

Risk management policies and objectives | Credit risk | Risks associated with the trading portfolio | Operational risk | Regulatory compliance risk | Risk in equity instruments not included in the trading book | In the banking book interest rate risk | Liquidity risk | Other risks | **Definitions of default and “impaired positions” and criteria applied to establish the amount of impairment losses** | Information on remuneration

Annex II

Definitions of default and “impaired positions” and criteria applied to establish the amount of impairment losses

For accounting purposes, an operation (debt instrument or off-balance-sheet exposure) is deemed potentially to be impaired as a result of credit risk, both because of the risk associated with the customer or that associated with the corresponding country (“country risk”), as these concepts are defined in Annex IX of Bank of Spain Circular 4/2004.

A debt instrument or off-balance-sheet exposure is deemed doubtful (impaired) for reasons associated with the customer risk, both when the customer is in a situation of default, and if any other reasons occur suggesting that there is a risk that the entire cash flows initially scheduled will not be received in accordance with the contractual conditions of the operation, or in the case of off-balance-sheet exposures, if any loss will be incurred through a failure in meeting its payment obligations by the person or entity for which the Group is granting a guarantee.

It is in particular deemed that an asset is doubtful as a result of customer default if the customer has any amount overdue corresponding to the principal, interest or contractually agreed charges, dating back more than 90 days and which has not been deregistered from the balance

sheet as bad debts. It is likewise held that an off-balance-sheet exposure is doubtful on the basis of default if the guaranteed party has defaulted. An operation is deemed to be in default if the time which has elapsed since the date when the first non-payment by the debtor or guaranteed party occurred is greater than 90 days, and it is therefore classified as doubtful for this reason.

Classification as doubtful on the basis of customer default likewise applies to the amount of all of a customer’s operations, except for non-financial guarantees, if the balances classified as doubtful as a result of default are greater than 20% of the amounts pending collection.

Risks are considered doubtful for reasons other than customer default in the case of those debt instruments and other off-balance-sheet exposures where, although the circumstances do not arise for them to be classified as non-performing or doubtful on the basis of default, there are reasonable doubts as to the full repayment thereof on the contractually agreed terms, and also off-balance-sheet exposures the payment of which by the Bank is probable, and recovery doubtful. This category includes operations, among others, in which customers have

incurred situations representing an impairment of their solvency, such as negative equity, continued losses, widespread delays in payment, inappropriate economic or financial structure, inability to obtain additional funding or insufficient cash flows in order to meet their payment obligations, existence of reclaimed balances and any which have been subject to a court claim for repayment, operations regarding which the debtor has already given rise to legal action the resolution of which dictates collection, lease operations in which the Bank has decided to cancel the agreement in order to recover possession of the asset, customers who have been or are expected to be declared insolvent, customers with balances classified as doubtful on the basis of default regarding which, even if the aforementioned percentages have not been reached in order to classify all their operations as doubtful, the conclusion reached is that there are reasonable doubts as to the repayment of their debts, contingent risks where the guaranteed parties are insolvent, etc.

A risk is classified as “bad debt” if, following an individual analysis, recovery is deemed remote, and is deregistered from the balance sheet, although actions