Pillar 3 Disclosures(*)

CaixaBank Group

at 31 December 2015

(*)This report replaces the document published on 27 April 2016. The tables 28, 32, 34, 36, 37 have been revised

Contents

Introduction

The Basel regulatory framework for banking is based on three pillars:

- Pillar 1: Minimum capital requirements
- Pillar 2: Supervisory review
- Pillar 3: Market discipline

This report complies with the requirements of Part Eight of EU Regulation 575/2013 of the European Parliament and of the Council (hereinafter, the CRR), which constitutes Pillar 3 of the Basel regulations, with regard to public disclosure of the entity's risk profile, risk management system, control of own funds and solvency levels. In preparing this report, we have also taken into consideration a number of additional developments and best practices, established by the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS).

The information in this report has been prepared at the sub-consolidated level of CaixaBank, SA, under a prudential scope, in compliance with CRR requirements. The CaixaBank Group states it has not omitted any of the items of information required because it regarded them as confidential or proprietary.

This report has been published on the CaixaBank website, at:
http://www.caixabank.com/informacionparaaccionistaseinversores/informacioneconomicofinanciera/informacionconrelevanciaprudencial_es.html

As a complement to the information set out in this annual document, CaixaBank deems it appropriate to publish certain of the quantitative information included in this report more frequently, pursuant to article 433 of the CRR and the EBA recommendations set out in its “Revised Pillar 3 Disclosure Requirements”, of January 2015. Since December 2015, CaixaBank has published the main tables from this report on its website on a quarterly basis, in Excel format. This information is available on the CaixaBank website, in the same location as this document.

CaixaBank's Pillar 3 disclosure policy, including the aforementioned modifications to publishing, were updated and approved by its Board of Directors at its meeting on 25 February 2016.

This report is based on information referring to 31 December 2015. It was approved by CaixaBank's Board of Directors at its meeting on 27 April 2016, following verification by the Audit and Control Committee, pursuant to CaixaBank's disclosure policy.

The figures in most of the tables in this report are in millions of euros. However, some of the tables are detailed in thousands of euros, to provide the reader with more detailed information. This is clearly indicated in the table.

Regulatory framework

A reform of the global regulatory framework for international capital requirements was launched in 2010, as a result of the international financial crisis. The reforms of the Basel Accord, known as Basel III - comprising the CRR and Directive 2013/36 of the European Parliament and the Council (hereinafter, CRD IV) - came into effect in the European Union on 1 January 2014. These modifications sought to improve the banking sector's ability to absorb the impact of economic and financial crises, whilst enhancing risk management and governance, transparency and information disclosure. Specifically, these improvements involved stricter requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. This framework was implemented in Spain through Royal Decree-Law 14/2013, on urgent measures to transpose European Union regulations on the supervision and solvency of financial entities into Spanish law, Act 10/2014 on the organisation, supervision and solvency of credit institution and Royal Decree 84/2015, amending Act 10/2014, together with other legal provisions of a lesser stature, such as Bank of Spain Circular 2/2016. The CRR establishes a progressive implementation schedule for the new requirements in the European Union. Bank of Spain Circulars 2/2014 (partially repealed by Circular 2/2016) and 3/2014 implement regulatory options in relation to requirements during the transition to Basel III.

In 2014, the European Central Bank (ECB) took responsibility for supervision of the euro area, following EU Regulation 1024/2013 of the Council and ECB regulation 468/2014 coming into effect, giving rise to the creation of the Single Supervisory Mechanism (SSM). Under the SSM, the ECB takes direct responsibility for supervision of the most significant entities, including CABK, and indirect responsibility for other entities, which are supervised directly by national authorities (including the Bank of Spain).

In 2015, the ECB completed the first cycle of the supervisory review evaluation process (SREP) since the creation of the SSM, in implementation of pillar 2 of the Basel Accord.

The SREP supervisory process evaluates the adequacy of capital, liquidity, corporate governance, and risk management and control using a standardised European process put in place by the EBA, through its December 2014 SREP Guidelines. These Guidelines may require additional capital or liquidity, or other qualitative measures, in response to any weaknesses detected.

The SREP seeks to assess the viability of entities on an individual basis, also considering comparisons against their peers. Any additional capital requirements under the SREP process ("Pillar 2" requirements) may also be complemented by combined capital buffer requirements (CBR), comprising capital conservation, anti-cyclical capital and systemic risk buffers.

In addition to these potential supervisory measures, Directive 2014/59, the Bank Recovery and Resolution Directive (BRRD), was transposed into Spanish law by Act 11/2015 in 2015, introducing a recovery and resolution framework for credit entities. This Directive, together with Directive 2014/49, on the Deposit Guarantee System, enhances the capacity of the banking sector to absorb the impact of economic and financial crises, and the capacity of entities to wind up their business in an orderly fashion, whilst maintaining financial stability, protecting depositors and avoiding the need for public bail-outs.

The BRRD introduced a Single Resolution Mechanism (SRM), which was subsequently developed through Regulation EU 806/2014. SRM decisions are taken by the Single Resolution Board and implemented by national resolution authorities (in Spain, the FROB and Bank of Spain). This mechanism also introduces a requirement for entities to prepare a Recovery Plan, modifying the regime applicable to banking resolution and introducing a Minimum Requirement of Eligible Liabilities (MREL). The SRM came into effect on 1 January 2016. The Single Resolution Board will set MREL requirements for entities following assessment of their resolution plans. The MREL requirements must be covered by eligible own funds and other eligible liabilities.

A number of international regulatory developments are expected in 2016, emanating from both the Basel Committee and the EBA. These include: further progress on the review of proposals for standardised calculation of capital charges for credit, market and operational risk; the treatment of sovereign debt in a prudential framework; review of credit valuation adjustment (CVA) risk; and the calibration of leverage ratios.

Macroeconomic environment

The global economic and market outlook.

Global economic growth will accelerate in 2016, to 3.4% (from 3.1% in 2015). Activity indicators for the first quarter of 2016 published so far for the main developed economies confirm this scenario of growth stabilising as expected. The flow of negative surprises from emerging markets has slowed, although some of these are still in a worryingly delicate condition.

Following the financial instability in January and much of February, with a sharp downside adjustment, the investment climate became more favourable at the end of the first quarter of 2016. Stock markets and corporate bonds have recovered somewhat, and the volatility of financial assets has subsided considerably over a relatively short period. Lower risk aversion has boosted capital flows towards emerging economies, bouncing back after several months of sharp declines. This improvement in financial confidence was due mainly to better than expected macroeconomic news, particularly from the USA, the support of central banks, particularly the Federal Reserve and ECB, and an uptick in crude oil prices, which have increased by around 50% compared to their January lows. Overall, the first quarter of 2016 was a period of financial turbulence that ended more positively than it began. This financial uncertainty is expected to have only a limited impact on global growth in 2016, which is expected to outstrip 2014 and 2015. Despite this benign environment, there are still a number of major downside risks, including a possible recurrence of financial uncertainty, difficulties in ensuring a soft landing for the Chinese economy and further deterioration in conditions in fragile emerging economies, such as Brazil and Russia.

In the USA, the Fed is on the horns of a difficult dilemma. On the one hand, despite some short term fluctuations, the US economy was growing at a very respectable 2% year-on-year in the second half of 2015, and we expect this to continue throughout most of 2016. One key factor in this growth is the robust labour market, which has put on more than 12 million jobs since the start of the recovery, bringing the unemployment rate down to a respectable 5.0%. Inflation remains relatively well contained, although it will experience a slight uptick over the coming months, through recovering oil prices, increased pressure on wages and the strength of domestic demand. Against this backdrop, the path back to monetary normalisation begun by the Fed in December makes perfect sense. However, the financial and global risks we have seen over recent months will tempt the Fed to hold its hand until they have subsided. Given these two positions, the Fed's most recent communiqué had a more accommodative tone than investors expected, even considering the recent financial turbulence and uncertainty about global growth, showing that it is leaning towards the latter. However, this position will probably be temporary, and the monetary normalisation process will come back into play in the second half of 2016.

The outlook for Europe and Spain.

The ECB has announced a new package of measures in response to what it considers a worsening of the macroeconomic outlook for the euro-zone. This package includes interest rate cuts (reducing its benchmark rate to 0.00% and its deposit rate to -0.40%), extension of its bond purchasing programme (by an additional EUR 20,000 million per month, to EUR 80,000 million), the inclusion of corporate debt in its bond purchasing programme, and four new bank liquidity auctions that, under certain conditions, will be at negative rates. These actions were more robust than expected. Taken together they will stimulate the provision of credit, reinforcing expectations of very low rates for a long time to come. Although the ultimate impact of these measures on growth and inflation may be relatively slight and gradual, they can be expected to impact the corporate debt segment and certain aspects of the financial markets, e.g. affecting the prices of certain assets and bolstering investor confidence.

Turning to the Spanish economy, although GDP growth is expected to be slightly slower this year - at an annual rate of 2.8% compared to 3.2% in 2015 - this will be based on more balanced growth in economic activity. We have already started to see this change in the pattern in the first quarter of 2016. Growth in the first quarter of 2016 stood at 0.7% quarter-on-quarter, according to the CaixaBank Research Department model, only one tenth of a percentage point down on the final quarter of 2015. Domestic demand remains the principal motor of growth, driven mainly by household consumption and investment, but with exports playing an increasing role. This slowdown in growth is due to the gradual disappearance of the tail effect of growth in 2015, and the fall in oil prices and depreciation of the euro. It was also due to reduced support from fiscal policy. However, it would have been difficult to keep this on the expansionary track seen in 2015, if government deficit targets were to be met. This slowdown is therefore consistent with the expected script, despite the financial turbulence at the start of the year and, domestically, the lack of agreement on a new government. In summary, growth will be slower but of higher quality, at least in terms of sustainability. In particular, the stronger role of the export segment is a positive development: this will make an increasing contribution in

2016. This will be further enhanced by the continuing recovery in the real estate market, increasing bank lending and improvements in the labour market, three trends pointing to the country's economy being on the road to normality. However, on the down side, the public deficit picture is less rosy, with the deficit of 5.2% of GDP in 2015 being 1 p.p. higher than the target agreed with Brussels (4.2%).

Trends in the banking sector in Spain.

There can be no doubt that the strong performance of Spain's banking sector is a major factor in the economic recovery. The ECB's monetary expansion and the clean-up of the banking sector's balance sheet over recent years is putting bank lending back on a normal footing. Banks now have greater capacity to finance new business projects and meet the borrowing requirements of households. The granting of new lending accelerated last year, particularly through new loans to households and SMEs. Furthermore, the continuing reduction in non-performing loans suggests that the banking sector's balance sheet is getting healthier, which could further boost lending capacity in 2016.

A. General aspects

1. General reporting requirements

1.1. Scope of application

The financial information in this report relates to the CaixaBank Group. CaixaBank, SA and its subsidiaries compose the CaixaBank Group (hereinafter "the CaixaBank Group" or "the Group"). CaixaBank, SA (“CaixaBank”), with tax identification (NIF) number A08663619 and registered address at Avenida Diagonal 621, Barcelona, was created through the transformation of Criteria CaixaCorp, SA which culminated on 30 June 2011 with the entry of CaixaBank in the Bank of Spain’s Registry of Banks and Bankers (“Registro Especial de Bancos y Banqueros”) and its listing on the Spanish stock markets—as a credit institution—on 1 July 2011.

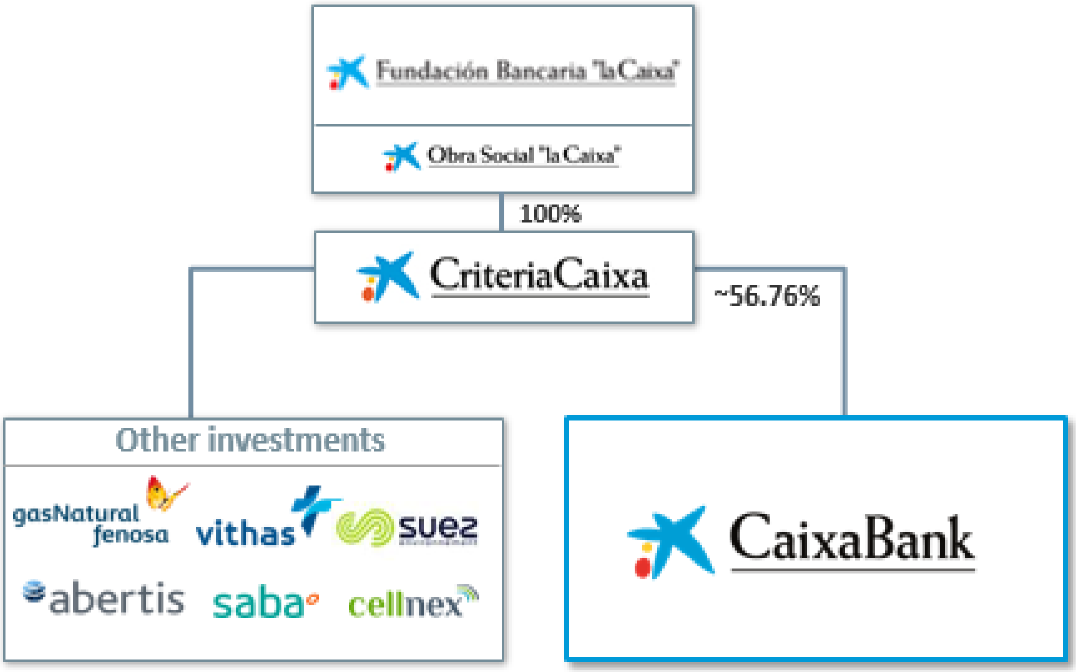
The corporate object of CaixaBank mainly entails:

a) all manner of activities, operations, acts, contracts and services related to the banking sector in general, including the provision of investment services and ancillary services and performance of the activities of an insurance agency;
b) receiving public funds in the form of irregular deposits or in other similar formats, for the purposes of application on its own account to active credit and microcredit operations, and other investments, providing customers with services including dispatch, transfer, custody, mediation and others; and
c) acquisition, holding, enjoyment and disposal of all manner of securities and drawing up takeover bids and sales of securities, and of all manner of ownership interests in any entity or company.

As a bank, it is subject to the oversight of the European Central Bank and the Bank of Spain.

At 31 December 2015, Criteria Caixa, SAU ("Criteria") was CaixaBank's majority shareholder, with a stake conferring profit-sharing rights of 56.76% (58.96% at 31 December 2014) and a stake conferring voting rights of 56.17% (57.24% at 31 December 2014). Criteria is 100% owned by "la Caixa" Banking Foundation.

At 31 December 2015, the Group's corporate structure was as follows:



CaixaBank Group corporate transactions in 2015

Acquisition of Barclays Bank, SAU

On 31 August 2014, CaixaBank and Barclays Bank PLC reached an agreement whereby CaixaBank would acquire Barclays Bank, SAU.

On 2 January 2015, CaixaBank successfully acquired the entire share capital of Barclays Bank, SAU, after securing the necessary clearance from the regulatory authorities. The provisional price paid at that time was EUR 820 million. The parties agreed a definitive price of EUR 815.7 million for the transaction on 23 April 2015. On 30 March 2015, the Boards of Directors of CaixaBank and Barclays Bank, SAU, approved the Joint Merger Project between CaixaBank (absorbing company) and Barclays Bank, SAU (absorbed company). The merger deed was registered with the Mercantile Registry on 14 May 2015, with Barclays Bank, SAU subsequently being integrated into CaixaBank technologically and operationally.

CaixaBank obtained control of Barclays Bank, SAU on 2 January 2015. The purchase price allocation process then began as required to report the transaction in the accounts, with negative goodwill on consolidation of EUR 602 million being reported. Non-recurring restructuring costs stemming from the transactions totalled EUR 323 million (EUR 226 million, after tax). This included: EUR 190 million recognised under "Personnel expenses" (see Note

24) associated with the early retirement scheme; EUR 67 million under "Other general administrative expenses", consisting of expenses associated with the transaction; and EUR 64 million under "Impairment losses on other assets (net)" in the accompanying income statement, in order to write down assets that are in disuse, and EUR 2 million under "Amortisation".

Take-over bid launched for ordinary shares of the Portuguese bank BPI (see note 1 to the accompanying financial statements)

On 17 February 2015, CaixaBank submitted a notice to the Portuguese stock market regulator, the Comissão do Mercado de Valores Mobiliários (CMVM), announcing its intention of launching a take-over bid for the ordinary shares of the Portuguese bank, BPI.

The offer is voluntary and sets a cash price of EUR 1.329 per share. The price is the weighted average of the last six months' prices and considered to be fair in accordance with Portuguese regulations. The offer is directed at all BPI's share capital not owned by CaixaBank and is conditional on: (i) obtaining acceptance from more than 5.9% of the shares issued - so that CaixaBank, considering its current stake of 44.1%, will go on to hold more than 50% of BPI's share capital after the operation; and (ii) the removal of the 20% restriction on the voting rights held by a single shareholder established in Article 12.4 of BPI's Bylaws at the appropriate shareholders' meeting. For this restriction to be removed 75% of the share capital attending the shareholders' meeting or represented therein had to vote in favour of the motion, with CaixaBank not being able to exercise more than 20% of the voting rights.

On 18 June 2015, CaixaBank reported that its Board of Directors had resolved to notify the CMVM of the withdrawal of the takeover bid for the shares on BPI announced on 17 February. This was due to the BPI shareholders' meeting the previous day resolving not to remove the BPI bylaw limit on voting rights that can be exercised by a shareholder.

On 4 February 2016, CaixaBank took a positive view of the decision by the BPI Board of Directors to recommend to its shareholders the removal of the limit on voting rights in its bylaws.

On 18 April, the Board of Directors of CaixaBank decided to launch a new voluntary takeover bid for BPI, to be published when Portugal's Comissão do Mercado de Valores Mobiliários authorises this following the request already presented by CaixaBank to this end.

The cash price of the bid is EUR 1.113 per share, and is conditional: on the elimination of the limit on voting rights in BPI; obtaining over 50% of the share capital of BPI; and obtaining the relevant regulatory authorisations. The bid price is the average weighted price of BPI shares over the last 6 months[1].

Signature of a swap agreement for stakes in Grupo Financiero Inbursa and The Bank of East Asia

On 3 December 2015, the Boards of Directors of CaixaBank and Criteria agreed a swap agreement under which CaixaBank undertook to deliver 17.24% of The Bank of East Asia (BEA) and 9.01% of Grupo Financiero Inbursa (GFI) to Criteria, and Criteria undertook to deliver the 9.9% of the treasury shares of CaixaBank held by Criteria to CaixaBank, together with EUR 642 million in cash.

The Board of Directors of CaixaBank resolved to put a proposal to the general meeting of CaixaBank for the cancellation of the treasury shares acquired from Criteria under this swap (representing around 9.9%), once the pertinent authorisations have been received. This proposal allows the Board of Directors to decide not to carry out the reduction in capital through cancellation of the shares, depending on its corporate interests or if circumstances arise that make this unadvisable.

Completion of the swap is subject to: (i) modification of the current agreements entered into by CaixaBank in relation to its holdings in BEA and GFI so that Criteria occupies the position of CaixaBank, as a new shareholder in these banks, and CaixaBank continues to be a banking partner of these banks; (ii) obtaining the pertinent regulatory authorisations in Hong Kong and Mexico; (iii) authorisation from the Board of Directors of GFI for the acquisition of GFI shares by Criteria; and (iv) authorisation from the European Central Bank for CaixaBank to acquire its own treasury shares.

As the delivery of BEA and GFI shares is dependent on all of the authorisations being received, and it is not the group's intention to dispose of these if the transaction is not authorised, these holdings were still classified as associates at 31 December 2015.

CaixaBank will continue its strategic relations with BEA and GFI following this transaction.

[1] For further information, refer to the Significant Event dated 18 April 2016, which is published on the CaixaBank website.

Sale of holdings in Boursorama to Société Générale and the holding in Self Trade Bank to Boursorama (Note 17 of the accompanying financial statements)

On 18 June 2015, CaixaBank announced the sale of its entire interest in Boursorama to Société Générale in a deal worth EUR 218.5 million, with the stake comprising 20.5% of the company's share capital, together with voting rights. The price paid by Société Générale was the same as that offered to the minority shareholders during the simplified takeover bid and squeeze-out procedure of 2014, i.e. EUR 12 per share.

This transaction marked the effective end of the alliance between Société Générale and CaixaBank, which began in 2006 following the sale of CaixaBank France to Boursorama. It also cancels the shareholder agreement signed in May 2006 and renegotiated in March 2014 by the two institutions.

CaixaBank also announced the signature of the sale to Boursorama of its entire 49% stake in Self Trade Bank, the joint venture between the two companies in Spain. Consideration for the deal amounted to EUR 33 million. The transaction signals the end of the joint venture and of the agreements signed between Boursorama and CaixaBank in July 2008.

The consolidated gross capital gains on these transactions amounted to EUR 38 million.

Issue of EUR 2,000 million of mortgage covered bonds (see Note 22 to the accompanying financial statements)

Issue of EUR 1,000 million in mortgage covered bonds on 12 November 2015. The coupon was set at 0.625%, and the cost of the issue was 43 basis points over the midswap.

Issue of EUR 1,000 million in mortgage covered bonds on 27 March 2015. The coupon was set at 0.625%, and the cost of the issue was 15 basis points over the midswap.

1.1.1. Description of the consolidated group

Pursuant to prevailing accounting regulations, which follow the criteria set down in International Financial Reporting Standards (particularly IFRS 10), a consolidated group is considered to exist when a dominant entity exercise direct or indirect control over the other entities (subsidiaries).

This relationship basically exists when a dominant entity is exposed to or has the right to variable returns from its involvement therein, and also has the ability to influence these returns, through the fact of having power over the dependent entity.

The following provides a summary of the main differences in relation to the consolidation scope and methods applied to prepare information on the CaixaBank Group in this report and to prepare its consolidated financial statements:

1. For the preparation of the CaixaBank Group's consolidated financial statements, all the subsidiary undertakings (companies controlled by the parent undertaking) were consolidated using the full consolidation method. However, associates (over which the parent exercises significant influence) and jointly controlled (joint management by the parent and other shareholders) entities are consolidated using the equity method.

2. For the purposes of solvency, subsidiary undertakings with a different activity to that of a credit institution or of investment undertakings as defined in Directive 2013/36/EU and Regulation (EU) 575/2013, both of 26 June 2013, are accounted for using the equity method. Jointly controlled entities that are financial institutions were consolidated using the proportionate consolidation method, regardless of the method applied in the financial statements.

The following table details the treatment applied to each of the undertakings comprising both consolidation scopes for the purposes of determining capital adequacy and preparing consolidated financial statements.

Table 1. CaixaBank Group consolidation scope for capital adequacy and accounting purposes

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Fully consolidable entities for capital adequacy purposes						**(1 / 1)**
Arquitrabe Activos, SL	Holder of property assets	100.00	100.00	✓		
Barclays Factoring, SA, EFC	Factoring	100.00	100.00	✓		
Barclays Finance Agente de Banca, SA	Renting	99.98	99.98	✓		
BuildingCenter, SAU	Real estate services	100.00	100.00	✓		
Caixa Capital Biomed, SCR de Régimen Simplificado, SA	Venture capital management	90.91	90.91	✓		
Caixa Capital Fondos, SCR de Régimen Simplificado, SAU	Venture capital management	100.00	100.00	✓		
Caixa Capital Micro, SCR de Régimen Simplificado, SAU	Venture capital management	100.00	100.00	✓		
Caixa Capital TIC , SCR de Régimen Simplificado, SA	Venture capital management	80.65	80.65	✓		
Caixa Card 1 EFC, SAU	Finance	100.00	100.00	✓		
Caixa Corp, SA	Holding company	100.00	100.00	✓		
Caixa Emprendedor XXI, SA	Development of business and entrepreneurial initiatives	0.00	100.00	✓		
Caixa Preference, SAU	Finance	100.00	100.00	✓		
Caixabank Asset Management, SGIIC, SAU	Management of collective investment institutions	100.00	100.00	✓		
CaixaBank Brasil Escritório de representaçao, LTDA	Monetary intermediation	100.00	100.00	✓		
Caixabank Consumer Finance, EFC, SA	Consumer finance	100.00	100.00	✓		
Caixabank Electronic Money, EDE, SL	Payment entity	0.00	80.00	✓		
CaixaRenting, SAU	Vehicle and machinery rentals	0.00	100.00	✓		
Caja Guadalajara Participaciones Preferentes, SA	Finance	100.00	100.00	✓		
Caja San Fernando Finance, SA	Finance	100.00	100.00	✓		
Cajasol Participaciones Preferentes, SAU	Finance	100.00	100.00	✓		
Corporación Hipotecaria Mutual, EFC, SA	Mortgage lending	100.00	100.00	✓		
Credifimo - Unión de crédito para la financiación mobiliaria e inmobiliaria, EFC, SA	Mortgage lending	100.00	100.00	✓		
El Monte Participaciones Preferentes, SA	Finance	100.00	100.00	✓		
e-la Caixa 1, SA	Electronic channel management	100.00	100.00	✓		
GDS-CUSA, SA	Services	100.00	100.00	✓		
GestiCaixa, SGFT, SA	Securitisation fund management	91.00	100.00	✓		
HipoteCaixa 2, SL	Mortgage loan management company	100.00	100.00	✓		
Hiscan Patrimonio, SAU	Holding company	100.00	100.00	✓		
Hodefi, SAS	Holding company	0.00	100.00	✓		
Holret, SAU	Real estate services	100.00	100.00	✓		
Inversiones Valencia Capital, SA	Holding company	100.00	100.00	✓		
MediCaixa, SA	Financial services	100.00	100.00	✓		
Negocio de Finanzas e Inversiones II, SL	Finance	100.00	100.00	✓		
Nuevo MicroBank, SAU	Financing of micro-credits	100.00	100.00	✓		
Recouvrements Dulud, SA	Finance	0.00	100.00	✓		
SegurCajasol, SL	Advisory and consulting	0.00	100.00	✓		
Sercapgu, SL	Holding company	100.00	100.00	✓		
Servicio de Prevención Mancomunado del Grupo la Caixa, CB	Consultancy and labour risk prevention	70.00	83.33	✓		
Silc Immobles, SA	Real estate management and administration	0.00	100.00	✓		
Silk Aplicaciones, SL	Provision of IT services	100.00	100.00	✓		
Suministros Urbanos y Mantenimientos, SA	Project management, maintenance, logistics and procurement	100.00	100.00	✓		
Telefónica Consumer Finance, EFC, SA	Consumer financing and financing for commercial transactions	0.00	50.00	✓		
Tenedora de Vehículos, SA	Operating leases	0.00	65.00	✓		
Vipcartera, SL	Property management	0.00	100.00	✓		

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Entities consolidated proportionately for capital adequacy purposes						**(1 / 1)**
Banco Europeo de Finanzas, SA	Activities of a wholesale or investment bank	39.52	39.52		✓	
Cartera Perseidas, SL	Holding company	40.54	40.54		✓	

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Entities deductible from capital for capital adequacy purposes						**(1 / 1)**
Banco BPI, SA	Banking	44.10	44.10			✓
Brilliance Bea Auto Finance	Finance	0.00	22.50			✓
Inpsa, SGPS, SA	Holding company	0.00	40.00			✓
Inversiones Alaris, SA	Holding company	33.33	66.67			✓
Monty & Group, SL	Transfer reception	20.47	20.47			✓
SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros	Insurance	0.00	49.92			✓
Telefónica Factoring do Brasil, LTDA	Factoring	20.00	20.00			✓
Telefónica Factoring España, SA	Factoring	20.00	20.00			✓
Tenedora de Acciones de ITV de Levante, SL	Investment vehicle	12.00	40.00			✓
The Bank of East Asia, LTD	Banking	17.24	17.24			✓
VidaCaixa Mediació, Sociedad de Agencia de Seguros Vinculada, SAU	Insurance agency	0.00	100.00	✓		
VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal	Direct life insurance, reinsurance and pension fund management	100.00	100.00	✓		

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(1 / 3)**
Acuigroup Mare Mar, SL	Aquiculture	0.00	99.98	✓		
Aris Rosen, SAU	Services	100.00	100.00	✓		
Biodiesel Procesing, SL	Research, creation, development and sale of biofuel manufacturing projects	0.00	100.00	✓		
Bodega Sarría, SA	Production and sale of wine	0.00	100.00	✓		
Cestainmob, SL	Property management	0.00	100.00	✓		
Club Baloncesto Sevilla, SAD	Promotion and development of sports activities	99.99	99.99	✓		
Estugest, SA	Administrative activities and services	100.00	100.00	✓		
Grupo Aluminios de Precisión, SL	Smelting	100.00	100.00	✓		
Grupo Riberebro Integral, SL	Vegetable processing	0.00	60.00	✓		
Guadalcorchos, SA	Wood and cork industry	0.00	100.00	✓		
Guatazal, SL	Real estate development	0.00	100.00	✓		
Inversiones Corporativas Digitales, SL	Holding company	0.00	100.00	✓		
Inversiones Inmobiliarias Oasis Resort, SL	Services	60.00	60.00	✓		
Inversiones Inmobiliarias Teguise Resort, SL	Services	60.00	60.00	✓		
Inversiones Vitivinícolas, SL	Production and sale of wine	0.00	100.00	✓		
Leucanto Inversiones	Sale and purchase of real estate on own account	0.00	100.00	✓		
Mediburgos XXI, SAU	Property development and services	100.00	100.00	✓		
PromoCaixa, SA	Product marketing	99.99	100.00	✓		
Puerto Triana, SA	Real estate developer specialised in shopping centres	100.00	100.00	✓		
Río Sevilla 98 Promociones Inmobiliarias, SL	Real estate development	0.00	51.01	✓		
Saldañuela Residencial, SL	Real estate	68.60	68.60	✓		
Servicaican, SA (L)	Property development and services	100.00	100.00	✓		
Sociedad de Gestión Hotelera de Barcelona	Property management	0.00	100.00	✓		

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(2 / 3)**
Abaco iniciativas inmobiliarias, SL	Real estate acquisition, construction and development	0.00	40.00			✓
Acciona Solar, SA	Energy production, distribution, supply and installation	0.00	25.00			✓
Aceitunas de mesa, SL	Production and sale of table olives	0.00	30.00			✓
Ag Inmuebles	Real estate development	0.00	28.85			✓
Agua y gestión de servicios ambientales, SA	End-to-end water management	0.00	24.26			✓
Antilia Promociones Inmobiliarias, SA	Real estate	0.00	50.00			✓
Ape Software Components, SL	Business Intelligence	0.00	21.99			✓
Arena Comunicación audiovisual, SL	Performing arts. Film and video production activities	0.00	50.00			✓
Asoma TV Multimedia, SL	Management and operation of any media for advertisers	0.00	25.12			✓
Best TV Labs	Technical project for granting licenses	0.00	32.30			✓
Celeris, servicios financieros, SA	Financial services	26.99	26.99			✓
Centro de transportes aduana de Burgos, SA	Merchandise storage and handling	22.96	22.96			✓
Chival promociones inmobiliarias, SL	Real estate development	0.00	40.00			✓
Comercia Global Payments, Entidad de Pago, SL	Payment entity	49.00	49.00			✓
Cubican Infema, SL	Real estate development	0.00	50.00			✓
Cubican XXI, SL	Real estate development	0.00	50.00			✓
Delta R-Tecnologías de decisión, SL	Construction and development of predictive models of risk	0.00	30.37			✓
Dermalumics, SL	Manufacture of tomography systems	0.00	31.82			✓
Desarrollos Albero, SA	Real-estate agency	0.00	50.00			✓
Drembul, SL	Real estate development	0.00	25.00			✓
EITWO International Investment, SL	Real estate development	0.00	33.33			✓
Ensanche Urbano, SA	Real estate development	0.00	49.30			✓
Erste Group Bank AG (C)	Banking	9.92	9.92			✓
Eurocei, Centro europeo de empresas e innovación, SA (L)	Creation, attraction and development of business projects	0.00	45.95			✓
Europea de desarrollos urbanos, SA	Real estate development	0.00	20.00			✓
Forest Chemical Group, SL	Chemicals	0.00	3.90			✓
Genmedica Therapeutics, SL	Pharmaceutical development	0.00	12.89			✓
Geotexan, SA	Production, sale, transport, storage, distribution, handling and supply of all type of geotextiles and geocompounds	0.00	20.00			✓
Gescap Urbana, SA	Real estate development	0.00	30.00			✓
Girona, SA	Integrated water distribution	34.22	34.22			✓
Global Payments South America, Brasil – Serviços de Pagamentos, SA	Payment entity	50.00	50.00			✓
Groupalia Venta Online, SL	Sale of leisure products	0.00	30.77			✓
Grupo Financiero Inbursa, SAB de CV (C)	Banking	9.01	9.01			✓
Grupo Luxonia, SL	Manufacture, assembly, processing and distribution of lighting equipment	0.00	20.00			✓
Guadapelayo, SL	Real estate development	0.00	40.00			✓
Hispanergy del Cerrato (L)	Production of vegetable oil and biodiesel	0.00	33.12			✓
Icinetic TIC, SL	IT Services	0.00	11.67			✓
I-Neumáticos on line franquicias, SL	On-line tyre sales	0.00	17.12			✓
Inmojasan, SA	Real estate development	0.00	35.00			✓
Integrated Microsystems for Quality of Life	Development, manufacture and sale of pathogen and toxin detection kits	0.00	16.67			✓
Inversiones Patrimoniales La Marina, SL	Real estate development	0.00	25.00			✓

Company name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Global	Proporcionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(3 / 3)**
Ircio inversiones, SL	Development of industrial buildings	35.00	35.00			✓
IT Now, SA	IT Services	49.00	49.00			✓
Justinmid, SL	Development of IT systems	0.00	16.98			✓
Kider, SA (L)	Production, design, supply and assembly of products to cover functional needs of all types of stores	0.00	48.45			✓
Laboratoris Sanifit, SL	Discovery and development of new compounds to regulate the calcification of the organism	0.00	14.58			✓
Lexdir Global, SL	Consultants	0.00	23.49			✓
Medlumics, SL Newco	Manufacture of tomography systems	0.00	31.82			✓
Mimoryx Therapeutics, SL	Development of treatment for diseases	0.00	1.92			✓
Mondragón Navarra, SPE, SA	Holding company	0.00	25.00			✓
Montealcobendas, SL	Real-estate agency	0.00	50.00			✓
Motive Televisión, SL	Import, export and marketing of electronic and computer products	0.00	32.30			✓
Muchavista Sur Inversiones, SL	Real estate development	0.00	33.33			✓
Nlife Therapeutics, SL	Development of therapeutic agents	0.00	37.13			✓
Nucli, SA	Real-estate agency	0.00	49.51			✓
Numzaan, SL	Real-estate agency	0.00	21.47			✓
Omnia molecular	Discovery and development of new compounds	0.00	30.42			✓
Palacio de la Merced, SA	Industrial hotel/restaurant operation	0.00	47.00			✓
Parque científico tecnológico de Córdoba, SL	Science park operation and management	15.49	35.49			✓
Parque Industrial el Pla, SL	Real estate development	0.00	25.00			✓
Peñíscola Green, SA	Real estate development	0.00	33.33			✓
Picanya Sud, SL	Real estate development	0.00	20.00			✓
Pórtic Barcelona, SA	Port of Barcelona logistics platform	0.00	15.97			✓
Promociones al desarrollo Bumari, SL	Investment vehicle	48.00	48.00			✓
Promociones Guadavila, SL	Real estate development	0.00	30.00			✓
Promociones Navarra Madrid, SA	Real estate development	0.00	47.50			✓
Promotora Damas Ocho (L)	Real estate development	0.00	40.00			✓
Proretina Therapeutics, SL	Pharmaceutical development	0.00	21.05			✓
ProteoDesign SL	Medical biotechnology	0.00	3.71			✓
Repsol, SA (C)	Oil and gas market operation	12.14	12.14			✓
Sagetis Biotech, SL	Pharmaceutical development	0.00	28.27			✓
Sanifit Merdtech, SL	Development of implants and other healthcare products	0.00	35.40			✓
Servihabitat Servicios Inmobiliarios, SL	Real estate services	49.00	49.00			✓
Smart Solutions Technologies	Production and marketing of biometric solutions	0.00	6.18			✓
Societat Catalana per a la Mobilitat, SA	Implementation of new transport technologies	25.00	25.00			✓
Sofiland, SA	Real estate development	0.00	35.00			✓
Terminal polivalente portuaria Sagunto, SA	Operation of two concessions	0.00	25.00			✓
Vanios Consulting, SL	Information and communication technology	0.00	29.92			✓
Vía 10, Sociedad mixta de viviendas de alquiler, SL	Real-estate agency	0.00	49.00			✓
Vivienda protegida y suelo de Andalucía, SA	Real estate development	0.00	50.00			✓
Yaap Digital Services, SL (antes Ecosistema Virtual)	Finance	0.00	33.33			✓

1.1.2. Reconciliation between the public and confidential balance sheets

As set out in Annex I of Commission Implementing Regulation (EU) 1423/2013, the following table presents the confidential or prudential balance sheet used in calculating computable own funds and minimum capital requirements, compared to the accounting information published in the financial statements.

Table 2. Reconciliation between the public and confidential balance sheets

Millions of euros

Assets	Public	Group entities using the equity method (1)	Jointly controlled entities incorp. proportional method (2)	Settings and reclass. consolidation (3)	Regulatory scope
Cash and deposits at central banks	**5,772**	**0**	**0**	**0**	**5,772**
Financial assets held for trading	**13,532**	**-220**	**0**	**220**	**17,476**
Debt securities	3,255	0	0	0	3,255
Equity instruments	470	-220	0	220	251
Trading derivatives	9,806	0	0	0	13,970
Other financial assets at fair value through profit or loss	**1,566**	**-1,566**	**0**	**1,566**	**0**
Debt securities	969	-969	0	969	0
Equity instruments	597	-597	0	597	0
Available-for-sale financial assets	**62,997**	**-42,345**	**0**	**42,345**	**20,652**
Debt securities	59,618	-42,342	0	42,342	17,276
Equity instruments	3,379	-4	0	4	3,376
Loans and receivables	**211,317**	**-361**	**23**	**338**	**222,878**
Loans and advances to credit institutions	7,493	-105	23	82	7,411
Loans and advances to customers	202,896	-256	0	256	214,539
Debt securities	928	0	0	0	928
Held-to-maturity investments	**3,820**	**0**	**3**	**-3**	**3,823**
Adjustments to financial assets - macro-hedges	**3**	**0**	**0**	**0**	**3**
Hedging derivatives	**3,917**	**0**	**0**	**0**	**3,917**
Nont-current assets held for sale	**7,961**	**-94**	**0**	**94**	**8,951**
Investments	**9,674**	**2,189**	**-32**	**-2,157**	**11,830**
Associates	8,531	0	0	0	8,531
of which: Net badwill	*918*	*0*	*0*	*0*	*918*
Jointly controles entities	1,143	-1,017	-32	1,049	93
of which: Badwill	*301*	*-246*	*0*	*0*	*55*
Group Entities	0	3,206	0	-3,206	3,206
of which: Badwill	*0*	*973*	*0*	*0*	*973*
Insurance contracts linked to pensions	**0**	**0**	**0**	**0**	**1,913**
Reinsurance assets	**391**	**-391**	**0**	**391**	**0**
Tangible assets	**6,293**	**-244**	**0**	**244**	**6,049**
Property, plant and equipment	3,040	-35	0	35	3,005
Investment property	3,253	-210	0	210	3,044
Intangible assets	**3,672**	**-712**	**0**	**712**	**2,959**
Goodwill	3,051	-584	0	584	2,467
Other intangible assets	621	-128	0	128	492
Tax assets	**11,123**	**-359**	**0**	**359**	**10,904**
Current	1,030	-4	0	4	1,029
Deferred	10,093	-355	0	355	9,875
Other assets	**2,217**	**-163**	**0**	**163**	**1,175**
Inventories	1,135	-15	0	15	36
Other	1,082	-149	0	149	1,138
Total assets	**344,255**	**-44,268**	**-6**	**44,274**	**318,302**

(1) Entities of the Group which do not consolidate on the grounds of their activity, mainly VidaCaixa, its contribution its eliminated on public accounting scope of consolidation thus accounting for its carrying amount

(2) Mainly jointly controlled financial investments accounted for the equity method on regulatory balance sheet and for proportional method on prudential scope of consolidation.

(3) Mainly operations among VidaCaixa an other investments being part of unconsolidated economic group, which are not eliminated in regulatory balance

Amounts in millions of euros

Liabilities	Public	Group entities using the equity method (1)	Jointly controlled entities incorp. proportional method (2)	Settings and reclass. consolidation (3)	Regulatory scope
Financial liabilities held for trading	**12,200**	**0**	**0**	**0**	**16,364**
Other financial liabilities at fair value through profit or loss	**2,075**	**-2,075**	**0**	**2,075**	**0**
Financial liabilities at amortised cost	**253,499**	**-944**	**-11**	**955**	**266,551**
Deposits from central banks	23,753	0	0	0	23,753
Deposits from credit institutions	10,509	-47	0	47	10,451
Customer deposits	184,032	-753	-11	764	196,887
Marketable debt securities	28,070	0	0	0	28,460
Subordinated liabilities	4,345	0	0	0	4,345
Other financial liabilities	2,790	-144	0	144	2,655
Adjustments to financial liabilities - macro-hedges	**2,213**	**0**	**0**	**0**	**2,213**
Hedging derivatives	**756**	**0**	**0**	**0**	**756**
Liabilities associated with non-current assets held for sale	**79**	**-79**	**0**	**79**	**0**
Liabilities under insurance contracts	**40,575**	**-40,575**	**0**	**40,575**	**0**
Provisions	**4,598**	**-17**	**4**	**13**	**4,606**
Provisions for pensions and similar obligations	2,859	0	0	0	2,859
Provisions for taxes and other legal contingencies	514	0	0	0	514
Provisions for contingent liabilities and comitments	381	0	0	0	381
Other provisions	843	-17	4	13	852
Tax liabilities	**1,556**	**-489**	**0**	**489**	**1,194**
Current	0	-128	0	128	0
Deferred	1,556	-361	0	361	1,194
Other liabilities	**1,500**	**-71**	**0**	**71**	**1,430**
Total liabilities	**319,051**	**-44,251**	**-6**	**44,257**	**293,114**

Equity	Public	Group entities using the equity method (1)	Jointly controlled entities incorp. proportional method (2)	Settings and reclass. consolidation (3)	Regulatory scope
Shareholders' equity	**23,689**	**0**	**0**	**0**	**23,689**
Valuation adjustments	**1,480**	**0**	**0**	**0**	**1,480**
Non-Controlling Interest	**36**	**-17**	**0**	**17**	**19**
Total Equity	**25,205**	**-17**	**0**	**17**	**25,188**
Total Equity and liabilities	**344,255**	**-44,268**	**-6**	**44,274**	**318,302**

(1) Entities of the Group which do not consolidate on the grounds of their activity, mainly VidaCaixa, its contribution its eliminated on public accounting scope of consolidation thus accounting for its carrying amount

(2) Mainly jointly controlled financial investments accounted for the equity method on regulatory balance sheet and for proportional method on regulatory scope of consolidation.

(3) Mainly operations among VidaCaixa an other investments being part of unconsolidated economic group, which are not eliminated in regulatory balance

1.1.3. Other general information

At 31 December 2015, CaixaBank comfortably met its minimum own funds requirements, at both the individual and consolidated levels.

The remaining banking entities of the consolidated group (banking subsidiaries and financial credit establishments, i.e. CaixaBank Consumer Finance, EFC, SA, Corporación Hipotecaria Mutual, EFC, SA, CaixaCard, EFC, SA, Nuevo MicroBank, SA and Credifimo, EFC, SA) are exempt from compliance with individual minimum own funds requirements.

Similarly, all subsidiaries subject to compliance with individual minimum capital requirements (e.g. VidaCaixa) and not included in the consolidated group meet the minimum capital requirements prescribed by the various regulations applicable.

1.2. Risk management policies and objectives

1.2.1. Risk management objectives, corporate culture and organisation

1.2.1.1 Risk management objectives

This chapter describes the CaixaBank Group's main risk management principles.

Adequate risk management is essential for the business of any credit institution, especially one like CaixaBank, which mainly operates in retail banking and considers the confidence of its customers to be a core value.

Risk control is fully ingrained in the business and the Entity plays a proactive role in ensuring that it is implemented. Senior Management participates directly in maintaining the internal control framework, ensuring that it is executed prudently, and in the ongoing capital management and planning to guarantee the level of capital available is in keeping with the Entity's risk level. The risk management system is comprehensive and consolidated at corporate level. This way, it sets a risk profile that is aligned with the Group's strategic objectives.

The Risk Management System itself comprises the following elements:

- The Risk Culture which, *inter alia,* involves general risk management principles, employee training and the involvement of the General Risks Division in other HR processes related to the business areas.
- The Governance Structure and the Organisation
- Corporate Risk Map
- The Risk Appetite Framework approved by the Board of Directors in 2014
- The Internal Control Framework

1.2.1.2 Risk Culture: General Risk Management Principles

The Board of Directors of CaixaBank is the Group's highest risk-policy setting body. The Board-approved General Risk Management Principles[2] can be summarised as follows:

- Risk is inherent to the Group's business.
- The Board of Directors is the most senior risk management body, a function in which management is involved.
- The Group's target risk profile is medium-low.
- The entire organisation should be, and is, involved in aligning the risk assumed to the desired profile.
- Risk management entails the full cycle of transactions: from preliminary analysis until approval, to monitoring of customer and counterparty solvency, and profitability, and to repayment or recovery of impaired assets.
- The risk function is independent of the business and operating units.
- Business decisions are taken jointly between at least two employees with different organisational reporting lines.
- Inclusion of the table of powers in the systems facilitates the decentralisation of decision-making so that decisions are taken as close as possible to customers, while ensuring risks are approved at a suitable level.
- Approvals are based on the borrower's repayment capacity and factors in an appropriate return.
- Standard criteria and tools are employed throughout the organisation.
- Risks are measured and analysed using advanced methods and tools in accordance with sector best practices. All risk measurement, monitoring and management work is carried out in accordance with the recommendation of the Basel Committee on Banking Supervision, European directives and Spanish legislation.
- Appropriate resource allocation: The human and technical resources allocated to risk management are sufficient in terms of both quantity and quality to allow objectives to be achieved.

[2] See Note 3 to the CaixaBank Group's 2015 consolidated financial statements for more information.

Training

In order to ensure that the Group's branch, premier and private banking managers offer the best possible service to their customers and earn their trust, in 2015 more than 5,000 premier banking executives and managers obtained the UPF School of Management's Financial Consultancy diploma (Pompeu Fabra University), whilst a similar number obtained the Chartered Institute for Securities & Investment (CISI) Certificate in Wealth Management. These are widely recognised qualifications among major financial entities (such as HSBC, BNP Paribas, Credit Suisse, the National Bank of Abu Dhabi, Citi Bank, UBS, Barclays and Deutsche Bank), providing a benchmark for financial knowledge and advice, and the ethical and behavioural codes required for excellent customer service. This means the Group is the first financial entity in Spain to certify the training of its employees with a university postgraduate certificate in financial consultancy, and an international certificate that is highly regarded in the financial sector.

Turning to risks specifically, the General Risks Division and the General Human Resources Division define the content of any risk-related training for functions supporting the Board of Directors/Senior Management covering specific matters that help high-level decision-making, as well as the rest of the organisation, especially branch network staff. This is carried out to ensure: communication of the Risk Appetite Framework throughout the whole organisation; the decentralisation of decision making; the updating of risk analysis competencies; and optimisation of risk quality.

CaixaBank structures its training offering through its Risks School. It sees training as a strategic tool to provide support to business areas, whilst providing a conduit for disseminating the Bank's risk policies, providing training, information and tools for all of the Bank's staff. This proposal comprises a training circuit for specialising in risk management, which will be linked to the professional development of the Bank's entire workforce from Retail Banking staff to specialists from any field. The objective is for the Bank's workforce to have adequate knowledge of:

- the financial system and the risks in the economic environment and banking business,
- the organisation and operation of risk management in the Group,
- the processes and tools associated with lending transactions, with regard to acceptance and monitoring, through to renegotiation and recovery, if necessary,
- credit products and the risks inherent to each of these, together with legislation applicable to credit agreements.

In September 2015, the Risks School launched its first Risk Analysts Certificate (aimed at 1,132 sales staff, covering a total of 46,200 hours) and the first postgraduate Risk Analyst diploma for retail banking (aimed at 760 branch managers and deputy managers, with a total of 37,900 hours of training). With 2 such courses being held each year, we expect that all employees involved in these functions will study at this School over the coming years. In addition, more than 992 hours of risk training were given in 2015, divided up into various training programmes for employees in the Group's various risk areas. The main programmes were:

- Developing personal and professional skills:
  - Communication: A classroom course to improve communication between risk analysts (located in Risk Approval Centres, RACs) and the branch network.
  - Public speaking: A classroom course to improve presentational skills for Central Services team heads and Risk Approval managers in the RACs.
- Training in specific areas:
  - Training on the Risk Appetite Framework (RAF): for Risks analysts and Specialists departments whose activity might affect RAF compliance (e.g. Corporate Development), introducing them to the purpose, and qualitative and quantitative declarations in the RAF, and any changes to their day-to-day activity resulting from this Framework.
  - Private banking: for Risks analysts, to give them a deeper understanding of the private banking segment and its products, sales tools and specific solutions (wealth advice).
  - Finance training: for Risks analysts, to give them a deeper understanding of diagnosing the business and financial situation of companies, their financial planning and resulting cash flows, with specific analysis structures for companies in particular segments.
- New Risk Analysts: introducing them to risk management criteria and policies, the tools available for their function, the main finance tools available in the entity, and legal aspects relating to risk. This course is taken, among others, by a selection of Global Risk Management employees from Central Services, complementing their technical and conceptual approach through the application of risk policies to specific situations and the particular features of products, reinforcing their understanding of risks for which they are not directly responsible (e.g. market risk). This course will be offered to all new employees in Risk Approval centres in our Territorial Areas over the next two years.

1.2.1.3 Structural organisation of the risk function

CaixaBank's Board of Directors is the entity's representative body and, except for matters reserved for the Annual General Meeting, its senior decision-making body. The Board of Directors has created a number of Committees, to which it has entrusted various functions, pursuant to prevailing regulations. Specifically, in September 2014 the Risks Committee was created for the ongoing monitoring of risk management.

At CaixaBank, the Risks Function is carried out by a general division responsible for financial risks, operating independently of the business areas from both a reporting and operational perspective.

1. The Board of Directors of CaixaBank[3].

The Bank’s representative and senior decision-making body, except in some matters reserved for the Annual General Meeting.

The Board's duties include approving the Company’s strategy, overseeing organisation of the implementation of this strategy, and supervising and controlling the Company’s management to ensure that it meets the stated targets and abides by the corporate purpose and interest.

The Board of Directors is responsible for approving the general risk control and management policy, and for periodically monitoring internal information and control systems.

The Board has also established its own duties with regard to risk and is responsible for making decisions on certain issues in this regard. The following table shows the issues related to risk management on which the Board takes decisions, and its main duties:

[3] For more information see the Regulations of the Board of Directors of CaixaBank, S.A. of March 2015 on the website.

Table 3. Board of Directors: decisions on issues related to risk management and main duties.

Risk management-related issues on which the Board of Directors takes decisions	General matters
• Adopting and monitoring methods for measuring risks and calculating related regulatory capital requirements. • Organising control duties at the highest level of authority. • Establishing overall risk limits. • Issuing rulings on the Entity's general risk policies and being aware of the progress made. • Defining, updating and overseeing compliance with the Risk Appetite Framework.	• Defining general risk management principles. • Establishing the distribution of functions within the organisation and the criteria for preventing conflicts of interest. • Approving and periodically reviewing risk performance, management, control and reduction strategies and policies. • Approving General Internal control strategies and procedures. • Monitoring the results of the risk management and control function and the status of internal control relative to credit and counterparty, market, and liquidity risk as well as structural interest rate risk, operational risk, and risk associated with the investee portfolio.

Article 31.4 of the Regulations of the Board of Directors stipulates that CaixaBank Directors must observe the limitations on membership of boards of directors laid down in prevailing regulations on the organisation, supervision and solvency of credit institutions. The current law contains certain conditions depending on the nature of the position and the combination with other positions held by the director[4].

Pursuant to the provisions of article 529.10 of Royal Legislative Decree 1/2010, of 2 July, approving the amended text of the Corporate Enterprises Act, and Articles 5 and 17-20 of the Regulations of the Board of Directors, proposed appointments and re-elections of directors submitted by the Board of Directors to the General Shareholders' Meeting, and resolutions regarding appointments which that body adopts by virtue of the powers of cooption legally attributed to it, must be preceded by the pertinent proposal by the Appointments and Remuneration Committee, in the case of independent directors, and by a report, in the case of the remaining directors. Proposals for the appointment and re-election of directors must be

[4] For more information on directorships held by CaixaBank directors in other companies, see the curriculum vitaes of each member of the Board of Directors on the CaixaBank corporate website - www.caixabank.com/informacioncorporativa/consejoadministracion_es.html – and the statements on positions held in other listed companies and the companies of the significant shareholder or its Group in the 2015 Annual Corporate Governance Report (sections C.1.12 and C.1.17, respectively).

accompanied by a report from the Board of Directors setting out the competencies, experience and merits of the candidate.

In addition, when exercising its powers to propose appointments to the General Shareholders' Meeting and co-opt directors to cover vacancies, the Board shall endeavour to ensure that external directors or non-executive directors represent a majority over executive directors and that the latter should be the minimum necessary.

The Board shall also seek to ensure that the majority group of non-executive directors includes holders of stable significant shareholdings in the company or their representatives, or those shareholders that have been proposed as directors even though their holding is not significant (proprietary directors), and persons of recognised experience who can perform their functions without being influenced by the company or its group, its executive team or significant shareholders (independent directors).

Directors shall be classified using the definitions established in applicable regulations, as set out in article 18 of the Regulations of the Board of Directors.

The Board will also strive to ensure that its external directors include proprietary and independent directors who reflect the existing proportion of the Company's share capital represented by proprietary directors and the rest of its capital. At least one third of the Company's directors will be independent directors.

Directors shall remain in their posts for the term of office stipulated in the Bylaws and may be re-elected one or more times for periods of equal length, providing they are not removed by resolution of the general shareholders' meeting and do not resign. Nevertheless, independent directors will not stay on as such for a continuous period of more than 12 years.

Directors designated by co-option shall hold their post until the date of the next General Meeting or until the legal deadline for holding the General Meeting that is to decide whether to approve the financial statements for the previous financial year has passed. In the event that the vacancy arises after the General Meeting is called but before it is held, the appointment of the director by co-option to cover the vacancy will take effect until the next General Meeting is held.

Pursuant to article 529.9 of Royal Legislative Decree 1/2010, of 2 July, and article 15.7 of the Regulations of the Board of Directors, at least once a year, the Board, as a plenary body, shall: evaluate the quality and efficiency of the functioning of the Board; the performance of their duties by the Chairman of the Board and the chief executive of the company; and the functioning of the Committees. The Board shall propose an action plan to correct any issues detected in this review

On 19 November 2015, the Board of Directors approved the CaixaBank, S.A. Director Selection Policy (hereinafter, the "Policy"). This forms part of the company's corporate governance system, governing key commitments and aspects of the company and its Group in relation to the selection and appointment of directors.

The Policy sets out the criteria considered by the CaixaBank Board of Directors in selection processes for the appointment and re-election of its members, pursuant to applicable regulations and best corporate governance practices.

Principles of diversity of knowledge, gender and experience must be considered in selection processes for members of the Board of Directors. Selection processes for directors shall also respect the principle of non-discrimination and equal treatment, ensuring that the process for appointment or re-election of members of the Board of Directors facilitates the selection of the least represented gender, avoiding any kind of discrimination in this regard.

All resolutions under the Policy shall at all times respect prevailing legislation, and the corporate governance system and regulations of CaixaBank, and the good governance principles and recommendations to which it has signed up.

The members of the Board of Directors must have the competencies, knowledge and experience required for the exercise of their position, considering the needs of the Board of Directors and its overall composition. In particular, the overall composition of the Board of Directors must include the competencies, knowledge and experience required for the governance of credit institutions, including the main risks faced, ensuring the effective capacity of the Board of Directors to take autonomous and independent decisions in the interests of the company.

In compliance with section 7 of the Policy, the Appointments Committee has verified compliance with the Policy and the principles and guidelines subsequently developed, in all resolutions adopted with regard to the appointment of directors both prior to and following approval of the Policy. Following the appointment in February 2016, the percentage of the least represented sex stands at 26.3%. This percentage will increase to 27.7% in the event of approval of the proposal to cancel the vacant position on the Board by the 2016 General Meeting. This will bring the Company close to meeting its target of 30% female representation on the Board of Directors.

In line with the above, and respecting the provisions of the Company's Corporate Governance Policy, candidates must: (i) be persons of recognised business and professional honour; (ii) possess suitable knowledge and skills to perform the role; and (iii) be in a position to exercise the good governance of CaixaBank.

The procedure for selecting members of the Board of Directors set out in the Policy shall be complemented, as applicable, by the provisions of the Protocol on procedures for selecting and assessing the suitability of posts (hereinafter, the, “Protocol”), or any other equivalent internal regulations prevailing at the time.

The Protocol establishes the Company's units and internal procedures involved in the selection and ongoing assessment of members of the Board of Directors, general managers and other senior executives, the heads of the internal control function and other key posts in CaixaBank, as defined under applicable legislation. Under the “Protocol”, the Board of Directors, in plenary session, assesses the suitability of proposed candidates, based on a report from the Appointments Committee.

Also, with regard to the procedure to assess the suitability of candidates prior to their appointment as director, the Protocol also establishes procedures to continually assess directors and to assess any unforeseeable circumstances that may affect their suitability for the post.

Directors shall be removed from office when the period for which they were appointed has elapsed, when so decided by the General Meeting in use of the attributes granted thereto, legally or in the Bylaws, and when they resign.

In the event of the conditions described in section C.1.21 of the 2015 Corporate Governance Report, directors must place their position at the disposal of the Board of Directors and formalize the pertinent resignation, if the latter deems this appropriate.

When a director leaves office prior to the end of his term, he must explain the reasons in a letter which he shall send to all members of the Board of Directors.

CaixaBank signed up to the "Diversity Charter" in 2012. This charter is signed voluntarily by a company or a public institution to promote its commitment to the principles of equality, its actions to foster the inclusion of all people in the workplace and society, the recognition of the benefits of cultural, demographic and social diversity within companies, the implementation of specific policies which encourage a working environment free from prejudice with regard to employment, training and the promotion and adoption of non-discrimination policies.

There were three Board committees before 25 September 2014: the Appointments and Remuneration Committee, the Audit and Control Committee and the Executive Committee. Thereafter, and pursuant to Law 10/2014 on the organisation, supervision and solvency of credit institutions, the CaixaBank Board of Directors resolved to change the Appointments and Remuneration Committee into an Appointments Committee, create a Remuneration Committee and a Risks Committee, and amend the Regulations of the Board of Directors accordingly to incorporate the provisions of the new Law and establish the duties of the new Board Committees. These changes resulted in the Entity having five Board Committees, namely: the Appointments Committee, the Remuneration Committee, the Risks Committee, the Audit and Control Committee and the Executive Committee. The Committees met a number of times in 2015. The Appointments Committee met 14 times; the Remuneration Committee, 9 times; the Audit and Control Committee, 12 times; the Executive Committee, 22 times; and the Risks Committee, 14 times.

2. **Risks Committee**.

The Board of Directors has created a number of Committees. Specifically, in September 2014 the Risks Committee was created for the ongoing monitoring of risk management.

This Committee reports to the Board of Directors on the resolutions adopted at each meeting. In addition, at Board of Directors meetings, the Risks Committee Chairman reports, at the request of the Chairman of the Board of Directors, on the Committee's activities as well as on the work carried out and the opinion of the Committee regarding issues previously addressed and which must be decided on by the Board.

To strengthen relations between the Risks Area and the governing bodies, the Global Risks Committee reports directly to the Risks Committee. Pursuant to the Regulations of the Board of Directors, the Risks Committee shall be formed exclusively of non-executive directors who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity of the entity, in the number determined by the Board of Directors, with a minimum of three (3) and a maximum of six (6). At least one third of these members shall be independent directors. The Committee will designate a Chairman from among its members, who must be an independent director, and may also designate a Secretary. In the absence of this latter appointment, this role shall fall to the Secretary of the Board or one of the Deputy Secretaries.

The Risks Committee has 5 members, the majority of whom (3 members) are independent directors. The Chairman is an independent director.

The Risks Committee shall meet as often as necessary to fulfil its duties and shall be convened by the Chairman, either at his own initiative or at the request of the Chairman of the Board of Directors or of two Committee members.

Its basic functions, according to Article 13 of the Regulations of the Board of Directors, are:

- To advise the Board of Directors on the Entity's overall susceptibility to risk, current and future, and its strategy in this area, reporting on the Risk Appetite Framework, assisting in monitoring the implementation of this strategy, ensuring that the Group's actions are consistent with the level of risk tolerance previously agreed and monitoring the conformance of the risks assumed to the established profile.
- To propose the Group's risk policy to the Board.
- To propose to the Board of Directors the nature, quantity, format and frequency of the information concerning risks that the Board of Directors should receive and establish what information the Committee should receive.
- To regularly review exposures with its main customers and business sectors, as well as broken down by geographic area and type of risk.
- To examine the information and control processes relative to the Group's risks as well as the information systems and indicators.
- To evaluate regulatory compliance risk within its scope of action and determination, understood as risk arising from deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory framework or with internal codes and rules and which could result in administrative sanctions or reputational damage.
- To report on new products and services or significant changes to existing ones.
- To examine, without prejudice to the functions of the Remuneration Committee, whether the incentives provided for in the remuneration systems consider risk, capital, liquidity and the likelihood and suitability of profits.

Pursuant to article 42 of Royal Decree 84/2015, the Risks Committee is also responsible for:

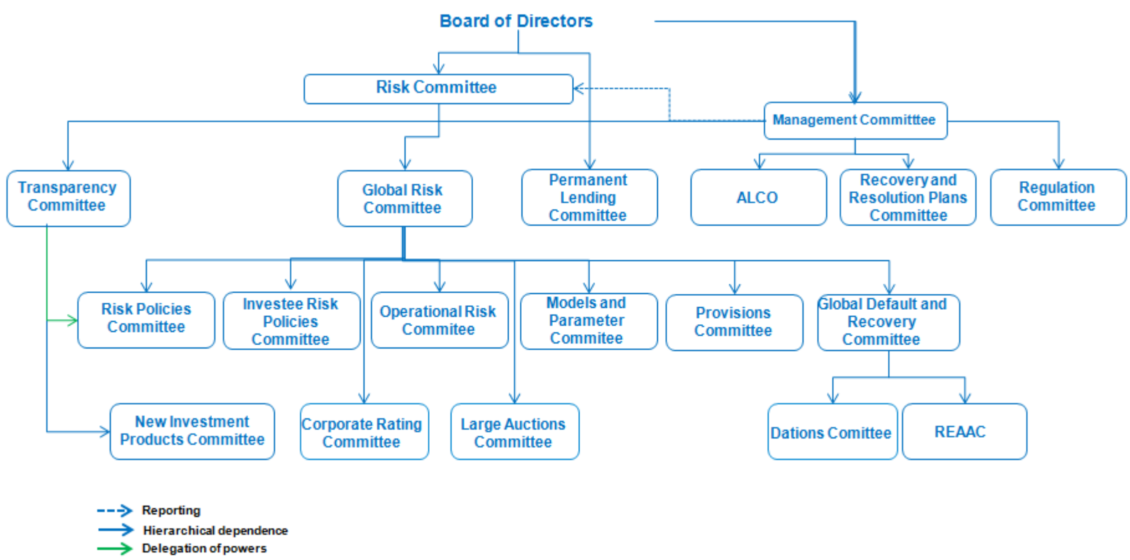
- Ensuring that the pricing policy for the assets and liabilities offered to customers is consistent with the Entity's business plan and risk strategy. If this is not the case, it presents a plan to correct the issue to the Board.

3. General Risk Division.

At CaixaBank, the Risks Function is carried out by a general division responsible for the Group's risks and operating independently of the business areas, from both a reporting and operational perspective. The Corporate Individual Loan Analysis and Approval Division, responsible for analysing and authorising retail lending, the Corporate Business Loan Analysis and Approval Division, responsible for analysing and authorising risk to the rest of the business segments and specialised sectors (companies and SMEs, public sector-sovereign, financial institutions, real estate, project finance, tourism, and food and agriculture) and the Corporate Global Risk Management Division, responsible for managing risks at corporate level and overseeing asset performance and solvency and capital adequacy mechanisms, report to this general division. Also reporting to the General Risks Division independently from these corporate divisions are the Permanent Lending Committee, which has been delegated powers by the Board to approve transactions, and the Risk Models Validation Division, which assesses whether the risk management and control procedures are in line with the Entity's risk profile and strategy, and validates the internal risk models.

Part of the General Risks Division’s functions are to identify, measure and integrate the different risk exposures, as well as the risk-adjusted returns of each area of business, from a global perspective of the CaixaBank Group and in accordance with its management strategy.

Furthermore, one of its most significant tasks, in collaboration with the Bank's other areas, is to lead implementation in the entire branch network of instruments for the end-to-end management of risks under Basel guidelines, in order to assure a balance between the risks assumed and expected returns.



4. Collegiate bodies in the risk area

The Group's Senior Management, under the supervision of the Risk Committee and acting within the framework of the powers delegated by the Board, sits on the various risk management committees, which establish general action policies, approve transactions at the highest level and manage business risks across the Group.

- <u>Global Risk Committee</u>

  This committee is responsible for the end-to-end management, control and monitoring of the risks to which the Bank is exposed, as well as specific risks for the most relevant financial stakes, and the implications of these risks for the management of solvency and capital consumption.

  The Global Risk Committee is also charged with adapting CaixaBank's risk strategy to the Risk Appetite Framework, clarifying and resolving doubts about interpreting the Risk Appetite Framework and keeping CaixaBank's Board of Directors informed through its Risk Committee, which is responsible for the main areas of activity and the status of risks to which the CaixaBank Group is exposed.

  The committee will also analyse the Group's global risk position and put in place the main measures to optimise risk management within the framework of the Group's strategic objectives.

  All Global Risk Committee members must notify the committee of any matters within their remit that could affect the global management of the Group's risks.

- <u>Permanent Lending Committee</u>

  This committee analyses and, where appropriate, approves the transactions that fall within its scope, and refers any transactions that exceed its level of authority to the Board of Directors. It is the final level in the approvals hierarchy, above which lending and credit must be signed off by the Board of Directors.

- <u>Risk Policies Committee</u>

  This committee approves CaixaBank's credit and market risk policies. Policies are any of the guidelines governing the Bank's activities and any procedures through which they are implemented.

The Risk Policies Committee's remit is to establish policies that are in line with and underpin the CaixaBank Group's Risk Appetite Framework. Its powers, as conferred upon it by the Global Risk Committee, include defining and authorising policies for approving loans and monitoring risks, along with default and recovery policies.

The Transparency Committee has also appointed the Risk Policies Committee to analyse and approve loan and credit products, ensuring their design or modifications thereto comply with regulations on the commercialisation of such products.

- Risk Policies Committee for Investees

  This committee is responsible for approving policies for credit and market risk associated with CaixaBank Group subsidiaries. The Investees' Risk Policies Committee has the same powers and responsibilities as the Risk Policies Committee, but for subsidiaries.

  During meetings of the Risk Policies Committee for Investees, subsidiaries are updated on any fluctuations in the key risk indicators, legislative developments, and changes in the organisation and risk circuits that could affect them. The subsidiaries also report on changes in the risks to which their businesses are exposed.

- Operational Risk Committee

  This Committee focuses on applying, reviewing and disseminating the Operational Risk Management Framework, as well as identifying critical points, and establishing operational risk mitigation and control procedures.

- Models and Parameter Committee

  The Models and Parameter Committee reviews and formally approves models and parameters for credit risk, market risk (including counterparty/credit risk in Treasury activity and operational risk), and any other methodologies used by the committee to perform its control duties.

- Provisions Committee

  This committee is responsible for adjusting ratings and accounting provisions of loans linked to borrowers assessed individually according to objective impairment criteria, and for adjusting the criteria for estimating provisions for assets whose impairment is determined collectively, and in general to perform any necessary adjustments to the provisioning structure that has a significant impact on the impairment provisions for the lending portfolio.

- Default and Recovery Committee

  This committee analyses default targets set by Senior Management and applies them to managed portfolios and players involved in lending. It oversees and monitors level of compliance with the targets set, and liaises with the various areas to take the steps needed to redress any deviations. It defines and monitors recovery policies and procedures, which will be presented to the Policies Committee for approval before roll-out. It reports to the Global Risk Committee on matters within its remit.

- New Investment Products Committee

  This Committee reports to the Transparency Committee. Its role is to ensure that the areas involved in management of new contracts, before and after the fact, have a thorough understanding of the nature of financial products or investment instruments involved in new contracting with customers or changes in the approach to their treatment, management or monitoring following contracting, ensuring that all risk and operating elements are fully compliant with the framework defined by management.

- Corporate Rating Committee

  This committee approves and/or amends internal corporate ratings, analysts' proposals, and the length of time during which they are considered valid, for both standard and pre-rating scores.

- Large Auctions Committee

  This committee analyses and authorises the foreclosure of real estate assets with debts of over EUR 600,000. It focuses especially on how these assets will be auctioned off and makes any decisions related to auctions (e.g. halting auctions).

- Dations Committee

  This committee sets out the necessary protocol for each case of dation in payment, i.e., the receipt of real estate assets pledged to secure loans for individuals, and the subrogation thereof to BuildingCenter.

- Real Estate Acquisition and Appraisal Committee (REAAC)

  This committee analyses and approves, where appropriate, any acquisitions proposed by Regional General Divisions of real estate accepted in lieu of payment of real estate developer loans, taking into account the legal aspects of each arrangement, the appraisal values, and the expected recoveries. It also signs off on acquisitions of real estate from companies going through bankruptcy proceedings and, exceptionally, when this course of action is the best option for recovering loans.

- ALCO

  There are other committees that do not report to the Risks Division, such as the Asset-Liability Committee (ALCO), whose functions affect liquidity, interest rate and foreign currency risk as part of structural risk, and which proposes hedges and issuances.

- Recovery and Resolution Plans Committee (RRPC)

  This is another committee that does not report to the Risks Division. It is responsible for coordinating all aspects of recovery and resolution plans.

  As part of the process of preparing recovery plans, the RRPC determines the scope of the plan and the areas involved. It also proposes the updating of the plan, annually at least, pursuant to applicable legislation, managing the project and supervising and controlling the preparatory process, which is the responsibility of the Project Office.

  As part of the Recovery Plan approval process, the RRPC validates the information proposed by the Project Office, and submits it to the Management Committee.

  The RRPC reviews the quarterly recovery-indicator report prepared by the Project Office, and may submit a proposal to activate or terminate the recovery plan, based on the contents thereof.

  The RRPC also coordinates information requests relating to resolution plans from national (Bank of Spain and the FROB) and European (Single Resolution Board) resolution authorities.

- Regulation Committee

  The Regulation Committee is an offshoot of the Management Committee. It is responsible for monitoring the regulatory environment as it affects or might affect the CaixaBank Group. It establishes strategic positions in relation to the different regulatory proposals and preliminary regulatory proposals and their potential impact on the Group. It also sets the key strategic lines for communicating these positions to stakeholders, including managing the representation of the Group's interests. Its ultimate purpose is to stay one step ahead of regulatory changes and facilitate the Group's adaptation to new and increasingly demanding regulatory requirements.

- Transparency Committee

  The Transparency Committee determines all transparency-related aspects of the design and marketing of financial instruments, banking products and savings and investment plans.

  It is tasked with ensuring the transparent marketing of the Bank's products by defining and approving policies covering marketing, the prevention of conflicts of interest, the safeguarding of customer assets and order execution. It also validates the classification of new financial instruments, banking products and savings and investment plans on the basis of their risk and complexity, in accordance with the provisions of MiFID and banking and insurance transparency regulations.

1.2.1.4 Corporate Risk Map

The current development of the financial system and the rapid transformation of the regulatory framework highlight the growing importance of assessing the risk and control environment of entities.

The CaixaBank Group has put in place a “Corporate Risk Map” for the identification, measurement, monitoring, control and reporting of risks. This is coordinated by the Internal Control Area and provides a comprehensive overview of all risks associated with corporate activities and their control environment.

The CaixaBank Corporate Risk Map includes the formalisation of a Corporate Risk Catalogue in March 2014. This helps with the internal and external monitoring and reporting of the Group's risks, which are grouped into two main categories: Risks affecting the Entity's financial activity and risks affecting business continuity.

The main risks reported periodically to CaixaBank's management and the governing bodies are:

- Risks affecting the Entity's financial activity **Credit:** Risk of a decrease in the value of the CaixaBank Group's assets due to uncertainty over a counterparty's ability to meet its obligations.

  - ✓ **Market:** Risk of a decrease of the value in the CaixaBank Group's assets held for trading or an increase in the value of its liabilities held for trading, due to fluctuations in interest rates or prices in the market where the assets and liabilities are traded.

- ✓ **Interest or exchange rate risk:** Risk of a negative impact on the economic value of the balance sheet or results, arising from changes in the structure of the interest rate curve or exchange rate fluctuations.
- ✓ **Liquidity:** Risk of insufficient liquid assets due to outflows of funds and market closure to meet contractual maturities of liabilities, regulatory requirements, or the needs of the business.
- ✓ **Actuarial risk:** Risk of an increase in the value of commitments assumed through insurance contracts with customers and employee pension plans, due to differences between the estimated claims and actual outcomes.
- ✓ **Capital adequacy risk:** Risk caused by a constraint on the CaixaBank Group's ability to adapt its level of own funds to regulatory requirements or to a change in its risk profile.

- o Risks affecting the continuity of corporate activity

- ✓ **Legal/Regulatory**: Risk of a loss of or a decrease in profitability of the CaixaBank Group as a result of changes to the regulatory framework or court rulings that are unfavourable to it.
- ✓ **Compliance risk:** Risk arising from a deficient procedure that generates actions or omissions that are not aligned with the legal or regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.
- ✓ **Operational risk:** Risk of losses arising from inadequate or failed internal processes, people and systems, or from external events. Includes the risk categories encompassed in the regulation.
- ✓ **Reputational risk:** Risk associated with reduced competitiveness due to the loss of trust in CaixaBank by some of its stakeholders, based on their assessment of acts or omissions, real or purported, by the Entity, its Senior Management or governing bodies.

In order to bolster the trust of its customers, CaixaBank focuses on solvency and quality as strategic priorities. CaixaBank has spent the last few years strengthening its internal control, regulatory compliance and anti-money laundering structures to minimise the probability of occurrence of actions or omissions such as those seen in global financial institutions recently, which have been increasingly reported in the media, impacting the image of the sector. In

December 2015, CaixaBank reinforced its second line of defence with the creation of the Deputy General Control & Compliance area, combining the functions of Internal Control and Regulatory Compliance.

1.2.1.5 Risk Appetite Framework.

1. Background

Regulators and other advisory bodies in the financial sector are increasingly advising on the need to define and implement a risk appetite framework that backs up the decision-making process and informed approval of risks.

In particular we would note the guiding principles published by the Financial Stability Board (November 2013), which considers them a standard prerequisite for good governance, and adequate management and oversight of financial groups. The European Banking Authority and the Bank of Spain adhere to these recommendations, which are still not statutory.

The risk culture has always been a distinguishing feature of the CaixaBank Group's business. This culture, together with the risk policies and systems in place and the skills of its workforce, have permitted the Group to maintain a moderate risk profile and noteworthy level of solvency in the Spanish market.

As a result of its pursuit of leadership and excellence, the CaixaBank Group has adopted this framework, considered among best practices in internal risk governance.

2. Description and structure

The Risk Appetite Framework (the "Framework" or "RAF") is a comprehensive and forward-looking tool used by the Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic and profitability objectives.

The Board has established four priority dimensions that express the Group's aspirations with regard to its main risks. These are the following:

- **Protection against losses**: CaixaBank has set an objective of maintaining a medium-low risk profile and a comfortable level of capital adequacy to strengthen its position as one of the soundest entities in the European banking market. This objective is expressed in the Entity's high Common Equity Tier 1 (CET1) ratios, with the CaixaBank Group ending 2015 with a CET1 of 12.90%.

- **Liquidity and Funding:** CaixaBank wants to be certain that it is always able to meet its obligations and funding needs in a timely manner, even under adverse market conditions, and it has set a goal of always having a stable and diversified funding base to protect and safeguard its depositors' interests. An example is the Liquidity Coverage Ratio (LCR), which is well over 100% compared to the regulatory threshold of 60% from October 2015.
- **Composition of the business:** CaixaBank strives to maintain its leadership position in the retail banking market and to generate income and capital in a balanced and diversified manner. Accordingly, it monitors and mitigates different types of concentration; e.g. large exposures, which the Group strives to keep below the regulatory threshold of 25% of eligible own funds.
- **Franchise**: CaixaBank is committed to the highest ethical and governance standards in its business conduct, encouraging sustainability and social responsibility and ensuring operating excellence. To illustrate, in this respect the Board of Directors has established zero tolerance of non-compliance with regulations.

In line with best practices in the financial sector, the structure of the Framework complements these statements with management indicators and levers to transmit these practices, in a consistent and efficient manner, to the management of the business and of the risks.

The Framework is represented below as a pyramid structure that culminates with the first-level principles and metrics, underpinned by metrics in greater detail (second level) and with a higher impact on daily activity through the management mechanisms.

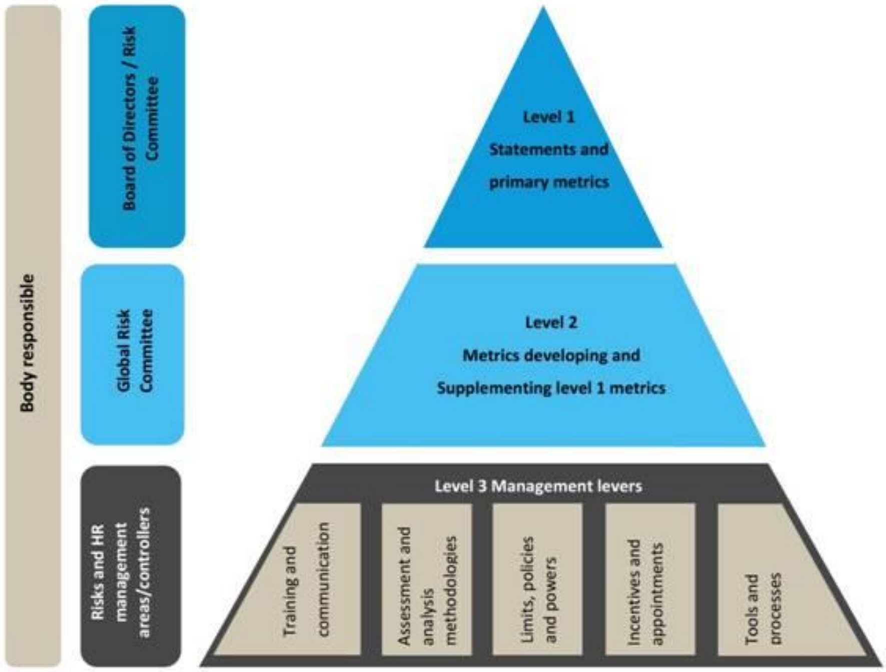


Diagram 1

Level 1 comprises the **Risk Appetite Statement** and **key metrics**, which are assigned appetite and tolerance thresholds. The **Board of Directors** defines, approves, oversees and can amend this level as often as is determined in the policy governing the Framework, with specialist advice and ongoing monitoring by the Risks Committee.

There are various "**Appetite**" and "**Tolerance**" levels for each of the metrics which have a **system of alert traffic lights**:

- "Green traffic light": risk target
- "Amber traffic light": early alert
- "Red traffic light": breach

There is also a "Black traffic light" for certain metrics included in the Recovery Plan. Once activated, the internal communication and governance processes would be triggered based on the defined seriousness of the situations.

This ensures a comprehensive and scaled monitoring process of potential impairments in the Entity's risk profile.

To illustrate, some metrics considered for each dimension are:

- **Loss buffer.** Regulatory solvency ratios, calculated using advanced models and approaches (expected loss, VaR) and accounting-related indicators, such as cost of risk.
- **Funding and liquidity.** External (regulatory ratios) and internal (management) metrics.
- **Business composition.** Indicators that encourage diversification (e.g. by borrower, sector) and minimise exposure to non-strategic assets.
- **Franchise.** Includes non-financial risks (e.g. operational, reputational), with both quantitative metrics, such as commitments of zero tolerance of non-compliance.

Level 2 includes more detailed metrics, which are monitored by the management team, especially the Global Risk Committee. These indicators tend to derive from the factorial decomposition of level 1 metrics (e.g. expected loss into PD and LGD) or from a greater breakdown of the contribution to the higher level of risk portfolios or business segments. They also include the most complex and specialised risk measurement parameters, enabling risk management units to take the level 1 metrics into account in the decision-making process.

The Board of Directors is thus assured that its management team monitors the same risks, and more exhaustively, so as to identify and prevent potential deviations in the established risk profile.

Finally, **level 3** represents the management mechanisms that the management team, through the different business units and areas responsible for the intake, monitoring and control of each risk, defines and implements in order to bring execution into line with the established Framework. These mechanisms include:

- **Training and communication**: these are key aspects for all employees involved in decision making for the Group, ensuring they understand how they contribute to the Strategic Plan and maintaining the risk appetite defined by the Board. Both training and communication are fundamental to establishing and fostering a clear and effective risk culture, particularly against the changing and uncertain backdrop we are facing in the financial sector.

- **Risk measurement and assessment methodologies**: providing the Board of Directors with an accurate, clear and consistent appreciation of exposure to each risk. To a considerable extent, the role of the RAF is to select and propose the most suitable methodologies for each case to the governing bodies, combining the accounting, regulatory, economic, potential loss and stress perspectives, as necessary.

- **Limits, policies and powers to approve new risk positions**: these three components enable us to transpose what can be done at the organisation, process and exposure levels, in accordance with the Risk Appetite Framework and other risk management criteria.

- **Incentives and appointments**: these are the Human Resources policies considered to have the greatest direct short-term impact on the behaviour of the management team and employees. The 2016 bonus scheme for directors and members of the Management Committee considers the degree of compliance with the RAF, with a 15% weighting.

- **Tools and processes**: the Framework takes advantage of our technological infrastructure, execution and control systems, and internal reporting processes (e.g. implementing risk concentration limits on granting loans). Some ad hoc mechanisms have also been put in place to ensure adequate management and compliance with the Framework.

3. Monitoring and governance of the Risk Appetite Framework in the CaixaBank Group

The Board of Directors defines and oversees the Group's risk profile, updating the Framework metrics and thresholds when it deems this appropriate. The performance of the Framework in 2015 demonstrated its usefulness to the Board and the Risks Committee, as a single, comprehensive platform for the strategic direction, management and control of the Group. Some new metrics were added in 2015, putting more demanding thresholds in place.

The Risks Committee is responsible for assisting the Board in its work throughout this process, and for reviewing the performance of level 1 metrics more frequently and in greater depth. It is also responsible for compliance with action plans to bring underlying risks back into line with the risk appetite as quickly as possible.

To ensure the Framework is compliant and transparent in line with the best international practices, the following basic reporting structure has been defined:

Monthly presentations by the Corporate Global Risk Management Division to the Global Risk Committee, indicating the current and future trends in level 1 metrics, in accordance with Strategic Plan projections. If actual risk levels breach the threshold for:

- **Appetite**: an "amber traffic light" or early alert is assigned to the indicator, and the Global Risk Committee designates the person or management committee responsible for preparing an action plan to return to the "green" zone, indicating the timeline.
- **Tolerance**: a "red traffic light" is assigned, including an explanation as to why the previous action plan did not work. Corrective or mitigating measures are proposed to reduce exposure. This must be approved by the Risk Committee. The members of the Committee report to the rest of the Board on the urgency and depth they deem appropriate.
- **"Recovery Plan"**: this would trigger the Plan's governance process, which entails a set of measures to:
  - Reduce the possibility of the Entity going bankrupt or entering into a resolution process.
  - Minimise the impact in the event of bankruptcy, and avoid the need for a bail out.

  In this case, the regulator must be informed of serious breaches and the action plans expected to be adopted.

  - Quarterly presentation to the Risk Committee on the situation, action plans and forecasts for level 1 metrics.
  - Half-yearly presentation to the Board of Directors on the situation, action plans and forecasts for level 1 metrics.

  During these sessions, the Board may decide to amend or update the metrics and previously assigned thresholds.

  If a risk breaches a tolerance threshold, threatening the Group's ability to continue as a going concern, the Board may initiate the measures set forth in the Recovery Plan.

4. Integration into planning processes and stress testing

Since approval in November 2014, the Framework has developed into a fundamental pillar of internal planning processes and simulations of potential stress scenarios. The following implementation milestones were achieved in 2015, enabling the governing bodies to analyse, modify and approve the situation based on comprehensive understanding:

- The 2015-2018 Strategic Plan was published in the first quarter of the year, certifying its qualitative and quantitative compliance with the Framework's level 1 metrics and declarations.
- The Internal Capital Adequacy Assessment Report, the Internal Liquidity Assessment Report and the corresponding stress scenarios: verifying that none of the level 1 metrics are in breach (red) in the baseline scenario or in an adverse or severely adverse scenario.

1.2.1.6 Internal control framework.

CaixaBank's Internal Control Model provides a reasonable degree of assurance of achieving the Group's objectives. It also evolves to incorporate guidelines issued by regulatory bodies and best practices in the sector, evolving towards the 3 lines of defence model.

- The first line of defence comprises the Group's business units and support areas, which are responsible for identifying, measuring, controlling, mitigating and reporting the key risks affecting the Group as it carries out its business.
- The second line of defence acts independently from the business units and is designed to identify, measure, monitor and report all of the Group's material risks, as well as to establish and develop management and control systems for these risks and to design compliance policies. The second line of defence includes the Risk Management (e.g. Global Risk Management), Internal Validation, Regulatory Compliance and Internal Control functions.

  In December 2015, CaixaBank reinforced its second line of defence with the creation of the Deputy General Control & Compliance area, combining the functions of Internal Control and Regulatory Compliance.

- The third line of defence, which comprises Internal Audit, is responsible for assessing the effectiveness and efficiency of risk management and the internal control systems, applying principles of independence and objectivity.

Global risk management and control ensures that the Entity's risk profile is aligned with its strategic objectives, preserves the solvency and liquidity mechanisms, enables it to achieve an optimal risk-return ratio and strive for excellence in customer service with flexible and transparent processes.

1.2.1.7 Internal Control.

The Internal Control Area's mission is to provide reasonable assurance to management and the governing bodies that the necessary controls are in place, designed correctly and operating efficiently to manage the Group's risks.

Its main duties are:

- Coordinating the Corporate Risk Map. Internal Control fosters the use and integration of this into risk management and control by the organisation, considering the Risk Appetite Framework defined by the entity.
- The Corporate Risk Map sets out the entity's activities and their distribution throughout the organisation systematically, and establishes a Corporate Risks Catalogue. The Corporate Risk Map provides a consistent corporate overview of the critical nature of risks and their control environment[5].
- Advising Senior Management on the control protocols and action plans needed to resolve any control deficiencies;
- Systematically and regularly reporting on the Group's control environment to Senior Management and governing bodies;

In performing its duties, this area provides a cross-cutting view of the main risks assumed by the Group and assesses the Group's control environment.

[5] For further details, refer to section 1.2.1.4 Corporate Risk Map, in Part A of this document.

1.2.1.8 Compliance.

The Regulatory Compliance function supervises compliance risk, defined as risk arising from deficient procedures that generate acts or omissions that are at odds with legal or regulatory frameworks or with internal codes and rules, and which could entail administrative sanctions or reputational damage.

The Regulatory Compliance Area oversees compliance risk resulting from any deficiencies in the procedures put in place, by establishing level 2 controls in its sphere of action. When deficiencies are detected, the management areas affected develop proposed improvement initiatives, which are monitored regularly by Regulatory Compliance. The Regulatory Compliance Area also ensures best practices with regard to integrity and behaviour. One of the channels available to help with this is the confidential whistle-blowing channel for internal queries and complaints by our employees. This channel also helps to resolve reports of any financial or accounting irregularities that might arise.

The Regulatory Compliance Area also liaises with the main national and international supervisory bodies on issues within its remit, and handles any requirements issued by them. Finally, the Regulatory Compliance Area reports regularly on its control activities to Senior Management and the Audit and Control Committee.

The Anti-Money Laundering and Counter Terrorist Financing (AMLOU) unit has been set up as an independent unit within the Regulatory Compliance Area. The AMLOU is managed and supervised by the Anti-Money Laundering and Counter Terrorist Financing Committee, and reports on its activities to Senior Management and the Audit and Control Committee.

Finally, in 2015 a new unit was set up within the Regulatory Compliance Area to define, implement and monitor the policies of the Entity and its group in relation to regulatory compliance and, in particular, its coordination within its remit with Group subsidiaries and branches, representative offices and CaixaBank subsidiaries abroad.

1.2.1.9 Internal Audit.

Developments in the financial system, macroeconomic trends and the transformation of the regulatory framework indicate the growing importance of assessing risk and the control environment of entities, imposing greater demands and responsibility on Senior Management and governing bodies.

CaixaBank's Internal Audit function is an independent activity providing assurance and consultation services; it is designed to add value and improve activities. It contributes to achieving the strategic objectives of the CaixaBank Group, providing a systematic and disciplined approach to evaluating and improving risk control processes and corporate governance.

Internal Audit is the third line of defence in CaixaBank's 3 lines of defence model. It oversees the activities of the first and second lines of defence so as to provide reasonable certainty to Senior Management and governing bodies with regard to:

- The effectiveness and efficiency of internal control systems in offsetting the risks associated with the Group's activities:
- Compliance with prevailing legislation, particularly with regard to the requirements of supervisors, and adequate application of the defined Global Management and Risk Appetite frameworks;
- Compliance with internal policies and regulations, and alignment with best practices and uses in the sector, for adequate internal governance of the group;
- The reliability and integrity of financial and operational information, including the effectiveness of the Internal Control over Financial Reporting (ICFR) system;

Its purpose is to help safeguard the assets and interests of our stakeholders, supporting the Group by issuing recommendations and monitoring their implementation, contributing to meeting strategic objectives and improving the control environment.

The annual audit activity plan is approved by the Audit and Control Committee. This plan focuses on the main risks identified in the Group, and on meeting the requirements of supervisors and specific and ad hoc requests from governing bodies and management. Internal Audit carries out these reviews efficiently, fostering continuous auditing, with advanced performance alerts, ongoing auditor training and a suitable policy for outsourcing specialised services.

Internal Audit has developed a specific strategic plan that is consistent with CaixaBank's 2015-2018 Strategic Plan, the key points of which are as follows:

1. Focusing its reviews on the most serious risks for the CaixaBank Group.
2. Improving quality and communication in its work and reports.
3. Efficient management of its team, fostering personal development and training.
4. Implementing a systems plan to increase efficiency.
5. Supervising the “three lines of defence” model.

7 Strategic Programmes have been defined to achieve these 5 Strategic Lines, namely:

- Internal responsibilities: officers responsible for proactive actions and coordination to ensure they are achieved.
- Monitoring metrics: analysis and control metrics for achieving the Strategic Plan.

The Strategic Lines and Programmes are shared throughout the Internal Audit team, and with the Audit and Control Committee, Senior Management and the Management Committee, and Supervisors.

In relation to the risks covered by this "Information of Prudential Relevance" document, Internal Audit supervises the risk management control environment, providing an objective and independent assessment of the efficacy and efficiency of the control framework applied by the different management areas.

- In relation to credit risk:
  - ✓ It verifies the main management processes implemented in this respect, the use of advanced credit risk models, and compliance with established regulatory requirements, in particular by:
    - Verifying compliance with the entity's internal and external regulations in connection with credit risk management;
    - Reviewing the main admission and approval, arrears management, borrower monitoring and recovery processes;
    - Reviewing the proper integration of risk models into the Entity's day-to-day management, both in approval of transactions and in the subsequent management and monitoring thereof;
    - Monitoring the management of concentration risk;
    - Verifying the integrity and consistency of the databases used: those relative to the construction of credit models, the calibration of risk parameters and obtaining current exposures;
    - Verifying the accuracy of the data fed into the Entity's systems and the existence and adequacy of controls;
    - Validating the implementation of the risk models, the procedures for the calculation of regulatory and economic capital, and risk measurement and management tools;

- Supervising the risk management control environment, assessing internal validation processes for the models.

- For operational risk:
  - ✓ Reviewing adequate compliance and implementation of the Operational Risk Management Framework in the entire Group. Reviewing the aspects described in prevailing legislation for the use of the standardised approach to calculating minimum capital requirements, such as:
    - Integration into management and uses of the operational risk management model, verifying the effective implementation of the model in the daily management of operational risk.
    - The management procedures and tools implemented, and their continuous evolution, verifying compliance with internal regulations.
    - The measurement system, verifying the accuracy and integrity of the data, mainly.
    - The technological environment and applications: relating to the integrity and confidentiality of information, in addition to systems availability and business continuity, through planned reviews and continuous auditing through monitoring of the risk indicators defined.

- For market, liquidity and interest rate risks:
  - ✓ Internal Audit verifies the main management processes implemented in these areas, and the use of the internal advanced model for market risk, and the internal models for liquidity risk and structural interest and exchange rate risk, and compliance with regulatory requirements, particularly:
    - Checking that the methodologies used consider relevant risk factors.
    - The review of the process, and the integrity and consistency of the data used in risk management.
    - Supervision of the control environment, with detailed functions for the various units with responsibilities in this area.
    - Checking that risk analysis, measurement, monitoring and control systems have been implemented in the Entity's day-to-day management.
    - Verification that procedures relating to the risk management system and process are appropriately documented.
    - Verifying compliance with the entity's internal and external regulations in connection with management of market, liquidity and structural rate risk.

- For legal and regulatory risk:
  - ✓ Reviewing the main risks arising from the CaixaBank Group's legal environment, above all in relation to adapting to amendments in the regulatory framework and to managing legal proceedings.
- For compliance risk:
  - ✓ Verifying that the policies and procedures in place at the CaixaBank Group conform to the legal framework, the regulatory framework and internal codes and regulations.

In addition to supervising the Pillar I risks within the comprehensive risk management framework defined by Basel, Internal Audit reviews the processes for assessing the adequacy of internal capital, as described in the Internal Capital Adequacy Assessment Process (ICAAP), and liquidity, as described in the Internal Liquidity Adequacy Assessment Process (ILAAP). It also reviews the Recovery Plan and this Information of Prudential Relevance document, prior to their approval by the Board of Directors.

1.2.2 Credit risk

Credit risk is the most significant risk item on the CaixaBank Group's balance sheet and arises from the banking and insurance business, treasury operations and the equity portfolio.

As described in section A.1.2.1.5 above, with the design and periodic review of the Risk Appetite Framework, the governing bodies and executive team monitor the risk profile to ensure that it remains acceptable to the Group, paying special attention to the potential impact of lending activity on solvency and profitability.

The system of authorisation levels is based on fundamental risk variables and transaction amounts, enabling risks to be quantified using scenarios based on capital use and expected loss.

1.2.2.1 Credit risk

1. Description and general policy

Approval of lending transactions at CaixaBank follows the basic criterion of evaluation of the borrower's repayment capacity, and it is not the Entity's policy to approve transactions merely because guarantees exist. If this condition is fulfilled, it is also important to secure further guarantees, particularly in the case of long-term transactions, and to establish a price in accordance with these two conditions.

Regarding its ordinary business, CaixaBank gears its lending activity towards meeting the finance needs of households and businesses. Credit risk management is characterised by a prudent approvals policy and appropriate coverage. Most loans are to private borrowers and consist primarily of mortgages to first-time homebuyers. Therefore, the loan structure has a significantly low level of risk given the high degree of diversification and fragmentation. In accordance with the CaixaBank Group's Strategic Plan, there is a commitment to retain leadership in retail lending and further strengthen the position in corporate lending. In terms of geographic distribution, business is mainly based in Spain.

To ensure appropriate protection of customers, natural persons and credit institutions, the current legal framework (Sustainable Economy Act 2/2011, of 4 March, and Ministerial Order EHA/2899/2011, of 28 October, on transparency and protection of customers of banking services) requires all institutions to establish policies, methods and procedures that ensure the correct study and granting of loans. The new concept of "responsible loan" establishes the need to adequately evaluate customer solvency and promote practices to ensure responsible lending.

Accordingly, CaixaBank has detailed policies, methods and procedures for studying and granting loans, or responsible lending, as required in Annex 6 of Circular 5/2012 of 27 June, of the Bank of Spain addressed to credit institutions and payment service providers regarding transparency in banking services and responsible lending.

The document was approved by the Board of Directors in February 2014, in compliance with Bank of Spain Circulars 5/2012 and 3/2014, and establishes, *inter alia*, the following policies:

- An appropriate relationship between income and the expenses borne by consumers.
- Documentary proof of the information provided by the borrower and the borrower's solvency.
- Pre-contractual information and information protocols that are appropriate to the personal circumstances and characteristics of each customer and operation.
- An appropriate independent assessment of real estate collateral.
- An Entity-wide policy of not granting foreign currency loans to individuals.

The economic juncture calls for policies to provide certain kinds of assistance to customers, within a framework approved by the Entity's management and ensuring that refinancing processes are compliant with prevailing standards. In this respect, CaixaBank has also adhered to the Code of Good Practices for the viable restructuring of mortgage debts on primary residences included in Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgagors without funds, as amended by Law 1/2013, of 14 May, on measures to strengthen the protection of mortgage borrowers, debt restructuring and subsidised housing rentals.

In addition, bearing in mind the current economic-social climate, CaixaBank has devised an "Assistance Plan" for individuals with mortgages on their main residence facing circumstantial financial difficulties. This Plan is designed to achieve three objectives:

- Pro-actively prevent default.
- Offer help to families that have long been good customers of the Entity and who are at risk of default due to the loss of work by one of the mortgage holders, illness, a temporary drop in income, or other circumstantial factors.
- Reduce the NPL ratio.

2. Structure and organisation of the credit risk management function

As discussed above, the main role of the CaixaBank Global Risk Committee, composed of Senior Management, is to analyse and set the general credit approval strategies and policies across the network.

To strengthen relations between the Risks Area and the governing bodies, the Global Risks Committee reports directly to the Risks Committee[6].

CaixaBank's Corporate Global Risk Management Division is responsible for approval policies and procedures, and also for drawing up and monitoring credit risk models. The following areas report to this Division:

- **Risk Models and Policies**, which comprises:
  - **Risk Policies and Infrastructure**, responsible for adopting the policies applicable to new transactions: internal powers, prices and profitability, documentation for dossiers, mitigation of risk through acceptance of guarantees and collateral, and integration of measurement tools in decision-making systems.
  - **Credit Risk Models and Parameters,** responsible for the construction, maintenance and integration into management of internal rating-based (IRB) credit risk models, the

[6] See section A.1.2.1.3.

calculation of the main parameters (e.g. PD, LGD), and the methodology, calculation and analysis of trends in the economic capital charge.

- **Global Risk Management Information:** this transversal unit is responsible for aggregating, processing, validating and analysing internal and external data (e.g. from regulators and rating agencies), as well as the methodology, calculation and analysis of trends in the regulatory capital charge. Since 2014, it has also coordinated the design and implementation of the Risk Appetite Framework.

- **Credit Risk Monitoring and Recoveries**, responsible for monitoring borrowers and inputting the results of this monitoring into the approvals, arrears management and recoveries systems.

3. Credit risk cycle

The full credit risk management cycle covers the entire life of the transaction, from feasibility studies and the approval of risks as per established criteria, to monitoring solvency and returns and, ultimately, to recovering non-performing assets. Diligent management of each of these stages is essential to successful recovery.

4. Risk management. Measurement and information systems

CaixaBank has been using internal rating-based (IRB) models since 1998; it uses the scorings and ratings to measure the creditworthiness of customers and transactions.

On 25 June 2008, the Bank of Spain authorised CaixaBank to use IRB approaches to calculate own funds requirements for credit risk.

Credit risk measures losses due to failure by borrowers to meet their financial obligations based on two concepts: expected loss and unexpected loss.

- **Expected loss**. Expected loss is the average of possible losses calculated by multiplying three factors: probability of default (PD), exposure at default (EAD) and loss given default (LGD).
- **Unexpected loss**. Potential unforeseen loss caused by a possible variability in the calculation of expected loss, which may occur due to sudden changes in cycles, alterations in risk factors, and the natural credit risk correlation for the various debtors. Unexpected losses have a low probability and large amount, and should be absorbed by the Entity's own funds. The calculation of unexpected loss is also based on the transaction's PD, EAD and LGD.

Credit risk parameters are estimated based on the Entity's historical default experience. CaixaBank has a set of tools and techniques for this in accordance with the specific needs of each type of risk: PD is estimated based on new defaults related to transaction ratings and scorings; LGD is estimated based on the present value of recoveries received net of direct and indirect costs associated with collection; and EAD is estimated based on observation of the use of credit limits in the months prior to the default.

CaixaBank has management tools in place to measure the PD for each borrower and transaction, covering virtually its entire lending portfolio. In segments not yet covered, it gathers relevant information for overall exposure with a view to creating future PD calculation tools.

In addition to regulatory use to determine the Entity's minimum own funds, the credit risk parameters (PD, LGD and EAD) are presented in a number of management tools; e.g. the risk-adjusted return (RAR) calculation tool, the risk-adjusted bonus (RAB) system, pricing tools[7], customer pre-qualification, monitoring tools and alert system.

5. Admission and approval

Approval of lending transactions at CaixaBank is based on a decentralised organisation that allows branches to approve a high percentage of transactions. The system automatically assigns officers the tariff and risk levels delegated by Management as standard for their positions. In cases where an employee's approval authorisation is insufficient, the system requires approval from a higher level. Any transaction must be approved by at least two properly authorised employees.

There are two alternative systems for calculating the level of risk of a transaction:

1. Based on the accumulated expected loss of all the customer's transactions and those of its economic group. This system is used for applications where the principal borrower is a private company or real estate developer (in general, companies with annual revenue of up to EUR 200 million).

2. Based on the nominal amount and collateral of all risks posed by the customer or its economic group. This system is used for all other segments; e.g. natural persons, very large companies, public sector entities.

[7] See Note 3.1.3.2 “Admission and Approval” of the CaixaBank Group's 2015 financial statements for more details.

The process for admitting and approving new loans is based on the analysis of four key issues: the parties involved, the purpose of the loan, the ability to repay and the characteristics of the transaction.

One major component of the assessment of a borrower's capacity to repay a debt is the PD (risk parameter defined within the management framework proposed by Basel Committee on Banking Supervision) assigned by the scoring and rating systems. These tools were developed in due consideration of the Entity's past experience of default, and include measures to adjust the results to the economic situation.

As indicated previously, approval powers are controlled automatically and employees cannot approve transactions for which they lack authorisation.

6. Concentration risk[8]

According to the principles published by the Committee of European Banking Supervisors (CEBS) in September 2010, shortly before it was dissolved and its functions assumed by the EBA, risk concentration is one of the main causes of significant losses and has the potential to ruin a financial institution's solvency, as was seen in 2008 and 2009.

Moreover, in line with the CEBS Guideline 7, CaixaBank has developed methodologies, processes and tools to systematically identify its overall exposure with regard to a particular customer, product, industry or geographic location. Wherever it is considered necessary, limits on relative exposures to each of these have been defined under the Risk Appetite Framework, as well as by concentration by economic sector, differentiating between private business activities and public sector financing. In keeping with the internal communication policy of the Risk Appetite Framework, trends in these indicators are reported (at least) monthly to the Global Risk Committee, quarterly to the Risks Committee and every six months to the Board of Directors.

7. Hedging policies and mitigation techniques

Credit risk is mitigated by the collateral or guarantees provided by the borrower. In this respect, it is common practice for long-term transactions to be covered by solid guarantees in retail banking (e.g. mortgages, deposits, pledges of deposits, guarantees from partners), as well as business and corporate banking (e.g. deposits by the parent, coverage by credit insurers or government agencies),

[8] See Notes 3.1.3.3 “Limits on large exposures” and 3.1.4 “Concentration risk” of the CaixaBank Group's 2015 financial statements for more details.

as the ability to repay is constantly subject to the contingency of the passage of time and to the difficulties involved in evaluating and controlling investment projects.[9]

8. Credit risk monitoring[10]

To adequately manage credit risk, borrowers must be monitored continuously over the entire term of their loans. The objective is to reach a conclusion on the degree of satisfaction with the risk assumed with the borrower and any actions that need to be taken. Risk Monitoring targets the overall lending portfolio.

The Risk Monitoring and Prevention Management teams in CaixaBank report to the Corporate Global Risk Management Division. Their functions are two-fold: to prepare follow-up reports on individual borrowers or economic groups with higher risk levels, or large exposures, and to monitor risk holders whose creditworthiness shows signs of deteriorating, using a rating and monitoring scoring system based on risk alerts for each borrower.

Another feature of the alert system is that it is fully integrated with the customer information systems, including all loan applications related to the customer. Alerts are assigned individually to each borrower and a rating is established automatically on a monthly basis.

Monitoring procedures involve: mass monitoring for individuals and SMEs (less than EUR 150,000) through preventive management, generating automatic actions with direct implications for risk management; monitored oversight of companies and developers with risk of up to EUR 20 million; and specific and continuous monitoring for large risks and those with special features.

The outcome of the monitoring process is the establishment of Action Plans for each of the borrowers analysed. These plans are in addition to the rating generated by the Alerts and, at the same time, provide a reference for future approval policies.

9. Arrears management and recoveries[11]

The default and recoveries function is the last step in the credit risk management process and is aligned with CaixaBank's risk management guidelines.

[9] See 1.2.4 “Credit risk reduction techniques” in Part B of this document for further details.
[10] See Note 3.1.3.5 “Credit risk monitoring” of the CaixaBank Group's 2015 financial statements for more details.
[11] See Notes 3.1.3.6 “Arrears management” and 3.1.3.7 "Recoveries" of the CaixaBank Group's 2015 financial statements for more details.

Recovery is conceived as an integral management circuit that begins even before default or before an obligation falls due through a prevention system implemented by CaixaBank and ends with recovery or definitive write-off.
The branch network oversees recovery activity. The Entity's extensive network allows for coverage of the entire national territory, ensuring proximity to and knowledge of the customer, which it leverages applying criteria of effectiveness and efficiency.

The aim is to act on the first signs of any deterioration in the creditworthiness of debtors and carefully implement measures to monitor operations and the related guarantees and, if necessary, instigate claims to recover debt quickly.

1.2.2.2 Counterparty risk

1. Description and general policy

The main aim of counterparty risk management at CaixaBank is to align security with the Entity’s business objectives. This involves configuring a risk profile that simultaneously helps profitability and value creation budgets to be achieved and guarantees the Entity’s capital adequacy in the medium and long term.

Since approval of transactions for finance entities is mainly associated with financial market operations, the Entity must have a predetermined framework to enable decisions to be taken immediately with respect to undertaking counterparty risks. Accordingly, CaixaBank has a credit approval system in place approved by the Management Committee, in which the maximum authorised exposure to credit risk with a counterparty is determined by a complex calculation based mainly on entities' ratings and an analysis of their financial statements. It also performs continuous monitoring of market signals through analysis of the values of credit default swaps (CDS) and the shares of each counterparty.

2. Structure and organisation of the risk management function

CaixaBank has three areas with direct responsibility for the quantification, monitoring and control of counterparty risk, as follows:

- The **Financial Sector and Country Risk Department**, part of the Loan Analysis and Approval Division, is responsible for all banking counterparty risks undertaken by

CaixaBank, irrespective of the type of transaction and activity that generates them. Its main functions include:

- ✓ Determining the risk thresholds per counterparty;
- ✓ Analysing and monitoring counterparties and risks;
- ✓ Controlling the use of limits and breaches;
- ✓ Monitoring legal risk; and
- ✓ Preparing risk information for internal bodies, the Bank of Spain, credit rating agencies, etc.

- **The Risk in Market Operations Department**, which is part of the Corporate Global Risk Management Division, is responsible for estimating counterparty risk associated with CaixaBank's financial market activities. Its main functions include:

  - ✓ Defining and implementing calculation methodologies for the estimation of credit exposure equivalent;
  - ✓ Measuring (daily) ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (securities lending).

- The **Operational Market Services Area**, part of the Banking Services Subdivision, is responsible for daily operational management (in particular, reconciliation of positions and monitoring the related settlements and accounting entries) of the ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (securities lending).

3. Risk management: Measurement and information systems

The quantification and management of credit risk from treasury operations show certain peculiarities, basically as a result of the type of financial instruments used and the expediency and flexibility required in treasury transactions.

Counterparty risk at the CaixaBank Group is controlled through an integrated system that provides real-time data on the available exposure limit for any counterparty, product and maturity, for any Group entity.

Counterparty risk relating to derivative transactions is quantitatively associated with the related market risk, since the amount owed by the counterparty must be calculated by reference to the market value of the contracts, plus the related potential value (possible changes in their future value under extreme market price conditions, based on the known historical pattern of market rates and prices).

4. Hedging policies and mitigation techniques

The main risk mitigation policies and techniques employed as part of the daily management of bank exposures are as follows:

- **ISDA/CMOF contracts**. Standardised contracts for global derivative operations with a counterparty. These explicitly provide for the possibility of offsetting the flows of outstanding collections and payments between the parties for all derivatives trading hedged by the contracts. There are 152 contracts signed with financial institutions, with a degree of collateralisation of over 99%.

- **CSA agreements (collateral deposits)**: Agreements whereby each of the parties undertakes to make a cash deposit as security for the net credit risk position arising from the derivatives traded between them, on the basis of a prior close-out netting agreement included in the clauses of the ISDA/CMOF contracts.

- **GMRA agreements (collateral on repo transactions):** Agreements whereby the parties undertake to deliver an asset to each other as collateral for the net credit risk exposure arising from differences between the value of the sum accrued by simultaneous buying and selling of securities and the market value of the securities.

- **Break-up clauses**. At a certain point in a contract, these clauses provide for early termination of the agreement by one of the parties of its own free will. This mitigates counterparty risk by reducing the effective duration of the derivatives subject to the clause.

- **Delivery-versus-payment in securities settlement systems**. Systems that eliminate settlement risk with a counterparty, since clearing and settlement occur simultaneously and in an inseparable fashion. One major system is the CLS system for delivery against payment in the case of simultaneous collection and payment flows in different currencies.

- **Use of Central Counterparties (CCPs)**. The use of central counterparties (CCPs) mitigates the counterparty risk of OTC derivative contracts; i.e., trades not executed through a market regulated according to the MiFiD. EMIR regulations and the Regulations of the European Parliament on prudential requirements for credit institutions set forth the obligation to clear OTC derivatives contracts at these Central Counterparties, as well as to give notification of all transactions conducted.

1.2.3 Risk associated with equity investments

1. Definition and general policy

The risk associated with equity investments entails the possible loss or reduction in the Group's solvency through equity instruments caused by adverse movements in market prices, potential sales or investee insolvency.

The equity portfolio includes strategic investments, with a medium-long term horizon which the CaixaBank Group manages actively, as well as stakes in subsidiaries which serve a specific or complementary financial purpose.

In line with the active management of equity investments, there are investment agreements with core shareholders of international banks in which CaixaBank holds stakes, as well as strategic agreements with the respective banks, to undertake joint venture opportunities, cooperate on customer service in the respective regions of influence and analyse cost and knowledge synergies. The purpose of this is to create shareholder value (not replicable through capital markets) and move forward with CaixaBank's international expansion, tapping emerging business opportunities and adopting the best practices of other markets.

2. Structure and organisation of the risk management function

At the CaixaBank Group, equity investments are subject to monitoring and specialist analysis. This monitoring and analysis is carried out at a deeper level in the case of permanent investments and/or those involving a more material amount and impact on capital.

The Group's organisational structure has various levels and types of control:

- **Representation on the governing bodies of investees**: depending on the percentage stake and the strategic alliance with the majority shareholder (when the majority shareholder is not the CaixaBank Group), members of the Board of Directors or Senior Management are appointed to serve as members of the investees' boards of directors. On occasion, this also includes board committees, such as the Risks or Audit Committees.

  This allows these directors to remain abreast of, participate in, and influence the most important decisions of these companies, contributing their individual experience with and their knowledge of the financial sector.

- **Controlling and financial analysis**, through specialists solely responsible for monitoring changes in economic and financial data as well as understanding and issuing alerts in the event of changes in regulations and competition in the countries and sectors in which the investees operate. The International Banking area (responsible for banking stakes), the Financial area (for industrial stakes) and the Holding Companies area (for subsidiaries) gather and share information on these stakes.

  In general, with the most significant shareholdings, both the estimates of and actual data on investees' contributions to income and shareholders' equity (where applicable) are updated regularly. In these processes, the outlook for securities markets and analysts' views (e.g. recommendations, target prices, ratings) are shared with Senior Management for regular comparison with the market.

  In keeping with accounting regulations, these teams conduct twice-yearly stress tests on the carrying amount of the shareholdings, to assess their value and determine if they should be recognised on the balance sheet. Generally accepted valuation methods are employed—for example, discounted cash flow (DCF) models, regression curves, dividend discount models (DDMs), and other, equivalent methods. This leads to a decision on the need to either increase or reduce the provisioning allocated to the shareholdings.

  These financial analysts also liaise with listed investees' investor relations departments and gather information, including reports from third parties (e.g., investment banks, rating agencies) needed for an overview of possible risks to the value of the shareholdings.

  The conclusions on the accounting profit and loss and the most relevant alerts of changes in the contributions of equity investments are submitted to the Management Committee and shared with CaixaBank's governing bodies, generally each quarter.

- **Accounting recognition**: the Financial Accounting area ensures that all information meets the relevant quality requirements, is submitted by the required deadlines to the Entity's IT systems, and that the subsequent external reporting is carried out. In this process, the controls established in Internal Control over Financial Reporting (ICFR) are applied, and the regulations set forth therein are complied with. In matters of finance, changes in shareholders' equity in companies accounted for using the equity method are also recognised.

3. Management of equity exposures at CaixaBank

Pursuant to banking regulations, the Corporate Global Risk Management Division monitors the exposure and regulatory capital charge associated with CaixaBank's stakes, according to the classification of the equity investment:

This uses, *inter alia*, tools arising under the framework of the new European regulation governing capital requirements: CRD IV and CRR[12].

This division works with other areas of the Entity, directly carrying out the calculation of and regulatory reporting on the solvency of the Group's equity portfolio, in addition to other tasks related to risk management.

The Corporate Global Risk Management Division also performs functions related to quantifying and monitoring equity exposure: 1) the incorporation, on a daily basis, of the market risk of derivatives and the currency risk associated with the equity portfolio into the Group's global market risk; and 2) the ongoing monitoring of risks of the portfolios arising from the dealings in financial markets in connection with financial stakes. This approach is explained in more detail below.

4. Measurement and information systems

The risk of positions that make up the equity portfolio is measured using the regulatory tools available in accordance with the Basel II framework and subsequent revisions thereto, bearing in mind developments in the sector, as follows:

- From the standpoint of the risk inherent to market price volatility, using VaR models (a statistical estimate of maximum potential losses based on historical data on changes in the prices of quoted assets).
- From the standpoint of the possibility of default, using models based on the PD/LGD approach.
- Applying the simple weighting model if neither of the above can be applied.

All required information is fed into the corporate databases used by the Risks Department, with the consequent validations and measurements to ensure the reliability of the data.

[12] Regulation No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (the "CRR")

5. Criteria for assignment of the various risk measurement approaches

Within the margins set by the supervisor and in accordance with the incentive for adoption of the most risk-sensitive advanced methods covered by Basel III, the criterion for assigning the various risk measurement approaches to the equity investments not included in the trading portfolio is as follows.

The selection between a PD/LGD approach and a market approach (VaR model) will depend on the classification of the stake for accounting purposes:

- For stakes not classified as available-for-sale, the most significant risk is default risk and, therefore, the PD/LGD approach is applied. Where PD is not available, the simple risk-weighted method is used.
- For available-for-sale investments listed on organised markets, the most significant risk is market risk and, therefore, the market-based approach (VaR model) is used. Where historical price data from organised markets in not available for stakes - ruling out measurement using the VaR model - the PD/LGD approach is used as far as possible. Where PD is not available, the simple risk weight method is used.

However, in the case of strategic investments classified as available for sale for which there is a long-term management relationship, the PD/LGD approach is used. The use of this approach depends on whether there is sufficient information on the equity exposure in order to assess the internal rating and assign a reliable, duly grounded PD for that equity holding. When the information available is insufficient, the simple risk weight method is used.

The result obtained from using internal models to measure capital charges (VaR, PD/LGD) is a key element for calculating the quantity and quality of the risk assumed, without prejudice to the analysis of other types of measurements that supplement those required by regulations designed to determine the market value of the stakes, their liquidity, and the estimated contribution to the Group's profit and loss, and capital.

To illustrate this point, some of the reports generated by the Corporate Global Risk Management Division and distributed to the relevant committees are listed below:

- The Market Risk Report, which includes risk monitoring (VaR) on the CaixaBank Group's trading derivatives related to CaixaBank's strategic stakes, and the monitoring of the currency risk associated with these stakes.

- The CaixaBank Group's Positioning Report for financial instruments, which is part of the global monitoring of the positions that comprise market operations, covers both the fixed-income and equity positions held by the CaixaBank Group, including those in VidaCaixa and in guaranteed mutual and pension funds.

6. Hedging policies and mitigation techniques

- **Currency risk**[13].

  The Entity's policy is to hedge against any items that affect the income statement. Accordingly, it hedges against cash flows, but does not hedge equity exposures in foreign currency, since it considers these to be long-term investments.

1.2.4 Market risk

1. Definition and general policy

The CaixaBank Group is exposed to market risk in the trading portfolio from adverse movements in the following factors: interest rates, exchange rates, share prices, commodity prices, inflation risks, and changes in the credit spreads of private fixed-income positions.

Risk factors are managed according to the return-risk ratio determined by market conditions and expectations, the limits structure and the authorised operating framework.

To manage this risk, the CaixaBank Group has used internal models to calculate regulatory own funds for market risk associated with the trading portfolio, currency and gold risk, and commodity price risk since 13 December 2007, when the Bank of Spain authorised the Group to apply them. In 2012, this authorisation was extended to the calculation of regulatory own funds for internal incremental default and migration risk (IRC) and stressed VaR models.

2. Structure and organisation of the risk management function

CaixaBank's Risk in Market Operations Division is responsible for the valuation of financial instruments, as well as the measurement, control and monitoring of the related risks, the estimation of counterparty risk and of the operational risk associated with activities in financial markets.

[13] See section A.1.2.4.2 "Currency risk in the banking book".

To perform its functions, on a daily basis the Division monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market result), quantifies the market risk assumed, monitors compliance with the thresholds, and analyses the ratio of actual returns to the assumed risk. A daily control report is submitted to Senior Management, supervisors and Internal Audit.

The Corporate Global Risk Management Division, which comprises the Risk in Market Operations Department, acts, organisationally and functionally, independently of the risk-taking areas in order to boost the autonomy of its risk management, monitoring and control tasks, and in general it seeks to facilitate the comprehensive management of the various risks. Its task focuses on configuring a risk profile in accordance with the Group's strategic objectives.

3. Risk management: Measurement and information systems[14]

The standard measurement for market risk is VaR at 99% with a time horizon of one day. Daily VaR is defined as the highest of the following three calculations:

- Parametric VaR with a covariance matrix calculated over 75 market days and exponential smoothing, giving more weight to recent observations.
- Parametric VaR with a covariance matrix arising from historical performance over one year and equal weightings
- Historical VaR with a time frame of one year

Moreover, since a downgrade in the credit rating of asset issuers can also give rise to adverse changes in quoted market prices, quantification of risk is completed with an estimate of the losses arising from changes in the volatility of the credit spread on private fixed-income and credit derivative positions (spread VaR), which constitutes an estimate of the specific risk attributable to the security issuers. This calculation is made using a historical approach taking into account the potentially lower liquidity of these assets, and a confidence interval of 99%.

To verify the suitability of the risk estimates, two backtests (gross and net) are conducted to compare the daily results to the losses estimated using the VaR technique. Stress tests are also performed on the value of the treasury positions and on positions included in the internal model in order to calculate the potential losses on the portfolio in situations of extreme crisis.

[14]See Note 3.2 Market Risk to the CaixaBank Group's 2015 consolidated financial statements for more information.

4. Hedging policies and mitigation techniques

Formalising and updating the risk appetite presented to the governing bodies delimits and validates that the market risk metrics defined by the CaixaBank Group are commensurate with the established risk tolerance levels. The Risk Appetite Framework approved by the Board of Directors sets a limit for VaR with a one-day time horizon and confidence level of 99% for all trading activities of EUR 20 million. Moreover, both positions in the trading portfolio and bank stakes are restricted to the concentration limits set out in the Risk Appetite Framework (e.g. concentration in large exposures, in the public sector or in an economic sector).

As part of the required monitoring and control of the market risks undertaken, the Board of Directors and, by delegation of the latter and on a more restricted basis, CaixaBank's Global Risk Committee and the Executive Finance Division approve a structure of overall VaR and sensitivity limits for the assumption of market risk. This structure establishes the following types of limits:

- **Global limit**. The Board of Directors is responsible for defining the maximum level of market risk that may be undertaken in the Entity’s treasury and trading management operations.
- **Limit on treasury operations**. In accordance with the general framework determined by the Board of Directors, CaixaBank's Global Risk Committee and/or the Executive Finance Division are authorised to implement the market risk limits structure and to determine lower levels of maximum risk if appropriate given the market circumstances and/or the approved management approach. This has been used to draw up specific limits for these operations, both on a global basis (VaR, stop loss, stress test, as determined by the Global Risk Committee) and by risk factors (as determined by the Executive Finance Division).
- **Limit on trading derivatives linked to CaixaBank's long-term stakes.** In June 2008, the "la Caixa" Board of Directors developed the general framework, approving a specific limit on this activity, managed using market risk management criteria and incorporated into the internal market risk model. The limit was lowered in January 2009 by the "la Caixa" Global Risk Committee. On 25 July 2011, CaixaBank's Global Risk Committee adapted this framework to the "la Caixa" Group's new organisational structure.

In relation to the regulatory capital charges in the calculation of market risk using internal models, incremental default and migration risk of ratings on fixed-income portfolios and stressed VaR, the CaixaBank Global Risk Committee defined specific limits in July 2011 and March 2012, respectively.

1.2.5 Operational risk

1. Definition and general policy

Operational risk is defined as: "The risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including legal risk". Operational risk includes legal and regulatory risk, but excludes strategic, reputational and business risk. Operational risk management addresses losses relating to credit risk or market risk triggered by operational risk.

The CaixaBank Group is willing to manage operational risk homogeneously and consistently across all the companies within its scope as a financial conglomerate. It achieves this by promoting consistency in the tools, measurements and reporting used, ensuring the existence of full and comparable information for operational risk decisions. It also promotes the use of advanced measurement and management models for each sector of activity; these are implemented consistently with the degree of development and maturity in each sector.

The CaixaBank Group manages the operational risk within its scope of consolidation in accordance with the standards applicable to advanced approaches, for which it has put in place the necessary tools, policies and structures.

2. Types of operational risk

The types of operational risk in the CaixaBank Group are organised into four hierarchical levels.

The main risk categorisation in the Group is based on levels 1 and 2 as defined under the regulations[15]. These are extended and developed for risk circumstances up to levels 3 and 4, which are specific to the Group and are obtained from detailed analysis of operational risk at divisional/Group company level, based on the regulatory levels (1 and 2).

The CaixaBank Group has defined its own main risk categorisation based on an analysis of operational risk in the various business areas and Group companies. The categories are the same for the entire Group and are shared by the qualitative approaches to identifying risks and the quantitative measurement approaches based on an operational loss database.

Level 3 risk represents the combined individual risk of all the business areas and Group companies.

[15] CRR, Title III, Chapter 4, Article 324.

Level 4 represents the materialisation of particular level 3 risks in a specific process, activity and/or business area.

The diagram below illustrates the classification of operational risk types (levels 1-4) in the Group.

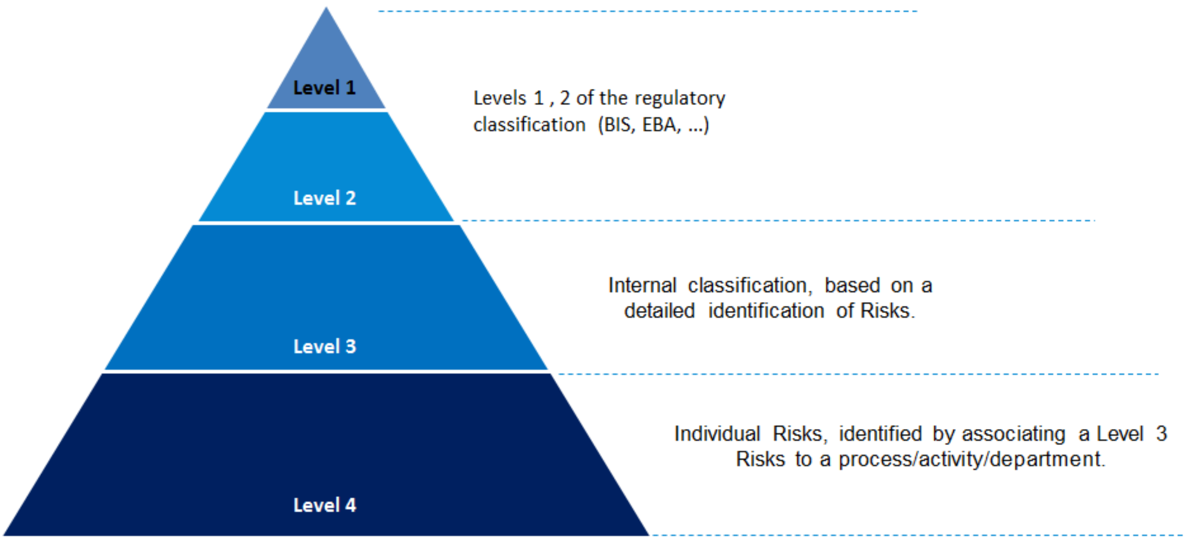


Diagram 2

3. Structure and organisation of the risk management function

Overall control and oversight of operational risk is carried out by the **Corporate Global Risk Management Division**, which materialises the independence functions required by the Basel Committee on Banking Supervision. Its responsibilities include the control and oversight of operational risk.

Business areas and Group companies: responsible for the daily management of operational risk within their respective areas. This implies identifying, assessing, managing, controlling and reporting the operational risks of their activity and helping CaixaBank's Operational Risk Division to implement the management model. This Division is part of the **Credit Risk Models Department**, which reports to the **Corporate Risk Models and Policies Division**, which in turn reports to the Corporate Global Risk Management Division.

The **Operational Risk Division** is responsible for defining, standardising, and implementing the model for the management, measurement and control of operational risk. It also provides back-up to Areas and consolidates information on operational risk throughout the Group for the purposes of reporting to Senior Management and to the risk management committees involved.

CaixaBank's **Risk Models Validation** and **Internal Audit** areas are responsible for validation of internal risk management models. In this context, a Framework Collaboration Agreement between the two was agreed, setting out their scopes and approaches to the review of internal models, guaranteeing the adequacy and efficiency of the control functions.

Internal Control coordinates the Corporate Risk Map which supports the operational risk model.

Information Systems is responsible for the applications and technological infrastructure on which operational risk management is based.

4. Risk management. Measurement and information systems

The Group's overall objective in managing operational risk is:

"To improve the quality of business management, supplying information on operational risks to allow decisions to be made that ensure the organisation's long-term continuity and improving processes and the quality of both internal and external customer service, while complying with the established regulatory framework and the requirements for calculating the capital charge".

This overall objective comprises a number of specific objectives that form the basis for the organisation and working methodology applicable to managing operational risk. These objectives are:

- To identify and anticipate existing operational risks.
- To ensure the organisation's long-term continuity.
- To promote the establishment of continuous improvement systems for operating processes and the structure of existing controls.
- To exploit operational risk management synergies at the Group level.
- To promote an operational risk management culture.
- To comply with the current regulatory framework and requirements for the applicability of the management and calculation models chosen.

5. Calculation of eligible own funds requirements.

- **Standardised approach:** Pursuant to Circular 3/2008, at the effective date of the Basel II Capital Accord in 2008, the Group requested authorisation from the Bank of Spain to apply the standardised approach for calculating regulatory capital requirements for operational risk. As a consequence, it now applies that approach.

The standardised approach uses the same approach for calculating own funds for operational risk as the basic indicator approach; i.e. it multiplies the Relevant Indicator by a fixed parameter. However, it breaks the Relevant Indicator down into eight regulatory business lines and multiplies these by a fixed factor, as shown in the table below:

Table 4. Operational risk: business lines and weights

	Weightings
Corporate Finance	18%
Trading and Sales	18%
Retail Brokerage	12%
Commercial Banking	15%
Retail Banking	12%
Payment and Setlements	18%
Agency Services	15%
Assets Management	0

This assumes that firms are able to map the corresponding part of the Relevant Indicator to each of these regulatory business lines.

Using the Standardised Approach, own funds for operational risk are calculated as the sum of the Relevant Indicator (broken down by business line) multiplied by the beta factor for that business line.

The regulations establish that firms using the Standardised Approach must comply with certain demanding requirements for operational risk management and measurement.

- **Evolution to internal approaches:** In 2014 and the first half of 2015, a project was developed to evolve the management and measurement of operational risk towards internal approaches, with a twofold objective of implementing best practices in operational risk management and calculating regulatory capital requirements using risk-sensitive approaches. This project entailed, *inter alia*, the following lines of action:
  - Strengthening integration into operational risk management
  - Implementation and adaptation of a comprehensive risk management tool

- Measurement of capital for operational risk using advanced measurement approaches (2 iterations)

The main milestones in 2015 were:

- Updating of the Comprehensive Management Framework and Operational Risk Regulations approved by the Board of Directors
- Incorporation of operational risk into the Models Committee
- Extension of the mechanisms for generating weak points and actions plans for operational risk
- Review of operational risk metrics in the Risk Appetite Framework
- Presentations of operational risk to the management bodies of the main Group companies
- Integration of Barclays
- Start of the regular analysis of the data feeding the internal operational loss database
- Annual updating of extreme operational loss scenarios and operational risk self-assessment (with methodological evolution)
- Commencement of supervision by the European Central Bank

6. Hedging policies and mitigation techniques

Through control and mitigation techniques, the CaixaBank Group actively manages the Entity's risk profile, preventing risk and improving operational risk management on an ongoing basis.

Therefore, when it deems it necessary to do so, CaixaBank transfers risk to third parties by taking out insurance to cover the Group’s assets (e.g. premises, property, computer equipment, storage facilities) and business activity (e.g. civil liability, disloyalty, fraud).

Based on the analysis of its exposure to each type of operational risk, the Group determines which risk levels are aligned with its risk appetite and loss absorbing capacity, ensuring that the Group's main risks (damage to assets, civil liability – general, professional and director – and internal fraud) are covered by non-Group companies in order to diversify risk.

As for risk transfer, the following are considered:

- Key business aspects
- Ability to manage and take on risks

- Frequency of review and re-estimations in changing market environments
- Compulsory approval by the Board of Directors

Moreover, based on the detailed analysis of risks, areas of improvement in the control environment are detected, to which the Group applies risk mitigation mechanisms entailing the establishment of action and mitigation plans.

Lastly, each year the adaptation of business continuity plans to international ISO 22301:2012 standards is reviewed through internal and external audits.

1.2.6 Interest rate risk in the banking book

1.2.6.1 Interest rate risk in the banking book

1. Definition and general policy

Interest rate risk is inherent to all banking activity. It arises from the impact - potentially negative - that changes in market interest rates might have on the net interest income and economic value of an entity's balance sheet. As balance sheet assets and liabilities are linked to different benchmark indices, and have differing maturities, they may be contracted (in the case of new production) or renewed at interest rates different to those currently prevailing. This impacts their fair value and net interest income.

CaixaBank manages interest rate risk with a twofold purpose:

- To optimise the entity's net interest income within the risk appetite limits established.
- To keep the economic value of the balance sheet consistent with the risk appetite at all times.

In pursuit of its operating objectives, CaixaBank has established certain thresholds applicable to both the volatility of net interest income and the sensitivity of balance sheet economic value.

The thresholds described form part of CaixaBank's risk appetite framework ("RAF"). The Risk Appetite Framework is a comprehensive tool used to define, at the highest governance level, the overall amount and type of risk it is willing to assume to achieve its strategic targets.

For the limits on net interest income, based on stressed interest rate scenarios for increases and decreases in interest rates, net interest income is projected and compared to the net interest income obtained in the baseline scenario of implied market rates.

- The scenarios of increases and decreases in interest rates used establish different amounts (200 bp and 100 bp), as well as a gradual and an immediate impact.
- Net interest income subject to volatility limits refers to both 1-year and 2-year net interest income.

There are two metrics for limits on economic value:

- A limit on the VaR of the sensitive balance sheet (measured in terms of economic capital), which should be below a specified % of economic value.
- A limit on total balance sheet sensitivity to the stress of a 200 bp increase and decrease in interest rates. The limit is also placed on a specific % positive and negative variation in value relative to the present value calculated for the Entity.

2. Structure and organisation of the risk management function

Interest rate risk is managed from the highest level of the organisation to its divisions and management units through various second-level committees, with appropriate segregation of responsibilities.

The main functions of the governing bodies, committees and functional areas are as follows:

Board of directors

The Board of Directors is the supreme body when it comes to setting the entity's business strategies and approving the Risk Appetite Framework (RAF), the risk strategy and core risk policy, including the thresholds and alerts needed to measure and manage risks. The Board's specific competencies in interest rate risk management include the approval of the management policy and its regular updating, and setting objectives and thresholds for Risk Appetite Framework (RAF) metrics.

Risk Committee

This provides independent advice to the CaixaBank Board of Directors on matters within its competency and ensures the correct implementation of decisions approved by the Board of Directors, and that risk assumed is commensurate with the risk profile.

Management Committee

The Board delegates day-to-day management of the entity to this Committee. The Management Committee has delegated all issues relating to managing interest rate risk to the ALCO

Committee. Given the importance of this for managing the business, the ALCO ensures that the Management Committee is kept up-to-date on the main decisions it takes.

ALCO

This is responsible for optimising the financial structure of the CaixaBank Group's balance sheet and its profitability. This includes net interest income and extraordinary revenues impacting the Return on Funds (ROF), determining transfer rates with the various businesses and monitoring prices, maturities and volumes of activities that generate assets and liabilities, under the policies, risk appetite framework and risk thresholds approved by the Board of Directors. It makes the decisions it deems appropriate to this end, making recommendations to the business areas.

Global Risk Committee

The Committee is responsible for the end-to-end management, control and monitoring of credit, market, operational, concentration, reputational and any other risks to which the CaixaBank Group may be exposed, as well as the specific risks of the most relevant financial investees, and the implications of these risks when managing solvency and capital consumption.

Executive Finance Division

This division is responsible for management, measurement, monitoring and reporting of balance sheet interest rate risk.

ALM

One of the main functions of the ALM department is to manage CaixaBank's structural balance-sheet interest rate risk.

Balance sheet analysis and monitoring

This area is responsible for analysis, measurement and monitoring of the interest rate risk underlying the entity's balance sheet, in terms of: i) Economic value; and ii) Net interest income.

Executive Director for Accounting, Management Control and Capital

Responsible for the budgetary process for the business units, and monitoring of budgets and deviations.

Risks

The Risk in Market Operations Department, which is part of the Corporate Global Risk Management Division, performs an independent supervisory function for structural interest rate risk.

Banking Services

This area is responsible for administering, accounting for and justifying fair value balance sheet interest rate risk macrohedging. It is also responsible for documenting and accounting for cash-flow macrohedges.

Internal Audit

Internal Audit is responsible for annual verification of the policies, procedures and systems in place for balance sheet interest rate risk assessment, management and information.

3. Risk management. Measurement and information systems

The entity applies best practices in the market and the recommendations of regulators in measuring interest rate risk. It sets risk thresholds based on these metrics and considering the complexity of its balance sheet. It uses both static and dynamic measurements:

- **Static measurements:** Static measurements are not designed based on assumptions of new business and refer to a specific point in time.
  - ✓ **Static gap:**

    The static GAP shows the contractual distribution of maturities and interest rate reviews for applicable balance sheet and/or off-balance aggregates at a particular date. GAP analysis is based on comparison of the values of the assets and liabilities reviewed or that mature in a particular period.
  - ✓ **Balance Sheet Economic Value**:

    The economic value (EV) of the balance sheet is calculated as the sum of: i) the fair values of the net interest-rate sensitive assets and liabilities on the balance sheet; ii) the fair value of off-balance sheet products (derivatives; and iii) and the net carrying amounts of the non-interest-rate sensitive asset and liability items.

- ✓ **Economic Value Sensitivity:**

  The economic value of sensitive balances on- and off- the balance sheet is reassessed under the various stress scenarios considered by the entity. The difference between this value and the economic value calculated at current market rates gives us a numeric representation of the sensitivity of economic value to the various scenarios.

  The entity then uses this sensitivity measurement to define operating thresholds for economic value for particular interest rate scenarios.

- ✓ **Balance sheet VaR:**

  Balance sheet VaR is the maximum amount that could be lost from the balance sheet in a particular period, applying market prices at a given confidence interval. CaixaBank uses a 1-day horizon and 99% confidence interval in its measurement of balance sheet VaR. This means that, statistically, the entity's balance sheet might lose more than the calculated VaR on only 1 day in every 100.

  CaixaBank uses the treasury activity methodology for calculating balance sheet VaR. In practice, this means it carries out 3 VaR calculations.

  1. Parametric VaR with a 75 day data window for estimating the parameters,
  2. Parametric VaR with a 250 day data window for estimating the parameters,
  3. Historical VaR over a 250 day period, assuming that what occurred to the value of the balance sheet over the last 250 days is a good guide for estimating what might happen between today and tomorrow.

  Applying the principle of prudence, the highest of these 3 values is then used as the balance sheet VaR.

  The entity then uses this VaR measurement to define management thresholds for its economic value.

- o **Dynamic measurements:** These are based on the current position and also take new business into account. Therefore, in addition to considering the current on- and off-balance-sheet positions, growth forecasts from the Entity's operating plan are included.

- **Net interest income projections:**

  The entity projects future net interest income (1, 2 and 3 years ahead) under various interest rate scenarios using current market curves. to model how it might develop in future in response to the outlook for the business and wholesale issuances and portfolio purchases and sales, and to predict how it will vary under stressed interest rates scenarios.

  The interest rate scenarios used are parallel and immediate, parallel and progressive, and immediate change of slope (Steepening or Flattening, Short Up, Short Down).

  Forecasts of net interest income depend on assumptions and events other than just the future interest rate curve: they also consider factors such as customer behaviour (early cancellation of loans and early redemption of fixed-term deposits), the maturity of demand accounts and the future performance of the entity's business.

- **Volatility of net interest income**:

  We use a range of interest rate scenarios to forecast net interest income. We apply movements in the curve (parallel and not parallel, instantaneous and not gradual) to the baseline interest rate scenario to produce different projections for net interest income, which we then compare.

  The difference between these net interest income figures (the differences resulting from an increase or decrease compared to the baseline scenario) compared to the baseline scenario give us a measure of the sensitivity, or volatility, of net interest income.

In accordance with current regulations, the CaixaBank Group does not use own funds for the interest rate risk in the banking book undertaken, in view of the low risk profile of its balance sheet. The interest rate risk in the banking book assumed by the CaixaBank Group is substantially below levels considered significant (outliers) under current regulations.

With regard to measurement tools and systems, information is obtained at the transaction level of the Entity’s sensitive balance sheet transactions from each computer application used to manage the various products. This information is used to produce databases with a certain amount of aggregation in order to speed up the calculations without impairing the quality or reliability of the information.

The assets and liabilities management application is parameterised in order to include the financial specifics of the products on the balance sheet, using behavioural customer models based on historical information (pre-payment models). Growth data budgeted in the financial plan (volumes, products and margins) and information on the various market scenarios (interest and exchange rate curves) is also fed into this tool, in order to perform a reasonable estimate of the risks involved. This tool measures static gaps and net interest income projections.

4. Hedging policies and mitigation techniques

At 31 December 2015, CaixaBank used fair value macro-hedges as a strategy to mitigate its exposure to interest-rate risk and to preserve the economic value of its balance sheet (see Note 14). In 2015, CaixaBank arranged hedges for fixed-rate loan groups. The objective was to mitigate the interest rate risk associated with these groups, stabilising their balance sheet value by converting them to variable rates.

Following the acquisition of Barclays SAU fair value micro-hedges and cash flow hedges were included on the balance sheet. The fair value hedges were arranged to cover basis risk between part of the Entity's loan portfolio and market rates. Cash flow hedges were taken out to cover the risk of fixing interest rates on part of the Entity's loan portfolio indexed to a variable rate for a certain number of years.

1.2.6.2 Currency risk in the banking book

Specifically, the Executive Finance Division is responsible for managing the foreign currency risk arising from balance sheet positions denominated in foreign currency, a task performed through the market risk hedging activity undertaken by the Treasury Area. This risk is managed by applying the principle of minimising the assumed currency risks, which explains why the exposure of the CaixaBank Group to this risk is low or virtually nil.

Also as a result of the active management of currency risk by the Treasury Area, the remaining minor foreign currency positions are primarily held with credit institutions in major currencies (e.g. US dollar, pound sterling or Swiss franc), quantified by employing common methodologies in conjunction with the risk measurements implemented for treasury activities as a whole.

At 31 December 2015, the CaixaBank Group had positions in Hong Kong dollars from its stake in The Bank of East Asia, Ltd. and in Mexican pesos from its stake in Grupo Financiero Inbursa.

1.2.7 Liquidity risk[16]

1. Definition and general policy

CaixaBank manages liquidity to maintain sufficient levels so that it can comfortably meet all its payment obligations on time and to prevent its investment activities from being affected by a lack of lendable funds, at all times within the Risk Appetite Framework (RAF).

Formalising and updating the Risk Appetite Framework (RAF) presented to the governing bodies delimits the liquidity risk metrics defined for CaixaBank, validating that they are commensurate with the established risk tolerance levels. The risk strategy and appetite for liquidity and financing are set out through:

a) Identification of significant liquidity risks for the institution;
b) The formulation of the strategic principles the Group must observe in managing each of these risks;
c) The definition of significant metrics for each risk;
d) Setting appetite, alert, tolerance and, as the case may be, stress levels within the Risk Appetite Framework (RAF);
e) The establishment of management and control procedures for each of these risks, including systematic internal and external reporting mechanisms;
f) The definition of a stress testing framework and a Liquidity Contingency Plan to ensure management of liquidity risk in situations of moderate and serious crisis;
g) And a Recovery Planning framework, in which scenarios and measures are devised for stress conditions.

The liquidity strategy can be summarised as:

a) General liquidity strategy: maintenance of liquidity levels within the Risk Appetite Framework to ensure payment obligations can be met comfortably on time, without harming investment activity owing to a lack of lendable funds.
b) Specific strategy:
    - Management of intraday liquidity risk
    - Management of short-term liquidity risk
c) Management of funding sources
d) Management of liquid assets

[16] See Note 3.4.3 to the CaixaBank Group's 2015 financial statements for more information.

e) Management of collateralised assets
f) The strategy for managing liquidity risk in crisis situations has three objectives:
g) Early detection of a possible liquidity crisis;
h) Minimisation of negative impact on the initial liquidity position in a crisis situation;
i) Liquidity management focused on overcoming a potential liquidity crisis.

Two groups of risk appetite indicators have been established: five level 1[17] indicators relating to short-term liquidity (position and stress at 30 days), the long-term funding structure (retail and wholesale) and the cost of wholesale funds; and six level 2[18] indicators relating to short-term liquidity (position), balance sheet structure, concentration of wholesale maturities, concentration of liability counterparties, intraday liquidity and asset encumbrance.

To achieve the liquidity management objectives it:

- Has a centralised liquidity management system that includes a segregation of duties to ensure optimum control and monitoring of risks.
- Maintains an efficient level of liquid funds to meet obligations assumed, fund business plans and comply with regulatory requirements.
- Active liquidity management through continuous monitoring of liquid assets and the balance sheet structure.
- Considers sustainability and stability as core principles of its funding sources strategy, based on:
  - A funding structure mainly consisting of customer deposits.
  - Capital market funding complements the funding requirements.

2. Structure and organisation of the risk management function

The Board of Directors is responsible for approving the general risk control and management policy, and for the periodic monitoring of internal information and control systems. The Board of Directors is the Bank's highest risk policy-setting body.

The Board of Directors has allocated to the Risks Committee the functions related to the ongoing monitoring of risk management.

[17] Established by the Board of Directors and reported to it regularly.

[18] Limits delegated by the Board of Directors to Management for monitoring, management and control.

The ALCO is in charge of managing, monitoring and controlling liquidity risk. To do so, it monitors, on a monthly basis, compliance with the Risk Appetite Framework (RAF), the Entity's long-term funding plan, trends in liquidity, expected gaps in the balance sheet structure, and indicators and alerts to anticipate a liquidity crisis so that it can take corrective measures in accordance with the Liquidity Contingency Plan. It also analyses the potential liquidity levels under each of the hypothetical crisis scenarios.

The ALM (Asset and Liability Management) and Financing Division, which reports to CaixaBank's Executive Finance Division, is responsible for analysing and managing liquidity risk, ensuring that liquid assets are permanently available in the balance sheet, i.e. minimising the liquidity risk in the banking book under the guidelines established by the ALCO. The Balance Sheet Analysis and Monitoring Division, which reports to CaixaBank's Executive Finance Division, is responsible for analysing and monitoring liquidity risk. The analysis is performed both under normal market conditions and under extraordinary situations, in which various specific, systemic and combined crisis scenarios are considered, involving different LGD assumptions in terms of reduced liquidity. Five types of scenarios are considered: three systemic crisis scenarios (macro-economic crises, malfunctions on capital markets and alterations in payment systems), a specific crisis scenario (reputation crisis), and a combined crisis scenario deemed to be the "worst-case scenario". The scenarios address various time horizons and LGD levels based on the nature of the crisis analysed. For each crisis scenario, "survival" periods (defined as the ability to continue to meet its obligations) are calculated, with sufficient liquidity levels to cope successfully with the crisis situations considered.

On the basis of the analyses, a Contingency Plan has been drawn up and approved by the Board of Directors, defining an action plan for each of the crisis scenarios (systemic, specific and combined), with the measures to be taken on the commercial, institutional and disclosure level to deal with this kind of situation, including the possibility of using a number of stand-by reserves or extraordinary sources of finance.

Available liquid assets are under the operational control of the liquidity management function, which is the responsibility of the ALM area. These liquid assets include those managed by ALM, as the area responsible for managing balance sheet portfolios, and those managed by Markets, as the area responsible for investment in fixed income portfolios, deriving from market making and trading activities.

In the event of a situation of stress, the liquid asset buffer will be managed with the sole objective of minimising liquidity risk.

The ALM and Markets units report hierarchically to the Executive Financial Division.

3. Risk management. Measurement and information systems

Static measurement of the liquidity position, dynamic measurements of liquidity projections and stress liquidity exercises in different scenarios are carried out to measure, monitor and control liquidity risk. In addition, static and dynamic comparisons of the funding structure are performed and regulatory ratios are calculated (LCR, NSFR and Encumbered Assets)

Static measurements of liquidity are made on a daily basis, including certain Risk Appetite Framework (RAF) metrics. Monthly liquidity projections are carried out, including the most relevant Risk Appetite Framework metrics, together with two stress exercises (internal approach and LCR-based model). Annual liquidity exercises are carried out for the Recovery Plan and Capital Adequacy Assessment Process (ICAAP)

4. Hedging policies and mitigation techniques

Liquidity risk is mitigated with positions in liquid assets that can be used at the time of the contingency or liquidity risk and with available lines of finance.

Management strategies have been defined at the liquid asset level that highlight the existence of sufficient liquidity reserves. These include: discounting capacity with central banks for use in adverse situations; continuous monitoring of available liquid assets, restricting their definition to those considered available and monetisable at any time; and the monetisation of liquid assets through permanent open repo arrangements or outright sales. This liquid asset strategy is complemented and quantified by certain Risk Appetite Framework (RAF) metrics.

In terms of open lines of finance, we use market access strategies and policies based mainly on a stable funding base of customer deposits, pursuing customer loyalty to secure stable balances and active management of wholesale funding, in order to diversify instruments, investors and maturities and complement retail funding. The Risk Appetite Framework (RAF) includes metrics to measure these strategies.

These open lines of finance are complemented by a range of measures to raise liquidity under the stress scenarios (specific, systemic and combined crisis) defined in the contingency plan, which describes aspects relating to their execution, recourse limits, viability and so on.

5. Composition of liquid assets and the Liquidity Coverage Ratio (LCR)

The table below details the composition of the liquid assets of the CaixaBank Group at 31 December 2015 and 2014, under the criteria established for determining highly liquid assets for the purposes of the Liquidity Coverage Ratio (LCR):

Table 5. Liquid Assets

Millions of euros

	31.12.14		31.12.15	
	Market value	Applicable weighted amount	Market value	Applicable weighted amount
Level 1 Assets	37,452	37,452	39,653	39,653
Level 2A Assets	17	14	78	66
Level 2B Assets	5,417	3,044	3,779	2,030
Total (*)	**42,885**	**40,509**	**43,510**	**41,749**

(*) Criteria established to determine the LCR

Banking liquidity, as shown by cash, the net balance of interbank deposits, public debt net of repos and not covered by a policy, and the balance that can be drawn on the credit facility with the ECB, amounted to EUR 54,090 million and EUR 56,665 million at 31 December 2015 and 2014, respectively.

On 1 October 2015, compliance with the LCR ratio came into effect. This involves maintaining an adequate level of high-quality assets available to meet liquidity needs over a time horizon of 30 days under a stress scenario involving a combined financial system and name crisis. The regulatory limit established is: 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017; and 100% from 1 January 2018.

CaixaBank has established a risk appetite and financial target in its current Strategic Plan of maintaining an LCR ratio in excess of 130%. The figures for this ratio are:

Table 6. Liquidity coverage ratio (LCR)

Millions of euros

	31.12.14	31.12.15
High quality liquid assets (numerator)	40,509	41,749
Total net cash outflows (denominator)	23,122	24,254
Cash outflows	26,438	28,294
Cash inflows	3,316	4,040
LCR (%) (*)	**175%**	**172%**

(*)According to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions.

1.2.8 Reputational risk

1. Definition and general policy

Reputational risk refers to the possibility that the competitive edge could be reduced due to the loss of trust in CaixaBank by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or governing bodies.

2. Structure and organisation of the risk management function

All employees and areas share responsibility for reputational risk at CaixaBank and, therefore, they are involved in identifying the reputational risks that threaten the Entity.

There is also a specific area and body whose functions include coordinating and monitoring the entity's reputation and any risks that might undermine this:

- The **Corporate Social Responsibility and Reputation Area** is in charge of monitoring and reporting to the Corporate Social Responsibility and Reputation Committee on risks that could negatively affect the Entity's reputation if they materialise.
- The **Corporate Social Responsibility and Reputation Committee** was overhauled in 2015 to adapt to the recommendations of the new Good Governance Code for Listed Companies. It is charged by the Management Committee, among others, with implementing general policies to manage the entity's reputation and achieve maximum effectiveness by coordinating initiatives and proposing measures relating to reputation. The Committee meets at least 3 times a year.

3. Risk management. Measurement and information systems

To establish reputational risk mitigation policies, reputational risk must first be measured, both in relation to the main sources of risk and to trends in the Entity's reputation levels over time.

The Reputational Risk Map is one of the main tools for managing and mitigating risks that might impact CaixaBank's reputation.

This Map enables us to:

- Identify the risks that could affect its reputation and classify them.
- Rank risks by criticality according to their damage to the entity's reputation and the coverage of preventative policies.
- Identify key performance indicators (KPIs) to allow for proactive management with a view to establishing additional management, action and communication policies.

The process for obtaining these indicators is decentralised and is the responsibility of different areas: CaixaBank's Corporate Social Responsibility and Reputation Committee receives regular presentations on these indicators.

CaixaBank's reputation is measured using a scorecard featuring a range of reputational indicators relating to the entity (both internal and external). This includes CaixaBank's stakeholders and key reputational values, which are given a weighting based on their importance to the entity. The scorecard forms the basis for CaixaBank's six-monthly Global Reputation Index, which measures its reputation over time and against its peers. CaixaBank's Corporate Social Responsibility and Reputation Committee receives regular presentations on the reputation scorecard.

CaixaBank has a range of tools and initiatives for measuring its reputation with its stakeholders:

- Customers: Monthly surveys, follow-up of complaints, suggestions and claims through a number of two-way channels set up for this purpose.
- Employees: Biannual survey of the Entity's employees to assess their level of satisfaction and receive suggestions for improvement, which supplement the employee's regular satisfaction surveys.

- Shareholders: Annual survey to ascertain shareholders' level of satisfaction and expectations regarding the Entity's various services and actions. Other two-way communication channels: the Barcelona Shareholder Office, the Shareholder Service and the CaixaBank Shareholder Advisory Committee.

Other external sources for CaixaBank's reputation include:

- Ad hoc reports on the entity on the Internet and in the media.
- Results published in various reputation monitors and rankings drafted by independent experts, both Spanish and international.
- Membership of sustainability indices or rankings on the performance of CaixaBank's activities in various areas (economic, corporate governance, social, environmental, etc.).

4. Hedging policies and mitigation techniques

One of the Social Corporate Responsibility and Reputation Committee's main tools for mitigating reputational risk is the Reputational Risk Map, which considers the hedging policies established by the various risk areas.

In 2015 CaixaBank approved its Corporate Social Responsibility Policy following its adoption of the new Good Governance Code for Listed Companies. This Policy provides a framework for CaixaBank's relations with, and main commitment to, its stakeholders.

1.2.9 Actuarial risk and risk relating to the insurance business

1. Definition and general policy

The main risks in the insurance business are managed by CaixaBank's insurance subsidiaries, basically VidaCaixa S.A., de Seguros y Reaseguros. The main risks of the investee SegurCaixa Adeslas, S.A. are also monitored. The insurance business is exposed to subscription and actuarial risk.

Actuarial risk is defined as the risk of an increase in the value of commitments assumed through insurance contracts with customers and employee pension plans due to differences between the claims estimates and actual performance. According to the EC Solvency II Directive, it reflects the risk relating to underwriting life and non-life insurance contracts, attending to claims covered and the processes deployed in the exercise of this activity, with the following breakdown.

- Mortality risk: Risk of loss or adverse changes in the value of liabilities under insurance contracts, due to variations in the level, trend or volatility of mortality rates, provided that an increase in the mortality rate generates an increase in liabilities under insurance contracts.
- Longevity risk: Risk of loss or adverse change in the value of liabilities under insurance contracts, due to variations in the level, trend or volatility of mortality rates, provided that a decrease in the mortality rate generates an increase in liabilities under insurance contracts.
- Disability or morbidity risk: Risk of loss or adverse change in the value of liabilities under insurance contracts due to variations in the level, trend or volatility of disability, illness or morbidity rates.

Therefore, in the life insurance business, the main variables determining actuarial risk are mortality, survival and disability rates while the key variable in the other business lines is the claims rate.

Management of actuarial risk is based on compliance with the regulations established by the DGIPF, from which policies are established, and monitoring of the technical trends of products, which depend mainly on actuarial factors (basically deaths). This stable, long-term management is reflected in our actuarial risk management policies.

These policies were updated in 2015 in line with the Group's plan to adapt to Solvency II requirements, as follows:

- Subscription and reserves: the parameters used in accepting risks, and their management and pricing, and the valuation and constitution of reserves, were identified for policies constituted under the subscription process for each business line. The general operating procedures used for subscription and the constitution of reserves were also identified.
- Reinsurance: The level of risk transfer is identified, considering the risk profile of direct insurance contracts, and the type, suitability and operation of reinsurance agreements.

2. Structure and organisation of the risk management function

Risk management is one of the four functions identified as being fundamental under Solvency II regulations. Under these regulations, the governance system for insurance companies must address four basic functions: risk management, actuarial, compliance and internal audit functions.

The risk management function in VidaCaixa is distributed throughout the organisation, falling on the organisational areas responsible for measurement, management and control of each of the main risk areas, and the coordination and aggregation of the information they generate.

Organisationally, the area of the Insurance Group directly involved in actuarial risk is the Technical-Actuarial Area.

The Entity also has a Risk Control Department in the Economic-Finance Area whose responsibilities include developing the risks function and risk control (in addition to coordinating adaptation to the Solvency II Directive) in cooperation with the rest of the areas involved and described above.

3. Risk management. Measurement and information systems

In addition to monitoring of the technical performance of the aforementioned products, technical provisions are estimated using specific procedures and tools and are quantified and tested for adequacy on an individual policy basis.

Moreover, in line with the Group's Solvency II plan, an Actuarial Function department is being developed, the responsibilities of which include:

- coordinating the calculation of technical provisions.
- assessing whether the methods and assumptions used in calculating technical provisions are adequate.
- assessing whether the IT systems used in calculating technical provisions are suitable for actuarial and statistical purposes.
- giving its opinion on the entity's subscription and reinsurance policy.

4. Technological support

The Insurance Group operates in an environment of highly-mechanised processes and integrated systems. All production operations, irrespective of the channel, are recorded in the systems using the various contracting, benefits management and provision calculation applications (e.g. TAV for individual and ACO or Avanti for group insurance). Investment software (e.g. the GIF application) is used to manage and control the investments backing the company’s insurance activity. All of the applications are accounted for automatically in the accounting support software.

Under the framework of these integrated and automated systems, there are also a number of applications that perform management support duties, including data processing and preparation of reporting and risk management information. In addition, a Solvency and Risk datamart has provided a support tool for compliance with all the requirements of the Solvency II Directive from the application date of 1 January 2016. This datamart brings together the information needed for Solvency II calculations, and prepares the regulated reporting for disclosure to the supervisor and the market.

5. Reports drafted

As indicated previously, technical monitoring of products allows for monitoring and control of the Group’s actuarial risk.

The position and control of the Insurance Group's risks are monitored regularly by VidaCaixa's Management, Investment and Global Risk Committee and CaixaBank's Global Risk Committee and ALCO. This involves calculation and analysis of the sufficiency of technical provisions, analysis of the sufficiency of expenses, and analysis of products and operations.

The reports prepared include:

- The Expense Surcharges Sufficiency Report (Annual - Global Risk Committee).
- The SME Business Monitoring Report (Annual - Global Risk Committee).
- The Collective Risk Policies Results Monitoring Report (Quarterly).
- The Internal Longevity and Mortality Calibration Report (Annual – Global Risk Committee).
- The Internal CaixaBank Model Calibration Report (Annual – Global Risk Committee).
- The Invalidity Claims Monitoring Report (Six monthly – Management Committee).
- Actuarial Risk Report (Annual – Global Risk Committee).

6. Solvency II

Directive 2009/138/CE, of the European Parliament and of the Council, of 25 November 2009, on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), came into effect on 1 January 2016. This Directive is complemented by Directive 2014/51/EU, of the European Parliament and of the Council, of 16 April 2014 (also known as Omnibus).

The Directive was transposed into Spanish law through Act 20/2015, of 14 July, on the structure, supervision and solvency of insurance and reinsurance entities (LOSSEAR), and Royal Decree 1060/2015, of 20 November (ROSSEAR).

The Solvency II Directive was developed through Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, completing the Solvency II Directive, which is directly applicable.

The Solvency Directive is also completed by two types of regulations: technical standards approved by the European Commission (ITS), which are directly applicable, and the EIOPA guidelines. Through a resolution of 18 December 2015, the General Directorate of Insurance and Pension Funds adopted the recommendations set out in the EIOPA guidelines.

Following the timetable for gradual adoption of Solvency II, in 2015 the insurance group completed the adaptation process, being in a position to comply with the new regulations from 1 January 2016. The most noteworthy milestones in 2015 were:

- delivery of the preparatory annual and quarterly QRTs (Quantitative Reporting Templates) to the supervisor
- preparation of the preparatory risk and solvency self assessment (ORSA) report, analysing and detailing the solvency position, comparing own funds to the capital required, and projecting these over a 3 year horizon. This report is approved by the Global Risk Committee and the Board of Directors of VidaCaixa, and sent to DGSFP. It is also submitted to CaixaBank's Global Risk Committees.
- approval by the Global Risk Committee and the VidaCaixa Board of Directors of the corporate policies required under Solvency II. These policies are submitted to CaixaBank's Global Risk Committee.
- reporting of compliance with a range of metrics under the VidaCaixa Risk Appetite Framework (RAF), limiting capital consumption for actuarial, credit and market risk to a percentage of the best estimate of provisions.

The future updating programme for the insurance Group is based on compliance with new regulatory requirements under Solvency II, particularly ORSA 2016 and reporting of the first QRTs (the new reporting format for supervision, statistical and accounting purposes established at the European level).

The insurance Group has obtained DGSFP authorization to use the partial internal model for calculating SCR for longevity and mortality risks, enabling improved management of actuarial risk under Solvency II.

The Group plans to continue improving its internal risk control and management systems in order to extend the control culture and environment to the entire organisation, while maintaining coordination and alignment at the CaixaBank Group level at all times.

7. Hedging policies and mitigation techniques

Insurance companies assume risk towards policyholders and mitigate these risks by taking out insurance with reinsurance companies. By doing so, an insurance company can reduce risk, stabilise solvency levels, use available capital more efficiently and expand its underwriting capacity. However, regardless of the reinsurance taken out, the insurance company is contractually liable for the settlement of all claims with policyholders.

The Insurance Group's reinsurance programme lists the procedures that must be followed to implement the established reinsurance policy. These include:

- Disclosure of the types of reinsurance to be contracted, the terms and conditions of the policy, and aggregate exposure by type of business.
- Definition of the amount and type of insurance to be automatically covered by the reinsurance contract, e.g. mandatory reinsurance contracts.
- Procedures for acquiring facultative reinsurance.

In this respect, the Insurance Group has established limits on the net risk retained per business line, by risk or event (or a combination of both). These limits are set in accordance with the risk profile and reinsurance cost.

The internal control systems ensure that all underwriting is carried out pursuant to the reinsurance policy and that the planned reinsurance cover is appropriate, identifying and reporting any breach of the established limits by the underwriters, in addition to any failure to comply with the instructions provided or if risks are taken on that surpass the entity's capital levels or reinsurance coverage.

Handling claims and ensuring the adequacy of the provisions are basic principles of insurance management. The definition and follow-up of the aforementioned policies enables them to be changed, if required, to adapt risks to the Insurance Group's global strategy. As previously mentioned, these policies have been approved by the Global Risk Committee and the VidaCaixa Board of Directors, and submitted to the CaixaBank Global Risk Committee.

1.2.10 Legal and regulatory risk

1. Definition and general policy

Legal and regulatory risk is defined as the possibility of experiencing losses or reduced profitability in the CaixaBank Group, as a result of changes to the regulatory framework or court rulings that are unfavourable to the bank. This includes two risks: (i) risks deriving from changes to the general legal framework or to specific sector regulations (banking, insurance, and asset management) that cause a loss or decrease in the Group's profitability; and (ii) risks of legal claims by public administrations, customers, investors, suppliers or employees alleging non-compliance or illegal actions, violation of contractual clauses, or a lack of transparency in the products marketed by the Group.

2. Structure and organisation of the risk management function

To manage this risk, CaixaBank, S.A.'s Legal Advisory area, through the Regulation Division, and the Corporate Legal, Business Legal, Disputes Advisory and Tax Advisory Departments, monitors and analyses regulations, as well as adaptation to regulations and the risks identified, in defence of the entity in all legal proceedings.

3. Risk management. Measurement and information systems

The Regulation Division, belonging to the Legal Advisory Area, is tasked with continuously monitoring regulatory changes, handling regulatory alerts and establishing positions in coordination with the different areas. This coordination is carried out through the Regulation Committee, which reports to the Management Committee. This committee is chaired by the Executive Research and Strategic Planning Manager and its members include the Chief Executive, the General Secretary, the Chief Risk Officer, the Chief Insurance and Asset Management Officer, the Chief Business Officer, the Head of Finance, the Head of Financial Accounting, Control and Capital, the Head of Legal Advisory and the Corporate Banking Stakes Manager.

The Regulation Committee is responsible for tracking the regulatory environment, analysing its impacts, establishing strategic positions in respect of impending or proposed law or regulations and determining the main features of the strategy to be followed in response to these changes, including overseeing the defence of the Entity's interests. The ultimate purpose is to stay one step ahead of regulatory changes and make the CaixaBank Group more flexible and ready to adapt to new regulatory requirements.

In conjunction with the areas affected, Legal Advisory prepares and coordinates regulatory impact analyses of new approved and applicable regulations by identifying and systematising new regulatory requirements and their impact on processes, documentation and internal rules. They also promote and coordinate the process of drafting and reviewing contracts, standards, and internal procedures and policies that mainstream applicable regulations into internal documentation.

The Corporate Legal Advisory, Business Legal Advisory and Tax Advisory areas participate in implementing the new regulations by determining interpretation criteria and establishing procedures to adequately manage regulatory risks in respect of securities markets (e.g. issuances of securities, rules of conduct, market abuse), transparency in banking and collective investment schemes, anti-money laundering and counter terrorist financing, and data protection, among others.

The processes for implementing and adapting to regulations regarding the marketing of financial instruments, and banking, savings insurance and investment products are submitted to the Transparency Committee, as the most senior decision-making body for all transparency-related aspects of these products.

The Tax Advisory Department is responsible for coordinating tax risk management systems in compliance with applicable fiscal obligations, and ensuring that these are continually aligned with the regulatory and technology environment.

The Disputes Advisory Department is the last line of defence for legal and regulatory risk. It is the source of knowledge for issues involving commercial practices and products, and the interpretation, application and execution of the regulations assigned to the jurisdictional function. It provides regular information to various areas and regularly certifies processes for legal risks.

Legal Advisory is also responsible for managing official customer complaints channels (the Customer Service Centre, Customer Ombudsman, Bank of Spain and CNMV) and the entity's position and arguments, unifying criteria and fostering appropriate rectifications to the benefit of the customer. It identifies and promotes improvements in policies, procedures and documentation by analysing complaints and, in particular, reports issued by supervisory complaints services.

Therefore, in addition to detailed analysis of the regulation and its impact, this system also ensures that the interpretation and application of the regulations is always based on criteria of prudence. To this end, it meticulously monitors developments in Spanish and EU case law, the recommendations of supervisors and regulators and, in the tax area, General Directorate of Tax (DGT, for the Spanish acronym) queries.

Based on the analysis carried out, controls are established with a specific frequency and organisation for execution and oversight by other areas in the Entity, in particular, Regulatory Compliance and/or Internal Control/Internal Audit.

1.2.11 Compliance risk

Compliance risk is defined as risk arising from deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory frameworks or with the internal codes and rules, and which could result in administrative sanctions or reputation damage.

The CaixaBank Group's objective is to minimise the probability of occurrence of regulatory compliance risk and, if it occurs, to detect, report and address the weaknesses promptly.

Management of regulatory compliance risk is not limited to any specific area, but rather the entire Entity. All employees must ensure compliance with prevailing regulations, applying procedures to incorporate regulations into their activity.

In order to manage compliance risk, the Entity's management and governing bodies encourage the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics: all members of management and the governing bodies and other employees and executives must ensure their compliance as a core criterion in all of their day-to-day activities. Therefore, as the first line of defence, areas whose business is subject to compliance risk implement and manage a first level of indicators and controls to detect potential sources of risk and act effectively to mitigate them. As a second line of defence, the

Regulatory Compliance Area[19] reviews internal procedures to verify that they are up-to-date and, as appropriate, to identify situations of risk, in which case it calls upon the affected areas to develop and implement the improvement actions necessary.

1.2.12 Capital adequacy

As stated in the Risk Appetite Framework, the CaixaBank Group has set an objective of maintaining a medium-low risk profile and a comfortable level of capital to strengthen its position as one of the healthiest entities in the European banking market.

Capital adequacy to cover eventual unexpected losses is measured from two different perspectives and using different methodologies: regulatory capital and economic capital.

In general, the banking sector mainly uses regulatory capital (increasingly during the financial crisis of the past few years) as this is the metric required by regulators and that which investors and analysts can use to compare financial entities. However, the CaixaBank Group has developed and uses economic capital as an additional benchmark, as it provides a more accurate view of its risk aggregation and diversification policy.

[19] See Note 3, "Regulatory Compliance", to the CaixaBank Group's 2015 financial statements for more information.

2. Information concerning eligible capital

2.1. Capital management

One of CaixaBank's objectives is to keep a comfortable level of capital in accordance with the risk profile assumed in order to strengthen its position as one of the soundest entities in the European banking market.

With that target in mind, the Board of Directors determines the Group's risk and capital policy. The Management Committee oversees management at the highest level, in accordance with the strategies set by the Board.

The Financial Accounting, Control and Capital Division is entrusted with monitoring and controlling the bank's own funds.

Capital is managed so as to ensure compliance with both regulatory requirements and the Entity's internal capital targets at all times.

Active capital management is one of the five strategic lines for the 2015-2018 period. One of the pillars of the entity's financial strength is maintaining a high solvency level, exceeding 11% in terms of the fully loaded Common Equity Tier 1 (CET1) ratio. This is supported and complemented by active capital management that optimises its application. In line with the Strategic Plan, over the first half of 2016 the proportion of capital allocated to the investee business is expected to decrease significantly - to less than 10% - through the swap of holdings in Grupo Financiero Inbursa and The Bank of East Asia with Criteria, in return for treasury shares and cash.

2.2. Eligible own funds

The balance sheet items comprising eligible own funds are known as Total Capital. This is the sum of Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital.

Details of CaixaBank's eligible own funds at 31 December 2015, as set out in Annex VI of Commission Implementing Regulation (EU) 1423/2013, are provided in Appendix I of this document.

Table 7. Eligible own funds

Millions of euros

	Regulatory		Fully loaded	
	31.12.15	31.12.14	31.12.15	31.12.14
CET1 Instruments	**23,984**	**23,267**	**24,813**	**24,922**
Shareholders' equity	23,689	23,373	23,689	23,373
Capital	5,824	5,715	5,824	5,715
Profit	814	620	814	620
Reserves and others	17,050	17,038	17,050	17,038
Minority interests and unrealised gains/losses	1,499	1,843	1,499	1,843
Adjustments of comput. of minority int. and unrealised g/l	(917)	(1,645)	(88)	10
Other adjustments [1]	(287)	(304)	(287)	(304)
Deductions from CET1	**(5,499)**	**(5,173)**	**(8,233)**	**(8,254)**
Intangible assets	(4,905)	(4,880)	(4,905)	(4,880)
Financial investments	(238)	(131)	(1,038)	(830)
Deferred tax assets	(211)	0	(2,145)	(2,307)
Other CET1 deductions	(145)	(162)	(145)	(238)
CET1	**18,485**	**18,095**	**16,580**	**16,668**
TIER1	**18,485**	**18,095**	**16,580**	**16,668**
Tier 2 instruments	**4,444**	**4,517**	**4,444**	**4,517**
Financing of subordinated issues	4,147	4,197	4,147	4,197
Generic provisions and exces provisions IRB	297	321	297	321
Tier 2 deductions	**(102)**	**(162)**	**(588)**	**0**
TIER 2	**4,342**	**4,355**	**3,856**	**4,517**
TOTAL CAPITAL	**22,827**	**22,450**	**20,436**	**21,185**
CET1 ratio	12.90%	12.95%	11.55%	12.11%
Tier 1 ratio	12.90%	12.95%	11.55%	12.11%
Total capital ratio	15.93%	16.07%	14.23%	15.39%
Risk-Weighted Assets	**143,312**	**139,729**	**143,575**	**137,643**

1. Mainly 2015 dividends to be paid to Shareholders

CET1 comprises the higher quality items of own funds, after applying the prudential filters established in the regulations, pursuant to the transitory provisions. CET1 deductions, after applying the regulatory limits and considering the gradual phase-in of the regulations, are then made.

In addition to the EUR 23,689 million of eligible own funds in 2015, EUR 18 million in non-controlling interests and EUR 1,481 million in valuation adjustments are added. As the non-controlling interests of the CaixaBank Group do not relate to banking subsidiaries, these must be gradually excluded from the calculation of CET1, applying the limits established. Likewise, valuation adjustments can only be calculated by the phase-in percentage applicable in the year of application. Valuation adjustments for public debt are included in full in the fully-loaded ratio, whilst the prudential filter dictated by the Bank of Spain prior to entry into force of Basel III is applied for the regulatory ratio. Lastly, CET1 is reduced to reflect other elements, primarily the forecast cash dividends to be charged against the year in question.

At 31 December 2015, CET1-eligible instruments amount to EUR 23,984 million for regulatory purposes (EUR 716 million more than in 2014).

Additional Tier 1 capital (AT1) comprises issues of hybrid instruments less AT1 deductions. At 31 December 2015, CaixaBank's AT1 was nil, as it does not have any issues of this type. AT1 deductions are transferred to CET1, as there are no AT1 instruments to absorb them.

In regulatory CET1 capital, deductions for intangible assets stood at EUR 4,905 million, of which EUR 2,959 million is for on-balance sheet intangible assets and EUR 1,946 million is for goodwill of investees, net of impairment. It also includes EUR 211 million in deductions corresponding to the applicable percentage of tax assets not originated from temporary differences net of assignable tax assets, and EUR 238 million for the portion of financial investments in excess of the regulatory limits. At the reference data for the regulatory calculation, there are no tax assets from temporary differences in excess of the regulatory limits. Of the remaining deductions, EUR 100 million related to the expected loss on the equities portfolio.

In conclusion, regulatory CET1 stood at EUR 18,485 million (EUR 390 million more than in 2014), placing the CET1 regulatory ratio at 12.90% (11.55% on a fully loaded basis).

It should be noted that regulatory CET1 in 2015 was impacted by the generation of retained income, and by the increase in deductions resulting from the gradual application of the Basel III implementation schedule. The main factor influencing the CET1 ratio was the integration of risk-weighted assets from Barclays Bank in the first quarter of 2015.

Table 8. Variation in regulatory capital

Millions of euros		
CET1 12/31/2014	18,095	12.95%
Profit	814	
Dividend	(485)	
Reserves	9	
Unrealised gains and losses & others	378	
CET1 Instruments	**717**	
Intangible assets	(26)	
Financial investments	(107)	
Deferred tax assets	(211)	
Other CET1 deductions	17	
Deductions from CET1	**(327)**	
CET1 12/31/2015	18,485	12.90%

Tier 2 components include subordinated loans and the amount above the threshold of loan loss provisions for portfolios assessed using the IRB approach. Also deducted is the amount above the threshold of holdings in financial sector entities, as well as expected loss amounts from the equity portfolio and other lesser deductions for the CaixaBank Group, according to the schedule for application during the transitional period.

CaixaBank had 10 subordinated debt issues at 31 December 2015 for an eligible amount of EUR 4,147 million, considering the loss of eligibility according to the regulatory schedule. The detail of these issues is provided in Appendix II of this document, as set out in Annex III of Commission Implementing Regulation (EU) 1423/2013.

2.3. Capital buffers

As a result of the Supervisory Review and Evaluation Process (SREP), each year the European Central Bank (ECB) decides on the minimum capital requirements applicable to each entity. These requirements comprise the sum of the minimum common level for all entities ("Pillar I", as per article 92 CRR) and a specific minimum level ("Pillar II", as per article 104 CRD IV).

In addition to the Pillar I and Pillar II requirements, the CRD envisages other CET1 capital requirements, also known as "capital buffers". Together, these form the combined buffer requirement (CBR). Although the Entity comes in above Pillar I + Pillar II CET1 requirements, if it should fall below the Pillar I + Pillar II + CBR requirement, the regulation calls for restrictions on the distribution of dividends, variable remuneration and interest to holders of AT1 instruments.

At 31 December 2015, the CaixaBank Group was not subject to any capital buffer envisaged in the regulation (capital conservation, countercyclical capital and systemic risk buffers). The current transposition of the CRD IV Directive into Spanish legislation stipulates that these buffers apply progressively as of 2016, over a four-year period.

In late 2015, the CaixaBank Group received the ECB's annual capital decision, requiring the entity to maintain a regulatory CET1 ratio of 9.25%, which includes the common minimum required under Pillar I (4.5%) as well as an additional 4.75%, which groups together the specific Pillar II requirements and the capital conservation buffer applicable at the time. In addition, the 2.5% conservation buffer will mean a 0.625% surcharge from January 2016.

The CaixaBank Group has also received the Bank of Spain's decision on the capital buffer required due its status as an Other Systemically Important Institution (O-SII) from 1 January 2016 (0.25% to be phased in over a period of 4 years, to 2019).

Together, these decisions require the CaixaBank Group to maintain a minimum CET1 ratio of 9.25% in 2015 and of 9.3125% in 2016. Compared to the current CET1 ratio levels, this requirement shows that the requirements applicable to the CaixaBank Group will not entail any limitation whatsoever of the types referred to in the solvency regulations.

The following table reflects capital requirements over the coming years as per the prevailing ECB and Bank of Spain capital and buffer regulations.

Table 9. Regulatory capital requirements and buffers

	CET1 regulatory					CET1 fully loaded
	2015	2016	2017	2018	2019	2024
Pillar I	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Pillar II	4.75%	4.13%	3.50%	2.88%	2.25%	2.25%
Pillar I + Pillar II	**9.25%**	**8.63%**	**8.00%**	**7.38%**	**6.75%**	**6.75%**
Conservation buffer [1]	0.00%	0.63%	1.25%	1.88%	2.50%	2.50%
SREP decision	**9.25%**	**9.25%**	**9.25%**	**9.25%**	**9.25%**	**9.25%**
Systemic buffer [2]	0.00%	0.06%	0.13%	0.19%	0.25%	0.25%
CBR Level	**0.00%**	**0.69%**	**1.38%**	**2.06%**	**2.75%**	**2.75%**
Pillar I + II + CBR	**9.25%**	**9.3125%**	**9.375%**	**9.4375%**	**9.50%**	**9.50%**

1. Conservation buffer of 2.5% phased- in 4 years starting from January 2016

2. Other Systemic Importance Institution (OSII), CaixaBank is required to hold a buffer of 0.25% in 4 years starting from January 2016

2.4. Leverage Ratio

The Basel III framework introduces the leverage ratio as a risk-based complementary measure for capital requirements. Although disclosure is required as from January 2015, the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar I minimum capital requirement treatment as from January 2018.

The leverage ratio is established as a non-risk sensitive measure, to be used to limit excessive balance sheet growth in respect of available capital. This ratio is calculated by dividing Tier 1 (CET1 + AT1) by an exposure measure (based on total assets less Tier 1 deductions and including, among others, contingent commitments and risks weighted in accordance with applicable regulations and the net value of derivatives (plus an add-on factor for potential future exposure and other related adjustments).

At 31 December 2015, the CaixaBank Group's regulatory leverage ratio was 5.75% (5.20% fully loaded), comfortably above the Basel Committee's proposed initial regulatory minimum, pending review.

Table 10. Leverage ratio

Millions of euros

	Regulatory	Fully Loaded
Tier 1	**18,485**	**16,580**
Total assets under regulatory scope of consolidation	318,302	318,302
Tier 1 deductions adjustments	(5,499)	(8,233)
Other adjustments	8,701	8,701
Exposure Leverage Ratio	**321,504**	**318,770**
Leverage Ratio	**5.75%**	**5.20%**

(*) Includes off-balance sheet items, derivatives and SFTs.

Appendix III to this document includes the obligatory disclosures established in the Basel Committee on Banking Supervision document (Basel III leverage ratio framework and disclosure requirements) and in the European Banking Authority document on leverage ratio disclosure, pursuant to article 451 (2) of the CRR.

2.5. Indicators of global systemic importance

In the first half of 2015, the Criteria Group, included in the scope of prudential supervision at 31 December 2015, took part in the exercise organised by the Basel Committee on Banking Supervision's Macroprudential Supervision Group to assess the systemic importance of banks in a global context. The Criteria Group's mains indicators at 31 December 2014 are posted on the Entity's website.

3. Information concerning eligible own fund requirements

The quantitative information in this document meets a significant proportion of the requirements of the Basel Committee on Banking Supervision (BCBS)'s January 2015 “Revised Pillar 3 Disclosure Requirements”. Although these requirements apply to the 2016 prudential relevance report, the CaixaBank Group considers it appropriate to anticipate some relevant aspects thereof.

In line with these efforts to increase transparency for the market, CaixaBank has made a selection of the main tables requested by the BCBS available to investors and analysts ahead of schedule. These were published on the CaixaBank website on 29 February (in Microsoft Excel format). This information will be quarterly. This section sets out the exposures and risk-weighted assets of the CaixaBank Group at 31 December 2015 for each type of risk. The eligible own funds requirements is the result of multiplying risk-weighted assets by 8%.

Table 11. Risk-weighted assets (RWA) and Capital Requirements by risk type (OV1).

Millions of euros

		RWA		Regulatory Capital
		2014	2015	2015
1+4	**Credit risk (including counterparty credit risk) (CCR)**	**107,700**	**111,258**	**8,901**
2+5	Standardised approach (SA)	34,030	37,102	2,968
	Monetizable Deferred Tax Assets (DTA)	*4,721*	*5,586*	447
3+6	Internal rating-based (IRB) approach	67,744	67,518	5,401
	CR + CCR IRB	*53,420*	*53,381*	*4,271*
	Equity IRB - PD/LGD approach	*14,324*	*14,136*	*1,131*
	Credit Value Adjustment (CVA) risk	1,205	1,052	84
7	**Equity positions in banking book under market-based approach**	**9,549**	**9,006**	**721**
	Simple risk-weight approach	9,184	8,756	701
	Internal Model approach	365	250	20
8	**Equity investments in funds – look-through approach**	**0**	**0**	**0**
9	**Equity investments in funds – mandate-based approach**	**0**	**0**	**0**
10	**Equity investments in funds – fall-back approach**	**0**	**0**	**0**
11	**Settlement risk**	**0**	**0**	**0**
12	**Securitisation exposures in banking book**	**243**	**63**	**5**
13	IRB ratings-based approach (RBA)	225	61	5
14	IRB Supervisory Formula Approach (SFA)	0	0	0
15	SA/simplified supervisory formula approach (SSFA)	17	2	0
16	**Market risk**	**3,847**	**4,126**	**330**
17	Standardised approach (SA)	1,798	2,057	165
	Negotiable debt securities	0	*0*	*0*
	Equity assets	1	*1*	*0*
	Foreign currencies	1,797	*2,056*	*164*
	Commodities	0	*0*	*0*
18	Internal model approaches (IMM)	2,049	2,069	165
19	**Operational risk**	**11,112**	**11,331**	**906**
20	Basic Indicator Approach	0	0	0
21	Standardised Approach	11,112	11,331	906
22	Advanced Measurement Approach	0	0	0
23	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**7,278**	**7,527**	**602**
24	**Floor adjustment**	**0**	**0**	**0**
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**139,729**	**143,312**	**11,465**

Fuller details on the most relevant categories of capital consumption are detailed in the following pages.

The definitions for the segments detailed in the following tables are consistent with the CRR criteria applied to all of the tables in this document.

3.1 Minimum own funds requirements for credit and counterparty risk

This section provides fuller details of exposures and RWA for credit and counterparty risk. This enables the alignment of this information with that disclosed to the EBA (European Banking Authority) in the CRD IV reports, commonly known as COREP (Common Reporting) statements. Therefore, the original exposures and the exposures after applying the risk mitigation and conversion factors are broken down for enhanced understanding into on-balance sheet and off-balance sheet exposures, and by counterparty risk.

3.1.1 Minimum own funds requirements for credit and counterparty credit risk under the standardised approach

The tables in this section detail:

- original exposure ("Exposure prior to CCF and CRM provisions", including exposure to credit risk both on- and off- the balance sheet, and counterparty risk),
- EAD ("Exposures after CCF and CRM"),
- and Risk-weighted assets (RWA).

The ratio of EAD to APR gives the RWA density ratio. This calculation equates to the average weighting applied to each category of exposure.

The following tables provide details of original exposure, EAD and RWA at December 2015 by category, under the standardised approach.

Table 12. Standardised approach: credit and counterparty risk exposure and effects of mitigation techniques (CR4).

Millions of euros

	Original Exposure			EAD			RWA	%RW
	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk		
Sovereigns and their central banks	23,938	686	14	25,535	349	14	0	0.00%
Non-central government public sector entities	16,300	4,089	215	16,111	239	215	2,153	13.00%
Multilateral development banks	0	0	0	0	0	0	0	0.00%
International organizations	31	0	0	66	0	0	0	0.00%
Institutions	1,461	334	2,283	1,442	116	2,283	901	23.47%
Corporates	15,219	3,993	13,097	12,387	1,319	2,335	14,475	90.24%
Regulatory retail portfolios	4,592	1,947	1	4,365	109	1	2,022	45.18%
Exposures secured by real state	2,024	423	0	1,988	61	0	802	39.15%
Defaulted loans	2,373	125	0	948	3	0	1,113	117.08%
Higher-risk categories	0	0	0	0	0	0	0	0.00%
Covered bonds	674	0	0	674	0	0	103	15.34%
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0	0	0	0	0.00%
Other assets	18,007	0	0	18,007	0	0	15,532	86.25%
Total Standardised approach	**84,618**	**11,596**	**15,609**	**81,523**	**2,196**	**4,848**	**37,102**	**41.89%**

The following table shows exposure guaranteed by real estate assets, broken down into commercial and residential.

Table 13. Standardised approach: exposure guaranteed by real estate assets, by type of collateral.

Millions of euros

	Original Exposure	EAD	RWA	%RW
Secured by commercial real estate	589	561	270	48.12%
Secured by residential property	1,857	1,488	532	35.77%
TOTAL	**2,446**	**2,049**	**802**	**39.15%**

The following table shows the distribution of exposure and risk-weighted assets based on CRR regulatory categories, and the risk weightings applied.

Table 14.1. Standardised approach: Exposure to credit and counterparty risk by asset class and risk weightings (CR5).

Millions of euros

	0%	10%	20%	35%	50%	75%	100%	150%	Otros	EAD
Sovereigns and their central banks	25,898	0	0	0	0	0	0	0	0	25,898
Non-central government public sector entities	14,411	0	1	0	0	0	2,153	0	0	16,565
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organizations	67	0	0	0	0	0	0	0	0	67
Institutions	52	0	3,369	0	329	0	62	0	29	3,841
Corporates	1,339	0	0	0	0	0	14,699	3	0	16,041
Regulatory retail portfolios	1,546	0	0	0	0	2,929	0	0	0	4,475
Exposures secured by real state	0	0	0	1,287	727	1	33	0	0	2,049
Defaulted loans	0	0	0	0	0	0	626	325	0	951
Higher-risk categories	0	0	0	0	0	0	0	0	0	0
Covered bonds	157	0	516	0	0	0	0	0	0	674
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0	0	0	0	0	0	0
Other assets	2,475	0	0	0	0	0	15,532	0	0	18,007
Total Standardised approach	**45,944**	**0**	**3,887**	**1,287**	**1,056**	**2,930**	**33,106**	**328**	**29**	**88,567**

The weighted amount in the following table corresponds to the amount following application of the SME support factor (0.7619), pursuant to article 501 of the CRR

Table 14.2. Standardised approach: Risk-weighted assets by asset class and risk weightings (CR5).

Amounts in millions of euros

	0%	10%	20%	35%	50%	75%	100%	150%	Otros	RWA
Sovereigns and their central banks	0	0	0	0	0	0	0	0	0	0
Non-central government public sector entities	0	0	0	0	0	0	2,153	0	0	2,153
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organizations	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	674	0	164	0	62	0	1	901
Corporates	0	0	0	0	0	0	14,470	4	0	14,475
Regulatory retail portfolios	0	0	0	0	0	2,022	0	0	0	2,022
Exposures secured by real state	0	0	0	428	343	1	31	0	0	802
Defaulted loans	0	0	0	0	0	0	626	487	0	1,113
Higher-risk categories	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	103	0	0	0	0	0	0	103
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	15,532	0	0	15,532
Total Standardised approach	**0**	**0**	**777**	**428**	**507**	**2,022**	**32,874**	**492**	**1**	**37,102**

.

3.1.2 Minimum own funds requirements for credit and counterparty credit risk under the advanced approach (IRB)

As mentioned in the previous section, this includes both credit and counterparty risk. However, the segmentation in this section is different. This segmentation is in line with that required for presenting exposure under the advanced measurement approach (IRB).

The following complementary information is also provided:

1. PD intervals based on the master scales used by the entity. (There are nine master scales for different grades of debtors).
2. Number of debtors.
3. Average maturity in years for each tranche of information presented.
4. Expected Loss (EL).
5. Provisions computed for EL deficit/surplus.

The following table shows original exposure, EAD and RWAs by IRB regulatory portfolio at 31 December 2015.

Table 15. IRB: Exposure to credit and counterparty risk by portfolio.

Millions of euros

	Original Exposure			EAD					
	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	RWA	%RW	EL
Corporates	**40,462**	**21,049**	**615**	**40,462**	**8,102**	**615**	**28,959**	**58.88%**	**4,106**
Corporate exposures	26,056	17,827	532	26,056	6,955	532	22,964	68.46%	2,268
SME	14,406	3,223	84	14,406	1,146	84	5,994	38.34%	1,838
Retail	**127,429**	**32,887**	**17**	**127,429**	**4,215**	**17**	**24,423**	**18.55%**	**3,222**
Retail – Residential mortgage exposures	102,506	22,023	0	102,506	762	0	16,052	15.54%	2,021
SME - Mortgage exposures	13,148	2,260	0	13,148	134	0	3,151	23.72%	744
Retail – qualifying revolving	2,038	6,022	0	2,038	2,000	0	989	24.50%	54
Retail – SME	5,658	2,414	16	5,658	1,241	16	2,544	36.79%	265
Other retail exposures	4,079	168	1	4,079	78	1	1,687	40.56%	137
IRB – Credit risk	**167,892**	**53,937**	**633**	**167,892**	**12,316**	**633**	**53,381**	**29.52%**	**7,328**
Equity	**8,162**	**0**	**0**	**8,162**	**0**	**0**	**14,136**	**173.20%**	**44**
Total Internal rating-based (IRB) approach	**176,054**	**53,937**	**633**	**176,054**	**12,316**	**633**	**67,518**	**35.72%**	**7,372**

With regard to the previous table, the volume of provisions that covers the EUR 7,328 million of Expected Loss on the IRB portfolio (excluding the equity portfolio) amounted to EUR 7,625 million at 31 December 2015, with a surplus of EUR 297 million. This surplus is eligible as TIER 2.

The following table details the total credit portfolio under the IRB approach, by PD tranches, not including exposure in the equity portfolio.

Table 16. IRB: Exposure to credit and counterparty risk by portfolio by PD interval (CR6).

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure			EAD			Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
		On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk						
1	0.04%	56,163	18,470	2	56,163	1,750	2	2,170	20.22%	18	1,391	2.40%	5
2	0.13%	17,099	9,338	134	17,099	2,990	134	959	28.96%	13	2,828	13.98%	8
3	0.29%	24,693	10,332	188	24,693	3,117	188	669	28.00%	12	6,991	24.97%	23
4	0.70%	17,777	5,988	94	17,777	1,784	94	911	29.63%	12	7,200	36.63%	40
5	1.65%	11,876	2,990	86	11,876	967	86	618	32.36%	10	7,772	60.12%	68
6	3.43%	13,098	3,066	43	13,098	796	43	821	30.60%	11	10,417	74.75%	143
7	7.82%	5,169	1,461	53	5,169	397	53	272	30.63%	11	6,215	110.60%	132
8	17.12%	2,733	356	5	2,733	75	5	216	27.64%	15	3,587	127.54%	132
9	34.36%	4,479	508	5	4,479	115	5	136	24.62%	16	5,847	127.16%	397
Default	100.00%	14,805	1,428	22	14,805	326	22	94	42.11%	12	1,133	7.47%	6,381
Total	**10.29%**	**167,892**	**53,937**	**633**	**167,892**	**12,316**	**633**	**6,865**	**27.48%**	**14**	**53,381**	**29.52%**	**7,328**

(*) Number of customer (miles)

3.1.3 Minimum own funds requirements for counterparty risk

This section seeks to emphasise details that have already been presented, focusing exclusively on counterparty risk.

The following table details the CaixaBank Group's RWAs for counterparty risk at 31 December 2015, which are already included in the total minimum own funds requirements for credit risk[20].

Table 17. Risk-weighted assets for counterparty risk

Millions of euros

Method applied	RWA
Standardised approach	2,608
Internal rating-based (IRB) approach	463
Total	**3,071**

The following table displays EAD for counterparty risk, under the standardised approach, for different degrees of risk weighting.

[20] See section 3.1, “Minimum own funds requirements for credit and counterparty risk” in part A of this document.

Table 18. Standardised approach for exposure to counterparty risk by asset classes and risk weightings (CCR3).

Millions of euros

	0%	10%	20%	35%	50%	75%	100%	150%	Other	EAD
Sovereigns and their central banks	14	0	0	0	0	0	0	0	0	14
Non-central government public sector entities	106	0	0	0	0	0	109	0	0	215
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
Institutions	52	0	1,996	0	205	0	0	0	29	2,283
Corporates	339	0	0	0	0	0	1,996	0	0	2,335
Regulatory retail portfolios	0	0	0	0	0	1	0	0	0	1
Other assets	0	0	0	0	0	0	0	0	0	0
Total Standardized approach	**511**	**0**	**1,996**	**0**	**205**	**1**	**2,105**	**0**	**29**	**4,848**

The following table displays details of exposure to counterparty risk, under the IRB approach, for different degrees of risk weighting.

Table 19. IRB: exposure to counterparty risk by portfolio and PD interval (CCR4).

Millions of euros

IRB regulatory portfolio	PD Average	EAD	Number of obligors (*)	Average LGD	Average maturity (years)	RWA	%RW
Corporate exposures	3.65%	532	1	35.28%	0.1	405	76.11%
SME	15.44%	84	2	39.07%	1.0	51	61.31%
Retail – SME	8.57%	16	3	49.86%	2.7	6	40.03%
Other retail exposures	2.20%	1	0	71.71%	1.1	1	53.20%
Total	**5.33%**	**633**	**5**	**36.22%**	**0.3**	**463**	**73.19%**

(*) Number of customer (miles)

The following table provides details of collateral provided or received in relation to derivatives and repo transactions, including trades cleared through a central counterparty.

Table 20. Composition of collateral for exposure to counterparty risk (CCR5).

Millions of euros

	Collateral used in derivates transactions				Collateral used in SFTs			
	Fair Value of collateral received		Fair Value of posted collateral		Fair Value of collateral received		Fair Value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
Cash - domestic currency	0	4,042	0	2,345	0	12	0	531
Cash - other currencies	0	0	0	56	0	0	0	0
Domestic sovereign debt	0	51	243	11	0	17,993	490	2,209
Other sovereign debt	0	0	335	0	0	219	240	392
Goverment agency debt	0	0	0	0	0	329	0	0
Corporate bonds	0	0	0	0	0	394	0	1,734
Equity securities	0	0	0	0	0	0	0	0
Other collateral	0	0	0	0	0	0	0	0
Total	**0**	**4,093**	**578**	**2,412**	**0**	**18,947**	**731**	**4,866**

The following table shows the CaixaBank Group's exposure with Central Counterparties Entities (CCE), detailing the types of exposure and the corresponding minimum own funds requirements.

Table 21. Exposure to Central Counterparty Entities (CCR8)

Millions of euros

Exposures to central couterparties	EAD	RWA
Exposures to QCCP	**743**	**133**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	394	73
(i) OTC derivates	366	68
(ii) Exchange-traded derivatives	27	4
(iii) Securities financing transactions	2	0
(iv) Netting sets where croos-product netting has been approved	0	0
Segregated initial margin	0	0
Non-segregated initial margin	306	60
Pre-funded default fund contributions	43	0
Exposure to CCP not admissible	**0**	**0**

Regulatory EAD of exposure to Central Counterparty Entities is calculated in accordance with section 9 (Own funds requirements for exposure to Central Counterparties) of the CRR.

Pursuant to article 306 “Own funds requirements for trading exposure” of the CRR, assets furnished as guarantees to a CCE, and that are immune to bankruptcy in the event that the CCE is declared insolvent, represent zero EAD. Therefore, EAD on the segregated initial margin category is zero.

The following table details the value of RWAs for credit valuation adjustment risk (CVA). CaixaBank calculates this amount for all OTC derivatives subject to this requirement under the standardised approach.

Table 22. Exposure and RWA by CVA (CCR2)

Millions of euros

	EAD	RWA
Total portfolios subjects to the Advanced CVA capital charge	0	0
(i) VaR Component (including the 3 x multiplier)		0
(ii) Stress VaR component (including the 3 x multiplier)		0
All portfolios subject to the Standarised CVA capital charge	1,329	1,052
Total subject to the CVA capital charge	**1,329**	**1,052**

Minimum own funds requirements for risk from the equity portfolio

The following table contains a breakdown of exposure and RWAs for the equity portfolio. This information is presented in accordance with the measurement approaches in the new European capital requirements regulations - CRD IV and CRR - and by equity instrument class[21].

Table 23. Exposure of the equity portfolio

Millions of euros

Method	% of exposure	Original Exposure	EAD	RWA	%RW	EL
Simple risk-weight approach	18.2%	2,383	2,383	8,756	367.40%	56
PD/LGD approach (1)	62.3%	8,162	8,162	14,136	173.20%	44
Internal Model Method	0.4%	55	55	250	456.60%	0
Risk weighted equity exposures	19.1%	2,507	2,167	5,417	250.00%	0
Total	**100.0%**	**13,107**	**12,767**	**28,559**	**223.70%**	**100**

(1) It uses an LGD of 90%

Minimum capital requirements for market risk

The table below shows the breakdown of risk-weighted assets for position risk in the trading portfolio, for foreign exchange risk and for position risk in gold at 31 December 2015 by measurement approach (internal model or standardised approach, as applicable).

[21] See section 2 "Equity investment risk" in part B of this document.

Table 24. RWA for market risk (MR1)

Millions of euros

	RWA	Standardised approach	Internal Rating
Interest rate risK (general and specific)	742	0	742
Equity risk	640	1	639
Foreign exchange risk	2,114	2,056	58
Commodity risk	0	0	0
Adjustment for correlation between factors[1]	-91	0	-91
Incremental Risk	721	0	721
Total	**4,126**	**2,057**	**2,069**

(1) Applicable only if internal approach is used

There is no breakdown of the calculation of RWAs under the standardised approach for options, as all options in the trading portfolio are subject to the internal model. Likewise, there is no breakdown of market risk for securitisations, as the CaixaBank Group has no securitisation transactions in its trading portfolio.

At 31 December 2015, there were no RWAs for liquidity risk.

3.4 Minimum own funds requirements for operational risk

The following table shows the CaixaBank Group's RWA for operational risk at 31 December 2015.

Table 25. RWA for operational risk

Millions of euros

	Gross Income Average	RWA
Retail Banking	3,636	5,454
Retail Brokerage	444	665
Asset Management	119	178
Commercial Banking	1,719	3,223
Agency Services	27	50
Trading and Sales	679	1,527
Coporate Finance	104	234
Payment and Setlements	0	0
Total CaixaBank Group	**6,726**	**11,331**

3.5 Internal capital adequacy assessment procedure

In order to comply with the regulations of Pillar II of Basel II, the CaixaBank Group has developed an economic capital model that measures the group of risks to which the Group's activity is subject, using its own criteria.

The economic capital model forms the basis of the internal estimate of own funds requirements, acting as a supplement to the regulatory view of capital adequacy.

An entity's capitalisation and its risk profile, measured in terms of capital requirements, define its capital adequacy and creditworthiness. Therefore, the CaixaBank Group aims to have sufficient own funds or capital available to cover any potential unexpected losses.

The following capital measures can be distinguished:

- **Regulatory capital**. The mandatory capital to be maintained by the Entity as required by the supervisory body. Its objective is to prevent the bankruptcy of the Entity, while also protecting the interests of customers and holders of senior debt.
- **Economic capital**. The capital the Entity should have available to cover any unexpected losses that could jeopardise the continuity of the CaixaBank Group's business. This is an internal estimate which the Entity adjusts according to volume and type of business activity.

Economic capital is not a substitute for regulatory capital, but a supplement which is used to better offset the actual risk assumed by the CaixaBank Group and it includes risks that have been factored in either not at all or only partially, by the regulatory measures. In addition to the risks referred to in Pillar 1 (credit, market and operational risk), it includes interest rate risk in the bank book, liquidity risk and other risks (business, reputational, concentration, insurance and pension obligation risk).

With regard to credit risk, two of the most important impacts or changes regarding the regulatory approach are:

- **Concentration in large exposures**: Single large exposures (exposure above EUR 100 million) have a significant impact on economic capital estimations, particularly in the equity portfolio and the corporate and bank segments. The regulatory formulation, which considers infinitely granular portfolios, is not suitable for covering the level of concentration of the Group portfolio. Accordingly, the internal model reflects the possibility of having single large exposures and simulates potential default on these specific positions. This means the simulated loss distribution already contains the individual risk of concentration for large exposures. Concentration induces diversification among portfolios.

- **Estimation of sensitivities and diversification:** The CaixaBank Group has developed its own scheme for determining sensitivities of probabilities of default to specific economic and financial variables, thereby implicitly estimating correlations of probabilities of default adjusted to the Group's scope of activity. In practice, these estimates introduce additional diversification among portfolios and industrial sectors, as the result of the various sensitivities produced. It also considers specific sensitivities for international financial stakes in the equity portfolio, providing additional diversification with the rest of the portfolio.

B. Qualitative and quantitative disclosures of risks

1. Credit risk

1.1. General requirements

1.1.1. Exposure to credit risk

1.1.1.1 Accounting definitions of default and impaired positions

A financial asset is considered to be impaired when there is objective evidence of an adverse effect on the future cash flows that were estimated at the transaction date, or when its carrying amount may not be fully recovered. The adverse effect may materialise for reasons associated with customer risk (due to default by the customer, i.e., objective default, or to other causes, i.e., subjective default), or with country risk, considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Debt securities are classified, on the basis of insolvency risk attributable to the customer or to the transaction, in one of the following categories:

- *Standard*: debt instruments that do not meet the requirements for classification in other categories.

- *Substandard*: debt instruments which, without qualifying individually for classification as doubtful or write-off, show weaknesses that may entail losses for the CaixaBank Group. This category includes, *inter alia*, the transactions of customers who form part of groups in difficulty (such as the residents in a specific geographical area or those belonging to a specific economic sector).

- *Doubtful*:

  - *Due to customer arrears*: includes the total amount of debt instruments, whoever the obligor and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is past-due by more than 90 days, unless such instruments should be classified as write-off.

    The refinancing or restructuring of transactions whose payment is not up to date does not interrupt their arrears or give rise to their reclassification to the standard risk category, unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided.

Effective guarantees or collateral are considered to be collateral in the form of cash deposits, quoted equity instruments and debt securities issued by creditworthy issuers; mortgages on completed housing, offices and multi-purpose premises and on rural property, net of any prior charges; and personal guarantees (bank guarantees and other, inclusion of new obligors, etc.) which entail the direct and joint and several liability of the new guarantors to the CaixaBank Group, these being persons or entities whose solvency is sufficiently demonstrated as to ensure the full repayment of the transaction under the agreed terms.

- *For reasons other than customer arrears*: includes debt instruments, where due or not, which are not classifiable as write-off or doubtful due to customer arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms.

  As a general rule, only costs that can be claimed back judicially such as lawyers' or attorneys' fees are capitalised and therefore increase the value of the debt.

- *Write-off*: includes debt instruments, whether due or not, for which the CaixaBank Group, after analysing them individually, considers the possibility of recovery to be remote and proceeds to derecognise them, without prejudice to any actions that the CaixaBank Group may initiate to seek collection until their contractual rights are extinguished definitively by expiry of the statute-of-limitations period, forgiveness or any other cause.

  Unless there is evidence to the contrary, this category includes all the debits, except amounts covered by sufficient effective guarantees or collateral, of customers that are declared subject to bankruptcy proceedings for which there is notice that the liquidation phase has been or is to be declared, or whose solvency has undergone a notable and irreversible deterioration, and the balances of transactions classified as doubtful due to arrears that are more than four years old.

Under current legislation, these relate to refinancing or restructuring transactions in which the customer has, or will foreseeably have, financial difficulty in meeting its payment obligations under the contractually agreed terms and, therefore, has amended the agreement, cancelled the agreement and/or arranged a new transaction.

In general, refinanced or restructured and new operations carried out for refinancing, are classified in the substandard risk category. However, based on the specific characteristics of the operation, they may be classified into other risk categories:

- Doubtful: i) operations whose outstanding debt at the time of refinancing was less than the current debt outstanding, ii) previous refinancing and iii) operations granting principal repayment grace periods longer than 30 months.

- Standard: i) operations with a principal repayment grace period of less than six months, ii) operations granted to natural persons with a debt ratio equal to or lower than 50% and iii) operations granted to legal persons whose financial debt/EBITDA ratio is equal to or lower than 5. When this requirement is not met because the ratio is higher, the internal rating is observed, and where it is lower than a specific level, the loan remains classified in the standard risk category.

Refinanced operations may be reclassified as standard risk subsequently when 10% of the refinanced debt has been collected or the customer meets the agreement obligations. The last conditions must coincide with the following circumstances:

- That from the time of the refinancing, the borrower meets its commitments for at least 12 consecutive months (6 months in the case of financing for the purchase of a primary residence).

- That at the end of the grace period, deferment or moratorium, the borrower pays their debt for at least 3 months.

If this latter circumstance is not met, but the previous one is and the operation is classified as doubtful, it is reclassified as substandard, rather than standard.

For the other situations, reclassification of the risk of operations is not warranted and the operations remain classified in the risk category determined at the time of the refinancing. Nevertheless, all operations will be classified in the least favourable situation after applying the refinancing criteria or the criteria applicable in Bank of Spain Circular 4/2004.

1.1.1.2 Description of the methods to determine impairment losses

As a general rule, an adjustment to the carrying amount of financial instruments due to their impairment is charged to the income statement for the period during which impairment took place, and any recoveries of impairment losses previously recorded are recognised in the income statement for the period during which impairment was eliminated or reduced.

To determine whether a financial asset or group of financial assets is impaired, they are analysed at the end of each period for objective signs of impairment. The main events that may indicate the existence of impairment are:

- significant financial difficulties on the part of the issuer or obligor;
- failure to comply with contract clauses, such as arrears or delays in payments of interest or principal;
- the granting of concessions or advantages to the borrower for financial or legal reasons related to financial difficulties, that would otherwise not have been granted;
- if it is likely that the borrower will enter bankruptcy or any other financial reorganisation;
- the disappearance of an active market for the financial asset in question, due to financial difficulties;
- if there is observable data indicating a measurable decrease in estimated future cash flows on a group of financial assets, compared to their initial recognition. although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - local or national economic conditions that may correlate to defaults on assets in the group.

To determine impairment losses, the lending portfolio is segmented based on internal credit risk management models. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due. This analysis is carried out:

- Individually: assets classified as doubtful due to customer arrears of significant amounts are assessed individually to estimate impairment losses, taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and the guarantors. Assets classified as doubtful due to reasons other than customer arrears are also assessed individually to estimate impairment losses.

- Collectively: impairment losses on other transactions classified as doubtful due to customer arrears are calculated collectively, grouping together instruments with similar credit risk characteristics indicative of the debtors' ability to pay the amounts due, the principal and interest, according to the contractual terms. The credit risk characteristics considered to group assets include: asset type, the debtor's sector of activity, the geographical area of the activity, collateral type, age of past due amounts and any other relevant factor for estimating future cash flows.

The amount of an impairment loss incurred on a debt security carried at amortised cost is generally equal to the difference between its carrying amount and the present value of its estimated future cash flows.

For the estimate of the allowance for impairment of instruments classified as doubtful due to customer arrears, determined collectively, the percentages applied, at least, to the outstanding exposure of the transactions based on the time elapsed since the first payment not paid are as follows:

Table 26. Allowance percentage

Allowance percentage	
Up to 180 days	25%
Over 180 days and up to 270 days	50%
Over 270 days but less than 1 year	75%
Over 1 year	100%

For debt instruments with mortgage collateral, the value of the rights received as collateral is considered to be the best estimate of the recoverable amount of the instruments, provided these are first call and duly constituted in favour of the Group.

The value of rights received as collateral is determined using the lower of the cost in the public deed or the accredited cost of the asset, and the appraisal value in its current condition. If the deed is manifestly old, the amount may be adjusted by an indicator that adequately reflects the change in cost between the date of the deed and that estimation date.

A percentage is applied to the collateral determined in this manner in accordance with the type of asset.

Table 27. Percentages applied to the value of the guarantee or collateral according to asset type

Weightings	
Completed homes, primary residence	80%
Rural buildings in use, and completed multi-purpose facilities, premises and offices	70%
Completed homes (other)	60%
Land, lots and other real estate assets	50%

Coverage of credit risk is estimated on the outstanding risk above the weighted value of the guarantee with the above percentages. The coverage percentages indicated above, based on the time elapsed since the maturity of the first unpaid payment, are applied to these values.

To ensure appropriate coverage of losses incurred for impairment of financial assets measured at amortised cost, the provisions calculated as described above are compared with the losses obtained using internal models. Based on the information provided by its internal management models, CaixaBank has a methodology for calculating the loss incurred based on multiplying three factors: exposure at default (EAD), probability of default (PD) and loss given default (LGD)[22]. At 31 December 2015, the Group's internal model showed an estimate of losses incurred for credit risk that was not materially different to the allowances recognised.

1.1.1.3 Average value of exposures

The table below shows information concerning the average value of exposures for the CaixaBank Group in 2015, before adjustments and value corrections due to impairment, excluding the effects of credit risk reduction. These amounts are presented in relation to each exposure class in accordance with the calculation method applied.

[22] See Note 2.9 to the CaixaBank's financial statements for more information.

Table 28. Average exposure by risk category

Millions of euros	2014		2015			
Regulatory risk category	Original Exposure (1)	EAD	Original Exposure (1)	EAD	Average Original Exposure (1)	EAD Average
Sovereigns and their central banks	34.343	33.773	24.638	25.898	29.491	29.836
Non-central government public sector entities	16.880	15.095	17.388	14.089	17.134	14.592
Multilateral development banks	3.161	2.537	3.215	2.476	3.188	2.506
International organizations	0	0	0	0	0	0
Institutions	782	782	31	67	406	424
Corporates	4.179	3.600	4.078	3.841	4.128	3.721
Regulatory retail portfolios	34.879	15.592	32.308	16.041	33.594	15.816
Exposures secured by real state	5.200	3.740	6.540	4.475	5.870	4.107
Defaulted loans	2.157	1.753	2.446	2.049	2.302	1.901
Higher-risk categories	9.803	7.949	2.498	951	6.150	4.450
Covered bonds	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	1.605	1.605	674	674	1.139	1.139
Exposures in the form of units or shares in collective investment undertakings (CIU's)	10.512	10.512	18.007	18.007	14.260	14.260
Other assets	0	0	0	0	0	0
Total (Standardized approach)	**123.502**	**96.939**	**111.823**	**88.567**	**117.663**	**92.753**
Corporates	**62.276**	**49.873**	**62.127**	**49.179**	**62.201**	**49.526**
Corporate exposures	42.618	32.537	44.414	33.543	43.516	33.040
SME	19.657	17.336	17.713	15.636	18.685	16.486
Retail	**150.062**	**122.716**	**160.334**	**131.661**	**155.198**	**127.189**
Retail – qualifying revolving	7.179	3.669	8.059	4.038	7.619	3.854
Retail – Residential mortgage exposures	97.066	80.093	124.530	103.268	110.798	91.680
SME - Mortgage exposures	34.410	28.835	15.408	13.281	24.909	21.058
Retail – SME	7.729	6.599	8.088	6.915	7.908	6.757
Other retail exposures	3.678	3.521	4.249	4.158	3.963	3.840
Total (IRB)	**212.338**	**172.590**	**222.461**	**180.840**	**217.399**	**176.715**
TOTAL	**335.840**	**269.529**	**334.283**	**269.407**	**335.062**	**269.468**

(1) Exposures before CCF and CRM

1.1.1.4 Geographical and sector distribution of exposures

1. Geographical distribution of exposures

At 31 December 2015, the exposure of the CaixaBank Group, excluding valuation adjustments for impairment, and broken down into the main geographical areas, was as follows:

The value of exposure includes total credit and counterparty risk, not considering equity exposures.

At 31 December 2015, 96% of the gross carrying amount of the CaixaBank Group's loans was concentrated in Spain, with 3% in other European Union countries and 1% elsewhere in the world.

Table 29. Credit exposure by geographical zone.

Millions of euros

Geographical areas	% of exposure	Original Exposure	EAD	RWA
Spain	*90.8%*	101,498	79,208	32,835
EU	*7.3%*	8,181	7,490	2,551
Other	*1.9%*	2,144	1,868	1,716
Standardized approach	**100.00%**	**111,823**	**88,567**	**37,102**
Spain	*97.3%*	216,490	176,184	50,703
EU	*1.9%*	4,255	3,232	1,870
Other	*0.8%*	1,716	1,425	808
IRB	**100.00%**	**222,461**	**180,840**	**53,381**
Total		**334,283**	**269,407**	**90,483**

The following tables provide details of exposure in Spain by Autonomous Community and by approach.

Table 30. Credit exposure by Spanish autonomous community under the standardised approach.

Millions of euros

Geographical areas	% of exposure	Original Exposure	EAD	RWA
Catalonia	*41.0%*	41,625	29,251	5,406
Madrid Community	*14.5%*	14,673	9,741	4,929
Andalusia	*3.2%*	3,290	2,762	695
Valencian Community	*2.1%*	2,119	1,715	389
Canary Islands	*0.9%*	941	843	286
Basque Country	*1.7%*	1,766	1,344	539
Balearic Islands	*1.0%*	992	797	246
Castile and León	*1.0%*	1,012	802	327
Navarre	*1.0%*	965	864	261
Galicia	*0.5%*	473	262	156
Castile-La Mancha	*0.5%*	546	387	173
Murcia	*0.3%*	347	272	72
Aragon	*0.7%*	751	553	272
Asturias	*0.7%*	694	500	213
Extremadura	*0.2%*	234	174	40
Cantabria	*0.2%*	220	198	49
La Rioja	*0.1%*	129	115	60
Ceuta	*0.0%*	2	1	1
Melilla	*0.0%*	14	14	1
Assets non distributed (1)	*30.3%*	30,707	28,612	18,720
TOTAL (Standardized approach)	**100.0%**	**101,498**	**79,208**	**32,835**

(1) Other accounting balanced-sheet items not assigned to a regional government

Table 31. Credit exposure by Spanish autonomous community under the IRB approach.

Millions of euros

Geographical areas	% of exposure	Original Exposure	EAD	RWA
Catalonia	29.3%	63,457	48,822	13,152
Madrid Community	21.6%	46,753	36,009	14,303
Andalusia	13.3%	28,728	25,058	6,119
Valencian Community	7.1%	15,339	13,415	3,385
Canary Islands	4.8%	10,459	9,694	2,586
Basque Country	3.6%	7,887	6,245	2,077
Balearic Islands	3.5%	7,562	6,239	1,712
Castile and León	3.1%	6,790	5,892	1,277
Navarre	2.5%	5,409	4,900	1,113
Galicia	2.4%	5,175	3,937	1,023
Castile-La Mancha	2.1%	4,463	3,793	861
Murcia	2.0%	4,337	3,721	986
Aragon	1.8%	3,931	3,424	793
Asturias	0.9%	2,028	1,508	430
Extremadura	0.8%	1,665	1,436	377
Cantabria	0.7%	1,426	1,156	297
La Rioja	0.4%	903	791	187
Ceuta	0.1%	139	114	20
Melilla	0.0%	40	33	6
Assets non distributed (1)	0.0%			
TOTAL (IRB)	**100.0%**	**216,490**	**176,184**	**50,703**

(1) Other accounting balanced-sheet items not assigned to a regional government

2. Distribution of exposures by sector

The following tables show the distribution of exposures for the CaixaBank Group in terms of EAD by sector of activity at 31 December 2015, for each regulatory exposure class and approach.

Details by sector of activity include total credit and counterparty risk, not considering equity exposures.

Table 32. EAD by sectors of economic activity

Millions of euros

Regulatory risk category	TOTAL	Public Sector	Bussines non-Finantial Activities	Bussiness Finantial Activities	Retail (non-Business Activities)	Non-profit institutions serving households	Other activities (1)
Sovereigns and their central banks	**25.898**	24.425	1.444	2	4	23	0
Non-central government public sector entities	**16.565**	14.487	2.057	20	0	1	0
Multilateral development banks	**0**	0	0	0	0	0	0
International organizations	**67**	0	29	31	6	0	0
Institutions	**3.841**	0	21	3.819	2	0	0
Corporates	**16.041**	0	10.787	2.452	762	789	1.251
Regulatory retail portfolios	**4.475**	0	588	1	3.792	85	8
Exposures secured by real state	**2.049**	0	701	128	931	290	0
Defaulted loans	**951**	0	496	39	37	47	332
Higher-risk categories	**0**	0	0	0	0	0	0
Covered bonds	**674**	0	0	674	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	**0**	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	**0**	0	0	0	0	0	0
Other assets	**18.007**	0	0	0	0	0	18.007
TOTAL (Standardized approach)	**88.567**	**38.912**	**16.123**	**7.164**	**5.534**	**1.235**	**19.599**
Corporates	**49.180**	**0**	**45.474**	**3.695**	**0**	**10**	**0**
Corporate exposures	**33.543**	0	30.051	3.484	0	9	0
SME	**15.636**	0	15.424	211	0	1	0
Retail	**131.661**	**0**	**12.876**	**71**	**118.710**	**0**	**4**
Retail – qualifying revolving	**4.038**	0	0	0	4.038	0	0
Retail – Residential mortgage exposures	**103.268**	0	0	0	103.268	0	0
SME - Mortgage exposures	**13.281**	0	7.781	52	5.445	0	3
Retail – SME	**6.915**	0	5.095	19	1.800	0	1
Other retail exposures	**4.158**	0	0	0	4.158	0	0
TOTAL (IRB)	**180.840**	**0**	**58.350**	**3.765**	**118.711**	**10**	**4**
TOTAL	**269.407**	**38.912**	**74.473**	**10.930**	**124.245**	**1.245**	**19.603**

(1) Mainly, real state recoveries or foreclosures.

Table 33. EAD by sectors of non-financial economic activity

Millions of euros

Regulatory risk category	TOTAL	Agriculture and manufacturing	Electricity, gas, steam and air conditioning supply and water supply	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transporting and storage, Accommodation and food service activities, Information and communication	Real estate activities	Financial, professional, administrative, education and for health Activities	Other activities [1]
Sovereigns and their central banks	**1,444**	2	1,429	0	2	4	2	5	0
Non-central government public sector entities	**2,057**	38	311	290	5	773	8	604	27
Multilateral development banks	**0**	0	0	0	0	0	0	0	0
International organizations	**29**	7	0	2	10	5	0	5	0
Institutions	**21**	16	0	0	3	0	0	2	0
Corporates	**10,787**	597	2,787	2,843	350	1,562	952	1,225	470
Regulatory retail portfolios	**588**	155	19	51	117	94	23	83	47
Exposures secured by real state	**701**	35	3	57	42	29	431	74	30
Defaulted loans	**496**	14	166	146	15	49	4	89	13
Higher-risk categories	**0**	0	0	0	0	0	0	0	0
Covered bonds	**0**	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	**0**	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	**0**	0	0	0	0	0	0	0	0
Other assets	**0**	0	0	0	0	0	0	0	0
TOTAL (Standardized approach)	**16,123**	**863**	**4,714**	**3,389**	**543**	**2,517**	**1,421**	**2,087**	**588**
Corporates	**45,474**	**7,717**	**3,595**	**7,947**	**6,258**	**7,321**	**6,122**	**6,186**	**328**
Corporate exposures	**30,051**	5,176	3,187	4,107	4,140	5,285	3,334	4,632	189
SME	**15,423**	2,540	408	3,841	2,118	2,036	2,788	1,554	139
Retail	**12,876**	**1,855**	**355**	**2,346**	**2,702**	**1,527**	**2,051**	**1,836**	**204**
Retail – Residential mortgage exposures	**0**	0	0	0	0	0	0	0	0
SME - Mortgage exposures	**0**	0	0	0	0	0	0	0	0
Retail – qualifying revolving	**7,781**	761	45	1,843	1,194	818	1,878	1,099	142
Retail – SME	**5,095**	1,093	311	503	1,508	709	173	737	62
Other retail exposures	**0**	0	0	0	0	0	0	0	0
TOTAL (IRB)	**58,350**	**9,571**	**3,950**	**10,294**	**8,959**	**8,849**	**8,173**	**8,022**	**532**
TOTAL	**74,473**	**10,434**	**8,664**	**13,683**	**9,502**	**11,366**	**9,594**	**10,108**	**1,120**

(1) Activities of households, of extraterritorial organisations and bodies , other services.

Table 34. RWA by sectors of economic activity

Millions of euros

Regulatory risk category	TOTAL	Public Sector	Bussines non-Finantial Activities	Bussiness Finantial Activities	Retail (non-Business Activities)	Non-profit institutions serving households	Other activities (1)
Sovereigns and their central banks	**0**	0	0	0	0	0	0
Non-central government public sector entities	**2.153**	204	1.929	20	0	0	0
Multilateral development banks	**0**	0	0	0	0	0	0
International organizations	**0**	0	0	0	0	0	0
Institutions	**901**	0	7	894	0	0	0
Corporates	**14.475**	0	9.314	2.449	700	760	1.251
Regulatory retail portfolios	**2.022**	0	349	1	1.617	49	6
Exposures secured by real state	**802**	0	292	46	355	110	0
Defaulted loans	**1.113**	0	517	39	41	48	469
Higher-risk categories	**0**	0	0	0	0	0	0
Covered bonds	**103**	0	0	103	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	**0**	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	**0**	0	0	0	0	0	0
Other assets	**15.532**	0	0	0	0	0	15.532
TOTAL (Standardized approach)	**37.102**	**204**	**12.409**	**3.551**	**2.713**	**967**	**17.259**
Corporates	**28.959**	**0**	**27.145**	**1.809**	**0**	**4**	**0**
Corporate exposures	**22.964**	0	21.223	1.737	0	4	0
SME	**5.994**	0	5.922	72	0	0	0
Retail	**24.423**	**0**	**4.291**	**20**	**20.111**	**0**	**0**
Retail – qualifying revolving	**989**	0	0	0	989	0	0
Retail – Residential mortgage exposures	**16.052**	0	0	0	16.052	0	0
SME - Mortgage exposures	**3.151**	0	2.376	14	760	0	0
Retail – SME	**2.544**	0	1.915	6	622	0	0
Other retail exposures	**1.687**	0	0	0	1.687	0	0
TOTAL (IRB)	**53.381**	**0**	**31.436**	**1.830**	**20.111**	**4**	**0**
TOTAL	**90.483**	**204**	**43.845**	**5.381**	**22.824**	**971**	**17.259**

(1) Mainly, real state recoveries or foreclosures.

Table 35. RWA by sectors of non-financial economic activity

Millions of euros

Regulatory risk category	TOTAL	Agriculture and manufacturing	Electricity, gas, steam and air conditioning supply and water supply	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transporting and storage, Accommodation and food service activities, Information and communication	Real estate activities	Financial, professional, administrative, education and for health Activities	Other activities (1)
Sovereigns and their central banks	**0**	0	0	0	0	0	0	0	0
Non-central government public sector entities	**1,929**	35	309	227	4	773	5	554	22
Multilateral development banks	**0**	0	0	0	0	0	0	0	0
International organizations	**0**	0	0	0	0	0	0	0	0
Institutions	**7**	6	0	0	1	0	0	0	0
Corporates	**9,314**	571	2,786	1,493	333	1,513	945	1,210	463
Regulatory retail portfolios	**349**	90	11	30	69	54	15	48	31
Exposures secured by real state	**292**	11	1	21	15	10	197	26	10
Defaulted loans	**517**	14	166	147	15	51	4	106	14
Higher-risk categories	**0**	0	0	0	0	0	0	0	0
Covered bonds	**0**	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	**0**	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIU's)	**0**	0	0	0	0	0	0	0	0
Other assets	**0**	0	0	0	0	0	0	0	0
TOTAL (Standardized approach)	**12,409**	**728**	**3,274**	**1,919**	**435**	**2,401**	**1,166**	**1,945**	**541**
Corporates	**27,145**	**4,274**	**2,194**	**4,704**	**3,078**	**5,371**	**3,739**	**3,670**	**115**
Corporate exposures	**21,223**	3,177	1,955	3,389	2,150	4,686	2,737	3,056	73
SME	**5,922**	1,097	239	1,314	929	685	1,002	615	42
Retail	**4,291**	**646**	**118**	**865**	**951**	**492**	**588**	**566**	**65**
Retail – Residential mortgage exposures	**0**	0	0	0	0	0	0	0	0
SME - Mortgage exposures	**0**	0	0	0	0	0	0	0	0
Retail – qualifying revolving	**2,376**	212	15	665	348	237	546	310	42
Retail – SME	**1,915**	434	102	200	603	255	42	256	23
Other retail exposures	**0**	0	0	0	0	0	0	0	0
TOTAL (IRB)	**31,436**	**4,920**	**2,312**	**5,569**	**4,029**	**5,863**	**4,327**	**4,236**	**180**
TOTAL	**43,845**	**5,648**	**5,586**	**7,488**	**4,465**	**8,264**	**5,493**	**6,181**	**720**

(1) Activities of households, of extraterritorial organisations and bodies , other services.

1.1.1.5 Distribution of exposures by residual maturity

The following tables show the CaixaBank Group's exposure (EAD) and risk-weighted assets (RWA), respectively, excluding the deduction of impairment losses, at 31 December 2015, by residual maturity and by exposure category, for each of the methods of calculating minimum own funds requirements applied.

Table 36. Distribution of exposures by residual maturity

Millions of euros

Regulatory risk category	Exposure amount breakdown by maturity [1][2]				
	< 3 months	3 months - 1 year	1-5 years	> 5 years	TOTAL
Sovereigns and their central banks	4.893	3.400	8.807	8.798	**25.898**
Non-central government public sector entities	1.745	4.318	3.311	7.191	**16.565**
Multilateral development banks	0	0	0	0	**0**
International organizations	0	31	19	16	**67**
Institutions	2.951	116	490	285	**3.841**
Corporates	3.896	1.145	2.929	8.071	**16.041**
Regulatory retail portfolios	3.111	210	646	508	**4.475**
Exposures secured by real state	2	43	207	1.797	**2.049**
Defaulted loans					**951**
Higher-risk categories	0	0	0	0	**0**
Covered bonds	0	39	626	9	**674**
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	**0**
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0	**0**
Other assets [3]	2.676	0	0	15.331	**18.007**
TOTAL (Standardized approach)	**19.273**	**9.302**	**17.035**	**42.005**	**88.567**
Corporates	**4.654**	**8.324**	**16.912**	**19.289**	**49.179**
Corporate exposures	3.156	6.184	14.185	10.018	**33.543**
SME	1.498	2.141	2.727	9.270	**15.636**
Retail	**1.245**	**2.810**	**12.370**	**115.237**	**131.661**
Retail – qualifying revolving	40	51	3.832	116	**4.038**
Retail – Residential mortgage exposures	79	108	2.335	100.746	**103.268**
SME - Mortgage exposures	123	116	1.253	11.789	**13.281**
Retail – SME	926	2.237	2.600	1.151	**6.915**
Other retail exposures	77	298	2.349	1.434	**4.158**
TOTAL (IRB)	**5.898**	**11.134**	**29.282**	**134.526**	**180.840**
TOTAL	**25.172**	**20.436**	**46.317**	**176.531**	**269.407**

(1) Exposures post-CCF and CRM

(2) Maturity is calculated as the number of years between the maturity date and December 31th. (years of 360 days)

(3) Real State foreclosures are included

Table 37. Distribution of RWAs by residual maturity

Millions of euros

Regulatory risk category	RWA breakdown by maturity (1) (2)				
	< 3 months	3 months - 1 year	1-5 years	> 5 years	TOTAL
Sovereigns and their central banks	0	0	0	0	**0**
Non-central government public sector entities	160	199	522	1.272	**2.153**
Multilateral development banks	0	0	0	0	**0**
International organizations	0	0	0	0	**0**
Institutions	596	49	114	142	**901**
Corporates	3.543	1.065	2.857	7.010	**14.475**
Regulatory retail portfolios	1.157	128	420	316	**2.022**
Exposures secured by real state	0	16	77	709	**802**
Defaulted loans					**1.113**
Higher-risk categories	0	0	0	0	**0**
Covered bonds	0	8	94	2	**103**
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	**0**
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0	**0**
Other assets (3)	879	0	0	14.653	**15.532**
TOTAL (Standardized approach)	**6.337**	**1.464**	**4.085**	**24.103**	**37.102**
Corporates	**2.267**	**4.380**	**10.464**	**11.847**	**28.959**
Corporate exposures	1.738	3.382	9.406	8.439	**22.964**
SME	530	998	1.057	3.409	**5.994**
Retail	**473**	**1.045**	**3.277**	**19.628**	**24.423**
Retail – qualifying revolving	27	11	922	29	**989**
Retail – Residential mortgage exposures	6	21	123	15.902	**16.052**
SME - Mortgage exposures	15	26	214	2.896	**3.151**
Retail – SME	377	847	958	362	**2.544**
Other retail exposures	47	141	1.060	439	**1.687**
TOTAL (IRB)	**2.741**	**5.426**	**13.740**	**31.475**	**53.381**
TOTAL	**9.077**	**6.890**	**17.825**	**55.578**	**90.483**

(1) Exposures post-CCF and CRM

(2) Maturity is calculated as the number of years between the maturity date and December 31th. (years of 360 days)

(3) Real State foreclosures are included

1.1.1.6 Distribution of exposure in default and asset impairment

The following table provides a comprehensive overview of the credit quality of the CaixaBank Group's assets, expressed in accounting values, as disclosed in its financial statements at 31 December 2015. The amounts are gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) technique.

The following table presents gross accounting value (separating exposures in default from those that are not), impairment provisions and net carrying amount (total gross value less impairment provisions), by asset type.

Table 38. Credit quality of assets.

Millions of euros

	a	b	c	
Assets	Defaulted exposures	Non-defaulted exposures	Allowances	Net value (a+b-c)
Loans	16,612	218,533	9,219	225,926
Debt Securities	0	22,027	0	22,027
Total	**16,612**	**240,560**	**9,219**	**247,953**

1. Distribution by economic sector of exposures in default and asset impairment

The following table provides information on the loan book, broken down by sectors or segments of the financial statements of the CaixaBank Group at 31 December 2015.

Table 39. Loan exposures in default and impairment by sectors.

Millions of euros

FINREP sector	a	b	c	d
	Gross carrying amount		Allowances	Net value (a+b-c)
	Defaulted exposures	Non-defaulted exposures		
Central Banks	0	3,975	0	3,975
General governments	71	14,644	11	14,705
Credit Institutions	0	6,660	0	6,660
Other financial corporations	55	19,080	52	19,082
Non-financial corporations	10,692	56,178	6,743	60,127
Households	5,793	117,997	2,414	121,377
Total Loans	**16,612**	**218,533**	**9,219**	**225,926**

The following table provides information on loans to non-financial companies, by economic sector.

Table 40. Loans to non-financial companies by economic sector

Millions of euros

	Gross carrying amount	
	Defaulted exposures	Non-defaulted exposures
Agriculture and manufacturing	952	7,858
Electricity, gas, steam and air conditioning supply and water supply	589	6,295
Construction	3,992	8,448
Wholesale and retail trade; repair of motor vehicles and motorcycles	860	7,257
Transporting and storage, Accommodation and food service activities, Information and communication	999	8,818
Real estate activities	1,623	7,381
Financial, professional, administrative, education and for health Activities	1,049	5,987
Other activities	628	4,133
Total Loans	**10,692**	**56,178**

2. Geographic distribution of impaired positions

The following table provides information on loans by geographical area, separated into Spain, other European Union countries and the rest of the world.

Table 41. Loan exposure in default by geographical zone

Millions of euros

	Gross carrying amount	
	Defaulted exposures	Non-defaulted exposures
Spain	16,351	209,990
European Union	224	5,835
Rest of the world	36	2,708
Total Loans	**16,612**	**218,533**

3. Distribution by maturity of impaired positions

The following table provides information on the gross carrying amount of exposures in arrears by tranche of days past due and by sector.

Table 42. Loans in default by days past due and sector

Millions of euros

	Total	Unlikely to pay that are not past-due or past-due < = 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year
Central Banks	0	0	0	0	0
General governments	71	23	3	8	38
Credit Institutions	0	0	0	0	0
Other financial corporations	55	54	0	0	1
Non-financial corporations	10,692	4,625	354	533	5,180
Households	5,793	1,223	610	833	3,128
Total Loans	**16,612**	**5,925**	**966**	**1,373**	**8,348**

1.1.1.7 Variations in impairment losses and provisions

1. Variations in provisions

A breakdown of modifications to value corrections for impairment of assets and provisions for contingent commitments and liabilities for the CaixaBank Group in 2015 is shown below[23].

Table 43. Changes in provisions

Millions of euros

	Impairment allowances	Provisions for contingent liabilities and commitments	Total provisions
Opening balance	**10,595**	**564**	**11,158**
Net impairment allowances	1,388	(61)	**1,327**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(2,729)	0	**(2,729)**
Transfers and others	(83)	(121)	**(203)**
Final balance	**9,172**	**381**	**9,553**

2. Impairment losses and reversals of previously recognised losses

The following table contains details of the impairment losses and reversals of previously recognised losses on assets written off, recognised directly in the income statement for the CaixaBank Group in 201524.

[23] See Notes 13.4 “Impairment fund” and 24 "Provisions" to the CaixaBank Group’s 2015 financial statements.
[24] See Note 37 “Impairment losses on financial assets (net)” and Note 38 “Impairment losses on other assets (net)” in the CaixaBank Group's 2015 financial statements.

Table 44. Impairment losses and reversals of losses

Millions of euros

	Total
Write-downs	**(1,350)**
Loans and receivables	(720)
Available-for-sale financial assets	(267)
Intangible assets	(48)
Property and equipment for own use	(139)
Investment property	(3)
Other assets	(172)
Net allowances	**(1,485)**
Loans and receivables	(1,353)
Inventories	(71)
Investments - associates	133
Property and equipment - Investment property	(194)
Other assets	0
General allowance	**(36)**
Recovery of assets	**453**
Total value	**(2,417)**

1.1.2. Counterparty risk

1.1.2.1. Counterparty risk management

1. Methodology for internal allocation of capital

In terms of counterparty risk management, the profile of the CaixaBank Group's counterparty is usually a financial entity. Therefore, no specific capital is allocated for counterparty risk and the entire item is treated jointly with credit risk.

2. Limits system and management

With regard to authorisation processes, the maximum authorised exposure to credit risk with a financial market counterparty is determined on the basis of a complex calculation approved by Management, based primarily on ratings for the entity and on the analysis of its financial statements. Hence, the approved risk lines are established by the Treasury Desk with each of the financial market counterparties, and the use of these lines is defined by the calculated exposure to counterparty risk. Position traders have real-time access to this information, which they systematically consult before carrying out new transactions. This minimises the risk of overstepping the limits.

There are also certain general restrictions on the calculation of risk limits, such as no approvals for risk lines to entities with certain ratings, or the assignment of a risk limit to a banking group.

An interbank risk alarm system has now been implemented to detect credit deterioration in bank counterparties, through daily comparisons of the official ratings issued by the rating agencies and the implied ratings listed on the market (CDS). If the Entity's implied rating has become seriously impaired, the required analysis is performed to allow a decision to be taken as to whether the limit on the risk line should be modified. The Entity's policy is to assign a single limit, known as the Global Limit, to discount all risks incurred with the counterparty for both on-balance sheet (deposits, fixed income, repos, etc.) and off-balance sheet (derivatives) transactions.

In transactions with customers, derivative operations relating to asset applications (loan interest rate risk hedging) receive automatic pre-approval. All other transactions are approved depending on whether the assigned risk limit is met, or depending on individual analysis. Approval of transactions corresponds to the risk areas responsible for loan analysis and approval.

Potential Future Exposure (PFE) is considered for the approval of transactions or initial use of lines, at the outset and subsequently on a daily basis. Potential Future Exposure is an estimate of the maximum value that can be reached by a transaction during its lifetime. To quantify PFE, the Monte Carlo simulation is applied using stochastic models that take into account the volatility of the underlying, time to the transaction start date, term to maturity, transaction currency and the rate contracted.

3. Effectiveness of collateral

In order to guarantee transactions with financial institutions that are exposed to counterparty risk, the CaixaBank Group applies collateral cash agreement as collateral. A collateral agreement is an agreement whereby two parties undertake to deliver an asset to each other as security for the net credit risk position arising from the derivatives traded between them, on the basis of a prior close-out netting agreement in the ISDA/CMOF contracts.

Risk is often quantified by marking to market all outstanding transactions (normally on a daily basis), which entails a modification of the deposit to be placed by the debtor.

Meanwhile, the impact on collateral of a hypothetical downgrade to CaixaBank's rating would not be significant as most of the collateral agreements do not include franchises related to its rating.

Bearing in mind that most contracts with financial institutions have a zero threshold[25] and that in contracts with a rating-linked scale the value of the portfolio does not usually exceed the threshold amount, in a worst-case scenario a rating downgrade would entail an insignificant outlay of cash.

1.1.2.2 Exposure to counterparty risk

1) Exposure to counterparty risk

The following table shows the effect of netting agreements and guarantees on exposure to counterparty risk in derivatives contracts exposed to counterparty risk for the CaixaBank Group at 31 December 2015.

[25] Threshold over which the collateral is applied in the event of non-payment by the counterparty.

Table 45. Exposure to counterparty risk (derivatives)

Millions of euros

Exposure to Central Counterparties	
Gross Positive Fair Value	17,446
Net Positive Fair Value	5,783
Potencial Future Credit Exposure	2,299
Net Credit Exposure	8,083
Real guarantees	3,991
Credit derivatives Exposures post CRM[(1)]	3,891

(1) Credit derivatives exposures post contractual netting agreements and guarantees received.
All counterparty derivatives exposures are incluyed.

2) Transactions with credit derivatives

At 31 December 2015, the CaixaBank Group had no outstanding positions in credit derivatives.

1.2. Additional disclosure requirements

1.2.1. Credit risk under the standardised approach

Assignation of export credit or external agency ratings

To calculate risk-weighted exposures using the standardised approach, risk is weighted in accordance with the exposure's credit quality. CaixaBank uses the external rating agencies designated as being eligible by the Bank of Spain, namely Standard & Poor's, Moody's, Fitch and DBRS.

The CaixaBank Group applies the standardised approach permanently to the following exposures:

- Central administrations and central banks
- Regional administrations and local authorities
- Institutions

Under the application of the measurement approaches in the new European capital requirements regulations - CRD IV and CRR - where external ratings are not available for the exposures of regional or local administrations, the rating of the next highest level of public body available is used.

The Group does not assign credit ratings for publicly traded security issues or comparable assets not included in the trading portfolio.

1.2.2. Credit risk using the Internal Ratings Based Approach (IRB)

1.2.2.1 General information

1. Utilisation of the IRB approach

In July 2005, in accordance with the directives of the Bank of Spain, the Board of Directors of "la Caixa" approved the Master Plan for Adaptation to Basel II. At that time, "la Caixa" requested official permission from the Bank of Spain to use internal models for measuring credit risk. The Bank of Spain carried out a credit risk model validation process in the course of 2007, and on 25 June 2008 issued authorisation for the "la Caixa" Group to apply the model to calculate its capital requirements as of that year.

The Bank of Spain has authorised the use of the Internal Ratings-Based Approach (IRB) to calculate own funds requirements for the following credit exposure classes:

- Exposures evaluated by models for mortgage loans to individuals (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by models for personal loans to individuals (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by models for cards to individuals (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by SME models for the range of medium-sized enterprises, small companies and micro-enterprises, applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by the developer SME model, with no application of internal estimates of losses in the event of non-payment or credit conversion factors
- Exposures evaluated by the corporate model, applying internal estimates of losses in the event of non-payment or credit conversion factors
- Equity exposures evaluated using the IRB approach, with internal models (VaR), PD/LGD and simple risk weighting

The Bank of Spain authorised the use of the IRB approach for the calculation of own funds requirements for credit exposures arising from operations by Microbank de la Caixa, S.A., following the reorganisation of Grupo Nuevo Micro Bank, S.A., applicable as of year-end 2009.

2. Implementation of internal estimates in the management process

The results obtained from these tools are used for the following courses of action[26]:

- Back-up for the decision-making process
- System of authorisations for expected loss in the approval of risk for companies
- System of diagnostics by risk premium in the authorisation of retail lending
- Optimisation of internal processes and monitoring function
- Risk-Adjusted Return (RAR) System
- Risk approval pricing system
- Risk-Adjusted Bonus (RAB) System

3. Management process and recognition of risk reduction

The result of the application of risk mitigating techniques on the IRB portfolio is reflected in the estimation and allocation of loss given default (LGD) parameters, which vary in accordance with the guarantees or collateral provided. To this end, the type of guarantee is observed for each transaction: financial, real estate or other collateral. Moreover, in the case of properties used as collateral, a consultation is made concerning the characteristic of the mortgage guarantee in order to ascertain whether it is a residential or commercial item.

4. Control of the internal rating systems

The criticality and importance of the capital determination process requires proper control environments to ensure that reliable estimates are obtained. The control environment must also be sufficiently specialised and operate on a continuous basis in the entities. In this respect, internal validation must comply with regulatory requirements, as well as provide fundamental support to risk management in its responsibilities of issuing technical opinions and authorising the use of internal models.

[26] See Section 1.2.2.6 for more details on the integration of internal estimations in management.

Regulations state that internal validation is a compulsory prerequisite for supervisory validation, which must be carried out by a sufficiently independent and specialised unit of the institution, with clearly defined functions.

At CaixaBank, the internal validation function is performed by the Risk Models Validation (RMV) Division, which was created on approval by the Management Committee. The RMV function falls directly under the General Risks Division. This ensures its independence from the areas in charge of developing risk models and policies, and risk infrastructures.

The RMV is tasked with issuing technical opinions on the adequacy of the internal models used for internal management and/or regulatory purposes in the CaixaBank Group.

In line with its mission, the scope of RMV's actions include credit, market and operational risk, reviewing methodological and management aspects (e.g. use of management models and tools, risk policies, coverage levels, controls, governance, implementation of models in management processes), and verifying the existence of an IT environment with sufficient data quality to support the needs of the models.

RMV's activities are aligned with the regulatory requirements of the various oversight mechanisms and coordinated with Internal Audit in the development of its functions.

RMV's activities are classified into three categories:

1. Annual planning:
   RMV has an annual plan reflecting the analysis and review activities carried out each year to guarantee the validity of the opinions it issues.
2. Review and monitoring:
   Through validation cycles, RMV keep the opinions on the various models and their integration in management (for IRB models) up to date.
   - Complete validation in the event of the roll-out of models and material changes.
   - Specific reviews in addition to ordinary validation processes designed to add value to the risk management areas.
3. Reporting:
   - The RMV annual report on activities carried out over the past year.
   - Coordination of the process for updating the follow-up dossiers of the models.
   - Regular monitoring of recommendations issued.

The findings of any RMV review activity are used as the basis for recommendations and an overall opinion. RMV focuses attention on the main deficiencies identified, adapting the level of monitoring and the recommendation scale according to their relevance.

To achieve its objectives, RMV acts in accordance with the general principles defined in the Global Risk Model Validation Framework. In particular, the following general principles are relevant in the review evaluation process:

- Critical examination: All relevant information regarding models and their use should be evaluated. A rigorous, in-depth and well-founded opinion should be issued.
- Transparency: RMV's opinion should be fully understood by the areas reviewed.
- Regulatory Compliance: RMV must always comply with applicable internal rules and regulatory requirements. In particular, it must ensure that the internal models comply with the minimum regulatory requirements.

The following table provides a summary of RMV assessments as they currently stand:

Table 46. Existing RMV assessments

Valuation	Total	In Progress
Not presenting weaknesses, or if found, insignificant	62.26%	22.73%
Presenting certain weaknesses which require an action plan to be completed in the medium term	29.25%	29.03%
Presenting more significant weaknesses which require a detailed action plan including timeline for completion	8.49%	77.78%

1.2.2.2 Description of the internal rating assignment process, for each exposure class

1. Structure of the internal rating systems

The CaixaBank Group has internal credit rating models that assign internal solvency scores or ratings to customers to provide forecasts of the probability of default by each borrower, covering practically all lending activity.

These internal credit rating models, developed on the basis of the Entity's experience of defaults, with all the required measurements to adjust results to the economic cycle, are both product-oriented and customer-oriented. Product-oriented tools take into consideration the specific characteristics of the debtor relating to the product concerned, and are mainly used for approval of new retail banking operations. Customer-orientated tools assess the debtor's probability of default in a generic manner, although in the case of individuals they may provide different results depending on the product.

Customer-orientated tools at the CaixaBank Group consist of behaviour scorings for individuals and ratings for companies, and are implemented at all branches as standard tools for approval of asset products.

In the case of companies, the rating tools operate at the customer level, and vary considerably depending on the segment to which they belong. The rating results are also adjusted to the business cycle using the same structure as that employed for individuals.

The CaixaBank Group has a Corporate Rating function in place to provide specialised rating services for the large companies segment, and has also developed internal rating models. These are expert models that require the participation of analysts. These models were built in line with Standard & Poor’s methodology, and thus the global default rates published by this rating agency can be used, making the methodology much more reliable.

- **Probability of default (PD) estimation models**

  CaixaBank has 27 internal probability of default (PD) estimation models, covering most of the Group's portfolios. In segments not yet covered, relevant information is captured for the future construction of tools to estimate the probability of default.

  Default is defined as the inability of the counterparty to meet its payment obligations. The type of probability of default (PD) estimated at the Entity is "through the cycle". In other words, the scores assigned by the rating models are associated with the average PDs for a full economic cycle. The estimate is performed by anchoring the PD curve to the long-term trend (central trend) estimated for the portfolio. When a probability of default has been assigned to each contract/customer, it is then transferred to the Master Scale, a categorisation to which the results of all scoring and rating tools are linked for easier interpretation. The following table provides a summary of the relationship between the Master Scale and the probability of default.

Table 47. Master scale for credit ratings

Obligor grade	Minimum PD (%)	Maximum PD (%)
0	0.00%	0.03%
1	0.03%	0.08%
2	0.08%	0.18%
3	0.18%	0.42%
4	0.42%	1.00%
5	1.00%	2.34%
6	2.34%	5.37%
7	5.37%	11.84%
8	11.84%	24.15%
9	24.15%	100.00%

- **Exposure at default (EAD) estimation models**

  CaixaBank has 15 internal exposure at default (EAD) estimation models.

  Exposure at default (EAD) is defined as the amount the customer is expected to owe the credit entity at the time of a hypothetical commencement of default at some point over the next 12 months.

  EAD is calculated as the current balance (amount included as assets on the Entity's balance sheet) plus a percentage of the unused (available) line granted, i.e., an equivalence factor termed the Credit Conversion Factor (CCF)) representing a quantitative estimate of the percentage of the amount not used by the customer that will ultimately be used or outlaid at the time of commencement of the default.

  The method used by the Entity to estimate EAD is the variable-horizon approach (setting a one-year horizon for calculation of observed CCFs).

The Entity's present EAD models for available balance commitments have been developed in accordance with the holder segment and with the product.

- **Loss given default (LGD) estimation models**

  CaixaBank has 39 loss given default (LGD) estimation models.

  LGD is the economic loss arising from a default. The Entity currently estimates average long-term LGD and LGD in adverse cycle conditions (downturn) for all transactions not in default. For transactions that are in default, a "Best Estimate" of loss is also calculated.

2. Rating models

A description of the rating models approved for use in the calculation of own funds requirements through the IRB approach is shown below:

2.1 Individuals and the self-employed

- **Asset-related Behaviour Model**. Provides a monthly evaluation of all active customers (private customers and self-employed) carrying on a transaction with a personal or mortgage guarantee.

  This is mainly used to monitor the risk outstanding on all transactions made by these customers past-due more than 12 months.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based exclusively on information concerning the customer's financial behaviour.

- **Non-Asset-related Behaviour Model.** This provides a monthly evaluation of all operating customers (private customers and self-employed) that are operating with no asset-related contracts other than credit cards.

  Its main use is to monitor the risk outstanding on all cards past-due more than 12 months.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based exclusively on information concerning the customer's financial behaviour.

- **Customer Mortgage Model.** Used to evaluate the approval of mortgage guarantee transactions for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behaviour.

- **Non-Customer Mortgage Model**. Used for evaluation in the approval of mortgage guarantee transactions for non-customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, the guarantee, and socio-demographic information on the customer.

- **Customer Personal Guarantee Model.** Used for evaluation at the time of approval of personal-guarantee transactions for customers and the approval of cards for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behaviour.

- **Non-Customer Personal Guarantee Model**. Used for evaluation in the approval of personal-guarantee transactions for non-customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, the risk characteristics of the borrower, and customer data (socio-demographic data, employment, economic information etc.).

- **Self-Employed Customer.** Used for evaluation in the approval of personal-guarantee transactions for business purposes. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behaviour.

- **Non-Customer Cards.** Used for evaluation in the approval of cards for non-customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, the risk characteristics of the borrower, and customer data (socio-demographic data, employment, economic information etc.).

2.2 Companies

- ***Ratings of SMEs and Developer SMEs.*** The aim of the SME and developer SME rating model is to assign an internal rating to private companies classified as microenterprises, small enterprises, medium-sized enterprises or developer SMEs in accordance with the internal risk segmentation system. The entire SME and developer SME portfolio is evaluated monthly, and also whenever a new transaction is approved for an SME or developer SME, if no calculated rating is available.

  A multivariate analysis methodology was used to build the four models (logistic regression), based on:

  - *Financial information*: information available from balance sheets and income statements. For instance: total assets, own funds or net profit.
  - *Operating information*: bank and credit information on the customer company, in connection with CaixaBank or other banks in the Spanish financial system (Bank of Spain's Risk Information Facility - CIRBE). For instance: average balance of liabilities or average CIRBE utilisation.
  - *Qualitative information*: based on the company's characteristics and position within its sector. For instance: the company manager's experience, real estate asset status etc.

- **Corporate ratings**. The aim of the corporate rating model is to assign an internal rating to private companies and real estate developers classified as Large Companies, in accordance with the CaixaBank internal risk segmentation system. The corporate rating is calculated by a centralised unit, and the frequency of recalculation of the rating will depend on the receipt of new information added to the appraisal, with a maximum validity of 12 months.

The corporate model is based on an expert opinion produced in accordance with the Standard & Poor's methodology, using a number of different rating tools (templates) depending on the sector to which the company belongs.

The variables used for the corporate model take into account both qualitative and quantitative factors:

- The qualitative variables represent business risk – the position of the company within the sector, for example.
- Quantitative variables are usually financial ratios – total debt/EBITDA, for example.

1.2.2.3 Exposure values

The following tables show information on the CaixaBank Group's exposures at 31 December 2015 by IRB segment, for the various debtor levels.

Table 48. IRB: exposure to credit risk by portfolio and PD interval for the Corporate segment (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure			EAD			Number of obligors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk						
1	0.05%	181	223	0	181	63	0	0.0	29.17%	1.0	22	8.99%	0
2	0.14%	2,862	4,654	124	2,862	2,006	124	0.9	37.02%	3.1	1,646	32.98%	3
3	0.33%	7,394	5,962	178	7,394	2,451	178	1.2	33.64%	3.4	4,706	46.95%	11
4	0.74%	3,376	2,464	72	3,376	903	72	1.3	35.77%	4.5	3,252	74.76%	11
5	1.57%	2,956	1,166	61	2,956	448	61	1.6	37.27%	4.9	3,520	101.56%	20
6	2.88%	2,885	1,290	33	2,885	424	33	0.9	40.62%	4.8	4,250	127.18%	39
7	7.08%	2,035	934	48	2,035	320	48	0.6	35.91%	5.8	3,439	143.09%	61
8	16.96%	361	144	2	361	47	2	0.1	35.99%	5.6	782	190.88%	25
9	42.18%	431	191	3	431	66	3	0.2	29.66%	7.0	777	155.13%	63
Default	100.00%	3,576	798	10	3,576	227	10	0.9	53.33%	5.8	570	14.96%	2,034
Total	**13.38%**	**26,056**	**17,827**	**532**	**26,056**	**6,955**	**532**	**7.8**	**37.83%**	**4.3**	**22,964**	**68.46%**	**2,268**

(*) Number of customer (miles)

Table 49. IRB: exposure to credit risk by portfolio and PD interval for the SME segment (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure: On-balance sheet amount	Original Exposure: Off-balance sheet amount	Original Exposure: Counterparty credit risk	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Counterparty credit risk	Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
1	0.06%	200	80	1	200	39	1	1.9	34.64%	6	29	12.02%	0
2	0.14%	1,386	633	9	1,386	314	9	7.2	30.48%	5	316	18.48%	1
3	0.33%	1,186	364	8	1,186	152	8	5.2	28.69%	6	390	28.95%	1
4	0.70%	2,246	608	19	2,246	246	19	9.0	29.52%	7	1,046	41.64%	5
5	1.86%	2,262	497	21	2,262	176	21	7.6	29.43%	8	1,465	59.56%	13
6	3.32%	1,655	324	6	1,655	81	6	9.2	27.68%	10	1,139	65.39%	16
7	7.02%	610	175	4	610	26	4	2.5	25.99%	13	484	75.56%	12
8	16.87%	237	29	2	237	4	2	0.7	24.96%	11	235	96.66%	10
9	36.92%	501	103	1	501	27	1	1.5	26.44%	13	583	110.35%	51
Default	100.00%	4,123	410	11	4,123	81	11	7.1	41.00%	11	307	7.29%	1,728
Total	**29.57%**	**14,406**	**3,223**	**84**	**14,406**	**1,146**	**84**	**52.0**	**32.19%**	**8.9**	**5,994**	**38.34%**	**1,838**

(*) Number of customer (miles)

Table 50. IRB: exposure to credit risk by portfolio and PD interval for the retail segment covered by real-estate mortgages (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure			EAD			Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
		On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk						
1	0.04%	51,453	14,404	0	51,453	520	0	875.7	17.38%	19.0	1,136	2.19%	4
2	0.12%	10,762	2,306	0	10,762	70	0	160.9	20.12%	20.6	614	5.67%	3
3	0.25%	13,392	2,808	0	13,392	81	0	201.5	19.81%	20.0	1,323	9.82%	7
4	0.69%	8,490	1,247	0	8,490	41	0	121.2	20.51%	19.7	1,794	21.03%	12
5	1.59%	3,478	380	0	3,478	14	0	49.9	20.67%	19.6	1,291	36.96%	11
6	3.73%	4,549	482	0	4,549	18	0	69.4	20.41%	19.5	2,741	60.02%	35
7	9.30%	1,521	101	0	1,521	4	0	20.5	21.37%	19.8	1,518	99.55%	30
8	17.32%	1,555	106	0	1,555	5	0	19.8	21.80%	19.7	1,952	125.16%	59
9	31.94%	2,651	122	0	2,651	8	0	30.1	21.88%	19.5	3,557	133.81%	186
Default	100.00%	4,657	67	0	4,657	0	0	38.9	35.96%	18.9	125	2.67%	1,675
Total	**6.07%**	**102,506**	**22,023**	**0**	**102,506**	**762**	**0**	**1,588.0**	**19.57%**	**19.4**	**16,052**	**15.54%**	**2,021**

(*) Number of customer (miles)

Table 51. IRB - exposure to credit risk by portfolio and PD interval for the SME retail segment covered by real-estate mortgages (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure			EAD			Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
		On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk						
1	0.04%	1,882	557	0	1,882	24	0	31.2	13.67%	14.1	27	1.41%	0
2	0.12%	836	214	0	836	18	0	10.1	15.87%	13.3	31	3.61%	0
3	0.26%	1,165	282	0	1,165	19	0	13.3	16.16%	13.6	76	6.41%	1
4	0.71%	1,786	313	0	1,786	27	0	17.0	17.28%	13.1	250	13.80%	2
5	1.74%	1,476	243	0	1,476	17	0	13.3	17.89%	13.5	385	25.77%	5
6	3.66%	2,332	342	0	2,332	22	0	24.0	17.72%	13.3	1,022	43.42%	15
7	7.82%	653	131	0	653	3	0	5.5	19.47%	16.2	419	63.80%	10
8	17.60%	322	27	0	322	1	0	3.1	18.02%	14.4	256	79.25%	10
9	34.74%	670	59	0	670	3	0	5.7	19.19%	14.2	593	88.16%	45
Default	100.00%	2,025	92	0	2,025	0	0	12.3	32.36%	13.2	92	4.56%	655
Total	**18.80%**	**13,148**	**2,260**	**0**	**13,148**	**134**	**0**	**135.6**	**19.24%**	**13.6**	**3,151**	**23.72%**	**744**

(*) Number of customer (miles)

Table 52. IRB: exposure to credit risk by portfolio and PD interval for the eligible renewable retail segment (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure: On-balance sheet amount	Original Exposure: Off-balance sheet amount	Original Exposure: Counterparty credit risk	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Counterparty credit risk	Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
1	0.04%	602	2,861	0	602	916	0	1,154.7	77.00%	3.4	31	2.07%	0
2	0.12%	268	1,175	0	268	378	0	684.3	77.00%	3.5	36	5.56%	1
3	0.22%	153	511	0	153	186	0	308.9	77.00%	3.7	32	9.30%	1
4	0.58%	364	804	0	364	277	0	612.1	76.95%	3.6	130	20.21%	3
5	1.53%	191	333	0	191	123	0	405.7	76.78%	3.8	134	42.70%	4
6	3.33%	230	232	0	230	83	0	486.4	76.56%	3.7	232	74.15%	8
7	7.14%	99	69	0	99	25	0	189.0	76.45%	3.7	153	123.41%	7
8	14.98%	84	32	0	84	12	0	143.9	75.88%	3.6	174	182.28%	11
9	39.14%	29	4	0	29	2	0	58.2	70.18%	2.8	68	220.39%	9
Default	100.00%	18	0	0	18	0	0	11.3	68.28%	1.5	0	0.22%	12
Total	**1.83%**	**2,038**	**6,022**	**0**	**2,038**	**2,000**	**0**	**4,054.5**	**76.81%**	**3.5**	**989**	**24.50%**	**54**

(*) Number of customer (miles)

Table 53. IRB: exposure to credit risk by portfolio and PD interval for the SME retail segment (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure			EAD			Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
		On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk	On-balance sheet amount	Off-balance sheet amount	Counterparty credit risk						
1	0.05%	475	263	1	475	144	1	21.7	51.32%	3.6	36	5.84%	0
2	0.14%	459	344	1	459	196	1	35.6	50.61%	3.2	81	12.40%	0
3	0.31%	755	389	1	755	218	1	57.4	56.39%	3.0	241	24.76%	2
4	0.71%	1,051	538	4	1,051	286	4	81.0	48.82%	2.6	453	33.77%	5
5	1.65%	1,127	352	3	1,127	184	3	58.0	51.35%	4.5	652	49.65%	11
6	3.60%	1,123	382	3	1,123	165	3	118.1	48.38%	2.7	720	55.72%	22
7	8.19%	183	44	1	183	17	1	11.6	50.25%	2.2	130	64.73%	8
8	16.85%	90	15	0	90	5	0	7.2	49.78%	3.1	79	82.70%	8
9	37.85%	105	26	1	105	9	1	8.5	48.85%	4.6	118	102.41%	21
Default	100.00%	290	61	1	290	18	1	11.1	60.85%	4.6	34	10.98%	188
Total	**6.74%**	**5,658**	**2,414**	**16**	**5,658**	**1,241**	**16**	**410.1**	**51.27%**	**3.3**	**2,544**	**36.79%**	**265**

(*) Number of customer (miles)

Table 54. IRB: exposure to credit risk by portfolio and PD interval for other retail exposures (CR6)

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure: On-balance sheet amount	Original Exposure: Off-balance sheet amount	Original Exposure: Counterparty credit risk	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Counterparty credit risk	Number of obligors (*)	LGD	Average maturity (years)	RWA	%RW	EL
1	0.04%	1,371	82	1	1,371	44	1	84.5	55.12%	7.9	110	7.75%	0
2	0.12%	527	12	0	527	9	0	60.4	64.01%	4.9	104	19.33%	0
3	0.29%	647	16	0	647	11	0	81.6	62.41%	4.6	223	33.86%	1
4	0.66%	463	13	0	463	4	0	69.7	67.43%	4.3	275	58.82%	2
5	1.47%	385	18	0	385	6	0	81.6	67.34%	4.2	326	83.57%	4
6	3.33%	323	16	0	323	3	0	113.0	64.43%	4.3	312	95.85%	7
7	8.09%	68	6	0	68	1	0	41.9	61.66%	4.2	72	104.07%	3
8	15.94%	85	3	0	85	0	0	41.1	59.40%	4.8	109	126.73%	8
9	38.10%	92	2	0	92	0	0	31.5	60.07%	5.0	151	163.93%	21
Default	100.00%	116	0	0	116	0	0	12.0	76.79%	7.8	4	3.57%	89
Total	**4.65%**	**4,079**	**168**	**1**	**4,079**	**78**	**1**	**617.3**	**61.60%**	**5.8**	**1,687**	**40.56%**	**137**

(*) Number of customer (miles)

1.2.2.5. Comparative analysis of estimates and results obtained.

1. Introduction

Regulatory expected loss includes estimated annual average loss for a complete economic cycle. This loss is calculated according to the following items:

- Probability of Default - Through The Cycle, ("PD"): Indicates the ratio of default to average total risk on non-distressed assets expected over one year of the economic cycle for a given credit rating. The value is obtained based on existing defaults in the portfolio.
- Downturn loss given default (LGD DT): indicates the proportion of debt expected to be unrecovered in a downturn of the cycle. Consequently, the loss given default that is initially estimated, based on flows from processes to recover contracts in default and in accordance with the portfolio is stressed using an explicative variable or is estimated based on an estimate sample restricted to a downturn in the cycle.
- Exposure at default (EAD): expected exposure when default occurs.

Given that expected loss is calculated using a probability of default anchored to the cycle and a representative loss given default in a downturn in the cycle, the value used for expected loss will vary only, given certain risk parameters, as a result of changes in the composition or characteristics of the portfolio.

In addition, the effective loss is the value of the adjusted loss incurred in the portfolio during a specific period. Effective loss may be broken down into following concepts:

- Observed default frequency (ODF): the proportion of non-distressed loans that default in a one-year time horizon.
- Realised loss given default (LGD): calculated based on recovery flows and losses on contracts in default. This LGD indicates the proportion of debt recovered during the recovery process.
- Realised exposure: risk assigned to a contract at the time of default.

Because effective loss is calculated using the values corresponding to each observation period, the values obtained for this item will depend directly on the economic situation during that period.

Based on the definitions set out above, the historical ODFs and comparisons applied to the main IRB portfolios are given:

- ODF vs. PD: A comparison is made of the ODF risk tranche for 2015 with the PD calculated at 31 December 2014 and used to calculate the own funds requirements at the same date.
- EAD vs. realised exposure: for contracts entering into default in 2015, the estimated EAD at 31 December 2014 is compared to the actual realised exposure when the default was identified.
- LGD DT vs. realised LGD: compares downturn LGD at 31 December 2012 to realised LGD of defaults identified over the period of one year whose recovery process has been completed. A reference date prior to that used for the rest of the parameters is taken to allow the recovery cycles to mature so as to have a more representative sample for the analysis.
- Realised loss vs. expected loss: estimated expected loss at 31 December is compared to observed loss on the portfolio during the ensuing year. The analysis covers the 2011-2015 period.

The developers and large companies portfolios are not included in the analysis of exposure, loss given default and expected loss, as they are of limited significance due to their small size (in terms of number of transactions, and exposure in the case of developers).

2. Historical ODFs

Historical ODFs show the level of default on exposures contracted with CaixaBank over time.

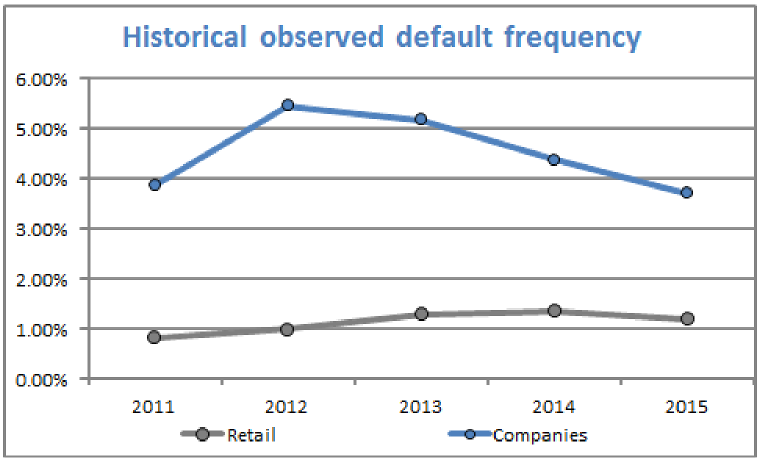
Table 55. ODFs

	Historical ODF				
	2011	2012	2013	2014	2015
Retail	0.82%	0.99%	1.28%	1.35%	1.18%
Companies	3.86%	5.45%	5.17%	4.37%	3.70%

After several years of severe economic recession, we note that:

- The ODF of the SMEs portfolio confirms the changing trend, decreasing over the last 3 years.
- The ODF for individuals remains very low, despite increasing over recent years. The trend has changed and improved compared to 2014.

Chart 1. ODF performance



3. Comparison of ODFs and PD

The regulatory estimate of own funds requirements for covering expected and unexpected losses in a year is made based on a measurement of the PD of each customer/contract using the information available at the previous year-end.

For the purposes of regulatory compliance and in order to maintain stability in the estimates, the Through-the-Cycle PD (hereinafter "PD" for simplicity) of a portfolio at year-end is not intended to predict default for the following year, but rather to measure the mean probability of default throughout the cycle.

Therefore, ODFs should, naturally, be higher than estimated PD during weak points in the economic cycle, whilst in boom times, ODFs should be lower than PD.

Despite their different roles in reflecting the impact of business cycles, a comparison of the two variables indicates the size of the adjustment to the cycle made in PD estimates. As can be seen from the following charts, in most tranches, ODFs are close to estimated PD levels. This situation is consistent with the improvements we are seeing in the wider economy.

Depending on the score for contracts as compared with that of individuals, or on the ratings of legal persons, each portfolio is segmented into various levels of credit quality, as defined in the Master Scale, with various PD levels.

The accuracy of the models may be analysed by comparing the ODF actually obtained in the year with the PD estimate made at the beginning of the year, for each credit-quality tranche of each portfolio. This analysis aims to:

- Confirm that the relationship between ODF and the master scale is a monotone increase: this is what is expected of models with significant discriminatory power, such as the Entity's.
- Compare the levels for analysing the cyclical nature of the estimate with actual data.

In this section, a comparison is made for each risk tranche in each portfolio:

- 2015 ODFs Figures for default between January and November 2015 are used and annualised.
- The PDs for 2015 estimated at year-end 2014

To provide a better understanding of the data, a distribution is shown of the number of retail contracts along with the number of legal entity customers at year-end 2014.

Retail

Chart 2. Mortgages

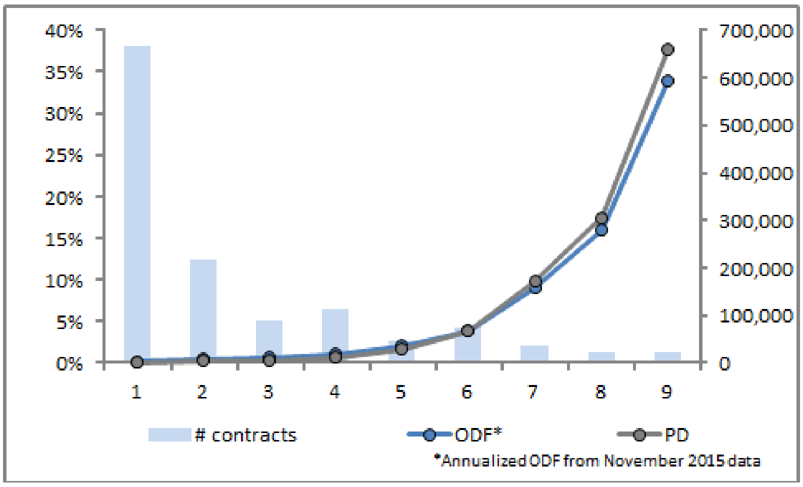


Chart 3. Consumer

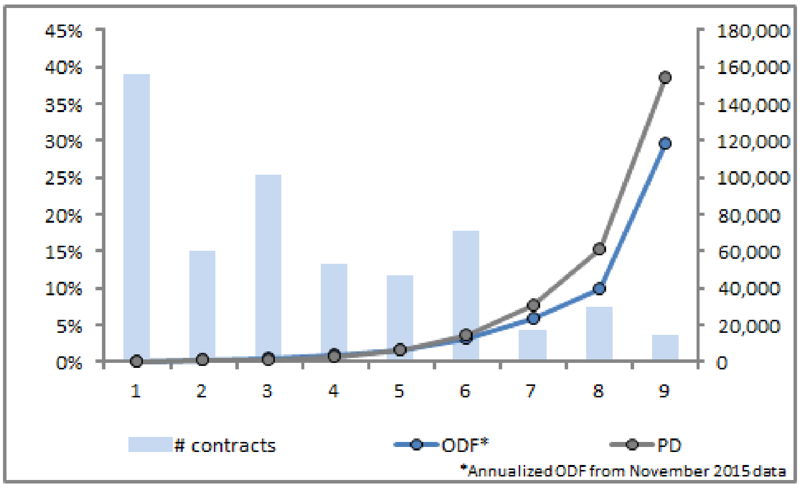
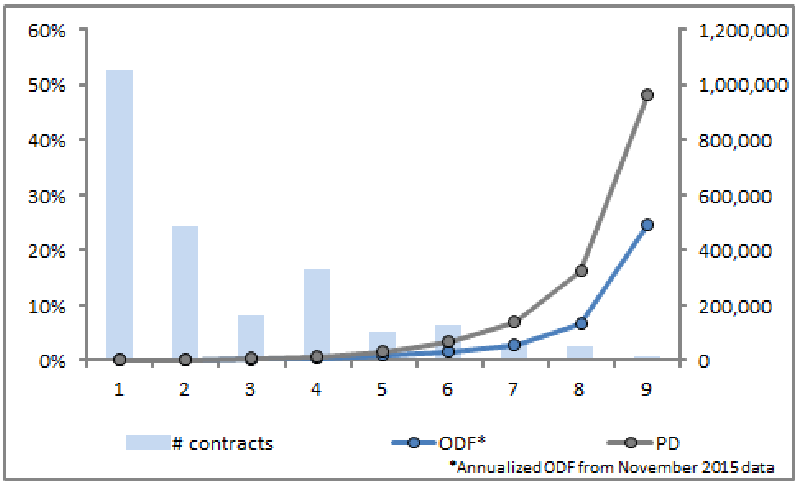


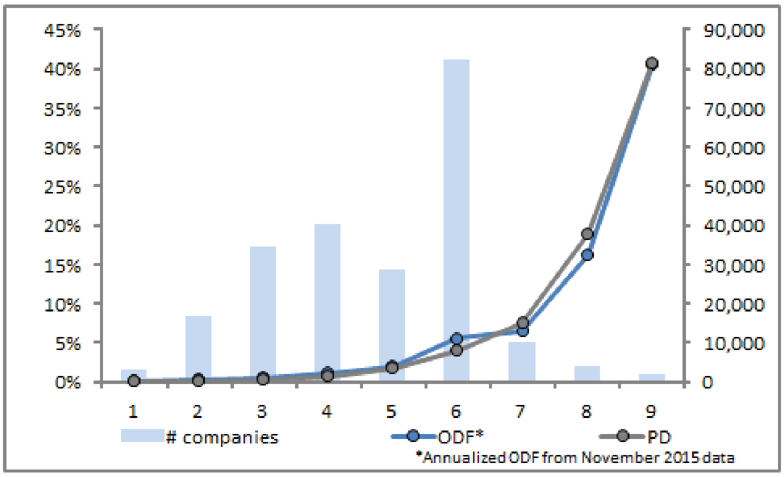
Chart 4. Cards



The individuals portfolio confirms that the ODF series is a rising monotone function of the master scale. In other words, as indicated previously, it reflects that CaixaBank's internal retail models discriminate customers correctly by level of risk.

Company

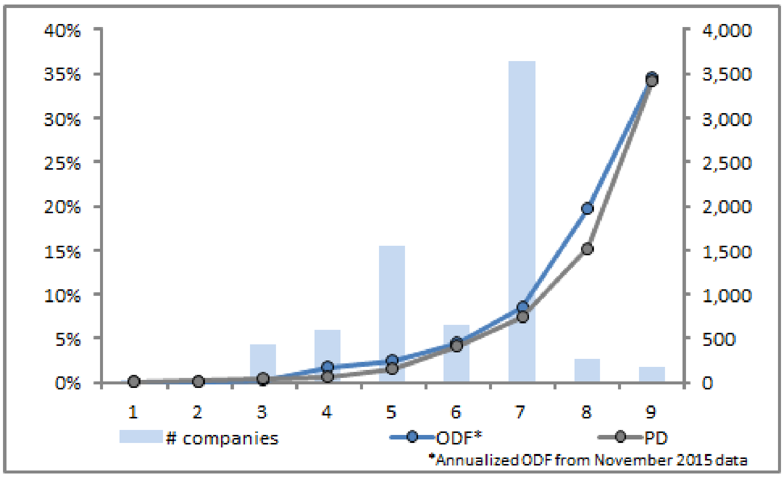
Chart 5. Non-developer SMEs



Both the ODF of the non-developer SME portfolio and the PD are rising monotonous functions with respect to the Master Scale. Thus, the internal models are correctly classifying customers by risk level.

The portfolio PD is in line with the observed default frequency in 2015, confirming the model is performing well in the current economic situation.

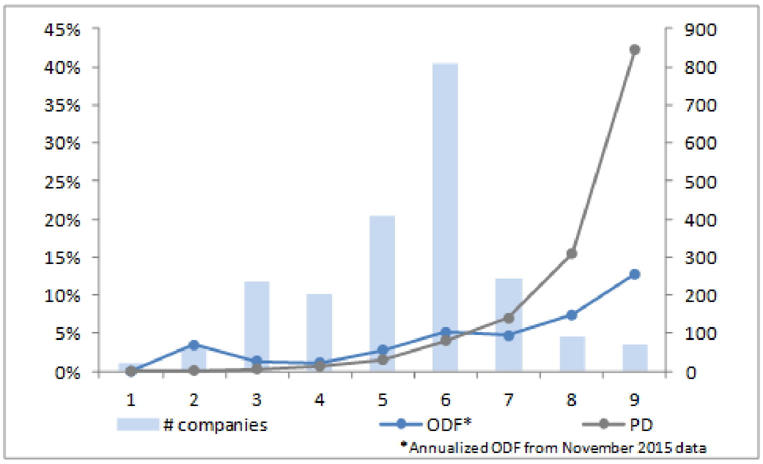
Chart 6. Developer SMEs



Both the ODF and the PD, barring some tranches, in the developer portfolio are rising monotonous functions with respect to the Master Scale. In this way, CaixaBank's internal models are considered to discriminate customers reasonably by risk level.

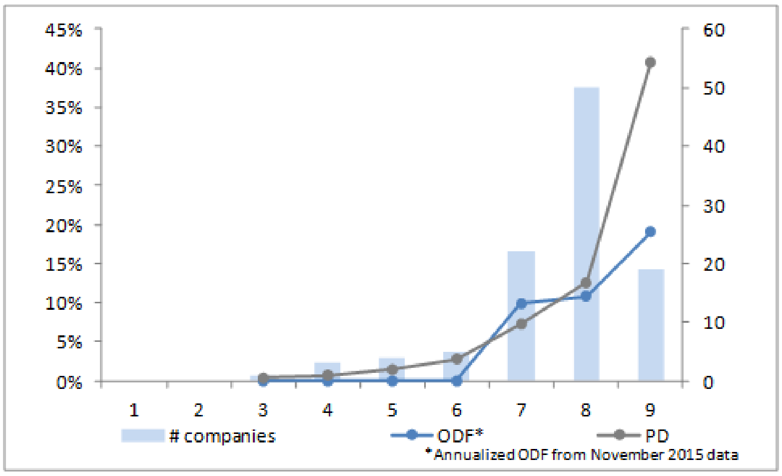
The ODFs are slightly higher than the PDs, as the developer portfolio has been hit hard over recent years, and, whilst the ODF is sensitive to the economic cycle, PD is an average estimate.

Chart 7. Large non-developer companies



The small numbers of customers in the large companies portfolio means that the ODF on the master scale is not statistically representative, and therefore the ODF cannot be required to be monotonous. Nevertheless, despite the ODF not being strictly rising, there is an increasing trend as we move towards master scales for poorer credit quality.

Chart 8. Large developer companies



Given the small number of real estate developers and their greater concentration in the scales for lower credit quality, default is concentrated in the last three tranches of the scales. The absence of default gives 0% for the rest of the ODF tranches.

4. Comparison of EAD and realised exposure

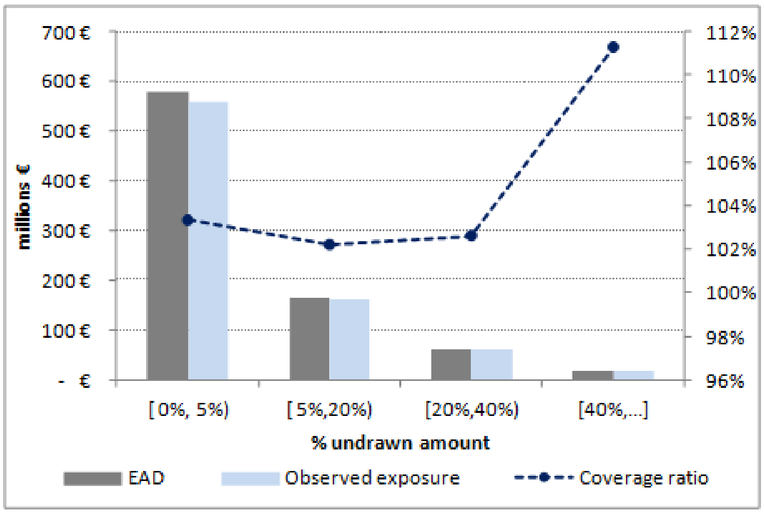
EAD (exposure at default) is defined as the estimated amount that will be drawn by the customer at the time of default. The value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

To verify the usefulness of the estimated CCF, for the main portfolios in which the customer is permitted to draw up to the contractual limit, estimated EAD at 31 December 2014 is compared to realised exposure at the date the default was identified. This comparison is made by tranches of undrawn commitments, calculated as the amount available or undrawn by the limit or potential maximum amount drawn.

The coverage ratio is also defined as a measure to assess the accuracy of the estimates made. This ratio is defined as estimated EAD divided by realised exposure.

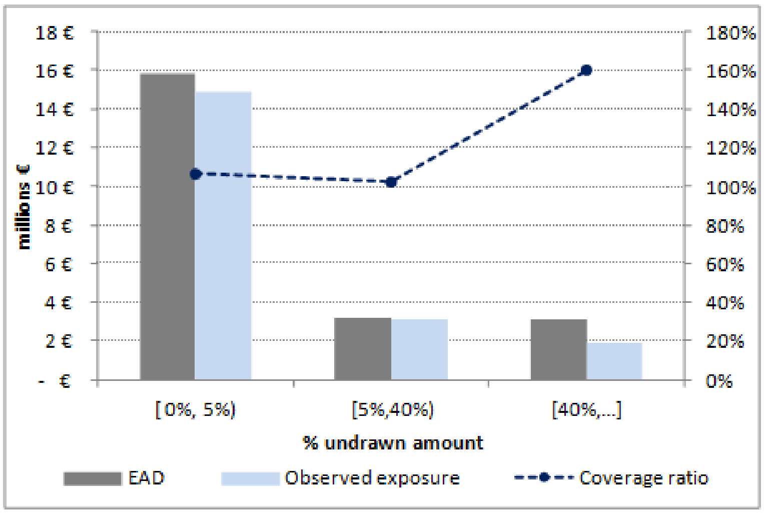
Retail

Chart 9. Open credit



Open credit is one of the main products in CaixaBank's entire portfolio and especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 103%, indicating that the CCF of this product provides an accurate prediction of exposure at the time of default.

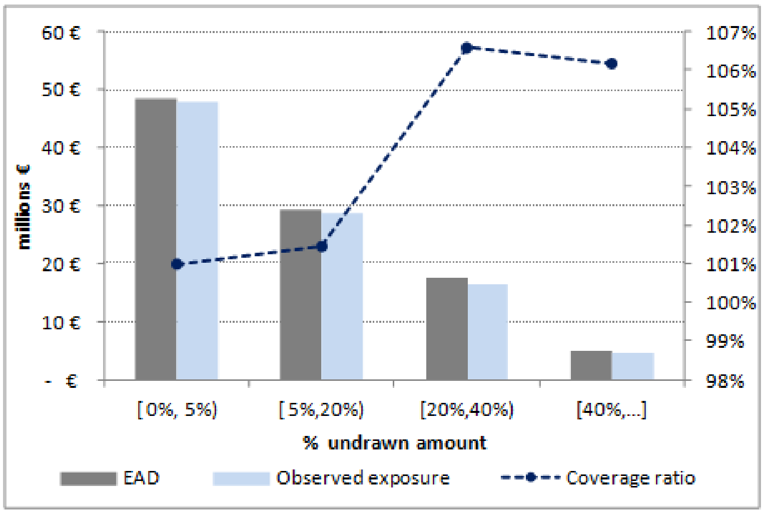
Chart 10. Credit cards



In retail credit cards, the estimated EAD at the beginning of the year was higher than realised EAD when the default occurs, with an average coverage ratio of 111%.

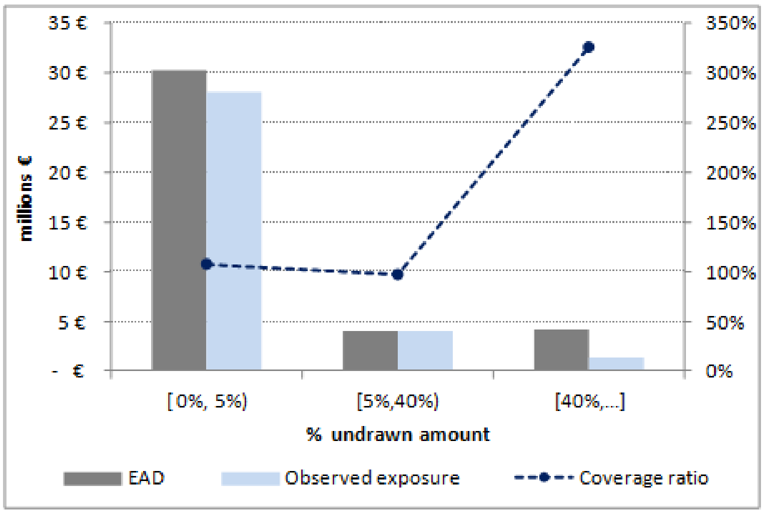
SME

Chart 11. Open credit



In all undrawn tranches, total estimated EAD for lending to SMEs is slightly higher than realised exposure at the time of default. This situation gives rise to a coverage ratio for the portfolio of 102%.

Chart 12. Credit accounts



That there is a significant concentration in the highest undrawn tranche is a good indicator that the credit limits are aligned correctly with the needs of the SMEs, not allowing for drawdowns that could pose a higher risk to the Entity.

The coverage ratio of this portfolio is 114%, so the estimated EAD easily covers realised exposure at the time of default.

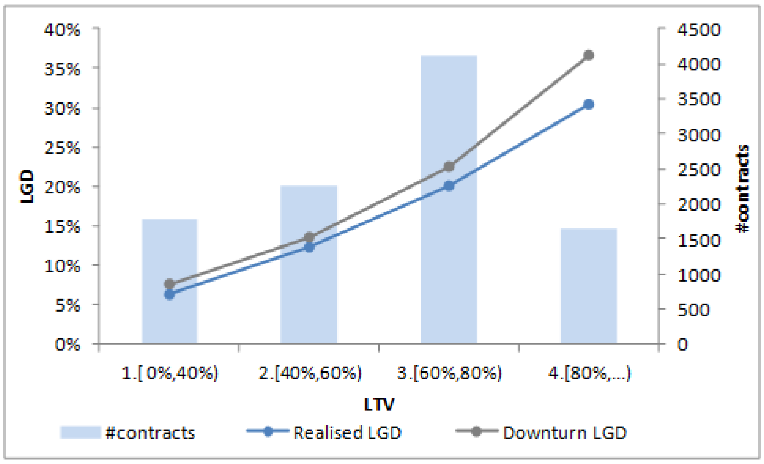
5. Comparison of LGD DT and realised LGD

LGD (loss given default) measures the proportion of EAD that the Entity has not been able to recover after completing the recovery process. Therefore, as the real loss on a default will only become certain upon conclusion of the recovery process, which can take anywhere from a few days up to several years, observed LGD can only be calculated for completed processes. This situation requires a longer observation period than for the ODF of exposure to obtain the realised LGD. Moreover, for the same portfolio in default, the average realised LGD can vary from one year to another due to the inclusion of new completed defaults.

To provide an observation period longer than one year, in the following analyses defaults of non-distressed loans at 31 December 2012, for which recovery process were completed by 30 November 2015, were selected.

Retail

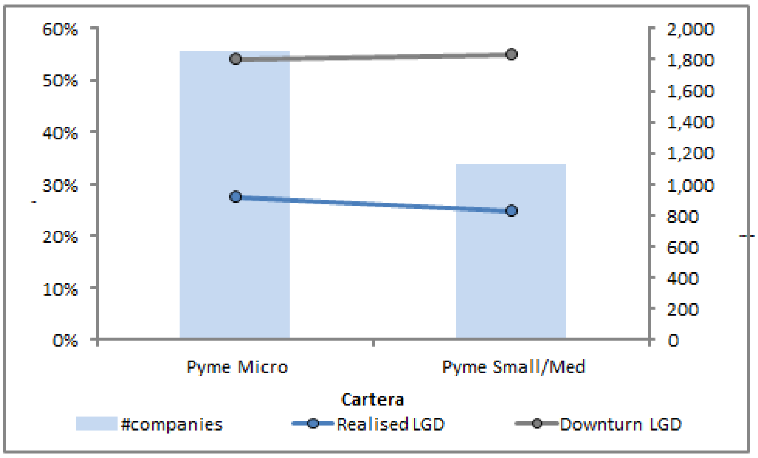
Chart 13. Mortgage guarantee (1st mortgage)



Generally speaking, realised LGD for individuals with mortgage collateral (17.52%) is slightly lower than estimated LGD (20.12%). As the observation period corresponds to a recession, in which the decline in residential property values undermined the recovery of mortgage loans in default, it is not surprising that realised LGD is close to LGD DT. Accordingly, CaixaBank's estimate captures correctly the impact of the downturn scenario for the mortgage portfolio on LGD.

SME

Chart 14. Personal guarantees



Despite selecting a period that includes recession years, realised LGD (26.30%) for the SME without guarantees portfolio is below estimated LGD (54.87%), indicating that the estimate was based on extremely prudent criteria, and that recovery processes and policies are working adequately.

6. Comparison between effective loss and regulatory expected loss

The objectives for this exercise are as follows:

1. Verifying how regulatory expected loss remains stable over the cycle, while realised loss depends directly on the economic situation at any given time.
2. Evaluating the extent to which the size of the difference between the two figures is reasonable

Regarding the first objective, regulatory expected loss is estimated to be the annual average loss for the economic cycle and, therefore, cannot be considered an estimator in line with expected loss in a specific year or period. Consequently, whereas regulatory expected loss should show stable values over time, realised loss will fluctuate in accordance with the phase of the economic cycle and the recovery policies applied by the Entity.

To compare expected loss and effective loss, non-distressed loans at 31 December of each year measured using an advanced IRB approach were used, with expected loss at that time compared to realised loss observed the following year. In light of existing restrictions, the following assumptions were used to calculate effective loss:

- Effective loss is only calculated for loan contracts that have entered in default, taking as exposure the realised exposure at the time of default. Therefore, those that have not defaulted during the following year will have an effective loss of EUR 0.
- The LGD assigned to loans in default whose recovery process has yet to conclude will be the average realised LGD in the 2009-2014 period in the same segmentation and driver tranche.
- Loans whose default is considered completed but for which realised LGD is not available are assigned the average realised LGD for defaults in the same year as the default, type of completion (resolution, foreclosure, payments in lieu, write-off, etc.), segmentation and driver tranche. Given the lack of processed data for recoveries in 2015, defaults in that period are assigned the average realised LGD for defaults in 2014 (rather than 2015) for the same type of completion, segmentation and driver tranche.
- Effective loss could vary from one year to another for the same period due to the completion of recovery processes. As a result, the realised LGD of the portfolio could vary, making it more precise and adjusting effective loss accordingly.
- To make the values of all the years comparable, loans from the integrated banks (Banca Cívica, Banco de Valencia and Barclays) have been excluded from the analysis.
- The effective loss for 2015 has been annualised to correct the effect of using data to November 2015.
- The percentage values of expected loss and effective loss have been calculated using the cleaned up EAD at the end of the previous year.

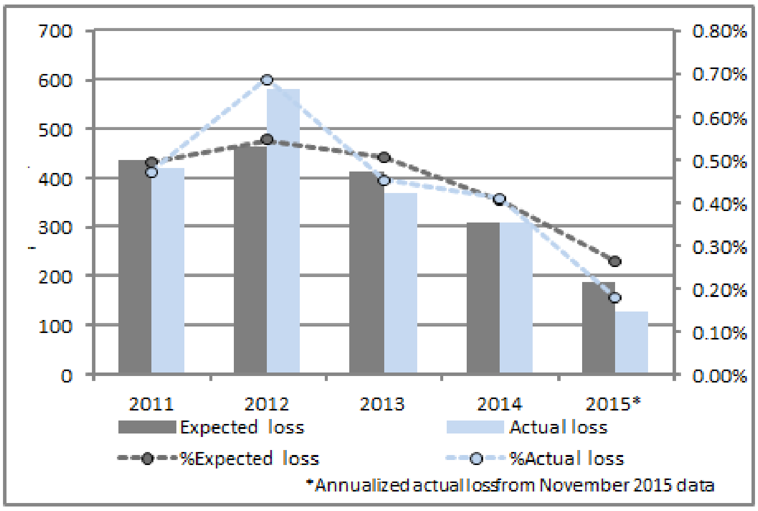
Finally, CaixaBank carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two ways:

- First, having a sample with adjusted data, and a larger volume of data, improves the precision of the estimated parameters;
- Second, the continuous process of analysing and studying the information contained in CaixaBank's systems makes it possible to identify new patterns and explicative variables or to renew the existing patterns and variables, thus improving the prediction of expected loss.

Changes in expected loss and effective loss in recent years in different advanced IRB portfolios are shown below:

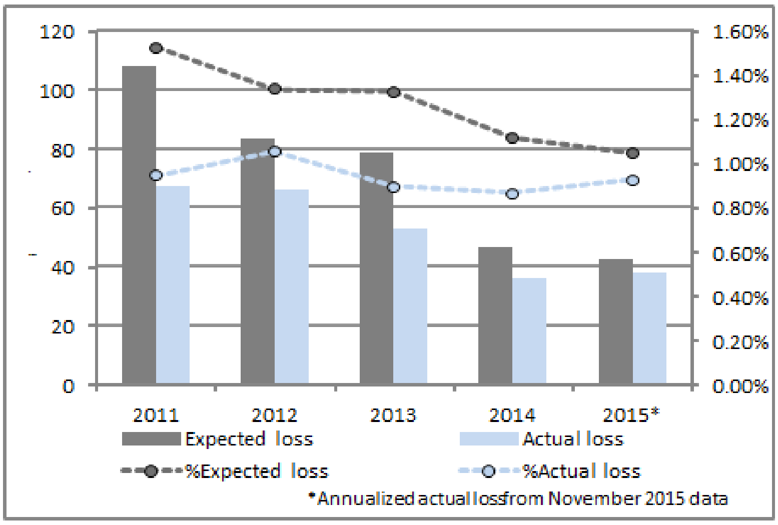
Retail

Chart 15. Expected and effective loss in the retail mortgage portfolio



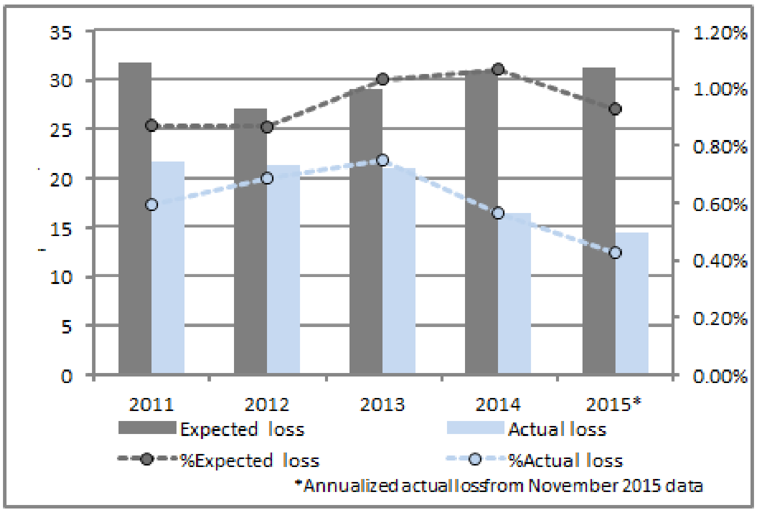
Whilst effective loss on the retail portfolio with mortgage guarantees fluctuates slightly, we can see that, in general, expected loss and effective loss have behaved in a similar fashion (except in 2012). Moreover, the relative indicators show that the reduction in loss totals are mainly determined by improved credit quality, and therefore not by a reduction in the portfolio's exposure.

Chart 16. Expected and effective loss in the retail consumer portfolio



Throughout the historical series, effective losses on consumer business have been below expected loss, although the latter has gradually been coming more into line with observed losses over time.

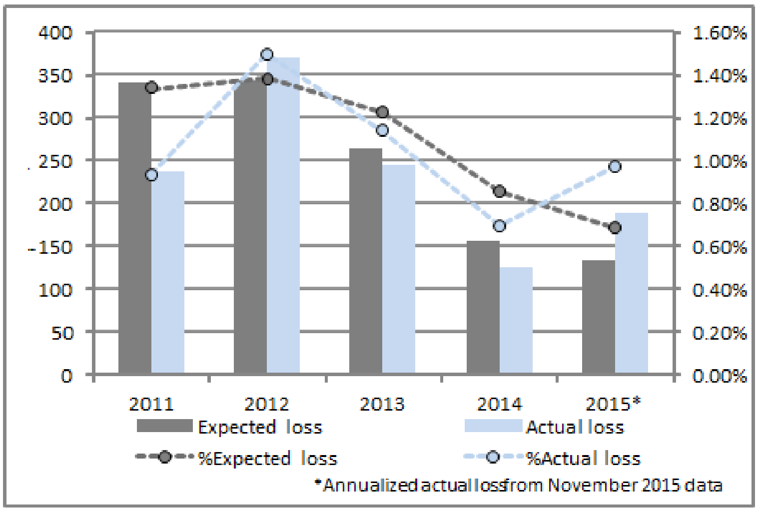
Chart 17. Expected and effective loss in the retail card portfolio



Expected loss has been relatively stable over the observation period, and well above effective loss. It is noteworthy that over the first few years, which coincided with a period of serious economic recession, both expected loss and effective loss grew as a percentage of exposure, despite volumes decreasing in some cases, indicating an increase in estimated/realised risk. However, the trend changed in 2013. As a result, in 2015, the volume of expected loss on cards increased but expected loss expressed as a percentage decreased, indicating the portfolio grew through higher quality business.

Company

Chart 18. Expected and effective loss in the SME portfolio



Expected loss and effective loss are generally at similar levels, except for 2011 and 2015. Management of the portfolio over the last 3 years has reduced estimated risk by improving the quality of the portfolio.

1.2.2.6. Integration of internal risk estimates in management

The use of risk parameters, PD, LGD and EAD, is key to managing the Entity's credit risk and goes beyond regulatory use.

The main risk-measurement parameters are taken into account in decision-making, from approval through to the monitoring of exposure, as well as in managing incentives and monitoring the profitability of business segments.

The main tools and policies are listed below:

- **Authorisation system for expected loss in the approval of risk for companies:**

  Calculating the level of risk for expected loss (PD x EAD x LGD) improves risk control, bringing approval authorisations into line with the measured risk of the customer and, if applicable, that of the customer's economic group.

  The level of risk of an application pending approval combines the expected loss and the maximum loss (EAD x LGD) of all a customer's applications and contracts and those of its economic group across the Entity, including new arrangements and excluding any transactions that are earmarked for cancellation.

  The limit on maximum loss prevents excessively high nominal amounts from being authorised when the customer's PD is extremely low.

  The level of risk approval is determined in accordance with expected loss amounts and maximum cumulative loss amounts for each borrower's transactions and those of its related economic group, as appropriate.

- **Risk approval pricing system:**

  Ensures a proper relationship between return and risk, at the application level. Estimate of the price of the transaction as the sum of:

  - **Expected loss**
  - Cost of **own funds**
  - Estimated internal **operating costs**
  - Liquidity premium

- **Risk premium diagnostics system in the authorisation of retail lending:**

  Automatic action-recommendation system in the approval of transactions with individuals based on the **Risk Premium** (expected loss + return on capital).

  Establishment of a transaction acceptance/denial boundary point, with a penalisation on the requested risk authorisations in the event of an especially high risk level.

- **Risk-Adjusted Return (RAR) System:**

  Risk-adjusted return measures return on capital consumption after deducting expected loss, operating costs and cost of funds.

$$RAR = \frac{Operating\ income - Expected\ loss}{Capital\ Required}$$

  The minimum return on capital that a transaction should achieve is determined by the cost of capital, which is the minimum return required by shareholders.

  When a transaction yields a positive risk-adjusted return, this means that it shares in the Entity's profits, but it will only create shareholder value when the return exceeds the cost of capital.

  This system allows for greater control over the balance between return and risk relative to the Entity's customer portfolio.

- **Risk-adjusted bonus (RAB) System:**

  This is a system that applies to all groups considered credit-risk and market-risk takers and drivers, as well as departments responsible for control and financial monitoring. It is linked to existing variable-remuneration programs at CaixaBank – the Central Services Targets Program and the Bonus Program for the different Business Areas – that apply to the employees of those groups.

  Its main objectives are:

  - To adjust the amount of variable remuneration to the risks assumed by these employees in order to meet the objectives set and the global results of the Entity;
  - To adjust the amount of variable remuneration payable to each employee in the event that the risks assumed by the Entity materialise.

1.2.3. Securitisation transactions

1.2.3.1 General information on securitisations

1. Group objectives and functions

The CaixaBank Group focused on two objectives in its securitisation transactions up until the integration of Banca Cívica, Banco de Valencia and Barclays:

- These objectives chiefly consist of using bonds arising from the securitisation process as eligible collateral vis-à-vis the European Central Bank. The CaixaBank Group repurchases these bonds, thereby diversifying the Entity's possible sources of finance during adverse situations on finance markets.
- On a more sporadic basis it carries out asset securitisation processes to obtain financing at a more competitive price by placing tranches of bonds guaranteed by programs sponsored by the State (FTPYME) or the Catalonian Autonomous Government (FTGENCAT), and other public bodies, market conditions permitting.

The CaixaBank Group primarily performs an originator function, i.e., it converts a portion of its homogeneous loan and credit portfolios into fixed-income securities by transferring the assets to a number of securitisation funds, whose unit holders assume the risks inherent to securitisation transactions. As mentioned above, in its securitisation activities the CaixaBank Group does not aim to obtain liquidity or transfer risk, and thus it acquires practically all of the bonds issued by the corresponding securitisation funds as counterparty to the assets transferred to them.

However, following the integration of Banca Cívica, Banco Valencia and Barclays SAU, various securitisation transactions, aimed mainly at obtaining liquidity and transferring both accounting and regulatory risk by mobilising part of the asset portfolio, were included in the CaixaBank Group.

Meanwhile, positions in securitisations in which the CaixaBank Group was not the originator arise mainly from the investment portfolios of one of the integrated entities. The objective in managing these positions has been to settle the position as soon as market positions allow. While the position remains in the portfolio, it is marked-to market daily and creditworthiness is reviewed regularly.

A description of the various areas involved in the securitisation processes and their roles is given below:

- **Markets**. Responsible for determining the purpose and scope of the operation, obtaining the approval of the internal management body, designing the financial framework for the operation, determining bond margins, and coordinating the management and placement of the bonds.
- **Balance Sheet and Projection Models**. For future issues aimed at transferring regulatory risk, this area is responsible for determining the size of the transaction, obtaining the approval of the internal management body, designing the financial framework for the transaction, determining bond margins, and coordinating the management and placement of the bonds.
- **Approval Policies and Procedures**. Determines the selection and analysis criteria for the portfolio, provides the additional historical information required by external rating agencies, and is responsible for yearly asset audits.
- **Information Management Systems**. Responsible for portfolio extraction (preliminary, provisional and final) and the respective repayment schedules.
- **Legal Services**. Responsible for obtaining approval from the corresponding internal body at the Entity, and supervising the documentation generated.
- **Audit and Accounting control**. This area handles accounting operations for the transaction.
- **Risk in Market Operations**. Responsible for calculating the capital charge for exposures to securitisation and reporting this in the capital adequacy statements.
- **Operational Market Services**. Responsible for monitoring payments into securitisation funds, and resolving incidents and handling requests from the fund managers.

Mention must be made of the role played by GestiCaixa, S.G.F.T., S.A. as the CaixaBank Group's securitisation fund manager, the main functions of which are the creation, administration and representation for legal purposes of asset securitisation funds and taking part in their structuring.

The securitisation funds deriving from Banca Cívica, for which the Entity acted as originator, were managed by Titulización de Activos, S.G.F.T., S.A. and Ahorro y Titulización, S.G.F.T., S.A.

The securitisation funds in which Banco de Valencia acted as the originator were managed by Europea de Titulización S.A., S.G.F.T.

The securitisation funds in which Barclays SAU acted as the originator were managed by Ahorro y Titulización, S.G.F.T., S.A.

To date, the CaixaBank Group has not carried out any synthetic securitisation transactions. Banco de Valencia, Banca Cívica or Barclays SAU also did not carry out any such transactions in the years prior to their integration into the CaixaBank Group.

Moreover, it is worth noting that in its securitisation activities the CaixaBank Group uses the four external rating agencies considered acceptable by the regulator (Moody's, S&P, Fitch and DBRS).

2. Accounting policies

Pursuant to accounting regulations, all or part of a financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the entity transfers the asset to a third party outside the entity.

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with ownership of the transferred assets are transferred to third parties. In this regard:

- If substantially all the risks and rewards of ownership of the transferred asset are transferred (such as asset securitisations in which the transferor does not retain any subordinated loans and does not provide any type of credit enhancement to the new owners), it is derecognised, and any rights or obligations retained or arising as a result of the transfer are simultaneously recognised.
- If the Group retains substantially all the rights and rewards associated with the transferred financial asset, the transferred financial asset is not derecognised and continues to be recognised, measured using the same criteria as used before the transfer.
  - A financial liability equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements to be classified under other liabilities at fair value through profit or loss; and
  - The income generated on the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offset.

- If substantially all the risks and rewards of ownership of the transferred financial asset are neither transferred nor retained (such as in the case of securitisations in which the transferor assumes a subordinated loan or other type of credit enhancement for part of the transferred asset), the following distinction is made:
  - If the transferor does not retain control over the financial asset transferred it is derecognised and any right or obligation retained or arising from the transfer is recognised; or
  - If the transferor retains control over the financial asset transferred it continues to recognise the asset for an amount equal to its exposure to changes in value of the asset, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

According to the terms of the transfer agreements in place, virtually the entire portfolio of loans and receivables securitised by the CaixaBank Group does not need to be written off the balance sheet.

The assets securitised through securitisation funds prior to 2004, in accordance with the prospective application mentioned in paragraph 106 of IAS 39, which entered into force with the application of the International Accounting Standards, and in accordance with Transitional Provision One of Circular 4/2004, were not recognised on the balance sheet.

Securitisation funds set up before 1 January 2004 relate to the securitisation funds of investee Unión de Crédito para la Financiación Inmobiliaria (Credifimo), acquired in the business combination with Banca Cívica. These funds were derecognised when they were opened, all prior to the business combination with Banca Cívica, and this did not have any impact on profit or loss. In accordance with regulations, the securitised loans were derecognised when the bonds were issued, given that circumstances arose that substantially allowed all risks and rewards relating to the underlying securitised financial asset to be transferred. All bonds issued by these securitisation funds were transferred to third parties, and the bondholder bore the majority of the losses arising from the securitised loans that were derecognised.

3. Calculation of regulatory capital charge

For funds that do not comply with the provisions of Articles 243 of the CRR, to consider whether a significant part of the risk has been transferred, the method used to calculate capital requirements for securitisation transactions is the same as that applied to assets that have been securitised. The standardised or IRB approaches have been used to calculate minimum own funds requirements for securitisations of funds that meet these risk transfer requirements, depending on the method that would be used to calculate the capital charge applied to the underlying asset of the issue if it were not securitised.

1.2.3.2 Exposures in securitisation transactions and amount of assets securitised

All of the CaixaBank Group's exposures in securitisation transactions are on securitisations (not resecuritisations) and belong to the investment portfolio.

The CaixaBank Group does not sponsor any securitisations scheme.

1. Aggregate amount of securitisation positions

The following table shows the on- and off-balance sheet positions held in securitisations by the CaixaBank Group, all through CaixaBank, at 31 December 2015, by type of exposure. The following table shows exposures to securitisations irrespective of whether a significant portion of the regulatory risk is transferred or retained.

Table 56. Securitisation positions by type of exposure

Millions of euros

Type of exposure	31.12.15 Exposure	31.12.15 % weight	31.12.14 Exposure	31.12.14 % weight
1) Positions held in securitization transactions in which the Group acts as originator	**14,450**	**100%**	**8,097**	**100%**
A) Positions held in securitization transactions on balance sheet	**14,354**	**99%**	**7,999**	**99%**
Securitization Bonds senior tranche	10,824	75%	5,075	63%
Securitization Bonds mezzanine tranche	1,376	10%	1,424	18%
Securitization Bonds equity tranche	1,112	8%	489	6%
Subordinated Loans	1,042	7%	1,011	12%
B) Positions held in securitization transactions off balance sheet	**96**	**1%**	**98**	**1%**
Liquidity facilities	0	0%	0	0%
Interest rate derivates	96	1%	98	1%
2) Positions held in securitization transactions in which the Group does not act as originator	**6**	**0%**	**20**	**0%**
A) Positions held in securitization transactions on balance sheet	**6**	**0%**	**20**	**0%**
Securitization Bonds senior tranche	0	0%	6	0%
Securitization Bonds mezzanine tranche	0	0%	7	0%
Securitization Bonds equity tranche	6	0%	7	0%
Subordinated Loans	0	0%	0	0%
B) Positions held in securitization transactions off balance sheet	**0**	**0%**	**0**	**0%**
Liquidity facilities	0	0%	0	0%
Interest rate derivates	0	0%	0	0%
Total	**14,456**	**100%**	**8,117**	**100%**

There was an overall increase of EUR 6,338 million in CaixaBank's exposure in securitisation tranches, compared to year-end 2014. This increase was mainly down to:

- An increase of exposure of EUR 7,597 million resulting from incorporation of the securitisations retained by Barclays SAU (including some of the issuances of AyT Goya Hipotecario and AyT Génova Hipotecario) for which Barclays SAU was the originator.
- An increase in exposure of EUR 3,803 million due to retaining part of two issuances originated by CaixaBank in 2015 (FonCaixa Pymes6 and FonCaixa Pymes 7) in the portfolio.
- A reduction in exposure of EUR 4,651 million for issuances cancelled or matured, or which CaixaBank no longer has in its portfolio, including: EUR -827 million in FonCaixa Autónomos 1, EUR -1,961 million in FonCaixa Pymes 5, EUR -483 million in FonCaixa Pymes 4, and EUR -1,276 million in FonCaixa Pymes 3.

- A decrease in exposure of EUR -410 million due to changes in positions in various issuances, including: EUR -274 million in FonCaixa Consumo 1 and EUR -190 million in FonCaixa Leasings2.

The following shows the total securitized exposures issued and pending repayment at 31 December 2015.

Table 57. Securitisation of customer credits

Millions of euros

	Exposure	
Type of exposures	31.12.15	31.12.14
Derecognised transactions	79	98
Transactions remaining on the balance sheet	16,276	8,879
Not aplicable - Securitizations Liabilities	60	1,054
Total (1)	**16,415**	**10,030**

(1) Exposure only consider the subjacent contracts

The annual changes implicit in the table above are mainly due to incorporation of securitisations originated by Barclays SAU, amounting to an increase of EUR 8,441 million in on-balance-sheet transactions.

In addition, the following table provides the breakdown of assets securitised by CaixaBank by type.

Table 58. Breakdown by type of securitised assets

Millions of euros

	Outstanding amount	% weight	Of which: outstanding balance of transactions impaired or in default	% weight	Effective impairment losses	% weight
Residential mortgages	9,951	*61%*	356	*63%*	341	*83%*
Comercial mortgages	0	*0%*	0	*0%*	0	*0%*
Credit Cards	0	*0%*	0	*0%*	0	*0%*
Leasing	609	*4%*	27	*5%*	24	*6%*
Loans to Companies and SMEs	4,379	*27%*	107	*19%*	31	*8%*
Consumer loans	1,416	*9%*	78	*14%*	17	*4%*
Payments rights	0	*0%*	0	*0%*	0	*0%*
Other assets	0	*0%*	0	*0%*	0	*0%*
Mortgage coverage bonds	0	*0%*	0	*0%*	0	*0%*
Others liabilities	60	*0%*	0	*0%*	0	*0%*
Total (1)	**16,415**	***100%***	**567**	***100%***	**413**	***100%***

(1) Exposure only consider the subjacent contracts

At this date, the Group held no securitised positions in renewable structures, understood to be securitisation operations in which outstanding customer balances are permitted to fluctuate within a previously defined range, in accordance with their availability and repayment decisions.

Securitisation activity in 2015 consisted of two new securitisation issues managed by GestiCaixa, S.G.F.T., S.A.:

- FONCAIXA PYMES 6, F.T.A. The initial amount of the securitisation was EUR 1,196 million. At the date of creation, 68.12% of the underlying securitised assets were secured by personal guarantees and the remaining 31.88% by a mortgage on immovable property.
- FONCAIXA PYMES 7, F.T.A. The initial amount of the securitisation was EUR 2,655 million. At the date of creation, 97.93% of the underlying securitised assets were secured by personal guarantees and the remaining 2.07% by a mortgage on immovable property.

2. Quantitative disclosures of the calculation of the capital charge for positions in securitisations

The following table gives a breakdown of positions, net of impairment losses, held in securitisation transactions by the CaixaBank Group at 31 December 2015, calculated for the own funds requirements for credit risk on securitisations according to Part Three, Title Two, Chapter Five of the CRR.

The original exposure is presented without considering valuation adjustments for asset impairment, calculated in accordance with EAD information criteria for securitisations in the regulatory statements. In other words, originator positions in liability securitisations are not considered.

It should also be noted that the investor tranches of multi-seller securitisations in which the CaixaBank Group is involved as the originator are considered in the first block of issuances ("CaixaBank act as the originator") in the following table.

Table 59. Exposure in held-to-maturity portfolio securitisations (SEC1)

Millions of euros

	CaixaBank acts as originator			CaixaBank doesn't acts as originator neither as sponsor		
	Tradicionals	Synthetics	Subtotal	Tradicionals	Synthetics	Subtotal
Asset Securitisations	**14,468**	**0**	**14,468**	**6**	**0**	**6**
Residential mortgages	8,059	0	8,059	0	0	0
Comercial mortgages	0	0	0	0	0	0
Payments rights of credit cards	0	0	0	0	0	0
Leasing	703	0	703	0	0	0
Loans to Companies and SMEs	4,129	0	4,129	0	0	0
Consumer loans	1,578	0	1,578	0	0	0
Comercial debtors	0	0	0	0	0	0
Other assets	0	0	0	6	0	6
Liability Securitisations	**0**	**0**	**0**	**0**	**0**	**0**
Guarantee bonds	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0
Resecuritizations	**0**	**0**	**0**	**0**	**0**	**0**
Total	**14,468**	**0**	**14,468**	**6**	**0**	**6**

Changes compared to the end of the previous period are explained in the comments on the securitisation tables above. As previously mentioned, at present, the CaixaBank Group has no position in securitisations in its trading portfolio. All of the CaixaBank Group's positions in securitisations are therefore shown in the preceding table.

Furthermore, the following two tables provide details of positions, net of value adjustments for asset impairment, risk-weighted exposure and capital requirements, in securitisations held by the CaixaBank Group at 31 December 2015. These are broken down by the risk weighting bands to which they are assigned, pursuant to Chapter five of Title two of the part III of the CRR, broken down using the calculation approach applied to capital requirements**.** To have a comprehensive view of the capital charge, the same table shows the deductions implied by each of these groups of securitisation exposures.

Exposure net of valuation adjustments for asset impairment is calculated in accordance with EAD information criteria for securitisations in the regulatory statements. In other words, originator positions in liability securitisations are not considered.

Furthermore, the following table only reports the exposure of securitisations with significant and effective transfer of risk, with the exception of investor tranches of multi-seller securitisations in which the CaixaBank Group is the originator. In the latter, capital requirements are calculated independently of transfer of the risk of the originator tranches.

As of year-end 2015, the CaixaBank Group calculates capital requirements for most of its securitisation exposures using the IRB approach. At present, all of the securitisations to which the IRB approach is applied are calculated using the RBA (rating based approach).

Table 60. Exposure and RWA in securitisations of the held-to-maturity portfolio in which the CaixaBank Group is the originator (SEC2)

Millions of euros

	EAD post own funds deductions (according RW range)					EAD post own funds deductions (according regulatory calculation approach)			
	RW ≤ 20%	RW between 20%-50%	RW between 50%-100%	RW between 100%-1250%	RW=1250 %	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)
Traditional Securitisations	**202**	**2**	**0**	**5**	**28**	**2**	**237**	**0**	**0**
Of which Securitisations	202	2	0	5	28	2	237	0	0
Of which has retail subjacent(4)	202	2	0	5	28	2	237	0	0
Of which has wholesaler subjacent(4)	0	0	0	0	0	0	0	0	0
Of which resecuritisations	0	0	0	0	0	0	0	0	0
Synthetic Securitisations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**202**	**2**	**0**	**5**	**28**	**2**	**237**	**0**	**0**

	EAD post CAP (according regulatory calculation approach)				Capital Requeriments post CAP (according regulatory calculation approach)				Deductions own funds
	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)	
Traditional Securitisations	**2**	**61**	**0**	**0**	**0**	**5**	**0**	**0**	**4**
Of which Securitisations	2	61	0	0	0	5	0	0	4
Of which has retail subjacent(4)	2	61	0	0	0	5	0	0	4
Of which has wholesaler subjacent(4)	0	0	0	0	0	0	0	0	0
Of which resecuritisations	0	0	0	0	0	0	0	0	0
Synthetic Securitisations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**2**	**61**	**0**	**0**	**0**	**5**	**0**	**0**	**4**

(1) IRB - RBA: IRB approach based on an external ratings.

(2) IRB - SF: IRB approach based on a supervisory formula.

(3) IRB - IAA: IRB approach based on an internal ratings

(4) If a securitisation tranch contains both retail and wholesale underlyings, it is classified into the largest category.

Table 61. Exposure and RWA in securitisations of the held-to-maturity portfolio in which the CaixaBank Group is not the originator (thousand euros) (SEC4)

Thousands of euros

	EAD post own funds deductions (according RW range)					EAD post own funds deductions (according regulatory calculation approach)			
	RW ≤ 20%	RW between 20%-50%	RW between 50%-100%	RW between 100%-1250%	RW=1250%	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)
Traditional Securitisations	**0**	**28**	**0**	**0**	**0**	**28**	**0**	**0**	**0**
Of which Securitisations	0	28	0	0	0	28	0	0	0
Of which has retail subjacent(4)	0	0	0	0	0	0	0	0	0
Of which has wholesaler subjacent(4)	0	28	0	0	0	28	0	0	0
Of which resecuritisations	0	0	0	0	0	0	0	0	0
Synthetic Securitisations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total exposure (4)	**0**	**28**	**0**	**0**	**0**	**28**	**0**	**0**	**0**

	EAD post CAP (according regulatory calculation approach)				Capital Requeriments post CAP (according regulatory calculation approach)				Deductions own funds
	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)	Standard	IRB - RBA (1)	IRB - SF (2)	IRB - IAA (3)	
Traditional Securitisations	**14**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**5,628**
Of which Securitisations	14	0	0	0	1	0	0	0	5,628
Of which Retail underlying(4)	0	0	0	0	0	0	0	0	0
Of which Wholesale underlyings(4)	14	0	0	0	1	0	0	0	5,628
Of which Resecuritisations	0	0	0	0	0	0	0	0	0
Synthetic Securitisations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total exposure (4)	**14**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**5,628**

(1) IRB - RBA: IRB approach based on an external ratings.

(2) IRB - SF: IRB approach based on a supervisory formula.

(3) IRB - IAA: IRB approach based on an internal ratings

(4) If a securitisation tranch contains both retail and wholesale underlyings, it is classified into the largest category.

1.2.4. Credit risk reduction techniques

1.2.4.1 General information

The following is a summary of the main credit risk reduction techniques normally permitted in the CaixaBank Group's operations.

1. Offsetting processes and policies for on-balance-sheet and off-balance-sheet positions

Transaction offsetting agreements included in clauses of framework offsetting agreements are used as credit risk mitigation techniques since they provide an offsetting facility between contracts of the same type. In this respect, in the management of risk and calculation of own funds, the reciprocal positions between the Entity and the counterparty are offset.

2. Types of collateral, management and measurement policies and procedures

The approval of transactions, and the maximum value thereof, must be related to the borrower's repayment capacity, such that they can meet their financial obligations in due time and form. If this criterion is met, the provision of additional surety is also considered (mortgage guarantees, guarantors, and pledges).

Guarantees are understood as the assets and/or funds pledged to secure fulfilment of a repayment obligation. Guarantees may take the form of a personal guarantee (backed by the solvency of the borrowers or guarantors) or a real guarantee (secured by a specific asset).

All transactions involving a risk are secured by the personal guarantee of the borrowers, irrespective of whether they are a natural or legal person, who pledge all of their existing and future assets to secure fulfilment of the obligations concerned. Further guarantees may also be required alongside a borrower's personal guarantee. Acquiring additional guarantees always reduces exposure to risk as they cover us against unexpected contingencies. Guarantees must therefore increase as the likelihood of these contingencies occurring rises.

Nevertheless, long-term operations must have more solid guarantees, as repayment capacity is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects.

These guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the project.

Personal guarantees

Most of these relate to pure-risk operations with companies in which the collateral provided by the shareholders, irrespective of whether they are individuals or legal entities, is considered relevant, as those ultimately responsible for the operation. In the case of individuals, collateral is estimated on the basis of their declarations of assets; where the backer is a legal entity, it is analysed as the holder for the purposes of the approval process.

Collateral

During the guarantee registration process, the system ensures that a pledge can be applied on the security in question and determines the applicable pledge percentage.

The main types of collateral accepted for day-to-day business are as follows:

- **Guarantee in the form of fixed or floating charges**

  Applicable to loans, open credits, credit accounts, guarantee lines, risk lines or leases, guaranteed through CaixaBank intermediation or pledging of accounts held against the bank. In the vast majority of cases, CaixaBank must be the depository entity for the pledged guarantee and the pledge remains active until the asset falls due or is redeemed early, or so long as the asset is not derecognised. The main types of acceptable financial guarantees are as follows:

  - Demand savings accounts: A pledge is drawn up for a specific sum on the account. The rest may be freely used, and may even be used in other ongoing operations.
  - Time deposits and savings facilities: The entire sum of the product is effectively withheld.
  - Interests in mutual funds: The collateral withheld is applied to the number of holdings that make up the amount pledged, depending on the valuation at the time of the pledge. Other holdings may be pledged to secure further borrowings.
  - Insurance policies: Pledge in line with the policy and for the lowest value between the surrender value and the sum of capital, pensions and contributions. The pledged policy is fully affected.
  - Mortgage covered bonds: The pledge is applied to the number of securities that make up the amount pledged. Other securities may be used as surety in other asset operations.

- Rights and securities: The pledge is applied to fixed income or equities deposited with "la Caixa" in a securities account, provided they are quoted on official markets. "la Caixa" applications show the daily trends in the values of the securities pledged.

- **Public body invoices and certifications of works, supplies or services or subsidies from a public body**

  These are loan or credit facility operations where the Entity is given a charge over the borrower's collection right. In all cases a credit transfer contract must be drawn up, along with the loan contract or credit facility agreement.

- **Mortgage collateral**

  A mortgage is a real right on immovable property to secure an obligation.

  Internal regulations expressly establish the following:

  - The procedure for approval of guarantees and the requirements for drawing up operations, e.g., the documentation that must be supplied to the Entity and the mandatory legal certainty of this documentation.
  - Review processes for the appraisals registered, in order to ensure proper monitoring and control of the guarantee. Regular processes are also carried out to test and validate the appraisal values in order to detect any anomalies in the procedures of the appraisal entities acting as suppliers to CaixaBank.
  - Outlay policy, mainly concerning real estate development operations, to allow funds to be released as work progresses, depending on the valuation drawn up by the appraisal entity.
  - Loan to value (LTV) of the transaction: The capital to be granted in mortgage operations is limited to percentages of the value of the guarantee, which is defined as the lowest of three values: the appraisal value, the value as estimated by the applicant and, if the transaction is a purchase, the value shown on the official deed. IT systems calculate the level of approval required for each type of transaction.

3. Credit derivatives: guarantors and counterparty

Lastly, the CaixaBank Group occasionally uses credit derivatives to hedge against credit risk. No single counterparty accounts for a significant portion of outstanding credit derivative contracts.

The CaixaBank Group arranges these with credit institutions showing a high credit rating (practically all are backed up by a collateral contract).

1.2.4.2 Quantitative information

The following table shows information on credit risk exposures not including the equity portfolio, by type of guarantee applied to mitigate credit risk for the CaixaBank Group at 31 December 2015.

Table 62. Exposure by application of mitigation techniques

Millions of euros

	EAD			
Type of guarantee applied in credit risk mitigation	Standardized approach	IRB approach	Total	% weight
Mortgage guarantees	3,952	132,928	136,879	50.8%
Real guarantees	906	2,066	2,972	1.1%
Personal guarantees	83,709	45,846	129,555	48.1%
TOTAL	**88,567**	**180,840**	**269,407**	**100.0%**

2. Equity investment risk

2.1. Description, accounting recognition and measurement

The CaixaBank Group's equity portfolio features major companies holding large shares of their respective markets, with the capacity to generate value and recurring profitability. In general, these are strategic investments, and the Group is involved in their governing bodies and in defining their future policies and strategies. The CaixaBank Group's 2015 financial statements show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity.[27]

Stakes in these companies are recorded under the following asset categories:

- **Investments[28]**. Investments in the share capital of jointly controlled entities[29] or associates.
- **Available for sale financial assets** Other stakes, excluding those in the trading portfolio or non-current assets held for sale.

The accounting policies and measurement methods used for each of the categories are described below.

1. Investments

Investments are measured using the equity method, with the best estimate of their underlying carrying amount when the financial statements are drawn up.

The CaixaBank Group has a methodology in place for performing a quarterly assessment of potential indicators of impairment in the carrying amount of these investments. Specifically, it assesses the company's share prices throughout the period and the target prices published by renowned independent analysts. The CaixaBank Group uses these data to determine the fair value associated with the investment and, if this is well above the carrying amount of the companies, it is considered that there are no indications of impairment.

[27] See Note 7 "Business combinations, acquisition and disposal of ownership interests in subsidiaries", Note 12 "Available-for-sale financial assets," Note 17 "Investments," and Appendices 1, 2 and 3 to the CaixaBank Group's 2015 financial statements.
[28] For the purposes of capital adequacy, subsidiaries that cannot be consolidated in view of their business activity are entered under this heading, since they are accounted for using the equity method.
[29] Exceptions are jointly controlled entities acting as holders of ownership interests. See Section 1.1.1 of Part A of this document and Note 2.1 "Business combinations and basis of consolidation" to the CaixaBank Group's 2015 financial statements.

The CaixaBank Group carried out impairment tests to assess the recoverable amount of its investments and verify the valuation adjustments recognised. Generally accepted valuation methods are employed - for example, discounted cash flow (DCF) models, dividend discount (DDM) models, and others. No potential control premiums are considered for the purposes of valuation. Balance sheet and income statement projections are made for five years, as these are long-term investments. They are updated and adjusted on a half-yearly basis. Moderate hypotheses are used, obtained from reliable sources of information in addition to individual discount rates for each business activity and country. The growth rates used to calculate the terminal value beyond the period covered by the forecasts drawn up are determined on the basis of the data for the last period projected, and never exceed the estimated GDP growth of the country or countries in which the investees operate. In addition, sensitivity analyses are performed for the assumptions using reasonable changes in the key hypotheses on which the recoverable amount is based, to confirm whether this continues to exceed the amount to be recovered.

2. Available-for-sale financial assets

Available-for-sale financial assets are always measured at fair value, with any changes in value, less the related tax effect, recognised with a balancing entry in equity. For holdings in listed companies, fair value is determined on the basis of the price that would be paid for it in an organised, transparent and deep market. Unquoted equity instruments are valued at their acquisition cost, less any impairment loss determined based on publicly available information. At the time of sale, the loss or gain previously recognised in equity is taken to the income statement.

As a general rule, they are written down with a charge to the income statement when there is objective evidence that an impairment loss has occurred. This is assumed to have emerged following a 40% reduction in fair value, and when a situation of continued losses has been observed over a period of more than 18 months.

2.2. Value, exposure and gains and losses on investments in equity holdings and instruments

2.2.1. Fair value and carrying amount of equity investments

The following table shows the fair value and carrying amount of the CaixaBank Groups' stakes and equity instruments not held for trading or in the portfolio of financial assets at fair value through profit or loss at 31 December 2015.

Table 63. Carrying amount of stakes and equity instruments not held for trading

Millions of euros

Available-for-sale assets	**3,379**
Shares in listed companies [(1)]	2,553
Shares in unlisted companies	680
Ownership interests in investment funds and other	145
Investments	**9,674**
Listed	8,419
Unlisted	1,255
Total carrying amount	**13,053**

(1) The carrying amount of these assets is equal to fair value.

Table 64. Fair value of stakes and equity instruments not held for trading

Millions of euros

Available-for-sale assets	**3,379**
Shares in listed companies [(1)]	2,553
Shares in unlisted companies	680
Ownership interests in investment funds and other	145
Investments	**7,453**
Listed	6,198
Unlisted	1,255
Total carrying amount	**10,832**

(1) The carrying amount of these assets is equal to fair value.

At 31 December 2015, the market value of the CaixaBank Group's listed portfolio, which includes “Investments” and “Available-for-sale financial assets - Equity instrument”, was EUR 8,751 million.

2.2.2. Exposure value for the shareholding portfolio

1. Exposure value

As of 31 December 2015, the EAD for risks associated with the equity investment portfolio amounted to EUR 12,767 millions[30]. This includes the value of the portfolio of available-for-sale financial assets, investments in associates and in unconsolidated subsidiaries due to their business activity.

The following table gives the amounts of these exposures[31] by quoted and unquoted instruments.

Table 65. Exposures in equity investments not held for trading

Millions of euros

Exposures	Original Exposure	EAD	LGD	RWA	%RW	EL
AFS assets	**3,313**	**3,313**	**90.00%**	**6,540**	**197.39%**	**23**
Shares of listed companies	**2,731**	**2,731**		**4,451**	**163.01%**	**7**
SRW method	78	78		225	290.00%	1
VAR Method	55	55		250	456.60%	0
PD/LGD Method	2,598	2,598		3,976	153.03%	6
Shares of non listed companies	**583**	**583**		**2,088**	**358.52%**	**16**
SRW method	345	345		1,275	370.00%	8
PD/LGD Method	225	225		781	347.10%	8
Risk weighted equity exposures	13	13		32	250.00%	0
Shares (multigroup and associated subsidiaries)	**9,794**	**9,454**	**90.00%**	**22,020**	**232.92%**	**78**
Listed company shares	**7,491**	**7,150**		**13,616**	**190.42%**	**13**
PD/LGD Method	5,027	5,027		8,307	165.26%	13
Risk weighted equity exposures	2,464	2,123		5,309	250.00%	0
Non-listed shares	**2,303**	**2,303**		**8,404**	**364.85%**	**65**
Non-listed shares	1,961	1,961		7,256	370.00%	47
PD/LGD Method	312	312		1,072	343.65%	18
Risk weighted equity exposures	30	30		76	250.00%	0
Total	**13,107**	**12,767**	**90.00%**	**28,559**	**223.70%**	**100**

[30] See section 3.2 “Minimum own fund requirements for risks associated with the equity investment portfolio” in Part A of this document.

[31] The amount of exposure does not include deductions from capital, represented by goodwill and intangible assets, and the excess of significant investments in financial sector entities above the established threshold. Nor does it include unrealised capital gains on available-for-sale equity instruments recognised with a balancing entry in "Equity" in accordance with rule 5 of Bank of Spain Circular 2/2014.

2. Other information

The table below shows exposure in relation to the equity portfolio in accordance with the simple weighting method, broken down into risk-weight categories:

Table 66. Equity exposures (simplified approach)

Millions of euros

Equity exposure	Original Exposure	%RW	EAD	RWA
Exchange-traded equity exposures	0	190%	0	0
Private equity exposures	78	290%	78	225
Other equity exposures	2,306	370%	2,306	8,532
Total	**2,383**		**2,383**	**8,756**

The following table shows exposure to risk associated with the equity portfolio, LGD and average risk weighting[32]. This shows that most holdings are concentrated in master scales with high credit quality (master scales 2 and 3).

Table 67. Exposure by category of exposure and debtor level

Millions of euros

Internal Obligor Rating	PD Average	Original Exposure	EAD	LGD	RWA	%RW	EL
1	0.03%	0	0	90.00%	0	0.00%	0
2	0.16%	1,130	1,130	90.00%	1,449	128.27%	2
3	0.29%	6,532	6,532	90.00%	10,878	166.52%	17
4	0.74%	69	69	90.00%	152	220.07%	0
5	1.46%	134	134	90.00%	385	286.11%	2
6	2.96%	2	2	90.00%	7	307.91%	0
7	7.77%	288	288	90.00%	1,240	431.02%	20
8	23.30%	0	0	90.00%	2	449.31%	0
9	43.37%	5	5	90.00%	25	527.84%	2
Default	100.00%	1	1	90.00%	0	0.00%	1
Total	**0.60%**	**8,162**	**8,162**	**90.00%**	**14,136**	**173.20%**	**44**

[32] This information is shown only for equity exposures to which the PD/LGD method is applied.

2.2.3. Valuation adjustments to available-for-sale equity instruments

The table below shows valuation adjustments to available-for-sale equity instruments for the CaixaBank Group in 2015, with the amounts taken to the income statement[33].

Table 68. Annual variation in valuation adjustments to available-for-sale equity instruments

Millions of euros

Balance of valuation adjustments at 31/12/14	Amounts transferred to income statement (1)	Valuation gains and losses (2)	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/15 (3)
452	45	(457)	14	55

(1) After tax.
(2) Before tax.
(3) Includes valuation adjustments on non-controlling interests

[33] See Note 25.2 "Valuation adjustments" to the CaixaBank Group's 2015 financial statements.

3. Market Risk

3.1. General requirements

The Entity has policies and procedures in place for managing the trading portfolios, bearing in mind its own ability to manage risks and best market practices, and for determining which positions are included in the internal model for calculating regulatory capital.

Trading activity includes operations related to management of market risk arising from commercial or distribution efforts involving typical operations in financial markets with CaixaBank customers, as well as transactions carried out to obtain returns through the purchase-sale and positioning, mainly, in money, fixed-income, equity and currency markets.

There is a specific policy approved for determining, identifying, potentially including, managing, monitoring and controlling this scope. Each day, a unit of the Risks area, which operates independently from the business areas, measures and calculates the performance and risks of the trading portfolio and ensures compliance with this policy.

The Entity has sufficient systems and controls providing prudent and reliable estimates of the fair value of financial instruments, in addition to policies and procedures setting out the responsibility of each area in the measurement process and reporting lines (ensuring the independence of this function from the business lines), the data sources used, the eligible models and the timing of closing prices.

Although the Entity uses appropriate measurement models and inputs, in line with standard market practice, the fair value of an asset may be exposed to a certain degree of uncertainty arising from the existence of alternative market data sources, the bid-offer spread, alternative models to those used and their unobservable inputs, concentration or the scant liquidity of the underlying asset.

Adjustments for this uncertainty are applied and calculated mainly for assets with thin liquidity, where the most conservative bid-offer spread from comparable sources or conservative assumptions under the scope of the mark-to-model measurement are used. There are no Level 3 assets in the trading portfolio, which reduces potential model risk significantly.

For capital adequacy purposes, the trading portfolio consists of financial assets and liabilities that are held for trading by the Entity or form part of a portfolio of financial instruments (jointly identified and managed) with specific evidence of a trading intention.

According to points (86) and (87) of Article 4(1) of Regulation EU 575/2013, there is "trading intent" when positions are intended to be resold short term or held to benefit from actual or expected short term differences between buying and selling price differences or from other price or interest rate variations.

Unlike the trading portfolio as established in the Bank of Spain's Circular 4/2004, the trading portfolio for the purposes of calculation of capital requirements also consists of financial instruments used to hedge other items in the portfolio and, in compliance with certain requirements, of internal hedging (positions that significantly offset the risk of a position or positions not included in the trading portfolio). Therefore, the trading portfolio for the purposes of capital adequacy has a greater scope than the trading portfolio determined by the Bank of Spain's Circular 4/2004.

At 31 December 2015, the amount of minimum own funds requirements for exposure to positions in the trading portfolio and to foreign currency risk was EUR 330,073 thousand.

3.2. Internal models

The CaixaBank Group is exposed to market risk for adverse movements in the following factors: interest rates, exchange rates, share prices, commodity prices, inflation, volatility and changes in the credit spread of private fixed-income and credit derivatives positions. Estimates are drawn up daily, on the basis of sensitivity and VaR, aggregated and also segmented by risk factors and business units.

In July 2006, permission from the Bank of Spain was requested to use an internal VaR model for its regulatory own funds for market risk on the trading portfolio, foreign currency risk, gold risk and commodity price risk. In 2007, following the appropriate validation process, the Bank of Spain granted permission for the use of this internal model, which was first applied for the calculation of capital requirements on 31 December 2007. Subsequently, in 2011, a request was made for the Bank of Spain to permit the use of internal models to calculate the own funds requirements for incremental default and migration risk and stressed VaR. In 2012, following the appropriate validation process, the Bank of Spain authorized the use of this internal model, which was first applied for the calculation of capital requirements on 31 December 2011.

1. Characteristics of the models used

The methodologies used to comply with the requirements of Part 3, Title IV, Chapter 5, Sections 1-4 of Regulation EU 575/2013 for calculating own funds requirements according to the CaixaBank Group's internal model are as follows.

As a general rule, there are two types of measurements which constitute a common denominator and market standard for the measurement of market risk: sensitivity and VaR:

- Sensitivity calculates risk as the impact a slight change in risk factors has on the value of positions, but does not provide any assumptions about the probability of such a change.
- To standardise risk measurement across the entire portfolio, and provide certain assumptions regarding the extent of changes in market risk factors, VaR methodology is employed using a one-day time horizon and a statistical confidence interval of 99% (i.e. 99 times out of 100, actual losses will be less than the losses estimated in the VaR model). There are two methodologies used to obtain this measurement, parametric VaR and historical VaR:
    - The parametric VaR technique is based on the statistical treatment of parameters such as volatility and matching fluctuations in the prices and interest and exchange rates of the assets composing the portfolio, using two time horizons: a 75-day data window (giving more weight to recent observations through exponential smoothing), and a one-year data window (giving equal weight to all observations). Both of these windows are updated on a daily basis.
    - Historical VaR is calculated according to the impact on the value of the current portfolio of full-revaluation of historical daily changes in risk factors over the past year, with daily updating of the observation window. Risk factors are modelled using relative changes, except for interest rate variations, for which absolute changes are used.

A downgrade in the credit rating of asset issuers can also give rise to adverse changes in quoted market prices. Accordingly, the quantification of market risk is completed with an estimate of the losses arising from changes in the credit spread on private fixed-income positions and credit derivatives (Spread VaR), which constitutes an estimate of the specific risk attributable to issuers of securities. This calculation is made using a full-revaluation historical simulation and taking into account the potentially lower liquidity of these assets, with a confidence interval of 99%, and assuming absolute variations in the simulation of credit spreads.

VaR under the internal model results from the aggregation of the interest rate VaR and the exchange rate VaR (from fluctuations in interest rates, foreign exchange rates and the volatility of both) and the Spread VaR, which are aggregated on a conservative basis, assuming zero correlation between the two groups of risk factors, with the addition of Equities VaR and Commodities VaR to the previous metrics (assuming a correlation of one between the three).

Daily VaR is defined as the highest of the three quantifications in the two methodologies used (historical VaR, 1 year parametric VaR and 75d parametric VaR). Historical VaR is an extremely appropriate system for completing the estimates obtained using the parametric VaR technique, since the latter does not provide any assumptions regarding the statistical behaviour of the risk factors (the parametric technique assumes fluctuations that can be modelled through a “normal” statistical distribution). Historical VaR is also an especially suitable technique since it includes non-linear relationships between the risk factors, which are particularly necessary for options transactions.

In addition to the VaR metric already explained, own funds requirements under the internal model include another two variables: stressed VaR and incremental default and migration risks, included in Basel 2.5 and transposed through Circular 4/2011 and, subsequently, EU Regulation 575/2013.

The stressed VaR is calculated using full-simulation historic VaR with a confidence interval of 99% on the basis of daily fluctuations in market prices in a one-year period of significant stress for the portfolio positioning. The annual stress window is updated every week, choosing those that maximise VaR for the portfolio at the time. In general, and depending on the portfolio positioning, the stressed year chosen is usually the annual period following the Lehman Brothers collapse or the Spanish sovereign debt crisis (2012). The Stressed VaR calculation is leveraged by the same methodology and infrastructure as the calculation of historical VaR for VaR, with the only significant difference being the historical window selected.

Incremental default and migration risk is an estimate of losses related to default or changes in credit ratings of the portfolio included in the model scope, with a 99.9% confidence interval, a one-year time horizon and a quarterly liquidity horizon. The liquidity horizon is justified by the high liquidity of the portfolio due to the existence of strict criteria for inclusion, which limits concentration at country, rating, issue and issuer level. It is measured using Monte Carlo simulation of possible future states for external issuer and issue ratings, based on transition matrices published by the main rating agencies, where dependence between credit quality variations between the different issuers is modelled using Student's t-distributions calibrated using historical CDS data series, which allows for higher correlations of default in the simulation. Similarly to IRB models, this sets a minimum probability of default of 0.03% a year.

For regulatory purposes and in contrast to the foregoing, both regulatory VaR and regulatory Stressed VaR are calculated with a 10 market days' time horizon, for which values obtained with the one-day horizon are scaled by multiplying them by the square root of 10. The maximum, minimum and average values of these measurements during 2015, as well as their value at the close of the period of reference, are shown in the following table.

Table 69. Maximum, minimum and average values of metrics related to own funds for market risk using the internal model

Millions of euros

	Last Value	Maximun	Minimun	Average [1]
VaR 10d	5.38	18.60	5.16	10.37
Stressed VaR 10d	19.74	46.00	13.39	26.02
Incremental Default and migration risk	49.73	109.10	12.00	46.08

(1) Average of year in progresss

The different elements determining final regulatory charges using the internal market risk model for each of the aforementioned measurements are shown below. Charges for VaR and stressed VaR are identical and correspond to the maximum of the most recent available value and the arithmetic mean of the last 60 values, multiplied by a factor depending on the number of times the daily result was less than the estimated daily VaR. Similarly, capital for Incremental Default and Migration Risk is the maximum of the last value and the arithmetic mean of the preceding 12 weeks.

Table 70. Own funds requirements for market risk calculated using the internal model

Millions of euros

	Last value	Average 60d	Incremental factor	Average 60d x Factor	Capital	RWA
VaR 10d	5.38	9.59	4	3	29	359
Stressed VaR 10d	19.74	26.35	4	3	79	988
Incremental default and migration risk	49.73	57.69			58	721
Total					**165**	**2,069**

2. Verification of the reliability and consistency of the internal models

To confirm the suitability of the risk estimates, daily results are compared against the losses estimated under the VaR technique, in a process known as backtesting. As required by bank regulators, the risk estimate model is checked in two ways:

- Though net or hypothetical backtesting, which relates the portion of the daily marked-to-market result (i.e., arising from the change in market value) of open positions at the close of the previous session to estimated VaR over a one-day time horizon, calculated on the basis of the open positions at the close of the previous session. This backtesting is the most appropriate means of performing a self-assessment of the methodology used to quantify risk.
- Gross or actual backtesting, which compares the total result obtained during the day (therefore including any intraday transactions) to VaR for a time horizon of one day, calculated on the basis of the open positions at the close of the previous session. This provides an assessment of the importance of intraday transactions in generating profit and calculating the total risk of the portfolio.

The daily result used in both backtesting exercises does not include reserves, fees or commissions.

Chart 19. Net backtesting

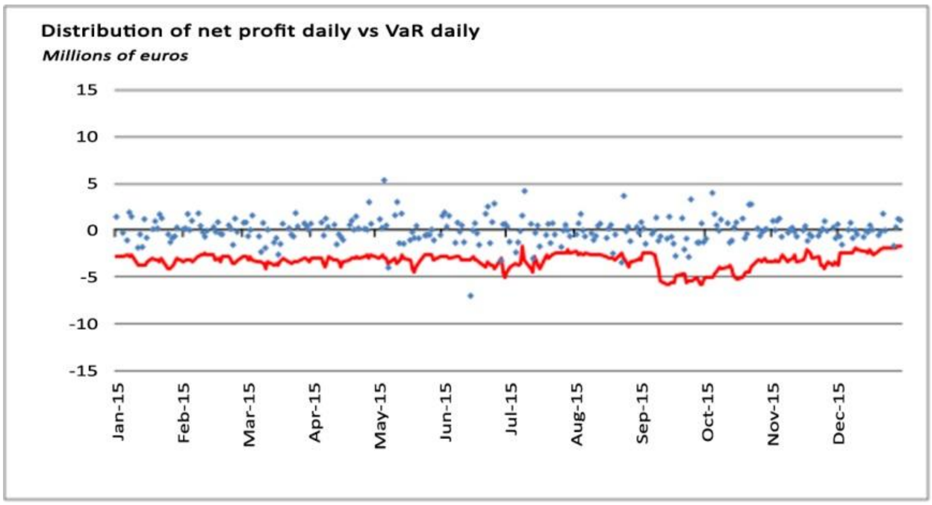
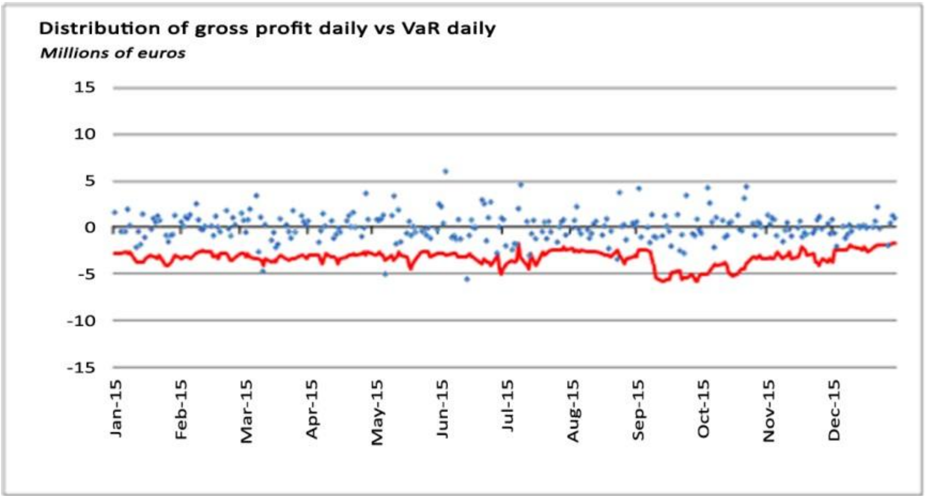


Chart 20. Gross backtesting



During the year, there were four excesses in the net backtesting exercise (number of times net losses on the portfolio were higher than the estimated VaR) and four excesses in the gross backtesting exercise. These were due mainly to the high volatility of the sovereign debt and equity markets on the back of a potential default by Greece and its eventual exit from the euro area (March-July), and, subsequently, a potentially sharper than expected slowdown in the Chinese economy (August).

3. Stress testing

Lastly, two stress testing techniques are used on the value of positions to calculate possible losses on the portfolio in situations of extreme stress:

- Systematic stress testing: this technique calculates the change in value of the portfolio in the event of a specific series of extreme changes in the main risk factors. Following the recommendations of the Basel Committee on Banking Supervision and best banking practices, the following risk factors are generally considered: parallel interest rate shifts (rising and falling), changes at various points on the slope of the interest rate curve (steepening and flattening), increased and decreased spread between the instruments subject to credit risk and government debt securities (bond-swap spread), parallel shifts in the dollar interest rate curve (rising and falling), higher and lower volatility of interest rates, appreciation and depreciation of the euro in relation to the dollar, the yen and sterling, higher and lower volatility of exchange rates, increases and decreases in the price of shares and commodities, higher and lower volatility of shares and commodities and, lastly, an increase in volatility of shares and raw materials.
- Historical scenario analysis: this technique addresses the potential impact of actual past situations on the value of the positions held, such as the collapse of the Nikkei in 1990, the US debt crisis and the Mexican peso crisis in 1994, the 1997 Asian crisis, the 1998 Russian debt crisis, the emergence of the technology bubble in 1999 and its collapse in 2000, the terrorist attacks that have caused the most severe effects on the financial markets in recent years, the credit crunch of the summer of 2007, the liquidity and confidence crisis produced by the collapse of Lehman Brothers in September 2008, the increase in credit spreads in peripheral countries of the euro zone due to the contagion effect of the crises in Greece and Ireland in 2010 and the Spanish debt crisis in 2011 and 2012.

To complete these analyses of risk under extreme situations, the "worst-case scenario" is determined as the state of the risk factors in the last year that would cause the heaviest losses in the current portfolio. This is followed by an analysis of the “distribution tail”, i.e., the size of the losses that would arise if the market movement causing the losses were calculated on the basis of a 99.9% confidence internal using the Extreme Value Theory.

4. Monitoring and control[34]

As part of the required monitoring and control of the market risks taken, the Global Risk Committee approves a structure of daily and monthly overall VaR, stress and loss limits, and delegates to the Executive Finance Division sensitivities and factor-specific VaR sublimits for Treasury Desk activity. The same metrics and models are used for market risk management and for calculating own funds for market risk under the internal model. The risk factors are managed by the Executive Finance Division on the basis of the return/risk ratio determined by market conditions and expectations. The Risk in Market Operations Department, which is part of the Corporate Risk Models Division (which, in turn, is part of the General Risks Division), is responsible for monitoring these risks. On a daily basis, this department monitors the contracts traded, calculates how changes in the market will affect the positions held through daily marked-to-market results and use of generally accepted approaches in the market, quantifies the market risk taken, monitors compliance with limits and analyses the ratio of actual return to the risk undertaken.

The Risk in Market Operations Department has sufficient human resources, with considerable technical capacity, to use the internal market risks model.

As noted, the Risk in Market Operations Department is responsible for daily monitoring of compliance with market risk limits and for notifying any breaches to Senior Management and to the appropriate risk-taking unit, with an instruction for the latter to restructure or close the positions leading to this situation or to obtain explicit authorisation to maintain them from the appropriate body. The risk report is distributed daily, and provides an explicit contrast between actual consumption and the authorised limits. Daily estimates are also provided of sensitivity and VaR, both in the aggregate and segmented by risk factors and business units.

On a daily basis, the Risk in Market Operations Department draws up and distributes the following market risk monitoring reports for Management, those responsible for the Treasury Desk and Internal Audit:

- All treasury activity.
- The position that constitutes the internal market risk model for calculation of own funds, including equity derivatives on investees.
- CaixaBank’s structural position in foreign currency,

[34] See section 1.2.4. “Market risk in the trading portfolio” in Part A of this document for further information on the structure and organisation of the market risk management function.

The monitoring process generally consists of three different sections: daily risk measurement, backtesting and stress testing.

On a monthly basis, the Risk in Market Operations Department draws up the "Market Risk" section of the "Risks Scorecard”, which is submitted to the Entity’s Global Risk Committee.

The General Risks Division, which includes the Risk in Market Operations Department, carries out a supervisory function, the main objective of which is to protect risk status and preserve the solvency and guarantee mechanisms, thereby ensuring the comprehensive management of the various risks by means of an overview of the situation.

In addition, the Risk Validation Model area performs internal validation of the models and methodologies used to quantify and monitor market risk.

Lastly, the CaixaBank Group’s treasury and markets activities and the risk measurement and control mechanisms used for these activities are subject to ongoing internal audit. In its most recent report, in 2015, Internal Audit concluded that the methodologies and procedures used for the purposes of management, measurement and control of market risk in association with trading on financial markets were adequate and complied with the prevailing requirements in the areas analysed.

4. Operational risk

4.1 Operational risk management and measurement

Whereas the standardised approach was used to calculate capital, the Group's operational risk management and measurement model is designed to support management using internal models.

The use of internal models has two main objectives:

- Use of advanced measurement approaches based on internal operational loss data, external data, scenarios and business environment and internal control factors.
- Establishing an operational risk model, based on policies, processes, tools and methodologies that improve operational risk management in the Entity, helping ultimately to reduce operational risk.

The entities must achieve these objectives, subject to current regulations, by basing their operational risk model on two pillars:

- Operational Risk Management Framework (ORMF)
- Operational Risk Measurement System (ORMS)

Operational Risk Management Framework (ORMF)

This is the Governance Framework and Management Structure for the operational risk model set out in this Operational Risk Management Framework and the documents implementing it. This structure defines the Operational Risk Measurement System, based on the policies, procedures and processes the Group uses to manage operational risk, in line with the Group's general risk policies.

Operational Risk Measurement System (ORMS)

This is defined as the system, processes and data the Entity uses to measure its operational risk and determine its related capital requirements. It is a system that integrates operational risk management into the Group's day-to-day activities.

The advanced measurement approaches using internal models are based on the combination and interaction of qualitative and quantitative methodologies, grouped into four pillars[35]:

- Internal operational loss data
- External operational loss data
- Operational risk scenarios
- Business environment and internal control factors (BEICFs)[36]

Based on legislative and regulatory requirements and considering the two pillars supporting operational risk models under an advanced measurement approach (AMA), such as the model and the tools required, the Group's operational risk model is structured as follows:

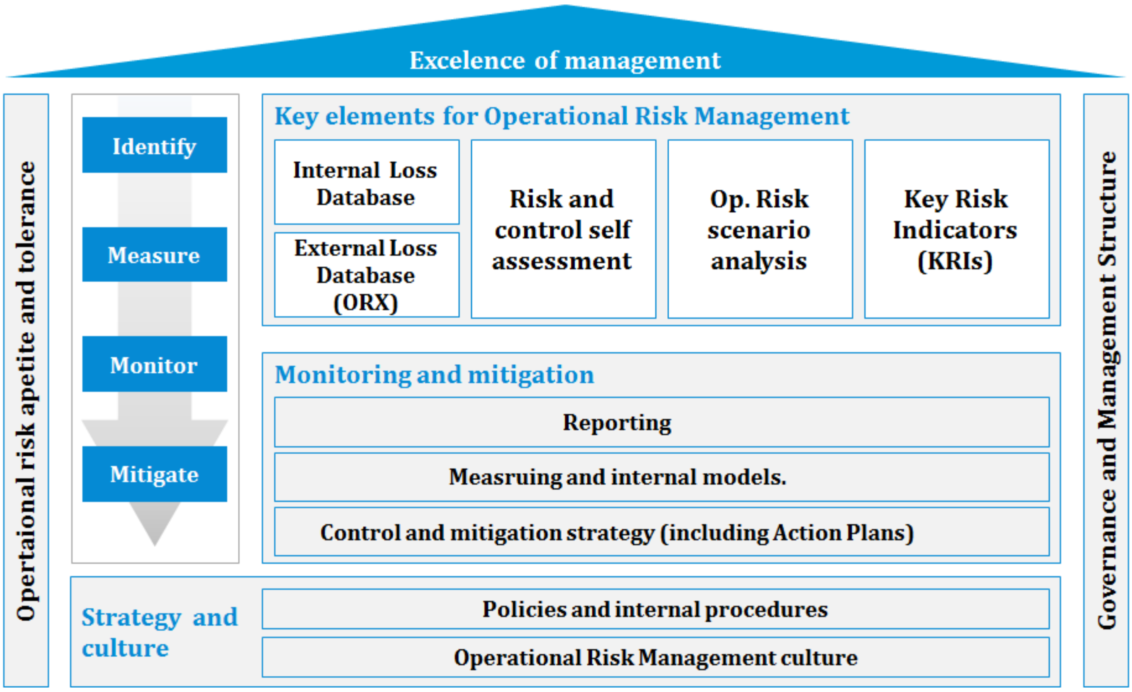


Diagram 3

The methodologies implemented through operational risk management mechanisms and the measurement, monitoring and mitigation tools and procedures form part of the set of basic operational risk identification, measurement and evaluation tools, representing best practice in the sector[37].

[35] Four data elements of an AMA. Regulatory framework. Supervisory Guidelines for Advanced Measurement Approaches, Article 40.

[36] Business Environment and Internal Control Factors.

[37] *Principles for the Sound Management of Operational Risk, Principle 6, Article 39.d*

4.2 Operational Risk Mechanisms

The main operational risk management mechanisms illustrated in Diagram 3 are discussed below.

1. Qualitative measurement. Self-assessments of operational risks

The qualitative assessment of operational risk in the Group is based on the operational risk self-assessment methodology. The methodology allows the operational risks identified in the Operational Risk Map to be assessed, using expert criteria.

Through its self-assessment process, the Group aims to:

- Have a standardised qualitative assessment process for operational risks and related controls.
- Ensure that the risk map and controls are updated correctly, covering the Group's operational risk profile.
- Identify critical risks in advance for prevention.
- Identify new operational risks and controls through thorough qualitative assessment of the Group's operational risk profile.

There are three main stages in the self-assessment process:

- Assessment of the risk by the area. The input parameters requested are estimated figures for: frequency and impact of potential loss events, allocation of risk to business lines, assessment of related controls.
- Validation of the assessment by the area manager.
- Final validation by the Operational Risk Division.

Results for the year:

- In 2015, this methodology was used to analyse and evaluate a total of 642 operational risks and more than 1,000 related controls.

2. Quantitative measurement. Internal Operational Risk Database

Quantitative techniques based on internal operational loss data provide one of the foundations for measuring operational risk in both the Group's operational risk management and the calculation of own funds using internal models.

This quantitative methodology of measuring operational risk based on internal loss data is supported by the corporate management tool (SAP-GRC).

Through its internal database, the Group aims:

- To have a standardised process for operational loss capture.
- To identify the usual sources of significant operational risk in the Group.
- To have a standardised process for the identification and evaluation of operational risk inherent to all activities, products, processes and systems, and their corresponding business lines.
- To define and update the management framework, the risk map and the control and evaluation procedures applicable to them.
- To implement advanced risk management to mitigate and reduce losses.
- To enable the identification of new operational risks based on information captured on operational events.
- To model future losses, based on historic loss data, for the purposes of both operational risk management and calculation of own funds.
- To support the technological infrastructure which facilitates effective management of the model and which allows for development towards automation of the entire loss management process.

The operational event is the most important concept to bear in mind, with the entire Internal Database model hinging on this concept.

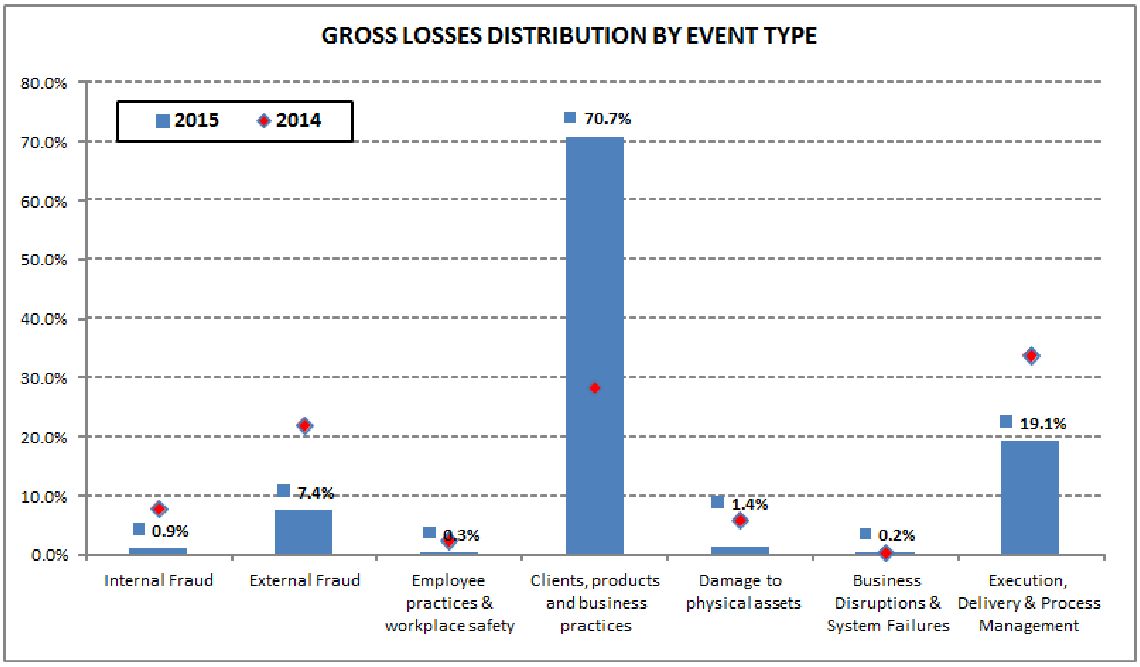
An operational event is defined as an event in which an identified operational risk is materialised. The concept of the effect is derived from the concept of the event, both of which are intimately related. The effect is defined as the description used to classify an operational loss or recovery (economic impact) resulting from an operational event.

Therefore, an operational event may result in one, several or no operational effects (in which case we talk of "quasi losses"), which may in turn be identified in one or more areas.

The operational event is the most important concept to bear in mind, with the entire Internal Database model hinging on this concept.

The distribution of the Group's net operational losses in 2015 is shown in the following chart:

Chart 21. Distribution of the Group's gross operational losses.



3. Quantitative measurement. External Database

The implementation of quantitative methodology based on external operational loss data complements historic internal information on operating losses.

- Historic data on an entity's operational losses only enables us to calculate the expected loss within the overall distribution of losses. This is only useful for events that have occurred in the entity, ignoring all those to which it is potentially exposed but which have not occurred.
- This limitation is mitigated by using external data, as information on operational losses in the financial sector enables us to calculate the unexpected loss for the loss distribution.
- Combining internal and external data gives us an initial approximation of CaR (Capital at Risk) with a confidence interval comparable to 99.9%.

The Group's objective in using external data is:

- To offset the limitation of internal operational loss data and to calculate unexpected losses from the loss distribution.
- To understand the nature of events not registered in the Entity so as to put in place measures to prevent or mitigate these.

- To increase the volume of event information used as an input into the qualitative Scenarios methodology.
- To identify new operational risks by using and analysing external data on operational risk.

The Group has signed up to the ORX (Operational Riskdata eXchange) association, which provides information on operational losses for banks worldwide, to implement a quantitative methodology.

The ORX association groups banks by geographic areas, dividing these into subgroups to provide more useful and realistic information.

ORX requires its members to classify operational loss data using a series of parameters, both regulatory and proprietary. As a result, all of the parameters required by the ORX are reported in events in the Group's Internal Database.

Additionally, ORX allows other services provided by the consortium to be used to manage operational risk: the ORX News service, the working group on operational risk scenarios, methodological initiatives on internal models.

4. Qualitative measurement. Operational risk scenarios

One of the foundations of the Group's management of operational risk is identification through qualitative techniques. To this end, a **methodology for generating operational risk scenarios** has been implemented to:

- Obtain greater knowledge of the Group's operational risk profile.
- Improve the level of interaction with areas involved in managing operational risk.
- Effectively integrate operational risk management.

Through its scenario generation process, the Group aims to:

- Develop a standardised process for generating operational risk scenarios.
- Complement the available internal and external historical data with operational risk scenarios that:
  - Have a forward-looking perspective.
  - Are sensitive to the Group's risk, given current conditions, including the business environment and the regulatory and internal control framework.
- Identify critical risks in advance for prevention.

- Identify new operational risks by generating extreme scenarios and analysing the results obtained.

A series of workshops and meetings with experts is held to generate operational risk scenarios for use in calculation methodologies based on internal models.

The scenario generation process involves five recurrent stages: scope setting, scenario identification, scenario workshops, determination of scenarios, and monitoring and reporting.

The scenario generation process is carried out annually. This recurrent process enables the results from previous years to be used as the starting point for future years.

Results for the year:

In 2015, a total of 59 operational scenarios were assessed.

5. Operational risk indicators (KRIs)

Application of operational risk indicators (KRIs[38]) is one of the main qualitative/quantitative operational risk measurement methodologies in the Group. These:

- Enable us to anticipate the development of operational risks, taking a forward-looking approach to their management.
- Provide information on development of the Entity's operational risk profile and the reasons for this.

Through its KRIs methodology, the Group aims to:

- Have in place a standardised operational risk decision making/action process through indicators that are both measurable and observable.
- Identify critical risks in advance for prevention.
- Have in place a wide-ranging and transversal methodology, with metrics that can be used and replicated in other Group contexts and areas, enabling identification of new risks.

A KRI is a metric, index or measure that detects and anticipates changes in operational risk levels. KRIs are not by nature a direct result of risk exposure. They are metrics that can be used to identify and actively manage the Group's operational risk.

The KRI methodology is supported by the corporate SAP-GRC management tool.

[38] *Key Risk Indicators.*

The main concepts in the definition and structure of the Group's operational risk indicators (KRIs) are: definition of each KRI (including any sub-KRIs), thresholds, alerts (and related actions), frequency, updating method and criticality.

Most of the KRIs defined in the Group include all of these concepts. This model enables active monitoring of risk levels, allowing us to establish a decision making/action structure to mitigate operational risks by mitigating KRI values, according to the alerts and thresholds model.

Results for the year:
In 2015, more than 400 KRIs were monitored.

6. Business environment and internal control factors (BEICFs)

The fourth pillar of operational risk measurement using advanced approaches is the business environment and internal control factors.

These are defined as the controls and measures needed to monitor the Group's operational risk profile, and anticipate and flag up any changes thereto.

With regard to BEICFs, we can classify the Group's operational risk profile as follows:

- The internal and external business environment in which it operates.
- The Group's internal controls for processes, policies, tools and methodologies to mitigate or eliminate operational risk.

The business environment consists of: training and availability of the Group's human capital, complexity and business risks (defined according to the Group's risk appetite), level of process automation and tools, regulatory environment and markets in which the Group operates.

Internal controls measure factors such as: number of new products adopted by the Group, the number of customer complaints, the findings of audits and the number of recommendations arising from these audits (internal and external), qualitative measurements of risk and employee turnover.

The Group ensures that it predicts and detects operational risks through monitoring of the business environment and its internal controls.

4.3 Operational Risk Management

1. Action and mitigation plans

The generation of action and mitigation plans is one of the links in the Group's operational risk management chain. To this end, it has implemented an action and mitigation plan methodology that allows it to:

- Effectively offset the Group's operational risks, reducing their frequency and their impact when they do arise.
- Have in place a solid control structure based on policies, methodologies, processes and systems.
- Effectively integrate operational risk management.

Through its action and mitigation plans, the Group aims to:

- Have in place a standardised decision making/action process based on operational risk identification, measurement and monitoring.
- Ensure that critical operational risks are mitigated, with continuous improvement in associated processes.
- Ensure that all persons affected are actively involved in the process, enhancing the Group's internal operational risk management culture.

The action and mitigation plans may originate from any of the operational risk management tools or other sources: self-evaluations, scenarios, external sources (ORX, specialist press), KRIs, losses on operational events, and internal validation and internal audit reports.

The definition and monitoring process for action and mitigation plans is supported by the corporate SAP-GRC management tool. This involves three stages:

Diagram 4

2. Risk transfer (insurance)

The operational risk insurance framework enables certain specific risks to be covered in order to transfer and, therefore, mitigate their impact.

The Group has contracted corporate insurance policies covering the main risks it might face in its activities.

3. Operational risk reporting

One of the foundations of the Group's management of operational risk is the generation of operational risk management information. To this end, it has implemented a methodology for generating management reports that allows it to:

- Report on the Group's operational risk profile and exposure.
- Improve the interaction of Senior Management and areas actively managing operational risk.
- Prepare management reports at different levels of aggregation depending on their purpose and the levels for which they are intended.

Through its management reporting methodology, the Group aims to:

- Have in place a standardised reporting procedure for: reporting operational risk levels and the status of control methodologies and tools (subject to the Operational Risk Management Framework) promoting active management of operational risk.
- Have in place a dynamic reporting system that can adapt the reports and their frequency to changing needs and the levels covered by the methodology.
- Effectively integrate operational risk management into Senior Management and all our areas.

Maintain a grouping of independent (qualitative and quantitative) management reports for monitoring operational risk. Grouping the reports gives a comprehensive view of the operational risk profile with different aggregation criteria for presentation to different hierarchical levels.

Our operational risk management reporting is based on the SAP-GRC and BigData tools (the latter through MicroStrategy).

The following Diagram illustrates the different levels of operational risk reporting:

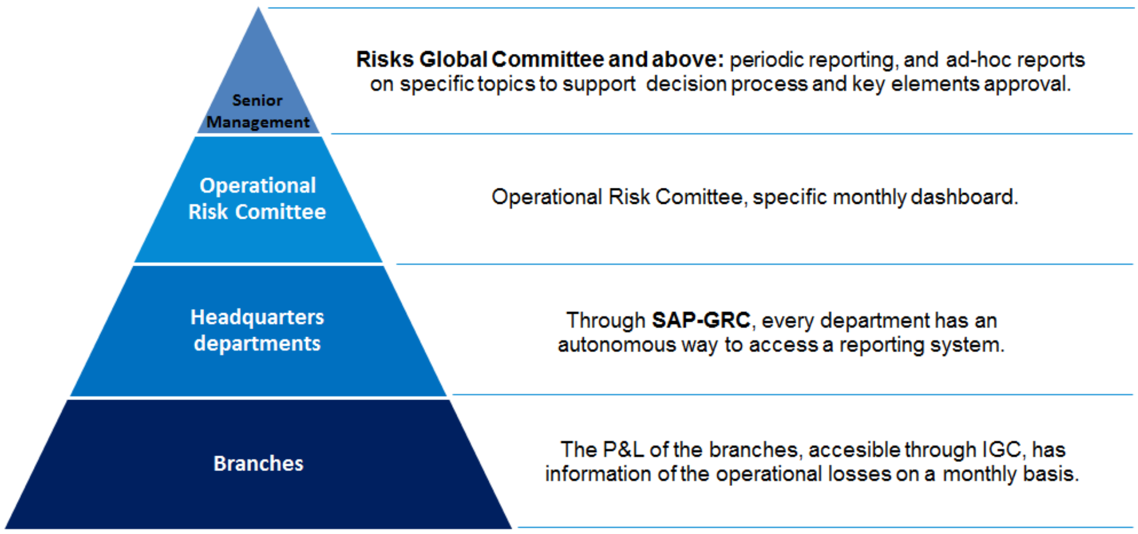


Diagram 5

The Operational Risk Department supports the areas in any specific needs

4. Business Continuity Plan

Business continuity is defined as an organisation's ability to recover from a disruptive event and resume or continue its operations at predefined acceptable levels; i.e. to plan how to act in response to an unexpected event or the possibility that an event will occur.

Business continuity management is a holistic process that involves identifying potential threats to the organisation and the impact these might have on operations. It provides a framework for increasing the organisation's resistance and resilience so that it can respond effectively to safeguard the interests of its main stakeholders, reputation, brand and value creation activities.

Business continuity is a further aspect to be considered in our day-to-day activities and when designing and modifying business processes.

Incorporating business continuity management into its culture enables continuous improvement in a company, ensuring it can recover from present and future incidents.

Business continuity in CaixaBank is channelled through the Business Continuity Management System, which is certified under ISO 22301:2012[39] requirements, with CaixaBank having obtained certificate number BCMS 570347 from the British Standards Institution (BSI).

The Group's Business Continuity Plan forms part of its Business Continuity Management System.

The ISO 22301:2012 methodology is a management system involving a cyclical planning, implementation, review and improvement process for managing business continuity procedures and activities, ensuring that the Entity can meet the objectives set by management.

The Group's Business Continuity Plan has four main elements:

- A specific plan for Central Services (CS)
- A specific plan for the regional network
- A specific plan for International Banking
- A specific plan for Group companies

5. Technology contingency plan, emergency plans and security measures

- Technological contingency plan

  The Technological Contingency Plan is based on two elements:

  - Identification of key business services
  - General technological contingency plan

- Emergency plans and security measures

  There are several internal regulations on security measures in the different areas of the company, in addition to a general Emergency Plan.

  - Security in central offices
  - Information security
  - Personal data processing and confidentiality

[39] International Organisation for Standardisation. ISO 22301:2012 Societal Security – Business Continuity Management Systems – Requirements.

6. Operational risk training framework

One of the fundamental objectives of the operational risk management model is to ensure it is applied correctly on a day-to-day basis. To this end, the model is supported by operational risk training and promotion of an operational risk culture throughout the Group.

The purpose of this training and promoting this culture is to:

- Raise awareness of operational risk throughout the Group, in areas and companies where it might arise and that might be able to anticipate or detect it.
- Internalise operational risk as inherent to all the company's processes, ensuring that it is considered by all Group areas and companies when defining and developing processes, activities and methodologies.

Operational risk training processes take three forms: online courses, supporting documentation and specific initiatives:

- **Online courses**: an interactive course on operational risk was given to all bank employees through the online training platform. This course aims to promote continuous training in the operational risk management model, raising the awareness of Group employees at all levels of its importance.
- **Supporting documentation**: A full set of supporting documentation covering the entire operational risk framework is available to all employees to promote day-to-day risk management.
- **Specific training**: specific ad hoc training is carried out according to the needs of the model. The operational risk management model regards training as a continuous process throughout the year. It makes training courses and material available to all areas through a range of platforms explaining progress and changes in the Group's model and applicable legislation and regulations.

7. Technological structure of the operational risk management approach

The technological environment of the operational risk system provides all the functionality required and is fully integrated into the Bank's transactional and information systems.

The main system is supported by the SAP-GRC product, which has been customised to the Bank's needs. This component provides most of the functionality required for day-to-day operational risk management. More than 400 users have access to it.

SAP-GRC is fed by multiple data sources from the transactional systems (of the Bank itself and some its subsidiaries) on a daily basis to capture key events, losses and KRIs; it also offers interfaces for updating the organisational structure and the other firms in the data model.

All risk assessment processes, loss enrichments, KRI management, action plans, etc. are carried out through work flows managed and controlled by the product itself, keeping the persons responsible for pending tasks up-to-date with what is happening.

The system also generates automatic interfaces to report losses to the ORX association and the OpVision calculation engine.

Finally, it is also important to note the degree of integration with the Bank's information system: multiple interfaces have been designed for downloading information from the SAP-GRC system and uploading it into the Big Data environment to provide an analytical system environment.

5. Interest rate risk in the banking book

5.1. Management of interest rate in the banking book

Interest rate risk in the banking book, as mentioned above,[40] arises when changes in the structure of the market rate curve affect assets and liabilities and cause them to be renewed at rates other than those set previously, thereby affecting the Group's economic value and net interest income.

The Board has delegated the management and control of this risk to CaixaBank's management through the Global Risk Management Committee ("GRC") and the Asset and Liability Committee (ALCO), with advice from the Risks Committee.

The GRC reports to the Risks Committee. This committee is responsible for controlling and monitoring interest rate risk limits and indicators; however, it is not involved in managing them.

The Executive Finance Division analyses this risk and proposes the necessary investment and hedging transactions to the Asset and Liability Committee (ALCO), in accordance with the objectives and limits described in the policies and objectives section.

The ALCO, which meets monthly, is in charge of monitoring, analysing and taking decisions on the management of interest rate risk in the banking book based on information and proposals submitted by the ALM and Financing Division and the ALM Division.

The ALCO reports regularly on the status of interest rate risk in the banking book in terms of both economic value (sensitivities and VaR) and net interest income (net interest income projections) in various interest rate scenarios.

There are a number of key assumptions related to management of interest rate risk in the banking book.

The assumptions of early termination of asset and liability products are obtained using internal models based on past experience, employing the behavioural variables of customers, variables concerning the products themselves, seasonality and macroeconomic variables. In the case of items with no contract maturity, measurements are performed of their sensitivity to interest

[40] See Section A. 1.2.6 "Interest rate risk for positions not included in the trading portfolio" of this document.

rates, along with the expected maturity date, considering the possibility that the customer may terminate products early, based on past experience.

The treatment of demand accounts is based on the study of customers performed by the Entity and past experience to adapt the indefinite maturity of balances to a specific maturity. Two criteria are used to this end (modification of the interest rate and the level of permanence of the balances), with constant consideration of the principle of prudence for the purposes of modelling.

5.2. Impact of interest rate changes

Interest rate risk in the banking book is subject to specific control and includes various risk measures, such as analysis of the sensitivity of net interest income and the present value of future cash flows (impact of 1 basis point movements), and VaR (Value at risk) measurements.

The sensitivity of net interest income shows the impact on the review of balance sheet transactions caused by changes in the interest rate curve. This sensitivity is determined by comparing a net interest income simulation, at one or two years, on the basis of various interest rate scenarios (immediate parallel and progressive movements of different intensities, as well as changes in slope). The most likely scenario, which is obtained using the implicit market rates, is compared with other scenarios of rising or falling interest rates and parallel and non-parallel movements in the slope of the curve. The one-year sensitivity of net interest income to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each, is approximately +2.4% on the rising scenario and -2.0% on the falling scenario. Given the current level of interest rates, it should be noted that the scenario of a -100 bp fall does not imply the application of negative interest rates.

The sensitivity of equity to interest rates measures the effect of interest rate fluctuations on economic value.

Table 71. Impact of a 1 bp increase in the curve (thousand euros)

Thousands of euros

	31.12.15	31.12.14
On the present value of the future flows	3,399	-1,501

The sensitivities of net interest income and equity are measurements that complement each other and provide an overview of structural risk, which focuses more on the short and medium term, in the case of net interest income, and on the medium and long term in the case of equity.

As a supplement to these measurements of sensitivity, VaR measures are applied in accordance with treasury-specific methodology.

Table 72. 1-day balance sheet VaR with a 99% confidence interval (thousand euros) (MR4)

Thousands of euros

	End period	Average	Maximun	Minimun
2015	117,716	114,273	193,891	81,565
2014	89,916	80,662	115,285	67,920

In accordance with current regulations, the CaixaBank Group does not use own funds for the interest rate risk in the banking book undertaken, in view of the low risk profile of its balance sheet. The interest rate risk in the banking book assumed by the CaixaBank Group is substantially below levels considered significant (outliers) under current regulations.

CaixaBank continues to carry out a series of actions designed to strengthen the monitoring and management of interest rate risk in the banking book.

6. Asset Encumbrance

The table below shows average values for assets securing certain financing transactions and unencumbered in 2015, calculated using quarterly data:

Table 73. Assets securing financing operations and unencumbered assets

Millions of euros

	2015 annual average values calculated on quarterly data			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments			40,505	5,201
Debt securities	7,419	7,366	21,623	21,423
Credit portfolio	59,932		157,480	
Other assets	2,541		68,395	
Total	**69,892**		**251,553**	

These assets relate mainly to loans securing issues of mortgage covered bonds, public sector covered bonds and securitisation bonds; and debt securities provided in repos and assets pledged as collateral (loans or debt securities) for access to ECB financing operations. Also included as encumbered assets is the balance of cash given to secure trading in derivatives. All encumbered assets are held by CaixaBank, S.A.

Complementing the previous table on our own assets, the following table includes information on assets received. The guarantees or collateral received mainly related to reverse repos, cash and debt securities received to secure trading in derivatives and own guaranteed debt and senior debt instruments issued. The table below shows average values for assets securing financing transactions and unencumbered in 2015, calculated using quarterly data:

Table 74. Assets received to secure financing operations and unencumbered assets

Millions of euros

	2015 annual average values calculated on quarterly	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**4,084**	**15,580**
Equity instruments	0	0
Debt securities	4,084	11,535
Other collateral received	0	4,045
Own debt securities issued other than own covered bonds or ABSs	0	**1,234**
Total	**4,084**	**16,814**

The following table shows the asset encumbrance ratio, using average values for 2015 calculated using quarterly data:

Table 75. Asset encumbrance ratio, averages

Millions of euros

	2015 annual average values calculated on quarterly data
Assets and colateral received encumbered	**73,976**
Equity instruments	0
Debt securities	11,503
Credit portfolio	59,932
Other assets	2,541
Total assets + total assets received	**341,109**
Equity instruments	4,055
Debt securities	44,661
Credit portfolio	217,412
Other assets	74,981
Asset encumbrance ratio	**21.69%**

The following table shows the asset encumbrance ratio at 31 December 2015 and 2014:

Table 76. Asset encumbrance ratio

Millions of euros

	31.12.14	31.12.15
Assets and colateral received encumbered	**65,700**	**70,695**
Equity instruments	0	0
Debt securities	14,124	7,252
Credit portfolio	49,445	61,047
Other assets	2,131	2,395
Total assets + total assets received	**331,497**	**341,033**
Equity instruments	3,924	3,626
Debt securities	52,689	44,079
Credit portfolio	202,708	218,587
Other assets	72,876	74,740
Asset encumbrance ratio	**19.82%**	**20.73%**

The ratio has increased by 0.91 percentage points, from 19.82% at 31 December 2014 to 20.73% at 31 December 2015. This increase was due to funding received from the European Central Bank (ECB) through various monetary policy instruments, the main collateral for which is lending packaged into securitisation funds and mortgage covered bonds for discounting with the ECB. One noteworthy effect that has reduced this impact is the decrease in calls on the repo market, which explains the lower value for encumbered debt securities.

The difference between the 2015 average (21.69%) and year-end (20.73%) figures is explained by a decrease in the asset encumbrance ratio in the final quarter. This resulted from a lower balance of asset encumbrance due to lower activity involving mortgage covered bonds and the repo market, partially offset by calls on European Central Bank funds.

The following table shows the relationship between the liabilities guaranteed and the assets by which they are guaranteed, using average 2015 values, based on quarterly figures:

Table 77. Guaranteed liabilities, average values

Millions of euros

	2015 annual average values calculated on quarterly data	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued(*)
Carrying amount of selected financial liabilities	**59,938**	**71,329**
Derivatives	3,189	2,541
Deposits	29,132	33,037
Debt securities issued	27,618	35,751
Other sources of encumbrance	**2,627**	**2,647**
Total	**62,565**	**73,976**

(*) Except morgatge coverage and securitization bonds encumbered

The previous table shows the liabilities guaranteed and the assets by which they are guaranteed. These tables show the charges resulting from activities with derivatives, deposits (including repo market transactions and central bank funding) and issuances (covered bonds and securitisation bonds).

As can be seen from the previous table, the value of the collateralised assets exceeds the liabilities they cover. These excess guarantees are mainly due to:

- Funding with mortgage covered bonds: where a balance of 125% of the assets covered must be held for each mortgage covered bond issued.
- European Central Bank funding, guaranteed mainly using mortgage covered bonds, public sector covered bonds and retained securitisations. There are two reasons for these excess guarantees: firstly, the valuation adjustments applied by the central bank and the excess guarantees established for the various issuances: 125% for mortgage covered bonds; and 142% for public sector covered bonds

7. Remuneration

Rule 117 bis of Bank of Spain Circular 3/2008 of 22 May, introduced by Circular 4/2011, of 30 November, establishes the content of information concerning remuneration to be included in Information of Prudential Relevance; as do the current regulations implementing Article 85 of Spanish Law 10/2014, of 26 June, on the planning, supervision and solvency of credit institutions (hereinafter, "LOSS"), and Article 93 of Royal Decree 84/2015, of 13 February, implementing the LOSS Law.

A key feature of Bank of Spain Circular 4/2011 is the requirement of transparent reporting of all remuneration policies for managers and groups of employees whose decisions could affect a credit entity's risk profile.

Specifically, Rule 117 bis of this circular refers to “Disclosures on remuneration” that must be published and updated regularly, at least once a year. This information is contained in this “Information of Prudential Relevance” report.

7.1 Remuneration policy: composition and mandate of the remuneration committee.

Introduction

The following information refers to the CaixaBank Group and is limited to 2015.

Duties of CaixaBank's Remuneration Committee

Pursuant to the LSC, the Remuneration Committee (the "RC") of a listed company shall have, *inter alia*, the following functions: to propose to the Board of Directors the remuneration policy for directors or general managers or whoever performs Senior Management functions and reports directly to the board, the executive committees or the chief executive officers. Moreover, according to the LOSS, the Remuneration Committee is responsible for the direct oversight of remuneration of senior executives in charge of risk management and compliance functions.

CaixaBank's Bylaws and the Regulations of the Board of Directors are consistent with these precepts.

Lastly, CEBS guidelines indicate that, *inter alia*, the Remuneration Committee should: (i) be responsible for the preparation of recommendations to the board of directors regarding the remuneration of the members of the management body, as well as of the highest paid staff members in the institution; (ii) provide its support and advice to the board of directors on the design of the institution's overall remuneration policy, (iii) support the board of directors in overseeing the remuneration system's design and operation on behalf of the board of directors; and (iv) devote specific attention to the assessment of the mechanisms adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels, as well as ensuring that the overall remuneration policy is consistent with the long-term sound and prudent management of the institution.

All decisions regarding remuneration outlined in the Remuneration Policy and proposed by the Remuneration Committee shall be studied by the Chairman before being laid before the Board of Directors for its deliberation and, if applicable, approval. Should these decisions fall within the remit of the CaixaBank Annual General Meeting, the Board of Directors shall include these on the agenda as proposed resolutions along with the corresponding reports.

Composition of CaixaBank's Remuneration Committee

Under the provisions of the LSC and the LOSS, on 31 December 2015, the Remuneration Committee comprised the following directors:

- María Amparo Moraleda Martínez (independent director), Chairman
- Salvador Gabarró Serra (proprietary director), Member
- Alain Minc (independent director), Member

Meetings of the CaixaBank Remuneration Committee in 2015

CaixaBank's Remuneration Committee met 9 times during 2015, with its members receiving EUR 111,000, including the remuneration received by Leopoldo Rodés Castañé until his death on 08/07/2015.

Management Committee functions

The CEBS Guidelines instruct institutions to provide for an active participation of control functions in the design of remuneration policies. In that regard, CaixaBank's Management Committee comprises representatives, *inter alia,* from the following areas:

- Risks
- Finance
- Internal audit
- Regulatory Compliance

- Human Resources and Organisation
- General Secretariat

In particular, CaixaBank's Management Committee is responsible for ensuring that the necessary information is obtained and prepared so that the Remuneration Committee can efficiently carry out its duties.

CaixaBank's Human Resources and Organisation Department (hereinafter, HR) promotes these actions within the Management Committee.

To prevent conflicts of interest, the Remuneration Committee is directly responsible for obtaining, preparing and reviewing information on: (i) the members of the CaixaBank Board of Directors, whether for their oversight or executive duties; and (ii) the members of the Management Committee.

The CaixaBank Group's Management Committee has delegated to the Human Resources Division the task of carrying out various studies and research in collaboration with external advisors (Garrigues Abogados y Asesores Tributarios), in order to update and adapt the Group's remuneration policy to the new legal requirements.

Approval of the Remuneration Policy of Identified Staff in force in 2015

On 26 February 2015, the Remuneration Committee submitted its proposed Remuneration Policy of Identified Staff to the Board of Directors for approval, pursuant to the requirements of Article 29.1d) of Act 10/2014, of 26 June, on the planning, supervision and solvency of credit institutions.

7.2 Description of identified staff

During 2015, the professionals who should form part of the CaixaBank Group's Identified Staff were determined in accordance with Commission Delegated Regulation (EU) No 604/2014, of 4 March 2014, supplementing the CRD IV with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

In accordance with the delegated regulation, members of Identified Staff should be identified using a combination of the qualitative and quantitative criteria set out therein.

Following this evaluation, which is documented in accordance with the delegated regulation, CaixaBank's governing bodies approved the list of positions classified as Identified Staff, which in 2015 consisted of 128 professionals, including the CaixaBank Group's executive directors, non-executive directors, members of the Management Committee, senior executives and key employees.

7.3 Qualitative information concerning remuneration of Identified Staff

1. General aspects

The remuneration policy for Identified Staff is structured taking into account both the prevailing circumstances and the Entity's results, and comprises:

- Fixed remuneration based on the level of responsibility and the career path of each employee, which constitutes a relevant part of total compensation
- Variable remuneration linked to the achievement of pre-established targets and prudent risk management
- Social benefits
- A long-term, share-based variable remuneration plan for executive directors, members of the Management Committee and the remaining members of the Company's executive team and key employees, some of whom are classified as Identified Staff.

Fixed remuneration is of a sufficient amount, while variable remuneration generally accounts for a relatively reduced percentage of the fixed annual compensation.

In this regard, the CEBS Guidelines note that the higher the possible variable remuneration compared to the fixed remuneration, the stronger the incentive will be to deliver the needed performance, and the bigger the associated risks may become. In contrast, if the fixed component is too low compared to the variable component, an institution may find it difficult to reduce or eliminate variable remuneration in a poor financial year.

Therefore, the CEBS Guidelines implicitly equate variable remuneration with an incentive to assume risk, and conclude that a low level of variable remuneration is a simple protection method preferable to incentives based on an inappropriate risk appetite.

Furthermore, the CEBS Guidelines set out that the risk appetite should take into account the category of employees included in Identified Staff, applying the principle of internal proportionality. As a result, the appropriate balance between the fixed and variable remuneration components may vary across the staff, depending on market conditions and the specific context in which the financial undertaking operates. Consequently, the remuneration policy must seek a reasonable and prudent balance between the fixed and variable components of remuneration.

2. Fixed remuneration

As a general rule, the system of professional classification, the salary tables set out in the collective bargaining agreement for savings banks and the particular employment agreements reached with workers' representatives are applied to CaixaBank employees.

Each employee's fixed remuneration is based on the position held, applying the salary table set out in the aforementioned collective bargaining agreement and taking into account the professional level of the employee, the employment agreement and the classification of the work centre.

Central Services posts fall in a classification based on contribution levels, with salary bands established to allow internal equilibrium. Moreover, to ensure that the Entity remains competitive vis-à-vis its peers, the salary bands are quantified on the basis of the entity's competitive position. This entails closely monitoring market trends in salaries and participating in several annual salary surveys.

Fixed remuneration and the supplements applied to the positions of members of CaixaBank's Management Committee are based mainly on market criteria, through salary surveys and specific ad hoc research. The salary surveys and specific ad hoc research used by CaixaBank are performed by specialist companies, based on comparable samples of the financial sector in the market where CaixaBank operates, and, for posts not specific to the financial sector, leading companies in the IBEX and other companies with comparable business volumes.

3. Variable remuneration

3.1 Variable remuneration, annual bonus

Risk-adjusted variable remuneration for Identified Staff is based on the remuneration mix (a proportional balance between fixed and variable remuneration, as mentioned above) and on performance measurements.

Ex-ante and ex-post remuneration adjustments are applied in view of the performance measurements, as a risk alignment mechanism.

Both quantitative (financial) and qualitative (non-financial) criteria should be taken into account when assessing performance and evaluating individual results. The appropriate mix of quantitative and qualitative criteria also depends on the tasks and responsibilities of each staff member. In all cases, the quantitative and qualitative criteria and the balance between them should be specified and clearly documented for each level and category of staff.

The indicators used for the ex-ante risk adjustment of variable remuneration accrued through the bonus programs or targets programs vary across the different categories of Identified Staff.

For the purposes of the ex-ante adjustment of variable remuneration, all members of Identified Staff, with the exception of members of the Board of Directors in their supervisory function, and other positions determined based on their characteristics that have no variable remuneration elements, are assigned to one of the categories described below. This assignment is based on the functions of the person in question, and is notified to them.

a) Executive directors and members of the Management Committee

Variable remuneration for executive directors and members of the Management Committee is determined based on the target bonus established for each of them by the Board of Directors, at the proposal of the Remuneration Committee, subject to a maximum achievement percentage of 120%. The achievement level is set based on the following measurable parameters:

- 50% based on individual targets
- 50% based on corporate targets

The 50% corresponding to corporate targets is set each year by CaixaBank's Board of Directors, at the proposal of the Remuneration Committee. This is weighted across various concepts for which targets can be set, based on the Entity's main objectives. In 2015 these were:

- ROTE
- Percentage change in recurring operating expenses
- Percentage change in net interest income plus fees
- Business volume
- Variation in distressed assets
- Quality

The proposed composition and weighting of these corporate targets is established in accordance with the LOSS and its implementing regulations, and may vary between members of the Management Committee.

The part of variable remuneration based on individual targets (50%) has a minimum achievement level for collection of 60%, and a maximum of 120%. It is distributed across various targets related to CaixaBank's strategy. The final valuation carried out by the Remuneration Committee, following consultation with the Chairman, may vary by +/-25% in relation to the objective assessment of the individual targets, providing that it remains below the limit of 120%. This variation allows for the qualitative assessment of the performance of the Management Committee member, and consideration of any exceptional targets that may have arisen during the year that were not considered at the outset.

b) Other categories

For professional in other categories of Identified Staff, the variable remuneration system depends on their role, with a risk adjustment reflecting the area to which they belong.

Therefore, all company managers and employees forming part of Identified Staff receive variable remuneration or bonuses, in accordance with their function.

Each of the Entity's business areas has a specific bonus programme with its own structure and measurement criteria, based on the targets and terms and conditions that determine variable remuneration in that area. The main units in which these programs are applied are the following: Commercial Banking, Private Banking, Business Banking, Transactional Banking, Institutional Banking, Treasury and Capital Markets, Structured Financing, Corporate Banking, Developer Banking and International Banking.

The remuneration model applied in Central and Regional Services is known as the "Targets Programme” and encompasses all managers in Identified Staff who work in business control and support areas. The targets in these areas are set through an agreement between each employee and the employee's supervisor, and are consistent with the targets set for the area.

In addition, all bonus programmes include corporate targets.

The maximum achievement percentage varies between 100% and 150%, depending on the bonus programme applicable to each professional. The payment level is determined based on achievement of individual and corporate objectives, as set out in the corresponding bonus programmes approved by the Management Committee.

The weighting for corporate targets is set for each year, and distributed across measurable concepts, based on the main targets for the area. These concepts may, by way of example, include some or all of:

- ROTE
- Percentage change in recurring operating expenses
- The ordinary income of the regional business
- Variation in distressed assets for the regional business
- Quality

The proposed composition and weighting of the corporate targets is established in accordance with the LOSS and its implementing regulations.

The ratios used to adjust for ex-ante risk in the calculation of variable remuneration as established in the "Target programme" may vary according to the different categories of Identified Staff, as follows:

1. **Credit-risk takers and drivers**

For functions carried out by credit-risk takers and drivers, the main ratio used to adjust for ex-ante risk is the "Credit Risk Adjustment" (CRA).

To calculate this, the eligible capital used by each business unit, portfolio or segment is divided by the corresponding EAD ("Exposure at default"), according to CEBS Guidelines. This includes the cost and capital required to cover the risks involved in activities among the financial factors used to adjust variable remuneration to risk, using the following formula:

The final bonus received by the employee is calculated as follows:

$$\frac{\sum_{n=1}^{T} CR_n}{\sum_{n=1}^{T} EAD_n}$$

Risk-adjusted bonus = CRA x Bonus target x (% individual targets achieved + % of corporate targets achieved) x Entity adjustment factor

2. Market-risk takers

For functions carried out by market-risk takers, the main ratio used to adjust for ex-ante risk is the “Market Risk Adjustment” (MRA), spanning the year to which the “Bonus programme" corresponds. The following table sets out how the indicator works:

The indicator functions are specified below:

Table 78. MRA indicator

Risk situations	AJRM
Excess risk of up to 15% of the approved limits caused expressly by one unauthorized market position or a position of a size greater than authorized	0.9
Excess risk of more than 15% of the approved limits, caused expressly by one unauthorized market position or a position of a size greater than authorized, or two positions of this type at least one of which does not exceed the authorized limits by 15%	0.75
Excess risk of more than 15% of the approved limits, caused expressly by two unauthorized market positions or positions of a size greater than authorized, or three positions of this type at least one of which does not exceed the authorized limits by 15%	0.5
Excess risk above the authorized limits caused expressly by unauthorized market positions or positions of a size greater than authorized which are larger in number or amount than those mentioned above	0

The amount payable to members of this group is calculated using the following formula:

Risk-adjusted bonus = CRA x Bonus target x (% individual targets achieved + % of corporate targets achieved) x entity adjustment factor

3. Control and other support functions

Ex-ante risk adjustments for control and finance functions carried out by the corresponding professionals of the Identified Staff are determined according to individual targets as listed in the specific corporate tools and linked to the control and finance activities for which each of the employees involved is responsible.

The amount payable to members of this group is calculated using the following formula:

Risk-adjusted bonus = Bonus target x (% individual targets achieved + % of corporate targets achieved) x entity adjustment factor

Pursuant to the LOSS, the targets set for employees who perform control functions, on which their bonus-related performance is predicated, are established in accordance with the performance indicators set jointly by the employee and his or her manager, and are unrelated to the results achieved by the business areas they supervise or control.

Specifically, the Target Program for 2015 for these employees was drawn up on the basis of the following measurement criteria:

- 70% of the individual/team targets
- 10% of the quality target for the Entity
- 10% of the changes in recurring operating expenses
- 10% of ROTE.

The amount of the bonus received by each employee in each specific programme is based on performance and the results of the business and the Entity. The initial amount is adjusted according to a “bonus-adjustment factor” determined each year by the Entity's management, pursuant to the applicable regulations. This adjustment aims to reflect the entity's global results and other, more qualitative factors.

In general, the adjustment is applied to all employees uniformly and ranges from a minimum of 0.85 to a maximum of 1.15.

3.2. Deferred payment of variable remuneration (annual bonus)

- **Professionals subject to deferred payment**

  In application of the principle of proportionality foreseen in the LOSS, this deferral applies only when the total amount of the variable remuneration accrued by Identified Staff professionals exceeds EUR 100,000, or 30% of the professional's fixed remuneration.

  For the categories of CaixaBank's general managers, deputy general managers, executive managers and regional directors included in the Identified Staff, the deferral is applied independently of the total amount of the remuneration accrued.

- **Deferment process**

On the payment date scheduled in the targets programme for each employee, the percentage of variable remuneration accrued for the professional category in question is paid outright (hereinafter, upfront payment date). The percentage of variable remuneration retained is as follows:

- Executive directors: 60%
- Management Committee, Executive Managers and Regional Managers: 50%
- Other Identified Staff: 40%

50% of the amount of the initial payment is paid in cash, and the remaining 50% in CaixaBank shares.

Providing that none of the situations giving rise to reductions arise, the retained portion of variable remuneration is paid in three instalments, in the amounts and on the dates determined as follows:

- 1/3: 12 months after the Initial Payment Date
- 1/3: 24 months after the Initial Payment Date
- 1/3: 36 months after the Initial Payment Date

Of the amount payable at each of these three dates, 50% is paid in cash. The remaining 50% is paid in CaixaBank shares, after the corresponding taxes (withholdings and payments on account) have been satisfied.

Shares delivered as remuneration may not be sold for one year from the date delivered.

CaixaBank retains ownership of retained shares and cash payments. The deferred cash accrues interest in favour of the recipient, calculated by applying the interest rate under the same terms and conditions as apply to accounts payable to the employee's holding account. The returns on retained shares accrue to the professional, and include any remuneration payable to shareholders or yields on the shares, including, but not limited to, gross dividends distributed, bonus shares assigned to the deferred shares, and, where applicable, gains on sales of rights to bonus shares or of preferential subscription rights, among others (in the latter case, the option applied will always be sale of the rights and delivery in cash).

3.3 Long-term, share-based variable remuneration plan 2015-2018

The General Meeting held on 23 April 2015 approved the implementation of a four year Long-Term Incentive Plan (LTI) for 2015-2018, linked to the Strategic Plan. At the end of the four years, Plan participants will receive a number of CaixaBank shares, providing certain strategic objectives and requirements are met. The Plan participants include members of CaixaBank's Management Committee and other members of its management team, and key employees of CaixaBank and CaixaBank Group companies who are expressly invited.

Some of the beneficiaries of this long-term incentives plan are classified as Identified Staff in CaixaBank.

- **Duration and settlement of the Plan:**

  The measurement period for the Plan runs from 1 January 2015 to 31 December 2018 (hereinafter, the Measurement Period).

  The above notwithstanding, the Plan formally commenced when it was approved at the Annual General Meeting held on 23 April 2015 (hereinafter, the Start Date).

  The Plan will expire on 31 December 2018 (hereinafter, the End Date), without prejudice to the effective settlement of the Plan, which will take place in June 2019.

- **Instrument:**

  The Plan works by awarding a certain number of units to each Beneficiary, free of charge. These units are subsequently used to determine the number of CaixaBank shares to be delivered to each Plan beneficiary, depending on the degree of compliance with certain objectives.

  Under this Plan, beneficiaries do not become shareholders of the Entity until delivery of the shares. Therefore, the units awarded do not confer economic or voting rights over the Entity, or any other shareholder entitlements.

- **Determination of the number of units to be assigned to each beneficiary**

  The number of units to be assigned to each beneficiary will be based on: (i) a target amount, determined by the professional function of the beneficiary; and (ii) the average arithmetic price of CaixaBank's closing share price in stock market sessions in February

2015, rounded to the third decimal place. The units to be assigned to each beneficiary will be determined using the following formula:

N.U. = TA / AAP

Where:

N.U. = the Number of Units to be assigned to each beneficiary, rounded up to the nearest whole number.

TA = the Target Amount for the beneficiary, based on their professional category.

AAP = the Average Arithmetic Price of CaixaBank's closing share price in stock market sessions in February 2015, rounded to the third decimal place.

- **Determination of the number of shares to be delivered on settlement of the Plan**

The total number of shares to be delivered to each beneficiary on the settlement date will be determined using the following formula:

N.S. = N.U. x DAO

Where:

N.S. = Number of Shares in the Entity awarded to each beneficiary on the Plan Settlement Date, rounded up to the nearest whole number.

N.U. = the Number of Units assigned to the beneficiary.

DAO = The Degree of Achievement of the Objectives, based on compliance with the Plan objectives.

- **Maximum number of shares to be delivered**

The Annual General Meeting resolved that a maximum of 3,943,275 shares would be delivered to the Plan beneficiaries.

This is the maximum number of shares that could be delivered, in the event of the maximum coefficients for achieving objectives applying.

- **Metrics**

The degree to which the objectives are achieved will be determined by compliance with the Plan objectives.

The specific number of CaixaBank shares to be delivered to each beneficiary on the Settlement Date, if the conditions established are met, depends on: (i) the Entity's Total Shareholder Return (hereinafter, TSR) in comparison with the same indicator for 19 peer banks (20 banks in total, including CaixaBank); (ii) the Entity's Return on Tangible Equity (hereinafter, ROTE); and (iii) the Entity's Cost-to-Income ratio (hereinafter, CIR).

(i) TSR:

The difference (expressed as percentage relationship) between the initial and final value of an investment in ordinary shares. The calculation of final value includes dividends and similar items (such as scrip dividends) received by the shareholder for their investment over the corresponding period.

A coefficient of between 0 and 1.5 will be established, depending on CaixaBank's position in the sample of 20 comparable banks selected:

- If CaixaBank's position in the TSR ranking is between 1 and 3, the TSR coefficient = 1.5
- If CaixaBank's position in the TSR ranking is between 4 and 6, the TSR coefficient = 1.2
- If CaixaBank's position in the TSR ranking is between 7 and 9, the TSR coefficient = 1
- If CaixaBank's position in the TSR ranking is between 10 and 12, the TSR coefficient = 0.5
- If CaixaBank's position in the TSR ranking is between 13 and 20, the TSR coefficient = 0.

The peer banks used as benchmarks for TSR under the Plan (hereinafter, the Comparison Group) are Santander, BNP, BBVA, ING Groep NV-CVA, Intesa Sanpaolo, Deutsche Bank AG-Registered, Unicredit SPA, Credit Agricole SA, Societe General SA, KBC Groep NV, Natixis, Commerzbank AG, Bank of Ireland, Banco

Sabadell SA, Erste Group Bank AG, Banco Popular Español, Mediobanca SPA, Bankinter SA and Bankia SA.

In order to avoid any anomalous movements in this indicator, the benchmark values on the date immediately prior to the start of the Measurement Period (31 December 2014) and End Date of the Measurement Period (31 December 2018) will use the average arithmetic closing price of the shares over 31 stock market sessions, rounded to three decimal places. These 31 sessions will comprise the 31 December session and the 15 sessions immediately preceding and following this date.

(ii) ROTE:

The return on tangible equity over the Measurement Period. This formula does not include intangible goods or goodwill in a company's equity.

A coefficient of between 0 and 1.2 will be set for ROTE, based on the following scale of ROTE targets:

- If ROTE $\geq$12: ROTE coefficient = 1.2
- If ROTE = 12: ROTE coefficient = 1
- If ROTE = 10: ROTE coefficient = 0.8
- If ROTE < 10: ROTE coefficient = 0.

The degree of eligibility for the incentive deriving from the ROTE target will be calculated using linear interpolation, in accordance with the table above.

The ROTE indicator will be calculated as the average for this metric between the close on 31 December 2017 and the close on 31 December 2018.

(iii) CIR:

The percentage of income consumed by costs. This is calculated as the percentage ratio between ordinary operating income and costs.

A coefficient of between 0 and 1.2 will be set for CIR, based on the following scale:

- IF 2018 CIR < 43: CIR coefficient = 1.2
- IF 2018 CIR = 45: CIR coefficient = 1

- IF 2018 CIR = 47: CIR coefficient = 0.8
- IF 2018 CIR > 47: CIR coefficient = 0.

The degree of eligibility for the incentive deriving from the CIR target will be calculated using linear interpolation, in accordance with the table above.

The value of the CIR metric at 31 December 2018 will be used.

The degree of achievement of the objective will be determined using the following formula and weightings:

DAO = CTSR x 34% + CROTE x 33% + CCIR x 33%

Where:

DAO = Degree of Achievement of Objective expressed as a percentage.

CTSR = the TSR coefficient, based on the scale for the TSR target.

CROTE = the ROTE coefficient, based on the scale for ROTE targets.

CCIR = the CIR coefficient, based on the scale for the CIR target.

The TSR metric will be calculated by an independent expert of recognised renown at the end of the Plan, at the request of the Entity. The Entity will determine the ROTE and CIR metrics, which will be subject to audit of the Entity's financial statements.

- **Requirements for receiving shares**

The requirements for the beneficiary to receive shares under the Plan are:

1. They must comply with the objectives set for them under the Plan, subject to the terms and conditions set out in the Plan regulations.

2. The beneficiary must remain part of the Company until the End Date of the Plan, except in special circumstances, such as death, permanent disability, retirement, and others as set out in the Plan regulations, which must be approved by the Company's

Board of Directors. Therefore, the beneficiary will lose their entitlement to shares under the Plan in the event of resignation or justified dismissal.

The shares will be delivered in all cases on the date established for Plan beneficiaries, in accordance with the requirements and procedures set down in the Plan.

The Plan will only be settled and the shares delivered if this is sustainable and justified given CaixaBank's situation and results.

The shares under this Plan will not be delivered to the beneficiaries - who will lose any right to receive them - in the event that CaixaBank makes a loss, does not distribute a dividend or does not pass the stress tests required by the European Banking Authority, in the year of the Plan End Date or Settlement Date.

- **Early termination or modification of the Plan**

  The Plan may be terminated ahead of schedule or modified in the event of change of control in the Company or in the light of events that, in the opinion of the Board of Directors, significantly impact the Plan.

3.4 Reduction and recovery of variable remuneration (ex-post adjustment of the annual bonus and LTI).

- Reductions.

  Pursuant to the LOSS, the right of persons classified as Identified Staff to receive variable remuneration, including that pending payment, whether in cash or shares, shall be reduced, in part or in full, in the following situations:

  - For credit-risk takers, use of capital for credit risk in excess of pre-established risk tolerance (i.e. 25% excess).
  - Justified disciplinary dismissal or, in the case of commercial contracts, due to just cause at the instigation of the Entity (in which case the reduction will be total).
  - Breaches of applicable regulations considered serious or very serious.
  - Failure to comply with internal regulations considered serious or very serious.
  - Failure to comply with applicable suitability and behavioural requirements.

- Regulatory breaches for which they are responsible, irrespective of whether they cause losses, that put at risk the solvency of a business line, and, in general, involvement in, or responsibility for, behaviour that causes significant losses.
- When payment or confirmation would not be sustainable in the light of the financial position of CaixaBank as a whole, or is not justified based on the results of CaixaBank as a whole, the business unit or the person involved.
- The existence of qualifications in the external auditor's report that undermine the financial indicators used in calculating variable remuneration.
- Any others that might be provided for in the corresponding contracts.

Any others as set down in applicable legislation or by regulatory authorities in exercise of their powers to issue or interpret regulations, or their executive powers.

- Recovery situations.

  In the event that causes leading to the above-mentioned situations occurred before a payment of a variable remuneration amount that has been made, such that the payment would not have been made, either in part or in full, if the situation had been known about, the person involved must return the part of variable remuneration unduly paid, to the corresponding CaixaBank Group entity. This reimbursement must be made in cash or shares, as applicable.

7.4 Quantitative information concerning remuneration of the Identified Staff

In 2015, remuneration paid to the Identified Staff, in adherence to the applicable regulatory provisions concerning remuneration, and according to the Entity's different areas of activity, was as follows:

The fixed remuneration information for 2015 set out in this report includes all fixed remuneration components received by each member of the Identified Staff. Therefore, this concept includes both fixed monetary remuneration and remuneration in-kind (contributions to pension plans, health insurance, etc.).

Table 79. Remuneration paid to Identified Staff (I) (thousand euros)

Thousands of euros

Activity areas	Description of the type of the businesses	Fixed Remuneration 2015	Variable remuneration 2015	Total 2015
Investment Banking	Capital Markets & Treasury, Markets, ALM and Corporate & Institutional Banking	3,999	2,909	6,908
Retail Banking	Individual banking, Private banking & Wealth management, Business banking and Transactional banking	11,277	3,667	14,944
Asset management	Asset management	469	267	736
All other	Executive directors and non-executive directors, corporate functions and all other	23,979	3,358	27,337

Table 80. Remuneration paid to Identified Staff (II) (thousand euros)

Thousands of euros

Identified staff 2015 remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**17**	**2**	**25**	**84**	**128**
Fixed remuneration 2015	**3,666**	**4,134**	**15,626**	**16,298**	**39,439**
Variable remuneration 2015 (annual bonus)	**-**	**503**	**2,728**	**6,970**	**10,201**
in cash	-	251	1,364	4,005	5,621
in shares or share-linked instruments	-	251	1,364	2,964	4,580
other types instruments	-	-	-	-	-
Variable remuneration deferred (still not paid) [1]	**-**	**470**	**2,653**	**3,485**	**6,608**
Attributed	-	-	-		-
Not attributed	-	470	2,653	3,485	6,608
in cash	-	235	1,327	1,742	3,304
in shares or share-linked instruments	-	235	1,327	1,742	3,304
in other types instruments	-	-	-	-	-
Deferred remuneration paid in exercise 2015 [2]	**-**	**125**	**940**	**788**	**1,853**
in cash	-	75	565	473	1,113
in shares or share-linked instruments	-	50	375	315	740
in other types instruments	-	-	-	-	-
Total amount of explicit expost performance adjustment applied in 2015 for previously awarded remuneration	-	-	-	-	-
Number of beneficiaries of severance payments	**-**	**-**	**-**	**2**	**2**
Total amount of severance payments [3]				1,334	1,334
Average permanence period				17	17
Highest severance payment to a single person				935	935
Number of beneficiaries of Long Term Incentive 2015-2018	**-**	**2**	**23**	**20**	**45**
Prorated annual bonus target		325	1,225	676	2,226

(1) It includes the deferred variable remuneration pending payment at 31/12/2015 (1/3 bonus 2013, 2/3 bonus 2014 and the deferred part of bonus 2015).

(2) It includes the deferred variable remuneration awarded in previous years and paid in February 2016 (1/3 bonus 2012, 1/3 bonus 2013 and 1/3 bonus 2014).

(3) The severance payments obey extinctions produced under the labour force adjustment plan of June 29, 2015.

Table 81. Remuneration paid to Identified Staff (III) (thousand euros)

Thousands of euros

Identified staff 2015 variable remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**17**	**2**	**25**	**84**	**128**
Variable remuneration 2015 (annual bonus)	**-**	**503**	**2,728**	**6,970**	**10,201**
Bonus 2015 paid in 2016	-	202	1,364	4,550	6,116
in cash	-	101	682	2,796	3,579
in shares or share-linked instruments	-	101	682	1,754	2,537
in other types instruments	-	-	-	-	-
Bonus 2015 deferred and not attributed	-	302	1,364	2,420	4,086
in cash	-	151	682	1,210	2,043
in shares or share-linked instruments	-	151	682	1,210	2,043
in other types instruments	-	-	-	-	-

Table 82. Remuneration paid to Identified Staff (IV)

Total remuneration; payment band (in EUR)	Number of beneficiaries
1 million euros to bellow 1.5 million euros	5
1.5 million euros to bellow 2 million euros	3
2 million euros to bellow 2.5 million euros	0
2.5 millioneuros to bellow 3 million euros	0
3 million euros to bellow 3.5 million euros	1

In 2015:

- No payments were made for new hires within the Identified Staff.
- No adjustments to deferred compensation awarded in 2015 were made as a result of performance.

C. APPENDICES

Appendix I. Information on transitory own funds

Millions of euros

	(A) Amount at reporting date; (B) reference to CRR article; (C) Amounts subject to treatment prior to the CRR or residual amount prescribed by the CRR	*(A)*	*(B)*	*(C)*
Common Equity Tier 1 capital : instruments and reserves				
1	Capital instruments and the related share premium accounts	17,842	*26 (1), 27, 28, 29 list of the EBA 26 (3)*	
2	Retained earnings	5,265	*26 (1) (c)*	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	572	*26 (1)*	
5	Minority interests (amount allowed in consolidated CET1)	11	*84, 479, 480*	11
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	348	*26 (2)*	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**24,038**		
Common Equity Tier 1 capital : regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	(1,962)	*36 (1) (b), 37, 472 (4)*	
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)	(211)	*36 (1) (c), 38, 472 (5)*	
12	Negative amounts resulting from the calculation of expected loss amounts	(100)	*36 (1) (d), 40, 159, 472 (6)*	
13	Any increase in equity that results from securitised assets (negative amount)	(9)	*32 (1)*	
14	Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing	(54)	*33 (b)*	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(35)	*36 (1) (f), 42, 472 (8)*	
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)	(136)	*36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79, 470, 472 (11)*	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(3,045)	*36 (1) (j)*	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(5,553)**		
29	**Common Equity Tier 1 (CET1) capital**	**18,485**		
Additional Tier 1 (AT1) capital: instruments				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
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)	(102)	*56 (d), 59, 79, 475 (3)*	
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	(2,943)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: Intangible assets	(2,943)		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(3,045)**		
44	**Additional Tier 1 (AT1) capital**	**0**		
45	**Tier 1 capital (T1=CET1+AT1)**	**18,485**		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	4,147	*62, 63*	
50	Credit risk adjustments	297	*62 (c) y (d)*	
51	**Tier 2 (T2) capital before regulatory adjustments**	**4,444**		

Amounts in millions of euros

	(A) Importe a fecha de la información; (B) CRR referencia a artículo; (C) Importes sujetos al tratamiento anterior al CRR o importe residual prescrito por el CRR	*(A)*	*(B)*	*(C)*
Tier 2 (T2) capital: regulatory adjustments				
55	Direct and indirect synthetic 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)	(102)	*66 (d), 69, 70, 79, 477 (4)*	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(102)**		
58	**Tier 2 (T2) capital**	**4,342**		
59	**Total capital (TC=T1+T2)**	**22,827**		
59a	Risk weighted assets 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)	143,312		
	Of which: CET1 instruments of financial sector entities not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts)	2,111	*472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)*	
	Of which: AT1 instrument of financial sector entities not deducted from AT1 (Regulation (EU) No 575/2013 residual amounts)	5,417	*475, 475 (2) (b), 475 (2) (c), 475 (4) (b)*	
60	**Total risk weighted assets**	**143,312**		
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**12.90%**	***92 (2) (a), 465***	
62	**Tier 1 (as a percentage of risk exposure amount)**	**12.90%**	***92 (2) (a), 465***	
63	**Total capital (as a percentage of risk exposure amount)**	**15.93%**	***92 (2) (c)***	
Ratios y colchones de capital				
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 below 10% threshold and net of eligible short positions)	1,801	*36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 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 below 10% threshold and net of eligible short positions)	2,507	*36 (1) (i), 45, 48, 470, 472 (11)*	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	844	*36 (1) (c), 38, 48, 470, 472 (5)*	
Límites aplicables en relación con la inclusión de provisiones en el capital de nivel 2				
78	Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	297	*62*	
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	320	*62*	

*	*The rows without information were ommitted*
1	*Capital + Share Premiun, Net of Treassury Shares*
2	*Reserves*
3	*Valuation Adjustments exchance differences (Group and Non-controlling interests)*
5	*Profits and Non-Controlling Interest Reserves*
5a	*Audited financial results atributable to the Group, net of dividends (paid on the account and complementary prevision on the account of the exercise)*
8	*GoodWill and Intangible Assets, net of corrections of Banco BPI i The Bank of East Asia (20%)*
41a	*Intangibles Assets: Goodwill and intangible assets, net of corrections adjustments of Banco BPI and The Bank of East Asia (80%)*
46	*Subordinated debt elegible (net of treassury shares, pledges and loss of elegible capital depening on the maturity)*
50	*Provisions surplus versus Expected Losses IRB (regulatory limit)*

Appendix II. Main features of equity instruments

Millions of euros

		ES0213249008	ES0312284005	ES0240609000	ES0240609018
1	Issuer	Caixa Girona	Caixa Girona	CaixaBank	CaixaBank
2	Unique identifier	ES0213249008	ES0312284005	ES0240609000	ES0240609018
3	Governing law(s) of the instrument	Spanish regulation: - Law 24/1988 - RD 1310/2005 of Law 24/1988. - Regulation (CE) 809/2004. - Law 211/1964. - Law 13/1985. - RD-Ley 1564/89.	Spanish regulation: - Law 24/1988. - Law 211/1964. - RD 1310/2005 and Order EHA/3537/2005. - Law 13/1985. - Law13/1992 and RD 216/2008.	Spanish regulation - Law 24/1999. - third transitional provision RD-Ley 2/2011. - Regulation CE 809/2004 and Directive 2003/71/CE	Spanish regulation: - Law 24/1999. - third transitional provision RD-Law 2/2011. - Regulation CE 809/2004 and Directive 2003/71/CE
4	Regulatory treatment	Equity level 2	Equity level 2	Equity level 2	Equity level 2
5	Transitional Basel III rules	Equity level 2	Equity level 2	Equity level 2	Equity level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	6	9	2,041	1,289
9	Par value of instrument	100	50	2,072	1,302
9a	Par value of instrument	1	1	1	1
9b	Accounting classification	1	1	1	1
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	9/21/2006	11/17/2006	2/9/2012	2/9/2012
12	Perpetual or dated	Specific maturity	Specific maturity	Specific maturity	Specific maturity
13	Original maturity date	9/21/2016	11/8/2016	2/9/2022	2/9/2022
14	Issuer call subject to prior supervisory approval	yes	yes	yes	yes
15	Optional call date, contingent call dates and redemption amount	At any time from 21/9/2011. Purchase price 100%. Partial o total purchase	From five years from the date of disbursement, from 17/11/2011, every coupon pay date (feb/may/aug/nov)	At any time from 9/2/2017. Purchase price 100%.	At any time from 9/2/2017. Purchase price 100%.
16	Subsequent call dates, if applicable	At any time from 21/9/2011	At every coupon pay time (feb/may/aug/nov)	At any time from 2/9/2017	At any time from 9/2/2017
17	Coupon rate and any related index	Variable	Variable	Fixed	Fixed
18	Coupon rate and any related index	Eur 3m +0,4932%	Eur 3m +0,4572%	0	0
19	Existence of a dividend stopper	No	No	No	No
20a	Existence of a step up or other incentive to redeem	Mandatory	Mandatory	Mandatory	Mandatory
20b	Noncumulative or cumulative	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	No	yes	No	No
22	Noncumulative or cumulative	n/p	n/p	n/p	n/p
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 instrument it converts into	n/p	n/p	n/p	n/p
30	Write-down feature	No	No	No	No
31	If write-down, write-down trigger (s)	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-down mechanism	n/p	n/p	n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After preferred and ordinary creditors	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors	After Ordinary common creditors	After ordinary creditors
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	n/p	n/p	n/p	n/p

Millions of euros

Amounts in millions of euros		ES0140609019	AYTS491201	AYTS490629	AYTS161108(ES0312284005)
1	Issuer	CaixaBank	CajaSol	CajaSol	CajaSol
2	Unique identifier	ES0140609019	AYTS491201	AYTS490629	AYTS161108 (ES0312284005)
3	Governing law(s) of the instrument	Spanish law	Spanish law	Spanish law	Spanish law: - Article 270.10 Mercantile Registry Regulations - Law 13/1992
4	Regulatory treatment	Equity ordinary level 1	Equity level 2	Equity level 2	Equity level 2
5	Transitional Basel III rules	Equity ordinary level 1	Equity level 2	Equity level 2	Equity level 2
6	Eligible at solo/group/group&solo	Individual and consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Ordinary Shares	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	5.824	18	1	2
9	Par value of instrument	5.824	18	15	10
9a	Par value of instrument	n/p	1	1	1
9b	Accounting classification	n/p	Without documents	Without documents	1
10	Accounting classification	Equity	Liability	Liability	Liability
11	Original date of issuance	n/p	1/12/1990	06/24/1994	11/17/2006
12	Perpetual or dated	Perpetual	Without documents	Without documents	Without documents
13	Original maturity date	n/p	Perpetual	06/24/2093	8/11/2016
14	Issuer call subject to prior supervisory approval	No	Without documents	Without documents	Yes
15	Optional call date, contingent call dates and redemption amount	n/p	Without documents	Without documents	From 11/17/2011 at each coupon date (Feb/Mai/Aug/Nov)
16	Subsequent call dates, if applicable	n/p	Without documents	Without documents	In each coupon date (Feb/Mai/Aug/Nov)
17	Coupon rate and any related index	Variable	Without documents	Without documents	Variable
18	Coupon rate and any related index	n/p			Eur 3m +0,4572%
19	Existence of a dividend stopper	n/p	Without documents	Without documents	No
20a	Existence of a step up or other incentive to redeem	Fully discretionary	Without documents	Without documents	Mandatory
20b	Noncumulative or cumulative	Fully discretionary	Without documents	Without documents	Mandatory
21	Existence of a step up or other incentive to redeem	n/p	Without documents	Without documents	Yes
22	Noncumulative or cumulative	Noncumulative	Without documents	Without documents	n/p
23	Convertible or non-convertible	n/p	Without documents	Without documents	Not 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 instrument it converts into	n/p	n/p	n/p	n/p
30	Write-down feature	n/p	Without documents	Without documents	No
31	If write-down, write-down trigger (s)	n/p	Without documents	Without documents	n/p
32	If write-down, full or partial	n/p	Without documents	Without documents	n/p
33	If write-down, permanent or temporary	n/p	Without documents	Without documents	n/p
34	If temporary write-down, description of write-down mechanism	n/p	Without documents	Without documents	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Do not have subordination	Without documents	Without documents	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors
36	Non-compliant transitioned features	No	Without documents	Without documents	No
37	If yes, specify non-compliant features	n/p	Without documents	Without documents	n/p

Millions of euros

Amounts in millions of euros		ES0217156092	XS0989061345	ES0214965008
1	Issuer	CajaSol	CaixaBank	Caja Navarra
2	Unique identifier	ES0217156092	XS0989061345	ES0214965008
3	Governing law(s) of the instrument	Spanish law - Law 13/1985 (additional third disposition repealed) and law 24/1988. - Law 13/1992, and RD 116/1992, RD 1343/1992 and RD 538/1994. - Law 44/2002 and law 26/2003. - RD 2590/1998. - Law 211/1964. -Circular 2/1999 CNMV. - Regulation (CE) 809/2004 and Directive 2003/71/CE. - Order EHA/3537/2005 and Law 24/1988 and RD 1310/2005.	In accordance with English law, except the provisions relating to the status of the Notes (and any non-contractual obligations arising out of or in connection with it), the capacity of the Issuer, the relevant corporate resolutions, the syndicate of the Noteholders and the Commissioner which are governed by Spanish law.	Spanish Law: - Law 24/1988. - Regulation (CE) 809/2004 and Directive 2003/71/CE. - Law 211/1964.
4	Regulatory treatment	Equity level 2	Equity level 2	Equity level 2
5	Transitional Basel III rules	Equity level 2	Equity level 2	Equity level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions)	30	746	5
9	Par value of instrument	149	750	85
9a	Issue price	50%. Issued at 100%, although is at 75% of cost	1	67%. Issued at 100%, although in CaixaBank's Balance Sheet is at 67% of cost.
9b	Redemption price	1	1	1
10	Accounting classification	liability	liability	liability
11	Original date of issuance	1/12/2005	11/14/2013	06/16/2006
12	Perpetual or dated	Perpetual	Specific maturity	Specific maturity
13	Original maturity date	Without maturity	11/14/2023	06/16/2016
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	From 12/01/2015, at every coupon pay time (Mar, Jun, Sep, Dec)	14/11/2018 and at any time for tax reasons or event capital prior consent of the Bank of Spain	At any time from 06/16/2011. Redemption price 100%
16	Subsequent call dates, if applicable	From 12/01/2015, at every coupon pay time (Mar, Jun, Sep, Dec)	n/p	At any time from 06/10/2011. Redemption price 100%
17	Coupon rate and any related index	Variable	From fixed to variable	Variable
18	Coupon rate and any related index	Eur 3m + 1,10% until 12/1/2015. From this date Eur 3m + 2,60%	5% until 11/14/18. since then M/S 5 years + 395bps	Eur 3m + 0,39% until 4/11/2010. From that date Eur3m+0,89%
19	Existence of a dividend stopper	Yes	No	No
20a	Existence of a step up or other incentive to redeem	Partial discretionary (no dividends distribution with losses.)	Mandatory	Mandatory
20b	Noncumulative or cumulative	Mandatory	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	Yes	No	Yes
22	Noncumulative or cumulative	Accumulative	n/p	n/p
23	Convertible or Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p
30	Write-down feature	Yes	No	No
31	If write-down, write-down trigger (s)	Must apply the tax and interest due to the absorption of losses in the Bank, once depleted reserves and resources similar to equity, shares and preferent shares issued by subsidiaries.	n/p	n/p
32	If write-down, full or partial	Total or partial	n/p	n/p
33	If write-down, permanent or temporary	Permanent	n/p	n/p
34	If temporary write-down, description of write-down mechanism		n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After No special subordinated debentures	After ordinary creditors	After ordinary creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	n/p	n/p	n/p

Appendix III. Information on leverage ratio

Millions of euros

	Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per published financial statements	344,255
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(25,953)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	(15,522)
5	Adjustments for securities financing transactions "SFTs"	1,589
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	22,633
7	Other adjustments	(5,499)
8	**Leverage ratio exposure**	**321,504**

	Table LRCom: Leverage ratio common disclosure	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	281,506
2	Asset amounts deducted in determining Tier 1 capital	(5,499)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**276,007**
	Table LRCom: Leverage ratio common disclosure	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	2,210
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,299
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(2,144)
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 4 to 5a)**	**2,365**
	Table LRCom: Leverage ratio common disclosure	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	18,909
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	1,589
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**20,498**
	Table LRCom: Leverage ratio common disclosure	
17	Off-balance sheet exposures at gross notional amount	68,805
18	(Adjustments for conversion to credit equivalent amounts)	(46,172)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**22,633**
	Table LRCom: Leverage ratio common disclosure	
20	**Tier 1 capital**	**18,485**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**321,504**
	Table LRCom: Leverage ratio common disclosure	
22	**Leverage ratio**	**5.75%**

	Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)	
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**281,506**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	281,506
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	36,787
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,963
EU-7	Institutions	5,978
EU-8	Secured by mortgages of immovable properties	103,623
EU-9	Retail exposures	22,379
EU-10	Corporate	56,479
EU-11	Exposures in default	17,667
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	36,630

	Publication of information on qualitative aspects	
1	Description of the processes used to manage the risk of excessive leverage	Leverage ratio is one of the metrics which are periodically monitored by Management and Government Bodies
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	Addition of BBSAU and additional impact due to phased application of Basel III. See note 7 of 2015 Annual Report