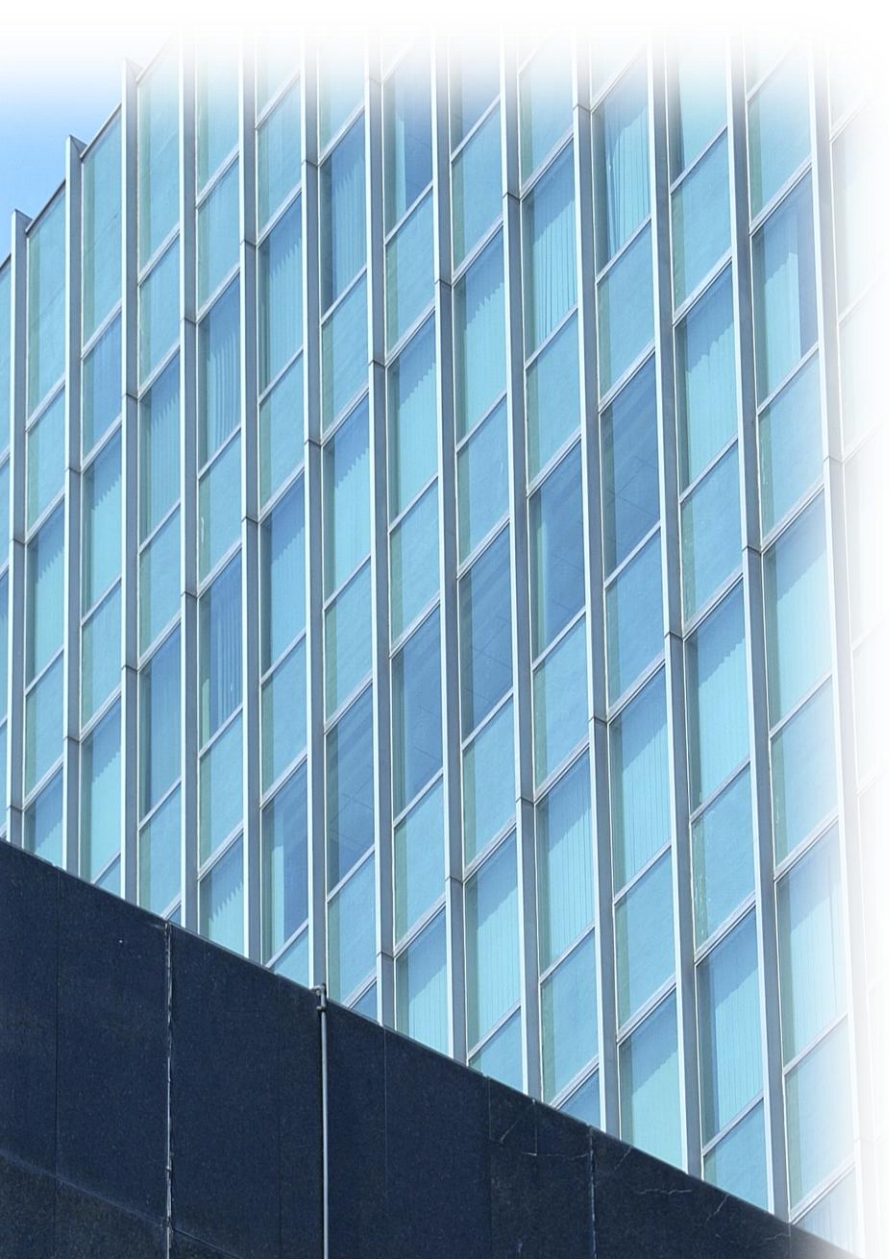


# Pillar 3 Disclosure

2017



Ibercaja Group





# CONTENT

<b>1. EXECUTIVE SUMMARY</b>	<b>5</b>
<b>2. REGULATORY CONTEXT OF THE GROUP</b>	<b>11</b>
<b>2.1 - MACROECONOMIC CONTEXT</b>	<b>11</b>
<b>2.2 - THE IBERCAJA GROUP</b>	<b>11</b>
<b>2.3 - SHAREHOLDING AND FUNCTIONAL STRUCTURE</b>	<b>14</b>
<b>2.4 - EXERCISE 2017 IN THE IBERCAJA GROUP</b>	<b>14</b>
<b>2.5 - REGULATORY FRAMEWORK</b>	<b>15</b>
2.5.1 - INTRODUCTION	15
2.5.2 - SOLVENCY	16
2.5.3 - LIQUIDITY	17
2.5.4 - SECURITIZATIONS	17
2.5.5 - BANKING RECOVERY AND RESOLUTION	17
2.5.6 - MODELS FOR REGULATORY CAPITAL CALCULATION	18
2.5.7 - OTHER INITIATIVES OF THE BASEL COMMITTEE	19
2.5.8 - OTHER EBA INITIATIVES	19
2.5.9 - SINGLE SUPERVISION AND RESOLUTION MECHANISM	20
<b>3. PILLAR III GENERAL ASPECTS</b>	<b>21</b>
<b>3.1 - INTRODUCTION</b>	<b>21</b>
<b>3.2 - GOVERNING BODIES</b>	<b>22</b>
3.2.1 - BOARD OF DIRECTORS	23
3.2.2 - COMMISSIONS OF THE BOARD OF DIRECTORS.	24
3.2.3 - PROCEDURES TO ENSURE THE SUITABILITY OF THE MEMBERS OF THE BOARD OF DIRECTORS	28
3.2.4 - POLICY ON DEDICATION OF COUNSELLORS	29
3.2.5 - TRAINING ACTIONS TO THE BOARD OF DIRECTORS IN TERMS OF RISKS AND REGULATION	29
3.2.6 - DIVERSITY IN GOVERNANCE BODIES	29
<b>3.3 - CONSOLIDATION SCOPE</b>	<b>30</b>
<b>3.4 - DIFFERENCES BETWEEN THE ACCOUNTING AND REGULATORY CAPITAL CONSOLIDATION METHOD</b>	<b>34</b>
<b>3.5 - IDENTIFICATION OF SUBSIDIARIES WITH OWN RESOURCES BELOW MINIMUM REQUIREMENTS</b>	<b>38</b>
<b>3.6 - EXEMPTIONS TO REQUIREMENTS</b>	<b>38</b>
<b>4. COMPUTABLE OWN RESOURCES</b>	<b>39</b>
<b>4.1 - CONCILIATION OF REGULATORY CAPITAL AND ACCOUNTING CAPITAL OF THE CONSOLIDATED BALANCE SHEET</b>	<b>41</b>
<b>4.2 - EQUITY DETAILS</b>	<b>42</b>
<b>5. MINIMUM REQUIREMENTS ON OWN RESOURCES</b>	<b>43</b>
<b>5.1 - APPLIED PROCEDURES FOR THE EVALUATION THE ADEQUACY OF INTERNAL CAPITAL</b>	<b>43</b>
<b>5.2 - MINIMUM OWN RESOURCES REQUIREMENTS FOR CREDIT, COUNTERPARTY AND DILUTION RISKS</b>	<b>44</b>
<b>5.3 - CORRECTION FACTOR APPLIED TO SMALL AND MEDIUM CORPORATE EXPOSURES</b>	<b>45</b>
<b>5.4 - MINIMUM OWN RESOURCES REQUIREMENTS FOR TRADING BOOK</b>	<b>45</b>



<b>5.5 - MINIMUM OWN RESOURCES REQUIREMENTS FOR FOREIGN EXCHANGE AND GOLD POSITION RISK</b>	<b>46</b>
<b>5.6 - OWN RESOURCES REQUIREMENTS FOR OPERATIONAL RISK</b>	<b>46</b>
<b>5.7 - OWN RESOURCES REQUIREMENTS FOR RISK OF CREDIT VALUATION ADJUSTMENT (CVA)</b>	<b>46</b>
<b>6. RISKS</b>	<b>47</b>
<b>6.1 - RISK MANAGEMENT POLICIES AND OBJECTIVES</b>	<b>47</b>
<b>6.2 - CORPORATE GOVERNANCE IN RISK MANAGEMENT</b>	<b>47</b>
6.2.1 - FRAMEWORK FOR ACTION AND MANAGEMENT	47
6.2.2 - GOVERNANCE STRUCTURE	49
6.2.3 - RISK MANAGEMENT, CONTROL AND MEASUREMENT STRATEGIES	50
6.2.4 - THE BOARD OF DIRECTORS' FUNCTIONS	60
6.2.5 - INTERNAL AUDIT AND COMPLIANCE AREA FUNCTIONS	61
6.2.6 - RISK REPORTING	63
<b>7. CREDIT RISK</b>	<b>64</b>
<b>7.1 - ACCOUNTING DEFINITIONS AND METHODOLOGICAL DESCRIPTIONS</b>	<b>64</b>
<b>7.2 - CREDIT RISK EXPOSURES</b>	<b>65</b>
7.2.1 - CREDIT RISK EXPOSURE 2017	65
7.2.2 - GEOGRAPHICAL DISTRIBUTION OF EXPOSURES	66
7.2.3 - EXPOSURE BY ECONOMIC SECTOR	66
7.2.4 - RESIDUAL MATURITY OF EXPOSURES	67
7.2.5 - GEOGRAPHICAL DISTRIBUTION AND BY COUNTERPARTY OF IMPAIRED POSITIONS	68
7.2.6 - VARIATIONS PRODUCED DURING THE 2017 BUSINESS YEAR IN IMPAIRMENT LOSSES AND ALLOWANCES FOR CONTINGENT RISKS AND COMMITMENTS BY CREDIT RISK	70
<b>7.3 - INFORMATION ON GROUP COUNTERPARTY CREDIT RISK</b>	<b>70</b>
<b>7.4 - IDENTIFICATION OF EXTERNAL RATING AGENCIES USED</b>	<b>73</b>
<b>7.5 - EFFECT ON RISK EXPOSURES FROM THE APPLICATION OF RISK MITIGATION TECHNIQUES</b>	<b>73</b>
<b>7.6 - SECURITIZATIONS</b>	<b>75</b>
7.6.1 - GENERAL DESCRIPTION AND OBJECTIVES	75
7.6.2 - RISKS OF GROUP SECURITIZATION ACTIVITY	76
7.6.3 - ROLES PLAYED IN SECURITIZATION PROCESSES AND DEGREE OF INVOLVEMENT	77
7.6.4 - ACCOUNTING TREATMENT OF FINANCIAL ASSET TRANSFERS	78
7.6.5 - ORIGINATED SECURITIZATIONS	78
7.6.6 - CALCULATION OF RISK-WEIGHTED EXPOSURES IN SECURITIZATION POSITIONS	79
<b>7.7 - RISK MITIGATION TECHNIQUES</b>	<b>81</b>
7.7.1 - GENERAL INFORMATION	81
7.7.2 - QUANTITATIVE INFORMATION	82
<b>8. OPERATIONAL RISK</b>	<b>85</b>
<b>8.1 - CAPITAL REQUIREMENTS FOR OPERATIONAL RISK</b>	<b>85</b>
<b>8.2 - OPERATIONAL RISK MANAGEMENT. OBJECTIVE AND JUSTIFICATION.</b>	<b>86</b>
<b>8.3 - STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT</b>	<b>86</b>
<b>8.4 - OPERATIONAL RISK CATEGORIES</b>	<b>86</b>
<b>8.5 - METHODOLOGIES FOR OPERATIONAL RISK MEASUREMENT</b>	<b>87</b>
<b>8.6 - LOSS DATA BASE</b>	<b>88</b>
<b>8.7 - SELF-ASSESSMENTS</b>	<b>88</b>
<b>8.8 - OPERATIONAL RISK INDICATORS (KRIs)</b>	<b>89</b>
<b>8.9 - ACTION PLANS</b>	<b>89</b>



<b>9. HOLDINGS AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK</b>	<b>90</b>
9.1 - CLASSIFICATION, VALUATION AND ACCOUNTING CRITERIA	90
9.2 - QUANTITATIVE INFORMATION	90
<b>10. INTEREST RATE STRUCTURAL RISK</b>	<b>92</b>
10.1 - INTEREST RATE VARIATIONS	92
<b>11. LIQUIDITY AND FUNDING RISK</b>	<b>94</b>
11.1 - QUARTERLY EVOLUTION OF THE LCR IN 2017	97
11.2 - LIQUIDITY AND FUNDING PERSPECTIVE	98
<b>12. ASSET ENCUMBRANCE</b>	<b>99</b>
12.1 - GENERAL INFORMATION	99
12.2 - QUANTITATIVE INFORMATION	99
<b>13. LEVERAGE</b>	<b>101</b>
13.1 - GENERAL INFORMATION	101
13.2 - DISAGGREGATION OF THE TOTAL EXPOSURE MEASURE	102
13.2.1 - CONCILIATION OF THE LEVERAGE RATIO WITH PUBLISHED FINANCIAL STATEMENTS	104
13.3 - INFORMATION ON QUALITATIVE ASPECTS	104
13.3.1 - PROCEDURES APPLIED TO MANAGE EXCESSIVE LEVERAGE RISK	104
13.3.2 - FACTORS INFLUENCING THE LEVERAGE RATIO	104
<b>14. REMUNERATIONS</b>	<b>105</b>
14.1 - BACKGROUND	105
14.2 - PURPOSE AND SCOPE OF APPLICATION OF THE REMUNERATION POLICY	105
14.3 - PRINCIPLES OF THE REMUNERATION POLICY	106
14.4 - MAIN CHARACTERISTICS OF THE REMUNERATION POLICY	106
14.5 - DECISION PROCESS FOLLOWED TO ESTABLISH THE REMUNERATION POLICY OF THE IDENTIFIED GROUP	107
14.6 - CHARACTERISTICS OF THE REMUNERATION SYSTEM OF GOVERNANCE BODY MEMBERS	107
14.6.1 - REMUNERATION OF THE CEO	108
14.6.2 - REMUNERATION OF COUNSELLORS BY THEIR CONDITION	108
14.7 - CHARACTERISTICS OF THE REMUNERATION SYSTEM OF SENIOR PERSONNEL	109
14.7.1 - DETERMINATION OF OBJECTIVES	109
14.7.2 - PERFORMANCE ASSESSMENT	110
14.8 - DEFERRAL	110
14.9 - MALUS CLAUSES	110
14.10 - REMUNERATIONS RECEIVED	111
ANNEX I: MAIN CHARACTERISTICS OF EQUITY INSTRUMENTS; INFORMATION ON TRANSITORY OWN FUNDS; OWN FUNDS AND FULLY-LOADED CAPITAL REQUIREMENTS	113
ANNEX II: TABLES INDEX	121
ANNEX III: ILLUSTRATIONS INDEX	123



## 1. Executive Summary

The present Pillar III Disclosures comply with what is 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, securitizations.
- Leverage, non-pledged assets and remuneration policy.

Ibercaja Group (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, developing the totality of its business in national territory.

Its social object is the fulfilment 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 € 138M in 2017 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 December, 31 2017 (in millions of euros)**

	<b>53,107</b>	<b>53,107</b>	
Cash, Cash Balances in Central Banks and other Overnight deposits	3,512	7	Financial Liabilities held-for-trading
Held-for-trading financial assets	9		
Available-for-sale financial Assets	10,850	42,271	Financial Liabilities at amortised cost
Loans and receivables	35,020	107	Hedge Derivatives
Tangible Assets	1,029	7,019	Liabilities covered by insurance or reinsurance contracts
Intangible Assets	200	373	Allowances
Tax Assets	1,338	192	Fiscal Liabilities
Other Assets	595	138	Other Liabilities
Non-current Assets for sale	553	2,855	Own Funds
		145	Other comprehensive income and accumulated
	<b>ASSETS</b>	<b>LIABILITIES AND NET EQUITY</b>	

**Own funds and solvency ratios**

The Group's own resources correspond to:

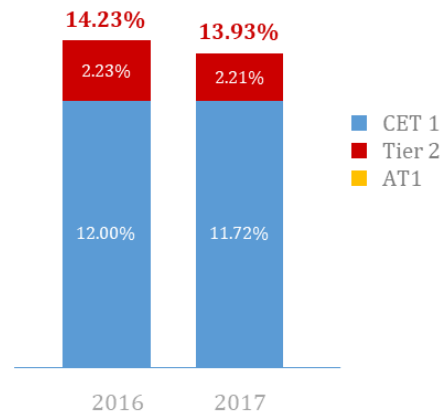
<b>Computable Own Funds</b>	
(thousands of euros)	Amount
Computable Own Funds 2017	3,102,314
Computable Own Funds 2016	3,296,193

Consistent with the current regulation regarding the Basel Capital Accord framework for solvency determination, as of 31 December 2017, the Group widely complies with minimum solvency ratios (Basel Pillar I) required. Ibercaja's ratios on a consolidated basis, a CET1 of 11.72% and total capital of 13.93% (both phase-in), stand at 3.60 and 2.31 points over the total capital decision communicated to the Entity as a result of the Supervisory Review and Evaluation Process (SREP). This decision is equivalent to a CET 1 phase-in ratio of 8.125% and a total capital ratio of 11.625% for 2018.



Based on the criteria foreseen for the end of the transitional period prior to the total implementation of Basel III, the fully loaded CET1 ratio, 11.04%, is 87 basis points higher than the 2016 closing. The estimated impact on solvency of the entry into force of IFRS9 regulation on January 1, 2018 is 53 basis points, meaning CET1 fully loaded ratio would fall to 10.51%.

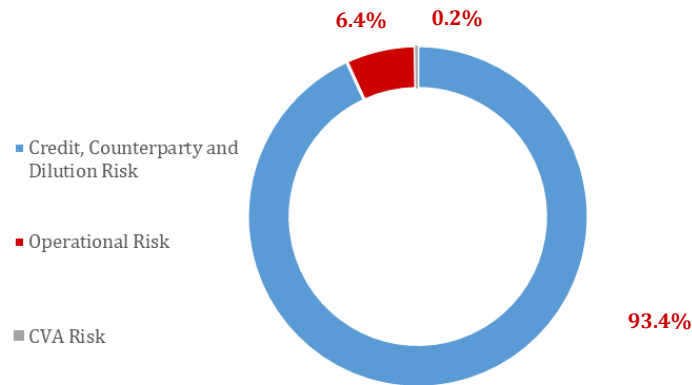
Capital Ratios	
	Amount
Common Equity Tier 1 ratio (CET1)	11.72%
Minimum required CET1	4.50%
Tier 1 ratio (T1)	11.72%
Minimum required T1	6.00%
Total Capital ratio	13.93%
Minimum required Total Capital	8.00%



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

### Capital Requirements

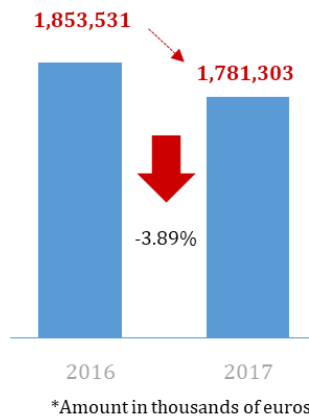
During 2017, requirements by credit risk have amounted to 93.4% of capital requirements, while requirements by operational risk have amounted to 6.4%.



Minimum Capital Requirements	
(thousands of euros)	Amount
<b>Minimum Capital Requirements</b>	<b>1,781,303</b>
Capital requirements for credit, counterparty and dilution risk	1,663,561
Capital requirements for market risk	-
Capital requirements for operational risk	113,372
Capital requirements for credit valuation adjustment (CVA)	4,370
Risk-weighted assets	22,266,290

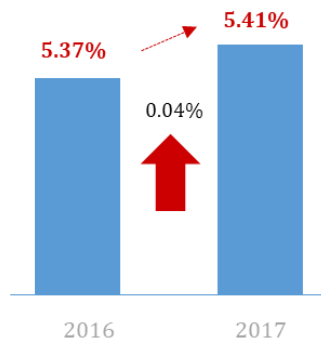


Minimum capital requirements by Pillar I risks have decreased 3.9% with respect to 2016, reaching a figure equal to € 1.78 bn.



### Leverage Ratio

The leverage ratio has increased by +0.04%, from 5.37% at December 2016 to 5.41% at December 2017, 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 III 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 Ibercaja Group. 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 2017 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 2017, 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 areas and functions responsible of the realization of Pillar III Disclosures are the following:

- a) Corporate Information and Management Analysis Area: In charge of the coordination, regulatory adequacy and contrast with the distinct Group information sources.  
The Department of General Accounting collaborates within the area with the objective of providing quantitative and qualitative information on Own Funds, Capital requirements for the different types of risk (credit, counterparty, trading book, market, equity, etc.), mitigation of credit risk, capital buffers and securitizations.
- b) General Secretariat. Within the area the following participate:
  - a. Global Risk Control: RAF content reviews, leverage, non-pledged assets, structural interest rate risk and liquidity and operational risk capital requirements.
  - i. Regulatory Compliance: provides information on Governing Bodies and remuneration policies.
- c) Human Resources Area: provides quantitative information on remunerations.

In accordance with Standard 59 from the Circular 2/2016 of the Bank of Spain, for the present Pillar III Disclosures 2017 the Group has assigned an independent expert (the Auditor of Annual Accounts for 2017 – PwC), an adequacy review to current regulation requirements and information verification.

According to the "Policy for the disclosure and verification of information with prudential relevance of Ibercaja Banco, S.A. and its Consolidated Group" 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.



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 Ibercaja Group 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 2017 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 Pillar 3 disclosure 2017 Report is available on the website of Ibercaja Banco ([www.ibercaja.com](http://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 world economy has consolidated its upward cycle, overcoming the uncertainties with which the year began. Growth has accelerated and will probably exceed 3.5%. The good macroeconomic trajectory extends to both the most developed and emerging economies.

The growth of the Eurozone in 2017 was expected to be 2.4%. The main economies, Germany, France and Italy, have outperformed the prospects with which the year began, while Spain continues to lead the group of more developed countries. Domestic demand, and particularly private consumption, is the basis of the European recovery, supported by good employment data, the increase in household wealth and the financing conditions that also favor investment. The contribution of the foreign sector is positive, benefiting from the good global economic climate and the recovery of world trade. The ECB announced the reduction of the asset purchase program, which will last until September 2018, to 30,000 million euros a month from the previous 60,000 million and reiterated the intention not to modify interest rates.

The main stock indexes have been revalued. The increase of the Spanish index, 7.40%, has been fallen behind the one achieved by its European peers. After a clearly upward first half, Popular's crisis marked the turning point of this excellent trajectory, influenced by the final stretch of the year due to political tension in Catalonia.

The Spanish economy has improved initial growth forecasts, with a GDP variation of 3.2%, as a result of the pull of domestic demand and the positive contribution of the foreign sector. The unemployment rate stood at 16.55%. Inflation remains contained, after the rebound of the first months of the year as a result of the rise in the prices of energy products. Domestic demand maintains its strength supported by the dynamism of private consumption, which is growing around 2.6% year-on-year. This is a reflection of the good performance of the labor market, the growth of families' financial and real estate wealth and the greater ease of access to credit. The investment in capital goods recovers significantly up to rates above 5% and real estate activity regains strength. The recovery of the labor market is accentuated. Social Security affiliates have increased by more than 611 thousand people, the best figure recorded since 2005, with what the number of contributors is close to 18.5 million.

The change in the CPI has reached 1.1%. The deficit of the Public Administrations as a whole has moderated to rates in line with the target, 3.1%, agreed with the European authorities. If this achievement is confirmed, Spain would exit the excessive deficit protocol in 2018.

The banking sector has been favored by the good performance of the Spanish economy, although the low level of interest rates continues to put pressure on profitability. Credit to families and businesses has fallen to 2.02% year-on-year. The stock of consumer credit achieved an increase of 13.77%. Deposits in the system grew almost 3% year-on-year. The restructuring of the system has followed its course with the reduction of the number of actors, following two significant operations of absorption of entities and producing a new adjustment of networks and staff in order to reduce operating costs and gain efficiency.

### 2.2 - The Ibercaja Group

The origin of Ibercaja dates back to 1873, when the *Real y Excma. Sociedad Económica Aragonesa de Amigos del País* founded the *Caja de Ahorros y Monte de Piedad 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. The 25<sup>th</sup> of July 2013, Ibercaja Banco acquired Banco Grupo Caja3. The merger process concluded in October, 2014, with the merger through absorption of the acquired institution.

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.

Within the framework of the Strategic Plan 2015-2017, whose objectives are the consolidation of the group structure and the establishment of the bases to become a quoted bank, important milestones have been achieved, among which the following stand out: the territorial development plans to boost the growth of the retail business, the Bank's digital transformation project, the return to debt markets with a Tier II issue to strengthen the Group's financial strength, sales of portfolios and agreements with specialized operators in order to reduce the unproductive assets on the balance sheet, implementation of a new approach to customer relations and the deployment, internally, of the leadership model and team management.

In particular, during the last year, the following stand out:

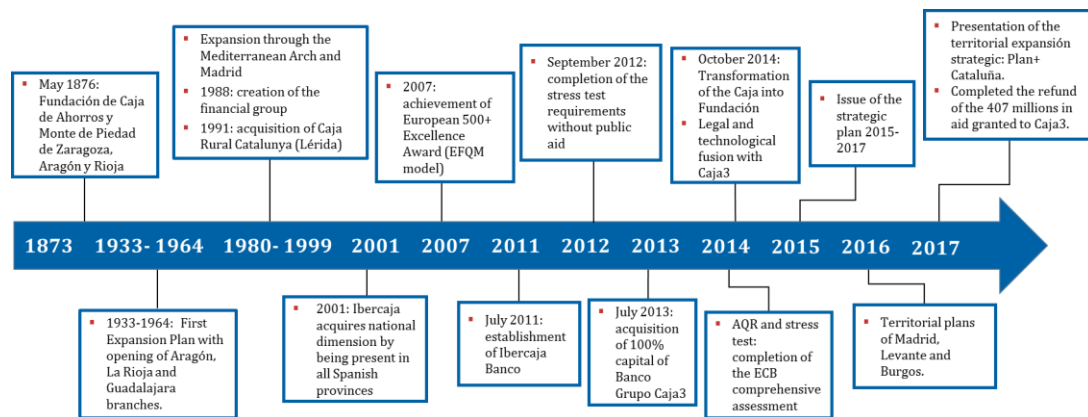
- Return of public aid. During March, 224 million euros of the contingently convertible bonds (CoCos) issued by Banco Grupo Caja3 in its restructuring process were redeemed early.
- Launching of a new Territorial Plan, Plan + Catalonia. The initiative will be developed over the next four years and seeks to strengthen the Bank's presence in the Catalan Community. The four current territorial plans (Madrid, Levante, Burgos and Catalonia) will induce a joint growth of resources and credit of more than 7,500 million until 2020.
- Sales of credit portfolios and written-off assets. In July, within the Fleta operation, the sale of loans and credits to real estate developers was formalized, mostly classified as doubtful, with a total nominal amount of debt of 490 million euros and, in December, Servet and Faro operations were closed, whose gross amount, 334 million, corresponded almost entirely to bad loans.
- The digital transformation process has accelerated in both number of users and number of operations. The launch of the mobile banking application has constituted an important advance due to the clients' acceptance and their valuation.



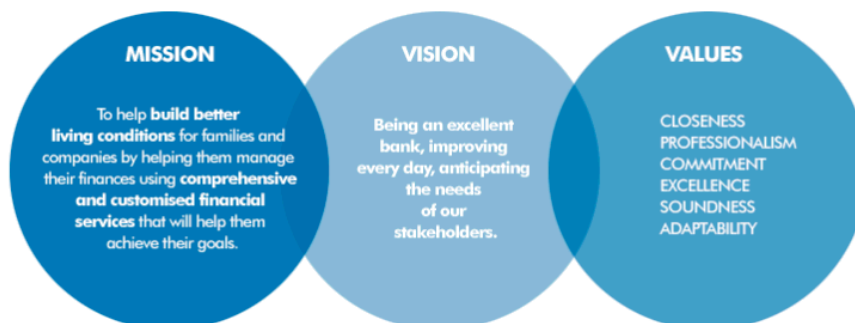
As for the trend for next 2018, the prolongation of the scenario of very low interest rates, the intensification of competition among financial entities, the arrival of new actors from the technological world, the change of habits that is prevailing in the Spanish society and the greater financial culture of the clients make it necessary for the business model to be increasingly dynamic, focused on the provision of higher added value services, less dependent on the development of interest rates and aligned with the client’s needs. At the same time, profitability should be preserved by improving margins and driving digital transformation. In this sense, Ibercaja, after concluding the Strategic Plan 2015-2017 with high compliance with its goals, is already preparing the new Plan for the next three years with the objectives of: growing, innovating and digitalizing.

**Major milestones in Ibercaja’s 140-year history**

Illustration 1: Major milestones



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.





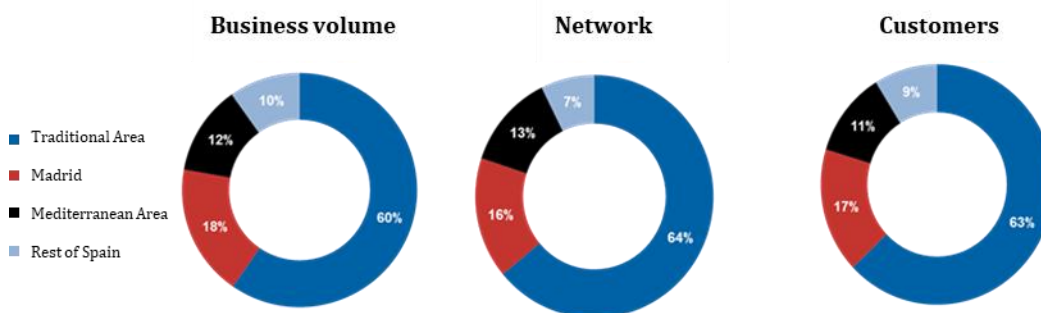
## 2.3 - Shareholding and functional structure

Ibercaja Banco is majority-owned, in an 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 53,107 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, whereof 3.0% in deposits, and 4.6% in assets and life insurance management. As of December 2017, its network reaches 1,151 branches, 6 of which are business centers of companies, and it also has a representative office in Lisbon. The Group has 5,581 employees.

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

*Illustration 2: Distribution of business volume, network and customers*



## 2.4 - Exercise 2017 in the Ibercaja Group

Ibercaja has obtained a net profit of 138.4 million euros in 2017, in a context of historically low interest rates and strong competition in the sector, thanks to the intensification of customer activity. Recurring revenues grow, marking a change in trend with respect to previous periods, thanks to the good performance of retail activity as a result of the defense of spreads, the promotion of credit activity with SMEs and the increase in the assets under management. On the other hand, it is worth mentioning the control of ordinary costs and the generation of extraordinary results that have allowed the reinforcement of hedges.

The entity continues the dynamism in families and companies financing, which has increased by 4.59% internally. During 2017, Ibercaja has arranged 5,452 million euros in new loans, of which 53% has been earmarked for the financing of SMEs, a priority target segment in the Strategic Plan 2015 - 2017. In line with the objective of diversifying the composition of the portfolio, 57% of the new operations correspond to formalizations with companies and leasing. At the same time, the production of loans for housing acquisition increases by 18% throughout the year. Progress in all purposes is the result of intense commercial work and the deployment of specific territorial plans to increase the Bank's presence in target markets.

The growth of retail resources is focused on off-balance sheet products, especially investment funds. The migration of savings to assets under management, accompanied by the increase in



demand deposits, has generated a more profitable mix of retail resources. The equity of Ibercaja Gestión has increased this year by 18.9% to 12,367 million euros, being one of the ten largest fund managers in Spain, which recorded the highest growth in equity. Long-term savings balances in the form of pension plans and life insurance grew by 3.6% year-on-year to 13,198 million euros.

The Group's liquid assets represent 19.45% of the balance sheet. The credit ratio on retail financing (LTD) is below 100%, highlighting the retail approach of Ibercaja's business, in which lending activity is financed by savings. Client deposits constitute 76% of the external financing.

Overall, the balance of the good loan portfolio decreased by 1.31% compared to the end of 2016, although the strength of financing for productive activities, whose balance grew by 7% (+ 8.42% to non-real estate productive activities) and the renewed pulse of mortgages for home purchases, allow to anticipate a stabilization of this variable in the coming quarters.

The normalization of the entries in default, the good management of recoveries and the sales of portfolios cause that the doubtful credit assets diminish a 16.22% with respect to the closing of 2016. The default ratio backs down 125 basis points, standing at the 7.68%. In turn, the deceleration of the foreclosed real estate entries, together with the good sales trend, allows the contraction of the stock by 9.22%. The degree of coverage of the problematic exposure (doubtful and foreclosed assets) amounts to 48.19%.

As a whole, recurring revenues (net interest income + fees) reached 927.5 million euros at the end of 2017, 2.23% more than the 2016 figure, consolidating the change in trend in recurring revenues in 2017, against the behavior of 2015 and 2016, mainly due to the greater commercial dynamism of the banking business and the diversification of activity through the Financial Group. Recurring expenses have decreased by 0.8%, meeting the Bank's objective for this year.

The solvency ratio CET 1 (phase-in) stands at 11.72% and the total capital ratio (phase-in) amounts to 13.93%, far exceeding the SREP requirements for 2018 (8.125% and 11.625%, respectively). In March, Ibercaja prepaid 224 million euros of CoCo's in advance, thus completing in advance the total refund of 407 million euros of aid granted to Caja3. On the other hand, the solvency ratio CET 1 (fully loaded) improved 87 basis points in the year, standing at 11.04%.

## 2.5 - Regulatory framework

### 2.5.1 - Introduction

In December 2010, the Banking Supervision Committee published a new global regulatory framework for international capital standards (Basel III) that broadened the 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 and risk coverage. On June 26, 2013, the Basel III legal framework was incorporated into European regulations through Directive 2013/36 on access to the activity of credit institutions and their prudential supervision (hereinafter CRD IV), which repeals Directives 2006/48 and 2006/49, and Regulation 575/2013 on the prudential requirements of credit institutions and investment companies (hereinafter CRR).

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.

The CRD IV has been transposed to Spanish legislation through *Law 10/2014 on the organization, supervision and solvency of credit institutions* and its subsequent regulatory development through Royal Decree 84/2015 and Circular 2/2016 of the Bank of Spain, which completes its adaptation to the Spanish legal system. This Circular repeals for the most part Circular 3/2008 (although it remains valid 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 than the previous regulation (Bank of Spain Circular 3/2008); and therefore allows a phased-in adaptation, through a gradual implementation calendar (incorporated to Spanish regulation through Bank of Spain Circular 2/2014), 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.

Both the CRR and the CRD IV are in the process of being reviewed. Thus, 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 financing requirements for short-term exposures to their regular funding sources, avoiding potential systemic stress higher. The NSFR will become a minimum requirement as of January 1, 2018.

In addition, in June 2015 the rules for disclosure of the net stable financing ratio (NSFR) were published, requirements that will improve the transparency of regulatory financing requirements, reinforce the Principles for the adequate management and supervision of liquidity risk, strengthen the discipline market and reduce uncertainty in the markets once the NSFR is applied. Supervisors will apply these disclosure requirements no later than January 1, 2018.

After the previous consultations carried out in 2016, the EBA published in 2017 the final proposals regarding the disclosure of the Liquidity Coverage Ratio (LCR) and the Asset Encumbrance, whose objective is its realization. In addition, the EBA is expected to develop standards to homogenize the reporting requirements of the NSFR.

### 2.5.4 - Securitizations

In December 2017, a new general framework for securitization and a specific framework for simple, transparent and standardized securitization (STS) were published. In addition, a new capital treatment is established for securitizations that modifies the current treatment of the CRR, and a preferential treatment in capital for those securitizations that meet the STS criteria. The implementation of these regulatory frameworks will be mandatory as of January 1, 2019.

### 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.

In 2017 Basel and the Financial Stability Board (FSB) have continued with the steps begun in previous years. In 2015, the standard was closed for the requirement of a minimum amount of loss absorption capacity sufficient to recapitalize an entity in case of resolution, that is, Total Loss Absorbing Capacity (TLAC), for entities classified as Global Systemically Important Banks (G-SIBs). This year, the FSB has published the following:

- The Internal TLAC framework.
- Two relevant consultations whose objective is, on one hand, to ensure financing in resolution and, on the other, to guarantee the successful execution of a bail-in.



- In November 2017, the list of G-SIBs was updated for 2019.

Conversely, Basel published the final disclosure proposal of TLAC, and a new consultation is expected in 2018.

## 2.5.6 - Models for regulatory capital calculation

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

This review of the frameworks for the calculation of capital requirements for credit, market and operational risk aims to ensure the improvement of its simplicity, comparability and sensitivity to risk, as well as the reduction of the variability of risk-weighted assets not justified by the different risk profiles.

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

This final framework includes significant improvements with respect to the proposals initially raised by the Basel Committee.

The main changes are those established in the following points:

### **Floors:**

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

### **Credit Risk:**

The review of the standard method for the calculation of capital by credit risk introduces the use of external ratings non-mechanically for exposures to banks and companies and greater sensitivity to risk for certain exposures.

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

- It establishes limitations in the estimation of parameters through floors at exposure level
- Homogenizes the methodology for estimating risk parameters
- The treatment of risk mitigation techniques is reviewed

### **Credit Valuation Adjustments (CVA):**

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

**Operational Risk:**

A new standard approach is introduced for the calculation of capital for operational risk, which combines the size with indicators of losses resulting from past events. This new approach will replace the internal models (AMA) and the current standard methods.

**Leverage:**

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

The EBA has also published different documents in 2017 with the aim of reducing unjustified variability in capital consumption by different risk profiles and improving the homogeneity and comparability of capital ratios among entities. These documents are those listed below:

- Final guidelines on the definition of default, in order to harmonize the definition of default in Europe.
- Consultation on the nature, severity and duration of the downturn economic cycle to estimate the LGD (loss given default) and the CCF (credit conversion factor).
- Final guidelines with the methodology for estimating risk parameters (PD, LGD and treatment of defaulted assets).

### 2.5.7 - Other initiatives of the Basel Committee

During the year 2017 the Basel Committee has carried out several initiatives, detailed below:

- The revision of the methodology for the identification of the Global Systemic Entities has been carried out. The publication of the first list, based on the revision carried out by these Entities for November 2019, is foreseen.
- A discussion paper has been published, with the purpose to review the treatment of sovereign debt until March 2018. Although consensus has not been reached on the need to incorporate changes to the current treatment, several options have been proposed in the document, which imply additional disclosure requirements (Pillar III) and capital surcharges (Pillar I and II) for exposures to central banks of countries whose monetary policy is focused on the exchange rate and for sovereign debt exposures; except those to central banks denominated in local currency.
- As a result of the entry into force of IFRS9, reviews of the interaction between the new accounting framework and the prudential framework for provisions have been carried out. It is expected that these reviews will continue throughout the year 2018.

### 2.5.8 - Other EBA initiatives

During 2017 the European Banking Authority (EBA) has issued standards and guidelines on aspects of European capital regulations (CRR/CRD IV), to ensure in this way, both its understanding and the harmonized implementation of minimum capital requirements within of the European Union. The main regulatory initiatives are, among others, the following:

- Guidelines on the uniform disclosure of the transitional arrangements of IFRS9,
- Updates of the SREP, stress test and IRRBB (interest rate in the banking book) guidelines to reinforce the Pillar II framework.
- Discussion paper on Structural FX risk treatment
- Consultations on the significant transfer of risk, on its retention and on the homogeneity of the underlying exposures in the securitizations



### 2.5.9 - 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 2017, on the one hand, to harmonize supervisory policies between countries and, on the other hand, in the transparency of their expectations.

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.

The MUR is working together with the national resolution authorities in the development of MREL (Minimum Requirement of Eligible Liabilities) policies. Entities must comply with their MREL requirement, after receiving the request from the MUR (it is expected that this will be communicated during the first quarter of 2018), in a transitional period of no more than four years. Non-compliance could result in the consideration that the entity cannot be resolved.

In addition, the MUR also manages the Single Resolution Fund. The period of progressive mutualisation of the Single Resolution Fund will make it possible to move from the National Resolution Funds, in force in several countries of the Euro zone until 2016, to the Single Resolution Fund, which will be fully implemented in 2024.

In 2017, the funding objective of the Single Resolution Fund is 40% based on a national perimeter (BRRD perimeter) and 60% based on a Euro zone perimeter. Financing under SRM perimeter will progressively increase until it reaches 100% in 2024. The funding objective of this fund is 1% of deposits guaranteed in 2024.

In order to complete the Banking Union, the Commission published in October 2017 a statement in which it established the necessary measures to do so. In 2018 the Commission plans to carry out, among others, the following actions:

- Reach an agreement on the creation of a backstop for the Single Resolution Fund and the third pillar of the Banking Union: the *European Deposit Insurance Scheme* (EDIS).
- Issuance of a legislative proposal on a framework for the reduction of NPLs by the end of 2018.
- Issuance of a legislative proposal on a framework for the creation of Sovereign Bond-Backed Securities (SBBS), at the beginning of 2018.
- Issuance of a legislative proposal on a framework for the creation of Sovereign Bond-Backed Securities (SBBS), at the beginning of 2018.



## 3. Pillar III General Aspects

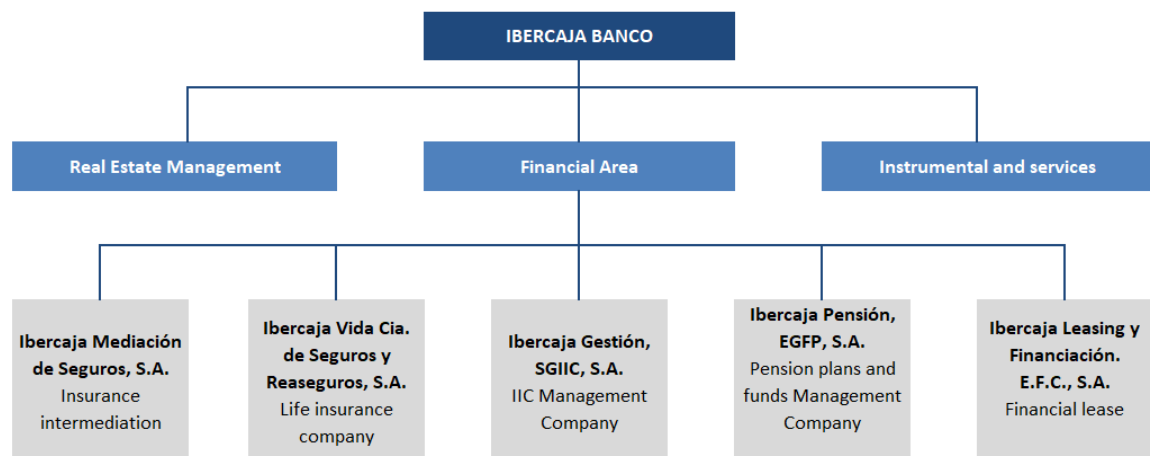
### 3.1 - Introduction

Ibercaja Banco, S.A. is a credit institution owned in 87.80% 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. 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, insurance banking and leasing/renting.

The most relevant companies that conform the consolidation perimeter are:

*Illustration 3: Consolidation perimeter*



Its mission is to support 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 1,151 offices located throughout the entire Spanish territory.

For more details on the Entity consult the website of Ibercaja Banco ([www.ibercaja.com](http://www.ibercaja.com)).



## 3.2 - Governing Bodies

The governing 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.

Below is a summary table of the composition of the Board of Directors and the committees. In addition, the main governing bodies are detailed, as well as the policies that ensure the suitability and diversity of the members in the Board of Directors, according to article 435.2 of the CRR.

Illustration 4: Governing Bodies

		Board of Directors				Commissions					
		Dominical	Independent	Executive	Other External	Executive Commission	Audit and Compliance Commission	Appointments Commission	Remuneration Commission	Major Risks and Solvency Commission	Strategy Commission
<b>Chairman</b>	D. José Luis Aguirre Loaso					C					C
<b>1<sup>st</sup> Vice-chairman</b>	D. Jesús Máximo Bueno Arrese					M	M			M	
<b>2<sup>nd</sup> Vice-chairman</b>	D. José Ignacio Mijangos Linaza							M	M		
<b>CEO</b>	D. Víctor Iglesias Ruiz					M					
<b>Secretary Counsellor</b>	D. Jesús Barreiro Sanz					S	S	S	S		S
<b>Members</b>	D <sup>a</sup> . Gabriela González-Bueno Lillo					M	C				M
	D. Jesús Solchaga Loitegui							C	C	M	
	D. Juan María Pemán Gavín					M	M				
	D. Emilio Jiménez Labrador										M
	D. Vicente Córdor López					M	M			C	
	D. Félix Longás Lafuente							M	M		M
	D. Jesús Tejel Giménez						M			M	
	D. Enrique Arrufat Guerra										M
	D <sup>a</sup> . María Pilar Segura Bas									M	

**C** Chairman  
**M** Member  
**S** Secretary



### 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: Member of the Board of Directors

Board of Directors			
Position	Name	Category	Date of last nomination
<b>Chairman</b>	D. José Luis Aguirre Loaso	Dominical	30/08/2016
<b>1<sup>st</sup> Vice-chairman</b>	D. Jesús Máximo Bueno Arrese	Dominical	29/10/2015
<b>2<sup>nd</sup> Vice-chairman</b>	D. José Ignacio Mijangos Linaza	Dominical	28/01/2015
<b>CEO</b>	D. Víctor Iglesias Ruiz	Executive	30/08/2016
<b>Secretary Counsellor</b>	D. Jesús Barreiro Sanz	Dominical	24/07/2013
<b>Member</b>	D <sup>a</sup> . Gabriela González-Bueno Lillo	Independent	24/07/2013
<b>Member</b>	D. Jesús Solchaga Loitegui	Independent	24/07/2013
<b>Member</b>	D. Juan María Pemán Gavín	Dominical	27/01/2014
<b>Member</b>	D. Emilio Jiménez Labrador	Dominical	11/11/2014
<b>Member</b>	D. Vicente Córdor López	Independent	30/08/2016
<b>Member</b>	D. Félix Longás Lafuente	Independent	30/08/2016
<b>Member</b>	D. Jesús Tejel Giménez	Independent	28/10/2016
<b>Member</b>	D. Enrique Arrufat Guerra	Dominical	30/08/2017
<b>Member</b>	D <sup>a</sup> María Pilar Segura Bas	Other external	30/08/2017



Table 2: Composition of the Board of Directors

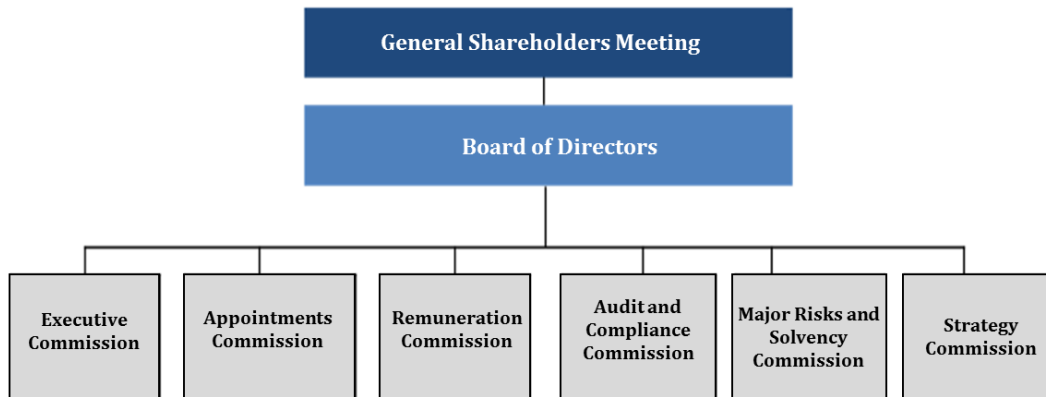
Composition	
Category	%
% Executive counsellors	7.1%
% Dominical counsellors	50.0%
% Independent counsellors	35.8%
% Other external	7.1%
Number of meetings (2017)	14

All appointments of members of the Board of Directors have been adopted with a favorable report from the Appointments Commission. Likewise, the Annual Corporate Governance Report specifies those directors who, in addition, hold positions of directors or executives in other entities that are part of the group



### 3.2.2 - Commissions of the Board of Directors.

Illustration 5: Commissions of the Board of Directors



#### Executive Commission

Table 3: Composition of the Executive Commission

Composition	
Category	%
% Executive counsellors	14.3%
% Dominical counsellors	57.1%
% Independent counsellors	28.6%
% Other external	-
Number of meetings (2017)	23

In accordance with the provisions of the Bylaws and the Regulations of the Board of Directors, the Executive Commission has the following faculties of the Board of Directors:

- Know and agree on the proposals of concession, modification or novation and cancellation of risk operations within its competence, in accordance with the provisions of the Manual of Policies and Procedures for credit investment risk management approved by the Board of Directors Likewise, the Executive Commission will know and resolve the proposals for the acquisition of assets by the Entity in or for debt payment of debts that must be submitted for its consideration, in accordance with the Asset Management Policies and Manuals.
- Know and agree on matters concerning personnel (disciplinary proceedings, granting of leave of absence ...) except in those cases in which the decision corresponds to the Chief Executive Officer or to the full Board of Directors, as they are employees directly dependent on the CEO.
- Know and agree on matters concerning the Entity's assets (real estate, expense files, purchase ...) and investments and divestments in investee companies, which must be submitted for consideration in accordance with the Internal Policies and Manuals, except those that by law correspond to the Annual General Meeting.





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

Through regular meetings, the Executive Commission was informed of the reports of the Chairman and Chief Executive Officer, which included the main macroeconomic figures and the evolution of the Entity's figures, highlighting: balance sheet and profit and loss account; evolution of the company's securities portfolio; customer resources and customer credit; market shares; liquidity management; delinquency and coverage rates; activity volumes and results of the Group's subsidiaries.

Likewise, it has intervened in the authorization or ratification of financing operations, due to the amount or condition of the applicants. Similarly, it has corroborated the operations approved, denied or ratified by the Credit Risk Committee.

### **Audit and Compliance Commission**

*Table 4: Composition of the Audit and Compliance Commission*

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	40%
% Independent counsellors	60%
% Other external	-
Number of meetings (2017)	9

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.
- Establish the appropriate relations with the external auditor to receive information on issues relative to its independence.
- Propose the appointment or re-election of the account auditor.
- 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.
- 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.

During 2017, the Commission has been informed about the requirements and communications of the supervisory bodies that are responsible for it. In relation to the financial information, it has been in charge of supervising the process of preparing and presenting the regulated financial information (including the Entity's financial statements) 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%
Number of meetings (2017)	4

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	-
% Dominical counsellors	50%
% Independent counsellors	50%
% Other external	-
Number of meetings (2017)	2

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 2017, the Commission has held two meetings:

- At the meeting held on February 23, 2017, the Remuneration Committee was informed of the report prepared by KPMG, issued for the purposes of the provisions of article 33.2 of Law 10/2014, as a result of the verification of compliance with the guidelines and the remuneration procedures, adopted by the Board of Directors. In the opinion of the



external expert, in general, the individualized conclusions drawn up for each of the areas under analysis make it possible to determine that Ibercaja Banco's Remuneration Policy is correctly aligned with the regulatory principles evaluated and with the best practices in the sector.

In the same session, the Remuneration Committee agreed to propose to the Board of Directors the maintenance of the criteria for defining the Identified Group as well as the inclusion of the Head of Regulatory Compliance and the Chief of Risk Control in the Identified Group, and accepted the evaluation of the fulfillment of exercise 2016 objectives for employees affected by the variable remuneration by objectives system in Central Services; reported favorably the definition of the objectives for the year 2017 and agreed to propose to the Board of Directors the approval of the directors' remuneration annual report.

Finally, it agreed to approve and submit to the Board of Directors the Annual Report on the activities of the Remuneration Committee for the year 2016.

- During the meeting held on February 24, 2017, the Remuneration Committee agreed to report favorably to the Board of Directors the proposal of attribution to the non-executive Chairman of an allocation of three hundred and fifty thousand euros per year for the exclusive dedication to the non-executive functions of his position.

### Major Risks and Solvency Commission

*Table 7: Composition of the Major Risks and Solvency Commission*

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	20%
% Independent counsellors	60%
% Other external	20%
Number of meetings (2017)	9

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 2017, 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 2016.



## Strategy Commission

Table 8: Composition of the Strategy Commission

Composition	
Category	%
% Executive counsellors	-
% Dominical counsellors	60%
% Independent counsellors	40%
% Other external	-
Number of meetings (2017)	5

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 2017, 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, as well as the progress of the new Strategic Plan..

More detailed information on the delegated commissions of the Board of Directors is presented in the Consolidated Management Report for 2017, 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](http://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 assessment of the suitability of the persons who are going to integrate the Board of Directors, their commercial and professional integrity, their knowledge and experience, as well as their disposition to the good governance of the Entity are taken into account: capacity of dedication (limiting the maximum number of positions they can occupy in other companies), independence and the absence of conflicts of interest. Therefore, the maximum number of positions that Counsellors can hold simultaneously has been limited, in Governance Bodies of other companies.

It must be review, at least annually, that the members of the identified collective 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 is available to the supervisory authorities.

### 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

Based on article 435 of the CRR, regarding the knowledge and competences of the Board of Directors, the Entity provides training sessions to the members of the Board of Directors. During the year, training sessions were given to the directors, regarding the entry into force and implications of the new IFRS9 accounting regulations; to the new Technical Guide 3/2017 of the CNMV on the Audit Commissions; the economic environment and the financial sector conducted by International Financial Analysts; and the additional implications in terms of Audit, as a consequence of the application of the new Audit Law.

### 3.2.6 - Diversity in Governance Bodies

The Entity strives to avoid at all times that its rules of internal governance contain discrimination, or that they contain implicit biases that prevent diversity (gender, age, geographical origin ...) in the selection of persons to be appointed as members of governing bodies and senior management.

Although there is currently no minimum percentage defined as a representation objective of the less represented gender in the Board of Directors, it has been expressly included in its Regulations that establishing a representation objective for the less represented gender in the Board of Directors and determining the manner in which this objective is to be achieved is the responsibility of the Appointments Committee.



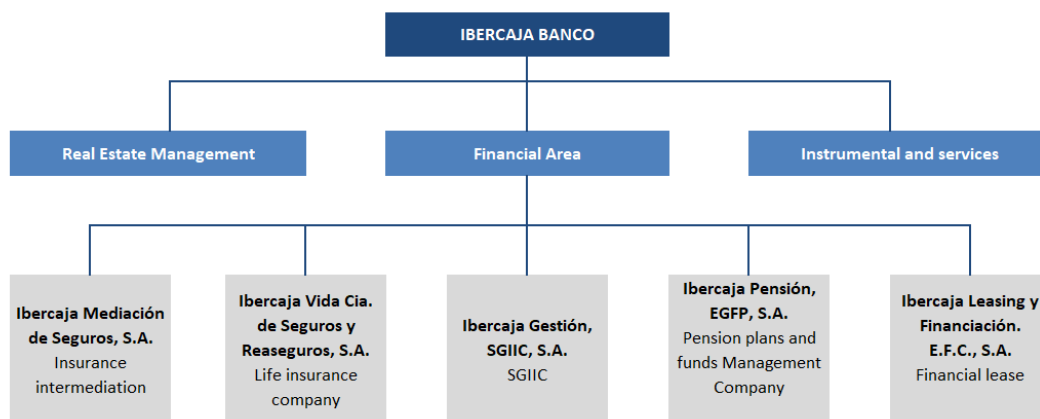
### 3.3 - Consolidation Scope

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:

*Illustration 6: Consolidation Scope entities*



Hereinafter 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 2017 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 Bank of Spain Circular 4/2004, of December 22. Consequently, all the balances derived from the transactions carried out between the companies consolidated by this method and which are significant have been eliminated in the consolidation process.

Additionally, the participation of third parties in:



- The Group's net assets are presented under the "Minority Interests" section in the consolidated balance sheet,
- Consolidated results for the year are presented in the "Income of the year attributable to minority interests" section in the consolidated income statement.

The consolidation of the results generated by the subsidiaries acquired during an exercise is made taking into account only those corresponding to the period between the date of acquisition and the closing of that year. At the same time, the consolidation of the results generated by the subsidiaries disposed of in one year is made taking into account only those corresponding to the period between the beginning of the year and the sale date.

#### *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.

These companies are valued according to the "equity method", as defined in the forty-ninth rule of Circular 4/2004 of the Bank of Spain.

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 2017:

- 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 Mediación de Seguros SA	TDA 4 Ibercaja Fondo Titulización
Ibercaja SAU	TDA 5 Ibercaja Fondo Titulización
Iberprofin SA	TDA 6 Ibercaja Fondo Titulización
Servicios a distancia IBD SL	TDA 7 Ibercaja Fondo Titulización
Dopar Servicios SL	TDA ICO Ibercaja Fondo Titulización
Enclama SL	Badajoz Siglo XXI SL
Inmobinsa SA	CAI Inmuebles SA
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
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 2017, which belong to the economic group as defined in the Bank of Spain Circular 4/2004 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**

During fiscal year 2017, and in order to simplify the current corporate structure, the following corporate operations have taken place:

- Merger through absorption of Ibercaja Banco, S.A. (absorbing company) and Ibercaja Patrimonios, S.G.C., S.A.U. (absorbed company) with extinction, via dissolution without liquidation, of the absorbed company and general transfer of all its assets to Ibercaja Banco. This transaction, which does not entail an increase in the Bank's capital stock or statutory amendments, is part of the process of reorganizing the personal and private banking activity of the Ibercaja Group, incorporating into the group's matrix the private banking services that Ibercaja Patrimonios was performing so far.
- Merger through absorption of Ibercaja, S.A.U. (absorbing company) and Caja Inmaculada Energía e Infraestructuras, S.A., Ibercaja Participaciones Empresariales, S.A., and Cajaragón, S.L. (absorbed companies).
- Merger through absorption of Ibercaja Gestión de Inmuebles, S.A. (absorbing company) and Mantenimiento de Promociones Urbanas, S.A. (absorbed company).
- Liquidation of the companies AnexaCapital, S.A.U. and Cartera de Inversiones Lusitania, S.L.



The changes produced during 2017 in the consolidation perimeter are shown below:

*Table 13: Scope modifications*

Scope modifications
<b>Companies liquidated in 2017</b>
AnexaCapital S.A.U
Cartera de inversiones Lusitania S.L.
<b>Merger through absorption in 2017</b>
Ibercaja Patrimonio by Ibercaja Banco
Caja Inmaculada Energía e Infraestructuras by Ibercaja SAU
Ibercaja Participaciones Empresariales, S.A by Ibercaja SAU
Cajaragón, S.L by Ibercaja SAU
Mantenimiento de Promociones Urbanas S.A. by Ibercaja Gestión de Inmuebles 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 2017. 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
<b>Cash, balances at central banks and other demand deposits</b>	<b>3,512,475</b>	-	<b>3</b>	<b>-1</b>	<b>3,512,477</b>
<b>Trading Book</b>	<b>9,378</b>	-	-	-	<b>9,378</b>
Derivatives	9,054	-	-	-	9,054
Debt securities	324	-	-	-	324
<i>Memorandum item: loaned or advanced as collateral</i>	-	-	-	-	-
<b>Other financial assets at fair value through profit or loss</b>	<b>315</b>	<b>51,932</b>	-	-	<b>52,247</b>
Equity instruments	315	41,317	-	-	41,632
Debt securities	-	10,615	-	-	10,615
<i>Memorandum item: loaned or advanced as collateral</i>	-	-	-	-	-
<b>Available-for-sale financial assets</b>	<b>4,871,085</b>	<b>5,998,804</b>	-	<b>-19,963</b>	<b>10,849,926</b>
Equity instruments	322,426	3,255	-	-	325,681
Debt securities	4,548,659	5,995,549	-	-19,963	10,524,245
<i>Memorandum item: loaned or advanced as collateral</i>	2,150,225	-	-	-	2,150,225
<b>Loans and receivables</b>	<b>34,647,544</b>	<b>1,480,386</b>	<b>1,630</b>	<b>-1,109,761</b>	<b>35,019,799</b>
Debt securities	1,995,376	332,615	-	-31,316	2,296,675
Loans and advances	32,652,168	1,147,771	1,630	-1,078,445	32,723,124
<i>Credit institutions</i>	340,789	1,147,615	1,355	-1,075,672	414,087
<i>Clients</i>	32,311,379	156	275	-2,773	32,309,037
<i>Memorandum item: loaned or advanced as collateral</i>	5,399,359	-	-	-	5,399,359
<b>Held-to-maturity investments</b>	-	-	-	-	-
<i>Memorandum item: loaned or advanced as collateral</i>	-	-	-	-	-
<b>Hedging derivatives</b>	<b>187,456</b>	-	-	-	<b>187,456</b>
<b>Adjustments to financial assets for macro-hedges</b>	-	-	-	-	-
<b>Holdings</b>	<b>542,061</b>	-	-	<b>-436,748</b>	<b>105,313</b>
Multi-group companies	27,884	-	-	-	27,884
Associated companies	77,429	-	-	-	77,429
Group companies	436,748	-	-	-436,748	-
<b>Insurance and reinsurance assets</b>	-	<b>395</b>	-	-	<b>395</b>
<b>Tangible assets</b>	<b>976,925</b>	<b>55,843</b>	<b>7</b>	<b>-3,361</b>	<b>1,029,414</b>
Property, plant and equipment	593,063	51,268	7	-3,361	640,977
<i>For own usage</i>	567,515	51,268	7	-3,361	615,429
<i>Leased out under an operating lease</i>	25,548	-	-	-	25,548
Real estate investments	383,862	4,575	-	-	388,437
<i>Leased out under an operating lease</i>	178,657	4,575	-	-	183,232
<i>Memorandum item: acquired under financial lease</i>	-	-	-	-	-
<b>Intangible assets</b>	<b>182,811</b>	-	-	<b>16,869</b>	<b>199,680</b>
Goodwill	128,065	-	-	16,869	144,934
Other intangible assets	54,746	-	-	-	54,746
<b>Tax assets</b>	<b>1,330,752</b>	<b>488</b>	<b>1,063</b>	<b>6,169</b>	<b>1,338,472</b>
Current	25,027	-	185	-158	25,054
Deferred	1,305,725	488	878	6,327	1,313,418
<b>Other Assets</b>	<b>361,673</b>	<b>4,784</b>	<b>1</b>	<b>-116,802</b>	<b>249,656</b>
Stocks	225,551	-	-	-	225,551
Other	136,122	4,784	1	-116,802	24,105
Non-current assets or disposal groups held for sale	556,108	-	-	-3,352	552,756
<b>TOTAL ASSETS</b>	<b>47,178,583</b>	<b>7,592,632</b>	<b>2,704</b>	<b>-1,666,950</b>	<b>53,106,969</b>



LIABILITIES	DISTRIBUTION			thousands of euros	
	CONSOLIDATED GROUP OF CREDIT INSTITUTIONS	ASSURANCE ENTITIES	OTHER ENTITIES	ADJUSTMENTS AND ELIMINATIONS	TOTAL PUBLIC BALANCE SHEET
<b>Trading book</b>	<b>7,301</b>	-	-	-	<b>7,301</b>
Derivatives	7,301	-	-	-	7,301
<b>Other financial liabilities at fair value through profit or loss</b>	-	-	-	-	-
<i>Memorandum item: subordinated liabilities</i>	-	-	-	-	-
<b>Financial liabilities at amortized cost</b>	<b>43,371,403</b>	<b>15,831</b>	<b>18,881</b>	<b>-1,135,220</b>	<b>42,270,895</b>
Deposits	40,750,003	-	15,347	-1,098,531	39,666,819
<i>Central Banks</i>	3,353,508	-	-	-	3,353,508
<i>Credit institutions</i>	1,228,537	-	15,347	-7,668	1,236,216
<i>Clients</i>	36,167,958	-	-	-1,090,863	35,077,095
Debt securities	1,875,853	-	-	-48,587	1,827,266
Other financial assets	745,547	15,831	3,534	11,898	776,810
<i>Memorandum item: subordinated liabilities</i>	635,755	-	-	-4,004	631,751
<b>Hedging derivatives</b>	<b>106,702</b>	-	-	-	<b>106,702</b>
<b>Adjustments to financial assets for macro-hedges</b>	<b>11,054</b>	-	-	-	<b>11,054</b>
<b>Insurance and reinsurance liabilities</b>	-	<b>7,124,743</b>	-	<b>-105,539</b>	<b>7,019,204</b>
<b>Provisions</b>	<b>369,665</b>	-	<b>14</b>	<b>3,100</b>	<b>372,779</b>
Fund for pensions or similar liabilities	108,033	-	-	12,718	120,751
Other long-term employee benefits	3,863	-	-	-	3,863
Provisions for taxes and other legal contingencies	12,814	-	-	-	12,814
Provisions for risks and contingent commitments	31,656	-	-	-	31,656
Other provisions	213,299	-	14	-9,618	203,695
<b>Tax liabilities</b>	<b>169,223</b>	<b>25,297</b>	<b>18</b>	<b>-2,908</b>	<b>191,630</b>
Current	3,134	2	18	-2	3,152
Deferred	166,089	25,295	-	-2,906	188,478
<b>Other liabilities</b>	<b>127,160</b>	<b>3,187</b>	<b>18</b>	<b>-2,253</b>	<b>128,112</b>
Non-current liabilities or disposal groups held for sale	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>44,162,508</b>	<b>7,169,058</b>	<b>18,931</b>	<b>-1,242,820</b>	<b>50,107,677</b>



EQUITY	DISTRIBUTION				thousands of euros	
	CONSOLIDATED GROUP OF CREDIT INSTITUTIONS	ASSURANCE ENTITIES	OTHER ENTITIES	ADJUSTMENTS AND ELIMINATIONS	TOTAL PUBLIC BALANCE SHEET	
<b>Own funds</b>	<b>2,854,904</b>	<b>378,365</b>	<b>-16,227</b>	<b>-362,127</b>	<b>2,854,915</b>	
Capital	2,144,276	135,065	7,307	-142,372	2,144,276	
<i>Issued capital</i>	2,144,276	135,065	7,307	-142,372	2,144,276	
<i>Non-called up required capital</i>	-	-	-	-	-	
<i>Memorandum item: 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	418,783	-	-	-	418,783	
Revaluation reserves	3,321	-	-	-	3,321	
Other reserves	150,157	197,694	-27,825	-169,858	150,168	
<i>Reserves or accumulated losses from associated companies</i>	-108,895	-	-	44,635	-64,260	
<i>Other</i>	259,052	197,694	-27,825	-214,493	214,428	
(Own shares)	-	-	-	-	-	
Profit of the year attributable to the parent entity	138,367	115,606	-189	-115,417	138,367	
(Interim dividends)	-	-70,000	-	70,000	-	
<b>Other accumulated comprehensive income</b>	<b>160,871</b>	<b>45,209</b>	<b>-</b>	<b>-62,003</b>	<b>144,077</b>	
Items not reclassified into profit or loss	5,188	-	-	-16,795	-11,607	
<i>Actuarial gains/losses from defined-benefit pension plans</i>	5,188	-	-	-16,795	-11,607	
<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	155,683	45,209	-	-45,208	155,684	
<i>Hedges on net investments in foreign business</i>	-	-	-	-	-	
<i>Exchange rate differences</i>	-	-	-	-	-	
<i>Hedge derivatives. Cash-flow hedges</i>	-1,169	-	-	-	-1,169	
<i>Financial assets held for sale</i>	157,202	45,209	-	-45,208	157,203	
<i>Debt instruments</i>	85,821	45,189	-	-45,188	85,822	
<i>Equity instruments</i>	71,381	20	-	-20	71,381	
<i>Non-current assets and disposal groups classified as held for sale</i>	-	-	-	-	-	
<i>Participation in other recognized gains/losses from associated companies</i>	-350	-	-	-	-350	
<b>Minority interests</b>	<b>300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300</b>	
Other accumulated comprehensive income	-	-	-	-	-	
Other items	300	-	-	-	300	
<b>TOTAL EQUITY</b>	<b>3,016,075</b>	<b>423,574</b>	<b>-16,227</b>	<b>-424,130</b>	<b>2,999,292</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>47,178,583</b>	<b>7,592,632</b>	<b>2,704</b>	<b>-1,666,950</b>	<b>53,106,969</b>	



### 3.5 - Identification of subsidiaries with own resources below minimum requirements

As of 31 December 2017 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 and Ibercaja Pensión), additionally comply with the requirements on minimum Own Resources, according to their specific regulation.

*Table 15: Own Resources Ibercaja Gestión*

Own Resources Ibercaja Gestión	
(thousands of euros)	Data 2017
Own Resources	48,137
Minimum Requirements Own Resources	2,632
Surplus	45,505

*Table 16: Own Resources Ibercaja Pensión*

Own Resources Ibercaja Pensión	
(thousands of euros)	Data 2017
Own Resources	35,411
Minimum Requirements Own Resources	10,512
Surplus	24,899

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 *Bank of Spain Circulars 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) nº 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. As indicated in section 4.2, the Group Common Equity Tier I instruments as of 31 December 2017 consist of:

- Equity.
- The reserves, including revaluation ones.
- The net profit for 2017 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 2018 (8.75% fully-loaded). 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, 2017, 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. As indicated in section 4.2, at December 31, 2017 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 2018 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 8.125% and a total phase-in capital of 11.625%. These solvency requirements include the minimum required by Pillar 1 (4.5% of CET1 and 8% of total capital), the requirement of Pillar II (1.75%) and capital conservation buffer (1.875%). The Pillar II requirement for Ibercaja, 1.75%, 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 2017.

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

*Table 17: Transitional period solvency requirements*

% of RWA's	2017	2018	2019
Capital Conservation Buffer	1.250%	1.875%	2.50%
Min. CET1	4.50%	4.50%	4.50%
Min. Tier I	6.00%	6.00%	6.00%
Min. Solvency ratio	8.00%	8.00%	8.00%
Min. CET1 + Conservation Buffer	5.750%	6.375%	7.00%
Min. Tier I + Conservation Buffer	7.250%	7.875%	8.50%
Min. Solvency Ratio + Conservation Buffer	9.250%	9.875%	10.50%





## 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 18: Conciliation of Own Funds with Financial Statements

<b>Full reconciliation of own funds elements with the audited financial statements</b>		
(thousands of euros)	Amount 2017	Amount 2016
Subscribed capital	2,144,276	2,144,276
Retained earnings	418,783	311,648
Valuation adjustments	3,321	3,329
Other reserves	150,168	150,973
Profit attributable to the Parent	138,367	142,897
Own funds in public balance sheet	2,854,915	2,753,123
Other accumulated comprehensive income	144,077	223,330
Minority interests	300	307
<b>Equity in public balance sheet</b>	<b>2,999,292</b>	<b>2,976,760</b>
Intangible assets	-213,586	-213,556
Deferred tax assets	-144,100	-121,062
Valuation adjustments (non-computable)	-31,309	-77,561
Proposed distribution of dividends	-17,500	-35,725
Contingent convertible bonds	-	223,600
Public equity differences and for prudential purposes	17,430	26,733
Total adjustments and deductions	-389,065	-197,571
Total Common Equity Tier 1 (CET1)	2,610,227	2,779,189
Preference shares	-	-
Other transitional adjustments of Additional Equity Tier 1	-	-
Total Additional Tier 1 Capital (AT1)	-	-
Total Tier 1 Capital (T1)	2,610,227	2,779,189
Subordinated debt	492,087	517,004
Total Tier 2 Capital (T2)	492,087	517,004
<b>Total Computable Own Funds</b>	<b>3,102,314</b>	<b>3,296,193</b>



## 4.2 - Equity Details

Below, the detail at 31 December 2017 and 2016 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 19: Computable Own Funds

<b>Computable Own Funds</b>		
(thousands of euros)	Amount 2017	Amount 2016
<b>TOTAL COMPUTABLE OWN FUNDS</b>	<b>3,102,314</b>	<b>3,296,193</b>
<b>Tier 1 Capital (T1)</b>	<b>2,610,227</b>	<b>2,779,189</b>
<b>Common Equity Tier 1 (CET1)</b>	<b>2,610,227</b>	<b>2,779,189</b>
Equity instruments disbursed	2,144,276	2,144,276
Retained earnings from previous years	568,940	463,016
Admissible results	120,867	107,172
Other reserves	3,321	3,329
Common Equity Tier 1 instruments in prior regime	-	223,600
Minority interests	87	143
Valuation adjustments of the portfolio available for sale	125,234	167,125
Actuarial gains and losses in defined benefit schemes	5,188	5,146
Deductions from Common Equity Tier 1 Instruments (CET 1)	-357,686	-334,618
<i>Intangible assets</i>	-213,586	-213,556
Deferred tax assets that rely on future returns	-144,100	-121,062
<b>Additional Tier 1 Capital (AT1)</b>	<b>-</b>	<b>-</b>
Additional Tier 1 capital instruments in prior regime	-	-
Deductions from Additional Tier 1 capital instruments (AT 1)	-	-
<b>Tier 2 Capital (T2)</b>	<b>492,087</b>	<b>517,004</b>
Subordinated debt and subordinated loans and others	492,087	517,004

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 2017

On March 12, 2013, the issuance, subscription and disbursement of CoCos for 407 million euros was made public. The subscription and disbursement were made entirely by the FROB through the delivery to the Bank of fixed-income securities issued by the European Stability Mechanism (ESM), belonging to the issue of February 5, 2013.

On March 24, 2017, the European Central Bank authorized Ibercaja Banco to pay an early amortization of 224 million euros of these securities, the materialization of which was scheduled for December 2017. With the aforementioned early repayment, the Company has fully reimbursed the public aids received by Banco Grupo Caja3. Although the amortization of these securities has led to a reduction in the capital ratios phase-in, as of December 31, 2017, the Entity has higher capital ratios on a consolidated basis higher than, even comfortably, those required by the European Central Bank for the financial year 2018



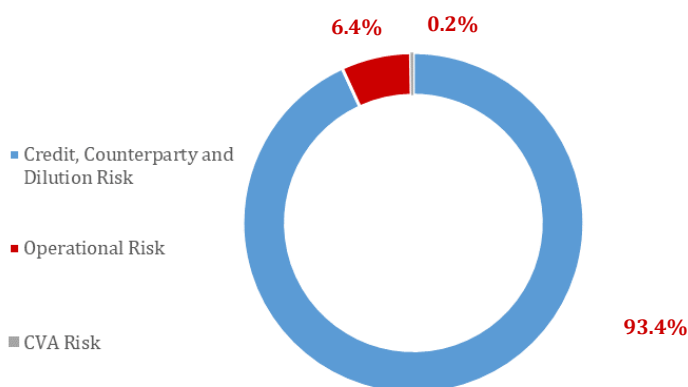
## 5. Minimum Requirements on Own Resources

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 2017 and 2016.

Table 20: Minimum Own Funds Requirements

Own Funds Requirements		
(thousands of euros)	2017	2016
Credit, Counterparty and Dilution risk	1,663,561	1,732,813
Market Risk	-	-
Operational Risk	113,372	117,595
CVA Risk	4,370	3,123
<b>Total Pillar 1 Requirements</b>	<b>1,781,303</b>	<b>1,853,531</b>

Illustration 7: 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.



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.

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

The Bank's Board of Directors approves the "Declaration of Capital Adequacy" and the "Declaration of Liquidity Adequacy" and both are sent to the supervisor. The Self-assessment Report is the basis of the dialogue with the supervisor regarding the risk profile, the capital and liquidity adequacy, as well as the 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 2017, calculated, for each of the categories to which the standard method has been applied, as an 8 % of risk-weighted exposures:

Table 21: Own resources requirements for Credit Risk

Own Resources requirements for Credit Risk		
(thousands of euros)	2017	2016
Central governments or central banks	81,761	76,718
Regional governments and local authorities	-	-
Public sector entities and other on-profit public institutions	6,561	20,874
Multilateral development banks	-	-
International organizations	-	-
Institutions	15,164	30,364
Corporates	294,160	279,464
Retail customers	355,025	319,902
Exposures secured by real estate	534,125	566,639
Exposure in default situation	135,898	163,908
High-risk exposures	1,422	2,117
Covered bonds	908	951
Exposures to institutions and corporates with a short-term credit rating	-	659
Exposures to collective investment institutions	61	446
Equity exposures	93,969	99,899
Other exposures	142,188	157,732
Securitization positions	2,319	13,140
<b>Total own resources requirements for credit risk</b>	<b>1,663,561</b>	<b>1,732,813</b>

(\*) 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 22: Own resources requirements for Counterparty Risk

Own resources requirements for Counterparty Risk		
(thousands of euros)	2017	2016
Market-to-Market Method	9,749	4,303
Original Risk Method	-	-
Standard Method	-	-
Internal Models Method	-	-
<b>Total own resources requirements</b>	<b>9,749</b>	<b>4,303</b>

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 23: SMEs correction exposures

Exposures subject to "corrective factor"		
(thousands of euros)	2017	2016
Requirements for exposures applying the correction factor	207,347	190,039
Requirements for exposures without applying the correction factor	272,145	249,428
<b>Total own resources correction requirements</b>	<b>-64,798</b>	<b>-59,389</b>

### 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 2017 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 2017 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 2017 the operational risk requirements for the Group are the following:

Table 24: Own resources requirements for Operational Risk

Own resources requirements for Operational Risk		
(thousands of euros)	2017	2016
Basic Indicator Method	-	-
Standard Method	113,372	117,595
Alternative Standard Method	-	-
Advanced Method	-	-
<b>Total Equity Requirements</b>	<b>113,372</b>	<b>117,595</b>

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 2017, the Group requirements for risk of credit valuation adjustment (CVA) are the following:

Table 25: Own resources requirements for CVA

Own Resources Requirements for Credit Valuation Adjustment (CVA)		
(thousands of euros)	2017	2016
Advanced Method	-	-
Standard Method	4,370	3,123
Based on the original exposure method	-	-
<b>Total equity requirements</b>	<b>4,370</b>	<b>3,123</b>

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

In order to show an adequate risk management carried out by the entity and offer more information regarding it, the main indicators and figures are included in the Group's annual report.

### 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. This statement is approved by the Board of Directors and ensures the adequacy of the risk management systems to the Entity's risk profile and the strategy.

The RAF describes the general risk profile of the Entity associated with its strategy. In addition, this document establishes tolerance thresholds, which take into account the current risk profile of the Entity. This statement includes, for each type of risk, metrics and key figures, together with the way in which the risk profile interacts with the tolerance established by the management body.

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.



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 has reviewed both the manuals and the risk management frameworks and has approved those derived from the entry into force of the IFRS 9 standard, being:

- Manual of Policies and Procedures for Liquidity Risk Management,
- Guidelines for Risk Lines,
- Manual of policies of the Capital Markets Unit,
- Manual of policies and procedures for the management of the interest rate risk,
- Manual of Policies and Procedures for Liquidity Risk Management,
- Operational Risk Management Framework,
- Validation and Internal Control Framework,
- Model Governance Framework,
- Methodological Manual of Accounting Classification of Exposures,
- Methodological Manual for the Classification and Estimation of Impairment at Individual Level,
- Methodological Manual IFRS 9 - Collective Model of Provisions,
- Manual of Calculation of the Internal Model of Guarantees.

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 *Law 11/2015, of June 18, on the recovery and resolution of credit institutions and investment services companies*, has a recovery plan defined, to prevent and ensure its ability to react to situations of solvency deterioration or funding capacity.

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





## 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 resulting from 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.

##### ○ *Credit granting, monitoring and recovery policies*

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

*Law 2/2011 of March 4, on Sustainable Economy, the Order EHA / 2899/2011, of October 28, "on transparency and protection of the customer of banking services" and the Circular*



of the Bank of Spain 5/2012, of June 27 "on transparency of banking services and responsibility in the granting of loans and credits".

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

The manual considers as fundamental criteria for the granting of loans, the reasonableness of the proposal, the analysis of the payment capacity of the borrower and the prudent valuation of the guarantees. In the case of real estate guarantees, they are valued 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://contrasperecia.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 ongoing 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.

- 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 OTS 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.

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 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).
- Indicators, limits and tolerance thresholds.
- Generation of stress scenarios
- Management support models (operational risk management, control and mitigation): information derived from previous methodologies and implementation of measures to mitigate this risk.

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 2017, 615 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 the actual losses recorded in the loss database in 2017 shows that the total net annual loss amount (considering the direct and insurance recoveries) due to operational risk events is 39,841 thousand euros corresponding to 3,700 events, of which 1,147 events for 34,879 thousand euro derive from losses linked to land clauses (interest reimbursement for 31,609 thousand euro and legal costs for 3,271 thousand euro).

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 Board of Directors establishes strategies, policies and limits for the management of this risk documented in the "Manual of policies and procedures for the management of interest rate risk".

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 average duration of 2.67 years, below the maximum of 5 years set in the regulations.

Assumptions are assumed for the early amortization of time deposits based on behavioral models developed by the Entity, considering a percentage of early cancellation of more than 4%.

In the same way, assumptions of early amortization of loans by purpose are assumed, based on the historical experience of the Entity. Thus, for housing mortgage loans, a prepayment rate of 2% 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 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 Risk Appetite Framework is consistent with the internal liquidity adequacy assessment process (ILAAP), which ensures the adequate relationship between the financing profile and the availability of liquid assets of the Group.

In addition, the Ibercaja Group has a Recovery Plan prepared in accordance with the Banking Recovery and Restructuring Directive (Directive 2014/59, BRRD), as well as the guidelines and recommendations of the EBA, which lay the foundations for the recovery process of the financial strength and viability of the Group, if a situation of severe stress occurs.

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

The funding strategies in retail markets and the use of alternative sources of liquidity in the short and long term, allow the Group to have the necessary resources to meet the demand for solvent credit derived from commercial activity and maintain treasury positions, within the management parameters established in the Risk Appetite Framework and in the "Policies and Procedures Manual for Liquidity Risk Management".



- *Structure and organization of the liquidity risk management function*

The internal Government of the Entity complies with the provisions contained in Regulation (EU) No. 575/2013, of June 26 (CRR), and Directive 2013/36 / EU, of June 26 (CRD IV); the recommendations of good governance contained in the EBA Guideline on Internal Governance (GL 44) as well as the provisions of Law 10/2014, on regulation, supervision and solvency of credit institutions and in the Royal Decree 84/2015, among other regulations. With the aim, all this, that the corporate governance system is aligned, not only with the requirements imposed by the directly applicable legal standards, but also with the recommendations and best practices contained in the Corporate Governance Guidelines. The main governing bodies that manage and monitor liquidity risk are: the Board of Directors, the Major Risks and Solvency Commission, the Strategy Committee and, at executive level, the Global Risk Committee.

There are clear lines of responsibility to identify, analyze, evaluate, mitigate, monitor and communicate liquidity risk, as established in the Risk Appetite Framework (RAF) and in the "Manual of Policies and Procedures for the Management of Liquidity risk". The risk control and monitoring systems are subject to an independent review and there is a clear separation between the units that assume risks and those in charge of risk control and auditing.

Lastly, the liquidity risk management environment has sufficient and qualitatively adequate human and technical resources.

- *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 behavior scenarios. These procedures and analysis techniques are reviewed as often as necessary to ensure proper functioning.

Short, medium and long-term forecasts are made to know the financing needs and compliance with the limits, which take into account the current macroeconomic context, due to their impact on the evolution of the different assets and liabilities of the balance sheet, as well as contingent liabilities and derivative products. The internal controls are based on a wide range of metrics of proven effectiveness, such as balance sheet structure indicators, liquidity position or financing sources that are included in the RAF and in the Manual of Policies and Procedures for Risk Management Liquidity. The Group establishes tolerance thresholds on these metrics that allow to identify possible deterioration situations.

In addition, the Bank is prepared to face any crisis, both internal and of the markets in which it operates, with action plans that guarantee sufficient liquidity at the lowest possible cost. The projections are complemented by sensitivity and stress exercises, such as the survival horizon, flight of retail deposits, LCR stress, asset stress with charges or reverse stress.

A set of scorecards, limits and alerts have been established, particularly liquidity risk, which are communicated quarterly to the Global Risk Committee (first and second level metrics), the Major Risks and Solvency Commission and the Board of Directors (first level metrics).



- *Policies for hedging and reducing liquidity risk and strategies for supervising its effectiveness*

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

With regards to action plans, the Global Risk Committee is responsible for taking corrective measures, after the analysis of all available information, including escalation to the Governing Bodies, in situations of stress.

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

- a) Regarding the adequacy of the liquidity risk management systems established in relation to the entity's profile and strategy.

The Risk Appetite Framework is consistent with the internal liquidity adequacy assessment process (ILAAP), which ensures the adequate relationship between the financing profile and the availability of liquid assets of the Group.

To this end, the Group has developed a self-assessment methodology, based mainly on the metrics and thresholds defined and approved in its RAF to determine the inherent and residual liquidity risk. In addition, the control environment is evaluated according to the SREP methodology, assessing the areas of governance, risk appetite and the internal risk management and control framework. As a result of the above, the liquidity risk profile of the Ibercaja Group stands, at December 2017, at a low level, with broad availability of liquid assets. In this way, the relationship between the financing profile and the availability of liquid assets of the Group is adequate.

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

- b) Statement on the entity's general liquidity risk profile, associated with the business strategy.

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

There is a buffer of high quality liquid assets free of charge as insurance against liquidity stress scenarios.

This buffer is made up of high-quality liquid assets, public debt or similar instruments, designed to protect the Group against stress scenarios of greater intensity as demonstrated by the level of the LCR ratio as of December 31, 2017, which stands at 281%, well above the minimum requirements set at 100%.

The size of the buffer of liquid assets is established in accordance with the level of risk tolerance set by Ibercaja in the RAF.

Similarly, the "Available liquidity over assets" ratio reaches 20.11% as of December 31, 2017.





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

Long-term obligations are also met through a variety of stable financing instruments, as shown by the net stable financing ratio (NSFR), which reaches 124% at December 31, 2017, well above the minimum requirements set at 100%.

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

Other coefficients and key figures justifying the liquidity risk profile are included in Annex II and in section 11 of this report.

### **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 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" of Ibercaja Banco.

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, 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, 2017:

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
<b>Confidence level: 99%</b>								
Time horizon: 1 day	-9,278	0.30%	-19,510	0.63%	-14,637	0.47%	-21,299	0.69%
Time horizon: 10 days	-29,338	0.95%	-61,607	1.99%	-	-	-	-

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
<b>Confidence level: 99%</b>								
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%	-	-	-	-

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.



### Foreign Exchange Risk

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

Currently, the Group does not hold significant positions in foreign currency of a speculative nature or open positions in foreign currency of non-speculative nature of a significant amount.

The company's policy is to limit this type of risk through its general mitigation.

### Reputational Risk

It is defined as the unfavorable impact that an event can cause on the corporate reputation of the entities that are part of the Group. It is associated with a negative perception from interest groups (customers, employees, society in general, regulators, shareholders, suppliers, counterparts, investors, market analysts ...) that affects the Group's ability to maintain existing commercial relationships or establish new ones. The objective of reputational risk management is the preservation of corporate reputation.

This risk is closely related to the rest, either because of the amplifying effect it may have on them, or because it often arises from the materialization of other risks, especially from regulatory compliance breaches. For this reason, policies and procedures have been set up to ensure compliance with applicable regulations, whether internal or external.

In addition, and as a key control function to mitigate the risk of possible negative impacts derived from regulatory breaches, the company and various financial entities of the Group have a function of verification of regulatory compliance. Throughout the year 2017, the Group continued with its efforts of managing reputational risk through its measurement, by identifying strengths and areas for improvement; and through the implementation of the action plans designed in 2016.

## 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;
- Evaluate and monitor the risk profile and its adaptation to the established framework and the Group's strategy and approve the capital self-assessment report.
- Establish and approve the Risk Appetite Framework (RAF) of Ibercaja Group, following a report from the Major Risks and Solvency Commission, and review it at a minimum annual frequency or when necessary depending on the circumstances.
- 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.
- Ensure that the action plans and corrective measures necessary for the management of limits exceeded are established.
- Ensure that all aspects of capital planning are integrated into the management in coherence with the scenarios used in the Strategic Plan, the Risk Appetite Framework and the Financing Plan.
- Actively participate in the management of all material risks addressed in the solvency regulations, ensuring the allocation of adequate resources to their management.



## 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:

- Propose, through the Audit and Compliance Committee, for approval by the Board of Directors, the Internal Audit Charter of Ibercaja Group, which will establish the position of the Internal Audit Function in the organization, its responsibilities, the way they are going to develop them; and the procedure for reporting the results of its verifications to the Board of Directors and Senior Management.
- Plan, coordinate and develop the Annual Internal Audit Operational Plan that will be carried out each year.
- Propose to the Chief Executive Officer, and report to the Internal Audit Committee and the Audit and Compliance Committee of the Board of Directors, the Annual Internal Audit Operational Plan, and inform them periodically of their degree of monitoring.
- Ensure the quality of the methodologies, actions and reports of the Internal Audit functions.
- Permanently evaluate the proper functioning of the information and internal control systems inherent to the activities of the Entity or its Group, proposing, with a preventive approach, recommendations for improvement on them.
- Inform the Chief Executive Officer, Senior Management and, periodically, the Internal Audit Committee about the main conclusions and recommendations resulting from the internal audits carried out; as well as the degree of implementation of these recommendations.
- Periodically inform the Board of Directors, through its Audit and Compliance Committee, about the results of the verifiable work carried out by Internal Audit.
- Participate in the dialogue with the regulatory or supervisory bodies, within their functions, and coordinate with them the scope and content of the Internal Audit reports required by the aforementioned 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.
- Ensure compliance with the regulations on matters of its competence that may affect the development of the activity of Ibercaja or of the Group companies, non-compliance with which may cause regulatory sanctions and reputational risk for the Entity.
- Ensure the correct application of the procedures established in the transparency and client protection regulations (both for banking products and investment services) - customer compliance-.
- Collaborate in the development of content, ensure the correct diffusion and update of the mandatory minimum contents that should be disclosed to the public through the Entity's corporate website, especially in relation to corporate governance and with regards to information for investors
- Ensure the proper application of the procedures related to the Customer Service
- Carry out, in collaboration with the Customer Service Department, Legal Advice and Marketing and Digital Strategy Directorates, and Network Area, a systematic assessment of claims with the objective of identifying and correcting their source and mitigating the possible risks associated.
- Ensure that the development and updating of the Policies and Manuals of the Entity are in line with the regulations in force, the guidelines and agreements adopted by the governing bodies of the Entity, as well as the consistency among them.
- Verify, in coordination with the different competent Directorates and Units, the correct identification and fulfillment of their legal obligations in their respective spheres of interest, monitoring the effective application of the procedures and controls established for that purpose, in particular, regarding prevention of money laundering, in tax matters, user and consumer protection, the provision of services in the field of the securities market, the protection of personal data (LOPD), the prevention of occupational risks and in terms of security.
- Coordinate the implementation and monitoring of the criminal risk prevention model in the Entity, as well as the application, by the Directorates and Units involved, of the high-level and specific controls in the different areas of action of the Entity.



## 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.

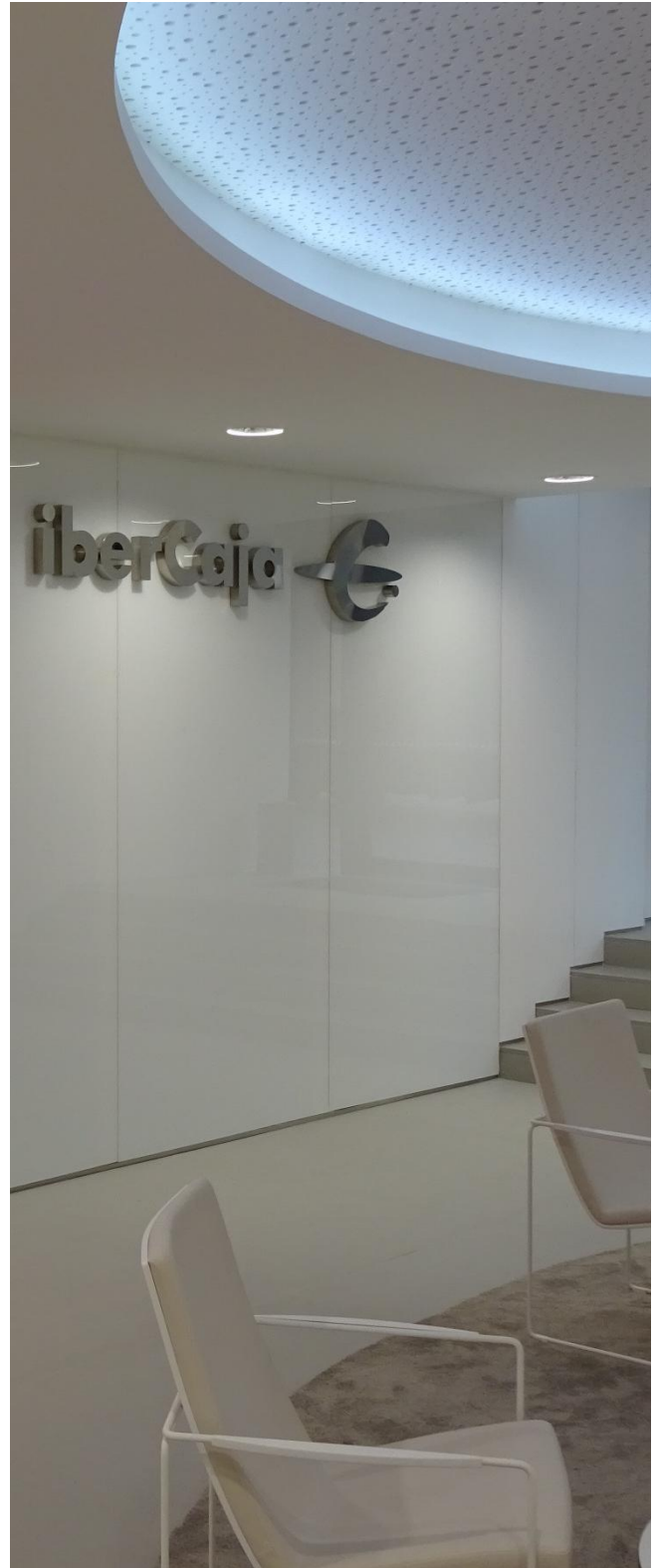
Two types of metrics can be distinguished, quantitative and qualitative. They will identify quantitative metrics for those risks that can be measured or quantified, compared to other risks such as regulatory compliance risk that will be monitored by qualitative criteria.

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 impaired and its book value is corrected when there is objective evidence that events have occurred that give rise to:

- In the case of debt instruments (loans, credits and debt securities), a negative impact on the future cash flows that were estimated at the time the transaction was formalized.
- In the case of equity instruments, the book value cannot be fully recovered.

Doubtful assets are classified as:

- Due to the late payment of the holder: transactions with any principal amount due, interest or contractually agreed expenses, generally, with more than 90 days, unless it is classified as defaulted. Also included in this category are the guarantees granted when the guarantor has incurred delinquency of the guaranteed operation. Likewise, the amount of all the operations of a particular holder are included when the operations with general amounts due, as indicated above, with more than 90 days, are greater than 20% of the amounts receivable.
- For reasons other than the default of the holder: transactions in which, without the circumstances to classify them in the categories of default or doubtful, there are reasonable doubts about their total reimbursement in the terms contractually agreed; as well as off-balance sheet exposures that are not classified as doubtful due to late payment for which the Group is likely to pay and its recovery is unlikely.

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 2017

The following table includes the credit risk exposures of the Group are presented as of 31 December 2017, 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 26: Exposure by risk category (standard)

Exposure by risk category		
(thousands of euros)	Average exposure 2017	Exposure December 2017
Central governments or central banks	8,524,711	7,804,769
Regional governments and local authorities	1,033,755	950,287
Public sector entities and other non-profit public institutions	2,417,364	2,395,172
Multilateral development banks	3,796	9,080
International organizations	1,120	-
Institutions	778,906	720,336
Corporates	4,233,991	4,243,182
Retail customers	6,241,091	6,742,917
Exposures secured by real estate	19,730,449	19,083,263
Exposure in default situation	1,735,516	1,580,579
High-risk exposures	12,274	11,847
Covered Bonds	59,021	56,769
Exposures to institutions and corporates with a short-term credit rating	562	-
Exposure to collective investment institutions	12,587	760
Equity exposures	858,134	822,425
Other exposures	2,097,939	2,119,025
Securitisation exposures	351,562	232,442
<b>TOTAL</b>	<b>48,092,778</b>	<b>46,772,853</b>



## 7.2.2 - Geographical distribution of exposures

Detail on the value of credit risk exposures of the Group as of 31 December 2017, 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 27: Exposures by great geographical areas

Exposures by great geographical areas		
(thousands of euros)	Exposure Value 2017	Exposure Value 2016
Spain	45,797,139	48,665,210
Other EU countries	876,073	1,234,376
Other European countries	34,427	38,638
USA	31,228	57,927
Rest of the world	33,985	31,875
<b>TOTAL GEOGRAPHICAL AREAS</b>	<b>46,772,853</b>	<b>53,516,795</b>

## 7.2.3 - Exposure by economic sector

Detail on the value of credit risk exposures of the Group as of 31 December 2017, 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 28: Distribution by economic sector

Exposure by economic sector		
(thousands of euros)	Exposure Value 2017	Exposure Value 2016
Agriculture, farming and fishing	1,112,113	1,026,314
Extractive industry	32,157	40,482
Manufacturing industry	1,593,531	1,576,102
Production and distribution of energy, water and gas	231,303	287,811
Construction	1,170,215	1,244,680
Commerce and repairs	2,192,765	2,052,432
Catering industry	647,844	661,129
Transport, storage and communications	827,489	789,389
Financial intermediation	3,269,004	3,473,305
Real estate activities and business services	4,013,288	4,171,524
Other services	882,954	857,702
Public administrations	4,121,486	8,929,167
Central banks, credit institutions, intermediation and other financial services	611,380	601,960
Other activities	26,067,324	24,316,029
<b>TOTAL</b>	<b>46,772,853</b>	<b>50,028,026</b>



## 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 2017, net of adjustments, impairment losses, effects of the reduction by credit risk and application of conversion factors to off-balance-sheet items:

Table 29: 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	-	10,251	2,013,887	5,780,631	7,804,769
Regional governments and local authorities	69,131	89,638	512,196	279,322	950,287
Public sector entities and other non-profit public institutions	656,347	56,146	1,358,588	324,091	2,395,172
Multilateral development banks	-	-	6,030	3,050	9,080
International organizations	-	-	-	-	-
Institutions	266,259	180,193	178,790	95,094	720,336
Corporates	477,754	616,414	769,455	2,379,559	4,243,182
Retail customers	562,604	932,619	1,389,304	3,858,390	6,742,917
Exposures secured by real estate	302,162	968,056	4,364,186	13,448,858	19,083,263
Exposure in default situation	225,763	75,167	125,604	1,154,045	1,580,579
High-risk exposures	-	-	11,847	-	11,847
Covered Bonds	-	-	56,769	-	56,769
Exposures to institutions and corporates with a short-term credit rating	-	-	-	-	-
Exposure to collective investment institutions	-	-	760	-	760
Equity exposures	-	-	777,514	44,911	822,425
Other exposures	1,498	5,146	26,389	2,085,992	2,119,025
Securitization exposures	73,494	2,109	107,964	48,875	232,442
<b>CATEGORY TOTAL</b>	<b>2,635,012</b>	<b>2,935,739</b>	<b>11,699,283</b>	<b>29,502,819</b>	<b>46,772,853</b>



## 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 2017 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 2017 business year:

Table 30: Impaired exposures by category

Impaired exposures by category				
(thousands of euros)	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	4,978	4,978	31	-2
Public sector entities and other non-profit public institutions	9,157	9,157	3,678	730
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Institutions	90	90	90	90
Corporates	1,037,343	1,037,343	577,639	169,123
Retail customers	952,933	952,933	435,707	102,346
Exposures secured by real estate	627,269	627,269	14,806	-9,136
High-risk exposures	-	-	-	-
Covered Bonds	-	-	-	-
Exposures to institutions and capital with short-term credit rating	-	-	-	-
Exposure to collective investment institutions	-	-	-	-
Equity exposures	92,657	-	42,044	10,962
Other exposures	5,018	5,018	981	-
<b>CATEGORY TOTAL</b>	<b>2,729,445</b>	<b>2,636,788</b>	<b>1,074,975</b>	<b>274,112</b>

(\*) 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 2017, disaggregated by relevant geographical areas, jointly with the amount of impairment losses and allowances for contingent risks and commitments constituted over impaired exposures:

Table 31: 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	2,721,997	2,629,340	1,072,504	274,460
Other EU countries	5,122	5,122	1,784	190
Other European countries	1,841	1,841	310	-354
USA	43	43	22	-174
Rest of the world	442	442	355	-10
<b>TOTAL GEOGRAPHICAL AREAS</b>	<b>2,729,445</b>	<b>2,636,788</b>	<b>1,074,975</b>	<b>274,112</b>

(\*) 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 2017, 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 32: 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	29,178	29,178	8,748	3,968
Extractive industry	3,817	3,817	1,073	168
Manufacturing industry	102,622	102,622	42,113	15,761
Production and distribution of energy, water and gas	9,111	9,111	6,564	11
Construction	208,049	208,049	76,992	14,097
Commerce and repairs	153,573	153,573	58,954	24,316
Catering	132,684	132,684	42,918	646
Transport, storage and communications	43,538	43,538	14,724	5,827
Financial intermediation	5,421	5,421	1,009	412
Real estate activities and business services	1,077,959	1,077,959	496,094	148,424
Other services	71,006	71,006	31,708	2,277
Public administrations	5,739	5,739	182	38
Central banks, credit institutions, intermediation and other financial services	4	4	3	2
Other activities	886,744	794,087	293,893	58,165
<b>TOTAL</b>	<b>2,729,445</b>	<b>2,636,788</b>	<b>1,074,975</b>	<b>274,112</b>

(\*) 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 2017 business year in impairment losses and allowances for contingent risks and commitments by credit risk

Variations that have happened during the 2017 business year regarding recorded impairment losses by credit risk in the Group, and allowances for contingent risks and commitments suit to the established in Annex IX of Circular 4/2004 of Bank of Spain, both in the type of losses and allowances constituted as in the methodology applied for their calculation.

Detail of movements during the 2017 business year is shown below:

Table 33: Value adjustments by impairments

Value adjustments by impairments from credit risk		
(thousands of euros)	Losses by assets impairments	Allowances for contingent risks and commitments
<b>Balance as of January 1, 2017</b>	<b>1,414,569</b>	<b>35,328</b>
Allowances charge to profit and loss	578,111	12,712
Reversals credit to profit and loss	-384,242	-16,387
Amount applied during the business year	-448,294	-35
Effect from foreign currency exchange rate differences	-	-
Variations produced by business combinations	-	-
Variations in the scope of consolidation	-	-
Transfers	-	-
Other movements	-19,997	38
<b>Balance as of December 31, 2017</b>	<b>1,140,147</b>	<b>31,656</b>

In 2017 the Group has registered 11,450 thousand euro 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.



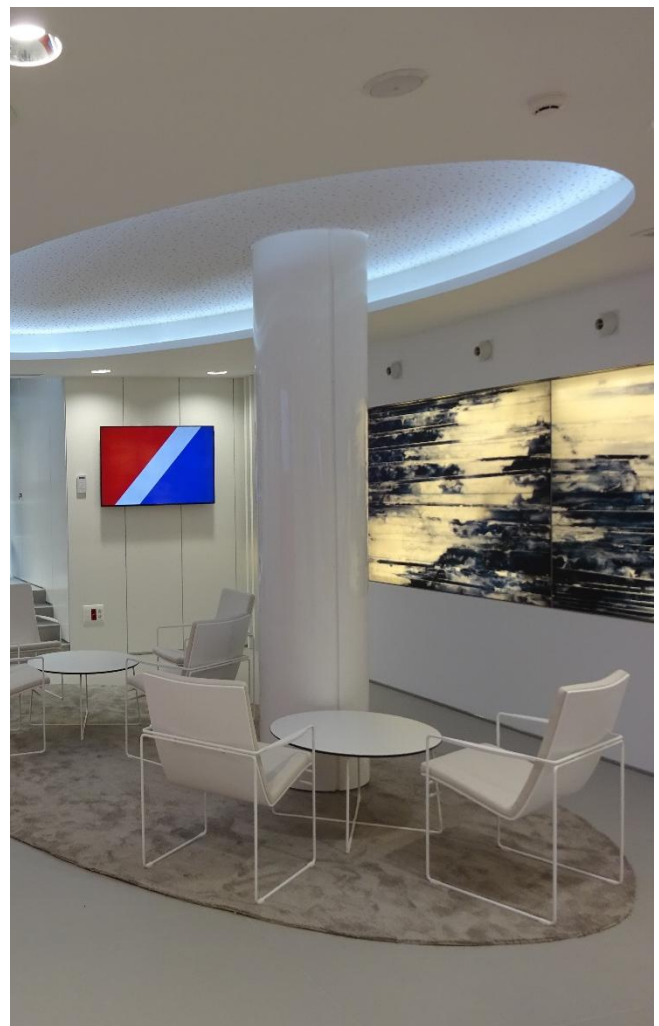
In the Group virtually all the risks assumed in operations on derivative instruments with financial institutions are covered by the signature of standardized ISDA and/or CMOF contracts, which provide for clauses in the event of insolvency of one of the parties, the compensation of the present value of 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.

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

- General adverse correlation risk: arises when the probability of default of counterparties is positively correlated with general market risk factors;
- Specific adverse correlation risk: arises when the future exposure to a specific counterparty is correlated most certainly with the probability of non-compliance of the counterparty due to the nature of the operations with the latter (in other words, inversely related to the credit quality of the counterparty). An entity is considered to be exposed to the specific wrong-way risk if it is foreseeable that the future exposure to a specific counterparty will be high when the probability of default of the counterparty is also high.

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





The detail of the credit exposure of the Group to counterparty risk for its trading in derivatives is presented as of 31 December 2017, 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 34: Counterparty risk by derivatives operations

Counterparty risk by derivatives operations		
(thousands of euros)	Amount 2017	Amount 2016
Positive fair value of the contracts	1,583,079	1,562,597
Minus: Effect from settlement agreements	259,506	434,379
Credit exposure after settlement	1,323,573	143,201
Minus: Effect of collateral received	811,345	985,018
<b>Credit exposure to derivatives after settlement and collateral</b>	<b>512,228</b>	<b>143,201</b>

### Information on calculation methodology

Hereafter the amount of the Group consolidated exposure by counterparty credit risk is indicated as of 31 December 2017, disaggregated attending to the method applied for the calculation of minimum requirements on own resources associated to this risk:

Table 35: Counterparty credit risk – Calculation method

Method Applied		
(thousands of euros)	Amount 2017	Amount 2016
Mark-to-Market Method	512,228	143,201
Original Risk Method	-	-
Standard Method	-	-
Internal Models Method	-	-
<b>TOTAL ORIGINAL EXPOSURE</b>	<b>512,228</b>	<b>143,201</b>

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 external 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 36: 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
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
Securitization positions	X	X	X	

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

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

The application of risk mitigation techniques based on the utilization of pledge and personal real guarantees have, as of 31 December 2017, the following effect on value adjustment net exposures:

Table 37: Value adjustment net exposures

Value adjustment net exposure		
(thousands of euros)	Amount 2017	Amount 2016
Net Exposure of Adjustments and Allowances	50,866,906	53,254,856
Exposure Full Adjusted Value	50,055,561	53,240,944
Effect application of mitigation techniques (*)	811,345	13,913

(\*) 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 38: Exposure categories and degree of quality

Disaggregation by exposure categories and degrees of quality (amount in €)							
Risk Category	Measurement	0%	20%	50%	75%	100%	Total
Central governments or central banks	Net exposure	7,420,018	-	-	-	-	7,420,018
	Adjusted value	7,482,224	-	-	-	-	7,482,224
Regional governments and local authorities	Net exposure	975,009	-	-	-	-	975,009
	Adjusted value	1,043,145	-	-	-	-	1,043,145
Public sector entities and other non-profit public institutions	Net exposure	-	301,449	162,940	-	21,430	485,819
	Adjusted value	-	231,764	121,575	-	21,430	374,769
Multilateral development banks	Net exposure	-	-	-	-	-	-
	Adjusted value	9,080	-	-	-	-	9,080
International Organizations	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Institutions	Net exposure	-	459,541	175,626	-	-	635,167
	Adjusted value	-	531,683	154,786	-	-	686,469
Corporates	Net exposure	-	-	-	-	5,535,631	5,535,631
	Adjusted value	-	-	-	-	4,747,100	4,747,100
Retail Customers	Net exposure	-	-	-	8,344,349	-	8,344,349
	Adjusted value	-	-	-	8,242,266	-	8,242,266
Exposures secured by real estate	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
Exposures in default situation	Net exposure	-	-	-	-	1,358,659	1,603,857
	Adjusted value	-	-	-	-	1,358,254	1,603,452
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	-	-	-	-	-	-
Securitization exposures	Net exposure	-	-	-	-	-	-
	Adjusted value	-	-	-	-	-	-
<b>TOTAL</b>	<b>Net exposure</b>	8,395,027	760,990	338,566	8,344,349	6,915,720	24,999,850
	<b>Adjusted value</b>	8,534,449	763,447	276,361	8,242,266	6,126,784	24,188,505
<b>TOTAL MITIGATION EFFECT</b>		-139,422	-2,457	62,205	102,083	788,936	811,345



## 7.6 - Securitizations

### 7.6.1 - General description and objectives

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

**Securitization:** 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 Securitization:** Securitization which implies the economic transfer of the securitized 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 securitized 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 Securitization:** Securitization in which the risk transference is conducted through appeal to credit derivatives or guarantees and the securitized exposures are still exposures to the originator entity.

**Securitization position:** Exposure to a securitization. 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 securitization, which is the first one in bearing losses which may arise from securitized 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 securitization and lower precedence than any securitization position in the scheme rated with 1st credit quality level, when it is a securitization 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 securitization scheme is carried on attending to both to its legal form and economic content.



The Group develops securitization 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 securitization activity

The risk part transferred to third parties in asset securitization 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 securitization funds, through the acquisition of certain subordinated tranches of such issuances ("First loss tranches") issued by securitization funds.

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

The Bank's investment policy in securitization 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 based on the 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 securitization 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) securitizations. There is therefore no exposure to "re-securitizations", 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 securitization processes and degree of involvement

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

- Originator Entity of credit claims
- Transferring and Administrative Entity of the assets transferred to Securitization Funds
- Management of securitization 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 securitization bonds issued by other entities.



### 7.6.4 - Accounting treatment of financial asset transfers

According to Bank of Spain Circular 4/2004, 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 securitizations of financial assets in which subordinated financing or other type of credit instruments which substantially absorb the expected credit losses for the securitized 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.

Securitization schemes performed by the Group are considered traditional securitization schemes, not having performed synthetic securitization schemes.

### 7.6.5 - Originated securitizations

As of 31 December 2017, the Group maintains securitization positions in which it has participated as originator and in securitizations originated by entities outside the Group. The Group does not hold positions in re-securitizations nor holds securitization 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 securitizations to the date have been Standard and Poor's and Moody's

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

Hereafter the exposures securitized by the Group are shown as of 31 December 2017:

*Table 39: Types of securitizations*

Types of securitizations	
(thousands of euros)	Amount 2017
Covered Bonds	1,353,896
Mortgage loans	3,480,417
On-balance	3,404,945
Off-balance	75,472



The following table presents detail on the positions held in securitization schemes by the Consolidated Group as of 31 December 2017.

Table 40: Types of securitization positions

Types of securitization positions		
(thousands of euros)	2017	
	Exposure Amount	Subject to the standard method under part third, title III, Chapter 5 CRR
A) Positions held on securitizations in which the Group acts as originator	3,029,980	4,119
A.1) Positions held in traditional securitizations	3,029,980	4,119
A.1.1) Positions held in multi-transfer securitizations	-	-
A.1.2) Positions held in the rest of securitizations	3,029,980	4,119
B) Positions acquired in securitizations in which the Group does not act as originator	228,324	228,324
B.1) Positions held in traditional securitizations	228,324	228,324
B.1.1) Positions held in multi-transfer securitizations	1,403	1,403
B.1.2) Positions held in the rest of securitizations	226,921	226,921
B.2) Positions held in synthetic securitizations	-	-
		<b>232,443</b>

### 7.6.6 - Calculation of risk-weighted exposures in securitization positions

The Group calculates its own resources requirements for positions maintained in securitization 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 securitizations, the Group calculates regulatory capital for positions maintained in the securitization only if the securitization 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 securitized exposures as if they had not been subject to a securitization scheme.

In the process of reviewing the significant transfer of risk securitization transactions and motivated by successive repurchases, both during the current year and in previous years, the securitizations 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 securitized exposures are included in the calculation of risk-weighted exposures as if they had not been securitized. 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 securitized.

For the following securitizations indicated, the underlying securitized 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):

- Securitization performed in 2005, with a balance at year end of 223,370 thousand euro and with retained positions amounting to 131,253 thousand euro.
- Securitization performed in 2006, with a balance at year end of 758,044 thousand euro and with retained positions amounting to 498,327 thousand euro.
- Securitization performed in 2007, with a balance at year end of 457,994 thousand euro and with retained positions amounting to 332,729 thousand euro.



- Securitization performed in 2008, with a balance at year end of 704,655 thousand euro and with retained positions amounting to 701,710 thousand euro.
- Securitization performed in 2009, with a balance at year end of 1,364,223 thousand euro and with retained positions amounting to 1,361,177 thousand euro.

Detail of the positions in securitization schemes maintained by the Group as of 31 December 2017, disaggregated by risk-weighted ranges to which they are allocated, is the following:

*Table 41: Types of securitization positions according to the Standard Method*

Types of securitization positions – Standard Method	
(thousands of euros)	Exposure Amount 2017
General treatment by credit quality level:	-
- Level 1 (weighted at 20%)	6,949
- Level 2 (weighted at 50%)	973
- Level 3 (weighted at 100%)	-
- Level 4 (weighted at 350%)	-
- Level 5 (weighted at 1250%)	-
Particular treatment:	-
- Guaranteed by the State (weighted at 0%)	220,402
- Without credit quality (weighted at 1250%) (*)	4,119
Senior tranche	227,351
Intermediate tranche	973
First loss tranche (*)	4,119

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

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

The detail of the outstanding balance as of 31 December 2017 of assets securitized 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 42: Types of securitization positions*

Types of securitization positions			
(thousands of euros)	Outstanding balance	Outstanding balance default and impaired operations	Impairment losses amount
A) Traditional securitizations	75,472	737	86
- Assets with mortgage guarantee	75,472	737	86
- Corporate banking transactions	-	-	-
- Other assets	-	-	-
B) Synthetic securitizations	-	-	-
- 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 its 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.

Credit risk management in Ibercaja is carried out in a dynamic manner. This implies, among all, continually assessing the degree of coverage of the issued guarantees.

At Ibercaja, the main types of collateral available are the following:

- Mortgage guarantees

Mainly consisting on finished houses for residential use, usually the amount of the operation must not exceed 80% of the appraised value of the house.

In the Entity, procedures are carried out to determine the reference valuation of the real estate that constitute guarantee of operations, as well as for updating the valuation of guarantees based on current regulations. Depending on the accounting classification of the operations associated with the real estate guarantees, the updating criteria will vary based on established principles.

- Deposits, investment funds and insurance

They involve the existence of a certain monetary guarantee that, in case of default, deals, in whole or in part, with the outstanding amount. As a result, they represent a reduction in the risk of operations, increasing their repayment capacity.

The deposits and pledged accounts are formalized in Ibercaja and their availability is blocked as long as the financing operation is alive. If, before the financing operation is canceled, the unlocking and disposal of the deposit or pledged account is proposed, the latter must be approved by the body that authorized the operation.

The funds or pledged securities must be deposited in Ibercaja or the Group's manager, being blocked their disposal to formalize the financing operation.



In the contract it can be agreed that, in case of loss of value of the holdings or pledged shares, the borrowers will be obliged to cover the lower value by increasing the holdings or pledged shares.

In order for this type of guarantee to be considered valid, it must comply with the regulation, based on which the Entity has defined a series of criteria that this type of guarantee must comply with:

- There must be legal certainty that the contracts documenting the mortgages created in favor of this Entity are valid and effective.
- Must have legitimacy to urge the execution of the guarantee.
- All guarantees must be correctly documented.
- Adequate monitoring, traceability and periodic control of guarantees must be carried out.
- In the case of real estate, these must be properly insured, requiring the incorporation of insurance when the formalization of operations occurs.
- In the case of the pledge of deposits and account balances, the pledge must be unconditional and cannot be revoked without the consent of the creditor entity, as detailed in the section on legal certainty.

### 7.7.2 - Quantitative information

The following detail exhibits the distribution of the Group's credit risk exposure as of 31 December 2017, 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 43: Exposure to credit risk by mitigation technique*

Exposure to credit risk by mitigation technique		
(thousands of euros)	Exposure Value 2017	Exposure Value 2016
A) Exposure not subject to credit risk mitigation techniques	51,256,138	56,108,536
B) Exposure subject to credit risk mitigation techniques	1,355,458	154,676
• Settlement agreements for balance sheet operations	-	-
• Settlement agreements related to repurchase agreements, securities or commodities lending or other operations linked to equity markets	296,786	86,289
• Real guarantees	847,107	13,913
• Other real guarantees	-	-
• Hedges based on personal guarantees	211,565	54,474
• Hedges through credit derivatives	-	-



Hereafter the total value of the exposures as of 31 December 2017 is shown, covered by the application of risk mitigation techniques based on the utilization of real guarantees:

Table 44: 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	
	2017	2016	2017	2016	2017	2016
<b>TOTAL RISK CATEGORIES</b>	<b>847,107</b>	<b>13,913</b>	-	-	<b>847,107</b>	<b>13,913</b>
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	818,807	571	-	-	818,807	571
Retail customers	26,000	13,167	-	-	26,000	13,167
Exposures secured by real estate	-	-	-	-	-	-
Exposures in default situation	-	175	-	-	-	175
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	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-



Hereafter the total value of the exposures as of 31 December 2017 is shown, covered by the application of risk mitigation techniques based on the employment of personal guarantees:

Table 45: 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	
	2017	2016	2017	2016
<b>TOTAL RISK CATEGORIES</b>	<b>211,565</b>	<b>54,474</b>	<b>211,565</b>	<b>54,474</b>
Central governments or central banks	-	-	-	-
Regional governments and local authorities	-	-	-	-
Public sector entities and other non-profit public institutions	108,846	50,185	108,846	50,185
Multilateral development banks	-	-	-	-
International organizations	-	-	-	-
Institutions	20,841	3,216	20,841	3,216
Corporates	4,287	393	4,287	393
Retail customers	77,186	680	77,186	680
Exposures secured by real estate	-	-	-	-
Exposures in default situation	405	-	405	-
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	-	-	-	-
Securitization positions	-	-	-	-



## 8. Operational Risk

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

Specifically, the Title III of the CRR develops the capital requirements for Operational Risk and the general principles governing the use of different methods for their computation.

The *Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions* has as its main purpose to adapt our legislation to the regulatory changes that are imposed in the international stage and in its article 39 establishes that the Regulation (EU) No. 575/2013, dated June 26, establishes solvency regulations for credit institutions.

In this context, Ibercaja has an organizational, methodological and risk management model, which includes operational risk, that has tools, procedures and models that favor efficient management, particularly in the case of Operational Risk, which enable the measurement of own resources requirements by the standard method.

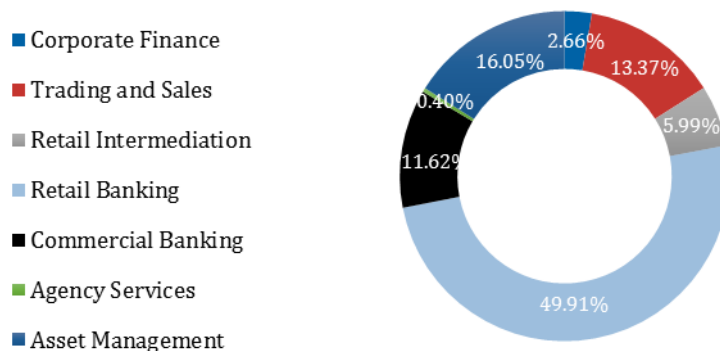
### 8.1 - Capital requirements for Operational Risk

The Ibercaja Group has opted for the application of the Standard Method for determining own resources for operational risk.

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

The distribution by Business Line as of December 2017 of the RWA of Own Resources for Operational Risk is as follows:

*Illustration 8: Distribution by Business Line of the RWA of Own Resources for Operational Risk*





## 8.2 - Operational Risk Management. Objective and justification.

The main objective of operational risk management at Ibercaja is "to improve the quality and safety of business processes and support, by providing information on operational risks, defining and developing measures for mitigation and control, and ensuring compliance with the established regulatory framework."

Improving the quality of process management implies:

- The continuous evaluation of the operational risks associated with the activity,
- The determination of the level of exposure desired in the management of the business and its monitoring,
- The establishment, in different areas, of techniques that facilitate the management of such risks: contingency plans, insurance, increase the effectiveness of controls, etc.

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

## 8.3 - Structure and organization of Operational Risk management

The daily management of operational risk lies with the business and support units, as well as with the subsidiaries. To this end, an operational risk coordinator is identified in each of them, being responsible for identifying, managing and reporting operational risks in their area of activity and the processes are under their responsibility.

The Internal Control and Models Validation unit, dependent on the Risk Control Department and, in turn, the General Secretariat as the second line of defense, defines and applies the methodologies for the evaluation and measurement of operational risk; analyzes, informs and advises the different business units and corporate directorates on the best way to measure, analyze and report operational risk; and generates the support information for decision making by Senior Management.

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

## 8.4 - Operational Risk categories

Ibercaja has defined its main categorization of risks events based on the analysis (identification and definition) of specific operational risks, carried out in the different units and subsidiaries, in a homogeneous manner for the entire Group, allowing the link between qualitative and quantitative methodologies. The quantitative methodologies are based on the identification and recording of operational losses in a specific database.

The main categorization of risks/events in Ibercaja is based on levels 1 and 2 defined by Basel, identifying -additionally- the specific individual risks through the itemization of level 2



typologies in a process and a unit of the Organization. Likewise, new subcategories of operational risk have been defined, adopting the definition established in EBA / GL / 2014/13, in the section related to the Operational Risk Assessment.

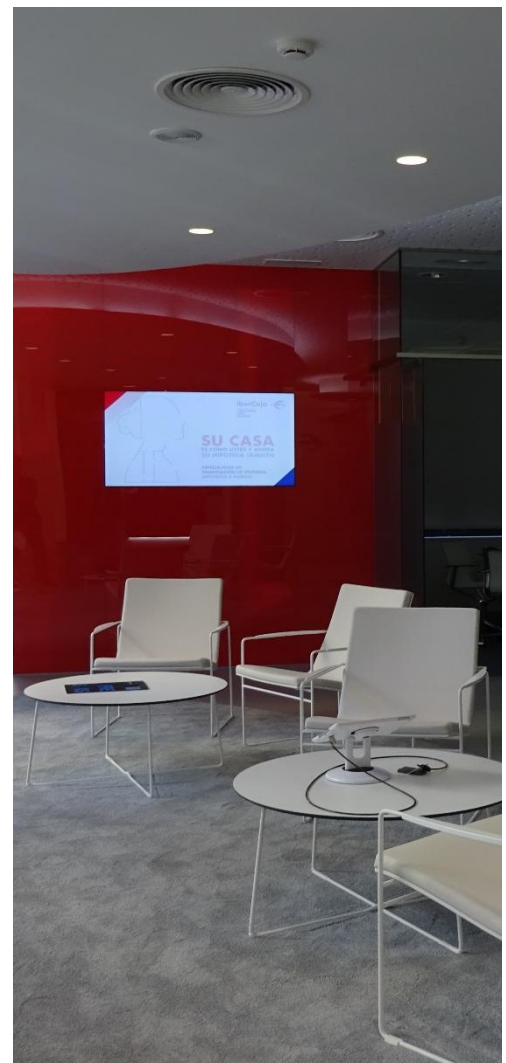
This methodology has allowed subcategories of Operational Risk: new risk signs associated with individual risks are included. These subcategories include, among others, the following risks:

- Conduct Risk
- ICT risk
- Model Risk

## 8.5 - Methodologies for Operational Risk measurement

Ibercaja combines the following operational risk measurement methodologies:

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



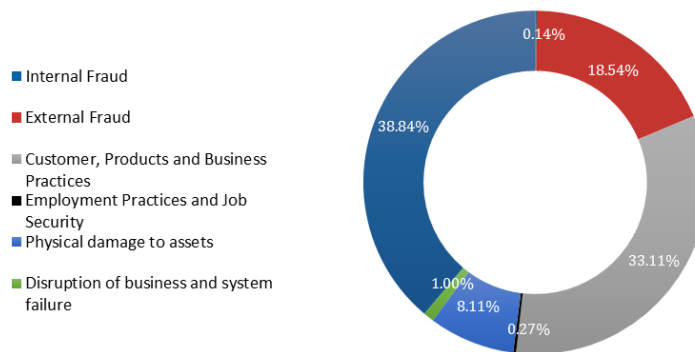


## 8.6 - Loss Data Base

The Internal Losses Data Base is one of the pillars on which the measurement and management of operational risk in the Entity is based. In this sense, Ibercaja has a series of processes and sources that allow the capture of events at origination, automatically registering them in the data base, with the minimum information required for their registration and classification.

The following illustration shows the distribution of operational loss events of the Group during fiscal year 2017 by regulatory category:

*Illustration 9: Los events by risk category*



All capture processes, both manual and automatic, have a control or filtering system that requires further validation by the corresponding unit or subsidiary, or by the Internal Control and Model Validation unit, giving greater reliability and integrity to the data set, and the homogeneous application of criteria.

## 8.7 - Self-assessments

This self-assessment process, which has been carried out on an annual basis, is one of the pillars on which operational risk management is based on, and supports, together with other tools and methodologies, the identification of exposures to operational risks.

Among the objectives of the qualitative methodology it is worth mentioning:

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

Likewise, this process incorporates the assessment of the reputational impact of the risks, covering the regulatory recommendations in the matter.

During 2017, the annual update of the self-assessment of operational risks (more than 600) was completed, concluding a low-medium risk profile.





## 8.8 - Operational Risk Indicators (KRIs)

The Key Risk Indicators (KRIS), usually financial, can reveal the risks to which the entity is or may be exposed. The evolution of these indicators should be reviewed periodically to alert about changes that may be highlight exposures to certain risks.

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

- Identify the causes that generate the risks.
- Act as warning signals when the level of risk increases.
- Check the effectiveness of the controls and improvements made in them.

## 8.9 - Action Plans

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

In this way, together with the attainment of the operational risk profile of the Entity, the Ibercaja Group adopts multiple measures aimed at mitigating operational risk, using procedures and tools that allow the establishment and monitoring of mitigation plans.





## 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 2017 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 2017 which are not included in the trading book is equal to 553,470 thousand euros.

Hereafter detail is presented on the exposures to holdings and equity instruments maintained by the Group as of 31 December 2017, 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 46: Value of exposure to holdings and equity instruments*

Exposure to holdings and equity instruments		
(thousands of euros)	Exposure amount 2017	Exposure amount 2016
Equity instruments listed in organized markets	89,252	170,488
Equity instruments not listed in organized markets	786,959	861,439
<b>TOTAL</b>	<b>876,211</b>	<b>1,031,927</b>



The amount of the profits registered by the Group during business year 2017 due to sales of holdings which form part of the Consolidated Group have amounted to 6,858 thousand euros.

Additionally, the Group has registered a decrease 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 6,215 thousand euros, which taking into account the phase-in implementation calendar, have supposed an decrease in CET1 own resources by a value of 4,972 thousand euros.





## 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, 2017 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.

As of December 31, 2017:

Table 47: Balance sheet sensitivity profile as of 31 December 2017

(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	9,764	9,233	16,286	35,283	11,896	3,202	8,694
Liabilities	8,214	2,770	13,264	24,248	22,931	17,007	5,924
GAP Period	1,550	6,463	3,022	11,035	-11,035	-13,805	2,770

Sensitive balances are those whose maturity or repricing occurs in the following twelve months. 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, i.e. the net balance exposed to changes in prices. The average Gap of the period amounts to 7,691 million euros, the 16.30% of the asset.



The following table includes the impact of structural interest rate risk of the balance on the margin and the economic value, in light of variations in interest rates:

Table 48: Impact from interest rate increases

		Terms until the review of effective interest rates or maturity			
		2017		2016	
		Increase	Decrease	Increase	Decrease
Impact on Group interest margin	200 points	27.35%	-0.80%	-2.53%	-0.73%
Impact on Economic Value	200 points	7.22%	1.76%	-0.45%	6.62%

With data as of December 31, 2017, the impact of a rise of 200 basis points in interest rates on the interest margin of the Company amounts to 136.07 million euros, 27.35% over the interest rate margin for the next 12 months; while the impact of a decrease of 200 basis points amounts to -3.96 million euros, -0.80% on the interest margin for the next 12 months (in December 2016, -15.45 million euros and -2.53% impact of rises and -4.46 million euros and -0.73% 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 -539.42 million euros, 7.22% on the economic value of assets; while the impact of a decrease of 200 basis points amounts to 131.77 million euros, 1.76% of the economic value of assets (in December 2016, -24.98 million euros and -0.45% impact of increases and 310.30 million euros and 6.62% 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, with a floor of 0%.

The information regarding the assumptions concerning early repayment of loans and the behavior of deposits without maturities, are included in section 6 of this document.





## 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.

As of December 31, 2017, the available liquidity of the Company amounts to 10,328 million euros, and the capacity to issue mortgage bonds amounts to 6,688 million euros (7,847 million euros as of December 31, 2016). Thus, total availability stands at 17,016 million euros, with a decrease of 323 million euros compared to the end of last year. During 2017, wholesale maturities were paid for a nominal amount of 850 million euros: mortgage certificates (543 million euros), securitization bonds owned by third parties (83 million euros), subordinated bonds (224 million euros, which were almost entirely convertible contingent bonds). In addition, but-back of own issues have been carried out for 11 million euros, instrumented in Securitization bonds.

The following compiles a breakdown of available liquidity:

*Table 49: Disaggregation of available liquidity*

Liquidity disaggregation		
(thousands of euros)	2017	2016
Cash and central banks	3,280,943	759,309
Available in policy	5,065,044	4,217,614
Eligible assets outside the policy	1,647,285	4,146,242
Other tradable assets non-eligible by the Central Bank	335,112	369,675
Accumulated available balance	<b>10,328,384</b>	<b>9,492,840</b>

In September 2017, two mortgage bonds were issued for an amount of 750 million euros each, maturing in 2022 and 2024 respectively, simultaneously subscribing as a treasury stock and becoming part of the policy of guarantees to the ECB.

This policy includes pledged assets for a deductible value of 8,437 million euros at December 31, 2017, of which 3,372 million euros have been arranged, so that the Entity maintains 5,065 million euros available, which it can access to satisfy its liquidity needs.

In addition to the aforementioned policy, the Company has very diverse sources of financing.

- Thus, the broad base of retail deposits stands out at 28,782 million euros, of which 80% correspond to stable balances.
- Likewise, it has financing with securities collateral of 5,404 million euros, of which 986 million euros are arranged in Central Counterparty Clearing House.
- In addition, wholesale issues of 4,511 million euros characterized by the diversification of their maturities
- Deposits of financial institutions of the Group for 1,091 million euros
- Also, deposits of the rest of the clientele for 1,797 million euros, among others.

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



The breakdown by maturity of the contractual maturities of assets and liabilities (liquidity gap) as of December 31, 2017 and December 31, 2016 is as follows:

Table 50: 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	
<b>ASSETS</b>							
Deposits in credit institutions	26,315	19,090	45,803	29	154	153,253	244,644
Loans to other financial institutions	-	31	25,996	4,771	7,403	20,020	58,221
Temporary securities acquisitions and securities lending	-	981,535	-	174,518	-	-	1,156,053
Loans (including overdue, impaired, non-performing and granted)	-	702,539	1,101,700	2,784,148	7,193,912	22,224,989	34,007,288
Settlement of securities portfolio	-	-15,670	23,612	106,550	2,513,146	3,377,968	6,005,606
Hedging derivatives	-	-229	10,740	64,407	105,990	-5,440	175,468
Trading derivatives	-	189	78	713	213	-	1,193
Interest Margin	-	32,644	69,470	254,816	-	-	356,930
<b>Total as of 31 December 2017</b>	<b>26,315</b>	<b>1,720,129</b>	<b>1,277,399</b>	<b>3,389,952</b>	<b>9,820,818</b>	<b>25,770,790</b>	<b>42,005,403</b>
<b>Total as of 31 December 2016</b>	<b>36,712</b>	<b>2,126,648</b>	<b>1,135,424</b>	<b>4,129,420</b>	<b>10,871,214</b>	<b>29,422,216</b>	<b>47,721,634</b>
<b>LIABILITIES</b>							
Wholesale emissions	-	9,911	59,741	426,980	2,066,998	1,947,816	4,511,446
Deposits from credit institutions	43,327	7,438	600	350	2,000	-	53,715
Deposits from other financial institutions and agencies	982,026	8,878	59,336	12,210	82,305	39,635	1,184,390
Deposits from large non-financial corporations	-	-	-	-	-	-	-
Financing from the rest of the customers	23,888,272	850,443	1,408,269	3,931,848	499,552	383	30,578,767
Funds for mediation loans	-	4,822	7,996	53,963	471,926	30,381	569,088
Financing with securities collateral	-	1,847,428	9,301	174,518	3,372,460	-	5,403,707
Other net outflows	-	34,009	-50,264	279,477	30,543	32,508	326,273
Hedging derivatives	-	83	11,216	-6,779	57,998	5,805	68,323
Formalized loans awaiting disbursement	-	359,661	-	-	-	-	359,661
Commitments drawable by third parties	2,951,525	-	-	-	-	-	2,951,525
Financial guarantees issued	-	4,657	6,251	183	4,255	22,554	31,655
<b>Total as of 31 December 2017</b>	<b>27,865,150</b>	<b>3,127,330</b>	<b>1,506,201</b>	<b>4,872,750</b>	<b>6,588,037</b>	<b>2,079,082</b>	<b>46,038,550</b>
<b>Total as of 31 December 2016</b>	<b>24,280,589</b>	<b>4,837,364</b>	<b>3,275,161</b>	<b>7,977,042</b>	<b>7,296,368</b>	<b>2,228,203</b>	<b>49,894,727</b>
<b>Gap period 2017</b>	<b>-27,838,835</b>	<b>-1,407,201</b>	<b>-228,802</b>	<b>-1,482,798</b>	<b>3,232,781</b>	<b>23,691,708</b>	<b>-</b>
<b>Gap period 2016</b>	<b>-24,243,877</b>	<b>-2,710,716</b>	<b>-2,139,737</b>	<b>-3,847,622</b>	<b>3,574,846</b>	<b>27,194,013</b>	<b>-</b>
<b>Cumulative gap (without demand deposits) 2017</b>	<b>-</b>	<b>-1,407,201</b>	<b>-1,636,003</b>	<b>-3,118,801</b>	<b>113,980</b>	<b>23,805,688</b>	<b>-</b>
<b>Cumulative gap (without demand deposits) 2016</b>	<b>-</b>	<b>-2,710,716</b>	<b>-4,850,453</b>	<b>-8,698,075</b>	<b>-5,123,229</b>	<b>22,070,784</b>	<b>-</b>

\* 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.

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

- Financing received from investment funds and pension plans with clauses that cause reimbursement based on discounts in the credit rating of Ibercaja Banco. At the end of 2017, there was no amount affected by the one-step downgrade in the rating.
- Passive derivatives of 60 million euros, which have required the provision of additional guarantees of 66 million euros, as well as active derivatives of 100 million euros, for which additional guarantees of 106 million euros have been received.



- Financing with securities collateral of 1,161 million euros, which has required the provision of additional guarantees of 99 million euros in cash.
- EIB financing of €350 million, which requires a guarantee contribution of 348 million euros in fixed income.
- Loan of Public Debt securities of 148 million euros that requires a provision of the same amount as security for the operation.

On a separate issue, Ibercaja Banco has signed netting contracts, and its annexes of exchange of guarantees, with all the entities with which it operates in OTC derivatives (over the counter) and in simultaneous operations. The signature of such a contract is a prerequisite for those entities with which this type of operation is going to get started. Ibercaja Banco participates as a direct member of the central clearing houses of simultaneous operations LCH Clearnet and MEFFClear, and in Eurex for the operation with some classes of interest rate derivatives, being a usual market practice that has spread among the participants after the entry into force of the EMIR regulation.

In relation to the financial guarantee contracts issued, the nominal amount of the guarantee does not necessarily have to represent a real obligation of disbursement or liquidity needs, which will depend on whether the conditions for disbursement of the amount of the pledged security are met.

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

Nor does the Group hold open positions in foreign currency of a non-speculative nature of significant amount (the largest net global position in currencies of the C.22 template does not exceed 2% of the total computable equity).

The main policies and intra-group cash flows are summarized below

### Financial Group

- The Ibercaja Group receives the contribution of the Financial Group to the consolidated income statement in the form of dividends and commissions.
  - o Ibercaja Banco receives dividends from the subsidiaries of the Financial Group,
  - o The parent company charges commissions for the provision of marketing and advisory services to subsidiaries of the Financial Group.
- Investing activity of the subsidiaries of the Financial Group in the parent company: The main subsidiaries of Financial Group maintain active positions with the parent company in term deposits, current accounts or other financial instruments, linked to its treasury and equity management.
- Ibercaja Leasing activity: As the lending activity of Ibercaja Leasing increases, the parent company provides financing either directly or through agreements with the Official Credit Institute - ICO.

### Real Estate Group

- The Real Estate Group also contributes to the consolidated income of Ibercaja Group. Ibercaja Banco finances the companies that comprise it through capital increases, as well as loans for the purchase of assets (real estate or land) from foreclosures or dation in payment originated in credit operations of the parent company.





### Service-oriented companies

- Regarding the service-oriented subsidiaries, there are no significant financial relationships.

### Financing Vehicles

- Regarding the Securitization Funds, until 2009 Ibercaja Banco carried out securitizations with the purpose of obtaining liquidity, improving the consumption of own funds and transferring credit risk. The majority was placed in the wholesale market except for the last securitizations (2008 - 2009) that were retained by the Bank to serve as collateral in the ECB guarantee policy.
- Subsequent to the issue, the Bank carried out repurchases to third parties in order to strengthen its balance sheet, which resulted in a self-portfolio of securitized bonds

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

## 11.1 - Quarterly evolution of the LCR in 2017

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

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

The LCR (Liquidity Coverage Ratio) of Ibercaja Group as of December 31, 2017 amounts to 281.15% (256% as of December 31, 2016), while the NSFR (Net Stable Funding Ratio) as of December 31 of 2017 stands at 124.42% (121% as of December 31, 2016).

The following table shows the consolidated values for each quarter of 2017:

Table 51: LCR Quarterly evolution- amounts as of March, 31 2017

(thousands of Euros)	Total non-weighted amount	Total weighted amount
Quarter end date	31-Mar-17	31-Mar-17
Number of data used for the calculation	3	3
<b>Liquidity Buffer</b>	×	7,464
<b>Total net cash outflow</b>	×	2,978
<b>Liquidity Coverage Ratio (%)</b>	×	251%

Table 52: LCR Quarterly evolution- amounts as of June, 30 2017

(thousands of Euros)	Total non-weighted amount	Total weighted amount
Quarter end date	30-Jun-17	30-Jun-17
Number of data used for the calculation	3	3
<b>Liquidity Buffer</b>	×	6,441
<b>Total net cash outflow</b>	×	3,171
<b>Liquidity Coverage Ratio (%)</b>	×	203%



Table 53: LCR Quarterly evolution- amounts as of September, 30 2017

(thousands of Euros)	Total non-weighted amount	Total weighted amount
Quarter end date	30-Sep-17	30-Sep-17
Number of data used for the calculation	3	3
<b>Liquidity Buffer</b>	×	6,950
<b>Total net cash outflow</b>	×	3,090
<b>Liquidity Coverage Ratio (%)</b>	×	225%

Table 54: LCR Quarterly evolution- amounts as of December, 31 2017

(thousands of Euros)	Total non-weighted amount	Total weighted amount
Quarter end date	31-Dec-17	31-Dec-17
Number of data used for the calculation	3	3
<b>Liquidity Buffer</b>	×	7,192
<b>Total net cash outflow</b>	×	2,871
<b>Liquidity Coverage Ratio (%)</b>	×	251%

## 11.2 - Liquidity and funding perspective

The following table shows the maturities of long-term wholesale financing as of December 31, 2017:

Table 55: 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	-	5,000	-	15,362	554,819	-	575,181
Mortgage and territorial bonds	-	-	50,000	371,613	1,290,746	1,581,026	3,293,385
Securizations	-	4,911	9,741	40,005	221,433	366,790	642,880
Promissory notes and CDs	-	-	-	-	-	-	-
<b>Wholesales emissions</b>	-	<b>9,911</b>	<b>59,741</b>	<b>426,980</b>	<b>2,066,998</b>	<b>1,947,816</b>	<b>4,511,446</b>
<b>Financing with long-term collateral</b>	-	-	-	-	<b>3,372,460</b>	-	<b>3,372,460</b>
<b>Term maturities</b>	-	<b>9,911</b>	<b>59,741</b>	<b>426,980</b>	<b>5,439,458</b>	<b>1,947,816</b>	<b>7,883,906</b>
<b>Cumulative maturities</b>	-	<b>9,911</b>	<b>69,652</b>	<b>496,632</b>	<b>5,936,090</b>	<b>7,883,906</b>	-

\*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 (€10,328 million), the Entity could cover the totality of its maturities regarding long-term wholesale funding (€4,511 million). Moreover, it has an issuance capacity of €6,688 million (total availability of €17,016 million).



## 12. Asset encumbrance

### 12.1 - General information

Asset encumbrance represent the part of entity assets that are engaged as a 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 56: Amount of encumbered assets, as of 31 December 2017 (annual average)

(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	13,121,410	-	36,158,893	-
Loans and credits	8,364,272	-	26,035,336	-
Equity instruments	-	-	371,067	371,067
Debt securities	4,757,138	4,597,888	5,191,036	4,899,339
Other assets	-	-	4,561,455	-

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 57: Real guarantees received by asset type, as of 31 December 2017 (annual average)

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	228,025	896,217
Loans and credits	-	-
Equity instruments	-	-
Debt securities	228,025	896,217
Other guarantees received	-	-
Own debt securities issued, other than covered bonds or securitization bonds of own assets	-	-

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

Table 58: Associated liabilities to assets and real guarantees received under encumbrance, as of 31 December 2017 (annual average)

Liabilities		
(thousands of euros)	Associated liabilities, contingent liabilities or securities pledged	Assets, guarantees received and own debt securities issued, other than covered bonds and securitization bonds of encumbered assets
Accounting value of selected financial liabilities	11,751,975	13,349,435

Encumbered assets and collateral received amounted to 13,349,435 thousand euros. 64% 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 36% 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, € 4,561,455 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 € 11,751,975 Thousands and include mortgage bonds, ECB policy provisions and funding through repo fixed income. To a lesser extent securitization bonds and liabilities with collateral requirements.

The degree of overcollateralization, measured as eligible portfolio on live mortgage bonds, reaches 236.09%, far exceeding the legal minimum, 125%, and the average of all financial entities.

During 2017 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 26.48% as of 31 December 2017, 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 (high-quality 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.

During 2017, the Basel Committee has reviewed the definition of the leverage ratio and a series of technical adjustments have been made to the calculation method for total exposure (denominator), mainly in relation to exposures to derivatives and treatment of off-balance exposures. The final calibration of the leverage ratio has been set at 3% for all entities.

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 2017 the Group has a Leverage Ratio of 5.41%:

*Table 59: Leverage ratio*

Leverage ratio		
EU-22	Leverage ratio	5.41%
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 2017, in compliance with the templates “LRCom” and “LRSpl” defined in Annex I of the Commission Implementing Regulation (EU) 200/2016:

Table 60: 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:	45,781,639
EU-2	Trading book exposures	324
EU-3	Banking book exposures, of which:	45,781,315
EU-4	Covered bonds	56,769
EU-5	Exposures treated as sovereigns	10,432,667
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	211,114
EU-7	Institutions	421,238
EU-8	Secured by mortgages of immovable properties	19,053,806
EU-9	Retail exposures	6,476,444
EU-10	Corporates	3,515,759
EU-11	Exposures in default	1,557,213
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	4,056,305



Table 61: 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
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		-
1	On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including collateral)	45,826,019
2	(Assets amounts deducted in determining Tier 1 capital)	-388,995
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	45,437,024
<b>Derivative exposures</b>		-
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	144,540
EU-5 <sup>a</sup>	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)	-44,380
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)	100,160
<b>SFT Exposures</b>		-
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,156,053
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14 <sup>a</sup>	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 <sup>a</sup>	(Exempted CCP component of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	1,156,053
<b>Other off-balance sheet exposures</b>		-
17	Off-balance sheet exposure at gross notional amount	4,626,288
18	(Adjustments for conversion to credit equivalent amounts)	-3,079,939
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1,546,349
<b>Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>		-
EU-19 <sup>a</sup>	(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))	-
<b>Capital and total exposure measure</b>		-
20	Tier 1 capital	2,610,227
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	48,239,586
22	Leverage ratio	5.41%
EU-23	Choice of transitional provisions for the definition of the capital measurement	With transition measures
EU-24	Amount of fiduciaries withdrawn under Article 429 (11) of Regulation (EU) No 575/2013	-



### 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 2017, in compliance with template "LRSum" defined in Annex I of the Commission Implementing Regulation (EU) 2016/200:

Table 62: 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		
(thousands of euros)	Book value of encumbered assets	Fair value of encumbered assets
1	Total consolidated assets as per published financial statements	47,178,582
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	(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)	-
4	Adjustments for derivative financial instruments	-51,970
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,546,349
EU-6 <sup>a</sup>	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-433,375
8	Leverage ratio total exposure measure	48,239,586

### 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) 2016/200 on the processes used to manage excessive leverage risk, and factors which have influenced the Leverage Ratio published on 31 December 2017.

#### 13.3.1 - Procedures applied to manage excessive leverage risk

The leverage ratio is part of the Level I metrics of the Risk Appetite Framework of Ibercaja Group, where tolerance thresholds are established.

This information is reviewed quarterly by the Governing Bodies. In the case of observing warnings or non-compliance with respect to established thresholds, the appropriate measures would be adopted according to the governance model of the framework (RAF).

#### 13.3.2 - Factors influencing the Leverage Ratio

The leverage ratio has remained stable from 5.37% in Dec-16 to 5.41% in Dec-17.

During the year 2017, the leverage ratio was affected by the amortization of 224 million euros of the contingent convertible bonds (CoCos) originated in Caja3, offset by the result generated in the year and by the asset reduction.





## 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 Law 10/2014, the Royal Decree 84/2015, the Circular 2/2016 of the Bank of Spain and articles 13 and 450 of Regulation (EU) No 575/2013.

### 14.1 - Background

Ibercaja Banco has, since 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. There are no differences with regard to remuneration at the group level, the parent company and the subsidiaries, since the entities of the group subject to the regulations on remuneration follow the same guidelines and criteria as those established by the company, parent company, Ibercaja Banco.

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 - Main characteristics of the Remuneration Policy

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.

## 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:

- Fixed part, adequate to the services and responsibilities assumed;
- Variable part, correlated to some indicator of the income of the CEO or the Entity;
- Welfare part, which will contemplate the appropriate forecast and insurance systems; and
- Compensation in the event of separation or any other form of termination of the legal relationship with the Entity not due to a breach attributable to the 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 setting of the global and specific objectives of the variable remuneration is linked to a prudent management of the risks, being some of its main characteristics in relation to the ex-ante adjustments the following ones:

- Dependent and adequate to the individual performance of employees and the results of the Entity, considering the impact of the underlying economic cycle, as well as present and future risks.
- Flexibility and alignment with the strategic interests of the Entity, without limiting the capacity to strengthen its solvency.
- Establishment of certain upper and lower limits that provide a clear mitigation of risks associated with their potential impact on the Bank's income account and own resources.

Accordingly, the annual objectives that apply to the Identified Group, in general, are measured following to two types of indicators:

- Overall objectives: these objectives have a quantitative character (income statement) and a qualitative one (customer satisfaction/quality of service).
- Specific objectives: depending on the activity and scope of responsibility of each member of the Identified Group, both quantitative and qualitative indicators are defined, linked to the Strategic Plan and the Annual Budget.

In general, the global and specific objectives are weighted by 50%, except in relation to the Deputy General Managers whose overall objectives are weighted by 70% and the specific ones by 30%.

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 information regarding the remunerations received by the members of the Entity's management body is detailed in sections 5.1 and 5.2 of the notes to the annual report.

The aggregated quantitative information received by the members of the Board of Directors during business year 2017 (in thousands of euros) is detailed below:

*Table 63: Disaggregation of the aggregated remuneration of the Board of Directors*

Aggregated remuneration of the Board of Directors	
(thousands of euros)	2017
Fixed remuneration	874
Variable remuneration	108
Assistance allowances	328
Other remuneration	129
<b>TOTAL</b>	<b>1,439</b>

(Information corresponding to the Annual Corporate Governance Statement)

No member of the Identified Group receives remunerations of more than one million euros per financial year.

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



Table 64: Remuneration of the Identified Group

BUSINESS UNITS (thousands of euros)	Investment Banking <sup>1</sup>	Commercial Banking <sup>2</sup>	Assets Management <sup>3</sup>	Corporate Functions <sup>4</sup>	Independent Control Functions <sup>5</sup>	Rest <sup>6</sup>	Total
<b>Number of employees identified<sup>7</sup> as full-time equivalents<sup>8</sup></b>	1	6	2	12	4	2	27
Of which: Senior officers <sup>9</sup>	1	3	1	4	1	1	11
Of which: in control functions <sup>10</sup>	-	-	-	-	3	-	3
<b>Amount of total fixed remuneration<sup>11</sup></b>	126	552	261	1.344	372	322	2.978
Of which: in cash (no indemnities)	125	543	256	1.326	371	309	2.932
Of which: in shares or related instruments	-	-	-	-	-	-	-
Of which: in other instruments	1	9	5	18	1	13	46
<b>Amount of total variable remuneration<sup>12</sup></b>	31	117	56	328	90	87	709
Of which: in cash	15	79	39	252	75	52	512
Of which: in shares or related instruments	16	38	17	76	15	35	197
Of which: in other instruments <sup>13</sup>	-	-	-	-	-	-	-
<b>Amount of deferred variable remuneration<sup>14</sup></b>	21	51	23	102	20	47	265
Of which: in cash	5	13	6	26	5	12	68
Of which: in shares or related instruments	16	38	17	76	15	35	197
Of which: in other instruments <sup>15</sup>	-	-	-	-	-	-	-
<b>Total amount of deferred variable remuneration accrued in previous years</b>	20	58	30	189	42	63	401
Amount of the explicit adjustment ex-post by performance applied during the year for remunerations accrued in past years <sup>15</sup>	-	-	-	-	-	-	-
Number of recipients of guaranteed variable remuneration <sup>16</sup>	-	-	-	-	-	-	-
Total amount of guaranteed variable remuneration during the year	-	-	-	-	-	-	-
Number of recipients of severance indemnities for early termination of contract	-	-	-	-	-	-	-
Total amount of severance indemnities paid during the year	-	-	-	-	-	-	-
Total amount of indemnification by early termination of contract paid to one person	-	-	-	-	-	-	-
Number of recipients of discretionary pension benefits <sup>17</sup>	-	-	-	-	-	-	-
Total amount of discretionary pension benefits	-	-	-	-	-	-	-
Total amount of variable remuneration accrued in multi-year periods in programs that are not updated annually	-	-	-	-	-	-	-
Number of beneficiaries of discretionary pension benefits that have left the entity (whether by retirement or termination)	-	-	-	-	-	-	-
Total amount of discretionary pension benefits paid or withheld in the year to persons who have left the institution (whether by retirement or termination)	-	-	-	-	-	-	-

<sup>1</sup> Includes advisory services to companies in matters of corporate finance, venture capital, capital markets, sales and negotiation.

<sup>2</sup> Includes all the lending activity (to individuals and companies).

<sup>3</sup> Includes portfolio management, management of collective investment institutions and other forms of asset management.

<sup>4</sup> All the functions that have responsibility for the entity as a whole, at a consolidated and / or individual level, for example, human resources or information systems.

<sup>5</sup> Staff of the risk management, regulatory compliance and internal audit unit. The information of these functions must be carried out at a consolidated and/or individual level.

<sup>6</sup> 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 corresponding to the total number of employees indicating the activity they perform.

<sup>7</sup> Employees whose professional activities have an important impact on the entity's risk profile, in accordance with Articles 2, 3 and 4 of Delegated Regulation (EU) No. 604/20014.

<sup>8</sup> The number must be expressed in full-time equivalent employees and referred to the active employees in the entity at the end of the year.

<sup>9</sup> Senior officers, understood as those individuals who exercise executive functions in the entity and who are responsible for their daily management and must report to the management body.

<sup>10</sup> The control functions include risk management, regulatory compliance and internal audit functions, as well as the control units dependent on the business areas.

<sup>11</sup> Fixed remuneration includes payments, regular (non-discretionary) contributions to pension funds or benefits (that do not depend on the performance of the person who receives them).

<sup>12</sup> Variable compensation includes additional payments or other rewards that depend on performance or, in exceptional circumstances, other contractual elements, but not those that are part of the usual packages for employees (such as healthcare, help to children or normal contributions and provided to plans of pensions). Both pecuniary and non-pecuniary payments should be included. The amounts must be declared gross, without applying the discount rate of the variable remuneration (v.r.), which applies to the v.r. total, to the v.r. in cash, to the v.r. in shares and instruments linked to the shares and to the v.r. in other types of instruments.

<sup>13</sup> Instruments in accordance with article 34.1.1) 2º of Law 10/2014.

<sup>14</sup> 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 the variable remuneration (v.r.) that is applied to the v.r. total, to the v.r. in cash, to the v.r. in shares and instruments linked to the shares and to the v.r. in other types of instruments.

<sup>15</sup> Explicit adjustment ex-post as defined in article 34.1.n) of Law 10/2014.

<sup>16</sup> Variable remuneration guaranteed with the specifications established in sections d) and e) of article 34.1 of Law 10/2014.

<sup>17</sup> 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.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	n/p
3	Governing law(s) of the instrument	REGULATION (UE) N° 575/2013
<b>Regulatory treatment</b>		
4	Transitional CRR tools	CET 1
5	Post-Transitional CRR tools	CET 1
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Individual and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Assets
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	2,144
9	Nominal amount of instrument	2,144
9a	Issue price	n/p
9b	Redemption price	n/p
10	Accounting classification	Net Equity
11	Original date of issuance	n/p
12	Perpetual or dated	Perpetual
13	Original maturity date	Without maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	n/p
16	Subsequent call dates, if applicable	n/p
<b>Coupons/ dividends</b>		
17	Fixed or floating dividend /coupon	Variable
18	Coupon rate and any related index	n/p
19	Existence of a dividend stopper	No
20a	Fully discretionary, party discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, party discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Cumulative or non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/p
25	If convertible fully or partially	n/p
26	If convertible, conversion rate	n/p
27	If convertible, mandatory or optional conversion	n/p
28	If convertible, specify instrument type convertible into	n/p
29	If convertible, specify issuer of the instrument it converts into	n/p
30	Write-down features	n/p
31	If write-down, write-down triggers	n/p
32	If write-down, full or partial	n/p
33	If write-down, permanent or temporary	n/p
34	If temporary write-down, description of write-up mechanism	n/p
35	Positions in subordination hierarchy in liquidation (specify instrument type immediately superior to instrum.)	Last position
36	Non-compliant transitional features	No
37	If yes, specify non-compliant features	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
<b>Regulatory treatment</b>					
4	Transitional CRR tools	Tier 2	Tier 2	Tier 2	Additional Tier 1
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	Subordinated assets	Subordinated assets	Preference shares
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	500	3	20	5
9	Nominal amount of instrument	500	45	77	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
<b>Coupons/ dividends</b>					
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 +0.36% until 25/4/2014. 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	Yes
20a	Fully discretionary, partly 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, partly 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	Non-convertible	Non-convertible	Non-convertible	Non-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 ON 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
<b>Common Equity Tier 1 (CET 1) capital Instruments and reserves</b>			
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	568,941	26 (1) (c)
3	Accumulated and other comprehensive (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	165,052	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	-	486 (2)
	Capital contributions of the public sector exempt until 1 January 2018	-	483 (2)
5	Minority interests (amount allowed in consolidated CET1)	87	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	120,867	26 (2)
6	Common equity tier 1 (CET1) capital Regulatory adjustments	2,999,223	Sum of rows 1 to 5a
<b>Common Equity Tier 1 (CET 1) capital Regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	-	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-170,870	36 (1) (b), 37, 472 (4)
9	IAS 19 regulatory 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)	-144,100	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: securitization 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	Regulatory adjustments applied to CET1 relative to amounts subject to treatment prior to RRC	-	-



INFORMATION ON 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	Regulatory adjustments relative to non-realized gains and losses by virtue of articles 467 and 468	-31,309		
	Of which: non-realized gains from equity instruments	-14,181		467
	Of which: non-realized gains from debt instruments	-17,128		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)	-42,717		36 (1) (j)
28	Total regulatory adjustments to common Tier 1 (T2) capital	-388,996	Sum of rows 7 to 20a, 21, 22 and 25a to 27	
29	COMMON EQUITY TIER 1 (CET1) CAPITAL	2,610,227	Row 6 minus row 28	
<b>Additional Tier 1 capital instruments: Instruments</b>				
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	-		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	-	Sum of rows 30, 33 and 34	
<b>Additional Tier 1 (AT1) Capital: Regulatory Adjustments</b>				
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	-	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
	Of which intangible assets	-42,717		
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	-	Sum of rows 37 to 42	
44	Additional Tier 1 (AT1) Capital	-	Row 36 minus row 43	
45	Tier 1 Capital (T1 = CET1 + AT1)	2,610,227	Sum or rows 29 and 44	



### INFORMATION ON 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
<b>Tier 2 Capital: Instruments and Reserves</b>				
46	Capital instruments and the related share premium accounts	527,922		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	527,922		
<b>Tier 2: Regulatory adjustments</b>				
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)	-35,835		66 (d), 69, 79, 477 (4)
56	Reglementary 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	-35,835		Sum of rows 52 to 56
58	Tier 2 (T2) Capital	492,087		Row 51 minus row 57
59	Total Capital (TC = T1 + T2)	3,102,314		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 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.)	-		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	Total Risk-Weighted Assets	22,266,290		



### INFORMATION ON 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
<b>Capital Ratios and Capital Buffers</b>			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.72%	92 (2) (a), 465
62	Tier 1 (as a percentage of total risk exposure amount)	11.72%	92 (2) (b), 465
63	Total capital (as a percentage of total risk exposure amount)	13.93%	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)	7.22%	DRC 128
69	[not applicable under EU regulation]	-	
70	[not applicable under EU regulation]	-	
71	[not applicable under EU regulation]	-	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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)	37,590	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)	3,180	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)	147,002	36 (1) (c), 38, 48, 470, 472 (5)
<b>Applicable caps on the inclusion of provisions in tier 2</b>			
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
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>			
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)



<b>Own Resources and Capital Requirements Phase-in and Fully-loaded</b>		
(thousands of euros)	2017 phase-in	2017 fully - loaded
<b>TOTAL COMPUTABLE OWN FUNDS</b>	<b>3,102,314</b>	<b>2,937,009</b>
<b>TIER 1 CAPITAL (T1)</b>	<b>2,610,227</b>	<b>2,444,922</b>
<b>COMMON EQUITY TIER 1 (CET1)</b>	<b>2,610,227</b>	<b>2,444,922</b>
Paid up capital instruments	2,144,276	2,144,276
Share premium	-	-
Previous years retained earnings	574,129	574,128
Admissible results	120,867	120,867
Other reserves	3,321	3,321
CET1 capital instruments under previous scheme	-	-
Minority interests	87	35
Value adjustments of the available-for-sale portfolio	125,234	156,543
Deductions from CET1 instruments	-357,687	-554,248
Losses of the current business year	-	-
Intangible assets	-213,587	-213,587
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	-144,100	-340,661
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	-	-
<b>ADDITIONAL TIER 1 CAPITAL (AT1)</b>		
AT1 capital instruments under previous scheme	-	-
Deductions from AT 1 capital instruments	-	-
Treasury stock: Direct holdings in AT1 instruments	-	-
Reciprocal cross holdings in AT1 capital	-	-
Intangible assets	-	-
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	-	-
<b>TIER 2 CAPITAL (T2)</b>	<b>492,087</b>	<b>492,087</b>
Subordinated financing and subordinated loans and others	527,922	527,922
Deductions of T2 capital instruments	-35,835	-35,835
Treasury stock: Direct holdings in AT1 instruments	-	-
Reciprocal cross holdings in T2 capital	-	-
Subordinated loans and subordinated debt in financial sector entities in which there is not a significant influence	-35,835	-35,835
Excess of holdings in financial sector entities in which there is not a significant influence	-	-
Other deductions from T2 capital	-	-
<b>TOTAL CAPITAL REQUIREMENTS</b>	<b>1,781,303</b>	<b>1,772,010</b>
Capital requirements for credit, counterparty and incomplete operations risk	1,663,561	1,654,268
Capital requirements for market risk	-	-
Capital requirements for operational risk	113,372	113,372
Capital requirements for Credit Valuation Adjustments (CVA)	4,370	4,370
<b>RISK-WEIGHTED ASSETS</b>	<b>22,266,290</b>	<b>22,150,133</b>



Solvency ratios : Phase-in and Fully-loaded		
	2017 <i>phase-in</i>	2017 <i>fully - loaded</i>
<b>Common Equity Tier 1 ratio (CET1)</b>	<b>11.72%</b>	<b>11.04%</b>
Minimum required CET1	4.50%	4.50%
<b>Tier 1 capital ratio (T1)</b>	<b>11.72%</b>	<b>11.04%</b>
Minimum required T1	6.00%	6.00%
<b>Total Capital ratio</b>	<b>13.93%</b>	<b>13.26%</b>
Minimum required capital total	<b>8.00%</b>	<b>8.00%</b>
<b>Total Capital Requirements</b>	<b>1,781,303</b>	<b>1,772,010</b>
Capital requirements for credit, counterparty and incomplete operations risk	1,663,561	1,654,268
Capital requirements for market risk	-	-
Capital requirements for operational risk	113,372	113,372
Capital requirements for Credit Valuation Adjustments (CVA)	4,370	4,370
<b>Risk-weighted assets</b>	<b>22,266,290</b>	<b>22,150,133</b>
<b>Leverage ratio</b>	<b>5.41%</b>	





## ANNEX II: Tables Index

Table 1: Member of the Board of Directors .....	23
Table 2: Composition of the Board of Directors .....	23
Table 3: Composition of the Executive Commission.....	24
Table 4: Composition of the Audit and Compliance Commission.....	25
Table 5: Composition of the Appointments Commission.....	26
Table 6: Composition of the Remuneration Commission.....	26
Table 7: Composition of the Major Risks and Solvency Commission.....	27
Table 8: Composition of the Strategy Commission .....	28
Table 9: Subsidiary Companies, full consolidation.....	32
Table 10: Subsidiary or multi-group companies, equity method .....	32
Table 11: Multi-group companies, proportional consolidation method .....	33
Table 12: Significant holdings in assurance companies.....	33
Table 13: Scope modifications.....	34
Table 14: Conciliation accounting and regulatory scope.....	35
Table 15: Own Resources Ibercaja Gestión .....	38
Table 16: Own Resources Ibercaja Pensión.....	38
Table 17: Transitional period solvency requirements .....	40
Table 18: Conciliation of Own Funds with Financial Statements .....	41
Table 19: Computable Own Funds.....	42
Table 20: Minimum Own Funds Requirements .....	43
Table 21: Own resources requirements for Credit Risk .....	44
Table 22: Own resources requirements for Counterparty Risk .....	45
Table 23: SMEs correction exposures .....	45
Table 24: Own resources requirements for Operational Risk .....	46
Table 25: Own resources requirements for CVA.....	46
Table 26: Exposure by risk category (standard).....	65
Table 27: Exposures by great geographical areas .....	66
Table 28: Distribution by economic sector .....	66
Table 29: Exposure by risk category and maturity .....	67
Table 30: Impaired exposures by category .....	68
Table 31: Impaired exposures by great geographical areas .....	69
Table 32: Impaired exposures by economic sector .....	69
Table 33: Value adjustments by impairments.....	70
Table 34: Counterparty risk by derivatives operations .....	72
Table 35: Counterparty credit risk – Calculation method.....	72
Table 36: External rating agencies .....	73
Table 37: Value adjustment net exposures.....	73
Table 38: Exposure categories and degree of quality .....	74
Table 39: Types of securitizations .....	78
Table 40: Types of securitization positions.....	79
Table 41: Types of securitization positions according to the Standard Method.....	80
Table 42: Types of securitization positions.....	80
Table 43: Exposure to credit risk by mitigation technique .....	82
Table 44: Value of the exposure hedged through risk mitigation techniques based on real guarantees .....	83
Table 45: Value of the exposure hedged through risk mitigation techniques based on personal guarantees .....	84
Table 46: Value of exposure to holdings and equity instruments .....	90
Table 47: Balance sheet sensitivity profile as of 31 December 2017.....	92



Table 48: Impact from interest rate increases .....	93
Table 49: Disaggregation of available liquidity .....	94
Table 50: Breakdown by maturity of the contractual maturities of assets and liabilities.....	95
Table 51: LCR Quarterly evolution- amounts as of March, 31 2017.....	97
Table 52: LCR Quarterly evolution- amounts as of June, 30 2017 .....	97
Table 53: LCR Quarterly evolution- amounts as of September, 30 2017 .....	98
Table 54: LCR Quarterly evolution- amounts as of December, 31 2017 .....	98
Table 55: Wholesale financing maturities.....	98
Table 56: Amount of encumbered assets, as of 31 December 2017 (annual average) .....	99
Table 57: Real guarantees received by asset type, as of 31 December 2017 (annual average).....	100
Table 58: Associated liabilities to assets and real guarantees received under encumbrance, as of 31 December 2017 (annual average) .....	100
Table 59: Leverage ratio .....	101
Table 60: LRSpl Table: Disaggregation of on-balance exposures (excluding derivatives, SFT and excluded exposures) .....	102
Table 61: LRCom Table: Common disclosure table of the leverage ratio .....	103
Table 62: LRSum Table: Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio .....	104
Table 63: Disaggregation of the aggregated remuneration of the Board of Directors .....	111
Table 64: Remuneration of the Identified Group .....	112



## ANNEX III: Illustrations Index

Illustration 1: Major milestones .....	13
Illustration 2: Distribution of business volume, network and customers .....	14
Illustration 3: Consolidation perimeter .....	21
Illustration 4: Governing Bodies .....	22
Illustration 5: Commissions of the Board of Directors.....	24
Illustration 6: Consolidation Scope entities .....	30
Illustration 7: Minimum Own Funds Requirements .....	43
Illustration 8: Distribution by Business Line of the RWA of Own Resources for Operational Risk ....	85
Illustration 9: Los events by risk category .....	88