

Information of Prudential Relevance

December 2016



Grupo Ibercaja



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1. Executive Summary

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

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

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

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

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

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

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

The Group has reached a net profit of € 143M in 2016 and has continued reinforcing its solvency levels.

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



Consolidated Balance Sheet as of 31 December 2016 (in millions of euros)

| | 57,176 | 57,176 | |
|-------------------------------------|--------|----------------------------|---|
| Trading book | 33 | 31 | Trading book |
| Cash and deposits in Central Banks | 1,005 | 138 | Other liabilities |
| Non-current assets for sale | 657 | 223 | Other Net Equity elements |
| Other assets | 950 | 411 | Allowances |
| Tangible assets | 1,092 | 176 | Hedge derivatives |
| Tax assets | 1,397 | 232 | Fiscal liabilities |
| Held-to-maturity portfolio | 4,546 | 2,753 | Own funds |
| Available-for-sale financial assets | 11,476 | 6,859 | Liabilities covered by insurance or reinsurance contracts |
| Loans and receivables | 36,019 | 46,353 | Financial liabilities at amortised cost |
| | ASSETS | LIABILITIES AND NET EQUITY | |

Own funds and solvency ratios

The Group's own resources correspond to:

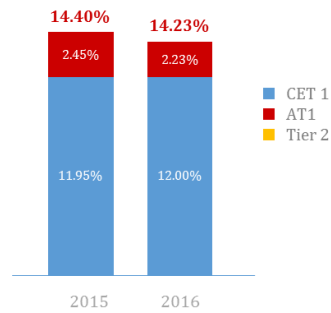
| Computable Own Funds | |
|---------------------------|-----------|
| (thousands of euros) | Amount |
| Computable Own Funds 2016 | 3,296,193 |
| Computable Own Funds 2015 | 3,384,655 |

According to the current regulation regarding the Basel Capital Accord framework for solvency determination, as of 31 December 2016, the Group widely complies with minimum solvency ratios (Basel Pillar I) required. Total solvency ratio in 2016 is 14.23 %, 6.23 points higher than the minimum regulatory requirements, and 3.48 points higher than the total capital decision communicated to the Entity as a result of the Supervisory Evaluation and Review Process (SREP) for 2017, which has been 10.75%. These ratios include a reduction of 70 basis points as a result of the early amortization of the contingent convertible debentures carried out by Ibercaja in December 2016.

Similarly, the current CET1 phase-in ratio of 12.00% is higher than the CET1 capital decision communicated to the Entity as a result of the SREP which is 9.25% for 2016 and 7.25% for 2017.



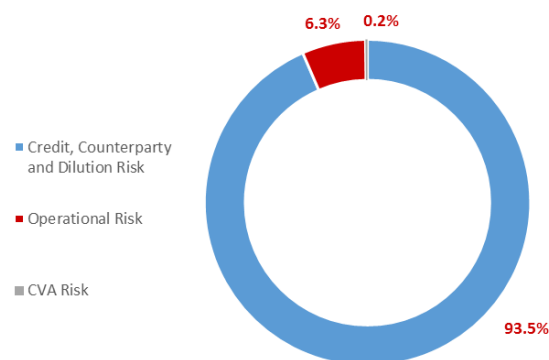
| Capital Ratios | |
|-----------------------------------|--------|
| | Amount |
| Common Equity Tier 1 ratio (CET1) | 12.00% |
| Minimum required CET1 | 4.50% |
| Tier 1 ratio (T1) | 12.00% |
| Minimum required T1 | 6.00% |
| Total Capital ratio | 14.23% |
| Minimum required Total Capital | 8.00% |



In Annex I capital ratios are incorporated without applying transitional measures (fully-loaded).

Capital Requirements

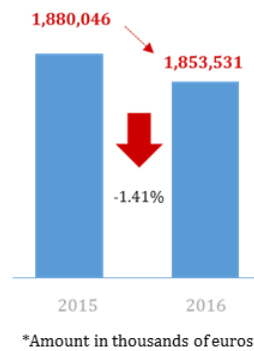
During 2016, requirements by credit risk have amounted to 93.5% of capital requirements, while requirements by operational risk have amounted to 6.3%.



| Minimum capital requirements | |
|---|------------------|
| (thousands of euros) | Amount |
| Minimum capital requirements | 1,853,531 |
| Capital requirements for credit, counterparty and dilution risk | 1,732,813 |
| Capital requirements for market risk | - |
| Capital requirements for operational risk | 117,595 |
| Capital requirements for credit valuation adjustment (CVA) | 3,123 |
| Risk-weighted assets | 23,169,135 |

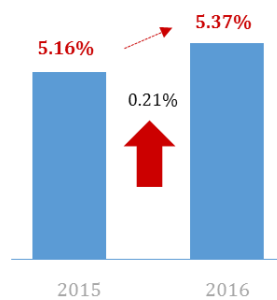


Minimum capital requirements by Pillar I risks have decreased 1.41% with respect to 2015, reaching a figure equal to € 1.85 bn.



Leverage Ratio

The leverage ratio has increased by +0.21%, from 5.16% at December 2015 to 5.37% at December 2016, meaning that a greater level of assets is funded with CET1.



Regulatory framework for Own Resources and entity supervision

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



Pillar 3 Information Disclosure. Information of Prudential Relevance

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

According to the eighth part of the first chapter of the CRR and article 85 of Law 10/2014, entities must publish, at least annually, information relevant to the proper understanding of their business profile, their exposure to different risks, the composition of its capital base and its risk management policies and objectives. This report reflects the compliance with these requirements at 31 December 2016 by Ibercaja Banco S.A.

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

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

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

- a) Control Directorate: In charge of the coordination, regulatory adequacy and contrast with the distinct Group information sources. Within the area the following participate:
 - i. General Accounting: Generation of quantitative and qualitative information of chapters related with Own Funds, Capital Requirements by distinct risks (credit, counterparty, trading book, market, equities, etc.), credit risk reduction, capital buffers and securitisations.
 - ii. Global Risk Control: RAF content reviews, leverage, non-pledged assets, structural interest rate risk and liquidity.
 - iii. Internal Control: capital requirements by operational risk.
- b) General Secretariat and Human Resources: information generation related to remuneration policies and quantitative data.



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

According to the *“Política para la divulgación y verificación de la información con relevancia prudencial de Ibercaja Banco, S.A. y de su Grupo Consolidable”* approved by the Board of Directors, this report has been prepared by Control Directorate, approved by the CEO and the Board of Directors has adopted it.

Likewise, it shall be highlighted that for the preparation of the present report the Group has taken into account:

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

The Pillar 3 Report of Grupo Ibercaja is structured in 14 chapters and three annexes. The first chapter describes the most relevant variables that are later developed in the report. The second chapter develops the relevant events that took place in 2016 and affected the Group and the regulatory environment. The third chapter describes the Group’s general Pillar 3 aspects and all the capital-related information. Chapters 4 and 5 develop all capital information, from qualitative information on the Group’s capital function to quantitative data on the capital base and the Group’s own capital requirements. Chapters 6 to 13 describe the risk function in the Group and cover credit risk, securitization, operational, liquidity, interest rate and leverage aspects, chapter by chapter. Chapter 14 contains information on remuneration policies. The annexes include information on Transit Own Funds, Own Funds and fully-loaded capital requirements, an index of tables and an index of illustrations.

The Information for Prudential Relevance is available on the website of Ibercaja Banco (www.ibercaja.com) in the sections of Corporate Information – Shareholders and Investors in the sections of Economic and Financial Information.



2. Regulatory context of the Group

2.1 – Macroeconomic context

The global economy experienced a growth around 3% in 2016, very similar to that of 2015. The moderate tone of the more developed countries has been accompanied by greater activity in the set of emerging economies as a whole.

The growth of the Eurozone in 2016 has been 1.7%. The uncertainty caused by events such as the Brexit, the Italian constitutional referendum or the imminent elections in the countries that form the central nucleus of the Union is having very limited effects. Domestic demand, particularly private consumption, continues to be the basis of the recovery, supported by good employment data and favorable financing conditions. The scenario is heterogeneous among countries, with Spain leading the most dynamic economies in the Union.

The Spanish economy has beaten the forecasts that were handled at the beginning of the year successfully overcoming the effects of the political impasse. GDP growth in 2016 stands at 3.2%. The favorable evolution is basically due to the expansionary monetary policy, the deleveraging of private agents and the competitiveness of the foreign sector. Private consumption remains strong with a growth close to 3%, based on the recovery of the labor market. The external sector increased its contribution to GDP growth as a result of the rebound in exports, favored by competitiveness gains and the depreciation of the euro. Employment offers data in line with the acceleration of economic growth. The unemployment rate, although high, drops to 18.63%, with falls in all economic activities.

The Spanish banking sector has faced a complicated exercise in which preserving profitability and adapting to the new regulatory requirements have been the main challenges.

2.2 – The Ibercaja Group

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

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

OUR MISSION

To help build **better living conditions** for families and companies by **helping them manage their finances** using **comprehensive and customized financial services** that will help them achieve their goals

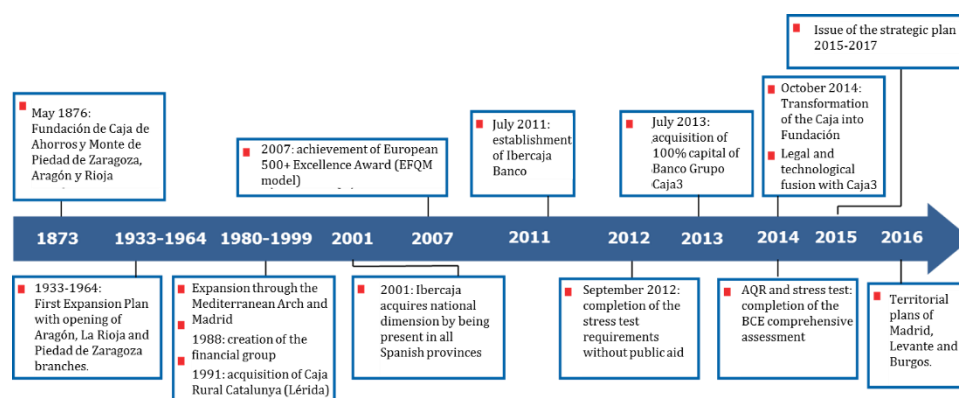


On July 25, 2013, Ibercaja Banco acquired Banco Grupo Caja3. The integration process culminated in October 2014 with the merger by absorption of the acquired entity.

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

In order to consolidate its structure and lay the necessary foundations for becoming a listed bank in the short term, Ibercaja launched the 2015-2017 Strategic Plan in 2015. Within it, during the last year, the territorial plans for Madrid, Levante and Burgos have been initiated, by which the Bank's overall strategy is adapted to the characteristics and peculiarities of each region.

Major milestones in Ibercaja's 140-year history



Ibercaja is the ninth banking group in Spain, with a history of 140 years providing quality financial services and maximum professional rigor. Its mission and vision are based on the values that have guided the Bank's trajectory since its founding and have enabled it to establish a solid and fruitful relationship with clients, employees, investors and society in general.

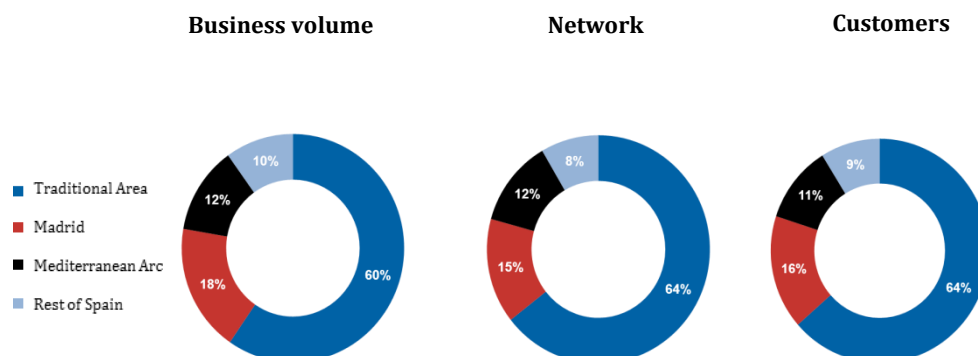
2.3 – Shareholding and functional structure

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

The Group has assets of 57,176 million euros, being the ninth entity of the Spanish banking system, by volume of assets. Its main activity is retail banking, focused on financing families and SMEs, savings management and other financial services. At national level, it has a market share of 2.8% in credit, 3.5% in customer funds and 3.0% in deposits. As of December 2016, its network reaches 1,248 branches, 5 of which are business centers of companies, and it also has a representative office in Lisbon. The Group has 5,895 employees.



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



2.4 - Exercise 2016 in the Ibercaja Group

Ibercaja reported a net profit of 143 million euros, a figure which demonstrates the Group's ability to generate results in an environment where the interest rate level strongly penalizes credit revenues and the fixed income portfolio. It is worthy of mention the good behavior of retail activity as a result of the significant boost of lending activity with SMEs, the sustained increase in assets under management, cost savings and the defense of the margins that make the customer spreads increase in with respect to December 2015. On the other hand, significant extraordinary results have been generated, which have allowed for coverage of other non-recurring impacts for the year, reinforcing coverage and establishing provisions in anticipation of possible contingencies.

It is important to note the dynamism of the new financing for SMEs and consumption, in line with the objective of diversifying the composition of the portfolio gaining market share in key segments for the Group's strategy. Formalizations to companies increased by 21% year-on-year, leading to an increase in funding for non-real estate productive activities of 9.41%.

Out-of-balance products and savings look to the detriment of traditional term impositions. The performance of assets managed in mutual funds go far beyond that of the system, reflecting the good valuation by the clients of the Group's asset management company, which rises as a benchmark in the Spanish market.

Customer managed resources totaled 64,273 million, up 3.67% year-on-year. The balance sheet, which includes customer deposits, debt securities issued and liabilities for insurance contracts, amounted to 46,011 million, recording a decrease of 0.70%. Off-balance sheet funds (+ 16.62%) have been highly successful, especially driven by managed investment funds, whose assets have increased by more than 20%, which is three times that achieved by the system as a whole.



2.5 – Regulatory framework

2.5.1 - Introduction

The regulatory context in terms of capital requirements comes shaped by the publication, in December 2010, of the new global regulatory framework affecting international solvency rules (Basel III) and which intensifies requirements established in the previous frameworks (Basel I, Basel II and Basel 2.5), in order to improve the quality, consistency and transparency of the capital base, as well as risk coverage.

On 26 June 2013 the incorporation of the Basel III legal framework to European law happened through Directive 2013/36/EU (a.k.a. CRD IV) about access to activity of credit institutions and their prudential supervision; and Regulation 575/2013 (a.k.a. CRR) about prudential requirements of credit institutions and investment companies.

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

CRD IV was transposed to Spanish law through *Ley 10/2014 de ordenación, supervisión y solvencia de entidades de crédito*, and its subsequent regulatory development through Real Decreto Ley 84/2015 and Circular 2/2016 de Banco de España.

This Circular repeals in its major part Circular 3/2008 (current for issues relative to minimum own funds and mandatory information submissions of mutual guarantee companies of Circular 5/2008), about determination and control of own funds; as well as a section of Circular 2/2014, concerning the exercise of diverse regulatory options contained in the CRR.

Since 1 January 2014, the CRR is to be mandatorily implemented in EU Member States and repeals any law of inferior rank involving additional capital requirements.

This new regulation requests much more demanding capital requirements that the previous regulation (Circular 3/2008 de Banco de España); and therefore allows a phased-in adaptation, through a gradual implementation calendar (incorporated to Spanish regulation through Circular 2/2014 de Banco de España), which affects new deductions, issuances and own funds' elements which with this new regulation cease to be eligible. Regulation 2016/445 / EU, published by the ECB on March 2016, modifies some schedules established in CBE 2/2014. The capital buffers provided for in the CRD IV are also subject to a gradual implementation between 2016 and 2019.

On November 23, 2016, the European Commission published a draft of the new CRR and CRD IV incorporating different Basel standards such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio for Liquidity Risk or the SA-CCR for the calculation of EAD by counterparty risk, as well as changes related to the treatment of the central counterparties, MDA, Pillar II and leverage ratio, among others. As a new development, the TLAC Term Sheet issued by the Financial Stability Board (FSB) is implemented in the capital framework, so that systemic entities will have to comply with TLAC requirements in a Pillar I while non-systemic MREL will only have to comply with a Pillar II that the resolution authority will decide on a case-by-case basis.



2.5.2 – Solvency

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

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

2.5.3 - Liquidity

The publication of the final version of the "*Basel III: The Net Stable Funding Ratio*" framework in October 2014, introduced a series of stable funding requirements for short-term exposures to financial sector entities and derivatives, avoiding potential higher systemic stress.

Likewise, in June 2015, requirements relative to the liquidity ratio NSFR were published in order to increase, transparency, reinforce liquidity risk management principles, strengthen market discipline and mitigate uncertainty with respect to its implementation. Bearing this in mind, since January 2018, banks shall disclose, along with quarterly financial statements, details on the numerator and denominator of the ratio.

In 2016 the EBA published two consultations on the disclosure of the Liquidity Coverage Ratio (LCR) and the encumbrance. At the same time, the European Commission carried out a consultation on the definition and development of the NSFR which served as a preparation for the Commission's proposal to amend the CRR, which includes a proposal for the implementation of the NSFR in Europe.

2.5.4 – Leverage ratio

Regarding the leverage ratio, the final calibration scheduled for the first quarter of 2017, remains outstanding, and will depend on the final calibration of the capital measures for credit, operational and market risk, which is expected to be in the 3% for all banks except for GSIB entities that must comply with an additional charge.



2.5.5 – Banking Recovery and Resolution

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

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

2.5.6 - Models for regulatory capital calculation

In 2016, progress has been made in the revision of the prudential framework and in the development of crisis management frameworks.

The Basel Committee has continued to work on the revision of the frameworks for calculating capital requirements for credit, market and operational risk in order to ensure the improvement of their simplicity, comparability and sensitivity to risk. While seeking to reduce the variability of risk-weighted assets not justified by the different risk profiles, the Basel Committee has set itself the objective that these revisions do not entail a significant capital increase for the system and therefore it is recalibrating the initial proposals

Credit risk:

In the context of IRB models, the ECB has communicated during 2015 its intention of starting a review of advanced models utilized for regulatory capital calculations, with the goal of reaching greater homogenization and standardization of supervision criteria of such models.

A revised proposal for the initial proposal of the standard model was submitted on December 2015. This proposal simplifies the above and reintroduces the use of external ratings non-mechanically for exposures to banks and companies. For those jurisdictions where the use of external ratings is not allowed, alternative approaches are established. On the other hand, on March 2016, a review of internal models was published for the purpose of eliminating the use of internal models for certain portfolios considered as low default; to establish limitations in the estimation of parameters through floors to the exposure level; homogenize the methodology for estimating risk parameters; and review the treatment of risk mitigation techniques.

**Market risk:**

In January 2016, the Basel Committee has published a final calibration and review of capital for the trading book in its *Fundamental Review of the Trading Book*, which comprises the standard model, the advanced model and the separation between *banking book* and *trading book*.

Operational risk:

In March 2016, the revision of the first proposal of the standard method replacing the business lines of the current standard calculation methodology by size, as the main driver was published for consultation. This second proposal incorporates a new approach that combines size with past event loss indicators. It is expected that this new method will not only replace current standard methods but also internal AMA models.

This revision of the capital framework is expected to be completed by early 2017. The result is expected to be a hybrid approach, in which the use of internal models will be allowed but limitations and capital floors will be applied based on the standard methods of credit, market and operational risk. In this sense, the calibration of these floors is expected to go between 60% and 90%.

Credit Valuation Adjustments (CVA):

A final proposal for the revision of the credit valuation adjustment (CVA) risk framework review remains outstanding, in order to ensure that all CVA drivers and their hedges are covered by the Basel capital framework, align the capital standard with the fair value measurement of the CVA used for accounting purposes and to ensure consistency with the fundamental review of the trading book (published in consultation in October 2015).

Securitizations:

In July 2016, the final version of "*Revisions to the securitization framework*" was published, an updated standard for the regulatory capital treatment of securitization exposures, including the treatment of "simple, transparent and comparable (STC) securitizations". Capital treatment for STC securitizations is based on criteria published by the BCBS in 2015. The new standard establishes additional criteria for distinguishing capital treatment for STC securitizations from that of other securitization transactions.



2.5.7 – EBA Initiatives

During 2016, the European Banking Authority (EBA) has continued to issue standards and guides with the aim of developing aspects of the European Capital Regulation (CRR / CRD IV) to ensure its understanding and subsequent harmonized implementation of regulatory minimum capital requirements within the European Union. The following regulatory initiatives are worth mentioning, among others: the guidelines on the evaluation of information and communication technology (ICT) risk within the review and evaluation process framework of the SREP, the guidelines on clients connected under the large risks regime, the guidelines on credit risk and expected accounting losses management practices, and the final guidelines on ILAAP and ICAAP information. In the area of liquidity, the EBA has published in 2016 two consultations aimed at realizing the disclosure of the Liquidity Coverage Ratio (LCR) and the encumbrance.

In order to reduce variability in capital consumption not justified by different risk profiles, and to improve homogeneity and comparability among entities, in February 2016 the EBA published the final work plan announced in the discussion paper on the future of the IRB models. This work plan began in 2016 and is expected to continue throughout 2017. It focuses mainly on the publication of a series of regulatory proposals in relation to internal credit risk models, in order to improve homogeneity, comparability and transparency. As part of this work plan the EBA has published:

- In July 2016, the final proposal of the requirements for the evaluation of the use of credit risk internal models by the competent authorities.
- In September 2016, the final guidelines for the application of the definition of default in order to improve consistency and achieve a harmonized definition of default in the EU prudential framework.
- In November 2016, a proposal to consult for the methodology of estimation of risk parameters (PD, LGD and treatment of defaulted assets).
- In December 2016, the final disclosure requirements to improve comparability and consistency of information among European entities.

2.5.8 - Single Supervision and Resolution Mechanism

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

In line with the intense monitoring agenda under the Supervisory Review and Evaluation Process (SREP), the SSM has made a major effort in 2016, on the one hand, to harmonize supervisory policies between countries and , on the other hand, in the transparency of their expectations.

Conversely, Europe continues to advance in the implementation of the crisis management framework.



The second key element is the Single Resolution Mechanism (SRM), which is responsible for preparing for the possibility of entry into resolution, i.e. bankruptcy, in order to ensure that the situation can be resolved in an orderly manner with minimum costs for contributors. From January 1, 2016, the MUR is operational and in a progressive mutualization period until 2022.

Pursuant to the provisions of the Banking Recovery and Resolution Directive (BRRD), the banks' shareholders and creditors will primarily finance the resolutions.

Where appropriate, funding may also be obtained, in addition, from the Single Resolution Fund (SRF), which was recently created and financed by the banking sector. The SRF should reach its financing target by 2023. Members of the euro area are automatically part of the banking union, whereas for other Member States membership is voluntary.

The progressive mutualization period will allow the National Resolution Funds, valid across several countries of the Eurozone until 2016, to be transferred to the Single Resolution Fund, which will be fully implemented in 2023. In 2016, the first year of the Single Resolution Fund, the funding purpose of this fund (1% of guaranteed deposits in 2023) was calculated at 60% based on a national perimeter (BRRD perimeter) and 40% based on a euro zone perimeter (SRM perimeter). In 2017, these percentages have been inverted, with the financing being a 40% BRRD perimeter and 60% SRM perimeter.





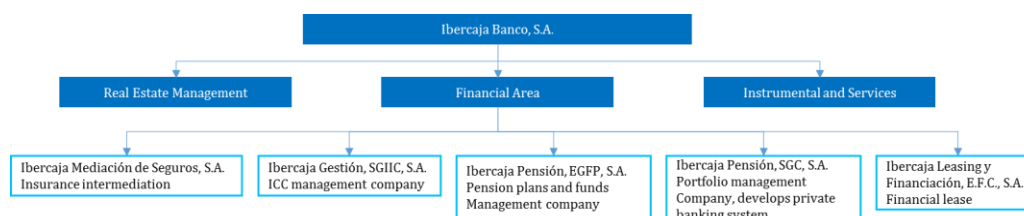
3. Pillar III General Aspects

3.1 - Introduction

Ibercaja Banco, S.A. is a credit institution majorly owned (87.8% of its capital) by Fundación Bancaria Ibercaja, subject to laws and regulations determined by economic and monetary authorities, both Spanish and from the European Union.

Ibercaja Banco is the head of a group of subsidiaries, which jointly constitute Grupo Ibercaja Banco (hereinafter referred to as “Ibercaja” or the “Group”). Such companies compose its consolidated group and perform activities of diverse nature. Activities from the Financial Group stand out by their importance, both by their diversification in the offer of banking products and their profitability. The Financial Group is formed by companies specialized on investment funds, savings and pensions plans, bancassurance, wealth management and leasing/renting.

The most relevant companies that conform the consolidation perimeter are:



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

Its activity is underpinned by an infrastructure of 1,248 offices located throughout the entire Spanish territory.

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

3.2 – Governance Bodies

The governance bodies of Ibercaja Group, their composition and operating rules are governed by the Bylaws and the Regulations of the Board of Directors, the content of which is in accordance with Law 10/2014 of June 26, on supervision and solvency of credit institutions, the Royal Decree Law 1/2010, of 2 July, approving the consolidating text of the Capital Companies Law (drafted by Law 31/2014) and Uniform Good Governance Code. The composition and members of the different governance bodies, as well as the management team are detailed in the Corporate Governance Report.

The main governance bodies and the policies ensuring the suitability and diversity of the members of the Board of Directors, according to article 435.2 of the CRR, are detailed below:



3.2.1 – Board of Directors

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

Table 1. Members of the Board of Directors

| Board of Directors | | | |
|-------------------------------------|---|-------------|-------------------------|
| Position | Name | Category | Date of last nomination |
| Chairman: | D. Amado Franco Lahoz | Dominical | 30/08/2016 |
| 1st Vice-chairman | D. José Luis Aguirre Loaso | Dominical | 30/08/2016 |
| 2nd Vice-chairman | D. José Ignacio Mijangos Linaza | Dominical | 29/10/2015 |
| CEO | D. Víctor Manuel Iglesias Ruiz | Executive | 28/01/2015 |
| Member | D. Jesús Máximo Bueno Arrese | Dominical | 30/08/2016 |
| Member | D. Jesús Solchaga Loitegui | Independent | 24/07/2013 |
| Member | D. ^a Gabriela González-Bueno Lillo | Independent | 24/07/2013 |
| Member | D. Vicente Cóndor López | Independent | 27/01/2014 |
| Member | D. Jesús Tejel Giménez | Independent | 30/08/2016 |
| Member | D. Félix Santiago Longás Lafuente | Independent | 30/08/2016 |
| Member | D. Emilio Jiménez Labrador | Dominical | 28/10/2016 |
| Member | D. Juan María Pemán Gavín | Dominical | 24/07/2013 |
| Secretary Counsellor | D. Jesús Barreiro Sanz | Dominical | 11/11/2014 |

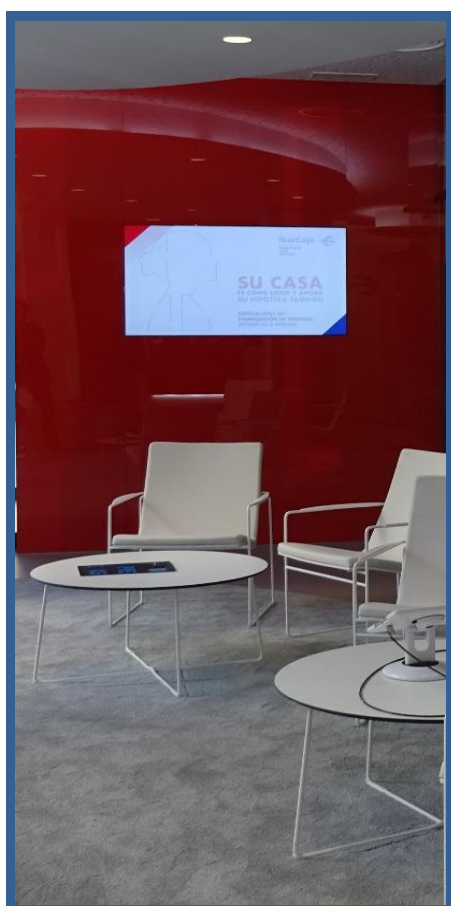


Table 2. Composition of the Board of Directors

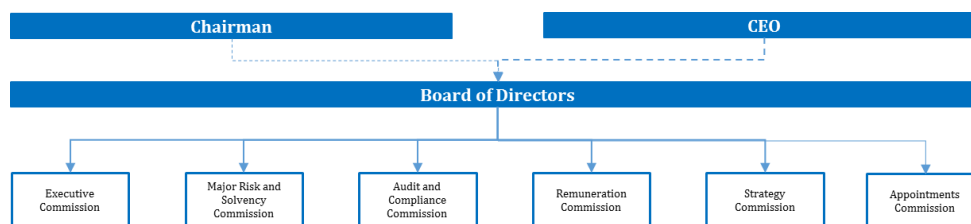
| Composition | |
|---------------------------|-------|
| Category | % |
| % Executive counsellors | 7.7% |
| % Dominical counsellors | 53.8% |
| % Independent counsellors | 38.5% |
| % Other external | 0% |
| Number of meetings | 15 |

All appointments of members of the Board of Directors have been adopted with a favorable report from the Appointments Commission.



3.2.2 – Executive Commissions of the Board of Directors

Illustration 1. Executive Commissions of the Board of Directors



Executive Commission

Table 3. Composition of the Executive Commission

| Composition | |
|---------------------------|-------|
| Category | % |
| % Executive counsellors | 12.5% |
| % Dominical counsellors | 62.5% |
| % Independent counsellors | 25% |
| % Other external | 0% |

The Board of Directors delegates to the Executive Committee all its powers, except the legally or statutorily non-delegable.

In the regular conduct of its meetings, the Executive Commission has had access to the reports of the Chairman and CEO, who have analyzed the main macroeconomic variables and the evolution of the Entity's data: balance sheet and income profit and loss; evolution of the Entity's portfolio; customer resources and customer loans; market shares; liquidity management; NPL and coverage rates; activity volumes and results of the Group's subsidiaries.

Also, it has ruled on financing operations under its consideration, due to its necessary authorization or ratification for reasons of amount or status of the applicants. Similarly, it has ratified the operations approved, rejected or ratified by the Credit Risk Commission, and adopted several agreements regarding the divestment in investees.

Audit and Compliance Commission

Table 4. Composition of the Audit and Compliance Commission

| Composition | |
|---------------------------|-----|
| Category | % |
| % Executive counsellors | 0% |
| % Dominical counsellors | 40% |
| % Independent counsellors | 60% |
| % Other external | 0% |



All members of the Audit and Compliance Committee have the status of non-executive directors and more than half (60%) of the counsellors that comprise it, in particular its Chairman, are independent counsellors.

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

- Report to the General Meeting on the issues that the shareholders pose in terms of its competency.
- Receive once a year from the external auditor written confirmation of its independence with respect to the Entity or its group, issuing the corresponding report.
- Propose the appointment or re-election of the account auditor.
- Supervise the effectiveness of the Entity's internal control, internal audit and the risk management systems, including tax.
- Supervise the process of preparation and presentation of regulated financial information.
- Establish the appropriate relations with the external auditor to receive information on issues relative to its independence.

During 2016, the Commission has been informed of the requirements and communications received from supervisory bodies in the field of its competence. With regard to financial reporting it has known and supervised the process of preparation and presentation of the regulated financial information, it has reviewed the financial statements of the Entity as well as the periodic financial information to be provided by the Board of Directors to the markets and supervisory bodies.

Appointments Commission

Table 5. Composition of the Appointments Commission

| Composition | |
|---------------------------|-----|
| Category | % |
| % Executive counsellors | 0% |
| % Dominical counsellors | 50% |
| % Independent counsellors | 50% |
| % Other external | 0% |

All members of the Appointments Committee have the status of non-executive directors and half of its members, and in particular its Chairman, are independent counsellors.

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

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



Remuneration Commission

Table 6. Composition of the Remuneration Commission

| Composition | |
|---------------------------|-----|
| Category | % |
| % Executive counsellors | 0% |
| % Dominical counsellors | 50% |
| % Independent counsellors | 50% |
| % Other external | 0% |

All members of the Remuneration Committee have the status of non-executive directors and half of its members, and in particular its Chairman, are independent counsellors.

The Remuneration Commission has conferred functions of information, advice and proposal on remunerations of Counsellors, general managers or similar, and persons whose professional activity significantly impacts on the risk profile of the Entity.

During 2016, the Commission has informed, advised and formulated to the Board of Directors proposals on the remuneration of Counsellors, senior management and people whose professional activity significantly affects the Bank's risk profile.

At the meeting held on February 24, 2016, following the favorable report from the Remuneration Commission, the Board of Directors was aware of the degree of compliance with the objectives set for the year 2015 by the Chief Executive Officer and the remaining people who are part of the Identified Group of the Remuneration Policy associated with risk management. It emerged that none of the alerts that could lead to the activation of the malus clauses had been activated.

At the same meeting, the Board of Directors approved the objectives for the variable remuneration for 2016, without modifying the criteria for applying the variable remuneration system to the Identified Group's objectives.

Major Risks and Solvency Commission

Table 7. Composition of the Major Risks and Solvency Commission

| Composition | |
|---------------------------|-----|
| Category | % |
| % Executive counsellors | 0% |
| % Dominical counsellors | 50% |
| % Independent counsellors | 50% |
| % Other external | 0% |

All members of the Commission on Large Risks and Solvency have the status of non-executive counsellors and half of its members, and in particular its Chairman, are independent counsellors.



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

During 2016, the Commission has informed the Board of Directors of the Entity's Risk Appetite Framework, its quarterly monitoring reports, and the annual capital and liquidity adequacy assessment report for 2015.

Strategy Commission

Table 8. Composition of the Strategy Commission

| Composition | |
|---------------------------|-----|
| Category | % |
| % Executive counsellors | 0% |
| % Dominical counsellors | 50% |
| % Independent counsellors | 50% |
| % Other external | 0% |

All members of the Strategy Commission have the status of non-executive counsellors, and half of its members are independent counsellors.

The main function of the Commission is to inform the Board of Directors on the implementation of the entity's strategic policy.

During the year 2016, the Commission carried out a constant monitoring of the Strategic Plan approved by the Board of Directors, which is important for the medium and long-term management of the Entity, as well as the quarterly monitoring of budgetary developments, communicating the conclusions reached to the Board of Directors.

More detailed information on the delegated commissions of the Board of Directors is presented in the Consolidated Management Report for 2016, included in the Notes to the Consolidated Financial Statements.

The information on the Group's corporate governance can be accessed through the corporate website www.ibercaja.es, in the section Shareholders and investors/corporate governance.

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

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

The main functions of the Appointments Committee are described below:



- Formulate and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates to ensure that selection procedures favor diversity of gender, experience and knowledge, and may not involve any discrimination and, in particular, facilitate the selection of female Counsellors.
- Assess the competencies, knowledge and experience necessary in the Board of Directors, defining the necessary functions and competencies that the candidates for each vacancy shall meet, and evaluate the precise time and dedication so that they can perform their tasks.
- Elevate to the Board of Directors the nomination proposals of independent Counsellors for their submission to the General Meeting of Shareholders, as well as the proposals for their re-election or separation of such Counsellors by the General Meeting of Shareholders.
- Report the nomination proposals and cessation of senior executives that the first executive proposes to the Board of Directors.

For the evaluation of the suitability of persons who are part of the collective subject to the suitability assessment policy, following the criteria established in the current regulation, their commercial and professional honorability and their knowledge and experience are taken into account.

In the case of members of the Board of Directors, considerations also include aspects that reinforce good governance and capacity of dedication, independence and avoidance of conflicts of interest. With the same purpose, the maximum number of positions that Counsellors can hold simultaneously has been limited, in Governance Bodies of other companies.

The Evaluation Policy is reviewed at least annually, and verified with the same frequency as the members of the group identified do not incur in causes of supervening incompatibility, without prejudice to the obligation of all to communicate such circumstances, in the hypothetical event that they occurred.

The suitability assessment policy that contemplates persons integrating the collective subject, is available to the supervisory authorities, under the terms established in the current regulation.

3.2.4 - Policy on Dedication of Counsellors

This policy develops the criteria which will determine the concurrence of the requirement of willingness to good governance of the Entity to be met by members of the Board of Directors, in order that they can devote sufficient time to the performance of their duties. In particular, contemplation involves the diligence duty; obligation of attendance to the meetings of the governance bodies of which they are part; information rights and counsellor obligations; limitation on the maximum number of governance bodies of other entities of which they may be part.

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

In relation to the requirement of Article 435 of the CRR about the knowledge and competencies of the Board of Directors, the Group has developed during business year 2015 different education actions regarding the main regulatory changes in terms of risk governance of Entities. The content of the most relevant education actions is described hereafter:



- March 31, 2016: Training Session provided by Mr. Francisco Serrano Gill de Albornoz and Mr. David Saludes Moronval, General Secretary and Head of the Regulatory Compliance Unit, respectively, on the Regulatory Compliance Function.
- April 6, 2016: Training Session on Control and Management of financial risks, provided by the Director of Risk Area of CECABANK, Mr. Andrés Martín Pintor, and by the head of the Market, Balance-sheet and Liquidity Risk division of CECABANK Mr. Jesús Contreras Garay.
- April 7, 2016: Training Session related to the control function of credit institutions, provided by Mrs. Teresa Cubas Méndez, Director of Audit, Control and Compliance of CECABANK.
- May 25, 2016: Training Session on the legal regime of the credit institution and the legal status of the credit institutions manager, provided by Mr. Fernando Mínguez, partner of CUATRECASAS, GONÇALVES PEREIRA.
- October 28, de 2016: Session provided by the Vice President of International Financial Analysts, Mr. Ángel Berges, on the prospects of the financial system

3.2.6 - Diversity in Governance Bodies

The Entity has watched to avoid at all times that their internal governance rules contain implicit biases against the selection of women to join its governance bodies and senior management.

Even though a minimum representation target has not yet been established for the gender less represented on the Board of Directors, it has expressly been stated in the Regulation of this body, that it is competence of the Appointments Commission to establish a representation target for the sex less represented in the Board of Directors and develop guidance on how to achieve such target.

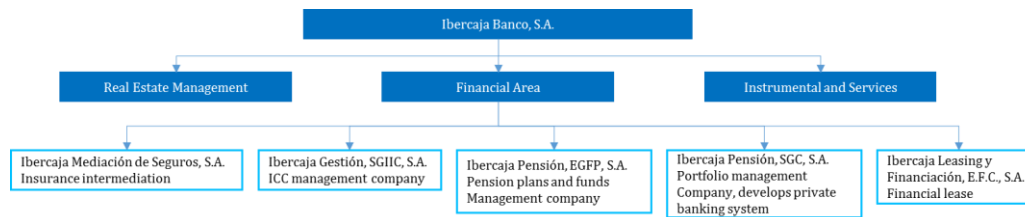
According to the criteria established in the Good Governance Code of listed companies, it is expected to reach the target that by 2020 the number of female Counsellors represents at least 30% of the total members of the Board of Directors. In addition, in order to offer a global and plural vision within the Bank's management, the profiles of those members that make up the Bank's main management bodies are diverse in knowledge and experience, as enacted in the objectives of the Appointments Commission.

3.3 – Consolidation Scope

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

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

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



Herein after a summary is offered on the main differences relative to the principles, accounting policies and valuation criteria that have been applied in the preparation of the Group's consolidated financial statements for the 2016 financial year, in accordance with Regulation (EU) 575/2013 (CRR) and for the purposes of the third rule of the Circular 4/2004 of the Bank Of Spain, of December 22.

Subsidiary Companies

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

In the preparation of the financial statements, the subsidiaries have been consolidated using the global integration method, defined in the Circular 4/2004 of the Bank of Spain, of December 22.

The consolidation of the results generated by the subsidiaries acquired in a fiscal year is carried out taking into account only those corresponding to the period between the acquisition date and the financial year-end. At the same time, the consolidation of the results generated by the subsidiaries disposed of in a financial year is carried out taking into account only those corresponding to the period between the beginning of the year and the date of disposal.

Multi-group Companies

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

Holdings in Multi-group Companies that may be consolidated by virtue of their activity are consolidated through the application of the proportional integration method, as defined in the 48th standard of the Circular 4/2004 of the Bank of Spain, for the purposes of application of solvency requirements. Holdings in Multi-group Companies that cannot be consolidated by their activity are valued using the equity method, as defined in the 49th standard of the Circular 4/2004 of the Bank of Spain.

Associated Companies

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

In the consolidated financial statements, Associated Companies are valued by the "equity method", defined in the fortieth standard of the Circular 4/2004 of the Bank of Spain.



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

Structured Companies

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

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

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

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

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

In accordance with criteria previously indicated, detail is offered as of 31 December 2016.

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

Table 9. Subsidiary Companies, full consolidation

| Business Name | |
|---|---|
| Ibercaja Banco SA | Cerro Goya SL |
| Ibercaja Leasing SA | Ibercaja Gestión de Inmuebles SA |
| Ibercaja Gestión SA | TDA 2 Ibercaja Fondo Titulización |
| Ibercaja Pensión SA | TDA 3 Ibercaja Fondo Titulización |
| Ibercaja Patrimonios SA | TDA 4 Ibercaja Fondo Titulización |
| Ibercaja Mediación de Seguros SA | TDA 5 Ibercaja Fondo Titulización |
| Ibercaja Participaciones Empresariales SA | TDA 6 Ibercaja Fondo Titulización |
| Ibercaja SA | TDA 7 Ibercaja Fondo Titulización |
| Iberprofin SA | TDA ICO Ibercaja Fondo Titulización |
| Servicios a distancia IBD SL | Anexa Capital SCR SA |
| Dopar Servicios SL | Badajoz Siglo XXI SL |
| Enclama SL | CAI Inmuebles SA |
| Cajaragon SL | Caja Inmaculada Energía e Infraestructuras SA |
| Inmobinsa SA | Cartera de Inversiones Lusitania SL |
| Cerro Murillo SA | Inmobiliaria Impulso XXI SA |
| Residencial Murillo SA | |



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

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

| Business Name |
|------------------------------|
| Ibercaja Viajes SA |
| Maprusa SA |
| Tipo Línea SA |
| Espacio Industrial Cronos SL |
| Gedeco Zona Centro SL |
| Ibercaja Vida S.A. |

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

Table 11- Multi-group companies, proportional consolidation method

| Business Name |
|------------------|
| Montis Locare SL |

Hereafter detail is presented on the significant holdings in assurance companies which are owned by the Consolidated Group as of 31 December 2016, which belong to the economic group as defined in the *Circular 4/2004 del Banco de España*, and their underlying book value has not been directly deducted from own resources, but for the purposes of calculating minimum own resources requirements, has been included through a 100% weight in risk-weighted assets, in accordance with the established in Article 49 of Regulation (EU) 575/2013 (CRR) and as authorized by the Executive Commission of the Bank of Spain:

Table 12 - Significant holdings in assurance companies

| Business Name |
|--------------------------|
| Ibercaja Vida SA |
| CAI Seguros Generales SA |

Modifications in the consolidation scope and corporate operations

The decisions of liquidation, sale and merger have been targeted to improve efficiency and operability, and divest in companies that do not provide value to the Group.

Table 13 – Scope modifications

| Scope modifications |
|--|
| Companies liquidated in 2016 |
| Asociación Técnica de Cajas de Ahorro, A.I.E. |
| Companies sold in 2016 |
| Grupo Alimentario Naturiber, S.A. |
| Gestión de Inmuebles Salduvia (antes Ibercaja Servicios Inmobiliarios, S.A.) |

3. 4 - Differences between the accounting and regulatory capital consolidation method

Hereafter, conciliation is presented between the Public Balance Sheet and the Balance Sheet for the purposes of solvency regulation of credit institutions (Prudential Balance Sheet) as of 31 December 2016. The intention is to show the transition between accounting and prudential information.



Table 14. Conciliation accounting and regulatory scope

| ASSETS | DISTRIBUTION | | | thousands of euros | |
|--|---|--------------------|----------------|------------------------------|----------------------------|
| | CONSOLIDATED GROUP OF CREDIT INSTITUTIONS | ASSURANCE ENTITIES | OTHER ENTITIES | ADJUSTMENTS AND ELIMINATIONS | TOTAL PUBLIC BALANCE SHEET |
| Cash, balances at central banks and other demand deposits | 1,005,973 | | 13 | | 1,005,986 |
| Trading Book | 32,022 | | | 1,102 | 33,124 |
| Derivatives | 31,333 | | | 1,102 | 32,435 |
| Debt securities | 689 | | | | 689 |
| <i>Memorandum item: loaned or advanced as collateral</i> | | | | | - |
| Other financial assets at fair value through profit or loss | 301 | 48,696 | | | 48,997 |
| Equity instruments | 301 | 44,083 | | | 44,384 |
| Debt securities | | 4,613 | | | 4,613 |
| <i>Memorandum item: loaned or advanced as collateral</i> | | | | | - |
| Available-for-sale financial assets | 5,432,560 | 6,063,157 | | -19,466 | 11,476,251 |
| Equity instruments | 429,818 | 5,073 | | | 434,891 |
| Debt securities | 5,002,742 | 6,058,084 | | -19,466 | 11,041,360 |
| <i>Memorandum item: loaned or advanced as collateral</i> | <i>2,580,862</i> | | | | <i>2,580,862</i> |
| Loans and receivables | 35,504,666 | 1,309,827 | 3,205 | -798,367 | 36,019,328 |
| Debt securities | 2,258,098 | 377,923 | | -33,804 | 2,602,217 |
| Loans and advances | 33,246,565 | 931,904 | 3,205 | -764,563 | 33,417,111 |
| <i>Credit institutions</i> | <i>297,826</i> | <i>931,640</i> | <i>1,685</i> | <i>-761,096</i> | <i>470,055</i> |
| <i>Clients</i> | <i>32,948,739</i> | <i>264</i> | <i>1,520</i> | <i>-3,467</i> | <i>32,947,056</i> |
| <i>Memorandum item: loaned or advanced as collateral</i> | <i>6,064,814</i> | | | | <i>6,064,814</i> |
| Held-to-maturity investments | 4,545,574 | | | | 4,545,574 |
| <i>Memorandum item: loaned or advanced as collateral</i> | <i>2,520,964</i> | | | | <i>2,520,964</i> |
| Hedging derivatives | 286,213 | | | -1,102 | 285,111 |
| Adjustments to financial assets for macro-hedges | | | | | - |
| Holdings | 601,807 | | | -466,009 | 135,798 |
| Multi-group companies | 29,684 | | | | 29,684 |
| Associated companies | 106,114 | | | | 106,114 |
| Group companies | 466,009 | | | -466,009 | |
| Insurance and reinsurance assets | | 514 | | | 514 |
| Tangible assets | 1,039,614 | 56,238 | 738 | -4,202 | 1,092,388 |
| Property, plant and equipment | 608,782 | 51,623 | 738 | -4,203 | 656,940 |
| <i>For own usage</i> | <i>585,305</i> | <i>51,623</i> | <i>738</i> | <i>-4,193</i> | <i>633,473</i> |
| <i>Leased out under an operating lease</i> | <i>23,477</i> | | | <i>-10</i> | <i>23,467</i> |
| Real estate investments | 430,832 | 4,615 | | 1 | 435,448 |
| <i>Leased out under an operating lease</i> | <i>205,104</i> | <i>4,615</i> | | | <i>209,719</i> |
| <i>Memorandum item: acquired under financial lease</i> | | | | | - |
| Intangible assets | 181,469 | 7 | 492 | 16,869 | 198,837 |
| Goodwill | 128,065 | | | 16,869 | 144,934 |
| Other intangible assets | 53,404 | 7 | 492 | | 53,903 |
| Tax assets | 1,386,842 | 361 | 1,196 | 8,613 | 1,397,012 |
| Current | 24,225 | | 45 | 81 | 24,351 |
| Deferred | 1,362,617 | 361 | 1,151 | 8,532 | 1,372,661 |
| Other Assets | 293,310 | 3,713 | 78 | -17,078 | 280,023 |
| Stocks | 244,592 | | 58 | | 244,650 |
| Other | 48,718 | 3,713 | 20 | -17,078 | 35,373 |
| Non-current assets or disposal groups held for sale | 655,863 | | 4,420 | -3,352 | 656,931 |
| TOTAL ASSETS | 51,081,931 | 7,482,513 | 10,142 | -1,398,712 | 57,175,874 |



| LIABILITIES | DISTRIBUTION | | | | TOTAL PUBLIC BALANCE SHEET |
|---|---|--------------------|----------------|------------------------------|----------------------------|
| | CONSOLIDATED GROUP OF CREDIT INSTITUTIONS | ASSURANCE ENTITIES | OTHER ENTITIES | ADJUSTMENTS AND ELIMINATIONS | |
| | | | | | thousands of euros |
| Trading book | 31,255 | | | | 31,255 |
| Derivatives | 31,255 | | | | 31,255 |
| Other financial liabilities at fair value through profit or loss | | | | | - |
| <i>Memorandum item: subordinated liabilities</i> | | | | | <i>-</i> |
| Financial liabilities at amortized cost | 47,136,037 | 16,205 | 24,530 | -824,037 | 46,352,735 |
| Deposits | 44,250,358 | 0 | 20,461 | -771,768 | 43,499,051 |
| <i>Central Banks</i> | <i>3,366,566</i> | | | | <i>3,366,566</i> |
| <i>Credit institutions</i> | <i>3,115,157</i> | | <i>20,238</i> | <i>-8,083</i> | <i>3,127,312</i> |
| <i>Clients</i> | <i>37,768,635</i> | | <i>223</i> | <i>-763,685</i> | <i>37,005,173</i> |
| Debt securities | 2,198,865 | | | -51,613 | 2,147,252 |
| Other financial assets | 686,814 | 16,205 | 4,069 | -656 | 706,432 |
| <i>Memorandum item: subordinated liabilities</i> | <i>861,264</i> | | | <i>-4,004</i> | <i>857,260</i> |
| Hedging derivatives | 176,172 | | | | 176,172 |
| Adjustments to financial assets for macro-hedges | 16,022 | | | | 16,022 |
| Insurance and reinsurance liabilities | | 6,972,452 | | -113,545 | 6,858,907 |
| Provisions | 401,616 | | 75 | 9,638 | 411,329 |
| Fund for pensions or similar liabilities | 119,855 | | | 19,965 | 139,820 |
| Other long-term employee benefits | 4,999 | | | | 4,999 |
| Provisions for taxes and other legal contingencies | 11,540 | | | | 11,540 |
| Provisions for risks and contingent commitments | 35,329 | | | -1 | 35,328 |
| Other provisions | 229,893 | | 75 | -10,326 | 219,642 |
| Tax liabilities | 196,837 | 38,957 | 394 | -4,314 | 231,874 |
| Current | 1,471 | | 84 | -101 | 1,454 |
| Deferred | 195,366 | 38,957 | 310 | -4,213 | 230,420 |
| Other liabilities | 119,932 | 3,160 | 48 | -2,320 | 120,820 |
| Non-current liabilities or disposal groups held for sale | | | | | |
| TOTAL LIABILITIES | 48,077,871 | 7,030,774 | 25,047 | -934,578 | 54,199,114 |



| EQUITY | DISTRIBUTION | | | | thousands of euros |
|---|---|--------------------|----------------|------------------------------|----------------------------|
| | CONSOLIDATED GROUP OF CREDIT INSTITUTIONS | ASSURANCE ENTITIES | OTHER ENTITIES | ADJUSTMENTS AND ELIMINATIONS | TOTAL PUBLIC BALANCE SHEET |
| Own funds | 2,753,519 | 378,858 | -14,905 | -364,349 | 2,753,123 |
| Capital | 2,144,276 | 135,065 | 7,492 | -142,557 | 2,144,276 |
| <i>Issued capital</i> | 2,144,276 | 135,065 | 7,492 | -142,557 | 2,144,276 |
| <i>Non-called up required capital</i> | | | | | - |
| Memorandum item: <i>non-required capital</i> | | | | | - |
| Share premium | | | 4,480 | -4,480 | - |
| Equity instruments issued other than capital | | | | | - |
| <i>Equity instruments from compound financial instruments</i> | | | | | - |
| <i>Other equity instruments issued</i> | | | | | - |
| Other equity items | | | | | - |
| Retained earnings | 311,648 | | | | 311,648 |
| Revaluation reserves | 3,329 | | | | 3,329 |
| Other reserves | 151,369 | 97,694 | -26,785 | -71,305 | 150,973 |
| <i>Reserves or accumulated losses from associated companies</i> | -107,065 | | | 43,610 | -63,455 |
| <i>Other</i> | 258,434 | 97,694 | -26,785 | -114,915 | 214,428 |
| (Own shares) | | | | | - |
| Profit of the year attributable to the parent entity | 142,897 | 146,099 | -92 | -146,007 | 142,897 |
| (Interim dividends) | | -100,000 | | 100,000 | 0 |
| Other accumulated comprehensive income | 250,234 | 72,881 | 0 | -99,785 | 223,330 |
| Items not reclassified into profit or loss | 5,146 | | | -26,904 | -21,758 |
| <i>Actuarial gains/losses from defined-benefit pension plans</i> | 5,146 | | | -26,904 | -21,758 |
| <i>Non-current assets and disposal groups classified as held for sale</i> | | | | | - |
| <i>Participation in other recognized gains/losses from associated companies</i> | | | | | - |
| <i>Rest of valuation adjustments</i> | | | | | - |
| Items reclassified into profit or loss | 245,088 | 72,881 | | -72,881 | 245,088 |
| <i>Hedges on net investments in foreign business</i> | | | | | - |
| <i>Exchange rate differences</i> | | | | | - |
| <i>Hedge derivatives. Cash-flow hedges</i> | | | | | - |
| <i>Financial assets held for sale</i> | 245,648 | 72,881 | | -72,881 | 245,648 |
| <i>Debt instruments</i> | 166,637 | 72,276 | | -72,276 | 166,637 |
| <i>Equity instruments</i> | 79,011 | 605 | | -605 | 79,011 |
| <i>Non-current assets and disposal groups classified as held for sale</i> | | | | | - |
| <i>Participation in other recognized gains/losses from associated companies</i> | -560 | | | | -560 |
| Minority interests | 307 | | | | 307 |
| Other accumulated comprehensive income | | | | | - |
| Other items | 307 | | | | 307 |
| TOTAL EQUITY | 3,004,060 | 451,739 | -14,905 | -464,134 | 2,976,760 |
| TOTAL LIABILITIES AND EQUITY | 51,081,931 | 7,482,513 | 10,142 | -1,398,712 | 57,175,874 |



3.5 - Identification of subsidiaries with own resources below minimum requirements

As of 31 December 2016 all subsidiaries, subject to minimum requirements on own funds at the individual level and not included in the Group, complied with the requirements established by the regulation.

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

Table 15. Own Resources Ibercaja Patrimonios

| Own Resources Ibercaja Patrimonios | |
|------------------------------------|-----------|
| (thousands of euros) | Data 2016 |
| Own Resources | 6,606 |
| Minimum Requirements Own Resources | 813 |
| Surplus | 5,794 |

Table 16. Own Resources Ibercaja Gestión

| Own Resources Ibercaja Gestión | |
|------------------------------------|-----------|
| (thousands of euros) | Data 2016 |
| Own Resources | 48,179 |
| Minimum Requirements Own Resources | 2,228 |
| Surplus | 45,951 |

Table 17. Own Resources Ibercaja Pensión

| Own Resources Ibercaja Pensión | |
|------------------------------------|-----------|
| (thousands of euros) | Data 2016 |
| Own Resources | 35,411 |
| Minimum Requirements Own Resources | 10,406 |
| Surplus | 25,005 |

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

3.6 – Exemptions to requirements

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

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

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



4. Computable Own Resources

In Title I of Part II of Regulation (EU) 575/2013 of the European Parliament and the Council, the different levels of capital that make up the own funds of the Bank as well as those items that comprise it are defined. The *Circulares de Banco de España* 2/2014, 3/2014 y 2/2016 complete the adaptation of the Spanish Legal Order to the Directive 2013/36 UE y al Regulation (UE) n^o 575/2013 and specify the progressive implementation schedules that have to be used when computing certain items.

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

- 1) **Common Equity Tier I instruments** are characterized as components of equity that can be used immediately and without restriction to cover risks or losses as they occur, being registered their free amount from any foreseeable tax at the time of calculation. These elements show higher stability and permanence in time than Additional Tier I equity instruments. The Group Common Equity Tier I instruments as of 31 December 2016 consist of:

- Equity.
- The reserves, including revaluation ones.
- The net profit for 2016 that the Entity plans to allocate to reserves.
- The portfolios' valuation adjustments at fair value, after applying the calendar prescribed by CBE 2/2014 y UE 2016/445.
- Contingent Convertibles Bonds (Cocos) in accordance with the provisions of the third transitional provision of *RDL 2/2011* on strengthening of the financial system.
- The share of computable minority interests.

The following points are deducted:

- Intangible assets and goodwill accounted in the Group's balance sheet that could not be deducted from additional Tier I equity.
- Deferred tax assets that rely on future performance and do not receive alternative treatment provided in applicable regulation to those coming from temporary differences, after applying the schedule prescribed by CBE 2/2014 y UE 2016/445.

The fully-loaded Common Equity Tier 1 (CET1), which refers to the calculation of capital without applying transitional measures, exceeds the minimum level required by SREP decision in 2017 (9.25%) for the phase-in Common Equity Tier 1 (CET1). According to the Bank's solvency situation, the recommendations of the European Central Bank regarding the restriction or regulatory limitation on dividend payments, variable remuneration and interest payments to holders of Additional Tier 1 Capital.



- 2) **Additional Tier 1 capital instruments** are defined in Part II, Title I, Chapter 3 of Regulation (EU) 575/2013 (CRR), with the limits and deductions set out in that Regulation. These own resources are characterized by having, a priori, higher volatility or lower degree of permanence than the elements considered as Common Tier 1 capital instruments. At December 31, 2016, the Group does not have additional Tier 1 capital instruments.
- 3) **Tier II capital instruments** are the ones defined in Part II, Title I, Chapter 4 of Regulation (EU) 575/2013 (CRR), with the limits and deductions established in this regulation. At December 31, 2016 the Group's Tier II capital instruments consist of:
- Subordinated debt.

The following must be deducted:

- Subordinated debt in financial sector entities with significant influence.

Supervisory Review and Evaluation Process (SREP) y Capital Buffers

The ECB communicated the final results of the Supervisory Review and Evaluation Process (SREP), which sets the capital requirements of each bank for 2017 based on: business model, capital risk, liquidity and governance and internal control. This decision requires the Group to maintain a phase-in Common Equity Tier 1 (CET1) of 7.25% and a total phase-in capital of 10.75%. These solvency requirements include the minimum required by Pillar 1 (4.5% of CET1 and 8% of total capital), the requirement of Pillar 2 (1.5%) and capital conservation buffer (1.25%). The Pillar 2 requirement for Ibercaja, 1.5%, is one of the lowest in the Spanish banking system, which demonstrates the Group's prudence in risk taking and the alignment of its management structures with the corporate governance best practices.

According to the Bank of Spain, no Spanish entity has countercyclical buffer requirements for 2016.

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

Table 18. Transitional period solvency requirements

| % of RWA's | 2016 | 2017 | 2018 | 2019 |
|---|--------|--------|--------|-------|
| Capital Conservation Buffer | 0.625% | 1.250% | 1.875% | 2.5% |
| Min. CET1 | 4.5% | 4.5% | 4.5% | 4.5% |
| Min. Tier I | 6% | 6% | 6% | 6% |
| Min. Solvency ratio | 8% | 8% | 8% | 8% |
| Min. CET1 + Conservation Buffer | 5.125% | 5.75% | 6.375% | 7% |
| Min. Tier I + Conservation Buffer | 6.625% | 7.25% | 7.875% | 8.5% |
| Min. Solvency Ratio + Conservation Buffer | 8.625% | 9.25% | 9.875% | 10.5% |



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

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

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

Table 19. Conciliation of Own Funds with Financial Statements

| Full reconciliation of own funds elements with the audited financial statements | | |
|---|------------------|------------------|
| (thousands of euros) | Amount 2016 | Amount 2015 |
| Subscribed capital | 2,144,276 | 2,144,276 |
| Retained earnings | 311,648 | 251,516 |
| Valuation adjustments | 3,329 | 3,304 |
| Other reserves | 150,973 | 150,838 |
| Profit attributable to the Parent | 142,897 | 84,123 |
| Own funds in public balance sheet | 2,753,123 | 2,634,057 |
| Other accumulated comprehensive income | 223,330 | 165,489 |
| Minority interests | 307 | 1,109 |
| Equity in public balance sheet | 2,976,760 | 2,800,655 |
| Intangible assets | -213,556 | -204,053 |
| Deferred tax assets | -121,062 | -37,601 |
| Valuation adjustments (non-computable) | -77,561 | -160,423 |
| Proposed distribution of dividends | -35,725 | -20,000 |
| Contingent convertible bonds | 223,600 | 407,000 |
| Public equity differences and for prudential purposes | 26,733 | 22,552 |
| Total adjustments and deductions | -197,571 | 7,475 |
| Total Common Equity Tier 1 (CET1) | 2,779,189 | 2,808,130 |
| Preference shares | - | 3,489 |
| Other transitional adjustments of Additional Equity Tier 1 | - | -3,489 |
| Total Additional Tier 1 Capital (AT1) | - | - |
| Total Tier 1 Capital (T1) | 2,779,189 | 2,808,130 |
| Subordinated debt | 517,004 | 576,525 |
| Total Tier 2 Capital (T2) | 517,004 | 576,525 |
| Total Computable Own Funds | 3,296,193 | 3,384,655 |



4.2 – Equity Details

Below, the detail at 31 December 2016 and 2015 of the consolidated group computable own resources is presented, indicating each of its components and deductions, and is broken down into Common Equity Tier 1 instruments, Additional Tier 1 capital instruments and Tier 2 capital instruments:

Table 20. Computable Own Funds

| Computable Own Funds | | |
|--|------------------|------------------|
| (thousands of euros) | Amount 2016 | Amount 2015 |
| TOTAL COMPUTABLE OWN FUNDS | 3,296,193 | 3,384,655 |
| Tier 1 Capital (T1) | 2,779,189 | 2,808,130 |
| Common Equity Tier 1 (CET1) | 2,779,189 | 2,808,130 |
| Equity instruments disbursed | 2,144,276 | 2,144,276 |
| Retained earnings from previous years | 468,162 | 406,162 |
| Admissible results | 107,172 | 64,120 |
| Other reserves | 3,329 | 3,303 |
| Common Equity Tier 1 instruments in prior regime | 223,600 | 407,000 |
| Minority interests | 143 | 190 |
| Valuation adjustments of the portfolio available for sale | 167,125 | 24,733 |
| Deductions from Common Equity Tier 1 Instruments (CET 1) | -334,618 | -241,654 |
| Intangible assets | -213,556 | -204,053 |
| Deferred tax assets that rely on future returns | -121,062 | -37,601 |
| Additional Tier 1 Capital (AT1) | - | - |
| Additional Tier 1 capital instruments in prior regime | - | 3,489 |
| Deductions from Additional Tier 1 capital instruments (AT 1) | - | -3,489 |
| Tier 2 Capital (T2) | 517,004 | 576,525 |
| Subordinated debt and subordinated loans and others | 517,004 | 576,525 |

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

Changes in Own Funds during the year 2016

The amortization of 5% (20 million euros) of the issue of contingently convertible bonds (CoCos) was carried out in March 2016. Likewise, on December 28, 2016, the European Central Bank authorized the Entity for early amortization of 40% of the contingent convertibles (CoCos), initially planned for March 2017, being the early debt repayment of 163 million euros. Although the amortization of these securities has led to a reduction of the capital-to-equity ratios, as of December 31, 2016, the Bank has consolidated capital ratios above and beyond those required by the Central Bank for the financial year 2017.



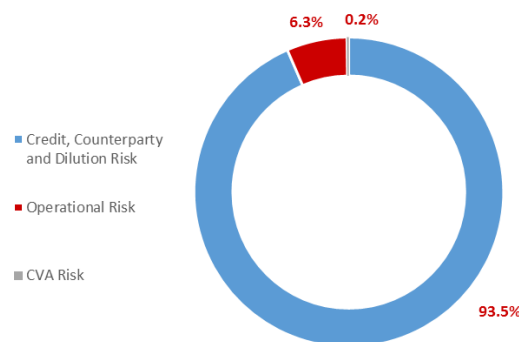
5. Minimum Requirements on Own Resources

Below, capital requirements are listed in accordance with the third part of the CRR for each of the risk categories, calculated as 8% of the risk-weighted assets as of 31 December 2016 and 2015.

Table 21. Minimum Own Funds Requirements

| Own Resources Requirements | | |
|--|------------------|------------------|
| (thousands of euros) | 2016 | 2015 |
| Credit, Counterparty and Dilution risk | 1,732,813 | 1,746,082 |
| Market Risk | - | - |
| Operational Risk | 117,595 | 125,610 |
| CVA Risk | 3,123 | 8,355 |
| Total Pillar 1 Requirements | 1,853,531 | 1,880,047 |

Illustration 2. Minimum Own Funds Requirements



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

The aim of Basel's Pillar II is to ensure the proper relationship between the risk profile of the Group and the own resources that it effectively maintains. To this end, the Group carried out a recurring process of Capital self-assessment in which it:

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

The Group sets a capital target to enable to permanently maintain adequate clearance on the legal needs of Pillar I, ensuring the correct relationship between risk profile and own resources.



The Group's total capital required is estimated by aggregating the capital requirements associated to each risk.

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

On the occasion of the recent publications of the EBA "Guidelines on ICAAP and ILAAP information Collected for SREP purposes" as well as the ECB "Supervisory expectations on ICAAP and ILAAP and Harmonized information collection on ICAAP and ILAAP", the Group is adapting its process of capital and liquidity self-assessment to the new guidelines. Both reports are approved by the Bank's Board of Directors and are forwarded to the supervisor. Self-assessment reports are the basis for consultations with the supervisor on the risk profile, capital adequacy and medium-term plans of the Entity.

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

Below it is presented the amount of the consolidated group minimum own resources requirements for credit risk as of 31 December 2016, calculated, for each of the categories to which the standard method has been applied, as an 8 % of risk-weighted exposures:

Table 22. Own resources requirements for Credit Risk

| Own Resources requirements for Credit Risk | | |
|--|------------------|------------------|
| (thousands of euros) | 2016 | 2015 |
| Central governments or central banks | 76,718 | 72,317 |
| Regional governments and local authorities | - | - |
| Public sector entities and other on-profit public institutions | 20,874 | 24,875 |
| Multilateral development banks | - | - |
| International organizations | - | - |
| Institutions | 30,364 | 41,313 |
| Corporates | 279,464 | 275,349 |
| Retail customers | 319,902 | 292,871 |
| Exposures secured by real estate | 566,639 | 596,180 |
| Exposure in default situation | 163,908 | 136,052 |
| High-risk exposures | 2,117 | 3,730 |
| Covered bonds | 951 | 2,073 |
| Exposures to institutions and corporates with a short-term credit rating | 659 | 1,005 |
| Exposures to collective investment institutions | 446 | 427 |
| Equity exposures | 99,899 | 118,196 |
| Other exposures | 157,732 | 165,380 |
| Securitisation positions | 13,140 | 16,314 |
| Total own resources requirements for credit risk | 1,732,813 | 1,746,082 |

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



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

Table 23. Own resources requirements for Counterparty Risk

| Own resources requirements for Counterparty Risk | | |
|--|--------------|---------------|
| (thousands of euros) | 2016 | 2015 |
| Market-to-Market Method | 4,303 | 12,262 |
| Original Risk Method | - | - |
| Standard Method | - | - |
| Internal Models Method | - | - |
| Total own resources requirements | 4,303 | 12,262 |

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

5.3 - Correction factor applied to small and medium corporate exposures

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

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

Table 24. SMEs correction exposures

| Exposures subject to "corrective factor" | | |
|---|----------------|----------------|
| (thousands of euros) | 2016 | 2015 |
| Requirements for exposures applying the correction factor | 190,039 | 169,182 |
| Requirements for exposures without applying the correction factor | 249,428 | 222,053 |
| Total own resources correction requirements | -59,389 | -52,871 |



5.4 - Minimum own resources requirements for trading book

In accordance with Article 94 of Regulation (EU) 575/2013 (CRR), which refers to the scope of application as of 31 December 2016 the Group is not subject to calculating own resources requirements for position and liquidation risk of the trading book.

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

In accordance with Article 351 of Regulation (EU) 575/2013 (CRR), own resources requirements of the Group as of 31 December 2016 are null for exchange rate risk and gold position as the sum of net global positions in currency, gold and instrumental currencies, regardless of their sign, does not exceed 2% of total computable own resources.

5.6 - Own resources requirements for operational risk

As of 31 December 2016 the operational risk requirements for the Group are the following:

Table 25. Own resources requirements for Operational Risk

| Own resources requirements for Operational Risk | | |
|---|----------------|----------------|
| (thousands of euros) | 2016 | 2015 |
| Basic Indicator Method | - | - |
| Standard Method | 117,595 | 125,610 |
| Alternative Standard Method | - | - |
| Advanced Method | - | - |
| Total Equity Requirements | 117,595 | 125,610 |

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



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

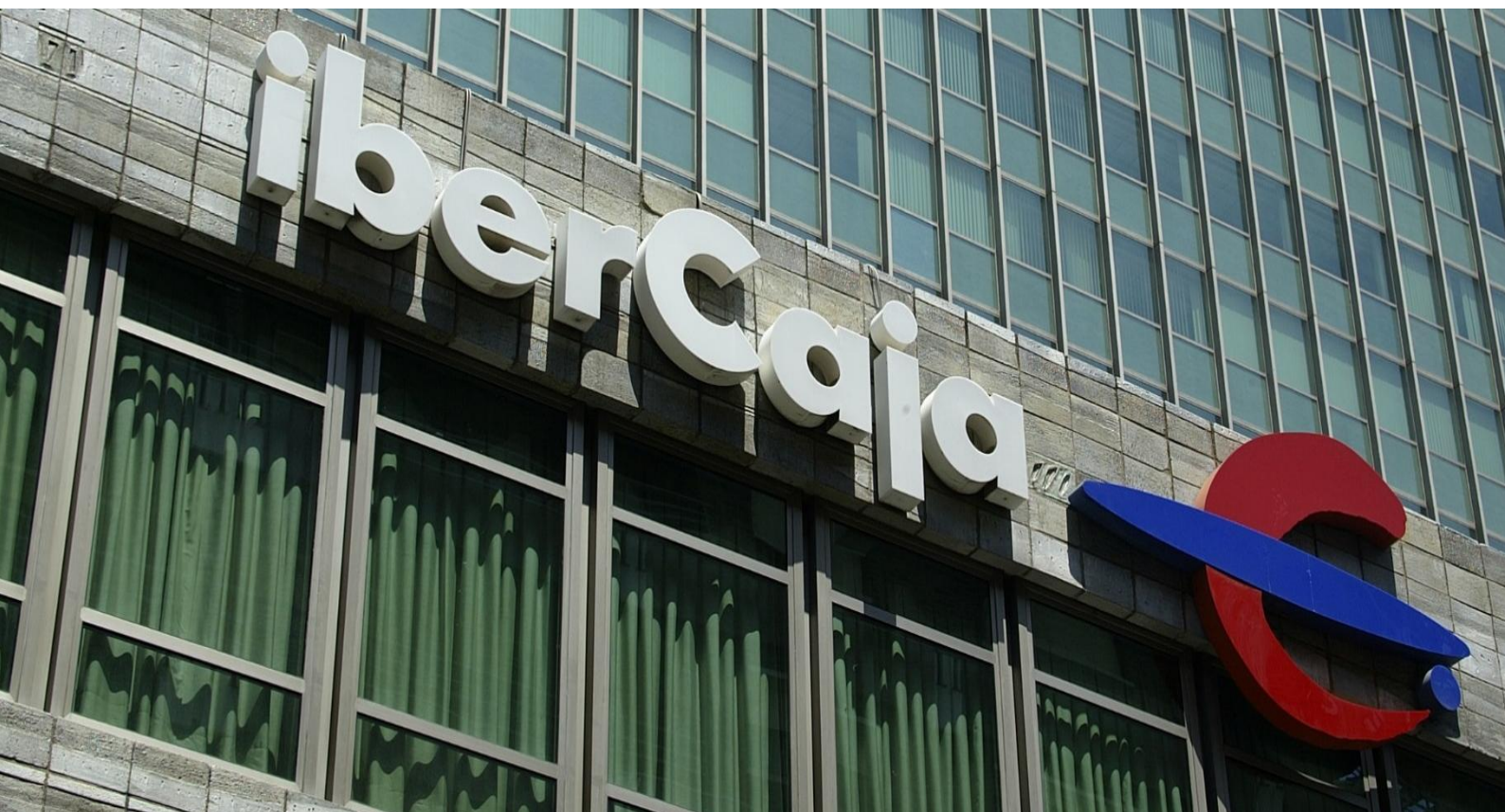
According to Title VI of Regulation (EU) 575/2013 third (CRR), "Credit Valuation Adjustment" means a valuation adjustment at market value of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the credit risk of the counterparty with respect to the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

As of 31 December 2016, the Group requirements for risk of credit valuation adjustment (CVA) are the following:

Table 26. Own resources requirements for CVA

| Own Resources Requirements for Credit Valuation Adjustment (CVA) | | |
|--|--------------|--------------|
| (thousands of euros) | 2016 | 2015 |
| Advanced Method | - | - |
| Standard Method | 3,123 | 8,355 |
| Based on the original exposure method | - | - |
| Total equity requirements | 3,123 | 8,355 |

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





6. Risks

6.1 - Risk management policies and objectives

The Group risk management is structured through the "Risk Appetite Framework" (hereinafter RAF). The main purpose of the Group RAF is to establish a set of principles, procedures, controls and systems by which it defines, communicates and monitors the risk appetite of the Group. The risk appetite is understood as the risk level or profile that the Group is willing to assume and maintain both for its type and for its amount, as well as their level of tolerance and should be oriented towards the achievement of the strategic plan objectives, according to the action lines established in this document.

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

6.2 – Corporate Governance in Risk Management

6.2.1 – Framework for action and management

The RAF contains the risk appetite statement, the risk limits and the roles and responsibilities of the different bodies of government and management that oversee its implementation and monitor it.

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

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

The RAF has a global vision of the Consolidated Group and considers all the risks that affect the development of the Group's activities and the achievement of the business goals. Group material risks considered within the RAF, both financial and non-financial, are the following: Business and profitability risk, credit risk, concentration risk. Operational risk, interest rate risk, market risk, liquidity risk, reputational and compliance risk and risk linked to the perception of different stakeholders.

The RAF of the Group is based on strategic principles, corporate governance principles and risk management principles that all integrated constitute the Group Risk Appetite Declaration.



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

The Board of Directors of Ibercaja Banco approved the updating of the "Risk Appetite Framework" in February 2016, the updating of the "Manual of Policies and Procedures for Liquidity Risk Management", the "Operational Risk Management Framework" and the "Guidelines for Risk Lines" of Ibercaja Banco in March 2016 and the updating of the "Manual of policies and procedures for the management of the interest rate risk" and of the "Manual of policies of the Capital Markets Unit" in May 2016.

Finally, with the entry into force of the Circular 4/2016 of Bank of Spain, the Board of Directors approved in November 2016 the "Validation and Internal Control Framework", the "Accounting Manual for Credit Risk Management Policies", The "Manual of Calculation of the Internal Model of Guarantees", the "Manual of Calculation of the Internal Model of Foreclosed assets" and the "Operational Manual of the collective calculation of provisions", as well as the revision of the "Model Governance Framework". In December 2016, the "Manual of Policies and Procedures for the Management of Credit Investment" update was approved.

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

The entry into force of the new Single Supervisory Mechanism (SSM) in November 2014 commits the European financial sector to adapt its risk policies and procedures as its control environment. The "Supervisory Review and Evaluation Process" (SREP) is the means to carry out the continuous assessment of the entities by the SSM. The processes of internal assessment of capital and liquidity adequacy of Pillar II (also called ICAAP & ILAAP) are configured as a key part of the SREP process.

Finally, the Entity, in accordance with the Banking Recovery and Resolution Directive (Directive 2014/59, BRRD), the guidelines and recommendations of the European Banking Association (EBA) concerning the recovery plans contents and the *Ley 11/2015, de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión*, has defined a recovery plan to prevent and ensure its ability to react to situations of solvency deterioration or funding capacity. The recovery plan is integrated into the processes of existing risk management and it is updated at least annually. The Board of Directors approved the recovery plan update in December 2016.



6.2.2 - Governance Structure

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

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

On the other hand, the following Executive Commissions have been set up:

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

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



6.2.3 - Risk management, control and measurement strategies

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

Credit Risk

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

○ *Strategies and policies for Credit Risk Management*

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

The Board of Directors approves the strategies, policies and limits for managing this risk, prior report from the Major Risks and Solvency Commission, documented in the "Manual of Credit Investments Policies and Procedures ". This manual includes the action criteria in the main activity segments and the maximum risk lines with major borrowers, sectors, markets and products. The Board of Directors authorizes the risks that exceed the operating circuit competence.

○ *Management, control and measurement procedures for Credit Risk*

The credit investment portfolio is segmented into client groups with homogeneous risk profiles and subject to differential treatment by applying specific evaluation models.

- a)** The following policies are established within the area of **credit risk granting**:
- Risk classifications for borrower groups by establishing some previous exposure limits in order to avoid inappropriate risk concentrations.
 - New transactions and limits admission criteria to the faculties of concession according to the customer segment to which it is financed.
 - Transactions Analysis Methodology depending on their type and belonging to different segments.
 - Internal models of credit rating integrated into decision systems for the different areas of the retail business.
 - Necessary requirements to provide legal certainty to each operation.
 - Risk mitigation techniques.
 - Pricing policies in line with the credit quality of customers.

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

The Group has established risk granting policies in accordance with *Ley 2/2011 de 4 de marzo, de Economía Sostenible*, the *Orden EHA/2899/2011, de 28 de octubre, "de transparencia y protección del cliente de servicios bancarios"* and the *Circular del Banco de España 5/2012, de 27 de junio "sobre transparencia de servicios bancarios y responsabilidad en la concesión de préstamos y créditos"*.



The above policies are contained in the "Manual of Credit Investments Policies and Procedures", particularly in point 2 entitled "Basic Principles for credit risk management."

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

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

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

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

b) Risk monitoring. The aim is to know, in sufficient time and on a permanent basis, the evolution of customers and groups to avoid or minimize potential defaults from the impairment of the loan portfolio. This knowledge is essential in the proactive management of measures to reduce or restructure the exposure to existent risks.

The Group has a mechanized system of alerts that analyses and qualifies customers after considering all information sources, internal and external, looking for risk factors that can determine an impairment in credit quality. The alert system is subject to calibration processes and continuous improvement.

An individual expert follow-up of borrowers with relevant risk is carried out in two areas:

- Annual follow-up report on creditors / groups with a risk greater than 5 million euros
- Report on individually significant creditors (risk greater than 3 million euros), linked to Circular 4/2016, in order to determine their accounting classification and allocation to provisions in case of doubtful transactions.



In accordance with the regulations established in CRR/CRD IV on the valuation of security rights linked to financial transactions, Ibercaja has an internal policy that guarantees the compliance and governance of the main management metrics.

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

Country risk

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

Countries are classified into six groups in line with Circular 4/2004 of Bank of Spain, according to their rating, economic evolution, political situation, regulatory and institutional framework, capacity and payment experience.

The Group establishes maximum limits for the country risk exposure based on the rating granted by the rating agencies.

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

Operational risk

It is defined as the risk of incurring in losses resulting from the lack of adaptation or a failure of processes, personnel and internal systems, or derived from external events.

- *Strategies and policies for Operational Risk Management*

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

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

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



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

The effective implementation and use in each of the units and subsidiaries are developed in a decentralized manner. Meanwhile, the Internal Control and Validation Unit performs risk measurement, monitoring, analysis and communication.

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

The Group, under the model adopted for operational risk management, combines the following methods, which are supported by specific IT tools:

- Qualitative methodology, based on the identification and expert assessment of operational risks and of the existing controls on processes and activities, along with the collection and analysis of risk indicators.
- During the year 2016, 590 operational risks inherent to the Group's activities have been reviewed and self-assessed, concluding a medium-low increasing estimated exposure to the joint potential impact of these risks.
- Quantitative methodology, supported by the identification and analysis of actual losses incurred in the Group that are recorded in the established database for this purpose (BDP).

The quantification of actual losses recorded in the loss database during the last 36 months shows that the total net annual amount of losses (considering the direct and insurance recoveries) due to operational risk events is 8,017 thousand euros corresponding to an average of 3,487 events.

The figures of actual losses are small in relation to capital requirements, being consistent with the overall result of the qualitative evaluation mentioned above.

Progress in management and control processes as a result of the established operational risk policies, enable the Entity to calculate capital consumption for operational risk by the standard method since December 2010 in accordance with the provisions of Regulation (EU) No. 575/2013.

Interest Rate Risk

It is defined as the possibility that the Group's financial margin or economic value may be affected by adverse shocks in interest rates that impact on the financial instruments' cash flows. The sources of interest rate risk are repricing, curve, base or option risk. In particular, the risk of repricing is derived from temporary differences.

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

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



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

Regarding option risk, key assumptions on the sensitivity and duration of on-demand saving transactions are established as their expiration date is not contractually established, considering an instability percentage of 10% and an average duration of 5 years, in line with the regulation.

Likewise, hypotheses are assumed for the early repayment of loans and term deposits, based on historical experience and macro-economic prospects. For loans, a distinction is made regarding purpose, assuming an average prepayment rate of less than 5%, while for term deposits a 10% of early cancellations is assumed.

Similarly, control is ensured on the effect that changes in interest rates have on net interest margin and economic value through the establishment of exposure limits. Limits allow to maintain the interest rate risk exposure within the levels that are consistent with approved policies.

Liquidity Risk

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

o Strategies and policies for Liquidity Risk Management

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

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

The fundraising strategies in retail segments and the use of alternative sources of liquidity in the short and long term wholesale markets allow the Group to have the necessary resources to meet the solvent credit demand resulting from commercial activity, and to maintain the treasury positions within the parameters established in the liquidity management manual.

o Management, control and measurement procedures for Liquidity Risk

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



Moreover, future estimated business changes, and interest rates expectations as well as the management and coverage proposals are incorporated simulating different behaviour scenarios. These procedures and analysis techniques are reviewed as often as necessary to ensure proper functioning.

Forecasts in the short, medium and long term are made to meet the funding requirements and the limits compliance, which take into account the most recent macroeconomic trends, because of their impact on the different balance sheet assets and liabilities evolution, as well as on contingent liabilities and derivatives. Similarly, liquidity risk is controlled by establishing exposure limits, within levels that are consistent with approved policies.

Furthermore, the Entity is ready to face any crisis, both internal and on markets in which it operates procedures and action plans to ensure sufficient liquidity at the lowest possible cost in adverse scenarios.

Exposure to other risks

Exposure to Market Risk and Counterparty Risk

o Strategies and policies for Market Risk and Counterparty Risk Management

a) Market risk

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

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

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

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

b) Counterparty risk

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

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



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

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

For the granting of related counterparty risk transactions (financial institutions, public entities with rating and listed and/or rated entities by any rating agency), Capital Markets and the Governance Bodies will be responsible for managing the assumption of risk, taking into account the limits for credit lines.

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

- *Management, control and measurement procedures*

- a) Market risk

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

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

The VaR calculation is carried out using different methodologies:

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



The VaR measurement, as of December 31, 2016:

| Thousands of euros | Diversified Parametric VaR | Parametric VaR vs Own Resources. | Non-diversified parametric VaR | Non-diversified parametric VaR vs Own Resources | Historical Simulation VaR | Historical Simulation VaR vs Own Resources | VaR Shortfall | VaR Shortfall vs Own Resources |
|------------------------------|----------------------------|----------------------------------|--------------------------------|---|---------------------------|--|---------------|--------------------------------|
| Confidence level: 99% | | | | | | | | |
| Time horizon: 1 day | -33,882 | 1.03% | -55,009 | 1.67% | -44,550 | 1.35% | -93,341 | 2.83% |
| Time horizon: 10 days | -107,144 | 3.25% | -173,954 | 5.28% | | | | |

The VaR measurement as of December 31, 2015:

| Thousands of euros | Diversified Parametric VaR | Parametric VaR vs Own Resources. | Non-diversified parametric VaR | Non-diversified parametric VaR vs Own Resources | Historical Simulation VaR | Historical Simulation VaR vs Own Resources | VaR Shortfall | VaR Shortfall vs Own Resources |
|------------------------------|----------------------------|----------------------------------|--------------------------------|---|---------------------------|--|---------------|--------------------------------|
| Confidence level: 99% | | | | | | | | |
| Time horizon: 1 day | -33,607 | 0.99% | -87,618 | 2.59% | -30,758 | 0.91% | -37,867 | 1.12% |
| Time horizon: 10 days | -106,276 | 3.14% | -277,074 | 8.19% | | | | |

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

b) Counterparty risk

The limits authorized by the Board of Directors are set by the investment volume weighted by credit quality of the borrower, the investment period and the type of instrument. In addition, legal limits on the concentration and large exposures are observed pursuant to Regulation (EU) No 575/2013.

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

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

The risk can be computed by the resulting net figure in those entities with risk compensation and collateralization agreement, in accordance with the requirements of the Bank of Spain.

6.2.4 – The Board of Directors' Functions

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

- Establish and supervise the risk information and management systems of the Entity and the Group, prior report from the Major Risk and Solvency Commission.
- Approve the Group's Risk Appetite Framework and issue the Risk Appetite Statement, prior report from the Major Risks and Solvency Commission;
- Approve, prior report from relevant commissions, risk management policies, manuals and procedures (liquidity, credit, interest, tax, capital markets...) including those posed by the macroeconomic situation in which it operates in relation to the economic cycle phase.
- Actively participate in the management of all material risks addressed in the solvency regulations, ensuring the allocation of adequate resources to their management.

Approve and review, prior report from the Strategy Commission, the New Products Approval Policy in which the development of new markets, products and services and significant changes in existing ones are addressed.



6.2.5 - Internal Audit and Compliance Area Functions

Internal Audit Area

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

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

- To plan, coordinate and develop the Internal Audit Annual Operation Plan that will be performed each year and its degree of compliance will be reported regularly to the Internal Audit Commission and to the Audit and Compliance Commission of the Board of Directors.
- To evaluate permanently the correct functioning of the internal control and information systems inherent to the Group's activities, proposing improvement recommendations with a preventive approach.
- To report regularly to the Board of Directors, through its Audit and Compliance Commission, the results of Internal Audit verification works.
- To participate in the communication with regulators or supervisors, in the scope of their duties, and coordinate with them the scope and content of Internal Audit reports required by these bodies.

Regulatory Compliance Area

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

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

- To perform the internal control responsibilities conferred on the rules of credit institutions and entities that provide investment services.
- To ensure regulation compliance on matters that affect the Group's activity development, because failure may cause reputational risk.
- To ensure that the Entity policies and manuals development and updating abides by the pertinent regulations, guidelines and agreements adopted by the Entity governance bodies.
- To report to the Audit and Compliance Commission, on the Customer Service activity and the actions taken to mitigate possible risks associated with complaints and claims filed during the period considered.
- To perform all the controls laid down in MiFID.
- In the area of the Securities Market and in the Prevention of Market Abuse, to perform the controls laid down in the Internal Rules of Conduct (RIC).
- In relation to preventing money-laundering and the financing of terrorism, to ensure the correct compliance with the Bank and Group obligations in accordance with the present regulation.
- To coordinate the criminal risks prevention model implementation and monitoring in the Entity, as well as the application by the Directorates and Units involved in high-level and specific controls in different areas of the Entity's activity.



6.2.6 – Risk Reporting

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

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

Also, the metrics are divided into:

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

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

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





7. Credit Risk

7.1 - Accounting definitions and methodological descriptions

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

A financial asset is considered as impaired and consequently its book value is corrected when there is objective evidence that events have happened which lead to this conclusions. Based on the descriptions captured in section 2.3 of the Memory, the following accounting criteria are considered within the Group:

- Debt instruments valued at amortized cost: The amount of impairment losses coincides with the positive difference between their respective book value and the present value of their expected future cash flows.
- Debt instruments classified as available for sale: Impairment losses are equivalent, in this case, to the positive difference between their acquisition cost (net of any principal amortization) and their fair value once deducted any impairment loss previously recognized in the consolidated profit and loss account.
- Equity instruments classified as available for sale: Impairment losses are equivalent to the positive difference between their acquisition cost and their fair value, once deducted any impairment losses previously recognized in the consolidated profit and loss account.

7.2 – Credit Risk exposures

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

7.2.1 – Credit Risk exposure 2016

Down below, the credit risk exposures of the Group are presented as of 31 December 2016, after adjustments indicated in part third, title II, chapter 1 of the Regulation (EU) 575/2013 (CRR), value adjustments by impairment, effects of credit risk mitigation techniques and the application of conversion factors for off-balance-sheet items; as well as the average amount of such year, disaggregated by risk categories:



Table 27. Exposure by risk category (standard)

| Exposure by risk category | | |
|--|-----------------------|------------------------|
| (thousands of euros) | Average exposure 2016 | Exposure December 2016 |
| Central governments or central banks | 10,266,853 | 9,846,320 |
| Regional governments and local authorities | 1,206,628 | 1,122,072 |
| Public sector entities and other non-profit public institutions | 2,713,686 | 2,630,220 |
| Multilateral development banks | - | - |
| International organizations | 127 | 508 |
| Institutions | 696,137 | 622,567 |
| Corporates | 3,953,042 | 3,952,089 |
| Retail customers | 5,670,664 | 6,072,268 |
| Exposures secured by real estate | 20,825,195 | 20,232,018 |
| Exposure in default situation | 1,676,710 | 1,898,504 |
| High-risk exposures | 16,986 | 17,646 |
| Covered Bonds | 69,750 | 62,030 |
| Exposures to institutions and corporates with a short-term credit rating | 9,260 | 16,472 |
| Exposure to collective investment institutions | 3,110 | 5,571 |
| Equity exposures | 1,145,715 | 951,420 |
| Other exposures | 2,215,796 | 2,194,958 |
| Securitisation exposures | 415,930 | 403,363 |
| TOTAL | 50,885,589 | 50,028,026 |

7.2.2 - Geographical distribution of exposures

Detail on the value of credit risk exposures of the Group as of 31 December 2016, net of the adjustments indicated in part third, title II, chapter 1 of Regulation (EU) 575/2013 (CRR), from impairment losses, effects of credit risk reduction and the application of conversion factors for off-balance-sheet items, disaggregated by geographical areas, is the following:

Table 28. Exposures by great geographical areas

| Exposures by great geographical areas | | |
|---------------------------------------|---------------------|---------------------|
| (thousands of euros) | Exposure Value 2016 | Exposure Value 2015 |
| Spain | 48,665,210 | 52,145,315 |
| Other EU countries | 1,234,376 | 1,213,624 |
| Other European countries | 38,638 | 26,914 |
| USA | 57,927 | 120,149 |
| Rest of the world | 31,875 | 10,793 |
| TOTAL GEOGRAPHICAL AREAS | 50,028,026 | 53,516,795 |

7.2.3 – Exposure by economic sector

Detail on the value of credit risk exposures of the Group as of 31 December 2016, net of the adjustments indicated in part third, title II, chapter 1 of Regulation (EU) 575/2013 (CRR), from impairment losses, effects of credit risk reduction and the application of conversion factors for off-balance-sheet items, disaggregated by economic sector, is the following:



Table 29. Distribution by economic sector

| Exposure by economic sector | | |
|---|------------------------|------------------------|
| (thousands of euros) | Exposure Value 2016 | Exposure Value 2015 |
| Agriculture, farming and fishing | 1,026,314 | 1,135,074 |
| Extractive industry | 40,482 | 138,295 |
| Manufacturing industry | 1,576,102 | 3,772,759 |
| Production and distribution of energy, water and gas | 287,811 | 554,828 |
| Construction | 1,244,680 | 2,272,211 |
| Commerce and repairs | 2,052,432 | 3,276,062 |
| Catering | 661,129 | 1,132,425 |
| Transport, storage and communications | 789,389 | 1,751,114 |
| Financial intermediation | 3,473,305 | 4,790,563 |
| Real estate activities and business services | 4,171,524 | 5,849,902 |
| Other services | 857,702 | 3,310,952 |
| Public administrations | 8,929,167 | 12,661,967 |
| Central banks, credit institutions, intermediation and other financial services | 601,960 | 1,385,089 |
| Other activities | 24,316,029 | 11,485,554 |
| TOTAL | 50,028,026 | 53,516,795 |

7.2.4 – Residual maturity of exposures

Hereafter there is a presentation of the distribution, by term of residual maturity, of the value of the credit risk exposures as of 31 December 2016, net of adjustments, impairment losses, effects of the reduction by credit risk and application of conversion factors to off-balance-sheet items:

Table 30. Exposure by risk category and maturity

| Exposure by risk category and maturity | | | | | |
|--|------------------|----------------------|---------------------|-------------------|-------------------|
| (thousands of euros) | < 3 months | 3 months – 1 year | 1 year – 5 years | > 5 years | Sum |
| Central governments or central banks | 372,507 | 969,806 | 2,852,763 | 5,651,244 | 9,846,320 |
| Regional governments and local authorities | 62,617 | 77,356 | 645,413 | 336,686 | 1,122,072 |
| Public sector entities and other non-profit public institutions | 1,576,866 | 25,334 | 647,182 | 380,838 | 2,630,220 |
| Multilateral development banks | - | - | - | - | - |
| International organizations | - | - | 508 | - | 508 |
| Institutions | 32,284 | 198 | 181,016 | 409,069 | 622,567 |
| Corporates | 395,855 | 584,339 | 667,241 | 2,304,654 | 3,952,089 |
| Retail customers | 444,170 | 799,243 | 1,249,253 | 3,579,602 | 6,072,268 |
| Exposures secured by real estate | 330,725 | 970,922 | 4,586,107 | 14,344,264 | 20,232,018 |
| Exposure in default situation | 247,854 | 93,636 | 175,945 | 1,381,069 | 1,898,504 |
| High-risk exposures | - | - | 17,646 | - | 17,646 |
| Covered Bonds | - | 5,193 | 35,218 | 21,619 | 62,030 |
| Exposures to institutions and corporates with a short-term credit rating | 16,472 | - | - | - | 16,472 |
| Exposure to collective investment institutions | 55 | - | 1,034 | 4,482 | 5,571 |
| Equity exposures | - | - | 862,517 | 88,903 | 951,420 |
| Other exposures | 458 | 9,026 | 20,822 | 2,164,652 | 2,194,958 |
| Securitisation exposures | 3,508 | 174,606 | 205,436 | 19,813 | 403,363 |
| CATEGORY TOTAL | 3,483,371 | 3,709,659 | 12,148,101 | 30,686,895 | 50,028,026 |



7.2.5 - Geographical distribution and by counterparty of impaired positions

Impaired exposures by category

Hereafter the value of impaired exposures as of 31 December 2016 is presented, disaggregated by counterparty types, jointly with the amount of impairment losses and provisions for risks and contingent commitments constituted over the impaired exposures on such date, as well as allowances made during the 2016 business year:

Table 31. Impaired exposures by category

| (thousands of euros) | Impaired exposures by category | | | |
|---|--------------------------------|-------------------------------|---|--|
| | Impaired exposures (*) | Exposure in default situation | Impaired exposures losses and provision for contingent commitment risks | Business year allowances for impaired exposures and contingent risks and commitments |
| Central governments or central banks | - | - | - | - |
| Regional governments and local authorities | 5,052 | 5,052 | 26 | -146 |
| Public sector entities and other non-profit public institutions | 6,353 | 6,353 | 3,458 | 1,069 |
| Multilateral development banks | - | - | - | - |
| International organizations | - | - | - | - |
| Institutions | - | - | - | - |
| Corporates | 1,547,983 | 1,547,983 | 781,731 | 294,446 |
| Retail customers | 939,181 | 939,181 | 419,713 | 37,894 |
| Exposures secured by real estate | 653,740 | 653,740 | 17,050 | -36,164 |
| High-risk exposures | - | - | - | - |
| Covered Bonds | - | - | - | - |
| Exposures to institutions and capital with short-term credit rating | - | - | - | - |
| Exposure to collective investment institutions | - | - | - | - |
| Equity exposures | 132,549 | - | 56,040 | 19,487 |
| Other exposures | 7,124 | 7,124 | 1,506 | - |
| CATEGORY TOTAL | 3,291,982 | 3,159,433 | 1,279,524 | 316,586 |

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

Impaired exposures by geographical area

Detail is shown on the value of impaired exposures as of 31 December 2016, disaggregated by relevant geographical areas, jointly with the amount of impairment losses and allowances for contingent risks and commitments constituted over impaired exposures:



Table 32. Impaired exposures by great geographical areas

| Impaired exposures by great geographical areas | | | | |
|--|------------------------|--------------------------------|---|--|
| (thousands of euros) | Impaired exposures (*) | Exposures in default situation | Impaired exposures losses and provision for contingent commitment risks | Business year allowances for impaired exposures and contingent risks and commitments |
| Spain | 3,282,246 | 3,149,697 | 1,276,648 | 316,253 |
| Other EU countries | 7,292 | 7,292 | 2,176 | -827 |
| Other European countries | 1,752 | 1,752 | 235 | 536 |
| USA | 56 | 56 | 50 | 214 |
| Rest of the world | 636 | 636 | 415 | 410 |
| TOTAL GEOGRAPHICAL AREAS | 3,291,982 | 3,159,433 | 1,279,524 | 316,586 |

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

Impaired exposures by economic sector

The value of the impaired exposures as of 31 December 2016, disaggregated by economic sector, jointly with the amount of impairment losses and the allowances for contingent risks and commitments constituted over the impaired exposures, are the following:

Table 33. Impaired exposures by economic sector

| Impaired exposures by economic sector | | | | |
|---|------------------------|--------------------------------|---|--|
| (thousands of euros) | Impaired exposures (*) | Exposures in default situation | Impaired exposures losses and provision for contingent commitment risks | Business year allowances for impaired exposures and contingent risks and commitments |
| Agriculture, farming and fishing | 28,657 | 28,657 | 6,531 | 1,247 |
| Extractive industry | 3,787 | 3,787 | 960 | -103 |
| Manufacturing industry | 132,799 | 132,799 | 46,641 | 11,967 |
| Production and distribution of energy, water and gas | 10,427 | 10,427 | 6,876 | 1,979 |
| Construction | 299,894 | 299,894 | 111,977 | 40,453 |
| Commerce and repairs | 157,993 | 157,993 | 52,743 | 14,821 |
| Catering | 155,796 | 155,796 | 47,761 | 7,322 |
| Transport, storage and communications | 48,836 | 48,836 | 18,354 | 6,015 |
| Financial intermediation | 5,154 | 5,154 | 1,218 | -123 |
| Real estate activities and business services | 1,441,044 | 1,441,044 | 638,319 | 205,153 |
| Other services | 73,562 | 73,562 | 33,073 | 5,509 |
| Public administrations | 5,827 | 5,827 | 147 | -113 |
| Central banks, credit institutions, intermediation and other financial services | 6 | 6 | 4 | 4 |
| Other activities | 928,200 | 795,651 | 314,920 | 22,455 |
| TOTAL | 3,291,982 | 3,159,433 | 1,279,524 | 316,586 |

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



7.2.6 - Variations produced during the 2015 business year in impairment losses and allowances for contingent risks and commitments by credit risk

Variations that have happened during the 2016 business year regarding recorded impairment losses by credit risk in the Group, and allowances for contingent risks and commitments suit to the established in Circular 4/2004 del Banco de España, both in the type of losses and allowances constituted as in the methodology applied for their calculation.

Detail of movements during the 2016 business year is shown below:

Table 34. Value adjustments by impairments

| Value adjustments by impairments from credit risk | | |
|--|------------------------------|---|
| (thousands of euros) | Losses by assets impairments | Allowances for contingent risks and commitments |
| Balance as of January 1, 2016 | 1,720,295 | 24,833 |
| Allowances charge to profit and loss | 864,668 | 23,900 |
| Reversals credit to profit and loss | -573,302 | -14,203 |
| Amount applied during the business year | -539,073 | -68 |
| Effect from foreign currency exchange rate differences | - | - |
| Variations produced by business combinations | - | - |
| Variations in the scope of consolidation | - | - |
| Transfers | - | - |
| Other movements | -58,019 | 866 |
| Balance as of December 31, 2016 | 1,414,569 | 35,328 |

In 2016 the Group has registered 5,821 thousands of euros as income in the consolidated profit and loss account from the reversal of written-off assets.

7.3 - Information on Group counterparty credit risk

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

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

The limits are set based on the ratings assigned by credit rating agencies, being excluded counterparties rated below Ba2/BB. In all cases, and especially for non-rated counterparties, for the fixing of risk lines the financial statements (indebtedness, solvency, profitability, etc.) as well as reports prepared by third parties are analyzed. These limits are approved by the Board of Directors of the Entity.

The consumption of risk line by derivative financial instruments is subtracted by the percentage which corresponds, according to the original risk method, to the same line as the existing for interbank deposits or fixed income issued by banking counterparties.



In the Group virtually all the risks assumed in operations on derivative instruments with financial institutions are covered by the signature of standardized ISDA and/or CMOF contracts, which provide for clauses in the event of insolvency of one of the parties, the compensation of the present value of the flows of outstanding collections and payments between the parties. Additionally, agreements have been reached with the most actively engaged counterparties in derivatives trading for cession of collateral (collateral agreements), in which the parties agreed to deliver an asset (usually cash) as guarantee for the hedge of the net credit risk position arising from the derivatives instruments contracted under the aforementioned agreements. Risk quantification is done by marking to market all outstanding transactions, usually on a daily basis (or weekly in certain cases).

In general, signed guarantee contracts do not include the obligation to provide or extend collateral in the event of a reduction in the credit rating of the Entity.

The detail of the credit exposure of the Group to counterparty risk for its trading in derivatives is presented as of 31 December 2016, estimated as the amount of the credit exposure of the Group for these financial instruments, net of the effect of the relevant agreements of contractual netting and collateral received from the counterparties of the operations:

Table 35. Counterparty risk by derivatives operations

| Counterparty risk by derivatives operations | | |
|---|----------------|----------------|
| (thousands of euros) | Amount 2016 | Amount 2015 |
| Positive fair value of the contracts | 577,580 | 837,761 |
| Minus: Effect from settlement agreements and collateral | 434,379 | 597,741 |
| Credit exposure after settlement | 143,201 | 240,020 |
| Credit exposure to derivatives after settlement and collateral | 143,201 | 240,020 |

Information on calculation methodology

Hereafter the amount of the Group consolidated exposure by counterparty credit risk is indicated as of 31 December 2016, disaggregated attending to the method applied for the calculation of minimum requirements on own resources associated to this risk:

Table 36. Credit risk – Calculation Method

| Method Applied | | |
|--------------------------------|----------------|----------------|
| (thousands of euros) | Amount 2016 | Amount 2015 |
| Mark-to-Market Method | 143,201 | 779,930 |
| Original Risk Method | - | - |
| Standard Method | - | - |
| Internal Models Method | - | - |
| TOTAL ORIGINAL EXPOSURE | 143,201 | 779,930 |



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

7.4 - Identification of internal rating agencies used

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

Table 37. External rating agencies

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

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

The application of risk mitigation techniques based on the utilisation of pledge and personal real guarantees have, as of 31 December 2016, the following effect on value adjustment net exposures:



Table 38. Value adjustment net exposures

| Value adjustment net exposure | | |
|---|-------------|-------------|
| (thousands of euros) | Amount 2016 | Amount 2015 |
| Net Exposure of Adjustments and Allowances | 53,254,856 | 55,830,211 |
| Exposure Full Adjusted Value | 53,240,944 | 55,814,467 |
| Effect application of mitigation techniques (*) | 13,913 | 15,744 |

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

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

Table 39. Exposure categories and degree of quality

| Disaggregation by exposure categories and degrees of quality (amount in €) | | | | | | | | |
|--|-----------------------|-------------------|---------------|----------------|------------------|------------------|----------------|-------------------|
| Risk Category | Measurement | 0% | 20% | 50% | 75% | 100% | 150% | Total |
| Central governments or central banks | Net exposure | 9,433,020 | - | - | - | - | - | 9,433,020 |
| | Adjusted value | 9,477,776 | - | - | - | - | - | 9,477,776 |
| Regional governments and local authorities | Net exposure | 1,227,173 | - | - | - | - | - | 1,227,173 |
| | Adjusted value | 1,236,891 | - | - | - | - | - | 1,236,891 |
| Public sector entities and other non-profit public institutions | Net exposure | - | - | 113,213 | - | 295,864 | - | 409,077 |
| | Adjusted value | - | - | 71,673 | - | 287,221 | - | 358,894 |
| Multilateral development banks | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| International Organizations | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Institutions | Net exposure | - | 43,492 | - | - | - | - | 43,492 |
| | Adjusted value | - | 40,276 | - | - | - | - | 40,276 |
| Corporates | Net exposure | - | - | - | - | 4,500,344 | - | 4,500,344 |
| | Adjusted value | - | - | - | - | 4,499,380 | - | 4,499,380 |
| Retail Customers | Net exposure | - | - | - | 7,659,490 | - | - | 7,659,490 |
| | Adjusted value | - | - | - | 7,645,642 | - | - | 7,645,642 |
| Exposures secured by real estate | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Exposures in default situation | Net exposure | - | - | - | - | 1,631,264 | 304,681 | 1,935,945 |
| | Adjusted value | - | - | - | - | 1,631,146 | 304,623 | 1,935,769 |
| High-risk exposures | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Covered bonds | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit rating | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Exposures to collective investment institutions | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Equity exposures | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Other exposures | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| Securitisation exposures | Net exposure | - | - | - | - | - | - | - |
| | Adjusted value | - | - | - | - | - | - | - |
| TOTAL | Net exposure | 10,660,193 | 43,492 | 113,213 | 7,659,490 | 6,427,472 | 304,681 | 25,208,541 |
| | Adjusted value | 10,714,667 | 40,276 | 71,673 | 7,645,642 | 6,417,747 | 304,623 | 25,194,628 |
| TOTAL MITIGATION EFFECT | | -54,474 | 3,216 | 41,540 | 13,848 | 9,725 | 58 | 13,913 |



7.6 - Securitisations

7.6.1 – General description and objectives

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

Securitisation: transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having both of the following characteristics:

- Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;
- Subordination of the tranches determines the distribution of the losses during the validity period of the transaction or mechanism.

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

Synthetic Securitisation: Securitisation in which the risk transference is conducted through appeal to credit derivatives or guarantees and the securitised exposures are still exposures of the originator entity.

Securitisation position: Exposure to a securitisation. For these purposes, it will be considered that providers of credit risk hedges with respect to positions of a concrete securitization maintain positions in such securitization.

Tranche: contractually established segment of the credit risk associated with an exposure or a number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments

- **First loss tranche:** the most subordinated loss of securitisation, which is the first one in bearing losses which may arise from securitised exposures.
- **Intermediate risk tranche:** it is the tranche, distinct from a first loss tranche, which has lesser order of precedence in the payments than the position with higher precedence in the payments of the securitisation and lower precedence than any securitisation position in the scheme rated with 1st credit quality level, when it is a securitisation treated under the standard approach.
- **Senior tranche:** It is all tranche other than a first loss or intermediate risk tranche. Within the senior tranche, it will be understood as “maximum preference tranche” that tranche which is ranked first in the order of precedence of securitization payments, without taking into account, for these purposes, amounts due in accordance with derivatives contracts regarding interest rates or currencies, brokerages or other similar payments.

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



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

7.6.2 - Risks of Group securitisation activity

The risk part transferred to third parties in asset securitisation schemes in which the Group has participated as originator is not very relevant. In general, the Group's role in such schemes is to provide hedging to a part of the credit risk associated to the issuances carried out by asset securitisation funds, through the acquisition of certain subordinated tranches of such issuances ("First loss tranches") issued by securitisation funds.

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

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

- a) Bonds issued by securitization funds whose assets are composed of mortgage bonds issued by other entities (multi-currency notes). In practice, the bonds are equivalent to mortgage bonds in which the securitization fund is used as a vehicle for issuing homogeneous securities guaranteed by banknotes of several entities. In this case, the issues in which they are invested must be of good credit quality and must present a high degree of diversification and quality of the entities issuing the underlying mortgage bonds (in addition to the rating and solvency of the entities, it is important to know their mortgage defaults and the level of collateralization, among other factors, of the bonds issued to date).
- b) Bonds issued by securitization funds whose assets consist of miscellaneous assets, generally mortgage loans. In this case, the issues to be invested must be of high credit quality and an analysis must be conducted on the risk parameters of the securitized portfolio (average LTV, % of high LTV, seasoning, geographic diversification, etc.) and the credit enhancements that the investment segments can benefit from.

In accordance with Article 405 of Regulation (EU) No 575/2013, the Entity may only invest in securitization positions if the original originator, sponsor or creditor has explicitly stated that it is prepared to retain, on a constant basis, a significant net economic interest which, in any case, may not be less than 5%.

Before investing and following Article 406 of Regulation (EU) No 575/2013, the Bank is fully aware of the securitization position by applying the appropriate formal policies and procedures in accordance with the risk profile of its investments in securitized positions, stipulating:

- The information disclosed by the originators or sponsors to specify the net economic interest they constantly hold in the securitization;
- The risk characteristics of each securitization position;
- The risk characteristics of the exposures underlying the securitization position;



- The reputation and history of past securitization losses of originators or sponsors with respect to the relevant exposure categories underlying the securitization position;
- The declarations and disclosures of originators or sponsors regarding due diligence in respect of the securitized exposures and, where applicable, the quality of the collateral that supports the securitized exposures;
- Where applicable, the methodologies and concepts underlying the valuation of the collateral that backs the securitized exposures and the policies adopted by the originator or sponsor in order to guarantee the independence of the appraiser and all the structural characteristics of the securitisation that may have a significant impact on the evolution of the securitization position.
- All the structural features of the securitization that may have a significant impact on the evolution of the institution's securitization position, such as the contractual order of priority of payments and associated triggers, credit and liquidity improvements, market value triggers and definitions specific to each operation.

On the other hand, it is worth mentioning that exposure to securitization operations (without considering multi-party bonds or the FADE, which, even though they are formally dealt with in securitization transactions, we understand that they have to be considered for risk monitoring purposes):

- Is very small (less than € 10 million in book value, in total),
- It is focused on RMBS (Residential Mortgage Backed Securities) securitisations. There is therefore no exposure to "re-securitisations", specifically, in the senior tranche, with high rating (Aa2).

These exposures are monitored in terms of the evolution of their market price, as well as the variations in rating they may have. It should also be mentioned that in recent years there has been an increase in exposure to this type of assets.

7.6.3 - Roles played in securitisation processes and degree of involvement

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

- Originator Entity of credit claims
- Transferring and Administrative Entity of the assets transferred to Securitisation Funds
- Management of securitisation funds in which the Group has played the originator role is carried out by TDA, S.G.F.T., S.A.
- Investor Entity through the acquisition of securitisation bonds issued by other entities.

7.6.4 - Accounting treatment of financial asset transfers

According to Circular 4/2004 de Banco de España, the accounting treatment of financial asset transfers is conditioned by the manner in which their associated risks and benefits are transferred to third parties:



- If risks and benefits of transferred assets are substantially transferred to third parties, the financial asset transferred is removed from the balance sheet, simultaneously recognizing any right or liability retained or created as a consequence of the transfer.
- If risks and benefits associated to the transferred financial asset are substantially retained, in case of securitisations of financial assets in which subordinated financing or other type of credit instruments which substantially absorb the expected credit losses for the securitised assets are maintained, the transferred financial asset is not removed from the consolidated balance sheet, and is still valued with the same criteria utilized before the transfer. On the contrary, the following are recognized for accounting purposes, without being netted among them:
 - An associated financial liability by an amount equal to the consideration received, which is subsequently valued at its amortized cost.
 - Both the income from the transferred but not removed financial asset, as the expenses of the new financial liability.

In accordance with the above-mentioned, financial assets are only removed from the consolidated balance sheet when the cash flows they generate cease or when the risks and benefits they entail have been substantially transferred to third parties.

Notwithstanding the previous, financial assets transferred before 1 January 2004 have been removed from the consolidated balance sheet with independence of the conditions of risks and benefits transfer, according to Circular 04/2004 of the Bank of Spain.

Securitisation schemes performed by the Group are considered traditional securitisation schemes, not having performed synthetic securitisation schemes.

7.6.5 - Originated securitisations

As of 31 December 2016, the Group maintains securitisation positions in which it has participated as originator and in securitisations originated by entities outside the Group. The Group does not hold positions in re-securitisations nor holds securitisation positions in the trading book.

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

Currently, the Group does not have assets awaiting for securitisation nor securitised credit lines subject to anticipated amortization treatment.

Hereafter the exposures securitised by the Group are shown as of 31 December 2016:

Table 40. Types of securitisations

| Types of securitisations | |
|--------------------------|-------------|
| (thousands of euros) | Amount 2016 |
| Covered Bonds | 1,973,896 |
| Mortgage loans | 3,848,130 |
| On-balance | 3,757,452 |
| Off-balance | 90,678 |

The following table presents detail on the positions held in securitisation schemes by the Consolidated Group as of 31 December 2016.



Table 41. Types of securitisation positions

| (thousands of euros) | Types of securitisation positions | |
|--|-----------------------------------|---|
| | Exposure Amount | 2016 Subject to the standard method under part third, title III, Chapter 5 CRR |
| A) Positions held on securitisations in which the Group acts as originator | 3,422,146 | 130,256 |
| A.1) Positions held in traditional securitisations | 3,422,146 | 130,256 |
| A.1.1) Positions held in multi-transfer securitisations | 126,100 | 126,100 |
| A.1.2) Positions held in the rest of securitisations | 3,296,046 | 4,156 |
| B) Positions acquired in securitisations in which the Group does not act as originator | 273,107 | 273,107 |
| B.1) Positions held in traditional securitisations | 273,107 | 273,107 |
| B.1.1) Positions held in multi-transfer securitisations | 3,237 | 3,237 |
| B.1.2) Positions held in the rest of securitisations | 269,870 | 269,870 |
| B.2) Positions held in synthetic securitisations | - | - |
| | | 403,363 |

7.6.6 - Calculation of risk-weighted exposures in securitisation positions

The Group calculates its own resources requirements for positions maintained in securitisation schemes through the application of the standard method defined in the third part, title II, chapter 5, third section, third subsection of Regulation (EU) 575/2013 (CRR).

For own securitisations, the Group calculates regulatory capital for positions maintained in the securitisation only if the securitisation fund complies with regulatory conditions which determine the effective and relevant transfer of risk established in article 245 of Regulation (EU) 575/2013. On the contrary, capital is calculated for securitised exposures as if they had not been subject to a securitisation scheme.

In the process of reviewing the significant transfer of risk securitisation transactions and motivated by successive repurchases, both during the current year and in previous years, the securitisations performed in 2005, 2006 and 2007 no longer meet transfer requirements of significant risk so in this exercise treatments established in the third part, title II, chapter 5 of Regulation (EU) 575/2013 (CRR) do not apply, but securitised exposures are included in the calculation of risk-weighted exposures as if they had not been securitised. This change has not led to any changes in the capital requirements of the group since these positions had already limited the amount of their risk-weighted exposure which would correspond as if the mentioned exposures had not been securitised.

For the following securitisations indicated, the underlying securitised assets compute as credit risk, as there is no substantial risk transfer, according to the indicated in article 245 of Regulation (EU) 575/2013 (CRR):

- Securitisation performed in 2005, with a balance at year end of 255,183 thousand euros and with retained positions amounting to 148,791 thousand euros.
- Securitisation performed in 2006, with a balance at year end of 846,849 thousand euros and with retained positions amounting to 546,849 thousand euros.
- Securitisation performed in 2007, with a balance at year end of 505,218 thousand euros and with retained positions amounting to 362,125 thousand euros.
- Securitisation performed in 2008, with a balance at year end of 766,710 thousand euros and with retained positions amounting to 762,693 thousand euros.
- Securitisation performed in 2009, with a balance at year end of 1,485,316 thousand euros and with retained positions amounting to 1,471,382 thousand euros.



Detail of the positions in securitisation schemes maintained by the Group as of 31 December 2016, disaggregated by risk-weighted ranges to which they are allocated, is the following:

Table 42. Types of securitisation positions according to the Standard Method

| Types of securitisation positions – Standard Method | |
|---|-------------------------|
| (thousands of euros) | Exposure Amount 2016 |
| General treatment by credit quality level: | - |
| - Level 1 (weighted at 20%) | 5,203 |
| - Level 2 (weighted at 50%) | 4,349 |
| - Level 3 (weighted at 100%) | 128,681 |
| - Level 4 (weighted at 350%) | - |
| - Level 5 (weighted at 1250%) | - |
| Particular treatment: | - |
| - Guaranteed by the State (weighted at 0%) | 260,973 |
| - Without credit quality (weighted at 1250%) (*) | 4,156 |
| Senior tranche | 265,968 |
| Intermediate tranche | 133,239 |
| First loss tranche (*) | 4,156 |

(*)The amount of credit risk-weighted exposures has been limited to the corresponding to the exposures if they were not subject to securitisation. The amount of credit risk requirements amounts to 2,580 thousand euros.

The Group has not deducted any amount from own funds due to securitisation positions.

The detail of the outstanding balance as of 31 December 2016 of assets securitised by the Group in operations subject of application of the regime contained in the third part, title II, chapter 5 of Regulation (EU) 575/2013 for the calculation of credit risk-weighted exposures for purposes of determining own resources requirements is the following:

Table 43. Types of securitisation positions

| Types of securitisation positions | | | |
|-----------------------------------|------------------------|--|-----------------------------|
| (thousands of euros) | Outstanding balance | Outstanding balance default and impaired operations | Impairment losses amount |
| A) Traditional securitisations | 90,678 | 791 | 40 |
| - Assets with mortgage guarantee | 90,678 | 791 | 40 |
| - Corporate banking transactions | - | - | - |
| - Other assets | - | - | - |
| B) Synthetic securitisations | - | - | - |
| - Assets with mortgage guarantee | - | - | - |
| - Corporate banking transactions | - | - | - |
| - Other assets | - | - | - |



7.7 - Risk mitigation techniques

7.7.1 – General information

Taking into account the guarantees admissible for standard calculations as admissible credit risk mitigation techniques foreseen in part third, title II, chapter 4 of Regulation (EU) 575/2013, the Group mainly admits and manages the following:

- Real guarantees of financial nature: Including cash deposits; debt securities issued by public administrations, central banks, institutions or corporations; listed convertible shares or bonds; holdings in investment funds and gold.
- Personal guarantees granted by solvent coverage providers such as: central administrations and banks, regional and local administrations, multilateral development banks, international organizations, public sector entities, institutions and insurance companies.
- Agreements for settlement relative to transactions linked to capital markets, where deals on collateral pledges have been closed, generally via cash deposits, in order to cover the originated credit risk net position.

The Group has defined the legal requirements and criteria which shall be contemplated for the formalization and implementation of such guarantees. Each type of guarantee has its circuit of admission, concession, formalization and control which contemplates is volatility and effectiveness.

Form the credit risk mitigation techniques previously mentioned, the Group is including in the calculation of credit risk mitigation the personal guarantees, the real guarantees materialized in temporal acquisition of public debt and the netting agreements with collateral agreements.

7.7.2 – Quantitative information

The following detail exhibits the distribution of the Group's credit risk exposure as of 31 December 2016, disaggregated according to the application or not of credit risk reduction techniques and, where appropriate, of the mitigation technique applied (exposures data refer to exposures prior to the risk mitigation application):

Table 44. Exposure to credit risk by mitigation technique

| Exposure to credit risk by mitigation technique | | |
|--|------------------------|------------------------|
| (thousands of euros) | Exposure Value 2016 | Exposure Value 2015 |
| A) Exposure not subject to credit risk mitigation techniques | 56,108,536 | 58,429,868 |
| B) Exposure subject to credit risk mitigation techniques | 154,676 | 284,612 |
| • Settlement agreements for balance sheet operations | - | - |
| • Settlement agreements related to repurchase agreements, securities or commodities lending or other operations linked to equity markets | 86,289 | 163,044 |
| • Real guarantees | 13,913 | 15,744 |
| • Other real guarantees | - | - |
| • Hedges based on personal guarantees | 54,474 | 105,824 |
| • Hedges through credit derivatives | - | - |



Hereafter the total value of the exposures as of 31 December 2016 is shown, covered by the application of risk mitigation techniques based on the utilization of real guarantees:

Table 45. Value of the exposure hedged through risk mitigation techniques based on real guarantees

| Exposure hedged through risk mitigation techniques based on real guarantees | | | | | | |
|---|--------------------------------------|---------------|---------------------------------------|------|---------------|---------------|
| (thousands of euros) | With admissible financial guarantees | | With other admissible real guarantees | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| TOTAL RISK CATEGORIES | 13,913 | 15,744 | - | - | 13,913 | 15,744 |
| Central governments or central banks | - | - | - | - | - | - |
| Regional governments and local authorities | - | - | - | - | - | - |
| Public sector entities and other non-profit public institutions | - | - | - | - | - | - |
| Multilateral development banks | - | - | - | - | - | - |
| International organizations | - | - | - | - | - | - |
| Institutions | - | - | - | - | - | - |
| Corporates | 571 | 687 | - | - | 571 | 687 |
| Retail customers | 13,167 | 11,125 | - | - | 13,167 | 11,125 |
| Exposures secured by real estate | - | - | - | - | - | - |
| Exposures in default situation | 175 | 200 | - | - | 175 | 200 |
| High-risk exposures | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit rating | - | - | - | - | - | - |
| Exposures to collective investment institutions | - | 3,732 | - | - | - | 3,732 |
| Equity exposures | - | - | - | - | - | - |
| Other exposures | - | - | - | - | - | - |
| Securitisation positions | - | - | - | - | - | - |



Hereafter the total value of the exposures as of 31 December 2016 is shown, covered by the application of risk mitigation techniques based on the employment of personal guarantees:

Table 46. Value of the exposure hedged through risk mitigation techniques based on personal guarantees

| Exposure hedged through risk mitigation techniques based on personal guarantees | | | | |
|---|--------------------------|----------------|---------------|----------------|
| (thousands of euros) | With personal guarantees | | Total | |
| | 2016 | 2015 | 2016 | 2015 |
| TOTAL RISK CATEGORIES | 54,474 | 105,824 | 54,474 | 105,824 |
| Central governments or central banks | - | - | - | - |
| Regional governments and local authorities | - | - | - | - |
| Public sector entities and other non-profit public institutions | 50,185 | 48,937 | 50,185 | 48,937 |
| Multilateral development banks | - | - | - | - |
| International organizations | - | - | - | - |
| Institutions | 3,216 | 3,224 | 3,216 | 3,224 |
| Corporates | 393 | 52,843 | 393 | 52,843 |
| Retail customers | 680 | 820 | 680 | 820 |
| Exposures secured by real estate | - | - | - | - |
| Exposures in default situation | - | - | - | - |
| High-risk exposures | - | - | - | - |
| Covered bonds | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit rating | - | - | - | - |
| Exposures to collective investment institutions | - | - | - | - |
| Equity exposures | - | - | - | - |
| Other exposures | - | - | - | - |
| Securitisation positions | - | - | - | - |



8. Operational risk

The Group has employed the standard method for the calculation of own resources requirements for operational risk. The requirements come determined by the simple average of the three last years of the aggregation, for each year, of the maximum value between zero and the sum of the relevant income of each of the business lines cited in table 2 of section 4 of article 317 of the CRR, multiplied by their corresponding weight coefficients provided in such table.

OPERATIONAL RISK MANAGEMENT

The definition of operational risk adopted by Ibercaja is the definition proposed by Basel II for the calculation of regulatory capital, i.e.: "The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events".

As indicated in article 316 of the CRR, the following elements are not included in the calculation of the relevant indicator:

- Profits or losses arising from the sale of elements outside the trading book.
- Income coming from extraordinary or exceptional items.
- Income derived from insurance.

The integral management of the Operational Risk is developed within the Group through the operational risk department, dependent on the risk control function. The registration and capture of events is performed under the Basel methodology for their allocation according to the business line and event type. Thus, each of the losses is collected in the Internal Databases according to its Basel matrix.

The management of loss events is complemented by preventive measures and qualitative processes of anticipation, measurement and reduction of operational risk. The Bank has a comprehensive risk management program that identifies which actions and activities of the Group are prone to the generation of operational losses. The Operational Risk department is responsible for the identification and mitigation of these within its preventive functions.

During fiscal year 2016, the distribution of operational losses according to business lines and categorized event types is:

Illustration 3. Loss events by risk category

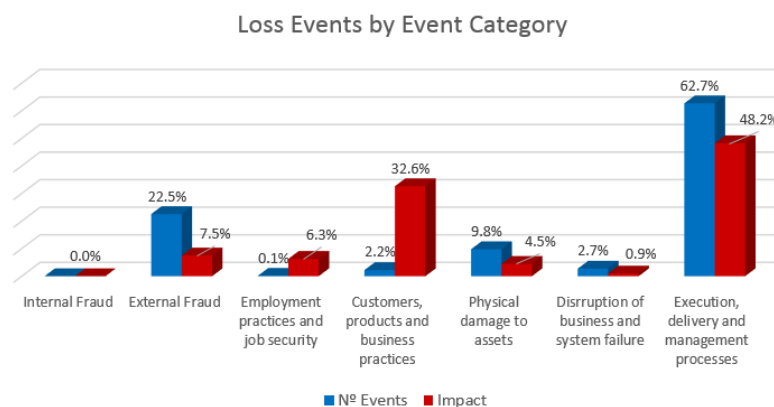
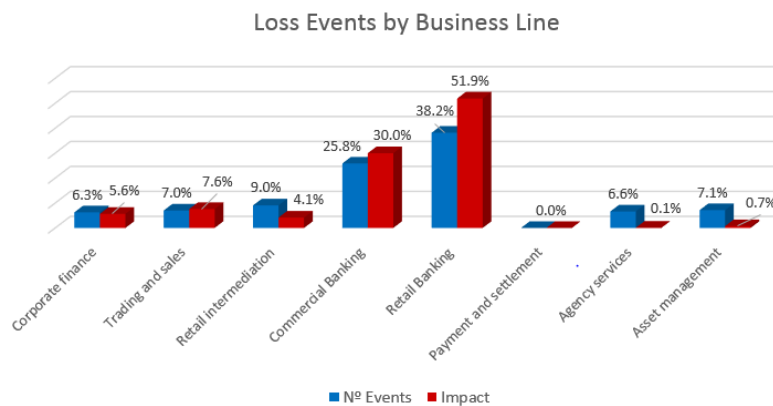




Illustration 4. Loss events by business line



Following the best market practices, the Bank is developing an advanced identification system for the new sub categories of Operational Risk, in line with the main regulatory reporting metrics, distinguishing among: reputational risk, conduct risk, ICT risk, model risk and legal & compliance risk.

Thus, the Entity has expanded responsibilities in the management and identification of operational events to other organizational areas, favoring the involvement in the mitigation and management of operational events under the new subcategories.

8.1 – Reputational Risk

Reputational risk is defined as the unfavorable impact that an event could have on Group corporate reputation. It is associated with a negative perception of the Group by its stakeholders (clients, employees, society as a whole, regulators, shareholders, suppliers, counterparties, investors, market analysts...) which affects the capacity of the Group to maintain its existing commercial relationships or establish new ones.

The following reputational risk types are identified:

- Derived from operational risk: The stakeholders perceive a service level below their expectations which is translated in a dissociation from the Group and/or negative comments in its environment.
- Purely Intrinsic: This type of risk is inherent to financial activity, by being highly regulated and subject to continuous supervision by authorities. It leads to legal or regulatory sanctions and significant financial losses as a result of violating laws, regulations and codes of conduct in force.
- Purely Extrinsic: It is generated outside the Group but it can impact on its reputation. The perception of the financial sector, changes on the expectations of shareholders or opinions on the Group constitute some examples.



The Group gives the utmost importance to the management of corporate reputation as a method to anticipate, prevent and/or manage potential reputational risks, and by its positive impact on value creation. Thus, the strategic plan 2015-2017 includes among its priority projects, the Corporate and Brand Reputation. Thus, it has developed a framework of reputational risk management that includes the organizational structure involved in management (detailing roles and responsibilities), methodologies for the identification, valuation, measurement and control of risks, management tools and reporting procedures.

In addition, as already indicated, the Group has a Compliance Unit in order to ensure and monitor compliance with the main standards that apply in its regulated activities, such as those relating to the prevention of money laundering and terrorist financing, investor protection in the marketing of financial instruments and providing investment services (MIFID), rules of conduct provided in the Internal Code of Conduct (ICC) in the field of Securities Markets, the regulation on reporting of suspicious transactions on market abuse, etc.

8.2 – Conduct and Compliance Risk

Aligned with the corporate strategy for the identification of risk categories, Ibercaja has a specific management system for these risks, so that operational functions coordinated from the Operational Risk department are derived to the first line of risk identification.

Included in this system are those events that include regulatory compliance, banking regulation, prevention and money laundering, financing of terrorism, banking commercialization and legal acts. The Group's tendency to face this type of risk is to minimize its occurrence and possible impact on accounts, given its high volatility and its intermittent frequency.



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

9.1 - Classification, valuation and accounting criteria

In notes 2.1 and 2.2.4 of the Consolidated Report of business year 2016 the Group includes a description of the portfolios which encompass the holdings and equity instruments belonging to the Group, jointly with the accounting criteria on registration and valuation which are applied to each of them. In such notes the models and assumptions are also indicated, applied to the determination of the value of the instruments included in each portfolio.

The Group has holdings in entities in whose management and decision-making process it intervenes to a larger or lesser extent, pursuing the achievement of goals which are integrated into the strategy of the Group, and showing the intention of permanence in their shareholding ("strategic holdings"). Furthermore, it has holdings in other entities with other objectives, basically consisting on the maximization of the returns obtained through their management ("portfolios held for sale").

The holdings and equity instruments which belong to the Group and are classified on an accounting basis in the category of Group companies, associated companies and multi-group are owned with strategic purposes. Likewise, there are certain holdings classified in the category of available-for-sale financial assets which are also maintained with strategic character.

9.2 - Quantitative information

The book value of the holdings property of the Group as of 31 December 2016 which are not included in the trading book is equal to €601,808 Million.

Hereafter detail is presented on the exposures to holdings and equity instruments maintained by the Group as of 31 December 2016, without including exposures to instruments which form part of the trading book, as this has been defined for purposes of own resources requirements in prior section 9.1 of this report:

Table 47. Value of exposure to holdings and equity instruments

| Exposure to holdings and equity instruments | | |
|--|----------------------|----------------------|
| (thousands of euros) | Exposure amount 2016 | Exposure amount 2015 |
| Equity instruments listed in organized markets | 170,488 | 190,068 |
| Equity instruments not listed in organized markets | 861,439 | 981,530 |
| TOTAL | 1,031,927 | 1,171,598 |



The amount of the profits registered by the Group during business year 2016 by sales of shares and holdings other than the included in its trading book and the holdings which form part of the Consolidated Group have amounted to € 6,070 Thousands.

In addition to the indicated in the previous paragraph, the Group has registered an increase in the net worth as consequence of the value variations in holdings in equity instruments other than the ones included in the trading book amounting to € 20,672 Thousands, which taking into account the phase-in implementation calendar, have supposed an increase in CET1 own resources by a value of €12,403 Thousands.





10. Interest rate structural risk

Interest rate risk is defined as the possibility that the financial margin or economic value of the Group are affected by the adverse variations in interest rates which impact on cash flows of financial instruments.

Interest rate risk sources are:

- **Review risk:** derived from the temporary differences which exist in the maturity or review of assets, liabilities and off-balance-sheet operations of the Group.
- **Curve risk:** the balances which mature and reprice are also exposed to changes which may happen in the slope of the yield curve.
- **Option risk:** derived from the implicit options which exist in certain financial products, whose exercise supposes the modification of flows foreseen (anticipated amortizations of mortgages, disposal of savings deposits...).
- **Basis risk:** derived from the imperfect correlation which exists between the prices of the different products of the Group and between these and market interest rates, in such a manner that the variations of these are not automatically transmitted and to the same extent.

10.1 – Interest rate variations

The Group's balance sheet sensitivity to changes in prices at December 31, 2016 is shown below, indicating the carrying amount of those financial assets and liabilities affected by interest rate risk, which are classified according to the terms until de review of effective interest rate or maturity.

Table 48 – Balance sheet sensitivity profile as of 31 December 2016

| (Millions of €) | Terms until the review of effective interest rate or maturity | | | | | | |
|-----------------|---|------------|----------------------|----------------------|--------------------------|-----------|----------|
| | < 1 month | 1-3 months | 3 months – 1 year | Sensitive balance | Non-sensitive balance | 1-5 years | >5 years |
| Assets | 7,976 | 9,511 | 17,910 | 35,397 | 15,686 | 2,849 | 12,837 |
| Liabilities | 7,367 | 13,153 | 12,369 | 32,889 | 18,194 | 12,940 | 5,254 |
| GAP Period | 609 | - 3,642 | 5,541 | 2,508 | - 2,508 | - 10,091 | 7,583 |

This period is established as a reference for the quantification of the effect of the variation of the interest rates on the Group's annual intermediation margin.

The Gap shown in the table represents the difference between the sensitive assets and liabilities in each period, ie the net balance exposed to changes in prices. The average Gap of the period amounts to -2 million euros, the -0.004% of the asset.

Hereafter presentation takes place on the impact of the balance sheet structural interest rate risk on the margin and economic value to the variations dictated by the *Guía PAC del Banco de España*:



Table 49 – Impact from interest rate increases

| | | Terms until the review of effective interest rates or maturity | | | |
|---------------------------------|------------|--|----------|----------|----------|
| | | 2016 | | 2015 | |
| | | Increase | Decrease | Increase | Decrease |
| Impact on Group interest margin | 200 points | -2.53% | -0.73% | 4.85% | -7.81% |
| Impact on Economic Value | 200 points | -0.45% | 5.62% | 0.92% | 1.23% |

With data as of December 31, 2016, the impact of a rise of 200 basis points in interest rates on the interest margin of the Company amounts to -15,4 million euros, -2.53% over the interest rate margin for the next 12 months; while the impact of a decrease of 200 basis points amounts to -4.5 million euros, -0.73% on the interest margin for the next 12 months (in December 2015, 29 million euros and 4.85% impact of rises and -21 million euros and -3.45% impact of falls) under the assumption of static balance and maintenance of size and structure of the balance sheet, assuming that the movements of the interest rates are produced instantaneously and are equal for all the points on the curve, with a floor of 0%.

On the other hand, the impact of a rise of 200 basis points in interest rates on the economic value of the Company amounts to -25,0 million euros, -0.45% on the economic value of assets; while the impact of a decrease of 200 basis points amounts to 310.3 million euros, 5.62% of the economic value of assets (in December 2015, 47 million euros and 0.92% impact of increases and 314 million euros and 6.20% impact of falls) under the assumption of static balance, assuming that the movements of interest rates occur instantaneously and are equal for all points on the curve.





11. Liquidity and funding risk

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

The following compiles a breakdown of available liquidity:

Table 50 – Disaggregation of available liquidity

| Liquidity disaggregation | | |
|--|-----------|------------|
| (thousands of euros) | 2016 | 2015 |
| Cash and central banks | 759,309 | 532,609 |
| Available in policy | 4,217,614 | 6,567,438 |
| Eligible assets outside the policy | 4,146,242 | 4,009,656 |
| Other tradable assets non-eligible by the Central Bank | 369,675 | 162,154 |
| Accumulated available balance | 9,492,840 | 11,271,857 |

As of December 31, 2016, the issue of mortgage bonds amounted to €7,846,917 thousand (€7,126,585 thousand as of December 31, 2015).

The breakdown by maturity of the contractual maturities of assets and liabilities (liquidity gap) as of December 31, 2016 and December 31, 2015 is as follows:

Table 51 – Breakdown by maturity of the contractual maturities of assets and liabilities

| | Thousands of euros | | | | | | Total |
|---|---------------------|--------------------|--------------------|---------------------|--------------------|-------------------|-------------------|
| | On demand | 1 month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | > 5 Years | |
| ASSETS | | | | | | | |
| Deposits in credit institutions | 36,712 | 18,414 | 49,627 | 73 | 400 | 158,336 | 263,562 |
| Loans to other financial institutions | - | 16,881 | 61 | 4,280 | 20,936 | - | 42,158 |
| Temporary securities acquisitions and securities lending | - | 985,071 | - | - | - | - | 985,071 |
| Loans (including overdue, impaired, non-performing and granted) | - | 605,011 | 944,262 | 2,559,149 | 7,499,810 | 23,835,000 | 35,443,232 |
| Settlement of securities portfolio | - | 384,020 | 85,038 | 1,181,709 | 3,195,636 | 5,419,497 | 10,265,900 |
| Hedging derivatives | - | 59 | 12,746 | 76,071 | 153,242 | 9,383 | 251,501 |
| Trading derivatives | - | 77 | 718 | 3,356 | 1,190 | - | 5,341 |
| Interest Margin | - | 117,115 | 42,972 | 304,782 | - | - | 464,869 |
| Total as of 31 December 2016 | 36,712 | 2,126,648 | 1,135,424 | 4,129,420 | 10,871,214 | 29,422,216 | 47,721,634 |
| Total as of 31 December 2015 | 74,356 | 1,800,044 | 1,402,217 | 4,190,459 | 12,039,691 | 30,317,487 | 49,824,254 |
| LIABILITIES | | | | | | | |
| Wholesale emissions | - | 10,122 | 9,591 | 937,198 | 2,497,996 | 2,044,365 | 5,499,272 |
| Deposits from credit institutions | 26,419 | 17,412 | 2,000 | 33,668 | 600 | - | 80,099 |
| Deposits from other financial institutions and agencies | 756,186 | 95,377 | 52,260 | 153,504 | 128,130 | 42,920 | 1,228,377 |
| Deposits from large non-financial corporations | - | - | - | - | - | - | - |
| Financing from the rest of the customers | 20,540,576 | 1,283,851 | 2,022,550 | 6,056,140 | 749,308 | 726 | 30,653,151 |
| Funds for mediation loans | - | 7,491 | 11,557 | 79,558 | 374,179 | 41,333 | 514,118 |
| Financing with securities collateral | - | 2,967,908 | 1,189,320 | 448,119 | 3,372,460 | - | 7,977,807 |
| Other net outflows | - | 30,388 | (18,836) | 270,623 | 23,181 | 41,108 | 346,464 |
| Hedging derivatives | - | 4,102 | 6,598 | (2,021) | 148,383 | 34,667 | 191,729 |
| Formalized loans awaiting disbursement | - | 416,372 | - | - | - | - | 416,372 |
| Commitments drawable by third parties | 2,951,760 | - | - | - | - | - | 2,951,760 |
| Financial guarantees issued | 5,648 | 4,341 | 121 | 253 | 2,131 | 23,084 | 35,578 |
| Total as of 31 December 2016 | 24,280,589 | 4,837,364 | 3,275,161 | 7,977,042 | 7,296,368 | 2,228,203 | 49,894,727 |
| Total as of 31 December 2015 | 20,647,817 | 6,276,063 | 4,702,395 | 11,756,784 | 6,545,635 | 2,257,290 | 52,185,984 |
| Gap period 2016 | (24,243,877) | (2,710,716) | (2,139,737) | (3,847,622) | 3,574,846 | 27,194,013 | - |
| Gap period 2015 | (20,573,461) | (4,476,019) | (3,300,178) | (7,566,325) | 5,494,056 | 28,060,197 | - |
| Cumulative gap (without demand deposits) 2016 | - | (2,710,716) | (4,850,453) | (8,698,075) | (5,123,229) | 22,070,784 | - |
| Cumulative gap (without demand deposits) 2015 | - | (4,476,019) | (7,776,197) | (15,342,522) | (9,848,466) | 18,211,731 | - |

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



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

Financing of the rest of the clientele includes the derivative embedded in structured deposits.

Loan commitments amounted to €2,951,760 thousand (€2,451,691 thousand at 31 December 2015). Although these commitments are on demand, in accordance with IFRS 7, in practice cash outflows are distributed across all time slots.

11.1 - Liquidity and funding perspective

In relation to the issue of financial guarantee contracts, the nominal amount of the guarantee does not necessarily have to represent a real obligation of disbursement or liquidity needs, which will depend on the fulfillment of the conditions for the payment of the amount of the guarantee compromised.

The Group only expects a cash outflow in relation to financial guarantee contracts that have been classified as doubtful and are under special monitoring. The amount expected to be disbursed from these contracts is recorded under "Provisions for contingent liabilities and commitments", under Provisions (Note 18), for an amount of €35,577 thousand (€24,834 thousand as of December 31, 2015).

The following table shows the maturities of long-term wholesale financing as of December 31, 2016:

Table 52 – Wholesale financing maturities

| | Thousands of euros | | | | | | Total |
|---|--------------------|---------------|---------------|-------------------|------------------|------------------|------------------|
| | On demand | 1 month | 1-3 Months | 3 Months - 1 Year | 1-5 Years | > 5 Years | |
| Senior debt | - | - | - | - | - | - | - |
| Debt guaranteed by the central government | - | - | - | - | - | - | - |
| Subordinated and preferred Mortgage and territorial bonds | - | 5,000 | - | 223,600 | 570,949 | - | 799,549 |
| Securitized Promissory notes and CDs | - | - | - | 670,000 | 1,692,914 | 1,600,470 | 3,963,384 |
| Wholesale emissions | - | 5,122 | 9,591 | 43,598 | 234,133 | 443,895 | 736,339 |
| Financing with long-term collateral | - | - | - | - | - | - | - |
| Term maturities | - | 10,122 | 9,591 | 937,198 | 5,870,456 | 2,044,365 | 8,871,732 |
| Cumulative maturities | - | 10,122 | 19,713 | 956,911 | 6,827,367 | 8,871,732 | |

*Wholesale issues are net of treasury shares. However, the multi-currency notes are recorded at their gross amount, while the treasury stock is recorded as available liquidity in accordance with the criteria for the elaboration of the LQ statements of Bank of Spain.

The policy of time diversification of the wholesale issuances maturities, will enable the Group to cover the maturities of the following business years, maintaining a wide liquidity position. Thus, taking into account liquidity available (€9,493 million), the Entity could cover the totality of its maturities regarding long-term wholesale funding (€5,499 million). Moreover, it has an issuance capacity of €7,847 million (total availability of €17,340 million).



12. Unencumbered assets

12.1 – General information

The concept of pledged or encumbered assets (asset encumbrance) refers to the part of entity assets which is committed as the result of its usage in secured financing operations.

In this sense, the EBA has developed a series of Directives relative to the disclosure of information about encumbered and unencumbered assets in compliance with the mandate included in Regulation 575/2013 on Capital Requirements.

In compliance with the directives set by the EBA for the disclosure of information relative to encumbered and unencumbered assets (EBA/GL/2014/3), an asset is considered encumbered when it has been pledged or is subject to any type of agreement, which it cannot unilaterally break, by virtue of which it serves as guarantee or improves credit quality of any on-balance sheet or off-balance sheet operation.

The process of encumbering assets consists on utilizing such assets to secure or collateralize by the Group, specific obligations with certain creditors.

The Group has established identification and management policies, and has developed procedures to measure and monitor the exposure of encumbered assets.

12.2 – Quantitative information

Hereafter the information relative to encumbered assets is presented. This information has been prepared in accordance with EBA Directives relative to the disclosure of information on encumbered and unencumbered assets, using annual average figures.

Table 53. Amount of encumbered assets, as of 31 December 2016

| (thousands of euros) | Encumbered and unencumbered assets | | | |
|--------------------------------|------------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| | Book value of encumbered assets | Fair value of encumbered assets | Book value of unencumbered assets | Fair value of unencumbered assets |
| Assets of the declarant entity | 14,368,046 | - | 37,994,238 | - |
| Loans and credits | 7,949,531 | - | 25,706,469 | - |
| Equity instruments | 3,359 | 3,359 | 434,825 | 434,825 |
| Debt securities | 6,415,156 | 6,427,147 | 6,767,825 | 6,872,013 |
| Other assets | - | - | 5,085,119 | - |



Hereafter information is shown on the collateral received which does not gather the conditions to be recognized on-balance according to the applicable accounting regulation and that, therefore, is maintained off-balance. Distinction is made on the collateral received which hedges other position and the one unencumbered.

Table 54. Real guarantees received by asset type, as of 31 December 2016

| Real guarantees | | |
|--|---|--|
| (thousands of euros) | Fair value of guarantees received from securities or own titles representative of debts issued (encumbered) | Fair value of guarantees received from securities or own titles representative of debts issued (available for encumbrance) |
| Guarantees received by the declarant entity | 88,916 | 509,263 |
| Loans and credits | - | - |
| Equity instruments | - | - |
| Debt securities | 88,916 | 509,263 |
| Other guarantees received | - | - |
| Own debt securities issued, other than covered bonds or securitisation bonds of own assets | - | - |

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

Table 55. Associated liabilities to assets and real guarantees received under encumbrance, as of 31 December 2016

| Liabilities | | |
|--|--|--|
| (thousands of euros) | Associated liabilities, contingent liabilities or securities pledged | Assets, guarantees received and own debt securities issued, other than covered bonds and securitisation bonds of encumbered assets |
| Accounting value of selected financial liabilities | 13,127,026 | 14,456,962 |

Encumbered assets and collateral received amounted to € 14,456,962 Thousands. 55% of the encumbered assets include loans and credits. For the most part they are mortgage loans underlying mortgage bonds operations and asset-backed securities, whether sold to third parties, whether held in own portfolio and subsequently pledged and arranged in ECB policy. Moreover, the bonds that act as collateral for repurchase transactions and ECB policy provisions account for 45% of the total.

Encumbered assets and guarantees belong to the parent Entity Ibercaja Banco SA

As for the assets without burdens, the entity does not consider as available for encumbrance, in the normal course of its operations, € 5,085,119 Thousands under the heading "other assets", including intangible assets, deferred tax assets, tangible assets and derivatives assets.

Encumbered assets act as collateral for certain obligations. Thus, sources of encumbrance amounted to € 13,127,026 Thousands and include mortgage bonds, ECB policy provisions and funding through repo fixed income. To a lesser extent securitisation bonds and liabilities with collateral requirements.

During 2016 financing by mortgage bonds has decreased, along with asset-backed securities and derivatives, among others. Conversely, the position in fixed income repo has increased. Thus, encumbrance on mortgage loans is reduced but has augmented on fixed income securities. In net terms, a reduction of assets and guarantees received under encumbrance is appreciated. The percentage of encumbered assets over total assets and guarantees received is equal to 27.30% as of 31 December 2016, expressed in annual average terms.



13. Leverage

13.1 – General information

The leverage ratio is a metric complementary to other solvency indicators, which seeks to ensure prudence in the funding structures of institutions, limiting excessive reliance on third-party resources and avoiding a destabilization of the economy and the banking system.

To reduce the risk, the entry into force of Basel III brought the measurement of the leverage ratio as the relationship between Tier 1 capital and risk exposure, both on-balance and off-balance, regardless of risk weights. The leverage ratio offers a view of the percentage of assets which are funded with Tier 1 capital.

Its calculation is established in Article 429 of Regulation (EU) 575/2013 (CRR). The European Commission amended the CRR in October 2014 (by delegated act) to adopt the new method of calculation. This ratio is calculated as the quotient of Tier 1 capital calculated according to the rules of solvency, divided by the leverage exposure calculated as the sum of the balance sheet assets, memorandum accounts, exposures in derivatives and securities financing and adjustments to ensure consistency with the numerator.

Currently, the ratio is in the process of calibration. A reference level of 3% is established on a consolidated basis, which will not be mandatory until 2018.

The Leverage Ratio is designed as a simple metric, which complements and acts as floor regarding the minimum solvency ratio based on risk. Intended to provide additional protection against the so-called "model risk", this is, to underestimate the regulatory capital required through calculations provided by sophisticated models permitted by Basel II and III.

The Group is subject to biannual monitoring by the European Banking Authority (EBA) as part of the calibration process.

As of 31 December 2016 the Group has a Leverage Ratio of 5.37%:

Table 56. Leverage ratio

| Leverage ratio | | |
|--|---|--------------------------|
| EU-22 | Leverage ratio | 5.37% |
| Choice on transitional arrangements and amount of derecognized fiduciary items | | |
| EU-23 | Choice on transitional arrangements and amount of derecognized fiduciary items | With transitory measures |
| EU-24 | Amount of derecognized fiduciary items in accordance with Article 429 (11) of Regulation (UE) No 575/2013 | - |



13.2 - Disaggregation of the total exposure measure

In the calculation of the Leverage Ratio, the following is taken into account:

- The exposure measure utilized to calculate the leverage ratio is the book value of all asset items, except derivatives, where their net value is included (minus collateral if they meet certain criteria) plus an add-on for future potential exposure.
- Assets which are deducted, and those which form part of the transitional Tier 1 adjustments are subtracted from the exposure measure to avoid double computation.
- For off-balance transactions (memorandum accounts) its balance will be weighted for distinct percentages in accordance with article 429 of Regulation (EU) 575/2013 (CRR).

Hereafter disaggregation is presented on the total exposure measure corresponding to the Leverage Ratio as of 31 December 2016, in compliance with the templates “LRCom” and “LRSpI” defined in Annex I of the Commission Implementing Regulation (EU) 200/2016:

Table 57. LRCom Table: Common disclosure table of the leverage ratio

| LRCom Table: Common disclosure table of the leverage ratio | | Exposures corresponding to the |
|--|--|--------------------------------|
| (thousands of euros) | | CRR leverage ratio |
| On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including collateral) | 49,779,314 |
| 2 | (Assets amounts deducted in determining Tier 1 capital) | -412,179 |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFT and fiduciary assets) (sum of lines 1 and 2) 16.2.2016 L 39/9 Official Journal of the European Union ES | 49,367,135 |
| Derivative exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 48,272 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 95,067 |
| EU-5 ^a | Exposure determined under Original Exposure Method | - |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | - 119,090 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - |
| 11 | Total derivatives exposures (sum of lines 4 to 10) | 24,249 |
| SFT exposures | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 985,071 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - |
| 14 | Counterparty credit risk exposure for SFT assets | - |
| EU-14 ^a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | - |
| 15 | Agent transaction exposures | - |
| EU-15 ^a | (Exempted CCP component of client-cleared SFT exposure) | - |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15a) | 985,071 |
| Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposure at gross notional amount | 4,355,828 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | - 2,997,958 |
| 19 | Other off-balance sheet exposures (sum of lines 17 and 18) | 1,357,870 |
| Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet) | | |
| EU-19 ^a | (Intragroup exposures (individual basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | - |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | - |
| Capital and total exposure measure | | |
| 20 | Tier 1 capital | 2,779,190 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 51,734,325 |



Table 58. LRSpl Table: Disaggregation of on-balance exposures (excluding derivatives, SFT and excluded exposures)

| LRSpl Table: Disaggregation of on-balance exposures (excluding derivatives, SFT and excluded exposures) | | Exposures corresponding to the CRR leverage ratio |
|---|---|---|
| (thousands of euros) | | |
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 49,659,708 |
| EU-2 | Trading book exposures | 689 |
| EU-3 | Banking book exposures, of which: | 49,659,019 |
| EU-4 | Covered bonds | 62,030 |
| EU-5 | Exposures treated as sovereigns | 12,834,919 |
| EU-6 | Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns | 333,707 |
| EU-7 | Institutions | 536,806 |
| EU-8 | Secured by mortgages of immovable properties | 20,207,285 |
| EU-9 | Retail exposures | 5,832,042 |
| EU-10 | Corporates | 3,480,557 |
| EU-11 | Exposures in default | 1,868,067 |
| EU-12 | Other exposures (e.g. equity, securitisations, and other non-credit obligation assets) | 4,503,606 |

13.2.1 - Conciliation of the Leverage Ratio with published financial statements

The following table presents the conciliation of the total exposure measure corresponding to the Leverage Ratio with the information of financial statements published as of 31 December 2016, in compliance with template "LRSum" defined in Annex I of the Commission Implementing Regulation (EU) 2016/200:

Table 59. LRSum Table: Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio

| LRSum Table: Summary of the conciliations of accounting assets and exposures corresponding to the leverage ratio | | Fair value of encumbered assets |
|--|--|---------------------------------|
| (thousands of euros) | Book value of encumbered assets | |
| 1 | Total consolidated assets as per published financial statements | 51,081,931 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation (Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | - |
| 3 | Adjustments for derivative financial instruments | - 174,207 |
| 4 | Adjustment for securities financing transactions (SFTs) | - |
| 5 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 1,357,869.8 |
| 6 | EU-6 ^a (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | - |
| 7 | EU-6b (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | - |
| 8 | Other adjustments | - 531,269 |
| | Leverage ratio total exposure measure | 51,734,325 |



13.3 – Information on qualitative aspects

Down below the required information is detailed on the template information on qualitative aspects "LRQua" contained in Annex I to Implementing Regulation (EU) 200/2016 on the processes used to manage excessive leverage risk, and factors which have influenced the Leverage Ratio published on 31 December 2016.

13.3.1 – Procedures applied to manage excessive leverage risk

The Leverage Ratio forms part of the Level I metrics of the Risk Appetite Framework as well as of the Group Recovery Plan, both approved by the Board of Directors. In this regard, tolerance thresholds have been established to excessive leverage risk.

The ratio is monitored periodically by the Group's Governance Bodies and in the case of observing warnings or non-compliance with respect to established thresholds, the adoption of action plans is foreseen.

13.3.2 – Factors influencing the Leverage Ratio

The leverage ratio has increased by + 0.21% from 5.16% in December 2015 to 5.37% in December 2016.

This is due to the reduction of the exposure measure justified mainly by the decline in credit to customers and debt securities as a consequence of the evolution of the Ibercaja Group's business during 2016.



14. Remunerations

This section outlines quantitative and qualitative aspects of the Remuneration Policy of Ibercaja Banco for the members of the organization included in the so-called "Identified Group", by its significant influence on the Entity's risk profile.

Its objective is to disclose the remuneration policy and practices of the Entity in compliance with the established in Ley 10/2014, the Real Decreto 84/2015, the Circular 2/2016 del Banco de España and articles 13 and 450 of Regulation (EU) No 575/2013.

14.1 - Background

Ibercaja Banco has, since the year 2012, a Remuneration Policy associated to risk, which is applicable to members of the organization whose professional activities have a material impact on the risk profile of the entity (the so-called "Identified Group") which aims, on the one hand, at combining the interests and business objectives of the Entity to the effort and professional motivation of the Identified Group, and on the other hand, to encourage effective and sound risk management, that does not stimulate in the members of the Identified Group, risk taking activities that differ from those established in the RAF approved by the Board of Directors.

The provisions of this Policy are supplemented by the Remuneration Policy of the members of the Board of Directors of the Bank in force at all times.

14.2 – Purpose and scope of application of the Remuneration Policy

The Remuneration Policy associated to the risk management of Ibercaja Banco is aimed at reaching an adequate equilibrium between the interests and business objectives of the Entity and the efforts and professional motivation of the Identified Group. Furthermore, it favors effective and sound risk management, which shall not lead to excessive risk taking by the Identified Group.

The Remuneration Policy associated to the risk management is applicable to professionals that make up the Identified Group, defined according to the qualitative and quantitative criteria provided for in Delegated Regulation (EU) n° 604/2014 and other current regulations that result from application (Law 10/2014, RD 84/2015 and Circular 2/2016, of the Bank of Spain).

Special mention shall be paid to the inclusion in the group identified of those responsible of units whose functions have a material impact on the control structure of the Entity, and whose remuneration is dependent on the achievement of objectives linked to their function, regardless of the results provided by business units controlled by them; notwithstanding this the overall results of the Entity can be taken into account for their remuneration, on which they have no possibility of influence because of their activities.

The Remuneration Policy excludes those employees from the Branch Network that, even when the structure of their remuneration system contemplates a variable component, their activities and functions do not have a significant impact on the risk profile of the Entity; and employees of Financial Group companies which, though their remuneration has a variable component, have defined their responsibilities for risk-taking by the parameters or maximum risk limits approved by the Board of Directors.

Professionals within the Identified Group, as well as the quantitative and qualitative criteria to be considered for inclusion or exclusion of employees within it, are described in the Entity's Remuneration Policy.



Even if they are not part of the Identified Group, the principles underlying the Remuneration Policy apply to all employees of Central Services included in the system of variable remuneration by objectives.

None of the Identified Group members receive any fees in the form of shares or other equity securities of corporations.

14.3 - Principles of the remuneration policy

The principles of remuneration policy adjusted to transfer risk are:

- Transparency: the rules for remuneration management are explicit and known by the Counsellors and professionals of the Entity, in order to ensure transparency in remuneration terms.
- Coherence with business strategy, objectives, values and interest of the Entity in the long-term.

14.4 – Retribution composition

The elements of the remuneration of the personnel conforming the Identified Group are a fixed component and a variable component, in case that it is approved annually by the Board of Directors.

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

The variable component of remuneration is referenced, in any case, to the performance of the beneficiaries based on the global and specific objectives approved annually by the Board of Directors at the proposal of the CEO, following the report from the Remuneration Commission, and should not suppose, at any time, a future cost to the entity arising from the retirement of the beneficiaries. There shall be enough flexibility to allow modulation, to the extent of having the possibility of suppressing it completely, if necessary and may not exceed, in any case, the percentage of fixed remuneration established for each management level.

14.5 - Decision process followed to establish the remuneration policy of the Identified Group

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

- The remuneration policy of the Counsellors and the remaining conditions of their contracts.
- The periodic review of the remuneration programs, weighting their adequacy and performance.
- The transparency of remunerations and the observance of the remuneration policy established by the Entity.



The main activities developed by the Commission on remuneration issues have consisted of reporting to the Board of Directors on the degree of compliance and fulfillment of the objectives set out in the previous year, and the determination of the objectives that will determine, where appropriate, the accrual of the variable remuneration of the Identified Group.

Moreover, at least once a year, an independent assessment of the implementation of the remuneration policy associated with risk management is performed, in order to verify if the guidelines and procedures for remuneration adopted are met. The conclusions of the assessment performed by the external auditor PricewaterhouseCoopers are reported to the Remuneration Commission so that it can make, if necessary, the appropriate recommendations and proposals for improvement to the Board of Directors.

The proposals and reports of the Commission are elevated to the Board of Directors, in charge of:

- Approving the system of variable remuneration of the persons included in the Identified Group.
- Verifying, as integral part of the general supervision function referred to by the Regulation of the Board of Directors, the appropriate and effective application of the variable remuneration.
- Adopt, where appropriate, the corrective measures which were necessary or convenient for the adequate and effective application of the established in the Policy.
- Agree on the inclusion or removal of persons in the Identified Group.

14.6 - Characteristics of the remuneration system of governance body members

In accordance with the provisions of Article 53 of the Entity Statutes, the position of Counsellor is remunerated, distinguishing between executive and non-executive Counsellors. This distinction is intended to compensate adequately the services of "senior management" provided by the Counsellors, taking into account, in any case, not only the principles underlying this Policy but also the retributive concepts used by other entities in the sector.

As stated in the record of decisions consignment of the sole shareholder, as of 22 September 2011, this body agreed to authorize the Board of Directors of the Entity to fix the assistance allowance of members of the governance bodies to meetings called, with the limit of the amount paid in that moment by the parent entity, the Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón and Rioja, by way of allowance for attendance and expenses.

Based on this authorization, the Board of Directors at its meeting held on 22 September 2011 agreed to establish the amount of the assistance allowance for meetings of members of the governance bodies of the Group in the amount of € 700 (gross) per meeting.



14.6.1 - Remuneration of the CEO

The remuneration system of the CEO, first executive of the entity, is composed by the following compensation elements:

- (a) Fixed part, adequate to the services and responsibilities assumed;
- (b) Variable part, correlated to some indicator of the income of the CEO or the Entity;
- (c) Welfare part, which will contemplate the appropriate forecast and insurance systems; and
- (d) Compensation in the event of separation or any other form of termination of the legal relationship with the Entity not due to a breach attributable to the CEO.

In the contract signed with the CEO, detail is shown on all the items by which he/she can obtain a remuneration by the performance of executive functions, including, where appropriate, the eventual compensation by early dismissal of such functions and the amounts payable by the Entity regarding insurance premiums or contributions to savings systems.

The CEO cannot receive any remuneration for the performance of executive functions whose amounts or items are not foreseen in the referred contract.

14.6.2 - Remuneration of Counsellors by their condition

The remuneration of Counsellors by their very condition, plus allowances for attending meetings of the Board and its Commissions, without prejudice of the reimbursement of the corresponding expenses, consists of an annual allowance to be determined by the Board of Directors for those Counsellors who have a special dedication and functions.

- Chairman of the Board of Directors:

It corresponds to the Entity's Board of Directors, prior report from the Remuneration Commission, to agree, where appropriate, the remunerated character of the position of Chairman of the Board of Directors of the Entity, establishing in that case the corresponding remuneration.

- Chairman of the internal Commissions of the Board of Directors:

It corresponds to the Board of Directors, prior report from the Remuneration Commission, to establish the annual wage assignments for the Counsellors holding the positions of Chairman of the Audit and Compliance Commission, Chairman of the Strategy Commission and Chairman of Great Risks and Solvency.

14.7 - Characteristics of the remuneration system of senior personnel

The remuneration of the senior personnel is composed by the following remuneration items:

- Fixed part, which will be ruled by the salary tables of the applicable collective agreement, which will comprise the remuneration or salary base and the complements or bonuses which may apply in each case,
- Variable part, which will be determined in compliance with the parameters and criteria indicated hereafter:



14.7.1 - Determination of objectives

The Board of Directors on the proposal of the Remuneration Commission, shall determine and review, annually, for each professional category included in the Identified Group, the proportion that the variable remuneration component should be regarding their fixed remuneration, as well as the weighting percentage between Global Objectives and Specific Objectives applicable in each case.

The variable component of the remuneration is not guaranteed, and has sufficient flexibility to allow its modulation, to the extent that it is possible to totally eliminate it, if necessary. That is to say, it will be paid only if it is sustainable in accordance with the situation of the Entity as a whole, and if it is justified based on the Entity's results and the degree of performance of the professionals under consideration.

In the definition of these objectives, the decisions taken by the Board of Directors will be considered, within the framework of the remuneration policy approved by the General Shareholders' Meeting, in the terms established in the current legislation that is applicable. In any case, a substantial part (at least 40%) of the variable remuneration component, will be spread over the duration of the Strategic Plan in order to take into account the business cycle, the nature of the business, its risks and the activities of the employee in question, and in any case may the period of deferment be less than three years.

14.7.2 - Performance assessment

It is a systematic process of estimating how those persons responsible carry out the activities and assume the responsibilities of the positions they play.

The variable component of remuneration is determined on the basis of the achievement by the member of the Identified Group of the Global Objectives and Specific Objectives which have been approved for each fiscal year by the Board of Directors, on the motion of the CEO and following the favorable report from the Remuneration Commission, and which will be weighted attending specially to the professional category of the person considered.

The evaluation of the results taken as a reference for determining the variable remuneration shall be entered in the multiannual framework matching with the Strategic Plan to ensure that the assessment process is based on long-term results and that it takes into account the underlying economic cycle of the Entity and its risks.

14.8 - Deferral

The Board of Directors, at the proposal of the CEO and the report of the Remuneration Commission is responsible for setting and reviewing the criteria for temporary deferral of variable remuneration, and the criteria for determining the composition thereof (whether deferred or not deferred), distributing it between cash payments and payments by non-cash instruments, if appropriate.



A substantial portion, and in any case at least 40% of the variable remuneration component, will be deferred over the duration of the Strategic Plan to take into account the economic cycle, the nature of the business, its risks and the activities the employee concerned, but in any case the deferral period may be less than three years.

The variable remuneration, including the deferred portion, will be paid only if it is sustainable according to the situation of the Entity as a whole, and justified according to the results of the Entity, the business unit and employee concerned.

14.9 - Malus clauses

Malus clauses are activated if the Entity worsens its relative position in the key financial parameters (solvency, liquidity and credit quality) established in each case by the Board of Directors, prior report from the Remuneration Commission.

Crucial comparison parameters, if any, of the application of the malus clauses, are set by the Board of Directors annually, prior report from the Remuneration Commission.

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

14.10 - Remunerations received

The aggregated quantitative information received by the members of the Board of Directors during business year 2016 (in thousands of euros) is detailed below:

Table 60. Disaggregation of the aggregated remuneration of the Board of Directors

| Aggregated remuneration of the Board of Directors | |
|---|--------------|
| (thousands of euros) | 2016 |
| Fixed remuneration | 937 |
| Variable remuneration | 107 |
| Assistance allowances | 353 |
| Other remuneration | 167 |
| TOTAL | 1.564 |

(Information corresponding to the Annual Corporate Governance Statement)



Hereafter the quantitative information (aggregated) of the Identified Employees is presented:

Table 61. Remuneration of the Identified Group

| (Thousands of Euros) | Investment Banking | Commercial Banking | Assets Management | Corporate functions | Independent control functions | Rest | Total |
|---|--------------------|--------------------|-------------------|---------------------|-------------------------------|------|-------|
| 2. Number of employees identified | 1 | 7 | 2 | 13 | 2 | 2 | 27 |
| Of which: Senior officers | 1 | 3 | 1 | 4 | 1 | 1 | 11 |
| Of which: in control functions | | | | | 1 | | 1 |
| 3. Amount of total fixed remuneration | 117 | 718 | 238 | 1,413 | 232 | 315 | 3,033 |
| Of which: in cash | 116 | 700 | 234 | 1,389 | 231 | 304 | 2,975 |
| Of which: in shares or related instruments | | | | | | | |
| Of which: in other instruments | 1 | 18 | 4 | 24 | 1 | 11 | 58 |
| 4. Amount of total variable remuneration | 24 | 140 | 51 | 317 | 49 | 75 | 657 |
| Of which: in cash | 24 | 140 | 51 | 317 | 49 | 75 | 657 |
| Of which: in shares or related instruments | | | | | | | |
| Of which: in other instruments | | | | | | | |
| 5. Amount of deferred variable remuneration | 24 | 140 | 51 | 317 | 49 | 75 | 657 |
| Of which: in cash | 24 | 140 | 51 | 317 | 49 | 75 | 657 |
| Of which: in shares or related instruments | - | - | - | - | - | - | - |
| Of which: in other instruments | - | - | - | - | - | - | - |
| Additional information about the amount of total variable remuneration | - | - | - | - | - | - | - |
| 6. Total amount of deferred variable remuneration accrued in previous years | 19 | 69 | 12 | 177 | 40 | 54 | 372 |
| 7. Amount of the explicit adjustment ex-post by performance applied during the year for remunerations accrued in past years | - | - | - | - | - | - | - |
| 8. Number of recipients of guaranteed variable remuneration | - | - | - | - | - | - | - |
| 9. Total amount of guaranteed variable remuneration during the year | - | - | - | - | - | - | - |
| 10. Number of recipients of severance indemnities for early termination of contract | - | - | - | - | - | - | - |
| 11. Total amount of severance indemnities paid during the year | - | - | - | - | - | - | - |
| 12. Total amount of indemnification by early termination of contract paid to one person | - | - | - | - | - | - | - |
| 13. Number of recipients of discretionary pension benefits | - | - | - | - | - | - | - |
| 14. Total amount of discretionary pension benefits | - | - | - | - | - | - | - |
| Other additional information | - | - | - | - | - | - | - |
| 15. Total amount of variable remuneration accrued in multi-year periods in programs that are not updated annually | - | - | - | - | - | - | - |
| 16. Number of beneficiaries of discretionary pension benefits that have left the entity (whether by retirement or termination) | - | - | - | - | - | - | - |
| 17. Total amount of discretionary pension benefits paid or withheld in the year to persons who have left the institution (whether by retirement or termination) | - | - | - | - | - | - | - |

2 Includes the executive members of the management bodies of any entity included in the scope of consolidation, in accordance with article 529 (1) of the *Real Decreto Legislativo 1/2010*. Payments for council assistance should be considered as remuneration.

3 Includes corporate advisory services in corporate finance, venture capital, capital markets, sales and trading.

4 Includes all lending activity (to individuals and companies)

5 Includes portfolio management, management of collective investment schemes and other forms of asset management.

6 All functions that have responsibility for the entity as a whole, at a consolidated and/or individual level, such as human resources or information systems.

7 Risk, regulatory compliance and internal audit unit employees. The information of these functions must be carried out at a consolidated and/or individual level.

8 This column will include those employees who cannot be located in one of the indicated business areas. In this case, the entity will include qualitative information in the line with the total number of employees, indicating the activity they perform.

9 Employees whose professional activities have a significant impact on the entity's risk profile, in accordance with Articles 2, 3 and 4 of Delegated Regulation (EU) No. 604/2014

10 The number must be expressed in full-time equivalent employees and referred to the number of active employees in the entity at the end of the year.

11 Senior managers, understood as those individuals who exercise executive functions in the entity and who are responsible for their day-to-day management and accountable to the management body.

12 The control functions comprise the functions of risk management, regulatory compliance and internal audit, as well as control units dependent on the business areas.

13 Fixed remuneration includes regular (non-discretionary) contributions to pension funds or benefits (which do not depend on the performance of the recipient).

14 Variable remuneration includes additional payments or other remuneration depending on performance or, in exceptional circumstances, other contractual elements, but not those that are part of the usual packages for employees (such as health care, child support or normal and proportionate contributions to pension plans). Both pecuniary and non-pecuniary remuneration must be included. The amounts must be declared gross, without applying the discount rate of variable remuneration (v.r.), which applies to total v.r. in cash, to v.r. in actions and instruments linked to the assets and the v.r. in other types of instruments.

15 Instruments in accordance with article 34.1 1) 2 of Law 10/2014

16 Deferred remuneration in accordance with article 34.1 m) of Law 10/2014. The amounts must be declared gross, without applying the discount rate of variable remuneration (v.r.), which applies to total v.r., to v.r. in cash, to v.r. in assets and instruments linked to assets and to v.r. in other types of instruments.

17 Ex-post explicit adjustment as defined in article 34.1.n) of Law 10/2014

18 Variable remuneration guaranteed with the details established in sections d) and e) of article 34.1 of Law 10/2014.

19 As defined in point (73) of Article 4.1 of Regulation (EU) No. 575/2013.

Signed: Víctor Iglesias Ruiz
CEO



ANNEX I: Main Characteristics of Equity Instruments; Information on transitory own funds; Own funds and fully-loaded capital requirements

| Main characteristics of CET1 and AT1 Capital Instruments | | | |
|--|--|----------------------------------|---|
| 1 | Issuer | Ibercaja Banco, S.A. | Ibercaja Banco, S.A. |
| 2 | Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement) | n/p | n/p |
| 3 | Governing law(s) of the instrument | REGULATION (UE) Nº 575/2013 | REGULATION (UE) Nº 575/2013 |
| Regulatory treatment | | | |
| 4 | Transitional CRR tools | CET 1 | CET 1 |
| 5 | Post-Transitional CRR tools | CET 1 | Inadmissible |
| 6 | Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated | Individual and (sub)consolidated | Individual and (sub)consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Assets | Contingent Convertible Bonds |
| 8 | Amount recognized in regulatory capital (currency in million, as of most recent reporting date) | 2.144 | 224 |
| 9 | Nominal amount of instrument | 2.144 | 224 |
| 9a | Issue price | n/p | 1 |
| 9b | Redemption price | n/p | 1 |
| 10 | Accounting classification | Net Equity | Liabilities (at amortized cost) |
| 11 | Original date of issuance | n/p | 12/03/2013 |
| 12 | Perpetual or dated | Perpetual | Perpetual (however, pursuant to the established in RDL 9/2009 the issuer must repurchase and amortize all securities subscribed by the FROB as soon as it can regarding the terms committed in the integration or recapitalization plan) |
| 13 | Original maturity date | Without maturity | Amounts and dates foreseen under early amortization: €20 mill. as of 31/03/2016; €163 mill. as of 31/03/2017; €224 mill. as of 31/12/2017 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | n/p | Discretionality regarding date and amount |
| 16 | Subsequent call dates, if applicable | n/p | n/p |
| Coupons/ dividends | | | |
| 17 | Fixed or floating dividend /coupon | Variable | Fixed |
| 18 | Coupon rate and any related index | n/p | 8.5% annual, with an increase of 25 bps since the first anniversary and during one exercise. Since the second anniversary, the remuneration is annually increased by 50 bps. |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, party discretionary or mandatory (in terms of timing) | Fully discretionary | Mandatory |
| 20b | Fully discretionary, party discretionary or mandatory (in terms of amount) | Fully discretionary | Cash accrual will be conditioned to the existence of distributable elements and compliance with requirements of own resources in accordance with the applicable regulation at each moment. In case of no cash payment, delivery of a volume of CoCos or equivalent shares. |
| 21 | Existence of step up or other incentive to redeem | No | Yes |
| 22 | Cumulative or non-cumulative | Non-cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Convertible |
| 24 | If convertible, conversion trigger(s) | n/p | 1. Contingent event: the issuer entity, or its consolidated group, present a capital ratio below 5.125%. 2. Regulatory event: In case that modifications in Spanish or EU Law determine the non-eligibility of CoCos for own resources calculation purposes, at least, as AT1. 3. Event of dissolution, liquidation or arrangement with creditors of the issuer: In case that the issuer incurs in cause of dissolution or liquidation, or in case of declaration of arrangement of creditors of the issuer. 4. Viability event: In case that the (i) competent national authority decides that, without the conversion, the issuer would not be viable or (ii) a public capital inflow happens. |
| 25 | If convertible fully or partially | n/p | Fully or partially |
| 26 | If convertible, conversion rate | n/p | a) As long as the FROB is the holder of the instruments, the conversion relationship will be variable. b) In case that, at the conversion date, CoCos holders were third parties external to the FROB, the exchange ratio will be defined in accordance with market standards for similar instruments in such a manner that the instruments maintain their regulatory rating (fixed exchange ratio or conversion range). |
| 27 | If convertible, mandatory or optional conversion | n/p | Mandatory conversion |
| 28 | If convertible, specify instrument type convertible into | n/p | CET 1 |
| 29 | If convertible, specify issuer of the instrument it converts into | n/p | Ibercaja Banco, S.A. |
| 30 | Write-down features | n/p | Yes |
| 31 | If write-down, write-down triggers | n/p | It will depend on the Exchange Rate |
| 32 | If write-down, full or partial | n/p | Fully or partially |
| 33 | If write-down, permanent or temporary | n/p | Permanent |
| 34 | If temporary write-down, description of write-up mechanism | n/p | n/p |
| 35 | Positions in subordination hierarchy in liquidation (specify instrument type immediately superior to instrum.) | Last position | n/p |
| 36 | Non-compliant transitional features | No | No |
| 37 | If yes, specify non-compliant features | n/p | n/p |



Main Characteristics of Tier 2 Capital Instruments

| | | | | | |
|-----------------------------|--|--|--|--|--|
| 1 | Issuer | Ibercaja Banco, S.A. | Ibercaja Banco, S.A. | Ibercaja Banco, S.A. | Ibercaja Banco, S.A. |
| 2 | Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement) | ES0244251007 | ES0214954135 | ES0214954150 | ES0114954003 |
| 3 | Governing law(s) of the instrument | REGULATION (UE) Nº 575/2013 | REGULATION (UE) Nº 575/2013 | REGULATION (UE) Nº 575/2013 | REGULATION (UE) Nº 575/2013 |
| Regulatory treatment | | | | | |
| 4 | Transitional CRR tools | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 5 | Post-Transitional CRR tools | Tier 2 | Tier 2 | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated | Individual and (sub)consolidated | Individual and (sub)consolidated | Individual and (sub)consolidated | Individual and (sub)consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated assets Assets | Subordinated assets Assets | Subordinated assets Contingent Convertibles Bonds (Cocos) | n/p |
| 8 | Amount recognized in regulatory capital (currency in million, as of most recent reporting date) | 500 | 21 | 56 | 5 |
| 9 | Nominal amount of instrument | 500 | 45 | 84 | 5 |
| 9a | Issue price | 1 | 1 | 1 | 1 |
| 9b | Redemption price | 1 | 1 | 1 | 1 |
| 10 | Accounting classification | Liabilities (at amortized cost) | Liabilities (at amortized cost) | Liabilities (at amortized cost) | Liabilities (at amortized cost) |
| 11 | Original date of issuance | 28/07/2015 | 20/04/2006 | 25/04/2007 | 24/10/2006 |
| 12 | Perpetual or dated | Specified maturity | Specified maturity | Specified maturity | Perpetual |
| 13 | Original maturity date | 28/07/2025 | 20/04/2018 | 25/04/2019 | Without maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | 28/07/2020, and at any moment by fiscal reasons or a capital event, prior consent from the Bank of Spain. Repurchase price, 100% | 20/04/2013, and in any subsequent payment date, prior consent from the Bank of Spain. Repurchase price, 100% | 25/04/2014, and in any subsequent payment date, prior consent from the Bank of Spain. Repurchase price, 100% | 24/10/2016, and in any subsequent date, prior consent from the Bank of Spain. Repurchase price, 100% |
| 16 | Subsequent call dates, if applicable | n/p | 20/7, 20/10, 20/1 and 20/4 since 20/07/2013 | 25/7, 25/10, 25/1 and 25/4 since 25/07/2014 | 24/1, 24/4, 24/7 and 24/10 since 24/1/2017 |
| Coupons/ dividends | | | | | |
| 17 | Fixed or floating dividend /coupon | From fixed to variable | Variable | Variable | Variable |
| 18 | Coupon rate and any related index | 5% until 28/7/2020. Since then, MS5 years + 455.1 pbs. | Euribor 3m + 0.37% until 20/4/2013. Since then, Euribor 3 months +0.87% | Euribor 3m + 0.37% until 20/4/2013. Since then, Euribor 3 months +0.86% | Euribor 3m + 1.13%, until 24/10/2016. Since then, Euribor 3 months +2.13% |
| 19 | Existence of a dividend stopper | No | No | No | Si |
| 20a | Fully discretionary, party discretionary or mandatory (in terms of timing) | Mandatory | Mandatory | Mandatory | Partly discretionary (distribution will be conditioned to the accomplishment of enough Distributable Profit and to the caps imposed by banking regulation on own resources). |
| 20b | Fully discretionary, party discretionary or mandatory (in terms of amount) | Mandatory | Mandatory | Mandatory | Partly discretionary (distribution will be conditioned to the accomplishment of enough Distributable Profit and to the caps imposed by banking regulation on own resources). |
| 21 | Existence of step up or other incentive to redeem | No | Yes | Yes | Yes |
| 22 | Cumulative or non-cumulative | n/p | n/p | n/p | Non-cumulative |
| 23 | Convertible or non-convertible | No convertible | No convertible | No convertible | No convertible |
| 24 | If convertible, conversion trigger(s) | n/p | n/p | n/p | n/p |
| 25 | If convertible fully or partially | n/p | n/p | n/p | n/p |
| 26 | If convertible, conversion rate | n/p | n/p | n/p | n/p |
| 27 | If convertible, mandatory or optional conversion | n/p | n/p | n/p | n/p |
| 28 | If convertible, specify instrument type convertible into | n/p | n/p | n/p | n/p |
| 29 | If convertible, specify issuer of the instrument it converts into | n/p | n/p | n/p | n/p |
| 30 | Write-down features | n/p | n/p | n/p | n/p |
| 31 | If write-down, write-down triggers | n/p | n/p | n/p | n/p |
| 32 | If write-down, full or partial | n/p | n/p | n/p | n/p |
| 33 | If write-down, permanent or temporary | n/p | n/p | n/p | n/p |
| 34 | If temporary write-down, description of write-up mechanism | n/p | n/p | n/p | n/p |
| 35 | Positions in subordination hierarchy in liquidation (specify instrument type immediately superior to instrum.) | After common creditors Last position | After common creditors After subordinated creditors | After common creditors After holders of preference shares creditors | After subordinated creditors |
| 36 | Non-compliant transitional features | No | Yes | Yes | Yes |
| 37 | If yes, specify non-compliant features | n/p | Coupon increase since the first amortization date possible | Coupon increase since the first amortization date possible | Coupon increase since the first amortization date possible |



INFORMATION ABOUT TRANSITORY OWN FUNDS

| Item | (A) AMOUNT AT DISCLOSURE DATE | (B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE- REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013 |
|--|---|--|---|
| Common Equity Tier 1 (CET 1) capital Instruments and reserves | | | |
| 1 | Capital instruments and the related share Premium accounts | 2,144,276 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| | of which: ordinary shares | 2,144,276 | EBA list 26 (3) |
| | of which: instruments type 2 | | EBA list 26 (3) |
| | of which: instruments type 3 | | EBA list 26 (3) |
| 2 | Retained earnings | 468,163 | 26 (1) (c) |
| 3 | Accumulated and other comprehensive (and other reserves, to include unrealized gains and losses under the applicable accounting standards) | 248,015 | 26 (1) |
| 3a | Funds for general banking risk | | 26 (1) (f) |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 | 223,600 | 486 (2) |
| | Capital contributions of the public sector exempt until 1 January 2018 | | 483 (2) |
| 5 | Minority interests (amount allowed in consolidated CET1) | 143 | 84, 479, 480 106 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 107,172 | 26 (2) |
| 6 | Common equity tier 1 (CET1) capital Regulatory adjustments | 3,191,369 | Sum of rows 1 to 5a |
| Common Equity Tier 1 (CET 1) capital Regulatory adjustments | | | |
| 7 | Additional value adjustments (negative amount) | | 34, 105 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -128,134 | 36 (1) (b), 37, 472 (4) |
| 9 | IAS 19 reglamentary adjustments | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | -121,062 | 36 (1) (c), 38, 472 (5) |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (1) (a) |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) |
| 13 | Any increase in equity that results from securitized assets (negative amount) | | 32 (1) |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | 33 (1) (b) |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | | 36 (1) (f), 42, 472 (8) |
| 17 | Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 36 (1) (g), 44, 472 (9) |
| 18 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10) |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79, 470, 472 (11) |
| 20 | Empty set in the EU | | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89 to 91 |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258 |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) |
| 24 | Empty set in the EU | | |
| 25 | of which: deferred tax assets arising from temporary differences | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) |
| 26 | Reglamentary adjustments applied to CET1 relative to amounts subject to treatment prior to RRC | | |



| INFORMATION ABOUT TRANSITORY OWN FUNDS | | | | |
|--|--|--|--|---|
| | Item | (A) AMOUNT AT DISCLOSURE DATE | (B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013 |
| 26a | Reglementary adjustments relative to non-realized gains and losses by virtue of articles 467 and 468 | -77,561 | | |
| | Of which: non-realized gains from equity instruments | -31,302 | 467 | |
| | Of which: non-realized gains from debt instruments | -46,259 | 467 | |
| | Of which: ... filter for non-realized gains 1 | | 468 | |
| | Of which: ... filter for non-realized gains 2 | | 468 | |
| 26b | Amount to be deducted or added to CET1 referring to other filters and deductions required prior to RRC | | 481 | |
| | Of which: ... | | 481 | |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | -85,422 | 36 (1) (j) | |
| 28 | Total regulatory adjustments to common Tier 1 (T2) capital | -412,179 | Sum of rows 7 to 20a, 21, 22 and 25a to 27 | |
| 29 | COMMON EQUITY TIER 1 (CET1) CAPITAL | 2,779,190 | Row 6 minus row 28 | |
| Additional Tier 1 capital instruments: Instruments | | | | |
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1 | 0 | 486 (3) | |
| | Capital contributions of the public sector exempt until 1 January 2018 | | 483 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | Additional Tier 1 (AT1) capital before regulatory adjustments | 0 | Sum of rows 30, 33 and 34 | |
| Additional Tier 1 (AT1) Capital: Regulatory Adjustments | | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 41 | Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | | | |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013 | 0 | 472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | |
| | Of which intangible assets | -85,422 | | |
| 41b | Residual amounts deducted from AT1 with regard to T2 capital during the transitory period, by virtue of article 475 of Regulation (EU) No 575/2013 | | 477, 477 (3), 477 (4) (a) | |
| | Of which, elements which shall be detailed line by line, for instance, cross-holdings of non-significant investments in the capital of other financial sector entities, etc. | | | |
| 41c | Amount to be deducted or added to AT1 referring to other filters and deductions required prior to RRC | | 467, 468, 481 | |
| | Of which: ... possible filter for non-realized losses | | 467 | |
| | Of which: ... possible filter for non-realized gains | | 468 | |
| | Of which: ... | | 481 | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | Total regulatory adjustments to Additional Tier 1 (AT1) capital | 0 | Sum of rows 37 to 42 | |
| 44 | Additional Tier 1 (AT1) Capital | 0 | Row 36 minus row 43 | |



| | | | |
|----|----------------------------------|-----------|-----------------------|
| 45 | Tier 1 Capital (T1 = CET1 + AT1) | 2,779,190 | Sum of rows 29 and 44 |
|----|----------------------------------|-----------|-----------------------|

INFORMATION ABOUT TRANSITORY OWN FUNDS

| | Item | (A) AMOUNT AT DISCLOSURE DATE | (B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013 |
|---|--|--|--|--|
| Tier 2 Capital: Instruments and Reserves | | | | |
| 46 | Capital instruments and the related share premium accounts | 552,839 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2 | | 486 (4) | |
| | Capital contributions of the public sector exempt until 1 January 2018 | | 483 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) and (d) | |
| 51 | Tier 2 (T2) capital before regulatory adjustments | 552,839 | | |
| Tier 2: Regulatory adjustments | | | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 54a | Of which, new holdings not subject to transitory mechanisms | | | |
| 54b | Of which, existing holdings before 1 January 2013 and subject to transitory mechanisms | | | |
| 55 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | -35,836 | 66 (d), 69, 79, 477 (4) | |
| 56 | Reglamentary adjustments applied to T2 capital with regard to the amounts subject to the treatment prior to the RRC and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the RRC) | | | |
| 56a | Residual amounts deducted from T2 capital with regard to the CET1 deduction during the transitory period, by virtue of article 472 of Regulation (EU) No 575/2013 | | 472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) | |
| | Of which: elements which shall be detailed line by line, for instance, significant provisional net losses, intangible assets, insufficient allowances for expected losses, etc. | | | |
| 56b | Residual amounts deducted from T2 capital with regard to the AT1 deduction during the transitory period, as provided in article 475 of Regulation (EU) No 575/2013 | | 475, 475 (2) (a), 475 (3), 475 (4) (a) | |
| | Of which: elements which shall be detailed line by line, for instance, cross-holdings of AT1 capital instruments, direct holdings of non-significant investments in the equity of other financial sector entities | | | |
| 56c | Amount to be deducted or added to T2 referring to other filters and deductions required prior to RRC | | 467, 468, 481 | |
| | Of which: ... possible filter for non-realized losses | | 467 | |
| | Of which: ... possible filter for non-realized gains | | 468 | |
| | Of which: ... | | 481 | |
| 57 | Total regulatory adjustments to Tier 2 (T2) capital | -35,836 | Sum of rows 52 to 56 | |
| 58 | Tier 2 (T2) Capital | 517,003 | Row 51 minus row 57 | |
| 59 | Total Capital (TC = T1 + T2) | 3,296,193 | Sum of rows 45 and 58 | |
| 59a | Risk-weighted assets with regard to the amounts subject to the prior treatment to RRC and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the RRC) | | | |
| | Of which: ...elements not deducted from CET1 [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, deferred tax assets which depend on future results net of taxes associated, indirect holdings of own CET1, etc.) | | 472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) | |
| | Of which: ...elements not deducted from AT1 items [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, cross-holdings of T2 capital instruments, direct holdings of non-significant investments in the equity of other financial sector entities, etc.) | | 475, 475 (2) (b), 475 (2) (c), 475 (4) (b) | |
| | Elements not deducted from T2 capital items [Regulation (EU) No 575/2013, residual amounts] (elements which shall be detailed line by line, for instance, indirect holdings of T2 own capital | | 477, 477 (2) (b), 477 (2) (c), 477 (4) (b) | |



| | | |
|----|--|------------|
| | instruments, non-significant indirect holdings of investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.) | |
| 60 | Total Risk-Weighted Assets | 23,169,135 |

INFORMATION ABOUT TRANSITORY OWN FUNDS

| Item | (A) AMOUNT AT DISCLOSURE DATE | (B) REGULATION (UE) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (UE) No 575/2013 OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (UE) No 575/2013 |
|------|--|--|--|
|------|--|--|--|

Capital Ratios and Capital Buffers

| | | | |
|-----|--|--------|----------------------|
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 12.00% | 92 (2) (a), 465 |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 12.00% | 92 (2) (b), 465 |
| 63 | Total capital (as a percentage of total risk exposure amount) | 14.23% | 92 (2) (c) |
| 64 | Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | | DRC 128, 129 and 130 |
| 65 | of which: capital conservation buffer requirement | | |
| 66 | of which: countercyclical capital buffer requirement | | |
| 67 | of which: systemic risk buffer requirement | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | | DRC 131 |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 7.50% | DRC 128 |
| 69 | [not applicable under EU regulation] | | |
| 70 | [not applicable under EU regulation] | | |
| 71 | [not applicable under EU regulation] | | |

Amounts below the thresholds for deduction (before risk weighting)

| | | | |
|----|--|---------|--|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) | 73,379 | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4) |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) | 466 | 36 (1) (i), 45, 48, 470, 472 (11) |
| 74 | Empty set in the UE | | |
| 75 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 128,645 | 36 (1) (c), 38, 48, 470, 472 (5) |

Applicable caps on the inclusion of provisions in tier 2

| | | | |
|----|---|--|----|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap) | | 62 |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardized approach | | 62 |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | | 62 |
| 79 | Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 |

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)

| | | | |
|----|---|--|--------------------------|
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | | 484 (3), 486 (2) and (5) |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) and (5) |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | | 484 (4), 486 (3) and (5) |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) and (5) |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | | 484 (5), 486 (4) and (5) |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) and (5) |



| Own Resources and Capital Requirements Phase-in and Fully-loaded | | |
|---|------------------|-------------------------------|
| (thousands of euros) | 2016 phase-in | 2016 <i>fully - loaded</i> |
| TOTAL COMPUTABLE OWN FUNDS | 3,296,193 | 2,867,234 |
| TIER 1 CAPITAL (T1) | 2,779,190 | 2,350,231 |
| COMMON EQUITY TIER 1 (CET1) | 2,779,190 | 2,350,231 |
| Paid up capital instruments | 2,144,276 | 2,144,276 |
| Share premium | | |
| Previous years retained earnings | 468,163 | 468,164 |
| Admissible results | 107,172 | 107,172 |
| Other reserves | 3,329 | 3,329 |
| CET1 capital instruments under previous scheme | 223,600 | 0 |
| Minority interests | 143 | 35 |
| Value adjustments of the available-for-sale portfolio | 167,125 | 244,686 |
| Deductions from CET1 instruments | -334,618 | -617,431 |
| Losses of the current business year | | |
| Intangible assets | -213,556 | -213,556 |
| Defined benefit pension fund assets | | |
| Treasury stock: Direct holdings in CET1 instruments | | |
| Reciprocal cross holdings in CET1 capital | | |
| Deferred tax assets that rely on future returns | -121,062 | -403,875 |
| Holdings in financial sector entities with significant influence | | |
| Excess of holdings in financial sector entities in which there is not a significant influence | | |
| Qualifying holdings which can alternatively be subject to a 1,250% risk weight | | |
| Other deductions from CET1 | | |
| ADDITIONAL TIER 1 CAPITAL (AT1) | | |
| AT1 capital instruments under previous scheme | 0 | 0 |
| Deductions from AT 1 capital instruments | 0 | 0 |
| Treasury stock: Direct holdings in AT1 instruments | | |
| Reciprocal cross holdings in AT1 capital | | |
| Intangible assets | 0 | 0 |
| Holdings in financial sector entities with significant influence | | |
| Excess of holdings in financial sector entities in which there is not a significant influence | | |
| Other deductions from AT1 capital | | |
| TIER 2 CAPITAL (T2) | 517,003 | 517,003 |
| Subordinated financing and subordinated loans and others | 552,839 | 552,839 |
| Deductions of T2 capital instruments | -35,836 | -35,836 |
| Treasury stock: Direct holdings in AT2 instruments | | |
| Reciprocal cross holdings in T2 capital | | |
| Subordinated loans and subordinated debt in financial sector entities in which there is not a significant influence | -35,836 | -35,836 |
| Excess of holdings in financial sector entities in which there is not a significant influence | | |
| Other deductions from T2 capital | | |
| TOTAL CAPITAL REQUIREMENTS | 1,853,531 | 1,848,636 |
| Capital requirements for credit, counterparty and incomplete operations risk | 1,732,813 | 1,727,918 |
| Capital requirements for market risk | | |



| | | |
|---|-------------------|-------------------|
| Capital requirements for operational risk | 117,595 | 117,595 |
| Capital requirements for Credit Valuation Adjustments (CVA) | 3,123 | 3,123 |
| RISK-WEIGHTED ASSETS | 23,169,135 | 23,107,976 |

Solvency ratios : Phase-in and Fully-loaded

| | 2016 <i>phase-in</i> | 2016 <i>fully - loaded</i> |
|--|-------------------------|-------------------------------|
| Common Equity Tier 1 ratio (CET1) | 12.00% | 10.17% |
| Minimum required CET1 | 4.50% | 4.50% |
| Tier 1 capital ratio (T1) | 12.00% | 10.17% |
| Minimum required T1 | 6.00% | 6.00% |
| Total Capital ratio | 14.23% | 12.41% |
| Minimum required capital total | 8.00% | 8.00% |
| Total Capital Requirements | 1,853,531 | 1,848,636 |
| Capital requirements for credit, counterparty and incomplete operations risk | 1,732,813 | 1,727,918 |
| Capital requirements for market risk | | |
| Capital requirements for operational risk | 117,595 | 117,595 |
| Capital requirements for Credit Valuation Adjustments (CVA) | 3,123 | 3,123 |
| Risk-weighted assets | 23,169,135 | 23,107,976 |
| Leverage ratio | 5.37% | |



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