) Total consolidated recognised income and expenses, calculated as the sum of the above, showing the amount attributed to the parent and to minority interests separately.

Income and expenses relating to entities carried under the equity method and reflected directly against equity are presented in this statement, irrespective of their nature, under the caption "Equity method companies".

Variations in income and expenses recognised in equity as measurement adjustments break down as follows:

a) Measurement gains (losses): this reflects the amount of income, net of the expenses arising in the year, recognised directly in consolidated equity. The amounts recognised in the year in this item are maintained in it although in the same year they are taken to the consolidated income statement at the initial value of other assets or liabilities or are reclassified to another item.

b) Amounts transferred to income statement: this records the amount of measurement gains or losses, recognised previously in consolidated equity, albeit in the same year that they are recognised in the consolidated income statement.

c) Amounts transferred to initial carrying value of hedged items: this records the measurement gains or losses previously recognised in consolidated equity, albeit in the same year that they are recognised in the initial value of assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: this records the amount of transfers made in the year between measurement adjustments in accordance with current legislation.

These items are presented at their gross amount, showing, except as indicated above for those relating to measurement adjustments of equity method companies, the corresponding tax effect under the caption "Corporate income tax" in the statement.

2.23. TOTAL STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

The "Total statement of changes in equity" presents all changes in equity, including those arising from changes in accounting criteria and error corrections. This statement therefore shows a reconciliation of the carrying value at the start and end of the year of all items making up consolidated equity, grouping movements together on the basis of their nature as follows:

a) Adjustments owing to changes in accounting policies and correction of errors: this includes the changes in consolidated equity which result from the retroactive restatement of balances in the financial statements arising from changes in accounting policies or error correction.

b) Income and expense recognised in the year: this records on an aggregate basis total items reflected in the statement of recognised income and expenses mentioned above.

c) Other changes in equity: this reflects other equity items such as increases or decreases in capital, distribution of results, transactions with own equity instruments, transfers between equity items and any other increase or decrease in consolidated equity.

2.24. CONSOLIDATED CASH FLOW STATEMENTS

The terms employed in the consolidated cash flow statement have the following meanings:

- Cash flows: inflows and outflows of cash and cash equivalents understood as on-demand investments.
- Operating activities: the ordinary activities of credit institutions. Activities involving financial instruments are regarded as operating activities, with certain exceptions such as the financial assets included in the held-to-maturity investment portfolio, equity instruments classified as available for sale which are strategic investments and subordinate financial liabilities.
- Investing activities: acquisitions, sales or disposals through other means of long-term assets and other investments not included in cash and equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities of the Group which do not form part of operating activities.

When preparing the consolidated cash flow statement, "cash and cash equivalents" consist of highly liquid current investments in respect of which the risk of value fluctuations is low. Accordingly, the Group treats the following financial assets and liabilities as cash or cash equivalents:

- The Group's own cash, which is recognised in the consolidated balance sheet caption "Cash on hand and on deposit at central banks" (Note 6).
- Net demand deposits at central banks, which are recognised in the captions "Cash on hand and on deposit at central banks" (debtor balances) and "Financial liabilities at amortised cost – Deposits at central banks" (creditor balances) under assets and liabilities, respectively, in the consolidated balance sheet (Note 6 and 19.1).
- Net demand deposits at credit institutions other than the balances at central banks. Debtor balances are recognised, among other items, in the caption "Loans and receivables – Deposits at credit institutions" in the consolidated balance sheet (Note 10.2).

Creditor balances are recognised, among other items, in the caption "Financial liabilities at amortised cost – Deposits at credit institutions" in the reserved consolidated balance sheet (Note 19.1).

3 RISK MANAGEMENT

The basics underlying the Group's risk management policy are solvency, liquidity and asset credit quality.

On the basis of exposure, the credit risk is the most significant with respect to the Entity's risk profile although risks such as the counterparty, concentration, market, liquidity, interest rate, operational, reputational risk etc are managed.

The Group has an appropriate risk management organisational structure, where identification, measurement, follow-up, management and control functions are clearly distributed among the different management and control bodies and units that carry out their functions independently but on a coordinated basis in the following fields:

- Corporate governance: The governing bodies lay down the guidelines for investment and risk policies, which will be developed and applied by the rest of the organisation in the course of their functions for both the Entity and the remaining companies that make up the Group.
- Strategy and risk profile: To establish these guidelines the governing bodies receive information and technical support from specialised committees and boards. In particular, the Global Risk Committee defines and carries out the follow-up of the Group's risk strategy and policies.
- Risk management: Risk management decisions are taken by different bodies and units in the Group, exercising specific functions.
- Risk control: The risk control function is handled by Audit Management that carries it out separately from management.

The Group's risk governance and management structure is proportional to the complexity of the business and guarantees the application of consistent policies and procedures in the Entity and all companies that make up the Group.

The principles governing the Group's risk management are: integrated management, quality, diversification, independence, continuity, delegation and group membership, consistency, control, continuous improvement in processes and transparency.

The Group's risk management aims to attain the following objectives:

- To assess the key business risks on the basis of their relevance and probability of occurrence, quantifying them with greater accuracy and level of detail.
- To integrate the measurement of risk in operating and decision processes (establishing limits and policies, acceptance of operations, follow-up, recovery etc.) and analytical processes (calculation and analysis of risk adjusted customer and segment profitability, products, centres of accountability and lines of business).
- To increase the efficiency of risk acceptance, follow-up and recovery processes through the use of appropriate statistical and information system tools, which should enable decisions to be taken.

- Ensuring the integrity and quality of information on risk, which leads to improvements in the internal and external reporting and communication systems at all levels involved in risk management.
- Establishing an environment where models and tools are followed up systematically, ensuring their predictive ability.

As a result of the current economic climate, the Group's objectives in the global risk management area are centred on internal improvement issues to enable efficient management of default situations and the prevention of further deterioration both in the current portfolio and in new credit risk operations, in active liquidity management in all areas of the business, and in maintaining high levels of solvency.

3.1. CREDIT RISK

It is defined as the possibility of losses being caused by the non-fulfilment of payment conditions by customers, and a reduction in value due to the deterioration in their credit quality.

3.1.1. CREDIT RISK MANAGEMENT STRATEGIES AND POLICIES

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

The Entity's Board of Directors establishes the strategies, policies and limits on credit risk management, which are documented in the "Loan policy and procedures manual" at the suggestion of the Global Risk Committee. This manual includes the action guidelines for the main operation segments, maximum risk lines with the main borrowers, sectors, markets and products. The Board of Directors is responsible for authorising risks that exceed the competence of the Group's operating circuit.

3.1.2. CREDIT RISK GRANTING, MONITORING AND RECOVERY POLICIES

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

a) In relation to the granting of credit risk, the Group has implemented the following policies:

- Specific limits to the level of risk exposure for certain loan portfolios.
- Risk classification for borrower groups by establishing prior risk exposure limits to avoid inappropriate concentrations.
- Criteria for the admission of new operations and limits to granting powers, depending on the customer segment being financed.

- Methodology for operations analysis based on type and correspondence to different segments.
- Internal credit rating models integrated with decision-taking systems for the various areas of the retail business.
- Requirements for ensuring legal security in each operation.
- Risk mitigation techniques.
- Pricing policies consistent with customer credit quality.

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

b) By monitoring risk, the Entity seeks to ascertain the evolution of groups and customers permanently and well in advance, in order to avoid or minimise potential losses resulting from the deterioration of the loan portfolio. This knowledge is fundamental to the proactive management of the mechanisms that are needed to reduce or restructure existing risk exposure.

A mechanised alarm system has been implemented by the Group which analyses and classes all customers following consideration of information from internal and external sources for the purpose of detecting risk factors which may imply a deterioration of the customer's credit quality. This alarm system is subject to calibration and on-going improvement processes.

Groups or borrowers classed as deserving special supervision, substandard risk or doubtful for reasons other than default are also closely monitored.

c) Integrated risk management is completed with the recovery policies, designed to avoid or minimise losses through specific recovery circuits based on the amount and type of operation and with the involvement of various internal and external managers who determine the action to be taken in each case.

3.1.3. COUNTRY RISK

This is defined as the possibility of incurring losses as a result of a country as a whole defaulting on its payment obligations owing to circumstances other than the standard business risk. Country risk includes sovereign risk, transfer risk and other risks associated with international financial activities.

Countries are classified in six groups in accordance with Bank of Spain Circular 4/2004, its rating and the OECD country classification and the International Bank for Reconstruction and Development on the basis of their economic development, political situation, regulatory and institutional framework, capacity and payment experience.

The Group establishes certain maximum limits to the country risk exposure, on the basis of the rating given by the rating agencies, accompanied by maximum investment limits for certain groups, while operations with other groups are not permitted without the express authorisation of the Board of Directors.

In relation to sovereign risk, maximum limits have been established for public debt issued by European Union States, other States, Autonomous Regions, Local corporations and public bodies, based on their corresponding ratings.

3.1.4. INFORMATION ON THE CREDIT RISK OF FINANCIAL INSTRUMENTS

The classification on the basis of the level of risk of the Group's loans and receivables, fixed income assets and contingent risks are not doubtful and have not become impaired and are subject to the general bad debt provision is as follows:

(Thousand euros)	2011	2010
With no appreciable risk	8,442,935	7,957,958
Low risk	21,262,117	21,691,114
Medium-low risk	4,713,566	5,624,258
Medium risk	4,641,920	4,715,928
Medium-high risk	387,382	483,065
High risk	162,169	175,337
	39,610,089	40,647,660

With respect to the maximum level of exposure to the credit risk, set out below are the most significant sectors of operation in terms of credit, loans and discounts (Note 10), according to the purpose of the transaction:

(Thousand euros)	2011	2010
Public sector	547,849	401,871
Credit institutions	795,945	1,229,038
Real estate operations	4,090,623	4,636,297
Other interest generating operations	4,927,912	4,880,200
Housing acquisition and refurbishment	21,920,480	22,442,614
Consumer and other household lending	1,089,500	1,199,076
Other sectors not classified	467,343	255,563
	33,839,652	35,044,659

With respect to the maximum level of exposure to the credit risk, credit, loans and discounts (Note 10) secured by guarantee or credit enhancement arranged are as follows:

(Thousand euros)	2011	2010
Mortgages	26,873,833	28,256,002
Pledges – financial assets	7,562	12,859
Off-balance sheet guarantees – Public Sector and Credit facility	50,455	45,720
Guarantee – Government debt securities	443,987	547,426
	27,375,837	28,862,007

At December 2011 the LTV (loan to value, reflecting the relationship between the financial transaction balance and the value of the guarantee associated with that transaction) of the Ibercaja Group's mortgage portfolio stood at 61.3% (60.0% at December 2010).

Set out below is the reconciliation of mortgage guarantees to the mortgage market information note:

(Thousand euros)	2011	2010
Mortgages	26,873,833	28,256,002
Elimination on consolidation (+)	1,453,520	842,185
Off-balance sheet securitizations (+)	190,328	215,375
Asset related interest (–)	30,664	31,309
Nominal value of mortgages	28,487,017	29,282,253

The classification of credit, loans and discounts (Note 10) and available-for-sale fixed income assets (Note 9), which are impaired, differentiating between those where the relevant calculation has taken into account the existence of non-payment and those where other factors have been taken into account, is as follows:

(Thousand euros)	2011	2010
Customer default	1,240,346	1,108,116
Other factors	152,092	158,146
	1,392,438	1,266,262

The main factors taken into account to calculate impairment for reasons other than non-payment are those reflected in Note 2.8.

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

Additionally, Note 10.5 to the consolidated financial statements includes the breakdown of overdue assets not impaired, indicating that they are less than 3 months old.

At December 2011 the Ibercaja Group assessed renegotiated transactions and according to its best judgement identified and provided for those that in the absence of renegotiation could have been become non-performing or would have been impaired. The related overall risk exposure amounts to €512,456 thousand (€414,728 thousand at December 2010).

3.2. OPERATIONAL RISK EXPOSURE

This is defined as the risk of loss resulting from the absence of adaptation or a fault in the processes, personnel or internal systems or deriving from external events.

3.2.1. OPERATIONAL RISK MANAGEMENT STRATEGIES AND POLICIES

The Basel Bank Supervisory Committee published in 2003 a number of best practices for the management of operational risk, which is required to be identified, measured, monitored and controlled. Along these lines, the new Capital Agreement and Bank of Spain Circular 3/2008 on the Determination and Control of Minimum Equity provide that entities must hold sufficient equity which is commensurate to the operational risk they assume in their business activities.

The Board of Directors establishes the operational risk management strategies and policies, which are documented in the "Operational risk management framework", as proposed by the Global Risk Committee.

In accordance with this objective, the actual organisational structure envisages with respect to business units and support and the Group companies, the identification, management and information tasks connected with the operational risks on the operations performed while measurement and control tasks are carried out on a centralised basis.

3.2.2. MEASUREMENT, MANAGEMENT AND CONTROL PROCEDURES

The Ibercaja Group has developed, in accordance with good practice as established by the Basel Committee, various methodologies for the measurement, management and control of the operational risk, of both a quantitative and qualitative nature. The first are based on the identification and reflection of losses deriving from the crystallisation of the operational risk in a Loss Database and the analysis of their development while the second provide an Operational Risk Map, consisting of the identification and assessment of operational risks and controls existing in processes and activities together with the gathering and analysis of operational risk indicators, as alerts in the event of possible exposure to certain risks.

As a result of the progress made in relation to the operational risk management and control processes deriving from the policies in place, Ibercaja has calculated capital consumption owing to Operational Risk using the standard method for the first time at the December 2010 closing, in accordance with Rule 97 of Bank of Spain Circular 3/2008 (22 May) on the calculation and control of minimum equity.

3.3. EXPOSURE TO INTEREST RATE RISK

This is defined as the possibility that the Group's net interest revenue or equity will be affected in the event of adverse fluctuations in the market interest rates to which the Group's assets, liabilities or off-balance sheet transactions are linked.

The interest rate risk exposure derives from the revaluation risk, curve risk, base risk or optionality risk. Specifically, the revaluation risk derives from temporary differences existing at maturity or the review of transactions sensitive to the interest rate risk.

3.3.1. INTEREST RATE RISK MANAGEMENT STRATEGIES AND POLICIES

The management of this risk aims to contribute to maintaining current and future performance at adequate levels and preserving the Company's economic value.

In order to manage the interest rate risk, the Group has identification, measurement, monitoring, control and mitigation policies in place.

The Board of Directors establishes the strategies, policies and limits on interest rate risk management, which are documented in the "Interest rate risk management policy and procedures manual" at the suggestion of the Global Risk Committee.

3.3.2. MEASUREMENT AND CONTROL PROCEDURES

The Group manages the risk exposure deriving from its portfolio operations, both when they are contracted and throughout their subsequent monitoring, and also includes in its analytical timeline the forecast development of the business and expectations in respect of interest rates, as well as management and hedging proposals, simulating different behavioural scenarios.

The Group's tools enable the effects of interest rate shifts on its net interest income and its economic value to be measured, scenarios to be simulated on the basis of the assumptions concerning the performance of interest rates and business operations and the potential impact on capital and results deriving from abnormal market fluctuations (stress scenarios) to be estimated such that its results are taken into account when establishing and reviewing policies and planning process.

With respect to the optionality risk, basic assumptions are established concerning the sensitivity and duration of the sight savings operations, as maturities are not established contractually, together with the assumptions concerning early repayment on loans, based on historical experience in different scenarios.

Likewise, the effect of interest rate fluctuations on net interest revenue and equity is monitored through the fixing of exposure limits. Limits enable the interest rate risk to be maintained within levels which are compatible with approved policies.

The following table shows the sensitivity profile of the Bank's individual balance sheet to interest rate risk, at 31 December 2011 and 31 December 2010, indicating the carrying value of those financial assets and liabilities affected by such risk, which are classified based on the estimated period elapsing to the date of review of the interest rate or maturity.

At 31 December 2011:

TIME TO REVIEW OF THE EFFECTIVE INTEREST RATE OR MATURITY

(Million euros)	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Sensitive balance	Insensitive balance	Between 1 and 5 years	Over 5 years
Assets	10,010	6,050	18,699	34,759	7,542	1,366	6,176
Fixed-interest financial assets and other assets without a set maturity date	764	71	495	1,330	8,457	2,142	6,315
Fixed-rate financial assets hedged by derivatives	1,531	193	(216)	1,508	(1,508)	(1,306)	(202)
Financial assets at variable interest rates	7,715	5,786	18,420	31,921	593	530	63
Liabilities	10,135	3,545	16,305	29,985	12,315	7,632	4,683
Financial liabilities with fixed interest rate and other liabilities without set maturity date	5,835	2,794	8,803	17,432	19,695	12,658	7,037
Fixed-rate financial liabilities hedged by derivatives	1,510	1,666	4,273	7,449	(7,449)	(5,091)	(2,358)
Financial liabilities at variable interest rates	2,790	(915)	3,229	5,104	69	65	4
Difference or gap for the period	(125)	2,505	2,394	4,774	(4,773)	(6,266)	1,493
Accumulated difference or gap	(125)	2,380	4,774	4,774	(4,773)	(1,493)	–
Average gap	(125)	1,753	1,538	2,666	–	–	–
% of total assets	(0.29)	4.14	3.64	6.30	–	–	–

At 31 December 2010:

TIME TO REVIEW OF THE EFFECTIVE INTEREST RATE OR MATURITY

(Million euros	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Sensitive balance	Insensitive balance	Between 1 and 5 years	Over 5 years
Assets	**10,363**	**5,797**	**19,592**	**35,752**	**6,811**	**1,358**	**5,453**
Fixed-interest financial assets and other assets without a set maturity date	1,276	173	1,121	2,570	7,300	1,310	5,990
Fixed-rate financial assets hedged by derivatives	1,885	173	(505)	1,553	(1,554)	(958)	(595)
Financial assets at variable interest rates	7,202	5,451	18,976	31,629	1,065	1,006	58
Liabilities	**9,574**	**5,479**	**17,392**	**32,445**	**10,118**	**5,582**	**4,536**
Fixed-interest financial liabilities and other liabilities without a set maturity date	5,599	3,806	9,344	18,747	17,495	10,451	7,045
Fixed-rate financial liabilities hedged by derivatives	1,074	2,164	4,228	7,467	(7,467)	(4,944)	(2,524)
Financial liabilities at variable interest rates	2,901	(491)	3,820	6,231	90	75	15
Difference or gap for the period	**789**	**318**	**2,200**	**3,307**	**(3,307)**	**(4,224)**	**917**
Accumulated difference or gap	**789**	**1,107**	**3,307**	**3,307**	**(3,307)**	**(917)**	**–**
Average gap	789	1,027	574	1,522	–	–	–
% of total assets	1.85	2.41	1.35	3.58	–	–	–

Balances with maturity or revaluation taking place within the next twelve months are regarded as sensitive. Bearing in mind that the static gap does not include new business, this period is established as a reference for management purposes, allowing for quantification of the impact of the variation in interest rates on the Group's annual net interest income.

The Gap shown in the table represents the difference between sensitive assets and liabilities in each period, i.e. the net balance exposed to price fluctuations. The balance sheet presents a positive gap for the forthcoming twelve months, meaning that the balance of sensitive assets is higher than that of liabilities in the same situation; this difference, in average balance terms, amounts to €2,666 million, equivalent to 6.30% of assets (€1,522 million, 3.58% of assets at 31 December 2010). The size of the static gap means that a variation in market rates of 100 base points would affect net interest income for the next 12 months by approximately €26 million, 4.83% (€15 million, 3.84% at 31 December 2010) under the assumption that the size and structure of the balance sheet remain unchanged. The impact on the margin would be of the same sign as the variation in interest rates. The impact on the Entity's economic vale in the event of a 100 base point rise in interest rates amounts to €72 million, 1.49% of the equity value (€65 million, 1.49% at 31 December 2010), under the assumption that the balance sheet size remains unchanged.

3.4. LIQUIDITY RISK

This is defined as the possibility of incurring losses because of not having or not being able to access sufficient liquid funds to settle payment obligations.

3.4.1. LIQUIDITY RISK MANAGEMENT STRATEGIES AND POLICIES

The adequate management and control of the liquidity risk is governed by principles of financial autonomy and balance sheet equilibrium, ensuring the continuity of the business and that there is sufficient liquidity available to meet payment commitments (i.e. the settlement of liabilities on their respective maturity dates) without undermining the capacity to respond to strategic market opportunities.

The Board of Directors establishes the strategies, policies and limits on liquidity risk management, which are documented in the "Liquidity risk management policy and procedures manual" at the suggestion of the Global Risk Committee.

In the years prior to the financial crisis, the Spanish financial system resorted to wholesale financing to cover the difference between the increase in lending and retail deposits. Since mid 2007, financial institutions have barely been able to carry out issues on wholesale markets or securitize assets while the risk premiums required by investors have escalated significantly.

In the particular case of the Group, the strategies for winning funds in retail segments and the use of alternative sources of short and long-term liquidity have made it possible to have the necessary resources to address demand for solvent credit fuelled by business activities and to secure cash positions within the management limits contained in the liquidity manual.

3.4.2. MEASUREMENT AND CONTROL PROCEDURES

The measurement of the liquidity risk takes into account estimated cash flows from assets and liabilities and the guarantees or additional instruments available to guarantee alternative liquidity sources that may be required.

Similarly, the forecast development of the business and expectations with respect to interest rates and management and hedging proposals are included, simulating differing performance scenarios. These procedures and analytical techniques are reviewed with the frequency required to guarantee that they function correctly.

Short, medium and long-term forecasts are prepared in order to know financing needs and limit compliance, taking into account the latest macroeconomic tendencies, because of their impact on the performance of assets and liabilities on the balance sheet, and contingent liabilities and derivative products. Similarly, the liquidity risk is controlled by setting exposure limits to ensure that it remains within levels compatible with the policies approved.

Furthermore, the Group is ready to tackle potential crises, both internal and in the markets, with contingency plans and procedures which guarantee sufficient liquidity with the lowest possible cost in adverse scenarios, estimating how the most significant variables will behave, establishing a series of alerts in the face of anomalous market situations and planning the obtainment of funds during the recession.

Set out below is a breakdown by contractual maturity of the balances of certain headings in the Bank's individual balance sheets at 31 December 2011 and 2010, in a "normal market conditions" scenario:

(Thousand euros)	On demand	Up to 1 month	Between 1 and 3 months	3 months to 1 year	Between 1 and 5 years	Over 5 years	Total
ASSETS							
Cash on hand and on deposit at central banks	527,857	–	–	–	–	–	527,857
Deposits at credit institutions	48,894	266,883	24,824	76,328	153,668	2,450	573,047
Money market transactions	–	437,241	–	–	–	–	437,241
Customer loans and other financial assets	–	991,280	980,169	2,151,206	6,425,237	22,073,247	32,621,139
Debt securities	9,673	118,189	68,330	749,137	2,148,311	2,231,364	5,325,004
Other equity instruments	–	–	–	–	–	482,591	482,591
Derivatives held for trading	–	–	–	–	29,621	–	29,621
Hedging derivatives	–	–	–	703,154	–	–	703,154
Other non-financial assets	–	1,573	40,520	2,108	99,380	1,457,025	1,600,606
Total at 31 December 2011	**586,424**	**1,815,166**	**1,113,843**	**3,681,933**	**8,856,217**	**26,246,677**	**42,300,260**
Total at 31 December 2010	447,437	1,961,973	800.647	3,889,481	8,328,078	27,135,111	42,562,727
LIABILITIES							
Deposits from central bank	–	–	–	–	900,246	–	900,246
Deposits from credit institutions	18,620	1,078,806	225,256	39,680	613,593	2	1,975,957
Money market transactions	–	694,728	29,337	–	–	–	724,065
Customer deposits and other financial liabilities	9,651,572	2,003,124	2,428,034	7,220,600	6,202,501	4,091,171	31,597,002
Marketable debt securities	–	141,077	135,390	1,005,903	1,880,357	83,178	3,245,905
Derivatives held for trading	–	24,405	–	–	–	–	24,405
Short securities positions	–	–	–	–	–	–	–
Subordinated debt financing	–	77,975	–	–	699,197	–	777,172
Hedging derivatives	–	–	–	174,309	–	–	174,309
Other non-financial liabilities	19,074	–	–	53,149	–	239,032	311,255
TOTAL EQUITY	–	–	–	–	–	2,569,944	2,569,944
Total at 31 December 2011	**9,689,266**	**4,020,115**	**2,818,017**	**8,493,641**	**10,295,894**	**6,983,327**	**42,300,260**
Total at 31 December 2010	9,518,938	3,796,002	4,477,244	8,435,753	8,481,443	7,853,347	42,562,727
Difference assets-liabilities 2011	**(9,102,842)**	**(2,204,949)**	**(1,704,174)**	**(4,811,708)**	**(1,439,677)**	**19,263,350**	**–**
Difference assets-liabilities 2010	(9,071,501)	(1,834,029)	(3,676,597)	(4,546,272)	(153,365)	19,281,764	–

Maturity of demand deposits has been included in the first time band although this is not contractually established and therefore in practice cash outflows are distributed throughout all time bands.

With respect to the financial guarantee contracts issued, the nominal amount of the guarantee does not necessarily represent a real disbursement obligation or liquidity needs, which will depend on the fulfilment of the conditions requiring the disbursement of the guarantee amount committed by the Group.

The Group only expects an outflow of cash in relation to the financial guarantee contracts classified as doubtful. The amount which is expected to be paid under such doubtful contracts is reflected under "Other non-financial liabilities" totalling €7,331 thousand (€7,903 thousand at 31 December 2010).

At 31 December 2011 the Group's liquidity position amounts to €1,669 million (3.95% of individual assets). It is necessary to add the guarantee policy with the European Central Bank which has never been used and at said date amounts to €2,477 million (5.85% of individual assets). Total liquidity available, including the guarantee policy, amounts to €4,146 million, representing 9.80% of the Company's individual assets. Of the possibility of issuing secured debt, amounting to €2,837 million, that the Group had until 31 December, it has only made use of €500 million.

Total liquidity available represents 16.76% (20.38% at 31 December 2010) of retail deposits and would enable all wholesale issues to be settled until 2015 (2016 in 2010). The Group has a diversified wholesale financing structure in terms of both timeperiods and instrument. In 2011 institutional issue maturities amounted to €925 million (€825 million in 2010).

3.5. EXPOSURE TO OTHER RISKS

3.5.1. MARKET AND COUNTERPARTY RISK EXPOSURE

3.5.1.1. MARKET AND COUNTERPARTY RISK MANAGEMENT STRATEGIES AND POLICIES

a) Market risk

This is defined as the possibility of incurring losses on the market positions held as a result of an adverse movement in financial variables or risk factors (interest rates, exchange rates, share prices, etc.) that determine the value of such positions.

The Group manages market risk with the aim of achieving a suitable financial return in relation to the risk assumed, bearing in mind certain levels of overall exposure, exposure due to types of segmentation (portfolios, instruments, sectors, subjects, ratings), portfolio structure and profitability/risk objectives. In the management and control of this risk, sensitivity analyses are applied to estimate the impact on income and equity.

The Board of Directors establishes the strategies, policies and limits on market risk management, which are documented in the "Capital market management policy manual" at the suggestion of the Global Risk Committee.

In order to manage the market risk, there are identification, measurement, monitoring, control and mitigation policies and operations policies in place for its negotiation, position re-assessment, portfolio classification and valuation, operations settlement, new product approval, broker relations and function delegation.

b) Counterparty risk

This is defined as the possibility of default by counterparties on financial transactions (fixed income, interbank, derivatives, etc.).

The Board of Directors establishes the strategies, policies and limits on counterparty risk management, which are documented in the "Capital market management policy manual" and "Risk facility manual", at the suggestion of the Global Risk Committee.

In order to manage the counterparty risk, the Group has identification, measurement, monitoring, control and mitigation policies in place. Moreover, the "Risk facility manual" lays down the criteria, methods and procedures for granting risk facilities, limit proposals, formalisation process and documentation of operations and the risk monitoring and control procedures for financial institutions, local corporations and listed and/or classified companies.

Risk facilities are established basically on the basis of the ratings assigned by credit rating agencies, the reports issued by such agencies and the expert analysis of their financial statements.

3.5.1.2. MEASUREMENT AND CONTROL PROCEDURES

a) Market risk

Portfolios exposed to market risk are characterised by their high level of sectorial and geographical diversification, their high liquidity and the absence of trading activities. This means that the market risk assumed overall is very small.

Similarly, the effect that shifts in interest rates, exchange rates, share and derivative prices have on results and the economic value is controlled by setting exposure limits. Limits enable the market risk to be maintained within levels which are compatible with approved policies and are defined at portfolio and operator level.

The market risk management includes mitigating policies in order to reduce exposure to such risk, where necessary, and reduce its potential impact on results. The mitigation techniques include framework netting contracts, guarantee contracts, the reduction of portfolios in the event of adverse lending events, the reduction in risk facilities, in the event of a fall in rating or negative news from a company and the specific follow-up of companies' financial information.

The Group is exposed to the market risk owing to unfavourable movements in the risk factors such as interest rates, exchange rates, equity price indexes, credit spreads and volatility.

In 2009 the Group included the Parametric VaR and VaR Historical Simulation over the target portfolio in its daily management. The VaR is the expected loss that may arise on the total portfolio and, on a more detailed basis, on the management portfolios and sub-portfolios. It is calculated to a confidence level of 99% and with 1 day timeline (also taking into account a time of 10 days in the case of the parametric VaR).

Within the methodologies existing to calculate the VaR, the following have been chosen:

- VaR Historical Simulation which uses the real variations in risk factors in the last year to build the loss distribution.
- The Parametric VaR which assumes that variations concerning risk factors will be normal. In order to calculate the Parametric VaR, it is necessary to determine the volatility/correlation of risk factors and quantify the sensitivity of the present value of the overall portfolio and management portfolios/subportfolios with respect to risk factors.

Estimates of sensitivity to risk factors are calculated daily together with the VaR at both aggregate and more detailed management portfolio and subportfolio level.

The scope of measurement of the VaR includes the Bank's securities portfolio (except for unlisted variable income), its hedging derivatives, inter-bank deposits, asset repos and the open position on retail derivatives. In this way, not only is the trading portfolio taken into account but also the available-for-sale portfolio, the held-to-maturity portfolio and the credit, loans and discounts portfolio. When calculating the parametric VaR and VaR historical situation, greater weight is afforded to the latest observations, enabling a greater capacity to adapt to changes in volatility.

At 31 December 2011 the diversified and non-diversified parametric VaR, calculated for a 1 and 10 day timeperiod, assuming a level of confidence of 99%, is as follows:

(Thousand euros)	Diversified Parametric VaR	Diversified Parametric VaR compared with Price	Non-diversified Parametric VaR	Non-diversified Parameteric VaR vs *Present Value*
Confidence level 99%				
Timeline 1 day	(48,636)	1.26%	(77,277)	2.00%
Timeline 10 days	(153,800)	3.98%	(244,371)	6.32%

The VaR (diversified) takes into account the diversification offered by correlating risk factors (interest rates, exchange rates, share prices etc.). The non-diversified VaR assumes the absence of diversification between such factors.

At 31 December 2010 the diversified and non-diversified parametric VaR, calculated for a 1 and 10 day timeperiod, assuming a level of significance of 99%, is as follows:

(Thousand euros)	Diversified Parametric VaR	Diversified Parametric VaR compared with Price	Non-diversified Parametric VaR	Non-diversified Parametric VaR vs *Present Value*
Confidence level 99%				
Timeline 1 day	(24,412)	0.57%	(47,392)	1.11%
Timeline 10 days	(77,198)	1.80%	(149,868)	3.50%

The VaR (diversified) takes into account the diversification offered by correlating risk factors (interest rates, exchange rates, share prices etc.). The non-diversified VaR assumes the absence of diversification between such factors.

Similarly, the calculation of the VaR at 31 December 2011 through the historical simulation methodology and VaR Shortfall with a 1 day timeline and assuming a level of significance of 99%, gives rise to the following values:

(Thousand euros)	Diversified Parametric VaR	Diversified Parametric VaR compared with Price	Non-diversified Parametric VaR	Non-diversified Parametric VaR vs *Present Value*
Confidence level 99%				
Timeline 1 day	(44,202)	1.14%	(44,202)	1.14%

The VaR Shortfall measures, with a given VaR Historical Simulation calculated at a confidence level of 99% and with a 1 day timeline, the expected loss with respect to 1% of the worst results beyond the VaR. It provides a measure of losses in the event of a VaR break.

The calculation of the VaR at 31 December 2010 through the historical simulation methodology and VaR Shortfall with a 1 day timeline and assuming a level of confidence of 99%, gives rise to the following values:

(Thousand euros)	Diversified Parametric VaR	Diversified Parametric VaR compared with Price	Non-diversified Parametric VaR	Parameteric VaR vs *Present Value*
Confidence level 99%				
Timeline 1 day	(35,879)	0.84%	(35,879)	0.84%

The VaR Shortfall measures, with a given VaR Historical Simulation calculated at a confidence level of 99% and with a 1 day timeline, the expected loss with respect to 1% of the worst results beyond the VaR. It provides a measure of losses in the event of a VaR break.

Until 31 December 2011 the VaR experienced fluctuations on the basis of the market perception of the public accounts of peripheral euro countries and the increase in market volatility (stock market indexes and interest rates). Nonetheless, the percentage that VaR represents over the present value of the portfolio for a 1 day period does not exceed 1.26% at 31 December 2011, reflecting the conservative nature of the management of this risk (0.84% at 31 December 2010).

The suitability of the VaR models used is verified by Back Testing, which matches daily variations in real and potential income and expenses on the global portfolio and the management portfolios/subportfolios with the estimates under the parametric and historical simulation VaR. Since the implementation of the VaR metric mid 2010, Back Tracking has provided 97% favourable results at total portfolio level.

Similarly and complementing the VaR analysis, stress tests have been performed analysing the impact of different risk factor scenarios on the value of the portfolio.

b) Counterparty risk

The limits authorised by the Board of Directors are established by volume of investment and include the overall exposure limits and individual limits to investment by issuer.

Moreover, the legal limits to concentration and major risks are observed in accordance with rule 101 of Bank of Spain Circular 3/2008.

Monitoring systems ensure that the risks assumed are at all times within the established limits. They incorporate the review of news bulletins on entities assigned a specific risk, the analysis of financial statements, controls of changes in ratings, and monitoring of risk consumed by Spanish companies and risks assumed with credit entities.

The counterparty risk mitigation techniques include framework netting contracts, guarantee contracts, the reduction of portfolios in the event of adverse lending events, the reduction in risk facilities, in the event of a fall in rating or negative news from a company and the specific follow-up of companies' financial information.

With those entities with which it is agreed to compensate risks and there is an agreement to provide guarantees, in accordance with Bank of Spain requirements, the risk may be computed at the resulting net position.

3.5.2. MANAGEMENT OF EXCHANGE RATE RISK

This is defined as the possibility of incurring losses deriving from adverse shifts in the exchange rates of the currencies in which the Group's assets, liabilities and off-balance sheet operations are denominated.

The Group maintains no positions of a speculative nature in foreign currency. Nor does it hold open positions in foreign currency of a non-speculative nature for a significant amount.

The Group's policy is to limit this type of risk, mitigating it at the time it arises through the arrangement of symmetric asset and liability operations or through financial derivatives enabling them to be hedged.

3.5.3. MANAGEMENT OF THE REPUTATIONAL RISK

This is defined as the risk of legal or regulatory penalties, significant financial loss, or loss of reputation, suffered by an Entity due to the breach of laws, regulations, rules, standards for the self-regulation of the organisation, and codes of conduct applicable in its financial activities; this risk is inherent to such activities, given that they are highly regulated and subject to on-going supervision by the authorities.

The Group has a Legislative Compliance Unit to ensure and oversee compliance with the main regulations applicable to its regulated activities and in particular, the following: anti-money laundering and financing of terrorism; personal data protection, transparency of operations with customers and rules of conduct on securities markets.

The Group also has an operational risk map which identifies and values risks with potential reputational impact.

3.6. RISK CONTROL

The control of risks is a fundamental element in the internal control system of a credit institution since such risks, basically financial and operational, are inherent in the financial products and services of which its activity is made up.

The Group has risk control systems in place based on:

- Procedures for the identification and measurement of risks, permitting their monitoring and control.
- A limits structure for the main counterparties, instruments, markets and terms, which is submitted to the approval of the Board of Directors annually, for the purpose of defining prudent policies and avoiding risk concentrations.
- A Global Risk Committee responsible for defining and monitoring the Group's risk strategies and policies.
- A hierarchical structure of authorisation for the granting or assuming of risks, based on amount involved and nature of the risk.
- Direct controls distributed at different decision-making levels which ensure that operations are performed in accordance with established policies and in the terms authorised.
- A risk control unit, which is independent of Business Managements, which verifies, inter alia, compliance with the risk limits approved by the Board of Directors or others established by the Global Risk Committee and report on compliance to Management on a regular basis.
- A Regulatory Compliance Unit, included in the Risk Control function, that supervises compliance with certain legal rules governing some of the Company's activities in order to minimise the penalties and loss of reputation which non-compliance may bring about.

- The Internal Audit area reviews the adequate functioning of risk control systems, also verifying compliance with established policies, procedures and internal rules, and reporting to a committee at management level, which adopts such decisions as may be necessary to correct the weaknesses or mitigate the weaknesses observed. Additionally, both the annual planning of the internal planning and its most significant findings are reported to the relevant Governing Bodies of the Group.

Ibercaja's risk control systems are subject to on-going improvement in order to duly fulfil the requirements of both Bank of Spain Circular 3/2008 governing the calculation and control of minimum equity and Pillar II and Pillar III.

3.7. INFORMATION CONCERNING EXPOSURE TO CERTAIN RISKS AT THE YEAR END

In light of the situation on debt markets, the Group considers it necessary to provide relevant information on exposure to certain risks in order to contribute to ensuring maximum transparency with respect to those aspects accounting for the uncertainties indicated by market players: the loan and discount risk linked to development and real estate activities and retail mortgages, real estate assets acquired as payment for debts, financing needs and strategies and sovereign risk exposure.

The information provided relates to the disclosures and requirements notified by the Bank of Spain in its letters of 29 November 2010, 18 January 2011 and 20 June 2011 and Circular 5/2011. Up-to-date information is included on the sovereign debt risk following CNMV's instructions on the documents published on 28 July 2011 and 25 November 2011 by the European Supervisory Authorities (ESMA).

3.7.1. LOANS AND RECEIVABLES RELATED TO DEVELOPMENT AND REAL ESTATE ACTIVITIES AND RETAIL MORTGAGES

- Financing of construction and real estate development activities and relevant coverage:

	Gross amount		Excess over guarantee value (*)		Impairment adjustment Specific cover	
(Thousand euros)	2011	2010	2011	2010	2011	2010
Financing of construction and real estate development activities recorded by: group credit institutions (businesses in Spain)	4,090,623	4,636,297	1,086,127	1,208,633	421,869	337,182
Of which: doubtful	656,592	579,763	270,250	121,072	315,363	242,047
Of which: substandard	626,557	717,655	238,590	244,818	106,506	95,135
Memorandum items: write-off assets	74,588	42,425	–	–	–	–

(Thousand euros)	Carrying value 2011	Carrying value 2010
Memorandum items: Figures in public consolidated balance sheet		
Total customer loans, excluding Public Administrations (businesses in Spain)	31,579,736	32,609,142
Total consolidated assets (total businesses)	45,143,624	44,825,867
Value adjustments and provisions for credit risk. General total cover (total businesses)	51,429	101,288

(*) Excess over the gross amount of each transaction of the value of the guarantees in rem calculated in accordance with Appendix IX Circular 04/2004. In other words, taking the lower of the purchase and valuation price and applying the different reductions depending on the nature of the guarantee.

- Financing of construction and real estate development activities.

The breakdown of financing for construction and real estate development is as follows:

FINANCING OF CONSTRUCTION AND REAL ESTATE DEVELOPMENT ACTIVITIES. GROSS AMOUNT

(Thousand euros)	2011	2010
Without mortgage	273,038	411,539
With a mortgage	3,817,585	4,224,758
Finished buildings	1,775,071	1,731,430
Housing	1,612,793	1,719,821
Other	162,278	11,609
Buildings under construction	679,550	1,079,524
Housing	624,819	1,025,640
Other	54,731	53,884
Land	1,362,964	1,413,804
Developed land	1,291,605	1,353,245
Other land	71,359	60,559
Total	4,090,623	4,636,297

- Home loans

A breakdown of home loans is as follows:

(Thousand euros)	Gross amount 2011	Gross amount 2010	Of which: doubtful 2011	Of which: doubtful 2010
Home loans	21,325,801	21,793,751	304,579	293,023
Without mortgage	212,802	237,762	35,949	16,052
With a mortgage	21,112,999	21,555,989	268,630	276,971

- Home loan mortgages according to the percentage which the total risk represents with respect to the amount of the latest valuation available (LTV).

At 31 December 2011 and 31 December 2010, the detail is as follows:

2011 (Thousand euros)	RISK WITH RESPECT TO LATEST AVAILABLE VALUATION (LTV) Less than 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	3,184,355	5,726,895	9,685,256	2,383,738	132,755	21,112,999
Of which: doubtful	13,355	30,325	124,336	94,595	6,019	268,630

2010 (Thousand euros)	RISK WITH RESPECT TO LATEST AVAILABLE VALUATION (LTV) Less than 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	3,199,812	5,754,694	9,732,269	2,707,814	161,400	21,555,989
Of which: doubtful	12,636	28,691	117,638	112,194	5,812	276,971

At 31 December 2011 88% of home loan mortgages has a LTV of less than 80% (87% at 31 December 2010).

3.7.2. REAL ESTATE ASSETS ACQUIRED IN PAYMENT OF DEBTS

Set out below is information concerning real estate assets acquired in payment of debts at 31 December 2011 and 2010:

(Thousand euros)	2011			2010		
	Net carrying value of cover	Of which: Impairment adjustment (1)	Of which: Total impairment cover (2)	Net carrying value of cover	Of which: Impairment adjustment (1)	Of which: Total impairment cover (2)
Real estate assets deriving from financing of construction and real estate development	747,645	143,213	312,204	536,291	112,838	224,280
Finished buildings	222,253	26,471	71,873	104,400	18,227	36,246
Housing	189,518	22,317	60,994	83,852	15,142	30,005
Other	32,735	4,154	10,879	20.548	3,085	6,241
Buildings under construction	23,428	2,429	9,669	6,691	1,611	3,221
Housing	23,428	2,429	9,669	6,691	1,611	3,221
Other	–	–	–	–	–	–
Land	501,964	114,313	230,662	425,200	93,000	184,813
Developed land	299,582	68,605	138,571	245,831	50,425	100,198
Other land	202,382	45,708	92,091	179,369	42,575	84,615
Real estate assets deriving from home loan mortgages	152,382	9,608	73,943	115,421	3,592	52,181
Real estate assets acquired in payment of debts	12,379	2,309	18,035	15,910	1,820	12,050
Equity instruments, interests and financing of non-consolidated companies holding such assets	5,061	–	1,687	5,061	–	1,687
Total	917,467	155,130	405,869	672,683	118,250	290,198

(1) Value adjustments after the acquisition date.

(2) Total cover at acquisition and subsequent dates.

3.7.3. PROBLEMATIC ASSET MANAGEMENT POLICIES

The Group establishes specific policies in relation to the management of real estate sector assets, which have been particularly affected by the current downturn.

These policies focus on favouring compliance with borrowers' obligations and mitigating the risks to which the Group is exposed. In this respect, alternatives are sought that enable the completion and sale of projects, while an analysis is performed of the renegotiation of the risks if the Entity's credit position improves and basically assurance is obtained that the borrower is able to continue business activities. The borrower's previous track record is therefore taken into account, together with his willingness to pay and the improvement in the forecast loss. In general, an attempt is made to increase credit guarantees and not increase the customer risk.

Additionally, the Group supports developers once the developments are completed, by collaborating in the management and speeding-up of sales.

In the event that support measures are not possible or sufficient, other alternatives are sought such as dation in payment or the purchase of the assets and as a last resort, a judicial claim is filed with subsequent foreclosure.

All those assets that become part of the Group's balance sheet are managed with a view to their divestment or lease.

In this respect, the Group has special purpose companies, specialising in development project management, real estate sales and real estate asset leasing. The Group has specific units to develop these strategies and coordinate the actions of its special purpose subsidiaries, branch office network and the other players involved. Additionally, the Group has a webpage www.ibercaja.es/inmuebles as one of the main tools used to inform the interested public of such assets.

3.7.4. FINANCING NEEDS AND STRATEGIES

Set out below is the Ibercaja Group's financing structure at 31 December 2011 and 2010, differentiating between stable financing needs and stable financing sources:

At 31 December 2011:

(Thousand euros)	
Customer loans	25,566,625
Loans to group and related entities	53,044
Securitized loans	5,763,038
Specific funds	751,683
Foreclosure assets	917,467
Total customer loans	*33,051,857*
Shareholdings	*214,795*
Total stable financing needs	33,266,652

(Thousand euros)	
Customers fully covered by the Deposit Guarantee Fund	14,112,599
Customers not fully covered by the Deposit Guarantee Fund	5,628,728
Total retail customer deposits	*19,741,327*
Mortgage bonds	5,535,000
Territorial bonds	–
Senior debt	572,000
Government secured issues	494,600
Subordinate, preference and convertible	700,000
Other medium and long-term financial instruments	900,000
Securitizations sold to third parties	2,571,877
Other financing with a residual maturity of more than 1 year	368,993
Long-term wholesale financing	*11,142,470*
Equity	*2,701,346*
Total stable financing sources(*)	33,585,143

(*) Calculated on the basis of Bank of Spain liquidity statement (LQ) guidance (net of treasury shares).

At 31 December 2010:

(Thousand euros)		(Thousand euros)	
Customer loans	26,044,559	Customers fully covered by the Deposit Guarantee Fund	14,510,284
Loans to group and related entities	75,498		
Securitized loans	6,231,792	Customers not fully covered by the Deposit Guarantee Fund	6,666,696
Specific funds	664,559		
Foreclosure assets	672,683	*Total retail customer deposits*	*21,176,980*
Total customer loans	*33,689,091*	Mortgage bonds	5,605,000
Shareholdings	*222,156*	Territorial bonds	12,500
		Senior debt	1,165,600
		Government secured issues	–
		Subordinate, preference and convertible	700,000
		Other medium and long-term financial instruments	–
		Securitizations sold to third parties	2,900,023
		Other financing with a residual maturity of more than 1 year	530,501
		Long-term wholesale financing	*10,913,624*
		Equity	*2,720,223*
Total stable financing needs	33,911,247	Total stable financing sources(*)	34,810,827

(*) Calculated on the basis of Bank of Spain liquidity statement (LQ) guidance (net of treasury shares).

Set out below is a breakdown of maturities of wholesale issues by year at 31 December 2011 and 2010:

	2011			
(Thousand euros)	2012	2013	2014	> 2014
Bonds and mortgage bonds	449,500	723,387	819,512	3,542,601
Senior debt	572,000	–	–	–
Government secured issues	–	–	494,600	–
Subordinate, preference and convertible(*)	–	200,000	350,000	150,000
Commercial paper	286,093	–	–	–
Total wholesale maturity issues	**1,307,593**	**923,387**	**1,664,112**	**3,692,601**
Securitizations sold to third parties	348,875	340,544	300,633	1,581,824
Total maturities (**)	**1,656,468**	**1,263,931**	**1,964,745**	**5,274,425**

(*) Maturity set at the first possible date of outflow although we are dealing with early redemption options in favour of the Entity.

(**) Calculated on the basis of Bank of Spain liquidity statement (LQ) guidance (net of treasury shares).

(Thousand euros)	2010			
	2011	2012	2013	> 2013
Mortgage bonds	100,000	450,000	723,387	4,331,613
Territorial bonds	12,500	–	–	–
Senior debt	505,600	660,000	–	–
Subordinate, preference and convertible(*)	–	–	200,000	500,000
Commercial paper	218,189	–	–	–
Total wholesale maturity issues	**836,289**	**1,110,000**	**923,387**	**4,831,613**
Securitizations sold to third parties	366,681	340,943	298,890	1,893,509
Total maturities (**)	**1,202,970**	**1,450,943**	**1,222,277**	**6,725,122**

(*) Maturity set at the first possible date of outflow although we are dealing with early redemption options in favour of the Entity.
(**) Calculated on the basis of Bank of Spain liquidity statement (LQ) guidance (net of treasury shares).

Set out below is a breakdown of the Ibercaja Group's liquid assets at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Liquid assets (nominal value)	5,734,824	6,101,673
Liquid assets (market value and European Central Bank cut) (*)	4,084,683	4,839,827
Of which: central government debt	2,702,216	1,900,199

(*) Calculated on the basis of Bank of Spain liquidity statement (LQ) guidance (net of treasury shares).

Set out below is a breakdown of the Entity's issue capacity at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Mortgage bond issue capacity	5,399,954	6,338,342
Territorial bond issue capacity	285,032	162,445
Available Government secured issues (*)	–	2,837,000

(*) Pending development of Royal Decree Law 20/2011, authorising the granting of Central Government guarantees for new bond issues. The former guarantee program ended on 31 December 2011.

The diversification policy on timing the maturity of wholesale issues will enable the Group to cover maturities in the next few years through the retail resource and credit gap, and with a comfortable equity position.

3.7.5. SOVEREIGN DEBT EXPOSURE

Set out below is information concerning sovereign debt exposure at 31 December 2011 and 2010:

- Breakdown of carrying value of exposure by country:

(Thousand euros)	2011	2010
Spain	4,838,270	3,722,776
Italy	490,132	517,983
France	223,624	223,591
	5,552,026	4,464,350

- Breakdown of carrying value of exposure by portfolio in which the assets are reflected:

(Thousand euros)	2011	2010
Held for trading	8,616	1,161
Available-for-sale financial assets	3,146,127	2,741,182
Loans and discounts	547,849	401,870
Held-to-maturity portfolio	1,849,434	1,320,137
	5,552,026	4,464,350

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

- Breakdown of term to maturity of exposure by portfolio in which the assets are reflected:

	2011							
(Thousand euros)	3 months	1 year	2 years	3 years	5 years	10 years	15 years	Total
Held for trading	17	714	2,166	3,549	1,282	250	638	8,616
Available-for-sale financial assets	4,363	533,962	435,317	725,444	752,134	345,730	349,177	3,146,127
Loans and discounts	35,247	117,215	8,421	68,202	79,994	104,232	134,538	547,849
Held-to-maturity portfolio	–	243,341	–	–	680,008	740,414	185,671	1,849,434
	39,627	895,232	445,904	797,195	1,513,418	1,190,626	670,024	5,552,026

(Thousand euros)	2010							
	3 months	1 year	2 years	3 years	5 years	10 years	15 years	Total
Held for trading	41	40	12	55	379	–	634	1,161
Available-for-sale financial assets	262,077	405,505	473,314	468,688	656,148	204.033	271,417	2,741,182
Loans and discounts	94,268	10,226	7,894	31,832	110,777	101,020	45,853	401,870
Held-to-maturity portfolio	–	–	–	–	660,952	547,959	111,226	1,320,137
	356,386	415,771	481,220	500,575	1,428,256	853,012	429,130	4,464,350

- Other information
  - Fair value. The fair value of the instruments recognised as held for trading and available for sale agrees with the aforementioned carrying value. The fair value of the held to maturity portfolio is detailed in Note 26.1.

    Note 26.1 sets out the methodology used to value loans and discounts. It should be noted that the fair value detailed does not significantly differ from carrying value. Except for loans and discounts, the remaining fair value associated with the sovereign risk is calculated through level 1 valuation techniques (a description is set out in Note 26.1).
  - The effect of a 100 basis point variation in interest rates would have an effect of 3.81% on fair value.
  - There is only impaired sovereign debt amounting to €300 thousand, as indicated in Note 10.5. The Group considers that the remaining exposure is not impaired given that the requirements set out in Note 2.8 are not met.

4 DISTRIBUTION OF THE COMPANY'S RESULTS

The proposal for the distribution of 2011 results that will be submitted by the Bank's Board of Directors to the General Shareholders' Meeting is as follows:

(Thousand euros)	
Distribution	2011
To dividends:	12,800
To reserves:	15,885
Legal reserve	*2,869*
Voluntary reserve	*13,016*
Profit for year	28,685

During December 2011 Ibercaja Banco approved the distribution of an interim dividend. Attached is the statement prepared by the directors revealing the existence of sufficient profits at 30 November, to enable the payment of dividends:

(Thousand euros)	November 2011
Profit before taxes	**23,495**
Estimated income tax	20,098
Appropriation to the legal reserve	(4,359)
Profit available for distribution	**39,234**
Dividend available for distribution	**12,800**

Similarly, it was verified that the legal requirement concerning the existence of sufficient liquidity had been complied with since at 30 November the Entity reflected €787,847 thousand in cash and demand accounts in Central Banks.

5 REMUNERATION PAID TO THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

5.1. BOARD OF DIRECTORS' REMUNERATION

The following table sets out a breakdown of accrued remuneration for allowances for attendance, travel and membership of Ibercaja Banco Committees in favour of the members of the Board of Directors, solely in their capacity as the Company's Directors in 2011 since the Company started up its activities on 1 October 2011.

(Thousand euros)	Per diems	2011
Amado Franco Lahoz	Chairman	4.9
Mr. José Luis Aguirre Loaso	Chief Executive Officer	4.9
Mr. Alberto Palacio Aylagas	Board member	7.0
Mr. Eugenio Nadal Reimat	Board member	6.3
Mr. Jesús Bueno Arrese	Board member	6.3
Mr. Manuel Pizarro Moreno	Board member	–
Mr. Miguel Fernández de Pinedo López	Board member	19.8

The Company has not entered into any pension commitments with the Members of the Board of Directors.

5.2. SENIOR MANAGEMENT'S REMUNERATION

For the purposes of preparing these financial statements, Senior Management has been considered to consist of the members of the Governing Bodies in their capacity as managers (Chairman and CEO) and the 14 employees forming part of the management team of Ibercaja Banco, SAU, identified in the Economic and Activity Report, who hold the positions of Assistant Managing Directors, Assistant General Managers and Assistant Managers.

The following table sets out the remuneration accrued in 2011 by the Company in favour of senior management as defined above. Taking into account that for accounting purposes the spin-off that enabled the incorporation of Ibercaja Banco, SAU, is effective from 1 January 2011, all remuneration received in 2011 has been included.

For comparison purposes, the remuneration received in the Savings Bank in 2010 is included, including the remuneration of the CEO (as the General Manager in 2010) and the other 15 employees that formed part of the management team in the previous year.

	Short-term compensation		Post-employment benefits		Total	
(Thousand euros)	2011	2010	2011	2010	2011	2010
Senior management	3,492	3,134	917	379	4,409	3,513

5.3. DIRECTORS' DUTY OF LOYALTY

At 31 December 2011 and in relation to the requirements of Articles 229 and 230 of the Spanish Companies Act 2010, the members of the parent company's Board of Directors and persons related to them as referred to in Article 231 of that Act hold no positions and carry out no activities in other companies having an identical, analogous or complementary kind of activity to that which constitutes its corporate objects, with the following exceptions:

Director	Company	Position/Duty
Mr. Jesús Bueno Arrese	EBN Banco, S.A.	Board member
Mr. José Luis Aguirre Loaso	EBN Banco, S.A.	Chairman

The Entity's directors have also confirmed that there are no conflicts of interest, direct or indirect, with the Entity.

None of the directors or persons related to them holds an interest in the type of companies mentioned.

6 CASH ON HAND AND ON DEPOSIT AT CENTRAL BANKS

Set out below is a breakdown of this balance in the consolidated balance sheets at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Cash	152,559	96,139
Deposits at the Bank of Spain	375,095	280,599
Measurement adjustments	212	290
	527,866	377,028

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 0.66% (0.66% in 2010).

7 ASSET AND LIABILITY HELD FOR TRADING

7.1. COMPOSITION OF THE BALANCE AND MAXIMUM CREDIT RISK - RECEIVABLES

The following table contains a breakdown of the financial assets included under this category at 31 December 2011 and 2010, classified by geographic area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	34,965	31,323
Other European Union countries	6,252	7,291
Rest of the world	2,559	5,261
	43,776	43,875
Counterparty category		
Credit institutions	30,362	42,702
Resident public administrations	8,616	1,119
Non-resident public administrations	–	42
Other resident sectors	4,798	1
Other non-resident sectors	–	11
	43,776	43,875
Instrument types		
Shares in listed Spanish companies	931	–
Listed bonds and debentures	8,743	1,562
Derivatives not traded on organised markets	34,102	42,313
	43,776	43,875

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

7.2. COMPOSITION OF THE BALANCE - PAYABLES

The following table contains a breakdown of the financial liabilities included under this category at 31 December 2011 and 2010, classified by geographic area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	21,318	31,974
Other European Union countries	1,928	2,239
Rest of the world	1,159	578
	24,405	34,791
Counterparty category		
Credit institutions	24,405	34,791
	24,405	34,791
Instrument types		
Derivatives not traded on organised markets	24,405	34,791
Of which: embedded derivatives segregated from hybrid financial instruments	15,823	24,022
	24,405	34,791

7.3. TRADED FINANCIAL DERIVATIVES

Set out below are breakdowns by product type of the fair and notional value of the financial derivatives held for trading at 31 December 2011 and 2010:

(Thousand euros)	FAIR VALUE			
	Balances receivable		Balances payable	
	2011	2010	2011	2010
Unexpired foreign exchange forward purchases/sales	–	–	1,508	1,095
Securities options/indexes	13,936	27,741	13,899	24,014
Interest-rate options	3,462	2,776	4,589	4,414
Other interest rate transactions	16,704	11,796	4,409	5,268
FRAs	–	–	–	–
Interest rate swaps (IRS)	16,704	11,796	4,409	5,268
	34,102	42,313	24,405	34,791

(Thousand euros) NOTIONAL AMOUNT

	2011	2010
Unexpired foreign exchange forward purchases/sales	29,794	33,064
Securities options/indexes	664,293	956,084
Interest-rate options	82,944	32,591
Implicit derivatives on securities/indexes	656,378	894,736
Other interest rate transactions	983,777	1,355,079
FRAs	–	–
Embedded interest rate derivatives	77,491	26,934
Derivatives, wholesale market	692,148	951,558
Distribution of derivatives	214,138	376,587
	2,417,186	**3,271,554**

In addition to the balances detailed in the table above, the face value of securities options (payables) deriving from the yield guarantee provided by the Group to the investment funds it markets at 31 December 2011 totals €1,241,616 (€1,232,120 thousand at 31 December 2010).

8 OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table contains a breakdown of the financial assets included under this category at 31 December 2011 and 2010, classified by geographical area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	59,108	70,767
Rest of the world	58,146	58,033
	117,254	**128,800**
Counterparty category		
Other resident sectors	117,254	128,800
	117,254	**128,800**
Instrument types		
Debt securities	58,146	58,033
Shares in investment funds	59,108	70,767
	117,254	**128,800**

In this portfolio, the Group classifies holdings in investment funds managed jointly with liabilities derived from insurance contracts measured at fair value.

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

9.1. COMPOSITION OF THE BALANCE AND THE MAXIMUM CREDIT RISK

The following table contains a breakdown of the financial assets included under this category at 31 December 2011 and 2010, classified by geographic area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	4,985,569	4,636,013
Other European Union countries	406,641	458,854
Rest of Europe	46,488	43,866
Rest of the world	751,755	724,760
Total gross amount	6,190,453	5,863,493
(Impairment losses)	(26,549)	(30,674)
Total net amount	6,163,904	5,832,819
Counterparty category		
Credit institutions	1,502,561	1,324,153
Resident public administrations	3,017,288	2,579,374
Non-resident public administrations	128,839	161,812
Other resident sectors	934,330	1,115,544
Other non-resident sectors	607,435	682,610
Total gross amount	6,190,453	5,863,493
Instrument types		
Debt securities:	5,681,292	5,287,190
Government debt securities	*3,017,288*	*2,579,374*
Foreign government debt securities	*128,839*	*161,812*
Issued by financial institutions	*1,466,244*	*1,289,378*
Other fixed interest securities	*1,068,921*	*1,256,626*
Other equity instruments:	509,161	576,303
Shares in listed Spanish companies	*181,923*	*223,057*
Shares in unlisted Spanish companies	*210,443*	*235,288*
Shares in listed foreign companies	*86,437*	*89,418*
Shares in unlisted foreign companies	*257*	*257*
Shares in investment funds	*30,101*	*28,283*
Total gross amount	6,190,453	5,863,493

All impairment losses detailed in the table above relate to the hedging of the credit risk on debt securities and are reversible.

Impairment losses on equity instruments amount to €60,439 thousand at 31 December 2011 (€25,916 thousand at 31 December 2010). These losses are reflected by reducing the gross amount disclosed above and are irreversible.

As part of the gross balance at 31 December 2011 and 2010 included in the table above, there are items amounting to €6,748 thousand relating to foreclosure assets (€5,061 thousand net of impairment value adjustment).

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 3.36% (2.83% in 2010).

9.2. IMPAIRED DEBT SECURITIES

At 31 December 2011 there are impaired debt securities amounting to €22,775 thousand (€26,137 thousand at 31 December 2010), of which €7,000 thousand has fallen due (€7,000 thousand at 31 December 2010).

9.3. HEDGING OF CREDIT RISK AND OTHER RISKS

Movements in impairment losses recorded on credit risk hedges for Debt Securities during 2011 and 2010 are as follows:

(Thousand euros)	2011	2010
Balance at start of the year	**30,674**	**32,635**
Appropriation charged to profit for the year	43	(273)
Reversal of provisions by credit to income	(2,266)	(2)
Applications	(2,049)	(2,000)
Exchange differences and other movements	147	314
Balance at the end of the year	**26,549**	**30,674**
Of which:		
– Specifically calculated	24,275	26,137
– Calculated in general	2,274	4,537

Additionally, during 2011 impairment losses in Other equity instruments measured at fair value have been recognised totalling €35,308 thousand (€15,468 thousand in 2010) while no losses have been recognised in Other equity instruments measured at cost (€4,566 thousand in 2010).

The impairment losses indicated in this note are carried in the consolidated income statement under Impairment losses on financial assets (Other financial instruments not carried at fair value through profit or loss).

10 LOANS AND RECEIVABLES

The items making up this balance sheet caption at 31 December 2011 and 2010 are as follows:

(Thousand euros)	2011	2010
Deposits at credit institutions (Note 10.2)	640,923	1,058,890
Customer loans (Note 10.3)	32,127,585	33,011,013
Debt securities (Note 10.4)	262,755	207,403
	33,031,263	34,277,306

10.1. COMPOSITION OF THE BALANCE AND THE MAXIMUM CREDIT RISK

The following table contains a breakdown of the financial assets included under this category at 31 December 2011 and 2010, classified by geographical area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	33,545,055	34,550,358
Rest of the world	294,597	494,301
Total gross amount	33,839,652	35,044,659
(Impairment losses)	(808,389)	(767,353)
Total net amount	33,031,263	34,277,306
Counterparty category		
Credit institutions	795,945	1,229,038
Resident public administrations	547,849	401,871
Non-resident public administrations	–	–
Other resident sectors	32,358,435	33,278,351
Other non-resident sectors	137,423	135,399
Total gross amount	33,839,652	35,044,659
Instrument types		
Debt securities	270,886	212,382
Loans and credit	32,463,712	33,727,810
Temporary acquisition of assets	444,397	547,401
Term deposits at credit institutions	322,848	481,419
Other	337,809	75,647
Total gross amount	33,839,652	35,044,659

The carrying value shown in the above table represents the maximum credit risk exposure relating to the financial instruments indicated, except for:

- The asset item relating to the present value of fees receivable from financial guarantees, recorded under the caption "Other" (in the breakdown by instrument types) amounts to €1,759 thousand at 31 December 2011 (€1,776 thousand at 31 December 2010). Note 27.1

contains an analysis of the face value of financial guarantees, which reflects the maximum credit risk exposure level.

- The assets transferred to securitization funds that have not been eliminated from the balance sheet, in accordance with the content of Note 2.7, are reflected under the heading "Loans and credit" (in the breakdown by instrument types) and at 31 December 2011 total €5,763,038 thousand (€6,231,792 thousand at 31 December 2010) and are analysed in Note 27.5. The maximum credit risk exposure is stated at the value of all positions held by the Entity in the aforementioned securitization funds, which total €3,412,882 thousand at 31 December 2011 (€3,578,686 thousand at 31 December 2010). The assets transferred to securitization funds which have been fully subscribed by the Bank at 31 December 2011 amount to €1,771,145 thousand (€3,090,966 thousand at 31 December 2010).

10.2. DEPOSITS AT CREDIT INSTITUTIONS

The analysis of financial assets included under the category Deposits at credit institutions at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Demand deposits:	**301,791**	**17,267**
Other accounts	301,791	17,267
Term or with advance notice:	**337,238**	**1,034,744**
Fixed-term deposits	322,848	481,419
Temporary acquisitions of assets	7,156	547,401
Other accounts	7,234	5,924
Other financial assets:	**748**	**1,285**
Cheques due from financial institutions	914	453
Cash guarantees provided	1,360	1,599
Clearing houses	–	34
Fees on financial guarantees	–	35
Other items	(1,526)	(836)
Impaired assets	**–**	**2,631**
Measurement adjustments	**1,146**	**5,594**
Total gross amounts	**640,923**	**1,061,521**
(Impairment losses)	–	(2,631)
Total net amount	**640,923**	**1,058,890**

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 1.00% (1.35% in 2010).

10.3. CUSTOMER LOANS

The analysis of financial assets included under the category Customer loans at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Loans and credit	**32,463,712**	**33,727,810**
Trade credit	286,093	312,877
Secured loans	26,155,715	27,263,063
Other term loans	3,438,863	3,867,483
Finance leases	204,535	223,183
Demand loans and other	1,016,730	848,468
Impaired assets	1,369,663	1,237,494
Measurement adjustments	(7,887)	(24,758)
Temporary acquisitions of assets	**437,241**	**–**
Other financial assets	**26,890**	**42,946**
Financial transactions pending settlement	7,695	4,498
Cash guarantees provided	2,440	2,863
Fees on financial guarantees	1,759	1,776
Other items	14,996	33,809
Total gross amounts	**32,927,843**	**33,770,756**
(Impairment losses)	(800,258)	(759,743)
Total net amount	**32,127,585**	**33,011,013**

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 2.90% (2.62% in 2010).

10.4. DEBT SECURITIES

The analysis of financial assets included under the category Debt securities at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Total gross amount	**270,886**	**212,382**
(Impairment losses)	(8,131)	(4,979)
Total net amount	**262,755**	**207,403**

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 3.12% (3.54% in 2010).

10.5. IMPAIRED ASSETS

The following table shows an analysis of financial assets classified as loans and receivables that are considered to be impaired due to their credit risk at 31 December 2011 and 2010, set out based on the period elapsed since the oldest amount relating to each transaction went unpaid:

(Thousand euros)	Not due	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
Balances at 31 December 2011	149,751	218,649	110,854	91,993	798,416	1,369,663
Balances at 31 December 2010	152,231	170,151	91,216	103,624	722,903	1,240,125

The breakdown of impaired assets by counterparty category is as follows:

(Thousand euros)	2011	2010
Credit institutions	–	2,631
Resident public administrations	300	300
Other resident sectors	1,358,555	1,226,314
Other non-resident sectors	10,808	10,880
	1,369,663	1,240,125

Due and receivable assets are not considered to be impaired until they go unpaid for more than three months. The breakdown of unimpaired due and receivable assets by counterparty category is as follows:

(Thousand euros)	2011	2010
Resident public administrations	10,283	6,413
Other resident sectors	318,930	181,184
Other non-resident sectors	181	116
	329,394	187,713

10.6. HEDGING OF CREDIT RISK

Movements in 2011 and 2010 in measurement adjustments due to impairment and the accumulated amount at the start and end of those years for those debt instruments classified as loans and receivables, are set out below:

Movements in 2011:	Balance at 01/01/11	Transfers	Movements reflected in the income statement Recoveries	Applic.	Other	Balance at 31/12/11
Specifically calculated	672,169	433,503	(170,360)	(98,212)	(77,350)	759,750
Calculated in general	94,864	–	(46,530)	–	–	48,334
Country risk	320	111	(126)	–	–	305
Total impairment losses	767,353	433,614	(217,016)	(98,212)	(77,350)	808,389

Movements in 2010:	Balance at 01/01/10	Transfers	Movements reflected in the income statement Recoveries	Applic.	Other	Balance at 31/12/10
Specifically calculated	508,571	617,470	(257,705)	(109,752)	(86,415)	672,169
Calculated in general	349,530	–	(254,666)	–	–	94,864
Country risk	247	657	(584)	–	–	320
Total impairment losses	858,348	618,127	(512,955)	(109,752)	(86,415)	767,353

Other impaired assets relate to transfers of the provisions for bad debts on credit transactions settled through foreclosure or dation as payment for assets for the total or partial settlement of the debt. As indicated in Notes 2.15.4, 2.17 and 2.18 to the consolidated financial statements when the entity acquires an asset through foreclosure or dation in payment, it should be recognised at the most at the carrying value of the relevant bad debt provisions transferred.

Of the value adjustments for impairment, specifically calculated indicated above, €108,967 thousand relates to adjustments for substandard risks at 31 December 2011 (€122,581 thousand at 31 December 2010).

The impairment adjustments estimated on an individual basis total an accumulated amount of €85,244 thousand at 31 December 2011 (€88,829 thousand at 31 December 2010).

The breakdown of impaired assets by counterparty category is as follows:

(Thousand euros)	2011	2010
Credit institutions	–	2,631
Other resident sectors	803,646	760,185
Other non-resident sectors	4,743	4,537
	808,389	767,353

Set out below are the different items recorded in 2011 and 2010 under "Asset impairment losses (net)- Loans and discounts" in the consolidated income statement for those years:

(Thousand euros)	2011	2010
Net appropriations for the year	216,598	105,172
Doubtful loans recovered	(2,425)	(1,590)
	214,173	103,582

The movement in Loans and discounts written off in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Balances at the beginning of the year	308,017	205,803
Asset additions	98,212	109,752
Additions accrued interest receivable	7,932	10,819
Write-offs owing to asset recoveries	(2,425)	(1,590)
Write-offs accrued interest receivable	(256)	(278)
Other items	(19,739)	(16,489)
Balances at the end of the year	391,741	308,017

11 HELD-TO-MATURITY INVESTMENT PORTFOLIO

11.1. BREAKDOWN OF THE BALANCE AND THE MAXIMUM CREDIT RISK

The following table contains a breakdown of the financial assets included under this category at 31 December 2011 and 2010, classified by geographic area, class of counterparty category and by instrument types:

(Thousand euros)	2011	2010
Geographical area		
Spain	1,662,731	1,131,600
Other European Union countries	584,917	586,774
Total gross amount	2,247,648	1,718,374
(Impairment losses)	–	–
Total net amount	2,247,648	1,718,374
Counterparty category		
Credit institutions	124,952	124,733
Resident public administrations	1,264,517	733,363
Non-resident public administrations	584,917	586,774
Other resident sectors	273,262	273,504
Total gross amount	2,247,648	1,718,374
Instrument types		
Government debt securities	1,264,517	733,363
Foreign government debt	584,917	586,774
Other fixed interest securities	398,214	398,237
Total gross amount	2,247,648	1,718,374

The carrying value shown in the above table represents the maximum credit risk exposure with respect to the financial instruments indicated.

The average effective interest rate on debt instruments classified in this portfolio during 2011 has been 4.25% (4.12% in 2010).

11.2. IMPAIRED ASSETS DUE AND RECEIVABLE

There are no impaired assets due and receivable in this portfolio at 31 December 2011 and 2010.

12 HEDGING DERIVATIVES (RECEIVABLES AND PAYABLES)

12.1. FAIR VALUE HEDGES

The breakdown by product type at fair and face value, of those financial derivatives designated as hedging instruments in fair value hedges at 31 December 2011 and 2010 is as follows:

(Thousand euros)	Fair value			
	Balances receivable		Balances payable	
	2011	2010	2011	2010
Other interest rate transactions				
Interest rate swaps (IRS)	729,603	459,203	211,108	161,254
	729,603	**459,203**	**211,108**	**161,254**

The carrying value figuring in the above table represents the maximum credit risk exposure relating to the financial instruments indicated, except for the asset derivatives contracted for which there are netting or compensation agreements in place and which are also covered by a collateral agreement which consists of formalising deposits in an amount equivalent to the net fair value of the derivative transactions, such that in the event of any default affecting the derivative obligations by one of the parties, the other party does not have to satisfy the obligations associated with the deposit. Asset deposits associated with these agreements amount to €13,710 thousand while liability deposits amount to €544,280 thousand at 31 December 2011 (€19,560 thousand in asset deposits and €325,480 thousand in liability deposits at 31 December 2010).

All fair value hedges obtained by the Group are for the purpose of hedging the risk of changes in the fair value of asset and liability debt instruments issued at a fixed rate of interest, in the event of changes in the interest rate of reference. This risk involves an increase in the fair value of financial liabilities should the interest rate of reference decline, and a decrease in the fair value of financial assets if the rate should increase. To mitigate this risk the Entity obtains mainly financial swaps, whose value varies in line and symmetrically with the changes in the value of the hedged items.

The following table contains details regarding the face value of hedges, set out by hedged and hedging items:

(Thousand euros)	2011	2010
Hedging item:	**10,142,861**	**10,632,757**
Interest rate swaps (IRS)	10,142,861	10,632,757
Hedged item:	**10,142,861**	**10,632,757**
Customer transactions	2,797,722	2,870,564
Debenture loans	5,539,778	5,707,290
Interbank deposits	124,000	249,380
Fixed interest securities	1,681,361	1,804,538
Forward purchases	–	985

12.2. CASH FLOW HEDGES

There are no cash flow hedges at 31 December 2011 or at 31 December 2010.

12.3. HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION

There are no net investment hedges on foreign operations at 31 December 2011 or 31 December 2010.

13 NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2011 and 2010 the balances in this caption on the consolidated balance sheets were as follows:

(Thousand euros)	2011	2010
Foreclosure assets	735,157	531,428
Other assets	21,482	18,430
Total gross amount	**756,639**	**549,858**
(Impairment losses)	(130,752)	(96,135)
Total net amount	**625,887**	**453,723**

At 31 December 2011 impairment losses on foreclosure assets amount to €130,332 thousand (€95,691 thousand at 31 December 2010).

The Group has a Realisation Plan for non-current assets held for sale, which includes the Sales financing policy. The Plan entails the collaboration of the real estate agent network, the disclosure of specific information on the Entity's web page and the existence of a specific unit aimed at the disposal of assets foreclosed as payment for debts.

According to the Group's historical experience, non-current assets for sale remain on the balance sheet for an average of one to three years. Since most non-current assets for sale relate to real estate assets, the Group considers it possible that part of these assets may remain on the balance sheet for longer than the Group's historical experience would indicate in view of the situation of the Spanish real estate market.

Non-current assets are realised in cash, with a deferral for a prudent timeperiod to preserve the Group's interests through adequate legal formulae or financing secured by mortgage under the usual conditions for this type of transactions.

There are no gains pending recognition since sales fulfil the following conditions:

- the purchaser is not controlled by the seller,
- the Entity retains none of the significant risks or rewards associated with ownership of the asset sold,
- the Entity does not retain any involvement in the asset's current management associated with ownership and does not retain effective control,
- the percentage of the sale financed by the entity for the purchase does not exceed that which the latter would obtain from a non-related credit institution,
- the purchaser's present and future payment capacity is sufficient to repay the loan, and
- the financing plan and conditions are similar to those granted by the Entity to finance acquisitions of similar assets not owned by it.

Loans granted during the year to finance sales of this type of assets amount to €44,647 thousand (€19,310 thousand at 31 December 2010) and the accumulated amount of loans granted totals €75,214 t thousand) (€30,567 thousand at 31 December 2010).

The following table sets out a classification by type of asset of non-current assets for sale. Similarly, its carrying amount is reflected (not taking into account impairment losses) which has been valued by an independent valuer.

	Carrying value		Carrying amount of assets valued by independent valuer	
(Thousand euros)	2011	2010	2011	2010
Non-current assets held for sale	**756,639**	**549,859**	**753,886**	**527,814**
Residential	706,543	503,466	704,141	501,886
Industrial	17,624	32,462	17,299	14,453
Agricultural	32,472	13,931	32,446	11,475

The valuations of foreclosure assets were practically all performed in 2011 and 2010 by valuation companies and agencies that have a recognised professional capacity and recent experience in the location and category of the assets subject to valuation. 60% of valuations were performed by Tasaciones Hipotecarias, S.A., and TINSA, Tasaciones Inmobiliarias, S.A.

Different valuation methods have been used to calculate the market value of the assets acquired depending on the type of asset involved. The residual method has been used to value land, the discounted cash flow method for assets for rent and the comparable method for housing. The main features of these methods are as follows:

- Residual method: The final market value is determined on the basis of the projected selling prices of the units to be built. This amount is reduced by development, construction and financial costs and the developer's industrial margin, to arrive at the price of the land. In those cases where the management and development period is higher than the normal average for a development, a project timeline is estimated and forecast cash flows are discounted at an appropriate market rate dynamic residual method.
- Discounting method: In order to determine the value of property rentals, the present value is calculated according to the market rent and/or present rent, taking into account the return required on each type of asset.
- Comparison method: This takes as a starting point the principle of replacement under which the property to be valued is compared with other properties the value of which is known. The methodology is based on the obtainment of comparable homogeneous products, taking into account purchase-sales operations in the area, the supply of similar properties and the opinions of other real estate market operators. In order to arrive at a definitive value, the value obtained is adapted to the specific characteristics of the property, according to its physical and structural condition, the design and lay-out of its surface area, its lease status, location and other factors (town planning status, immediate environment, etc.).

14 SHAREHOLDINGS

14.1. SHAREHOLDINGS IN ASSOCIATES

The breakdown of balances under investments in associates on the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Equity instruments	163,010	170,222
(Impairment losses)	(7,313)	(9,601)
Total net amount	155,697	160,621

Schedules I and II shows a breakdown of the shareholdings considered to be associates at 31 December 2011 and 2010, together with relevant information regarding these companies.

The balance of "Interests - associates" in the consolidated balance sheets at 31 December 2011 and 2010 includes the goodwill associated with these ownership interests. The breakdown of these goodwill amounts, based on the generating company, is set out below:

(Thousand euros)	2011	2010
Entity		
Heraldo de Aragón, S.A.	18,557	21,463
Publicaciones y Ediciones del Alto Aragón, S.A.	1,324	1,324
Rioja Nueva Economía, S.A.	4	4
	19,885	22,791

Set out below are movements in impairment losses in associates in 2011 and 2010:

(Thousand euros)	2011	2010
Balance at beginning of the year	9,601	3,391
Net charges (Note 38)	(2,637)	6,318
Appropriation charged to profit for the year	268	6,318
Recovered amount credited to profit for the year	(2,905)	–
Applications	–	–
Other movements	349	(108)
Balance at the end of the year	7,313	9,601

On 28 December 2009 Corporación Financiera Caja de Madrid, S.A., Sociedad de Promoción y Participación Empresarial Caja de Madrid, S.A., Bancaja Inversiones, S.A., and Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, Ibercaja, as shareholders of NH Hoteles, S.A., entered into an agreement for the syndication of the shares held in that company. Under that agreement, all the partners of the syndicate undertake to exercise, as a unit, the voting rights deriving from the syndicate shares and in particular, undertake that all syndicate shares should vote at the General Shareholders' Meetings, both ordinary and extraordinary, held during the period in which the Syndicate is in effect, as a unit.

The syndicate shares account for 20.74% of the capital of NH Hoteles, S.A, Ibercaja holding 5.041% of that capital. The initial term of the syndicated agreement ended on 31 December 2011 and was tacitly extended for a period of one year, as was reported to the CNMV as a significant event on 20 January 2012. On the basis of the foregoing, the Company considers that it has significant influence over NH Hoteles, S.A., and therefore considers it to be an associate.

As a result of the purchases carried out, Ibercaja had an interest in NH the acquisition cost of which amounted to €86,529 thousand which was reflected for accounting purposes as an available for sale financial asset. On the basis of its stock market price, on 28 December 2009, date on which significant influence was acquired, carrying value totalled a net amount of €48,736 thousand.

At that date, the value in use of the interest was calculated by an independent expert at €84,668 thousand and an impairment loss was recognised for the difference and existing measurement adjustments were eliminated from equity. As the 2009 year end closing was approaching, no additional changes were made to the aforementioned accounting.

Although the accounting treatment of an investment in an associate, which was previously classified as an available for sale asset is not expressly provided in International Financial Reporting Standards, the entity considers that it is the most appropriate taking into consideration existing accounting legislation. In particular, the elimination of measurement adjustments against equity was justified seeing as the impairment of the investment was limited to the difference between cost and its recoverable amount, calculated, as is established in paragraph 2.5.3 of Accounting and Valuation Standard 9 of the Chart of Accounts.

Since 2010 the investment has been carried using the equity method. The value in use at 31 December 2011, calculated by an independent expert, amounts to €85,040 thousand (€76,679 thousand at 31 December 2010). Nonetheless, the Entity has decided to value this interest at €78,934 thousand on the understanding that this amount most accurately reflects the present value of the investment.

In order to quantify the value of the investment, the Entity has used the value in use of that investment, determined by an independent expert. This has been obtained from estimated future cash flows based on the business projections approved by NH Hoteles, S.A., until 2015, a residual value being calculated for the remaining period, which has been determined taking into account a ratio between the value of the company (EV) and EBITDA projected at 12.6 times (EV/EBITDA ratio). These flows have been discounted using market rates and adjusted at the average cost of capital, at an average rate of 11.6% (varies on the basis of the countries in which the investee is present; 10.7% in 2010). Ibercaja considers that these assumptions reflect the situation of both the market and company.

The effect of a 50 basis point variation in the discount rate and a 5% variation in the EV/EBITDA ratio would have an effect on the investment value of 2% and 5.9%, respectively.

The amount of the entity's investment in NH at 31 December 2011, taking into account its share price, amounts to €27,103 thousand.

14.2. SHAREHOLDINGS IN JOINTLY-OWNED COMPANIES

Schedules I and II show a breakdown of the shareholdings considered to be jointly-owned companies at 31 December 2011 and 2010, together with relevant information regarding these companies.

If jointly-owned entities had been consolidated using the proportionate method, the following consolidated group balance sheet figures at 31 December 2011 and 2010 and the consolidated income statement for the years then ended would have included the following modifications:

(Thousand euros)	2011	2010
Total assets	109,127	106,147
Total liabilities	109,127	106,147
Interest margin	(2,284)	(1,890)
Gross profit	21,154	25,410
Operating results	472	1,426
Profit before taxes	(286)	(479)
Profit for year	(285)	(453)
Profit attributed to parent company	–	–

14.3. NOTIFICATIONS REGARDING THE ACQUISITION OF SHARES

No relevant acquisitions or sales of shares in Group, associated or jointly-owned companies took place and therefore no information regarding notifications of such transactions is provided in accordance with the provisions of Article 155 of the Spanish Companies Act and Article 53 of Law 24/1988 on the Stock Market.

15 ASSETS HELD FOR REINSURANCE

At 31 December 2011 and 2010, the entire balance recorded under this consolidated balance sheet heading relates to profit sharing arising from reinsurance policies.

16 PROPERTY, PLANT AND EQUIPMENT

Movements in this consolidated balance sheet caption in 2011 and 2010 are as follows:

(Thousand euros)	For own use	Investment properties	Assigned under operating lease	Community projects	Total
Cost					
Balances at 1 January 2010	1,010,152	121,344	29,600	750	1,161,846
Additions	15,646	37,422	13,871	–	66,939
Disposals due to sales or through other means	(7,918)	(1,186)	(11,583)	–	(20,687)
Other transfers and movements	(942)	(1,528)	–	–	(2,470)
Balances at 31 December 2010	1,016,938	156,052	31,888	750	1,205,628
Additions	4,060	18,182	14,934	–	37,176
Disposals due to sales or through other means	(19,485)	(831)	(18,382)	(750)	(39,448)
Other transfers and movements	13,971	(13,971)	–	–	–
Balances at 31 December 2011	1,015,484	159,432	28,440	–	1,203,356
Accumulated depreciated					
Balances at 1 January 2010	(389,148)	(16,059)	(6,427)	–	(411,634)
Disposals due to sales or through other means	7,604	312	2,057	–	9,973
Transfers charged to the income statement	(29,795)	(3,037)	(3,864)	–	(36,696)
Other transfers and other movements	(26)	26	–	–	–
Balances at 31 December 2010	(411,365)	(18,758)	(8,234)	–	(438,357)
Disposals due to sales or through other means	9,625	261	3,907	–	13,793
Transfers charged to the income statement	(25,142)	(2,983)	(4,280)	–	(32,405)
Other transfers and other movements	(2,764)	2,764	–	–	–
Balances at 31 December 2011	(429,646)	(18,716)	(8,607)	–	(456,969)
Impairment losses					
Balances at 1 January 2010	–	–	–	–	–
Transfer charged to profit for the year	(1,221)	(11,853)	–	–	(13,074)
Recovered amount credited to profit	–	–	–	–	–
Applications and other movements	1,011	(1,516)	(157)	–	(662)
Balances at 31 December 2010	(210)	(13,369)	(157)	–	(13,736)
Transfer charged to profit for the year	(2,625)	(2,646)	–	–	(5,271)
Recovered amount credited to profit	–	–	–	–	–
Applications and other movements	2,506	(965)	17	–	1,558
Balances at 31 December 2011	(329)	(16,980)	(140)	–	(17,449)
Net property, plant and equipment					
Balances at 31 December 2010	605,363	123,925	23,497	750	753,535
Balances at 31 December 2011	585,509	123,736	19,693	–	728,938

At 31 December 2011 fully-depreciated property, plant and equipment still in use amount to €106,728 thousand (€107,800 at 31 December 2010).

16.1. PROPERTY, PLANT AND EQUIPMENT FOR OWN USE

The breakdown by nature of the items forming part of the balance of this consolidated balance sheet caption at 31 December 2011 and 2010 is as follows:

(Thousand euros)	Cost	Accumulated depreciation	Balance net
Computer equipment and facilities	127,512	(106,288)	21,224
Furniture, vehicles and rest of installations	323,368	(228,303)	95,065
Buildings	509,693	(76,774)	432,919
Work in progress	56,155	–	56,155
Balances at 31 December 2010	1,016,728	(411,365)	605,363
Computer equipment and facilities	146,038	(115,389)	30,649
Furniture, vehicles and rest of installations	318,390	(232,066)	86,324
Buildings	546,922	(82,191)	464,731
Work in progress	3,805	–	3,805
Balances at 31 December 2011	1,015,155	(429,646)	585,509

As an integral part of cost, a total of €329 thousand is included (€210 thousand at 31 December 2010) in respect of impairment losses.

There are items totalling €106 thousand, which form part of the net balance at 31 December 2011 figuring in the above table, relating to foreclosure assets recovered as payment for debts and which have been considered to be for own use and not non-current assets held for sale.

In 2011 no indemnities from third parties were received for asset impairment and no indemnities are receivable at 31 December 2011.

There are no major commitments to purchase property, plant and equipment for own use or restrictions on their ownership at 31 December 2011 and 2010.

16.2. INVESTMENT PROPERTIES

In 2011 rental income from the Group's investment property amounted to €3,873 thousand (€3,331 thousand in 2010), other related expenses amounted to €480 thousand (€1,188 thousand in 2010) and operating expenses were incurred in respect of depreciation in 2011 amounting to €2,983 thousand (€3,037 thousand in 2010).

Investment properties reflect a gross balance of €155,751 thousand (€156,052 thousand at 31 December 2010), €123,736 thousand net of depreciation and adjustments for impairment (€123,925 thousand at 31 December 2010), of which €74,300 thousand derives from foreclosure assets (€61,475 thousand at 31 December 2010). Impairment losses on such assets amount to €15,437 thousand (€12,849 thousand at 31 December 2010).

Of that balance, 88% (89% in 2010) of the carrying value is based on valuations carried out by experts with recognised professional capacity and recent experience in the location and category of investment properties under valuation. 83% of valuations were performed by TINSA Tasaciones Hipotecarias, S.A., and Aguirre Newman, S.A.

Note 13 sets out the criteria applied to determine the fair value of these assets.

The table below sets out a classification by type of investment property asset. Similarly, the carrying amount of such assets is reflected (not taking into account impairment losses) and which has been measured by an independent valuer.

(Thousand euros)	Carrying value		Carrying amount of assets valued by independent valuer	
	2011	2010	2011	2010
Investment properties	140,717	137,294	124,485	122,838
Residential	49,336	43,676	48,602	42,942
Industrial	91,273	93,500	75,883	79,791
Agricultural	108	118	–	105

The valuations indicated above were mostly carried out in 2011 and 2010.

There are no major commitments to acquire or hold investment properties, or restrictions on their ownership at 31 December 2011.

16.3. OTHER ASSETS ASSIGNED UNDER OPERATING LEASE

Under this caption the Group includes the assets linked to operating leases. In 2011 rental income from these assets amounted to €6,184 thousand (€5,651 thousand in 2010), while operating expenses in respect of depreciation and other related expenses amounted to €4,280 thousand and €1,640 thousand, respectively (€3,864 thousand and €1,366 thousand in 2010).

16.4. IMPAIRMENT LOSSES

During 2011 impairment losses amounting to €2,625 thousand were recognised on property, plant and equipment for own use and €2,646 thousand on investment properties (€1,221 thousand and €11,853 thousand in 2010) (Note 37).

17 INTANGIBLE ASSETS

Movements under this consolidated balance sheet caption in 2011 and 2010 were as follows:

(Thousand euros)	2011	2010
Balance at the beginning of the year	25,341	29,524
Additions	2,697	4,412
Amortisation	(9,604)	(8,595)
Other movements	–	–
Balance at year end	18,434	25,341

The entire amount relating to intangible assets in 2011 and 2010 consists of computer applications used to carry out the Group's activity. They are amortized based on their useful lives, initially estimated to be three to five years.

At 31 December 2011 fully-amortised intangible assets still in use amount to €26,679 thousand (€22,084 thousand at 31 December 2010).

18 OTHER ASSETS

The breakdown of this heading of the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Prepayments and accrued income	4,480	1,104
Inventories	423,598	325,810
Transactions in transit	768	209
Other	4,866	152
Total gross amounts	433,712	327,275
(Impairment losses)	(73,455)	(59,552)
Total net amount	360,257	267,723

Impairment analysed above relates in full to Inventories.

Inventories reflect a balance of €423,598 thousand (€325,810 thousand at 31 December 2010) of which €407,841 thousand relates to residential property assets (€321,460 thousand at 31 December 2010). Of the €407,841 thousand in property assets, €314,340 thousand results from foreclosure assets (€236,961 thousand at 31 December 2010).

At 31 December 2011 impairment losses on foreclosures amount to €65,728 thousand.

Valuations of the foreclosure assets in question have been updated in fall in 2011 and 2010 and in any event have been carried out by qualified experts. 78% of valuations were performed by TINSA, Tasaciones Inmobiliarias, S.A., Aguirre Newman, S.A., and General de Valoraciones, S.A.

Note 13 sets out the criteria applied to determine the fair value of these assets.

19 FINANCIAL LIABILITIES AT AMORTISED COST

The items making up this consolidated balance sheet caption at 31 December 2011 and 2010 are as follows:

(Thousand euros)	2011	2010
Central bank deposits (Note 19.1)	900,246	–
Deposits from credit institutions (Note 19.2)	1,980,476	2,075,240
Customer funds (Note 19.3)	27,903,354	29,104,264
Marketable debt securities (Note 19.4)	5,668,282	5,594,282
Subordinated debt financing (Note 19.5)	777,172	776,205
Other financial liabilities (Note 19.6)	212,905	254,071
	37,442,435	**37,804,062**

19.1. DEPOSITS FROM CENTRAL BANKS

The composition of the balances under this caption in the consolidated balance sheets at 31 December 2011 and 2010, based on the nature of the transaction concerned, is indicated below:

(Thousand euros)	2011	2010
Bank of Spain	900,000	–
Measurement adjustments	246	–
	900,246	**–**

19.2. DEPOSITS FROM CREDIT INSTITUTIONS

The composition of the balances under this caption in the consolidated balance sheets at 31 December 2011 and 2010, based on the nature of the transaction concerned, is indicated below:

(Thousand euros)	2011	2010
On demand	**86,278**	**9,245**
Other accounts	86,278	9,245
Term or subject to prior notice	**1,887,892**	**2,061,052**
Fixed-term deposits	1,172,454	964,357
Assets acquired under repurchase agreements	699,013	931,831
Other accounts	16,425	164,864
Measurement adjustments	**6,306**	**4,943**
	1,980,476	**2,075,240**

The average effective interest rate on debt instruments classified in this caption during 2011 was 1.63% (0.99% in 2010).

19.3. CUSTOMER FUNDS

The composition of the balances under this caption in the consolidated balance sheets at 31 December 2011 and 2010, based on the geographic location, the nature of the transaction and counterparty concerned, is indicated below:

(Thousand euros)	2011	2010
Geographical location		
Spain	27,792,612	28,994,993
Rest of the world	110,742	109,271
	27,903,354	**29,104,264**
Nature		
Current accounts	5,868,270	6,051,551
Savings deposits	3,375,090	3,392,642
Term deposits	12,452,538	13,446,905
Assets acquired under repurchase agreements	937,793	981,628
Mortgage and territorial bonds	4,700,000	4,875,000
Measurement adjustments	569,663	356,538
	27,903,354	**29,104,264**
Counterparty category		
Resident public administrations	390,378	542,130
Other resident sectors	27,402,234	28,452,863
Non-resident public administrations	21	40
Other non-resident sectors	110,721	109,231
	27,903,354	**29,104,264**

The average effective interest rate on debt instruments classified in this caption during 2011 was 1.65% (1.32% in 2010).

The heading Mortgage and territorial bonds (in the breakdown by nature) includes mortgage bond issued under Law 2/1981 governing the Mortgage Market for amounts of €4,700,000 thousand (€4,800,000 thousand at 31 December 2010).

At 31 December 2011 there are no territorial bond issues under Law 44/2002 (€75,000 thousand at 31 December 2010).

The mortgage bonds have been issued at floating interest rates while issues at fixed interest rates are hedged against interest-rate risk through interest rate swaps.

19.4. MARKETABLE DEBT SECURITIES

The breakdown of this heading of the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Promissory notes and bills	687,250	223,687
Nominal value – Mortgage Bonds	2,405,000	1,375,000
Nominal value of other securities linked to transferred financial assets	2,536,348	2,895,024
Nominal value – other non-convertible securities	1,200,000	1,300,000
Treasury shares	(1,242,684)	(230,768)
Measurement adjustments	82,368	31,339
	5,668,282	5,594,282

In 2011 the Fifth Promissory Note programme of Ibercaja and the first Promissory Note programme of Ibercaja Banco, SAU, were issued. The maximum outstanding balance on these issues will at all times and for both issues amount to €1,000,000 thousand, with a maximum term of one and a half years at the time of issue.

In 2011 two mortgage bond issues were carried out under Law 2/1981 governing the Mortgage Market for amounts of €30,000 thousand and €1,000,000 thousand, respectively.

A breakdown of the security issues associated with financial assets transferred is as follows:

(Thousand euros) Rate	Nominal interest	Date of issue	Maturity date	Nominal issue	Amount subscribed 2011	Amount subscribed 2010
TDA2 mortgage bonds	Variable	13.10.2005	(*)	904,500	378,586	439,769
TDA3 mortgage bonds	Variable	12.05.2006	(*)	1,007,000	480,320	540,383
TDA4 mortgage bonds	Variable	18.10.2006	(*)	1,410,500	632,194	739,250
TDA5 mortgage bonds	Variable	11.05.2007	(*)	1,207,000	659,562	816,280
TDA6 mortgage bonds	Variable	25.06.2008	(*)	1,521,000	53,326	–
TDA ICO-FTVPO mortgage bonds	Variable	15.07.2009	(*)	447,200	332,360	359,342
TDA7 mortgage bonds	Variable	18.12.2009	(*)	2,070,000	–	–
					2,536,348	2,895,024

(*) These bonds are amortised as the mortgage loans that have been assigned to the relevant securitization fund are repaid.

Details of issues of other non-convertible securities are as follows:

(Thousand euros) Rate	Nominal interest	Date of issue	Maturity date	Nominal issue	Amount subscribed 2011	Amount subscribed 2010
4th issue ordinary bonds	Variable	09.02.2006	09.02.2011	600,000	–	600,000
5th issue ordinary bonds	Variable	20.07.2006	20.07.2012	700,000	700,000	700,000
1 Government secured issue	4.44%	04.04.2011	30.07.2014	500,000	500,000	–
					1,200,000	1,300,000

The average effective interest rate on debt instruments classified in this caption during 2011 was 2.24% (1.21% in 2010).

19.5. SUBORDINATED DEBT FINANCING

The breakdown of this heading of the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Nominal subordinated bonds	624,826	624,826
Nominal preference shares	150,000	150,000
Measurement adjustments	2,346	1,379
	777,172	776,205

In 2006 the Ibercaja issued preference shares with a total nominal value of €150,000 thousand and an indefinite duration. They may be redeemed at the Company's discretion once 10 years have elapsed as from the issue date, subject to Bank of Spain authorisation. If the advance redemption right is not exercised, the nominal annual variable interest rate applicable to this issue will be increased as from that date by 100 base points.

Details regarding each issue of subordinated bonds are as follows:

(Thousand euros) Issue	Nominal interest	Maturity	Nominal amount 2011	Nominal amount 2010
12 December 1988	Variable	Perpetual	14,424	14,424
10 November 1989	Variable	Perpetual	14,424	14,424
14 January 1991	Variable	Perpetual	17,430	17,430
23 November 1992	Variable	Perpetual	28,548	28,548
20 April 2006	Variable	20 April 2018	200,000	200,000
25 April 2007	Variable	25 April 2019	350,000	350,000
			624,826	624,826

In late December 2011, the Bank of Spain authorised Ibercaja Banco to carry out the early amortisation of the subordinated bonds issued by Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja in 1988, 1989, 1991 and 1992, following compliance with the relevant legal requirements. Such issues could be voluntarily amortised by the Company after 20 years following their issue, prior authorisation by the Bank of Spain.

For the issues relating to 2006 and 2007, although their maturity is set for years between 2018 and 2019, the Group reserves the right to redeem them after 7 years, although this may be reduced to 5 years through the agreement of the Meeting of Debenture Holders, after the date of issue, subject to Bank of Spain authorisation. These issues are subordinated and come behind all common creditors with respect to debt seniority.

Issues of preference shares and subordinated bonds are authorised by the Bank of Spain for their classification as computable tier 1 and tier 2 capital, respectively.

The interest accrued on subordinated liabilities in 2011 totalled €16,305 thousand (€12,173 thousand in 2010).

The average effective interest rate on debt instruments classified in this caption during 2011 was 2.11% (1.58% in 2010).

19.6. OTHER FINANCIAL LIABILITIES

The breakdown of this heading of the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Amounts payable	16,017	61,828
Guarantee deposits	2,878	2,835
Clearing houses	15,490	–
Tax collection accounts	134,332	135,225
Special accounts	32,129	40,914
Financial guarantees	1,713	1,744
Other items	10,346	11,525
	212,905	254,071

19.7. INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL DISPOSITION OF LAW 15/2010 OF 5 JULY, NAMED "INFORMATION DUTY"

Set out below is information on the payments made and pending to suppliers in 2011:

	Payments made and pending at the balance sheet date	
	2011	
	Thousand euros	%
Within the maximum legal limit	240,684	99%
Other	3,495	1%
Total payments during the year	244,179	100%
Average weighted payment period exceeded (days)	11	
Deferrals that the year end date exceed the maximum legal period	1,709	–

At the 2010 year end amounts payable to suppliers where the payment period exceeded 85 days totalling €835 thousand relate to payments due to lease creditors.

20 INSURANCE CONTRACT LIABILITIES

Set out below is a breakdown of this balance in the consolidated balance sheets at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Underwriting reserves for:		
Life insurance:	4,283,927	3,555,927
Unearned premium reserve	*12,155*	*11,345*
Mathematical reserves	*4,271,772*	*3,544,582*
Benefits pending payment	27,461	24,358
Profit sharing and returned premiums	10,482	10,196
Life insurance in which the investment risk is borne by the policyholders	83,165	96,318
	4,405,035	**3,686,799**

There is no accepted reinsurance at 31 December 2011 or 31 December 2010.

20.1. RISK MANAGEMENT UNDER INSURANCE CONTRACTS

The Group's risk exposure under the insurance contracts arranged and related operations are market (interest rate, concentration, spread and variable income); counterparty, operational and underwriting-life.

Market, counterparty and operational risks on this activity are managed consistently throughout the Ibercaja group as indicated in Note 3 Risk Management. The actual risk on insurance operations relates to underwriting life that derives from a possible increase in the value of liabilities as a result of the non-fulfilment of the assumptions under which the policies were arranged and encompasses a series of risks, the most significant of which are detailed below:

- Longevity risk: deriving from adverse variations in complying with the mortality table (survival risk). Its impact derives from the arrangement of life annuities and liability policies managed by the insurance company although it is not significant. Concerning the longevity risk, there is a monthly follow-up of the technical result on the portfolios affected and the part of this result affected by the survival risk is analysed.
- Risk of fall: this indicates the sensitivity of the value of liabilities to shifts in surrender rates. Its impact is associated with the volatility of the savings business. A follow-up is carried out of the historical performance of the surrender level, taking into account prior year experience. The assumptions obtained from that analysis are taken into account when obtaining the liabilities to match the

flows (joint asset and liability management), in order to ensure that they conform as closely as possible to the real situation at all times. In this way, it is verified that the forecast asset flows are sufficient in time and amount to cover forecast future commitments.

- Morality risk: this indicates the sensitivity of the value of liabilities to adverse variations because the claims ratio exceeds forecasts. Its impact derives from life-risk insurance. This risk is managed through a rating system based on the personal characteristics of each policyholder. This system is reviewed regularly by a control unit and is accepted by reinsurers.

Similarly, to control and follow up the mortality risk, the company carries out a monthly review of the claims ratio associated with each product marketed and the impact of this variable on the income statement for each product.

Irrespective of the mortality table applied to calculate the premium, which depends on the type of product, date on which it is first sold or other aspects, mortality tables PERM/F-2000P that were approved by the Resolution of the Directorate General for Insurance and Pension Funds of 3 October 2000, that conforms to transitional provision 2.5 of the Private Insurance Regulations, have been taken as a reference.

Set out below is the performance of the claims ratio for direct life insurance and its comparison with the forecast claims ratio.

	Life insurance - saving		Life annuities		Unit linked insurance		Life insurance - Individual risk		Total life insurance	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Portfolio at 31 December (No. of contracts)	248,631	232,489	33,950	26,830	11,657	13,398	237,161	230,248	531,399	502,965
No. of expected claims	1,126	955	1,403	1,130	71	77	283	269	2,884	2,431
No. of real claims	562	593	1,252	896	47	54	237	232	2,098	1,775
Percentage (real/expected)	49.90%	62.10%	89.22%	79.32%	65.74%	70.18%	83.61%	86.28%	72.73%	73.03%

The insurance company has established a policy for assigning risks to leading reinsurers in the sector, mitigating the risk through the dispersion of the sums insured and the accumulation of claims deriving from the same event. The adequacy of this reinsurance policy to the volume of business was validated in 2008 by the actuarial studies department of a reinsurance company. The reinsurance policy was reviewed in 2010 by the technical department of Ibercaja Vida.

20.2. CONCENTRATION OF THE INSURANCE RISK

It is Group policy to diversify insurance risks and there are mechanisms that make it possible to detect all types of risk concentrations. The use of reinsurance contracts is standard practice as a way of mitigating the risk deriving from concentration or accumulation of guarantees in excess of the maximum acceptable limits.

The tables below set out the premiums issued, classified based on their characteristics:

(Thousand euros)	2011	2010
Life insurance premiums	36,099	32,503
Savings insurance premiums	1,464,418	1,106,883
	1,500,517	**1,139,386**
Premiums for individual policies	1,402,275	1,120,423
Premiums for group policies	98,242	18,963
	1,500,517	**1,139,386**
Regular premiums	240,610	276,723
Single premiums	1,259,907	862,663
	1,500,517	**1,139,386**
Premiums for policies with no profit-sharing	1,480,224	1,117,331
Premiums for policies with profit-sharing	17,016	18,002
Premiums for policies where the investment risk is assumed by the policyholder	3,277	4,053
	1,500,517	**1,139,386**

The premiums under the insurance contracts detailed in the table above are presented in the income statement under "Income on insurance and reinsurance contracts", which reflects reinsurance income amounting to €5,071 thousand at 31 December 2011 (€4,696 thousand at 31 December 2010).

According to the Directorate General of Insurance, those insurance policies where, although a group policy is formalised, the premium payment obligations and inherent rights pertain to the insured are classed as individual policies. The entire premium portfolio has been arranged in Spanish territory.

20.3. SENSITIVITY TO THE INSURANCE RISK

The Group carries out a sensitivity analysis regularly, stressing each of the risk components of its portfolio on a stand-alone basis, affecting both the asset and liability and following Solvency II methodology.

Asset and liability flows are discounted at the euroswap curve rate at 31 December 2011 while the impact resulting from a variation in the interest rate curve is as follows:

- A parallel increase of 50 base points in the discount curve entails a reduction of 1.21% in the value of the asset and 2.88% in the value of the liability.

- A parallel fall of 50 base points in the discount curve entails an increase of 1.27% in the value of the asset and 3.09% in the value of the liability.

Given that most of the insurance company's portfolios are immunized and taking into account their classification for accounting purposes, a change in the interest rate structure, both upwards and downwards, does not have a significant impact on the income statement.

21 PROVISIONS FOR CONTINGENT EXPOSURES AND COMMITMENTS AND OTHER PROVISIONS

Movements in 2011 and 2010, and the purpose of the provisions recorded under these captions in the consolidated balance sheet at 31 December 2011 and 2010, are as follows:

				Other provisions	
(Thousand euros)	Provisions for pensions and similar liabilities	Provisions for legal and tax exposures	Provisions for contingent exposures and commitments	Ordinary business risks (1)	Equity instrument fund (2)
Balances at 1 January 2010	133,238	18,077	22,015	164,912	21,848
Transfers charged to income:					
Interest and similar charges	92	–	–	–	–
Transfers to provisions and other	142	–	5,620	130,756	6,010
Reversal of provisions by credit to income	–	–	(17,866)	(215,333)	(10,693)
Provisions used	(1,954)	(631)	–	–	–
Other movements	(5,243)	(2,011)	22	407	–
Balances at 31 December 2010	126,275	15,435	9,791	80,742	17,165
Transfers charged to income:					
Interest and similar charges	41	–	–	–	–
Transfers to provisions and other	149	–	929	–	–
Reversal of provisions by credit to income	–	(7,505)	(2,601)	(59,233)	(17,165)
Provisions used	(734)	–	(3)	–	–
Other movements	(2,840)	602	36	116	–
Balances at 31 December 2011	122,891	8,532	8,152	21,625	–

(1) This refers to funds related to the cover of risks of losses on agreements to cancel loans pending formalisation and the Entity's other ordinary business risks.

The reversal in 2011 results from the cancellation of part of these contracts and the discounting of the amounts associated with ordinary business risks. The remaining balances are expected to reverse in the next two years

(2) The opening balance relates to the cover of the risk of impairment of certain equity instrument investments where, following an individual and on-going analysis and follow-up, the objective requirements mentioned in Note 2.8.3 had not yet been met. During this year, this provision was reversed due to the impairment recognised on these investments.

The composition of the caption "Provisions – Pension Funds and similar obligations" is analysed in Note 36, Staff costs.

Other movements reflect the variation in commitments transferred out through pension plans and insurance policies without removing the financial and actuarial component and the benefits paid. Information is provided in Note 35.2.

The caption "Provisions – Provisions for contingent exposures and commitments" includes impairment losses related to the financial guarantees granted by the Entity (Note 27.1).

22 OTHER LIABILITIES

The breakdown of this heading of the consolidated balance sheets at 31 December 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Staff costs accruals	40,207	40,361
Transactions in transit	978	1,091
Other	34,096	15,207
	75,281	56,659

23 MEASUREMENT ADJUSTMENTS

23.1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This consolidated balance sheet caption records the net amount of changes to the fair value of assets classified as available for sale which, in accordance with the matters mentioned in Note 2, must be classified as part of the Group's equity, net of any tax effect (the movement of which is detailed in Note 25.4), as changes to the income statement when the originating assets are sold or are impaired.

The detail of measurement adjustments, net of the tax effect, and fair value hierarchies (detailed in Note 26.1) is as follows:

2011	Measurement adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
(Thousand euros)					
Listed equity instruments	(27,117)	291,271	291,271	–	–
Unlisted equity instruments	68,786	144,981	–	–	144,981
Listed fixed interest securities	(91,609)	5,654,743	5,459,314	195,412	17
Unlisted fixed interest securities	–	–	–	–	–
Total	(49,940)	6,090,995	5,750,585	195,412	144,998

2010	Measurement adjustments	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
(Thousand euros)					
Listed equity instruments	(2,607)	333,457	300,336	22,491	10,630
Unlisted equity instruments	91,263	177,093	–	–	177,093
Listed fixed interest securities	(82,691)	5,256,516	4,844,202	341,124	71,190
Unlisted fixed interest securities	–	–	–	–	–
Total	5,965	5,767,066	5,144,538	363,615	258,913

At 31 December 2011, for equity instrument investments where the share price has fallen with respect to the average acquisition cost by more than 40%, the average fall amounts to 51.9% (42.7% at 31 December 2010) while the amount of the difference between the acquisition cost and fair value totals €20,663 thousand (€27,518 thousand at 31 December 2010).

Set out below is a detail of the capital losses on those equity instrument investments where there has been a fall in the share price compared with cost over more than 18 months:

(Thousand euros)	Capital losses	
	2011	2010
Duration of the fall		
More than 42 months	2,310	–
Between 31 and 42 months	3,148	4,623
Between 18 and 30 months	7,097	13,539
	12,555	18,162

As mentioned in Note 2.8.3, the Entity carried out a specific analysis of the main figures of the aforementioned investments in order to confirm if it is necessary to account for an impairment loss. On the basis of the analysis performed, impairment losses have been recognised for an accumulated amount at 31 December of €60,439 thousand (€25,916 thousand at 31 December 2010).

23.2. ENTITIES MEASURED UNDER THE EQUITY METHOD

This consolidated balance sheet heading reflects the net amount of the variation in the fair value of assets classified as available for sale pertaining to equity method entities.

Measurement adjustments break down into €186 thousand in losses on listed and unlisted equity (€1,195 thousand in gains at 31 December 2010), €38 thousand in losses on listed fixed income (€2 thousand in losses at 31 December 2010) and €546 thousand in losses in respect of other items (€349 thousand at 31 December 2010).

23.3. OTHER VALUATION ADJUSTMENTS

This caption records the remaining measurements adjustments in the equity accounts.

Measurement adjustments amount to €30,018 thousand in respect of accounting asymmetry adjustments (Note 2.19) at 31 December 2011 (€28,423 thousand in respect of measurement adjustments at 31 December 2010) and €9,474 thousand in grants not yet released to income (€3,752 thousand at 31 December 2010).

24 SHAREHOLDERS' FUNDS

As at 31 December 2011 and 2010, this heading breaks down as follows:

(Thousand euros)	2011	2010
Capital	2,134,500	–
Reserves	494,053	2,536,823
Revaluation reserves	193,445	200,670
Reserves in companies carried under the equity method	(24,160)	(4,603)
Other reserves	324,768	2,340,756
Profit for year	54,914	97,025
Dividends and remuneration	(12,800)	–
Total	2,670,667	2,633,848

24.1. CAPITAL

Share capital at 31 December 2011 consists of 2,134,500,000 shares with a par value of €1 each, of a single class and series. The Bank's shares are represented by registered shares and are fully owned by Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (Ibercaja).

Capital was contributed in 2011 through the bank's formation and is accounted for herein as a reclassification of reserves as indicated in the total statement of changes in equity.

24.2. REVALUATION RESERVE

The revaluation reserves amount to €193,445 thousand at 31 December 2011 (€200,670 thousand at 31 December 2010) and may not be distributed, directly or indirectly, unless the capital gain has been realised, which will occur when:

a) The part of the restated assets corresponding to the reserve has been depreciated.

b) The restated assets have been transferred or written off.

25 TAX SITUATION

25.1. CONSOLIDATED TAX GROUP

Within the framework of the spin-off process and in accordance with applicable legislation, Ibercaja Banco and Ibercaja decided to form the consolidated tax group. This decision has not affected the other Group companies. Ibercaja's corporate income tax return for 2011 was therefore completed on a consolidated basis for the Group formed by Ibercaja and Ibercaja Banco while the other Group companies file individual returns in accordance with applicable tax legislation.

At 31 December 2011 "Deposits at credit institutions" under assets on the balance sheet include the amount that Ibercaja owes Ibercaja Banco, as a result of the above.

25.2. YEARS OPEN TO TAX INSPECTIONS

Ibercaja Banco, the Group's parent, was incorporated in 2011 as a result of the spin-off for the indirect performance of the financial activities of Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja. On acquiring en bloc all the assets and liabilities effectively spun off, it assumed all the obligations and was subrogated to all the rights and relationships associated therewith, including those related to tax.

In this respect, the years 2005 and subsequent years are open to inspection by the tax authorities for corporate income tax for the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja, and 2007 and subsequent years for other Group entities. For other taxes, the periods after December 2006 are open to inspection.

At 31 December 2011 and 2010, the Group had recognised a receivable from the tax authorities totalling €2,108 thousand as a result of an assessment recognising a smaller refund than previously requested by the Group, as there was a difference in the criteria applied to calculate the income that could be applied to the deduction for the reinvestment of extraordinary income for corporate income tax purposes in 2000 and 2001. The assessment has been contested and an appeal has been filed. This receivable, recognised on the asset side of the balance sheet, is fully covered by a provision and therefore no adverse effect is expected to arise for the Group's financial statements.

Similarly, in March 2009 two inspection assessments were signed as a result of a difference in criterion concerning the deduction for the reinvestment of extraordinary profits for corporate income tax purposes for 2002, on the one hand, and for 2003 and 2004, on the other. Both assessments have been appealed against and the corresponding provision has been recognised under liabilities on the balance sheet amounting to €1,231 thousand.

Due to possible different interpretations of the applicable tax regulations, there may be certain tax contingencies which cannot be objectively quantified. However, in the opinion of the Group's Board of Directors and Management, should these contingencies result in actual liabilities they will not have a significant effect on the financial position and the results obtained by the Group.

25.3. RECONCILIATION OF BOOK AND TAX PROFIT

The reconciliation of the consolidated profit before taxes for 2011 and 2010 and the corporate income tax expense is as follows:

(Thousand euros)	2011	2010
Consolidated profit before tax	72,208	135,929
Corporate income tax at the general tax rate	21,662	40,779
Effect of permanent differences	(1,612)	(1,099)
Other adjustments on consolidation	4,516	7,674
Tax deductions and tax credits	(6,051)	(4,212)
Corporate income tax expense for the year	18,515	43,142
Adjustment to prior year tax expense	(577)	144
Appropriation to provisions for taxes	–	(2,011)
Total corporate income tax expense	17,938	41,275

In accordance with Transitional Provision Three of Law 24/2001 (27 December), in 2002 the corporate income tax base was increased to include the income covered by the deferral system, applying the deduction for the reinvestment of extraordinary gains allowed by Article 42 of the Corporate Income Tax Act, for a total of €5,057 thousand (see Note 25.2 for comments on the tax effects of the spin-off of the Entity's activity in favour of the Bank).

In 2011 and 2010 income was generated that gave rise to the deduction for the reinvestment of extraordinary gains and the reinvestment commitment arising from this deduction has been fulfilled. The following table shows the extraordinary gains that resulted in this deduction:

(Thousand euros)

Year income obtained	Amount	Year of reinvestment
1998	3,498	2001
1999	190	2001
2001	6,001	2002
2002	6,017	2002
2003	4,181	2003
2004	6,707	2004
2005	4,486	2007
2006	14,633	2005-2007
2007	3,380	2007
2008	101,953	2007-2011
2009	1,598	2008-2012
2010	4,403	2009-2010
2011 (forecast)	17,583	2010-2011

Note: the figures for 2010 and previous years refer to the Entity's operations.

25.4. DEFERRED TAX ASSETS AND LIABILITIES

Based on tax legislation in force in Spain, in 2011 and 2010 there were certain timing differences and tax credits that should be taken into account when calculating the consolidated corporate income tax expense. The balance of and movements in the deferred tax assets and liabilities recorded in the consolidated balance sheets at 31 December 2011 and 2010 are as follows:

(Thousand euros)	Deferred tax assets	Deferred tax liabilities
Balance at 1 January 2010	226,310	139,074
Prior-year regularisation	1,068	–
Generated during the year	135,218	8,012
Applied during the year	(111,102)	(560)
Change in deferred tax assets and liabilities applied to equity	–	(15,887)
Balance at 31 December 2010	251,494	130,639
Prior-year regularisation	2,250	1,687
Generated during the year	115,685	4,218
Applied during the year	(62,385)	(2,541)
Change in deferred tax assets and liabilities applied to equity	8,538	(12,285)
Balance at 31 December 2011	315,582	121,718

Of deferred taxes receivable in 2011, €60,779 thousand relates to tax credits.

The breakdown of the Group's deferred tax assets and liabilities, classified by type of temporary difference and tax credit is as follows:

	Deferred tax assets		Deferred tax liabilities	
(Thousand euros)	2011	2010	2011	2010
Impairment of financial assets	61,741	58,336	3,268	1,501
Pension commitments and other provisions	13,513	39,068	–	–
Fixed assets	–	–	90,582	92,952
Foreclosure assets	63,720	52,313	–	–
Other adjustments	12,131	6,617	23,808	19,841
Total temporary differences with balancing entry in the income statement	151,105	156,334	117,658	114,294
Total temporary differences with balancing entry in equity	8,538	–	4,060	16,345
Credit in respect of available tax losses	110,245	71,098	–	–
Credit in respect of available deductions	45,694	24,062	–	–
Total tax credits	155,939	95,160	–	–
	315,582	251,494	121,718	130,639

The Entity has recorded the above tax credits since it considers that there are no reasonable doubts that it will report a sufficient profit in the next few years to recovery them.

26 FAIR VALUE

26.1. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Set out below is the breakdown of the fair value of financial assets and liabilities at 31 December 2011 and 2010 compared with their corresponding carrying value reflected in the balance sheet at that same date. Similarly, a breakdown of fair value is included on the basis of the valuation system (levels 1, 2 and 3):

2011	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
(Thousand euros)					
Held for trading	43,776	43,776	9,674	16,704	17,398
Other financial assets at fair value through profit or loss	117,254	117,254	59,108	58,146	–
Available-for-sale financial assets	6,163,904	6,090,995	5,750,585	195,412	144,998
Loans and discounts	33,031,263	34,931,821	–	1,102,098	33,829,723
Held-to-maturity portfolio	2,247,648	2,128,273	2,128,273	–	–
Of which: Sovereign risk	*1,849,434*	*1,784,860*	*1,784,860*	–	–
Hedging derivatives	729,603	729,603	–	729,603	–
Total financial assets	42,333,448	44,041,722	7,947,640	2,101,963	33,992,119
Held for trading	24,405	24,405	–	5,917	18,488
Financial liabilities at amortised cost	37,442,435	38,715,844	–	38,715,844	–
Hedging derivatives	211,108	211,108	–	211,108	–
Total financial liabilities	37,677,948	38,951,357	–	38,932,869	18,488

2010	Total balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
(Thousand euros)					
Held for trading	43,875	43,875	1,150	12,208	30,517
Other financial assets at fair value through profit or loss	128,800	128,800	70,767	58,033	–
Available-for-sale financial assets	5,832,819	5,767,066	5,144,538	363,615	258,913
Loans and discounts	34,277,306	35,931,185	–	169,623	35,761,562
Held-to-maturity	1,718,374	1,621,997	1,621,997	–	–
Of which: Sovereign risk	*1,320,137*	*1,285,940*	*1,285,940*	–	–
Hedging derivatives	459,203	459,203	–	459,203	–
Total financial assets	42,460,377	43,952,126	6,838,452	1,062,682	36,050,992
Held for trading	34,791	34,791	–	6,363	28,428
Financial liabilities at amortised cost	37,804,062	37,871,061	–	37,616,990	254,071
Hedging derivatives	161,254	161,254	–	161,254	–
Total financial liabilities	38,000,107	38,067,106	–	37,784,607	282,499

The criteria used to determine fair value have been as follows:

- Level 1: using prices quoted on active markets for financial instruments.
- Level 2: using prices quoted on active markets for similar instruments or other valuation techniques in which all significant inputs are based on directly indirectly observable market data.
- Level 3: using valuation techniques in which some significant inputs are not based on observable market data.

In particular, the valuation techniques used in levels 2 and 3 and assumptions used to determine fair value have been:

- Debt securities and interest rate swaps: Valuation techniques have been used based on cash flow discounting using the interest rate curve and market spread for similar instruments.
- Options: They are measured through the quoted prices provided by counterparties.
- Equity instruments measured at fair value: In general, fair value is obtained discounting estimated cash flows, which derive from the investees' business plans for a period generally of five years, calculating a residual value for the remaining period. These flows have been discounted using market rates and adjusted to the average cost of capital.

  Equity instruments with a fair value hierarchy of level 3 relate mainly to the investment in an insurance company. A 5% variation in market multiples for the insurance company would entail a decrease in the valuation of 4.78%.
- Equity instruments measured at cost: There are unlisted equity instruments in the Available-for-sale financial assets portfolio that are recorded at historical cost totalling €72,909 thousand (€65,753 thousand at 31 December 2010). For these instruments, potential impairment losses that could exist at 31 December 2011 (Note 9) have been recorded.
- Customer loans (loans and receivables): The valuation technique used is based on the discounting of estimated or estimable future flows considering maturing dates and interest revaluation date, calculated based on the interbank interest rate curve and debt at a given date. Advance repayment of 5% of the total has also been considered. This percentage is based on the Company's historical data and is used in internal management.

  The impact of a 100 basis point variation in the interbank interest rate curve would bring about a 0.5% change in fair value.

  In this case, it is estimated that there are no major differences owing to the credit risk between the carrying value and fair value since the Group has quantified the level of credit risk provisions for its loan risk portfolio in accordance with applicable accounting legislation and which is considered sufficient to cover that risk. Nonetheless, in an economic and financial crisis such as the present crisis and since there is no market for those financial assets, the amount at which they may be exchanged between interested parties could differ from the net value reflected since the potential acquirer could take into account the losses incurred and recorded in accordance with applicable legislation and their best estimates of possible future losses.

- Customer deposits: The valuation technique used is based on the discounting of estimated or estimable future flows considering maturing dates and interest revaluation date, calculated based on the interbank interest rate curve and debt at a given date.
- Marketable debt securities and subordinated debt financing: Valued using market prices or spread for similar instruments.

The reasons for which there may be differences between the fair value and the carrying value of the financial instruments are as follows:

- For fixed-income instruments issued, the fair value of the instrument varies based on the development of market interest rates. Fluctuations are greater the longer the residual life of the instruments.
- The fair value may differ from the carrying value for a financial instrument issued at a variable rate if the margins relating to the interest rate of reference have changed since the instrument was issued. If the margins remain constant, the fair value will coincide with the carrying value only on dates when revaluations are carried out. On all other dates there is an interest rate risk for the flows that have already been calculated.

The Group carries out an analysis to assess whether the markets on which its financial instruments are listed may be considered active, in accordance with applicable accounting legislation. The carrying value of financial instruments that are no longer valued in 2011 with level 2 and 3 criteria and are valued with level 1 amounts to €7,975 thousand. The Group considers that, in accordance with the clarifications provided by accounting regulators in 2011 and although this is a matter of judgement, there is insufficient evidence to conclude that the markets on which these financial instruments are listed are not active.

For certain financial instruments (mainly the trading portfolio and operations related to financial derivatives), there is a balancing entry in the income statement for changes in fair value. The breakdown of the effect on the income statement of the changes in fair value is as follows, classified on the basis of the fair value hierarchical level of the financial instruments:

(Thousand euros)	2011	2010
Level 1	34,683	(13,451)
Level 2	(35,312)	22,045
Level 3	(2,108)	(195)
	(2,737)	8,399

Set out below in the fair value hierarchy of Level 3 fair value, there is a reconciliation of opening balances to closing balances, revealing separately changes during the year attributable to the following:

(Thousand euros)	Held for trading - Assets	Available-for-sale financial assets	Held for trading - Liabilities
Balance at 31 December 2009	34,740	261,647	31,942
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(10,244)	(2,366)	(9,571)
Purchases	15,444	12,338	11,741
Sales	–	(673)	–
Issues	–	–	–
Settlements and maturities	(9,423)	(12,033)	(5,684)
Transfers from or to level 3	–	–	–
Balance at 31 December 2010	30,517	258,913	28,428
Profit/(loss) recognised in the income statement and/or statement of recognised income and expense	(15,845)	(40,620)	(12,427)
Purchases	3,629	–	3,522
Sales	–	–	–
Issues	–	–	
Settlements and maturities	(903)	(65,355)	(1,035)
Transfers from or to level 3	–	(7,940)	–
Balance at 31 December 2011	17,398	144,998	18,488

26.2. FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT

On 1 January 2004 the Group applied section 16 of IFRS 1, by virtue of which it restated part of its real estate assets and thereby generated a gross capital gain totalling €349,114 thousand.

The Group believes there are no significant differences between the carrying value and the fair value of property, plant and equipment following the restatement.

27 OTHER SIGNIFICANT INFORMATION

27.1. CONTINGENT EXPOSURES

The following table breaks down financial guarantees granted at 31 December 2011 and 2010 in accordance with the maximum risk assumed by the Group:

(Thousand euros)	2011	2010
Guarantees and other sureties	543,084	620,488
Financial guarantees	96,743	123,344
Other guarantees and sureties	446,341	497,144
Irrevocable letters of credit	15,081	23,705
Irrevocable documents issued	14,895	23,705
Irrevocable documents confirmed	186	–
Assets associated with third party obligations	234	234
	558,399	644,427

A significant portion of these amounts will mature without any payment obligation arising for the Entity and therefore the full amount recorded for these commitments cannot be considered to be an actual future need for financing or liquidity to be granted to third parties by the Group.

The income obtained from guarantee instruments is recorded under the captions "Fees received" and "Interest and similar income" (in the amount relating to the restatement of the commission values) in the consolidated income statements for 2011 and 2010, and are calculated by applying the rate established contractually based on the nominal amount of the guarantee concerned.

The provisions recorded to cover the guarantees provided to third parties, which have been calculated by applying criteria similar to those for the calculation of financial asset impairment stated at their amortised cost, are included under the caption "Provisions for contingent risks and commitments" in the balance sheet (Note 21).

At 31 December 2011 and 2010, the Group had not identified any contingent liability.

27.2. ASSETS LOANED OR PLEDGED

The breakdown of assets loaned or pledged is as follows:

(Thousand euros)	2011	2010
Securitized assets (net of measurement adjustments)	5,744,893	6,197,511
Assets under repos	1,329,314	1,850,597
Assets associated with Bank of Spain policy (*)	1,284,922	1,213,770
Other	9,100	6,100
	8,368,229	9,267,978

(*) Additionally, €3,910,435 thousand (€3,107,429 thousand in 2010) relating to own securitization bonds that are also associated with the policy with the Bank of Spain, to secure monetary policy operations in the Eurosystem which at 31 December 2011 and 2010 were not available.

27.3. CONTINGENT COMMITMENTS

At 31 December 2011 and 2010, the limits on the financing contracts granted and the amounts available were as follows:

	2011		2010	
(Thousand euros)	Limit granted	Amount available	Limit granted	Amount available
Drawable by third parties	7,626,542	2,185,909	9,072,158	2,595,967
Available immediately	2,085,712	1,368,437	2,473,543	1,547,197
Available subject to conditions	5,540,830	817,472	6,598,615	1,048,770
Securities subscribed pending disbursement	–	6,427	–	5,159
Documents in clearing houses	–	328,417	–	399,559
	7,626,542	2,520,753	9,072,158	3,000,685

The amounts available relate to variable interest operations.

27.4. THIRD PARTY RESOURCES MANAGED AND MARKETED BY THE GROUP AND CUSTODY OF SECURITIES

At 31 December 2011 and 2010, the limits on the financing contracts granted and the amounts available were as follows:

(Thousand euros)	2011	2010
Investment funds	4,538,307	4,739,514
Pension funds	3,300,489	3,616,319
Third party equity managed on a discretionary basis	725,237	795,262
	8,564,033	**9,151,095**
Of which: managed by the Group	8,555,185	9,139,137

Set out below is a breakdown of the securities deposited by the third parties in the Entity at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Fixed income	10,045,755	8,504,850
Equities	5,363,208	2,882,883
	15,408,963	**11,387,733**

27.5. ASSET SECURITIZATION

The Group carried out several asset securitization operations before 1 January 2004 which were eliminated from the consolidated balance sheet (Note 2.7). Securitized assets outstanding at 31 December 2011 and 2010 are analysed below:

(Thousand euros)	2011	2010
Assets transferred to TDA Ibercaja 1, FTA in 2003	190,328	215,374
	190,328	**215,374**

In addition, the Group securitized assets by assigning loans from its portfolio to a securitization fund in which it continued to bear the related substantial risks and benefits in accordance with the transfer conditions agreed. Details of the balances recorded in relation to these operations are set out below:

(Thousand euros)	2011	2010
Assets transferred to TDA Ibercaja 2, FTA in 2005	436,485	480,068
Assets transferred to TDA Ibercaja 3, FTA in 2006	537,622	590,142
Assets transferred to TDA Ibercaja 4, FTA in 2006	795,108	870,112
Assets transferred to TDA Ibercaja 5, FTA in 2007	767,621	835,370
Assets transferred to TDA Ibercaja 6, FTA in 2008	1,117,903	1,216,826
Assets transferred to TDA Ibercaja ICO-TVPO, FTA in 2009	337,154	365,134
Assets transferred to TDA Ibercaja 7, FTA in 2009	1,771,145	1,874,140
	5,763,038	6,231,792

27.6. ASSETS RECEIVED UNDER GUARANTEES

Assets received under guarantees at 31 December 2011 total €33,194 thousand (€39,194 thousand at 31 December 2010).

27.7. LEASES

27.7.1. FINANCE LEASES

Finance leases in which the Group is the lessor are characterized as follows:

- Accrual of a variable interest rate.
- The lessee has a purchase option which is structured as a final payment instalment under the agreement whereby the lessee may obtain ownership of the asset at a cost that is significantly lower than its market value at that moment. Given that it may be considered reasonably certain that the lessee will exercise the purchase option, its value is recorded as a receivable together with the other minimum payments to be made by the lessee.

27.7.2. OPERATING LEASES

All the operating leases in which the Group participates may be cancelled and normally the initial term of the lease is five years. Rental income is adjusted annually based on the consumer price index.

In the operations in which the Group is the lessee, the amount of the leases recorded as an expense in 2011 totalled €21,512 thousand (€21,711 thousand in 2010).

Refurbishing expenses and capital investment relating to leased assets for which the Group is the lessee, net of depreciation, total €50,618 thousand at 31 December 2011 (€53,282 thousand at 31 December 2010).

27.8. ENVIRONMENTAL DISCLOSURES

The Group's operations as a whole are subject to environmental protection legislation. The Group considers that it complies substantially with these laws and that it has procedures in place designed to ensure they are met.

The Group has adopted the appropriate measures to protect and improve the environment and to minimise possible environmental impact and complies with current environmental legislation. During 2011 and 2010 no significant investments were made in this area and no significant contingencies are deemed to exist with respect to the protection and improvement of the environment.

27.9. SEGMENT REPORTING

27.9.1. SEGMENTING BY LINES OF BUSINESS

Reporting (consolidated income statement) by business segment at 31 December 2011 and 2010 is as follows:

At 31 December 2011	Total	Financial sector	Insurance sector	Other sectors
(Thousand euros)				
Interest margin	**491,170**	**417,772**	**75,370**	**(1,972)**
Fees	231,194	241,741	(10,533)	(14)
Results on financial transactions and other	69,405	50,247	3,294	15,864
Gross margin	**791,769**	**709,760**	**68,131**	**13,878**
Administration and amortisation/depreciation expenses	520,734	501,204	2,298	17,232
Provisions (net)	(85,426)	(85,419)	–	(7)
Asset impairment losses (net)	247,258	241,906	5,334	18
Operating margin	**109,203**	**52,069**	**60,499**	**(3,365)**
Asset impairment losses (net)	13,506	13,454	–	52
Other gains/(losses)	(23,489)	(23,494)	–	5
Profit before taxes	**72,208**	**15,121**	**60,499**	**(3,412)**
Corporate income tax	17,938	556	18,116	(734)
Consolidated profit for the year	**54,270**	**14,565**	**42,383**	**(2,678)**

At 31 December 2010	Total	Financial sector	Insurance sector	Other sectors
(Thousand euros)				
Interest margin	**530,945**	**471,171**	**61,440**	**(1,666)**
Fees	229,156	238,763	(9,593)	(14)
Results on financial transactions and other	45,904	31,918	(166)	14,152
Gross margin	**806,005**	**741,852**	**51,681**	**12,472**
Administration and amortisation/depreciation expenses	515,909	494,961	1,630	19,318
Provisions (net)	(101,364)	(88,077)	(13,269)	(18)
Asset impairment losses (net)	123,341	123,321	–	20
Operating margin	**268,119**	**211,647**	**63,320**	**(6,848)**
Asset impairment losses (net)	62,700	56,040	–	6,660
Other gains/(losses)	(69,490)	(69,455)	–	(35)
Profit before taxes	**135,929**	**86,152**	**63,320**	**(13,543)**
Corporate income tax	41,275	24,379	18,961	(2,065)
Consolidated profit for the year	**94,654**	**61,773**	**44,359**	**(11,478)**

The breakdown of assets and liabilities associated with the business segments is as follows at 31 December 2011 and 2010:

	2011				2010			
(Thousand euros)	Total	Financial sector	Insurance sector	Other sectors	Total	Financial sector	Insurance sector	Other sectors
Assets	**45,143,624**	40,257,998	4,759,115	126,511	**44,825,867**	40,666,301	4,039,864	119,702
Liabilities	**42,476,623**	37,857,458	4,533,034	86,131	**42,147,205**	38,217,535	3,846,091	83,579

27.9.2. GEOGRAPHICAL SEGMENTING

The Group carries out its activities in Spain and the type of customer is similar throughout the country. The Group therefore takes into consideration a single geographical segment for its operations.

28 INTEREST AND SIMILAR INCOME

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Deposits at the Bank of Spain and other central banks	5,491	5,198
Deposits at credit institutions	7,167	9,550
Money market transactions through counterparties	586	18
Customer loans	922,767	829,811
Debt securities	298,702	244,185
Doubtful assets	16,242	15,968
Adjustment of products though hedges	(19,936)	(25,238)
Income from insurance contracts linked to pensions (Note 35.2)	332	419
Other interest	–	18,021
	1,231,351	1,097,932

Set out below is a breakdown of the amounts reflected under this caption, classified taking into account the relevant financial instrument portfolio:

(Thousand euros)	2011	2010
Financial assets at fair value through profit or loss	139	93
Available-for-sale financial assets	216,606	174,193
Held-to-maturity	81,957	69,899
Loans and receivables	946,762	855,347
Rectification of income from hedging operations	(19,936)	(25,238)
Other revenues	5,823	23,638
	1,231,351	1,097,932

29 INTEREST AND SIMILAR CHARGES

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Deposits at the Bank of Spain and other central banks	246	1,185
Deposits from credit institutions	33,397	18,120
Money market transactions through counterparties	4,081	3,739
Deposits from public administrations	9,920	8,867
Deposits from other resident sectors	578,336	525,473
Non-resident deposits	2,110	1,370
Marketable debt securities	136,605	93,640
Subordinated debt financing	16,305	12,173
Rectification of expenses due to hedging operations	(146,445)	(186,956)
Interest expense pension funds (Note 36.2)	41	92
Other interest	105,585	89,284
	740,181	**566,987**

Set out below is a breakdown of the amounts reflected under this caption, classified taking into account the relevant financial instrument portfolio:

(Thousand euros)	2011	2010
Financial liabilities at amortised cost	781,000	664,567
Adjustment of costs deriving from accounting hedges	(146,445)	(186,956)
Other expenses	105,626	89,376
	740,181	**566,987**

30 RETURN ON EQUITY INSTRUMENTS

The amount recorded under this caption relates in full to dividends from equity instruments and other shares in the Available-for-sale assets portfolio amounting to €19,299 thousand at 31 December 2011 (€16,875 thousand at 31 December 2010).

31 FEES RECEIVED

Income from fees accrued in 2011 and 2010, classified in accordance with the item generating the fees, is reflected in the following table:

(Thousand euros)	2011	2010
Fees for contingent exposures	5,538	5,894
Fees for contingent commitments	1,580	1,641
Fees for foreign currency exchange and foreign bank notes	197	153
Fees for collection and payment services	85,542	82,002
Securities service fees	21,003	20,429
Non-bank financial product marketing fees	109,866	113,107
Other commissions	20,352	19,107
	244,078	**242,333**

32 FEES PAID

Expenses for fees accrued in 2011 and 2010, classified in accordance with the item generating the fees, are reflected in the following table:

(Thousand euros)	2011	2010
Fees paid to other entities and correspondent banks	10,376	10,426
Fees paid on securities transactions	2,046	2,050
Other commissions	462	701
	12,884	**13,177**

33 INCOME FROM FINANCING OPERATIONS

The breakdown of the balance of this consolidated income statement caption in 2011 and 2010, based on the originating financial instrument portfolio, is as follows:

(Thousand euros)	2011	2010
Financial assets at fair value through profit or loss (trading portfolio)	**3,466**	**4,842**
Other financial instruments at fair value through profit or loss	**1,993**	**884**
Financial instruments not carried at fair value through profit or loss	**44,062**	**35,127**
Available-for-sale financial assets	(2,057)	5,021
Liabilities at amortised cost	46,119	30,106
Other results from financial operations	**(4,262)**	**4,957**
Adjustments to hedged instruments (fair value hedges)	(224,416)	(39,143)
Hedging derivative (fair value hedges)	219,143	42,835
Other	1,011	1,265
	45,259	**45,810**

34 EXCHANGE DIFFERENCES

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Translation into euro of monetary items denominated in foreign currency	604	(1,406)
Foreign currency trading	1,220	2,531
	1,824	**1,125**

No gain or loss was obtained on the cancellation of exchange differences recorded in equity, as explained in Note 2.4.3.

35 STAFF COSTS

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Wages and salaries	256,785	255,646
Social security contributions	51,771	51,389
Contributions to pension funds and insurance policies	14,549	14,680
Other staff costs	4,560	4,215
	327,665	**325,930**

35.1. NUMBER OF EMPLOYEES

The distribution by category and gender of the Group's employees at 31 December 2011 and 2010 is as follows:

	Workforce 31/12/2011		Workforce 31/12/2010	
(Thousand euros)	Men	Women	Men	Women
GR. 1 Senior management	13	1	15	1
GR. 1 Levels I to V	1,517	513	1,499	500
GR. 1 Levels VI to X	1,083	1,065	1,112	1,045
GR. 1 Levels XI to XIII	498	571	532	646
GR. 2 and cleaning staff	40	12	41	13
	3,151	**2,162**	**3,199**	**2,205**

The average number of Group employees in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
GR. 1 Senior management	14	16
GR. 1 Levels I to V	2,025	1,995
GR. 1 Levels VI to X	2,147	2,077
GR. 1 Levels XI to XIII	1,135	1,246
GR. 2 and cleaning staff	54	54
	5,375	**5,388**

35.2. PORT-EMPLOYMENT AND EARLY RETIREMENT COMMITMENTS

The spin-off of financial activities by Ibercaja to Ibercaja Banco, SAU, described in Note 1.1 has not entailed any change in employees' pre-existing rights.

In accordance with the prevailing collective bargaining agreement, the Entity is required to supplement the social security benefits of its employees and their successors on retirement, disability and death. In order to transfer these commitments out, Ibercaja set up the Ibercaja Employee Pension Plan under Law 8/1987, which distinguished between a group of employees with defined-benefit commitments for all contingencies and a group of employees with defined-contribution commitments for retirement and related contingencies and defined-benefit commitments for disability and work-related death.

In 2001, Ibercaja entered into a Company Agreement with the employees' representatives that replaced the existing pension commitments. As a result, virtually all its employees at that date came under a defined-contribution plan for retirement contingencies and a guaranteed minimum defined-benefit plan for disability and work-related death under the Ibercaja Employee Pension Plan.

This entailed the recognition of initial rights which were financed through existing amounts in the Pension Plan at 31 December 2000 and the extraordinary contributions under a 10 year re-equilibrium plan in respect of past service rights for new commitments. This plan was paid in advance in 2006.

Vested rights under the employee pension plan, allocable to members and defined benefit beneficiaries, amount to €359,381 thousand at the 2011 year end while the mathematical reserve associated with the cover of the guarantees of the insured and defined benefit beneficiaries amounts to €109,043 thousand at the 2011 year end.

Commitments not covered by the Employee Pension Plan relate mainly to commitments for pensions arising prior to the arrangement of this Plan and transferred out through insurance policies, mainly arranged with Ibercaja Vida, S.A.

The Company pact mentioned above recognised extraordinary contributions for all members who changed from the defined benefit to the defined contribution system to cover retirement contingencies. These extraordinary contributions were recognised for the years 2001 to 2010. At the 2011 year end the Company therefore has no obligation in respect of this item.

Total expenses and income recorded in the income statement for pensions in 2011 are as follows, distributed among the relevant items:

(Thousand euros)	2011	2010
Staff costs (current cost of the period)	14,549	14,680
Interest and similar charges (interest expense) (Note 29)	41	92
Interest and similar income (return on assets) (Note 28)	(332)	(419)
Transfers to provisions (Note 21)	149	142
Reversal of provisions (Note 21)	–	–
	14,407	14,495

Staff costs associated with contributions to the pension plans and insurance policies in question amounting to €14,549 thousand in 2011 (€14,680 thousand in 2010) relate to defined contribution commitments amounting to €12,888 thousand in 2011 (€12,744 thousand in 2010), while the remainder basically relates to defined benefit costs covering the risk of death and disability indicated in Note 21.

The following table presents an itemized analysis of the amounts recorded under the captions "Provisions – Provisions for pensions and similar obligations" (Note 21) on the consolidated balance sheets at 31 December 2011 and 2010:

(Thousand euros)	2011	2010
Provisions – Provisions for pensions and similar liabilities		
Post-employment commitments	117,983	122,595
Commitments covered by internal funds	117,983	122,595
Early retirement commitments	1,407	1,881
Commitments covered by internal funds	1,407	1,881
Other items	3,501	1,799
Estimate of actuarial variances in the Pension Plan and insurance policies	3,501	1,799
	122,891	126,275

In addition, the defined benefit pension commitments currently due and payable covered by the Pension Plan and external insurance policies total €119,342 thousand at 31 December 2011 (€127,927 thousand at 31 December 2010).

The movement in present value for each group, taken individually, of defined benefit commitments is as follows:

(Thousand euros)	Commitments transferred out: Pension plan	Commitments transferred out: External insur. policy	Commitments transferred out: Group insur. policy	Pre-retirem.	Future costs agreem. 2001	Other	Total
Balances at 31 December 2009	113,140	18,765	127,868	2,738	833	1,799	265,143
Cost of services for the current year	–	–	–	–	–	142	142
Interest expense on commitments not transferred out	–	–	–	55	37	–	92
Benefits paid under commitments not transferred out	–	–	–	(942)	(870)	(142)	(1,954)
Past service cost	–	–	–	–	–	–	–
Other movements	(1,520)	(2,453)	(5,273)	30	–	–	(9,216)
Employer contributions [1]	2,238	239	–	–	–	–	2,477
Interest expense on commitments not transferred out	5,030	497	3,393	–	–	–	8,920
Actuarial gains and losses	(305)	–	927	30	–	–	652
Benefits paid commitments transferred out	(8,483)	(2,691)	(9,593)	–	–	–	(20,767)
Curtailments and settlements	–	(498)	–	–	–	–	(498)
Balances at 31 December 2010	111,620	16,312	122,595	1,881	–	1,799	254,207
Cost of services for the current year	–	–	–	–	–	149	149
Interest expense commitments not transferred out	–	–	–	40	–	–	40
Benefits paid under commitments not transferred out	–	–	–	(584)	–	(149)	(733)
Past service cost	–	–	–	–	–	–	–
Other movements	(2,577)	(6,013)	(4,623)	70	–	1,713	(11,430)
Employer contributions [1]	968	282	–	–	–	–	1,250
Interest expense on commitments not transferred out	4,523	365	3,694	–	–	–	8,582
Actuarial gains and losses	611	–	1,341	70	–	1,715	3,737
Benefits paid under commitments transferred out	(8,679)	(6,660)	(9,658)	–	–	(2)	(24,999)
Curtailments and settlements	–	–	–	–	–	–	–
Balances at 31 December 2011	109,043	10,299	117,972	1,407	–	3,512	242,233

(1) The increase in commitments covered by the Pension Plan is due to the payments deriving from the contingencies of death and disability of serving employees, which do not result in movements in the income statement since under the Pension Plan they are covered through an insurance policy.

Set out below is the movement in the fair value of assets associated with the Pension Plan and external insurance policies:

(Thousand euros)	Pension plan of Ibercaja employees	External insurance policy	Total
Balances at 31 December 2009	113,140	18,765	131,905
Other movements	(1,520)	(2,453)	(3,973)
Employer contributions	2,238	239	2,477
Expected return on plan assets	5,030	497	5,527
Actuarial gains and losses	(305)	–	(305)
Member contributions	–	–	–
Benefits paid under commitments not transferred out	(8,483)	(2,691)	(11,174)
Curtailments and settlements	–	(498)	(498)
Balances at 31 December 2010	111,620	16,312	127,932
Other movements	(2,577)	(6,013)	(8,590)
Employer contributions	968	282	1,250
Expected return on plan assets	4,523	365	4,888
Actuarial gains and losses	611	–	611
Member contributions	–	–	–
Benefits paid under commitments not transferred out	(8,679)	(6,660)	(15,339)
Curtailments and settlements	–	–	–
Balances at 31 December 2010	109,043	10,299	119,342

Additionally, set out below is the movement in the present value of commitments and the fair value of the related assets:

(Thousand euros)	Commitments	Related assets	Provisions
Balances at 31 December 2009	**265,143**	**(131,905)**	**133,238**
Cost of services for the current year	142	–	142
Interest expense on commitments not transferred out	92	–	92
Benefits paid under commitments not transferred out	(1,954)	–	(1,954)
Past service cost	–	–	–
Other movements	(9,216)	3,973	(5,243)
Employer contributions	2,477	(2,477)	–
Interest expense on commitments not transferred out	8,920	–	8,920
Expected return on plan assets	–	(5,527)	(5,527)
Actuarial gains and losses	652	305	957
Member contributions	–	–	–
Benefits paid under commitments not transferred out	(20,767)	11,174	(9,593)
Curtailments and settlements	(498)	498	–
Balances at 31 December 2010	**254,207**	**(127,932)**	**126,275**
Cost of services for the current year	149	–	149
Interest expense on commitments not transferred out	40	–	40
Benefits paid under commitments not transferred out	(733)	–	(733)
Past service cost	–	–	–
Other movements	(11,430)	8,590	(2,840)
Employer contributions	1,250	(1,250)	–
Interest expense on commitments not transferred out	8,582	–	8,582
Expected return on plan assets	–	(4,888)	(4,888)
Actuarial gains and losses	3,737	(611)	3,126
Member contributions	–	–	–
Benefits paid under commitments not transferred out	(24,999)	15,339	(9,660)
Curtailments and settlements	–	–	–
Balances at 31 December 2011	**242,233**	**(119,342)**	**122,891**

The present value of the commitments has been calculated by independent actuaries, who applied the following criteria to the calculation:

- Calculation method: "the projected credit unit", which considers each year of service to generate an additional unit of rights to benefits and values each unit separately.
- Actuarial assumptions used in 2011 and 2010 which are compatible with each other. Specifically, the most significant actuarial assumptions included in the calculations were:

Actuarial assumptions	Pension plan	Insurance policies	Early retirement fund
Technical interest rate	4%	3%	2.5%
Mortality tables	PER2000C	PER2000P	PER2000P
Accumulated annual inflation	1%	1%	1%

- The estimated age of retirement for each employee is the first that he is entitled to retire, except in the case of early retirement, which is the agreed time.

36 OTHER GENERAL ADMINISTRATION EXPENSES

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Buildings, installations and office equipment	44,202	45,677
Equipment maintenance, licences, work and computer programs	15,391	16,110
Communications	12,991	14,264
Advertising and publicity	9,382	10,357
Levies and taxes	19,527	10,102
Other management and administration expenses	49,567	48,178
	151,060	144,688

The increase in Levies and taxes is attributable to the fact that certain taxes settled on asset foreclosures have not been capitalised as an increase in the cost of the asset as a result of the entry into effect of Bank of Spain Circular 3/2010.

- Other information

Fees payable to PricewaterhouseCoopers Auditores, S.L., for auditing the 2011 financial statements of Ibercaja Banco and group companies (including securitization funds) amount to €487 thousand (€486 thousand in 2010). Additionally, the audit company has received fees for other services amounting to €170 thousand (€93 thousand in 2010).

The fees for other services provided by other companies that use the PricewaterhouseCoopers trademark have amounted to €40 thousand in 2011 (€49 thousand in 2010) of which €22 thousand relates to tax advisory services (€12 thousand in 2010).

37 OTHER ASSET IMPAIRMENT LOSSES

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Impairment losses on goodwill and other intangible assets	–	3,290
Impairment losses on inventories	10,872	40,018
Impairment losses on property, plant and equipment for own use (Note 16.4)	2,625	1,221
Impairment losses on investment property (Note 16.4)	2,646	11,853
Impairment losses on shareholdings (Note 14.1)	(2,637)	6,318
	13,506	62,700

38 GAINS (LOSSES) FROM DISPOSALS OF ASSETS NOT CLASSIFIED AS NON-CURRENT AVAILABLE FOR SALE

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Gains from disposals of assets not classified as non-current available for sale	11,439	2,641
Losses on sale of shareholdings	(33)	–
	11,406	2,641

39 GAINS (LOSSES) FROM NON-CURRENT ASSETS AVAILABLE FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS

The breakdown of the balance under this consolidated income statement caption in 2011 and 2010 is as follows:

(Thousand euros)	2011	2010
Impairment losses on non-current assets for sale	(36,762)	(69,765)
Results on disposal of shareholdings considered strategic	–	–
Profit/(loss) on disposal of non-current assets for sale	1,867	(2,366)
	(34,895)	(72,131)

40 RELATED PARTIES

The balances reflected in consolidated balance sheets at 31 December 2011 and 2010 and in the consolidated income statement for 2011 and 2010 are as follows:

	2011					2010			
(Thousand euros)	Group Co.	Assoc.	Jointly – controlled entities	Other related parties (*)	Related individuals (**)	Assoc.	Jointly – controlled entities	Other related parties (*)	Related individuals (**)
ASSETS									
Loans and credits	–	97,096	36,643	–	19,636	86,914	30,681	–	19,636
Counterparties insurance contracts	–	–	–	–	–	–	–	–	–
LIABILITIES									
Customer funds	57,234	6,437	13,488	602,649	133,132	5,516	1,450	612,631	133,132
Liabilities from insurance contracts linked to pensions	–	–	–	471,965	–	–	–	456,927	–
Provisions	–	–	–	9	1	–	–	26	1
EQUITY									
Dividends	12,800	–	–	–	–	–	–	–	–
INCOME STATEMENT									
Expenses									
Interest and similar charges	158	1,138	57	10,920	465	45	15	7,024	335
Fees paid	–	–	–	–	–	–	–	–	–
Income									
Interest and similar income	58	2,400	1,543	7	682	2,093	218	1	509
Fees collected	–	–	–	–	–	–	–	–	–
OTHER									
Contingent liabilities	–	833	2,397	–	434	592	4,425	–	165
Commitments	–	4,638	–	–	1,774	9,058	–	–	1,433

(*) Investment funds and companies and Pension funds.
(**) Senior management, Board of Directors, relatives to the second degree and entities related to the same.

The financial operations reflected were performed in accordance with the usual operation of the Group's parent financial entity and on an arm's length basis. Similarly, for other operations with related parties, terms equivalent to arm's length are applied. For such purposes, the preferred valuation method is the comparable uncontrolled method.

41 CUSTOMER CARE SERVICE

Within the framework of protection measures for customers of financial institutions established by Law 44/2002 (22 November) on financial system reform measures enacted by Royal Decree 303/2004 (20 February) and Order ECO/734/2004 (11 March), with the aim of preserving and strengthening customer confidence the Group adapted its Customer care service to meet this legislation to attend to and resolve customer complaints regarding their interests and legally recognised rights concerning transactions, contracts or financial services rendered by Group companies.

For these purposes, Ibercaja Group is made up of the actual Caja and the following companies: Ibercaja Banco, SAU, Ibercaja Leasing y Financiación, S.A., Establecimiento Financiero de Crédito; Ibercaja Patrimonios, S.A., Sociedad Gestora de Carteras; Ibercaja Gestión, S.A., Sociedad Gestora de Instituciones de Inversión Colectiva; Ibercaja Vida, S.A., Compañía de Seguros y Reaseguros; Ibercaja Pensión, S.A., Sociedad Gestora de Fondos de Pensiones; and Ibercaja Mediación de Seguros, S.A.

The Ibercaja Group's Customer Care Service is governed by the Regulations approved by Ibercaja Banco, SAU, which can be consulted at any Group branch and on the web site www.ibercaja.es. Users can also use the branches and web site to present complaints or claims, or consult the relevant procedures.

In accordance with the above-mentioned legislation, the Customer care service at Ibercaja Group presented a statistical report to the Board of Directors of Ibercaja Banco, SAU, regarding complaints and claims handled, the decisions taken, the general criteria followed when taking these decisions and the recommendations or suggestions made to improve the Group's actions. A summary of this information is included below:

a) Claims handled

In 2011 the Ibercaja Group Customer Care Service received a total of 2,635 suggestions, complaints, requests exercising rights under the Personal Data Protection Law and claims, of which 1,383 were claims of a financial nature.

Of these complaints and claims of a financial nature, totalling €111,592.80 were resolved in the customer's favour, for a total of €35,128.93, which represents 31.48% of the total amount claimed.

Compared with 2010 the total number of complaints, suggestions and claims has risen by 216 (8.93%) and financial claims have increased by 252 (15.41%).

The average response time for the issues handled by the Customer Care Service was 34.04 days and 46.86 days for claims. In 2010 these same periods were 27.28 and 33.56 days, respectively.

In this respect, it is important to note that the sending of notifications to Ibercaja customers, informing them of the transfer of financial activities to Ibercaja Banco, SAU, triggered replies, asking, in some cases, for information on the reasons why that notification was being sent to them and in other, exercising the rights contained in the Data Protection Law. The number of requests related to the Data Protection Law managed by the Customer Service department in 2011 amounted to 628.

b) General criteria contained in the decisions

The resolutions, which have been issued in strict observance of good governance, banking practice, transparency and consumer finance protection standards, have been based on the formal statements made by customers and the reports issued by the affected offices, departments and Group companies and the rulings have been supported by the contractual agreements concluded with customers.

The processing of the complaints, suggestions, requests under the Data Protection Law and claims made by customers has revealed a series of matters that may be improved and relate, in some cases, to the agility and quality of the service rendered and, in others, to questions relating to the marketing of certain products, which have served to correct errors and improve operating processes in an attempt to preserve and strengthen customer confidence in Ibercaja.

42 BALANCE SHEET AT 31 DECEMBER 2011, INCOME STATEMENT, STATEMENT OF RECOGNISED INCOME AND EXPENSE, TOTAL STATEMENT OF CHANGES IN EQUITY AND CASH-FLOW STATEMENT OF IBERCAJA BANCO, SAU, FOR THE YEAR ENDED 31 DECEMBER 2011

IBERCAJA BANCO, S.A.U.

BALANCE AT 31 DECEMBER 2011

(Thousand euros) ASSETS	2011
Cash on hand and on deposit at central banks	527,857
Held for trading	39,294
Debt securities	8,743
Equity instruments	930
Derivatives held for trading	29,621
Memorandum item: loaned or pledged	*82*
Available-for-sale financial assets	3,424,817
Debt securities	2,943,156
Equity instruments	481,661
Memorandum item: loaned or pledged	*1,300,020*
Loans and receivables	33,756,883
Deposits at credit institutions	574,139
Customer loans	33,057,288
Debt securities	125,456
Memorandum item: loaned or pledged	*5,767,360*
Held-to-maturity investment portfolio	2,247,648
Memorandum item: loaned or pledged	*1,300,767*
Hedging derivatives	703,154
Non-current assets held for sale	81,258
Shareholdings	617,471
Associates	150,923
Jointly-controlled entities	45,584
Group companies	420,964
Insurance contracts related to pensions	117,983
Property, plant and equipment	476,664
Property, plant and equipment	432,136
Investment properties	44,528
Memorandum item: Acquired under finance leases	–
Intangible assets	18,122
Other intangible assets	18,122
Tax assets	247,015
Current	2,108
Deferred	244,907
Other assets	42,094
TOTAL ASSETS	42,300,260
Memorandum item	
Contingent exposures	571,530
Contingent commitments	2,751,784

BALANCE AT 31 DECEMBER 2011

(Thousand euros) LIABILITIES AND EQUITY	2011
Held for trading	**24,405**
Derivatives held for trading	24,405
Financial liabilities at amortised cost	**39,220,347**
Deposits from central bank	900,246
Deposits from credit institutions	1,975,957
Customer funds	32,089,469
Marketable debt securities	3,245,905
Subordinated debt financing	777,172
Other financial liabilities	231,598
Hedging derivatives	**174,309**
Provisions	**153,101**
Provisions for pensions and similar liabilities	122,878
Provisions for taxes and other legal contingencies	7,331
Provisions liabilities and contingent commitments	8,172
Other provisions	14,720
Tax liabilities	**85,087**
Current	–
Deferred	85,087
Other liabilities	**73,067**
TOTAL LIABILITIES	39,730,316
Shareholders' funds	**2,590,214**
Capital	2,134,500
Reserves	439,829
Profit for year	28,685
Dividends and remuneration	(12,800)
Measurement adjustments	**(20,270)**
Available-for-sale financial assets	(20,460)
Other	190
TOTAL EQUITY	2,569,944
TOTAL LIABILITIES AND EQUITY	42,300,260

IBERCAJA BANCO, S.A.U.

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousand euros)	2011
Interest and similar income	1,138,284
Interest and similar charges	694,583
INTEREST MARGIN	443,701
Return on equity instruments	71,761
Fees received	184,157
Fees paid	12,856
Income on financing operations (net)	42,299
Held for trading	2,419
Financial instruments not carried at fair value through profit or loss	44,142
Other	(4,262)
Exchange differences (net)	1,823
Other operating income	14,209
Other operating charges	24,718
GROSS MARGIN	720,376
Administrative expenses	436,385
Staff costs	308,257
Other general administration expenses	128,128
Amortisation/depreciation	32,059
Provisions (net)	(85,440)
Financial asset impairment losses (net)	241,795
Loans and discounts	207,258
Other financial instruments not carried at fair value through profit or loss	34,537
INCOME FROM OPERATING ACTIVITIES	95,577
Other asset impairment losses (net)	96,896
Goodwill and other intangibles	–
Other assets	96,896
Gains/(losses) on disposals of assets not classified as non-current held for sale	11,259
Negative difference on business combinations	–
Gains/(losses) on non-current assets available for sale not classified as discontinued operations	(1,472)
PROFIT/(LOSS) BEFORE TAX	8,468
Corporate income tax	(20,217)
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS	28,685
Profit/(loss) from discontinued operations (net)	–
PROFIT/(LOSS) FOR THE YEAR	28,685

IBERCAJA BANCO, S.A.U.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousand euros)	2011
PROFIT/(LOSS) FOR THE YEAR	28,685
OTHER RECOGNISED INCOME AND EXPENSE	(54,759)
Available-for-sale financial assets	(75,677)
Measurement gains/(losses)	(76,953)
Amounts transferred to income statement	1,276
Other reclassifications	–
Cash flow hedging	–
Measurement gains/(losses)	–
Amounts transferred to income statement	–
Amounts transferred at initial value of hedged items	–
Other reclassifications	–
Hedges of a net investment in a foreign operation	–
Measurement gains/(losses)	–
Amounts transferred to income statement	–
Other reclassifications	–
Exchange differences	–
Measurement gains/(losses)	–
Amounts transferred to income statement	–
Other reclassifications	–
Non-current assets held for sale	–
Measurement gains/(losses)	–
Amounts transferred to income statement	–
Other reclassifications	–
Actuarial gains/(losses) on pension plans	(1,785)
Other recognised income and expense	–
Corporate income tax	22,703
TOTAL RECOGNISED INCOME AND EXPENSE	(26,074)

IBERCAJA BANCO, S.A.U.

TOTAL STATEMENT OF CHANGES IN EQUITY FOR THE YEAR THE YEAR ENDED 31 DECEMBER 2011

	SHAREHOLDERS' FUNDS							
(Thousand euros)	Capital	Share premium	Accumulated Reserves	Profit for year	Dividends and remuneration	Total share-holders' funds	Measurement adjustments	Total equity
I. Closing balance at 31/12/2010	–	–	–	–	–	–	–	–
Adjustments due to changes in accounting standards	–	–	–	–	–	–	–	–
Adjustments due to errors	–	–	–	–	–	–	–	–
II. Adjusted opening balance	–	–	–	–	–	–	–	–
Total recognised income and expense	–	–	(1,785)	28,685	–	26,900	(52,974)	(26,074)
Other changes in equity	2,134,500	–	441,614	–	(12,800)	2,563,314	32,704	2,596,018
Capital increases	2,134,500	–	–	–	–	2,134,500	–	2,134,500
Conversion of financial liabilities into capital	–	–	–	–	–	–	–	–
Increase in other equity instrument	–	–	–	–	–	–	–	–
Reclassification of financial liabilities to other equity instruments	–	–	–	–	–	–	–	–
Reclassification of other equity instruments to financial liabilities	–	–	–	–	–	–	–	–
Distribution of dividends	–	–	–	–	(12,800)	(12,800)	–	(12,800)
Operations with own equity instruments (net)	–	–	–	–	–	–	–	–
Transfers between equity items	–	–	–	–	–	–	–	–
Increases (reductions) on business combinations	–	–	–	–	–	–	–	–
Equity settled payments	–	–	–	–	–	–	–	–
Other increases (reductions) in equity	–	–	441,614	–	–	441,614	32,704	474,318
III. Closing balance at 31/12/2011	2,134,500	–	439,829	28,685	(12,800)	2,590,214	(20,270)	2,569,944

IBERCAJA BANCO, S.A.U.

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousand euros)	2011
CASH FLOWS FROM OPERATING ACTIVITIES	708,008
Profit for year	28,685
Adjustments to obtain cash flows from operating activities	186,116
Amortisation/depreciation	32,059
Other adjustments	154,057
Net increase/decrease in operating assets	791,351
Held for trading	3,479
Other financial assets at fair value through profit or loss	–
Available-for-sale financial assets	7,978
Loans and discounts	1,040,348
Other operating assets	(260,454)
Net increase/decrease in operating liabilities	(298,782)
Held for trading	(10,386)
Other financial liabilities at fair value through profit or loss	–
Financial liabilities at amortised cost	(318,200)
Other operating liabilities	29,804
Corporate income tax collections/payments	638
CASH FLOWS FROM INVESTING ACTIVITIES	(593,396)
Payments	(641,695)
Property, plant and equipment	(6,340)
Intangible assets	(2,423)
Shareholdings	(116,567)
Other business units	–
Non-current assets and associated liabilities for sale	–
Held-to-maturity	(516,365)
Other payments related to investing activities	–
Collections	48,299
Property, plant and equipment	23,241
Intangible assets	–
Shareholdings	2,483
Other business units	–
Non-current assets and associated liabilities for sale	22,575
Held-to-maturity	–
Other collections related to investing activities	–

IBERCAJA BANCO, S.A.U.

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

(Thousand euros)	2011
CASH FLOWS FROM FINANCING ACTIVITIES	369,468
Payments	(12,800)
Dividends	(12,800)
Other payments related to financing activities	–
Collections	382,268
Issue of treasury shares	382,268
Other collections related to financing activities	–
EFFECT OF EXCHANGE RATE FLUCTUATIONS	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	484,080
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	484,080
Memorandum item:	
Components of cash and cash equivalents at the year end	
Cash	152,551
Cash equivalent balances in central banks	375,306
Other financial assets	–
Less: Reimbursable bank overdrafts	43,777
Total cash and cash equivalents at the year end	484,080

APPENDIX I

RELEVANT INFORMATION ON SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

		Percentage interest			
		2011		2010	
Entity	Country of residence	Direct	Indirect	Direct	Indirect
Group companies					
Cajaragón, S.L.	Spain	75.00%	25.00%	75.00%	25.00%
Cerro Goya, S.L.	Spain	95.00%	5.00%	95.00%	5.00%
Cerro Murillo, S.L.	Spain	83.88%	16.12%	73.70%	26.30%
Comercial Logística Calamocha, S.A.	Spain	–	77.38%	–	77.38%
Gestora Valle de Tena, S.A.	Spain	–	90.10%	–	90.10%
Grupo Alimentario Naturiber, S.A.	Spain	74.31%	15.10%	74.31%	15.10%
I.C. Inmuebles, S.A.	Spain	100.00%	–	100.00%	–
Ibercaja Gestión, S.A.	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Leasing y Financiación, S.A.	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Mediación de Seguros, S.A.	Spain	100.00%	–	100.00%	–
Ibercaja Paticipaciones Empresariales, S.A.	Spain	100.00%	–	100.00%	–
Ibercaja Patrimonios, S.A.	Spain	0.01%	99.99%	0.01%	99.99%
Ibercaja Pensión, S.A.	Spain	1.00%	99.00%	1.00%	99.00%
Ibercaja Servicios Financieros, S.A.	Spain	99.80%	0.20%	99.80%	0.20%
Ibercaja Servicios Inmobiliarios, S.A.	Spain	99.00%	1.00%	99.00%	1.00%
Ibercaja Viajes, S.A.	Spain	100.00%	–	100.00%	–
Ibercaja Vida, S.A.	Spain	100.00%	–	100.00%	–
Ibercaja, S.A.	Spain	100.00%	–	100.00%	–
Iberprofin, S.L.	Spain	95.00%	5.00%	95.00%	5.00%
Inmobinsa Inversiones Inmobiliarias, S.A.	Spain	–	100.00%	–	100.00%
Jamcal Alimentación, S.A.	Spain	72.61%	–	72,61%	–
Local Garibai 23, S.A.	Spain	–	–	–	100.00%
Mantenimiento de Promociones Urbanas, S.A.	Spain	100.00%	–	100.00%	–
Promur Viviendas, S.A.	Spain	–	100.00%	–	100.00%
Radio Huesca, S.A.	Spain	100.00%	–	100.00%	–
Residencial Murillo, S.L.	Spain	–	100.00%	–	100.00%
Servicios a Distancia IBD, S.L.	Spain	95.00%	5.00%	95.00%	5.00%
Tipo Línea, S.A.	Spain	100.00%	–	100.00%	–

RELEVANT INFORMATION ON SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Entity	Country of residence	Percentage interest 2011 Direct	Percentage interest 2011 Indirect	Percentage interest 2010 Direct	Percentage interest 2010 Indirect
Jointly- controlled entities					
Aramón Montañas de Aragón, S.A.	Spain	50.00%	–	50.00%	–
Ibervalor Energía Aragonesa, S.A.	Spain	50.00%	–	50.00%	–
Corredor del Iregua, S.L.	Spain	–	50.00%	–	50.00%
Promociones Palacete del Cerrillo, S.L.	Spain	–	33.33%	–	33.33%
Desarrollos Vivir Zaragoza, S.A.	Spain	–	50.00%	–	50.00%
Iberoca, S.L.	Spain	–	50.00%	–	50.00%
Ciudad del Corredor, S.L.	Spain	–	50.00%	–	50.00%
Associates					
Soc. Española de Banca de Negocios, S.A.	Spain	20.00%	–	20.00%	–
Inverzona Seis Participaciones Aragonesas, S.A.	Spain	27.02%	–	27.02%	–
Inverzona Dos Participaciones Aragonesas, S.A.	Spain	–	–	50.00%	–
Savia Capital Crecimiento, S.C.R., S.A.	Spain	29.91%	–	29.91%	–
Rioja Nueva Economía, S.A.	Spain	42.54%	–	42.54%	–
Heraldo de Aragón, S.A.	Spain	25.34%	–	25.34%	–
Publicaciones y Ediciones Alto Aragón, S.A.	Spain	46.78%	–	46.78%	–
Chip Audiovisual, S.A.	Spain	25.00%	–	25.00%	–
Desarrollo Agrícola y Social de Aragón, S.A.	Spain	25.00%	–	25.00%	–
Gestión de Activos de Aragón, S.A.	Spain	20.00%	–	20.00%	–
Europea Desarrollos Urbanos, S.L.	Spain	–	20.00%	–	20.00%
Cerro de Mahí, S.L.	Spain	–	33.33%	–	33.33%
Viacajas, S.L.	Spain	18.98%	–	20.43%	–
Prames Audiovisual, S.A.	Spain	20.00%	–	20.00%	–
Districlima Zaragoza, S.L.	Spain	20.00%	–	20.00%	–
Nuevos Materiales de Construcción, S.A.	Spain	21.93%	–	21.93%	–
NH Hoteles, S.A.	Spain	5.04%	–	5.04%	–

APPENDIX II

RELEVANT INFORMATION ON SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

(Thousand euros)

Entity	Date financial statements	Contribution to consolidated results		Contribution to consolidated reserves		Minority interests		Financial information 2011		
		2011	2010	2011	2010	2011	2010	Share cap.	Reserves	Val. adjust.
Group companies										
Ibercaja Banco, S.A.U.	Dec-11	28,685	76,604	439,829	2,263,910	–	–	2,134,500	439,829	20,269
Cajaragón, S.L.	Dec-11	(1)	–	(1)	(1)	–	–	4	(1)	–
Cerro Goya, S.L.	Dec-11	(288)	(1,624)	(3,604)	(1,980)	–	–	4,000	(3,604)	–
Cerro Murillo, S.L.	Dec-11	(114,197)	(60,858)	(43,444)	17,424	–	–	232,549	(43,444)	–
Comercial Logística Calamocha, S.A.	Dec-11	(1,160)	(2,853)	(3,560)	(1,061)	207	564	9,860	(6,336)	1,583
Gestora Valle de Tena, S.A.	Dec-11	10	10	621	602	65	73	60	679	32
Grupo Alimentario Naturiber, S.A.	Dec-11	(1,562)	(2,237)	(2,662)	(340)	1,679	737	14,200	(3,215)	7,109
Local Garibai 23, S.A.	Dec-11	–	35	–	119	–	–	–	–	–
I.C. Inmuebles, S.A.	Dec-11	(8,318)	(3,994)	(5,230)	(1,229)	–	–	53,087	(5,230)	–
Ibercaja Gestión, S.A.	Dec-11	18,827	19,833	44,138	43,805	–	–	2,704	44,138	648
Ibercaja Leasing y Financiación, S.A.	Dec-11	1,988	1,338	8,604	7,266	–	–	3,006	8,604	–
Ibercaja Mediación de Seguros, S.A.	Dec-11	20,528	18,026	25,549	22,023	–	–	60	25,549	39
Ibercaja Paticipaciones Empresariales, S.A.	Dec-11	2	2	70	63	–	–	150	70	–
Ibercaja Patrimonios, S.A.	Dec-11	35	72	1,580	1,508	–	–	4,417	1,580	102
Ibercaja Pensión, S.A.	Dec-11	7,789	8,996	20,646	20,150	–	–	11,010	20,646	(153)
Ibercaja Servicios Financieros, S.A.	Dec-11	8,743	8,661	22,665	22,005	–	–	2,644	22,665	(6)
Ibercaja Servicios Inmobiliarios, S.A.	Dec-11	71	(99)	109	208	–	–	60	109	–
Ibercaja Viajes, S.A.	Dec-11	34	49	185	149	–	–	60	185	–
Ibercaja Vida, S.A.	Dec-11	42,382	44,359	79,757	65,398	–	–	105,064	79,757	(1,124)
Ibercaja, S.A.	Dec-11	(13,818)	(11,331)	1,085	12,416	–	–	73,715	1,085	–
Iberprofin, S.L.	Dec-11	(23)	52	16	16	–	–	50	16	–
Inmobinsa Inversiones Inmobiliarias, S.A.	Dec-11	276	1,202	11,036	9,834	–	–	40,051	11,036	–
Jamcal Alimentación, S.A.	Dec-11	145	(4,138)	(3,917)	(938)	4,509	4,456	15,806	(5,695)	2,824
Mantenimiento de Promociones Urbanas, S.A.	Dec-11	92	82	217	215	–	–	65	217	–
Promur Viviendas, S.A.	Dec-11	(4,260)	(1,660)	(1,714)	(51)	–	–	10.000	(1,714)	–
Radio Huesca, S.A.	Dec-11	(241)	15	2,212	2,197	–	–	1,291	2,212	14
Residencial Murillo, S.L.	Dec-11	(24,429)	(9,014)	(13,216)	(4,199)	–	–	60,060	(13,216)	443
Servicios a Distancia IBD, S.L.	Dec-11	24	28	16	13	–	–	480	16	–
Tipo Línea, S.A.	Dec-11	4	6	2,036	2,031	–	–	120	2,036	(50)
Adjustments on consolidation		102,105	35,052	(64,810)	59,873	–	–	–	–	–
Total		63,443	116,614	518,213	2,541,426	6,460	5,830	–	–	–

(Thousand euros)

Entity	Date financial statements	Contribution to consolidated results		Contribution to consolidated reserves		Value of shareholding		Financial information 2011					
		2011	2010	2011	2010	2011	2010	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Income	Expenses
Jointly- controlled entities													
Aramón Montañas de Aragón, S.A.	Sep-11(*)	(3,411)	(3,991)	(9,381)	(5,840)	42,943	44,081	4,022	205,537	77,544	31,790	44,428	52,007
Ciudad del Corredor, S.L.	Oct-11(*)	(2,500)	(3,782)	(5,879)	(2,160)	2,621	5,078	22,424	5,730	16,891	167	187	187
Iberoca, S.L.	Sep-11(*)	1,167	–	(304)	(303)	6,415	5,247	66,669	424	51,120	20,515	2	14,373
Rest of companies	–	(607)	(316)	6,329	(1,425)	7,119	7,129	–	–	–	–	–	–
Total		(5,351)	(8,089)	(9,235)	(9,728)	59,098	61,535	–	–	–	–	–	–

(*) The financial information of these companies relates to the dates included, except in relation to the contribution to consolidated results, where results at 31 December 2011 have been estimated.

(Thousand euros)

Entity	Date financial statements	Contribution to consolidated results		Contribution to consolidated reserves		Value of shareholding		Financial information 2011			
		2011	2010	2011	2010	2011	2010	Assets	Liabilities	Revenues	Profit
Associates											
Cerro de Mahí, S.L.	Oct-11(*)	(79)	–	(77)	–	8,015	8,095	24,946	1,105	–	(331)
Heraldo de Aragón, S.A.	Sep-11(*)	(2,920)	(605)	8,063	9,340	36,628	40,220	127	42	59,502	(12,010)
NH Hoteles, S.A.	Sep-11(*)	1,483	(2,269)	(4,146)	–	78,934	76,679	3,305,798	1,951,431	727,749	25,000
Nuevos Materiales de Construcción, S.A.	Sep-11(*)	(1,406)	57	–	(57)	3,606	5,014	25,899	20,196	2,157	(1,303)
Rioja Nueva Economía, S.A.	Nov-11 (*)	456	(954)	(311)	502	6,911	6,315	16,302	8	1,008	437
Soc. Española de Banca de Negocios, S.A.	Sep-11 (*)	(969)	(5,215)	4,763	9,940	13,716	16,708	941,063	864,248	21,028	(10,202)
Rest of companies	–	257	(2,514)	(23,217)	(14,600)	7,887	7,590	–	–	–	–
Total		(3,178)	(11,500)	(14,925)	5,125	155,697	160,621	–	–	–	–

(*) The financial information of these companies relates to the dates included, except in relation to the contribution to consolidated results, where results at 31 December 2011 have been estimated.

IBERCAJA BANCO, SAU, AND SUBSIDIARIES

SECTION I: CONSOLIDATED DIRECTORS' REPORT FOR 2011

INCORPORATION OF IBERCAJA BANCO, S.A.U.

Royal Decree-Law 11/2010 (9 July), on governing boards and other issues regarding the legal system governing Savings Banks introduced the possibility of indirectly carrying out savings bank financial activities through a bank.

Based on the new legal framework, on 14 April 2011 and after analysing the changes taking place in the financial system, Ibercaja's Board of Directors adopted a resolution to start the process of creating a wholly owned banking subsidiary, Ibercaja Banco.

Ibercaja's General Assembly held an extraordinary meeting on 26 July 2011 and approved the Board of Directors' proposal to create Ibercaja Banco, S.A.U. The Savings Bank will thus carry out its financial activity indirectly through the newly created bank, transferring to it all the assets and liabilities associated with its financial activity, except for those that are essential for the activity related to the Community and other Social Welfare Services.

Ibercaja Banco was created on 22 September 2011 and was entered into the Zaragoza Mercantile Registry on 23 September 2011, volume 3865, sheet 1, page Z-52186, entry 1. On 30 September 2011 it obtained the administrative authorisation defined by Royal Decree 1245/1995 (14 July) regarding the creation of banks, trans-frontier operations and other issues relating to the legal system governing credit institutions and it was entered into the Administrative Registry of Banks and Bankers at the Bank of Spain with code number 2085 Tax ID No. A99319030, and its registered address is located at Plaza Basilio Paraíso, 2, 50008 Zaragoza.

The carrying value of the Savings Bank's assets and liabilities transferred to Ibercaja Banco is €2,610,792 thousand. The Bank has initial capital totalling €2,134,500,000, divided in to the same number of shares with a par value of €1 each. The assets and liabilities excluded from the transfer are: those associated with Ibercaja's Community Project and other Social Welfare programmes, items classified as artistic heritage items owned by the Savings bank and those relating to tax assets and liabilities.

On 1 October the Bank started to operate using the same management model as Ibercaja, striving to render the highest quality financial services to families and businesses.

ECONOMIC ENVIRONMENT

The financial expectations at the beginning of the year worsened significantly during the second half of the year. The International Monetary Fund foresees 4% growth in the world economy, but with significant imbalances between emerging countries, which are expected to increase GDP by nearly 6.5% and developed countries which are expected to grow very weakly.

In the United States the increase in consumption and investments, encouraged by the Federal Reserve's expansive monetary policy has dissipated the risk of recession. The latter indicators give continuity to the spike in the third quarter and therefore growth throughout 2011 could rise to 1.8%. Meanwhile, in Japan the change in GDP during the third quarter confirms the recovery from the effects of the tsunami and the subsequent nuclear accident. Still, the economy will result in a slight contraction during the year.

In Europe the debt crisis has become more virulent, even putting the survival of the euro in danger. In order to recover market confidence, austerity measures and tax adjustments have been implemented to correct the excessive debt carried by the public sector. Its impact has affected the real economy, such that forecasts point to a GDP for the fourth quarter across the Eurozone that will be slightly lower. Under this scenario forecasts are negative for 2012.

The Spanish economy has faced a complicated year. The moderate rate of advancement in the first half of the year turned stagnant during the third quarter and a 0.3% decline in the last quarter. Challenges for 2012 are important as a result of very weak internal demand, the tax adjustment made to reduce the deficit, the difficulty to obtain and the increased price of financing and the decline in exports. The first measures taken by the new government resulting from the elections on 20 November, are intended to increase tax collections and adjust some expenditures. However, it seems that other measures and structural reforms will be essential and to try and drive the economy forward.

The inflation rate in the Eurozone was 2.8% year-on-year in December, as a result of the spike in commodities prices. To prevent inflationary pressures, the CEB raised interest rates twice up until July from 1% to 1.5%. This movement reversed during the latter portion of the year given the worsening of market tensions and economic cycle weakness. The 1-year euribor was 2.004%, 48 basis points higher than last December.

The main European stock markets have shown sharp volatility, especially in financial sector securities. Ibex 35 ended with a 13.11% decrease while Eurostoxx 50 fell by −17.05%. In comparison, US equities (Dow Jones) moved forward by 5.52%.

The sovereign debt crisis particularly affected countries with high public and private debt levels. The risk premium for Spanish government debt at times reached maximums of around 500 basis points. This performance has been a drag on corporate debt, especially on financial issues, that have undergone considerable increases in spreads and access to wholesale markets has been cut off.

At the December meeting, the CEB adopted an important package of measures to provide financing stability to European banks, announcing two 36-month liquidity auctions, making the group of collateral accepted for discount and a reduction of the cash ratio from 2% to 1%.

The restructuring of the Spanish financial system took a new step when in September the open capitalisation process was completed with Royal Decree 2/2011, which introduced new principal capital requirements. However, the regulatory initiatives, at both the European and Spanish level, did not end given the doubts regarding the banking system's solvency.

The Spanish banking sector activity has slowed as a result of economic evolution, the process of deleveraging affecting families and companies and the uncertainty regarding the capital requirements that could restrict the capacity to grant credit. Low liquidity has re-sparked competition for retail liabilities at high rates, both for traditional deposits and alternative products, promissory notes, bonds and subordinated debt. The increase in the price of financing, the increase in default rates and real estate assets on balance sheets have tightened margins.

EVOLUTION OF THE ACTIVITY CARRIED OUT BY IBERCAJA BANK AND SUBSIDIARIES

Ibercaja Banco Group has remained faithful to the same retail banking model carried out by the Savings Bank until the Bank was created. It is based on differentiating factors such as proximity to customers, the quality of service and innovative products arising within its Financial Group. Preserving yields in a very competitive framework has been a management priority. The Group has also obtained an attributed profit of €55 million after applying write-downs totalling €212 million.

Commercial activity was intense and at the end of the year there were 2.2 million customers and revenues amounted to €80,246 million. Once again, the Group's subsidiaries have been able to significantly increase market share in investment funds, pension plans and life insurance during the year.

The personal banking project provides more than 27% of the activity carried out by the office network and it renders personalised services to a base of 113,000 customers. Corporate customers is another of the pillars on which the Group's diversification rests. The Company Business Unit was created to provide preferential services to small businesses and has 100 specialists to provide customised solutions to customers in various areas of business. The main objective during the year was to strengthen the Entity's relationship with more than 55,000 customers with customised commercial offers and specific advisory services.

Excellence in service quality is a competitive advantage and a very valuable differentiating factor for Ibercaja. In 2011 the European 500+ Gold Seal of Excellence was renewed after obtaining more than 600 points in this indicator, which is an award within reach of very few European companies.

BALANCE

The balance sheet and income statement for 2010 have been reconstructed strictly for the purposes of comparison.

The total assets in the consolidated balance sheet at 31 December for Ibercaja Banco Group total €45,144 million, which is 0.71% more than one year ago.

Gross customer credit totals €32,928 million. The year-on-year reduction of 2.50% is supported by the stagnation of the Spanish economy, which has limited demand and more restrictive conditions in line with market conditions.

During the year more than 67,200 credit and finance lease transactions took place with individuals and companies, representing €4,220 million. Of financing to production activities, which represents 64.52% of the total, 23.69% has been used for home loans to individuals and 11.79% to consumer and other loans.

By segment, loans to Public Institutions represents 1.43% of the portfolio and €472 million. The financing of other resident and non-resident sectors totals €30,514 million and €116 million, respectively.

By destination, financing granted to individuals is the highest weight in the private sector loan segment. These loans are mostly used to acquire a first-home supported by mortgages. In the corporate sector, 12.77% relate to real estate promotions and construction, which is lower than the average in the Spanish financial segment.

The default rate at Ibercaja Banco Group is 4.16% at the end of the year. The increase was significantly lower than that experienced by deposit taking institutions taken as a whole and the favourable differential with respect to Ibercaja was expanded to 3.51%. In total, 60.21% of doubtful risks are covered.

The portfolio of fixed-income securities, shares and holdings in companies amounts to €9,016 million and represents 19.97% of the consolidated balance sheet. Over the past twelve months these figures increased by 11.16% or €905 million.

Financial assets available for sale bore the highest weight in the portfolio at 68.37% or €6,164 million. The portfolio of investments held to maturity totalling €2,248 million (24.93%) and the highest growth taking place during the year (€529 million) and is concentrated in Spanish government securities.

By type of assets, fixed income totals €8,232 million and represents 91.30%. In 2011 this heading increased by €990 million, basically through the acquisition of government debt. Equities totalling €784 million, consist of stock in Spanish and foreign companies.

Assets held in cash and at credit institutions totals €1,169 million, whereas the liability positions at the Bank of Spain and credit institutions amount to €2,881 million.

The portfolio of adjudicated or foreclosed assets totals €917 million. The coverage associated with these assets is 30.67%. The change in the balance sheet headings Non-current assets for sale and other assets (inventories) mainly relates to adjudications that took place during the year.

Depreciation for the year and investment containment led to a 4.04% decrease totalling €747 million in net assets.

Total customer funds held by Ibercaja Banco Group totals €47,318 million, 2.06% less than in December 2010. Balance sheet items, consisting of customer deposits, securities, subordinated liabilities and insurance liabilities total €38,754 million and reflected a €408 million (–1.04%) decrease in relative terms.

Customer deposits total €27,903 million and the balance was influenced by the maturity of mortgage and territorial bonds totalling €175 million. Debt represented by securities grew by 1.32%, basically due to the issue of promissory notes by the bank. This heading also includes the amortisation of ordinary bonds and securitised liabilities totalling €600 million and €359 million respectively, as well as debt issues guaranteed by €500 million and €1,030 million in mortgage bonds, of which €1,000 million have been placed in the bank's portfolio. Subordinated loans totalling €777 million show a basically flat progression. The good trajectory of the Group's insurance activity means that insurance policy liabilities increased by 19.48% during the year.

Off-balance sheet resources under management represent €8,564 million. Although the performance of investment funds and pension plans beat the figures for the system as a whole, Ibercaja could not avoid the fall in volume from this sector in 2011.

The first line of liquidity (net position in the monetary market and unassigned government debt) totals €1,669 million and includes the facilities available from the CEB and other eligible fixed-income assets amount to €4,428 million or 9.81% of assets. In addition, the capacity to issue mortgage and territorial bonds is measured at €5,685 million. It should be noted that of the total of €2,837 million available for issuing secured debt up until 31 December, only €500 million was drawn down.

The Group has a wholesale financing ratio, which is the proportion of loans covered by resources obtained from institutional markets net of liquid assets, of less than 20%. In 2012 wholesale medium and long-term liabilities, after deducting those held in the bank's own portfolio, totalling €1,022 million fall due and the remaining maturity dates are equally distributed up until 2025.

Equity totals €2,667 million. This heading includes share capital (€2,135 million), reserves (€494 million), profit for the year (€55 million), measurement adjustments, minority shareholdings and the deduction of the interim dividend distributed to the Savings Bank.

Total computable equity for Ibercaja Banco Group totals €3,154 million and represents a solvency ration of 14.18%. The excess amount over the minimum equity requirements is 8%, or €1,374 million. Core capital, basic equity excluding preferred shares, represents 10.40% of weighted risks. The principal capital ratio is 10.88%, much higher than the 8% required from the Entity by current legislation.

INCOME STATEMENT

The 2010 balance sheet and income statement for the Group have been reconstructed strictly for the purposes of comparison.

The Group obtained a net attributed profit of €55 million. The pressure on margins deriving from the increase in the cost of resources and all write-downs, which grew by 37.33%, explain why the Group's results were 43.40% lower than one year ago.

The interest margin, €491 million, fell by 7.49% calculated on a year-by-year basis. Even though financial income increased due to the re-pricing of the portfolio and the improvement of margins on new operations, the increase was not sufficient to support the impact of lower activities and a higher cost of liabilities, due to the market situation.

The €19 million in yields from capital instruments exceed those at the same date in 2010 by 14.36%, due to the increase in per dividend yields from the equities portfolio. Meanwhile, commissions and exchange differences contributed €233 million, 1.19% more than in 2010. Those originating from bank services are those that performed the best and rose by more than 5%. To the contrary, the reduction in the average wealth under administration in investment funds and pension plans means that those relating to the marketing of non-banking financial products did not fall below 2.87%.

The heading Other products and operating charges, which records results from non-financial subsidiaries consolidated using the full consolidation method and sundry revenues and expenses totals €12 million, €10 million more than last year.

Financial operation results total €45 million,1.20%, lower than the amount recorded last year. Among them, those from the sale and repurchase of assets represent the largest share at €44 million.

Once the results from companies consolidated using the equity method are included, the gross margin totals €792 million, a 1.77% decline.

Operating expenses present a year-on-year change totalling 0.94%. Among them, personnel expenses remained virtually stable while overhead and amortisation/depreciation increased by 1.63% due to the larger amount of taxes and fees relating to real estate and other expenses associated with the segregation of the banking business from the Savings Bank.

The efficiency ratio, calculated as the quotient of personnel expenses and other administrative costs and gross margin is 60.46% at the year end.

Operating results before write-downs is €271 million, which reflects a year-on-year variance of –6.57%. Adjustments for the impairment of assets, provisions and other write-downs recognized in various headings of the income statement total €212 million. Although the need for specific allocations deriving from credit risk and real estate declined, the release of general provisions was lower than in 2010 and therefore the allocations as a whole increased by 37.33%.

All other gains and losses records, in addition to the impairment of non-current assets available for sale, revenues totalling €13 million obtained on the sale of real estate.

The profit before taxes amounted to €72 million during the year. Once corporate income tax has been deducted together with the portion for minority shareholders, the profit attributed to the parent company totals €55 million.

RISK MANAGEMENT

Overall risk management is essential to preserve the Group's solvency such that among Ibercaja Bank's strategic priorities is the development of systems, tools and structures that allow it to measure, monitor and control risk levels at all times, ensuring that they are adequate for the resources being managed and respond to the demands of regulators and markets.

Credit risk is most relevant within the banking activity, although the management of risk includes counterparty, concentration, market, liquidity, interest rate, operating and other risks. Due to the nature of the business environmental risks are not significant.

The actions taken by the Entity in this respect have the following objective: quantify the risks more precisely, integrate the measurement of risk into management, increase the efficiency of the decision process regarding risk and optimise the profit/risk ratio.

The Group uses a group of techniques and tools adapted to the needs of each risk. The most important action and achievements over the past few years are as follows: the adaptation of the organisational structure oriented to advanced risk management, the use, monitoring and validation of statistical models used to classify credit risk, the approval of a standard method for measuring capital consumption due to operational risk, the generation of metrics for the advanced management of risk, IRB parameters for credit risk management, VaR for the management of market risk, consumption of "mark to market" lines of risk for counterparty risk management and in accordance with the requirements of Pillar, I, Pillar II and Pillar III of Basle II.

The Group is prepared to adapt to the reforms of Basle III that affect its business and those that affect its insurance company Ibercaja Vida.

Note 3 of Ibercaja Banco Group's notes to the annual accounts for 2011 presents more detailed information regarding the management of various types of risk.

RESEARCH AND DEVELOPMENT

The Group has advanced with respect to the development of its IT systems and the implementation of technological improvements to customer channels, the operation of the office network and central services. The objective is to increase efficiency and productivity, improve customer service quality and adapt to the requirements of the new regulatory environment.

Among the technological action that has been completed or is in progress to strengthen internal efficiency and attain organisational improvements we note the Integrated Sales Orientation System (ISOS) and the implementation of the Multichannel Customer Relationship Management (Multichannel CRM) to provide the bank with a tool to direct sales action towards the most adequate channel: offices, Internet, cash points, SMS, etc.

The launch of the operating system for managing investment fund portfolios was notable with respect to action taken to perfect communications and multi-channel services for customers. In addition, Ibercaja's corporate customers have been provided the possibility to issue invoices through the "electronic invoice" service, which will reduce operating costs for that group.

The electronic banking services via smartphones and tablets are still in their initial stages. This service will make it possible to carry out nearly 30 different financial transactions using smartphones and electronic tablets.

ENVIRONMENT

The Group is aware of the need to reconcile business development with the preservation and care of the environment. It has defined an environmental policy that constitutes the framework of reference for all environmental action. It is based on compliance with general environmental legislation, the prevention of pollution from its own processes, adequate waste management, monitoring of environment performance to implement improve and prevent pollution, making employees aware of the responsible use of natural resources and the communication of environmental action taken.

The Entity has obtained the Environmental Management System Certificate issued by AENOR, which certifies that the Central Services building meets the requirements of Standard UNE-EN ISO 14001:2004.

The Group believes that it substantially complies with environmental legislation and it maintains procedures to ensure and guarantee compliance.

During 2011 no significant investments were made in this area and no significant contingencies are deemed to exist with respect to the protection and improvement of the environment.

OUTLOOK

The outlook for 2012 calls for a decline in the Spanish economy during the first half of the year. The reactivation of consumption seems far away, given the current unemployment rate and the tax measures to contain the deficit that harm disposable family income. The contribution of foreign markets, which was very important in 2011, will be difficult to match due to the decline in the expectations of growth in the eurozone. In this environment the reforms that the government adopts to improve public finances, make the labour market more dynamic, encourage corporate competitiveness and strengthen the financial system will be key.

The Spanish banking system faces a complex outlook. The macroeconomic framework will weaken business volume, while the high rate of unemployment and the real estate market situation could cause an increase in assets in default and the need for write-downs. Although the CEB's measures taken on 9 December represented relief, it is still difficult to evaluate their evaluation regarding the cost of financing, it should not be overlooked that the wholesale maturities fro 2012 exceed €120,000 million. It is foreseeable that the corporate restructuring processes will continue as a result of the regulatory demands to improve capitalisation.

The Group cannot ignore the various factors that have already been announced and which will presumably pressure activities and margins and it will be necessary to preserve yields, optimise costs and promote efficiency and austerity in terms of expenses. Without ignoring the opportunities that may arise from the changing configuration of the sector, the Entity intends to remain faithful to its retail bank model, strengthen its solvency and reaffirm its differentiating factors such as quality, customer service and innovative products.

SUBSEQUENT EVENTS

On 4 February 2012, Royal Decree-Law 2/2012 (3 February) was published, which covers financial sector write-downs and is intended to improve the confidence, credibility and strength of the sector, facilitating a return to the financing of economic growth and the creation of employment. The aforementioned Royal Decree-Law establishes new requirements for additional provisions and capital, exclusively for the purpose of covering the impairment of the assets associated with the real estate activity, which includes both financing and adjudicated or received as payment of debt relating to the real estate sector.

In general, banks must meet the provisions of the new legislation before 31 December 2012, although those that are carrying out mergers in 2012 will have 12 months as from the approval of such an operation to comply with the new requirements.

On 8 February 2012 Ibercaja Banco, S.A.U., sent a report of a relevant event to the National Stock Market Commission that notifies the estimate of the required coverage and the new capital requirement, which is subject to the changes that may arise as a result of the enabling regulations for Royal Decree-Law 2/2012.

As is mentioned in that relevant event, Ibercaja Banco, S.A.U., expects to absorb the impact of the write-downs and additional capital in 2012 by generating profits and surplus equity since at the end of 2011 the principal capital ratio was 10.88%, more than 8% higher than required by law.

Additionally, on 29 February 2012, the Entity reported to the National Securities Market Commission that the Boards of Directors of Ibercaja Banco, S.A.U., and Banco Grupo Cajatres, S.A., had agreed, during the meetings held on that date, to initiate the formalities to complete an integration process within the framework of the legislative reforms under way to strengthen the financial system.

The integration will be carried out by Ibercaja Banco, S.A.U., through a merger by absorption and enable the resulting entity – in which the shareholders of Banco Grupo Cajatres, S.A., will have a 20% interest in the capital, in proportion to their current interest in that credit institution – to retain a solid financial base in the current economic scenario and grow its revenue generating capacity to continue what have historically been its shareholders' basic objectives.

TREASURY SHARES

During the year no operations were carried out involving treasury shares.

SECTION II: ANNUAL CORPORATE GOVERNANCE REPORT FOR OTHER ENTITIES ISSUING SECURITIES LISTED ON OFFICIAL SECONDARY MARKETS THAT ARE NOT SAVINGS BANKS

A. STRUCTURE OF OWNERSHIP

A.1. DETAILS REGARDING SHAREHOLDERS OR MOST SIGNIFICANT MEMBERS OF THE COMPANY AT THE YEAR END

NAME OF THE SIGNIFICANT SHAREHOLDER	% OF SHARE CAPITAL
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	100%

A.2. INDICATE IF THERE ARE FAMILY, COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONSHIPS BETWEEN OWNERS OF SIGNIFICANT SHAREHOLDINGS AND, TO THE EXTENT THAT THE COMPANY HAS KNOWLEDGE OF THEM, DETAIL THEM BELOW UNLESS THEY ARE SCANTLY RELEVANT OR ARISE FROM ORDINARY COMMERCIAL TRANSACTIONS

NAME	TYPE OF RELATIONSHIP	BRIEF DESCRIPTION
N/A	N/A	N/A

A.3. INDICATE IF THERE ARE COMMERCIAL, CONTRACTUAL OR CORPORATE RELATION SHIPS BETWEEN THE OWNERS OF SIGNIFICANT SHAREHOLDINGS AND THE COMPANY, DETAIL THEM BELOW UNLESS THEY ARE SCANTLY RELEVANT OR ARISE FROM ORDINARY COMMERCIAL TRANSACTIONS

NAME	TYPE OF RELATIONSHIP	BRIEF DESCRIPTION
Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	Corporate	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (CAMPZAR) is the parent company of Ibercaja Group. Since 1 October 2011 it carries out its financial activity through IBERCAJA BANCO, S.A.U. To do so CAMPZAR segregated all of the assets and liabilities associated with its financial activity to IBERCAJA BANCO, S.A.U., which subrogated to all the rights, actions, obligations, responsibilities and equity charges, as well as the human and material resources associated with that activity.

B. STRUCTURE OF GOVERNANCE AT THE BANK

B.1. BOARD OF DIRECTORS OR GOVERNING BODY

B.1.1. STATE THE MAXIMUM AND MINIMUM NUMBERS OF DIRECTORS STIPULATED IN THE ARTICLES OF ASSOCIATION

MAXIMUM NUMBER OF DIRECTORS / MEMBERS OF THE GOVERNING BODY	15
MINIMUM NUMBER OF DIRECTORS / MEMBERS OF THE GOVERNING BODY	5

B.1.2. COMPLETE THE FOLLOWING TABLE REGARDING THE MEMBERS OF THE BOARD OF DIRECTORS OR GOVERNING BODY, AND THEIR STATUS

DIRECTORS/MEMBERS OF THE GOVERNING BODY

NAME OF THE DIRECTOR/MEMBER OF THE GOVERNING BODY	REPRESENTATIVE	LATEST DATE OF APPOINTMENT	STATUS
AMADO FRANCO LAHOZ	N/A	22/09/2011	Institutional Outside Director
JOSÉ LUIS AGUIRRE LOASO	N/A	22/09/2011	CEO
JESÚS BUENO ARRESE	N/A	22/09/2011	Institutional Outside Director
EUGENIO NADAL REIMAT	N/A	22/09/2011	Institutional Outside Director
ALBERTO PALACIO AYLAGAS	N/A	22/09/2011	Institutional Outside Director
MANUEL PIZARRO MORENO	N/A	22/09/2011	Independent Outside Director
MIGUEL FERNÁNDEZ DE PINEDO LÓPEZ	N/A	22/09/2011	Independent Outside Director

B.1.3. NAME THE BOARD MEMBERS, IF ANY, WHO ARE ALSO DIRECTORS OR EXECUTIVES OF OTHER COMPANIES IN THE SAME GROUP AS THE LISTED COMPANY

NAME OF THE DIRECTOR/MEMBER OF THE GOVERNING BODY	NAME OF THE GROUP COMPANY	POSITION
AMADO FRANCO LAHOZ	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	Chairman
JOSÉ LUIS AGUIRRE LOASO	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	CEO
JESÚS BUENO ARRESE	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	Secretary to the Board of Directors
JESÚS BUENO ARRESE	Ibercaja Mediación de Seguros, S.A.U.	Board member
JESÚS BUENO ARRESE	Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.	Chairman
EUGENIO NADAL REIMAT	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	1st Vice-Chairman
EUGENIO NADAL REIMAT	Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.	Board member
EUGENIO NADAL REIMAT	Aramón Montañas de Aragón, S.A.	Board member
ALBERTO PALACIO AYLAGAS	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja	2nd Vice-Chairman
ALBERTO PALACIO AYLAGAS	Ibercaja Vida Compañía de Seguros y Reaseguros, S.A.U.	Board member
ALBERTO PALACIO AYLAGAS	Publicaciones y Ediciones del Altoaragón, S.A.	Board member

B.1.4. COMPLETE THE FOLLOWING TABLE REGARDING AGGREGATE COMPENSATION FOR DIRECTORS OR MEMBERS OF THE GOVERNING BODY THAT ACCRUED DURING THE YEAR

	THOUSAND EURO	
COMPENSATION	INDIVIDUAL	GROUP
Fixed compensation	733	–
Variable compensation	106	–
Per diems	38	106
Other compensation	13	–
TOTAL	890	106

B.1.5. IDENTIFY THE MEMBERS OF SENIOR MANAGEMENT WHO ARE NOT EXECUTIVE DIRECTORS AND INDICATE THE AGGREGATE COMPENSATION ACCRUED TO THEM DURING THE YEAR

NAME	POSITION
JESÚS BARREIRO SANZ	Assistant General Manager
LUIS ENRIQUE ARRUFAT GUERRA	Assistant General Manager
VÍCTOR MANUEL IGLESIAS RUIZ	Assistant General Manager
JOSÉ LUIS RODRIGO MOLLA	Sub-Director General
MARÍA PILAR SEGURA BAS	Sub-Director General
JOSÉ PALMA SERRANO	Sub-Director General
JOSÉ LUIS LÁZARO CRESPO	Sub-Director General
FRANCISCO JAVIER PALOMAR GÓMEZ	Sub-Director General
JOSÉ MANUEL MERINO ASPIAZU	Sub-Director General
JOAQUÍN RODRÍGUEZ DE ALMEIDA PÉREZ SURIO	Sub-Director
JOSÉ MORALES PAÚLES	Sub-Director
FRANCISCO SERRANO GILL DE ALBORNOZ	Sub-Director
JOSÉ JAVIER POMAR MARTÍN	Sub-Director
LUIS FERNANDO ALLUÉ ESCOBAR	Sub-Director

TOTAL SENIOR MANAGEMENT COMPENSATION (THOUSAND EUROS)
2,836

B.1.6. INDICATE WHETHER THE ARTICLES OF ASSOCIATION OR THE BOARD REGULATIONS ESTABLISH ANY LIMIT ON THE TERM OF OFFICE FOR DIRECTORS OR MEMBERS OF THE GOVERNING BODY

Yes ☐ No ☑

MAXIMUM TERM (YEARS)
N/A

B.1.7. INDICATE WHETHER THE INDIVIDUAL AND CONSOLIDATED ANNUAL ACCOUNTS PRESENTED TO THE BOARD OR GOVERNING BODY FOR APPROVAL ARE PREVIOUSLY CERTIFIED

Yes ☐ No ☑

If appropriate, name the person(s) who certify the Entity's individual or consolidated annual accounts before they are approved by the Board or Governing Body:

NAME	POSITION
N/A	N/A

B.1.8. EXPLAIN THE MECHANISMS, IF ANY, ESTABLISHED BY THE BOARD OR GOVERNING BODY TO AVOID A QUALIFIED AUDIT REPORT ON THE INDIVIDUAL AND CONSOLIDATED ANNUAL ACCOUNTS FROM BEING PRESENTED TO SHAREHOLDERS AT A GENERAL MEETING OR EQUIVALENT BODY

The Audit and Compliance Committee authorities granted by the Articles of Association are intended to serve as a conduit for communication between the Board of Directors and the auditors, evaluating the results of each audit and the responses of the management team to the auditors' recommendations, and mediating in cases of disagreements between the auditors and the management team regarding the principles and criteria applicable in the preparation of the financial statements. In addition, the Audit and Compliance Committee is also responsible for receiving information regarding the audit plan from the external auditor as well as the results of its execution and verifying that senior management takes into account the recommendations made, ensuring that the opinion on the annual accounts and the main content of the audit report are worded clearly and precisely.

B.1.9. IS THE SECRETARY TO THE BOARD OF DIRECTORS OR GOVERNING BODY A DIRECTOR?

Yes ☐ No ☑

B.1.10. DESCRIBE ANY MECHANISMS ESTABLISHED BY THE COMPANY TO PRESERVE THE INDEPENDENCE OF THE AUDITOR, FINANCIAL ANALYSTS, INVESTMENT BANKS AND RATING AGENCIES

Among the duties assigned to the Audit and Compliance Committee, Article 35 of the Board Regulations includes the duty of ensuring the independence of the external audit, establishing the appropriate relationships with the auditor to receive information regarding those issues that may put the auditor's independence at risk.

In any event, the Audit and Compliance Committee must receive a written statement of independence from the auditor with respect to the Company or any directly or indirectly related companies, as well as information regarding additional services of any nature rendered to these companies by the auditor, or by persons or companies associated with the auditor in accordance with the provisions of Law 19/1988 (12 July) on Audits.

Furthermore, on an annual basis, before the issue of the audit report, the Committee will issue a report in which an opinion will be expressed as to the auditor's opinion and must ensure that the Company reports to the National Stock Market Committee any change in the auditor as a Relevant Event accompanied, if appropriate, by a statement regarding the existence of any disagreements with the outgoing auditor and their content.

It must also ensure that the company and the auditor respect rules in force regarding the rendering of services other than audit services, business concentration limits affecting the auditor and, in general, all of the rules established to ensure the independence of auditors and examine the circumstances of any resignation of an external auditor.

B.2. BOARD OF DIRECTORS OR GOVERNING BODY COMMITTEES

B.2.1. LIST THE COMMITTEES

NAME	NUMBER OF MEMBERS	DUTIES
Executive Committee	7	See Section B.2.3
Audit and Control Committee	3	See Section B.2.3
Nominations and Compensation Committee	3	See Section B.2.3

B.2.2. STATE ALL THE COMMITTEES OF THE BOARD OF DIRECTORS OR GOVERNING BODY AND THE MEMBERS THEREOF

EXECUTIVE OR DELEGATE COMMITTEE

NAME	POSITION
Amado Franco Lahoz	Chairman
José Luis Aguirre Loaso	Member
Eugenio Nadal Reimat	Member
Alberto Palacio Aylagas	Member
Jesús Bueno Arrese	Member
Miguel Fernández de Pinedo López	Member
Manuel Pizarro Moreno	Member
Jesús Barreiro Sanz	Non-voting Secretary

AUDIT AND COMPLIANCE COMMITTEE

NAME	POSITION
Miguel Fernández de Pinedo López	Chairman
Eugenio Nadal Reimat	Member
Jesús Bueno Arrese	Member
Jesús Barreiro Sanz	Non-voting Secretary

NOMINATIONS AND COMPENSATION COMMITTEE

NAME	POSITION
Manuel Pizarro Moreno	Chairman
Alberto Palacio Aylagas	Member
Miguel Fernández de Pinedo López	Member
Jesús Barreiro Sanz	Non-voting Secretary

B.2.3. DESCRIBE THE RULES OF ORGANIZATION AND OPERATION AND THE RESPONSIBILITIES OF EACH OF THE BOARD COMMITTEES OR MEMBERS OF THE GOVERNING BODY. IF APPROPRIATE, DESCRIBE THE AUTHORITY OF THE CEO

The governing bodies at IBERCAJA BANCO, S.A.U., are, in accordance with its Articles of Association and Board Regulations: General Shareholders Meeting (single shareholder), the Board of Directors, Executive Committee, the Audit and Compliance Committee and the Nominations and Compensation Committee. The duties and organisation of the various Board Committees are described below, together with the authority delegated to the CEO.

CEO

The CEO's duties cover the effective management of the Company's business, always in accordance with the decisions and criteria established by shareholders at a General Meeting, the Board of Directors and the Executive Committee in the areas of their respective competencies.

The attribution or delegation of authority granted to the CEO must be approved by a 2/3 majority of the Board of Directors and it will determine the compensation paid and the other terms of conditions of the CEO's relationship with the Company.

The CEO, by delegation and as the hierarchical head of the Company, will be responsible for guiding the business and the maximum executive duties at the Company and is the only channel for contact between the Company's governing bodies, senior executives and other employees. The CEO will also ensure the execution and compliance with the resolutions adopted by those bodies.

EXECUTIVE COMMITTEE

a) Composition

The Executive Committee will be formed by a minimum of five and a maximum of seven Directors, of which the CEO must form part. The Board will ensure that the size and qualitative composition of the Executive Committee meets efficiency criteria and reflects the composition of the Board. The Chairman of the Board of Directors will be the Chairman of the Executive Committee. The Secretary to the Board of Directors will execute the duties of the Secretary.

The permanent delegation of authority by the Board of Directors to the Executive Committee will consist of all the Board's authorities, except for those that cannot be delegated by law or in accordance with the Articles of Association or those that cannot be delegated by virtue of the Board's Regulations.

b) Authority

The Executive Committee will dispatch all issues falling within the scope of authority of the Board of Directors which, in the opinion of the committee, must be resolved without delay, with the only exception of the matters that cannot be delegated in accordance with the Law, the Articles of Association or the Board's Regulations. The Board of Directors will be informed of the resolutions adopted by the Executive Committee at the first meeting held after the date of the Executive Committee's meeting.

c) Call to order, sessions and system for adopting resolutions

The Executive Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote.

The resolutions appointing members of the Executive Committee require the votes in favour of at least two thirds of the members of the Board of Directors.

The resolutions adopted by the executive committee will be valid and binding without the full board having to subsequently ratify the decision.

In those cases in which, in the opinion of the Chairman or three members of the executive committee, the importance of the matter so merits, the resolutions adopted by the committee will be ratified by the full Board.

This will also be applicable to those matters that the Board has sent for the review of the Executive Committee, reserving the final decisions regarding these matters.

AUDIT AND COMPLIANCE COMMITTEE

a) Composition

The Audit and Compliance Committee will have a minimum of three and a maximum of five members. At least one member will be an independent director.

Directors will be designated based on their knowledge, aptitudes and experience in accounting, audit or risk management.

The committee will be headed by an independent director who will also have knowledge and experience in the fields of accounting, audit or risk management. The committee chairman must be replaced every four years and may be re-elected again after one year elapses after leaving the position.

The Secretary to the committee will be the Secretary to the Board of Directors.

b) Authority

According to Article 49 of the Articles of Association, the Audit and Compliance Committee has the following duties:

a) Inform, through the Chairman and/or the Secretary, the Shareholders Meeting about issues raised by shareholders in matters within its sphere of competence.

b) To supervise the efficiency of internal control, the internal auditor and risk management systems as well as to discuss with the auditor or audit firms any significant weaknesses in internal control that have been detected during the performance of the audit.

c) To supervise the process of preparing and presenting regulated financial information.

d) Make proposals to the Board of Directors regarding the submission to Shareholders of the proposals for appointing the Company's external auditor or auditors.

e) Liase with the external auditors to receive information about any issues potentially jeopardizing the auditors' independence, for examination by the Audit and Compliance Committee, and any other issues connected with the process of performance of the audit, as well as the other communications stipulated in audit legislation and technical auditing standards.

f) In any event, the Audit and Compliance Committee must receive a written statement of independence from the auditor or audit firm with respect to the Company or any directly or indirectly related companies, as well as information regarding additional services of any nature rendered to these companies by the auditor or audit firm, or by persons or companies associated with the auditor in accordance with the provisions of Law 19/1988 (12 July) on Audits.

g) To issue, before the issue of the audit report, a report expressing an opinion regarding the independence of the auditor or audit firm. This report must provide information on the rendering of additional services, as mentioned in the preceding section.

c) Call to order, sessions and system for adopting resolutions.

The Audit and Compliance Committee will be validly called to order with the attendance, present or represented, of at least one-half plus one of its members and will adopt resolutions with a majority vote of the Directors forming part of the committee, present or represented, and the Chairman will have a casting vote. The members of the committee may appoint another member to represent them on the committee. The resolutions of the Audit and Compliance Committee will be logged in an official record book and signed by the Chairman and the Secretary.

The Committee will meet as many times as called by the Committee or its Chairman and at least once per quarter. The Committee may require the attendance of the Company's auditor. One of its meetings will be necessarily dedicated to evaluate the efficiency and compliance with the rules and procedures for the governance of the Company and prepare information that the Board must approve and include in the annual financial reporting documentation.

NOMINATIONS AND COMPENSATION COMMITTEE

a) Composition

The Nominations and Compensation Committee will have a minimum of three and a maximum of five members.

The members of the Nominations and Compensation Committee will be designated by the Board of Directors, taking into consideration the members' knowledge, aptitudes and experience and the Committe's duties. The Board of Directors will also appoint the Chairman. The Secretary to the committee will be the Secretary to the Board of Directors.

b) Authority

Notwithstanding other duties assigned by the Board of Directors, the Nominations and Compensation Committee will have the following basic responsibilities:

a) Formulating and reviewing the criteria to be followed as regards the composition of the Board of Directors and the selection of candidates.

b) Report the proposed appointment of directors for the Board of Directors to be submitted for a decision by shareholders at a general meeting, as well as the proposals for the re-election or dismissal of the Directors by shareholders at the general meeting.

c) Provide information regarding the members of each Committee.

d) Make proposals and report to the Board of Directors regarding:

   1. The compensation policy for directors;
   2. The individual compensation for Executive Directors and other conditions regarding their contracts;
   3. The basic conditions of special contracts.

e) Regularly review the compensation programmes, weighting their adequacy and performance.

f) Ensure the transparency of compensation and the observance of the Company's compensation policy.

g) Report the relationship of transactions that mean or could mean there is a conflict of interest and, in general, regarding the items set out under Chapter IX of these regulations.

h) Evaluate the balance of skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

i) Report on the senior officer appointments and removals which the chief executive proposes to the Board.

c) Call to order, sessions and system for adopting resolutions

The Committee will meet as many times as called by the Committee or its Chairman and at least once per quarter. In addition, a meeting will be held each time the Board of Directors or the Chairman request a report be issued or proposals made.

The meetings will also be validly called to order, present or represented, with one-half plus one of the Directors that form part of the Committee.

The committee will adopt its resolutions by a majority vote of the directors that form part of the committee, present or represented at the meeting. In the case of a tie, the Chairman will have a casting vote.

B.2.4. INDICATE THE NUMBER OF MEETINGS HELD BY THE AUDIT COMMITTEE DURING THE YEAR

NUMBER OF MEETINGS
2

B.2.5. IF THERE IS A NOMINATION COMMITTEE, STATE WHETHER ALL ITS MEMBERS ARE EXTERNAL DIRECTORS OR MEMBERS OF THE GOVERNING BODY

Yes ☑ No ☐

C. RELATED PARTY TRANSACTIONS

C.1. LIST ANY SIGNIFICANT TRANSACTIONS INVOLVING A TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE COMPANY AND/OR COMPANIES IN ITS GROUP AND THE MOST SIGNIFICANT COMPANY SHAREHOLDERS

NAME OF THE SIGNIFICANT SHAREHOLDER	NAME OF THE COMPANY OR GROUP COMPANY	NATURE OF THE RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT (THOUSAND EURO)
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA	IBERCAJA BANCO	MERCANTILE	RENDERING OF SERVICES	215
CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA	IBERCAJA BANCO	CORPORATE	DISTRIBUTION ON ACCOUNT OF THE 2011 DIVIDEND	12,800

C.2. LIST ANY SIGNIFICANT TRANSACTIONS INVOLVING A TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE COMPANY AND/OR COMPANIES IN ITS GROUP AND THE MOST SIGNIFICANT COMPANY SHAREHOLDERS OR COMPANY EXECUTIVES

NAME OF DIRECTORS OR MEMBERS OF THE GOVERNING BODY OR COMPANY EXECUTIVES	NAME OF THE COMPANY OR GROUP COMPANY	NATURE OF THE RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT (THOUSAND EURO)

C.3. LIST ANY SIGNIFICANT TRANSACTIONS WITH OTHER COMPANIES IN THE GROUP THAT ARE NOT ELIMINATED IN THE CONSOLIDATED FINANCIAL STATEMENTS AND WHICH DO NOT, BY VIRTUE OF THEIR OBJECT OR TERMS, RELATE TO THE COMPANY'S NORMAL BUSINESS

NAME OF THE COMPANY OR GROUP COMPANY	BRIEF DESCRIPTION OF THE TRANSACTION	AMOUNT (THOUSAND EURO)

C.4. STATE THE SITUATION OF CONFLICTS OF INTEREST, IF ANY, INVOLVING DIRECTORS OR MEMBERS OF THE GOVERNING BODY, PURSUANT TO ARTICLE 127 TER OF THE SPANISH COMPANIES ACT

No situations of conflicts of interest involving company directors that could affect the performance of their duties have been detected in accordance with the current provisions of Article 229 of the Spanish Companies Act 2010. In those situations in which a Director has considered that a conflict of interest could eventually arise, that Director has abstained from intervening in the deliberations and the relevant vote.

C.5. EXPLAIN THE MECHANISMS ESTABLISHED TO DETECT AND RESOLVE POSSIBLE CONFLICTS OF INTEREST BETWEEN THE ENTITY OR ITS GROUP AND ITS DIRECTORS, OR MEMBERS OF THE GOVERNING BODY, OR EXECUTIVES

Directors have the obligation to abstain from attending and intervening in deliberations that affect matters in which the Director, or a related person, has a personal interest. For these purposes, related persons are considered to be those indicated in Article 231 of the Spanish Companies Act 2010.

In addition, the Directors may not directly or indirectly carry out professional or commercial transactions with the company unless the conflict of interest is previously reported and the Board, after receiving a report from the Nominations and Compensation Committee, approves the transaction.

The Directors must notify the Board of Directors of any situation of direct or indirect conflict which they might have with the interests of the Company. The Director must also inform the Company of all positions held and the activities carried out in other companies or entities and, in general, of any event or situation that may be relevant to the position of Company Director.

Directors, or related persons, may not take advantage of a company business opportunity unless previously offered to the company and is rejected and the intention of the Director is approved by the Board after having received a report from the Nominations and Compensation Committee. A business opportunity is understood to be any possibility of making an investment or carrying out a commercial transaction that has arisen or has been discovered with respect to the exercising of the Director's duties, or through the use of company's resources and information, or under any circumstance that it is reasonable to think that the third-party offer was in reality directed at the Company.

A Director violates the loyalty duty to the company if the directly, knowingly allows or does not reveal the existence of transactions carried out by family members or companies in which an executive position is held or a significant shareholding is held, that has not been subject to the conditions and controls established in the aforementioned Board Regulations.

D. RISK CONTROL SYSTEMS

D.1. GENERAL DESCRIPTION OF THE COMPANY'S RISK POLICY AND/OR ITS GROUP, INCLUDING DETAILED AND AN EVALUATION OF THE RISKS COVERED BY THE SYSTEM, TOGETHER WITH INFORMATION SUPPORTING THOSE SYSTEMS' ADAPTATION TO THE PROFILE OF EACH TYPE OF RISK

Risk Policy

The fundamental pillars on which the Entity's risk management is based are solvency, liquidity and credit quality of assets.

Due to its exposure level, Credit Risk is the most important within the Bank's risk profile, although the management of risk includes others such as counterparty, concentration, market, liquidity, interest rate, operational, reputation risks, etc.

The Entity has an adequate risk management structure in which the tasks of identifying, measuring, monitoring, managing and controlling risks are clearly distributed independently, but in a related manner, into the following areas:

- Corporate Governance: The governing bodies establish the guidelines for investment and risk policies, which will be developed and applied by the rest of the organization when carrying out duties, both in the case of the Entity and the other companies that make up the Group.

- Strategy and risk profile: To establish the aforementioned guidelines, the governing bodies receive computer and technical support from specialized committees and management. In particular, the Overall Risk Committee defines and monitors the Entity's risk policies and strategy.
- Risk management: Risk management decisions are adopted by various bodies and units within the Entity when performing their specific duties.
- Risk control: Risk control is the responsibility of Audit management, which is independent of general management.

The organisational structure of governance and risk management at the Entity is proportional to the complexity of the business and guarantees the uniform application of policies and procedures by the Entity and all of the companies forming part of its Group.

The principles governing the Entity's risk management system are: integral management, quality, diversification, independence, continuity, delegation and association, binding decision models, uniformity, control, continuous improvement and transparency.

In order to facilitate the taking of decisions, the Entity constantly reviews and improves its procedures relating to:

- To evaluate the key business risks in accordance with their relevance and probability, quantifying them as precisely and in as much detail as possible.
- To integrate the measurement of risk into the operating and decision-making processes (establishing limits and policies, approval of operations, follow-up, recovery) and analytical processes (profitability calculations and analyses by client and segment, products, responsibility centres and business lines).
- To increase the efficiency of the process of accepting, monitoring and recovery of risk through the use of statistical tools and adequate information system, which facilitate the taking of decisions.
- To ensure the integrity and quality of the risk information which should in turn improve the reporting and communication systems at all of the levels involved in risk management.
- To create an environment for monitoring models and tools that makes it possible to ascertain their prediction capabilities.

As a result of the current economic environment, the pursuit of objectives in the area of the Bank's overall risk management focuses on internal improvement aspects that allow for the effective management of defaults and the prevention of new impairment in both the current portfolio and in new credit risk transactions, the active management of liquidity in all areas of the business and maintaining solvency at high levels.

Relevant risks are identified, justifying the adaptation of policies and procedures to manage each risk profile.

Credit risk

Credit Risk arises out of the possibility of losses being generated due to borrowers defaulting on their payment and losses in value due to the impairment of borrowers' credit ratings.

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

The Board of Directors defines the strategies, policies and limits regarding the management of this risk and they are documented in the "Credit Procedures and Policies Manual" at the proposal of the Overall Risk Committee. This manual includes policies for operating in the main areas of the business, the maximum line of risk with the main creditors, sectors, markets and products. The Board of Directors (or to the Executive Committee) authorises the risks which exceed the competence of the Entity's operative circuit.

The credit investment portfolio is segmented into groups of customers with uniform risk profiles and susceptible to different treatment through the application of specific evaluation models.

a) In relation to the granting of credit risk, the Entity establishes the following policies:

- Specific limits to the level of risk exposure for certain loan portfolios.
- Classifications of risk for borrower groups, through the establishment of prior exposure limits in order to prevent inadequate risk concentrations.
- Criteria for the admission of new operations and limits to granting powers, depending on the customer segment being financed.
- Methodology for operations analysis based on type and correspondence to different segments.
- Internal credit rating models integrated into decision systems.
- Requirements for ensuring legal security in each operation.
- Risk mitigation techniques.
- Price policies in accordance with the credit quality of customers.

The structure of Credit Risk management presents decentralised operations, which is based on the formal delegation of authority established in the Bank's manuals.

b) By monitoring the risk the intention is to anticipate the development of groups and customers sufficiently in advance on a permanent basis to prevent or minimize potential problems for the Entity resulting from the impairment of its credit portfolio. This knowledge is fundamental for the proactive management of the measures necessary to reduce or restructure exposure to existing risk.

The Entity has a mechanized alarm that analyses and classifies all customers following the consideration of information from various internal and external sources for the purpose of detecting risk factors which may imply a deterioration of the customer's credit quality. This alarm system is subject to calibration and on-going improvement processes.

In addition, special attention is paid to groups or borrowers classified into the special monitoring, sub-standard or doubtful categories due to reasons other than default.

c) Integral risk management is completed by recovery policies which are intended to avoid or minimize possible losses for the Entity through specific recovery circuits established based on the amount and type of the transaction concerned and involving the intervention of various internal and external managers to take the action necessary for each situation.

Country risk

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

Countries are classified in six groups in accordance with Bank of Spain Circular 4/2004, their rating and the OECD and International Bank for Reconstruction and Development Country Classification, based on their economies, political situation, regulatory and institutional framework and payment capacity and experience.

The Entity establishes certain maximum exposure limits for country risk based on the rating granted by the rating agencies, accompanied by maximum limits for investments in certain groups, while in other no operations are authorised without the express consent of the Board of Directors.

In addition, the Entity establishes certain maximum limits relating to sovereign risk in terms of the government debt issued by Members of the European Union, other States, Autonomous Regions, Local governments and public entities based on their rating.

Interest rate risk

This is defined as the possibility that the financial margin or the Entity's equity will be affected by adverse changes in market interest rates to which asset, liability or off-book transaction positions are referenced.

The sources of interest rate risk are repricing risk, yield curve risk, basis risk and option risk. Repricing risk derives from different maturity dates or the revision of transactions sensitive to interest rate risk.

The aim of interest rate risk management is to help maintain the current and future rates of return at adequate levels, preserving the Entity's financial value.

To manage interest rate risk, the Entity has policies for identifying, measuring, monitoring, controlling and mitigating the risk.

The Board of Directors defines the strategies, policies and limits regarding the management of this risk and they are documented in the "Credit Procedures and Policies Manual for the management of Interest Rate Risk" at the proposal of the Overall Risk Committee.

The Entity manages the risk exposure deriving from its portfolio operations, both when they are contracted and throughout their subsequent monitoring, and includes in its analytical horizon the forecast development of the business and expectations in respect of interest rates, as well as management and hedging proposals, simulating different behavioural scenarios.

The tools available to the Entity allows it to measure the effects of changes in interest rates on the interest margin and financial value, to simulate scenarios based on the assumptions regarding the evolution of interest rates and commercial activities, and to estimate the potential impact on capital and results deriving from abnormal fluctuations in the market (stress scenarios) such that the results are taken into consideration in the establishment and review of policies and limits, as well as during the planning process.

As regards Optionality Risk, essential assumptions are established with respect to the sensitivity and term of the on-demand savings operations as the maturity date is not established in the contract, as well as the assumptions regarding the early maturity of loans, based on historic experience with different scenarios.

The effect that changes in interest rates has on the financial margin and the Bank's value is controlled by the establishment of exposure limits. The limits allow the exposure to interest rate risk to be maintained within the levels compatible with approved policies.

Liquidity risk

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

The adequate management and control of liquidity risk is governed by principles of financial autonomy and balance sheet equilibrium to guarantee the continuity of the business and ensuring that there is liquidity available at all times to meet payment commitments (i.e. the settlement of liabilities on their respective maturity dates) without undermining, as a result, the capacity to respond speedily to strategic market opportunities.

The Board of Directors defines the strategies, policies and limits regarding the management of this risk and they are documented in the "Credit Procedures and Policies Manual for the management of Liquidity Risk" at the proposal of the Overall Risk Committee.

In the years preceding the financial crisis, the Spanish financial system obtained wholesale financing to cover the difference between credit growth and retail deposits. Since mid-2007 financial institutions have not been able to carry out many issues on wholesale markets or to securitise assets.

In the Entity's particular case, the strategy for recruiting resources from retail sources and the use of alternative short- and long-term liquidity sources is allowing for the resources that are necessary to fulfil solvent demand for credit in commercial areas and to maintain cash positions within the management parameters established in the liquidity manual.

The measurement of liquidity risk takes into consideration the estimated cash flows from assets and liabilities, and on guarantees or additional instruments available to it to secure such alternative sources of liquidity as may be required.

The outlook for the business and expectations relating to interest rates are also taken into consideration, as well as the proposals for management and hedging, simulating various performance scenarios. These procedures and analytical techniques are reviewed with the frequency required to guarantee that they function correctly.

Provisions in the short, medium and long-term outlooks are developed to obtain information regarding financing needs and compliance with limits, which take into consideration the most recent macro-economic trends, due to their influence on the development of the various assets and liabilities in the balance sheet and on contingent liabilities and derivative products. Liquidity risk is controlled through the establishment of limits to exposure so that it may be maintained within levels that are compatible with the approved policies.

In addition, the Entity is prepared to face possible internal and market crises using procedures and "contingency plans" that guarantees sufficient liquidity at the least cost possible in adverse scenarios, estimating the behaviour of the most significant variables, establishing a series of alerts for anomalous market situations and planning the capture of funds during the crisis.

Market risk

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

The Entity manages Market Risk by attempting to obtain adequate financial yields with respect to the level of risk assumed, bearing in mind certain overall exposure levels by types of segmentation (portfolios, instruments, sectors, subjects, ratings), portfolio structure and yield/risk objectives. When managing and controlling this risk, sensitivity analyses are applied to estimate the impact on profits and equity.

The Board of Directors defines the strategies, policies and limits regarding the management of this risk and they are documented in the "Capital Market Management Procedures and Policies Manual" at the proposal of the Overall Risk Committee.

To manage Market Risk the Entity has policies to identify, measure, monitor, control and mitigate as well as operational policies relating to trading, re-evaluating positions, classifications and measurements of portfolios, cancellation of transactions, approval of new products, relations with intermediaries and delegation of duties.

Portfolios exposed to market risk at the Entity are characterized by their high level of diversification – sectorial and geographic –, their high liquidity, and the absence of trading activities. This means that the overall market risk assumed is very small.

The effect that changes in interest rates, exchange rates, listed prices and derivatives have on the financial margin and the Entity's value is controlled by the establishment of exposure limits. The limits allow the exposure to Market Risk to be maintained within levels that are compatible with approved policies and are defined at the portfolio and operator level.

Market risk management includes mitigation policies to reduce the exposure to that risk when necessary, reducing the potential impact on results. Mitigation techniques include the netting framework contracts, guarantee contracts, the reduction of portfolios in the event of adverse credit events, the reduction of lines of risk in the event of rating reductions or negative news and the regular monitoring of financial information regarding companies.

In 2011 the VaR has oscillated based on the market perception of the public accounts in peripheral countries in Europe and the increase in volatility market (stock market indexes and interest rates). However, the percentage representing the VaR over the present value of the portfolio for a one-day horizon does not exceed 1.26% at 31 December 2011, reflecting the conservative manner in which this risk is managed.

Counterparty risk

This is defined as the possibility that counterparties may default on obligations deriving from financial transactions (fixed income, interbank, derivatives, etc.).

The Board of Directors defines the strategies, policies and limits regarding the management of this risk and they are documented in the "Capital Market Management Policies Manual" and the "Line of Risk Management" at the proposal of the Overall Risk Committee.

To manage counterparty risk, the Entity has policies for identification, measurement, monitoring, control and mitigation. In addition, the "Line of Risk Manual" establishes the policies, methods and procedures for granting lines of risk, proposing limits, the process of formalizing and documenting transactions and the procedures for monitoring and controlling risk for financial institutions, local governments and listed and/or rated companies.

The lines of risk are basically established based on the ratings assigned by credit rating agencies and the reports issued by those agencies and the expert analysis of their financial statements.

Limits, authorised by the Board of Directors, are established by volume of investment and include limits to overall exposure, as well as individual limits on investment by issuer.

The legal limits for concentration and large risks are observed in application of Standard 101 of the Bank of Spain Circular 3/2008.

The monitoring systems ensure that the risks assumed always fall within established limits. They incorporate the review of news bulletins on entities that have been assigned a specific line of risk, the analysis of financial statements, controls of changes in ratings, and monitoring of risk consumed by Spanish companies and risks assumed with credit entities.

Mitigation techniques for Counterparty Risk include the netting framework contracts, guarantee contracts, the reduction of portfolios in the event of adverse credit events, the reduction of lines of risk in the event of rating reductions or negative news for a company and the regular monitoring of financial information regarding companies.

With respect to those companies with which risk offset agreements have been reached together with the provision of guarantees, the risk may be calculated at the resulting net position, in accordance with Bank of Spain requirements.

Operational risk

This is defined as the risk of loss resulting from a failure to adequately design or implement processes, personnel and internal systems, or it may derive from external events.

The Basil Bank Supervisory Committee published in 2003 a series of best practices for the management of operating risk, which is required to be identified, measured, monitored, mitigated and controlled. Similarly, the new Capital Agreement and Bank of Spain Circular 3/2008 (22 May) on the calculation and control of minimum equity, establish that entities must have sufficient equity based on the Operating Risk assumed in their various activities.

The Board of Directors defines the strategies and policies regarding the management of Operating Risk and they are documented in the "Operating Risk Management Framework" at the proposal of the Overall Risk Committee.

According to this objective, the tasks of deciding on and assuming risks are handled by the business and support units and by the Group companies while the tasks of measuring and controlling risks are handled in a centralized manner.

In accordance with the best practices established by the Basel Committee, the Entity has developed diverse methodologies to measure, manage and control operating risk on a quantitative and qualitative level. The former are based on the identification and recognition of losses deriving from the materialization of an operating risk in a Loss Data Base and an analysis of its development, whereas the latter involve an Operating Risk Map consisting of the identification and evaluation of operating risks and an evaluation of those risks and existing controls within processes and activities, together with a gathering and analysis of Operating Risk Indicators which raise alarms when there is potential exposure to certain risks.

As a result of advances in the management and operating risk control processes deriving from established policies, at the end of December 2010 the Entity calculated for the first time the consumption of capital due to Operational Risk using the standard method, in accordance with the provisions of Rule 97 in Bank of Spain Circular 3/2008 (22 May) regarding the calculation and control of equity.

Exchange rate risk

This item is defined as the possibility of incurring losses deriving from adverse changes in exchange rates for currencies in which the Entity's off-balance sheet assets, liabilities and operations are denominated.

The Entity does not hold foreign currency positions on a speculative basis. The Bank does not have any significant non-speculative open positions in foreign currency.

The Entity's policy is to limit this type of risk, mitigating it at the time it arises by obtaining symmetrical asset and liability positions or through financial hedge derivatives.

Reputation risk

This is defined as the risk of legal or regulatory penalties, significant financial loss, or loss of reputation, suffered by an Entity due to the breach of laws, regulations, rules, standards for the self-regulation of the organization, and codes of conduct applicable in its financial activities; this risk is inherent to such activities, given that they are highly regulated and subject to on-going supervision by the authorities.

The Entity has a Regulatory Compliance Unit to supervise and ensure compliance with the regulations applicable to its business activities, particularly the following: regulations intended to prevent money laundering the financing of terrorism; protecting personal data; transparency in operations with customers and codes of conduct in relation to the stock market.

In addition, the Entity has an Operating Risk Map which identifies and evaluates those with the potential to have an impact on the Group's reputation.

Self-evaluation of capital

The Entity regularly carries out a self-evaluation of Pillar II capital. An analysis of the risks to which it is exposed and the valuation of risks identified as relevant, configures are risk profile characterised by good internal and corporate good governance, management systems and internal control that are adequate for the activities carried out and reduced risk.

The development of the Entity's equity level and its quality, and its comparison with the equity necessary to cover relevant risks, both for those requiring regulatory capital and the Pillar II risks, as well as the capital planning carried out, give rise to a good solvency situation in that the volume of equity is higher than the necessary minimum and the quality of the equity is adequate.

The combination of the above reveals that the Entity's capital strategy, equity maintained, recurring profits, corporate and internal governance and risk management and control systems are adequate for the activities that the Entity carries out and the risks it has assumed.

D.2. STATE THE CONTROL SYSTEMS IN PLACE TO EVALUATE, MITIGATE OR REDUCE THE MAIN RISKS OF THE COMPANY AND ITS GROUP

Risk management is a fundamental element of any credit institution's internal control system since risks, basically financial and operational, are inherent to the financial products and services that constitute the entity's core business.

The Entity has at its disposal risk control systems based on:

- Procedures for the identification and measurement of risks, permitting their monitoring and control.
- A limits structure for the main counterparties, instruments, markets and terms, which is submitted to the approval of the Board of Directors annually, for the purpose of defining prudent policies and avoiding risk concentrations.
- A Global Risk Committee that defines and monitors the Entity's risk management policies and strategies.
- A defined hierarchical structure of authorization for the granting or assuming of risks, based on amount involved and nature of the risk.
- Direct controls distributed at different decision-making levels which ensure that operations are performed in accordance with established policies and in the terms authorized.
- A Risk Control Unit, which is independent of Business Management which, among other things, verifies compliance with limits approved by the Board of Directors or others established by the Global Risk Committee and reports on compliance to Management on a regular basis.
- A Regulatory Compliance Unit that supervises compliance with the laws that regulate certain activities of the Entity in order to minimize the penalties and damage to the Entity's reputation which could result from non-compliance.
- The Internal Audit area reviews the adequate functioning of risk control systems, also verifying compliance with established policies, procedures and internal rules, and reporting to a committee at management level, which adopts such decisions as may be necessary to mitigate the weaknesses or risks observed. In addition, both the annual planning of internal audit work and the most relevant conclusions obtained are presented to a relevant governing bodies of the Entity.

These risk control systems at the Entity are continually improved in order to optimally comply with the requirements of Bank of Spain Circular 3-2008 regarding the calculation and control of minimum equity and those relating to Pillar II and Pillar III.

D.3. IF ANY OF THE RISKS AFFECTING THE COMPANY AND/OR ITS GROUP HAD MATERIALIZED, DESCRIBE THE CIRCUMSTANCES WHICH CAUSED THEM AND STATE WHETHER THE ESTABLISHED CONTROL SYSTEMS HAVE WORKED

The control systems that have been established function adequately, in accordance with the risks that may materialise during the ordinary course of the activity.

D.4. STATE WHETHER THERE IS ANY COMMITTEE OR OTHER GOVERNANCE BODY RESPONSIBLE FOR ESTABLISHING AND SUPERVISING THESE CONTROL MECHANISMS AND DETAIL THE FUNCTIONS THEREOF

The Entity's organizational chart clearly reflects its organizational structure with respect to risks and the bodies responsible for management, monitoring and controlling those risks.

After the segregation process carried out by Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja to carry out its financial activity indirectly through Ibercaja Banco, S.A.U., the Board of Directors of the latter is responsible for establishing the investment and risk policy guidelines for the entire Ibercaja Group.

The Board of Directors of Ibercaja Bank, when exercising its authority granted by the Articles of Association, and in order to ensure the continuity and proper operation of the financial activity adopted the manuals and policies for risk management and control that were prepared and approved by the Savings Bank in its capacity as the parent company of Ibercaja Group.

On a supplementary basis, the Articles of Association expressly attribute a relevant role in the supervision of risk management systems to the Audit and Compliant Committee.

The respective Governing Bodies of the Companies pertaining to the Financial Group define their own investment and risk policies provided that they fall within the overall limits and risk strategies and policies established for the entire Group.

In order to establish these guidelines, the Governing Bodies receive information and technical support from specialized Committees and Departments, which subsequently specify the risk management strategies and policies based on the guidelines that have been received.

The overall Risk Committee performs an essential role in this area, given that it specifies the Group's strategies and policies and performs monitoring activities. This Committee is made up of the highest level executives to whom the Units that are directly related to the management of the various types of risks inherent to the Entity's activity and that of its Group report.

The Overall Risk Committee had the following duties:

- Define and monitor the Group's risk management policies and strategies.
- Established objectives and strategies for the development of structure and composition of the sums set out in the balance sheet. It analyses the Group's exposure and its results under various scenarios: levels of tolerance. Risk premiums.
- Plan medium-term capital needs of the Group. Establish capital objectives based on risk profiles, overall and with respect to various types of exposure.

The organizational outline provides the Entity with an overall risk governance and management structure, aligned with market trends with the business' current needs and complexity of Ibercaja Group. This structure guarantees the standardisation of policies and risk control at Ibercaja and all the companies forming part of the Group.

In addition, the Audit and Compliant Committee is responsible for supervising the matters which under the Savings Bank arrangement were attributed to the Control Committee.

Among other duties, the Audit Committee has the following:

- Monitor the Entity's control and audit within the Entity's Departments, and to propose the Annual Internal Audit and Control Plan for the Group.
- Analyse and debate the results set out in the Internal Audit and Control reports in order to obtain conclusions and take decisions that once reported to the relevant Department, mitigate risks affecting issues that were raised in those reports.
- Monitor the implementation of the corrective measures and analyse any variances that may arise and implement alternative plans if necessary.

E. GENERAL MEETING OR EQUIVALENT BODY

E.1. LIST THE QUORUM THAT IS NECESSARY TO VALIDLY CALL TO ORDER A GENERAL MEETING OR EQUIVALENT BODY AS ESTABLISHED IN THE ARTICLES OF ASSOCIATION. DESCRIBE HOW THIS IS DIFFERENT FROM THE MINIMUM SYSTEM ESTABLISHED BY THE SPANISH COMPANIES ACT OR ANY OTHER APPLICABLE LEGISLATION

A General Meeting, whether ordinary or extraordinary, will be validly called to order on first call or on second call when the shareholders that are present or represented hold the percentage of voting rights established by law. Notwithstanding the above, a General Meeting will be validly called to order as a Universal Meeting provided that all share capital is present or represented and those in attendance unanimously agree to hold the meeting and approve the agenda.

The validity of calling the meeting to order will be determined with respect to each of the resolutions that must be adopted and any absences that take place once the General Meeting has been validly called to order will not affect the holding of the meeting.

In order to validly call the meeting to order, even if held as a Universal Meeting, the attendance of the Company's administrators is not necessary.

E.2. EXPLAIN THE SYSTEM FOR ADOPTING RESOLUTIONS. DESCRIBE HOW THIS IS DIFFERENT FROM THE SYSTEM ESTABLISHED BY THE SPANISH COMPANIES ACT OR ANY OTHER APPLICABLE LEGISLATION

The system for adopting corporate resolutions is in line with the system established by the Spanish Companies Act. With the exception of those cases for which the Law or the Articles Association establish a qualified majority, the majority that is necessary to approve a resolution is the favourable vote of one-half plus one of the shares with voting rights that are present or represented at the meeting.

Those attending the general meeting will have one share for each share that they possess or represent.

Once a resolution has been submitted to a vote and the votes have been counted, the Chairman will report the results and declare, if appropriate, the resolution validly adopted.

E.3. DESCRIBED SHAREHOLDER RIGHTS WITH RESPECT TO THE BOARD OR EQUIVALENT BODY

Shareholders enjoy the right to information in the terms established by law. The Board of Directors will be required to provide, in the manner and within the deadlines established by law, the information that shareholders request, except in cases where this is legally improper and, in particular, when in the opinion of the Chairman the publication of the information would harm the Company's interests. This exception will not apply if the request is supported by shareholders representing at least one fourth of the capital stock.

E.4. BRIEFLY INDICATE THE RESOLUTIONS ADOPTED BY SHAREHOLDERS AT A GENERAL MEETING OR EQUIVALENT BODY HELD DURING THE YEAR TO WHICH THIS REPORT REFERS AND THE PERCENTAGE OF VOTES WITH WHICH EACH RESOLUTION WAS ADOPTED

At the Extraordinary Meeting held on 22 September 2011, shareholders adopted resolutions to set the per diems payable to the members of the governing bodies for attending the meetings held up to the limit of the amount paid by the parent company Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja (CAMPZAR). In addition, shareholders authorized compensation for the Chairman and the CEO in the same amount that the Board of Directors of CAMPZAR established for the Chairman and the Managing Director, respectively, with all increases that would have taken place since the date of the resolution, as well as the amounts that could be accrued by the CEO for variable compensation based on objectives and any other item as stipulated by the terms of Article 51 of the Articles of Association.

The Board of Directors was also authorized to carry out the following action when market circumstances make such action advisable:

- The issue of debentures into the institutional and retail markets up to a maximum amount of €5,000 million, through the issue of ordinary debt, subordinated debt, mortgage bonds, territorial bonds, debentures and bonds, preferred shares, promissory notes, Schuldschein loans, structured bonds and debentures and others.
- Securitise balance sheet assets up to the amount of €3,000 million.

Finally, a resolution was adopted so that IBERCAJA BANCO, S.A.U., as a subsidiary, could avail itself of the application of the tax consolidation system established under Title VII, Chapter VII of Legislative-Royal Decree 4/2004 (5 March), which approves the Spanish Corporate Income Tax Act.

At the Extraordinary General Meeting held on 22 December 2011 shareholders adopted a resolution to distribute twelve million eight hundred thousand euro as an interim dividend for 2011 to be distributed equally among outstanding shares.

E.5. PROVIDE THE ADDRESS OF THE CORPORATE WEBSITE AND HOW THE CORPORATE GOVERNANCE CONTENTS ARE ACCESSED ON THE WEBSITE

The information regarding corporate governance at IBERCAJA BANCO is accessible through the website http://www.ibercaja.es under the section "Corporate Information" under the menu "Information regarding the Entity". "Information for investors" is available under that same menu.

E.6. INDICATE WHETHER OR NOT MEETINGS HAVE BEEN HELD WITH ANY SYNDICATES OF HOLDERS OF SECURITIES ISSUED BY THE ENTITY, THE PURPOSE OF THE MEETINGS HELD DURING THE YEAR TO WHICH THIS REPORT RELATES AND THE MAIN AGREEMENTS REACHED

In 2011 no meeting was held with the various syndicates of the holders of securities issued by the Entity.

F. COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

IBERCAJA BANCO, S.A.U., is not a listed company and therefore some recommendations cannot be completely followed.

However, both the Articles of Association and the Board Regulations have attempted to include the recommendations of the Unified Code of Good Governance, taking into account its spirit and purpose. It should also be taken into account that some recommendations must be applied by the Company given its status as a credit institution and the legal provisions that are applicable.

IBERCAJA BANCO, S.A.U., compliance with the recommendations relating to statutory voting limitations (1), matters expressly reserved for the General Shareholders Meeting (3), separate voting for issues (5), matters expressly reserved for the Board of Directors (8), appropriate size of the governing body (9), criteria governing the composition of the Board (10) and (14) the evolution of meetings and operating rules – recommendations (16), (18), (19), (23), (24), (25), (26), (27), (31), (32) –, regarding compensation – recommendations (35), (37), (39), (41) – relating to committees – executive committee, audit and control committee and nominations and compensation committee – as well as risk management and control – recommendations (42 to 58), as is indicated in the relevant sections of this report.

As regards recommendation (15), the Entity has ensured that the selection procedures for members of the Board of Directors do not suffer from implicit problems that give rise to obstacles to selecting female Directors. Furthermore, there are two independent directors out of a total of seven, therefore when the minimum set out in recommendation (13) is not reached the percentage that they represent is close figure proposed.

No group company – neither the parent nor its subsidiaries – is a listed company and given the fact that it is a single shareholder company recommendations (2) and (4) are not applicable. Given that there is no external director that cannot be considered to be institutional or independent. Recommendation (11) is not applicable as is the case with recommendations (12) and (30) since IBERCAJA BANCO, S.A.U., is a single shareholder company.

The top executive at the company is the CEO and this position does not fall on the Chairman of the Board of Directors and therefore recommendation (17) is not applicable. Given the fact that during 2011 no Director or the Secretary have expressed any concern regarding any proposal or the operations of the Company, the Board has not been presented with any proposal that could go against its corporate interests and therefore recommendations (21) and (33) are not considered to be applicable. No circumstances referred to by recommendation (34) – dismissal of a Director before the end of the appointed term – or recommendation (38) – qualifications issued by the external auditor – have arisen. In any event, should any of these circumstances arise both the Articles of Association and the Board Regulations are in line with the aforementioned recommendations.

Bearing in mind that the Company started its activities during the final quarter of the year, it has not been considered necessary to provide the information referred to under recommendation (22), notwithstanding the fact that it may be done in 2012. In addition, and for this same reason, in 2011 the report referred to under recommendation (40) has not been submitted to a vote.

G. OTHER INFORMATION OF INTEREST

Incorporation and commencement of activities by IBERCAJA BANCO, S.A.U.

At an extraordinary General Assembly meeting held by 26 July 2011 by the members of CAJA DE AHORROS Y MONTE DE PIEDAD DE ZARAGOZA, ARAGÓN Y RIOJA a resolution was adopted to carry out its financial activity indirectly through a newly created bank, wholly owned by the Savings Bank, in accordance with the provisions of Royal Decree-Law 11/2010 (9 July), Law 31/1985 (2 August), which regulate the basic rules regarding the Governing Bodies of Savings Banks and Law 1/1991 (4 January), which regulates Savings Banks in Aragón.

For these purposes, the General Assembly of the Saving Bank adopted a resolution to completely segregate the assets and liabilities associated with its financial activity to IBERCAJA BANCO, using the procedure and under the terms established by Law 3/2009 (3 April), on structural modifications to companies. By virtue of this segregation IBERCAJA BANCO subrogated in full to all of the rights and obligations of the Savings Bank with respect to its financial activity, as well as the human and material resources associated with that activity.

On 22 September 2011, once the relevant administrative authorization had been obtained, the incorporation document for IBERCAJA BANCO was executed and it became a credit institution authorized to carry out all banking activities, as well as the rendering of investment and auxiliary services as established under stock market legislation. IBERCAJA BANCO commence activities on 1 October 2011, after being entered into the Registry of Banks and Bankers at the Bank of Spain.

B.1.4. The compensation included under this section refers to all of 2011, given that the segregation took effect for accounting purposes on 1 January 2011.

B.1.5. The compensation included under this section refers to all of 2011, given that the segregation took effect for accounting purposes on 1 January 2011.

B.1.6. Senior Management is considered to be Assistant CEOs, General sub-directors and Sub-directors.

B.2.1. y B.2.3. On 4 October 2011 the Board of Directors adopted a resolution stating that all meetings held will take the form of a Board of Directors meeting given that the members of the Executive Committee coincide with those of the Board of Directors.

C.4. The reference to Article 127 ter of the Spanish Companies Act must be understood to be made to Article 229 of the Spanish Companies Act 2010.

This Annual Corporate Governance Report was approved by the Board of Directors of the Bank at its meeting on 30 March 2012.

Indicate the members of the Board or Governing Body who abstained or voted against the approval of this Report.

APPENDIX TO THE ANNUAL CORPORATE GOVERNANCE REPORT FOR IBERCAJA BANCO, S.A.U.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICRMS)

INTRODUCTION

Ibercaja Banco, S.A.U. (hereinafter Ibercaja, the Bank or the Entity), is a credit institution wholly owned by Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y Rioja. As a result of the changes made to the Spanish financial system in 2010 and, especially, the legislative amendments and measures adopted to reinforce that system, the General Assembly of the Savings Bank at an extraordinary meeting held on 26 July 2011, adopted a resolution to incorporate a new bank to which all assets and liabilities relating to its financial activity would be transferred.

Ibercaja Banco has assumed the indirect exercising of the activity that was previously carried out by the Savings Bank and it has become the parent of a group of entities and exercises control over them and they constitute, for these purposes, Ibercaja Banco Group.

Ibercaja is currently implementing a Internal Financial Reporting Control System (IFRCS) in order to guarantee that the financial information that is reported to markets concerning both the company and its Group is complete, reliable and appropriate.

Taking into account that the creation of the bank gives rise to an organizational restructuring process and that it started activities on 1 October 2011, during the final quarter of 2011 Ibercaja carried out a project through which it evaluated the degree to which the IFRCS control elements had been developed and established milestones and the necessary action plans to comply with requirements and adopt the best practices in each area. Accordingly, certain aspects and elements of the IFRCS are being developed and/or implemented and the expectation is that they will be fully operational over the course of 2012.

When designing the IFRCS the Entity has followed the guidelines established in the Internal Control Over Financial Information in Listed Companies established by the Spanish Stock Market Commission, such that the terminology used in this heading is associated with the definitions included in that guide.

An overview of the IFRCS at Ibercaja Banco Group is set out below, together with a description of the main elements that form part of the system.

CONTROL ENVIRONMENT AT THE ENTITY

1. **Which bodies and/or areas are responsible for: (i) the existence and maintenance of an adequate and effective IFRCS; (ii) it is implementation; and (iii) its supervision.**

The Entity's Board of Directors and Senior Management are conscious of the importance of guaranteeing the reliability of financial information reported to the market for investors and therefore these bodies are fully involved in the development of the IFRCS.

The Board of Directors assumes the responsibility of establishing and supervising the risk control and reporting systems, as is formally stated in its Regulations and this responsibility covers the IFRCS.

The aforementioned Board Regulations establish, as an authority that cannot be delegated, "the preparation of the individual and consolidated annual accounts and the approval of financial information" together with the "establishment and supervision of risk control and reporting systems".

The Regulations also indicate that the Board "will adopt all measures necessary to ensure that the half-yearly, quarterly and any other financial information that may be made available to markets is prepared in accordance with the same principles, criteria and professional practices applied to the preparation of the annual accounts and will be as reliable as those accounts".

Senior Management has assumed the responsibility of designing and implementing the IFRCS through the Management Control Department and its General Accounting Unit, to the extent that the latter centralizes the large majority of the activities intended to attain in adequately functioning IFRCS.

Finally, the Audit and Compliant Committee, in accordance with the Board Regulations, has been delegated the following basic responsibilities relating to the internal control and reporting systems: "verify the adequacy and integrity of the internal control systems; know and supervise the process of preparing and presenting regulated financial information regarding the Company and, if appropriate, the Group, as well as its integrity, reviewing compliance with legislative requirements, adequate definition of the scope of consolidation and the proper application of accounting policy; supervise the efficiency of internal control and risk management systems, regularly reviewing them so that the main risks are identified, managed and adequately reported; review the company's accounts, monitor compliance with legal requirements and the proper application of generally accepted accounting principles, as well as reporting any proposals to modify accounting principles and standards suggested by Management; review the regular financial information that must be provided by the Board to markets and regulatory bodies".

2. **Which departments and/or mechanisms are responsible for: (i) the design and review of the organizational structure; (ii) clearly defining lines of responsibility and authority, with an adequate distribution of tasks and duties; and (iii) ensuring that there are sufficient procedures for proper reporting within the Entity, particularly with respect to process of preparing financial information.**

The Organizational Development Department at Ibercaja is responsible for ensuring an efficient organizational structure at the company, the finding the most productive distribution of tasks and resources, as is stated in its mission statement and it contributes, by defining duties, resources and responsibilities, to the adequate operation of the internal control system with respect to the preparation of financial information.

The current executive structure and the definition of the primary duties has been approved by the Board of Directors of Ibercaja at the proposal of the CEO. Intern, each Department, together with the Organizational Development Apartment, has defined the structure of its area into Units or Departments, specifying the associated duties, which have been ratified by the CEO.

This structure is available to all employees in the Regulations published on the Entity's intranet and it is revised should there be any organizational change made.

As regards the process of preparing financial information, this is the responsibility of the Management Control Department, which includes the General Accounting, Tax Advisory, Management Control, Management Information and Overall Risk Strategy units. The Management Control Department and, in particular, the General Accounting Unit, is responsible for the General accounting process at Ibercaja and for the Group's consolidation for accounting purposes as subsidiary accounting is decentralized and they are responsible for the management and preparation of their individual accounts in accordance with the guidelines issued by the parent company.

The persons responsible for the Management Control Department are those that define the lines of responsibility and authority and assign tasks and duties for each job post, applying criteria of efficiency and effectiveness and ensuring that there is an adequate segregation of tasks in this process, as well as guaranteeing continuity of those tasks and duties.

3. Do the following elements exist, especially with respect to the process of preparing financial information: (i) code of conduct, (ii) whistleblower channel and (iii) regular training and retraining programs for personnel involved with the reparation, evaluation and review of financial information that cover at least accounting, audit, internal control and risk management standards.

Ibercaja has a Memorandum of Rules of Conduct and Operating Security that summarizes standards, actions and criteria that must be taken into account by all employees. In particular, emphasis is placed on the importance of the proper entry of information into automated systems that affects the reliability and the guarantees for the processes carried out subsequently, particularly with respect to risk operations.

This document is available on the Entity's intranet and the Audit and Compliance Committee is responsible for approving updates and improvements.

The Internal Audit Unit and the General Accounting Unit are responsible for the existence of a whistleblower channel through which information is currently received regarding any behaviour that violates the standards, principles and values of the Company and in particular, any irregular behaviour of a financial and accounting nature.

Ibercaja has mechanisms that allow it to ensure that the personnel directly involved with the preparation of financial information, as well as its supervision, have the capacity and professional competency that is necessary to carry out their duties. In this connection, employees are constantly informed of current legislative requirements and have sufficient capacity to efficiently perform their tasks and duties.

The persons responsible for each Unit and Department identify training needs and manage the necessary training action in cooperation with the Human and Material Resources Department, and keep records of the training.

The training regarding accounting, audit, internal control and risk management that has been provided throughout 2011 was particularly focused on internal training sessions at the Department level that covered legislative novelties regarding accounting and audit and the impact that those changes have on the normal performance of their duties.

It should be noted that the Entity is continually informed of all legislative change processes, it receives analyses from third parties regarding new laws and it participates in forms and expert committees which allow it to take the measures that are necessary to update and train its employees, using independent experts when necessary.

External training is fundamentally for new employees that attend accounting courses provided by the Spanish Confederation of Savings Banks (CECA) and to cover specific training needs that may be identified.

EVALUATION OF FINANCIAL INFORMATION RISKS

4. What are the principal characteristics of the risk identification process, including errors or fraud, with respect to: if the process exists and is documented; if the process covers all financial information objectives and if it is updated and with what frequency; the existence of a process for identifying the scope of consolidation; if the process takes into account the effects of other types of risks to the extent that they affect the financial statements; which governing body at the Entity supervises the process.

Ibercaja has developed and applied a procedure to identify the material areas and relevant processes involving error and fraud risks that could significantly affect the Group's financial information.

This procedure is set out in the Policies for identifying processes and relevant areas and the associated risks, and the execution responsibility falls to the General Accounting Unit while supervision is the responsibility of the Audit and Compliance Committee.

The procedure has been designed taking into account all of the financial information objectives set out in the document "Internal control over financial reporting in listed companies" issued by the Spanish Stock Market Commission (existence, integrity, measurement, presentation and disclosures and rights and obligations).

Both quantitative and qualitative criteria have been established for all types of risk to be identified and are included in the design of the procedure. In addition to considering the identification of error and fraud risks involving publish financial information, it also takes into account the effect of other types of risks such as operating, technology, financial, legal, reputational or environmental risks.

This procedure is expected to be applied at least once per year using the most recent financial information. Furthermore, this risk evaluation will be carried out when circumstances arise that have not been previously identified that reveal possible errors in the financial information or when there are substantial changes in operations that could give rise to the identification of new risks.

In this connection, and with respect to the sources of information used to apply the procedure, any changes in the Group's structure such as modifications to the scope of consolidation or to the lines of business, or other relevant events are taken into account, among other things. Ibercaja therefore has a specific procedure for reviewing the scope of consolidation that is applied by the General Accounting Unit.

The Audit and Compliance Committee must review the adequate demarcation of the scope of consolidation and is responsible for informing the Board of Directors, as is stipulated in the Board Regulations, regarding the creation or acquisition of shareholdings in special-purpose vehicles or companies domiciled in countries or territories that are classified as tax havens, as well as any other similar transaction or operation which, due to its complexity, could harm the transparency of Ibercaja Banco Group.

Through this procedure in 2011 Ibercaja has defined the transactions, areas and processes that are relevant with respect to the generation of the Group's financial information in order to identify error risks that affect those areas.

CONTROL ACTIVITIES

5. Descriptive documentation of the flow of activities and controls (including those relating to fraud risk) in the various types of transactions that could materially affect the financial statements, including the procedure for ending the fiscal year and the specific review of judgment, estimates and projections that are relevant.

Ibercaja carries out various control activities intended to mitigate the risk of error, omission or fraud that could affect the reliability of the financial information and which were identified in accordance with the previously explained process.

Specifically, and with respect to the identified areas and processes giving rise to material risk, including error and fraud, Ibercaja has developed uniform documentation for those areas consisting of a description of the process, a matrix of risks and controls and all evidence supporting existing controls. These controls include those that are considered to be key to the process and which, in any event, ensure the adequate recognition, measurement, presentation and disclosure of transactions in the financial information.

The documents allow a quick and clear visualization of which part of the processes include identified risks and key controls. Each of the risk matrices identify the risk that affects each of the objectives of the financial information, the controls mitigating that risk, as well as their characteristics, the persons responsible for the control mechanism, the frequency with which it must be applied and the associated evidence.

The following are among the processes identified as having material risk when preparing financial information:

- The procedures for closing the fiscal year and preparing the consolidated financial statements. The group has specific procedures for closing the fiscal year and this responsibility falls to each of its subsidiaries, although it is the General Accounting Unit that prepares the consolidated information based on the individual reports
- The General Computer controls established by the Group at the Technology and Systems level, physical security, computer security, maintenance and development.
- The process of issuing judgments, estimates, measurements and projections that are relevant including, among other things, the measurement of goodwill, the useful life of property, plant and equipment and intangible assets, the measurement of certain financial assets (illiquid assets), impairment losses affecting property, plant and equipment and intangible assets, the measurement of adjudicated assets or the calculation of liabilities and commitments for post-employment compensation.

In general terms, the General Accounting Unit is responsible for establishing the accounting policies that are applicable to new transactions in accordance with the criteria established in current legislation. As regards the critical judgments relating to the application of accounting policies and relevant estimates, this Unit establishes the criteria to be applied within the legislative framework. The application of these criteria may be carried out directly by the Units (with supervision) or the Bodies in which Senior Management is present (Committees).

6. Internal Control procedures and policies regarding the information systems that support the relevant processes carried out by the Entity with respect to the preparation and publication of financial information.

The Technology and Systems Department and, specifically, the Computer Unit, is responsible for supporting and maintaining the operating system, communications and data administration and its duties include the analysis of systems and standards that allow a proper degree of protection and recovery of data and programs, in cooperation with Operations, ensuring compliance with legislation and legally required security measures. The Technology and Systems Security Unit is responsible for proposing the information security measures and the policy for applying them.

Ibercaja has a series of standards and codes of good practices for final users that are set out in the Regulations available on the intranet. In addition, it has taken action addressing the definition of overall policies and procedures that are uniform with respect to the required security for information systems involved with the preparation of financial information, including physical and logical security, data processing security and final user security.

The information servers are located at the central and back-up processing centres and only authorized personnel have access (generally operations) together with subcontractors.

The Group has a Business Continuity Plan for the areas involved with the process of preparing and reporting financial information. It covers the existing information systems at the parent company, which is where the preparation of financial information primarily takes place.

Finally, the Group has mechanisms that ensure the daily preparation of a backup copy of critical environments and in order to make improvements it is implementing formal information recovery test procedures.

Finally, the Audit Department, through the Audit Unit for Computer Processes is responsible for reviewing computer processes and the Group's information systems, systematically analysing and reviewing technological controls that have been implemented, as well as making proposals to expand and/or improve the systems.

7. Internal control procedures and policies intended to supervise subcontractors, as well as the evaluation, calculation or measurement activities tasked to independent experts that could have a material effect on the financial statements.

The Group has subcontracted third parties to carry out certain duties that are not very significant but which affect the process of the preparation of financial information through certain measurements, calculations and estimates used to generate the individual and consolidated financial statements that are published in the stock market.

It currently has supervision and review procedures of both subcontracted activities and the calculations or measurements prepared by independent experts that are relevant to the process of generating financial information and which are included in the formal review process that forms part of the defined IFRCS framework, in order to comply with the specifications of that system and best practices in the market.

The procedures that are being carried out specify the following aspects:

- Formal designation of the persons responsible for carrying out the various actions.
- Analysis prior to contracting, and there is a formal process that is implemented at the time the need to externalise a service or obtain the services of an independent expert arises and this process examines different proposals that define the persons responsible for approving the contractual relationship.
- Supervision and review of the information generated or the service provided:
  - For subcontracted activities: request for regular reports; obligation to be audited by a third party; regular review of the capacity and accreditation of the external expert. In those cases in which the relevance of the externalised service with respect to financial information is high, requests for reports from independent third parties regarding the control activities carried out by the company rendering the service.
  - For measurements prepared by external experts: review controls regarding the validity of the information provided; regular review of the capacity and accreditation of the expert.

8. Procedures for reviewing and authorizing financial information and the description of the IFRCS to be published in stock markets, indicating the responsible parties.

Ibercaja has internal review and authorization procedures for financial information that is sent to the markets with the frequency required by law.

The financial information to be published in the stock market is reviewed by the person responsible for the General Accounting Unit, it sends information and the results of the analysis to the Management Control Department and, subsequently, the information is sent to the CEO. Finally, the individual and consolidated financial statements to be published by Ibercaja Banco Group are approved by the Board of Directors.

The Audit and Compliance Committee also intervenes in the process of reviewing the financial information before it is published since it informs the Board prior to it taking any decisions of the regulated financial information that the Entity must make public on a regular basis and assurance must be provided that the interim accounts are prepared using the same accounting principles as used in the annual accounts and, in this respect, the appropriateness of a limited review by the external auditor is considered.

In addition, it must review the company's accounts, ensure compliance with legal requirements and the proper application of generally accepted accounting principles, as well as reporting any proposals to change accounting principles and standards at the request of Management, as is stipulated in the Board Regulations.

The IFRCS is reviewed by both the Management Control Department and the Audit Department, as well as by the Governing Bodies mentioned above, as part of the regular information that Ibercaja must provide markets.

INFORMATION AND COMMUNICATION

9. A specific duty that is responsible for defining and maintaining accounting policies up to date, as well as to resolve doubts or conflicts deriving from their interpretation, maintaining fluid communication with the persons responsible for operations at the organization.

The General Accounting Unit is responsible for defining, revising and updating all accounting policies at the Group. This task of analysing accounting legislation, evaluating and proposing action to implement or adapt procedures that are necessary is not carried out exclusively, but the performance and exercising of this task are guaranteed through the resources that are currently attributed to this Unit, bearing in mind the size of the Entity and the Group.

This Unit reports to the Management Control Department, and is established within the first executive level at Ibercaja Bank which, in turn, reports directly to the CEO. The Director of Management Control also currently exercises the duties of the Sub-Director General.

In any event, the accounting policies are updated to reflect any change in legislation and any new decision that modifies those policies in those cases in which there is a certain amount of discretion. Any update that may have taken place is published daily on the intranet.

Finally, the person responsible for the Unit is also the person responsible for resolving any doubt or conflict regarding interpretation arising from the application of the accounting policies, maintaining fluid communications with the various persons responsible for the areas at the parent company and the rest of the Group's subsidiaries that are involved in the process of preparing financial information.

10. An up to date accounting policy manual reported to the units through which the Entity operates.

Ibercaja does not have a single Accounting Policy Manual, but rather the whole of its accounting policies consist of International Financial Reporting Standards (IFRS), Bank of Spain circular letters (Circular number 4/2004 and subsequent amendments), the policies that must be developed in accordance with current legislation and the specific policies that the Entity has prepared. All of the accounting policies approved by the Entity are available on its intranet, which also indicates any update to those policies. Based on the relevance of the content of accounting standards, the appropriate level of approval is established ranging from the Board of Directors to the person responsible for General Accounting.

With respect to the Group's subsidiaries, if they prepare their own accounts on a decentralized manner in accordance with their own procedures, the accounting policies must comply with the rules and guidelines issued from General Accounting, which is also responsible for supervising the preparation of that information.

It should be noted that the subsidiaries prepare their own financial information based on formats that have already been agreed with the parent company in order to obtain the financial statements in the most uniform format possible to facilitate the presentation of the Group's consolidated information. They must comply with the accounting standards or criteria issued by General Accounting.

11. Mechanisms for capturing and preparing financial information using uniform formats, applicable and to be used by all units at the Entity or the Group, and support the main financial statements and the notes to the accounts, as well as the information provided regarding the IFRCS.

Ibercaja has applications and computer systems that allow individual accounts to be aggregated and unified from the various areas and subsidiaries that make up the Group, including the necessary level of disclosure, and, finally, generate the individual and consolidated financial statements that are reported together with other financial information published in the market. The General Accounting Unit is responsible for aggregating, unifying and reporting the information, using common systems and applications.

Each subsidiary is responsible for preparing its own accounts in systems established for that purpose and, in any event, the accounting information is recorded in GAP format (General Accounting Plan). They prepare their own financial statements under the guidance of the General Accounting Unit, although they report hierarchically to their respective CEOs.

SUPERVISION OF SYSTEM OPERATIONS

12. Is there an internal audit function that is responsible for supporting the Audit Committee (Audit and Compliant Committee) when supervising the internal control system, including the IFRCS.

The internal audit function is the responsibility of Ibercaja's Audit Department, which reports hierarchically to the CEO and functionally to the Audit and Compliance Committee.

This Department is configured into the following Units to fulfil its duties: Internal audit which, in turn, is divided to provide support to four areas: Distribution Network Audit, Credit Risk Audit, Computer Process Audit, Financial Audit and Risk Control, divided into the areas of Legislative Compliance, Model Validation and Internal Control.

The appointment of the Audit Department falls to the Board of Directors, after having received a report from the Audit and Compliance Committee regarding the appointment proposed by the CEO.

The internal audit function is tasked to perform programmed reviews of the systems implemented to control all risks, internal operating procedures and compliance with applicable internal and external regulations. Among the functions currently assigned to the Audit Department and established in the Entity's internal regulations, is the performance of the audits required by the Regulatory Body, which therefore covers the evaluation of the IFRCS.

13. Is there a discussion procedure through which during the year the auditor, internal audit and/or contracted experts in this respect may have communicated to senior management and the Audit Committee or Directors of the Entity any significant weaknesses in internal control. Report if you have an action plan that is intended to correct or mitigate detected weaknesses.

In accordance with the Board Regulations, the Audit and Compliance Committee is responsible for regularly receiving information from the external auditor regarding the audit plan and the results of its execution and to verify that senior management takes into account the recommendations made, as well as discussing with the auditor any significant internal control weaknesses detected during the performance of the audit.

Currently, the Audit and Compliance Committee meets with the external auditors at least twice during the course of the year at which time any significant weakness that may have been detected can be reported. That meeting is also attended by the Audit Department, the Management Control Department and the Director of the General Accounting Unit. The action plans or measures necessary to implement them are specified at these meetings and the parties responsible for such implementation are also designated. Subsequently, there are mechanisms that guarantee that they are carried out and the mitigation of the weaknesses is verified.

The Audit and Compliance Committee has the responsibility to supervise the main conclusions relating to the internal audit work performed and to do so the person responsible for the Audit Department attends the meetings and provides a summary of the main were carried out over the last accounting period.

In order to define the action plans that will allow any weakness in the internal control system to be mitigated, the Internal Audit Department makes the reports resulting from its review work available to the responsible members of management. These reports are sent to the Executive Internal Audit Committee at which the detected weaknesses are discussed and, any that are significant or critical for the Entity are covered by action plans involving the various areas concerned, defining the persons responsible and the projected resolution deadline.

These resolutions regarding action plans reached by the Executive Audit Committee are set out in the minutes that are sent to the CEO. These items are monitored by senior management and, specifically, by the Departments involved by holding meetings with the aforementioned Committee. Finally, the most relevant items are reported to the Audit and Compliance Committee at bi-yearly meetings.

14. A description of the scope of the evaluation of the IFRCS carried out during the year and the procedures used to execute that review and communicate the results obtained, and does the Entity have an action plan that details any corrective measures that make reference to such an evaluation, having taken into consideration its impact on the financial information.

In order to carry out the evaluation of the IFRCS, the Committee is supported by internal audit and the external auditors and, if necessary, other experts.

THE EVALUATION OF THE IFRCS CARRIED OUT BY INTERNAL AUDIT

The efforts made by internal audit and carried out through the execution of the Annual Audit Operating Plan is fundamental to the supervision of the IFRCS.

The Audit Department is responsible for preparing the annual activity program, reporting that program to the Executive Audit Committee and presenting the proposal to the Audit and Compliance Committee. The latter is responsible for the approval of the plan after reviewing the scope designed the program to determine that it meets the established supervisory objectives.

Despite the fact that the Audit Operating Planned for 2011 did not specifically include the activity of evaluating the IFRCS, since at the time it was approved there was no regulatory framework that established the minimum requirements to be taken into account, the evaluation activities carried out by internal audit in that year did cover certain aspects relating to the process of preparing the financial information. Among them is the review of the operating procedures that generate the file for the Deposit Guarantee Fund information, the application of commissions, control of the Group's products and portfolios, audit of procedures and information for the management of liquidity risk and audit of the process of entering into contracts in Capital markets. The result of these reviews was adequate and no significant weaknesses were detected.

In the Audit Plan for 2012 the working plan associated with the IFRCS is expressly included and it will be carried out during the year.

EVALUATION BY EXTERNAL AUDITORS

Within the framework of the audit of the annual accounts, the external auditors have also evaluated the Entity's internal control systems to determine the scope, nature and timing of the audit tests to be performed in order to express an opinion on the financial statements. Accordingly, when their work is finished they must inform the governing bodies of any significant internal control weaknesses that they detected, including possible weaknesses associated with the IFRCS. In 2011 the external auditors did not report the existence of any weakness detected within the area of the IFRCS.

EVALUATION BY EXPERTS

The Audit and Compliance Committee may require the advisory services of external expert professionals to complete the evaluation of the IFRCS relating to aspects of certain relevance and complexity. However, the situation did not arise in 2011.

Finally, the Committee may use the Management Control Department which, during its normal course of action, carries out measures to control the reporting of financial information (policies, procedures, applications, etc.), carrying out a self-review on a continuous basis, although not in a formal and documented manner with the exception of the report on the IFRCS that is prepared periodically for the Committee.

15. A description of the supervision activities for the IFRCS carried out by the Audit Committee (Audit and Compliant Committee).

The Audit and Compliance Committee is the final body responsible for verifying the adequacy and integrity of the Group's internal control systems and, among them, the IFRCS, as may be seen in the various levels of authority that the Articles of Association and the Board Regulations attribute to this Committee.

As has already been indicated, the Committee is provided with the results of the verification and validation work carried out by the internal audit area on a regular basis and by the external auditors and it is informed of the action plans that have been defined to correct the most significant weaknesses.

Through the minutes to the meetings held by the Committee, evidence is provided of the various activities carried out as a result of its supervision of the IFRCS, both with respect to planning and review of the results obtained.

- Approval of the audit plans into which the IFRCS is integrated.
- Designation of the parties responsible for executing them.
- Review of the capacity and independence of the executing personnel.
- Evaluation of the sufficiency of the work performed.
- Review and evaluation of results and consideration of their effect on the financial information.
- Prioritisation and monitoring of the corrective action.

16. If the information regarding the IFRCS that is sent to markets been subjected to review by the external auditor, in which case the and he should include the relevant report. If not, the reason for not doing this should be explained.

Certain aspects of the IFRCS are currently being formalized in an implementation plan and it is expected to be completed over the course of 2012. For this reason the IFRCS has not been subject to review by the external auditor.

The Entity plans on submitting the information from the IFRCS for 2012 to the external auditor for review.

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