Pillar 3 Disclosures

CaixaBank Group

at 31 December 2016

CaixaBank

(*) Translation of financial statements originally issued and prepared in Spanish. This English version is a translation of the original in Spanish for information purposes only. In the event of a discrepancy, the original Spanish-language version prevails.

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1. KEY ASPECTS

The CaixaBank Group maintains a medium-low risk profile, in line with the business model and risk appetite defined by its Board of Directors. Its levels of solvency and leverage are also consistent with this profile and strategy.

Robust solvency

	Phase-in		Fully loaded	
	2015	2016	2015	2016
CET 1 (%)	12,9%	13,2%	11,6%	12,4%
Total Capital (%)	15,9%	16,2%	14,6%	15,4%
Leverage ratio (%)	5,7%	5,7%	5,2%	5,4%

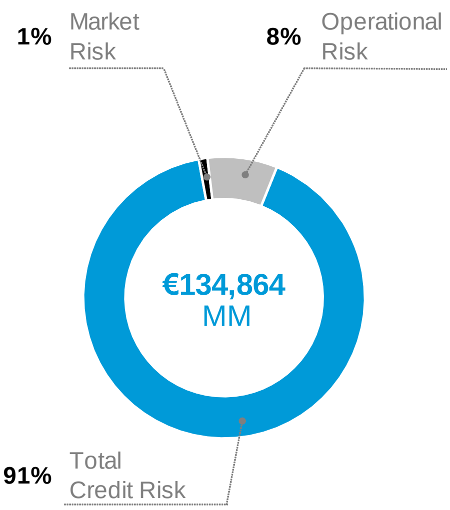
Comfortable liquidity metrics

	2015	2016
LCR ratio (%)	172%	160%
LTD ratio (%)	106,1%	110,9%

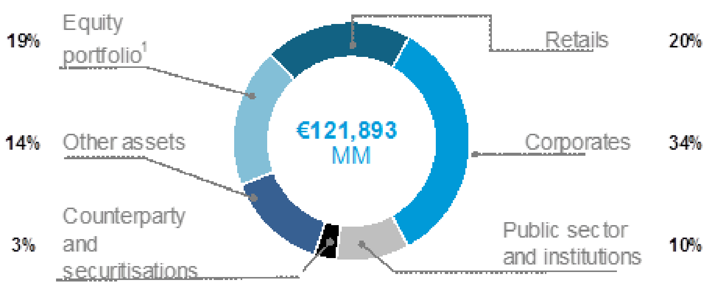
	2016
High quality liquid assets	€50,408 MM

Conservative risk profile

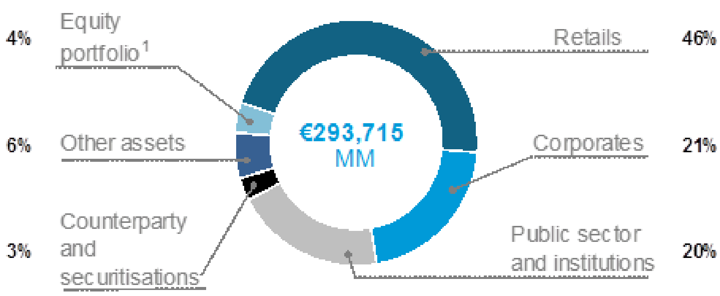
TOTAL RWA
Distribution by type of risk, %



TOTAL CREDIT RISK RWA
Distribution by type of risk or sector, %



TOTAL CREDIT RISK EAD
Distribution by type of risk or sector, %



[1] The equity portfolio includes the investees business, holdings in other listed companies and subsidiaries not fully consolidated but consolidated by the equity method for prudential purposes (mainly VidaCaixa).

2. CAIXABANK GROUP PILLAR 3

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 appropriate to publish some of the quantitative information included in this report more frequently, pursuant to article 433 of the CRR and the BCBS 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, was updated and approved by its Board of Directors at its meeting on 25 March 2016.

This report is based on information referring to 31 December 2016. It was approved by CaixaBank's Board of Directors at its meeting on 23 March 2017, 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.

3. CAIXABANK GROUP

3.1. Regulatory framework

In 2010, the Basel Committee on Banking Supervision approved the reform of the global regulatory framework known as Basel III in the aftermath of the international financial crisis. The package of legislation transposing this framework came into force in the European Union with effect from 1 January 2014. It comprised Regulation 575/2013 (CRR) and Directive 2013/36 (CRD IV). 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 called for stricter requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. The CRR was applied immediately in Spain, with CRD IV being implemented through Royal Decree-Law 14/2013, Law 10/2014 and Royal Decree 84/2015, in addition to other lower level provisions, 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 implemented the regulatory options applicable during the Basel III phase-in period. These Circulars were superseded on 1 October 2016 by European Regulation 2016/445 of the European Central Bank (ECB), which sought to standardise various significant national discretions and options.

In 2014, the ECB took responsibility for supervision of the euro area, following 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 CaixaBank, 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 regulatory framework.

The SREP was designed by the EBA as a supervisory process to evaluate the adequacy of capital, liquidity, corporate governance, and risk management and control through a standardised European process based on the guidance published by the European Banking Authority (EBA) in December. The SREP process may require additional capital or liquidity, or other qualitative measures in response to any risks and weaknesses detected by the supervisor in an entity. 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 the potential supervisory actions mentioned above, in 2014 Directive 2014/59/EU - otherwise known as the BRRD (Bank Recovery and Resolution Directive) - was approved, establishing a framework for the restructuring and resolution of credit institutions. In 2015, the BRRD was transposed into the Spanish regulatory framework through Law 11/2015 and others legislation. The BRRD, 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, while maintaining financial stability, protecting depositors and avoiding the need for public bail-outs.

The Directive requires Member States to ensure that institutions prepare and regularly update a recovery plan setting out the measures that may be taken by those institutions to restore their financial position following a significant deterioration thereof. In addition to the BRRD and national legislation, the EBA has issued several guidelines on the definition of a recovery plan.

The CaixaBank Group drew up its first Recovery Plan in 2014, based on data from year-end 2013. The 2016 Recovery Plan (based on 2015 data) is the third edition and was approved by the Board of Directors in September 2016.

CaixaBank's Recovery Plan has been fully incorporated into the company's internal risk and capital management and governance policies. The involvement of Senior Management in the Recovery and Resolution Plans Committee is noteworthy in this regard, as is the inclusion of recovery indicators in the risk appetite framework and in the entity's regular monitoring reports.

The BRRD also introduced the framework to create a Single Resolution Mechanism (SRM), which was subsequently developed through Regulation EU 806/2014. Under the SRM, decisions are taken by the Single Resolution Board and executed by the National Resolution Authority (FROB and BoS in Spain), which also prepare the resolution plan in collaboration with each entity (which provides the information required). The BRRD also introduces a new Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio. The SRM came into effect on 1 January 2016 and will set MREL requirements for entities, probably in 2017, following assessment of their resolution plans. The MREL requirements must be covered by eligible own funds and other eligible liabilities. On 23 November 2016, the European Commission put forward a package of reforms to address a series of banking regulations that will be submitted to the European Parliament and to the Council for approval. The objective of these reforms is to supplement the current prudential and resolution framework for the banking sector through a series of measures to reduce the risks to entities in the event of shocks, in accordance with the conclusions of the ECOFIN meeting in June 2016 and G-20 international standards. The reforms factor in the size, complexity and business profile of the banks. Measures are also included to support SME financing and boost investment in infrastructure.

The process of adapting applicable regulations is expected to continue throughout 2017, with the exception of the amendment to the BRRD relating to the hierarchy of lenders, which will be transposed into the legislation of member states in the first half of 2017, coming into force in July 2017.

In addition to capital regulations, in 2016 various pieces of legislation were published applicable to financial institutions. In particular, Bank of Spain Circular 4/2016, of 27 April introduces amendments to the content of Annex IX of Circular 4/2004, among others, on the calculation of impairment of debt instruments in the separate financial statements of financial institutions, to bring it into line with the latest developments in banking regulation, while remaining fully compatible with the IFRS accounting framework.

A number of international regulatory developments are also expected in 2017, emanating from both the Basel Committee and the EBA. These include: further progress on the review of capital consumption requirements for credit, market and operational risk; the treatment of sovereign debt in a prudential framework; review of credit valuation adjustment (CVA) risk in the development of IFRS 9 and IFRS -16, among other initiatives.

3.2. 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 bank—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 listed bank, it is subject to oversight by the European Central Bank, the Bank of Spain and the Spanish national securities market regulator (the Comision Nacional del Mercado de Valores, CNMV).

At 31 December 2016, Criteria Caixa, SAU ("Criteria" or "CriteriaCaixa") was CaixaBank's majority shareholder, with a stake conferring profit-sharing rights of 45.32% (56.76% at 31 December 2015) and voting rights of 44.68% (56.17% at 31 December 2015). Criteria is 100% owned by Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" (hereinafter, the "la Caixa" Banking Foundation"). Additionally, the "la Caixa" Banking Foundation held 3,493

CaixaBank shares at 31 December 2016 (it held no CaixaBank shares at 31 December 2015).

At 31 December 2016, the Group's corporate structure was as follows:

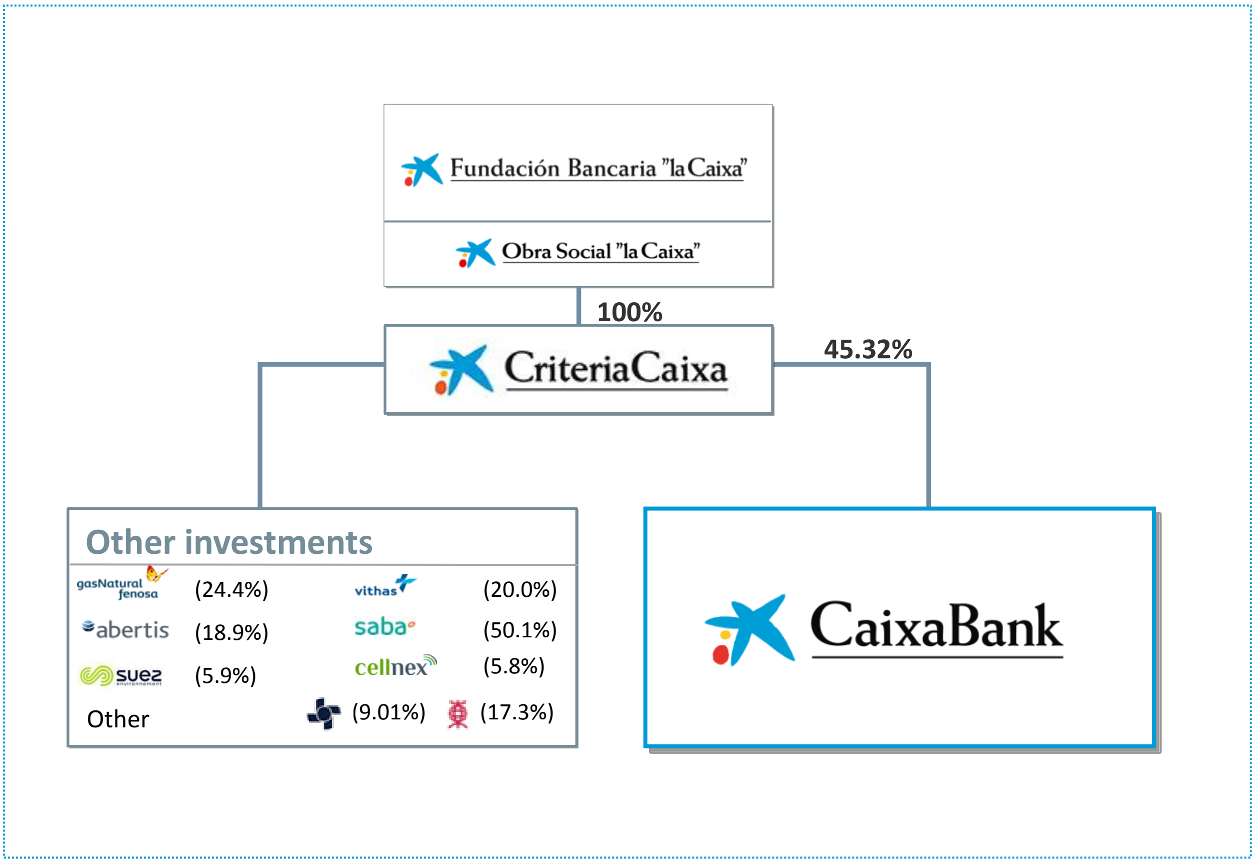


Diagram 1

On 26 May 2016, CriteriaCaixa reported that it had raised with the European Central Bank (hereinafter, ECB) its interest in knowing under what conditions the loss of control of CaixaBank would occur in such a way that this loss involves the deconsolidation of CaixaBank from CriteriaCaixa for prudential purposes, and that the ECB reported the conditions under which it would consider that CriteriaCaixa had ceased to hold control over CaixaBank, for prudential purposes. The relevant conditions established by the ECB include the voting and dividend rights of CriteriaCaixa in CaixaBank not exceeding 40% of all voting and dividend rights. The reduction must allow new investors or new funds to enter the shareholding structure of CaixaBank.

CriteriaCaixa also reported that the Board of Directors of both "la Caixa" Banking Foundation and CriteriaCaixa have agreed to place on record their intent to comply with the aforementioned conditions before the end of 2017, so that the prudential deconsolidation of CriteriaCaixa with respect to the CaixaBank Group may proceed.

Swap of stakes in Grupo Financiero Inbursa and The Bank of East Asia with CriteriaCaixa

On 3 December 2015, the Boards of Directors of CaixaBank and Criteria entered into a swap agreement whereby CaixaBank had to deliver to Criteria shares representing 17.24% of The Bank of East Asia, Limited (BEA) and 9.01% of Grupo Financiero Inbursa, S.A.B. de C.V. (GFI) and Criteria had to deliver to CaixaBank shares it held representing 9.9% of CaixaBank's share capital and EUR 642 million in cash.

The transaction was completed on 30 May 2016 after obtaining clearance from all the authorities and complying with the conditions set forth in the swap agreement. CaixaBank finally transferred to Criteria its stake in BEA, representing approximately 17.3% of the latter's capital, and in GFI, representing approximately 9.01% of this company's capital. Meanwhile, Criteria transferred to CaixaBank a number of CaixaBank treasury shares representing approximately 9.89% of its share capital and a cash amount set at EUR 678 million.

As provided for in the swap agreement, the change relative to the 3 December 2015 announcement in the stake in BEA being transferred to Criteria (17.24%) in CaixaBank treasury shares to be delivered by Criteria (9.9%) and in the cash amount to be paid by Criteria (EUR 642 million) is according to the financial flows received by each party from the signing date of the swap agreement (3 December 2015), that is, for the BEA shares received by CaixaBank as a scrip dividend, the CaixaBank shares received by Criteria as scrip dividend and the net adjustment for the dividends received in cash by Criteria and CaixaBank corresponding to the shares being transferred under the swap agreement.

As a result of the swap, the shareholder agreements relating to BEA and GFI were amended accordingly in order for Criteria to take over CaixaBank's position as the new shareholder. CaixaBank will remain banking partner to both banks to continue cooperating with them in commercial activities. If making strategic investments in banks that operate on the American continent and in the Asia-Pacific, CaixaBank will keep its commitment to make such investments through GFI and BEA, respectively, except in the case of GFI, if that bank decides not to participate in the investment.

The transfers included in the swap agreement had a net impact of EUR -14 million on CaixaBank's consolidated result at the reporting close, and an impact on the Tier 1 regulatory capital (CET1) ratio of around -0.3% (phase-in) and +0.2% (fully loaded).

At CaixaBank's Annual General Meeting held on 28 April 2016, the Board of Directors was authorised to reduce capital through the cancellation of 584,811,827 treasury shares (representing 9.9% of share capital) to be acquired under the swap agreement, or to not execute the capital reduction if, based on the Company's interests and due to circumstances that may arise affecting CaixaBank, it were not advisable. On 22 September 2016, the Board of Directors exercised these powers and sold 585 million treasury shares, to shore up its regulatory capital ratio in light of the takeover bid for Banco BPI shares and to comply with CaixaBank's Strategic Plan objective to maintain a fully loaded ordinary Tier 1 capital ratio (CET 1) of between 11% and 12%. These shares represented 9.9% of the Company's share capital. This sale was worth EUR 1,322 million.

Takeover bid for Banco BPI

On 18 April 2016, CaixaBank notified the market of its Board of Directors' decision to launch a takeover comprising a voluntary tender offer (VTO) for Portugal's Banco BPI.

The VTO price is EUR 1.113 per share in cash, and is conditional upon removal of the Banco BPI voting rights restriction, because it would involve more than 50% of BPI's capital, and obtaining the pertinent regulatory approvals. The bid price was the average weighted price of Banco BPI shares for the six months prior to the bid.

Prior to the latest announcement, CaixaBank held talks with the ECB to keep it abreast of the entire process and request suspension of any sanction proceedings against Banco BPI for excess risk concentration, in order to allow CaixaBank to find a solution to this situation should it finally take control of Banco BPI.

The Supervisory Board also decided to put on hold during this period the on-going sanction proceedings against Banco BPI for the large exposure breach prior to 2015.

CaixaBank was informed that the Supervisory Board had taken these decisions in the context of the takeover bid announced and that the decisions were subject to effective acquisition by CaixaBank of control of Banco BPI.

In response to this request, as reported by CaixaBank on 22 June 2016, the Supervisory Board of the ECB decided to grant CaixaBank a period of four months from the completion of CaixaBank's acquisition of Banco BPI to solve Banco BPI's large exposure breach. At the end of 2016, Banco BPI reached an agreement to sell 2% of its investment in its subsidiary Banco de Fomento Angola (BFA) to Unitel. This transaction was completed on 5 January 2017. As a result of this transaction BFA will be deconsolidated from BPI's balance sheet and therefore the issue of its excessive exposure to risks deriving from its controlling stake in BFA will be resolved.

CaixaBank was informed that the Supervisory Board had taken these decisions in the context of the takeover bid announced and that the decisions were subject to effective acquisition by CaixaBank of control of Banco BPI.

With respect to the takeover bid announced on 18 April 2016, at Banco BPI's Extraordinary General Shareholders' Meeting on 21 September 2016, shareholders approved the elimination of the 20% voting cap on CaixaBank. As a result of this elimination, the Portuguese stock market regulator, the Comissão do Mercado de Valores Mobiliários, then announced that it would retract the dispensation from launching a mandatory takeover bid on Banco BPI it had granted to CaixaBank in 2012, thereby requiring CaixaBank to make a mandatory takeover bid on Banco BPI's shares. Consequently, the takeover bid on Banco BPI, which was initially a voluntary bid, became a mandatory takeover bid. The new price per share was set at EUR 1.134, equivalent to the volume-weighted average price of Banco BPI's shares in the preceding six months.

Acceptance of the bid by BPI shareholders was subject to compliance with the pertinent legal and regulatory requirements, including those foreseen in any foreign laws that apply to such shareholders. On 17 October 2016, ECB approval was obtained and the sale of 2% of BFA to Unitel was completed on 5 January 2017. This allowed CaixaBank to comply with another of the mandatory conditions for proceeding with its bid for 54.5% of BPI.

For further information on events subsequent to 31 December 2016 related to these and other events, refer to note 1 to the CaixaBank Group's 2016 financial statements.

3.3. Other general information

At 31 December 2016, 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, CaixaBank Payments, 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.

In particular, there are no significant current or foreseeable practical or legal obstacles to the immediate transfer of own funds to the subsidiary or to the reimbursement of its third party liabilities by the parent company. This applies to VidaCaixa, the insurance sector subsidiary with which CaixaBank forms a financial conglomerate.

3.4. Description of the consolidated group for regulatory purposes

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 are consolidated using the proportionate consolidation method, regardless of the method applied in the financial statements.

Appendix IV sets out details of holdings subject to regulatory limits for deduction purposes, whilst Appendix V provides details of companies with differing prudential and accounting consolidation treatment.

3.5. Accounting reconciliation between the financial statements and regulatory statements

As set out in Annex I of Commission Implementing Regulation (EU) 1423/2013, the following table presents the prudential balance sheet used for capital purposes, compared to the accounting information published in the financial statements.

Table CONC1. Reconciliation between the public and prudential balance sheets

Amounts in millions of euros

Assets	Public	Group entities accounted for the equity method (1)	Jointly controlled entities accounted for proportional method (2)	Regulatory Scope
Cash and deposits at central banks	13,260	-28	0	13,266
Financial assets held for trading	11,668	0	6,428	18,096
Financial assets recognised at fair value	3,140	-3,140	0	0
Available-for-sale financial assets	65,077	-47,579	0	17,498
Loans and receivables	207,641	-519	607	207,729
Held-to-maturity investments	8,306	0	0	8,309
Derivatives	3,090	0	0	3,090
Fair value changes in covered portfolio for IR risk coverage	135	0	0	135
Investments	6,421	2,074	0	8,457
Associates	5,227	0	0	5,227
of which: Net badwill	*16*	*0*	*0*	*16*
Jointly controles entities	1,194	-1,052	-38	104
of which: Badwill	*301*	*-246*	*0*	*55*
Group Entities	0	3,127	0	3,127
of which: Badwill	*0*	*973*	*0*	*973*
Assets linked to insurance	344	-344	0	0
Tangible assets	6,437	-240	0	6,197
Intangible assets	3,687	-705	0	2,982
Tax assets	10,521	-377	228	10,374
Other Assets	1,796	-96	1,863	3,563
Non-current assets and other	6,405	-106	0	6,299
Total assets	**347,927**	**-51,059**	**9,127**	**305,995**

Liabilities	Public	Group entities accounted for the equity method (1)	Jointly controlled entities accounted for proportional method (2)	Regulatory Scope
Financial liabilities held for trading	10,292	0	6,428	16,721
Financial liabilities recognised at fair value	3,764	-3,764	0	0
Financial liabilities at amortized cost	254,093	-359	2,034	255,768
Derivatives	626	0	0	626
Fair value changes in covered portfolio for IR risk coverage	1,985	0	0	1,985
Liabilities linked to insurance	45,804	-45,804	0	0
Provisions	4,730	-5	6	4,731
Tax liabilities	1,186	-496	672	906
Other liabilities	1,806	-538	-14	1,710
Non-current liabilities and other	86	-86	0	0
Total liabilities	**324,372**	**-51,052**	**9,127**	**282,447**

Equity	Public	Group entities accounted for the equity method (1)	Jointly controlled entities accounted for proportional method (2)	Regulatory Scope
Shareholders' equity	23,400	0	0	23,400
Other cumulative overall profit	127	0	0	127
Non-Controlling Interest	29	-8	0	21
Total Equity	**23,556**	**-8**	**0**	**23,548**
Total Equity and liabilities	**347,927**	**-51,059**	**9,127**	**305,995**

(1) Entities of the Group which do not fully consolidate on the grounds of their activity, mainly VidaCaixa: its contribution is eliminated on accounting scope of consolidation thus accounting for its carrying amount as an equity stake

(2) Mainly transactions between VidaCaixa an other investments being part of the non-fully consolidated economic group, which are not eliminated in the prudential

4. RISK GOVERNANCE, ORGANISATION AND MANAGEMENT

The CaixaBank Group has put in place an effective system for risk governance, management and control, in line with its business model, the expectations of its stakeholders and best international practices.

- Adequate risk management is essential for the business of any credit institution, especially for entities that are mainly involved in retail banking, such as CaixaBank, for which the trust of their customers is a core value.

- The CaixaBank Group has demonstrated that its risk appetite levels, its internal capacity and its prudent decision making have enabled it to overcome the financial crisis, and enhance its leadership in retail banking. It will not let up in its determination to continue developing its comprehensive risk management system, so as to maximise its effectiveness and its satisfaction of the expectations of its stakeholders – shareholders, investors, customers, regulators, supervisors and society in general – pursuing a mandate aligned fully with the corporate values of the CaixaBank Group: quality, trust and social commitment.

- The CaixaBank Group's risk management system comprises: its governance and organisation structure; the corporate risk map; the risk appetite framework (RAF); risk planning and assessment; the risk culture; and the internal control framework.

- The backdrop in 2016 was extremely demanding and changeable on multiple fronts, affecting fundamental aspects of the banking business. In addition to preparing for future scenarios, much of the Group's management activity in the year was taken up with four risk factors: the macroeconomic backdrop; regulatory changes; the challenges posed by technological progress; and shareholders', customers' and society in general's trust in, and image of, the sector. Even though these sector risks are common to most of our European peers - particularly Spanish entities - the severity and impact of these can vary significantly between entities.

RISK GOVERNANCE, MANAGEMENT AND CONTROL SYSTEM

The Board of Directors declares that the risk management systems implemented are adequate in relation to the entity's profile and strategy

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4.1. Governance and organisation

4.1.1. Corporate governance

The governing bodies are the Annual General Meeting and the Board of Directors, which have the powers that, respectively, are assigned to them under the Law and the Bylaws (Bylaws | Corporate governance and remuneration policy | CaixaBank), and, in accordance with these, in developments of the Regulations of each body.

Consequently, the company is managed and governed by its Board of Directors: this is the entity's representative body and, apart from matters within the remit of the General Meeting, is the highest decision-making body, equating to the "management body" referred to in EBA regulations and guidelines[1].

Board of Directors of CaixaBank

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[2].

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 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 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 while the General Meeting does not agree their removal and they do not resign from the position, and may be re-elected one or more times for periods of equal length. Nevertheless, independent Directors will not remain 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

[1] Notably, Consultation Paper "Draft Guidelines on internal governance" (EBA/CP/2016/16, published on 28 October)

[2] 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 2016 Annual Corporate Governance Report (sections C.1.12 and C.1.17, respectively).

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.

The General Meeting held on 28 April 2016 agreed to set the number of Board members at eighteen (18) and to the appointments of Cajasol Foundation (previously appointed by co-option on 19 November 2015) and Ms. María Verónica Fisas Vergés (previously appointed by co-option on 25 February 2016).

On 30 June 2016, the following people ceased to be members of the Board of Directors: Mr. Isidro Fainé Casas, who also submitted his resignation from his duties as Chairman and whose vacancy was occupied by Mr. Jordi Gual Solé, who was also appointed Non-Executive Chairman, Mr. Juan José López Burniol and Ms. Maria Dolors Llobet María, whose vacancies were occupied by Mr. José Serna Masiá and Ms. Koro Usarraga Unsain.

In the context of the changes to the composition of the Board of Directors which occurred on 30 June 2016, and following the respective suitability notifications by the European Central Bank, Mr. Serna Masía accepted his appointment on 8 July 2016, Ms. Usarraga Unsain on 4 August 2016 and Mr. Gual Solé on 14 September 2016.

On 27 October, the Caja Navarra Banking Foundation submitted its resignation from its duties as director, within the framework of the amendment to the Integration Agreement between CaixaBank and Banca Cívica, and the Shareholders' Agreement.

On 15 December 2016, Ms. Eva Aurín also submitted her resignation as a member of the Board of Directors and Mr. Alejandro García-Bragado Dalmau was appointed as a member of the Board of Directors, a position he accepted with effect from 1 January 2017.

The CaixaBank Board of Directors therefore comprised 18 members (with two vacancies) at 31 December 2016. Pursuant to prevailing corporate governance legislation, six members were proprietary directors, eight were independents and two were executive directors (with one of these also being considered a proprietary Director, as he was appointed to represent the holding of the “la Caixa” Banking Foundation in CaixaBank).

On 23 February 2017, CaixaBank disclosed that its Board of Directors had accepted the resignation of Fundación Cajasol as a member of the Board of Directors, naming Fundación CajaCanarias as a director in place thereof, following a favourable report from the Remuneration Committee and receipt of a communication of suitability for performance of the role of proprietary director from the European

Central Bank. It also disclosed that Fundación CajaCanarias had appointed Natalia Aznárez Gómez as its natural person representative.

The call notice for CaixaBank's Annual General Meeting was published on 28 February 2017. The proposals to be put to the General Meeting for approval with regard to the composition of the Board of Directors included:

5. Ratification and Appointment of Directors:

5.1 Ratification and appointment of Jordi Gual Solé.

5.2 Ratification and appointment of José Serna Masiá.

5.3 Ratification and appointment of Koro Usarraga Unsain.

5.4 Ratification and appointment Alejandro García-Bragado Dalmau.

5.5 Ratification and appointment of Fundación Bancaria Canaria Caja General de Ahorros de Canarias – Fundación CajaCanarias.

5.6 Appointment of Ignacio Garralda Ruiz de Velasco.

The Appointments Committee, in compliance with the provisions of section 7 of the Directors' Selection Policy, approved by the Board on 19 November 2015, verified compliance with this Policy in the agreements adopted referring to the appointments of directors, which are in keeping with the principles and guidelines contained therein, and that the percentage of the lesser represented sex stood at 23.53% on the date of verifying compliance with the Policy. However, this will change to 27.78% upon execution of the already agreed appointments proposal to be submitted to the next General Shareholders' Meeting, called for 6 April 2017.

At year end 2016, women comprised 37.5% of the independent Directors and 16.67% of proprietary Directors, while

67% of the members of the Appointments Committee are women, and the Remuneration Committee is chaired by a woman, who is also a member of the Risks Committee and the Executive Committee. Likewise, the Audit and Control Committee also has a female director. That is to say, women are represented on all the Committees.

Therefore, even though the number of women Directors is not equal, it is deemed to be neither few nor non-existent.

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.

The biographies of the members of the Company's Board of Directors are available on its website:

https://www.caixabank.com/informacioncorporativa/consejoadministracion_es.html

The profiles of the candidates for approval proposed to the General Meeting called for 6 April 2017, on first call, are available on the Company's website, in the Documentation for Shareholders section of the 2017 Annual General Meeting:

https://www.caixabank.com/deployedfiles/caixabank/Estaticos/PDFs/Informacion_accionistas_inversores/Gobierno_corporativo/Junta_General_Accionistas/2017/Informe_Consejo_nombramientosv_es.pdf

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 considering the limitations on the exercise of directorships set down in prevailing legislation. Sections C.1.11 and C.1.12 of the Company's Annual Corporate Governance Report list all directorships held by Board members in other Group companies and other listed companies. This Report is available on the Company's website.

Also, with regard to the procedure to assess the suitability of candidates prior to their appointment as Director, the Suitability Protocol also establishes procedures to continually evaluate Directors and to assess any unforeseeable circumstances which may affect their suitability for the post.

Once a year, the Board in plenary session evaluates the quality and efficiency of the Board's operation, the diversity in its composition, its powers as a collegiate body, the performance of the Chairman and the Chief Executive Officer and the performance and membership of its committees. However, no individual evaluation is carried out on the contribution of each Director to assess their performance or contribution to the Board or the Company. Individual performance assessments are not considered to be a practice that adds value to the awareness of any possible deficiencies in the functioning of the Board as a collegiate body, except for the cases of the Chairman and Chief Executive Officer who have specific and individualised tasks that are suitable for performance assessment.

Similarly, taking into account the provisions of Recommendation 36, the Board has adopted the decision to seek the assistance of a third party (previously approved by the Appointments Committee) to carry out its assessment for 2017.

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 2016 Corporate Governance Report arising, directors must place their position at the disposal of the Board of Directors and formalise 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.

From September 2014, 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 2016. The Appointments Committee met 25 times; the Remuneration Committee, 8 times; the Audit and Control Committee, 13 times; the Executive Committee, 22 times; and the Risks Committee, 14 times.

Executive Committee

The Executive Committee has been delegated all of the responsibilities and powers available to it both legally and under the Company's Bylaws. For internal purposes, the Executive Committee is subject to the limitations set forth under article 4 of the Regulation of the Board of Directors (Regulations of the Board of Directors | Corporate Governance and remuneration policy | CaixaBank)

Risk Committee

The Risk Committee comprises exclusively non-executive Directors who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity. At least a third of its members are independent Directors.

The main functions of this committee are to[1]:

- Advise the Board of Directors on the Bank's overall current and future susceptibility to risk, and its strategy in this area, reporting on the Risk Appetite Framework.
- Propose the Group's risk policy to the Board, including the different types of risk to which the Entity is exposed, the information and internal controls systems use to control and manage these risks and the measures in place to mitigate the impact of identified

[1] The functions of each of the Committees with the greatest relevance to risk management have been chosen.

risks should these materialise.

- Determine with 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 the Committee should receive.
- Regularly review exposures with its main customers and business sectors, as well as broken down by geographic area and type of risk.
- Examine the information and control processes for the Group's risk, as well as the information systems and indicators.
- Evaluate regulatory compliance risk in its scope of action and decision making, carrying out monitoring and examining possible deficiencies in the principles of professional conduct.
- Report on new products and services or significant changes to existing ones.

Appointments Committee

The Appointments Committee comprises Directors who do not perform executive functions. A third of its members must be independent. The Chairman of the Committee is appointed from among these.

The Chairman's core responsibilities are to:

- Report and propose to the Board of Directors its assessment of the skills, knowledge and experience necessary for the members of the Board of Directors and for the key personnel of the Company;
- Propose to the Board of Directors the nomination of the independent Directors to be appointed by co-option or for submission to the decision of the General Meeting, as well as the proposals for the reappointment or removal
  of such Directors by the General Meeting;
- Report proposed appointments of the remaining Directors for them to be designated by co-option or subject to the decision of the General Meeting of Shareholders, as well as on proposals for their re-election or removal by the General Shareholders' Meeting;
- Report on proposals for appointment or removal of senior executives, being able to effect such proposals directly in the case of senior managers which due to their roles of either control or support of the Board or its Committees, it is considered by the Committee that it should take the initiative; Propose, if deemed appropriate, basic conditions in senior executives' contracts, outside the remuneration aspects and reporting on them when they have been established;
- Report to the Board on gender diversity issues and establish a representation target for the less represented sex on the Board of Directors as well as preparing guidelines for how this should be achieved;
- Evaluate periodically, and at least once a year, the structure, size, composition and actions of the Board and its Committees, its Chairperson, CEO and Secretary, making recommendations regarding possible changes to these; Evaluate the composition of the Steering Committee as well as its replacement tables for adequate provision for transitions;
- Supervise the activities of the organisation in relation to corporate social responsibility issues and submit to the Board those proposals it deems appropriate in this matter.

Remuneration Committee

The composition of this Committee is subject to the same rules as the Appointments Committee.

Its main functions include:

- To propose to the Board of Directors the remuneration policy for Directors and senior executives, the system and amount of the annual remuneration of Directors and senior executives, the individual remuneration of executive Directors, General Managers and persons carrying out senior management functions, especially those of an economic nature, without prejudice to the duties of the Appointments Committee relative to any conditions proposed by the latter and unrelated to remuneration;
- To ensure that the remuneration policy for Directors and senior employees as well as the conditions set forth in the contracts entered into with them are abided by;
- To report on the Company's general remuneration policy and especially on policies relative to categories of employees whose professional activities significantly affect the Company's risk profile as well as on policies intended to avoid or manage conflicts of interest with the Company's customers;
- To analyse, formulate and periodically review the remuneration programmes, deliberating on their adequacy and performance and ensuring that they are carried out;
- To propose that the Board approve the remuneration policies and reports that the Board must submit to the Annual General

Meeting, and to report to the Board on any remuneration-related proposals that the Board is going to make to the Annual General Meeting;

- To consider the suggestions that it receives from the Company's Chairman, Board members, executives and shareholders.

Audit and Control Committee

The Audit and Control Committee is formed exclusively of non-executive Directors, most of whom are independent. One of these is appointed as the Chairman thereof on the basis of their knowledge and experience of accounting or auditing, or both. Considered as a whole, the members of the Audit and Control Committee shall have the required technical knowledge for the entity's activity.

The main duties of the Committee are:

- Providing information on issues within the scope of its duties to the General Meeting.
- Overseeing the effectiveness of the Company's internal control environment, internal audit and risk management systems, and discussing with the auditors any significant weaknesses in the internal control system identified during the course of an audit;
- Overseeing the process for preparing and submitting regulated financial reporting;
- Making proposals to the Board of Directors for submission to the Annual General Meeting concerning the appointment of auditors, in accordance with regulations applicable to the Company;
- Establishing appropriate relationships with auditors in order to receive information, for examination by the Audit and Control Committee, on matters which may jeopardise their independence and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations;
- Receiving annual written confirmation from the auditors of their independence vis-à-vis the Company or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered for these entities by the aforementioned auditors or by persons or entities related to them, as stipulated in auditing legislation.

4.1.2. Organisational structure

General Risks Division

As part of the executive team, the Chief Risks Officer (CRO) is ultimately responsible for the Group's risks. The CRO operates independently of the business areas from both a reporting and operational perspective. The CRO has direct access to the Group's governing bodies, especially the Risks Committee, reporting regularly to the members thereof on the status of and expected changes to the Entity's risk profile.

The CRO has organised his team as follows:

- Personal Loan Analysis and Approval division, responsible for analysing and granting loans to retail customers;
- Business Loan Analysis and Approval division, responsible for analysis and approval of risk for other business segments and specialised sectors (Companies and SMEs, Corporate, Public Sector, Sovereign, Financial Entities, Real Estate, Project Finance, Tourism and Food & Agriculture);
- Permanent Lending Committee, with powers delegated by the Board to approve transactions;
- Global Risk Management Committee, responsible for risk management and overseeing asset performance, and solvency and capital adequacy mechanisms;
- Foreclosed Assets Division;
- Internal Risks Control Division, including control units and units tasked with the Validation of Risk models;

The Risks Division's functions include identifying, measuring and integrating the different risk exposures and risk-adjusted returns of each area of business, from the 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.

Deputy General Manager - Control & Compliance

The Deputy General Manager of Control & Compliance was appointed in December 2015, reporting directly to the CEO. In 2016, the Internal Control Units forming part of the General Risks Division and Financial Accounting, Control and Capital were strengthened, thereby reinforcing the second line of defence, acting independently of the business units and thereby following the three lines of defence model on which CaixaBank's Internal Control Framework is structured.

For further information, see the Internal Control Framework section.

Deputy General Manager, Head of Internal Audit

Internal Audit reports functionally to the Audit and Control Committee – a board committee – and also reports to the Chairman of the Board of Directors, to guarantee the independence and powers of the audit function. This ensures the independence and authority of the Internal Audit function, which performs independent and objective advisory and consulting activities.

For further information on the activities and functions of Internal Audit, see the Internal Control Framework section.

4.1.3. Committees relevant to risk management and control

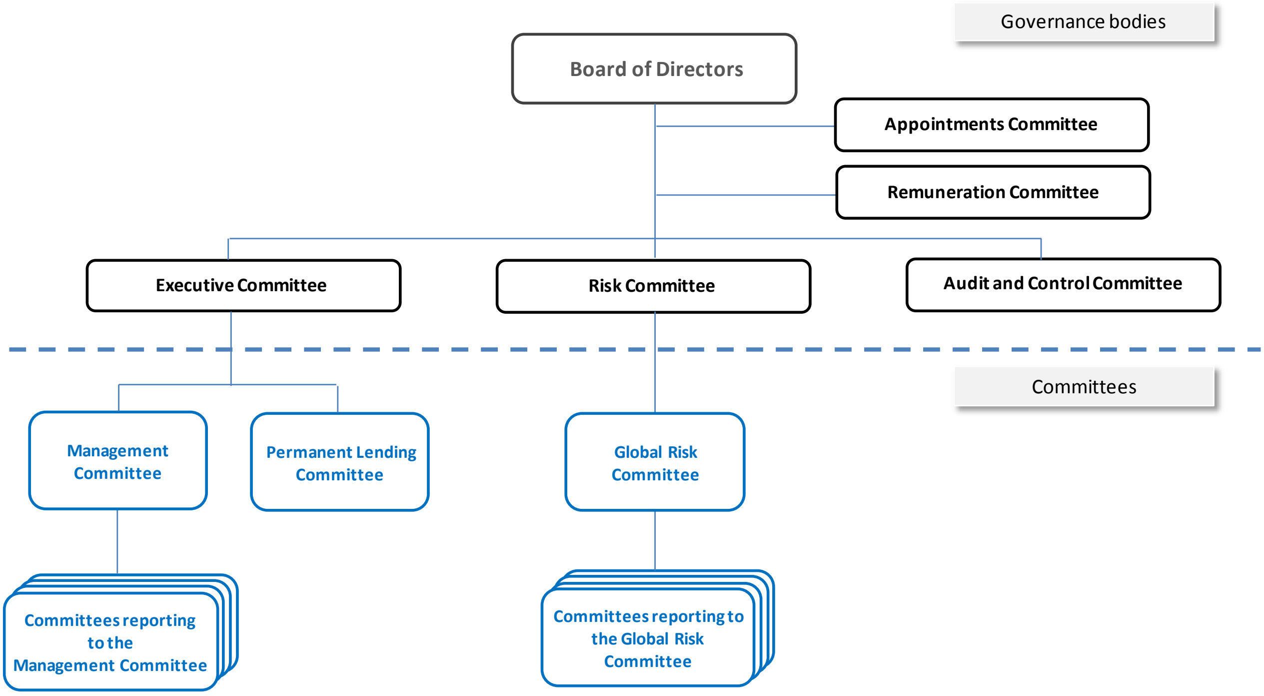

Diagram 2

Senior Management acting within the framework of the duties assigned by the Board and its Committees, has established several committee for risk governance, management and control.

Level 1 committees are listed first, followed by level 2 committees that play a key role in the Group's risk area.

1. Committees reporting to the Board Committees:

Management Committee

Assesses and adopts resolutions concerning implementation of the Strategic Plan and the annual operating plan, in addition to organisational aspects affecting the Entity. It also approves structural changes, appointments, expense lines and business strategies.

Permanent Lending Committee

The Permanent Lending Committee ("the PLC") 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.

The PLC can also approve individual transactions that do not fulfil all established criteria for each type of product or applicable specific policy, provided there is no cause for obtaining the approval of the Board of Directors.

Global Risk Committee

This committee is responsible for the end-to-end management, control and monitoring of risks to which the Bank is 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.

This Committee is also charged with adapting CaixaBank's risk strategy to the risk appetite framework (RAF) established by the Board, clarifying and resolving doubts about its interpretation and keeping CaixaBank's Board informed through the Risk Committee of the main areas of activity and the status of risks.

The committee also regularly analyses the Group's global risk position and puts in place the main measures to optimise risk management within the framework of its strategic objectives.

2. Committees reporting to the Management Committee

These include:

ALCO

The ALCO (Asset and Liability Committee) is responsible for management, monitoring and control of liquidity, interest rate and foreign currency risk in the banking book. It is responsible for optimising and ensuring the profitability of the financial structure of the CaixaBank Group's balance sheet and its profitability. This includes the net interest income and non-recurring revenues in trading income, determining internal transfer rates, monitoring prices, maturities and volumes of activities that generate assets and liabilities, under the policies, risk appetite framework and risk limits approved by the Board of Directors.

Transparency Committee

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

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.

Planning Committee

The Planning Committee was created in June 2015 and is tasked with coordinating, monitoring and integrating the planning processes (targets, Operating Plan, ICAAP, Funding Plan, coordination with subsidiaries, etc). Its functions include: conveying the planning culture to all areas involved; establishing a common language for planning; approving and seeking consensus in both the intermediate and final stages of the process; raising proposals to the Management Committee; monitoring compliance with the plan during the year; and ensuring defined milestones are met.

Information and Data Quality Governance Committee (IDQGC)

The Information and Data Quality Governance Committee is in charge of overseeing the coherence, consistency and quality of the information reported to the regulator and to the Group's management, providing a transversal view at all times.

Among its main functions, the Committee defines the data management strategy, promoting the value of information and data as a corporate asset, and critical and differentiating factor; promotes the definition of the policy regulating the information and data quality governance framework; and approves data quality targets (criticality, indicators, tolerance thresholds, quality plans), monitoring these and reporting to the various governing bodies.

This Committee also reviews and approves changes to critical reports (management and regulatory), data or data structures affecting various levels, and addresses any discrepancies. Finally, it reports to the Management Committee on the overall progress of the information and data quality governance plan, the level of data quality, and the level of compliance with regulatory information and data requirements.

Data Protection Committee

This is a permanent committee with powers to discuss, and work and decide on all aspects relating to personal data protection involving CaixaBank and its group companies. The purpose of the Committee is to monitor the application of data protection legislation in force at all times, resolve any incidents that are identified and lead the implementation of new regulations and criteria in this area.

The Committee reports to the Management Committee, which is responsible for informing the Board of Directors of any aspects it considers to be particularly important or that could seriously impact CaixaBank's reputation or corporate interests.

Restructuring and Resolution Plans Committee

Another committee not reporting to the Risks Division is the Restructuring and Resolution Plans Committee (RRPC), which oversees all issues related to recovery and resolution plans.

When drawing up the Recovery Plan, the RRPC determines the Plan's scope and the areas involved. It recommends that the Plan be updated at least once a year in line with prevailing legislation. It also directs the project and supervises and controls the preparation process which falls to 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 all information requests sent by both Spanish and European resolution authorities such as the Bank of Spain, FROB or the Single Resolution Board.

3. Committees reporting to the Global Risk Committee

The following committees are particularly important in risk management and control:

Risk Policies Committee

This committee approves the Group'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 Risk Policies Committee, together with the New Products Committee, which must ensure that the risk and operational components of new products are adapted to and aligned with the framework established by Management, also analyses and approves loan and credit products.

Operational Risk Committee

The Operational Risk Committee is responsible for approving, communicating and monitoring policies, criteria and procedures for the management of Operational Risk in the CaixaBank Group.

The Committee regularly reviews the Operational Risk Management Framework and identifies critical points, analysing and reviewing procedures for the control and mitigation of operational risk.

Models and Parameter Committee

The Models and Parameters Committee is responsible for reviewing and formally approving models and parameters for credit risk, market risk (including credit and counterparty risk in Treasury activity and operational risk), and any other methodologies used by the committee in performance of its control duties.

Among other functions, the Committee ensures compliance with prevailing regulations, monitoring how models are implemented and used.

Impairment 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 the managed portfolios and parties involved in lending. It oversees and monitors the 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 are presented to the Policies Committee for approval before roll-out. It reports to the Global Risk Committee on matters within its remit.

Real Estate Acquisition and Appraisal Committee (REAAC)

This committee analyses and approves, where appropriate, any acquisitions of real estate assets proposed by Regional General Divisions in lieu of payment of real estate developer loans, taking into account the legal aspects of each arrangement, appraisal values and expected recoveries.

It also signs off acquisitions of real estate from insolvent companies, exceptionally when this is the best option for recovering loans.

Internal Control Committee

The Internal Control Committee was created in 2016 to provide reasonable assurance to management and governing bodies that risk control policies and procedures are in place in the organisation, and that they are designed correctly and applied effectively, evaluating the risk control environment in the CaixaBank Group.

Corporate Responsibility and Reputation Committee (CRRC)

The CRRC is responsible for proposing general policies for reputation management, monitoring corporate social responsibility strategies and practices, and managing, controlling and monitoring the reputational risk affecting the CaixaBank Group.

4.2. Corporate Risk Map

Developments in the financial system and the transformation of the Regulatory Framework indicate the growing importance of assessing risk and the control environment of entities.

The CaixaBank Group has put in place a “Corporate Risk Map” to identify, measure, monitor, control and report on risks.

CaixaBank’s Corporate Risk Map includes a Corporate Risk Catalogue that was updated in 2016. This helps with internal and external monitoring and reporting of the Group’s risks, grouped into three main categories: Business Model Risks, Specific risks for the Bank’s financial activity, and Operational and Reputational Risk.

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

Business model risk

- ✓ **Eligible Own Funds/Solvency:** Risk caused by a restriction of the CaixaBank Group’s ability to adapt its level of capital to regulatory requirements or to a change in its risk profile.
- ✓ **Liquidity and Funding:** Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of

liabilities, regulatory requirements, or the investment needs of the Group.

Risks affecting financial activity

- ✓ **Credit risk:** Risk of a decrease in the value of the CaixaBank Group's assets due to uncertainty in a counterparty's ability to meet its obligations.
- ✓ **Market risk:** Risk of a decrease in the value of the Group's assets held for trading or an increase in the value of its liabilities held-for-trading and in the held-to-maturity portfolio, due to fluctuations in interest rates, credit spreads, external factors or prices in the market where the assets and liabilities are traded.
- ✓ **Interest rate risk in the banking book:** Risk of a negative impact on the economic value of the balance sheet or results, caused by the renewal of assets and liabilities at rates different to those previously established, arising from changes in the structure of the interest rate curve.
- ✓ **Actuarial risk:** Risk of an increase in the value of commitments assumed through insurance contracts with customers (insurance business) and employee pension plans (pension obligations), due to differences between claims estimates and actual performance.

Operational and reputational risk

- ✓ **Legal/Regulatory:** Risk of losses due to errors in the interpretation or application of existing legislation and regulations or adverse judicial rulings. This also includes the risk of legislative or regulatory changes adversely impacting economic value.
- ✓ **Conduct and Compliance:** Risk of CaixaBank applying criteria for action contrary to the interests of its clients and stakeholders and deficient procedures resulting in actions or omissions that are not compliant with the legal or regulatory framework, or with internal codes and rules, and which could result in administrative sanctions or reputational damage.
- ✓ **Technological:** Losses due to hardware or software inadequacies or failures in the technical infrastructures that could compromise the availability, integrity, accessibility and security of infrastructures and data.
- ✓ **Operating processes and external events:** Risk of loss or damage caused by operational errors in processes related to the Bank's activity, due to external events beyond the Bank's control, or due to third parties outside the Bank, both accidentally and fraudulently.
- ✓ **Reliability of financial reporting:** Deficiencies in the accuracy, integrity and criteria of the process used when preparing the data necessary to evaluate the financial and equity situation of the CaixaBank Group.
- ✓ **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 actions or omissions, real or purported, by CaixaBank, its Senior Management or Governing Bodies.

In order to restore the confidence of its customers in the Group, CaixaBank has focused on solvency and quality as strategic priorities. Moreover, CaixaBank has spent the last few years strengthening its control and regulatory structures to minimise the probability of occurrence of actions or omissions such as those recently seen in certain global financial corporations, which have had an increasing media impact and affected the sector's image.

4.3. Risk Appetite Framework (RAF)

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 these 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 not yet mandatory.

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.

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 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), with the CaixaBank Group having a phase-in CET1 ratio of 13.2% at the end of December 2016.

- ✓ **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%, as against a regulatory threshold of 70% in 2016.

- ✓ **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:** When conducting its business, CaixaBank is committed to the highest ethics and standards of good governance, fostering sustainability and responsible social initiatives while ensuring operational 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 its risks.

The Framework is represented graphically by a pyramid structure that culminates with Tier 1 principles and indicators, supported by more detailed metrics (Tier 2) and impact on day-to-day activity through management levers.

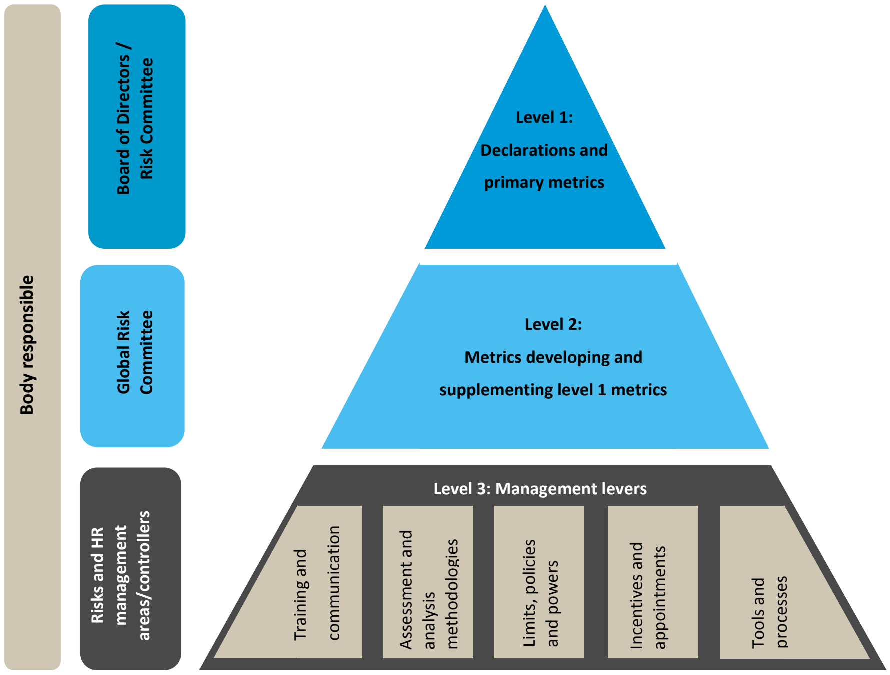

Diagram 3

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: these use a **system of traffic light warnings**:

- ✓ "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 are triggered based on the seriousness defined for the situations.

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

To illustrate, some of the 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), through both quantitative metrics and a commitment to 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 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 from the risk profile established.

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

- ✓ **Training and communication:** key factors that enable all employees involved in the Group's decision-making process to be aware of and take on board their contribution to the Strategic Plan and maintaining the Board's risk appetite. 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 assessment and analysis methodologies**: to provide the Board of Directors with a precise, clear and coherent vision 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 governing bodies, combining accounting, regulatory, economic, potential loss and stress perspectives, as necessary.
- ✓ **Limits, policies and powers in the approval of new risk positions:** these three components transmit at organisation, process and exposure level what can be done, in alignment with the Risk Appetite Framework and other pillars of the risk management framework.
- ✓ **Incentives and appointments:** the HR processes considered to have the greatest short-term impact on the behaviour of the management team and employees in the broadest sense. The bonus scheme for members of the Management Committee and Identified Staff considers the degree of compliance with the RAF, with a 15% weighting.
- ✓ **Tools and processes:** the framework uses technology infrastructure, execution and control systems and existing internal reporting processes within the Entity (e.g. to implement the risk concentration limit for loan approvals). A number of ad hoc mechanisms have also been put in place to ensure adequate management and compliance with the Framework.

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

The Board of Directors defines and supervises the Group's risk profile, updating the framework's metrics and thresholds where necessary, and at least annually.

The development of the Framework in 2016 continued to prove useful for the Board of Directors and the Risks Committee as a single comprehensive platform from which to direct the Group's strategy, management and control. In the annual review conducted during the year, new metrics were added and thresholds were modified to take account of new regulatory requirements and the Entity's strategic developments.

Throughout this process, the Risks Committee is responsible for helping the Board of Directors in its tasks and reviewing the development of Tier 1 metrics more frequently and in greater depth, and for compliance with the action plans to re-direct underlying risks to the appetite zone as rapidly as possible.

The following basic reporting structure has been defined to ensure the Framework is compliant and that transparency is in line with best international practices:

Monthly presentation by the Corporate Global Risk Management Division to the Global Risk Committee, indicating the past and future trends of Tier 1 and Tier 2 metrics, according to the Strategic Plan/projection made as part of the ICAAP exercise. If actual risk levels breach the threshold for:

- ✓ **Appetite:** an amber traffic light or early alert is assigned to the indicator, and the party responsible or the Management Committee is entrusted by the Global Risk Committee with preparing an action plan to return to the "green" zone, and a timeline is drawn up. The status of the action plan must be reported to the Board Risks Committee as part of its recurring reporting.
- ✓ **Tolerance:** a "red traffic light" is assigned, including an explanation as to why the previous action plan did not work (if there was one). Corrective or mitigating measures are proposed to reduce exposure. This must be approved by the Risks Committee. The Board must receive information with the content and frequency established by the Board Risks Committee.

✓ **Recovery Plan:** this would trigger the Plan's governance process, which entails a set of measures to:

1. Reduce the possibility of the Entity going bankrupt or entering into a resolution process.

2. Minimise the impact in the event of bankruptcy, and avoid the need for a bail out.

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

Quarterly presentation to the Risks Committee on the situation, action plans and forecasts for Tier 1 metrics.

Half-yearly presentation to the Board of Directors on the situation, action plans and forecasts for Tier 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.

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. An overarching view of the RAF in different scenarios was provided to the Board through the ICAAP, the ILAAP and the 2016 EBA stress test, to be able to take the right decisions on amending or signing off the forecasts prepared by the individuals responsible for these processes.

4.4. Risk assessment and planning

As a complement and reinforcement that feeds back into both the Corporate Risk Map and the Risk Appetite Framework, the CaixaBank Group has put in place institutional processes and mechanisms to evaluate both the evolution of the risk profile (recent, future and hypothetical in stress scenarios), and to evaluate its own ability to ensure appropriate governance, management and control.

Risk Assessment

Annual procedure in which the Entity seeks to:

- Identify, assess, classify and internally report significant changes in inherent risks assumed by the Entity in its environment and business model, due to changes in the level of risk (evolving) or to the appearance of other risks that could potentially become significant (emerging)[1], and

- Make a self-assessment of its risk management, control and governance capacity, as a tool to help detect best practices and weaknesses in relation to risks. All with the aim of maximising internal transparency and the risk culture, and to prioritise efforts and investments with a larger potential impact on the Group's residual risk profile.

The scope and depth of this process, which originated in the context of the Internal Capital Adequacy Assessment (ICAAP) report, has been evolving in line with the self-defined goal of continuous improvement, and through the inclusion of the guidelines and recommendations published by European regulatory and supervisory bodies in recent years. These include the EBA consultation document on Draft Guidelines on internal governance and the EBA's Final Guidelines for consistent ICAAP assessments by supervision teams.

This is currently performed on a stand-alone basis using quantitative information, benchmarks and qualitative input provided by the internal representatives of stakeholders (for example, the Investor Relations department), in the areas involved in risk management and control areas. This exercise is presented to the entity's governing bodies for review and approval, with the Board of Directors having the ultimate responsibility for approval, within the framework of the ICAAP report.

Risk planning

The Entity plans the expected performance of the different factors and ratios that define the future risk profile, as part of the four-year Strategic Plan (the current plan is for 2015-2018), with regular monitoring of compliance.

[1] The latter case involves processing proposals for inclusion or increasing the level in the Risk Catalogues

Additionally, changes in this profile are evaluated for potential stress scenarios, in both internal and regulatory tests (ICAAP, ILAAP, EBA stress tests). In this way, the management team and governing bodies are provided with an overview of the Entity's resilience in the face of internal and/or external events.

4.5. 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[1] 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 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 factor 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.

[1] See Note 3 to the CaixaBank Group's 2016 consolidated financial statements for more information.

Training

With the objective of enabling the Group's branch managers, premier bank managers and private banking consultants to offer customers the best service and build their trust, since 2015 more than 6,000 branch managers and premier banking managers have obtained a diploma in Financial Advisory services from the UPF School of Management (run by Pompeu Fabra University) and almost the same number obtained a Certificate in Wealth Management from the Chartered Institute for Securities & Investment (CISI). This accreditation is recognised among financial institutions (e.g. HSBC, BNP Paribas, Credit Suisse, the National Bank of Abu Dhabi, Citi Bank, UBS, Barclays and Deutsche Bank) not only as a measure of their knowledge of financial advice services but also of the codes of conduct and ethics required to achieve excellence in customer service. This makes the Group the first Spanish financial institution to certify employees' training with a post-graduate Financial Advice diploma and a prestigious international financial sector certificate.

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. This is linked to the professional development of the Bank's entire workforce from Retail Banking staff through to specialists in 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 Risk School launched its first Risk Analysis Certificate promotion (aimed at sales managers, with a total of 46,200 training hours) and the first postgraduate diploma in Risk Analysis, Specialising in Retail (aimed at branch managers and assistant managers, with a total of 37,900 training hours). More than 2,400 employees are currently taking part in training: new promotions of the Risk Analysis Certificate (one edition) and the Post-graduate diploma in Risk Analysis (two editions), which began in 2016.

The following training on banking risk is provided by the Risk School:

- **Basic Banking Risk course**: Basic level university qualification designed for generalist managers and staff from the branch network and other stakeholders who may need a basic knowledge of the organisation's risk management criteria to carry out their work. (The 2nd course started in May 2016, with the participation of 320 employees and sales managers).
- **Postgraduate diploma in Banking Risk Analysis**: University diploma for commercial branch deputy managers and managers and other stakeholders who, given their role, may be involved in approving loans or may require in-depth knowledge of risk at CaixaBank. In 2016, the 2nd course (March 2016, 1,013 participants) and the 3rd course (September 2016, 648 participants) began, along with the 1st course on Specialising in Retail, which began in September, for 690 employees with such responsibilities in the branch network.

More than 3,500 hours of training were provided to risk teams in 2016 through several courses for CaixaBank's branch and Central Services personnel. The main programmes were:

- **Training in professional skills:**
    - **Site visit management** for Risk Analysts, to maximise the effectiveness of company visits. Course covering the implementation of the New Regional Risk Approval Centre Organisation with customer classification and roll-out of the new model for collaboration between Risk Approvals and the centres serving businesses, institutions and the public sector. To this end, sales managers will sometimes be accompanied during visits to selected customers.
- **Training in multiple areas of expertise**. The main programmes were:
    - **Impact of Appendix IX of BoS Circular 4/2016**, aimed at training for all Regional Risk Approval Centre teams and analysts in Central Services, streamed live.
    - **New Risk Analysts**, to introduce this group to risk management criteria and policies, the tools available to them when carrying out their work, the main financing products offered by the Bank and legal aspects relating to risk. The course is intended mainly for a group of employees from Global Risk Management at Central Services and Asset Management Technicians (TGAS) with the aim of improving their technical and conceptual vision through a range of applied scenarios relating to risk policies and specific product characteristics and features, while enhancing their skills in relation to other risks for which they are not directly responsible (such as market risk).

Performance assessment and remuneration

As described in the Risk Appetite Framework section, the CaixaBank Group works to ensure that the extrinsic motivation of its employees is consistent with its risk culture and compliance with the levels of risk that the Board is prepared to take on.

Two different plans are in place to achieve this:

- 15% of the variable remuneration received by members of the Management Committee and the Identified Staff is directly related to successful annual compliance with the Risk Appetite Framework.[1]

- Employees working in business areas set down their objectives in a bottom-up/top-down process to ensure that, on aggregate, the objectives of the Strategic Plan (for the corresponding year) are met. This ensures efficient and effective transference and subsequent alignment with the risk profile set by the Board is achieved, insofar as these objectives are already calibrated to ensure compliance with the Risk Appetite Framework, in addition to other institutional objectives (identification and knowledge of customers, according to KYC principles).

4.6. Internal control framework

CaixaBank's Internal Control Model offers a reasonable degree of assurance that the Group will achieve its objectives. This is structured around the 3 Lines of Defence model, in line with regulatory guidance and best practices in the sector.

✓ 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.

In 2015 the control functions in the first line of defence were reinforced. Among other things, this included the creation of the Corporate Business Control Department as a specific control unit for the General Business Division.

✓ The second line of defence acts independently of the business units and is designed to: ensure the existence of risk management and control policies and procedures; monitor their application; evaluate the control environment; and report all of the Group's material risks.

The second line of defence was also reinforced in December 2015 through the creation of the Deputy General Control & Compliance Area, and in 2016, by the Control Units added in the General Risks Division and the Financial Accounting, Control and Capital area.

[1] For more information, refer to the "Annual Report on Directors' Remuneration for Listed Companies" on the CaixaBank website (http://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/remuneracionesdelosconsejeros/informeanualderemuneraciones_es.html)

✓ 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 solvency and liquidity mechanisms; it achieves an optimal risk-return ratio; and strives for excellence in customer service with flexible and transparent processes.

In December 2016, the Internal Control Committee was created, chaired by the Deputy General Manager of Control and Compliance and involving the Control Units of the second and third lines of defence, and the Business Control Unit.

The Control Units in the second line of defence have the following functions, each under their own scope of action, to:

✓ Ensure that suitable policies and procedures are in place in relation to risk management, and that they are effectively complied with.

✓ Ensure the existence of a suitable and effective Control Environment that mitigates the risks within its scope of action, including monitoring through indicators.

✓ Detect the existence of gaps in the control, establish plans to remedy these and monitor their implementation.

✓ Ensure the existence of proper reporting to the Internal Control Committee.

✓ Foster a culture of control and compliance within its scope of action.

The Audit functions involved in assessing the internal control framework are set out in section 4.6.4.

The Internal Control Committee has the mission of providing reasonable assurance to management and governing bodies that risk control policies and procedures are in place in the organisation, and that they are designed correctly and applied effectively, evaluating the risk control environment in the CaixaBank Group.

The Control Units that make up the second and third lines of defence are:

✓ Internal Risk Control.

✓ Internal Control over Information and Financial Models.

✓ Regulatory Compliance.

✓ Internal Audit.

4.6.1. Internal Risk Control

The objective of the Internal Risk Control department is to unify into a single organisational area, reporting directly to the General Risks Division, the different functions of the second line of defence in operation within the aforementioned Division.

The management is organised into the following functions:

1. Internal Control of Operational and Credit Risk and Control of Markets.

The purpose of these functions is to monitor, as a second line of supervision:

The definition and implementation of processes in accordance with the bank's risk policies, ensuring that risk taking is always done within the framework defined by them and with a suitable control framework.

The consistency and effectiveness of the controls exercised from the first line of defence on the processes of assuming risk by the Bank.

The monitoring and control of the risks assumed, as well as their ongoing reporting to, among others, risk taking and/or management areas, Senior Management and the competent committees, as well as supervisory bodies and third party entities.

2. Internal Validation

Performs control functions for internal ratings systems, as described in greater detail in point 2, "Internal Validation", of section 2, "Internal Control Framework: Internal Control: Internal Risk Control", of note 3, "Risk governance, management and control", to the CaixaBank Group's 2016 financial statements.

4.6.2. Internal Control over Information and Financial Models

The objective of the Internal Control over Information and Financial Models Department is the supervision of risks associated with the Financial Accounting, Control and Capital (FACC) Department. This is organised into the following functions:

1. Internal Control over Financial Reporting (ICFR) System

As part of the Bank's Internal Control, the ICFR is defined as a set of processes that provides reasonable assurance on the reliability of the financial information published by the Entity in the markets. It is designed in accordance with the guidance established by the Spanish National Securities Market Regulator (CNMV) in its document "Guidelines on Internal Control over Financial Reporting in Listed Companies" (companies issuing securities admitted to trading). As a second line of defence, it monitors whether the practices and processes in place at the Bank to produce the financial information ensure its reliability and compliance with applicable regulations. This function should specifically assess whether the financial information reported by the entities within the Group complies with the following principles:

a) The transactions, facts and other events presented in the financial information in fact exist and were recorded at the right time (existence and occurrence).
b) The information includes all transactions, facts and other events in which the entity is the affected party (completeness).
c) The transactions, facts and other events are recorded and valued in accordance with applicable standards (valuation).
d) The transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, disclosure and comparability).
e) The financial information shows, at the corresponding date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards (rights and obligations).

Details of this function are presented in the Annual Corporate Governance Report for 2016, along with the activities carried out during the period.

2. Internal Control over Financial Planning Models (CFPM)

This recently created function has the objective of exercising the second line of defence's internal control over the activities carried out by the Corporate Planning and Capital Division, ensuring the existence of suitable policies and procedures, ensuring that these are effectively complied with and the existence of an appropriate and effective control environment that mitigates the risks associated with such activities. The function is also designed to detect the existence of gaps in control, establish plans to remedy these and monitor their implementation.

In order to mitigate risks, the ICFPM function covers both quantitative and qualitative aspects. The essential elements of the overall validation process cover the following areas of review:

- ✓ Technological environment and databases used
- ✓ Methodologies and hypotheses used
- ✓ Corporate governance
- ✓ The integrity of the documentation
- ✓ Management integration

4.6.3. Regulatory Compliance

The objective of the Regulatory Compliance function is to monitor compliance risk. The Regulatory Compliance Area supervises compliance risk arising from potential deficiencies in the procedures implemented by establishing second-tier controls within its scope of activity (*inter alia*, through monitoring activities, reviewing internal procedures and analysing deficiencies detected by reports from external experts, from reports on inspections carried out by supervisory bodies, customer complaints, etc.). When deficiencies are detected, the Regulatory Compliance Area urges the areas affected to develop proposals for improvement initiatives, which it monitors regularly.

Similarly, the Regulatory Compliance Area carries out advisory activities on matters within its area of responsibility and carries out training and communication actions to enhance the compliance culture in the organisation. Another activity that it undertakes is to ensure that best practices in integrity and rules of conduct are followed. To do this it provides, among other things, an internal confidential whistle-blowing channel in the entity. This channel also resolves any reports of financial and accounting irregularities that may arise.

The Regulatory Compliance Area also liaises with the main supervisory bodies (both Spanish and international) in areas for which it has competence and handles any requirements issued by them. For all these activities, the Regulatory Compliance Area reports regularly to Senior Management and to the Audit and Control Committee and Risk Committee.

The Regulatory Compliance Area carries out its activity through 4 divisions: the Regulatory Risks department; the Anti-Money Laundering and Counter Terrorist Financing department; the International and Group department; and the Compliance department in the Corporate & Institutional Banking (CIB) area.

4.6.4. Internal Audit

CaixaBank's Internal Audit performs 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 management and control, and internal governance processes.

Internal Audit reports functionally to the Audit and Control Committee – a board committee – and also reports to the Chairman of the Board of Directors, to guarantee the independence and powers of the audit function.

Internal Audit is the third line of defence in CaixaBank's 3 lines of defence control 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 of the Group's activities:
- ✓ Compliance with prevailing legislation, especially the requirements of supervisors.
- ✓ Compliance with internal policies and regulations, and alignment with the Risk Appetite Framework and 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 Internal Control over Financial Reporting (ICFR).

Internal Audit's responsibilities include:

- ✓ Regularly reporting to Senior Management and the Audit and Control Committee on the conclusion of tasks carried out and weaknesses uncovered.

- Adding value by proposing recommendations to address weaknesses detected in reviews and monitoring their implementation by the appropriate centres.

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 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 supervises the risk management control environment covered in this report, providing an objective and independent assessment of the efficacy and efficiency of the control framework applied by the management areas.

In relation to credit risk, it verifies: the main management processes implemented in this sphere; 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.
- Ensuring the adequate 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 and country risk.
- Verifying the integrity and consistency of the databases used in the construction of risk models and the calibration of risk parameters.
- Verifying the accuracy of the data fed into the Entity's systems and the existence and adequacy of controls.
- Reviewing the implementation of risk models, procedures for calculating regulatory and economic capital, and risk measurement and management tools.
- Assessment of accounting classifications and whether provisions for large debtors are sufficient.
- Review of valuation models for coverage of loan portfolio impairment.
- Supervision of the risk management control framework, assessing the independent control functions carried out by the first and second lines of defence.

Reviewing measurement, assessment and management processes for operational risk, including:

- Reviewing compliance with, and implementation of, the Operational Risk Management Framework in the Group.
- Verifying compliance with regulatory requirements for use of the standardised approach to calculating minimum capital requirements.
- Assessment of the integration into management and uses of the operational risk management model, verifying the effective implementation of the model in the day-to-day management of operational risk.
- Assessment of the management procedures and tools implemented and their on-going evolution, verifying compliance with internal regulations.
- Review of the measurement system, mainly verifying the accuracy and integrity of data.
- Review of the technological environment and applications, with regard to the integrity and confidentiality of information, systems availability and business continuity, through planned reviews and continuous auditing and monitoring of the risk indicators defined.

For market, liquidity and interest rate risk in the banking book, Internal Audit verifies: the main management processes implemented in these areas; use of the internal advanced model for market risk and internal models for liquidity, interest-rate and exchange-rate risk in the banking book; 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, including detailed control functions for the

units responsible for risks in the first and second lines of defence, and adequate reporting to management and governing bodies.

- ✓ 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 and regulatory reporting of market and liquidity risk, and interest rate risk in the banking book.

With regard to legal and regulatory risks, the control environment put in place to offset risks deriving from changes in legislation and the regulatory framework, and management of court proceedings is reviewed.

In terms of compliance risk, policies and procedures established in the CaixaBank Group are assessed to ensure they are consistent with the legal and 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 capital (ICAAP) and liquidity (ILAAP). It also reviews the Recovery Plan, which is updated annually by the Entity, and this document prior to approval by the Board of Directors.

5. CAPITAL

The CaixaBank Group maintained a robust solvency position throughout 2016, with ratios well above minimum requirements, supporting the dividend policy

- One of CaixaBank's priorities is to maintain a comfortable capital position consistent with the risk profile assumed by the Entity. The key objectives in the current Strategic Plan include maintaining a fully loaded Common Equity Tier 1 (CET1) ratio of 11%-12%, and a fully loaded Total Capital ratio above 14.5%.
- Capital is managed to ensure compliance with both regulatory requirements and the Entity's internal capital targets at all times.
- At year-end 2016, CaixaBank's fully loaded CET1 ratio stood at 12.4%, whilst the fully loaded Total Capital ratio stood at 15.4%.
- This is an excess of 388 basis points over CaixaBank's regulatory minimum CET1 ratio at the reference date (289 bps fully loaded).
- The capital ratios at year-end 2016 were affected by a one-off transaction to boost solvency to pre-finance the takeover bid for BPI, so as to keep the fully loaded CET1 ratio in line with the strategic objective following the integration of the Portuguese bank, which has taken place in the first quarter of 2017.
- This robust solvency position supports the objective of distributing a cash dividend at least equal to 50% of net income. The CaixaBank Group intends to move to a full cash dividend scheme in 2017.

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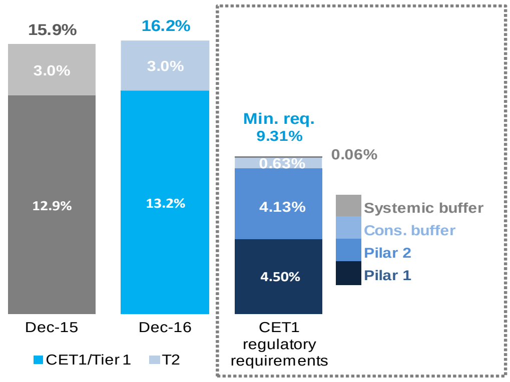
5.6. Leverage ratio
5.7. Indicators of global systemic importance

EUR 17,789 million
BISIII Regulatory CET1

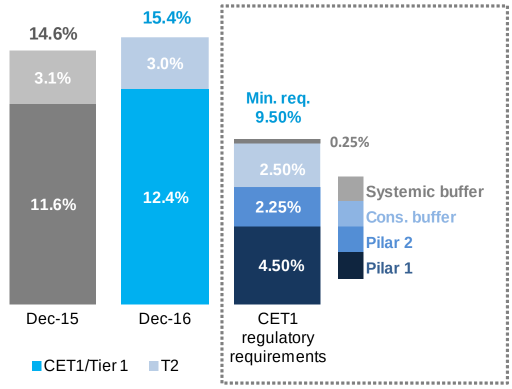
13.2%
BISIII Regulatory CET1 (%)

16.2%
Total BISIII Regulatory Capital (%)

REGULATORY CAPITAL RATIOS



FULLY LOADED CAPITAL RATIOS



ELIGIBLE OWN FUNDS

Amounts in millions of euros

	BIS III (Regulatory)		BIS III (Fully Loaded)	
	31.12.15	31.12.16	31.12.15	31.12.16
CET1	18,485	17,789	16,580	16,648
Aditional Tier 1	-	-	-	-
TIER 1	18,485	17,789	16,580	16,648
TIER 2	4,342	4,003	4,444	4,088
TOTAL CAPITAL	22,827	21,792	21,024	20,736
RWA	143,312	134,864	143,575	134,385
CET1 ratio	*12.9%*	*13.2%*	*11.6%*	*12.4%*
Tier 1 ratio	*12.9%*	*13.2%*	*11.6%*	*12.4%*
Total Capital ratio	*15.9%*	*16.2%*	*14.6%*	*15.4%*
Leverage ratio	*5.7%*	*5.7%*	*5.2%*	*5.4%*

5.1. Capital management

Capital objectives and policy

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.

The Board of Directors determines the Group's risk and capital policies with that target in mind. 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. One of the pillars of the entity's financial strength is maintaining a high solvency level, with a fully loaded Common Equity Tier 1 (CET1) ratio in the range 11% to 12%, and a fully loaded total capital ratio in excess of 14.5%. This is founded on active capital management, which is one of the five key areas in the 2015-2018 Strategic Plan.

In 2016, the proportion of capital allocated to CaixaBank's investee business decreased significantly - to less than 10% - mainly through the swap of holdings in Grupo Financiero Inbursa and The Bank of East Asia with Criteria, in return for treasury shares and cash.

In line with the dividend policy set out in the 2015-2018 Strategic Plan, CaixaBank intends to remunerate its shareholders with annual dividends in cash equal to or greater than 50% of the consolidated net profit.

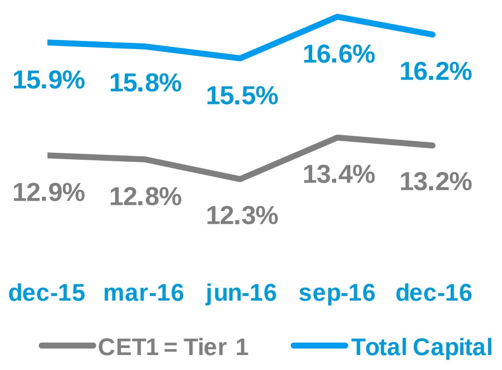
The total remuneration planned[1] for distribution to shareholders in 2016 amounted to EUR 0.13 gross per share, all paid in cash, equating to 54% of consolidated net profit.

5.2. Regulatory capital

5.2.1. Eligible capital

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.

Phase-in ratios evolution



Details of CaixaBank's eligible own funds at 31 December 2016, as set out in Annex VI of Commission Implementing Regulation (EU) 1423/2013, are provided in Appendix I of this document.

[1] Final dividend pending approval by the Annual General Meeting on 6 April 2017.

Table K1. Eligible own funds

Amounts in millions of euros

	BIS III (Phase in)		BIS III (Fully Loaded)	
	31.12.15	31.12.16	31.12.15	31.12.16
CET1 Instruments	**23,984**	**22,923**	**24,813**	**22,891**
Shareholders' equity	23,689	23,400	23,689	23,400
Capital	5,824	5,981	5,824	5,981
Profit	814	1,047	814	1,047
Reserves and others	17,050	16,372	17,050	16,372
Minority interests and OCI	1,499	148	1,499	148
Adjustments to eligib. of minority int. and OCI	(917)	(104)	(88)	(132)
Other adjustments [1]	(287)	(521)	(287)	(525)
Deductions from CET1	**(5,499)**	**(5,134)**	**(8,233)**	**(6,243)**
Intangible assets	(4,905)	(4,026)	(4,905)	(4,026)
Financial investments	(238)		(1,038)	
Deferred tax assets	(211)	-685	(2,145)	(1,713)
Other CET1 deductions	(145)	(423)	(145)	(504)
AT1 instruments	**18,485**	**17,789**	**16,580**	**16,648**
AT1 instruments	-	-	-	-
AT1 deductions	-	-	-	-
TIER 1	**18,485**	**17,789**	**16,580**	**16,648**
T2 instruments	**4,444**	**4,088**	**4,444**	**4,088**
Financing of subordinated issues	4,147	4,088	4,147	4,088
Generic provisions and excess of IRB provisions	297	-	297	-
T2 deductions	**(102)**	**(85)**	**(1)**	-
TIER 2	**4,342**	**4,003**	**4,444**	**4,088**
TOTAL CAPITAL	**22,827**	**21,792**	**21,024**	**20,736**

(1) Mainly expected dividends

CET1 comprises the higher quality items of own funds (mainly accounting own funds), after applying the prudential filters established for phase-in of the regulations, according to certain national discretions. CET1 deductions, after applying the regulatory limits and considering the gradual phase-in of the regulations, are then made.

In addition to the EUR 23,400 million of eligible own funds in 2016, EUR 21 million in non-controlling interests and EUR 127 million in valuation adjustments are added. As the non-controlling minority interests of the CaixaBank Group do not relate to banking subsidiaries, these must be gradually excluded from the calculation of CET1. Likewise, other comprehensive income (OCI) can only be calculated by the phase-in percentage applicable in the year of application. It should be noted that from October 2016, with the entry into force of ECB guidance on national discretions and options in the implementation of EU prudential regulations, the filter for OCI related to public debt is no longer applied. Since then, public debt has been included in the regulatory ratio at the corresponding percentage. 2016 also included additional adjustments for prudent valuation (AVAs), which reduce the value of such instruments by EUR 151 million. Lastly, the instruments eligible as CET1 are further reduced by other elements, primarily the forecast cash dividends to be charged against the reference year in question (EUR 358 million).

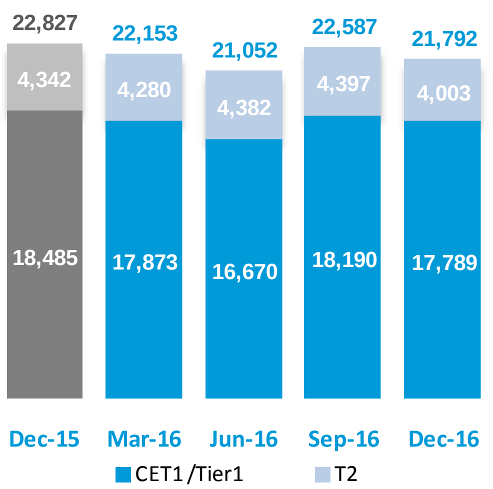
In total, at 31 December 2016, CET1-eligible instruments amounted to EUR 22,923 million (EUR 1,061 million less than in 2015).

Additional Tier 1 capital (AT1) comprises issues of hybrid instruments less AT1 deductions. At 31 December 2016, there were no issuances of hybrid instruments in CaixaBank's AT1. AT1 deductions are transferred to CET1, as there are no AT1 instruments to absorb them.

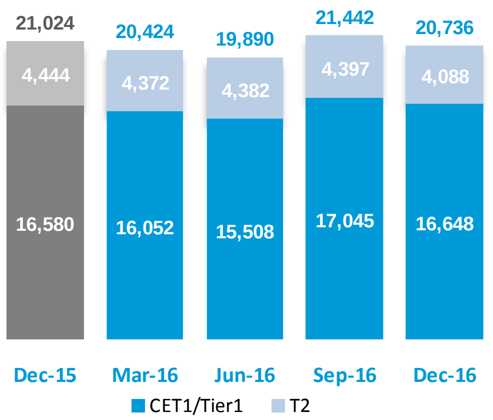
In the phase-in CET1 capital, deductions for intangible assets stood at EUR 4,026 million, of which EUR 2,982 million is for on-balance sheet intangible assets and EUR 1,044 million is for goodwill of investees, net of impairment. The deductions as of December 2016 does not include any tax assets for temporary differences or financial investment in excess of the regulatory limits, mainly as a result of the asset swap with Criteria. Other deductions include EUR 685 million in tax-loss carryforwards and other tax credits, and EUR 334 million for the shortfall of provisions for expected losses on the IRB loan portfolio, which will be phased between CET1, Tier 1 and Tier 2 in accordance with the planned schedule for 2016.

In conclusion, the phase-in CET1 stood at EUR 17,789 million (EUR 696 million less than in 2015), placing the CET1 regulatory ratio at 13.2% (12.4% on a fully loaded basis).

Phase-in capital evolution



Fully loaded capital evolution



Tier 2 components include subordinated loans and the surplus of loan loss provisions versus expected losses for portfolios assessed using the IRB approach[1].

CaixaBank had 5 subordinated debt issues at 31 December 2016 for an eligible amount of EUR 4,088 million, considering the loss of eligibility according to the regulatory schedule and other adjustments. 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.

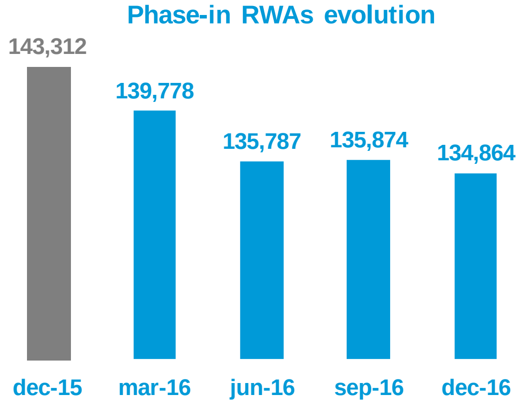
Total capital stood at EUR 21,792 million (EUR 1,035 million less than in 2015), placing the regulatory Total Capital ratio at 16.2% (15.4% fully loaded).

5.2.2. Capital 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" for the 2016 PRR.

A number of the most significant tables requested by the BCBS are made available to investors and analysts on the CaixaBank website every quarter.

[1] As of 31 December 2016, there was no surplus of provisions over expected loss on the IRB portfolio.



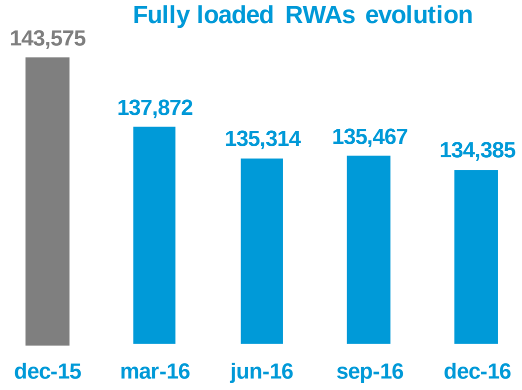


Table K4 provides details of risk-weighted assets (RWA) and capital requirements for each type of risk in the CaixaBank Group at 31 December 2016. The requirements for eligible own funds are equivalent to 8% of RWAs.

The total volume of RWAs stood at EUR 134,864 million at 31 December 2016 (down 6%, or EUR 8,448 million, compared to 2015). The fall in the second quarter was mainly due to the equity portfolio and market risk, basically due to the asset swap with Criteria.

The risk-weighted assets of the equity portfolio include the RWAs of holdings in insurance entities that are not deducted from eligible own funds (mainly VidaCaixa).

Table K2. Holdings in insurance entities not deducted from own funds

Non-deducted participations in insurance undertakings	Value (*)
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	1,955
Total RWAs	7,234

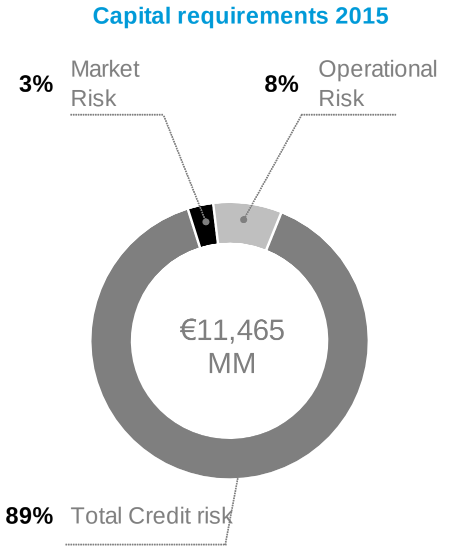
(*) Corresponding to the equity position hold by Grup VidaCaixa under which is applied the art. 49,1of the CRR ("Danish compromise")

Exposures do not include 973 milion euros of goodwill which are deducted in CET1

Table K3. Capital afloration by segments

Amounts in millions of euros	2015		2016	
	Capital	%	Capital	%
Credit (*)	10,228	89%	9,751	91%
Market	330	3%	135	1%
Operational	906	8%	903	8%
Total	**11,465**	**100%**	**10,789**	**100%**

(*) Includes equity, counterparties and securitizations



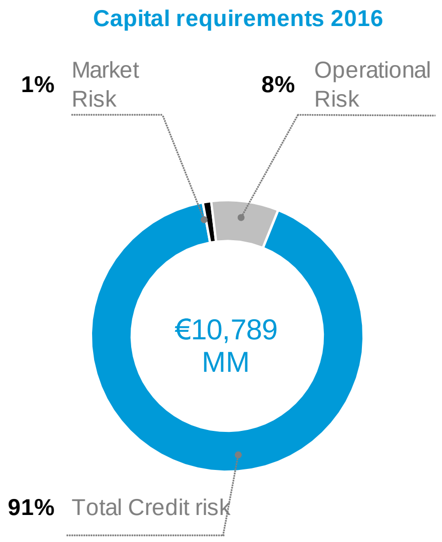


Table K4. Risk-weighted assets (RWA) and Capital Requirements by risk type.

Amounts in millions of euros

	RWA		Regulatory Capital [1]	
	2015	2016	2015	2016
Credit risk (excluding counterparty credit risk)	**109,243**	**106,671**	**8,739**	**8,534**
Standardised Approach (SA) [2]	42,188	46,110	3,375	3,689
Internal Rating-Based (IRB) Approach	67,055	60,562	5,364	4,845
Of which, Credit Risk	*52,918*	*48,777*	*4,233*	*3,902*
Of which, Equity - PD/LGD approach	*14,136*	*11,785*	*1,131*	*943*
Counterparty credit risk	**4,124**	**3,104**	**330**	**248**
Standardised Approach for counterparty credit risk	3,661	2,694	293	216
Of which, Counterparty risk	2,608	1,809	209	145
Of which, Credit Value Adjustment (CVA) risk	1,052	886	84	71
Internal Model Method (IMM)	463	410	37	33
Equity positions in banking book under market-based approach	**9,006**	**9,431**	**721**	**754**
Simple risk-weight approach	8,756	9,266	701	741
Internal Model approach	250	165	20	13
Equity investments in funds – look-through approach	**0**	**0**	**0**	**0**
Equity investments in funds – mandate-based approach	**0**	**0**	**0**	**0**
Equity investments in funds – fall-back approach	**0**	**0**	**0**	**0**
Settlement risk	**0**	**0**	**0**	**0**
Securitisation exposures in banking book	**63**	**199**	**5**	**16**
Of which IRB ratings-based approach (RBA)	61	57	5	5
Of which IRB Supervisory Formula Approach (SFA)	0	130	0	10
Of which SA/simplified supervisory formula approach (SSFA)	2	12	0	1
Market risk	**4,126**	**1,689**	**330**	**135**
Standardised Approach (SA)	2,057	325	165	26
Internal Model Approaches (IMM)	2,069	1,364	165	109
Operational risk	**11,331**	**11,282**	**906**	**903**
Basic Indicator Approach	0	0	0	0
Standardised Approach	11,331	11,282	906	903
Advanced Measurement Approach	0	0	0	0
Amounts below the thresholds for deduction (subject to 250% risk weight)	**5,419**	**2,487**	**434**	**199**
Floor adjustment	**0**	**0**	**0**	**0**
Total	**143,312**	**134,864**	**11,465**	**10,789**

(1) Capital requirement of Pilar I: 8% RWA

(2) On the grounds of comparability, Deferred Tax Assets (DTAs) amount at end 2015 has been classified as credit risk by standardised approach risk type.

5.2.3. Solvency evolution

As set out in the preceding sections, CaixaBank's solvency has been affected by a number of significant impacts. In the first quarter, these included the negative effect of the phasing-in of Basel 3 rules and additional prudential valuation adjustments (AVAs).

In the second quarter, one of the most significant impacts was the asset swap with Criteria, which caused a reduction in goodwill and financial deductions, eliminating excesses in CET1, and reducing RWAs in the equities and market portfolios.

The third quarter saw a sale of treasury shares (Accelerated Bookbuilding Offering), enhancing own funds, and therefore CET1, which will make it possible to keep the ratios within the Strategic Plan objectives following the operation for the integration of Banco BPI in the first quarter of 2017.

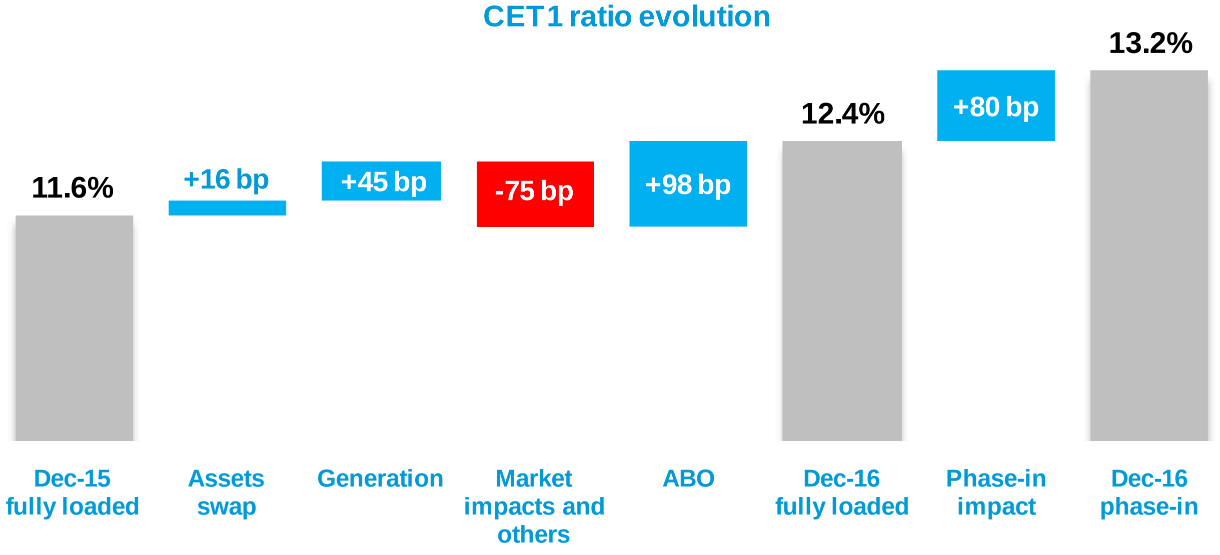
Table K5. Variation in regulatory capital

Amounts in millions of euros

	2015-2016	*Of which: Swap + ABO(*)*
CET1 at the beginning of the period	**18,485**	
CET1 instrum. movements	**(1,061)**	***(968)***
Profit	1,047	*(14)*
Dividend	(536)	-
Reserves	(1,169)	*(704)*
Unrealised gains and losses & others	(403)	*(250)*
CET1 deduc. movements	**365**	***1,248***
Intangible assets	879	*876*
Financial investments	238	*372*
Deferred tax assets	(474)	
Other CET1 deductions	(278)	-
CET1 at the end of the period	**17,789**	
Tier 2 at the beginning of the period	**4,342**	
Tier 2 instrum. movemets	**(356)**	
Elegibility and repayment sub. debt	(59)	
IRB excess of prov.	(297)	
Tier 2 deductions movements	**17**	
Financial investments	17	*93*
Tier 2 at the end of the period	**4,003**	

(*) Includes assets swaps with Criteria and ABO

CET1 ratio evolution



5.3. Capital buffers and SREP

5.3.1. Pillar II: Internal Capital Adequacy Assessment

In the context of Basel Pillar II, the CaixaBank Group carries out an annual Internal Capital Adequacy Assessment Process (ICAAP), which includes: (i) financial planning over a three-year horizon, in a range of stress scenarios; (ii) risk assessment to identify significant risks; and (iii) analysis of capital adequacy, in terms of own funds and capital requirements, under a purely internal approach (economic). In particular, this assesses potential requirements for risks other than credit, operational and market risk, such as interest rate and business risk.

The ICAAP process is thoroughly integrated into the entity's management, and is carried out in accordance with guidance from the supervisor and the European Banking Authority (EBA). The results of the ICAAP process are reported to the supervisor every year.

The ICAAP is a core input into the ECB's Supervisory Review and Evaluation Process (SREP).

Based on the SREP, the ECB sets minimum capital requirements for each entity every year. 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). Pillar 2 must be complied with in full through CET1 in 2016.

The ECB required CaixaBank to maintain a phase-in CET1 ratio of 9.25% in 2016. This comprised the general minimum CET1 requirement for Pillar 1 of 4.5%, plus an additional net 4.75% for specific Pillar 2 requirements (2.25%) and the entire capital conservation buffer (2.5%).

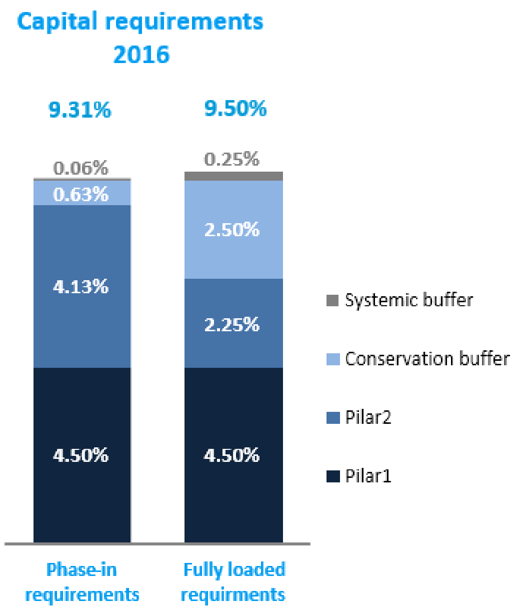
The current transposition of CRD IV into applicable legislation in Spain envisages that this buffer will be applied progressively over four years from 2016: 0.625% in 2016 and 1.25% in 2017.

In 2015, CaixaBank received a Bank of Spain 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): 0.0625% in 2016 and 0.125% in 2017.

Together, these decisions required CaixaBank to maintain a CET1 ratio of 9.3125% in 2016.

In November 2016, CaixaBank received an update of the ECB's decision on minimum regulatory capital requirements. This required the CaixaBank Group to maintain a phase-in Common Equity Tier 1 (CET1) ratio of 7.375% in 2017, including: the minimum required by Pillar 1 (4.5%); the Pillar 2 requirement (1.5%); the capital conservation buffer (1.25%); and the O-SII buffer (0.125%). On a fully loaded basis, the minimum CET1 requirement would be 8.75%. Similarly, taking the 8% Pillar 1 requirement, the minimum Total Capital requirements would be 10.875% (phase-in) and 12.25% (fully loaded).

The ECB decision implies that the phase-in CET1 level below which the CaixaBank Group would be obliged in 2017 to limit distributions in the form of dividends, variable remuneration and interest payments to holders of additional tier 1 capital instruments - commonly referred to as the maximum distributable amount (MDA) trigger - would be 7.375%. Compared to current CET1 ratio levels, this requirement means that the requirements applicable to the CaixaBank Group will not entail any limitation whatsoever of the types referred to in the solvency regulations.



5.3.2. Capital buffers

The CRR, CRD IV and Act 10/2014, transposing the latter, set down a requirement that all credit entities must comply at all times with the combined specific capital requirements for the entity, which comprise the specific capital conservation, countercyclical and systemic buffers. This combined buffer requirement (CBR) must be met using the highest quality capital (CET 1).

Failure to comply with the combined capital buffer requirement would restrict the distribution of profits, and payment of AT1 coupons and bonuses, and would entail an obligation to file a capital conservation plan.

The evolution of this requirement during the phase-in period since the entry into force of Basel III is shown below:

Table K6. Buffer requirements

Capital buffer	2015	2016	2017	2018	2019
Capital conservation	n.a.	0.630%	1.250%	1.880%	2.500%
Specific anticyclical[1]	n.a.	0.000%			
Systemic[2]	n.a.	0.0625%	0.125%	0.188%	0.250%

(1) As discretion of competent authorities where exposures are located

(2) As discretion of competent authority, which keeps the same decision for 2017 and 2016

- ✓ **Capital conservation buffer,** guaranteeing that banks accumulate capital reserves outside stress periods that can be used in the event of hypothetical losses during stress situations. A buffer of 2.5% of RWAs is required, phased in from 1 January 2016 to full implantation in January 2019 (25% per year in Spain).

- ✓ **Specific countercyclical buffer**, a capital reserve built up during periods of growth to enhance solvency and neutralise the pro-cyclical effects of capital requirements on lending. In general, this varies between 0% and 2.5%, with the competent authorities determining the buffer to be applied to RWAs for exposure in their territory each quarter. Therefore, each entity has its own specific requirements, based on the geographic composition of its portfolio (the weighted average of the percentages of the countercyclical buffers applied in the territories in which it operates).

- ✓ **Systemic buffers,** these buffers are included if the entity is considered systemic, or because of systemic risks.

Entities of systemic importance

- Buffer for Systemically important institutions (SII) (refer to the section on Indicators of global systemic importance)

- Buffer for Other Systemically Important Institutions (O-SII)

The Bank of Spain identifies the entities considered to be O-SIIs under the EBA methodology each year.

The EBA's basic criteria for calculating an entity's systemic-importance score are: its size; its importance for the Spanish or EU economy; its complexity (including that deriving from the entity's cross-border activities); and its interconnections with the financial system.

The Bank of Spain may impose an obligation on O-SIIs to establish a buffer of up to 2% of their total risk exposure.

CaixaBank was identified as an O-SII for 2016, as its score breached the threshold of 350 points. It has also been identified as an O-SII for 2017, with the same capital requirements.

- ✓ **Systemic risks**

  These buffers exist to prevent long-term systemic or non-cyclical macro-prudential risks that are not covered by the CRR. These risks may disturb the financial system, with serious consequences for the system, and the real economy. Competent authorities may require a buffer of between 1% and 3% of some or all exposure in Spain, or the Member State setting the buffer, exposure in other countries and other European Union member states, for all entities, whether part of a consolidated group or not, or for one or more subsectors of such entities.

The following table provides a geographical breakdown of exposure by country of origin. The vast majority of exposures are in Spain (89.2%), for which the surcharge is 0%.

Table K7. Geographical distribution of exposures

Amounts in millions of euros

País	Credit risk exposures		Securitisation exposures		Own funds requirements				Weighted own funds requirements
	STD method (*)	IRB method	Sum of short and long positions	Exposure for internal models	Credit risk exposures	Trading book	Securiti. Exposures	Total	
España	95,435	177,830	10	300	8,629	-	6	8,635	89.2%
Portugal	996	1,813	0	-	249	-	0	249	2.6%
Austria	4	1,368	-	-	131	-	-	131	1.4%
Reino Unido	1,899	813	-	-	87	-	-	87	0.9%
Mexico	677	861	-	-	84	-	-	84	0.9%
Francia	1,406	447	-	-	68	-	-	68	0.7%
Estados Unidos De America	704	303	0	-	64	-	-	64	0.7%
Andorra	483	33	-	-	49	-	-	49	0.5%
Alemania	320	435	-	-	40	-	-	40	0.4%
Holanda	303	321	-	-	39	-		39	0.4%
Irlanda	187	107	-	1,903	21	-	10	31	0.3%
Polonia	381	5	-	-	30	-	-	30	0.3%
Canada	287	3	-	-	22	-	-	22	0.2%
Luxemburgo	30	191	-	-	20	-	-	20	0.2%
Resto	1,573	1,156	-	-	132	-	-	132	1.4%
Total	**104,685**	**185,687**	**10**	**2,203**	**9,665**	**-**	**16**	**9,681**	**100%**

(*) Not included EAD for Credit Value Adjustment (CVA)

Table K8. Regulatory capital requirements and buffers

	SREP 2016		SREP 2017	
	Phase-in	Fully Loaded	Phase-in	Fully Loaded
Pilar 1	**4.500%**	**4.500%**	**4.500%**	**4.500%**
Net Pilar 2	2.250%	2.250%	1.500%	1.500%
Cons. Buffer advance	1.875%	0.000%	-	-
Pilar 2R	**4.125%**	**2.250%**	**1.500%**	**1.500%**
Min. Req (Pilar 1+ Pilar 2) CET1	**8.625%**	**6.750%**	**6.000%**	**6.000%**
Conservation buffer [1]	0.625%	2.500%	1.250%	2.500%
Min. Req. + conservation burffer	**9.250%**	**9.250%**	**7.250%**	**8.500%**
Countercilcical buffer [2]	0.000%	0.000%	0.000%	0.000%
Systemic buffer [3]	0.0625%	0.250%	0.125%	0.250%
CBR level (Σ buffers)	**0.6875%**	**2.750%**	**1.375%**	**2.750%**
CET1 Requirements	**9.3125%**	**9.500%**	**7.375%**	**8.750%**
Pilar 1			6.000%	6.000%
Pilar 2			1.500%	1.500%
Minimum (P1+P2)			**7.500%**	**7.500%**
CBR level (Σ buffers)			**1.375%**	**2.750%**
T1 Requirements			**8.875%**	**10.250%**
Pilar 1			8.000%	8.000%
Pilar 2			1.500%	1.500%
Minimum (P1+P2)			**9.500%**	**9.500%**
CBR level (Σ buffers)			**1.375%**	**2.750%**
Total Capital Requirements			**10.875%**	**12.250%**

1. Capital conservation buffer set at 2,5% phased-in 4 years stating January 2014.

2. Countercyclical buffer is set at 0% in Spain, where most of the exposure is concentrated.

3. OSII, CaixaBank is set to have a 0,25% to be phased in 4 years starting January 2014.

5.4. Stress test

In 2016, the European Banking Authority (EBA) conducted a stress test for banks. The test covered 70% of the European banking sector's assets and assessed the ability of the main European banks, including CaixaBank through the CriteriaCaixa Group, to withstand an adverse macroeconomic scenario during the period 2016 to 2018. The EBA published the results on 29 July 2016. Although there was no common equity threshold for passing the test, the projection was crucial to the ECB's decisions on capital requirements in the context of the Supervisory Review and Evaluation Process (SREP).

In an internal exercise,[1] the methodology was applied in an adverse macroeconomic scenario to CaixaBank, resulting in a CET1 ratio of 9.8% in December 2018 in the regulatory view (8.5% fully loaded). Including the asset swap with Criteria carried out in the first half of 2016 enhances the CET1 ratio to 10.1% in the regulatory view (9.1% fully loaded).

5.5. Economic capital

The CaixaBank Group has developed models for economic capital that measure its available own funds and the capital requirements for all of the risks involved in the Group's activity, from a purely internal perspective.

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 includes risks that are not factored in, partially or in full, in Pillar 1 regulatory requirements. In addition to the risks referred to in Pillar I (credit, market and operational risk), it includes interest rate risk in the banking book, liquidity risk and other risks (business, reputational, etc.).

Two of the most important impacts for credit risk with regard to the regulatory approach are:

- ✓ **Concentration in large exposures**: Single large exposures (exposure above EUR 100 million) have a significant impact on economic capital estimates, particularly in the equity portfolio and the corporate and banking segments. The regulatory formula, which considers infinitely granular portfolios, is not particularly appropriate 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 concentration risk for large exposures. This 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.

With regard to eligible own funds, the most significant internal effect is the recognition of gains or losses on the fixed income and equities portfolios, basically, fixed income held to maturity and equities of associates. These are recognised at fair value from an accounting perspective.

[1] The European authorities took into account the whole CriteriaCaixa Group, including, in addition to CaixaBank, the industrial stakes and real estate assets of CriteriaCaixa.

5.6. Leverage ratio

The Basel III framework introduces the leverage ratio as a complementary measure to risk-based capital requirements. Although disclosure is required as from January 2015, the final calibration of the minimum level of this, and any further adjustments to its definition will be completed by 2017, with a view to incorporating these into minimum requirements 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 2016, the CaixaBank Group's regulatory leverage ratio was 5.7% (5.4% fully loaded), comfortably above the Basel Committee's proposed initial regulatory minimum (3%), pending review.

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

Table K9. Leverage ratio

Amounts in millions of euros

	Regulatorio	Fully Loaded
Tier 1	**17,789**	**16,648**
regulatory scope of consolidation	305,995	305,995
Tier 1 deductions adjustments	(5,134)	(6,243)
Other adjustments (*)	8,817	8,817
Exposición Leverage Ratio	**309,678**	**308,569**
Leverage Ratio	**5.7%**	**5.4%**

(*) Includes off-balance exposures, derivatives and others.

5.7. Indicators of global systemic importance

Every year, the Bank of Spain identifies Global Systemically Important Institutions (G-SIIs), in application of the Financial Stability Board's November 2015 resolution, and following the methodology set down in Regulation 13 of its Circular 2/2016.

The requirements for considering a financial entity to be a G-SII are: its size; its interconnection with the financial system; the extent to which its financial services or infrastructure can be substituted; the complexity of the group; and the importance of its cross-border activity, inside and outside the European Union.

The buffer for classifications as a G-SII oscillates between 1% and 3.5%.

In the first half of 2016, the CriteriaCaixa Group, as the scope of prudential supervision at 31 December 2016, 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 CriteriaCaixa Group's mains indicators at 31 December 2016 are posted on the Entity's website:

http://www.criteria.com/informacionparainversores/informacioneconomicofinanciera/indicadoresderelevanciasistemicaglobal_es.html

The indicators at 31 December 2016 will be published on this website by 30 April 2017, at the latest.

6. TOTAL CREDIT RISK

(Credit, counterparty, securitisation and equity portfolio risk)

CaixaBank Group assesses 87% of its EAD with the private sector using internal models

- As of 31 December 2016, 64% of the total loan portfolio (including credit, counterparty, securitisation and equity portfolio risk) was assessed using the IRB method.
- The potential scope for application of the IRB approach in the CaixaBank Group is basically its exposure to the private sector. Risks involving the public sector and financial institutions and assets other than debt (real estate and others) are therefore excluded. IRB coverage, based only on this potential IRB scope, increased from 64% to 87%.
- 97% of the Group's capital requirements for credit risk relate to traditional lending activity and the equity portfolio.

EUR 121,893 million
Total credit risk RWA

EUR 293,715 million
Total credit risk EAD

64%
EAD under IRB approach

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6.1. Credit risk
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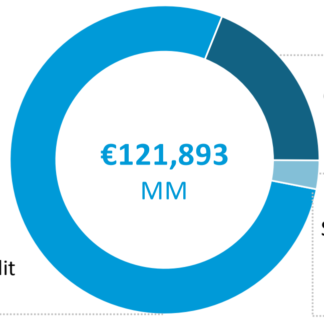
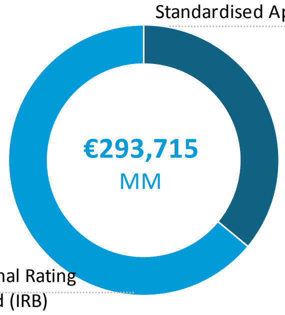
6.3. Securitisations
6.4. Equity portfolio

TOTAL CREDIT RISK RWA
Distribution by approach, %



TOTAL CREDIT RISK EAD
Distribution by approach, %



TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK

Amounts in millions of euros	EAD			RWA			RWA density	Capital requirements[3]		
	STD	IRB	Total	STD	IRB	Total		STD	IRB	Total
Credit Risk[1]	100,638	174,607	275,245	46,110	48,777	94,887	34.47%	3,689	3,902	7,591
Counterparty Credit Risk	5,176	612	5,788	2,694	410	3,104	53.63%	216	33	248
Securitisation Risk	10	2,203	2,213	12	188	199	9.01%	1	15	16
Equity Risk[2]	0	10,468	10,468	0	23,703	23,703	226.44%	0	1,896	1,896
TOTAL CREDIT RISK	105,825	187,890	293,715	48,816	73,078	121,893	41.50%	3,905	5,846	9,751

[1] Credit Risk exposures included. Counterparty, Securitisation and Equity exposures not included.

[2] Equity portfolio includes the investee business in addition to the participation in other listed companies and subsidiaries that are not globally integrated for prudential purposes (mainly VidaCaixa).

[3] Capital requirements as 8% on RWA

6.1. CREDIT RISK

Credit risk is the most significant risk facing the CaixaBank Group. This relates mainly to its banking activity

- Credit risk quantifies losses that might derive from failure by borrowers to comply with their financial obligations. This quantification is based on expected loss and unexpected loss.
- Through 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 its solvency and profitability.
- In 2016, the credit risk priorities for management focused on: increasing lending for consumption and companies; improving acceptance policies; implementing the new Bank of Spain Circular 04/2016; and analysing the implications of the regulatory reforms fostered by the Basel Committee.
- As of 31 December 2016, the Group's Exposure at Default (EAD) stood at EUR 275,245 million, of which EUR 174,607 million (63%) was calculated under the IRB approach and EUR 100,638 million (37%) under the standardised approach.
- The Group's Risk-Weighted Assets (RWAs) for credit risk amounted to EUR 94,887 million, of which EUR 48,777 million (51.4%) was calculated under the IRB approach.
- With regard to the geographic distribution of EAD for credit risk, 95% is in Spain, 4% in Europe and 1% elsewhere in the world. In terms of distribution by sector, the greatest exposure is to individuals, accounting for 46% of the total. By residual maturity, 83% of the exposure has a maturity of more than 1 year, and 66% a maturity of more than 5 years.

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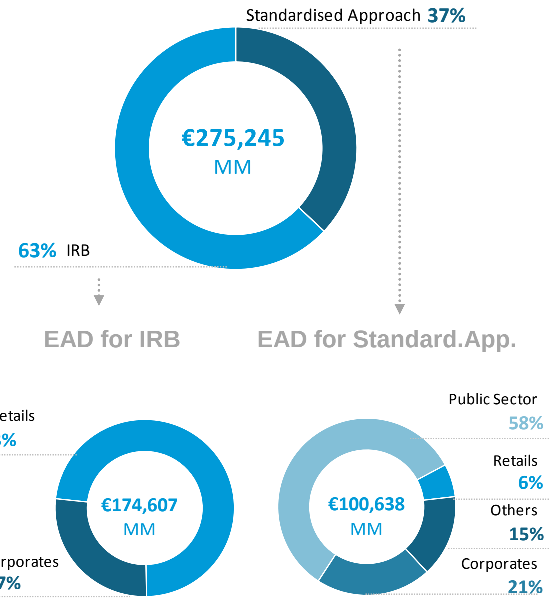
6.1.1. Credit risk management
6.1.2. Own funds requirements
6.1.3. Quantitative aspects

EUR 94,887 million
Credit risk RWAs

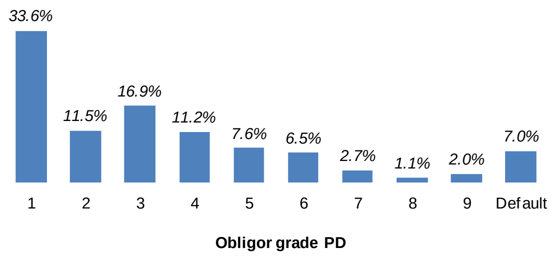
EUR 275,245 million
Total credit risk EAD

63%
EAD under IRB approach

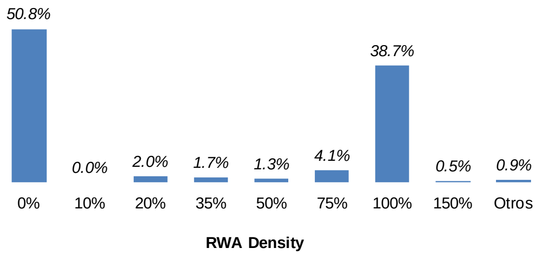
CREDIT RISK EAD
Distribution by approach, %



EAD UNDER IRB APPROACH
Distribution by PD scale, %



EAD UNDER STANDARDISED APPROACH
Distribution by risk weighting, %



6.1.1. Credit risk management

Description and general policy

Approval of lending transactions at CaixaBank follows the basic criterion of evaluation of the borrower's repayment capacity. It is not the Entity's policy to approve transactions merely because guarantees exist. If repayment capacity is deemed to exist, it then becomes important for the Entity to obtain additional guarantees, particularly in respect of long-term transactions, and to fix a price in accordance with the above two requirements.

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 Strategic Plan, the CaixaBank Group is committed to retaining its leadership in retail lending and further strengthening its 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 concept of a "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 January 2015, 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, and Royal Decree-Act 1/2015, of 27 February, regarding second chance mechanisms and the reduction in the financial burden, and other measures of a social order.

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.

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 Risk Committee reports directly to the Risks Committee.

CaixaBank's Corporate Global Risk Management Division is responsible for approval policies and procedures, and also for drawing up and monitoring credit risk models. This involves **Risk Models and Policies**, which comprise:

- ✓ **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 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. This information is reported to the Global Risk Committee and the Risk Committee every month, and every six months to the Board of Directors. Since 2014, it has also coordinated the design and implementation of the Risk Appetite Framework. This information is reported to the Global Risk Committee every month, to the Risk Committee every quarter, and to the Board of Directors every six months.

- ✓ **Risk in Market Operations** is responsible for quantifying and monitoring the market risk assumed by the Entity. It carries out day-to-day monitoring of the risk and returns resulting from the market risk positions taken by the corresponding managers, as well as the risk/return ratio. It also monitors compliance with approved general risk policies and the risk management model, including monitoring of compliance with quantitative limits and universes of securities, and approved products and counterparties.

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

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.

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 used in a number of management tools: e.g. the risk-adjusted return (RAR) calculation tool, the risk-adjusted bonus (RAB) system, pricing tools[1], customer pre-qualification tools, monitoring tools and alert systems.

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.

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.

Risk concentration

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.

[1] See Note 3.3.3.2 “Admission and Approval” of the CaixaBank Group's 2016 financial statements for more details.

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), 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.

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 guarantees, and management and valuation 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.

These guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the project.

For accounting purposes, effective guarantees or collateral are collateral and personal guarantees that the Entity can demonstrate are valid as risk mitigators. Factors to be considered when analysing the effectiveness of collateral or guarantees include the amount of time required to enforce the guarantees and the Entity's ability to realise the guarantees or collateral, as well as its experience in realising guarantees.

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, the collateral is estimated on the basis of declarations of assets, and where the backer is a legal entity, it is analysed as the holder for the purposes of the approval process.

Collateral: The main types of collateral are accepted for day-to-day business are as follows:

- ✓ Pledged guarantees

  These are transactions secured by a charge and that relate to certain passive banking operations or financial mediation transactions conducted by CaixaBank.

  These are 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.

  To be admitted as collateral, financial instruments must be deposited at CaixaBank, they must be free of liens and charges, their contractual definition must not restrict their pledge, and their credit quality or change in value must not be related to the borrower.

The pledge remains until the loan matures or is repaid early, or it is derecognised. 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. This varies depending on the type of financial instrument involved, between 100% for cash and 50% for equities.

The main financial instruments that can be pledged are:

- Demand savings accounts: pledges are drawn up for a specific sum. 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: they must be Spanish mutual funds, or funds of international managers registered with the CNMV and marketed by CaixaBank through All Funds Bank. The guarantee withholding is applied to the number of holdings that make up the amount pledged, depending on the valuation at the time of pledging. Other holdings may be pledged to secure further borrowings.
- Life-savings insurance policies: pledges in line with the policy and for the lower of the surrender value or the sum of capital, pensions and contributions. The pledged policy is fully affected.
- Fixed-income securities: they must be senior or mortgaged covered bond issuances, and may not be subordinated, convertible or preference issuances. The securities must be admitted to trading on a regulated market of the European Union or similar, and have a rating of at least BBB.
- Equity securities: securities deposited at CaixaBank may be pledged, provided they are quoted on a regulated European Union market or similar.

✓ Mortgage guarantees

A mortgage is a real right on immovable property to secure an obligation.

The internal policy establishes 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 Bank 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.

✓ 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).

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 2016.

Table CR1a. Exposure by application of mitigation techniques

Amounts in millions of euros

Type of guaranty applied in the credit risk mitigation	EAD			
	STD approach	IRB approach	Total	%
Mortgages guarantees	5,169	124,424	129,594	47.1%
Collateral	317	1,938	2,255	0.8%
Personal guarantees	95,153	48,245	143,397	52.1%
TOTAL	**100,638**	**174,607**	**275,245**	**100.0%**

Table CR1b. Standardised approach: exposure by application of mitigation techniques

Amounts in millions of euros

	EAD			
	Mortgages guarantees	Collateral	Personal guarantees	Total
Sovereigns and their central banks	*28*	0	*41,303*	41,330
Non-central government public sector entities	*790*	39	*14,310*	15,139
Multilateral development banks				
International organisations		8	*324*	332
Institutions	*13*	5	*1,887*	1,904
Corporates	*1,454*	198	*13,081*	14,732
Regulatory retail exposures	*169*	55	*5,485*	5,710
Exposures secured by mortgages on immovable property	*2,429*		*338*	2,767
Exposures in default	*287*	11	*937*	1,235
Exposures associated with particularly high risks				
Covered bonds			*714*	714
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIU's)				
Other assets			*16,774*	16,774
TOTAL	**5,169**	**317**	**95,153**	**100,638**

Table CR1c. IRB approach: exposure by application of mitigation techniques

Amounts in millions of euros

	EAD			
	Mortgages guarantees	Collateral	Personal guarantees	Total
Corporates	*5,521*	*325*	*27,675*	33,521
SME	*7,287*	*454*	*5,266*	13,007
Retail - Residential Mortgage	*99,803*			99,803
SME - Mortgage	*11,813*			11,813
Retail - Qualifying Revolving			*4,495*	4,495
Retail - SME		*658*	*5,337*	5,995
Other Retail	*0*	*501*	*5,472*	5,972
TOTAL	**124,424**	**1,938**	**48,245**	**174,607**

Credit risk monitoring

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 functions of the Risk Monitoring and Prevention Management teams 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.

Arrears management and recoveries

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

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.

Accounting definitions of default and impaired positions

A financial asset is considered to be impaired when there is objective evidence of an adverse impact on the future cash flows that were estimated at the transaction date, where the borrower is unable or will be unable to meet its obligations in time or form, or when the asset's carrying amount may not be fully recovered. However, a decline in fair value to below the cost of acquisition is not in itself evidence of impairment.

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

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

- ✓ Watch-list performing: all transactions which, without qualifying individually for classification as non-performing or write-off, show weaknesses that may entail higher losses for CaixaBank than similar performing transactions. CaixaBank assumes that any transactions with amounts past due of over 30 days show weaknesses, unless proven otherwise.

  These include,

  (i) transactions included in sustainability agreements that have not completed the trial period. Unless there is evidence that would enable it to be classified as performing earlier, the trial period ends two years after the amendment of the terms and conditions of the agreement, all payments on the transactions are up to date and the associated principal has been reduced;

(ii) refinancing, refinanced or restructured transactions that should not be reclassified as non-performing and that are still in the trial period (see Note 2.10 to the CaixaBank Group's 2016 financial statements); and

(iii) transactions made by insolvent borrowers that should not be classified as non-performing or write-off.

✓ Non-performing:

(i) Due to customer arrears: this 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. This category also includes guarantees given where the guaranteed transaction is non-performing.

Transactions where all holders are classified according to cluster-effect criteria for personal risk are also classified as non-performing due to customer arrears. Cluster effect criteria for personal risk are also applied to a borrower when transactions with past-due amounts of over 90 days account for more than 20% of the amounts pending collection.

Transactions are reclassified to performing when following collection of part of the past-due amounts, the causes for their classification as non-performing as indicated above are no longer valid and the holders does not have any past-due amounts of more than 90 days in any other transactions at the date of reclassification as performing.

(ii) For reasons other than customer arrears: includes debt instruments, where due or not, which are not classifiable as write-off or non-performing due to customer arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms in addition to off-balance sheet exposures not classified as non-performing due to customer arrears which are likely to be paid by the Company and where recovery is deemed to be doubtful.

This category includes transactions made by customers evidencing a reduction in solvency after an individualised review.

CaixaBank has established a methodology to assess specific indicators to identify any such reduction, flagging any significant financial difficulties affecting the borrower (weak economic-financial structure), non-compliance with contractual terms and conditions (recurring default of payment or late payment), high probability of insolvency and the disappearance of an active market for the financial asset in question due to financial difficulties.

These indicators apply to borrowers defined as materially relevant and their activation requires an individual analysis of the transaction to establish it as performing or non-performing.

In addition to transactions allocated to this category following an individual review, transactions meeting any of the following criteria are also classified as non-performing for reasons other than customer arrears:

- Transactions with demanded balances or on which repayment by the entity has been legally demanded, despite being secured, in addition to transactions where the borrower is involved in litigation which can be resolved through collection.
- Finance lease transaction where the contract is terminated in order to recover possession of the goods.
- Transactions made by borrowers who have declared insolvency proceedings or are expected to declare insolvency proceedings where no liquidation petition has been made.
- Guarantees extended to borrowers that are undergoing insolvency proceedings where the liquidation phase has or will be declared, or that have undergone a significant and irrecoverable loss of solvency, even though the beneficiary of the guarantee has not demanded payment.

- Refinancing, refinanced or restructured transaction classifiable as non-performing (see Note 2.10 to the CaixaBank Group's 2016 financial statements) including those that having been classified as non-performing during the trial period, are refinanced or restructured or that have amounts that are more than 30 days past-due.

✓ Write-off: includes debt instruments, whether due or not, for which the 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.

This category includes:

(i) non-performing transactions due to customer arrears in excess of four years, or, before the end of the four-year period when the amount not secured by effective guarantees is fully covered for more than two years, and

(ii) transactions made by borrowers declared to be insolvent which have entered or will enter the liquidation phase. In both cases, the transactions are not considered to be write-offs if they have real effective guarantees that cover at least 10% of its gross carrying amount.

To reclassify transactions to this category before these terms expire, the entity must demonstrate in its individual analysis that they have become write-offs.

On the basis of credit risk management and monitoring criteria, CaixaBank classifies as individually significant borrowers those that require an individual assessment due to their exposure and level of risk. Individually significant borrowers may meet any of the following conditions:

- Borrowers with total exposure of more the EUR 20 million.
- Borrowers with total exposure of more than EUR 10 million that, due to various factors, such as having been refinanced, evidencing early signals of non-performance or surpassing specific expected loss thresholds, are classified as high risk.
- Borrowers with total exposure of more than EUR 5 million, of which more than 5% of the balance is classified as non-performing.

In addition to the above, individually significant borrowers are also those that are considered to require individual treatment for any reason.

All borrowers that do not comply with the above criteria are treated as a group.

Refinancing or restructuring operations

Under current legislation, these relate to 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.

These transactions may arise when:

- A new transaction (refinancing operation) is granted that fully or partially cancels other transactions (refinanced operations) previously extended by any CaixaBank Group company to the same borrower or other companies forming part of its economic group that become up to date on its payments for previously past-due loans.
- The amendment of the contract terms of an existing transaction (restructured operations) that changes its repayment schedule (grace periods, extension of loan maturities, reduction in interest rates, changes in the repayment schedule, extension of all or part of the capital on maturity, etc.).
- The activation of contract clauses agreed at source that extend the debt repayment terms (flexible grace period).
- The partial cancellation of the debt without the contribution of funds by the customer (foreclosure, purchase or dation of the collateral, or forgiveness of capital, interest, fees and commissions or any other cost relating to the loan extended to the borrower).

The existence of previous defaults is an indication of financial difficulty. Unless otherwise demonstrated, a restructuring or refinancing operation is assumed to exist when the amendment to contractual term affects operations that have been past-due for more than 30 days at least once in the three months prior to the amendment. However, previous defaults are not a requirement for an operation to be classified as refinanced or restructured.

The cancellation of an operation, changes in the contractual terms or the activation of clauses that delay payments when the customer is unable to meet future repayment obligations can also be classified as refinancing/restructuring.

In contrast, debt renewals and renegotiations may be granted when the borrower does not have, or is not expected to have, financial difficulties; i.e. for business reasons, not to facilitate repayments.

For a transaction to be classified as such, the borrower must have the capacity to obtain credit from the market, at the date in question, for a similar amount and on similar terms to those offered by the Entity. These terms must be adjusted to reflect the terms offered to borrowers with a similar risk profile.

In general, refinanced or restructured and new operations carried out for refinancing, are classified in the watch-list performing category. However, according to the particular characteristics of the operation they may be classified as non-performing when they meet the general criteria for classifying debt instruments as such, and specifically i) operations backed by an unsuitable business plan, ii) operations that include contractual clauses that delay repayments in the form of grace periods longer than 24 months, and iii) operations that include amounts that have been removed from the balance sheet having been classified as unrecoverable that exceed the coverage applicable according to the percentage established for operations in the watch-list performing category.

Refinanced and restructured operations and new operations carried out for refinancing are classified as watch-list performing for a trial period until all the following requirements are met:

- After reviewing the borrower's asset and financial position it is concluded that they are unlikely to have financial difficulties and therefore it is highly probable that they will meet their obligations vis-a-vis the entity in both time and form.
- A minimum period of two years has elapsed from the date of authorisation of the restructuring or refinancing operation, or, if later, from the date of its reclassification from the non-performing category.
- The borrower has covered all the principal and interest payments from the date of authorisation of the restructuring or refinancing operation, or, if later, from the date of its reclassification from the non-performing category. Additionally: i) the borrower must have made regular payments of an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing operation, or that were derecognised as a result of it, or ii) when it is deemed more appropriate given the nature of the operations that the borrower complies with other objective criteria that demonstrate their payment capacity.

  If there are contractual clauses that may delay repayments, such as grace periods for the principal, the operation will remain classified as watch-list performing until all criteria are met.
- The borrower must have no other operations with past-due amounts for more than 30 days at the end of the trial period.

When all the above requirements are met, the operations are no longer classified as refinancing, refinanced or restructured operations in the financial statements.

During the trial period, further refinancing or restructuring of the refinancing, refinanced or restructured operation, or the existence of past-due amounts of more than 30 days in these operations will mean that the operations are reclassified as non-performing for reasons other than arrears before the start of the trial period.

Refinanced and restructured operations and new operations carried out for refinancing remain classified as non-performing until they meet the general criteria for debt instruments; specifically the following requirements:

- A period of one year has elapsed from the refinancing or restructuring date.
- The borrower has covered all the principal and interest payments (i.e. they are up to date on payments) thereby reducing the renegotiated principal, from the date of authorisation of the restructuring or refinancing operation, or, if later, from the date of its reclassification to the non-performing category.
- The borrower has made regular payments of an amount equivalent to the whole

amount (principal and interest) falling due at the date of the restructuring or refinancing operation, or that were derecognised as a result of it, or, when it is deemed more appropriate given the nature of the operations, the borrower complies with other objective criteria that demonstrate their payment capacity.

- The borrower has no other operations with past-due amounts for more than 90 days at the date the refinancing, refinanced or restructured operation is reclassified to the watch-list performing category.

Description of methods to determine impairment losses

The calculated coverage or provision is defined as the difference between the gross carrying amount of the transaction and the estimated value of future expected cash flows, discounted at the original effective interest rate of the transaction. Effective guarantees received are taken into consideration.

CaixaBank calculates the required amount to cover the risk attributable to the holder and to country risk, provided that the risk is not transferred to write-off.

For the purposes of estimating coverage, the amount of the risk for debt instruments is the gross carrying amount, and for off balance exposures, the estimated value of the disbursements.

In line with applicable rules, the coverage calculation method is set according to whether the borrower is individually significant and its accounting category.

- If, in addition to being individually significant, the customer is doubtful (whether for reasons of delinquency or for other reasons), the specific coverage for the transaction is estimated through a detailed analysis of customer flows, factoring in the status of their owner and the flows expected to be recovered, which are assessed using two methodologies according to the borrower's capacity to generate flows from their activities.

  The calculation of the present value of the estimated future cash flows of a secured financial asset reflects the cash flows that could derive from the execution of this guarantee, less the costs of obtaining and selling the collateral, regardless of whether this is probable or not.

- In all other cases, coverage is estimated collectively using internal methodologies based on CaixaBank's past experience and factoring in the updated and adjusted value of the guarantees considered to be effective.

  The collective coverage is calculated using the Company's internal models in its current Models and Parameters Policy, consistently with Circular 4/2016.

  At portfolio level, the calculation of allowances using internal models is designed to estimate the losses incurred on exposures contained in these portfolios. In addition to calculating allowances at portfolio level, the Company assigns allowances for each individual exposure. The calculation has two parts:

  - Setting the basis for the calculation of allowances, in two steps (i) calculation of exposure, which is the sum of the gross carrying amount at the time of calculation plus off balance-sheet amounts (available or exposure) expected to be disbursed when the borrower meets the conditions for being classified as doubtful, and (ii) calculation of the recoverable value of the effective guarantees linked to the exposure. In order to establish the recoverable value of these guarantees, for real estate collateral the models estimate the amount of the future sale of the collateral which is discounted from the total expenses incurred until the moment of the sale.

  - Establishing the coverage to be applied on this basis for the calculation of allowances. This calculation factors in the probability of borrower defaulting on the transaction obligations, the probability of the situation being remedied or resolved and the losses that would occur if this did not happen.

    For insignificant portfolios where it is considered that the internal model approach is not suitable due to the processes involved or a lack of past experience, the Company may use the default coverage rates established by the Bank of Spain.

Both transactions classified as not bearing appreciable risk and those that, due to their type of collateral, are classified as not bearing appreciable risk, could have 0% coverage. This percentage will only be applied to the covered risk.

Individual or collective coverage for non-performing transactions must not be lower than the general coverage applied if they were classified as watch-list performing.

The final coverage applied in a transaction must be the greatest of the credit risk allowance allocated to the borrower and the country risk, although the latter is not material for CaixaBank.

In order to ensure the reliability and consistency of its estimated coverage, CaixaBank performs backtesting exercises to compare the estimates made with real losses observed and benchmarking exercises to compare the estimates with expected losses in terms of solvency, the alternative solution established in the Circular and any other reference considered to be appropriate.

Credit risk management priorities

- ✓ To compensate the fall in demand for loans by households for the acquisition of homes with finance for consumption and companies (excluding real-estate developers).
- ✓ Automation and digitalisation of the granting of credit to individual customers, increasing competitiveness and maximising efficiency through remote channels.
- ✓ Policies, models and limits for controlling credit quality in new lending, to increase funding to the economy whilst ensuring sustainable levels of future delinquency.
- ✓ Management of the portfolio of unproductive assets (mainly, foreclosed assets), to minimise their impact on profitability, with a decrease in new real-estate entries and maintenance of high levels of marketing, obtaining positive returns on sales.
- ✓ Implementation of Bank of Spain Annex IX, which introduces substantial modifications to the classification of credit risk exposure, establishing expected loss as the fundamental factor in determining the provisions required by the portfolio.
- ✓ Analysis, interaction with supervisors and preparation for future implementation of the "Basel IV" regulatory changes to the consumption of regulatory capital.
- ✓ Synthetic securitisation.

6.1.2. Minimum own funds requirements for credit risk

Minimum own funds requirements for credit risk under the standardised approach

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 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.

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

Table CR2. Standardised approach: exposure guaranteed by real estate assets, by type of collateral (CR4b)

Amounts in millions of euros

	Original exposure	EAD	RWA	RWA density
Commercial immovable property	1,146	1,095	534	48.77%
Residential property	2,099	1,672	534	31.96%
TOTAL	**3,245**	**2,767**	**1,068**	**38.61%**

Amounts in millions of euros **12/31/2015**

	Original exposure	EAD	RWA	RWA density
Commercial immovable property	589	561	270	48.12%
Residential property	1,857	1,488	532	35.77%
TOTAL	**2,446**	**2,049**	**802**	**39.15%**

The following tables provide details of original exposure, EAD and RWA at December 2016 by category, under the standardised approach. This does not include counterparty risk or equity portfolio exposure:

Table CR3. Standardised approach: credit risk exposure and effects of mitigation techniques (CR4a)

Amounts in millions of euros

	Original exposure			EAD			RWA	RWA density
	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total		
Sovereigns and their central banks	39,780	33	39,813	41,298	32	41,330	8,156	19.73%
Non-central government public sector entities	15,012	2,604	17,616	14,762	377	15,139	3,349	22.12%
Multilateral development banks	0	0	0	0	0	0	0	0.00%
International organisations	0	0	0	331	1	332	0	0.00%
Institutions	1,866	258	2,124	1,806	98	1,904	571	29.96%
Corporates	16,457	3,538	19,995	13,476	1,256	14,732	13,434	91.19%
Regulatory retail exposures	5,953	1,923	7,876	5,572	137	5,710	2,865	50.17%
Exposures secured by mortgages on immovable property	2,686	559	3,245	2,651	116	2,767	1,068	38.61%
Exposures in default	2,314	115	2,429	1,225	10	1,235	1,489	120.58%
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0.00%
Covered bonds	714	0	714	714	0	714	108	15.06%
Exposures to institutions and corporates with a short-term credit assesment	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	16,774	0	16,774	16,774	0	16,774	15,070	89.84%
Total Credit Risk - SA portfolio (*)	**101,558**	**9,030**	**110,587**	**98,610**	**2,028**	**100,638**	**46,110**	**45.82%**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Amounts in millions of euros **12/31/2015**

	Original exposure			EAD			RWA	RWA density
	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total		
Sovereigns and their central banks	23,938	686	24,624	25,535	349	25,884	0	0.00%
Non-central government public sector entities	16,300	4,089	20,389	16,111	239	16,350	2,044	12.50%
Multilateral development banks	0	0	0	0	0	0	0	0.00%
International organisations	31	0	31	66	0	67	0	0.00%
Institutions	1,461	334	1,795	1,442	116	1,558	398	25.57%
Corporates	15,219	3,993	19,212	12,387	1,319	13,706	12,479	91.05%
Regulatory retail exposures	4,592	1,947	6,539	4,365	109	4,474	2,021	45.18%
Exposures secured by mortgages on immovable property	2,024	423	2,446	1,988	61	2,049	802	39.15%
Exposures in default	2,373	125	2,498	948	3	951	1,113	117.08%
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0.00%
Covered bonds	674	0	674	674	0	674	103	15.34%
Exposures to institutions and corporates with a short-term credit assesment	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	18,007	18,007	0	18,007	15,532	86.25%
Total Credit Risk - SA portfolio (*)	**84,618**	**11,596**	**96,214**	**81,523**	**2,196**	**83,719**	**34,494**	**41.20%**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

At the end of 2016 the Exposure corresponding to Default Fund assets has been assigned as a Counterparty Credit Risk, adopting the same criteria for the end of 2015 data for a coherent criteria between dates and for a better comparison of presented data.

The following table shows the distribution of exposure and risk-weighted assets based on CRR regulatory categories, and the risk weights applied, not including counterparty risk or equity portfolio exposure.

Table CR4. Standardised approach: Credit risk exposures by asset class and risk weights (CR5a)

Amounts in millions of euros

	0%	10%	20%	35%	50%	75%	100%	150%	Otros	EAD
Sovereigns and their central banks	34,587	0	0	0	0	0	5,802	0	941	41,330
Non-central government public sector entities	11,789	0	1	0	0	0	3,349	0	0	15,139
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	332	0	0	0	0	0	0	0	0	332
Institutions	0	0	1,521	0	233	0	150	0	0	1,904
Corporates	977	0	0	0	0	0	13,752	3	0	14,732
Regulatory retail exposures	1,586	0	0	0	0	4,123	0	0	0	5,710
Exposures secured by mortgages on immovable	0	0	0	1,662	1,037	1	67	0	0	2,767
Exposures in default	0	0	0	0	0	0	727	508	0	1,235
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0	0	0
Covered bonds	176	0	538	0	0	0	0	0	0	714
Exposures to institutions and corporates with a short-term credit assesment	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	1,704	0	0	0	0	0	15,070	0	0	16,774
Total Credit Risk - SA portfolio (*)	**51,152**	**0**	**2,061**	**1,662**	**1,271**	**4,124**	**38,916**	**511**	**941**	**100,638**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Amounts in millions of euros **12/31/2015**

	0%	10%	20%	35%	50%	75%	100%	150%	Otros	EAD
Sovereigns and their central banks	25,884	0	0	0	0	0	0	0	0	25,884
Non-central government public sector entities	14,305	0	1	0	0	0	2,044	0	0	16,350
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	67	0	0	0	0	0	0	0	0	67
Institutions	0	0	1,373	0	123	0	62	0	0	1,558
Corporates	1,000	0	0	0	0	0	12,703	3	0	13,706
Regulatory retail exposures	1,546	0	0	0	0	2,928	0	0	0	4,474
Exposures secured by mortgages on immovable	0	0	0	1,287	727	1	33	0	0	2,049
Exposures in default	0	0	0	0	0	0	626	325	0	951
Exposures associated with particularly high risks	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 assesment	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 Credit Risk - SA portfolio (*)	**45,433**	**0**	**1,891**	**1,287**	**851**	**2,929**	**31,000**	**328**	**0**	**83,719**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

At the end of 2016 the Exposure corresponding to Default Fund assets has been assigned as a Counterparty Credit Risk, adopting the same criteria for the end of 2015 data for a coherent criteria between dates and for a better comparison of presented data.

Table CR5. Standardised approach: Risk-weighted assets by asset class and risk weights (credit risk) (CR5b)

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	5,802	0	2,354	8,156
Non-central government public sector entities	0	0	0	0	0	0	3,349	0	0	3,349
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	304	0	117	0	150	0	0	571
Corporates	0	0	0	0	0	0	13,430	5	0	13,434
Regulatory retail exposures	0	0	0	0	0	2,865	0	0	0	2,865
Exposures secured by mortgages on immovable	0	0	0	526	483	1	59	0	0	1,068
Exposures in default	0	0	0	0	0	0	727	763	0	1,489
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	108	0	0	0	0	0	0	108
Exposures to institutions and corporates with a short-term credit assesment	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	15,070	0	0	15,070
Total Credit Risk - SA portfolio (*)	**0**	**0**	**412**	**526**	**599**	**2,865**	**38,586**	**767**	**2,354**	**46,110**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

(**) Risk weighted amounts are those after the application of the SME factor (0,7619) defined in the CRR 501 article.

Amounts in millions of euros **12/31/2015**

	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	2,044	0	0	2,044
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	275	0	62	0	62	0	0	398
Corporates	0	0	0	0	0	0	12,474	4	0	12,479
Regulatory retail exposures	0	0	0	0	0	2,021	0	0	0	2,021
Exposures secured by mortgages on immovable	0	0	0	428	343	1	31	0	0	802
Exposures in default	0	0	0	0	0	0	626	487	0	1,113
Exposures associated with particularly high risks	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 assesment	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 Credit Risk - SA portfolio (*)	**0**	**0**	**378**	**428**	**405**	**2,022**	**30,770**	**492**	**0**	**34,494**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

(**) Risk weighted amounts are those after the application of the SME factor (0,7619) defined in the CRR 501 article.

At the end of 2016 the Exposure corresponding to Default Fund assets has been assigned as a Counterparty Credit Risk, adopting the same criteria for the end of 2015 data for a coherent criteria between dates and for a better comparison of presented data.

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

The segmentation in the following tables is in line with that required for presenting exposure under the advanced measurement approach (IRB). The following complementary information is also provided: PD scales based on the master scales used by the entity. There are nine master scales for: different grades of debtors; Number of debtors; average maturity in years for each tranche of information disclosed; Expected Loss (EL); and eligible provisions for the SP deficit/surplus.

The following table shows the approximate equivalence between the internal master scale and the appraisals by the main rating agencies.

Table CR6. IRB: Equivalence between master scale and rating agencies.

Master scale	External rating equivalent		
	S&P's	Fitch	Moody's
1	AA-/A+/A	Aa3/A1/A2	Until A2
2	A-/BBB+	A3/Baa1	from A3 to Baa1
3	BBB/BBB-/BB+	Baa2/Baa3/Ba1	from Baa2 to Ba1
4	BB	Ba2	Ba2
5	BB-/B+	Ba3/B1	from Ba3 to B1
6	B	B2	B2
7	B-	B3	B3
8	CCC+/CCC	Caa1/Caa2	from Caa1 to Caa2
9	CCC-	Caa3	Caa3

Table CR7. IRB: Credit risk exposures by portfolio.

Amounts in millions of euros

	Average PD (***)	Original exposure: On-balance sheet	Original exposure: Off-balance sheet	Original exposure: Total	EAD: On-balance sheet	EAD: Off-balance sheet	EAD: Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
Corporate	**12.74%**	**37,879**	**22,419**	**60,297**	**37,879**	**8,649**	**46,528**	**54**	**36.34%**	**5**	**27,562**	**59.24%**	**2,832**
Corporates	9.75%	26,271	18,858	45,129	26,271	7,251	33,521	6	38.36%	4	22,618	67.47%	1,821
SME	20.45%	11,608	3,561	15,169	11,608	1,399	13,007	48	31.12%	8	4,945	38.02%	1,011
Retail	**7.00%**	**123,026**	**35,458**	**158,484**	**123,026**	**5,053**	**128,079**	**7,740**	**24.69%**	**16**	**21,215**	**16.56%**	**3,018**
Retail - Residential Mortgage	6.21%	99,029	22,714	121,744	99,029	774	99,803	1,560	19.01%	19	12,955	12.98%	1,918
SME - Mortgage	17.62%	11,687	2,279	13,966	11,687	126	11,813	128	19.19%	13	2,529	21.41%	643
Retail - Qualifying Revolving	1.97%	2,269	6,923	9,192	2,269	2,227	4,495	4,150	76.79%	3	1,047	23.28%	64
Retail - SME	5.60%	4,647	2,423	7,070	4,647	1,348	5,995	411	51.74%	3	1,995	33.27%	201
Other Retail	4.44%	5,394	1,119	6,513	5,394	578	5,972	1,492	64.17%	5	2,689	45.03%	193
Total Credit Risk - IRB portfolio (**)	**8.53%**	**160,905**	**57,877**	**218,782**	**160,905**	**13,702**	**174,607**	**7,794**	**27.79%**	**14**	**48,777**	**27.94%**	**5,851**

(*) Number of debtors in thousands

(**) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

(***) Includes portfolio in default

Amounts in millions of euros **12/31/2015**

	Average PD	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
Corporate	**18.70%**	**40,462**	**21,049**	**61,512**	**40,462**	**8,102**	**48,564**	**57**	**36.04%**	**6**	**28,503**	**58.69%**	**4,091**
Corporates	13.54%	26,056	17,827	43,883	26,056	6,955	33,012	7	37.87%	4	22,560	68.34%	2,261
SME	29.65%	14,406	3,223	17,629	14,406	1,146	15,552	50	32.15%	9	5,943	38.21%	1,830
Retail	**7.22%**	**127,429**	**32,887**	**160,317**	**127,429**	**4,215**	**131,644**	**6,802**	**24.28%**	**17**	**24,416**	**18.55%**	**3,221**
Retail - Residential Mortgage	6.07%	102,506	22,023	124,530	102,506	762	103,268	1,588	19.57%	19	16,052	15.54%	2,021
SME - Mortgage	18.80%	13,148	2,260	15,408	13,148	134	13,281	136	19.24%	14	3,151	23.72%	744
Retail - Qualifying Revolving	1.83%	2,038	6,022	8,059	2,038	2,000	4,038	4,055	76.81%	4	989	24.50%	54
Retail - SME	6.74%	5,658	2,414	8,072	5,658	1,241	6,899	407	51.27%	3	2,537	36.78%	265
Other Retail	4.65%	4,079	168	4,247	4,079	78	4,157	617	61.59%	6	1,686	40.56%	137
Total Credit Risk - IRB portfolio (**)	**10.31%**	**167,892**	**53,937**	**221,828**	**167,892**	**12,316**	**180,208**	**6,860**	**27.45%**	**14**	**52,918**	**29.37%**	**7,312**

(*) Number of debtors in thousands

(**) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR8. IRB: Credit risk exposures by portfolio and PD range (CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total						
1	0.04%	56,701	19,731	76,432	56,701	1,913	58,614	2,269	20.31%	17	1,397	2.38%	5
2	0.12%	17,282	9,253	26,534	17,282	2,833	20,115	1,037	28.84%	13	2,609	12.97%	7
3	0.29%	25,840	11,913	37,753	25,840	3,730	29,570	729	29.82%	11	7,854	26.56%	26
4	0.69%	17,414	6,835	24,249	17,414	2,076	19,490	1,020	32.78%	11	8,821	45.26%	44
5	1.53%	11,663	4,302	15,965	11,663	1,584	13,247	1,097	32.82%	10	7,874	59.44%	66
6	3.43%	10,541	2,875	13,417	10,541	837	11,378	944	29.28%	11	7,881	69.26%	112
7	7.69%	4,384	1,214	5,598	4,384	334	4,717	292	31.22%	11	5,080	107.68%	111
8	16.48%	1,859	218	2,077	1,859	35	1,894	191	27.27%	15	2,162	114.16%	84
9	35.36%	3,329	524	3,853	3,329	104	3,433	109	25.57%	14	4,473	130.29%	321
Performing Portfolio	**1.69%**	**149,012**	**56,864**	**205,877**	**149,012**	**13,445**	**162,457**	**7,689**	**26.75%**	**14**	**48,151**	**29.64%**	**776**
Default	100.00%	11,893	1,012	12,905	11,893	257	12,150	105	41.77%	13	626	5.15%	5,075
Total	**8.53%**	**160,905**	**57,877**	**218,782**	**160,905**	**13,702**	**174,607**	**7,794**	**27.79%**	**14**	**48,777**	**27.94%**	**5,851**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Amounts in millions of euros **12/31/2015**

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total						
1	0.04%	56,163	18,470	74,633	56,163	1,750	57,913	2,169	20.22%	18	1,391	2.40%	5
2	0.13%	17,099	9,338	26,437	17,099	2,990	20,089	959	28.96%	13	2,792	13.90%	7
3	0.28%	24,693	10,332	35,025	24,693	3,117	27,810	668	27.93%	12	6,870	24.70%	23
4	0.70%	17,777	5,988	23,764	17,777	1,784	19,561	910	29.61%	12	7,139	36.50%	40
5	1.65%	11,876	2,990	14,865	11,876	967	12,843	617	32.33%	10	7,694	59.91%	68
6	3.43%	13,098	3,066	16,164	13,098	796	13,893	820	30.58%	11	10,374	74.67%	142
7	7.81%	5,169	1,461	6,631	5,169	397	5,566	271	30.51%	12	6,113	109.83%	130
8	17.12%	2,733	356	3,089	2,733	75	2,808	216	27.62%	15	3,579	127.45%	131
9	34.35%	4,479	508	4,986	4,479	115	4,594	136	24.60%	16	5,837	127.07%	396
Performing Portfolio	**2.09%**	**153,087**	**52,508**	**205,595**	**153,087**	**11,991**	**165,077**	**6,766**	**26.10%**	**14**	**51,789**	**31.37%**	**942**
Default	100.00%	14,805	1,428	16,233	14,805	326	15,131	94	42.09%	12	1,130	7.47%	6,369
Total	**10.31%**	**167,892**	**53,937**	**221,828**	**167,892**	**12,316**	**180,208**	**6,860**	**27.45%**	**14**	**52,918**	**29.37%**	**7,312**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

6.1.3. Quantitative aspects

Distribution of exposure to credit risk

This section provides information on the Group's exposure to credit risk, broken down by:

- Calculation method for regulatory capital
- Exposure category
- Average exposure
- Geographical area
- Sector of activity
- Residual maturity
- Information on exposure in default and value corrections for asset impairment

The amounts shown in the tables in this section do not include amounts for counterparty risk.

Average value of exposures

These amounts are presented in relation to each exposure class in accordance with the calculation method applied.

Table CR9. Average exposure by risk category

Amounts in millions of euros

Regulatory exposure class	December 2015 Original exposure	December 2015 EAD	December 2016 Original exposure	December 2016 EAD	Average Original exposure	Average EAD
Sovereigns and their central banks	24,624	25,884	39,813	41,330	32,219	33,607
Non-central government public sector entities	20,389	16,350	17,616	15,139	19,002	15,745
Multilateral development banks	0	0	0	0	0	0
International organisations	31	67	0	332	15	199
Institutions	1,795	1,558	2,124	1,904	1,960	1,731
Corporates	19,212	13,706	19,995	14,732	19,603	14,219
Regulatory retail exposures	6,539	4,474	7,876	5,710	7,207	5,092
Exposures secured by mortgages on immovable property	2,446	2,049	3,245	2,767	2,846	2,408
Exposures in default	2,498	951	2,429	1,235	2,463	1,093
Exposures associated with particularly high risks	0	0	0	0	0	0
Covered bonds	674	674	714	714	694	694
Exposures to institutions and corporates with a short-term credit assesment	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
Other assets	18,007	18,007	16,774	16,774	17,391	17,391
Total Credit Risk - Standarized approach portfo	**96,214**	**83,719**	**110,587**	**100,638**	**103,401**	**92,179**
Corporate	**61,512**	**48,564**	**60,297**	**46,528**	**60,905**	**47,546**
Corporates	43,883	33,012	45,129	33,521	44,506	33,266
SME	17,629	15,552	15,169	13,007	16,399	14,280
Retail	**160,317**	**131,644**	**158,484**	**128,079**	**159,400**	**129,861**
Retail - Residential Mortgage	124,530	103,268	121,744	99,803	123,137	101,535
SME - Mortgage	15,408	13,281	13,966	11,813	14,687	12,547
Retail - Qualifying Revolving	8,059	4,038	9,192	4,495	8,626	4,267
Retail - SME	8,072	6,899	7,070	5,995	7,571	6,447
Other Retail	4,247	4,157	6,513	5,972	5,380	5,065
Total Credit Risk - IRB portfolio	**221,828**	**180,208**	**218,782**	**174,607**	**220,305**	**177,407**
Total Credit Risk (*)	318,042	263,927	329,369	275,245	323,706	269,586

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

At the end of 2016 the Exposure corresponding to Default Fund assets has been assigned as a Counterparty Credit Risk, adopting the same criteria for the end of 2015 data for a coherent criteria between dates and for a better comparison of presented data.

Geographical distribution of exposures

At 31 December 2016, 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 exposure corresponding to counterparty risk or equity exposures.

At 31 December 2016, 95% of the CaixaBank Group's exposure was concentrated in Spain, with 3% in other European Union countries and 2% elsewhere in the world.

Table CR10. Credit exposure by geographical zone

Amounts in millions of euros

Geographical areas	%	Original exposure	EAD	RWA
Spain	*92.1%*	101,815	93,457	40,559
EU	*4.5%*	4,944	4,021	2,472
Other	*3.5%*	3,829	3,160	3,078
Total Credit Risk - 100.00%		**110,587**	**100,638**	**46,110**
Spain	*96.7%*	211,584	168,920	45,782
EU	*2.1%*	4,676	3,621	2,087
Other	*1.2%*	2,522	2,066	908
Total Credit Risk - 100.00%		**218,782**	**174,607**	**48,777**
Total (*)		**329,369**	**275,245**	**94,887**

(*) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

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 2016, for each regulatory exposure class and approach.

The details by sector of activity include total credit risk, not considering exposure corresponding to counterparty risk or equity exposures

Table CR11. EAD by sectors of economic activity

Amounts in millions of euros

Regulatory exposure class	TOTAL	Public Sector	Business non financial activities	Business financial activities	Individuals	Non-profit institutions serving households	Other activities(*)
Sovereigns and their central banks	**41,330**	39,386	1,930	2	4	8	0
Non-central government public sector entities	**15,139**	12,875	2,175	88	0	1	0
Multilateral development banks	**0**	0	0	0	0	0	0
International organisations	**332**	0	279	0	53	0	0
Institutions	**1,904**	0	0	1,904	0	0	0
Corporates	**14,732**	0	11,584	1,456	364	750	579
Regulatory retail exposures	**5,710**	0	991	3	4,629	79	7
Exposures secured by mortgages on immovable property	**2,767**	0	1,698	229	577	263	0
Exposures in default	**1,235**	0	666	33	265	46	225
Exposures associated with particularly high risks	**0**	0	0	0	0	0	0
Covered bonds	**714**	0	0	714	0	0	0
Exposures to institutions and corporates with a short-term credit assesment	**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	**16,774**	0	0	0	0	0	16,774
Total Credit Risk - Standarized approach portfolio	**100,638**	**52,261**	**19,323**	**4,429**	**5,891**	**1,148**	**17,586**
Corporate	**46,528**	**0**	**41,413**	**5,096**	**0**	**19**	**0**
Corporates	**33,521**	0	28,547	4,957	0	16	0
SME	**13,007**	0	12,866	139	0	2	0
Retail	**128,079**	**0**	**11,059**	**60**	**116,959**	**0**	**0**
Retail - Residential Mortgage	**99,803**	0	0	0	99,803	0	0
SME - Mortgage	**11,813**	0	6,771	39	5,003	0	0
Retail - Qualifying Revolving	**4,495**	0	0	0	4,495	0	0
Retail - SME	**5,995**	0	4,288	21	1,686	0	0
Other Retail	**5,972**	0	0	0	5,972	0	0
Total Credit Risk - IRB portfolio	**174,607**	**0**	**52,473**	**5,156**	**116,959**	**19**	**0**
Total Credit Risk	**275,245**	**52,261**	**71,795**	**9,585**	**122,851**	**1,167**	**17,587**

(*) Mainly, real state recoveries or foreclosures

Table CR12. EAD by sector of non-financial business activity (details of Non-financial business activity from the previous table)

Amounts in millions of euros

Regulatory exposure class	TOTAL	Agriculture and Manufacturing	Electricity, gas, steam, air conditioning supply and water supply	Construction	Wholesale and retail trade, repair of motor vehicles and motorcycles	Trainsporting and storage, accomodation and food service activities, information and comunication	Real estate activities	Financial, professional, administrative, education and for health activities	Other activities (*)
Sovereigns and their central banks	**1,930**	2	1,912	0	2	4	2	8	0
Non-central government public sector entities	**2,175**	21	644	282	4	742	6	454	21
Multilateral development banks	**0**	0	0	0	0	0	0	0	0
International organisations	**279**	65	5	21	83	43	1	57	4
Institutions	**0**	0	0	0	0	0	0	0	0
Corporates	**11,584**	775	3,106	2,585	414	2,320	1,187	815	381
Regulatory retail exposures	**991**	241	109	88	187	146	38	135	47
Exposures secured by mortgages on immovable property	**1,698**	56	5	314	76	74	916	229	27
Exposures in default	**666**	29	157	155	22	63	68	161	11
Exposures associated with particularly high risks	**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 assesment	**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 Credit Risk - Standarized approach portfolio	**19,323**	**1,189**	**5,937**	**3,444**	**788**	**3,393**	**2,220**	**1,860**	**491**
Corporate	**41,413**	**7,407**	**3,546**	**6,464**	**6,586**	**6,497**	**5,598**	**4,982**	**334**
Corporates	**28,547**	5,069	3,315	3,741	4,460	4,787	3,271	3,704	201
SME	**12,866**	2,338	231	2,723	2,127	1,710	2,327	1,278	133
Retail	**11,059**	**1,598**	**125**	**2,127**	**2,344**	**1,359**	**1,841**	**1,491**	**174**
Retail - Residential Mortgage	**0**	0	0	0	0	0	0	0	0
SME - Mortgage	**6,771**	686	37	1,605	1,020	727	1,676	899	122
Retail - Qualifying Revolving	**0**	0	0	0	0	0	0	0	0
Retail - SME	**4,288**	912	88	522	1,324	632	164	592	53
Other Retail	**0**	0	0	0	0	0	0	0	0
Total Credit Risk - IRB portfolio	**52,473**	**9,005**	**3,671**	**8,591**	**8,931**	**7,856**	**7,439**	**6,473**	**508**
Total Credit Risk	**71,795**	**10,194**	**9,609**	**12,035**	**9,718**	**11,249**	**9,659**	**8,332**	**1,000**

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

Table CR13. RWA by sectors of economic activity

Amounts in millions of euros

Regulatory exposure class	TOTAL	Public Sector	Business non financial activities	Business financial activities	Individuals	Non-profit institutions serving households	Other activities(*)
Sovereigns and their central banks	**8,156**	8,156	0	0	0	0	0
Non-central government public sector entities	**3,349**	1,167	2,093	88	0	1	0
Multilateral development banks	**0**	0	0	0	0	0	0
International organisations	**0**	0	0	0	0	0	0
Institutions	**571**	0	0	570	0	0	0
Corporates	**13,434**	0	10,380	1,452	303	720	579
Regulatory retail exposures	**2,865**	0	579	2	2,233	46	6
Exposures secured by mortgages on immovable property	**1,068**	0	678	92	202	96	0
Exposures in default	**1,489**	0	726	33	387	47	297
Exposures associated with particularly high risks	**0**	0	0	0	0	0	0
Covered bonds	**108**	0	0	108	0	0	0
Exposures to institutions and corporates with a short-term credit assesment	**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	**15,070**	0	0	0	0	0	15,070
Total Credit Risk - Standarized approach portfolio	**46,110**	**9,323**	**14,455**	**2,344**	**3,125**	**910**	**15,952**
Corporate	**27,562**	**0**	**24,895**	**2,656**	**0**	**11**	**0**
Corporates	**22,618**	0	20,006	2,602	0	10	0
SME	**4,945**	0	4,889	54	0	1	0
Retail	**21,215**	**0**	**3,402**	**15**	**17,798**	**0**	**0**
Retail - Residential Mortgage	**12,955**	0	0	0	12,955	0	0
SME - Mortgage	**2,529**	0	1,943	9	577	0	0
Retail - Qualifying Revolving	**1,047**	0	0	0	1,047	0	0
Retail - SME	**1,995**	0	1,459	6	530	0	0
Other Retail	**2,689**	0	0	0	2,689	0	0
Total Credit Risk - IRB portfolio	**48,777**	**0**	**28,297**	**2,671**	**17,798**	**11**	**0**
Total Credit Risk	**94,887**	**9,323**	**42,753**	**5,015**	**20,922**	**921**	**15,952**

(*) Mainly, real state recoveries or foreclosures

Table CR14. RWA by sector of non-financial business activity (details of Non-financial business activity from the previous table)

Amounts in millions of euros

Regulatory exposure class	TOTAL	Agriculture and Manufacturing	Electricity, gas, steam, air conditioning supply and water supply	Construction	Wholesale and retail trade, repair of motor vehicles and motorcycles	Trainsporting and storage, accomodation and food service activities, information and comunication	Real estate activities	Financial, professional, administrative, education and for health activities	Other activities (*)
Sovereigns and their central banks	**0**	0	0	0	0	0	0	0	0
Non-central government public sector entities	**2,093**	19	642	221	4	742	3	440	21
Multilateral development banks	**0**	0	0	0	0	0	0	0	0
International organisations	**0**	0	0	0	0	0	0	0	0
Institutions	**0**	0	0	0	0	0	0	0	0
Corporates	**10,380**	737	3,103	1,556	385	2,259	1,173	793	375
Regulatory retail exposures	**579**	139	63	51	108	84	24	78	30
Exposures secured by mortgages on immovable property	**678**	19	1	129	25	24	392	78	9
Exposures in default	**726**	29	157	169	24	68	69	197	12
Exposures associated with particularly high risks	**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 assesment	**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 Credit Risk - Standarized approach portfolio	**14,455**	**944**	**3,967**	**2,126**	**547**	**3,177**	**1,661**	**1,587**	**447**
Corporate	**24,895**	**3,910**	**1,791**	**4,389**	**3,155**	**4,240**	**3,521**	**3,704**	**184**
Corporates	**20,006**	3,039	1,678	3,329	2,265	3,690	2,643	3,214	147
SME	**4,889**	872	114	1,060	890	550	878	490	37
Retail	**3,402**	**493**	**35**	**761**	**723**	**402**	**516**	**418**	**55**
Retail - Residential Mortgage	**0**	0	0	0	0	0	0	0	0
SME - Mortgage	**1,943**	170	11	548	267	197	478	235	37
Retail - Qualifying Revolving	**0**	0	0	0	0	0	0	0	0
Retail - SME	**1,459**	323	24	212	455	205	38	183	18
Other Retail	**0**	0	0	0	0	0	0	0	0
Total Credit Risk - IRB portfolio	**28,297**	**4,403**	**1,826**	**5,150**	**3,878**	**4,641**	**4,037**	**4,122**	**240**
Total Credit Risk	**42,753**	**5,347**	**5,793**	**7,276**	**4,424**	**7,818**	**5,698**	**5,709**	**687**

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

Distribution of exposures by residual maturity

This table shows the distribution of the CaixaBank Group's exposure in terms of EAD at 31 December 2016, broken down by residual maturity and by exposure category, for each of the minimum own funds requirements calculation methods applied.

The details by maturity include total credit risk, not considering exposure corresponding to counterparty risk or equity exposures.

In general, residual maturities of more than 5 years are noteworthy, because of their weight in the exposure of the mortgage portfolio. However, this weight reduced proportionally in 2016 (in December 2015, 66% corresponded to residual maturity of more than 5 years) in favour of portfolio exposure of less than 3 months, due to the growth in retail credit.

Table CR15. Distribution of exposures by residual maturity

Amounts in millions of euros

Regulatory exposure class	Exposure amount breakdown by maturity (*) (**)				
	< 3 months	3 months - 1 year	1-5 years	> 5 years	TOTAL
Sovereigns and their central banks	21,361	2,211	12,840	4,919	**41,330**
Non-central government public sector entities	1,417	4,321	3,444	5,958	**15,139**
Multilateral development banks	0	0	0	0	**0**
International organisations	0	0	206	126	**332**
Institutions	1,482	225	146	52	**1,904**
Corporates	1,491	1,644	2,312	9,285	**14,732**
Regulatory retail exposures	4,067	261	796	586	**5,710**
Exposures secured by mortgages on immovable property	202	20	308	2,237	**2,767**
Exposures in default					**1,235**
Exposures associated with particularly high risks	0	0	0	0	**0**
Covered bonds	0	692	14	9	**714**
Exposures to institutions and corporates with a short-term credit assesment	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 (***)	3,376	0	0	13,399	**16,774**
Total Credit Risk - Standarized approach portfolio	**33,394**	**9,373**	**20,066**	**36,570**	**100,638**
Corporate	**4,007**	**8,825**	**17,259**	**16,437**	**46,528**
Corporates	2,606	6,615	15,299	9,001	**33,521**
SME	1,401	2,210	1,960	7,436	**13,007**
Retail	**1,855**	**3,000**	**12,559**	**110,664**	**128,079**
Retail - Residential Mortgage	94	104	2,380	97,225	**99,803**
SME - Mortgage	118	84	1,130	10,482	**11,813**
Retail - Qualifying Revolving	72	341	3,977	106	**4,495**
Retail - SME	990	2,111	1,933	962	**5,995**
Other Retail	581	361	3,139	1,890	**5,972**
Total Credit Risk - IRB portfolio	**5,863**	**11,826**	**29,817**	**127,101**	**174,607**
Total Credit Risk	**39,257**	**21,199**	**49,883**	**163,671**	**275,245**

(*) Exposures post-CCF and CRM

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

(***) Real State foreclosures are included

Table CR16. Distribution of RWAs by residual maturity

Amounts in millions of euros

Regulatory exposure class	Exposure amount breakdown by maturity (*) (**) < 3 months	3 months - 1 year	1-5 years	> 5 years	TOTAL
Sovereigns and their central banks	8,156	0	0	0	**8,156**
Non-central government public sector entities	127	305	1,015	1,902	**3,349**
Multilateral development banks	0	0	0	0	**0**
International organisations	0	0	0	0	**0**
Institutions	298	137	104	32	**571**
Corporates	1,429	1,550	2,270	8,186	**13,434**
Regulatory retail exposures	1,834	161	506	365	**2,865**
Exposures secured by mortgages on immovable property	70	6	125	867	**1,068**
Exposures in default					**1,489**
Exposures associated with particularly high risks	0	0	0	0	**0**
Covered bonds	0	104	2	2	**108**
Exposures to institutions and corporates with a short-term credit assesment	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 (***)	1,789	0	0	13,281	**15,070**
Total Credit Risk - Standarized approach portfolio	**13,702**	**2,263**	**4,022**	**24,633**	**46,110**
Corporate	**1,673**	**4,354**	**11,350**	**10,186**	**27,562**
Corporates	1,153	3,399	10,749	7,316	**22,618**
SME	520	954	600	2,869	**4,945**
Retail	**752**	**1,001**	**3,325**	**16,137**	**21,215**
Retail - Residential Mortgage	7	8	111	12,830	**12,955**
SME - Mortgage	12	15	163	2,339	**2,529**
Retail - Qualifying Revolving	32	65	925	25	**1,047**
Retail - SME	356	735	612	291	**1,995**
Other Retail	344	178	1,514	652	**2,689**
Total Credit Risk - IRB portfolio	**2,425**	**5,354**	**14,675**	**26,323**	**48,777**
Total Credit Risk	**16,127**	**7,618**	**18,696**	**50,957**	**94,887**

(*) Exposures post-CCF and CRM
(**) Maturity is calculated as the number of years between the maturity date and December 31th. (years of 360 days)
(***) Real State foreclosures are included

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 2016. The amounts are gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) technique.

The table presents gross accounting value (separating delinquent exposures from those that are not), impairment provisions and net carrying amount (total gross value less impairment provisions), by asset type, both on the balance sheet (loans and debt securities) and off the balance sheet.

Table CR17. Credit quality of assets (CR1)

Amounts in millions of euros

Assets	a Defaulted exposures	b Non-defaulted exposures	c Allowances	Net value (a+b-c)
Loans	14,356	211,224	6,732	218,849
Debt Securities	0	23,426	1	23,425
Off-balance sheet exposures	766	78,489	229	79,026
Total	**15,122**	**313,139**	**6,961**	**321,300**

In total terms, the gross carrying amount of the asset portfolio stood at EUR 328,261 million at 31 December 2016, with 69% relating to the loan portfolio, 24% relating to off-balance sheet exposure, and the remaining 7% relating to debt securities.

Delinquent assets stood at EUR 15,122 million at year-end 2016, including EUR 766 million in off-balance sheet assets. The non-performing loan rate stood at 4.61% of total assets (6.36% for loans) and the coverage ratio of provisions for non-performing loans stood at 46.3% of total assets (46.89% for loans).

The following table presents information on changes in the stock of non-performing loans between the previous and current year ends.

Table CR18. Changes in the stock of non-performing loans and debt securities (CR2)

Amounts in millions of euros

Defaulted loans and debt securities at the end of the previous financial reporting period	**16,612**
Defaulted loans and debt securities since the previous financial reporting period	4,528
Return to not-defaulted status	(1,213)
Amounts written off	(4,968)
Other changes	(602)
Defaulted loans and debt securities at the end of the reporting period	**14,356**

In general terms, the gross carrying amount of non-performing loans and debt securities fell by EUR 2,256 million in 2016, from EUR 16,612 million at year-end 2015 to EUR 14,356 million at year-end 2016.

This is explained by:

- ✓ (+) EUR 4,528 million in loans and debt securities declared to be non-performing since December 2015
- ✓ (-) EUR 1,213 million in loans and debt securities exiting non-performing status since December 2015
- ✓ (-) EUR 4,968 million in loans and debt discharged and/or fully amortised in the year
- ✓ (-) EUR 602 million in loans and debt securities explained by other changes.

The following table provides information on the loan portfolio broken down by FINREP sector, i.e. the sectors or segments of the financial statements of the CaixaBank Group at 31 December 2016.

Table CR19. Loan exposures in default and impairment by sectors

Amounts in 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	10,909	0	10,909
General governments	190	12,819	4	13,006
Credit Institutions	0	7,293	0	7,293
Other financial corporations	44	4,474	35	4,483
Non-financial corporations	7,621	60,891	4,727	63,786
Households	6,501	114,837	1,967	119,372
Total Loans	**14,356**	**211,224**	**6,732**	**218,849**

As the table shows, a substantial part of the portfolio involves funding for households (54% of the gross carrying amount), whilst this sector accounts for 45% of non-performing loans and 29% of provisions. Meanwhile, over 53% of non-performing exposure relates to non-financial companies, which account for 70% of provisions.

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

Table CR20. Loans to non-financial companies by economic sector

Economic sector	a	b	c	d
	Gross carrying amount		Allowances	Net value (a+b-c)
	Defaulted exposures	Non-defaulted exposures		
Agriculture, forestry and fishing	187	1,028	93	1,122
Mining and quarrying	17	280	8	289
Manufacturing	486	7,048	231	7,303
Electricity, gas, steam and air conditioning supply	308	6,592	177	6,723
Water supply; sewerage; waste management and remediation activities	40	1,116	29	1,127
Construction	2,409	8,732	1,100	10,041
Wholesale and retail trade; repair of motor vehicles and motorcycles	648	7,968	385	8,230
Transporting and storage	144	4,380	69	4,454
Accommodation and food service activities	359	3,278	172	3,465
Information and communication	123	1,555	71	1,607
Real estate activities	1,222	7,807	579	8,450
Professional, scientific and technical activities	510	2,973	292	3,191
Administrative and support service activities	195	1,136	161	1,171
Public administration and defense; compulsory social security	60	325	1	385
Education	67	292	28	331
Human health and social work activities	48	731	13	766
Arts, entertainment and recreation	117	424	65	476
Other services activities	681	5,227	1,252	4,656
Total Loans	**7,621**	**60,891**	**4,727**	**63,786**

A substantial part of the portfolio is concentrated in the Construction (16% of gross carrying amount), Real estate activities (13%), Wholesale and retail trade (13%) and Manufacturing industry (11%) sectors, whilst non-performing exposure is concentrated in particular in the Construction (32%) and Real estate activities (16%) sectors.

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

Table CR21. Loan exposure in default by geographical zone

Amounts in millions of euros

	Gross carrying amount	
	Defaulted exposures	Non-defaulted exposures
Spain	13,788	196,353
European Union	238	9,334
Rest of the world	330	5,537
Total Loans	**14,356**	**211,224**

At 31 December 2016, 93% of the gross carrying amount of loans was concentrated in Spain, with 4% in other European Union countries and 3% elsewhere in the world.

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

Table CR22. Loans in default by days past due and sector

Amounts in 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	190	42	31	78	39
Credit Institutions	0	0	0	0	0
Other financial corporations	44	42	0	0	1
Non-financial corporations	7,621	3,580	374	676	2,991
Households	6,501	2,344	492	640	3,024
Total Loans	**14,356**	**6,008**	**898**	**1,395**	**6,055**

Of the total portfolio of non-performing loans, 42% have been in arrears for more than one year, whilst a further 42% relate to exposure that is unlikely to be paid that is not past due or less than 90 days past due.

The following table presents information on restructured and refinanced exposure, broken down by FINREP sector.

Table CR23. Restructured exposure, impaired and non-impaired

Amounts in millions of euros

	a	b	c	d
	Gross carrying amount			
FINREP sector	Defaulted exposures	Non-defaulted exposures	Allowances	Net value (a+b-c)
Central Banks	0	0	0	0
General governments	56	107	1	162
Credit Institutions	0	5	0	5
Other financial corporations	25	2	25	2
Non-financial corporations	3,561	1,640	1,642	3,558
Households	3,673	2,665	902	5,435
Total Loans	**7,315**	**4,418**	**2,570**	**9,163**

In total terms, the gross carrying amount of the portfolio of restructured and refinanced loans stood at EUR 11,733 million at 31 December 2016, with 54% relating to lending to households and 44% to non-financial companies.

The following table presents information on credit risk mitigation techniques by asset type.

Table CR24. Credit risk mitigation techniques – general presentation (CR3)

Amounts in millions of euros

Assets	Exposure unsecured	Exposure secured by collateral	Exposure secured by collateral, of which: secured amount
Loans	93,182	132,398	128,787
Debt securities	23,426	0	0
Total	**116,609**	**132,398**	**128,787**
Of which defaulted	3,891	10,466	7,518

Of the total portfolio of assets of CaixaBank at year-end 2016, exposure guaranteed by collateral represents 53% of the total, and 59% of loans. Exposure guaranteed by collateral represents 73% of the total portfolio of past due assets.

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 2016 is shown below[1].

Table CR25. Changes in provisions

Amounts in millions of euros

	Impairment allowances	Provisions for contingent liabilities and commitments	Total provisions
Opening balance	**9,172**	**381**	**9,553**
Net impairment allowances	341	(136)	**205**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(1,728)		**(1,728)**
Transfers and others	(1,095)	(16)	**(1,111)**
Final balance	**6,690**	**229**	**6,919**

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 2016[2].

Table CR26. Impairment losses and reversals of losses

Amounts in millions of euros

	Total
Write-downs	**(678)**
Loans and receivables	(542)
Equity instruments	(233)
Debt securities	119
Tangible assets - For own use	(18)
Other assets	(4)
Net allowances	**(547)**
Loans and receivables	(340)
Debt securities	(1)
Other assets - Inventories	(178)
Tangible assets - Investment property	(34)
Tangible assets - For own use	6
Recovery of assets	**415**
Valor total	**(810)**

[1] See Notes 14.3 “Impairment fund” and 24 "Provisions" to the CaixaBank Group’s 2016 financial statements.

[2] Refer to notes 37 “Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss” and 38 “Impairment or reversal of impairment on non-financial assets” to the CaixaBank Group’s 2016 financial statements.

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.

1. Implementation of internal estimates in the management process

The results obtained from these tools are used in the following courses of action[1]:

- ✓ 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
- ✓ Calculation of provisions using internal models under IAS 39 or Bank of Spain Circular 4/2016.

2. 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.

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.

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

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 26 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 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 CR27. Master scale for credit ratings

Master Scale	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 9 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 realised 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 38 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:

Individuals and the self-employed

- ✓ **Asset-related Behaviour Model**: provides a monthly evaluation of all active customers (private customers and self-employed) involved in 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). This 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). This 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 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 model:** 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 model:** 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.).

Corporates model.

- ✓ **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.

Exposure values and RWAs for IRB loan portfolios

The following tables show information on the CaixaBank Group's exposures at 31 December 2016 by IRB segment, for the various debtor levels.

Table CR28. IRB: exposure to credit risk by portfolio and PD scale for the Corporate segment (CR6a)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total						
1	0.05%	317	239	556	317	45	362	0.0	23.11%	1.0	22	6.00%	0
2	0.14%	2,617	4,294	6,911	2,617	1,731	4,348	0.7	33.74%	3.5	1,332	30.63%	2
3	0.32%	8,530	7,139	15,669	8,530	2,851	11,381	1.1	36.01%	3.3	5,430	47.71%	13
4	0.73%	4,646	2,969	7,615	4,646	1,065	5,711	1.1	42.38%	4.4	5,210	91.23%	18
5	1.49%	3,309	1,722	5,031	3,309	695	4,004	1.2	34.90%	5.6	3,801	94.94%	21
6	3.06%	2,093	940	3,033	2,093	385	2,478	1.0	35.46%	4.5	2,727	110.03%	27
7	7.09%	1,743	718	2,460	1,743	237	1,980	0.4	35.65%	6.6	2,775	140.13%	50
8	18.13%	71	26	97	71	6	77	0.0	32.29%	10.2	136	175.84%	5
9	44.43%	441	282	723	441	72	513	0.1	34.48%	4.9	947	184.81%	79
Performing Portfolio	**1.95%**	**23,768**	**18,329**	**42,096**	**23,768**	**7,087**	**30,854**	**5.6**	**36.47%**	**4.1**	**22,380**	**72.53%**	**214**
Default	100.00%	2,503	529	3,032	2,503	164	2,667	0.7	60.24%	5.4	238	8.91%	1,606
Total	**9.75%**	**26,271**	**18,858**	**45,129**	**26,271**	**7,251**	**33,521**	**6.4**	**38.36%**	**4.2**	**22,618**	**67.47%**	**1,821**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR29. IRB: exposure to credit risk by portfolio and PD scale for the SME segment (CR6b)

Amounts in millions of euros

PD grade	Average PD	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
1	0.05%	303	146	449	303	63	366	2.2	30.09%	7	36	9.84%	0
2	0.13%	1,611	696	2,307	1,611	381	1,992	8.1	31.64%	5	365	18.33%	1
3	0.30%	1,323	529	1,852	1,323	243	1,567	6.9	30.04%	6	449	28.66%	1
4	0.65%	1,927	818	2,745	1,927	328	2,255	8.0	29.98%	7	918	40.68%	4
5	1.58%	1,898	514	2,412	1,898	168	2,066	7.8	28.39%	9	1,138	55.09%	9
6	3.28%	1,264	365	1,629	1,264	103	1,367	7.1	26.10%	10	836	61.16%	12
7	7.27%	460	125	585	460	24	484	1.9	28.23%	12	386	79.70%	10
8	17.78%	160	16	176	160	4	164	0.5	25.18%	14	164	99.63%	7
9	35.56%	375	55	430	375	13	389	1.1	29.34%	12	483	124.30%	41
Performing Portfolio	**2.84%**	**9,321**	**3,264**	**12,585**	**9,321**	**1,328**	**10,649**	**43.5**	**29.32%**	**7.7**	**4,774**	**44.83%**	**85**
Default	100.00%	2,287	296	2,584	2,287	71	2,358	4.0	39.27%	11	171	7.24%	926
Total	**20.45%**	**11,608**	**3,561**	**15,169**	**11,608**	**1,399**	**13,007**	**47.5**	**31.12%**	**8.3**	**4,945**	**38.02%**	**1,011**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securitisation and Equity exposures not included.

Table CR30. IRB: exposure to credit risk by portfolio and PD scale for the retail segment covered by real-estate mortgages (CR6c)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total						
1	0.04%	51,311	15,094	66,405	51,311	543	51,854	885.0	16.93%	18.5	1,096	2.11%	4
2	0.12%	10,790	2,328	13,118	10,790	70	10,860	159.6	20.02%	20.5	619	5.70%	3
3	0.25%	12,695	2,822	15,517	12,695	79	12,774	193.3	19.19%	19.4	1,216	9.52%	6
4	0.69%	8,004	1,254	9,258	8,004	39	8,043	115.5	20.00%	19.1	1,649	20.50%	11
5	1.58%	3,094	376	3,470	3,094	13	3,107	46.4	20.33%	19.0	1,123	36.14%	10
6	3.72%	3,971	495	4,466	3,971	17	3,988	64.7	19.82%	18.7	2,316	58.09%	29
7	9.31%	1,230	101	1,330	1,230	4	1,233	17.6	20.36%	18.9	1,171	94.95%	23
8	16.52%	1,095	93	1,189	1,095	4	1,099	14.8	20.67%	19.0	1,291	117.45%	38
9	32.49%	1,863	114	1,977	1,863	5	1,868	22.9	20.60%	18.6	2,355	126.03%	125
Performing Portfolio	**1.29%**	**94,052**	**22,678**	**116,730**	**94,052**	**774**	**94,826**	**1,519.7**	**18.24%**	**18.9**	**12,836**	**13.54%**	**249**
Default	100.00%	4,977	36	5,013	4,977	0	4,977	40.4	33.54%	19.5	119	2.39%	1,669
Total	**6.21%**	**99,029**	**22,714**	**121,744**	**99,029**	**774**	**99,803**	**1,560.1**	**19.01%**	**19.0**	**12,955**	**12.98%**	**1,918**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR31. IRB - exposure to credit risk by portfolio and PD scale for the SME retail segment covered by real-estate mortgages (CR6d)

Amounts in millions of euros

PD grade	Average PD	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
1	0.04%	1,900	587	2,487	1,900	26	1,926	31.8	13.48%	13.6	27	1.38%	0
2	0.12%	778	193	970	778	15	792	9.6	16.18%	13.3	29	3.63%	0
3	0.28%	1,280	304	1,584	1,280	21	1,301	14.8	16.57%	12.9	90	6.95%	1
4	0.69%	1,160	282	1,441	1,160	21	1,180	11.8	17.24%	13.2	160	13.52%	1
5	1.51%	1,599	287	1,885	1,599	18	1,617	14.3	18.03%	13.3	382	23.62%	4
6	3.50%	1,920	359	2,279	1,920	19	1,939	21.6	17.72%	13.4	822	42.41%	12
7	7.04%	590	110	701	590	3	593	5.5	19.10%	15.2	354	59.73%	8
8	16.36%	276	31	307	276	1	277	2.9	17.51%	13.8	209	75.31%	8
9	35.07%	457	44	501	457	2	459	4.7	18.55%	13.8	391	85.11%	30
Performing Portfolio	**3.51%**	**9,960**	**2,197**	**12,157**	**9,960**	**126**	**10,086**	**116.8**	**16.75%**	**13.4**	**2,464**	**24.43%**	**65**
Default	100.00%	1,727	83	1,810	1,727	0	1,727	10.9	33.46%	12.8	65	3.78%	578
Total	**17.62%**	**11,687**	**2,279**	**13,966**	**11,687**	**126**	**11,813**	**127.7**	**19.19%**	**13.3**	**2,529**	**21.41%**	**643**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR32. IRB: exposure to credit risk by portfolio and PD scale for the qualifying revolving retail segment (CR6e)

Amounts in millions of euros

PD grade	Average PD	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
1	0.04%	682	3,296	3,978	682	1,018	1,700	1,212.1	77.00%	3.0	35	2.06%	0
2	0.11%	307	1,413	1,719	307	440	747	755.5	77.00%	3.1	41	5.43%	1
3	0.22%	172	580	753	172	207	379	320.0	77.00%	3.4	35	9.20%	1
4	0.58%	412	917	1,329	412	308	720	655.0	76.95%	3.2	144	19.94%	3
5	1.58%	204	364	568	204	132	335	358.0	76.78%	3.5	143	42.75%	4
6	3.35%	228	219	447	228	74	302	415.7	76.51%	3.3	220	72.86%	8
7	7.26%	118	96	214	118	35	152	221.3	76.52%	3.6	185	121.41%	8
8	14.91%	88	34	122	88	12	99	139.7	75.75%	3.3	177	178.12%	11
9	40.67%	30	4	34	30	1	31	53.9	69.66%	2.4	67	215.18%	9
Performing Portfolio	**1.35%**	**2,240**	**6,923**	**9,163**	**2,240**	**2,227**	**4,467**	**4,131.2**	**76.85%**	**3.2**	**1,046**	**23.43%**	**45**
Default	100.00%	28	0	28	28	0	28	18.6	67.00%	1.7	0	0.23%	19
Total	**1.97%**	**2,269**	**6,923**	**9,192**	**2,269**	**2,227**	**4,495**	**4,149.9**	**76.79%**	**3.2**	**1,047**	**23.28%**	**64**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR33. IRB: exposure to credit risk by portfolio and PD scale for the SME retail segment (CR6f)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total						
1	0.05%	525	281	807	525	168	693	27.1	51.91%	3.7	40	5.80%	0
2	0.12%	492	316	809	492	187	679	29.5	53.08%	2.7	82	12.05%	0
3	0.32%	954	522	1,477	954	316	1,270	82.8	54.52%	2.7	308	24.26%	2
4	0.68%	582	334	916	582	183	766	45.6	49.40%	2.4	258	33.72%	3
5	1.45%	953	490	1,443	953	282	1,235	78.4	49.74%	2.1	573	46.37%	9
6	3.37%	609	313	922	609	145	754	107.5	48.58%	3.6	419	55.55%	12
7	6.67%	165	60	224	165	28	193	13.3	49.36%	2.1	118	61.06%	6
8	14.98%	83	16	99	83	7	90	7.3	50.26%	2.8	72	79.73%	7
9	38.04%	86	24	110	86	10	96	8.0	49.06%	3.4	98	102.53%	18
Performing Portfolio	**2.02%**	**4,449**	**2,356**	**6,806**	**4,449**	**1,327**	**5,776**	**399.6**	**51.23%**	**2.8**	**1,968**	**34.07%**	**58**
Default	100.00%	198	67	264	198	22	219	11.1	65.13%	2.6	27	12.24%	143
Total	**5.60%**	**4,647**	**2,423**	**7,070**	**4,647**	**1,348**	**5,995**	**410.6**	**51.74%**	**2.8**	**1,995**	**33.27%**	**201**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

Table CR34. IRB: exposure to credit risk by portfolio and PD scale for other retail exposures (CR6g)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total						
1	0.04%	1,663	86	1,749	1,663	51	1,713	110.4	58.44%	6.8	142	8.28%	0
2	0.12%	687	13	700	687	10	697	74.3	66.84%	4.7	142	20.37%	1
3	0.29%	885	16	901	885	13	897	109.9	66.39%	4.4	325	36.21%	2
4	0.67%	682	262	944	682	132	814	183.3	67.22%	3.6	483	59.31%	4
5	1.53%	607	549	1,156	607	276	883	591.1	64.46%	2.8	714	80.91%	9
6	3.28%	457	185	641	457	93	550	326.2	66.19%	3.2	540	98.27%	12
7	8.12%	80	4	84	80	2	82	32.3	66.03%	3.7	91	111.57%	4
8	15.70%	86	2	87	86	1	87	26.0	62.31%	4.3	114	131.89%	9
9	39.91%	77	1	78	77	1	77	18.8	62.33%	4.1	132	170.67%	19
Performing Portfolio	**1.59%**	**5,222**	**1,117**	**6,339**	**5,222**	**577**	**5,799**	**1,472.4**	**63.78%**	**4.7**	**2,683**	**46.27%**	**59**
Default	100.00%	172	1	173	172	1	173	19.2	77.25%	8.2	6	3.40%	134
Total	**4.44%**	**5,394**	**1,119**	**6,513**	**5,394**	**578**	**5,972**	**1,491.6**	**64.17%**	**4.8**	**2,689**	**45.03%**	**193**

(*) Number of debtors in thousands

Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.

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 of the ODF risk tranche for 2016 with the PD calculated at 31 December 2015 and used to calculate the own funds requirements at the same date.
- **EAD vs. realised exposure**: for contracts entering into default in 2016, the estimated EAD at 31 December 2015 is compared to the actual realised exposure when the default was identified.
- **LGD DT vs. realised LGD**: compares downturn LGD at 31 December 2013 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 realised loss on the portfolio during the ensuing year. The analysis covers the 2012-2016 period.

The large companies portfolio is not included in the analysis of LGD due to its limited representativeness, because of the small number of defaults in this portfolio.

2. Historical ODFs

Historical ODFs show the level of default on exposures contracted with CaixaBank over time.

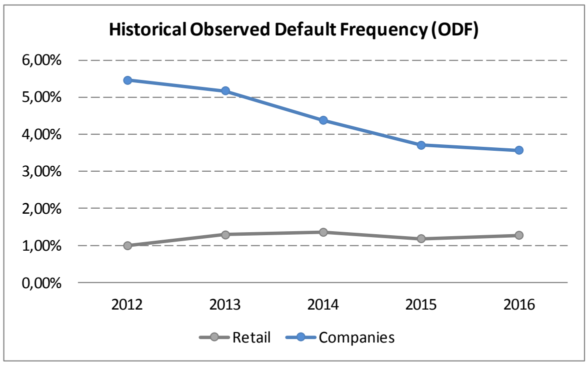
Table CR35. ODFs

	Historical ODF				
	2012	2013	2014	2015	2016
Retail	0.99%	1.28%	1.35%	1.18%	1.27%
Corporates	5.45%	5.17%	4.37%	3.70%	3.57%

After several years of severe economic recession, we note that:

- The ODF of the Companies and SMEs portfolio confirms the changing trend, decreasing over the last 4 years.
- Despite increasing slightly compared to 2015, the ODF for Individuals is stable with regard to the levels seen over recent years.

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.

Pursuant to regulations on prudential requirements, and 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.

New criteria for default set down in Circular 4/2016 were adopted in October 2016. This resulted in an increase in the observed frequency of default (ODF) in the last three months of the year, due to a wider range of reasons for refinancing being considered as doubtful and a larger drag effect.

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 seeks 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:

- ✓ 2016 ODFs. Figures for default between January and December 2016 are used.
- ✓ The PDs for 2016 estimated at year-end 2015.

A distribution is shown of the number of retail contracts along with the number of legal entity customers at year-end 2015, to facilitate understanding of the data.

Retail

Chart 2. Mortgages

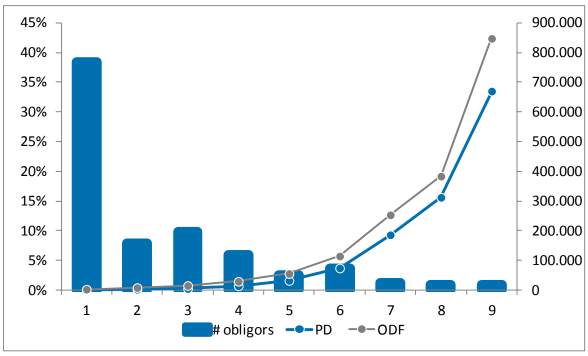


Chart 3. Consumer

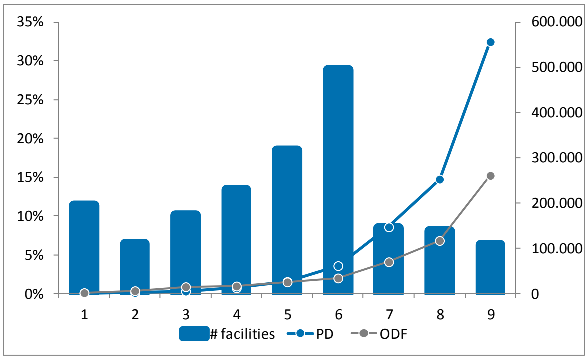
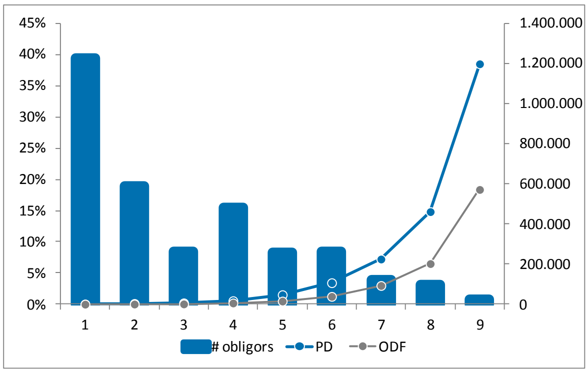


Chart 4. Cards

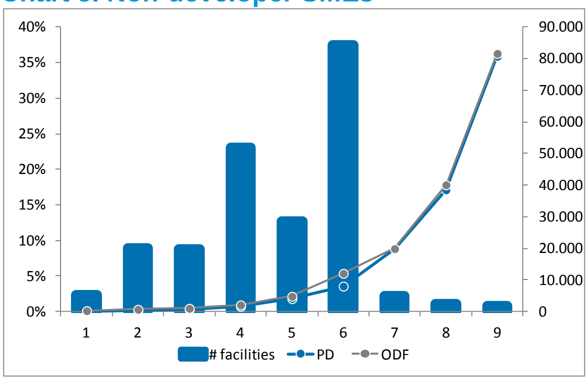


The individuals portfolio confirms that the ODF series is a rising monotone function of the master scale. In other words, as indicated previously, it reflects that CaixaBank's internal retail models discriminate customers correctly by level of risk.

The ODF series for the mortgage portfolio is above the PD series. This is due to the increase in the frequency of default observed in the last 3 months of the year, as a result of the change in the criteria for defining doubtful loans in Circular 4/2016.

SME

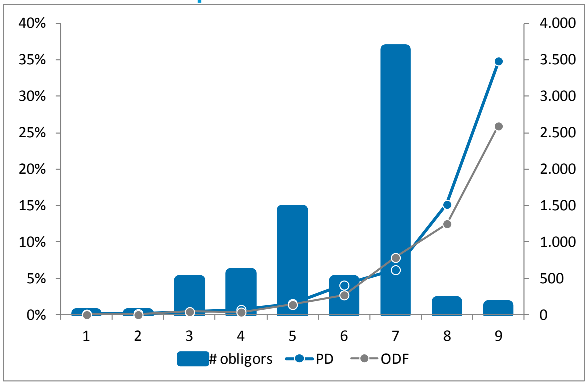
Chart 5. Non-developer SMEs



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 2016, confirming the model is performing well in the current economic situation.

Chart 6. Developer SMEs

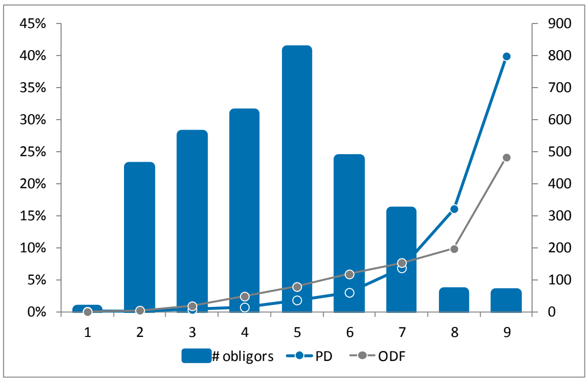


Both the ODF and the PD, barring some tranches, in the developer portfolio are rising monotonous functions with respect to the master scale. In this way, CaixaBank's internal models are considered to discriminate customers reasonably by risk level.

As with non-developer SMEs, the portfolio's PD is in line with the observed default frequency in 2016, confirming the model is performing well in the current economic situation.

Corporate

Chart 7. Large companies



The small numbers of customers in the large companies portfolio means that the ODF on the master scale is not statistically representative. However, both the ODF series and the PD series are shown to be rising monotonous functions with respect to the master scale.

The chart shows that ODF is slightly higher than PD in the intermediate stretches of the master scale.

Average PD and ODF for IRB loan portfolios

The following tables show information on the average PD of the CaixaBank Group's exposure at 31 December 2016, and the average annual default rate for the last five years, for each IRB segment, based on the PD scales defined by the master scale.

Table CR36. IRB - Verification of probability of default (PD) by portfolio - Corporates segment (CR9a)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.05%	0.04%	8	23	1	1	0.00%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.14%	0.13%	855	680	4	0	1.29%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.32%	0.31%	1,053	1,068	13	0	1.93%
4	BB	BB	Ba2	0.73%	0.68%	1,209	1,141	16	1	1.61%
5	BB- / B+	BB- / B+	Ba3 / B1	1.49%	1.61%	1,465	1,187	32	0	2.77%
6	B	B	B2	3.06%	3.08%	866	971	43	4	5.02%
7	B-	B-	B3	7.09%	6.82%	587	394	48	3	9.71%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	18.13%	18.78%	117	47	12	0	16.30%
9	CCC-	CCC-	Caa3	44.43%	41.38%	169	125	52	5	26.89%

Table CR37. IRB - Verification of probability of default (PD) by portfolio - SME segment (CR9b)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.05%	0.05%	1,860	2,198	5	2	0.24%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.13%	0.12%	6,870	8,071	20	1	0.26%
3	BBB / BBB- / BB+	3BB / BBB- / BB+	a2 / Baa3 / B	0.30%	0.30%	4,987	6,866	21	0	0.51%
4	BB	BB	Ba2	0.65%	0.65%	8,602	7,999	71	5	1.08%
5	BB- / B+	BB- / B+	Ba3 / B1	1.58%	1.58%	7,253	7,751	105	6	3.20%
6	B	B	B2	3.28%	3.10%	8,994	7,141	244	9	8.12%
7	B-	B-	B3	7.27%	6.56%	2,436	1,893	155	1	13.16%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	17.78%	16.63%	649	487	123	1	23.01%
9	CCC-	CCC-	Caa3	35.56%	36.87%	1,523	1,108	361	1	41.59%

Table CR38. IRB - Verification of probability of default (PD) by portfolio - Retail segment covered by real-estate mortgages (CR9c)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.04%	0.04%	875,745	884,969	936	8	0.11%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.12%	0.11%	160,873	159,613	599	11	0.30%
3	BBB / BBB- / BB+	3BB / BBB- / BB+	a2 / Baa3 / B	0.25%	0.25%	201,469	193,324	1,356	26	0.62%
4	BB	BB	Ba2	0.69%	0.69%	121,208	115,489	1,579	45	1.20%
5	BB- / B+	BB- / B+	Ba3 / B1	1.58%	1.59%	49,930	46,409	1,222	28	2.38%
6	B	B	B2	3.72%	3.66%	69,446	64,710	3,641	49	4.99%
7	B-	B-	B3	9.31%	9.33%	20,536	17,563	2,553	45	10.22%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	16.52%	16.58%	19,835	14,807	3,993	60	18.97%
9	CCC-	CCC-	Caa3	32.49%	32.47%	30,126	22,851	11,335	184	34.11%

Table CR39. IRB - Verification of probability of default (PD) by portfolio - SME retail segment covered by real-estate mortgages (CR9d)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.04%	0.04%	31,191	31,807	59	1	0.17%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.12%	0.12%	10,097	9,560	38	0	0.34%
3	BBB / BBB- / BB+	3BB / BBB- / BB+	a2 / Baa3 / B	0.28%	0.27%	13,325	14,804	109	1	0.55%
4	BB	BB	Ba2	0.69%	0.70%	17,049	11,774	180	0	1.12%
5	BB- / B+	BB- / B+	Ba3 / B1	1.51%	1.52%	13,279	14,262	225	0	2.14%
6	B	B	B2	3.50%	3.52%	23,986	21,592	1,170	8	6.23%
7	B-	B-	B3	7.04%	7.22%	5,469	5,466	462	5	9.70%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	16.36%	16.44%	3,127	2,888	595	8	17.07%
9	CCC-	CCC-	Caa3	35.07%	34.54%	5,738	4,654	2,126	25	41.77%

Table CR40. IRB - Verification of probability of default (PD) by portfolio - qualifying revolving retail segment (CR9e)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.04%	0.04%	1,154,747	1,212,106	59	3	0.00%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.11%	0.12%	684,339	755,523	119	3	0.03%
3	BBB / BBB- / BB+	BB / BBB- / BB+	a2 / Baa3 / B	0.22%	0.21%	308,858	319,956	100	2	0.06%
4	BB	BB	Ba2	0.58%	0.56%	612,136	654,978	929	21	0.18%
5	BB- / B+	BB- / B+	Ba3 / B1	1.58%	1.57%	405,662	357,981	1,463	192	0.43%
6	B	B	B2	3.35%	3.48%	486,395	415,721	4,244	755	1.08%
7	B-	B-	B3	7.26%	7.82%	188,967	221,291	4,381	1,070	2.83%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	14.91%	14.94%	143,945	139,715	7,199	1,449	5.85%
9	CCC-	CCC-	Caa3	40.67%	35.50%	58,157	53,940	7,356	888	15.12%

Table CR41. IRB - Verification of probability of default (PD) by portfolio - SME retail segment (CR9f)

Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.05%	0.05%	21,514	27,137	21	0	0.08%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.12%	0.13%	35,339	29,537	80	7	0.21%
3	BBB / BBB- / BB+	BB / BBB- / BB+	a2 / Baa3 / B	0.32%	0.33%	57,213	82,796	359	47	0.41%
4	BB	BB	Ba2	0.68%	0.71%	80,364	45,608	604	75	0.91%
5	BB- / B+	BB- / B+	Ba3 / B1	1.45%	1.42%	57,306	78,364	1,346	164	2.10%
6	B	B	B2	3.37%	3.44%	117,380	107,536	3,435	299	5.95%
7	B-	B-	B3	6.67%	6.67%	11,479	13,259	893	61	8.47%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	14.98%	15.24%	7,156	7,321	945	13	15.11%
9	CCC-	CCC-	Caa3	38.04%	37.76%	8,412	7,994	2,247	13	37.94%

Table CR42. IRB - Verification of probability of default (PD) by portfolio - other retail exposure segment (CR9g)

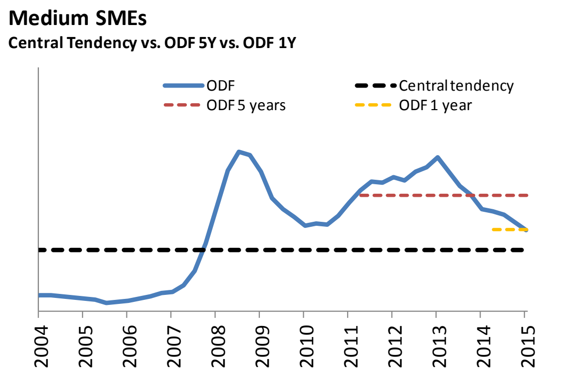
Number of debtors in units

PD grade	External rating equivalent			Weighted average PD	Arithmetic average PD by debtors	Number of debtors		Defaulted debtors in the year	of which: new defaulted debtors in the year	Average historical annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA- / A+ / A	AA- / A+ / A	Aa3 / A1 / A2	0.04%	0.05%	84,397	110,385	67	4	0.08%
2	A- / BBB+	A- / BBB+	A3 / Baa1	0.12%	0.13%	60,398	74,329	196	20	0.24%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	a2 / Baa3 / B	0.29%	0.29%	81,538	109,909	610	69	0.54%
4	BB	BB	Ba2	0.67%	0.70%	69,671	183,344	1,205	220	1.00%
5	BB- / B+	BB- / B+	Ba3 / B1	1.53%	1.63%	81,641	591,121	2,325	478	1.57%
6	B	B	B2	3.28%	3.32%	113,017	326,225	4,911	1,044	2.46%
7	B-	B-	B3	8.12%	8.60%	41,858	32,259	2,418	371	5.34%
8	CCC+ / CCC	CCC+ / CCC	Caa1 / Caa2	15.70%	15.38%	41,138	25,991	3,616	76	9.81%
9	CCC-	CCC-	Caa3	39.91%	36.68%	31,472	18,802	5,854	48	22.48%

The chart shows that the average annual default rate for the last five years is, in general, above the average PD of the current portfolio at 31 December 2016. This is due to PD being a through-the-cycle metric that seeks to assess the average probability of default over the cycle, whilst ODF reflects the default rate at the present time: in this case, this is the last five years, which were years of weakness in the economic cycle.

The effect described in the previous paragraph is highlighted in the following chart for SMEs, although the analysis would be similar for all other portfolios. Through-the-cycle PDs are obtained from a central trend equal to the average ODF between 1991 and December 2015 in the last calibration of parameters. The frequency of default in 2015 was above the central trend, whilst the average frequency of default for the last five years is much higher, as it includes the peaks in default in 2013

Chart 8. Comparison of frequencies of default with central trend.



4. Comparison of EAD and realised exposure

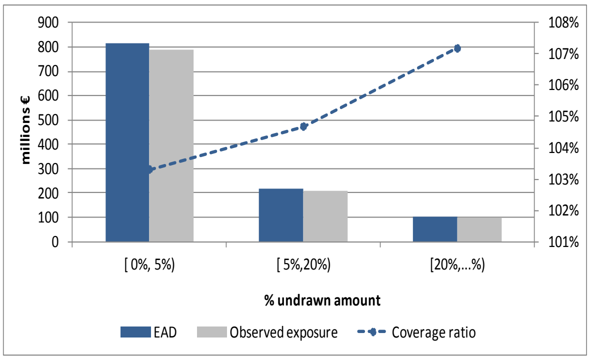
EAD (exposure at default) is defined as the estimated amount that will be drawn by the customer at the time of default. The value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

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 (open credit, cards and credit accounts), estimated EAD at 31 December 2015 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 divided 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.

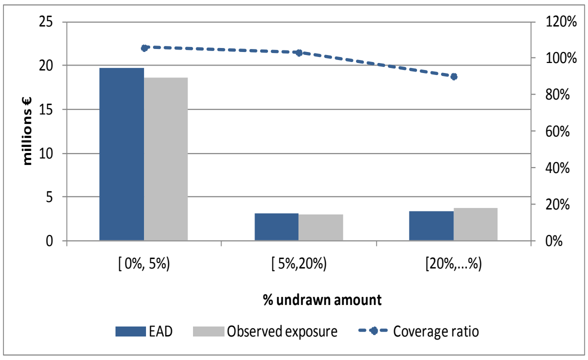
Retail

Chart 9. Open credit



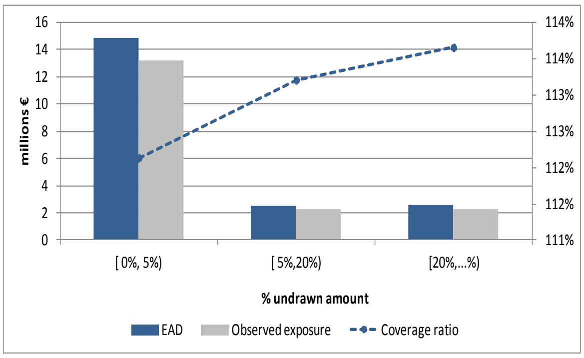
Open credit is one of the main products with available balances in CaixaBank, especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 103%, indicating that the CCF of this product provides an accurate prediction of exposure at the time of default.

Chart 10. Credit cards



In the portfolio of cards for individuals, most of the exposure is also concentrated in lower undrawn tranches, with an average coverage ratio of 106%.

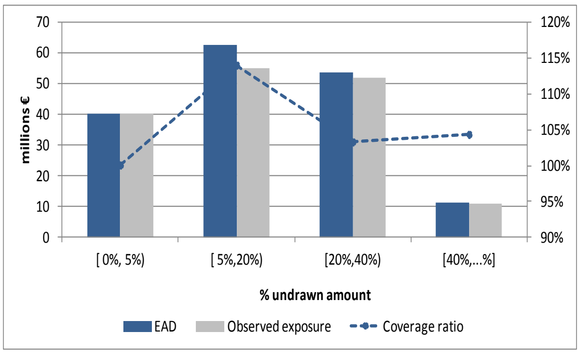
Chart 11. Credit accounts



In the credit accounts portfolio, where exposure is significantly lower than in the open credit portfolio, estimated EAD at the beginning of the year was also higher than realised EAD when the default occurs, with an average coverage ratio of 112%.

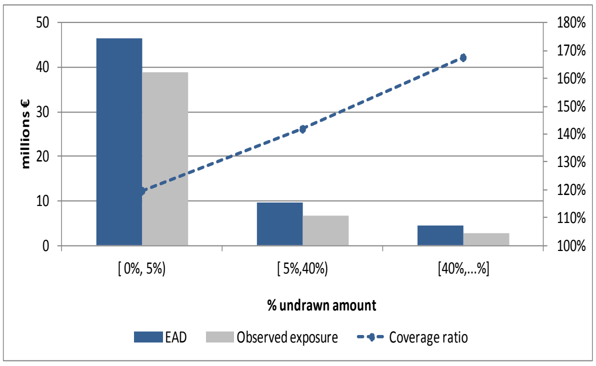
<u>SME</u>

Chart 12. 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 106%.

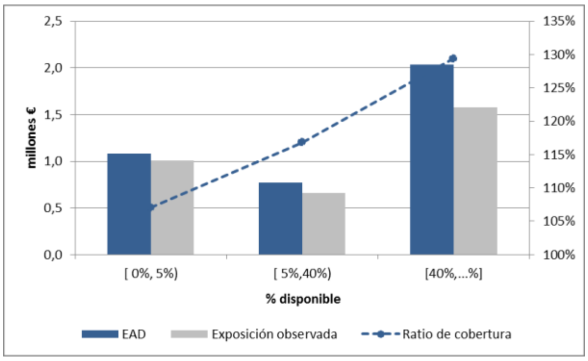
Chart 13. Credit accounts



The fact that there is a significant concentration in the most used tranche is a good indicator that the credit limits are aligned correctly with the needs of SMEs, not offering drawdowns that could pose a higher risk to the Entity.

The coverage ratio of this portfolio is 125%, so the estimated EAD covers realised exposure at the time of default with ample margin.

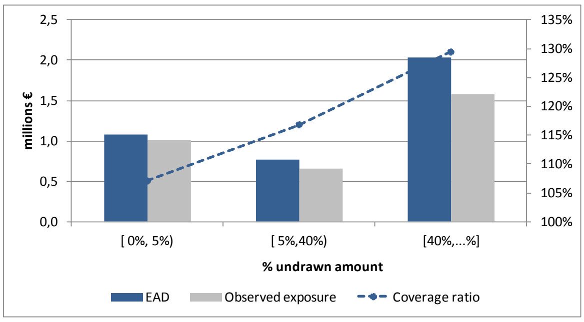
Chart 14. Cards



In all undrawn tranches, total estimated EAD for SME cards is slightly higher than realised exposure at the time of default, with a coverage ratio of 119%.

<u>Corporate</u>

Chart 15. Open credit



In all undrawn tranches, total estimated EAD for open credit to companies is higher than realised exposure at the time of default, especially in the highest undrawn tranche, where the average coverage ratio is 145%.

Although not shown in the charts, the card and credit account portfolios for large companies also have very high coverage ratios.

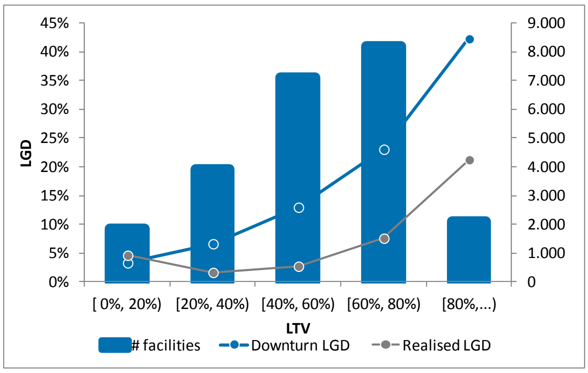
5. Comparison of LGD DT and realised LGD

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, realised LGD can only be calculated for completed processes, i.e. completed cycles. This situation requires a longer observation period than ODF or 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 2013 that went into default in 2014 and for which the recovery process was completed by 31 December 2016, were selected.

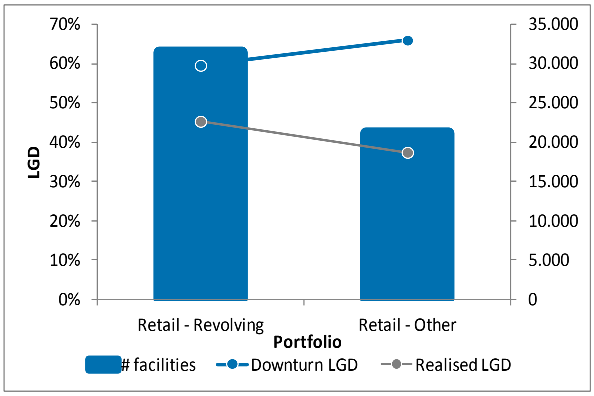
Retail

Chart 16. Mortgage collateral



Generally speaking, realised LGD for individuals with mortgage collateral (6.08%) is much lower than estimated LGD DT (17.35%): this is to be expected as the observation period corresponds to a time of economic recovery (2014 – 2016).

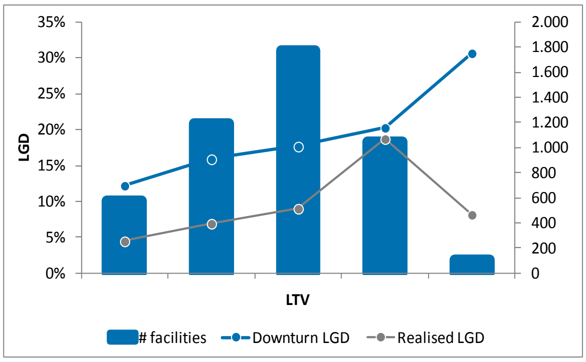
Chart 17. Personal guarantees



In the retail portfolio without guarantees, realised LGD (42.12%) is much lower than estimated LGD (62.12%). CaixaBank's estimate therefore includes a substantial prudential margin.

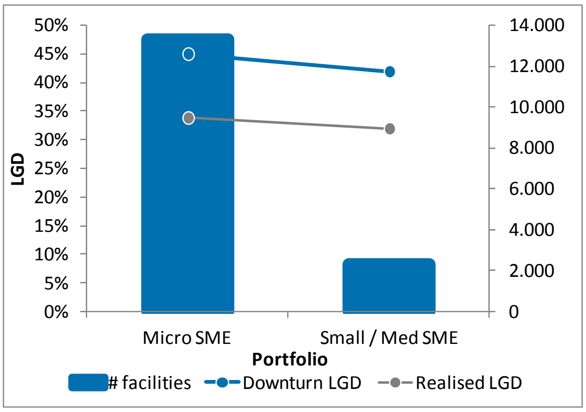
SME

Chart 18. Mortgage guarantee



In the SME portfolio with mortgage guarantee, realised LGD (10%) is also well below estimated LGD (17%).

Chart 19. Personal guarantees



Realised LGD (33.59%) for the SME without guarantees portfolio is below estimated LGD

(44.58%), indicating that the estimate was based on extremely prudent criteria, and that recovery processes and policies are effective.

6. Comparison between effective loss and regulatory expected loss

The objectives for this exercise are:

- ✓ Verifying how regulatory expected loss remains stable over the cycle, while realised loss depends directly on the economic situation at any given time.
- ✓ 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.
- ✓ For contracts in default for which the default cycle has not been completed, and for which there is therefore no realised loss, expected loss at 31 December 2016 is used as the best estimate of effective loss. This means that effective loss for such contracts is much higher than expected loss, as the former is calculated for the contract when non-distressed over one year, and the latter is calculated when the contract is in default for its remaining expected life. This is particularly true for the most recent year (2016), where the majority of the uncompleted cycles are concentrated.
- ✓ Effective loss could vary from one year to another for the same period due to the completion of recovery processes.
- ✓ The percentage values of expected loss and effective loss have been calculated using the cleaned up EAD at the end of the previous year.

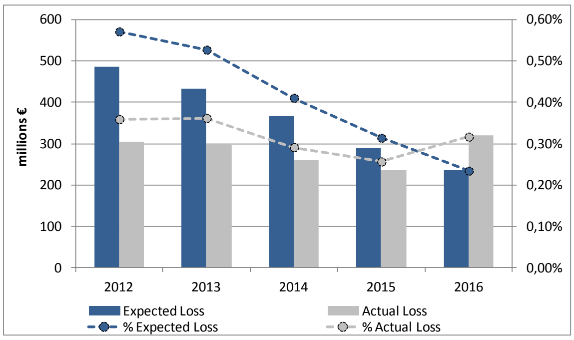
Finally, CaixaBank carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two 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:

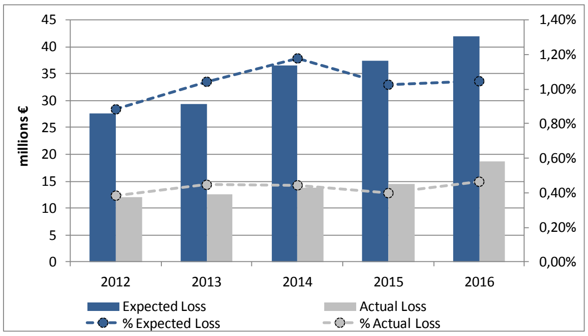
<u>Retail</u>

Chart 20. Expected and effective loss in the retail mortgage portfolio



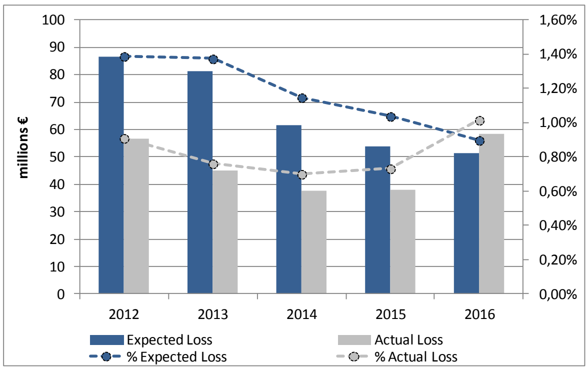
Whilst the effective loss on the retail portfolio with mortgage guarantee fluctuates slightly, in general expected loss and effective loss behave similarly. The exception to this is 2016, for which a significant number of contracts have not completed their default cycles and are therefore assigned their expected loss at 31 December 2016. Moreover, the relative indicators show that the reduction in loss totals are mainly due to improved credit quality, and therefore not to a reduction in the portfolio's exposure.

Chart 21. Expected and effective loss in the auto-renewable portfolio



Expected loss has been relatively stable over the observation period at around 1%, well above effective loss (around 0.43%). 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 2014. As a result, in 2015, the volume of expected loss on cards increased but expected loss expressed as a percentage decreased, indicating that the portfolio grew through higher quality business.

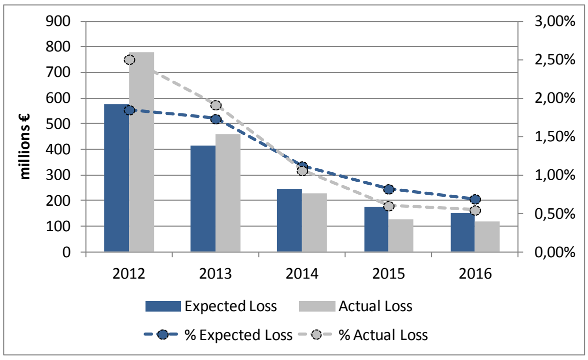
Chart 22. Expected and effective loss in the other retail portfolio



Throughout most of the historical series, effective losses on consumer business have been below expected loss, although the latter has gradually been coming more into line with realised losses over time. The exception is 2016, for which a significant number of contracts have not completed their default cycles and are assigned their expected loss at 31 December 2016.

SMEs

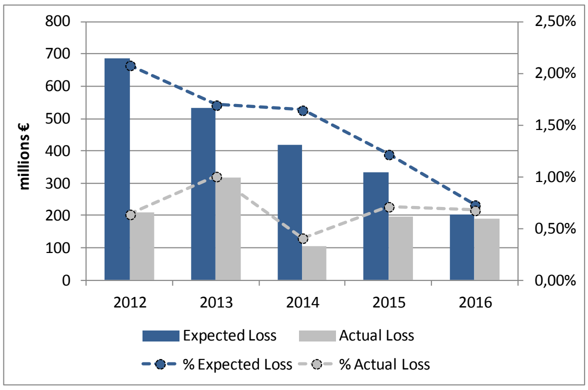
Chart 23. Expected and effective loss in the SME portfolio



Expected loss and effective loss are at similar levels, except for 2012. In the first few years, which coincided with a period of acute economic recession, effective loss exceeds expected loss. However, management of the portfolio has increased its quality, reducing estimated and effective risk in the portfolio over the last 3 years.

Corporate

Chart 24. Expected and effective loss in the large companies portfolio



Over the period observed, expected loss in the large companies portfolio was much higher than effective loss, becoming more aligned over recent years, which have a greater concentration of default cycles that have not yet completed. It is also noteworthy that the weight of expected loss in percentage terms fell over the last two years, despite exposure increasing, indicating that the growth in the portfolio involves higher quality operations.

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 of 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 for 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.

  $$RAR = \frac{Operating\ profit - Expected\ loss}{Capital\ Required}$$

  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.

- ✓ Calculation of provisions using internal models under IAS 39 or Bank of Spain Circular 4/2016. This Circular establishes that incurred loss shall be calculated - with the exception of the doubtful portfolio corresponding to individually significant assets - using internal models sharing a significant basis with IRB models. However, they are differentiated from IRB models by the special feature that they use Point-in-Time estimates, as they have to reflect current economic conditions.

6.2. COUNTERPARTY RISK

Prudent management of counterparty risk by assigning internal limits and the use of mitigation techniques

- Counterparty risk quantifies losses arising from potential default by a counterparty entity prior to definitive settlement of the cash flows of transactions involving derivative instruments, repo agreements, securities lending and deferred settlement.
- The main objective of counterparty risk management in CaixaBank is to align this risk with the Group's business objectives, based on the Entity's risk appetite framework.
- Counterparty risk in 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. The CaixaBank Group also uses risk mitigation policies and techniques to reduce its counterparty risk exposure, as part of the day-to-day management of its exposure.
- EAD for counterparty risk amounts to EUR 5,788 million, of which 81% corresponds to counterparty default risk (70% calculated under the standardised approach and 11% under the IRB approach) with the remaining 19% corresponding to EAD for the Credit Valuation Adjustment (CVA).

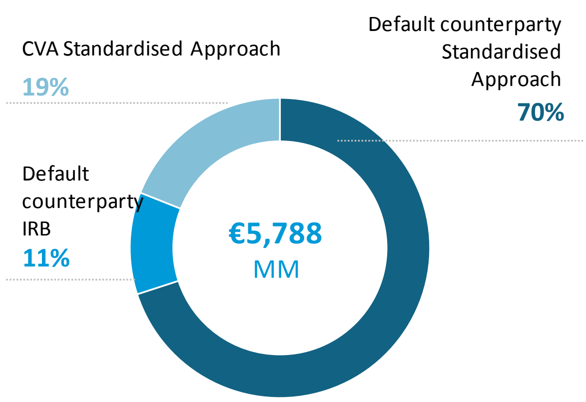
  RWAs for counterparty risk amount to EUR 3,104 million, of which 71% corresponds to counterparty default risk (82% calculated under the standardised approach and 18% under the IRB approach) with the remaining 29% corresponding to EAD for the Credit Valuation Adjustment (CVA).

EUR 3,104 million
RWAs for counterparty risk

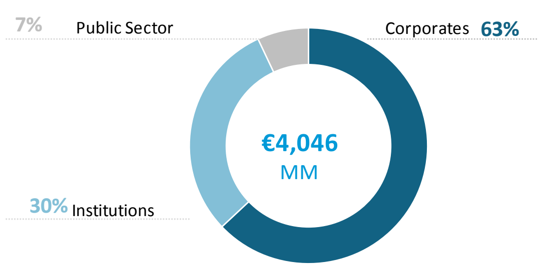
EUR 4,658 million
EAD for counterparty default risk

EUR 1,130 million
Credit Valuation Adjustment (CVA) EAD

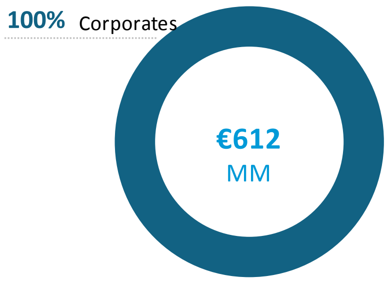
COUNTERPARTY RISK EAD
Distribution by approach, %



EAD DEFAULT RISK (STANDARDISED)
Distribution by type of exposure, %



EAD DEFAULT RISK (IRB)
Distribution by type of exposure, %



CONTENTS

6.2.1. Counterparty risk management
6.2.2. Own funds requirements
6.2.3. Quantitative aspects

6.2.1. Counterpart risk management

Description and general policy

As defined in section 272 of the CRR, counterparty risk is the risk that the counterparty in an operation could enter into non-payment before the definitive settlement of the cash flows of the operation. Counterparty risk arises in transactions involving derivative instruments, repo agreements, securities lending and deferred settlement.

The main aim of counterparty risk management at CaixaBank is to align the counterparty risk assumed with the Entity's business objectives, within its risk appetite framework. 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.

The approval of new transactions involving counterparty risk in CaixaBank is subject to a predefined internal framework, that enables rapid decision making about assuming such risk, for both financial and other counterparties. Accordingly, in its business with financial entities, CaixaBank has a credit approval system in place approved by the Global Risk Committee, in which the maximum authorised exposure to credit risk with an entity, including counterparty risk, is determined by a complex calculation based mainly on the entity's ratings and analysis of its financial statements.

In transactions with other counterparties, including retail customers, derivative transactions relating to loan applications (loan interest rate risk hedging) are approved jointly with the application. All other transactions are approved in accordance with their compliance with the assigned risk limit (and included in the corresponding derivatives risk line) or their individual assessment. Approval of transactions corresponds to the risk areas responsible for loan analysis and approval.

The definition of limits for counterparty risk is complemented by internal concentration limits, mainly for country and large exposure risks.

The granting of pre-approved risk limits for counterparties means the amount available for contracting new operations is always known.

CaixaBank has put in place a specific internal framework for risk with central counterparties (CCPs), specifying how the limits for such entities are determined, and how exposure is calculated to determine the available balance on this limit. This framework has been approved by the Global Risk Committee.

Structure and organisation of the risk management function

The CaixaBank areas with direct responsibilities for the quantification, monitoring and control of counterparty risk are:

✓ The **Financial Sector and Country Risk Department**, part of the Executive Risk Analysis and Approval Division for Companies, is responsible for risks undertaken by CaixaBank with financial entities, regardless of the type of operation and the sector of business that generates them. Its main counterparty risk functions are:

  - Determining the risk thresholds per counterparty;
  - Analysing and monitoring counterparties and risks;
  - Controlling the use of limits and authorising breaches;
  - Monitoring legal risk; and
  - Preparing risk information for internal bodies.

✓ **Other centres reporting to the Executive Risk Analysis and Approval Division for Companies and the Corporate Analysis and Approval Division for Individuals** that are responsible for accepting risks with non-financial entities (companies and individuals, respectively) on behalf of CaixaBank, irrespective of the type of transaction and the activity that generates them. This, therefore, also includes operations that generate counterparty risk for CaixaBank.

✓ The **Risk in Market Operations Department**, which is part of the Corporate Global Risk Management Division. Its main functions with regard to counterparty risk are:

  - Defining and implementing calculation methodologies for the estimation of credit exposure equivalent;
  - Daily valuation of OTC derivative collateral agreements, repos and securities lending;
  - Calculation of minimum capital requirements for counterparty risk and preparation of regular reports for the supervisor.

- Preparing regular information on counterparty risk for internal bodies.

✓ The **Operational Market Services Area**, part of the Banking Services Subdivision. This unit is responsible for day-to-day operational management of bilateral derivatives collateral contracts, repos and securities lending, and collateral contracts with central counterparties (for both OTC and organised market trades). Its main functions include:

- Generation of margin calls for counterparties,
- Reconciliation of collateralised positions and management of discrepancies.
- Monitoring settlements and the accounting associated with management of such contracts.

✓ The **Business Legal Advisory department**, part of the Executive Legal Advisory division, responsible for preparing framework agreements between CaixaBank and counterparties.

Measurement and information systems for management of counterparty risk

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 their related potential value (possible changes in their future value under extreme market price conditions, based on known historical patterns of market prices).

The equivalent credit exposure for derivatives is understood as the maximum potential loss over the life of an operation that CaixaBank might incur should the counterparty default at any time in the future. This is calculated using Monte Carlo simulation with portfolio effect and offsetting of positions, as applicable, at a 95% confidence interval, based on stochastic models incorporating the volatility of the underlying and all of the characteristics of the operations.

Counterparty risk exposure for repos and securities lending is calculated as the difference between the market value of the asset granted to the counterparty and the market value of the collateral received from the counterparty, considering the applicable volatility adjustments in each case.

It also considers the mitigating effect of collateral received under framework collateral agreements (refer to the "Hedging policies and mitigation techniques for counterparty risk" section). In general, the methodology for calculating counterparty risk exposure described above is applied during the acceptance of new operations and in recurrent calculations on subsequent days.

Counterparty risk in the CaixaBank Group for financial counterparties is controlled through an integrated system that provides real-time data on the available exposure limit for any counterparty, product and maturity. For the remaining counterparties, counterparty risk is controlled through corporate applications, which contain both the limits of the lines of derivatives risk (if any) and credit exposure of derivatives and repos.

Hedging policies and mitigation techniques for counterparty risk

The main risk mitigation policies and techniques employed for counterparty risk with financial entities involve:

✓ **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.

✓ **CSA contracts / CMOF appendix III.** Agreements whereby each of the parties undertake to provide collateral (usually a cash deposit) as security for the net counterparty 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/ CME/ GMSLA contracts (repo agreements and securities lending).** Agreements whereby the parties undertake to deliver collateral to each other for the net counterparty 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**. Such clauses provide for early termination of the agreement by one of the parties of its own free will, at a certain point in a contract. This mitigates counterparty risk by reducing the effective duration of the operations 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.
- **Central Counterparties (CCPs).** The use of CCPs in derivatives and repo transactions can mitigate the counterparty risk associated with such transactions, as these entities act as intermediaries on their own account between the two parties to the transaction, thus absorbing the counterparty risk. The EMIR regulations set forth an obligation to clear certain OTC derivatives contracts through these Central Counterparties, as well as to give notification of all transactions conducted.

For non-financial counterparties, the mitigation techniques for counterparty risk involve: ISDA/CMOF contracts, CSA contracts/CMOF Appendix III and break-up clauses, pledges of financial guarantees and guarantees issued by counterparties with higher credit quality than the original counterparty in the operation.

Methodology for internal allocation of capital

The internal allocation of capital for counterparty risk is carried out in tandem with credit risk

Analysis and policies regarding exposure to adverse correlation risk

The acceptance and monitoring processes for counterparty risk enable the identification of cases in which CaixaBank is at risk of a wrong way risk. This situation is addressed adequately in both processes. The entity has identified the very specific cases in which it is exposed to this risk. In these cases, it applies sufficiently conservative metrics for estimating credit exposure, both at the time of contracting and throughout the life of the operation.

Effectiveness of collateral

As mentioned previously, the CaixaBank Group applies collateral agreements, mainly with financial entities, to guarantee operations subject to counterparty risk with financial entities. Risk is often quantified by marking to market all outstanding transactions (normally on a daily basis). This entails revision and modification, as necessary, of the collateral delivered 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[1] 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.

6.2.2. Minimum own funds requirements for 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.

TABLE CCR1 - Risk-weighted assets for counterparty risk

Amounts in millions of euros

Método aplicado	RWA
Standardised Approach for counterparty credit risk	2,694
Of which, Counterparty risk	*1,809*
Of which, Credit Value Adjustment (CVA) risk	*886*
Internal Model Method (IMM)	410
Total Group CaixaBank	**3,104**

TABLE CCR2 - Analysis of counterparty credit risk (CCR) exposure by approach

Amounts in millions of euros

	Replacement cost	Potential future exposure	EAD post-CRM	RWA
Internal Model Method (for derivatives and SFTs)	6,485	2,386	3,912	2,056
Comprehensive Approach for credit risk mitigation (for SFTs)			746	162
Total	**6,485**	**2,386**	**4,659**	**2,219**

CaixaBank currently calculates the value of its exposure to derivatives under the mark-to-market method, pursuant to article 274 of the CRR. For repos and securities lending, CaixaBank calculates the value of exposure pursuant to Chapter IV, Title 2, Part three (Reduction of credit risk) of the CRR.

[1] The amount from which collateral has to be delivered to the counterparty.

6.2.3. Quantitative aspects

The following table displays EAD for counterparty risk, under the standardised approach, for different degrees of risk weighting, which are attributed in function of the agency rating mapping dictated by the EBA.

Table CCR3. Standardised approach: counterparty risk exposure and effects of mitigation techniques (CCR3a).

Amounts in millions of euros

	Original exposure	EAD	RWA	RWA density
Sovereigns and their central banks	32	32	0	0.00%
Non-central government public sector entities	234	234	186	79.52%
Multilateral development banks	0	0	0	0.00%
International organisations	0	0	0	0.00%
Institutions	1,258	1,227	262	21.32%
Corporates	3,050	2,552	1,360	53.30%
Regulatory retail exposures	1	1	1	66.40%
Exposures secured by mortgages on immovable property	0	0	0	0.00%
Exposures in default	0	0	0	0.00%
Exposures associated with particularly high risks	0	0	0	0.00%
Covered bonds	0	0	0	0.00%
Exposures to institutions and corporates with a short-term credit assesment	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0.00%
Other assets	0	0	0	0.00%
Total Counterparty Risk - SA portfolio (*)	**4,575**	**4,046**	**1,809**	**44.70%**

(*) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Amounts in millions of euros **12/31/2015**

	Original exposure	EAD	RWA	RWA density
Sovereigns and their central banks	14	14	0	0.00%
Non-central government public sector entities	215	215	109	50.75%
Multilateral development banks	0	0	0	0.00%
International organisations	0	0	0	0.00%
Institutions	2,283	2,283	503	22.03%
Corporates	13,097	2,335	1,996	85.46%
Regulatory retail exposures	1	1	1	71.38%
Exposures secured by mortgages on immovable property	0	0	0	0.00%
Exposures in default	0	0	0	0.00%
Exposures associated with particularly high risks	0	0	0	0.00%
Covered bonds	0	0	0	0.00%
Exposures to institutions and corporates with a short-term credit assesment	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0	0	0.00%
Other assets	0	0	0	0.00%
Total Counterparty Risk - SA portfolio (*)	**15,609**	**4,848**	**2,608**	**53.81%**

(*) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

At the end of 2016 the Exposure corresponding to Default Fund assets has been assigned as a Counterparty Credit Risk, adopting the same criteria for the end of 2015 data for a coherent criteria between dates and for a better comparison of presented data.

Table CCR4. Standardised approach to counterparty risk exposure by asset classes and risk weights (exposure) (CCR3b).

Amounts in millions of euros

	0%	10%	20%	35%	50%	75%	100%	150%	Otros	EAD
Sovereigns and their central banks	32	0	0	0	0	0	0	0	0	32
Non-central government public sector entities	48	0	0	0	0	0	186	0	0	234
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0
Institutions	2	0	1,168	0	56	0	0	0	1	1,227
Corporates	454	0	829	0	0	0	1,192	0	77	2,552
Regulatory retail portfolios	0	0	0	0	0	1	0	0	0	1
Exposures secured by real state	0	0	0	0	0	0	0	0	0	0
Defaulted loans	0	0	0	0	0	0	0	0	0	0
Higher-risk categories	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assesment	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	0	0	0	0
Total Counterparty Risk - SA portfolio (*)	**536**	**0**	**1,997**	**0**	**56**	**1**	**1,378**	**0**	**78**	**4,046**

(*) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Table CCR5. Standardised approach to counterparty risk exposure by asset classes and risk weights (RWAs) (CCR3c).

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	186	0	0	186
Multilateral development banks	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	234	0	28	0	0	0	0	262
Corporates	0	0	166	0	0	0	1,192	0	3	1,360
Regulatory retail portfolios	0	0	0	0	0	1	0	0	0	1
Exposures secured by real state	0	0	0	0	0	0	0	0	0	0
Defaulted loans	0	0	0	0	0	0	0	0	0	0
Higher-risk categories	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assesment	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	0	0	0	0
Total Counterparty Risk - SA portfolio (*)	**0**	**0**	**399**	**0**	**28**	**1**	**1,377**	**0**	**3**	**1,809**

(*) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Table CCR6. IRB: counterparty risk exposure by portfolio

Amounts in millions of euros

	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
Corporate	**2.70%**	**598**	**598**	**2**	**36.29%**	**0.3**	**405**	**67.75%**	**8**
Corporates	1.80%	512	512	1	36.48%	0.1	355	69.28%	4
SME	8.05%	86	86	2	35.14%	1.8	50	58.64%	4
Retail	**5.34%**	**14**	**14**	**3**	**48.56%**	**3.4**	**5**	**34.41%**	**0**
Retail - Residential Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0
SME - Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0
Retail - Qualifying Revolving	0.00%	0	0	0	0.00%	0.0	0	0.00%	0
Retail - SME	5.51%	13	13	2	47.46%	3.3	4	33.67%	0
Other Retail	2.87%	1	1	0	64.59%	5.9	0	45.13%	0
Total Counterparty Risk - IRB portfolio (**)	**2.76%**	**612**	**612**	**5**	**36.57%**	**0.4**	**410**	**66.98%**	**9**

(*) Number of debtors in thousands

(**) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Amounts in millions of euros

12/31/2015

	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
Corporate	5.26%	**615**	**615**	**2**	**35.80%**	**0**	**456**	**74.09%**	**15**
Corporates	3.65%	532	532	1	35.28%	0.1	405	76.11%	7
SME	15.44%	84	84	2	39.07%	1.0	51	61.31%	8
Retail	8.12%	**17**	**17**	**3**	**51.40%**	**3**	**7**	**40.96%**	**1**
Retail - Residential Mortgage	0.00%	0	0	0	0.00%		0	0.00%	0
SME - Mortgage	0.00%	0	0	0	0.00%		0	0.00%	0
Retail - Qualifying Revolving	0.00%	0	0	0	0.00%		0	0.00%	0
Retail - SME	8.57%	16	16	3	49.86%	2.7	6	40.03%	1
Other Retail	2.20%	1	1	0	71.71%	1.1	1	53.20%	0
Total Counterparty Risk - IRB portfolio (**)	**5.33%**	**633**	**633**	**5**	**36.22%**	**0.3**	**463**	**73.19%**	**16**

(*) Number of debtors in thousands

(**) Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Table CCR7. IRB: counterparty risk exposure by PD scale (CCR4)

Amounts in millions of euros

PD grade	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
1	0.05%	3	3	0	48.18%	3	0	12.11%	0
2	0.15%	184	184	1	29.66%	0	57	31.17%	0
3	0.31%	177	177	1	39.89%	0	112	63.14%	0
4	0.72%	89	89	1	37.59%	1	64	71.72%	0
5	1.48%	74	74	1	39.18%	1	69	93.95%	0
6	3.01%	50	50	1	37.84%	1	56	112.38%	1
7	6.96%	16	16	0	39.57%	1	26	160.63%	0
8	21.33%	4	4	0	31.09%	0	6	153.81%	0
9	34.63%	8	8	0	44.52%	0	19	241.51%	1
Performing Portfolio	**1.44%**	**604**	**604**	**5**	**36.22%**	**0**	**409**	**67.70%**	**3**
Default	100.00%	8	8	0	62.21%	0	1	14.38%	5
Total	**2.76%**	**612**	**612**	**5**	**36.57%**	**0**	**410**	**66.98%**	**9**

(*) Number of debtors in thousands

Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

Amounts in millions of euros

12/31/2015

PD grade	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL
1	0.06%	2	2	0	54.01%	2	0	10.71%	0
2	0.15%	134	134	1	27.91%	0	36	26.98%	0
3	0.33%	188	188	1	39.21%	0	121	64.18%	0
4	0.73%	94	94	1	33.04%	0	61	64.53%	0
5	1.68%	86	86	1	36.72%	0	78	91.58%	1
6	2.94%	43	43	1	35.53%	0	43	100.76%	0
7	8.29%	53	53	0	43.37%	0	101	190.74%	2
8	17.32%	5	5	0	37.83%	3	9	183.02%	0
9	40.35%	5	5	0	48.20%	1	10	215.61%	1
Performing Portfolio	**1.86%**	**610**	**610**	**5**	**35.65%**	**0**	**460**	**75.38%**	**5**
Default	100.00%	22	22	0	51.90%	1	3	13.45%	12
Total	**5.33%**	**633**	**633**	**5**	**36.22%**	**0**	**463**	**73.19%**	**16**

(*) Number of debtors in thousands

Counterparty Risk exposures included. Credit, Securisitation and Equity exposures not included.

The following table provides details of all collateral provided or received in relation to operations with derivatives and securities financing transactions (SFT), including operations cleared through a central counterparty. The two legs of each trade are considered collateral in SFTs (i.e. the cash and securities received and delivered).

Table CCR8. Composition of collateral for counterparty risk exposure (CCR5)

Amounts in millions of euros

	Collateral used in derivative transactions				Collateral used in SFT			
	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	2,205	0	3,417	0	12,137	0	3,000
Cash - other currencies	0	0	0	100	0	0	0	0
Domestic sovereign debt	0	2,720	607	16	0	12,695	506	11,881
Other sovereign debt	0	0	489	0	0	514	487	142
Government agency debt	0	0	0	0	0	126	0	0
Corporate bonds	0	0	0	0	0	0	0	1,308
Securitizations	0	0	0	0	0	1,001	10,798	1,486
Other collateral	0	0	0	0	0	0	0	0
Total	**0**	**4,925**	**1,096**	**3,533**	**0**	**26,473**	**11,791**	**17,817**

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

Table CCR9. Exposure to Central Counterparties (CCR8)

Amounts in millions of euros

Exposures to Central Counterparties (CCP)	EAD	APR
Exposures to QCCP (total)	**1,050**	**179**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which (1)	613	120
(i) OTC derivatives	494	96
(ii) Exchange-traded derivatives	52	10
(iii) Securities financing transactions	68	14
(iv) Netting sets where cross-product netting has been approved	0	0
Segregated initial margin (1)	0	
Non-segregated initial margin	345	59
Pre-funded default fund contributions	93	0
Exposures to non-QCCPs (total)	**0**	**0**

(1) Exposure value calculated in accordance with Section 9, Chapter 6, Title II of the Capital Requirements Regulation (CRR, Regulation UE 575/2013). According to CRR's article 306 (Own fund requirements for trade exposures), the Exposure at default of assets posted as collateral is considered to be zero if they are bankruptcy remote and, consequently, the category "segregated initial margin" has a nule EAD.

The regulatory EAD of exposure to Central Counterparties is calculated in accordance with section 9 (Own funds requirements for exposure to Central Counterparties) of chapter 6 (Counterparty Credit Risk) of part 3 of the CRR.

Pursuant to article 306 “Own funds requirements for trading exposure” of the CRR, assets furnished as guarantees to a CCP, and that are immune to bankruptcy in the event that the CCP 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 (CVA) risk. CaixaBank calculates this amount for all OTC derivatives subject to this requirement under the standardised approach.

Table CCR10. Exposure and RWA by CVA (CCR2)

Amounts in millions of euros

	EAD	RWA
Total portfolios subject to the Advanced CVA capital charge	0	0
All portfolios subject to the Standardised CVA capital charge	1,130	886
Total	**1,130**	**886**

The following table shows the effect of netting agreements and guarantees on counterparty risk exposure in derivatives contracts exposed to counterparty risk at 31 December 2016.

Table CCR11. Exposure to counterparty risk (derivatives)

Exposures of derivatives with Central Counterparties (CCPs)	
Gross positive fair value	19,065
Net positive fair value	6,485
Net potencial future exposure	2,386
Net credit exposure	8,871
Real guarantees	4,745
Derivatives credit exposure after considering netting agreements and real guarantees (1)	3,912

(1) Credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agrements and real guarantees recived. It includes all the exposure on derivatives transactions subject to the counterparty credit risk.

The following table shows outstanding exposure to credit derivatives at year-end 2016, all of which is in the held-for-trading portfolio.

Table CCR12. Transactions with credit derivatives (CCR6)

Amounts in millions of euros

	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	0	0
Index credit default swaps	420	0
Total return swaps	0	0
Credit options	0	0
Other credit derivatives	0	0
Total notionals	**420**	**0**
Fair values	0	0
Positive fair value (asset)	0	0
Negative fair value (liability)	-16	0

Exposure to credit derivatives includes the hedging derivatives bought in 2016 to hedge credit risk for CVA, with a nominal value of EUR 400 million.

As of 31 December 2016, the CaixaBank Group had not contracted internal hedging for credit risk in the banking book through the purchase of protection with credit derivatives, and it was also not involved in intermediation activity for credit derivatives.

6.3. SECURITISATIONS

The CaixaBank Group is not an active investor in the securitisations market

- Credit risk for securitisations quantifies losses of principal and interest on issuances deriving from potential failure by borrowers of securitised assets to comply with their financial obligations.
- The CaixaBank Group is mainly involved in securitisation operations as the originator entity, in order to obtain liquidity.
- The Entity transforms groups of homogeneous loans and lending from its portfolio into fixed income instruments through the transfer of such assets to traditional securitisation funds. It generally retains the title to all of these instruments.
- At year-end 2016, the outstanding balance of securitised loans stood at EUR 32,434 million, of which the Group retained EUR 31,753 million through securitisation tranches.
- In the event of insufficient disposal of securitisation bonds, the risk remains with the underlying loans. There is no risk for the instruments retained. This applies to EUR 29,540 million of the securitisation portfolio.

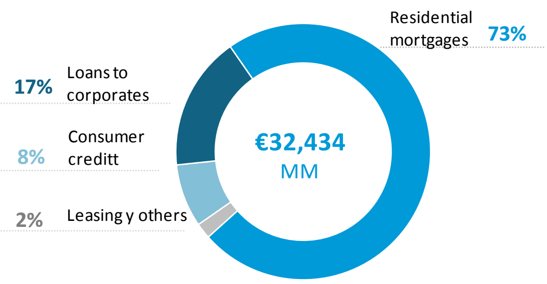
At year-end 2016, risk amounting to EUR 2,213 million had been retained in securitisations involving the transfer of risk to third parties, of which EUR 1,903 million relates to risk retained in the synthetic securitisation carried out in the year

EUR 199 million
RWAs for securitisation risk

EUR 2,213 million
EAD for securitisation risk

100%
EAD from risk retained in proprietary securitisations

SECURITISED LOAN PORTFOLIO
Distribution by type of exposure, %



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6.3.3. Quantitative aspects

6.3.1. Qualitative aspects

Description and general policy

The CaixaBank Group treats securitisation operations as set forth in Chapter 5, Title II, Part Three of the CRR.

A number of basic concepts helpful to understanding this chapter are defined below in accordance with CRR definitions:

- **Securitisation**: means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having both of the following characteristic:
  - payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;
  - the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

- **Securitisation position**: means an exposure to a securitisation.

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

- **First loss tranche**: means the most subordinated tranche in a securitisation that is the first tranche to bear losses incurred on the securitised exposures and thereby provides protection to second loss and, where relevant, higher ranking tranches.

- **Mezzanine exposure tranche**: a tranche, other than a first-loss tranche, with lower ranking for payment than the position with the highest ranking for payment in the securitisation, and lower ranking than any securitisation position within the securitisation, assigned a credit quality of 1 under the standardised approach, or a credit quality of 1 or 2 under the IRB approach.

- **Senior tranche**: any tranche other than first loss and mezzanine exposure tranches. Within the "senior tranches", the 'maximum preference tranche' is that in first position in the ranking for payment of the securitisation, not considering amounts due under derivatives contracts for interest or exchange rates, brokerage fees or other charges.

- **Traditional securitisation**: means a securitisation involving the economic transfer of the exposures being securitised. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator institution to an SSPE or through sub-participation by an SSPE. The securities issued do not represent payment obligations of the originator institution.

- **Synthetic securitisation**: means a securitisation where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originator institution.

- **Resecuritisation**: a securitisation in which the risk associated with a group of underlying exposures is divided into tranches, and at least one of the underlying exposures is a securitisation position.

- **Originator**: an entity that:
  - a) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or
  - b) purchases a third party's exposures for its own account and then securitises them.

- **Sponsor**: means an institution other than an originator institution that establishes and manages an asset-backed commercial paper programme or other securitisation scheme that purchases exposures from third-party entities.

The objectives of securitisation

Asset securitisation facilitates effective balance sheet management, as it fosters:

- ✓ **Obtaining liquidity**: securitisations mobilise the balance sheet, transforming illiquid assets and attracting finance in the wholesale markets through their sale and use as collateral. Retained securitisation positions can be used as collateral to be discounted by the ECB.

- **Diversification of sources of funding**: another objective related to obtaining liquidity is to diversity the Group's sources of finance, in terms of both maturities and product types.

- **Management and diversification of credit risk**: the sale of securitised bonds to the market can reduce exposure to the credit risk that arises in the normal course of business activity.

- **Optimisation of capital consumption**: securitisation operations that transfer a significant part of their risk also enable optimisation of capital management.

The nature of the risks inherent to securitisation activity

Securitisations offer a number of advantages for liquidity and risk management. However, securitisations also entail risks, which are basically assumed by the originator entity and/or the investor entities.

- **Credit risk**: the risk that the borrower will fail to meet their contractual obligations in due time or form, resulting in impairment to the asset underlying the securitisation positions originated. This is the main risk transferred to investors through the instruments issued in the securitisation.

- **Pre-payment risk**: the risk of early redemption, in part or in full, of the underlying assets for the securitisation, meaning that the actual maturity of the securitisation positions will be shorter than the contractual maturity of the underlying assets.

- **Basis risk**: risk of the interest rates or maturities of securitised assets not matching those of the securitisation positions. This risk is usually covered through interest rate swaps.

- **Liquidity risk**: there are a number of ways of understanding this risk. From the point of view of the originator, this is reduced by the securitisation process, which transforms assets that are intrinsically illiquid into instruments that can be traded on financial markets. From the investor's perspective, there is no guarantee that there will be sufficient trading volumes or frequency for the bonds in the market to enable it to unwind its position at a particular time.

Risk in the ranking of securitisation positions

Securitisation bonds are issued with a defined payment ranking for the underlying securitisation positions. The funds in which the CaixaBank Group is involved are usually structured into a number of tranches, each of which has their own credit rating.

The first set of tranches is described as “senior”. This comprises the bonds with the highest credit quality and, therefore, the highest credit rating. These are followed by mezzanine tranches, which are subordinate to the senior tranches. At the base of the structure we find the tranches with the lowest credit quality, which are known as “first loss” or equity tranches: in some cases, these are subordinated loans that the CaixaBank Group has granted to the fund, whilst in others they are a series of bonds. The first loss tranches meet the first percentage of losses on the securitised portfolio.

Functions performed by the entity in the securitisation process

The main functions performed by the CaixaBank Group in the securitisations carried out are:

- ✓ **Originator**: the CaixaBank Group participates in various securitisation funds to which, either individually or, occasionally, jointly with other entities, it assigns some of its residential mortgage loans, loans to small and medium-sized enterprises (SMEs), credit rights under financial leasing agreements, consumer finance contracts, and loans granted to real-estate developers for the purchase of land and construction and refurbishment of homes and commercial premises, for subsequent subrogation to the purchasers of the homes or commercial premises.

- ✓ **Administrator of securitised portfolios**: The CaixaBank Group acts as the administrator of the securitised assets, managing collections of repayments and interest, carrying out monitoring and undertaking recovery actions for impaired assets.

- ✓ **Funding provider**: The CaixaBank Group also acts as the provider of funding for securitisation funds through subordinated loans for the constitution of reserve funds, and loans to finance the initial costs involved in such vehicles.

- ✓ **Provider of the treasury account**: the CaixaBank Group also operates the treasury account for some securitisation funds.

- ✓ **Payment agent**: the CaixaBank Group also acts as the payment agent for some securitisation funds.

- ✓ **Underwriter for bond issues**: the CaixaBank Group also acts as the underwriter for some securitisation funds. The underwriter role is usually undertaken in operations originated to create collateral that is retained. To a lesser extent, this role is also undertaken in operations placed in the market, in which case the CaixaBank Group has sometimes underwritten the lowest-ranking tranches of the fund.

- ✓ **Counterparty to a financial intermediation agreement**

- ✓ **Counterparty in financial swaps**: the CaixaBank Group also acts as a counterparty in financial swaps set up in securitisation funds to reduce the interest rate risk in such structures.

- ✓ **Securitisation fund managers**: the CaixaBank Group company Gesticaixa S.G.F.T.A. acts as a securitisation fund manager.

The following chart summarises the functions performed in the securitisation process and the degree of involvement of the CaixaBank Group:

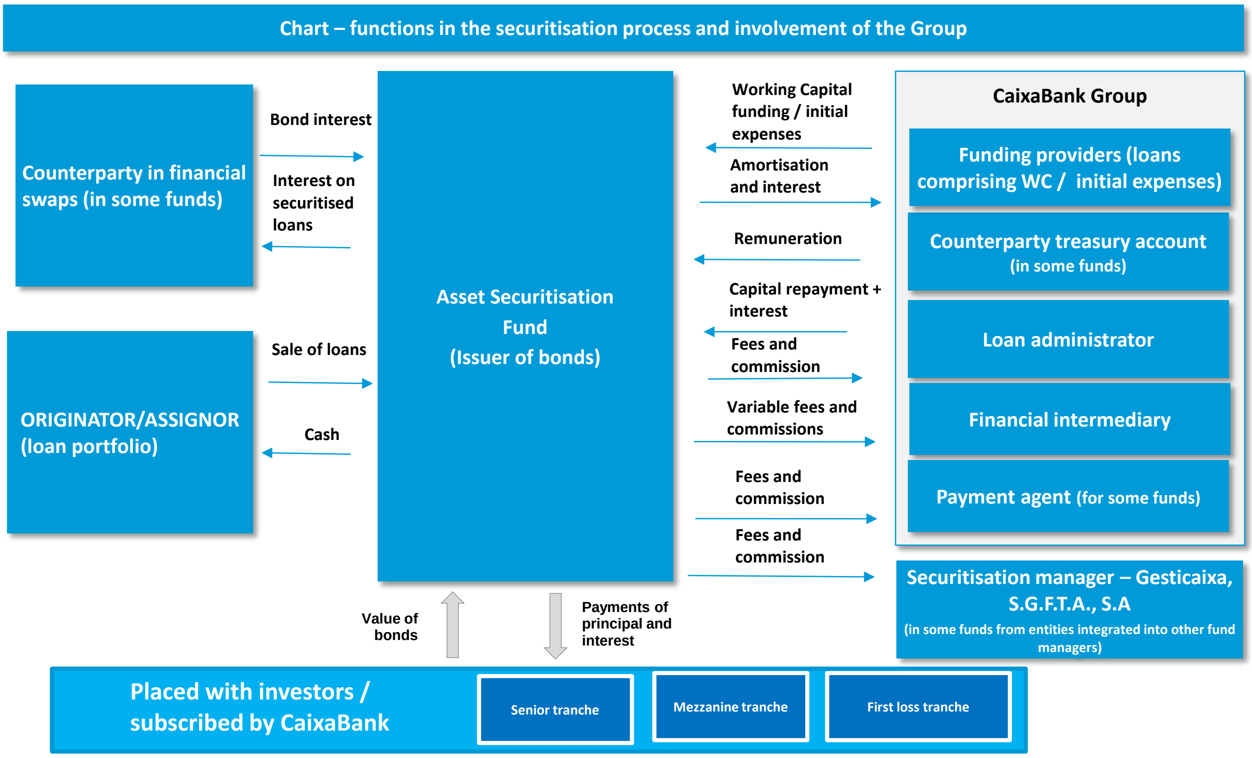


Diagram 5

Other aspects

As already mentioned, the CaixaBank Group's main activity with regard to securitisations is as an originator, transforming homogeneous parts of its loan and credit portfolio into fixed income instruments, through the transfer of assets to traditional securitisation funds. It usually retains all such instruments. CaixaBank originated its first synthetic securitisation in 2016, enabling it - among other things - to optimise its capital requirements. CaixaBank also retains some very residual positions in traditional securitisations, in which the CaixaBank Group was not the originator (third-party securitisations). These mainly derive from the held-to-maturity portfolios of entities it has absorbed. The objective in managing these positions has been to settle the position as soon as market conditions allow. While the position remains in the portfolio, it is marked-to market daily and creditworthiness is reviewed regularly.

In terms of processes for monitoring variations in credit risk on securitisation exposure, in securitisations where there is no transfer of risk - most of the entity's exposure to securitisations - changes in the credit risk of the securitisation exposure mirror those of the underlying assets (depending on the proportion retained). In securitisations where a significant part of the risk is transferred, changes in the credit risk of the securitisation exposure are measured and reviewed regularly, through the relevant external credit rating. For synthetic securitisations, the securitised assets are subject to specific monitoring on a monthly basis, together with monitoring of changes in risk weights for the calculation of RWAs for the securitisation.

All of the CaixaBank Group's securitisation positions belong to the held-to-maturity portfolio: there are no securitisation positions in the held-for-trading portfolio. Therefore, all securitisation positions are excluded from the internal market risk model.

The CaixaBank Group does not sponsor any securitisations schemes. The CaixaBank Group does not act as the originator of any resecuritisations.

The CaixaBank Group does not use personal guarantees or specific hedging to offset the risks of exposure to retained securitisations.

The traditional securitisation funds originated use the following external ratings agencies, irrespective of the underlying assets securitised: Standard & Poor's, DBRS, Moody's, Fitch and SCOPE. No external rating has been requested for the synthetic securitisation.

The CaixaBank Group had no assets pending securitisation at 31 December 2016.

Securitisation activity in 2016

CaixaBank originated three traditional securitisation funds in 2016. These are managed by GestiCaixa, with CaixaBank retaining all of the instruments issued in all of these cases. It also originated one synthetic securitisation. Details were as follows:

- ✓ **CAIXABANK RMBS 1, F.T.** (February 2016): A traditional securitisation of residential mortgages, with an initial securitised value of EUR 14,415 million.
- ✓ **GAUDI SYNTHETIC 2015-I** (February 2016): A synthetic securitisation involving loans to SMEs with an initial value of EUR 2,025 million, instrumentalised through a protection CDS purchased on a mezzanine loss tranche.
- ✓ **CAIXABANK CONSUMO 2, F.T.** (June 2016): A traditional securitisation of consumer loans, with an initial securitised value of EUR 1,390 million.
- ✓ **CAIXABANK PYMES 8, F.T.** (November 2016): A traditional securitisation of SME loans, with an initial securitised value of EUR 2,428 million.

Risk management. Measurement and information systems

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.

    1. 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
    2. 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:

    1. 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

2. 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.

6.3.2. Minimum own funds requirements for securitisation risk

Pursuant to Chapter 5 of Title II of Part Three of the CRR, for funds that do not comply with the provisions of Articles 243 and 244 of the CRR, for considering 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 not been securitised. In funds that comply with the provisions of Articles 243 and 244 of the CRR relating to the transfer of risk, the standardised or IRB approaches are used to calculate minimum own fund requirements for securitisations, depending on the method that would be applied to the underlying portfolio for the issue if it were not securitised.

The following table provides details of exposure to securitisations and their capital requirements in cases where the CaixaBank Group acts as the originator. This table only includes securitisations in which the transfer of a significant part of the risk is recognised, and includes investor tranches of multi-seller securitisations where the CaixaBank Group acts as the originator, and for which the calculation of capital requirements is independent of whether the risk on the originator tranches has been transferred.

Table SEC1. Exposure and RWA in securitisations of the held-to-maturity portfolio in which the CaixaBank Group is the originator (SEC3)

Amounts in million euros

	EAD[1] after equity deductions (by RW bands)					EAD[1] after equity deductions (by regulatory approach)			
	RW ≤ 20%	RW between 20%-50%	RW between 50%-100%	RW between 100%-1250%	RW=1250%	Standard	IRB - RBA[2]	IRB - SF[3]	IRB - IAA[4]
Traditional securitisation	**191**	**74**	**1**	**9**	**32**	**8**	**298**	**0**	**0**
Of which retail underlying[5]	191	74	1	9	32	8	298	0	0
Of which wholesale underlying[5]	0	0	0	0	0	0	0	0	0
Synthetic securitisation	**1,863**	**0**	**0**	**0**	**0**	**0**	**0**	**1,863**	**0**
Of which retail underlying[5]	0	0	0	0	0	0	0	0	0
Of which wholesale underlying[5]	1,863	0	0	0	0	0	0	1,863	0
Total	**2,054**	**74**	**1**	**9**	**32**	**8**	**298**	**1,863**	**0**

	RWA after cap (by regulatory approach)				Own fund requirements after cap (by regulatory approach)				Deductions from equity
	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]	
Traditional securitisation	**12**	**57**	**0**	**0**	**1**	**5**	**0**	**0**	**4**
Of which retail underlying[5]	12	57	0	0	1	5	0	0	4
Of which wholesale underlying[5]	0	0	0	0	0	0	0	0	0
Synthetic securitisation	**0**	**0**	**130**	**0**	**0**	**0**	**10**	**0**	**40**
Of which retail underlying[5]	0	0	0	0	0	0	0	0	0
Of which wholesale underlying[5]	0	0	130	0	0	0	10	0	40
Total	**12**	**57**	**130**	**0**	**1**	**5**	**10**	**0**	**45**

In the upper table, regulatory exposure is reported only for those securitisations with recognition of significant risk transfer. The exposure of the investor tranches of multiseller secutisations where CaixaBank Group acts as originator, whose capital requirements do not depend on the risk transfer in the corresponding originator tranches, is also reported.

No breakdown of re-securitisation positions is added in the table because CaixaBank Group does not act as originator in any re-securitisation.

(1) EAD is the net exposure of value adjustment for asset impairment, calculated according the COREP standards.

(2) IRB - RBA (IRB - Rating Based Method): IRB method based on ratings

(3) IRB - SF (IRB - Supervisory Formula Method): IRB method based on supervisory formula

(4) IRB - IAA (IRB - Internal Assessment Approach): IRB method based on internal evaluation

(5) The breakdown between retail and wholesale underlying is done according to the classification of the highest proportion of underlying EAD.

As can be seen from the table, at year-end 2016 the CaixaBank Group applied the IRB-RBA (IRB-Ratings Based Approach) approach in most of its traditional securitisation exposure, whilst it applied the IRB SF (IRB - Supervisory Formula) approach to the synthetic securitisation. The CaixaBank Group does not apply the IRB -IAA (IRB - Internal Assessment Approach) approach in any cases. The table also shows that most of the securitisation exposure subject to capital requirements receives the lowest level of risk weighting (less than 20%).

The CaixaBank Group uses four external rating agencies considered acceptable by the regulator - Moody's, S&P, Fitch and DBRS - in the calculation methods for the capital requirements of securitisations mentioned above that require external credit ratings.

The most significant change in regulatory exposure and capital requirements compared to year-end 2015 was due to the new “Gaudi Synthetic 2015” synthetic securitisation (originated in February 2016), with regulatory exposure following deductions of EUR 1,863 million. This securitisation involved an increase in capital requirements through the securitisation of EUR 10.4 million and capital deductions of EUR 40.5 million. Taken overall, and considering the capital charge for the securitised assets, this operation resulted in a significant release of risk-weighted assets for the entity.

The securitisations in which the CaixaBank Group acts as an investor are not shown in an additional table (SEC4) as they are very residual and insignificant in size. These securitisations involved regulatory exposure of EUR 0.025 million at December 2016. The standardised approach is used in calculating capital requirements for all such securitisations, which amount to EUR 0.001 million (applying risk weights between 20%-50%).

6.3.3. Quantitative aspects

Exposures in securitisation transactions and amount of assets securitised

The following table shows the on- and off-balance sheet positions held in securitisations by the CaixaBank Group, all through CaixaBank, at 31 December 2016, by type of exposure and role in the securitisation. This table shows all exposures to securitisations irrespective of whether a significant portion of the regulatory risk is transferred or retained.

Table SEC2. Securitisation positions by type of exposure

Amounts in millions of euros

Type of exposure	31.12.16 Exposure	31.12.16 % weight	31.12.15 Exposure
1) Securitisation positions where the Group acts as originator	**31,753**	***100%***	**14,450**
A) On-balance securitisation positions	**31,678**	***100%***	**14,354**
Securitisation bonds - senior tranche	25,728	*81%*	10,824
Securitisation bonds - mezzanine tranche	1,631	*5%*	1,376
Securitisation bonds - equity tranche	2,583	*8%*	1,112
Subordinated loans	1,735	*5%*	1,042
B) Off-balance securitisation positions	**75**	***0%***	**96**
Liquidity facilities	0	*0%*	0
Interest rate derivatives	75	*0%*	96
2) Securitisation positions where the Group acts as investor	**0**	***0%***	**6**
A) On-balance securitisation positions	**0**	***0%***	**6**
Securitisation bonds - senior tranche	0	*0%*	0
Securitisation bonds - mezzanine tranche	0	*0%*	0
Securitisation bonds - equity tranche	0	*0%*	6
Subordinated loans	0	*0%*	0
B) Off-balance securitisation positions	**0**	***0%***	**0**
Liquidity facilities	0	*0%*	0
Interest rate derivatives	0	*0%*	0
Total	**31,753**	**100%**	**14,456**

In the upper table, regulatory exposure is reported regardless of the recognition (or not) of significant risk transfer. The exposure of the investor tranches of multiseller secutisations where CaixaBank Group acts as originator, whose capital requirements do not depend on the risk transfer in the corresponding originator tranches, is also reported (in the section "Securitisation positions where the Group acts as originator").

Comparing the amounts in the previous table with those for year-end 2015 shows that CaixaBank's regulatory exposure to securitisation tranches increased overall by EUR 17,298 million. This increase was mainly down to:

- ✓ An increase in exposure of EUR 17,770 million euros due to retention of three securitisations originated by CaixaBank in 2016 (CAIXABANK RMBS 1, F.T., CAIXABANK CONSUMO 2, F.T. and CAIXABANK PYMES 8).
- ✓ An increase in exposure of EUR 1,903 million due to the synthetic securitisation (GAUDI SYNTHETIC 2015-I) originated by CaixaBank in 2016.
- ✓ The decrease in exposure in retained securitisations due to their periodic redemptions.

The following table shows more details of the CaixaBank Group's positions in securitisation operations at the date of this report, broken down by type of exposure, type of securitisation and type of securitisation action. Unlike the previous table, the exposure in this table does not include value corrections for asset impairment.

Table SEC3. Exposure in held-to-maturity portfolio securitisations (SEC1)

Amounts in millions of euros

	CaixaBank acts as originator			CaixaBank acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Residential mortgage	21,519	0	21,519	0	0	0
Commercial mortgage	0	0	0	0	0	0
Credit card	0	0	0	0	0	0
Leasing	596	0	596	0	0	0
Loan to corporate or SME treated as corpo	5,145	1,903	7,048	0	0	0
Consumer credit	2,609	0	2,609	0	0	0
Commercial debtor	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total	**29,868**	**1,903**	**31,771**	**0**	**0**	**0**

In the upper table, original exposure, without considering value adjustments for asset impairment, is reported, regardless of the recognition (or not) of significant risk transfer. The exposure of the investor tranches of multiseller secutisations where CaixaBank Group acts as originator, whose capital requirements do not depend on the risk transfer in the corresponding originator tranches, is also reported (in the section "CaixaBank acts as originator").

No breakdown for positions under the section "CaixaBank acts as sponsor" is added because, as explained, CaixaBank does not act as sponsor in any securitization.

The variations compared to the previous year share the same explanations as the “Securitization positions by type of exposure” table.

As previously mentioned, all of the CaixaBank Group's securitisation positions belong to the held-to-maturity portfolio: there are no securitisation positions in the held-for-trading portfolio. Therefore, the “Exposure to securitisation in the held-for-trading portfolio” (SEC2) table has not been included in this document.

In addition, the following table provides details of the regulatory exposure of the securitisations originated and retained by the entity, broken down by type of exposure, and the outstanding balance of the securitised contracts in these. In addition, it also includes the volume of operations that are impaired or in default, and the losses recognised by the entity.

Table SEC4. Securitisation positions and outstanding securitised balance by type of asset.

Amounts in millions of euros

	Securitisation positions retained	Total current amount(1) of securitised exposures	Current amount(1) of exposures securitised in traditional securitisations	Current amount(1) of exposures securitised in synthetic securitisations	Of which: current amount of transactions impaired or in default	Effective impairment losses
Residential mortgage	21,501	22,464	22,464	0	409	276
Commercial mortgage	0	0	0	0	0	0
Credit card	0	0	0	0	0	0
Leasing	596	479	479	0	12	15
Loan to corporate or SME treated as corporate	7,048	7,189	5,166	2,024	124	38
Consumer credit	2,609	2,302	2,302	0	100	28
Commercial debtor	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total	**31,753**	**32,434**	**30,411**	**2,024**	**645**	**357**

(1) Current amount: Consistent with the data reported in COREP c14.00, it is the drawn securitised amount at the reporting date

The above table shows that the CaixaBank Group retains the instruments issued in its origination activity. It also shows that the main underlying asset for the portfolio of securitisations originated is residential mortgages.

Finally, at the date of this report, the Group held no securitised positions in revolving 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.

6.4. EQUITY PORTFOLIO

In 2016, the CaixaBank Group reduced the weight of capital requirements for its investees business to below 10%, achieving the strategic objective ahead of schedule

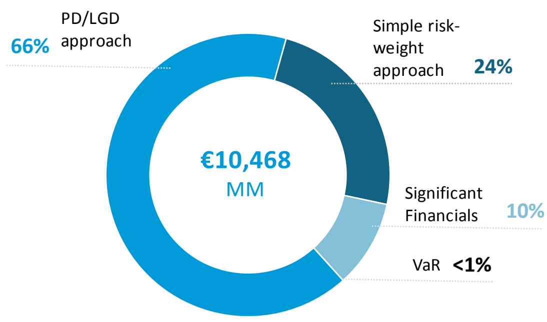
- The risk associated with equity investments entails a possible loss or reduction in the Group's solvency caused by adverse movements in market prices, potential sales or insolvency of its equity holdings.
- At the CaixaBank Group, equity holdings are subject to monitoring and specialist analysis.
- As of 31 December 2016, the EAD for risks associated with the equity investment portfolio amounted to EUR 10,468 million. 72% of the EAD of the equity portfolio is traded on organised markets. The VidaCaixa Group accounts for a large part of the EAD of the non-listed portfolio.
- In May 2016, CaixaBank carried out a swap transaction with CriteriaCaixa, to which it transferred its equity holdings in The Bank of East Asia, Limited (BEA) (17.3%) and Grupo Financiero Inbursa, S.A.B. de C.V. (GFI) (9.01%), in exchange for 9.9% of its treasury shares and an amount in cash. This swap reduced the weight of the investees business (not including the VidaCaixa Group) to less than 10% of the Group's total capital requirements, achieving this strategic objective ahead of schedule.
- At year-end 2016, the holding in BPI was included in the equity portfolio of the CaixaBank Group.
- Applying the calculation charge method, the ratios of RWAs to EAD are: PD/LGD 170%; VaR 617%; simplified approach 368%; significant investments in financial entities 250% CaixaBank.

EUR 23,703 million
RWAs for equity portfolio risk

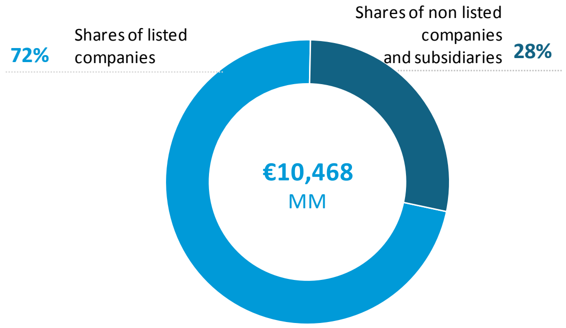
EUR 10,468 million
EAD for equity portfolio risk

100%
Assessed by internal models

EAD FOR EQUITY PORTFOLIO
Distribution by approach, %



EAD FOR EQUITY PORTFOLIO
Distribution in terms of listed or unlisted instruments, %



CONTENTS

6.4.1. Management of equity portfolio risk
6.4.2. Own funds requirements
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6.4.1. Management of equity portfolio risk

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.

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 responsible exclusively for monitoring changes in economic and financial data and for understanding and issuing alerts in the event of changes in regulations and fluctuations in 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 Control 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.

  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), as necessary 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.

Management of equity exposures at CaixaBank

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

This uses, *inter alia*, tools arising under the framework of the new European regulation governing capital requirements: CRD IV and CRR[1].

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.

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

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.

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

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 credit risk and the PD/LGD approach is therefore 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. For mutual funds, the simple risk-weighted method is used.

However, the PD/LGD approach is used for some strategic investments classified as available for sale, for which there is a long-term management relationship. 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 Executive Global Risk

Management Division and distributed to the relevant committees are listed below:

- ✓ Market risk report, monitoring the risk (VaR) of the CaixaBank Group's trading derivatives in connection with Criteria's strategic holdings.
- ✓ The report on Currency Risk in CaixaBank Investees, which includes monitoring of risk (VaR) for the exchange rate associated with these holdings.
- ✓ The CaixaBank Group's Positioning Report for financial instruments, which is part of the global monitoring of the positions that comprise market operations, and covers both the fixed-income and equity positions held by the CaixaBank Group, including those in VidaCaixa, and guaranteed mutual and pension funds.

6.4.2. 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[1].

[1] Described in section 6.4.1.

Table EQU1. Exposure of the equity portfolio

Amounts in millions of euros

Method	%	Original exposure	EAD	LGD (1)	RWA	RWA density	EL
Simple risk-weight approach	24.0%	2,516	2,516	90%	9,266	368.26%	60
PD/LGD approach	66.2%	6,930	6,930	90%	11,785	170.06%	32
Internal Model approach	0.3%	27	27	90%	165	616.91%	0
Risk- weighted equity exposures	9.5%	995	995	90%	2,487	250.00%	0
Total	**100.0%**	**10,468**	**10,468**		**23,703**	**226.44%**	**92**

(1) It used an LGD of 90%

Amounts in millions of euros **12/31/2015**

Method	%	Original exposure	EAD	LGD (1)	RWA	RWA density	EL
Simple risk-weight approach	18.2%	2,383	2,383	90%	8,756	367.40%	56
PD/LGD approach	62.3%	8,162	8,162	90%	14,136	173.20%	44
Internal Model approach	0.4%	55	55	90%	250	456.60%	0
Risk- weighted equity exposures	19.1%	2,507	2,167	90%	5,417	250.00%	0
Total	**100.0%**	**13,107**	**12,767**	**90%**	**28,559**	**223.70%**	**100**

(1) It used an LGD of 90%

On the grounds of comparability, Deferred Tax Assets (DTAs) amount at end 2015 has been classified as credit risk by standardised approach risk type.

6.4.3. Quantitative aspects

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 2016 financial statements show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity.[1]

Stakes in these companies are recorded under the following asset categories:

Investments[2]. Investments in the capital of entities classified as Group companies, jointly controlled entities[3] or associates.

Available for sale financial assets. Other stakes, excluding those in the trading portfolio.

The accounting policies and measurement methods used for each of the categories are described below.

Investments

Investments are measured using the equity method, with the best estimate of their underlying carrying amount when the financial statements are drawn up. 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

[1] See Note 7 "Business combinations, acquisition and disposal of ownership interests in subsidiaries", Note 13 "Available-for-sale financial assets," Note 17 "Investments in joint ventures and associates" and Appendices 1, 2 and 3 to the CaixaBank Group financial statements.

[2] 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.

[3] Exceptions are jointly controlled entities acting as holders of stakes. See section 3.4 of this document and Note 2.1, "Business combinations and basis of consolidation", to the CaixaBank Group's 2016 financial statements.

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.

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 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.

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 2016.

Table EQU2. Carrying amount of stakes and equity instruments not held for trading

Amounts in millions of euros

Available-for-sale assets	**2,946**
Shares in listed companies [1]	2,289
Shares in unlisted companies	570
Ownership interests in investment funds and other	87
Investments	**6,421**
Listed	5,071
Unlisted	1,350
Total carrying amount	**9,367**

(1) The carrying amount of these assets is equal to fair value.

Table EQU3. Fair value of stakes and equity instruments not held for trading

Amounts in millions of euros

Available-for-sale assets	**2,946**
Shares in listed companies [1]	2,289
Shares in unlisted companies	570
Ownership interests in investment funds and other	87
Investments	**5,262**
Listed	3,912
Unlisted	1,350
Total carrying amount	**8,208**

(1) The carrying amount of these assets is equal to fair value.

At 31 December 2016, the market value of the CaixaBank Group's listed portfolio, which includes "Investments in joint ventures and associates" and "Available-for-sale financial assets - Equity instrument", was EUR 6,201 million.

Value of equity exposures

As of 31 December 2016, the EAD for risks associated with the equity investment portfolio amounted to EUR 10,468 million. 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.

Table EQU4. Exposures in equity investments not held for trading.

Amounts in millions of euros

Exposures	Original exposure	EAD	LGD	RWA	RWA density	EL
AFS assets	**3,041**	**3,041**	**90%**	**6,015**	**198%**	**18**
Shares of listed companies	**2,478**	**2,478**		**3,985**	**161%**	**5**
Método Simple	55	55		158	290%	0
Método VaR	27	27		165	617%	0
Método PD/LGD	2,397	2,397		3,662	153%	5
Shares of non listed companies	**563**	**563**		**2,029**	**360%**	**13**
Método Simple	506	506		1,874	370%	12
Método PD/LGD	46	46		128	279%	1
Exp. RV sujetas a pond. de riesgo	11	11		28	250%	0
Shares (multigroup and associated subsidiaries)	**7,426**	**7,426**	**90%**	**17,688**	**238%**	**73**
Listed company shares	**5,068**	**5,068**		**9,115**	**180%**	**11**
PD/LGD Method	4,157	4,157		6,838	164%	11
Risk weighted equity exposures	911	911		2,277	250%	0
Non listed shares	**2,358**	**2,358**		**8,574**	**364%**	**63**
Simple method	1,955	1,955		7,234	370%	47
PD/LGD Method	330	330		1,157	351%	16
Risk weighted equity exposures	73	73		182	250%	0
Total	**10,468**	**10,468**	**90%**	**23,703**	**226%**	**92**

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 EQU5. Equity exposures (simplified approach)

Amounts in millions of euros

IRB Regulatory Segment	Original exposure	RWA density	EAD	RWA
Private equity exposures in sufficiently diversified	0	190%	0	0
Exchange traded equity exposures	55	290%	55	158
Other equity exposures	2,462	370%	2,462	9,108
Total	**2,516**		**2,516**	**9,266**

The following table shows exposure to risk associated with the equity portfolio, LGD and average risk weighting[1].

This shows that most holdings are concentrated in master scales with high credit quality (master scales 2 and 3).

[1] This information is shown only for equity exposures to which the PD/LGD method is applied.

Table EQU6. Exposure by category of exposure and debtor level

Amounts in millions of euros

PD grade	Average PD	Original exposure	EAD	LGD	RWA	RWA density	EL
1	0.00%	0	0	0.00%	0	0%	0
2	0.16%	1,245	1,245	90.00%	1,597	128%	2
3	0.29%	5,336	5,336	90.00%	8,938	168%	14
4	0.74%	100	100	90.00%	238	237%	1
5	1.73%	91	91	90.00%	270	297%	1
6	3.38%	1	1	90.00%	2	261%	0
7	10.03%	157	157	90.00%	740	471%	14
8	14.24%	0	0	90.00%	0	409%	0
9	0.00%	0	0	0.00%	0	0%	0
Performing Portfolio	**0.52%**	**6,930**	**6,930**	**90.00%**	**11,785**	**170%**	**32**
Default	100.00%	0	0	90.00%	0	0%	0
Total	**0.52%**	**6,930**	**6,930**	**90.00%**	**11,785**	**170%**	**32**

Accumulated other comprehensive income on available-for-sale equity instruments

The table below shows changes in accumulated other comprehensive income on available-for-sale equity instruments for the CaixaBank Group in 2016, with the amounts taken to the income statement[1].

Table EQU7. Annual variation in accumulated other comprehensive income on available-for-sale equity instruments

Amounts in millions of euros

Balance of valuation adjustments at 31/12/15	Amounts transferred to income statement (1)	Valuation gains and losses (2)	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/16 (3)
55	26	(541)	67	(393)

(1) After tax.
(2) Before tax.
(3) Includes valuation adjustments on non-controlling interests

[1] See Note 25.2 "Accumulated other comprehensive income" to the CaixaBank Group's 2016 financial statements.

7. MARKET RISK

The CaixaBank Group's activity in financial markets focuses on providing a service to customers, minimising exposure to risk

- The market risk of the CaixaBank Group's held-for-trading portfolio quantifies possible losses that might arise due to changes in: interest rates, exchange rates, share prices, commodity prices, inflation rates and credit spreads on private fixed-income positions.
- The losses estimated using the VaR (Value at Risk) calculation are compared to actual daily results to verify that the risk estimates are appropriate, in a backtesting exercise. The results of these comparisons were satisfactory in 2016, meaning that there were no additional capital requirements for this risk.
- As a complement to the VaR test, two types of stress testing are carried out on the value of positions (systemic stress analysis and historical scenario analysis) under extreme crisis scenarios, to estimate potential losses on the portfolio in the event of extraordinary movements in the risk factors to which they are exposed.

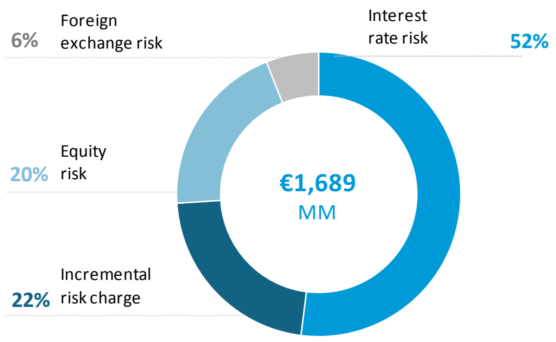
EUR 1,689 million
RWAs for market risk

EUR 8.7 million
Average annual VaR 10d - 2016

81%
RWAs assessed by internal models

RWAS FOR MARKET RISK

Distribution by type of risk, %



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7.1. Management of market risk
7.2. Own funds requirements
7.3. Quantitative aspects

7.1. Management of market risk

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, 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. Nevertheless, hedging derivatives (CDS) for CVA credit risk accounted for as a trading portfolio are calculated under the standardised approach for the purpose of regulatory capital requirements.

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.

In performance of 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 risk assumed. A daily control report is submitted to Senior Management, supervisors, Internal Validation and Internal Audit.

The Executive Global Risk Management Division, which comprises the Risk in Market Operations Department, acts, organisationally and functionally, independently of the risk-taking. This enhances the autonomy of its risk management, monitoring and control tasks, as 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.

Risk management. Measurement and information systems[1]

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, i.e. actual; and net, i.e. hypothetical) 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.

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 RAF 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, excluding hedging derivatives for the Credit Valuation Adjustment (CVA), which are recognised for accounting purposes in the held-for-trading portfolio. Moreover, both positions in the trading

[1] See Note 3.4 Market Risk to the CaixaBank Group's 2016 consolidated financial statements for more information.

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.

Subsequently, CaixaBank Global Risk Committee defined specific limits for incremental default and migration risk of ratings (IRC) on fixed-income portfolios and stressed VaR in July 2011 and March 2012, respectively.

7.2. Minimum own funds 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 2016 by measurement approach (internal model or standardised approach, as applicable).

Table MR1. Breakdown of RWAs for market risk

Amounts in millions of euros

	RWA		
	Internal Model Approach	Standarized Approach	Total
Interest rate risk (1)	678	324	1,003
Equity risk (1)	421	0	421
Foreign exchange risk	126	0	126
Commodity risk	0	0	0
Adjustment for correlation between factors (2)	-224	0	-224
Incremental risk charge (2)	364	0	364
Total	**1,364**	**325**	**1,689**

(1) General and Specific

(2) Only for the internal model

Whilst capital requirements for hedging derivatives for CVA interest rate risk are calculated using the internal approach, capital requirements for market risk on hedging derivatives for CVA credit risk (in this case, CDS, also included in the accounting held-for-trading portfolio) are calculated under the standardised approach (specific interest rate risk). There is no breakdown of the calculation of RWAs under the standardised approach for options, as all of the options in the held-for-trading portfolio are subject to the internal approach. Likewise, there is no breakdown of market risk for securitisations, as the CaixaBank Group has no securitisation transactions in its held-for-trading portfolio.

At 31 December 2016, there were no RWAs for liquidity risk.

7.3. Quantitative aspects

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 trading and positioning in, mainly, money, fixed-income, equity and currency markets. It also includes CVA hedging derivatives for credit and market risk, which are recognised from an accounting perspective in the held-for-trading portfolio.

A specific policy has been approved for determining, identifying, potentially including in the internal approach, 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. The measurement of this uncertainty in fair value is carried out through Additional Valuation Adjustments (AVA).

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. This 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 2016, the amount of minimum own funds requirements for exposure to positions in the trading portfolio and to foreign currency risk was EUR 135,111 thousand.

Internal models

The CaixaBank Group is exposed to market risk for adverse movements in the following factors: interest rates, exchange rates, share 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 regulatory own funds for market risk in 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 at 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 VaR on the interest rate and exchange rate portfolios (from fluctuations in interest rates, foreign exchange rates and the volatility of these) 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 (if any) VaR to the previous metrics, assuming a correlation of one between the three. A single model is used that splits out the general and specific risk of equities, whilst the specific risk of private fixed income and credit derivatives is estimated in a separate calculation (Spread VaR), and added to the VaR of the interest rate and exchange rate portfolios with zero correlation. Interest rate VaR separates out the general and specific risk of sovereign debt in a single model.

Daily VaR is defined as the highest of the three quantifications (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” 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.

Stressed VaR is calculated using full-simulation historical 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 the 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 2016, as well as their value at the close of the period of reference, are shown in the following table.

Table MR2. IMA values for the held-for-trading portfolio

	VaR (10d 99%)	Stressed VaR (10d 99%)	Incremental Risk (99.9%)
Maximum	25.75	42.93	91.94
Average[(1)]	8.66	22.87	39.35
Minimum	4.06	10.27	9.44
Last value	5.40	17.50	26.00

(1) Year average

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 MR3. Own funds requirements for market risk calculated using the internal model

Amounts in millions of euros

	Last Value	Average 60d	Multiplier	Capital Req	RWA
VaR 10d	5.40	7.42	3	22	278
Stressed VaR 10d	17.50	19.27	3	58	723
IRC	26.00	29.09		29	364
Total				**109**	**1,364**

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. The risk estimate model is checked in two ways, as required under the Regulation:

- ✓ 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 is also carried out to compare 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. Net backtesting

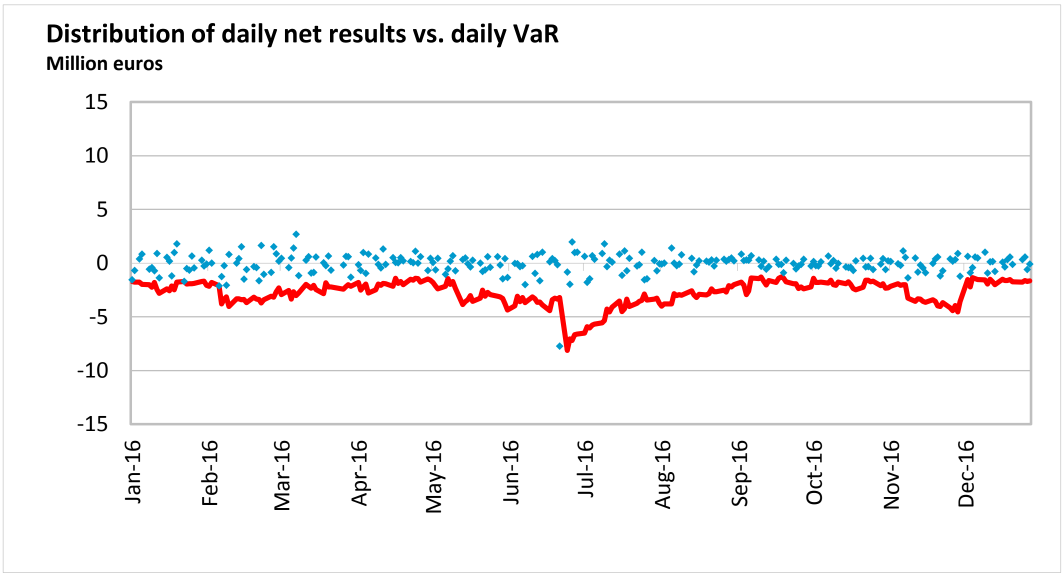
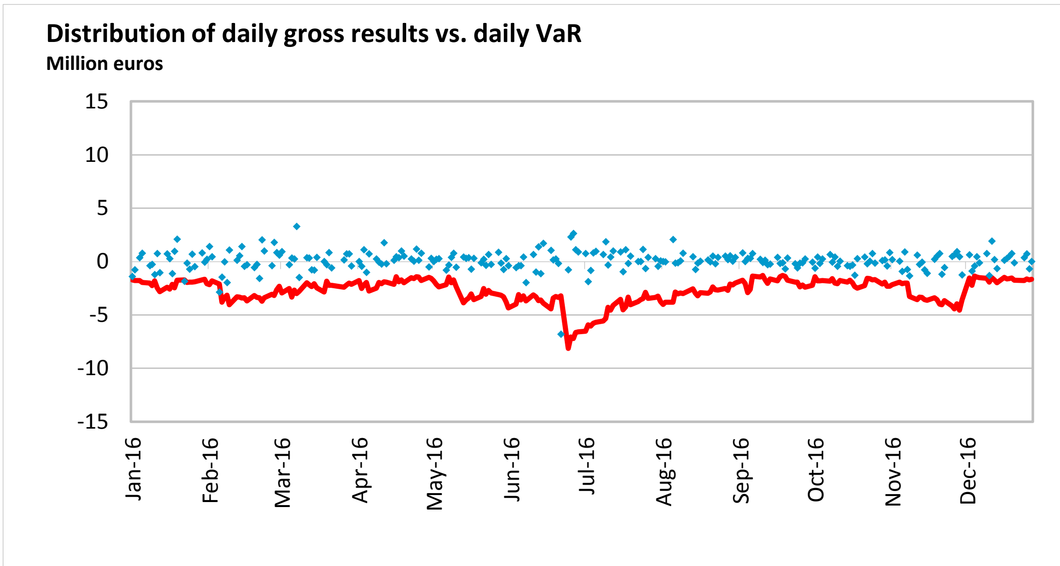


Chart. Gross backtesting



During the year, there were three excesses in the net backtesting exercise (number of times net losses on the portfolio are higher than estimated VaR) and three excesses in the gross backtesting exercise, due mainly to the volatility of the government debt and equity markets amid widespread political and economic uncertainty.

2. Stress testing

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 interval using the Extreme Value Theory.

3. Monitoring and control

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 Executive 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 actual return compared to the risk undertaken.

The Risk in Market Operations Department has sufficient human resources, with considerable technical capacity, to apply 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, supervisors and Internal Audit:

- ✓ All treasury activity.
- ✓ The position constituted by the internal market risk model for calculation of own funds, including equity derivatives on investees.
- ✓ The structural position in foreign currency.

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 ensure a healthy risk profile and preserve the solvency and guarantee mechanisms, thereby ensuring the comprehensive management of the various risks.

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 market activities and the risk measurement and control mechanisms used for these activities are subject to ongoing internal audit. In its most recent report, in 2016, 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.

8. OPERATIONAL RISK

Reinforcement of the integration of operational risk into management in the face of the financial sector's complex regulatory and legal backdrop

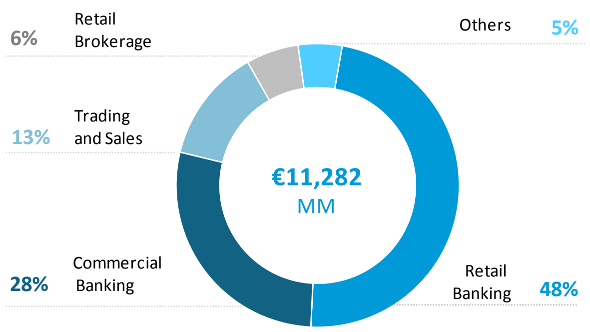
- Operational risk is defined as the possibility of incurring financial losses due to the failure or unsuitability of processes, people, internal systems and external events.
- The overall objective of the operational risk management is to contribute to the organisation's long-term continuity, by providing information on operational risks to improve decision making, processes and quality of service, both internally and externally.
- In 2016, the integration of the management of operational risk was reinforced, with training at all levels of the organisation.
- The standardised approach is used to calculate eligible own funds requirements. However, the measurement and management model implemented is designed to support management through risk-sensitive methodologies, in line with best practices in the market, so as to reduce future losses from operational risk.
- The chart shows that operational losses are concentrated in execution, delivery and process management and customers, products and commercial practices.

EUR 11,282 million
RWAs for operational risk

45%
of operational losses for events involve customers, products and commercial practices

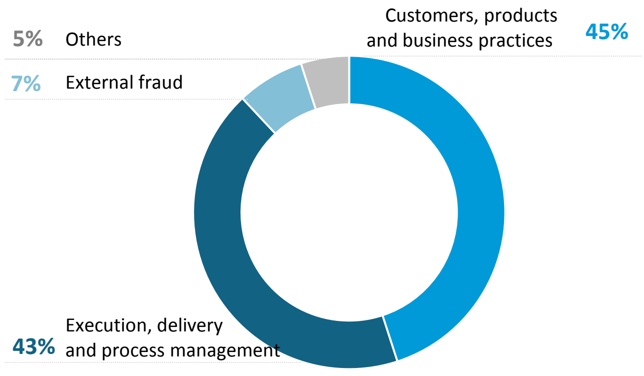
RWAs FOR OPERATIONAL RISK

Distribution by business line, %



OPERATIONAL LOSSES

Distribution by operational risk category, %



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8.1. Operational risk management

General policy

The CaixaBank Group seeks 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 financial solvency in accordance with best practices in the market, for which it has put in place the necessary tools, policies and structures.

Structure and organisation of the management 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 Global Risk Management Information Department, which reports to the Corporate Risk Models and Policies Division, which in turn reports to the Executive Global Risk Management Division. Overall control and oversight of operational risk is carried out by this Executive Division, which materialises the independence functions required by the Basel Committee on Banking Supervision. Its responsibilities include the control and oversight of operational risk.

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.

The Corporate Business Control Division is the specific control unit of the General Business Division and oversees monitoring of the control environment in the first line of defence.

The Risk Models Validation area is in charge of validating the international operational risk model if an internal approach to quantifying capital is available.

According to the 3 lines of defence model implemented, Internal Audit is the third line of defence. It oversees the activities of the first and second lines, providing support to Senior Management and the governing bodies so as to provide reasonable certainty with regard to, *inter alia*, regulatory compliance and the appropriate application of internal policies and regulations regarding operational risk management.

IT Services is responsible for the technological infrastructure on which operational risk management is based.

Operational risk categories

The types of operational risk in the CaixaBank Group are structured into four categories or hierarchical levels, from the most generic to the most specific and detailed.

The main risk categorisation in the Group is based on levels 1 and 2, as defined under the regulations (the most generic or aggregated). These are extended and developed for risk circumstances up to levels 3 and 4, which are specific to the Group. These 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.

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.

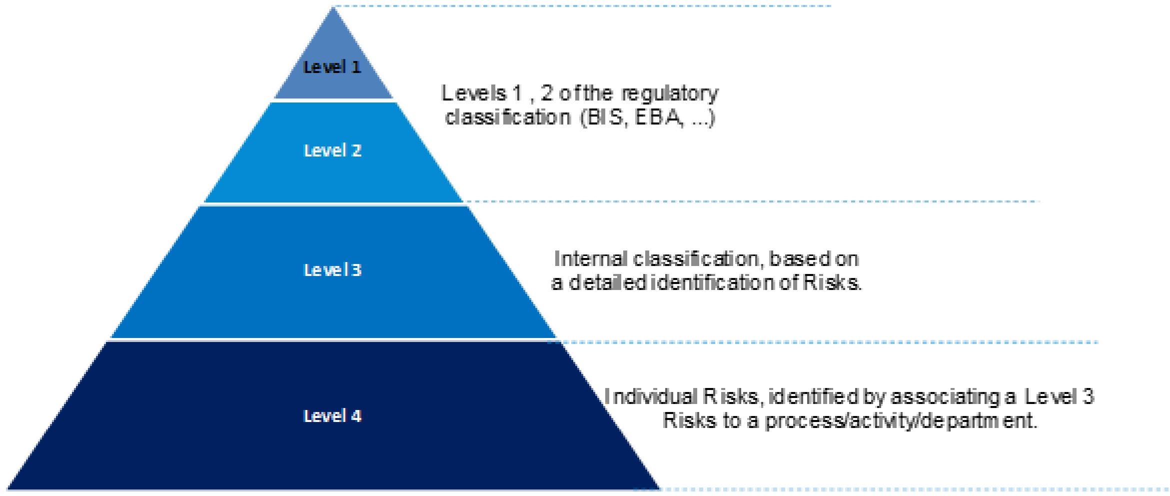


Diagram 6

Risk management. Measurement and information systems

The Group's overall objective with regard to the management of operational risk 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.

The main milestones in 2016 were:

- ✓ Implementation and regular monitoring of service level agreements (SLAs) in operational risk management.
- ✓ Review of operational risk metrics in the Risk Appetite Framework: new metrics for conduct and technological risk.
- ✓ Specific training initiatives for operational risk
- ✓ Annual updating of extreme operational loss scenarios and operational risk self-assessment
- ✓ Analysis of the impact of the future regulatory method - the SMA (Standardised Measurement Approach) - and review of documentation for the main operational losses.
- ✓ Specific projects to reduce the main recurrent operational losses.
- ✓ Refinement of the composition of the Operational Risk Committee.
- ✓ Quarterly loss benchmarking report.

8.2. Minimum own funds requirements

The following table shows the CaixaBank Group's RWA for operational risk at 31 December 2016.

Table OR1. RWA for operational risk

Amounts in millions of euros

	Average of Relevant Income	RWA
Retail Banking	3,304	4,956
Retail Brokerage	524	787
Asset Management	123	184
Commercial Banking	1,856	3,480
Agency Services	28	52
Trading and Sales	662	1,488
Coporate Finance	148	334
Payment and Setlements	0	0
Total	**6,645**	**11,282**

Calculation of eligible own funds requirements

The Group applies the standardised approach for calculating regulatory capital for operational risk.

The standardised approach involves multiplying a relevant indicator of exposure to operational risk by a coefficient.

This indicator is practically equivalent to the three-year average of gross income taken from the income statement.

Regulations set down that the indicator should be broken down into eight regulatory business lines, with the part assigned to each of these being multiplied by a specific coefficient, as shown in the following table:

Table OR2. Operational risk: business lines and weights

	Beta Factors
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	12%

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

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

8.3. Operational risk management levers

To achieve the management objective, the operational risk model is based on the:

***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 framework defines the Operational Risk Measurement System, based on the policies, procedures and processes used to manage operational risk, in line with the Group's general risk policies.

***Operational Risk Measurement System* (ORMS)**: This is the system the Entity uses to determine its operational risk and related capital requirements. It integrates operational risk management into the Group's day-to-day activities, based on a combination and interaction of qualitative and quantitative methodologies.

The model is structured as follows:

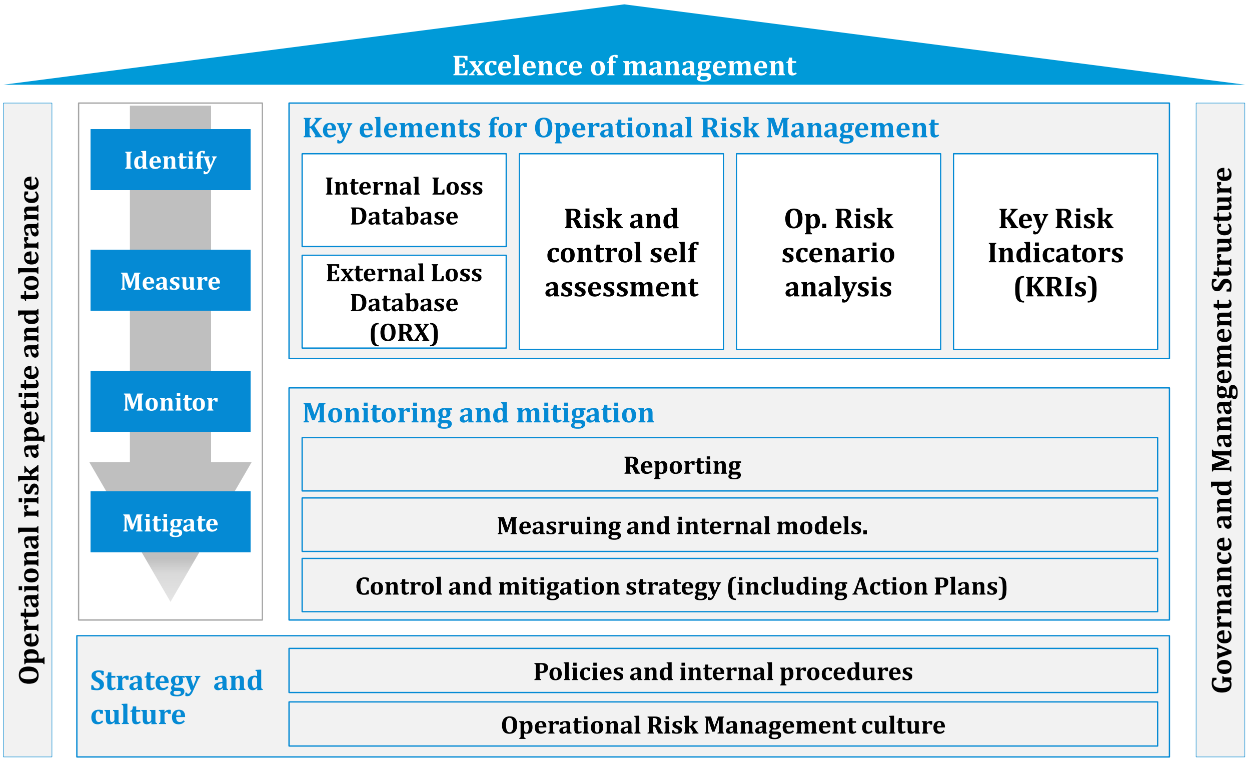


Diagram 7

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.

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 an integrated tool, 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.

The tool is fed by multiple data sources from the transactional systems (of the Bank itself and some CaixaBank Group companies) on a daily basis to capture key events, losses and operational risk indicators; it also offers interfaces for updating the organisational structure and the other firms in the data model.

All risk self-assessment processes, loss enrichments, KRI management, identification of weaknesses, 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 international Operational Riskdata eXchange (ORX).

Finally, it is also important to note the integration with the bank's information system: multiple interfaces have been designed for downloading all information from the system and uploading into the Big Data environment to provide an analytical environment.

The main operational risk management mechanisms illustrated in Diagram 2 are discussed below.

Internal 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.

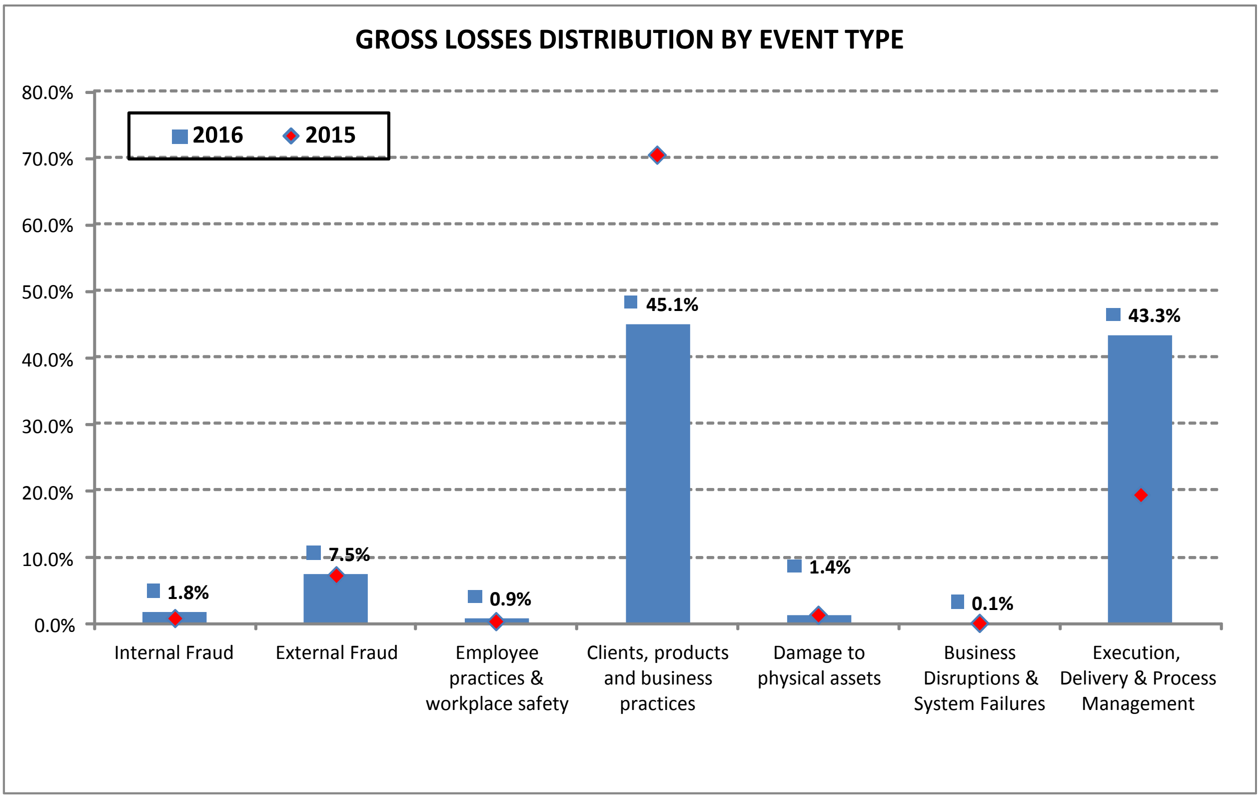
The operational event is the most important concept to bear in mind, with the entire Internal Database model hinging on this concept.

An operational event is defined as an event in which an identified operational risk is materialised. The concept of effect is derived from - and closely related to - the concept of event which, in turn, is defined as each individual economic impact related to an economic loss or recovery resulting from an operational event.

Therefore, an operational event may result in one, several or no operational effects, which may in turn be identified in one or several areas.

The distribution of the Group's gross operational losses in 2016 is shown in the following chart:

Chart. Distribution of the Group's gross operational losses



External database (ORX)

The implementation of quantitative methodology based on external operational loss data complements historic internal information on operating losses.

The Group has signed up to the ORX (Operational Riskdata eXchange) association, which provides information on operating 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 permits the use of other services provided by the consortium, which are designed to manage operational risk: ORX News service, working group on operational risk scenarios, methodological initiatives on internal models, etc.

Self-assessments

The qualitative assessment of operational risk is based on the operational risk self-assessment methodology. This methodology provides more knowledge of the operational risk profile, improves interaction with the centres involved in the management of operational risk and effectively integrates the management of operational risks into day-to-day operations.

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.

The operational risk internal assessment (over 600 risks) was updated in 2016, accompanied by a training campaign specifically for the contact persons involved. This was designed to improve on the results of the backtesting exercise carried out on completion of the 2015 campaign.

Operational risk scenarios

One of the foundations of the Group's management of operational risk is identification through qualitative techniques. To this end, it has implemented a methodology for generating operational risk scenarios that allows it 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.

The scenario generation process is a qualitative, recurring process carried out annually. It entails workshops and meetings with experts to generate hypothetical extreme operational loss scenarios for use in the own funds calculation methodology by internal models to detect areas for improvement.

The scenario generation process involves five stages: scope setting, scenario identification, scenario workshops, determination of scenarios, and monitoring and reporting.

The extreme operational loss scenarios were updated for the third time in 2016, making further efforts to detect drivers for quantifying losses and probability of occurrence, and providing experts with new proposals for scenarios obtained from the ORX scenario library.

Operational risk indicators (KRIs)

Measurement of operational risk indicators (Key Risk Indicators - KRIs) is one of the main qualitative/quantitative operational risk measurement methodologies. 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.

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 operational risk.

The main concepts in the definition and structure of operational risk indicators are the definition of the KRIs (including any sub-KRIs), thresholds, alerts (and related actions), frequency, the updating method and criticality.

Over 400 KRIs were studied during 2016, specifically to assess their suitability, predictive capability, usefulness for managing operational risk, and importance in global monitoring.

Moreover, as part of the set of operational risk metrics in the RAF (risk appetite framework), two new level 2 indicators were started, one for conduct risk and one for IT risk.

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.

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.

Standard action plan content entails appointing a centre to be in charge, and setting out the actions to be undertaken to mitigate the risk covered by the plan, the percentage or degree of progress, which is updated regularly, and the final commitment date.

The definition and monitoring process for action and mitigation plans involves the following three stages:

Diagram 8

Risk transfer (insurance)

The corporate insurance programme for dealing with operational risk is designed to cover and counterbalance certain risks, and, therefore, mitigate their impact. Risk transfer depends on risk exposure, tolerance and appetite at any given time.

Each year, an action plan is drawn up for the risk and insurance management system. The plan is predicated on the identification and assessment of operational and calamity risks, the analysis of risk tolerance, and the reduction of the total cost of risk (retention + transfer). This enables risk management and coverage to be integrated and streamlined as efficiently as possible, at the lowest cost possible, and with optimal security in accordance with the defined standards.

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.

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.

The following Diagram illustrates the different levels of operational risk reporting:

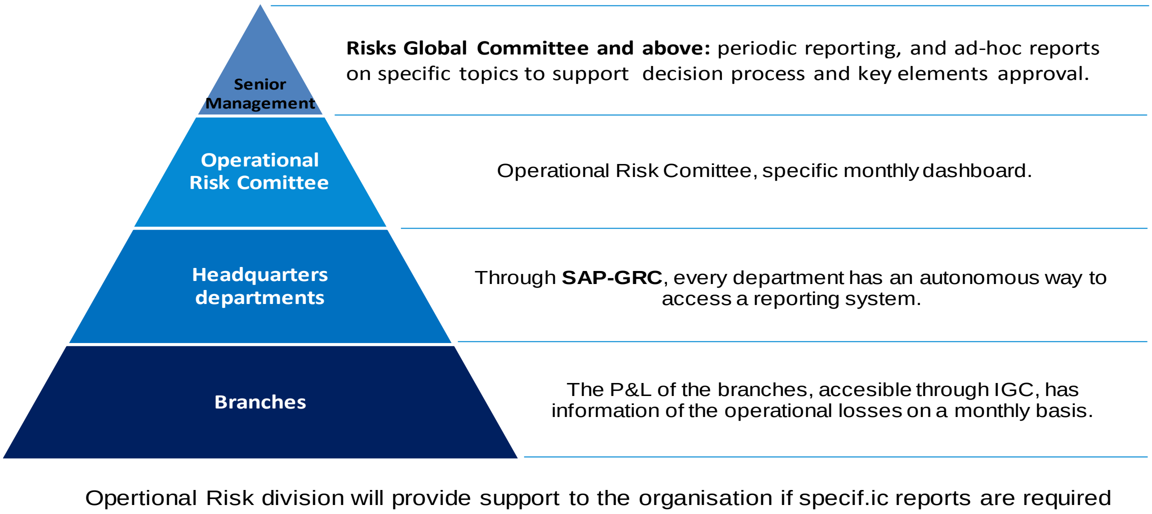


Diagram 9

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.

8.4. Connection with corporate risk mapping

The following risk cans also be identified, in parallel to the classification of risks required by regulation for internal management purposes:

Legal/Regulatory: Risk of losses due to errors in the interpretation or application of existing legislation and regulations or adverse judicial rulings. This also includes the risk of legislative or regulatory changes adversely impacting economic value.

Conduct and Compliance: Risk of CaixaBank applying criteria for action contrary to the interests of its clients and stakeholders and 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.

Technological (IT): Losses due to hardware or software inadequacies or failures in the technical infrastructures that could compromise the availability, integrity, accessibility and security of infrastructures and data.

Operating processes and external events: Risk of loss or damage caused by operational errors in processes related to the Bank's activity, due to external events beyond the Bank's control, or due to third parties outside the Bank, both accidentally and fraudulently.

Reliability of financial reporting: Deficiencies in the accuracy, integrity and criteria of the process used when preparing the data necessary to evaluate the financial and equity situation of the CaixaBank Group.

8.4.1. Legal and regulatory risk

Definition and general policy

Within the context of operational risk, legal and regulatory risk is defined as the probability of losses or decreases in the CaixaBank Group's profitability as a result of changes in the regulatory framework or unfavourable court rulings. 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.

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.

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 Head of International Strategic Relations. 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, the Head of Private and Premier Banking 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 laws 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), transparency in banking and collective investment schemes 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 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, queries involving the General Directorate of Tax (DGT, for the Spanish acronym).

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.

8.4.2. Compliance and conduct risk

Definition and general policy

In the context of operational risk, compliance risk is defined as risk arising from deficient procedures that generate actions or omissions that are not in line 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 compliance risk and, if it occurs, to detect, report and address the weaknesses promptly.

The 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 that capture regulations in their activity.

In order to manage compliance risk, management and governing bodies encourage the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics, and its members and other employees and Senior Management must ensure that they are compliant as a core criterion guiding their day-to-day activities. Therefore, as the first line of defence, the 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 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.

8.4.3. Technological risk (IT)

Definition and general policy

Within the context of operational risk, and pursuant to EBA guidance for the Supervisory Review and Evaluation Process (SREP), IT risk is defined as:

Risks of losses due to hardware or software inadequacies or failures in technical infrastructure that could compromise the availability, integrity, accessibility and security of the infrastructures and data.

IT risk is broken down into 5 categories:

- ICT availability and continuity risk.
- ICT security risk.
- Risk of changes in ICT.
- Data integrity risk in ICT.
- Outsourcing risk in ICT.

CaixaBank's Resources Governance defines the measurement of IT risk through a level 2 RAF (Risk Appetite Framework) indicator.

This indicator is calculated from the individual indicators by the heads of:

- IT Governance; and
- Information Security; and
- Technology Contingency.

Resources Governance reports all of the individual indicators, and the resulting RAF level 2 indicator, to Operational Risk (*ROP*) on a monthly basis in a specific report.

The individual indicators and their alignment with the categories we have mentioned are set out below, with the group responsible for their measurement:

- % compliance in technological contingency simulations
- % effectiveness of defence against cyber-attacks
- Indication of maintenance of ISO27001 certification
- % availability of channels
- Components transferred in critical period
- Components transferred > 5 times
- Quality of suppliers
- Manual intervention in the systems during critical period

Controls applied

Resources Governance carries out regular reviews of a sample of indicators. This review verifies the quality of the information and validates the methodology used in creating the indicators reviewed.

Tools used

Having assessed various options for risk management, Resources Governance decided to use the available IT tools. These tools make it simple to run a model to collect, assess, compare and store data for the indicators being managed.

Additional information

CaixaBank has also put in place a range of governance frameworks, designed according to leading international standards, for:

- Business continuity, designed and developed under the ISO22301 standard;
- Technological contingency, designed and developed under the ISO 27031 standard;
- IT governance, designed and developed under the ISO 38500 standard; and
- Information security, designed and developed under the ISO 27001 standard.

These governance models respond to regulatory, operational and business requirements, ensuring the implementation of best practices in their respective fields

8.4.4. Operating processes and external events

Definition and general policy

Within the context of operational risk, this is defined as the risk of losses or damage caused by operational errors in processes related to the Bank’s activity, due to external events beyond the Bank’s control, or due to third parties outside the Bank, both accidentally and fraudulently.

The CaixaBank Group seeks 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 financial solvency in accordance with best practices in the market, for which it has put in place the necessary tools, policies and structures.

Structure and organisation of management

All of the Group's areas and companies are responsible for the operational risks that arise from operating processes and external events within their respective remits.

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.

8.4.5. Risk associated with financial reporting reliability

This is the risk of damage, whether financial or other, stemming from possible deficiencies in the accuracy, integrity and criteria of the processes used in preparing the data necessary to evaluate the financial and equity situation of the CaixaBank Group.

This risk is managed using the 3 lines of defence model. The Internal Control over Financial Planning Models and Internal Audit functions exercise the second and third lines of defence, respectively, ensuring the quality of the information reported internally and to supervisors and the market

For more information on the control environment, refer to the internal control section in chapter 4. Risk Governance, Organisation and Management.

9. INTEREST RATE RISK IN THE BANKING BOOK

Comfortable metrics for interest rate risk in the banking book, with moderate positioning to increases in interest rates

- Interest rate risk in the banking book measures the Entity's exposure to variations in market interest rates, resulting from the structure and time profile of maturities and re-pricing of balance sheet items.
- The Entity is comfortably within the risk limits defined at the regulatory and management levels.
- As of December 2016, the balance sheet was moderately positioned for interest rate increases. From a structural perspective, the backdrop of exceptionally low interest rates has caused an increase in liability balances in the Entity's demand account, where sensitivity to interest rates is much lower than on term deposits.
- However, the extraordinary funding conditions offered by the European Central Bank have enabled the Entity to access long-term funds at fixed rates.
- 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 +6.46% on the rising scenario and -2.35% on the falling scenario.
- The one-year sensitivity of equity to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each, is approximately +3.76% on the rising scenario and -1.25% on the falling scenario, compared to the economic value in the baseline scenario.

6.46 / -2.35%
Sensitivity of the 1-year NII of sensitive balance sheet aggregates: +/- 100 BPs in interest rates

3.76% / -1.25%
Sensitivity of economic value of equity for sensitive balance sheet aggregates: +/- 100 BPs in interest rates

CONTENTS

9.1. Management of interest rate in the banking book
9.2. Quantitative aspects
9.3. Currency risk in the banking book

9.1. Management of interest rate in the banking book

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, affecting their fair value and resulting 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 for parallel increases and decreases in interest rates apply different values (200 bp and 100 bp), and gradual and immediate impact.
- ✓ In 2016, 8 additional stress scenarios were established with non-parallel movements in the interest rate curve, including considering the possibility of negative interest rates. These scenarios have been used to set a limit on variations in net interest income over 1 year, in the worst resulting scenario.
- ✓ Net interest income subject to volatility limits refers to both 1-year and 2-year net interest income.

There are three metrics for limits on 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 established as a percentage loss.
- ✓ In 2016, 8 additional stress scenarios were established with non-parallel movements in the interest rate curve, including considering the possibility of negative interest rates. These scenarios have been used to set a limit on variations in economic value in the worst resulting scenario.
- ✓ There is also a limit on the VaR of the sensitive balance sheet (measured in terms of economic capital), which must be below a specified % of potential loss.

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 regular oversight of internal monitoring 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. The Asset and Liability Committee (ALCO) is in charge of managing, monitoring and controlling interest rate risk in the banking book. To this end, it carries out monthly monitoring of compliance with the risk appetite framework (RAF), from the twin perspectives of net interest income and economic value. The Global Risk Committee (GRC), which reports to the Risk Committee, is responsible for controlling and monitoring interest-rate risk limits and indicators, but is not involved in their management.

The ALM (Asset and Liability Management) and Finance Division, which reports to CaixaBank's Executive Finance Division, is responsible for management of interest rate risk in the banking book, within the constraints imposed by management and regulatory limits.

The Balance Sheet Analysis and Monitoring Division, which reports to the Executive Finance Division, oversees modelling, analysis and monitoring of interest rate risk, and maintenance of the databases and forecasting tools needed to carry out such measurements. It also proposes and implements the methodologies and improvements required for its functions.

This risk is analysed considering a wide range of stress scenarios, including the potential impact of all possible sources of interest rate risk in the banking book, i.e. pricing risk, curve risk, basis risk and optionality risk. Optionality risk considers automatic optionality related to the behaviour of interest rates and the optionality of customer behaviour, which is dependent on a range of other factors, in addition to interest rates.

In performance of its functions, the Balance Sheet Analysis and Monitoring Division reports on the development of risks and factors affecting their evolution. In addition to the ALCO committee, it also reports to internal supervision functions (the 2nd and 3rd lines of defence, Risk in Market Operations Department and Internal Audit, respectively), with which it maintains on-going dialogue to ensure that risk is measured correctly and that adequate operating processes are maintained.

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 net interest-rate sensitive assets and liabilities on the balance sheet; ii) the fair value of off-balance sheet products (derivatives); and iii) the net carrying amounts of 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 three values is then used as the balance sheet VaR.

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

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. The objective is to project net interest income based on current market curves, 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 changes of slope (Steepening or Flattening, Short Up, Short Down, Long Up and Long 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.

✓ **Net interest income volatility:**

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 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.

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 characteristics of products on the balance sheet. 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.

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 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.

Hedging policies and mitigation techniques

At 31 December 2016, CaixaBank was using 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. In 2016, CaixaBank arranged hedges for new fixed-rate loans and purchases of the long-term fixed income portfolio.

9.2. Quantitative aspects

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 to different interest rate scenarios, including scenarios of negative interest rates and Value at Risk (VaR) 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 6.46% on the rising scenario and -2.35% on the falling scenario.

The sensitivity of equity to interest rates measures the effect of interest rate fluctuations on economic value. The one-year sensitivity of equity to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each (not considering negative interest rates) is approximately +3.76% on the rising scenario and -1.25% on the falling scenario, compared to the economic value in the baseline scenario.

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.

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 balance sheet interest rate risk 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 balance sheet interest rate risk.

9.3. Currency risk in the banking book

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.

As of 31 December 2016, the CaixaBank Group held very small positions in foreign currencies and there were no capital requirements for such positions (as they fell below the regulatory threshold).

10. LIQUIDITY RISK

Comfortable liquidity metrics with a stable funding structure and comfortable maturity profile over coming years

- Liquidity risk measures the Entity's capacity to meet the payment obligations it has acquired and to finance its investment activity.
- The CaixaBank Group manages its liquidity to ensure it can comfortably meet all of its payment obligations, and to prevent its investment activities from being affected by a lack of lendable funds, whilst remaining compliant the Risk Appetite Framework at all times.
- Its liquidity metrics remained at comfortable levels throughout 2016. As of 31 December 2016, its high-quality liquid assets stood at EUR 50,408 million; its Liquidity Coverage Ratio (LCR) was 160%, double the 80% minimum required from 1 January 2017; and its Net Stable Funding Ratio (NSFR) remained in excess of 100% throughout 2016, although this is not required until January 2018.
- These figures reflect its stable and balanced funding structure, with a large weight of customer deposits, which are more stable, and limited use of wholesale markets for short-term funding, in line with the guiding principles of our funding strategy: stability and sustainability.
- This strategy is based on two key concepts: (i) a funding structure based mainly on customer deposits, as reflected in an LTD ratio of 110.9% at 31/12/2016; (ii) complemented by funding in capital markets.
- The structure of wholesale issuances is diversified, with a comfortable maturity profile of not particularly large amounts over coming years.

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10.1. Liquidity risk management
10.2. Quantitative aspects

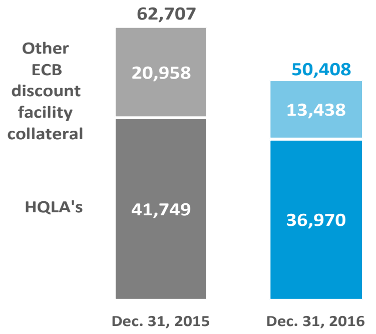
EUR 50,408 million
High quality liquid assets

160%
LCR ratio

77%
Weight of customer liabilities in total funding

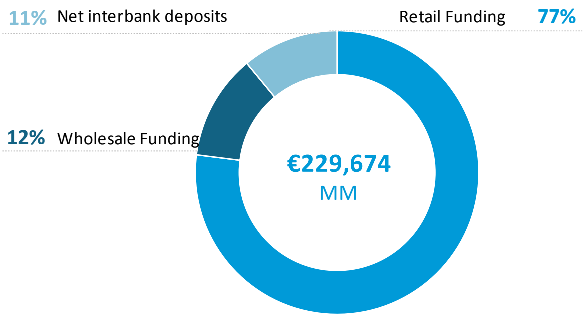
HIGH QUALITY LIQUID ASSETS

€ Million



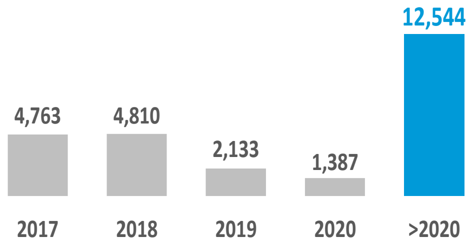
FUNDING STRUCTURE

Distribution by source of funding, %



MATURITIES

Distribution of wholesale issuances by year of maturity, %



10.1. Liquidity risk management

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) Establishing management and control procedures for each of the risks, including mechanisms of systematic internal and external reporting;
f) Defining a stress testing framework and a Liquidity Contingency Plan to ensure that liquidity risk is managed accordingly 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. specific strategies have been put in place for:
    - Management of intraday liquidity risk
    - Management of short-term liquidity risk
    - Management of funding sources
    - Management of liquid assets
    - Management of collateralised assets
c) The strategy for managing liquidity risk in crisis situations has three objectives:
    - Early detection of a possible liquidity crisis;
    - Minimisation of negative impact on the initial liquidity position in a crisis situation
    - Liquidity management focused on overcoming potential liquidity crises

Two groups of risk appetite indicators have been established, namely: five level 1[1] indicators relating to short-term liquidity (position and LCR - Liquidity Coverage Ratio), the long-term funding structure (retail and wholesale) and the cost of wholesale funds; and seven level 2[2] indicators relating to short-term liquidity (position), balance sheet structure with NSFR ratio, concentration of wholesale maturities, and concentration of liability counterparties, intraday liquidity and asset encumbrance.

A stress metric was incorporated in 2016 to ensure the integration of stress exercises into the risk appetite and management. This stress metric is based on a new stress model that has been developed to implement best practices (draft EBA document on stress) and new requirements (the EBA's final ILAAP guidance)

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.
- ✓ Actively manages liquidity 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.

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

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

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. 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 liquidity risk in the banking book under the guidelines established by the ALCO. The Balance Sheet Analysis and Monitoring Division, which reports to the Executive Finance Division, oversees the analysis and monitoring of liquidity risk. The analysis is performed under both normal and business-as-usual market situations and under stress situations.

On the basis of these 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), setting out the measures to be taken on the commercial, institutional and disclosure level to deal with such situations, including the possibility of using a number of stand-by reserves or extraordinary sources of finance.

In addition, a Recovery Plan has been drawn up and approved by the Board of Directors. This includes an action plan to respond to a more severe stress situation than that would trigger the Contingency Plan.

Available liquid assets are under the operational control of the liquidity management function, which is the responsibility of the ALM area. These include the liquid assets that ALM manages as part of its responsibility for managing balance sheet portfolios, and those managed by "Markets", which oversees investment in fixed-income portfolios arising 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.

Risk management. Measurement and information systems

Liquidity risk is measured, monitored and controlled through static measurement of the liquidity position, dynamic measurements of liquidity projections and stress exercises for liquidity under different scenarios. 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).

An Internal Liquidity Adequacy Assessment Process (ILAAP) is carried out every year. This includes a review of the management framework for funding and liquidity risk, in accordance with the requirement received from the supervisor. In addition, the Board of Directors makes a declaration about the adequacy of liquidity buffers for existing funding and liquidity risks.

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 highlights 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.

10.2. Quantitative aspects

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 2016 and 2015, under the criteria established for determining highly liquid assets for the purposes of the Liquidity Coverage Ratio (LCR):

Table LIQ1. Liquid assets

Amounts in millions of euros

	31.12.15		31.12.16	
	Market value	Applicable weighted amount	Market value	Applicable weighted amount
Level 1 Assets	39,653	39,653	34,232	34,232
Level 2A Assets	78	66	81	69
Level 2B Assets	3,779	2,030	4,629	2,670
Total (*)	**43,510**	**41,749**	**38,942**	**36,970**

(*) Criteria established to determine the LCR

Banking liquidity, as shown by the high quality liquid assets (HQLA) used to calculate the LCR, in addition to the balance that can be drawn on the credit facility with the European Central Bank that does not comprise the aforementioned assets, amounted to EUR 50,408 million and EUR 62,707 million at December 2016 and 2015, 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 included thresholds for this metric in its risk appetite framework.
The figures for this ratio are:

Table LIQ2. Liquidity coverage ratio (LCR)

Amounts in millions of euros

	31.12.15	31.12.16
High quality liquid assets (numerator)	41,749	36,970
Total net cash outflows (denominator)	24,254	23,116
Cash outflows	28,294	28,323
Cash inflows	4,040	5,207
LCR (%) (*)	**172%**	**160%**

(*) 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.

NSFR (Net Stable Funding Ratio)

The definition of the NSFR (Net Stable Funding Ratio) was approved by the Basel Committee in October 2014. In November 2016, the European Union, the European Commission sent proposed amendments to Directive 2013/36/EU (the "CRD IV") and Regulation 575/2013 (the "CRR") to the European Parliament and the European Commission, which included, among other aspects, the regulation of the NSFR. Therefore, we are currently awaiting their regulatory transposition.

Regarding this ratio, the large weight of (more stable) customer deposits in our funding structure and limited use of wholesale markets for short-term funding results in a balanced funding structure. Indeed, the NSFR ratio remained about 100% in 2016, even though this is not required until January 2018.

Asset encumbrance

The table below shows average values for assets securing certain financing transactions and unencumbered assets in 2016, calculated using quarterly data.

Table LIQ3. Assets securing financing operations and unencumbered assets

Amounts in millions of euros

	2016 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			3,177	2,619
Debt securities	8,547	8,493	16,079	15,995
Credit portfolio	75,027		140,945	
Other assets	3,278		57,833	
Total	**86,853**		**218,033**	

These assets relate mainly to loans securing issuances of mortgage covered bonds, public sector covered bonds and securitisation bonds, debt securities provided in repos, securitisation bonds pledged for securities lending transactions and assets pledged as collateral (loans or debt securities) for access to ECB financing operations. They also include the balance of cash delivered to secure derivatives transactions. 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. These guarantees received arise mainly from reverse repos, securities lending, cash and debt securities received to secure trading in derivatives and treasury stock of senior debt issuances. The table below shows average values for assets securing financing transactions and unencumbered assets in 2016, calculated using quarterly data:

Table LIQ4. Assets received to secure financing operations and unencumbered assets

Amounts in millions of euros

	2016 annual average values calculated on quarterly data	
	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	**2,053**	**21,092**
Equity instruments		
Debt securities	**2,053**	**17,366**
Other collateral received		**3,726**
Own debt securities issued other than own covered bonds or ABSs		**973**
Total	**2,053**	**22,064**

(*) Es la autocartera emitida distinta de las cédulas hipotecarias/territoriales o bonos de titulización, es decir, deuda senior retenida en la parte de valor razonable de activos no comprometidos.

The following table shows the asset encumbrance ratio, using average values for 2016 calculated using quarterly data.

Table LIQ5. Asset encumbrance ratio, averages

Amounts in millions of euros

	2016 annual average values calculated on quarterly data
Assets and colateral received encumbered	**88,907**
Equity instruments	
Debt securities	10,601
Credit portfolio	75,027
Other assets	3,278
Total assets + total assets received	**328,032**
Equity instruments	3,177
Debt securities	44,046
Credit portfolio	215,972
Other assets	64,837
Asset encumbrance ratio	**27.10%**

The following table shows the asset encumbrance ratio at 31 December 2016 and 2015:

Table LIQ6. Asset encumbrance ratio

Amounts in millions of euros

	31.12.15	31.12.16
Assets and colateral received encumbered	**70,695**	**99,111**
Equity instruments	0	0
Debt securities	7,252	17,481
Credit portfolio	61,047	77,778
Other assets	2,395	3,852
Total assets + total assets received	**341,033**	**324,986**
Equity instruments	3,626	3,238
Debt securities	44,079	42,052
Credit portfolio	218,587	218,849
Other assets	74,740	60,847
Asset encumbrance ratio	**20.73%**	**30.50%**

The ratio has increased by 9.77 percentage points, from 20.73% at 31/12/2015 to 30.5% at 31/12/2016. This increase was due to: an increase in funding obtained from the European Central Bank through its various monetary policy instruments, the collateral for which mainly takes the form of loans transformed into securitisation funds and covered bonds for discount at the European Central Bank; collateralisation of securities loans, mainly loans transformed into securitisation funds; and an increase in funding through repurchase agreements for debt securities.

The following table shows the relationship between the liabilities guaranteed and the assets by which they are guaranteed, using average 2016 values, based on quarterly figures:

Table LIQ7. Guaranteed liabilities, average values

Amounts in millions of euros

	2016 annual average values calculated on quarterly	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued (*)
Carrying amount of selected financial liabilities	**74,747**	**87,448**
Derivatives	2,943	3,278
Deposits	49,888	57,616
Debt securities issued	21,917	26,553
Other sources of encumbrance	**1,440**	**1,459**
Total	**76,187**	**88,907**

(*) 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.

11. OTHER RISKS

11.1. Reputational risk

1. Definition and general policy

Reputational risk refers to the possibility that CaixaBank's competitive edge could be blunted by loss of trust 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**, part of the Executive Division of Communication, Institutional Relations, Brand and CSR, was responsible for developing the entity's Corporate Social Responsibility and Reputation Area policy. This policy was approved by CaixaBank's Board of Directors in September 2015, setting out the underlying principles and strategy in this area, and its commitments to its main stakeholders.
- ✓ The responsibilities of the **Corporate Responsibility and Reputation Committee**, which is composed of the areas with the greatest impact on reputation, include analysing risks that might affect the Entity's reputation and proposing actions to manage the risks detected. The Committee reports on the monitoring of reputational risks to the Board Risk Committee through the Global Risk Committee.

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 CaixaBank 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: Surveys on the service level offered (in person and through remote channels), communications received by Customer Service and measurement of the customer experience.
- ✓ Employees: Regular employment surveys and consultations, the suggestions box, surveys to measure internal quality and services and other internal dialogue mechanisms.
- ✓ Shareholders: Shareholder office, regular surveys, meetings of the Shareholder Advisory Committee, comments received by the Shareholder Service
- ✓ Society: Reports on trends in reputation in written and online media, as well as in social networks, attendance at forums and conferences as a leading entity, dialogue with consumer associations.

Other external sources for CaixaBank's reputation include:

- ✓ Results published in various reputation monitors and rankings drafted by independent experts, both Spanish and international.
- ✓ Membership of sustainability indices and rankings of the performance of CaixaBank's activities in various areas (economic, corporate governance, social, environmental, etc.), and
- ✓ Awards and acknowledgements obtained for the business.

4. Hedging policies and mitigation techniques

A number of policies impact on the control and minimisation of reputational risk. These include the Corporate Social Responsibility Policy, the Code of Conduct and Anti-Corruption Policy, the Defence Policy, the Tax Strategy, the New Products Policy, and the Communication and Marketing Policy. CaixaBank is also a signatory to the United Nation's Global Compact, the Equator Principles, the Principles for Responsible Investment (PRI), the Women's Empowerment Principles, the Code of Best Practice for the Restructuring of Mortgage Debts on Primary Residences and the Code of Good Tax Practices.

The main tools for the Corporate Responsibility area and the Corporate Social Responsibility and Reputation Committee in monitoring reputational risk and establishing appropriate mitigating measures include the Reputational Risk Map and the Reputation Dashboard, which considers the reputational perceptions of the Entity's main stakeholders (customers, the financial community, employees, society, the media, and so on).

11.2. 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.U., de Seguros y Reaseguros. The main risks of the investee SegurCaixa Adeslas, S.A. de Seguros y Reaseguros are also monitored

The applicable regulatory framework for insurance entities from 1 January 2016 is Directive 2009/138/EC, 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). 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 regulation, 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 insurance business is exposed to subscription or actuarial risk.

Actuarial risk is defined as the risk of an increase in the value of commitments assumed for benefits under insurance contracts with customers and employee pension plans, due to differences between estimates for claims and management costs used in determining the price of the insurance (the premium) and the actual performance of these. 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: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
- ✓ Longevity risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

- ✓ Disability or morbidity risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.

- ✓ Lapse risk: The risk of loss, or of adverse change in the value of benefits (reduction) or future expected losses (increase) of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.

- ✓ Expense risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance and reinsurance contracts.

- ✓ Catastrophe risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

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

Actuarial risk management is guided by the regulations established by Solvency II (European Union – EIOPA) and the Directorate-General of Insurance and Pension Funds (DGSFP). The policies are based on these regulations. This entails monitoring technical trends in products, which fundamentally depend on the actuarial factors indicated previously. This stable, long-term management is reflected in actuarial risk management policies:

These policies were updated in 2016 as follows:

- ✓ Underwriting and provision of reserves: for each line of business, various parameters are identified for risk approval, measurement, rate-setting and lastly, to calculate and set aside reserves covering underwritten policies. General operating procedures are also in place for underwriting and the provision of reserves.
- ✓ Reinsurance: The extent to which risk is passed on is determined taking into account the risk profile of direct insurance contracts, and the type, suitability and effectiveness of the reinsurance agreements in place.

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.

At the organisational level, the areas of the Group's insurer directly involved in the management of actuarial risk are the Risks and Liability Models Area and the Supply Division.

The Entity also has a Risk Control Department in the Economic-Finance Area, the responsibilities of which include developing the risks function and risk control in cooperation with the other 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. In addition, pursuant to the provisions of Solvency II, the Insurance Group has an Actuarial Function department responsible for:

- ✓ 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.

As already mentioned, Solvency II came into force on 1 January 2016 and entails new risk management requirements, along other developments.

The Insurance Group was in a position to comply with the new regulations on day one, based on the adaptation it had carried out over recent years.

The main risk-management milestones achieved in 2016 were:

- ✓ preparation of the first risk and solvency self assessment (ORSA) report in the definitive phase, 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.
- ✓ updating 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.
- ✓ Further development of the application and 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.
- ✓ Annual validation and execution of detailed profit and loss allocations in the partial internal model for longevity and mortality.

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, there is a Solvency and Risk datamart, which serves as a support tool for compliance with all the requirements of the Solvency II Directive. 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. Reporting and reports prepared

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 VicaCaixa'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 Invalidity Claims Monitoring Report (Six monthly – Management Committee).
- ✓ Actuarial Risk Report (Annual – Global Risk Committee).
- ✓ Actuarial Function Report (Annual – Global Risk Committee).

The Solvency II opening balance was presented in 2016, with reporting of the definitive quarterly QRTs (*Quantitative Reporting Templates*) to the insurance supervisor (DGSFP).

6. 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.

7. Action programme for the Insurance Group

The Insurance Group's future action programme focuses on the continuity of, and rigorous compliance with, the regulatory requirements of Solvency II. 2017 will see the reporting of the first annual QRTs (the new reporting for supervisory, statistical and accounting purposes established at the European level).

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.

12. REMUNERATION

Article 85 of Act 10/2014, of 26 June, on the organisation, supervision and solvency of credit entities (hereinafter, the LOSS), and article 93 of Royal Decree 84/2015, of 13 February, developing the LOSS, set down the information to be provided on remuneration policies and practices in the Prudential Relevance Report pursuant to Article 450 of EU Regulation 575/2013, of the European Parliament and of the Council, for those categories of staff whose professional activities have a significant impact on the risk profile (Identified Staff).

This information is set out in this chapter on “Information of Prudential Relevance”.

12.1. Remuneration policy: composition and mandate of the remuneration committee.

Introduction

The following information relates to employees of CaixaBank and the entities that form part of its consolidation group for prudential purposes (hereinafter, the CaixaBank Group) who are classified as being members of Identified Staff pursuant to applicable regulations relating to 2016.

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.

Finally, pursuant to EBA guidance on appropriate remuneration policies, the RC shall: (i) be responsible for the preparation of recommendations to the Board of Directors, on the definition of the entity's remuneration policy; (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 supervisory function; (iv) ensure that the current remuneration policy is up-to-date and propose any changes required; (v) devote specific attention to assessment of the mechanisms adopted, to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels, 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 2016, 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

In 2016, the CaixaBank's Appointments and Remuneration Committee met 8 times, and its members received EUR 96,000 for belonging to the committee.

Functions of CaixaBank's Control Areas and Management Committee

EBA and ESMA guidelines establish that the control functions (internal audit, risk control and management, and regulatory compliance), and other competent corporate bodies (human resources, legal, strategic planning, budget, etc.) and the business units shall provide the necessary information for the definition, implementation and supervision of the entity's remuneration policies. The EBA's guidelines place specific responsibilities on the human resources, risk management and internal audit functions, which are undertaken by the corresponding CaixaBank departments.

CaixaBank's Management Committee comprises representatives of the risks, finance, internal audit, internal control and regulatory compliance, human resources and general secretariat (legal services) areas, among others. The Management Committee is responsible for ensuring that the necessary information is obtained and prepared for the RC to perform its responsibilities efficiently.

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 and KPMG), 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 2016

On 26 February 2015, the Remuneration Committee submitted its proposed Remuneration Policy for the CaixaBank Group's 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.

The Board of Directors approved the new Remuneration Policy for the CaixaBank Group's Identified Staff, at the proposal of the Remuneration Committee, on 15 December 2016. This came into effect on 1 January 2017, with the exception of the adjustment system and proportionality criteria applied to deferred payments, which was already applied in 2016.

The remuneration policy for members of the CaixaBank Board of Directors, including the executive directors as members of its Identified Staff, was approved by the Board of Directors on 26 February 2015 and approved by the General Shareholders' Meeting on 23 April 2015, with 99.03% of the votes. This policy applies to the period 2015-2018.

The Remuneration Policy for CaixaBank Directors is available on the Company's website (www.caixabank.com).

12.2. Description of Identified Staff

During 2016, the professionals who should form part of the CaixaBank Group's Identified Staff, at the individual or consolidated level, 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 appropriate qualitative and 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 and other applicable regulations, CaixaBank's governing bodies approved the list of positions classified as Identified Staff, which in 2016 consisted of 134 professionals, including the CaixaBank Group's executive directors, non-executive directors, members of the

Management Committee, senior executives and key employees.

12.3. 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 small percentage of fixed annual compensation. It cannot in any case exceed 100% of the total fixed remuneration unless the CaixaBank General Meeting approves a higher amount, which shall be no more than 200% of the fixed components.

The LOSS and the EBA guidelines set out that the fixed and variable components of total remuneration must be duly balanced, and that the fixed component must constitute a sufficiently large proportion of total remuneration, and that the policy applied to variable component can be fully flexible up to the limits for paying such components.

In this regard, the EBA Guidelines establish that staff should not be dependent on the award of variable remuneration, as this would incentivise the taking of excessive short-term risk when the results of the entity or persons involved would not permit the award of the variable remuneration without the taking of such risks.

In lines with this, CaixaBank considers that the higher the possible variable remuneration compared to the fixed remuneration, the stronger the incentive will be to deliver the performance needed, 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.

Thus, implicitly, variable remuneration may become a potential incentive to assume risk, and therefore, a low level of variable remuneration is a simple protection method against such incentives.

Furthermore, the risk appetite must 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 undertaking operates.

2. Fixed remuneration

As a general rule, Identified Staff are subject to the professional classification system and salary tables set out in applicable collective bargaining agreements and the specific employment agreements reached with workers' representatives.

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 and the employment agreements currently in force, mainly reflecting the employee's professional experience and responsibility in the organisation through their role.

Posts in Central and Regional Services and other non-regulated positions fall into a classification based on contribution levels, with salary bands established to foster internal fairness. 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 are 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.

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 each of them individually.

a) Executive directors and members of CaixaBank's 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 2016 these were:

- ✓ ROTE
- ✓ Change in recurring operating expenses
- ✓ *Risk Appetite Framework*
- ✓ 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 Executive Directors and 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 flexibility allows for the qualitative assessment of the performance of the Executive Director or 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 professionals 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 or position they hold.

Therefore, all members of Identified Staff are assigned a variable remuneration programme or specific bonuses.

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 the variable remuneration assigned to Identified Staff in that area. The main areas in which these programmes are applied are: Retail and Commercial Banking, Private Banking, Business Banking, Transactional Banking, Finance, International Private Banking and Corporate & Institutional Banking.

The remuneration model applied in Central and Regional Services is known as the "Targets Programme" and encompasses all members of 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.

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, with a prior opinion by the Regulatory Compliance function, to avoid potential conflicts of interest.

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
- ✓ Change in recurring operating expenses
- ✓ The ordinary income of the regional business
- ✓ Accounting NPL in the regional business
- ✓ Quality

The proposed composition and weighting of the corporate targets is established in accordance with the LOSS and its implementing regulations.

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.

Risk adjustment indicator

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, pursuant to the following model:

The indicators in the Risk Appetite Framework approved for CaixaBank are used as the metrics for the risk adjustment. A set of metrics is established for each professional, based on their group, area of responsibility and position, which in combination determine the value of the Risk Adjustment Indicator (hereinafter, the RAI).

The Risk Appetite Framework comprises a set of quantitative and qualitative metrics that evaluate all of CaixaBank's risks, in the following areas:

- ✓ Protection against losses: mainly metrics for solvency and profitability, credit risk, market risk and interest rate risk.
- ✓ Liquidity and Funding: exclusively comprising metrics related to market activity.
- ✓ Business composition: metrics for sector exposure.
- ✓ Franchise: including common, global metrics.

Each professional involved must be notified individually of the dimensions as a whole, or the specific indicators for a particular dimension, that constitute their RAI, together with the remuneration policy.

Although the evaluation of the quantitative indicators comprising the Risk Appetite Framework may return a numeric result, in order to calculate overall compliance with the qualitative metrics, the result of each of the metrics in the 4 dimensions is summarised using a colour: green, amber or red.

The resulting RAI for the set of metrics for each professional must have a value of between 0 and 1, based on:

- ✓ The sum of variations in the RAF indicators between the end of the previous year and the end of the year of accrual of the variable remuneration: the value of the indicator will oscillate between 0.85 and 1, in accordance with the following compliance scale:

Initial colour	Variation	Final colour
	-3%	
	+3%	
	-6%	
	+6%	

- ✓ If one of the metrics included in the risk adjustment for a group enters Recovery, the value of the RAI indicator will be 0.

The amount payable to members of this category is calculated using the following formula:

Risk-adjusted bonus = RAI x Bonus target x (% individual targets achieved + % of corporate targets achieved) x entity adjustment factor

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 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 Special cases of restrictions

Variable remuneration shall be reduced if, at the time of the performance assessment, CaixaBank is subject to any requirement or recommendation from competent authorities to restrict its dividend distribution policy, or if this is required by the competent authority under its regulatory powers, pursuant to Royal Decree 84/2015 and Circular 2/2016.

3.3 Payment cycle for variable remuneration

Professionals subject to deferred payment

In application of the principle of proportionality set down in the LOSS, this deferral applies only when the total amount of the variable remuneration accrued by Identified Staff professionals exceeds EUR 50,000.

For the categories of CaixaBank's general managers, deputy general managers, executive managers and regional directors included in Identified Staff, the deferral is applied independently of the total amount of variable 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 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).

3.4 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 is implemented through the award, free of charge, of a certain number of units to each Beneficiary. These units serve as the basis to determine the number of CaixaBank shares to be given, if any, to each Plan Beneficiary, depending on the degree of fulfilment of certain targets.

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 is based on: (i) a target amount, determined by the professional function of the beneficiary; and (ii) the arithmetic average 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 are determined using the following formula:

$$\boxed{NU = TA / AAP}$$

Where:

NU = 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 is determined using the following formula:

$$\boxed{NS = NU \times GCI}$$

Where:

NS = Number of Shares in the Entity awarded to each beneficiary on the Plan Settlement Date, rounded up to the nearest whole number.

NU = the Number of Units assigned to the beneficiary.

DFI = Degree of fulfilment of the Incentive, depending on the degree of fulfilment of the targets to which the Plan is linked.

Maximum number of shares to be delivered

The Annual General Meeting resolved that a maximum of 3,943,275 shares would be delivered to 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 of fulfilment of the Incentive shall depend on the degree of compliance with the objectives to which the Plan is linked.

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).

a) 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.

b) 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 is $\geq$12: ROTE coefficient = 1.2
- ✓ If ROTE is = 12: ROTE coefficient = 1
- ✓ If ROTE is = 10: ROTE coefficient = 0.8
- ✓ If ROTE is < 10: ROTE coefficient = 0.

The degree of fulfilment of the incentive arising from the ROTE target will be calculated, following the above table, by linear interpolation.

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.

c) 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 fulfilment of the incentive arising from the CIR target will be calculated, following the above table, by linear interpolation.

The value of the CIR metric at 31 December 2018 will be used.

The Degree of fulfilment of the Incentive will be determined depending on the following formula, with the weights included in it:

DFI = CTSR x 34% + CROTE x 33% + CCIR x 33%.

Where:

DFI = Degree of fulfilment of the Incentive 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.

3.5 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:

- ✓ Significant failures in risk management by CaixaBank, or one of its business units, or in risk control, including the existence of qualifications in the external auditor's report or other circumstances that undermine the financial parameters used in the calculation of variable remuneration.
- ✓ An increase in capital requirements for CaixaBank or one of its business units that was not envisaged at the time that the exposure was generated.
- ✓ Regulatory sanctions or legal rulings relating to issues that may be attributed to the unit or the professional responsible for them.

- ✓ Failure to comply with the entity's internal regulations or codes of conduct, including, in particular:
  - Any serious or very serious regulatory breaches attributable to them.
  - Any serious or very serious breaches of internal regulations.
  - 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.
- ✓ Any irregular behaviour, whether individual or collective, particularly negative effects resulting from the misselling of products and the responsibilities of the persons or bodies that make such decisions.
- ✓ 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).
- ✓ Where payment or consolidation of these amounts is not sustainable in light of CaixaBank's overall situation, or where payment is not justified in view of the results of CaixaBank as a whole, the business unit, or the employee in question.
- ✓ 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 occur before payment of a variable remuneration amount, 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.

4. Employee benefits

Mandatory contributions for variable remuneration

In compliance with the provisions of Circular 2/2016, 15% of agreed contributions to complementary social welfare plans for members of CaixaBank's Management Committee are considered the target amount (the remaining 85% being considered a fixed remuneration component).

This amount is determined following the same principles and procedures established for variable remuneration through bonus payments, based only on individual parameters, and shall involve contributions to a discretionary pension benefit scheme.

The contribution shall be considered deferred variable remuneration for the purposes of Circular 2/2016. Therefore, the discretionary pension benefit scheme shall contain the necessary clauses for it to be explicitly subject to the causes of reductions set down for variable remuneration in the form of bonuses. It shall also be included in the sum of variable remuneration for the purposes of limits and other factors that might be established.

If a professional leaves the entity as a result of retirement or before planned for any other reasons, the discretionary pension benefits shall be subject to a five-year withholding period, from the date on which the professional ceases to provide their services to the Entity for whatever reason.

During this withholding period, CaixaBank shall apply the same requirements as set forth in the reduction and recovery clauses for variable remuneration already paid.

5. Payments for early termination

Amount and limit of severance compensation

As a general rule, and unless prevailing legislation imposes a higher amount, the amount of compensation for severance or separation of professionals with Senior Management roles in Identified Staff shall not exceed the annual value of their fixed remuneration components, without prejudice to any compensation for post-contractual non-competition that might be established.

For professionals with an ordinary employment relationship, the amount of compensation for severance or separation calculated for the purposes of the maximum ratio of variable remuneration shall not exceed legal limits.

Post-contractual non-competition agreements

Exceptionally, post-contractual non-competition agreements may be included in contracts for Identified Staff in the CaixaBank Group. Such agreements shall consist of an amount that in general shall not exceed the sum of the fixed components of remuneration that the professional would have received had they remained with the entity.

The amount of the compensation shall be divided into equal instalments, payable at regular intervals over the non-competition period.

Any breach of the post-contractual non-competition agreement shall give the Entity the right to seek compensation from the professional proportionate to the compensation paid.

Deferral and payment

Payment of amounts for early severance considered to be variable remuneration shall be subject to deferral and payment in the manner set down for variable remuneration in the form of bonuses.

Reduction and recovery

Payments for early termination must be based on the results secured over time, and must not compensate poor results or undue conduct. The amount of payments for termination considered to represent variable remuneration under prevailing regulations shall be subject to the cases of reduction and recovery set down for variable remuneration.

12.4. Quantitative information concerning remuneration of the Identified Staff

In 2016, 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 2016 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 REM1. Remuneration paid to Identified Staff (I) (thousand euros)

Thousands of euros

Activity areas	Description of the type of the businesses	Fixed Components of remuneration 2016	Variable Components of remuneration 2016	Total 2016
Investment Banking	Capital Markets & Treasury, Markets, ALM and Corporate & Institutional Banking	4,288	3,427	7,715
Retail Banking	Individual banking, Private banking & Wealth management, Business banking and Transactional banking	10,894	4,034	14,928
Asset management	Asset management	-	-	-
All other	Executive directors and non-executive directors, corporate functions and all other	25,511	4,634	30,145

Table REM2. Remuneration paid to Identified Staff (II) (thousand euros)

Thousands of euros

Identified staff 2016 remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**19**	**2**	**28**	**85**	**134**
Fixed remuneration 2016	**3,251**	**4,086**	**17,262**	**16,094**	**40,693**
Variable remuneration 2016 (annual bonus)	**-**	**659**	**4,175**	**7,066**	**11,900**
in cash	-	330	2,087	4,104	6,521
in shares or share-linked instruments	-	329	2,087	2,962	5,379
other types instruments	-	-	-	-	-
Variable remuneration deferred (still not paid) [1]	**-**	**658**	**3,601**	**3,939**	**8,198**
Attributed	-	-	-	-	-
Not attributed	-	658	3,601	3,939	8,198
in cash	-	329	1,800	1,969	4,099
in shares or share-linked instruments	-	329	1,800	1,969	4,099
in other types instruments	-	-	-		-
Deferred remuneration paid in exercise 2016 [2]	**-**	**211**	**1,419**	**1,322**	**2,952**
in cash	-	104	720	650	1,474
in shares or share-linked instruments	-	108	699	671	1,478
in other types instruments	-	-	-		-
Total amount of explicit expost performance adjustment applied in 2016 for previously awarded remuneration	-	-	-	-	-
Number of beneficiaries of severance payments	**-**	**-**	**-**	**-**	
Total amount of severance payments	-	-	-	-	-
Average permanence period	-	-	-	-	-
Highest severance payment to a single person	-	-	-	-	-
Number of beneficiaries of Long Term Incentive 2015-2018	**-**	**2**	**28**	**17**	**47**
Prorated annual bonus target	-	325	1,405	406	2,136
Number of beneficiaries of discretionary pension benefits	**-**	**2**	**10**	**-**	**-**
Total amount of discretionary pension benefits in exercise 2016	-	53	142	-	-

(1) It includes the deferred variable remuneration pending payment at 31/12/2016 (1/3 bonus 2014, 2/3 bonus 2015 and the deferred part of bonus 2016).

(2) It includes the deferred variable remuneration awarded in previous years and paid in February 2017 (1/3 bonus 2013, 1/3 bonus 2014 and 1/3 bonus 2015)

Table REM3. Remuneration paid to Identified Staff (III) (thousand euros)

Thousands of euros

Identified staff 2016 variable remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**19**	**2**	**28**	**85**	**134**
Variable remuneration 2016 (annual bonus)	**-**	**659**	**4,175**	**7,066**	**11,900**
Bonus 2016 paid in 2017	-	264	2,112	4,697	7,073
in cash	-	132	1,056	2,919	4,107
in shares or share-linked instruments	-	132	1,056	1,777	2,965
in other types instruments	-	-	-	-	-
Bonus 2016 deferred and not attributed	-	395	2,062	2,370	4,828
in cash	-	198	1,031	1,185	2,414
in shares or share-linked instruments	-	198	1,031	1,185	2,414
in other types instruments	-	-	-	-	-

Table REM4. Remuneration paid to Identified Staff (IV)

Total remuneration; payment band (in EUR): Number of beneficiaries	
€ 1 million to bellow € 1,5 million	4
€ 1,5 million to bellow € 2 million	2
€ 2 million to bellow € 2,5 million	1
€ 2,5 million to bellow € 3 million	0
€ 3 million to bellow € 3,5 million	1

In 2016:

- ✓ No payments were made for new hires within the Identified Staff.
- ✓ No adjustments to deferred compensation awarded in 2016 were made as a result of performance.

Appendix I. Information on transitory own funds

Amounts in millions of euros

	(A) Importe a fecha de la información; (B) CRR reference to article; (C) Amounts subject to treatment prior to RRC or residual amount prescribed by RRC	*(A)*	*(B)*	*(C)*
	Common Equity Tier 1 capital : instruments and reserves			
1	Capital instruments and the related share premium accounts	18,022	*26 (1), 27, 28, 29 llista de la ABE 26 (3)*	
2	Retained earnings	4,523	*26 (1) (c)*	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	127	*26 (1)*	
5	Minority interests (amount allowed in consolidated CET1)	9	*84, 479, 480*	9
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	511	*26 (2)*	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**23,191**		
	Common Equity Tier 1 capital : regulatory adjustments			
7	Additional value adjustments (negative amount)	(157)	*34, 105*	
8	Intangible assets (net of related tax liability) (negative amount)	(2,416)	*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)	(685)	*36 (1) (c), 38, 472 (5)*	
11	Fair value reserves related to gains or losses on cash flow hedges	(14)	*33 (a)*	
12	Negative amounts resulting from the calculation of expected loss amounts	(255)	*36 (1) (d), 40, 159, 472 (6)*	
13	Any increase in equity that results from securitised assets (negative amount)	(45)	*32 (1)*	
14	Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing	(53)	*33 (b)*	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(63)	*36 (1) (f), 42, 472 (8)*	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(19)		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(19)	*467 a 468*	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(1,696)	*36 (1) (j)*	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(5,402)**		
29	**Common Equity Tier 1 (CET1) capital**	**17,789**		
	Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			
	Additional Tier 1 (AT1) capital: regulatory adjustments			
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	(1,696)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: Intangible assets	(1,610)		
	Of which: expected losses in equity	(85)		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(1,696)**		
44	**Additional Tier 1 (AT1) capital**	**0**		
45	**Tier 1 capital (T1=CET1+AT1)**	**17,789**		
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	4,088	*62, 63*	
51	**Tier 2 (T2) capital before regulatory adjustments**	**4,088**		

Amounts in millions of euros

(A) Importe a fecha de la información; (B) CRR reference to article; (C) Amounts subject to treatment prior to RRC or residual amount prescribed by RRC		(A)	(B)	(C)
Tier 2 (T2) capital: regulatory adjustments				
56a	Residual amounts deducted from Tier 2 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	(85)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: expected losses in equity	(85)		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(85)**		
58	**Tier 2 (T2) capital**	**4,003**		
59	**Total capital (TC=T1+T2)**	**21,792**		
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)	134,864		
	Of which: CET1 instruments of financial sector entities not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts)	2,354	*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)	2,487	*475, 475 (2) (b), 475 (2) (c), 475 (4) (b)*	
60	**Total risk weighted assets**	**134,864**		
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**13.2%**	***92 (2) (a), 465***	
62	**Tier 1 (as a percentage of risk exposure amount)**	**13.2%**	***92 (2) (a), 465***	
63	**Total capital (as a percentage of risk exposure amount)**	**16.2%**	***92 (2) (c)***	
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)**	**9.31%**	***DRC 128, 129, 130***	
65	*of which: capital conservation buffer requirement*	*0.63%*		
66	*of which: countercyclical buffer requirement*	*0.00%*		
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	*0.06%*		
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)	1,378	*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)	995	*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)	941	*36 (1) (c), 38, 48, 470, 472 (5)*	

** Rows with no data are not disclosed*
1 Capital + share premium, net of treasury shares
2 Reserves
3 Exchange unrealised gains and losses (Group and Minority int.)
5 Profit and reserves of minority interests
5a Profit attributable to the Group (audited), net of dividends (interim and final)
8 Goodwill and intangible assets (60%)
41a Rest of goodwill and intangible assets (40%)
46 Eligible subordinated debt (net of treasury stock, pledges and loss of eligibility according to maturity)

Appendix II. Main features of equity instruments

Amounts in millions of euros

		ES0140609019	AYTS491201	AYTS490629	XS0989061345	ES0240609000	ES0240609018
1	Issuer	CaixaBank	CajaSol	CajaSol	CaixaBank	CaixaBank	CaixaBank
2	Unique identifier	ES0140609019	AYTS491201	AYTS490629	XS0989061345	ES0240609000	ES0240609018
3	Governing law(s) of the instrument	Spanish law	Spanish law	Spanish law	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 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 ordinary level 1	Equity level 2	Equity level 2	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	Equity level 2	Equity level 2
6	Eligible at solo/group/group&solo	Individual and sub-consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Ordinary Shares	Subordinated Debt	Subordinated Debt	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	5,981	18	1	745	2,040	1,285
9	Par value of instrument	5,981	18	15	750	2,072	1,302
9a	Issue price	n/p	1	1	1	1	1
9b	Redemption price	n/p	Without documents	Without documents	1	1	1
10	Accounting classification	Equity	Liability	Liability	liability	liability	liability
11	Original date of issuance	n/p	12/01/1990	06/24/1994	11/14/2013	09/02/2012	09/02/2012
12	Perpetual or dated	Perpetual	Without documents	Without documents	Specific maturity	Specific maturity	Specific maturity
13	Original maturity date	n/p	Perpetual	06/24/2093	11/14/2023	09/02/2022	09/02/2022
14	Issuer call subject to prior supervisory approval	No	Without documents	Without documents	Yes	yes	yes
15	Optional call date, contingent call dates and redemption amount	n/p	Without documents	Without documents	14/11/2018 and at any time for tax reasons or event capital prior consent of the Bank of Spain	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	n/p	Without documents	Without documents	n/p	At any time from 2/9/2017	At any time from 9/2/2017
	Cupones/dividendos		Without documents				
17	Dividend or coupon fixed or variable	Variable	Without documents	Without documents	From fixed to variable	Fixed	Fixed
18	Coupon rate and any related index	n/p			5% until 11/14/18. since then M/S 5 years + 395bps	0	0
19	Existence of a dividend stopper	n/p	Without documents	Without documents	No	No	No
20a	Fully discretional, partially discretional or obligatory (calendar)	Fully discretionary	Without documents	Without documents	Mandatory	Mandatory	Mandatory
20b	Fully discretional, partially discretional or obligatory (value)	Fully discretionary	Without documents	Without documents	Mandatory	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	n/p	Without documents	Without documents	No	No	No
22	Noncumulative or cumulative	Noncumulative	Without documents	Without documents	n/p	n/p	n/p
23	Convertible or non-convertible	n/p	Without documents	Without documents	Non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger (s)	n/p	n/p	n/p	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	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	n/p	n/p
30	Write-down feature	n/p	Without documents	Without documents	No	No	No
31	If write-down, write-down trigger (s)	n/p	Without documents	Without documents	n/p	n/p	n/p
32	If write-down, full or partial	n/p	Without documents	Without documents	n/p	n/p	n/p
33	If write-down, permanent or temporary	n/p	Without documents	Without documents	n/p	n/p	n/p
34	If temporary write-down, description of write-down mechanism	n/p	Without documents	Without documents	n/p	n/p	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 ordinary creditors	After ordinary common creditors	After ordinary creditors
36	Non-compliant transitioned features	No	Without documents	Without documents	No	No	No
37	If yes, specify non-compliant features	n/p	Without documents	Without documents	n/p	n/p	n/p
38	Full terms and conditions			http://www.ise.ie/debt_documents/Final%20Terms_e6b238d1-7e4e-4ff7-a6a5-2a1c9c79e1ff.PDF	http://www.cnmv.es/Portal/Consultas/Folletos/FolletosEmisionOPV.aspx?isin=ES0240609000	http://www.cnmv.es/Portal/Consultas/Folletos/FolletosEmisionOPV.aspx?isin=ES0240609018	

Appendix III. Information on leverage ratio

Amounts in millions of euros

	Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per published financial statements	347,927
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(41,932)
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	(15,382)
5	Adjustments for securities financing transactions "SFTs"	238
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	23,972
7	Other adjustments	(5,144)
8	**Leverage ratio exposure**	**309,678**

	Table LRCom: Leverage ratio common disclosure	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	284,289
2	Asset amounts deducted in determining Tier 1 capital	(5,134)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**279,155**
	Table LRCom: Leverage ratio common disclosure	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	4,527
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,380
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)	(3,205)
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)**	**3,702**
	Table LRCom: Leverage ratio common disclosure	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	2,611
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	238
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**2,849**
	Table LRCom: Leverage ratio common disclosure	
17	Off-balance sheet exposures at gross notional amount	79,254
18	(Adjustments for conversion to credit equivalent amounts)	(55,282)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**23,972**
	Table LRCom: Leverage ratio common disclosure	
20	**Tier 1 capital**	**17,789**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**309,678**
	Table LRCom: Leverage ratio common disclosure	
22	**Leverage ratio**	**5.7%**
23	**Choice on transitional arrangements for the definition of the capital measure**	**Transitional**

Amounts in millions of euros

	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:**	**284,289**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	284,289
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	49,934
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	2,832
EU-7	Institutions	4,176
EU-8	Secured by mortgages of immovable properties	99,026
EU-9	Retail exposures	23,681
EU-10	Corporate	63,433
EU-11	Exposures in default	13,095
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	28,112

	Table LRQua: Free format text boxes for disclosure on qualitative items	
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	The asset swap operation with Criteria, the ABO, the entry into force of regulatory changes derived from the homogenization of national discretionalities as of October 2016, and the development of internal credit models.

Appendix IV. Holdings subject to regulatory limits for deduction purposes.

Share	Company name	Description of activity	% Interest	
			Direct	Total
Significant shareholdings (>10%)	Banco BPI, SA	Banking	45.50	45.50
	Brilliance-Bea Auto Finance	Finance for vehicle purchases	0.00	22.50
	Celeris, servicios financieros, SA	Financial services	26.99	26.99
	Global Payments CaixaAcq. Cor. SARL	Payment methods	49.00	49.00
	Inversiones Alaris, SA	Holding company	33.33	66.67
	Monty & Cogroup, SL	Transfer reception	20.47	20.47
	Redsys Servicios de Procesamiento, SL	Payment methods	0.00	18.33
	Servired, Sociedad Española de Medios de Pago	Payment methods	0.00	22.01
	Sociedad de Procedimientos de Pago, SL	Payment entity	0.00	22.92
	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
Not Significant shareholdings (<10%)	Erste Group Bank AG	Banking	9.92	9.92

NOTE: VidaCaixa Group is not included in regulatory scope due to the statement in article 49.1 of CRR ("Danish compromise"), by which it consumes capital by APRs instead of equity deduction.

Appendix V. Companies with differing prudential and accounting consolidation treatment.

Accounting treatment for: Consolidated financial statements (Public scoepe)	Accounting treatment for: Regulatory	Company name	Description of activity	% Interest: Direct	% Interest: Total
Full consolidable entities	Not consolidated by activity	Aris Rosen, SAU	Services	100.00	100.00
		Biodiesel Processing, SL	Research, creation, development and sale of biofuel manufacturing projects. Production and sale of biodiesel and all types of oils	0.00	100.00
		Bodega Sarría, SA	Production and sale of wine	0.00	100.00
		Cestainmob, SL	Property management	0.00	100.00
		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
		Inversiones corporativas digitales, SL	Holding company	0.00	100.00
		Inversiones Inmobiliarias Teguise Resort, SL	Services	60.00	60.00
		Inversiones vitivinícolas, SL	Production and sale of wine	0.00	100.00
		PromoCaixa, SA	Product marketing	99.99	100.00
		Puerto Triana, SA	Real estate developer specialised in shopping centres	100.00	100.00
		Sociedad de gestión hotelera de Barcelona (antes Sihabe Inversiones 2013)	Real-estate operations	0.00	100.00
		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
Multigroup method of equity	Entities consolidated porportionaly	Banco europeo de finanzas, SA	Activities of a wholesale or investment bank	39.52	39.52

The rest of entities are accounted for the same method either for regulatory scope or the one applied on their financial statements. See Annual report for the full listing of the entities of the Group

Appendix VI. Acronyms

Acronym	Description
ALCO	Assets and Liability Committee
AMA	Advanced Measurement Approach for calculating operational risk capital
RWA	Risk-weighted assets
BCBS	Basel Committee on Banking Supervision
ECB	European Central Bank
BoS	Bank of Spain
BEICF	Business environment and internal control factors
BIS	Bank for International Settlements
BRRD	The Bank Recovery and Resolution Directive, EU Directive 2014/59, establishing the framework for the restructuring and resolution of credit institutions.
CBR	Combined Buffer Requirement
CCF	Credit Conversion Factor
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CIRBE	The Bank of Spain Risk Information Centre
CNMV	The Spanish Securities Market Regulator
COREP	The COmmon REPorting framework for prudential reporting by entities in the European Economic Area
CRD IV	The Capital Requirements Directive, EU Directive 2013/36 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

Acronym	Description
CRM	Credit Risk Mitigators
CRR	The Capital Requirements Regulation, Regulation 575/2013, of the Parliament and the Council, on prudential requirements for credit institutions and investment firms
CVA	Credit Valuation Adjustment
EAD	Exposure at Default, following deduction of CCFs and CRMs
EBA	European Banking Authority
CCP	Central Counterparty
EMIR	European Market Infrastructure Regulation, EU Regulation Nº 648/2012, on OTC derivatives, central counterparties and trade repositories
FINREP	FINancial REPorting, the financial reporting framework for entities in the European Economic Area
FSB	Financial Stability Board
FROB	Fund for Orderly Bank Restructuring
HQLA	High Quality Liquid Assets, as set down in the European Commission Delegated Regulation of 10 October 2014
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal Rating Based approach
IRC	Incremental Default and Migration Risk Charge
PRR	Prudential Relevance Report
ISDA	International Swaps and Derivatives Association
KPI	Key Performance Indicators
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio

Acronym	Description
LGD	Loss Given Default
LGD DT	Loss Given Default in a Downturn
LTD	Loan-to-Deposits ratio
LTV	Loan-to-Value ratio
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
NSFR	Net Stable Funding Ratio
ODF	Observed Default Frequency
O-SII	Other Systemically Important Institution
TO	Takeover bid
OCI	Other Comprehensive Income
ORMF	Operational Risk Management Framework
ORMS	Operational Risk Measurement System
ORX	Operational Riskdata eXchange
OTC	Over-the-Counter trades
PD	Probability of default
PFE	Potential Future Exposure
BP	Basis Points
RAF	Risk Appetite Framework
RAR	Risk Adjusted Return

Acronym	Description
RBA	Rating Based Approach
CIR	Cost-to-Income ratio
AVAs	Additional prudential Valuation Adjustments
ROE	Return On Equity
ROTE	Return On Tangible Equity
OF	*Own Funds*
ICFR	Internal Control over Financial Reporting
SREP	Supervisory Review and Evaluation Process
Additional TIER1 (AT1)	Additional Tier 1 Capital
TIER2 (T2)	Tier 2 capital
TLTRO	Targeted Longer-term Refinancing Operation
TSR	Total Shareholder Return
AMLOU	The Anti-Money Laundering and Counter Terrorist Financing Unit
VaR	Value at Risk