Pillar 3 Disclosures

CaixaBank Group
at 31 December 2017

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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Statement of the Board of Directors

On 22 March 2018, CaixaBank's Board of Directors approved the review and update of the policy on disclosure and verification of financial information, which sets out the verification policy for information to be disclosed by CaixaBank Group. As a result, the Pillar 3 Disclosures will have the same degree of verification that is applied to the information of the management report published as part of the financial report. This policy complies with the EBA guidelines of 4 August 2017 on disclosure requirements under part eight of the CRR[1] and described in articles 431(3) and 434(1) therein.

At its 22 March 2018 meeting, the Board of Directors also approved this document of Pillar 3 Disclosures for 2017 (hereinafter 2017 Pillar 3 Disclosures) following a verification by the Audit and Control Committee pursuant to article 435(e)(f) of the CRR. The Board, in its supervisory duty[2] with regard to the Bank's disclosure process and its risk profile, states that:

- This document of Pillar 3 Disclosures has been prepared in accordance with the policy on disclosure and verification of financial information approved by the Board on 22 March 2018.
- The published information and the implemented risk management systems are suitable in relation to the profile and the strategy of CaixaBank Group.

The functions of the second line of defence[3] took part in the review and verification of the information presented and ensured that the information complies with the control and/or verification procedures established in the policy on disclosure and verification of financial information.

Prior to the approval of this Concise Statement by the governing bodies, Internal Audit, as the third line of defence, reviewed the 2017 Pillar 3 Disclosures, their conformity to regulatory requirements and the control structures set up.

[1] Section 4.GOVERNANCE, ORGANISATION AND RISK MANAGEMENT, and the successive risk sections provide more details on policies and objectives in risk management.

[2] For further information on the duties and responsibilities of the Board of Directors, see the Regulations of the Board of Directors of CaixaBank, particularly articles 4 and 36.

[3] The second line of defence comprises, generally, the Risk Management and Compliance functions, as set out by the EBA internal governance guidelines of 26 September 2017.

CaixaBank has prepared the Pillar 3 Disclosures for 2017 and, in this regard, the Board of Directors hereby declares that CaixaBank Group:

- Maintains a medium-low risk profile, in line with the business model and risk tolerance defined by the Board. Its levels of solvency and leverage are also consistent with this profile and strategy.

The main strategic lines that enable CaixaBank to maintain a medium-low risk profile are as follows:

1. Risk governance, management and control system

CaixaBank has implemented an effective system for risk governance, management and control, in line with its business model, the expectations of its stakeholders and good international practices. The risk management systems implemented are appropriate for the entity's profile and strategy.

2. Conservative risk profile

CaixaBank's objective is to maintain a low-medium risk profile and comfortable capital adequacy to strengthen its position.

Credit risk is the most significant risk and it relates mainly to banking activity.

The Group carries on its activity mainly in the retail segment, and the confidence of its stakeholders is a core value.

The entity strives to maintain its leadership position in the Spanish and Portuguese retail banking market and to generate income and capital in a balanced and diversified manner.

Counterparty risk is prudently managed by assigning internal limits and the use of mitigation techniques.

The entity's activity in financial markets focuses on providing a service to customers, minimising exposure to risk.

CaixaBank has comfortable metrics for interest rate risk in the banking book, with moderate positioning to increases in interest rates.

The entity has reinforced integration of operational risk into management in the face of the financial sector's complex regulatory and legal backdrop

Therefore, the entity presents coherent financial ratios in this Statement and in the 2017 Pillar 3 Disclosures that are consistent with its Management Policy, and which are considered aligned with the Risk Appetite Framework (RAF) set by the Board of Directors.

3. Robust solvency

One of CaixaBank's priorities is to maintain a comfortable capital position consistent with the risk profile assumed by the Entity.

The entity maintained a robust solvency position throughout 2017, with ratios well above minimum requirements, supporting the dividend policy.

The objectives in the current Strategic Plan include maintaining a fully loaded Common Equity Tier 1 (CET1) ratio of approximately 11%-12%, and a fully loaded Total Capital ratio above 14.5%.

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

Therefore, the entity presents coherent capital ratios that are consistent with its Management Policy, and which are considered aligned with the Risk Appetite Framework (RAF) set by the Board of Directors.

4. Comfortable liquidity metrics

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.

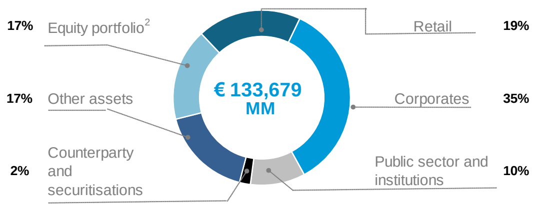
Comfortable liquidity metrics are presented, with a stable funding structure and comfortable maturity profile over coming years

Therefore, the entity presents coherent capital ratios in this Statement and in the Pillar 3 Disclosures that are consistent with its Management Policy, and which are considered aligned with the Risk Appetite Framework (RAF) set by the Board of Directors.

RISK PROFILE

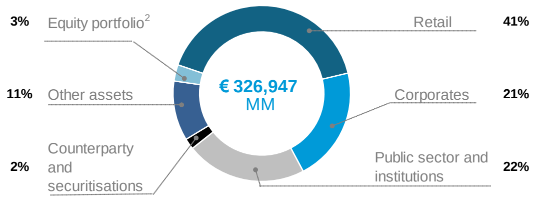
TOTAL CREDIT RISK RWA[1]

Distribution by type of risk or sector, %



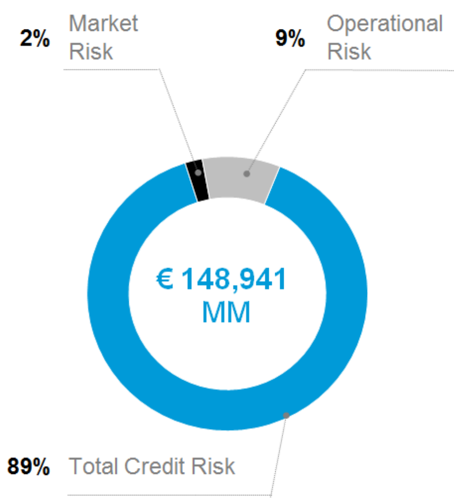
TOTAL CREDIT RISK EAD[1]

Distribution by type of risk or sector, %



TOTAL RWA[1]

Distribution by type of risk, %



1) RWA: Risk-weighted assets (regulatory). EAD: Exposure at default.
2) The equity portfolio includes the investees business and holdings in other listed companies and subsidiaries not consolidated by the equity method for prudential purposes (mainly VidaCaixa).

	2015	2016	2017
NPL (%)	7.9%	6.9%	6.0%
Coverage ratio (%)	56%	47%	50%
Cost of risk (bps)	73	46	34
ROTE	4.3%	5.6%	8.4%
Cost-to-income ratio (*)	51.9%	51.0%	54.3%

(*) stripping out extraordinary expenses

SOLVENCY

REGULATORY

	2015	2016 (1)	2017 (2)	Min. Req. 2017
CET 1 (%)	12.9%	13.2%	**12.7%**	***7.375%***
Tier 1 (%)	12.9%	13.2%	**12.8%**	***8.875%***
Total capital (%)	15.9%	16.2%	**16.1%**	***10.875%***
Leverage ratio (%)	5.7%	5.7%	**5.5%**	
Coverage ratio of conglomerate (%)(3)			**143.4%**	

FULLY LOADED

	2015	2016 (1)	2017 (2)	Min. Req. 2017
CET 1 (%)	11.6%	12.4%	**11.7%**	***8.75%***
Tier 1 (%)	11.6%	12.4%	**12.3%**	***10.25%***
Total capital (%)	14.6%	15.4%	**15.7%**	***12.25%***
Leverage ratio (%)	5.2%	5.4%	**5.3%**	

1) The 2016 ratios include the capital increase necessary to provide early coverage of the acquisition of BPI in the first quarter of 2017.
2) The 2017 ratios do not include the impact of the application of IFRS 9.
3) CaixaBank is the parent company of the financial conglomerate since the deconsolidation of Criteria in September 2017.

LIQUIDITY

	2015	2016	2017
LCR (%)	172%	160%	**202%**
LTD ratio (%)	106.1%	110.9%	**107.7%**
High quality liquid assets	41,749	36,970	**53,610**

1. CAIXABANK GROUP PILLAR 3

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

- Pillar 1: determining minimum regulatory capital.
- 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 the guidelines on disclosure requirements under part eight of the CRR published by the European Banking Authority (EBA) and the recommendations published by the Basel Committee on Banking Supervision (BCBS).

The information in this report has been prepared at the consolidated level, under a prudential scope, in compliance with CRR requirements. In addition, following the deconsolidation of CaixaBank from Criteria in September 2017, as a supervised entity, CaixaBank is considered the ultimate responsible entity for the financial conglomerate forms mainly with Vida Caixa. The document also contains information on the conglomerate’s capital adequacy and risk management in order to meet applicable additional supervisory requirements. 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:

https://www.caixabank.com/informacionparaaccionistaseinversores/informacioneconomicofinanciera/informacionconrelevanciaprudencial_en.html

As a supplement to the information set out in this annual document, the entity deems it appropriate to publish certain of the quantitative information included in this report more frequently, pursuant to article 433 of the CRR and the disclosure requirements set by the EBA.

Since December 2015, the entity 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.

The disclosure requirements, as part of CaixaBank's financial information disclosure and verification policy, including the aforementioned modifications, were updated and approved by its Board of Directors at its meeting on 22 March 2018.

According to CaixaBank's policy for disclosure and verification of the financial information, this report has been prepared following the different verification and control approaches established in each one of the three lines of defence, defined in CaixaBank’s Internal Control Framework, and complying with the governance internal procedures.

This report is based on information referring to 31 December 2017. It was also approved by CaixaBank's Board of Directors at its meeting on 22 March 2018, 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, and this is clearly indicated in title of the table.

2. CAIXABANK GROUP

2.1. Regulatory framework

In 2010, the Basel Committee on Banking Supervision approved the reform of the global regulatory framework known as Basel 3 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 consist of higher requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. The CRR is applied directly in Spain and CRD IV was implemented in Spain 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 3 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 addition, CaixaBank, as the parent of a financial conglomerate mainly with VidaCaixa since the deconsolidation of Criteria in September 2017, is subject to an additional supervisory framework pursuant to Directive 2002/87 of the European Parliament and of the Council of 16 December 2002 relating to supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council, according to the version in force.

Additionally and, in general, Caixabank closely monitors and actively participates in the discussion and approval groups of the different regulatory frameworks such as execution regulations, delegated regulations, as well as other non-binding publications such as Guidelines or Consultation Documents issued by the corresponding legislative authorities. In this regard, we must emphasise, among others, the EBA publications on the disclosure of the Liquidity Coverage Ratio (LCR) and the asset encumbrance.

From a supervisory perspective, 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.

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 transversal analyses and comparisons against their peers. Any additional capital requirements under the SREP process ("Pillar 2R" requirements) may also be supplemented by combined capital buffer requirements (CBR), comprising applicable capital conservation, anti-cyclical capital and systemic risk buffers. According to an EBA notice of 1 July 2016, the supervisor may also establish a capital guide known as Pillar 2G, in addition to the Pillar 1, Pillar 2R and CBR requirements. If a bank should fail to comply with its Pillar 2G requirements, it would not imply automatic actions by the supervisor with respect to the distribution of profits, also known as the Maximum Distributable Amount (MDA). However, it could lead to intensified individual supervisory measures for an entity. Pillar 2G is not public information. The draft EBA guide published in December 2017, which revises the SREP Guide, sets out this line of action.

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.

CaixaBank Group drew up its first Recovery Plan in 2014, based on data from year-end 2013. The 2016 Recovery Plan (based on 2016 data) is the fourth edition and was approved by the Board of Directors in September 2017.

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 implemented by the National Resolution Authority (in Spain, FROB as executive authority and BoS as preventive authority), which also prepare the resolution plan in collaboration with each entity (which provides the information required). The BRRD also introduces a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio. The SSM entered into force on 1 January 2016. Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, was approved to provide resolution authorities with detailed guidance on establishing MREL requirements for banks, granting them discretionary powers to set the right minimum level and composition of MREL for each bank. The resolution authority has not announced the formal requirements that are binding for CaixaBank Group in 2018 and therefore, details of the quantity and category of eligible liabilities and calendar for compliance are not available.

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.

With regard to the aforementioned package of regulatory reforms, In June 2017, Royal Decree-Law 11/2017 amended Law 11/2015 in view of the European Commission's proposal on the creditor hierarchy amending the BRRD, whose partial amendment, in turn, was published in December 2017 in Directive 2017/2399.

Global and European regulatory developments include the following:

- Final Basel 3 Accord: on 7 December 2017, the Basel Committee on Banking Supervision (BCBS) published "Basel 3: finalising post-crisis reforms". This document reviews the current Basel 3 framework, with the dual objective of reducing the excessive variability of risk-weighted assets (RWAs) among financial institutions and improving the comparability of banks' capital ratios.

The changes proposed in this reform include:

I. enhancing the risk sensitivity of the standardised approaches for credit and operational risk

II. constraining the use of the internal model approaches, with regard to the value of the parameters used (input floors), and the maximum capital savings that can be obtained, with respect to the standard model (output floor).

III. adjustment of the calculation of the leverage ratio

The next steps in the Basel 3 global reform are:

I. The implementation date for the revised standard approach for credit risk, within the revised IRB framework of the revised credit valuation adjustment framework, and the revised operational risk framework will be 1 January 2022. Additionally, the implementation and regulatory information disclosure date for the revised market risk framework (published in January 2016) will be 1 January 2022

II. The LR framework will apply from 1 January 2018 (using the current exposure definition) and from 1 January 2022 (using the revised exposure definition). Further, the buffer for banks of global systemic importance (G-SIB) will apply from 1 January 2022.

- Bank of Spain approval of Circular 4/2017 on public and reserved financial information standards and formats for credit institutions: this regulation adapts the accounting rules of Spanish credit institutions to IFRS 9 (Financial instruments) and IFRS 15 (Revenue from Contracts with Customers) adopted in the EU in 2016, and which will be applicable for the purposes of preparing financial statements for the accounting years beginning on 1 January 2018 (for further information, see the Notes to the consolidated financial statements of CaixaBank Group).

- Stress test of 2017: the ECB published the final results of the sensitivity analysis of the IRRBB of 2017. The results show, on average, that entities are ready to face changes in interest rates.

- 2018 stress test: the EBA published the final methodology, which specifies the method banks should use to calculate scenarios in stress situations, and restrictions are established for bottom-up calculations. It will include all relevant risk areas and the new accounting standards set out in IFRS 9 for the first time. More detailed disclosure of EU banks' balance sheets will also be required, including: composition of capital, leverage ratios, RWAs by risk type, sovereign exposures, credit risk exposures and non-performing and forborne exposures. The data will also cover market risk and securitisation exposures.

2.2. Scope of application

The financial information in this report relates to CaixaBank Group. CaixaBank, SA and its subsidiaries compose CaixaBank Group (hereinafter "CaixaBank Group" or "the Group"). CaixaBank, SA (hereinafter, CaixaBank or the Entity), with tax identification number (NIF) A08663619 and registered address at Pintor Sorolla, 2-4, Valencia (until 6 October 2017 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 Credit Institutions ("Registro de Entidades de Crédito"). It was listed as a credit institution on the Spanish stock markets on the next day, 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 (Comisión Nacional del Mercado de Valores, CNMV).

On 26 September 2017, the ECB Governing Committee ruled that CriteriaCaixa, SAU (hereinafter, Criteria or CriteriaCaixa) no longer has control or exercises a dominant influence over CaixaBank, and consequently is no longer the parent company of the financial conglomerate. This ruling came into force the same day. Therefore, CaixaBank has become the parent company of the financial conglomerate comprising Group entities that are regulated, with CaixaBank classified as a significant supervised entity. CaixaBank, along with the credit institutions in its Group, comprises a significant group of which it is the entity at the highest level of prudential consolidation.

At 31 December 2017, the Group's corporate structure was as follows:

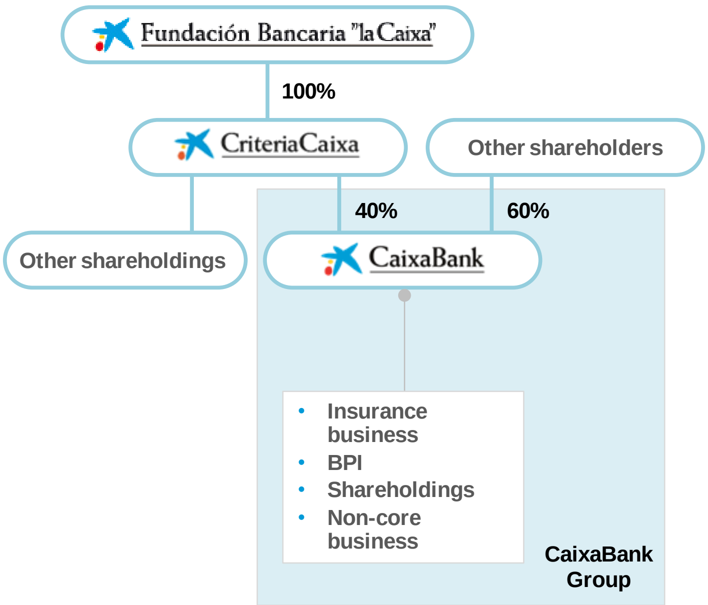


Diagram 1

Acquisition of control of Banco BPI:

On 16 January 2017, the Portuguese securities market commission (Comissão do Mercado de Valores Mobiliários) registered the prospectus for CaixaBank's takeover bid for BPI at a price per share of EUR 1.134 and the bid uptake period was opened, eventually closing on 7 February 2017. Having secured the required approvals and following completion of the uptake period for the takeover bid, CaixaBank obtained a stake of 84.51% in BPI. The payment for the 39.01% of share capital acquired in the bid stood at EUR 645 million.

The acquisition of control of Banco BPI entailed a change in the nature of this investment, from an investment in associates to an investment in a Group company. At the date of the acquisition of control, the total impact of the business combination was EUR 256 million and -108 basis points in the fully loaded CET 1 capital ratio.

In March 2017, Banco BPI issued subordinated debt in the amount of EUR 300 million, which was fully acquired by CaixaBank, eligible as Tier 2 capital at individual and sub-consolidated level of BPI, now coming into compliance with all capital requirements and buffers applicable in these scopes. Due to its intra-group nature, the issue is not included upon consolidation of CaixaBank Group.

In November 2017, CaixaBank and Banco BPI announced the signing of a number of agreements under which (i) CaixaBank Asset Management SGIIC, S.A.U. will acquire from Banco BPI, most likely in 2018, the entirety of the share capital of the companies BPI Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A. and BPI Global Investment Fund Management Company S.A.; (ii) VidaCaixa S.A.U. de Seguros and Reaseguros were to acquire from Banco BPI the entirety of the share capital of BPI Vida e Pensões, Companhia de Seguros, S.A. The latter insurance-related transaction was completed in December 2017. (iii) Lastly, CaixaBank acquired from Banco Português de Investimento, S.A. (a subsidiary of Banco BPI) its brokerage, research and corporate finance businesses. CaixaBank Group's risk profile and capital ratios have not and will not be affected by these intra-group transactions.

In December 2017, CaixaBank and Banco BPI announced agreements under which (i) CaixaBank Payments, E.P., E.F.C., S.A.U. will acquire from Banco BPI, most likely in 2018, its card issuance business; (ii) Comercia Global Payments will acquire from Banco BPI, most likely in 2018, its payment service (POS – point-of-sale terminals). As an intra-group transaction, the acquisition of the card issuance business will have no impact on CaixaBank Group's risk profile or capital ratio. The acquisition of the payments service will have no material impact on CaixaBank Group's risk profile or capital ratio.

For the purpose of transparency with non-controlling shareholders and other stakeholders, and as a domestic systemically important institution, Banco BPI will also publish in the first half of 2018 Pillar 3 disclosures at sub-consolidated level up to 31 December 2017, thus complying with Articles 437, 438, 440, 442, 450, 451, 451a, 451d and 453 of the CRR.

2.3. Other general information

At 31 December 2017, the following credit institutions or financial credit establishments of CaixaBank Group are compliant with their individual capital requirements: CaixaBank, Banco BPI, Banco Português de Investimento, Banco BPI Cayman and Telefónica Consumer Finance. The following credit institutions or credit financial establishments of CaixaBank Group are exempt from capital requirements: Nuevo MicroBank, CaixaBank Consumer Finance, CaixaBank Payments, Corporación Hipotecaria Mutual and Credifimo. For these exempt subsidiaries, 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 CaixaBank. In addition, at the reporting date, CaixaBank and BPI are compliant with capital requirements at consolidated and sub-consolidated level.

In addition, all other regulated subsidiaries (the asset management companies CaixaBank Asset Management, BPI Gestâo de Activos, BPI Global Investment Fund Management Company, BPI Suisse and the insurance companies VidaCaixa and BPI Vida e Pensôes) are compliant with the own funds requirements laid down in applicable sector regulations.

Taking account of regulations of financial conglomerates, there are no significant current or foreseeable practical or legal obstacles to the immediate transfer of own funds to VidaCaixa or to the reimbursement of its third party liabilities by CaixaBank.

2.4. 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 exercises 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 CaixaBank Group in this report and to prepare its consolidated financial statements:

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

2. For the purposes of solvency, subsidiaries with a different activity to that of a credit institution or of investment entities 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 presents details of holdings subject to regulatory limits for deduction purposes. Appendix V discloses the companies with differing prudential and accounting consolidation treatment.

2.5. 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 confidential or prudential balance sheet used in calculating eligible own funds and minimum capital requirements, compared to the accounting information published in the financial statements.

Table 1. Reconciliation between the public and prudential balance sheets

Amounts in millions of euros

Assets	Public	Group entities accounted for the equity method (1)	Intragroup operative and consolidation adj. (2)	Regulatory Scope	Ref. (3)
Cash and deposits at central banks	20,155	(16)	37	20,176	
Financial assets held for trading	10,597	(956)	6,779	16,419	
Financial assets designated at fair value through profit or loss	6,500	(6,494)	0	6	
Available-for-sale financial assets	69,555	(49,397)	0	20,158	
Loans and receivables	226,272	(1,333)	752	225,691	
Held-to-maturity investments	11,085	(14)	0	11,070	
Derivatives	2,597	0	0	2,597	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	11	0	0	11	
Investments in joint ventures and associates	6,224	2,377	0	8,602	
Associates	6,037	(1,015)	0	5,023	
of which: Net badwill	361	(300)	0	61	8 +41aa
Joint ventures	187	0	(38)	149	
of which: Badwill	0	0	2	2	8 +41aa (4)
Group Entities	(0)	3,430	0	3,430	
of which: Badwill	0	973	0	973	8 +41aa
Assets under insurance and reinsurance contracts	275	(275)	0	0	
Tangible assets	6,480	(263)	0	6,218	
Intangible assets	3,805	(688)	0	3,117	8 +41aa
Tax assets	11,055	(298)	178	10,935	
Other Assets	2,505	(1,462)	3,009	4,052	
Non-current assets and other	6,069	(103)	0	5,966	
Total Assets	**383,186**	(58,921)	10,754	**335,019**	

Liabilities	Public	Group entities accounted for the equity method (1)	Intragroup operative and consolidation adj. (2)	Regulatory Scope	Ref. (3)
Financial liabilities held for trading	8,605	0	6,779	15,384	
Financial liabilities designated at fair value though profit or loss	8,241	(8,241)	0	0	
Financial liabilities measured at amortised cost	280,897	(68)	3,798	284,627	
Derivatives	793	0	0	793	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,410	0	0	1,410	
Liabilities under insurance contracts	49,750	(49,750)	0	0	
Provisions	5,001	(3)	9	5,007	
Tax liabilities	1,388	(447)	165	1,106	
Reimbursable capital at sight	0	0	0	0	
Other liabilities	2,335	(322)	2	2,015	
Liabilities included in disposal groups classified as held for sale	82	(82)	0	0	
Total Liabilities	**358,503**	(58,914)	10,754	**310,343**	

Equity	Public	Group entities accounted for the equity method (1)	Intragroup operative and consolidation adj. (2)	Regulatory Scope	Ref. (3)
Shareholders' equity	24,204	0	0	24,204	
Accumulated other comprehensive income	45	0	0	45	3
Minority interests (non-controlling interests)	434	(8)	0	426	5
Total Equity	**24,683**	(8)	0	**24,676**	
Total Equity and Liabilities	**383,186**	(58,921)	10,754	**335,019**	

(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 balance sheet

(3) As referred in Annex I. Information of transitional own funds.

(4) 53 millions of deduction have been included, which are not considered on balance sheet.

Table 2. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1)

Amounts in millions of euros

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the Counterparty credit risk (CCR) framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital [3]
Cash and cash balances at central banks and other demand deposits	20,155	20,176	20,176	0	0	0	0
Financial assets held for trading [1]	10,597	16,419	0	14,941	0	16,419	0
Financial assets designated at fair value through profit or loss	6,500	6	6	0	0	0	0
Available-for-sale financial assets [2]	69,555	20,158	20,158	0	0	37	0
Loans and receivables	226,272	225,691	219,708	5,798	68	0	118
Held-to-maturity investments	11,085	11,070	11,070	0	0	0	0
Derivatives - Hedge accounting	2,597	2,597	0	2,597	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	11	11	0	0	0	0	11
Investments in joint ventures and associates [2]	6,224	8,602	7,566	0	0	686	1,036
Assets under insurance or reinsurance contracts	275	0	0	0	0	0	0
Tangible assets	6,480	6,218	6,218	0	0	0	0
Intangible assets	3,805	3,117	0	0	0	0	3,117
Tax assets	11,055	10,935	7,633	0	0	0	3,302
Other assets	2,505	4,052	1,908	52	0	0	2,092
Non-current assets and disposal groups classified as held for sale	6,069	5,966	5,963	0	0	0	3
Total assets	**383,186**	**335,019**	**300,406**	**23,388**	**68**	**17,143**	**9,678**
Financial liabilities held for trading [1]	8,605	15,384	0	14,639	0	15,384	0
Financial liabilities designated at fair value through profit or loss	8,241	0	0	0	0	0	0
Financial liabilities measured at amortised cost	280,897	284,627	0	15,855	0	0	268,772
Derivatives - Hedge accounting	793	793	0	793	0	0	0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,410	1,410	0	0	0	0	1,410
Liabilities under insurance contracts	49,750	0	0	0	0	0	0
Provisions	5,001	5,007	357	0	0	0	4,650
Tax liabilities	1,388	1,106	252	0	0	0	854
Share capital repayable on demand	0	0	0	0	0	0	0
Other liabilities	2,335	2,016	0	0	0	0	2,016
Liabilities included in disposal groups classified as held for sale	82	0	0	0	0	0	0
Total liabilities	358,503	310,343	610	31,287	0	15,384	277,702
Total equity	24,683	24,676	0	0	0	0	24,676
Total equity and total liabilities	**383,186**	**335,019**	**610**	**31,287**	**0**	**15,384**	**302,378**

(1) In the held-for-trading financial assets, exposure of derivates is duplicated, for counterparty credit risk as well as market risk.

(2) The exposure of shareholder´s equity instruments in foreign currency is duplicated, for credit risk as well as market risk.

(3) Of which €6,029MM subject to deductions.

Table 3. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EU LI2)

Amounts in millions of euros

	a	b	c	d	e
	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**341,005**	**300,406**	**23,388**	**68**	**17,143**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	47,280	610	31,287	0	15,384
Total net amount under the regulatory scope of consolidation	**293,724**	**299,797**	**-7,899**	**68**	**1,759**
Off-balance-sheet amounts	**75,953**	**75,953**	**0**	**0**	**0**
Add-on	**4,651**	**0**	**4,651**	**0**	**0**
Securitisations with risk transfer	-251	-2,238	0	1,987	0
Differences due to different netting rules (netting, long/short positions, diversification)	5,794	0	7,553	0	-1,759
Differences due to consideration of provisions	5,457	5,457	0	0	0
Differences due to CRMs (Guarantees)	-2,355	-2,355	0	0	0
Differences due to CCFs	-57,368	-57,368	0	0	0
Other	25	25	0	0	0
Exposure amounts considered for regulatory purposes	**325,630**	**319,270**	**4,305**	**2,055**	**0**

Does not include balances not subject to capital requirements. The portfolio held for trading doubles the exposure of derivatives at both market and counterparty risk. Currency exposures also double their exposure to credit as market risk.

3. RISK GOVERNANCE, ORGANISATION AND MANAGEMENT

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 mainly involved in retail banking such as CaixaBank.
- The Risk Culture has always been a distinguishing feature of CaixaBank Group decision-making process and business management. This culture, together with the risk policies and systems in place and the skills of its workforce, has permitted the Group to maintain a moderate risk profile and noteworthy level of solvency in the Spanish market.
- CaixaBank Group's risk management system comprises: its governance and organisation structure; the corporate risk assessment; the Risk Appetite Framework (RAF); risk planning and the internal control framework.
- CaixaBank Group's Internal Control Framework is aligned with best practices and regulatory standards, including the EBA's Guidelines on Internal Governance of 26 September 2017. The framework offers a reasonable degree of assurance that the Group will achieve its objectives, as it is structured around the three lines of defence model.
- The year 2017 has been a challenge for the sector, which has had to respond to new scenarios in an increasingly demanding and ever-changing regulatory environment. Despite these circumstances, the Group has achieved significantly better results and significantly higher credit quality.

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

CONTENTS

3.1. Governance and organisation

3.1.1. 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, under the developments of the Regulations of each body.

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

Board of Directors of CaixaBank

Article 32.4 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 restated text of the Corporate Enterprises Act, and Articles 5 and 18-21 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 broad 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 and set out in article 19 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.

Shareholders are not allowed to be represented in the Board of Directors by a number of stakeholding Directors higher than the forty per cent of the total members of the Board of Directors, without prejudice to the right of proportional representation that corresponds to the shareholders in the terms considered in the Act.

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

[1] Notably, *Final Paper "Final Guidelines on Internal Governance" (EBA-GL-2017-11)*, published on 27 September.

[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 2017 Annual Corporate Governance Report (sections C.1.12 and C.1.17, respectively).

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 16.7 of the Regulations of the Board of Directors, at least once a year, the Board, as a plenary body, shall: evaluate the quality and efficiency of the functioning of the Board; the performance of their duties by the Chairman of the Board and the chief executive of the company; and the functioning of the Committees. The Board shall propose an action plan to correct any issues detected in this review.

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

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 to the benefit of the company and fulfilling the suitability requirements set out in applicable regulations.

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.

On 17 March 2017, CaixaBank announced the death of Director Salvador Gabarró Serra.

On 23 March 2017, to fill the vacancies in different committees left by the death of Mr. Gabarró, the Board of Directors appointed José Serna Masiá and Maria Teresa Bassons Boncompte as members of the Audit and Control and Remuneration Committees, respectively.

The General Meeting of 6 April 2017 ratified the appointment and further appointed Jordi Gual Solé (proprietary director), José Serna Masiá (proprietary director), Koro Usarraga Unsain (independent director), Alejandro García-Bragado Dalmau (proprietary director) of the CajaCanarias Foundation (proprietary director). The General Meeting also approved the appointment of Ignacio Garralda Ruiz de Velasco (proprietary director), subject to verification of his suitability as a director by the competent banking supervisor. Such notice was received on 22 May 2017, and Mr. Garralda accepted the position on the same date.

On 22 June 2017, the Board of Directors appointed Francesc Xavier Vives Torrents (independent director) as lead independent director. The appointment took effect on 18 July 2017, when the amendment of the By-Laws by the Annual General Meeting was authorised by the European Central Bank.

On 27 July 2017, the Board of Directors appointed Maria Verónica Fisas Vergés as a member of the Executive Committee.

On 21 September 2017, the Board of Directors appointed Eduardo Javier Sanchiz Irazu as an independent member of the Board of Directors. This appointment was agreed upon through co-option in order to fill the vacancy left by the death of the proprietary director Salvador Gabarró until the next General Meeting.

On 21 December 2017, CaixaBank announced that Antonio Massanell Lavilla tendered his resignation from the position of Deputy Chairman and member of the Board of Directors, effective 31 December 2017. To fill the vacancy, on the same date the Board of Directors appointed Tomás Muniesa Arantegui as a member of the Board of Directors, pursuant to a favourable report from the Appointments Committee and subject to verification of his suitability by the European Central Bank. Also, and on a proposal of the Appointments Committee and subject to the verification of the European Central Bank, Mr. Muniesa was appointed Deputy Chairman of the Board of Directors and a member of the Executive Committee.

The CaixaBank Board of Directors therefore comprised 18 members at 31 December 2017. Pursuant to prevailing corporate governance legislation, seven members were proprietary Directors, nine 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).

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 have been in keeping with the principles and guidelines contained therein, and that the percentage of the lesser represented sex is situated at 27.8% on the date of verifying compliance with the Policy.

At year end 2017, women comprised 33.3% of the independent Directors and 28.6% of proprietary Directors.

The membership of Executive Committee is 25% female, and 67% of the members of the Appointments Committee and the Remuneration Committee are women, with the latter of these committees chaired by a women director.

The Risk Committee and the Audit and Control Committee have one female member, representing 25% and 33.3%, respectively, of each committee. That is to say, women are represented on all Company Committees.

Therefore, even though the number of women Directors is not equal, it is deemed to be scant.

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_en.html

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 assessment of each director is carried out as regards 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 adopted the decision to seek the assistance of a third party, In 2017, the Board evaluated its performance in collaboration with an external consultant whose independence had been previously verified by the Appointments Committee.

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 2017 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 2017. The Appointments Committee met 14 times; the Remuneration Committee, 7 times; the Audit and Control Committee, 15 times; the Executive Committee, 22 times; and the Risks Committee, 16 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 (where a majority of these should be independents) who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity.

The main functions of this committee include[3]:

- 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 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.

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

- 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 of 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.

Its main responsibilities include:

- Evaluate 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;
- Reporting the appointment or removal of the lead director, the Secretary and the deputy Secretaries of the Board for submission to the approval of the Board of Directors.
- 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, under the direction of the lead coordinator and, as the case may be, in relation to the evaluation of the chairperson. Evaluate the composition of the Steering Committee as well as its replacement tables for adequate provision for transitions;
- Supervise the activities of the Company in relation to corporate social responsibility 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:

- Report and propose to the Board of Directors the remuneration policy, the system and amount of the annual remuneration of Directors and senior executives, the individual remuneration of executive Directors and senior executives and other conditions of their contracts, 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;

- Ensuring that the remuneration policy for Directors and senior executives as well as the basic conditions set forth in the contracts entered into with them are abided by.

- To report on and prepare 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 as follows: Informing the General Meeting on matters arising in relation to areas under its authority and, in particular, on the audit result, explaining how the audit contributed to the integrity of financial information and the role the committee played in the process.
- Overseeing the effectiveness of the Company's internal control environment, internal audit and risk management systems, and discussing with the auditor any significant weaknesses in the internal control system identified during the course of an audit;
- Overseeing the process of preparation and presentation of required financial information and presenting recommendations or proposals to the Board of Directors aimed at safeguarding the integrity of such information.
- Submitting to the Board of Directors proposals for selection, appointment, re-election and replacement of the auditor.
- Establishing appropriate relationships with the external auditor 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 authorisation of services other than those prohibited.
- Issuing, prior to each annual audit report, a report with an opinion on whether the independence of the auditors has been compromised.
- Preparing advance information for the Board of Directors on all matters envisaged in the law, the Bylaws and the Regulation of the Board of Directors.

3.1.2. Organisational structure

General Risks Division

Within the executive team, the Chief Risks Officer (CRO) is the maximum person responsible for the coordination of the management, follow-up and control of the risks of CaixaBank Group, acting independently of the business areas and with full access to the Governing Bodies of the Group. The CRO has organised his team as follows:

- Individual Loan Analysis and Approval division, responsible for analysing and granting loans to individuals (retail customers and self-employed professionals, the latter not including self-employed professionals in the farming sector).
- 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).
- Non-performing Assets and Restructuring division, responsible for analysis and approval operations directed to manage deteriorated credit exhibitions, for example through refinancing or restructuring, for all sectors.
- Foreclosure assets division, which controls and monitors property investments and divestments, and is responsible for the policies associated with property management.
- Global Risk Management division, (Risk Management Function, or RMF), responsible for risk management and overseeing asset performance, solvency and capital adequacy mechanisms. To that end, this division manages the functions of identification, measurement, monitoring, reporting and risk control. Furthermore, it is responsible of the valuation and integration of the different exhibitions, as well as the profitability adjusted to the risk of each area of activity, from a global perspective of CaixaBank Group and in accordance with its management strategy. It is also responsible for determining limits and defining policies for the granting, management and mitigation of risks.

  As head of the second line of defence in risk management, it acts independently of the risk-taking areas, and has direct access to the Governing Bodies of the Group, especially to the Risk Committee, whose Board of Directors report regularly on the situation and expected evolution of the entity's risk profile.

- Risk Validation Model, responsible for ensuring the internal models used for internal management and/or regulatory purposes are fit for purpose.

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, in direct report to the Chief Executive Officer, forms part of the General Risks Division and 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

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

Executive default, recovery and foreclosures division

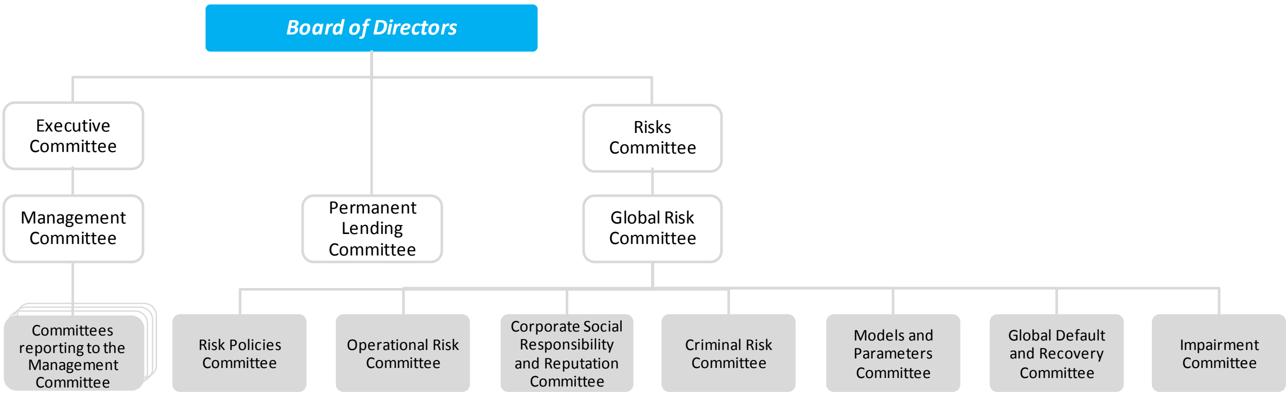
In 2017, CaixaBank strengthened its governance model and the operating framework for the management of problem assets. A new executive division was established during the year called the Executive Division of NPA, Recoveries and Foreclosed Assets, reporting directly to the CEO. The objective of the new executive division is to manage non-performing and foreclosed assets, with a comprehensive view of the associated life cycle[4].

The main responsibilities and lines of work of the new Executive Division are:

- The proposal and implementation of the recovery strategy.
- The definition of the objectives of the recovery function.
- Management of the flow and stock of Non-performing Assets.

[4] For further information, see note 3 of the 2017 notes to the financial statements of CaixaBank Group.

3.1.3. Committees relevant to risk management and control



Collegiate bodies in the risk area

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 related to the risk function:

Generally, the committees whose function is risk-related, report to the Board of Directors through its Executive Committee. These are the Management Committee and subordinate committees (ALCO, Transparency, Regulation, Information Management and Data Quality, Data Protection, and the Restructuring and Resolution Plans Committee).

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 Executive Committee. Related-party transactions and transactions related to senior officers are submitted for approval to the Audit and Control Committee and the Board of Directors.

The PLC can individual approve 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.

Furthermore, the committees whose functions are assigned by the Board of Directors in its supervisory capacity, through the Risks Committee to oversee risk management are the Global Risk Committee (GRC) and its subordinate committees listed below.

Global Risk Committee

This committee is responsible for managing, control and monitoring on a global basis, the 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 in the management of solvency and capital.

Within its remit, this Committee is charged with adapting CaixaBank's risk strategy to the Risk Appetite Framework (RAF) established by the Board, it must clarify and resolve doubts about its interpretation and keep CaixaBank's Board informed through the Risks Committee of the main areas of activity and the status of risks.

The committee also analyses the overall positioning of risks of the Group and defines the main lines of action that allow optimizing the risk management in the framework of its strategic challenges.

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 CaixaBank Group's balance sheet and its profitability. This includes the net interest income and 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 such as 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.

In 2016, with dependency of the Transparency Committee, the Product Committee is created as an organ responsible for approving any new product or service that the entity designs and/or marketed after analyzing its characteristics, associated risks and its adequacy to the target audience. While taking into consideration, the regulation of transparency in terms of customer protection. The product governance policy aims to establish a procedure that allows the design and approval of the marketing of new products, as well as the process of monitoring the life cycle of the product. This policy has been designed considering the needs of our clients in an agile way and strengthening the protection of them while minimizing the legal and reputational risks derived from the incorrect design and commercialization of financial products.

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 CaixaBank Group. It establishes strategic positions in relation to 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 management of 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, budget, 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 particularly important aspects 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 the Plan to be updated at least once a year in line with prevailing legislation and also directs the project, supervising and controlling 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

Risk Policies Committee and Investee Risk Policies Committee

These committees approve the Group's credit risk and market risk policies. Policies are any of the guidelines governing the Bank's activities and any procedures through which they are implemented.

Their remit is to establish policies that are in line with and underpin 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, which also analyses and approves loan and credit products.

Operational Risk Committee

It focuses on applying, reviewing and disseminating the Operating Risk Management Framework, as well as identifying critical points, and establishing operating risk mitigation and control procedures.

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 CaixaBank Group.

Crime Risk Committee

It is responsible for the organisation and management of crime prevention activities, including all procedures, measures and controls in CaixaBank Group, the purpose of which is to devise a system for prevention and response to any criminal conduct applicable to legal entities in Spain, through courses of action and controls to reduce the risk of any such crimes being perpetrated. It is a high-level body with powers of initiative and control, which the CaixaBank Board of Directors bestowed upon it.

Models and Parameter Committee

It reviews and formally approves models and parameters for credit risk, market risk (including Counterparty Risk – credit in Treasury activity and operational risk), and any other methodologies used by the committee to perform its control duties.

Global 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.

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.

3.2. Strategic risk management process

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

CaixaBank Group has a strategic risk management system in place to identify, measure, monitor, control and report risks that is based on the following processes.

- ***Risk Assessment:*** A six-monthly risk self-assessment, covering all the risks in the Risk Catalogue. This includes a process for identifying emerging risks that may be incorporated within the catalogue.
- **Risk Catalogue:** An annually-reviewed list and description of the material risks identified in the Risk Assessment.
- **Risk Appetite Framework (RAF):** An annually-reviewed monitoring of CaixaBank's risk profile, determined by the risks identified in the Risk Assessment process and included in the Risk Catalogue.
- **Risk planning:** Projection of the expected performance of the figures and ratios that define the future risk profile, as part of the Strategic Plan.

3.2.1. Risk assessment

Global Risk Management is responsible, as the CaixaBank Risk Management Function (RMF), for developing and managing the bank's internal risk assessment process. The result shall be reported at least annually, first to the Global Risk Committee and Risk Committee, secondly, and then approved by the Board of Directors.

However, CaixaBank Group carries out this internal assessment process every six months, seeking 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), and the result of this process forms part of the annual review of CaixaBank's Risk Catalogue.
- 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 as an ad-hoc exercise in the context of the ICAAP report and is now a stand-alone and autonomous process, has been evolving in alignment 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.

It is currently performed using quantitative information, benchmarks and qualitative inputs provided by the internal representatives of different stakeholders, in the areas involved in risk management and control areas for all the risks in the Risk Catalogue. The weighted aggregate of all risks is used to determine the CaixaBank's global risk profile and align it with the profile stated in the Risk Appetite Framework.

3.2.2. Risk Catalogue

It is the responsibility of Global Risk Management, as the CaixaBank Risk Management Function (RMF) to develop and manage the adaptation of CaixaBank Group's Risk catalogue to ensure it is aligned with the material risks to which the Group is exposed. It has to be reviewed at least annually with reporting first to the Global Risk Committee and the Risk Committee, secondly, and then approved by the Board of Directors.

CaixaBank Group has a Risk Catalogue that was updated in December 2017. It facilitates the 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 update of the Risk Catalogue entailed the following changes: clearly specifying the inclusion of model risk[5] as an operational risk and step-in risk as a reputational risk[6].

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

Business model risk

- **Profitability:** Obtaining results lower than market expectations or the Group's targets which prevent the Entity from reaching a profitability level that is higher than the cost of capital.
- **Eligible Own Funds/Solvency:** restriction of CaixaBank Group's ability to adapt its level of capital to regulatory requirements or to a change in its risk profile.
- **Liquidity and Funding:** insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements, or the investment needs of the Group.

Specific risk affecting financial activity

- **Credit risk:** Risk of a decrease in the value of CaixaBank Group’s assets due to uncertainty in a Counterparty’s ability to meet its obligations.
- **Impairment of other assets:** Reduction in the carrying amount of the shareholdings and non-financial assets (tangible, intangible, deferred tax assets (DTAs) and other assets) of CaixaBank Group.
- **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:** loss or decline in CaixaBank Group's profitability due to legislative or regulatory changes, errors in interpreting or applying the laws or regulations in force, court rulings or administrative action that goes against the Entity's interests or tax-related decisions taken by the Entity or the tax authorities.
- **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 risk:** 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\x92s activity, due to external events beyond the Bank\x92s control, or due to third parties outside the Bank, both accidentally and fraudulently. Includes errors overseeing suppliers, model risk, and the custody of securities.

[5] Model risk is risk arising from the entity’s potential loss deriving from decisions grounded primarily in the results of internal models due to errors in the conception, application or use of such models.
[6] Step-in risk is the risk that financial institutions will provide financial support to unconsolidated entities in the absence of contractual obligations to do so.

- **Reliability of financial information:** deficiencies in the accuracy, integrity and criteria of the process used when preparing the data necessary to evaluate the financial and equity situation of CaixaBank Group.

- **Reputational risk:** 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 governance bodies, or because of related unconsolidated entities becoming bankrupt (step-in risk).

3.2.3. Risk Appetite Framework (RAF)

Risk appetite is already an important and distinguishing feature of CaixaBank Group's business. This culture, embodied in the skills of its workforce, decision-making policies and risk infrastructures used to implement them, have permitted the Group to maintain a moderate risk profile and unique level of solvency in the Spanish market.

This Framework 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 RAF therefore sets the risk appetite for the activity.

The Board of Directors has established four key dimensions (qualitative statements) expressing the Group's aspirations regarding the main risks included in the Risk Catalogue. These are the following:

- **Loss buffer:** 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.
- **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.
- **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.
- **Franchise:** CaixaBank is committed to the highest ethical and governance standards in its business conduct, encouraging sustainability and social responsibility, and ensuring operating excellence.

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, clear and efficient manner, to the management of the business and of the risks.

The Framework is represented graphically through a pyramid structure that ends with level 1 principles and indicators, supplemented by more detailed metrics (level 2). All of this is included in the day-to-day activity and employee decision-making through management levers (level 3).

Risk Appetite Framework (RAF) Structure

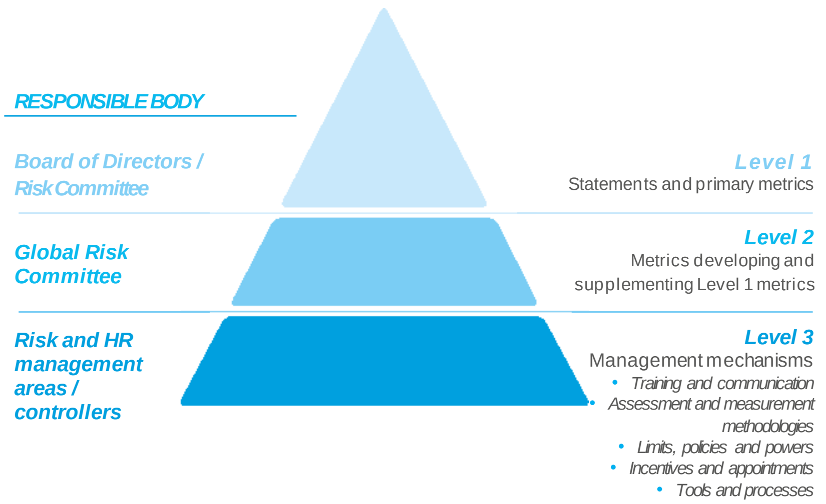


Diagram 3

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 tier as often as is determined in the policy governing the Framework, with specialist advice and ongoing monitoring by the Risks Committee.

Tolerance and Breach levels are set for each of the metrics via a system of traffic lights alerts:

- Green traffic light: appetite zone.
- Amber traffic light: tolerance zone (early warning).
- Red traffic light: breach.

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

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

To illustrate, some of the metrics considered for each dimension are:

- **Loss buffer.** Regulatory solvency ratios, calculated on the basis of advanced models and approaches (expected loss, VaR) and accounting-related indicators, such as cost of risk or the NPL ratio.

- **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 Global Risk Committee. These indicators tend to derive from the factorial decomposition of Level 1 or from a greater breakdown of the contribution to the higher tier 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 are:

- **Training and communication** as key vehicles through which the Risk Culture is instilled.

- **The definition of risk approval, management and control policies,** including limits and approval powers across the different levels of the organisation and in governance.
- **The incentives and appointments,** used as key tools in HR policies, which help shape staff conduct.
- **The tools and processes used to** properly construct and monitor the RAF and introduce the metrics and thresholds thereof in the relevant environments.

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 2017 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 level 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 Global Risks Committee is responsible for proposing the design and development of the RAF, and monitoring compliance therewith at least monthly. If the pre-established risk appetite levels are exceeded, the necessary measures are taken to reshape the situation.

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 Executive Global Risk Management Division to the Global Risk Committee, indicating the past and future trends of level 1 and level 2 metrics, according to the Strategic Plan/projection made as part of the ICAAP exercise. If current risk levels breach the threshold for:
  - **Tolerance:** 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 Risks Committee as part of its recurring reporting.
  - **Non-compliance:** 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 Risks Committee.
  - **Recovery Plan:** would trigger the Plan's governance process, which envisages a set of measures designed 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 this 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 level 1 metrics.
- Half-yearly presentation to the Board of Directors on the situation, action plans and forecasts for level 1 metrics.

During these sessions, the Board may decide to amend or update the metrics and previously assigned thresholds. If a risk breaches a tolerance threshold which could threaten the Group's ability to continue as a going concern, the Board may initiate the measures set forth in the *Recovery Plan*.

Since approval in November 2014, the Framework has developed into a fundamental pillar of internal planning processes and simulations of potential stress scenarios, with all such scenarios treated in an integrated manner. An overarching view of compliance with the RAF in different scenarios has been provided to the Board through the ICAAP and ILAAP (Internal Liquidity Adequacy Assessment Process), to be able to take the right decisions on amending or signing off the forecasts prepared by the individuals responsible for these processes.

3.2.4. Risk planning

CaixaBank Group has institutional processes and mechanisms in place for assessing changes to the Group's risk profile (recent, future and hypothetical in stress scenarios).

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

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.

3.3. Risk Culture

General Risk Management Principles

The general risk management principles are defined as follows[7]:

- Risk is inherent to the Group’s business.
- The Board of Directors is the most senior risk management body, a function in which senior management is involved.
- The Group's target risk profile is medium-low.
- The entire organisation should be 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, 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.
- Allocation of appropriate resources: The human and technical resources allocated to risk management are sufficient in terms of both quantity and quality to allow objectives to be reached.

Training

Training is a key mechanism in CaixaBank through which the Risk Culture is instilled. The main training programmes and initiatives in the entity are:

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 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

[7]See Note 3 to CaixaBank Group's 2017 consolidated financial statements for more information.

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.

Since September 2015, when the Risk School launched its first Risk Analysis Certificate course (aimed at sales managers) and the first postgraduate diploma in Risk Analysis, specialising in retail banking (aimed at branch managers and deputy managers), over 3,500 members of staff have obtained or are in the process of obtaining risk qualifications.

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 second and third editions of this course were completed in 2017, with a total of 506 people receiving their certificates.
- **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. The third, fourth, fifth and sixth editions of the first part of this diploma started in 2017, attended by 1,489 individuals, as well as the second and third editions of the second part, involving a further 1,543 professionals.

The first edition of the programme drew to a close in 2017, with some 638 employees being awarded the postgraduate diploma in Banking Risk Analysis, specialising in retail banking.

The last two editions of the first part of the diploma were completed by participants who will complete the business banking component of the programme next year.

Specific training courses were also run on the following topics:

- **Factoring:** for risk analysts to deepen their knowledge of this product from a technical and legal angle.
- **Treasury:** for risk teams to deepen their understanding of currency hedges, renegotiations, exchange rate risk and derivatives.
- **Projections Model interpretation technique:** for all Loan Approval Centre analysts.
- **Risk in Commercial Channels**: aimed at analysts in specific territories and run by Commercial Global Payment.
- **Economic sectors:** run by risk specialists and aimed at Risk Approval teams.

In June 2017, the New Risk Analysts programme was concluded, as these will be included under the Banking Risk Analysis Diploma specialising in Business.

Communication

In 2017, CaixaBank undertook a number of internal communication initiatives targeted at all the entity's employees as a mechanism for disseminating the Risk Culture, in particular:

- **What is the RAF?** action to provide information on the Risk Appetite Framework (RAF) with the aim of providing the necessary base of knowledge for understanding the principles underlying strategic decisions that affect all the entity's personnel in the performance of their duties.
- **Appendix IX:** explanation of the main implications of the change in accounting circular 4/2016 of the Bank of Spain.

Performance assessment and remuneration

As described in the Risk Appetite Framework section, CaixaBank Group works to ensure that the 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 Group is directly related to annual compliance with the Risk Appetite Framework8.
- 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).

3.4. Internal Control Framework

CaixaBank Group's Internal Control Framework offers a reasonable degree of assurance that the Group will achieve its objectives. The Internal Control Framework is a set of rules and controls that govern CaixaBank's organisational and operating structure, including reporting processes and functions of risk management, compliance and internal audit. This is structured around the three lines of defence model, in line with regulatory guidance and best practices in the sector.

It is integrated into CaixaBank Group's system for risk governance, management and control, in line with its business model, the expectations of its stakeholders and best international practices.

The guidelines for CaixaBank Group's Internal Control Framework are set out in the Internal Control Policy.

Applicable standards and regulations

CaixaBank's Internal Control Framework is aligned with the EBA's Guidelines on Internal Governance, of 26 September 2017, implementing the internal governance requirements established in Directive 2013/36/EU of the European Parliament and Council, applicable as from of 30 June 2018. They regulate all aspects on the entities' internal governance, including risk management processes and the internal control model itself.

The framework also adheres to other regulatory guidance on financial institutions' control functions established in:

- Regulation (EU) 575/2013 and Directive 2013/36/EU on the solvency requirements of credit institutions (under the terms established in Basel 3), regulating the Internal Models Validation function.
- Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions; Real Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June; and Bank of Spain Circular 2/2016, of 2 February, on the supervision and solvency of credit institutions.
- CNMV Circular 1/2014, of 26 February, on internal organisation requirements and control functions for investment firms.
- "Corporate Governance Principles for Banks" issued by the Basel Committee on Banking Supervision in July 2015.
- "Compliance and the Compliance Function in Banks" issued by the Basel Committee on Banking Supervision in April 2005.
- "The Internal Audit Function in Banks" issued by the Basel Committee on Banking Supervision in June 2012.

Lastly, and in a more specific area, CaixaBank has an Internal Control over Financial Reporting in Listed Companies system (ICFRS), which is tailored to the CNMV's recommendations.

[8] 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)

Internal control functions at CaixaBank

The greater focus on risk and its governance framework includes identifying the responsibilities of the various parts of the organisation for analysing and managing risk. CaixaBank's internal control functions are structured, as explained above, in what is known as the three Lines of Defence model, in which:

- The **first line** comprises the Group's business and support units, which are risk taking areas responsible for developing and maintaining effective controls over their businesses, and for identifying, managing and measuring, controlling, mitigating and reporting the main risks that arise in their ongoing activity.

  It is therefore comprised of all CaixaBank Group's areas, except those specifically designated as second and third lines of defence.

- The **second line of defence** acts independently from the business units and it performs risk identification, measurement, monitoring and reporting, establishes management policies and control procedures, and is responsible for reviewing application thereof by the first line. The second line of defence comprises the Global Risk Management functions (RMF), and the Compliance function which is responsible for, among others, ensuring the Bank operates with integrity and in compliance with applicable legislation, regulations and internal policies.

- Internal audit, as the **third line of defence**, is an independent and objective function for assurance and consultation; it is designed to add value and improve activities. It contributes to achieving the strategic objectives of CaixaBank Group, providing a systematic and disciplined approach to evaluating and improving risk control and management processes and corporate governance.

The CaixaBank's second line of defence consists of:

- The Risk Management function

  The central Risk Management function encompasses all the organisation and the Group and plays a key role in ensuring the effective deployment of the risk management framework and of the risk management policies, and to give a general overview of all risks. The risk management function carries out the functions involved in the managing and updating the Risk Assessment, the Risk Catalogue and the Risk Appetite Framework (RAF).

  The function is carried out by the Executive Global Risk Management Division, which reports functionally to the management of the Internal Financial Control Department. The risk management function is also bolstered with regard to the task of controlling models by the function performed by the management of the Models Validation Department, responsible for the independent checking of internal models, as established in Regulation (EU) 575/2013 and Directive 2013/36/EU.

- The Regulatory Compliance function.

  The Regulatory Compliance function is performed by the General Control and Compliance Subdivision, ensuring supervision is structured through a well-defined annual compliance plan, a programme to oversee and control established procedures that is sufficient to prevent, detected, correct and minimise risks of breaching applicable obligations, and adherence to internal policies, rules and procedures.

  The Regulatory Compliance function also verifies, in close collaboration with the risk management function, that all new products and procedures comply with the applicable regulatory framework, also considering future regulatory changes and supervisory requirements in accordance with CaixaBank's Product Governance Policy. Lastly, the Deputy General Manager, Head of the Internal Audit Department acts as the third line of defence.

Global assessment procedures in the Risks Control environment

As indicated above, as part of the Entity's risk control environment, CaixaBank has a strategic risk management process in place that includes a six-monthly Risk Assessment to evaluate both the evolution of the risk profile, and its own ability to ensure appropriate governance, management and control. The Risk Assessment process is a complement and reinforcement that feeds back into the both the Risk Catalogue and the Risk Appetite Framework of the Group that monitors the entity's risk profile (recent, future and hypothetical in stress scenarios).

In this context, CaixaBank Group's Internal Control Framework establishes a global assessment procedure for the control environment that is standard for all risks in terms of terminology, format and assessment scales.

3.4.1. First line of defence

Comprises the Entity's business lines (risk takers) and support functions. These are responsible for developing and maintaining effective controls over their business. They are also responsible for identifying, managing and mitigating the risks they originate, and for operating an adequate control environment.

They take risks and are responsible for their ongoing management. Among other responsibilities, their tasks include the identification, assessment and notification of exposures, considering the bank's risk appetite, policies, procedures and controls. The manner in which the business line carries out its responsibilities must reflect the bank's current Risk Culture, as defined by the Board of Directors.

Its main functions with regard to developing the internal control framework are:

- Identify and evaluate the risks associated with its processes. Identify potential emerging risks.
- Identify, define, implement and update controls for these risks, and initially control their application.
- Draw up and implement the rules and procedures developed by the risk acceptance and management policies established by the second lines of defence, and initially control their application.
- Monitor and regularly assess the effectiveness of the controls.
- Keep the risk map up-to-date.
- Identify, implement, update and regularly monitor measurement indicators for risks and controls.
- Proactively identify possible weaknesses in the control function.
- Establish, monitor and implement action plans to correct identified weaknesses in the control function.
- Inform management, business areas and support areas, and the second and third lines of defence on the status of risks and controls: weaknesses, action plans, emerging risks, impact of new regulations, results and assessment of the risks, and effectiveness of controls.

These functions may be embedded in the business units and support areas. However, when the complexity, intensity or need to focus of the situation so require, specific control units should be set up, which are more specialised, to ensure that the risks relating to these activities are properly controlled.

3.4.2. Second line of defence

Comprises the Global Risk Management Function (RMF) and Compliance. These functions are responsible for identifying, measuring and monitoring risks, establishing management policies and control procedures. They are also responsible for independent review of their application by the first line of defence.

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

Its overall functions include the preparation of policies in coordination with the first line of defence, advise and critically assess and validate the actions of the first line of defence, monitor risks (including emerging risks), weaknesses in the control environment and action plans, and express an opinion on the Risk Control Environment.

The CaixaBank's second line of defence consists of:

- The hierarchy of the RMF includes the management, monitoring and control of most of the risks in the Risk catalogues, with the exception of those which correspond to the Compliance function.
- Additionally, the Internal Control - Finance department completes the RMF, taking on the functions of the second line of defence for specific risks in the catalogue, such as those relating to Business Returns or Own Funds.
- Compliance is responsible for the monitoring and control of Legal and Regulatory risk, Conduct and Compliance risk and Reputational risk.
- Additionally, the Risk Models Validation department (RMV) is responsible for the independent checking of internal models, as established in Regulation (EU) 575/2013 and Directive 2013/36/EU for Credit, Market and Actuarial risk, and risk associated with Operational processes and External Events.

The second line of defence includes the following functions relating to:

Policies, rules and procedures:

- Prepare risk management and control policies in coordination with the first line of defence, aligned with the Risk Appetite Framework.
- Critically assess and validate compliance with rules and procedures and ensure they are aligned with policies.

Risks and controls:

- Perform and/or critically assess and validate the identification and assessment of risks and controls (including emerging risks).
- Design risk measurement and quantification methodology.
- Advise on and/or set criteria for the identification, monitoring and assessment of the effectiveness of the controls.
- Advise on and/or set criteria for the implementation of controls.
- Advise on and/or set criteria for compliance with risk management and control regulations.
- Regularly monitor the results of the risk assessments and the effectiveness of controls.
- Regularly monitor emerging risks.
- Monitor compliance with the Risk catalogue, the Risk assessment process and the Risk Appetite Framework (RAF).
- Coordinate compliance by the Risk catalogue, the risk assessment process and the Risk Appetite Framework (RAF).

Monitoring of indicators:

- Advise on and/or set criteria for the implementation of indicators.
- Critically assess and validate the identification of indicators by the first line of defence, in addition to measurement criteria.
- Regularly monitor first line of defence indicators and second line of defence indicators, in relation to the established risk profiles.

Control weaknesses and action plans:

- Advise on and/or set criteria for the establishment of actions plans by the first line of defence.
- Critically assess and validate the identification of weaknesses, and the establishment, implementation and monitoring of action plans by the first line of defence.
- Regularly monitor the weaknesses identified by the different lines of defence and the implementation of action plans by the first line of defence.

Reporting:

- Report to the governance bodies, committees, Senior Management, among others, on the risks and main control weaknesses, in addition to the level of implementation of the action plans and opinion on the suitability of the risk control environment.

With regard to the Pillar 3 Disclosures, CaixaBank's second line of defence, which is responsible for control of reported financial information, validated the existence of necessary controls to guarantee the quality and integrity of the information, so as to ensure the rigour of reporting.

Risk Management Function (RMF)

The Risk Management Function is responsible for identifying, monitoring, analysing, measuring, managing and reporting of risks, and for gaining a comprehensive view of the totality of the bank's risks. For these purposes, the department of Internal Control - Finance functionally reports to it all matters deemed relevant for the exercise of its function.

Additionally, the RMF monitors the internal organisation of the second line of defence, general plans and activities, and evaluates their effectiveness. Its functions also include overseeing the appropriate scaling of the second line of defence in order to ensure effective management of its responsibilities, perform monitoring of the objectives of the second line of defence and the areas within it, and of improvement projects relating to management and risk monitoring processes and systems, and provide assurance to Management and Governing Bodies of the existence, appropriate design and effective application of risk control policies and procedures in the organisation by assessing CaixaBank Group's control environment. In addition, the RMF must reinforce coordination mechanisms of Risk Management units of the first, second and third lines of defence, as necessary.

Internal Control - Finance

The Internal Control - Finance department, within the Financial Accounting, Control and Capital (FACC) department performs functions as the second line of defence with regard to certain risks for which it is responsible. These are:

- Business profitability risk.
- Capital adequacy / solvency risk.
- Risk of impairment of other assets. Includes equity holdings and other non-financial assets such as: tangible and intangible assets, deferred tax assets and other assets).
- Risk associated with the reliability of financial reporting.

In addition, for the aforementioned general duties that are performed or under development for different risks, for risk relating to the reliability of financial information, the Entity has an Internal Control over Financial Reporting System (ICFRS) in place.

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:

- The transactions, facts and other events presented in the financial information in fact exist and were recorded at the right time (existence and occurrence).
- The information includes all transactions, facts and other events in which the entity is the affected party (completeness).
- The transactions, facts and other events are recorded and valued in accordance with applicable standards (valuation).
- The transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, disclosure and comparability).
- 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 2017, along with the activities carried out during the period.

https://caixabank.com/deployedfiles/caixabank/Estaticos/PDFs/Informacion_accionistas_inversores/CABK_IAGC_2017_en.pdf

Regulatory Compliance

The main objective of the Compliance Function is the supervision of the Risk of Conduct and Compliance, from its function of second line of defense. From the end of 2017, the scope as a second line of defense, has been extended also to the Legal/Regulatory and Reputational Risks. The Corporate Regulatory Compliance Division reports to the Assistant Deputy General Manager of Control and Compliance, who oversees conduct and compliance risk deriving from possible deficiencies in the procedures and controls implemented by the first line of defence, through monitoring activities, the review of internal procedures in the framework of Compliance Plan activities and the rectification of deficiencies detected through reports made by external experts, inspection reports by supervisory bodies, customer complaints, etc. If any deficiencies are detected, the Assistant Deputy General Manager of Control and Compliance will ask the management areas affected to draw up improvement plans which will be regularly monitored.

Similarly, the Assistant Deputy General Manager of Control and Compliance carries out advisory activities on matters within his area of responsibility and carries out training and communication actions to enhance the compliance culture in the organisation. Another activity that undertaken is to ensure that best practices in integrity and rules of conduct are followed. To do this, among other things, an internal confidential whistle-blowing channel is provided within the Entity. This channel also resolves any reports of financial and accounting irregularities that may arise.

The Assistant Deputy General Manager of Control and Compliance also liaises with the main supervisory bodies (both Spanish and international) in areas for which he has competence and handles any requirements issued by them. For all these activities, the Assistant Deputy General Manager of Control and Compliance reports regularly to Senior

Management, to the Audit and Control Committee and Risks Committee and the Board of Directors.

The Assistant Deputy General Manager of Control and Compliance acts through the following divisions: the Regulatory Risks department, the Anti-Money Laundering and Counter Terrorist Financing department, the International and Group department, the Compliance department in the Corporate and Institutional Banking – CIB Area, the Control & Compliance Analytics department, and the Control and Reporting department.

Internal Validation

Control of the internal rating systems

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

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

CaixaBank's Internal Validation function is performed by Risk Models Validation (RMV), which reports directly to the General Risks Division. This ensures its independence from the areas in charge of developing risk models and policies, and risk infrastructures. The RMV team is tasked with issuing technical opinions on the adequacy of the internal models used for internal management and/or regulatory purposes in CaixaBank Group.

In line with its mission, the scope of the RMV team’s actions include credit , market and operational risk, in addition to economic capital and the partial internal model for longevity and mortality of the insurance subsidiary, reviewing methodological and management aspects (e.g. use of management models and tools, risk policies, coverage levels, controls, governance and implementation of models in management processes), and verifying the existence of an IT environment with sufficient data quality to support the modelling needs.

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

The RMV team's activities are classified into three categories:

- **Annual planning**: RMV has an annual plan reflecting the analysis and review activities carried out each year to guarantee the validity of the opinions it issues.
- **Review and monitoring**: Through validation cycles and review of changes in models, the RMV team keep the opinions on the various models and their integration in management.
- **Reporting**:
  - The RMV annual report on activities carried out over the past year.
  - Coordination of the process for updating the follow-up dossiers of the models.
  - Creation of exposure map according to model of main risk figures.

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

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

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

3.4.3. Third line of defence:

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 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 specialised 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 three 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:

- Preparation of the pluriannual Annual Audit Plan based on risk assessments, which includes regulatory requirements and tasks and projects requested by Senior Management/the Management Committee and the Audit and Control Committee.
- 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.
- Maintain regular communication with supervisors in order to share risk areas identified by both parties.

With regard to BPI, the following should be noted:

- CaixaBank Group Audit has a corporate scope. Accordingly, the Internal Audit function of the BPI Group is aligned with the corporate governance framework and with the audit policies and procedures set at CaixaBank Group level.
- Internal Audit of CaixaBank Group oversees correct application of the governance framework of the function, set at Group level, with the aim of ensuring the consistency of the information reported to the Audit and Control Committee in both BPI and at corporate level.

With regard to the Pillar 3 Disclosures, 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. Specifically, in 2017 a review was undertaken of the process of bringing CaixaBank Group into line to the requirements of Circular 4/2016 of the Bank of Spain and of the process of transition to the criteria of IFRS 9.
- 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 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 1 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.

4. CAPITAL

CaixaBank Group maintained a robust solvency position throughout 2017, 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 2017, CaixaBank has a CET1 fully loaded ratio of 11.7%, a Tier 1 ratio of 12.3% and a Total Capital ratio of 15.7%.
- The entry into force of IFRS 9 will have an impact of -15 basis points on the fully loaded CET1 ratio.
- CaixaBank Group's current ratios do not trigger any automatic restriction relating to payouts of dividends, variable remuneration and interest to holders of additional Tier 1 capital instruments (there is a margin of EUR 5,856 million until the Group's MDA regulatory trigger).
- The capital ratios at year-end 2017 include integration of the Portuguese bank BPI in the first quarter of the year, and the issue of 1,000 million of AT1 in June.
- In addition, Total Capital was strengthened by several issues of subordinated debt totalling EUR 2,150 million throughout the year.
- An issue of EUR 1,250 million was made during the year in senior non-preferred debt (SNP) to meet future MREL requirements.
- This robust solvency position supports the objective of distributing a cash dividend at least equal to 50% of net income (53% in 2017).

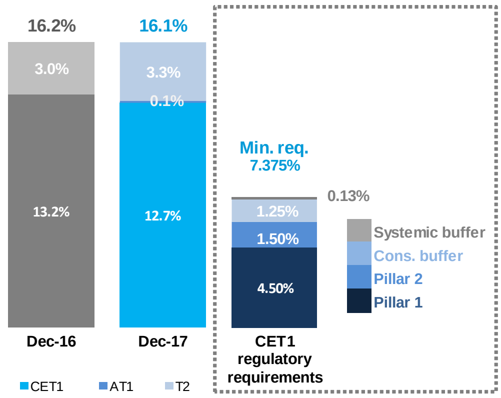
CONTENTS

€ 18,966 MM
BIS 3 Regulatory CET1

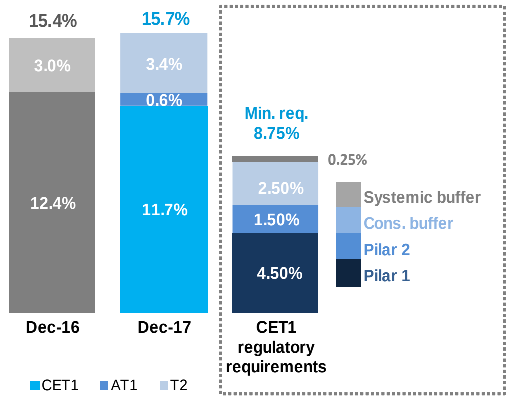
12.7%
BIS 3 Regulatory CET1 (%)

16.1%
Total BIS 3 Regulatory Capital (%)

REGULATORY CAPITAL RATIOS



FULLY LOADED CAPITAL RATIOS



ELIGIBLE OWN FUNDS

Amounts in millions of euros

	BIS 3 (Regulatory)		BIS 3 (Fully Loaded)	
	31.12.16	31.12.17	31.12.16	31.12.17
CET1	17,789	18,966	16,648	17,323
Aditional Tier 1	-	108	-	999
TIER 1	17,789	19,074	16,648	18,322
TIER 2	4,003	4,973	4,088	5,023
TOTAL CAPITAL	21,792	24,047	20,736	23,345
RWA	134,864	148,940	134,385	148,695
CET1 ratio	13.2%	12.7%	12.4%	11.7%
Tier 1 ratio	13.2%	12.8%	12.4%	12.3%
Total Capital ratio	16.2%	16.1%	15.4%	15.7%
Ratio Total Capital + SNP		17.2%		16.8%
Leverage ratio	5.7%	5.5%	5.4%	5.3%
CET1 individual ratio	12.6%	13.6%		

4.1. 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 2017, CaixaBank has a proportion of capital allocated to the investees of about 5%, thereby comfortably meeting the budget, which set a 10%.

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 consolidated net profit.

The total remuneration planned for distribution to shareholders in 2017 amounted to EUR 0.15 gross per share, all to be paid in cash, equating to 53% of consolidated net profit.

4.2. Regulatory capital

4.2.1. 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.

Details of CaixaBank's eligible own funds at 31 December 2017, as set out in Annex VI of Commission Implementing Regulation (EU) 1423/2013, are provided in Appendix I of this document.

Table 5. Eligible own funds

Amounts in millions of euros

	BIS 3 (Regulatory)		BIS 3 (Fully Loaded)	
	31.12.16	31.12.17	31.12.16	31.12.17
CET1 Instruments	**22,923**	**23,927**	**22,891**	**23,973**
Shareholders' equity	23,400	24,204	23,400	24,204
Capital	5,981	5,981	5,981	5,981
Profit	1,047	1,685	1,047	1,685
Reserves and others	16,372	16,538	16,372	16,538
Minority interests and unrealised gains/losses	148	472	148	472
Adjustments of comput. of minority int. and unrealised g/l	(104)	(140)	(132)	(86)
Other adjustments 1	(521)	(609)	(525)	(617)
Deductions from CET1	**(5,134)**	**(4,961)**	**(6,243)**	**(6,650)**
Intangible assets	(4,026)	(3,365)	(4,026)	(4,206)
Deferred tax assets	(685)	(1,126)	(1,713)	(1,876)
Shortfall of provisions to expected losses IRB	(200)	(335)	(334)	(419)
Other CET1 deductions	(223)	(135)	(170)	(149)
CET1	**17,789**	**18,966**	**16,648**	**17,323**
AT1 instruments	**-**	**999**	**-**	**999**
AT1 deductions	**-**	**(891)**	**-**	
TIER 1	**17,789**	**19,074**	**16,648**	**18,322**
T2 instruments	**4,088**	**5,023**	**4,088**	**5,023**
Financing of subordinated issues	4,088	4,572	4,088	4,572
Elegible provision funds	-	451	-	451
T2 deductions	**(85)**	**(50)**	**-**	
TIER 2	**4,003**	**4,973**	**4,088**	**5,023**
TOTAL CAPITAL	**21,792**	**24,047**	**20,736**	**23,345**
Senior non-preferred issues		1,245		1,245
Other computable MREL items[2]		363		363
TOTAL CAPITAL + SNP		**25,655**		**24,953**

(1) Mainly the forecast for outstanding dividends and prudential valuation adjustments (AVA s).

(2) Mainly subordinated issues not computable as Tier2

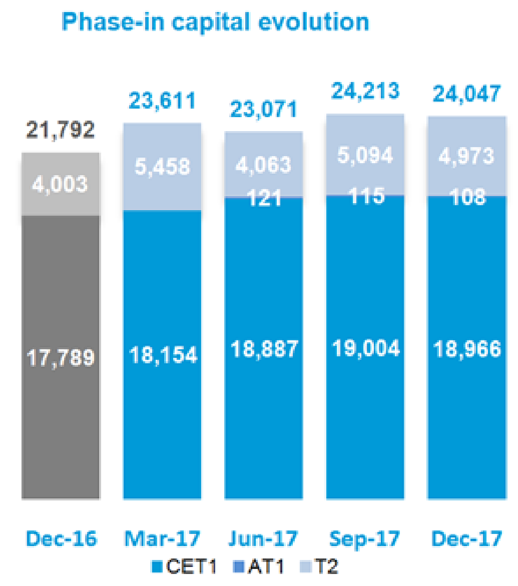
CET1 comprises the higher quality items of own funds (mainly accounting own funds), after applying the prudential filters established for phase-in of the regulations, pursuant to the transitory provisions and national discretions. These items are reduced by CET1 deductions, after applying the regulatory limits and considering the gradual phase-in of the regulations.

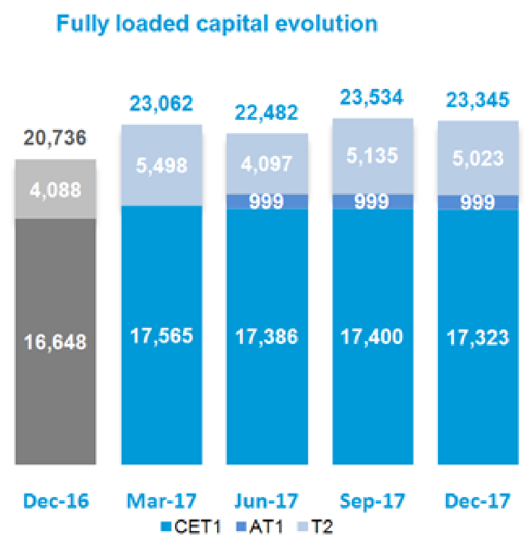
In addition to the EUR 24,204 million of eligible own funds in 2017, EUR 426 million in non-controlling interests (mainly BPI) and EUR 46 million in valuation adjustments are added. The portion of the minority interests of CaixaBank Group that do not relate to banking subsidiary Banco BPI are gradually excluded from the calculation of CET1. The excess of capital over minimum requirements relating to the minority interests of the Banco BPI are also excluded. Likewise, valuation adjustments can only be calculated by the phase-in percentage applicable under Basel 3 for the current year. Instruments eligible as CET1 are further reduced by other elements, primarily the forecast outstanding dividends against the year in question, and by additional prudent valuation adjustments (AVAs).

In total, at 31 December 2017, CET1-eligible instruments in the regulatory view amounted to EUR 23,927 million (EUR 1,004 million more than in 2016).

In regulatory CET1 capital, deductions for intangible assets stood at EUR 3,365 million, of which EUR 2,494 million is for on-balance sheet intangible assets and EUR 871 million is for goodwill of investees, net of impairment, according to the phase-in for this year. Other deductions include EUR 1,126 million in tax-loss carryforwards and other tax credits, and EUR 335 million for the shortfall of provisions for expected losses on the IRB loan portfolio, which will be phased in according to the planned schedule for 2017.

In conclusion, regulatory CET1 stood at EUR 18,966 million (EUR 1,177 million more than in 2016), placing the CET1 regulatory ratio at 12.7% (11.7% on a fully loaded basis).





Additional Tier 1 capital (AT1) comprises issuances of eligible hybrid instruments less AT1 deductions. In June 2017, CaixaBank issued EUR 1,000 million eligible as AT1 instruments (the characteristics of the issue are set out in Appendix II). As the issuance absorbs deductions during the Basel 3 phase-in period that were being sustained by CET1, the improved capital adequacy of the issuance is largely transferred to CET1. As a result, Tier 1 capital stands at EUR 19,074 million and the Tier 1 ratio at 12.8% (12.3% fully loaded).

Tier 2 own funds components include subordinated financing and other unallocated provisions that are eligible under Pillar 3 regulations.

In 2017, CaixaBank carried out three new issuances of subordinated debt for a total amount of EUR 2,150 million, and one issuance with a nominal amount of EUR 1,302 million was redeemed.

In December, CaixaBank had seven own subordinated debt issues and two BPI issues with third parties for an eligible amount of EUR 4,572 million, considering the loss of eligibility according to the regulatory schedule. The detail of these issues is provided in Appendix II of this document, as set out in Annex III of Commission Implementing Regulation (EU) 1423/2013.

Total capital stood at EUR 24,047 million (EUR 2,255 million more than in 2016), placing the regulatory Total Capital ratio at 16.1% (15.7% fully loaded).

In order to comply with future MREL requirements, EUR 1,250 million in senior non-preferred debt (SNP) were issued in 2017. The RWA ratio of subordinated instruments, including mainly the total capital, the SNP and other subordinated elements that are non-computable as regulatory capital, is 17.2% (16.8% fully loaded).

Regulatory solvency ratios of December, but with the phase-in criteria for 2018, were 11.8% for CET1, 12.5% for Tier 1 and 15.9% for total capital.

The entry into force of IFRS will have an impact of -20 basis points in the regulatory CET1 ratio (-15 bp fully loaded), that is: -38 basis points from the reserve effect and +18 basis points from other impacts in capital, mainly the release of deductions on the provisions deficit against expected losses in the IRB portfolio. CaixaBank has no intention of availing itself of the voluntary transitional period allowed under regulations with regard to the impact on capital.

Table 6. Variation in regulatory capital

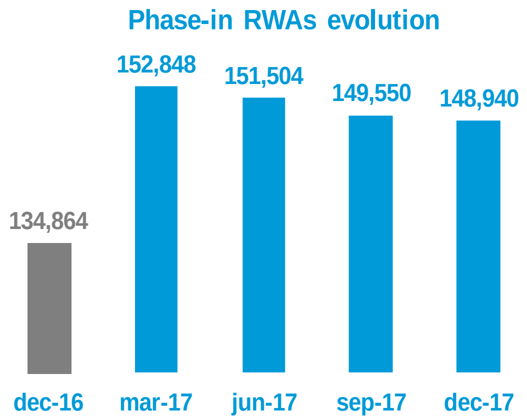
Amounts in millions of euros

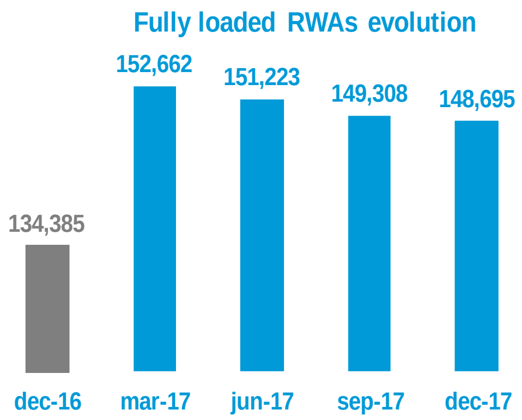
	2016-2017
CET1 at the beginning of the period	**17,789**
CET1 instrum. movements	**1,004**
Profit	1,684
Dividend	(897)
Reserves	(103)
Minority interests	269
Unrealised gains and losses & others	51
CET1 deduc. movements	**173**
Intangible assets	(949)
Deferred tax assets	(441)
Other CET1 deductions	(133)
AT1 deductions covered with CET1	1,696
CET1 at the end of the period	**18,966**
Additional Tier 1 at the begining of the period	**0**
TIER 1 instrum. movements	**999**
Eligible Tier 1 instruments	999
Tier 1 deduc. movements	**(891)**
Intangible assets	(841)
Other Tier 1 deductions	(50)
Additional Tier 1 at the end of the period	**108**
Tier 2 at the begining of the period	**4,003**
Tier 2 instrum. movements	**935**
Subordinated debt	2,150
Redemption of issuances	(1,302)
Other Tier 2 instruments	87
Tier 2 deduc. movements	**35**
Other Tier 2 deductions	35
Tier 2 at the end of the period	**4,973**

4.2.2. Capital requirements

The quantitative information in this document meets the requirements of the Basel Committee on Banking Supervision's revised Pillar 3 disclosure requirements.

A number of the most significant tables requested by the Basel Committee on Banking Supervision (BCBS) are made available to investors and analysts on the CaixaBank website every quarter.





The total volume of RWAs at 31 December 2017 is EUR 148,940 million (EUR 14,076 million more than in 2016), mainly due to the integration of Banco BPI in the first quarter.

The deleveraging, considering the process of prudential deconsolidation from Criteria, and the fall in the loan portfolio contributed to the reduction of risk-weighted assets throughout the year.

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 7. Non-deducted participations in insurance undertakings (EU INS1)

	Amount (*)
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)	2,189
Total RWAs	8,098

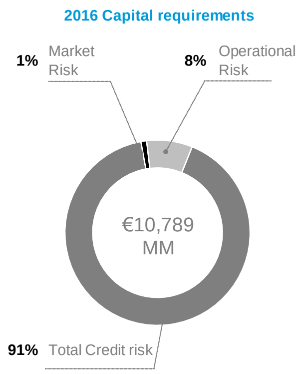
(*) Corresponding to the equity position hold by VidaCaixa Group under which is applied the art. 49,1of the CRR ("Danish compromise")
Exposures do not include €973 million of goodwill which are deducted in CET1

Table 8. Capital consumption by segments

In millions of euros

	2016		2017	
	Capital	%	Capital	%
Credit (*)	9,751	91%	10,694	89%
Market	135	1%	182	2%
Operational	903	8%	1,039	9%
Total	**10,789**	**100%**	**11,915**	**100%**

(*) Includes equity, counterparties and securitizations



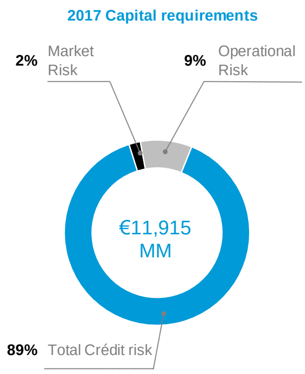


Table 9 provides details of risk-weighted assets (RWA) and capital requirements for each type of risk in CaixaBank Group at 31 December 2017. The requirements for eligible own funds are equivalent to 8% of RWAs.

Table 9. Risk-weighted assets (RWA) and capital requirements by risk type (EU OV1)

Amounts in millions of euros

		RWA		Capital	
		2016	2017	2016	2017
1	**Credit risk (excluding counterparty credit risk)**	**106,671**	**117,961**	**8,534**	**9,437**
2	Standardised Approach (SA)	46,110	61,941	3,689	4,955
3	Internal Rating-Based (IRB) Approach	60,562	56,020	4,845	4,482
	Of which, Credit Risk	*48,777*	*46,164*	3,902	3,693
	Of which, Equity - PD/LGD approach	*11,785*	*9,856*	943	788
4	**Counterparty credit risk**	**3,104**	**2,515**	**248**	**201**
5	Standardised Approach for counterparty credit risk (SA)	2,694	2,195	216	176
	Of which, Counterparty risk	1,809	1,525	145	122
	Of which, Credit Value Adjustment risk (CVA)	886	669	71	54
6	Internal Rating-Based (IRB) Approach	410	320	33	26
7	**Equity positions in banking book under market-based approach**	**9,431**	**10,616**	**754**	**849**
	Simple risk-weight approach (SRW)	9,266	10,480	741	838
	Internal Model approach	165	135	13	11
8	**Risk exposure amount for contributions to the default fund of a CCP**	**0**	**2**	**0**	**0**
9	**Equity investments in funds – look-through approach**	**0**	**0**	**0**	**0**
10	**Equity investments in funds – mandate-based approach**	**0**	**0**	**0**	**0**
11	**Equity investments in funds – fall-back approach**	**0**	**0**	**0**	**0**
12	**Settlement risk**	**0**	**0**	**0**	**0**
13	**Securitisation exposures in banking book**	**199**	**197**	**16**	**16**
14	Of which IRB ratings-based approach (RBA)	57	33	5	3
15	Of which IRB Supervisory Formula Approach (SFA)	130	130	10	10
16	Of which Standardised Approach (SA)	12	34	1	3
17	**Market risk**	**1,689**	**2,278**	**135**	**182**
18	Standardised Approach (SA)	325	1,228	26	98
19	Internal Model Approaches (IMM)	1,364	1,051	109	84
20	**Operational risk**	**11,282**	**12,983**	**903**	**1,039**
21	Basic Indicator Approach	0	0	0	0
22	Standardised Approach	11,282	12,983	903	1,039
23	Advanced Measurement Approach	0	0	0	0
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2,487**	**2,389**	**199**	**191**
25	**Floor adjustment**	**0**	**0**	**0**	**0**
26	**Total (1+4+7+8+9+10+11+12+13+17+20+24+25)**	**134,864**	**148,940**	**10,789**	**11,915**

4.2.3. Trends in solvency

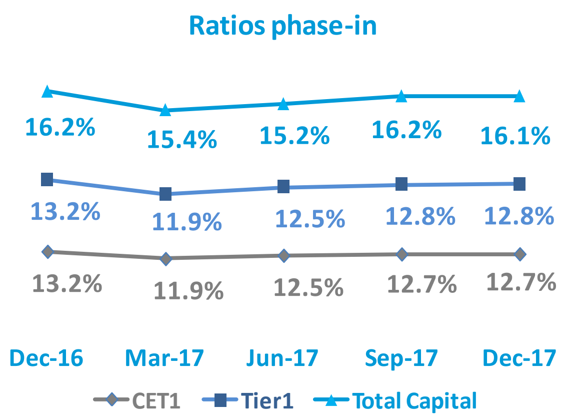
As explained above, CaixaBank's solvency performance was affected by several significant impacts. The integration of Banco BPI occurred in the first quarter of 2017, with an impact of -115 bp on regulatory CET1 (-108 basis points fully loaded). The December 2016 ratios anticipated the capital increase to cover this impact.

In the second quarter, a total of EUR 1,000 million in AT1 instruments were issued, which improved the Tier 1 fully-loaded ratio and the CET1 ratio due to the cease in absorption of deductions that had previously been transferred to CET1.

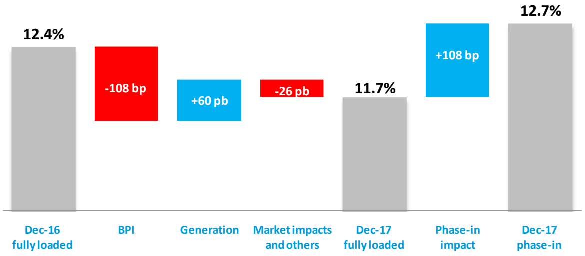
Three issues of subordinated debt were made in the third quarter, for a total amount of EUR 2,150 million. Also, an issue placed in the retail market with a nominal of EUR 1,302 million was redeemed.

In the third quarter, an issue of EUR 1,250 million was made in senior non-preferred debt (SNP) to meet future MREL requirements.

Solvency remained stable in the fourth quarter, and organic generation was offset by the performance of the market.



At year end, the Group's fully loaded CET1 ratio was 11.7%, in line with the range of 11%-12% set in the Strategic Plan. Not including the impact of the integration of the Portuguese bank BPI, the ratio increased by 60 basis points year on year owing to capital generation (net retained earnings from change in assets weighted by credit risk) and -26 basis points due to the performance of the market and other factors.



4.2.4. Leverage ratio

The Basel 3 framework introduces the leverage ratio as a complementary measure to risk-based capital requirements. The CRR currently has no leverage-based capital requirement, although the proposals of the European Commission of 23 November 2016 amending the CRR contain a mandatory capital leverage requirement of 3%.

The leverage ratio is proposed 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 2017, CaixaBank Group's regulatory leverage ratio was 5.5% (5.3% fully loaded), comfortably above the proposed initial regulatory minimum.

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 10. Leverage ratio

Amounts in millions of euros

	Regulatory	Fully Loaded
Tier 1	**19,074**	**18,322**
Total regulatory assets	335,019	335,019
Tier 1 deductions	(5,852)	(6,650)
Other adjustments(*)	15,115	15,115
Leverage exposure	**344,281**	**343,484**
Leverage ratio	**5.5%**	**5.3%**

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

4.2.5. Financial conglomerate

CaixaBank Group has been a financial conglomerate subject to supplementary supervision since 2014. This supervision involves strengthened monitoring by the supervisor of operations in financial and insurance activities.

With application of Basel 3, for the purposes of capital adequacy, the Bank of Spain authorises CaixaBank to not deduct its investment in insurance companies, pursuant to article 49.1 of the CRR.

At December 2017, the coverage ratio of the financial conglomerate (ratio of conglomerate's own funds to capital requirements) stands at 143.4%.

Table 11. Conglomerate coverage ratio

Amount in millions euros

	Amount
Eligible own funds of the entity	24,047
Addicional items	595
Own funds at conglomerate level	**24,642**
Total requirements of the credit institution	16,197
Other requirements	990
Total requirements at conglomerate level	**17,187**
Conglomerate coverage ratio	**143.4%**

4.3. SREP and capital buffers

4.3.1. Minimum requirements (Pillar 1 and Pillar 2R)

In the context of Basel Pillar 2, 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 risks to which the entity may be exposed; 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 1, as per article 92 CRR) and a specific minimum requirement, also called Pillar 2R (as per article 104 CRD IV). In 2017, Pillar 2R must be complied with in full through CET1. Pillar 2R is not required at individual level.

4.3.2. Capital buffers

In addition to Pillar 1 and Pillar 2R requirements, credit entities must comply with the combined specific capital requirements for the entity, which comprise the specific unexpected loss, countercyclical and systemic buffers. This combined buffer requirement (CBR) must be met using the highest quality capital (CET 1).

Capital conservation buffer designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred in periods of greater stress. A buffer of 2.5% of RWAs is required, phased in from 1 January 2016 to full implementation in January 2019 (25% per year in Spain)

The specific countercyclical buffer is 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 are designed according to the status of the entity as:

1. Global systemically important institutions (G-SII) or Other Systemically Important Institution (O-SII).
2. Systemically important bank.

CaixaBank has been identified as an O-SII since 2016, with a capital requirement that has remained unchanged at a fully loaded 0.25%.

The current transposition of CRD IV to Spanish law will require both the capital conservation buffer and the other systematically important institution buffer to be phased in from 2016 over a four-year period, as shown in table 12. These buffers apply at individual and consolidated level.

Table 12. Capital buffer requirements

Capital buffer	2015	2016	2017	2018	2019
Capital conservation	n.a.	0.630%	1.250%	1.875%	2.500%
Specific anticyclical[1]	n.a.	0%	0%	0%[2]	
Systemic[2]	n.a.	0.0625%	0.125%	0.1875%	0.250%

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

(2) First quarter 2018

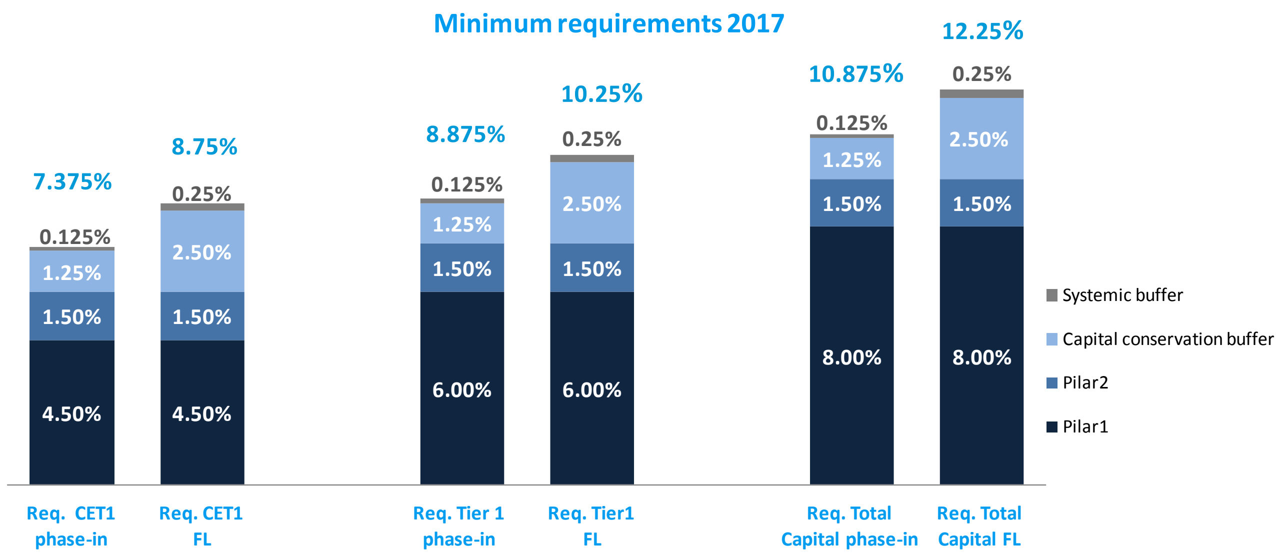
(3) As discretion of competent authorities. D-sib Buffer for 2018

4.3.3. Total SREP requirements

The ECB required CaixaBank to maintain a regulatory CET1 ratio of 7.375% in 2017. This comprised the general minimum CET1 requirement for Pillar 1 of 4.5%, plus a specific Pillar 2R requirement of 1.5%, a capital conservation buffer of 1.25% and an O-SII buffer of 0.125%.

In December 2017, the European Central Bank (ECB) handed Criteria the updated minimum regulatory capital requirements, which, in fully-loaded terms, remain unchanged from 2017, and require that CaixaBank Group maintain in 2018 a regulatory CET1 phase-in ratio of 8.063%, which includes: the minimum required by Pillar 1 (4.5%); the Pillar 2R requirement (1.5%), the capital conservation buffer (1.875%) and the O-SII buffer (0.1875%). On a fully loaded basis, the minimum CET1 level 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). At individual level Pillar 2R is not considered for the calculation of the minimum requirements.

The ECB decision indicates the phase-in CET1 level below which CaixaBank Group would be obliged to limit distributions in the form of dividends, variable remuneration and interest payments to holders of additional tier 1 capital instruments. This threshold, commonly referred to as the maximum distributable amount (MDA) trigger, is 8.063% in 2018, to which any potential additional Tier 1 or Tier 2 capital deficits would need to be added in respect of the minimum implied levels of Pillar 1 of 1.5% and 2%, respectively Compared to current CET1 ratio levels, this requirement means that the requirements applicable to CaixaBank Group will not entail any limitation whatsoever of the types referred to in the solvency regulations.



4.3.4. Details of systemic buffers

A bank may be considered:

1. Entities of systemic importance

The Bank of Spain identifies entities under the EBA methodology each year:

- Global Systemically Important Institutions (G-SII).
- Other Systemically Important Institutions (O-SII).

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 buffer for classification as a G-SII oscillates between 1% and 3.5%, while the buffer may reach 2% of the total amount of risk exposure for an Other Systemically Important Institution.

The CriteriaCaixa Group's mains indicators at 31 December 2016 (maximum level of prudential consolidation at this date) are posted on the entity's website:

https://www.criteriacaixa.com/informacionparainversores/informacioneconomicofinanciera/indicadoresderelevanciasistemicaglobal_en.html

The indicators at 31 December 2017 for CaixaBank will be published on the bank's corporate website by 30 April 2018 at the latest.

2. 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, for which the surcharge is 0%.

Table 13. Geographical distribution of exposures

Amounts in millions of euros

Country	Credit risk exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	STD approach (*)	IRB approach	Sum of short and long positions	Exposure for internal models	STD approach	IRB approach	Credit risk exposures	Trading book	Securiti. Exposures	Total		
Spain	40,307	177,857	589	610	4	135	7,693	71	3	7,767	80,9%	
Portugal	21,452	764	0	0	57		1,071	0	2	1,074	11,2%	
Austria	15	1,462		0			118			118	1,2%	
Mexico	579	834		0			95			95	1,0%	
United Kingdom	1,317	788		0			87			87	0,9%	
Netherlands	549	260	8	0			56	1		57	0,6%	
United States of America	582	157		0	0		51			51	0,5%	
Germany	234	628		0			40			40	0,4%	
France	348	372		0			52			52	0,5%	
Ireland	207	131		0		1,900	27		10	38	0,4%	
Andorra	257	31		0			31			31	0,3%	
Poland	342	3		0			27			27	0,3%	
Canada	308	4		0			25			25	0,3%	
Luxembourg	32	193	21	0			15	3		18	0,2%	
Rest	1,069	1,219		0			119			119	1,2%	
Total	**67,599**	**184,703**	**618**	**610**	**61**	**2,035**	**9,507**	**75**	**16**	**9,598**	**100%**	**0,00%**

(*) Does not include EAD for Credit Value Adjustment Risk (CVA)

(**)For the purposes of calculating the anti-cyclical capital buffer, and as specified in Delegated Regulation 2015/1555, the relevant credit exposures shall include all those categories of exposures other than those referred to in Article 112, letters a) to f) of the Regulation (EU) No 575/2013.

Table 14. Amount of institution-specific countercyclical capital buffer

Amounts in millions of euros

	Amount
Total risk exposure amount	255,626
Institution specific countercyclical buffer rate	0.00%
Institution specific countercyclical buffer requirement	0.00%

4.4. 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 required no common equity threshold for passing the test and the projection was crucial to the ECB's decisions on capital requirements in the context of the Supervisory Review and Evaluation Process (SREP).

In 2017, the ECB conducted an interest rate risk sensitivity analysis of the investment portfolio to determine the sensitivity of entities' portfolio assets and liabilities and net interest income to changes in interest rates. The result is shown in the 2017 SREP.

The EBA announced that it will conduct another stress test on all portfolios in 2018. CaixaBank will directly participate as parent of CaixaBank Group for prudential effects following the deconsolidation of Criteria in September 2017. The results will be published in November 2018.

This test constitutes significant input for the SREP.

4.5. Economic capital

CaixaBank Group has developed a model 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 an internal perspective.

Economic capital is a supplement to the regulatory view of capital adequacy which is used to better approximate the actual risk profile of CaixaBank Group, and includes risks that are not factored in, or only partially, 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 of 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**: 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 not recognised at fair value from an accounting perspective.

4.6. Recovery and resolution plans

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.

CaixaBank Group drew up its first Recovery Plan in 2014, based on data from year-end 2013. The 2017 Recovery Plan (based on 2016 data) is the fourth edition and was approved by the Board of Directors in September 2017.

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.

5. TOTAL CREDIT RISK

(Credit, Counterparty, securitisation and equity portfolio risk)

- The potential scope for application of the IRB approach in 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, is 77.6% at 31 December 2017.
- At 31 December 2016, coverage based on IRB models of the private sector was 87%. The decrease is mainly due to the incorporation of the BPI portfolio, which is evaluated mainly using the standardised approach.
- 57% of the total loan portfolio (including credit, Counterparty, securitisation and equity portfolio risk) is assessed using the IRB method.
- 98% of the Group's capital requirements for credit risk relate to traditional lending activity and the equity portfolio.

€ 133,679 MM
Total credit risk RWA

€ 326,947 MM
Total credit risk EAD

77.6%
EAD with the private sector under IRB approach

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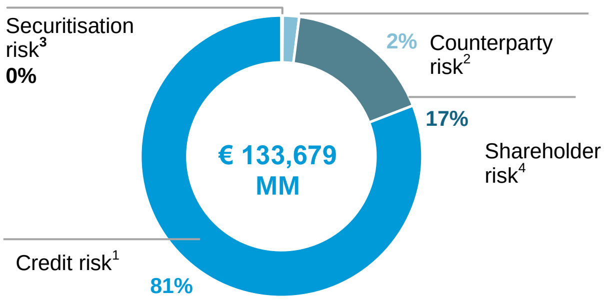
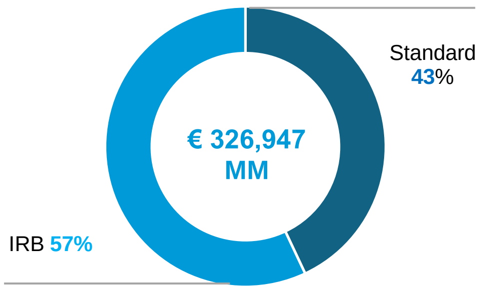
TOTAL CREDIT RISK RWA

Distribution by approach, %



TOTAL CREDIT RISK EAD

Distribution by approach, %



TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK

Table 15. Credit risk dashboard

Amounts in millions of euros	EAD			RWA			RWA density %	Capital requirements[5]		
	STD	IRB	Total	STD	IRB	Total		STD	IRB	Total
Credit Risk[1]	135,175	173,520	308,695	61,941	46,164	108,105	*35.0%*	4,955	3,693	8,648
Counterparty Credit Risk[2]	4,972	608	5,580	2,197	320	2,517	*45.1%*	176	26	201
Securitisation Risk[3]	61	2,035	2,096	34	163	197	*9.4%*	3	13	16
Equity Risk[4]	0	10,575	10,575	0	22,860	22,860	*216.2%*	0	1,829	1,829
Total Credit Risk	**140,208**	**186,738**	**326,947**	**64,172**	**69,508**	**133,679**	***40.9%***	**5,134**	**5,561**	**10,694**

(1) Credit Risk exposures included. Counterparty, Securisitation and Equity exposures not included.
(2) Counterparty Credit Risk includes CVA risk and Default Fund risk
(3) The EAD shown for Securitisation Risk corresponds to the exposure subject to risk weights before deductions.
(4) 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).
(5) Capital requirements as 8% on RWA

5.1. Credit risk

Credit risk is the most significant risk that CaixaBank Group is facing and it mainly relates to banking activity.
CaixaBank Group assesses 77.9% of its EAD with the private sector using internal models

- Credit risk quantifies losses derived from a potential 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 2017, the credit risk priorities for management focused on: increasing consumer lending and to companies; improving acceptance policies; and analysing the implications of the regulatory reforms fostered by the Basel Committee.
- As of 31 December 2017, the Group's Exposure at Default (EAD) stood at EUR 308,695 million, of which EUR 173,520 million (56%) was calculated under the IRB approach and EUR 135,175 million (44%) under the standardised approach. The percentage under IRB approach increases to 77.9% when exposure to the private sector is included.
- The Group's Risk-Weighted Assets (RWAs) for credit risk amounted to EUR 108,105 million, of which EUR 46,164 million (43%) was calculated under the IRB approach.
- With regard to the geographic distribution of EAD for credit risk, 86.7% is in Spain, 9.0% in Portugal (due to the incorporation of the BPI loan portfolio), 2.5% in Europe and 1.8% elsewhere in the world. In terms of distribution by sector, the greatest exposure is to individuals, accounting for 40% of the total. By residual maturity, 76% of the exposure has a maturity of more than 1 year, and 57% a maturity of more than 5 years.

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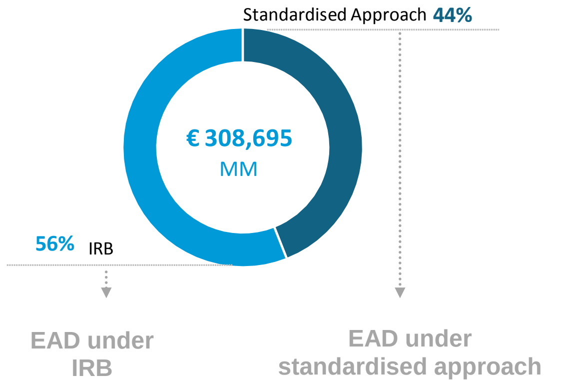
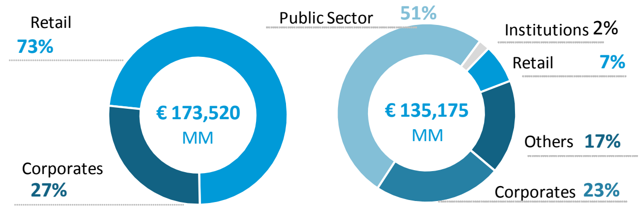
€ 108,105 MM
Credit risk RWA

€ 308,695 MM
Credit risk EAD

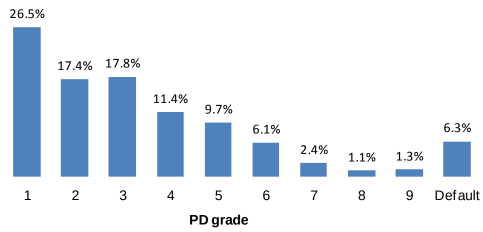
77.9%
EAD with the private sector under IRB approach

CREDIT RISK EAD
Distribution by approach, %

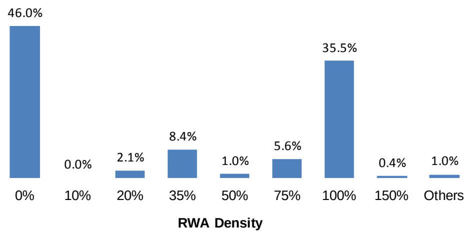




EAD UNDER IRB APPROACH
Distribution by PD scale, %



EAD UNDER STANDARDISED APPROACH
Distribution by risk weighting, %



5.1.1. 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, 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 to individual clients of credit institutions an appropriate customer protection, 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. Therefore, as a mechanism to protect users of financial services, the new 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 Circular 5/2012, 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. CaixaBank has 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-Law 1/2015, of 27 February, regarding second chance mechanisms and the reduction in the financial burden, and Royal-Decree Law 5/2017, of 17 March, amending Royal-Decree Law 6/2012, of 9 March and Law 1/2013, of 14 May.

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 mentioned before, 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 Risk Area and the governing bodies, the Global Risk Committee reports directly to the Risk Committee.

CaixaBank's Executive Global Risk Management Division is also responsible for approval policies and procedures, and also for drawing up and monitoring credit risk models. Reporting to it is the Corporate Credit Risk and Operational Risk Division, comprised of Global Risk Management, Credit Risk Policies and Control, Risk Models, Impairment and Operational Risk, Infrastructure and RDA.

The most significant duties of the Corporate Credit Risk Division include modelling of the Entity's most significant risks, preventive management of credit risk by segment, the development of tools for integration in management and the definition, acceptance and monitoring of portfolio risk measurement models at transaction and customer level (ratings, scorings, probability of default, severity and exposure).

This area is also responsible for defining, implementing and monitoring of risk policies in coordination with other involved areas, for centralisation and setting of priorities in development of infrastructures and projects in risks, and for generation of periodic internal and external reporting, and support for information requests and data reconciliation with supervisory bodies. Lastly, it manages and administers securitised assets.

In addition, the Executive Global Risk Management Division comprises the following:

- **Market Risk and Balance Sheet Risk** 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.

- **Individual follow-up of borrowers**: functions include monitoring of the credit risk portfolio from accounting recognition of transactions until final repayment, with calculation of impairment of individually significant borrowers, and determination and management of pre-litigation and litigation procedures. It also manages, in coordination with the risk teams of head offices and territorial divisions, credit refinancing and forecasts of payment defaults provisions, and analysis of deviations.

- **Strategy, Risk Governance and Regulation**: transversal unit responsible for coordination, control and execution of processes of identification, measurement, monitoring, control and reporting of strategic risk processes: risk assessment, risk catalogue and Risk Appetite Framework (RAF). Must maintain a comprehensive view of the risk governance framework and of its governing bodies, and of the regulatory environment with an impact on risk.

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 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[9], 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 risk approval level 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. individuals, 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.

Hedging policies and mitigation techniques

[9] See Note 3.3.3.2 "Admission and Approval" of CaixaBank Group's 2017 financial statements for more details.

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 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 can be personal guarantees, backed by the assets of the borrowers or guarantors, or take the form of a security interest over a specific asset pledged to secure the finance.

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. When analysing the effectiveness of collateral or guarantees, factors to be considered 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 collaterals accepted for day-to-day transactions are as follows:

- Pledged guarantees

These are transactions secured by a pledge of certain liabilities or intermediation banking operations of CaixaBank.

These are applicable to loans, credit accounts, guarantee lines, risk lines or leases, guaranteed through pledge of intermediation or liabilities accounts held in CaixaBank.

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 collateral 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 of the policy and for the lower amount between 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 mortgage 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 collateral

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

  The internal policy establishes the following:

a) 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, CaixaBank Group occasionally uses credit derivatives to hedge against credit risk. No single Counterparty accounts for a significant portion of outstanding credit derivative contracts. 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 CaixaBank Group at 31 December 2017.

Table 16. Exposure by application ofmitigation techniques

Amounts in millions of euros

Type of guaranty	EAD			
	STD approach	IRB approach	Total	%
Mortgages guarantees	15,118	118,998	134,116	*43.4%*
Collateral	215	3,070	3,285	*1.1%*
Personal guarantees	119,842	51,452	171,294	*55.5%*
TOTAL	**135,175**	**173,520**	**308,695**	***100.0%***

Table 17. Standardised approach: exposure by application of mitigation techniques

Amounts in millions of euros

Type of guaranty applied in the credit risk mitigation - SA portfolio	EAD			
	Mortgages guarantees	Collateral	Personal guarantees	Total
Central governments or central banks	18	0	54,400	54,419
Regional governments or local authorities	247	8	10,320	10,574
Public sector entities	442	2	2,975	3,419
Multilateral development banks			144	144
International organisations				
Institutions	12	5	2,721	2,737
Corporates	1,361	176	21,619	23,156
Regulatory retail exposures	156	24	8,743	8,923
Exposures secured by mortgages on immovable property	12,283		444	12,727
Exposures in default	599	1	1,070	1,669
Exposures associated with particularly high risks				
Covered bonds			19	19
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings ((				
Equity exposures				
Other assets			17,389	17,389
TOTAL	**15,118**	**215**	**119,842**	**135,175**

Table 18. IRB approach: exposure by application of mitigation techniques

Amounts in millions of euros

Type of guaranty applied in the credit risk mitigation - IRB portfolio	EAD			
	Mortgages guarantees	Collateral	Personal guarantees	Total
Corporates	5,467	1,373	26,286	33,127
SME	7,060	507	6,308	13,875
Retail - Residential Mortgage	95,615			95,615
SME - Mortgage	10,856			10,856
Retail - Qualifying Revolving			5,311	5,311
Retail - SME		674	6,482	7,156
Other Retail	0	516	7,064	7,580
TOTAL	**118,998**	**3,070**	**51,452**	**173,520**

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.
- 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:

1. 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.
2. 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 CaixaBank Group's 2017 financial statements).

3. Transactions made by insolvent borrowers that should not be classified as non-performing or write-off.

- **Non-performing**:

  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.

  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 CaixaBank Group's 2017 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**:

This includes debt instruments, whether due or not, for which CaixaBank Group, after analysing them individually, considers the possibility of recovery to be remote and proceeds to derecognise them, without prejudice to any actions that 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:

1. Non-performing transactions due to customer arrears older than four years, or, before the end of the four-year period when the amount

not secured with effective guarantees has fully provisioned for more than two years, and

2. 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:

1. Borrowers with total exposure of more the EUR 20 million.

2. 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.

3. 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 granted 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:

1. Operations backed by an unsuitable business plan.
2. Operations that include contractual clauses that delay repayments in the form of grace periods longer than 24 months.
3. 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.
- 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.
- When it is deemed more appropriate given the nature of the operations, 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:

  1. 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 fulfils the conditions to be considered non-performing.

  2. 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.

Credit risk management priorities

- To compensate the shorter demand of household mortgages with consumer and corporate lending (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.

- To guarantee the fulfillment, properly and on time, of the provisions of the IFRS9 Standard. For this purpose, by the end of 2015 CaixaBank started an internal project and created a weekly specific Committee, in charge of both the monitoring progress and taking the corresponding decisions. At the time this report has been drawn up, after all meetings held, actions carried out and the current status of the project, the targets set more than two years ago can be considered as reached.

- Analysis, interaction with supervisors and preparation for future implementation of the "Basel IV" regulatory changes to the consumption of regulatory capital.

- Synthetic securitisation

5.1.2. 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 Group uses the external rating agencies designated as being eligible by the Bank of Spain, namely Standard & Poor's, Moody's, Fitch and DBRS.
CaixaBank Group applies the standardised approach permanently to the following exposures:

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

According to the application of the measurement approaches set out in the new European capital requirements regulations (CRD IV and CRR), where external ratings are not available for exposures of regional or local administrations, the rating for the next higher level of public body available is used.
The Group does not assign credit ratings for publicly traded security issues or comparable assets not included in the trading portfolio.

The tables in this section detail:

- Original exposure ("Exposure before CCF and CRM", including exposure to credit risk both on- and off- the balance sheet),
- EAD ("Exposures post CCF and CRM").
- Risk-weighted assets (RWA).

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

In 2017, exposure under the standardised approach increased due to the incorporation of BPI's loan portfolio to CaixaBank Group's.

The following tables provide details of original exposure, EAD and RWA at December 2017 by category, under the standardised approach. This does not include Counterparty Risk, securitisations or equity portfolio exposure:

Table 19. Standardised approach: credit risk exposure and effects of mitigation techniques (EU CR4)

Amounts in millions of euros

	Original exposure			EAD			RWA	RWA density	Capital (8%)
	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total			
Central governments or central banks	52,768	302	53,070	54,301	117	54,419	9,216	16.93%	737
Regional governments or local authorities	10,465	1,957	12,422	10,400	174	10,574	371	3.51%	30
Public sector entities	3,344	1,081	4,425	3,165	254	3,419	3,072	89.84%	246
Multilateral development banks	17	24	41	144	0	144		0.00%	
International organisations								0.00%	
Institutions	2,158	805	2,962	2,347	390	2,737	984	35.95%	79
Corporates	24,413	6,822	31,235	21,018	2,138	23,156	21,654	93.51%	1,732
Regulatory retail exposures	9,212	2,771	11,983	8,732	191	8,923	4,958	55.56%	397
Exposures secured by mortgages on immovable property	12,683	677	13,361	12,623	104	12,727	4,674	36.73%	374
Exposures in default	3,092	221	3,314	1,640	29	1,669	1,961	117.46%	157
Exposures associated with particularly high risks								0.00%	
Covered bonds	19		19	19		19	4	20.00%	0
Exposures to institutions and corporates with a short-term credit assesment								0.00%	
Exposures in the form of units or shares in collective investment undertakings (CIU's)								0.00%	
Equity exposures								0.00%	
Other assets	17,405		17,405	17,389		17,389	15,049	86.55%	1,204
Total Credit Risk - SA portfolio*	**135,576**	**14,661**	**150,237**	**131,778**	**3,397**	**135,175**	**61,941**	**45.82%**	**4,955**

(*) Only credit risk is included. No counterparty or securitization or shareholder risk is included

Amounts in millions of euros **31/12/2016**

	Original exposure			EAD			RWA	RWA density	Capital (8%)
	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total			
Central governments or central banks	39,780	33	39,813	41,298	32	41,330	8,156	19.73%	652
Regional governments or local authorities	11,510	1,585	13,096	11,509	135	11,644	233	2.00%	19
Public sector entities	3,502	1,018	4,520	3,253	242	3,495	3,116	89.16%	249
Multilateral development banks								0.00%	
International organisations				331	1	332		0.00%	
Institutions	1,866	258	2,124	1,806	98	1,904	571	29.96%	46
Corporates	16,457	3,538	19,995	13,476	1,256	14,732	13,434	91.19%	1,075
Regulatory retail exposures	5,953	1,923	7,876	5,572	137	5,710	2,865	50.17%	229
Exposures secured by mortgages on immovable property	2,686	559	3,245	2,651	116	2,767	1,068	38.61%	85
Exposures in default	2,314	115	2,429	1,225	10	1,235	1,489	120.58%	119
Exposures associated with particularly high risks								0.00%	
Covered bonds	714		714	714		714	108	15.06%	9
Exposures to institutions and corporates with a short-term credit assesment								0.00%	
Exposures in the form of units or shares in collective investment undertakings (CIU's)								0.00%	
Equity exposures								0.00%	
Other assets	16,774		16,774	16,774		16,774	15,070	89.84%	1,206
Total Credit Risk - SA portfolio*	**101,558**	**9,030**	**110,587**	**98,610**	**2,028**	**100,638**	**46,110**	**45.82%**	**3,689**

(*) Only credit risk is included. No counterparty or securitization or shareholder risk is included

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, securitisation risk or equity portfolio exposure.

Table 20. Standardised approach: Credit risk exposures by asset class and risk weights (EU CR5)

Amounts in millions of euros

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	EAD	*Of which unrated*
Central governments or central banks	47,165				0		0			5,945	0	1,308				54,419	54,412
Regional governments or local authorities	9,593				763					218						10,574	10,574
Public sector entities	346				1					3,071						3,419	3,419
Multilateral development banks	144															144	144
International organisations																	
Institutions	1	11			2,014		262			448	1					2,737	1,874
Corporates	1,054						1			22,098	3					23,156	23,069
Regulatory retail exposures	1,620								7,304							8,923	8,923
Exposures secured by mortgages on immovable property					0	11,378	1,078		199	72						12,727	12,727
Exposures in default	0				0		7			1,071	591					1,669	1,658
Exposures associated with particularly high risks																	
Covered bonds					19											19	19
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)																	
Equity exposures																	
Other assets	2,266				92					15,031						17,389	17,389
Total Credit Risk - SA portfolio*	**62,190**	**11**	**0**	**0**	**2,889**	**11,378**	**1,348**	**0**	**7,502**	**47,954**	**594**	**1,308**	**0**	**0**	**0**	**135,175**	**134,207**

(*) Only credit risk is included. No counterparty or securitization or shareholder risk is included

Amounts in millions of euros **31/12/2016**

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	EAD	*Of which unrated*
Central governments or central banks	34,587									5,802		941				41,330	41,312
Regional governments or local authorities	11,410				1					233						11,644	11,605
Public sector entities	379									3,116						3,495	3,339
Multilateral development banks																	
International organisations	332															332	332
Institutions					1,521		233			150						1,904	52
Corporates	977				0					13,752	3					14,732	13,058
Regulatory retail exposures	1,586								4,123							5,710	5,709
Exposures secured by mortgages on immovable property						1,662	1,037		1	67						2,767	2,767
Exposures in default										727	508					1,235	1,235
Exposures associated with particularly high risks																	
Covered bonds	176				538											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)																	
Equity exposures																	
Other assets	1,704									15,070						16,774	16,774
Total Credit Risk - SA portfolio*	**51,152**	**0**	**0**	**0**	**2,061**	**1,662**	**1,271**	**0**	**4,124**	**38,916**	**511**	**941**	**0**	**0**	**0**	**100,638**	**96,898**

(*) Only credit risk is included. No counterparty or securitization or shareholder risk is included

Table 21. Standardised approach: Risk-weighted assets by asset class and risk weights (credit risk) (EU CR5)

Amounts in millions of euros

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	RWA	*Of which unrated*
Central governments or central banks					0		0			5,945	0	3,271				9,216	9,209
Regional governments or local authorities					153					218						371	371
Public sector entities					0					3,071						3,072	3,072
Multilateral development banks																	
International organisations																	
Institutions		0			403		131			448	2					984	687
Corporates					0		1			21,649	4					21,654	21,568
Regulatory retail exposures									4,958							4,958	4,958
Exposures secured by mortgages on immovable property					0	3,948	512		145	69						4,674	4,674
Exposures in default					0		3			1,071	886					1,961	1,952
Exposures associated with particularly high risks																	
Covered bonds					4											4	4
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)																	
Equity exposures																	
Other assets					18					15,031						15,049	15,049
Total Credit Risk - SA portfolio*	**0**	**0**	**0**	**0**	**578**	**3,948**	**647**	**0**	**5,102**	**47,502**	**892**	**3,271**	**0**	**0**	**0**	**61,941**	**61,543**

Only credit risk is included. No counterparty or securitization or shareholder risk is included

(*) The amount by weight corresponds to the amount after applying the SME support factor (0.7619), referred to in article 501 of the CRR

Amounts in millions of euros **31/12/2016**

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	RWA	*Of which unrated*
Central governments or central banks										5,802		2,354				8,156	8,156
Regional governments or local authorities					0					233						233	233
Public sector entities										3,116						3,116	2,960
Multilateral development banks																	
International organisations																	
Institutions					304		117			150						571	63
Corporates					0					13,430	5					13,434	12,559
Regulatory retail exposures									2,865							2,865	2,864
Exposures secured by mortgages on immovable property						526	483		1	59						1,068	1,068
Exposures in default										727	763					1,489	1,489
Exposures associated with particularly high risks																	
Covered bonds					108											108	108
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)																	
Equity exposures																	
Other assets										15,070						15,070	15,070
Total Credit Risk - SA portfolio*	**0**	**0**	**0**	**0**	**412**	**526**	**599**	**0**	**2,865**	**38,586**	**767**	**2,354**	**0**	**0**	**0**	**46,110**	**44,570**

Only credit risk is included. No counterparty or securitization or shareholder risk is included

(*) The amount by weight corresponds to the amount after applying the SME support factor (0.7619), referred to in article 501 of the CRR

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

Table 22. Standardised approach: exposure guaranteed by real estate assets, by type of collateral

Amounts in millions of euros

	Original exposure	Exposures after CRM and before CCF	EAD	RWA	RWA density	Capital (8%)
Commercial immovable property	1,228	1,217	1,147	576	50.17%	46
Residential immovable property	12,132	12,084	11,580	4,098	35.39%	328
TOTAL	**13,361**	**13,301**	**12,727**	**4,674**	**36.73%**	**374**

Amounts in millions of euros **31/12/2016**

	Original exposure	Exposures after CRM and before CCF	EAD	RWA	RWA density	Capital (8%)
Commercial immovable property	1,146	1,131	1,095	534	*48.77%*	43
Residential immovable property	2,099	2,077	1,672	534	*31.96%*	43
TOTAL	**3,245**	**3,208**	**2,767**	**1,068**	*38.61%*	**85**

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

Exposures are presented under the advanced approach (IRB) in accordance with the regulatory categories of current regulation (CRR) for this calculation method. The following table shows the equivalence between the internal master scale and the credit quality levels used by the main rating agencies.

Table 23. IRB: Equivalence between master scale and rating agencies

Master scale	External rating equivalent		
	S&P's	Fitch	Moody's
0	AAA / AA+	AAA / AA+	Aaa / Aa1
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1
4	BB	BB	Ba2
5	BB-	BB-	Ba3
6	B+ / B	B+ / B	B1 / B2
7	B-	B-	B3
8	CCC+	CCC+	Caa1
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3

In this document the breakdown of the IRB portfolio by PD does not show any reference to the 0 master scale since the minimum regulatory PD is set at 0.03%.

Table 24. IRB: Credit risk exposures by portfolio

Amounts in millions of euros

	PD	Original exposure			EAD										
	Average PD (***)	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
Corporate	**10.29%**	**37,722**	**22,782**	**60,504**	**37,722**	**9,280**	**47,002**	**58**	**35.31%**	**6**	**25,247**	**53.71%**	**2,471**	**(2,409)**	**2,020**
Corporates	8.28%	25,371	18,688	44,059	25,371	7,756	33,127	7	37.05%	5	19,693	59.45%	1,723	(1,626)	1,575
SME	15.08%	12,352	4,093	16,445	12,352	1,524	13,875	51	31.14%	8	5,554	40.02%	749	(782)	444
Retail	**6.63%**	**121,075**	**38,561**	**159,636**	**121,075**	**5,444**	**126,518**	**8,978**	**25.79%**	**16**	**20,917**	**16.53%**	**2,917**	**(2,565)**	**1,673**
Retail - Residential Mortgage	6.10%	95,158	23,221	118,378	95,158	457	95,615	1,532	18.61%	19	11,136	11.65%	1,791	(1,632)	891
SME - Mortgage	14.82%	10,745	2,310	13,055	10,745	111	10,856	121	18.85%	13	2,345	21.60%	471	(295)	188
Retail - Qualifying Revolving	2.45%	2,820	8,289	11,110	2,820	2,491	5,311	4,598	76.78%	3	1,253	23.59%	94	(74)	100
Retail - SME	5.68%	5,708	2,613	8,321	5,708	1,448	7,156	449	52.71%	3	2,451	34.24%	249	(245)	196
Other Retail	5.44%	6,644	2,128	8,772	6,644	936	7,580	2,277	65.16%	4	3,732	49.24%	312	(319)	299
Total Credit Risk - IRB portfolio(**)	**7.62%**	**158,797**	**61,343**	**220,139**	**158,797**	**14,723**	**173,520**	**9,036**	**28.37%**	**13**	**46,164**	**26.60%**	**5,388**	**(4,974)**	**3,693**

(*) Number of debtors in thousands

(**)Only credit risk is included. No counterparty or securitization or shareholder risk is included

(***) Default Fund is included

Amounts in millions of euros

31/12/2016

	PD	Original exposure			EAD										
	Average PD (***)	On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
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**	**(2,740)**	**2,205**
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	(1,691)	1,809
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	(1,049)	396
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**	**(2,777)**	**1,697**
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	(1,973)	1,036
SME - Mortgage	17.62%	11,687	2,279	13,966	11,687	126	11,813	128	19.19%	13	2,529	21.41%	643	(427)	202
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	(39)	84
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	(177)	160
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	(160)	215
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**	**(5,517)**	**3,902**

(*) Number of debtors in thousands

(**)Only credit risk is included. No counterparty or securitization or shareholder risk is included

(***) Default Fund is included

Table 25. IRB: Credit risk exposures by portfolio and PD range (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.04%	44,077	17,129	61,207	44,077	1,940	46,017	2,223	21.31%	16	1,092	2.37%	4	(195)	87
2	0.11%	27,287	12,787	40,073	27,287	2,836	30,123	1,278	25.19%	15	2,836	9.42%	8	(112)	227
3	0.26%	26,382	12,806	39,188	26,382	4,533	30,916	996	30.59%	11	8,185	26.47%	25	(98)	655
4	0.60%	17,812	7,114	24,927	17,812	2,038	19,850	1,069	31.70%	11	7,454	37.55%	38	(104)	596
5	1.44%	14,814	5,550	20,364	14,814	1,937	16,751	1,920	33.41%	10	9,330	55.70%	81	(118)	746
6	3.34%	9,712	3,266	12,979	9,712	879	10,591	749	32.02%	10	7,675	72.47%	113	(116)	614
7	7.53%	3,940	1,244	5,184	3,940	260	4,200	360	29.74%	12	3,846	91.58%	95	(87)	308
8	16.84%	1,865	209	2,074	1,865	28	1,893	190	26.71%	14	2,135	112.79%	84	(70)	171
9	36.29%	2,197	273	2,469	2,197	44	2,240	107	28.85%	13	3,036	135.52%	244	(150)	243
Performing Portfolio	**1.41%**	**148,087**	**60,378**	**208,465**	**148,087**	**14,495**	**162,582**	**8,892**	**27.39%**	**13**	**45,589**	**28.04%**	**693**	**(1,051)**	**3,647**
Default	100.00%	10,710	965	11,674	10,710	229	10,938	144	42.92%	13	575	5.26%	4,695	(3,923)	46
Total	**7.62%**	**158,797**	**61,343**	**220,139**	**158,797**	**14,723**	**173,520**	**9,036**	**28.37%**	**13**	**46,164**	**26.60%**	**5,388**	**(4,974)**	**3,693**

(*) Number of debtors in thousands

Only credit risk is included. No counterparty or securitization or shareholder risk is included

Amounts in millions of euros **31/12/2016**

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	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	(286)	112
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	(70)	209
3	0.29%	25,840	11,913	37,753	25,840	3,730	29,570	729	29.82%	11	7,854	26.56%	26	(127)	628
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	(109)	706
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	(100)	630
6	3.43%	10,541	2,875	13,417	10,541	837	11,378	944	29.28%	11	7,881	69.26%	112	(204)	630
7	7.69%	4,384	1,214	5,598	4,384	334	4,717	292	31.22%	11	5,080	107.68%	111	(110)	406
8	16.48%	1,859	218	2,077	1,859	35	1,894	191	27.27%	15	2,162	114.16%	84	(102)	173
9	35.36%	3,329	524	3,853	3,329	104	3,433	109	25.57%	14	4,473	130.29%	321	(252)	358
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**	**(1,361)**	**3,852**
Default	100.00%	11,893	1,012	12,905	11,893	257	12,150	105	41.77%	13	626	5.15%	5,075	(4,155)	50
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**	**(5,517)**	**3,902**

(*) Number of debtors in thousands

Only credit risk is included. No counterparty or securitization or shareholder risk is included

Table 26. RWA flow statements of credit risk exposures under the IRB approach (EU CR8)

Amounts in millions of euros

	RWA	Capital (8%)
RWAs as at the end of the previous reporting period	**48,777**	**3,902**
Asset size	220	18
Asset quality	(2,857)	(229)
Model updates	400	32
Methodology and policy	0	0
Acquisitions and disposals	(38)	(3)
Foreign exchange movements	0	0
Other	(338)	(27)
RWAs as at the end of the reporting period	**46,164**	**3,693**

In 2017 the Risk-Weighted Assets (RWAs) of the credit risk portfolio under the IRB approach decreased EUR -2,613 million (EUR -209 million in regulatory capital at 8%) mostly due to the favourable evolution of the credit quality of the evaluated portfolios. There has been a favourable movement between credit quality levels that has led to a decrease of EUR -2.857 million in RWAs. This movement has been partially offset by the Model updates line where outstands the update of parameters (PD, LGD, CCF) carried out at the end of 2017.

Impairment losses

CaixaBank Group's allowances for impairment losses and provisions for contingent liabilities and commitments for the last four years are shown below for each risk category.

The following should be noted with regard to provisions in 2017:

- Increase in provisions in portfolio subject to standardised approach mainly due to integration of BPI (incorporation of provisions associated with its portfolio).
- In portfolio subject to IRB models, decrease of provision in company portfolio mainly due to intense management of NPLs, and in retail portfolio due to better macroeconomic performance, especially with respect to favourable performance of real estate market in Spain and Portugal (increase in average housing prices).

Table 27. Provisions evolution

Amounts in millions of euros

Regulatory exposure class	December 2014 Provisions	%	December 2015 Provisions	%	December 2016 Provisions	%	December 2017 Provisions	%
Central governments or central banks	(0)	0%	(0)	0%	(11)	0%	(11)	0%
Regional governments or local authorities	(8)	0%	(5)	0%	(5)	0%	(3)	0%
Public sector entities	(322)	3%	(76)	1%	(106)	1%	(79)	1%
Multilateral development banks	0	0%	0	0%	0	0%	0	0%
International organisations	0	0%	0	0%	0	0%	0	0%
Institutions	(0)	0%	(2)	0%	(5)	0%	(0)	0%
Corporates	(132)	1%	(417)	4%	(286)	4%	(212)	3%
Regulatory retail exposures	(9)	0%	(110)	1%	(63)	1%	(136)	2%
Exposures secured by mortgages on immovable property	(18)	0%	(24)	0%	(24)	0%	(38)	1%
Exposures in default	(1,764)	15%	(1,451)	15%	(1,063)	15%	(1,462)	21%
Exposures associated with particularly high risks	0	0%	0	0%	0	0%	0	0%
Covered bonds	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%
Exposures in the form of units or shares in collective investment undertakings (CIU's)	0	0%	0	0%	0	0%	0	0%
Equity exposures	0	0%	0	0%	0	0%	0	0%
Other assets	0	0%	0	0%	0	0%	(16)	0%
Total Credit Risk - SA portfolio	**(2,252)**	**20%**	**(2,087)**	**21%**	**(1,564)**	**22%**	**(1,958)**	**28%**
Corporate	(6,140)	54%	(4,465)	46%	(2,747)	39%	(2,409)	35%
Corporates	(3,028)	26%	(2,349)	24%	(1,695)	24%	(1,626)	23%
SME	(3,112)	27%	(2,116)	22%	(1,052)	15%	(782)	11%
Retail	(3,072)	27%	(3,160)	33%	(2,778)	39%	(2,565)	37%
Retail - Residential Mortgage	(1,736)	15%	(2,160)	22%	(1,973)	28%	(1,632)	24%
SME - Mortgage	(979)	9%	(654)	7%	(427)	6%	(295)	4%
Retail - Qualifying Revolving	(15)	0%	(14)	0%	(39)	1%	(74)	1%
Retail - SME	(247)	2%	(249)	3%	(178)	3%	(245)	4%
Other Retail	(96)	1%	(83)	1%	(161)	2%	(319)	5%
Total Credit Risk - IRB portfolio	**(9,211)**	**80%**	**(7,625)**	**79%**	**(5,525)**	**78%**	**(4,974)**	**72%**
TOTAL(*)	**(11,464)**	**100%**	**(9,712)**	**100%**	**(7,089)**	**100%**	**(6,932)**	**100%**

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

5.1.3. Quantitative aspects

Distribution of exposures

This section provides information on the Group's credit risk exposures with the details of the calculation method used for regulatory capital requirements and the regulatory category for the following disclosures:

- 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 Counterparty, securitisation or equity portfolio exposures:

Average value of exposures

These amounts are presented in relation to each regulatory category in accordance with the calculation method applied.

Table 28. Average exposure by risk category (EU CRB-B)

Amounts in millions of euros

Regulatory exposure class	December 2016		December 2017			
	Original exposure (*)	EAD	Original exposure (*)	EAD	Average Original exposure (*)	Average EAD
Central governments or central banks	39,813	41,330	53,070	54,419	46,442	47,875
Regional governments or local authorities	13,096	11,644	12,422	10,574	12,759	11,109
Public sector entities	4,520	3,495	4,425	3,419	4,473	3,457
Multilateral development banks	0	0	41	144	21	72
International organisations	0	332	0	0	0	166
Institutions	2,124	1,904	2,962	2,737	2,543	2,321
Corporates	19,995	14,732	31,235	23,156	25,615	18,944
Regulatory retail exposures	7,876	5,710	11,983	8,923	9,930	7,316
Exposures secured by mortgages on immovable property	3,245	2,767	13,361	12,727	8,303	7,747
Exposures in default	2,429	1,235	3,314	1,669	2,871	1,452
Exposures associated with particularly high risks	0	0	0	0	0	0
Covered bonds	714	714	19	19	366	366
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
Equity exposures	0	0	0	0	0	0
Other assets	16,774	16,774	17,405	17,389	17,090	17,082
Total Credit Risk - SA portfolio	**110,587**	**100,638**	**150,237**	**135,175**	**130,412**	**117,907**
Corporate	60,297	46,528	60,504	47,002	60,401	46,765
Corporates	45,129	33,521	44,059	33,127	44,594	33,324
SME	15,169	13,007	16,445	13,875	15,807	13,441
Retail	158,484	128,079	159,636	126,518	159,060	127,299
Retail - Residential Mortgage	121,744	99,803	118,378	95,615	120,061	97,709
SME - Mortgage	13,966	11,813	13,055	10,856	13,511	11,335
Retail - Qualifying Revolving	9,192	4,495	11,110	5,311	10,151	4,903
Retail - SME	7,070	5,995	8,321	7,156	7,696	6,576
Other Retail	6,513	5,972	8,772	7,580	7,642	6,776
Total Credit Risk - IRB portfolio	**218,782**	**174,607**	**220,139**	**173,520**	**219,461**	**174,064**
TOTAL(**)	**329,369**	**275,245**	**370,376**	**308,695**	**349,873**	**291,970**

(*) Exposures before CCF and CRM

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

Geographical distribution of exposures

Specified below is the breakdown into the main geographical regions of the exposure of CaixaBank Group, excluding valuation adjustments for impairment, at 31 December 2017:

The value of exposure includes total credit risk, not considering exposure corresponding to Counterparty Risk, securitisations or equity exposures.

At 31 December 2017, 86.7% of CaixaBank Group's exposure was concentrated in Spain, 9.0% in Portugal, with 2.5% in other European Union countries and 1.8% elsewhere in the world.

Table 29. Credit exposure by geographical zone (EU CRB-C)

Amounts in millions of euros

Geographical areas	%	Original exposure	EAD	RWA
Spain	*71.7%*	107,759	99,721	42,288
Portugal	*21.0%*	31,516	26,903	13,534
EU	*4.0%*	6,081	4,764	2,757
Other	*3.2%*	4,881	3,788	3,362
STD approach	**100.00%**	**150,237**	**135,175**	**61,941**
Spain	*96.8%*	213,121	168,039	43,468
Portugal	*0.6%*	1,218	762	240
EU	*1.6%*	3,559	2,853	1,457
Other	*1.0%*	2,242	1,866	998
IRB approach	**100.00%**	**220,139**	**173,520**	**46,164**
Total(*)		**370,376**	**308,695**	**108,105**

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

Distribution of exposures by industry sector

The following tables show the distribution of exposures for CaixaBank Group in terms of EAD by industry sector at 31 December 2017, for each regulatory exposure class and approach used to calculate regulatory capital.

The details by industry sector include total credit risk, not considering exposure corresponding to Counterparty Risk, securitisations or equity exposures.

Table 30. EAD by sectors of economic activity

Amounts in millions of euros

Regulatory exposure class	TOTAL	Public Sector	Business non financial activities	Business financial activities	Retail (non business activities)	Non-profit institutions serving households	Other activities (*)
Central governments or central banks	**54,419**	53,665	60	694	0	0	0
Regional governments or local authorities	**10,574**	10,565	9	0	0	0	0
Public sector entities	**3,419**	3,299	1	119	0	0	0
Multilateral development banks	**144**	0	139	2	0	3	0
International organisations	**0**	0	0	0	0	0	0
Institutions	**2,737**	0	451	2,281	0	4	0
Corporates	**23,156**	1	19,214	2,606	385	181	768
Regulatory retail exposures	**8,923**	0	3,095	11	5,762	56	0
Exposures secured by mortgages on immovable property	**12,727**	1	2,075	183	10,438	30	0
Exposures in default	**1,669**	6	970	14	471	4	204
Exposures associated with particularly high risks	**0**	0	0	0	0	0	0
Covered bonds	**19**	0	0	19	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
Equity exposures	**0**	0	0	0	0	0	0
Other assets	**17,389**	0	0	0	0	0	17,389
Total Credit Risk - SA portfolio	**135,175**	**67,537**	**26,015**	**5,929**	**17,056**	**278**	**18,361**
Corporate	**47,002**	**0**	**44,224**	**2,777**	**0**	**0**	**0**
Corporates	**33,127**	0	30,550	2,576	0	0	0
SME	**13,875**	0	13,674	201	0	0	0
Retail	**126,518**	**0**	**20,276**	**60**	**106,182**	**0**	**0**
Retail - Residential Mortgage	**95,615**	0	4,552	0	91,062	0	0
SME - Mortgage	**10,856**	0	7,882	29	2,945	0	0
Retail - Qualifying Revolving	**5,311**	0	745	0	4,566	0	0
Retail - SME	**7,156**	0	6,732	31	393	0	0
Other Retail	**7,580**	0	364	0	7,215	0	0
Total Credit Risk - IRB portfolio	**173,520**	**0**	**64,501**	**2,838**	**106,182**	**0**	**0**
TOTAL	**308,695**	**67,537**	**90,516**	**8,766**	**123,238**	**278**	**18,361**

(*) Mainly, real estate recoveries or foreclosures, real estate investments in buildings, properties, facilities, etc.

The criteria used for the construction of the tables corresponding to sectors of activity has been revised for 2017.

Table 31. EAD by sector of non-financial business activity (EU CRB-D)

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 (*)
Central governments or central banks	**60**	0	0	34	0	25	0	0	**0**
Regional governments or local authorities	**9**	6	0	0	0	0	0	0	**3**
Public sector entities	**1**	0	1	0	0	0	0	0	**0**
Multilateral development banks	**139**	98	0	1	13	6	0	4	**17**
International organisations	**0**	0	0	0	0	0	0	0	**0**
Institutions	**451**	57	243	8	39	56	9	23	**16**
Corporates	**19,214**	1,945	3,806	3,368	1,236	3,279	1,296	2,251	**2,033**
Regulatory retail exposures	**3,095**	878	37	266	810	508	93	381	**123**
Exposures secured by mortgages on immovable property	**2,075**	126	2	398	186	194	627	374	**168**
Exposures in default	**970**	82	116	176	60	114	18	93	**310**
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**
Equity exposures	**0**	0	0	0	0	0	0	0	**0**
Other assets	**0**	0	0	0	0	0	0	0	**0**
Total Credit Risk - SA portfolio	**26,015**	**3,192**	**4,205**	**4,251**	**2,343**	**4,183**	**2,043**	**3,126**	**2,671**
Corporate	**44,224**	**7,910**	**2,818**	**7,494**	**6,253**	**7,439**	**5,600**	**4,654**	**2,057**
Corporates	**30,550**	5,428	2,563	4,422	4,047	5,517	3,576	3,342	**1,656**
SME	**13,674**	2,482	255	3,072	2,206	1,923	2,024	1,312	**401**
Retail	**20,276**	**3,176**	**267**	**3,167**	**4,121**	**3,378**	**1,908**	**3,689**	**570**
Retail - Residential Mortgage	**4,552**	670	35	529	866	859	119	1,272	**203**
SME - Mortgage	**7,882**	930	48	1,877	1,196	1,045	1,548	1,095	**144**
Retail - Qualifying Revolving	**745**	72	2	49	161	136	16	265	**44**
Retail - SME	**6,732**	1,413	178	695	1,816	1,269	220	981	**160**
Other Retail	**364**	91	4	17	82	70	6	77	**19**
Total Credit Risk - IRB portfolio	**64,501**	**11,086**	**3,085**	**10,660**	**10,374**	**10,818**	**7,508**	**8,344**	**2,627**
TOTAL	**90,516**	**14,278**	**7,290**	**14,912**	**12,717**	**15,001**	**9,551**	**11,470**	**5,298**

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

The criteria used for the construction of the tables corresponding to sectors of activity has been revised for 2017.

Table 32. RWA by sectors of economic activity

Amounts in millions of euros

Regulatory exposure class	TOTAL	Public Sector	Business non financial activities	Business financial activities	Retail (non business activities)	Non-profit institutions serving households	Other activities(*)
Central governments or central banks	**9,216**	9,216	0	0	0	0	0
Regional governments or local authorities	**371**	369	2	0	0	0	0
Public sector entities	**3,072**	2,952	0	119	0	0	0
Multilateral development banks	**0**	0	0	0	0	0	0
International organisations	**0**	0	0	0	0	0	0
Institutions	**984**	0	218	763	0	3	0
Corporates	**21,654**	1	17,697	2,441	322	180	1,012
Regulatory retail exposures	**4,958**	0	1,831	7	3,087	32	0
Exposures secured by mortgages on immovable property	**4,674**	0	850	86	3,726	12	0
Exposures in default	**1,961**	9	1,180	15	484	5	269
Exposures associated with particularly high risks	**0**	0	0	0	0	0	0
Covered bonds	**4**	0	0	4	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 ((	**0**	0	0	0	0	0	0
Equity exposures	**0**	0	0	0	0	0	0
Other assets	**15,049**	0	0	0	0	0	15,049
Total Credit Risk - SA portfolio	**61,941**	**12,547**	**21,779**	**3,433**	**7,619**	**232**	**16,331**
Corporate	**25,247**	**0**	**23,866**	**1,381**	**0**	**0**	**0**
Corporates	**19,693**	0	18,408	1,286	0	0	0
SME	**5,554**	0	5,458	95	0	0	0
Retail	**20,917**	**0**	**5,383**	**20**	**15,514**	**0**	**0**
Retail - Residential Mortgage	**11,136**	0	629	0	10,507	0	0
SME - Mortgage	**2,345**	0	2,049	11	285	0	0
Retail - Qualifying Revolving	**1,253**	0	203	0	1,050	0	0
Retail - SME	**2,451**	0	2,332	9	110	0	0
Other Retail	**3,732**	0	169	0	3,563	0	0
Total Credit Risk - IRB portfolio	**46,164**	**0**	**29,249**	**1,401**	**15,514**	**0**	**0**
TOTAL	**108,105**	**12,547**	**51,028**	**4,834**	**23,133**	**232**	**16,331**

(*) Mainly, real state recoveries or foreclosures

The criteria used for the construction of the tables corresponding to sectors of activity has been revised for 2017.

Table 33. RWA by sector of non-financial business activity (EU CRB-D)

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 (*)
Central governments or central banks	**0**	0	0	0	0	0	0	0	0
Regional governments or local authorities	**2**	1	0	0	0	0	0	0	1
Public sector entities	**0**	0	0	0	0	0	0	0	0
Multilateral development banks	**0**	0	0	0	0	0	0	0	0
International organisations	**0**	0	0	0	0	0	0	0	0
Institutions	**218**	43	65	4	31	52	4	11	10
Corporates	**17,697**	1,877	3,805	2,284	1,193	3,033	1,283	2,208	2,014
Regulatory retail exposures	**1,831**	518	22	156	476	309	54	224	73
Exposures secured by mortgages on immovable property	**850**	49	1	157	69	78	278	152	67
Exposures in default	**1,180**	89	136	199	65	133	22	98	437
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 assesm	**0**	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertal	**0**	0	0	0	0	0	0	0	0
Equity exposures	**0**	0	0	0	0	0	0	0	0
Other assets	**0**	0	0	0	0	0	0	0	0
Total Credit Risk - SA portfolio	**21,779**	**2,577**	**4,029**	**2,800**	**1,833**	**3,605**	**1,641**	**2,693**	**2,601**
Corporate	**23,866**	**3,860**	**1,159**	**4,948**	**3,103**	**4,483**	**2,687**	**2,619**	**1,006**
Corporates	**18,408**	2,923	1,003	3,572	2,230	3,830	1,924	2,095	831
SME	**5,458**	937	156	1,376	873	654	763	525	175
Retail	**5,383**	**822**	**82**	**1,002**	**1,108**	**931**	**517**	**777**	**145**
Retail - Residential Mortgage	**629**	93	4	85	129	143	15	132	28
SME - Mortgage	**2,049**	194	15	617	268	245	442	237	32
Retail - Qualifying Revolving	**203**	18	1	14	46	46	4	60	15
Retail - SME	**2,332**	479	61	278	629	457	54	313	61
Other Retail	**169**	38	1	8	37	39	2	35	10
Total Credit Risk - IRB portfolio	**29,249**	**4,682**	**1,240**	**5,950**	**4,212**	**5,414**	**3,204**	**3,396**	**1,151**
TOTAL	**51,028**	**7,259**	**5,269**	**8,751**	**6,045**	**9,019**	**4,845**	**6,089**	**3,752**

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

The criteria used for the construction of the tables corresponding to sectors of activity has been revised for 2017.

Distribution of exposures by residual maturity

This table shows the distribution of CaixaBank Group's exposure in terms of EAD at 31 December 2017, 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, securitisations, or equity exposures.

By residual maturity, 76% of the exposure has a maturity of more than 1 year, and 57% a maturity of more than 5 years, mainly due to the weight in exposure of the mortgage portfolio.

Table 34. Distribution of exposures by residual maturity (EU CRB-E)

Amounts in millions of euros

Regulatory exposure class	Exposure amount breakdown by maturity (*) (**) (***)						
	On demand	< 3 months	3 months - 1 year	1-5 years	> 5 years	No stated maturity	TOTAL
Central governments or central banks	16,406	1,667	4,062	17,177	7,763	7,345	54,419
Regional governments or local authorities	0	584	3,728	2,553	3,654	55	10,574
Public sector entities	0	65	423	677	1,836	419	3,419
Multilateral development banks	0	17	3	76	48	0	144
International organisations	0	0	0	0	0	0	0
Institutions	238	493	453	457	114	982	2,737
Corporates	300	1,699	1,820	5,508	12,370	1,457	23,156
Regulatory retail exposures	1,698	360	469	2,095	1,473	2,827	8,923
Exposures secured by mortgages on immovable property	0	9	48	373	12,129	169	12,727
Exposures in default							1,669
Exposures associated with particularly high risks	0	0	0	0	0	0	0
Covered bonds	0	0	11	8	0	0	19
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
Equity exposures	0	0	0	0	0	0	0
Other assets	1,956	0	0	0	13,177	2,255	17,389
Total Credit Risk - SA portfolio	**20,599**	**4,894**	**11,015**	**28,923**	**52,564**	**15,510**	**135,175**
Corporate	16	3,628	8,468	15,671	17,556	1,663	47,002
Corporates	14	2,133	6,220	13,286	10,088	1,385	33,127
SME	2	1,495	2,248	2,385	7,468	278	13,875
Retail	907	1,370	2,773	14,925	106,287	257	126,518
Retail - Residential Mortgage	0	89	104	2,387	93,035	0	95,615
SME - Mortgage	0	99	74	1,114	9,565	5	10,856
Retail - Qualifying Revolving	42	39	263	4,852	116	0	5,311
Retail - SME	11	1,047	1,978	2,547	1,334	239	7,156
Other Retail	854	96	354	4,026	2,237	13	7,580
Total Credit Risk - IRB portfolio	**922**	**4,998**	**11,241**	**30,596**	**123,843**	**1,919**	**173,520**
TOTAL	**21,521**	**9,893**	**22,256**	**59,519**	**176,407**	**17,430**	**308,695**

(*) 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 35. Distribution of RWAs by residual maturity (EU CRB-E)

Amounts in millions of euros

Regulatory exposure class	Exposure amount breakdown by maturity (*) (**) (***)						
	On demand	< 3 months	3 months - 1 year	1-5 years	> 5 years	No stated maturity	TOTAL
Central governments or central banks	0	0	0	7	0	9,209	9,216
Regional governments or local authorities	0	0	215	26	127	2	371
Public sector entities	0	65	423	677	1,836	72	3,072
Multilateral development banks	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0
Institutions	48	169	169	256	80	262	984
Corporates	299	1,655	1,744	5,080	11,184	1,691	21,654
Regulatory retail exposures	56	213	287	1,314	983	2,105	4,958
Exposures secured by mortgages on immovable property	0	3	21	145	4,446	59	4,674
Exposures in default							1,961
Exposures associated with particularly high risks	0	0	0	0	0	0	0
Covered bonds	0	0	2	2	0	0	4
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
Equity exposures	0	0	0	0	0	0	0
Other assets	0	0	0	0	13,088	1,961	15,049
Total Credit Risk - SA portfolio	**403**	**2,106**	**2,861**	**7,505**	**31,744**	**15,360**	**61,941**
Corporate	1	1,449	3,672	9,274	10,045	806	25,247
Corporates	0	880	2,790	8,424	6,930	669	19,693
SME	1	569	882	850	3,115	137	5,554
Retail	540	452	971	4,338	14,549	68	20,917
Retail - Residential Mortgage	0	5	4	100	11,026	0	11,136
SME - Mortgage	0	8	15	161	2,159	1	2,345
Retail - Qualifying Revolving	22	11	49	1,139	32	0	1,253
Retail - SME	3	377	712	850	444	64	2,451
Other Retail	514	51	190	2,087	888	3	3,732
Total Credit Risk - IRB portfolio	**541**	**1,901**	**4,642**	**13,612**	**24,594**	**874**	**46,164**
TOTAL	**943**	**4,008**	**7,504**	**21,118**	**56,338**	**16,234**	**108,105**

(*) 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

In total terms, the gross carrying amount of CaixaBank's exposures stood at EUR 365,660 million at 31 December 2017, with 68% relating to the loan portfolio, 24% relating to off-balance sheet exposure, and the remaining 8% relating to debt securities.

Exposures at default stood at EUR 15,061 million at year-end 2017, including EUR 952 million in off-balance sheet exposures. The exposures at default rate stood at 4.12% of total assets (5.62% for loans) and the coverage ratio of provisions for exposures at default stood at 48.16% of total exposures (49.00% for loans).

The following table presents information on changes in the stock of loans at default between the previous and current year ends.

Table 36. Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)

Amounts in millions of euros

		a
		Gross carrying amount of defaulted exposures
1	**Opening balance**	**14,285**
2	Loans and representative debt securities that have gone into a default situation or whose value has deteriorated since the last reference period	3,830
3	Reclassification to non-default situation	(1,147)
4	Amounts recognized as failed	(4,135)
5	Other changes	1,276
6	**Closing balance**	**14,108**

Overall, the gross carrying amount of defaulted loans and debt securities fell by EUR 177 million in 2017, from EUR 14,285 million at year-end 2016 to EUR 14,108 million at year-end 2017.

This is explained by:

- (+) EUR 3,830 million in loans and debt securities declared to be defaulted since December 2016
- (-) EUR 1,147 million in loans and debt securities exiting defaulted status since December 2016
- (-) EUR 4,135 million in loans and debt repaid and/or fully amortised in the year.
- (+) EUR 1,276 million in loans and debt securities due to other changes, mainly the incorporation of assets in default from BPI in the year.

The following table provides the CaixaBank's exposures broken down by FINREP sector, i.e. the sectors or segments of the financial statements of CaixaBank Group at 31 December 2017.

Table 37. Credit quality of exposures by exposure class and instrument (EU CR1-A)

Amounts in millions of euros

		a	b	c	d	e	f	g
		Gross carrying amount of		Specific credit risk adjustment	General credit risk adjustment	Accumulated failures	Credit risk adjustment charges	Net value (a+b-c-d)
		Defaulted exposures	Non-defaulted exposures					
1	Central Banks	-	17,097	-	-	-	-	17,097
2	General governments	194	41,265	21	1	41	18	41,437
3	Credit Institutions	0	8,849	0	0	2	0	8,849
4	Other financial corporations	157	6,517	63	16	68	43	6,594
5	Non-financial corporations	7,092	114,868	3,740	1,217	11,484	45	117,003
6	Households	7,617	162,005	1,640	555	3,875	186	167,427
7	**Total**	**15,061**	**350,599**	**5,464**	**1,789**	**15,469**	**292**	**358,406**
8	Of which: Loans	13,991	234,750	5,143	1,712	15,469	124	241,886
9	Of which: Representative debt values	117	30,076	35	7	0	40	30,152
10	Of which: Off-balance exposures	952	85,773	287	70	-	128	86,368

As the table shows, a substantial part of the portfolio involves financing for households (46% of the gross carrying amount), whilst this sector accounts for 51% of defaulted exposures and 30% of provisions. Meanwhile, over 47% of defaulted exposures relate to non-financial corporations, which account for 68% of provisions.

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

Table 38. Credit quality of exposures by industry or counterparty types (EU CR1-B)

Amounts in millions of euros

		a	b	c	d	e	f	g
		Gross carrying amount of		Specific credit risk adjustment	General credit risk adjustment	Accumulated failures	Credit risk adjustment charges	Net value (a+b-c-d)
		Defaulted exposures	Non-defaulted exposures					
1	Agriculture, forestry and fishing	134	1,423	37	9	193	(47)	1,510
2	Mining and quarrying	10	302	4	1	30	(3)	308
3	Manufacturing	498	8,941	245	32	904	47	9,161
4	Electricity, gas, steam and air conditioning supply	233	6,959	111	75	20	10	7,005
5	Water supply; sewerage; waste management and remediation activities	70	1,063	32	5	15	8	1,095
6	Construction	1,588	8,383	661	88	6,252	(351)	9,222
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	720	9,314	410	36	646	61	9,588
8	Transporting and storage	218	5,525	106	23	145	59	5,615
9	Accommodation and food service activities	321	3,907	157	11	230	(5)	4,061
10	Information and communication	121	1,942	57	7	221	(6)	1,999
11	Real estate activities	520	9,304	559	38	919	18	9,227
12	Professional, scientific and technical activities	857	3,338	687	14	359	409	3,495
13	Administrative and support service activities	43	1,735	33	10	191	(118)	1,735
14	Public administration and defense; compulsory social security	2	297	0	1	2	0	298
15	Education	64	345	30	7	17	9	372
16	Human health and social work activities	47	988	15	4	19	6	1,016
17	Arts, entertainment and recreation	81	512	50	4	40	(11)	538
18	Other services activities	263	6,969	212	876	363	(164)	6,143
19	**Total**	**5,789**	**71,247**	**3,408**	**1,240**	**10,563**	**(78)**	**72,388**

A substantial part of the portfolio is concentrated in the wholesale and retail trade (13.0% of gross carrying amount), construction (12.9%), real estate activities (12.8%) and manufacturing industry (12.3%), whilst non-performing exposure is concentrated in particular in the construction (27.4%) professional, scientific and technical activities (14.8%) and wholesale and retail trade (12.4%).

The following table provides information on CaixaBank's exposures by geographical region, separated into Spain, Portugal, other European Union countries and the rest of the world.

Table 39. Credit quality of exposures by geography (EU CR1-C)

Amounts in millions of euros

		a	b	c	d	e	f	g
		Gross carrying amount of						
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated failures	Credit risk adjustment charges	Net value (a+b-c-d)
1	Spain	13,086	298,153	4,878	1,633	15,132	(373)	304,728
2	Portugal	1,397	30,473	486	103	38	583	31,282
3	Rest European Union	186	9,440	57	27	54	61	9,542
4	Rest of the w orld	392	12,533	43	26	245	21	12,855
5	Total	15,061	350,599	5,464	1,789	15,469	292	358,406

At 31 December 2017, 85.1% of the gross carrying amount of exposures was concentrated in Spain, with 8.7% in Portugal, 2.6% in other European Union countries and 3.5% elsewhere in the world. The following table provides information on the gross carrying amount of past-due exposures by ageing and product.

Table 40. Ageing of past-due exposures (EU CR1-D)

Amounts in millions of euros

		a	b	c	d	e	f
		Gross carrying amount					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	1,376	644	301	861	1,305	4,991
2	Representative debt values	0	0	0	0	0	0
3	Total exposures	1,376	644	301	861	1,305	4,991

53% of total past-due exposures are older than one year, whilst 24% are past-due for less than 90 days.

The following table presents information on non-performing exposures and restructured and refinanced exposures by product type.

Table 41. Non-performing and forborne exposures (EU CR1-E)

Amounts in millions of euros

		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
						Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
1	Debt securities	30,194	-	11	130	117	130	13	7	0	35	4	-	-
2	Loans and advances	248,741	556	4,473	14,081	13,991	11,673	7,820	1,712	117	5,143	2,506	7,334	7,647
3	Off-balance exposures	86,725	-	37	967	952	-	23	70	1	287	2	237	23
4	**Total exposures**	**365,660**	**556**	**4,522**	**15,179**	**15,061**	**11,804**	**7,856**	**1,789**	**118**	**5,464**	**2,512**	**7,571**	**7,670**

At 31 December 2017 EUR 15,179 million of CaixaBank Group's total exposures are non-performing and EUR 15,061 million are at default.

The restructured and refinanced portfolio stands at EUR 12,378 million at 31 December 2017, of which EUR 4,522 million are performing and EUR 7,856 million are non-performing.

The following table separates CaixaBank's total exposures at December 2017 between secured exposures and non-secured exposures.

Table 42. CRM techniques – Overview (EU CR3)

Amounts in millions of euros

		a	b	c	d	e
		Exposure unsecured – Book amount	Exposure secured – Book amount	Exposure covered with real guarantees	Exposure covered with financial guarantees	Exposure secured with credit derivatives
1	Total loans	110,762	137,979	133,161	596	1
2	Total representative debt values	30,150	43	34	9	-
3	**Total exposures**	**140,912**	**138,022**	**133,195**	**605**	**1**
4	Of which: in default situation	4,435	9,673	6,929	14	1

Exposures secured by collateral represent 49% of the total exposures at the year end 2017, and 55% of loans. Exposures at default secured by collateral represent 69% of total exposures at default.

Variations in impairment losses and provisions

1. Variations in provisions

The following table details the modifications to value corrections for impairment of assets and provisions for contingent commitments and liabilities for CaixaBank Group in 2017[10].

Table 43. Changes in the stock of general and specific credit risk adjustments (EU CR2-A)

	Amounts in millions of euros	a Accumulated specific credit risk adjustment	b Accumulated general credit risk adjustment
1	**Opening balance**	2,379,550	4,353,020
2	Increases due to amounts set aside for estimated loan losses during the period	285,310	503,855
3	Decreases due to amounts reversed for estimated loan losses during the period	-497,023	-460,205
4	Decreases due to amounts taken against accumulated credit risk adjustments	-361,229	-522,027
5	Transfers between credit risk adjustments	-489	0
6	Impact of exchange rate differences		
7	Business combinations, including acquisitions and disposals of subsidiaries	292,119	787,722
8	Other adjustments	266,363	-130,457
9	**Closing balance**	2,364,601	4,531,908
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	101,829	185,987
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-17,713	-600,370

10 See Notes 12.3 "Impairment fund" and 21 "Provisions" of CaixaBank Group's 2017 financial statements.

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 CaixaBank Group in 2017[11].

Table 44. Impairment losses and reversals of losses

Amounts in millions of euros

	Total
Provisions	**(733)**
Loans and receivables	(519)
Shareholder´s equity instruments	(140)
Debt Securities	(4)
Tangible Assets - Own use	
Intangible Assets	(70)
Other assets	
Net loan-loss provisions	**(685)**
Loans and receivables	(554)
Debt Securities	(31)
Otros assets- Stocks	(47)
Tangible Assets- Investment properties	(23)
Tangible Assets - Own use	(30)
Assets recoveries	**298**
Total Value	**(1,120)**

Use 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 action12:

- 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

[11] See notes 34 "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" and 35 "Impairment or reversal of impairment on non-financial assets" of CaixaBank Group's 2017 financial statements.

[12] Further details on the integration of internal estimations in management are given at the end of this section.

- 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. From 1 January 2017, they will also be used to calculation provisions and accounting classification under IFRS 9 or Circular 4/2017 of the Bank of Spain.

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

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

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

Customer-orientated tools at 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.

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 45. 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%

In this document the breakdown of the IRB portfolio by PD does not show any reference to the 0 master scale since the minimum regulatory PD is set at 0.003%

- **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 six 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 6 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 six 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 six 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 six 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 six 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 six 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 six 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.).

Companies 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 CaixaBank Group's exposures at 31 December 2017 by IRB segment, for the various debtor levels.

Table 46. IRB: exposure to credit risk by portfolio and PD scale for the Corporate segment (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.06%	626	425	1,051	626	93	719	0	34.15%	1.2	68	9.43%	0.2	(1)	5
2	0.13%	2,314	3,768	6,082	2,314	1,656	3,970	1	33.41%	3.2	1,121	28.23%	1.7	(3)	90
3	0.27%	9,057	7,889	16,946	9,057	3,615	12,672	1	34.59%	6.0	5,662	44.68%	11.6	(7)	453
4	0.64%	3,935	2,507	6,443	3,935	995	4,930	1	37.19%	4.4	3,645	73.94%	11.8	(14)	292
5	1.31%	3,715	1,597	5,312	3,715	640	4,354	1	33.67%	5.8	3,784	86.89%	19.0	(14)	303
6	3.53%	2,521	1,313	3,834	2,521	430	2,951	1	35.66%	5.8	3,275	110.96%	37.1	(15)	262
7	9.15%	666	533	1,200	666	160	826	0	30.62%	3.8	1,075	130.09%	23.0	(9)	86
8	18.32%	67	8	75	67	3	70	0	34.96%	5.2	131	187.21%	4.4	(1)	10
9	42.74%	341	97	438	341	24	366	0	37.09%	4.7	726	198.38%	59.4	(33)	58
Performing Portfolio	**1.54%**	**23,242**	**18,137**	**41,380**	**23,242**	**7,617**	**30,859**	**6**	**34.74%**	**5.1**	**19,485**	**63.14%**	**168.1**	**(96)**	**1,559**
Default	100%	2,128	551	2,679	2,128	139	2,267	1	68.56%	4.6	208	9.17%	1,554.5	(1,530)	17
Total	**8.28%**	**25,371**	**18,688**	**44,059**	**25,371**	**7,756**	**33,127**	**7**	**37.05%**	**5.1**	**19,693**	**59.45%**	**1,722.6**	**(1,626)**	**1,575**

(*) Number of debtors in thousands

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

Table 47. IRB: exposure to credit risk by portfolio and PD scale for the SME segment (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.05%	392	199	591	392	78	470	3	31.30%	7.1	50	10.54%	0.1	(1)	4
2	0.13%	1,910	786	2,696	1,910	402	2,312	9	31.82%	5.2	428	18.53%	0.9	(6)	34
3	0.30%	1,751	550	2,301	1,751	246	1,998	7	30.06%	6.3	586	29.32%	1.8	(9)	47
4	0.65%	2,129	875	3,004	2,129	355	2,484	8	31.72%	6.5	1,074	43.25%	5.1	(13)	86
5	1.57%	2,074	656	2,731	2,074	217	2,291	8	29.50%	8.1	1,296	56.59%	10.7	(17)	104
6	3.16%	1,415	521	1,936	1,415	117	1,532	9	28.31%	9.5	1,011	66.04%	13.6	(27)	81
7	6.73%	535	204	739	535	29	564	2	28.03%	12.1	474	83.99%	10.9	(19)	38
8	19.68%	152	18	170	152	5	157	1	23.98%	9.5	156	99.29%	7.3	(8)	12
9	36.55%	238	43	281	238	6	244	1	30.13%	12.4	307	126.13%	26.6	(11)	25
Performing Portfolio	**2.22%**	**10,596**	**3,853**	**14,449**	**10,596**	**1,454**	**12,050**	**47**	**30.29%**	**7.4**	**5,382**	**44.67%**	**76.9**	**(110)**	**431**
Default	100%	1,756	241	1,996	1,756	70	1,825	4	36.80%	9.5	171	9.37%	671.6	(673)	14
Total	**15.08%**	**12,352**	**4,093**	**16,445**	**12,352**	**1,524**	**13,875**	**51**	**31.14%**	**7.6**	**5,554**	**40.02%**	**748.5**	**(782)**	**444**

(*) Number of debtors in thousands

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

Table 48. IRB: exposure to credit risk by portfolio and PD scale for the retail segment covered by real-estate mortgages (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.04%	38,919	11,431	50,349	38,919	267	39,186	685	16.13%	17.7	732	1.87%	2.4	(178)	59
2	0.10%	20,161	5,944	26,105	20,161	90	20,251	323	18.69%	19.3	978	4.83%	3.9	(91)	78
3	0.23%	11,777	2,635	14,413	11,777	45	11,822	181	19.00%	19.3	1,071	9.06%	5.3	(60)	86
4	0.55%	8,332	1,733	10,066	8,332	28	8,360	124	19.58%	19.0	1,440	17.22%	9.0	(51)	115
5	1.43%	4,762	697	5,458	4,762	13	4,775	74	20.19%	18.5	1,598	33.47%	13.7	(33)	128
6	3.16%	2,466	335	2,801	2,466	7	2,473	42	19.27%	18.2	1,287	52.06%	15.1	(22)	103
7	7.40%	1,603	197	1,799	1,603	4	1,606	26	19.64%	18.4	1,323	82.36%	23.4	(22)	106
8	16.53%	1,166	113	1,279	1,166	3	1,168	17	19.71%	18.3	1,298	111.13%	38.1	(28)	104
9	33.78%	1,064	77	1,141	1,064	2	1,066	14	20.00%	18.1	1,299	121.86%	72.3	(46)	104
Performing Portfolio	**1.02%**	**90,250**	**23,162**	**113,411**	**90,250**	**457**	**90,707**	**1,487**	**17.85%**	**18.5**	**11,026**	**12.16%**	**183.2**	**(531)**	**882**
Default	100%	4,908	59	4,967	4,908	0	4,908	45	32.75%	19.2	111	2.26%	1,607.5	(1,102)	9
Total	**6.10%**	**95,158**	**23,221**	**118,378**	**95,158**	**457**	**95,615**	**1,532**	**18.61%**	**18.5**	**11,136**	**11.65%**	**1,790.7**	**(1,632)**	**891**

(*) Number of debtors in thousands

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

Table 49. IRB - exposure to credit risk by portfolio and PD scale for the SME retail segment covered by real-estate mortgages (EU CR6)

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	Provisions	Capital (8%)
1	0.04%	1,312	441	1,752	1,312	17	1,329	23	13.29%	13.0	17	1.27%	0.1	(6)	1
2	0.11%	1,176	339	1,515	1,176	15	1,191	16	15.04%	13.1	37	3.14%	0.2	(4)	3
3	0.28%	1,234	287	1,521	1,234	17	1,251	14	16.91%	12.6	89	7.13%	0.6	(5)	7
4	0.63%	1,158	331	1,489	1,158	19	1,176	12	17.59%	12.9	153	13.01%	1.3	(7)	12
5	1.47%	1,622	281	1,903	1,622	16	1,638	15	18.71%	12.8	395	24.14%	4.5	(10)	32
6	3.42%	1,819	370	2,189	1,819	22	1,841	21	18.27%	13.0	809	43.93%	11.5	(15)	65
7	6.56%	565	148	712	565	3	568	6	19.55%	15.0	344	60.47%	7.2	(9)	27
8	16.83%	232	25	257	232	1	233	3	18.07%	13.7	183	78.56%	7.2	(5)	15
9	34.96%	299	29	329	299	1	300	3	19.40%	13.4	272	90.46%	20.4	(10)	22
Performing Portfolio	**2.95%**	**9,417**	**2,250**	**11,667**	**9,417**	**111**	**9,528**	**111**	**17.09%**	**13.1**	**2,299**	**24.13%**	**53.1**	**(71)**	**184**
Default	100%	1,328	60	1,388	1,328	0	1,328	10	31.47%	12.4	46	3.46%	417.9	(224)	4
Total	**14.82%**	**10,745**	**2,310**	**13,055**	**10,745**	**111**	**10,856**	**121**	**18.85%**	**13.0**	**2,345**	**21.60%**	**471.0**	**(295)**	**188**

(*) Number of debtors in thousands

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

Table 50. IRB: exposure to credit risk by portfolio and PD scale for the qualifying revolving retail segment (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.04%	874	4,268	5,142	874	1,259	2,133	1,411	77.00%	3.0	46	2.15%	0.6	(2)	4
2	0.13%	296	1,612	1,908	296	478	774	816	77.00%	3.1	45	5.87%	0.7	(1)	4
3	0.25%	307	895	1,202	307	286	593	560	77.00%	3.2	60	10.21%	1.1	(2)	5
4	0.63%	363	782	1,145	363	243	606	558	76.94%	3.2	129	21.36%	3.0	(3)	10
5	1.46%	291	375	666	291	117	408	398	76.79%	3.3	166	40.63%	4.6	(3)	13
6	3.06%	321	241	562	321	71	392	382	76.74%	3.2	271	69.06%	9.2	(6)	22
7	7.17%	171	85	256	171	27	198	240	76.40%	3.4	240	120.92%	10.8	(8)	19
8	14.90%	93	25	118	93	8	101	137	75.56%	3.3	180	179.26%	11.3	(9)	14
9	40.59%	50	6	56	50	1	52	58	73.58%	2.9	115	221.55%	15.6	(11)	9
Performing Portfolio	**1.43%**	**2,765**	**8,289**	**11,055**	**2,765**	**2,491**	**5,256**	**4,562**	**76.87%**	**3.1**	**1,253**	**23.83%**	**56.9**	**(45)**	**100**
Default	100%	55	0	55	55	0	55	36	67.44%	1.8	0	0.23%	37.1	(29)	0
Total	**2.45%**	**2,820**	**8,289**	**11,110**	**2,820**	**2,491**	**5,311**	**4,598**	**76.78%**	**3.1**	**1,253**	**23.59%**	**94.0**	**(74)**	**100**

(*) Number of debtors in thousands

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

Table 51. IRB: exposure to credit risk by portfolio and PD scale for the SME retail segment (EU CR6)

Amounts in millions of euros

PD grade	Average PD	Original exposure			EAD			Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Provisions	Capital (8%)
		On-balance sheet amount	Off-balance sheet amount	Total	On-balance sheet amount	Off-balance sheet amount	Total								
1	0.05%	583	305	888	583	187	770	28	54.11%	3.1	49	6.43%	0.2	(2)	4
2	0.12%	601	325	925	601	186	786	33	53.34%	2.8	93	11.77%	0.5	(2)	7
3	0.31%	1,043	533	1,576	1,043	311	1,355	85	53.21%	2.8	309	22.80%	2.2	(7)	25
4	0.64%	853	396	1,249	853	217	1,070	56	52.01%	2.9	364	33.98%	3.5	(6)	29
5	1.47%	1,262	524	1,786	1,262	303	1,566	83	51.59%	2.7	755	48.23%	11.9	(18)	60
6	3.37%	756	381	1,138	756	181	938	118	49.73%	2.5	534	56.92%	15.7	(16)	43
7	6.82%	184	61	246	184	29	213	16	51.30%	2.1	136	63.98%	7.6	(7)	11
8	16.14%	76	17	93	76	8	83	6	50.05%	2.7	69	82.13%	6.7	(6)	5
9	37.12%	94	19	113	94	8	102	8	51.42%	3.1	112	109.47%	19.6	(14)	9
Performing Portfolio	**1.93%**	**5,454**	**2,560**	**8,014**	**5,454**	**1,429**	**6,883**	**434**	**52.17%**	**2.8**	**2,420**	**35.16%**	**67.9**	**(79)**	**194**
Default	100%	254	53	308	254	19	273	15	66.33%	2.4	30	11.13%	181.4	(165)	2
Total	**5.68%**	**5,708**	**2,613**	**8,321**	**5,708**	**1,448**	**7,156**	**449**	**52.71%**	**2.8**	**2,451**	**34.24%**	**249.2**	**(245)**	**196**

(*) Number of debtors in thousands

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

Table 52. IRB: exposure to credit risk by portfolio and PD scale for other retail exposures (EU CR6)

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	Provisions	Capital (8%)
1	0.05%	1,372	61	1,433	1,372	38	1,411	73	60.79%	6.1	130	9.23%	0.4	(5)	10
2	0.09%	829	14	843	829	10	839	79	65.18%	5.6	133	15.88%	0.5	(4)	11
3	0.24%	1,213	17	1,230	1,213	12	1,225	147	68.37%	4.4	408	33.29%	2.0	(8)	33
4	0.57%	1,042	490	1,532	1,042	182	1,224	309	65.69%	3.9	649	53.00%	4.6	(11)	52
5	1.62%	1,088	1,420	2,508	1,088	631	1,720	1,340	61.81%	2.6	1,336	77.68%	17.0	(23)	107
6	3.48%	414	105	520	414	51	465	177	70.08%	3.4	488	105.05%	11.3	(15)	39
7	7.99%	216	15	231	216	8	223	71	67.47%	3.8	255	114.10%	12.1	(14)	20
8	17.63%	80	3	82	80	1	81	26	65.69%	4.3	119	145.96%	9.4	(13)	9
9	39.44%	110	2	111	110	1	111	22	67.77%	3.7	206	185.91%	29.7	(24)	16
Performing Portfolio	**1.80%**	**6,363**	**2,127**	**8,491**	**6,363**	**935**	**7,299**	**2,244**	**64.58%**	**4.3**	**3,724**	**51.02%**	**87.0**	**(118)**	**298**
Default	100%	280	1	281	280	1	281	33	80.05%	6.4	9	3.04%	224.8	(201)	1
Total	**5.44%**	**6,644**	**2,128**	**8,772**	**6,644**	**936**	**7,580**	**2,277**	**65.16%**	**4.4**	**3,732**	**49.24%**	**311.8**	**(319)**	**299**

(*) 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.
- **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 2017 with the PD calculated at 31 December 2016 and used to calculate the own funds requirements at the same date.
- **EAD vs. realised exposure**: for contracts entering into default in 2017, the estimated EAD at 31 December 2016 is compared to the actual realised exposure when the default was identified.
- **LGD DT vs. realised LGD**: compares downturn LGD at 31 December 2014 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 2013-2017 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 53. ODF series

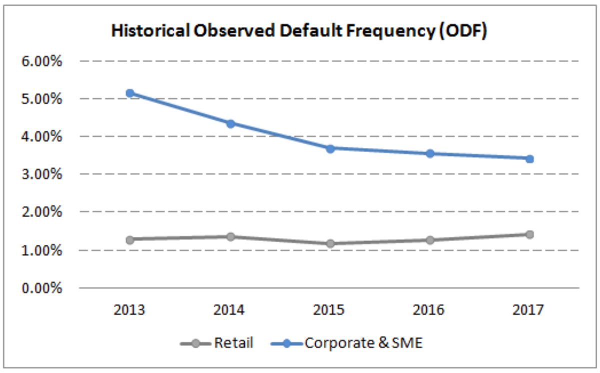
	Historical ODF				
	2013	2014	2015	2016	2017
Retail	1.28%	1.35%	1.18%	1.27%	1.41%
Companies	5.17%	4.37%	3.70%	3.57%	3.44%

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 five years and stabilising over the last two years.

- Despite increasing slightly compared to 2016, 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 economy in recent years.

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) due to a wider range of reasons for refinancing being considered as doubtful and a larger drag effect. The entry into force of Circular 4/2017 has caused no additional impacts on default rates.

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:

- 2017 ODFs Figures for default between January and December 2017 are used.
- The PDs for 2017 estimated at year-end 2016.

A distribution is shown of the number of retail contracts along with the number of legal entity customers at year-end 2016, to facilitate understanding of the data.

Retail

Chart 2: Mortgages

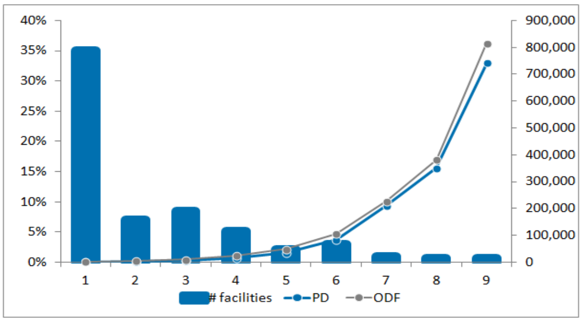


Chart 3: Consumer

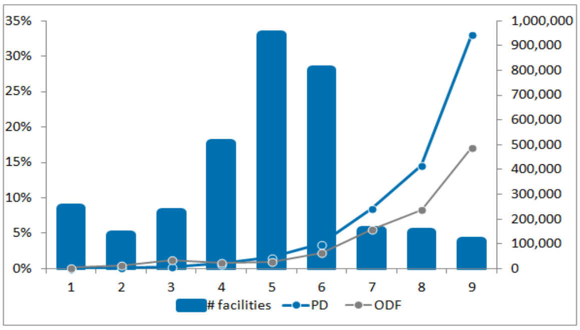
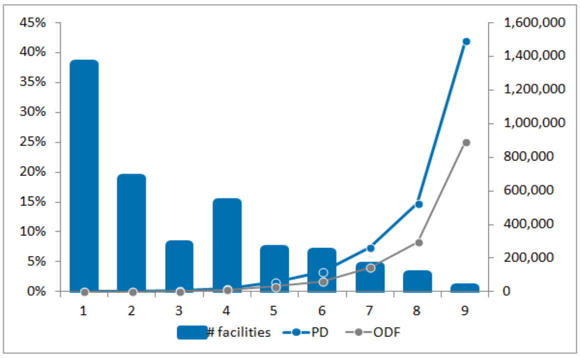


Chart 4: Cards

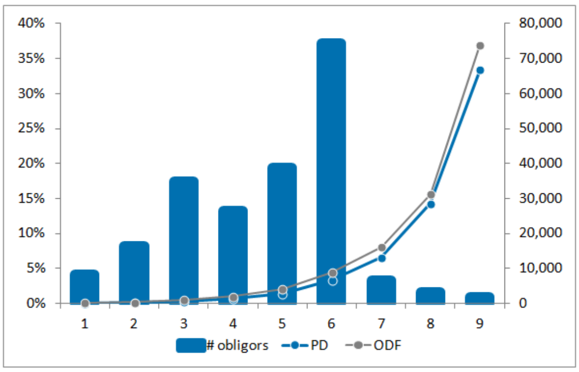


The individuals portfolio confirms that the ODF series is a rising monotone function of the master scale. In other words, as indicated previously, it reflects that CaixaBank's internal retail models discriminate customers correctly by level of risk.

The PD for the mortgage portfolio is in line with the frequency of default seen in 2017, while PD in other products stands significantly above the ODF, thus reflecting the improvement in the current economic situation.

SME

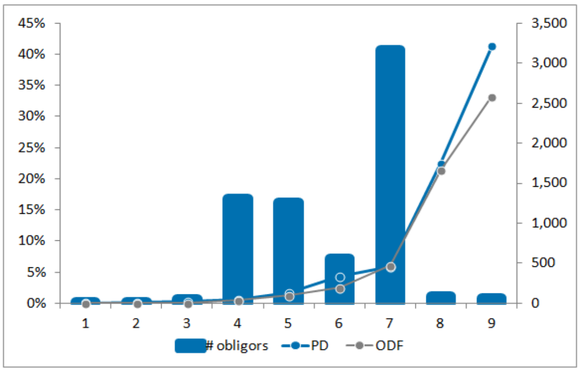
Chart 5: Non-developer SMEs



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 2017, confirming the model is performing well in the current economic situation.

Chart 6: Developer SMEs

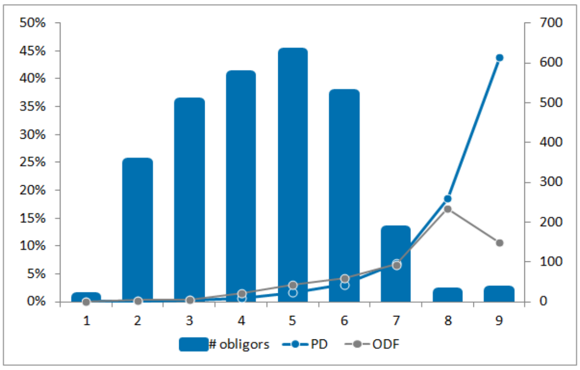


Both the ODF and the PD in the developer portfolio are rising monotonous functions with respect to the Master Scale. In this way, CaixaBank's internal models are considered to discriminate customers reasonably by risk level.

As with non-developer SMEs, the portfolio's PD is in line with the observed default frequency in 2017, especially in the tranches with a larger number of observations, 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, except the last tranche for the ODF, where the volume of observations is unrepresentative.

The chart shows that ODF is slightly higher than PD in the intermediate stretches of the master scale, while it is lower than the PD in the upper stretches of the scale.

Average PD and ODF for IRB loan portfolios

The following tables show information on the average PD of CaixaBank Group's exposure at 31 December 2017, 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 54. IRB - Backtesting of probability of default (PD) per portfolio - Corporates non-SME portfolio (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.06%	0.04%	23	42	1	0	0.00%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.13%	0.12%	680	772	3	1	0.58%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.27%	0.28%	1,068	1,193	39	0	1.36%
4	BB	BB	Ba2	0.64%	0.64%	1,141	1,304	23	1	1.81%
5	BB-	BB-	Ba3	1.31%	1.46%	1,187	1,379	21	0	2.94%
6	B+ / B	B+ / B	B1 / B2	3.53%	3.16%	971	1,140	45	4	5.07%
7	B-	B-	B3	9.15%	7.44%	394	204	23	0	8.83%
8	CCC+	CCC+	Caa1	18.32%	19.36%	47	36	8	0	15.40%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	42.74%	39.80%	125	100	25	0	23.44%

Table 55. IRB - Backtesting of probability of default (PD) per portfolio - Corporate SME portfolio (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.05%	0.05%	2,198	2,504	0	0	0.17%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.13%	0.12%	8,071	9,058	22	0	0.27%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.30%	0.30%	6,866	7,356	27	0	0.57%
4	BB	BB	Ba2	0.65%	0.65%	7,999	8,432	68	3	1.13%
5	BB-	BB-	Ba3	1.57%	1.61%	7,751	8,200	124	2	3.02%
6	B+ / B	B+ / B	B1 / B2	3.16%	3.06%	7,141	8,521	219	10	7.54%
7	B-	B-	B3	6.73%	6.31%	1,893	1,880	102	3	12.28%
8	CCC+	CCC+	Caa1	19.68%	18.54%	487	537	86	1	22.37%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	36.55%	36.23%	1,108	805	281	1	37.69%

Table 56. IRB - Backtesting of probability of default (PD) per portfolio - Retail – residential mortgage (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.04%	0.04%	884,969	685,334	725	1	0.13%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.10%	0.10%	159,613	323,457	435	10	0.34%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.23%	0.23%	193,324	181,114	936	7	0.69%
4	BB	BB	Ba2	0.55%	0.54%	115,489	124,490	1,228	13	1.35%
5	BB-	BB-	Ba3	1.43%	1.44%	46,409	74,354	1,014	16	2.68%
6	B+ / B	B+ / B	B1 / B2	3.16%	3.13%	64,710	42,211	3,079	44	5.62%
7	B-	B-	B3	7.40%	7.39%	17,563	25,560	1,966	38	11.62%
8	CCC+	CCC+	Caa1	16.53%	16.46%	14,807	16,813	3,038	66	20.92%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	33.78%	33.95%	22,851	14,156	8,407	146	37.36%

Table 57. IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME mortgage (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.04%	0.04%	31,807	22,554	65	0	0.24%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.11%	0.11%	9,560	16,437	27	0	0.30%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.28%	0.27%	14,804	13,837	90	1	0.60%
4	BB	BB	Ba2	0.63%	0.61%	11,774	11,647	151	2	1.16%
5	BB-	BB-	Ba3	1.47%	1.47%	14,262	14,561	231	1	2.08%
6	B+ / B	B+ / B	B1 / B2	3.42%	3.40%	21,592	20,517	1,112	5	6.61%
7	B-	B-	B3	6.56%	6.65%	5,466	5,976	402	6	8.72%
8	CCC+	CCC+	Caa1	16.83%	16.58%	2,888	2,734	567	13	17.08%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	34.96%	34.95%	4,654	3,042	1,715	23	39.68%

Table 58. IRB - Backtesting of probability of default (PD) per portfolio - Retail – Qualifying revolving (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.04%	0.04%	1,212,106	1,411,414	82	0	0.01%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.13%	0.12%	755,523	816,465	233	21	0.03%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.25%	0.24%	319,956	559,556	289	6	0.07%
4	BB	BB	Ba2	0.63%	0.64%	654,978	558,446	1,736	78	0.20%
5	BB-	BB-	Ba3	1.46%	1.58%	357,981	398,334	2,382	229	0.46%
6	B+ / B	B+ / B	B1 / B2	3.06%	3.14%	415,721	382,090	5,327	843	1.07%
7	B-	B-	B3	7.17%	7.39%	221,291	240,027	8,069	2,266	2.93%
8	CCC+	CCC+	Caa1	14.90%	15.07%	139,715	137,444	9,900	2,246	5.65%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	40.59%	37.49%	53,940	58,224	8,969	879	13.60%

Table 59. IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME (EU CR9)

Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.05%	0.05%	27,137	27,923	35	1	0.12%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.12%	0.12%	29,537	33,182	65	3	0.21%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.31%	0.31%	82,796	85,269	636	60	0.56%
4	BB	BB	Ba2	0.64%	0.66%	45,608	56,120	458	46	1.03%
5	BB-	BB-	Ba3	1.47%	1.44%	78,364	83,253	2,282	136	2.60%
6	B+ / B	B+ / B	B1 / B2	3.37%	3.44%	107,536	117,809	4,268	315	6.39%
7	B-	B-	B3	6.82%	6.90%	13,259	16,042	1,122	48	9.26%
8	CCC+	CCC+	Caa1	16.14%	16.20%	7,321	5,798	1,137	20	15.57%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	37.12%	36.99%	7,994	8,149	2,408	21	37.34%

Table 60. IRB - Backtesting of probability of default (PD) per portfolio - Retail – Other retail (EU CR9)

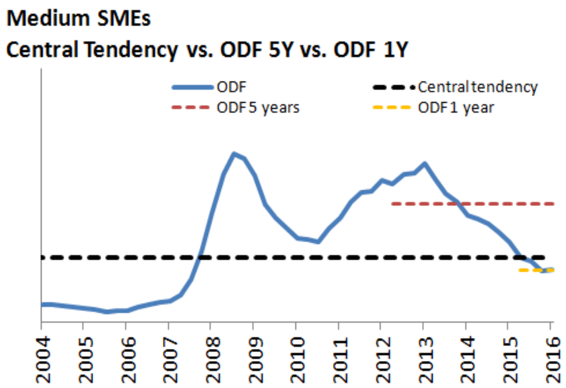
Number of obligors in units

PD Range	External rating equivalent			Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
	S&P's	Fitch	Moody's			End of previous year	End of the year			
1	AA / AA- / A+	AA / AA- / A+	Aa2 / Aa3 / A1	0.05%	0.05%	110,385	73,084	139	5	0.10%
2	A / A- / BBB+	A / A- / BBB+	A2 / A3 / Baa1	0.09%	0.09%	74,329	78,540	317	16	0.32%
3	BBB / BBB- / BB+	BBB / BBB- / BB+	Baa2 / Baa3 / Ba1	0.24%	0.24%	109,909	147,265	1,060	49	0.72%
4	BB	BB	Ba2	0.57%	0.64%	183,344	308,588	2,077	156	1.04%
5	BB-	BB-	Ba3	1.62%	1.81%	591,121	1,340,295	4,230	429	1.50%
6	B+ / B	B+ / B	B1 / B2	3.48%	3.54%	326,225	176,942	8,335	1,013	2.56%
7	B-	B-	B3	7.99%	7.95%	32,259	70,556	3,314	390	6.01%
8	CCC+	CCC+	Caa1	17.63%	16.57%	25,991	26,435	3,656	115	10.14%
9	CCC / CCC-	CCC / CCC-	Caa2 / Caa3	39.44%	38.55%	18,802	22,170	6,132	66	23.96%

As it can be seen in the previous charts, the average annual default rate for the last five years is, in some cases, above the average PD of the current portfolio at 31 December 2017. 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 still include some years of the recent economic downturn years of weakness in the economic cycle.

The effect described in the previous paragraph is highlighted in the following chart for medium 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 2016. The frequency of default in 2016 was below the central trend, whilst the average frequency of default for the last five years is much higher, as it still includes the peaks in default in 2013

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



4. Comparison of EAD and realised exposure

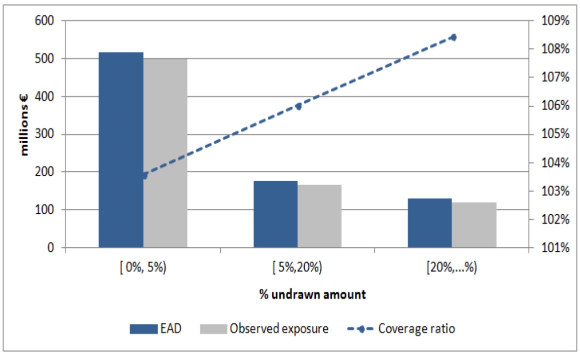
EAD (exposure at default) is defined as the estimated amount that will be drawn by the customer at the time of default. The value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

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 2016 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.

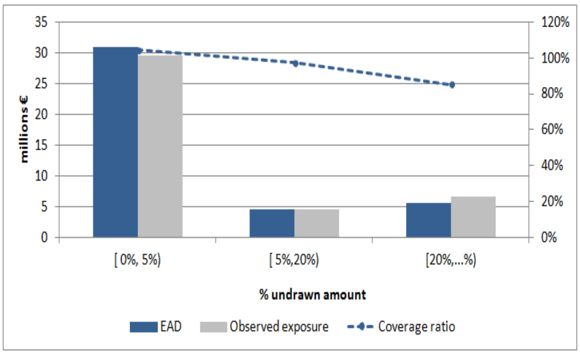
<u>Retail</u>

Chart 9: Open credit



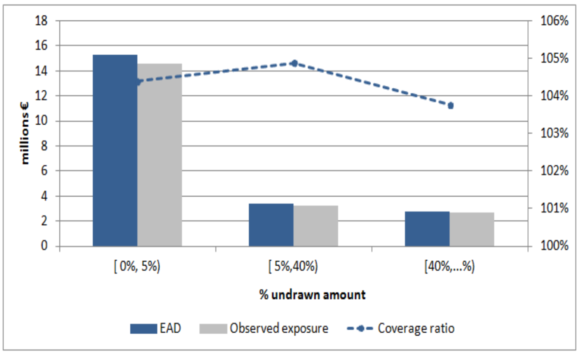
Open credit is one of the main products with available balances in CaixaBank, especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 105%, indicating that the CCF of this product provides an accurate prediction 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 101%.

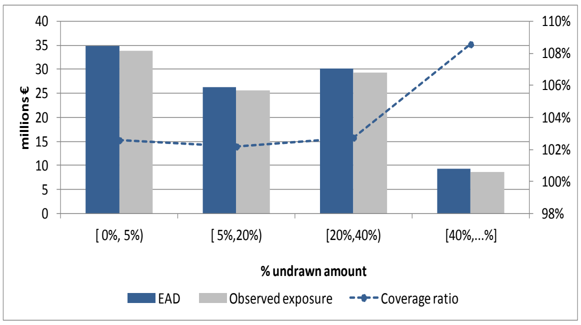
Chart 11: Credit accounts



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 104%.

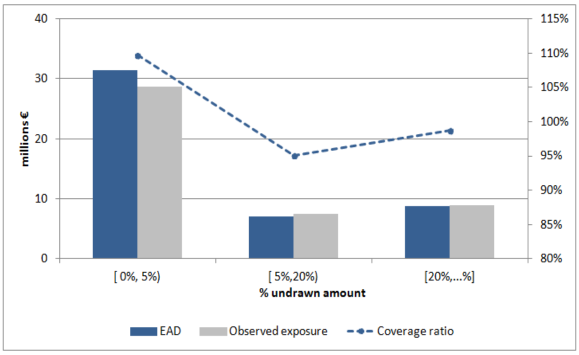
<u>SME</u>

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 103%.

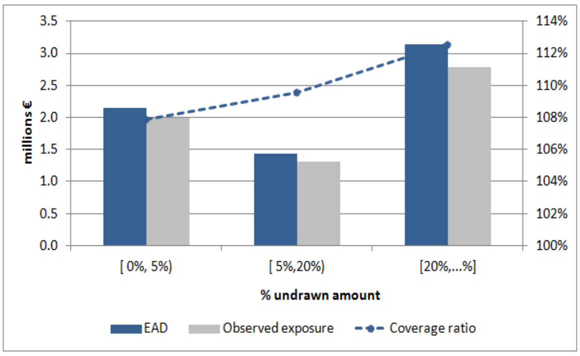
Chart 13: Credit accounts



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 105%, so the estimated EAD covers realised exposure at the time of default with ample margin.

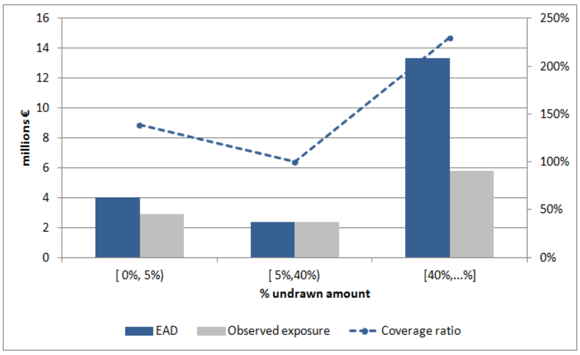
Chart 14: Cards



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 110%.

<u>Corporate</u>

Chart 15: Credit accounts



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, although the low volume of defaults in this portfolio makes the results statistically unrepresentative.

Similarly, although not shown in the charts, the card and credit portfolios for large companies also have very high coverage ratios and are unrepresentative.

5. Comparison of LGD DT and realised LGD

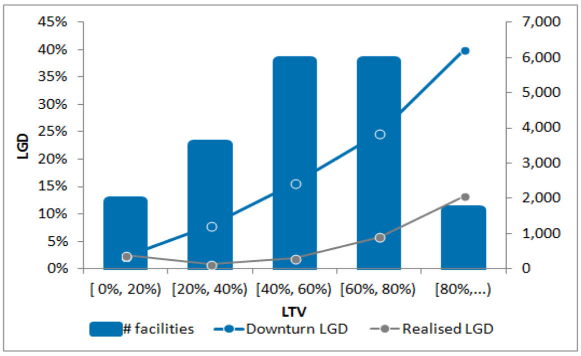
LGD (loss given default) measures the proportion of EAD that the Entity has not been able to recover after completing the recovery process.

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 2014 that went into default in 2015 and for which the recovery process was completed by 31 December 2017, were selected.

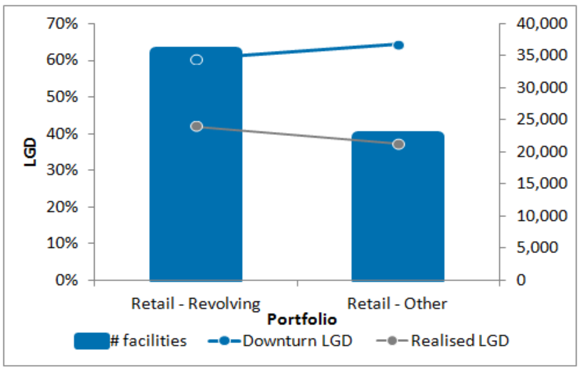
Retail

Chart 16: Mortgage guarantee



Generally speaking, realised LGD for individuals with mortgage collateral (4%) is much lower than estimated LGD DT (17.78%): this is to be expected as the observation period corresponds to a time of economic recovery (2015 – 2017).

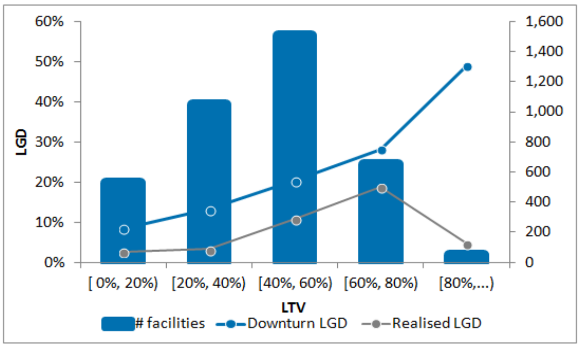
Chart 17: Personal guarantees



In the retail portfolio without guarantees, realised LGD (40.18%) is much lower than estimated LGD (62%). CaixaBank's estimate therefore includes a substantial prudential margin.

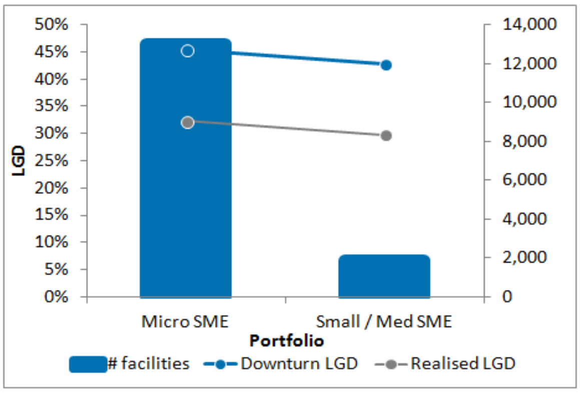
SME

Chart 18: Mortgage guarantee



In the SME portfolio with mortgage guarantee, realised LGD (8.9%) is also well below estimated LGD (18.4%).

Chart 19: Personal guarantees



Realised LGD (31.99%) for the SME without guarantees portfolio is below estimated LGD (45.12%), 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 2017 is used as the best estimate of effective loss. This means that effective loss for such contracts is much higher than expected loss for the most recent year (2017), where the majority of the uncompleted cycles are concentrated. Previous years were not unaffected by this problem, although to a lesser extent. Accordingly, the comparison does not include effective loss for 2017.
- 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.

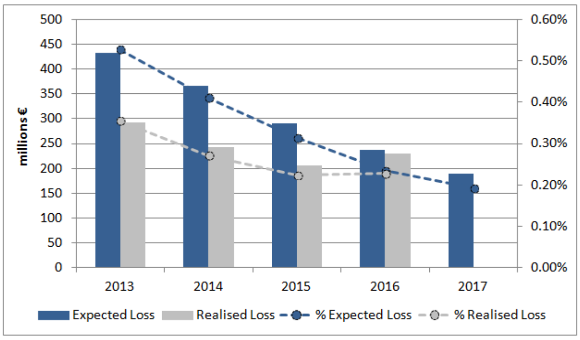
Finally, CaixaBank carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two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

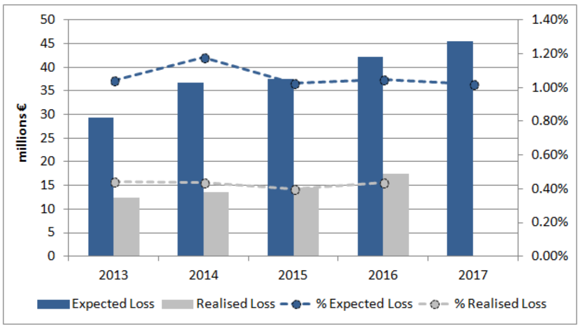
Retail

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



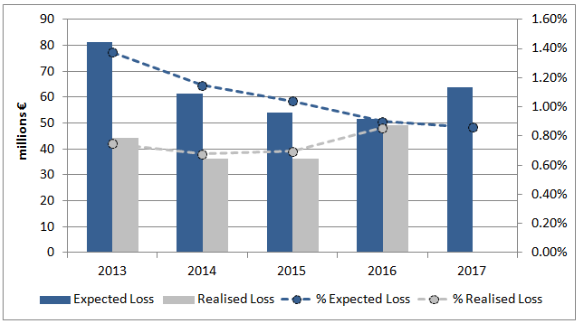
Whilst the effective loss on the retail portfolio with mortgage guarantee fluctuates slightly, in general expected loss and effective loss behave similarly. They aligned in 2016, for which a significant number of contracts have not completed their default cycles and are therefore allocated their expected loss at 31 December 2017. 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 0.46%). It is noteworthy that until 2014, 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 2015. 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.

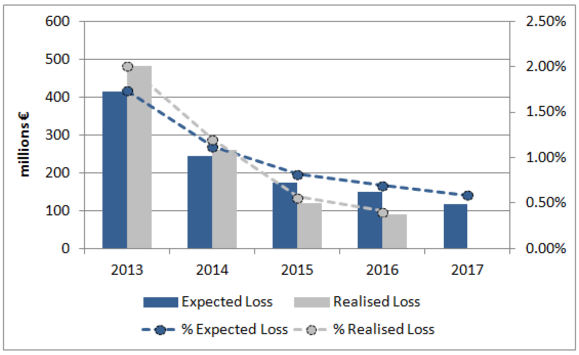
Chart 22. Expected and effective loss in the other retail portfolio



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, taking account of the fact that, in recent years, a significant number of contracts have not completed their default cycles and are allocated their expected loss at 31 December 2017.

SMEs

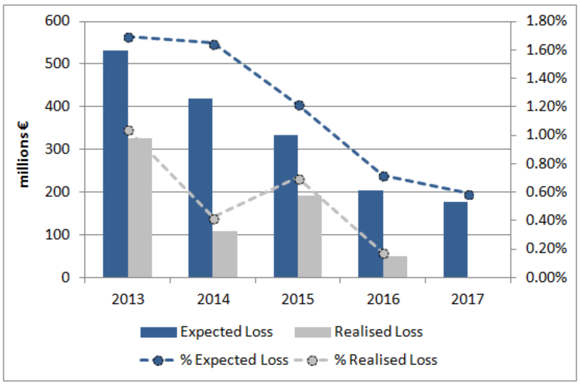
Chart 23. Expected and effective loss in the SME portfolio



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, thus reversing the trend.

Corporate

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



Over the period observed, expected loss in the large companies portfolio was higher than effective loss. It is noteworthy that the weight of expected loss in percentage terms fell over the last several 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.

$$RAR = \frac{Resultados\ de\ Explotación - Pérdida\ Esperada}{Capital\ Requerido}$$

  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. From 2018, internal models will play a role in accounting classification, specifically in the identification of exposures that have to be classified as watch-list performing and in calculation of credit risk allowances, in accordance with the principles of IFRS 9 and Circular 4/2017 of the Bank of Spain.

5.2. Counterparty risk exposure and CVA

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 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 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.
- The EAD of Counterparty Risk, Default Fund (DF) and Credit Valuation Adjustment (CVA) amounts to EUR 5,580 million, of which 77.14% corresponds to Counterparty Risk exposure (66.24% RWA under the standardised approach and 10.90% under the IRB approach) and 2.52% corresponds to DF and the remaining 20.34% corresponds to EAD for CVA under the standardised approach. The EAD of Counterparty Risk is calculated using the mark-to-market method for derivatives and under the comprehensive approach for mitigation of credit risk for repos and securities lending.
- RWAs for Counterparty Risk, DF and CVA amount to EUR 2,517 million, of which 73.33% corresponds to Counterparty Risk (60.61% calculated under the standardised approach and 12.72% under the IRB approach) with the remaining 0.07% corresponding to DF and the remaining 26.60% corresponding to the RWAs for CVA.
- 100% of the EAD of Counterparty Risk to which the IRB approach is applied corresponds to companies.
- EAD in Counterparty Risk and CVA is in line with the figure at the end of the previous year.

CONTENTS

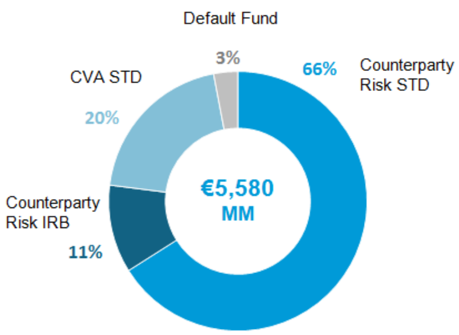
€ 2,517 MM
RWAs for Counterparty Risk

€ 4,305 MM
EAD for Counterparty default risk

€ 1,135 MM
Credit Valuation Adjustment (CVA) EAD

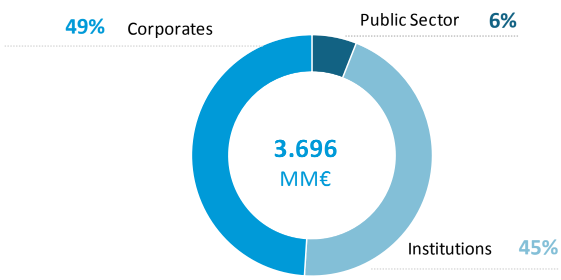
COUNTERPARTY RISK, DF AND CVA EXPOSURE AT DEFAULT

Distribution by approach, %



EAD COUNTERPARTY RISK (STANDARDISED)

Distribution by type of exposure, %



5.2.1. Counterparty 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.
    - 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 **Market Risk and Balance Sheet Risk 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 General 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 **Legal Department** is 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 and 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 the bank 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 securities/amount granted to the Counterparty and the market value of the securities/amount received from the Counterparty as collateral, 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 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, or reduce Counterparty's Counterparty Risk exposure.

- **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 associated Counterparty Risk, 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, Quadro Contracts (in Portugal), 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, 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[13] 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. The CSA contracts signed by BPI include such franchises, whose impact in the event of a rating downgrade of two notches would involve an increase in collateral of USD 2.2 million.

5.2.2. Minimum own funds requirements for Counterparty, default fund and CVA risk exposure

This section provides fuller details of exposures and RWAs Counterparty, default fund and CVA risk exposure. This enables the alignment of this information with that disclosed to the EBA in the CRD IV reports, commonly known as COREP statements.

EAD in Counterparty Risk and CVA is in line with the figure at the end of the previous year. The integration of BPI resulted in no significant increase in capital requirements for Counterparty Risk and CVA.

Table 61. Counterparty Credit Risk RWA, Default Fund and CVA

Amounts in millions of euros

Method	RWA
Standarized Approach	2,197
of which Counterparty	*1,525*
of which Credit Value Adjustment (CVA)	*669*
of which Default Fund	*2*
IRB Approach	320
Total	**2,517**

Table 62. Analysis of counterparty credit risk exposure by approach (EU CCR1)

Amounts in millions of euros

	Replacement cost	Potential future exposure	EAD post-CRM	RWA
Current Exposure Method	5,991	2,493	3,664	1,721
Comprehensive Approach for credit risk mitigation (for SFTs)			640	124
Total	**5,991**	**2,493**	**4,305**	**1,845**

[13] The amount from which collateral has to be delivered to the Counterparty.

The Entity calculates the EAD Counterparty Risk using the mark-to-market method, not the internal model method. This is why the EU CR7 table for internal models of Counterparty Risk is not displayed.

5.2.3. Quantitative aspects

The following table displays EAD for Counterparty Risk, under the standardised approach, for different degrees of risk weighting according to the agency rating mapping dictated by the EBA.

Table 63. Standardised approach: counterparty risk exposure and effects of mitigation techniques (EU CCR3)

Amounts in millions of euros

	Original exposure	EAD	RWA	RWA density	Capital (8%)
Central governments or central banks	18	18	0	0%	0
Regional governments or local authorities	39	39	0	0%	0
Public sector entities	156	156	156	100%	12
Multilateral development banks	0	0	0	0%	0
International organisations	0	0	0	0%	0
Institutions	1,686	1,675	360	21%	29
Corporates	1,821	1,805	1,006	56%	81
Regulatory retail exposures	1	1	1	63%	0
Exposures secured by mortgages on immovable property	0	0	0	0%	0
Exposures in default	10	2	2	100%	0
Exposures associated with particularly high risks	0	0	0	0%	0
Covered bonds	0	0	0	0%	0
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
Equity exposures	0	0	0	0%	0
Other assets	0	0	0	0%	0
Total Credit Risk - SA portfolio	**3,732**	**3,696**	**1,525**	**41%**	**122**

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

Amounts in millions of euros **31-12-2016**

	Original exposure	EAD	RWA	RWA density	Capital (8%)
Central governments or central banks	32	32	0	0%	0
Regional governments or local authorities	48	48	0	0%	0
Public sector entities	186	186	186	100%	15
Multilateral development banks	0	0	0	0%	0
International organisations	0	0	0	0%	0
Institutions	1,258	1,227	262	21%	21
Corporates	3,050	2,552	1,360	53%	109
Regulatory retail exposures	1	1	1	66%	0
Exposures secured by mortgages on immovable property	0	0	0	0%	0
Exposures in default	0	0	0	0%	0
Exposures associated with particularly high risks	0	0	0	0%	0
Covered bonds	0	0	0	0%	0
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
Equity exposures	0	0	0	0%	0
Other assets	0	0	0	0%	0
Total Credit Risk - SA portfolio	**4,575**	**4,046**	**1,809**	**45%**	**145**

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

Table 64. Standardised approach to counterparty risk exposure by asset classes and risk weights (exposure) (UE CCR3)

Amounts in millions of euros

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	EAD	Of which unrated
Central governments or central banks	18	0	0	0	0	0	0	0	0	0	0	0	18	18
Regional governments or local authorities	39	0	0	0	0	0	0	0	0	0	0	0	39	39
Public sector entities	0	0	0	0	0	0	0	0	0	156	0	0	156	156
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	3	10	50	0	1,512	0	87	0	0	12	0	0	1,675	93
Corporates	316	0	0	0	603	0	0	0	0	886	0	0	1,805	1,674
Regulatory retail exposures	0	0	0	0	0	0	0	0	1	0	0	0	1	1
Exposures secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in default	0	0	0	0	0	0	0	0	0	2	0	0	2	0
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	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	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	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Credit Risk - SA portfolio	**376**	**10**	**50**	**0**	**2,115**	**0**	**87**	**0**	**1**	**1,056**	**0**	**0**	**3,696**	**1,981**

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

Table 65. Standardised approach to counterparty risk exposure by asset classes and risk weights (RWAs) (EU CCR3)

Amounts in millions of euros

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	RWA	Of which unrated
Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0	0	0	156	0	0	156	156
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	2	0	302	0	44	0	0	12	0	0	360	15
Corporates	0	0	0	0	121	0	0	0	0	886	0	0	1,006	875
Regulatory retail exposures	0	0	0	0	0	0	0	0	1	0	0	0	1	0
Exposures secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in default	0	0	0	0	0	0	0	0	0	2	0	0	2	0
Exposures associated with particularly high risks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	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	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	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Credit Risk - SA portfolio	**0**	**0**	**2**	**0**	**423**	**0**	**44**	**0**	**1**	**1,056**	**0**	**0**	**1,525**	**1,047**

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

Table 66. 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	Valuation adjustments and provisons	Capital (8%)
Corporate	**1.86%**	**590**	**590**	**3**	**34.30%**	**0.2**	**315**	**53.32%**	**5**	**(0)**	**25**
Corporates	1.49%	472	472	1	33.76%	0.1	257	54.35%	3	(0)	21
SME	3.34%	118	118	2	36.48%	0.8	58	49.17%	2	(0)	5
Retail	**2.48%**	**18**	**18**	**2**	**50.23%**	**1.7**	**5**	**29.69%**	**0**	**(0)**	**0**
Retail - Residential Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
SME - Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
Retail - Qualifying Revolving	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
Retail - SME	2.50%	18	18	2	49.92%	1.5	5	29.85%	0	(0)	0
Other Retail	1.92%	1	1	0	60.97%	7.7	0	24.11%	0	(0)	0
Total Credit Risk - IRB portfolio	**1.88%**	**608**	**608**	**5**	**34.79%**	**0.2**	**320**	**52.60%**	**5**	**(1)**	**26**

(*) Number of debtors in thousands

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

Amounts in millions of euros

31/12/2016

	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisons	Capital (8%)
Corporate	**2.70%**	**598**	**598**	**2**	**36.29%**	**0.3**	**405**	**67.75%**	**8**	**(6)**	**32**
Corporates	1.80%	512	512	1	36.48%	0.1	355	69.28%	4	(0)	28
SME	8.05%	86	86	2	35.14%	1.8	50	58.64%	4	(6)	4
Retail	**5.34%**	**14**	**14**	**3**	**48.56%**	**3.4**	**5**	**34.41%**	**0**	**(2)**	**0**
Retail - Residential Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
SME - Mortgage	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
Retail - Qualifying Revolving	0.00%	0	0	0	0.00%	0.0	0	0.00%	0	0	0
Retail - SME	5.51%	13	13	2	47.46%	3.3	4	33.67%	0	(2)	0
Other Retail	2.87%	1	1	0	64.59%	5.9	0	45.13%	0	(0)	0
Total Credit Risk - IRB portfolio	**2.76%**	**612**	**612**	**5**	**36.57%**	**0.4**	**410**	**66.98%**	**9**	**(8)**	**33**

(*) Number of debtors in thousands

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

Table 67. IRB: counterparty risk exposure by PD scale (EU CCR4)

Amounts in millions of euros

PD grade	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisions	Capital (8%)
1	0.05%	5	5	0	50.96%	1.2	1	10.03%	0	0	0
2	0.13%	173	173	1	29.78%	0.1	38	22.19%	0	0	3
3	0.26%	192	192	1	36.79%	0.2	94	48.84%	0	0	8
4	0.64%	82	82	1	34.72%	0.2	47	56.62%	0	0	4
5	1.35%	96	96	1	36.50%	0.3	80	82.62%	0	(0)	6
6	3.71%	47	47	1	36.64%	1.0	51	109.77%	1	(0)	4
7	6.84%	4	4	0	32.94%	0.3	4	104.96%	0	(0)	0
8	17.79%	0	0	0	44.81%	3.2	0	118.32%	0	(0)	0
9	41.74%	2	2	0	42.56%	0.3	4	205.89%	0	(0)	0
Performing Portfolio	**0.91%**	**602**	**602**	**5**	**34.56%**	**0.2**	**319**	**53.00%**	**2**	**(0)**	**26**
Default	100.00%	6	6	0	57.51%	0.2	1	12.47%	3	(0)	0
Total	**1.88%**	**608**	**608**	**5**	**34.79%**	**0.2**	**320**	**52.60%**	**5**	**(1)**	**26**

(*) Number of debtors in thousands

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

Amounts in millions of euros

31-12-2016

PD grade	Average PD	Original exposure	EAD	Number of debtors (*)	LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisions	Capital (8%)
1	0.05%	3	3	0	48.18%	2.8	0	12.11%	0	(0)	0
2	0.15%	184	184	1	29.66%	0.1	57	31.17%	0	0	5
3	0.31%	177	177	1	39.89%	0.2	112	63.14%	0	0	9
4	0.72%	89	89	1	37.59%	0.6	64	71.72%	0	(0)	5
5	1.48%	74	74	1	39.18%	0.5	69	93.95%	0	(0)	6
6	3.01%	50	50	1	37.84%	1.3	56	112.38%	1	(1)	4
7	6.96%	16	16	0	39.57%	0.9	26	160.63%	0	(0)	2
8	21.33%	4	4	0	31.09%	0.2	6	153.81%	0	(0)	0
9	34.63%	8	8	0	44.52%	0.2	19	241.51%	1	(2)	2
Performing Portfolio	**1.44%**	**604**	**604**	**5**	**36.22%**	**0.4**	**409**	**67.70%**	**3**	**(2)**	**33**
Default	100.00%	8	8	0	62.21%	0.4	1	14.38%	5	(5)	0
Total	**2.76%**	**612**	**612**	**5**	**36.57%**	**0.4**	**410**	**66.98%**	**9**	**(8)**	**33**

(*) Number of debtors in thousands

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

Table 68. RWA flow statements of CCR exposures under the IMM (EU CCR7)

Amounts in millions of euros

	RWA amounts	Capital (8%)
RWAs as at the end of the previous reporting period	**410**	**33**
Asset size	(64)	(5)
Asset quality	(55)	(4)
Model updates	0	0
Methodology and policy	0	0
Acquisitions and disposals	0	0
Foreign exchange movements	0	0
Other	28	2
RWAs as at the end of the reporting period	**320**	**26**

The following table provides details of all collateral provided or received in relation to operations with derivatives and securities financing transactions (SFT), *Securities Financing Transaction*). Also includes transactions 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 69. Composition of collateral for CCR exposure (EU CCR5-B)

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	11	1,555	165	3,297	0	9,884	9	2,229
Cash - other currencies	0	1	88	115	0	0	0	0
Domestic sovereign debt	0	3,265	93	13	59	17,838	249	13,914
Other sovereign debt	0	0	775	0	0	1,678	355	288
Government agency debt	0	0	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	48	0	2,736
Securitizations	0	0	0	0	0	768	12,472	0
Other collateral	0	0	0	0	0	0	0	0
Total	**11**	**4,821**	**1,121**	**3,426**	**59**	**30,216**	**13,084**	**19,168**

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

Table 70. Exposures to Central Counterparties (EU CCR8)

Amounts in millions of euros

Exposures to Central Counterparties (CCP)	EAD	RWA
Exposures to QCCP (total)	**872**	**143**
Exposures* for trades at QCCPs, of which:	726	141
(i) OTC derivatives	682	128
(ii) Exchange-traded derivatives	35	12
(iii) Securities financing transactions	9	0
(iv) Netting sets where cross-product netting has been approved	0	0
Segregated initial margin	0	0
Non-segregated initial margin	2	0
Pre-funded default fund contributions	144	2
Exposures to non qualified CCP (total)	**22**	**3**
Exposures* for trades at non qualified CCPs, of which:	17	3
(i) OTC derivatives	17	3
(ii) Exchange-traded derivatives	0	0
(iii) Securities financing transactions	0	0
(iv) Netting sets where cross-product netting has been approved	0	0
Segregated initial margin	5	0
Non-segregated initial margin	0	0
Pre-funded default fund contributions	0	0

** Excluding initial margin and default fund contributions*

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 71. Exposure and RWA of Credit Valuation Adjustment (CVA) (EU CCR2)

Amounts in millions of euros

	EAD	RWA
Advanced CVA capital charge	0	0
Standardised CVA capital charge	1,135	669
Total	**1,135**	**669**

The following table shows the effect of netting agreements and guarantees on Counterparty Risk exposure in derivatives contracts at 31 December 2017.

Table 72. Exposure to counterparty credit risk (derivatives) (EU CCR5-A)

Amounts in millions of euros

Exposure to counterparty credit risk for derivatives	
Gross positive fair value	17,754
Net positive fair value	5,990
Net potencial future exposure	2,493
Net credit exposure	8,460
Real guarantees	4,677
Derivatives credit exposure after considering netting agreements and real guarantees (1)	3,664

(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 the outstanding exposure to credit derivatives at year-end 2017, all of which are in the held-for-trading portfolio.

Table 73. Credit derivatives exposures (EU CCR6)

Amounts in millions of euros

	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	0	0
Index credit default swaps	615	10
Total return swaps	0	0
Credit options	0	0
Other credit derivatives	0	0
Total notionals	**615**	**10**
Fair values		
Positive fair value (asset)	0	0
Negative fair value (liability)	-34	0

Exposure to credit derivatives includes the hedging derivatives arranged in 2017 to hedge credit risk for CVA.

As of 31 December 2017, 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.

5.3. Securitisations

CaixaBank Group is not an active investor in the securitisations market

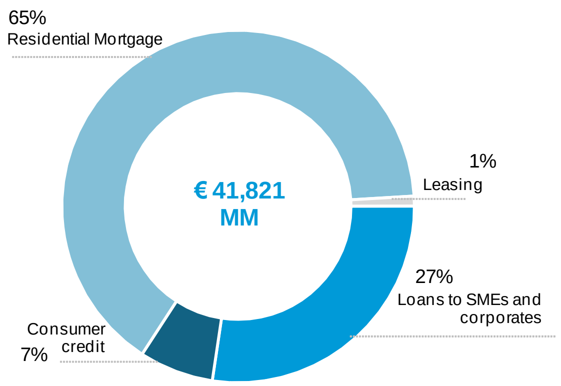
- Credit risk for securitisations quantifies losses of principal and interest on issuances deriving from potential failure by borrowers of securitised assets to comply with their financial obligations.
- CaixaBank Group is mainly involved in securitisation operations as the originator entity, in order to obtain liquidity. Positions in investor securitisations represent a very residual risk.
- 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 2017, the outstanding balance of securitised loans stood at EUR 41,821 million, of which the Group retained EUR 40,792 million through securitisation tranches.
- In the event of not having a transfer of a significant part of the risk, the risk remains with the underlying loans. There is no risk for the instruments retained. This applies to EUR 38,753 million of the securitisation portfolio. CaixaBank Group has synthetic securitisation with significant risk transfer of EUR 2,025 million, with the capital management target.
- EAD subject to RWAs and RWAs in credit risk for securitisations remain in line with the figures for the end of the previous year.

€ 197 MM
RWAs for securitisation risk

€ 2,055 MM
EAD for securitisation risk

97.22%
EAD from risk retained in proprietary securitisations

SECURITISED LOAN PORTFOLIO
Distribution by type of exposure, %



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5.3.1. Qualitative aspects

Description and general policy

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**: a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched. They have the following two characteristics:
  - 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 tranche 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 exposure 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 non-liquid assets into liquid 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 finance**: 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 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 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 CaixaBank Group in the securitisations carried out are:

- **Originator**: 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:** 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:** CaixaBank Group 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 treasury account:** CaixaBank operates the treasury account for some securitisation funds.

- **Payment agent:** CaixaBank acts as the payment agent for some securitisation funds, while the payment agent is a third party in the BPI securitisation funds.

- **Underwriter for bond issues**: CaixaBank Group 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 CaixaBank Group has sometimes underwritten the lowest-ranking tranches of the fund.

- **Counterparty to a financial intermediation agreement**
- **Counterparty in financial swaps:** CaixaBank Group acts as a Counterparty in financial swaps set up in securitisation funds to reduce the interest rate risk in such structures.
- **Securitisation fund managers**: CaixaBank Titulización S.G.F.T.A. acts as a CaixaBank's securitisation fund manager.

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

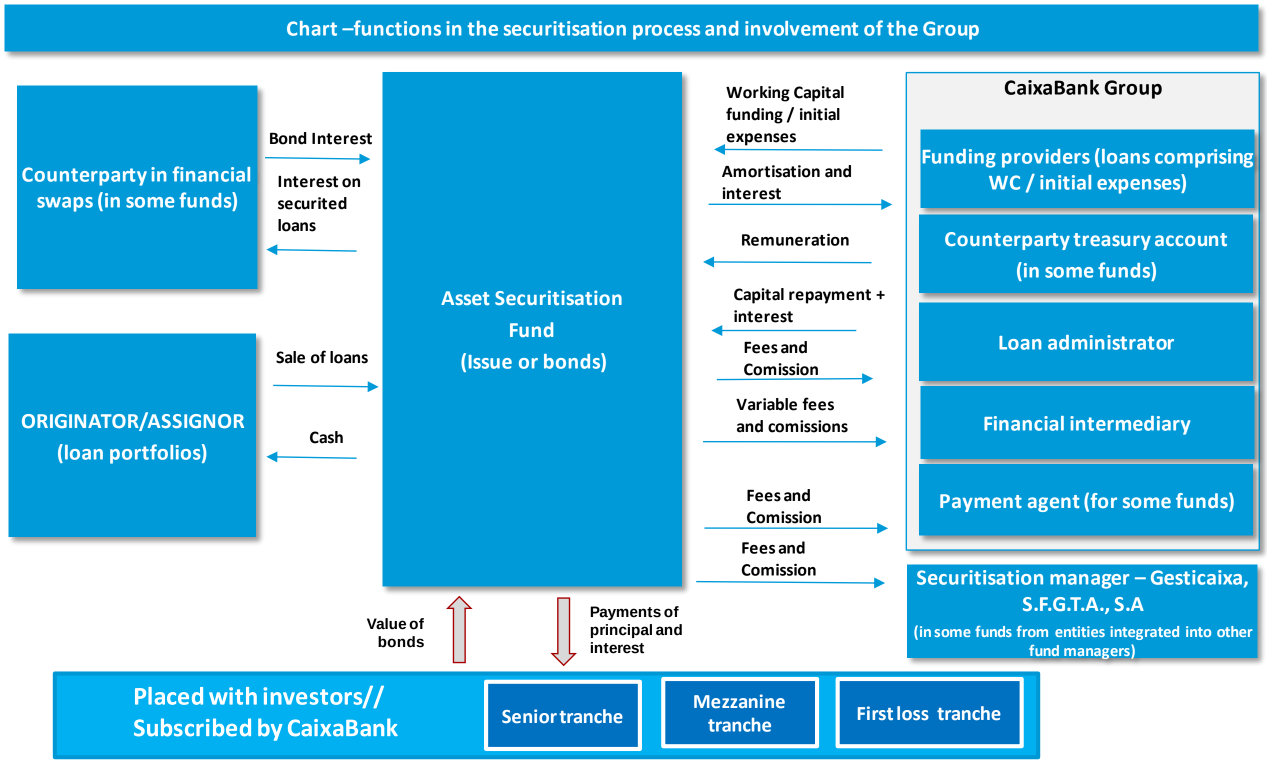


Diagram 5

Other aspects

As already mentioned, 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 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'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 capital requirements for market risk.

CaixaBank Group does not sponsor any securitisation schemes or as the originator in any resecuritisation.

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

No gains or losses are recognised in accounting when a securitisation is carried out in CaixaBank Group.

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.

CaixaBank Group had no assets pending securitisation at 31 December 2017.

Securitisation activity in 2017

CaixaBank originated four traditional securitisation funds in 2017. These are managed by CaixaBank Titulización, with CaixaBank retaining all of the instruments issued. Details were as follows:

- **CAIXABANK RMBS 2, F.T.** (March 2017): A traditional securitisation of residential mortgages, with an initial securitised value of EUR 2,720 million.
- **CAIXABANK CONSUMO 3, F.T.** (July 2017): A traditional securitisation of consumer loans, with an initial securitised value of EUR 2,450 million.
- **CAIXABANK PYMES 9, F.T.** (November 2017): A traditional securitisation of SME loans, with an initial securitised value of EUR 1,850 million.
- **CAIXABANK RMBS 3, F.T.** (December 2017): A traditional securitisation of residential mortgages, with an initial securitised value of EUR 2,550 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 CaixaBank Group does not need to be written off the balance sheet.

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, the assets securitised through securitisation funds prior to 2004 were not recognised in 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.

5.3.2. 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 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 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 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 74. Securitisation exposure and RWA in the banking book where CaixaBank Group acts as originator (SEC3)

Amounts in million euros

	EAD[4] after deductions					EAD[4] after deductions			
	RW ≤ 20%	RW between 20%-50%	RW between 50%-100%	RW between 100%-1250%	RW=1250%	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]
Traditional securitisation	**113**	**3**	**0**	**1**	**17**	**2**	**133**	**0**	**0**
Of which retail underlying[5]	113	3	0	1	17	2	133	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]	1,863	0	0	0	0	0	0	1,863	0
Of which wholesale underlying[5]	0	0	0	0	0	0	0	0	0
Total	**1,976**	**3**	**0**	**1**	**17**	**2**	**133**	**1,863**	**0**

	RWA before cap				RWA after cap			
	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]
Traditional securitisation	**5**	**223**	**0**	**0**	**5**	**33**	**0**	**0**
Of which retail underlying[5]	5	223	0	0	5	33	0	0
Of which wholesale underlying[5]	0	0	0	0	0	0	0	0
Synthetic securitisation	**0**	**0**	**130**	**0**	**0**	**0**	**130**	**0**
Of which retail underlying[5]	0	0	130	0	0	0	130	0
Of which wholesale underlying[5]	0	0	0	0	0	0	0	0
Total	**5**	**223**	**130**	**0**	**5**	**33**	**130**	**0**

	Own fund requirements after cap				Deductions
	Standard	IRB - RBA[1]	IRB - SF[2]	IRB - IAA[3]	
Traditional securitisation	**0**	**3**	**0**	**0**	**4**
Of which retail underlying[5]	0	3	0	0	4
Of which wholesale underlying[5]	0	0	0	0	0
Synthetic securitisation	**0**	**0**	**10**	**0**	**37**
Of which retail underlying[5]	0	0	10	0	37
Of which wholesale underlying[5]	0	0	0	0	0
Total	**0**	**3**	**10**	**0**	**41**

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

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

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

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

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

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.

(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 2017 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. 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%).

For any securitisation exposures, 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.

There were no significant changes in regulatory exposure and capital requirements from the previous year. The integration of BPI resulted in no significant increase in capital requirements for securitisation risk.

The securitisations in which 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 57.17 million at December 2017. There was an increase of EUR 57.15 million on the previous year due to the integration of BPI. The standardised approach is used in calculating capital requirements for all such securitisations, which amount to EUR 2.33 million.

5.3.3. 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 CaixaBank Group, all through CaixaBank, at 31 December 2017, 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 75. Securitisation positions by type of exposure

Amounts in million euros

	31.12.17		31.12.16
Type of exposure	**Exposure**	***% weight***	**Exposure**
1) Securitisation positions where the Group acts as originator	**40,792**	***100%***	**31,753**
A) On-balance securitisation positions	**40,774**	***100%***	**31,678**
Securitisation bonds - senior tranche	32,564	*80%*	25,728
Securitisation bonds - mezzanine tranche	2,556	*6%*	1,631
Securitisation bonds - equity tranche	3,737	*9%*	2,583
Subordinated loans	1,917	*5%*	1,735
B) Off-balance securitisation positions	**19**	***0%***	**75**
Liquidity facilities	0	*0%*	0
Interest rate derivatives	19	*0%*	75
2) Securitisation positions where the Group acts as investor	**58**	***0%***	**0**
A) On-balance securitisation positions	**58**	***0%***	**0**
Securitisation bonds - senior tranche	58	*0%*	0
Securitisation bonds - mezzanine tranche	0	*0%*	0
Securitisation bonds - equity tranche	0	*0%*	0
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	**40,850**	**100%**	**31,753**

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 2016 shows that CaixaBank's regulatory exposure to securitisation tranches increased overall by EUR 9,097 million. This increase was mainly down to:

- An increase in exposure of EUR 9,636 million due to retention of four securitisations originated by CaixaBank in 2017 (CAIXABANK CONSUMO 3, CAIXABANK PYMES 9, CAIXABANK RMBS 2 and CAIXABANK RMBS 3).
- A reduction of EUR 1,362 million due to the settlement of two securitisations (TDA 13 MIXTO and FONCAIXA CONSUMO 1).
- The decrease in exposure in retained securitisations due to their periodic redemptions.
- Integration of BPI

The following table shows more details of 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 76. Securitisation exposures in the banking book (SEC1)

Amounts in million euros

	CaixaBank acts as originator			CaixaBank acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Residential mortgage	26,208	0	26,208	0	0	0
Commercial mortgage	0	0	0	0	0	0
Credit card	0	0	0	0	0	0
Leasing	425	0	425	0	0	0
Loan to corporate or SME treated as corporate	9,148	1,900	11,048	0	0	0
Consumer credit	3,128	0	3,128	0	0	0
Commercial debtor	0	0	0	58	0	58
Other assets	0	0	0	0	0	0
Total	**38,909**	**1,900**	**40,810**	**58**	**0**	**58**

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 CaixaBank Group's securitisation positions belong to the held-to-maturity portfolio: there are no securitisation positions in the held-for-trading portfolio. For this reason, the table is not displayed in this document.

Securitisation exposures in trading book (SEC2)

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 77. Securitisation positions and current amount of securitised exposures by exposure type

Amounts in million 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	26,191	27,140	27,140	0	548	114
Commercial mortgage	0	0	0	0	0	0
Credit card	0	0	0	0	0	0
Leasing	425	380	380	0	11	7
Loan to corporate or SME treated as corporate	11,048	11,448	9,427	2,021	360	148
Consumer credit	3,128	2,853	2,853	0	45	52
Commercial debtor	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total	**40,792**	**41,821**	**39,800**	**2,021**	**964**	**322**

(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 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.

5.4. Equity portfolio

In 2017, CaixaBank Group integrated the BPI equity portfolio under the IRB model. At December 2017, this portfolio contains RWAs in the amount of EUR 2,812 million.

- 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 CaixaBank Group, equity holdings are subject to monitoring and specialist analysis.
- As of 31 December 2017, the EAD for risks associated with the equity investment portfolio amounted to EUR 10,575 million. 61% 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.
- Applying the calculation charge method, the average ratios of RWAs to EAD are: PD/LGD 146%; VaR 706%; simplified approach 369%; significant investments in financial entities 250%.
- In February 2017, the interest in the BPI Group increased to 84.51% of its share capital, and it was fully consolidated in CaixaBank Group.

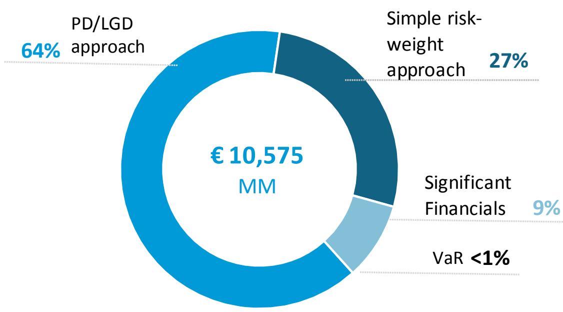
CONTENTS

€ 22,860 MM
RWAs for equity portfolio risk

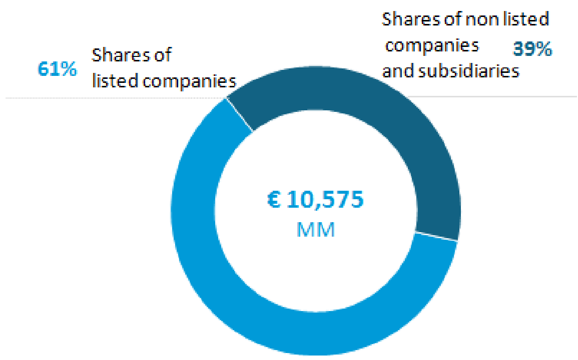
€ 10,575 MM
EAD for equity portfolio risk

100%
Assessed by internal models

EAD FOR EQUITY PORTFOLIO
Distribution by approach, %



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



5.4.1. 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 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 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 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, which aligns the risk profile of these investees with that of the Group.

- **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 banking stakes area and the areas of industrial stakes and holding companies control (for subsidiaries) – which both report to Financial Accounting, Control and Capital (FACC) – 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) system 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[14].

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.

[14] 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 3, 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 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.
- 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 CaixaBank Group, including those in VidaCaixa, and guaranteed mutual and pension funds.

5.4.2. 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 calculation methods laid down in the European capital requirements regulation (CRD IV and CRR), and also in accordance with the equity instrument category[15].

[15] Described in section 5.4.1. of this document.

Table 78. Exposure of the equity portfolio

Amounts in millions of euros

Method	%	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
Simple risk-weight approach	27%	2,843	2,843	*90%*	10,480	369%	67	838
PD/LGD approach[1]	64%	6,758	6,758	*90%*	9,856	146%	14	788
Internal Model approach	0%	19	19	*90%*	135	706%	0	11
Risk weighted equity exposures	9%	956	956	*90%*	2,389	250%	0	191
Total	***100%***	**10,575**	**10,575**		**22,860**	**216%**	**82**	**1,829**

(1) It used an LGD of 90%

Amounts in millions of euros **31/12/2016**

Method	%	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
Simple risk-weight approach	24%	2,516	2,516	*90%*	9,266	368%	60	741
PD/LGD approach[1]	66%	6,930	6,930	*90%*	11,785	170%	32	943
Internal Model approach	0%	27	27	*90%*	165	617%	0	13
Risk weighted equity exposures	10%	995	995	*90%*	2,487	250%	0	199
Total	**100%**	**10,468**	**10,468**		**23,703**	**226%**	**92**	**1,896**

(1) It used an LGD of 90%

5.4.3. Quantitative aspects

Description, accounting recognition and measurement

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. CaixaBank Group's 2017 financial statements show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity[16].

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

- **Investments[17]:** Investments in the capital of entities classified as Group companies, jointly controlled entities[18] 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 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

[16] 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 CaixaBank Group financial statements.

[17] 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.

[18] Exceptions are jointly controlled entities acting as holders of ownership interests. See section 2.1. of this document and Note 2.1, "Business combinations and basis of consolidation", to CaixaBank Group's 2017 financial statements.

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 CaixaBank Groups stakes and and equity instruments not held for trading or in the portfolio of financial assets at fair value through profit or loss, at 31 December 2017.

Table 79. Carrying amount of stakes and equity instruments not held for trading

Amounts in millions of euros

Available-for-sale assets (1)	**2,883**
Shares in listed companies	2,230
Shares in unlisted companies	449
Ownership interests in investment funds and other	204
Investments	**6,224**
Listed	4,058
Unlisted	2,167
Total carrying amount	**9,107**

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

Table 80. Fair value of stakes and equity instruments not held for trading

Amounts in millions of euros

Available-for-sale assets (1)	**2,883**
Shares in listed companies	2,230
Shares in unlisted companies	449
Ownership interests in investment funds and other	204
Investments	**5,877**
Listed	3,710
Unlisted	2,167
Total carrying amount	**8,760**

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

At 31 December 2017, the market value of CaixaBank Group's listed portfolio, which includes “Investments in joint ventures and associates” and “Available-for-sale financial assets - Equity instrument”, was EUR 5,940 million.

Value of equity exposures

As of 31 December 2017, the EAD for risks associated with the equity investment portfolio amounted to EUR 10,575 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 81. Exposures in equity investments not held for trading

Amounts in millions of euros

Exposures	Exposures before CCF and CRM	EAD	LGD	RWA	RWA density	EL
AFS assets	**3,064**	**3,064**	***90%***	**5,974**	***195%***	**19**
Shares of listed companies	**2,357**	**2,357**		**3,464**	***147%***	**4**
Simple risk-weight approach	46	46		134	*290%*	0
Internal Model approach	19	19		135	*706%*	0
PD/LGD approach	2,291	2,291		3,194	*139%*	4
Shares of non listed companies	**707**	**707**		**2,510**	***355%***	**15**
Simple risk-weight approach	606	606		2,243	*370%*	15
PD/LGD approach	47	47		132	*279%*	1
Risk weighted equity exposures	54	54		134	*250%*	0
Shares (multigroup and associated subsidiaries)	**7,511**	**7,511**	***90%***	**16,887**	***225%***	**63**
Listed company shares	**4,060**	**4,060**		**5,866**	***144%***	**8**
PD/LGD approach	4,060	4,060		5,866	*144%*	8
Risk weighted equity exposures	0	0		0	*0%*	0
Non listed shares	**3,451**	**3,451**		**11,021**	***319%***	**55**
Simple risk-weight approach	2,190	2,190		8,103	*370%*	53
PD/LGD approach	359	359		663	*185%*	2
Risk weighted equity exposures	902	902		2,255	*250%*	0
Total	**10,575**	**10,575**	***90%***	**22,860**	***216%***	**82**

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 82. Equity exposures (simplified approach) (EU CR10)

Amounts in millions of euros

IRB Regulatory segments	On-balance sheet amount	Off-balance sheet amount	RWA density	EAD	RWA	Capital (8%)
Private equity exposures in sufficiently diversified portfolios	0		190%	0	0	0
Exchange traded equity exposures	46		290%	46	134	11
Other equity exposures	2,796		370%	2,796	10,346	828
Total	**2,843**			**2,843**	**10,480**	**838**

The following table shows exposure to risk associated with the equity portfolio, LGD and average risk weighting. This shows that most holdings are concentrated in PD tranches of good credit quality (2 and 3).

Table 83. Exposure by category of exposure and debtor level

PD grade	Average PD	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
1	0.00%	0	0	0%	0	0%	0	0
2	0.11%	1,371	1,371	90%	1,470	107%	1	118
3	0.24%	5,231	5,231	90%	7,980	153%	11	638
4	0.63%	87	87	90%	197	227%	0	16
5	1.25%	51	51	90%	139	275%	1	11
6	2.35%	0	0	90%	0	273%	0	0
7	5.40%	17	17	90%	68	389%	1	5
8	23.65%	0	0	90%	0	463%	0	0
9	45.61%	0	0	90%	1	427%	0	0
Performing Portfolio	**0.24%**	**6,758**	**6,758**	**90%**	**9,856**	**146%**	**14**	**788**
Default	100.00%	0	0	90%	0	0%	0	0
Total	**0.24%**	**6,758**	**6,758**	**90%**	**9,856**	**146%**	**14**	**788**

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 CaixaBank Group in 2017, with the amounts taken to the income statement[19].

Table 84. Annual variation in accumulated other comprehensive income on available-for-sale

Amounts in millions of euros

Balance of valuation adjustments at 31-12-2016	Amounts transferred to income statement[(1)]	Valuation gains and losses[(2)]	Deferred tax assets and liabilities	Balance of valuation adjustments at 31-12-2017
(393)	95	(165)	40	(424)

(1) After tax.

(2) Before tax.

(3) Includes valuation adjustments on non-contrc

[19] See Note 22.2 “Accumulated other comprehensive income” to CaixaBank Group’s 2017 financial statements.

6. MARKET RISK

CaixaBank Group's activity in financial markets focuses on providing a service to customers, minimising exposure to risk.

- The market risk of the Group's held-for-trading portfolio quantifies possible losses that might arise due to changes in: interest rates, exchange rates, share prices, commodity prices, volatility, inflation rates and credit spreads on private fixed-income positions.
- The capital requirements for foreign currency risk are concentrated in BPI's equity holding in Banco de Fomento de Angola (BFA), measured under the standardised approach, which is why the RWA ratio under internal models decreased from last year.
- 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 2017, meaning that there were no additional capital requirements for this risk.
- As a complement to the VaR test, CaixaBank carries out two types of stress testing 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.

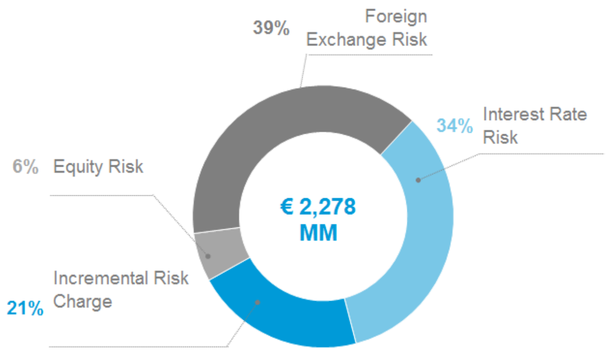
€ 2,278 MM
RWAs for market risk

€ 3.5 MM
Average annual VaR 10d - 2017

46%
RWAs assessed by internal models

RWAS FOR MARKET RISK

Distribution by type of risk, %



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6.1. Management of market risk

Definition and general policy

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, volatility 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 “la Caixa” Group has applied internal models to calculate regulatory capital 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 authorized the Group to apply them. In 2012, the Bank of Spain extended this authorisation to calculation of regulatory capital for incremental default and migration risk and stressed VaR.

Structure and organisation of the risk management function

CaixaBank's Market Risk and Balance Sheet Risk Department 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.

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

The Executive Global Risk Management Division, which comprises the Market Risk and Balance Sheet Risk 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[20]

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 VaR. Stress tests are also performed on the value of the Market area positions and on positions included in the internal model in order to calculate the potential losses on the portfolio in situations of extreme crisis.

In addition, BPI uses parametric VaR at 99% with a time horizon of 10 days as a benchmark measure of market risk.

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 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 portfolio and bank stakes are restricted to the

[20] See Note 3.4 Market Risk to CaixaBank Group's 2017 consolidated financial statements for more information.

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 in CaixaBank. 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 Group's treasury and trading management operations.

- **Limit on operations of CaixaBank Markets area:** 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 permanent investees:** In line with the general framework set by the Board of Directors, the Global Risk Committee approves specific limits (VaR, stop loss and stress test) for this activity, which is managed with market risk management criteria and included in the internal model of market risk.

In addition, the CaixaBank Global Risk Committee supplements the limits structuring with the definition of specific limits on incremental risk of default and rating migration (IRC) of the equity and stressed VaR portfolios.

In addition, the BPI General Risks Division determines the overall limit structure of VaR and sensitivities for the activity of acceptance of market risk within the levels set by the Group's Risk Appetite Framework.

6.2. Minimum own funds requirements for market risk

CaixaBank Group's capital requirements for market risk are **EUR 182 million** at 31 December 2017.

The table below shows the breakdown of RWAs separated into position risk of the trading book and foreign exchange risk and for the position in gold under the standardised approach.

Table 85. Market risk under the standardised approach (EU MR1)

Amounts in million Euros

	RWAs	Capital Requirements
Outright products		
Interest rate risk [1]	418	33
Equity risk [1]	4	0
Foreign exchange risk	806	64
Commodity risk	0	0
Options [2]		
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risk)	**0**	**0**
Total	**1,228**	**98**

(1) General and specific

(2) Only when IRB approach is used

Capital requirements for hedging derivatives of CVA credit risk (in this case, credit default swaps, also included in the accounting held-for-trading portfolio) are calculated under the standardised approach (specific interest rate risk), as are balance-sheet currency risk in the banking book and in equity holdings.

Similarly, capital requirements for market risk attributable to BPI are calculated under the standardised approach, including requirements for foreign currency risk, which are concentrated in BPI's equity holding in Banco de Fomento de Angola (BFA).

Capital requirements for market risk under the internal models are EUR 84 million, which represent 46% of requirements for market risk.

There were no requirements for settlement risk on the reporting date.

6.3. Quantitative aspects

General requirements

The Group 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 in CaixaBank for determining, identifying, managing, potentially including in the internal approach, 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 Group 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[21], 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.

Internal models

CaixaBank 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. All material risk factors are captured in the metrics of the internal VaR, stressed VaR, and incremental default risk model and migrations. Estimates are drawn up daily, on the basis of sensitivity and VaR, aggregated and also segmented by risk factors and business units.

The scope of application of the internal model in CaixaBank encompasses the aforementioned risk factors for the accounting trading book, except for CVA credit default swaps. Deposits and repos arranged by trading desks are also included in the scope of the model. Risk is managed through three business units, all of which report to the Executive Finance Division: Markets (which is divided, in turn, into Rates and Equity Derivatives, Fixed Income and Foreign Exchange), CVA and FVA Management and Pricing and Investee Derivatives. The main activity of Markets is trading and execution of transactions in the market, so as to meet the funding needs of CaixaBank customers and generate income by taking proprietary positions. Management and Pricing of the CVA and FVA is the unit in charge of covering the risk of the CVA, and calculating the CVA and marginal FVA of the new derivatives contracted. Investee Derivatives manages and ensures the profitability of the equity portfolio by trading derivatives.

In July 2006, CaixaBank requested permission from the Bank of Spain to use an internal VaR model for calculation of minimum capital requirements 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 capital requirements for

[21] Bid-offer spread.

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 31 December 2011. Within the Group, only CaixaBank uses internal models to determine capital requirements for market risk.

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 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 represents risk as the impact a slight change in risk factors has on the value of positions, without providing 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:
- Parametric VaR is based on the assumption that the returns of risk factors follow a normal distribution. Distribution parameters (volatility and matching) are statistically determined on the basis of the fluctuations of prices, interest rates and exchange rates of portfolio assets, 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 value of the portfolio 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 large majority of the changes are calculated with a full revaluation, with verification that the estimated VaR is conservative where delta-vega approaches 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, unweighted historical simulation with a two-year time horizon of market data, and taking into account the potentially lower liquidity of these assets, with a confidence interval of 99%, and assuming absolute weekly 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 and valid for optional instruments.

In addition to the VaR metric already explained, own funds requirements under the internal model include another two metrics: stressed VaR and incremental default and migration risks, included in Basel 2.5 and transposed through Circular 4/2011 and, subsequently, EU Regulation 575/2013.

The stressed VaR is calculated using the historic VaR with a confidence interval of 99% on the basis of daily fluctuations in market prices in a one-year period of significant stress for the portfolio positioning. The annual stress window is updated every week, choosing those that maximise VaR for the portfolio at the time. In general, and depending on the portfolio positioning, the stressed year chosen is usually the annual period following the Lehman Brothers collapse or the Spanish sovereign debt crisis (2012). The stressed VaR calculation is leveraged by the same methodology and infrastructure as the calculation of historical VaR for VaR, with the only significant difference being the historical window selected.

Incremental default and migration risk is an estimate of losses related to default or changes in credit ratings of the portfolio included in the model scope, with a 99.9% confidence interval, a one-year time horizon and a quarterly liquidity horizon. The liquidity horizon is justified by the high liquidity of the portfolio due to the existence of strict criteria for inclusion, which limits concentration at country, rating, issue and issuer level. The measurement is made using a Montecarlo simulation of potential future external ratings by issuer and issue based on the transition matrices published by the main rating agencies. 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. Incremental default and migration risk is mainly concentrated in the fixed income desk, which is responsible for market making of sovereign debt and brokerage of private fixed income. It covers all products with specific fixed income risk: bonds, bond futures and credit derivatives.

Both Stressed VaR and Incremental Default and Migration Risk are updated weekly.

The models used for regulatory and management purposes are the same, except in the calculation horizon. 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 2017, as well as their value at the close of the period of reference, are shown in the following table.

Table 86. Market risk internal models approach values for trading portfolio (EU MR3)

Amounts in million Euros

VaR (10d 99%)	Maximum	8
	Average(1)	4
	Minimum	2
	Period end	4
Stressed VaR (10d 99%)	Maximum	40
	Average(1)	15
	Minimum	7
	Period end	15
Incremental Risk Charge (99.9%)	Maximum	62
	Average(1)	32
	Minimum	8
	Period end	38
Comprehensive risk measure (99.9%)	Maximum	0
	Average(1)	0
	Minimum	0
	Period end	0

(1) Current year average

The different elements determining final regulatory charges using the internal market risk and RWA flows 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, requirements for Incremental Default and Migration Risk is the maximum of the last value and the arithmetic mean of the preceding 12 weeks. Model updates/changes in the RWA flows table mainly reflects the impact in RWAs of calibration changes and the current horizon: weekly for IRC and stressed VaR, and daily for VaR.

Table 87. Market risk under the Internal Model Approach (EU MR2-A)

Amounts in million Euros

		RWAs	Capital requirements
1	**VaR (higher of values a and b)**	109	9
(a)	Previous day's VaR		4
(b)	Average 60d x multiplication factor		9
2	**Stressed VaR (higher of values a and b)**	466	37
(a)	Latest SVaR		15
(b)	Average 60d x multiplication factor		37
3	**IRC**	475	38
(a)	Most Recent		38
(b)	Average over 12 weeks		31
4	**Comprehensive risk**	0	0
(a)	Most recent risk number		0
(b)	Average over 12 weeks		0
5	Other		0
6	**TOTAL**	**1,051**	**84**

Table 88. RWA flow statements of market risk exposures under the IMA (EU MR2-B)

Amounts in million Euros

	VaR	Stressed VaR	IRC	Comprehensive risk	Other	Total RWAs	IMA Total capital requirements
RWAs previous year	**278**	**723**	**364**			**1,364**	**109**
Regulatory adjustment	-211	-504	-39			-753	-60
RWAs previous year (end of the day)	68	219	325			611	49
Movement in risk levels	-2	-29	506			475	38
Model updates/changes	-18	0	-356			-374	-30
Methodology and policy from regualtory changes							
Acquisitions and disposals							
Foreign exchange movements							
Other							
RWAs: end of period (end of the day)	47	189	475			712	57
Regulatory adjustment	62	277	0			339	27
RWAs end of period	**109**	**466**	**475**			**1,051**	**84**

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, which compares the total result obtained during the day (therefore including any intraday transactions) to VaR for a time horizon of one day, calculated on the basis of the open positions at the close of the previous session. This provides an assessment of the importance of intraday transactions in generating profit and calculating the total risk of the portfolio.

The daily result used in both backtesting exercises does not include mark-ups, reserves, fees or commissions.

Chart. Comparison of VaR estimates with gains/losses - Net backtesting (EU MR4)

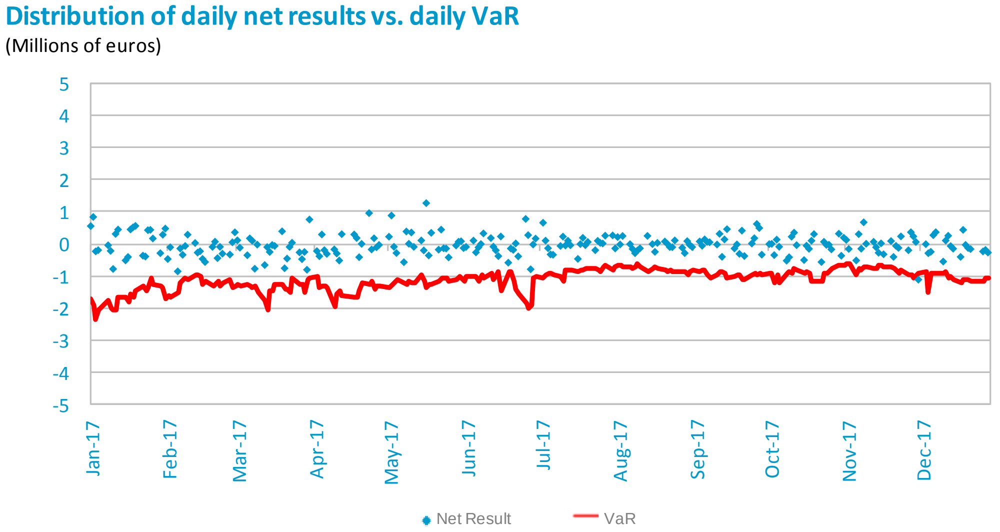
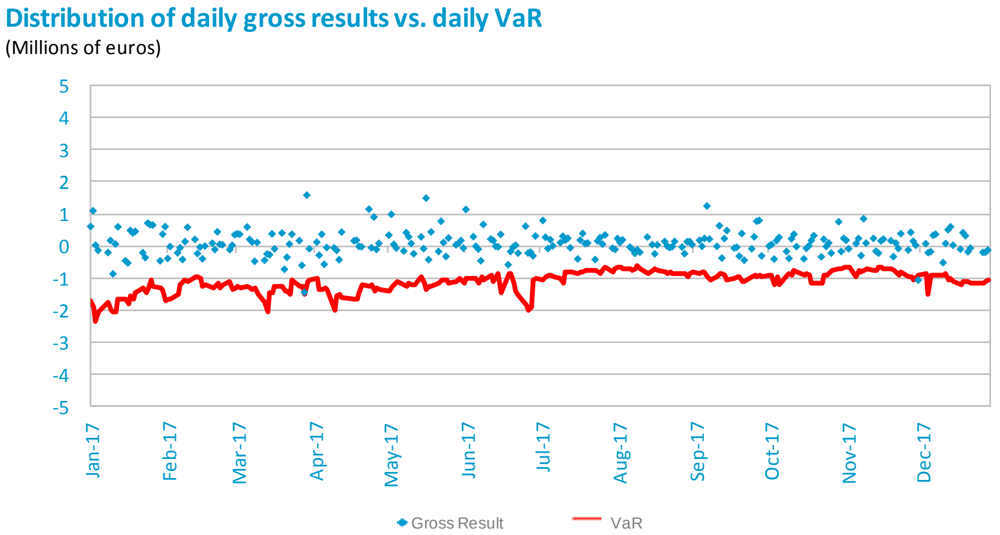


Chart. Comparison of VaR estimates with gains/losses - Gross backtesting (EU MR4)



As shown in the charts, on 1 December a breach occurred in the internal model backtest: the trading book results include the impact of the base change in the seasonality of attributed inflation, whilst the VaR model does not include seasonality changes as a risk factor.

The Incremental Default and Migration Risk model (IRC) is not backtested. Simulations, with an yearly liquidity horizon or bell curve run with different numbers to verify stability, are used to validate the internal consistency and accuracy of the results of the model. In its annual review, Risk Validation Models analyses the methodology used to calculate the IRC and describes any changes made since the last review. In addition, the IRC of the portfolio at a reference date is checked with the use of an internal tool developed independently of the one used for calculation of capital requirements. Lastly, the sensitivity of the IRC to changes of the correlation matrix and recover rates is analysed.

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. The following risk factors are primarily taken into account 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 US 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 in extreme situations, a “worst-case scenario” is determined for the Markets business line as the state of the risk factors in the last year that would cause the heaviest losses on 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.

The analysis of historical scenarios and of systematic stress is based on all business units, except for credit spread stress, which is only performed on the private fixed income portfolio.

In IRC, stress testing is carried out in different classified scenarios, such as: default scenarios of significant exposures, a rating downgrade of one notch of different exposures and so on. Depending on the characteristics of the portfolio, alternative scenarios are defined. These may include a rating downgrade for long positions and an upgrade for short positions, if there are significant offsetting positions.

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 Markets activity. The same metrics and models are used for market risk management and for calculating capital requirements 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 Market Risk and Balance Sheet Risk Department, which is part of the Executive Global Risk Management 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 Market Risk and Balance Sheet Risk Department has sufficient human resources, with considerable technical capacity, to apply the internal market risks model.

As noted, the Market Risk and Balance Sheet Risk 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 factor and business unit.

On a daily basis, the department draws up and distributes the following market risk monitoring reports for Management, supervisors and Internal Audit:

- All the activity of Markets.
- The position constituted by the internal market risk model for calculation of capital requirements, 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 Market Risk and Balance Sheet Risk 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 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, which it classified as reasonable in its 2017 report.

Lastly, CaixaBank'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 2017, Internal Audit concluded that the control systems of market risk in association with trading on financial markets were adequate and complied with the prevailing requirements in the areas analysed.

7. OPERATIONAL RISK

Reinforcement of the integration of operational risk into management in the face of the financial sector's complex regulatory and legal backdrop

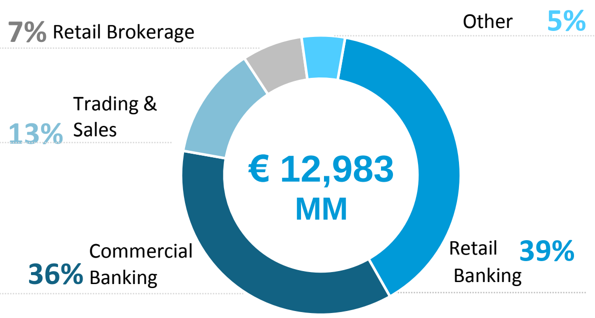
- Operational risk is defined as the possibility of incurring financial losses due to the failure or unsuitability of processes, people, internal systems and external events.
- The overall objective of the operational risk management is to contribute to the organisation's long-term continuity, by providing information on operational risks to improve decision making, processes and quality of service, both internally and externally.
- Management of operational risk was consolidated in 2017, under the monthly monitoring of the Operational Risks Committee.
- 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 approaches, in line with best practices in the market, so as to reduce future losses from operational risk.
- Operational losses are concentrated in the categories of execution, delivery and process management and customers, products and commercial practices.

CONTENTS

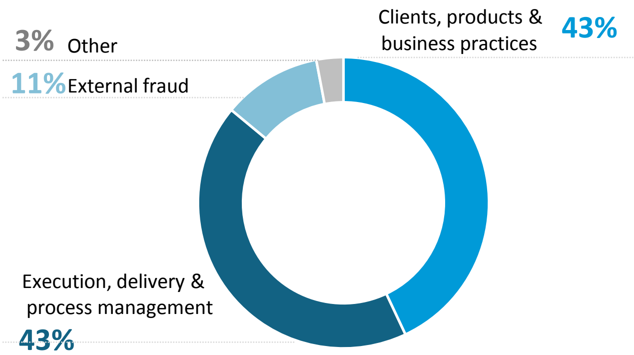
€ 12,983 MM
RWA for operational risk

86%
of operational losses for events involve customers, products and commercial practices (43%) and in execution, delivery & process management (43%)

RWAs FOR OPERATIONAL RISK
Distribution by business line, %



OPERATIONAL LOSSES
Distribution by operational risk category, %



7.1. Operational risk management

General policy

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.

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 Credit Risk and Operational Risk 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.

According to the three 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 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).

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.

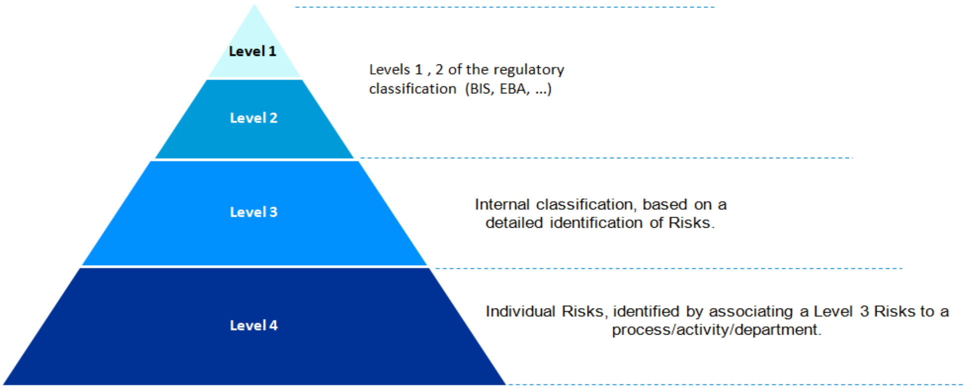


Diagram 6

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 2017 were:

- Adaptation of operational risk taxonomy to new risk map.
- Risk appetite framework: consolidation of metrics of conduct risk and technology risk, and inclusion of new metric of legal risk.
- Annual updating of operational risk self-assessments and related controls.
- Analysis of impact of standardised measurement approach (SMA) following publication of definitive reforms by Basel Committee.
- Specific projects to reduce the main recurrent operational losses.
- Refinement of the composition of the Operational Risk Committee.
- Integration of BPI in Group operational risk management framework.
- Quarterly loss benchmarking report.

The update of the risk catalogue this year involved express mention of model risk in the definition of the risk of operating processes and external events.

7.2. Minimum own funds requirements

The following table shows CaixaBank Group's RWA for operational risk at 31 December 2017.

Table 89. RWA by Business Line

Amounts in million euros

	Gross Income Average	RWA	RWA Density	Capital requierement
Retail Banking	3,342	5,013	150%	401
Retail Brokerage	583	875	150%	70
Asset Management	161	241	150%	19
Commercial Banking	2,475	4,641	188%	372
Agency Services	35	65	186%	5
Trading and Sales	773	1,741	225%	139
Coporate Finance	181	407	225%	33
Payment and Setlements	0	0	0	0
Total	7,550	12,983	172%	1,039

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 90. Operational risk : beta factors by business line

	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.

7.3. 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 the 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 measurement system the Entity uses to determine capital requirements for operational risk. 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:

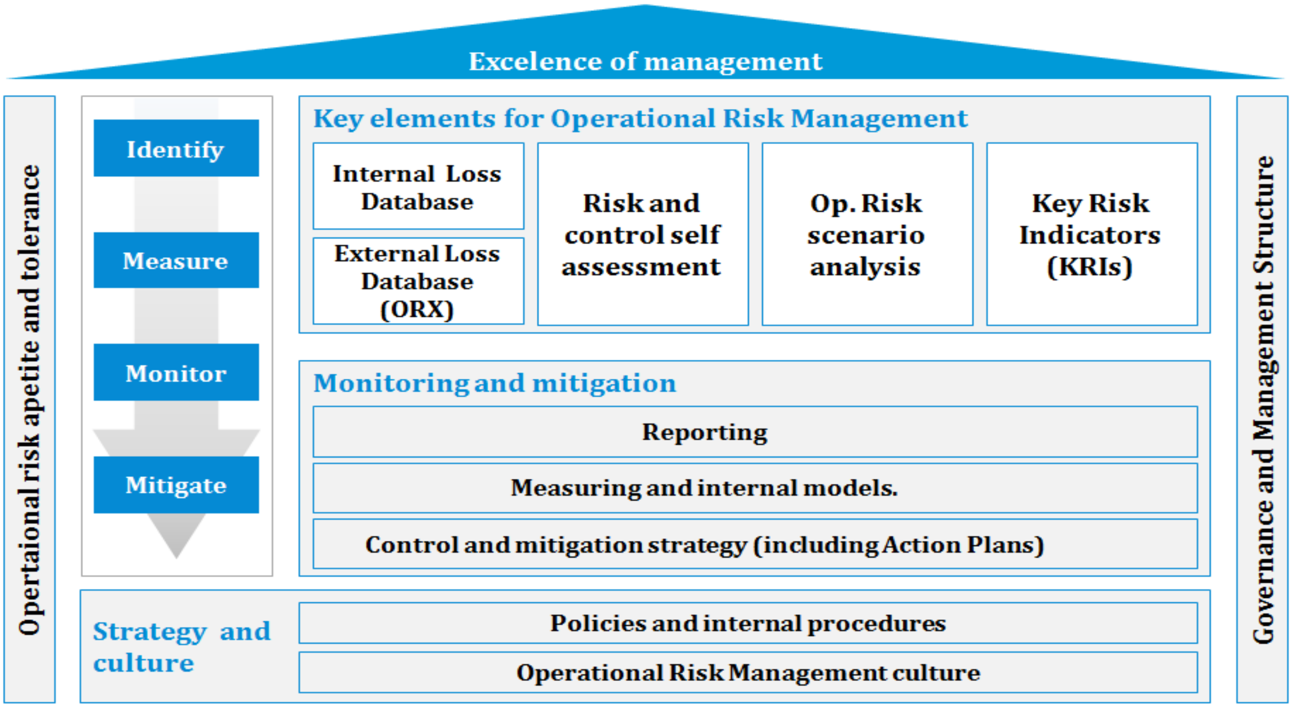


Diagram 7

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.

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 (KRIs); 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 7 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.

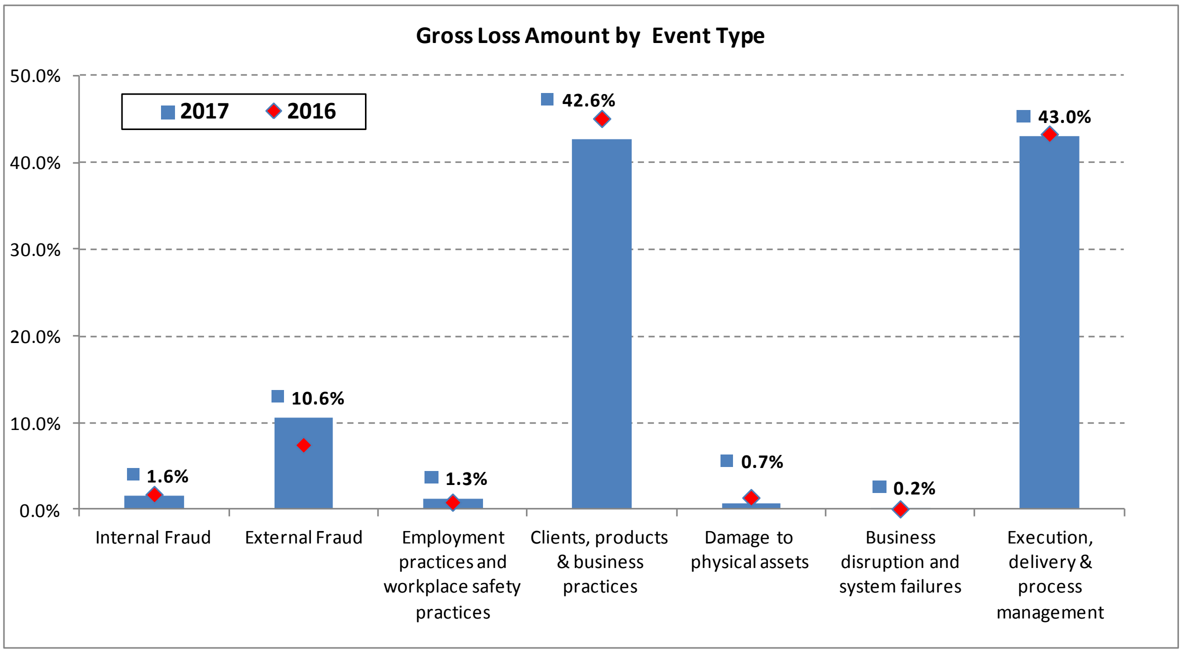
The operational event is the most important and central concept in the Internal Database model.

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 and 2017 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 operational losses for banks worldwide, to implement a quantitative methodology.

The ORX association groups banks by geographic areas, dividing these into subgroups to provide more useful and realistic information.

ORX requires its members to classify operational loss data using a series of parameters, both regulatory and proprietary. As a result, all of the parameters required by the ORX are reported in events in the Group's Internal Database.

Additionally, ORX 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 650 risks) was updated in 2017, 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 2016 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.

Operational risk indicators (KRIs)

Measurement of operational risk indicators (Key Risk Indicators - KRIs) is one of the main qualitative and/or 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 350 KRIs remained under study during 2017, specifically to assess their suitability, predictive capability, usefulness for managing operational risk, and importance in global monitoring.

In addition, a new indicator for legal risk has been added to Level 2 indicators for conduct risk and technology risk, within the set of RAF (Risk Appetite Framework) metrics for operational 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 audit and internal validation 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:

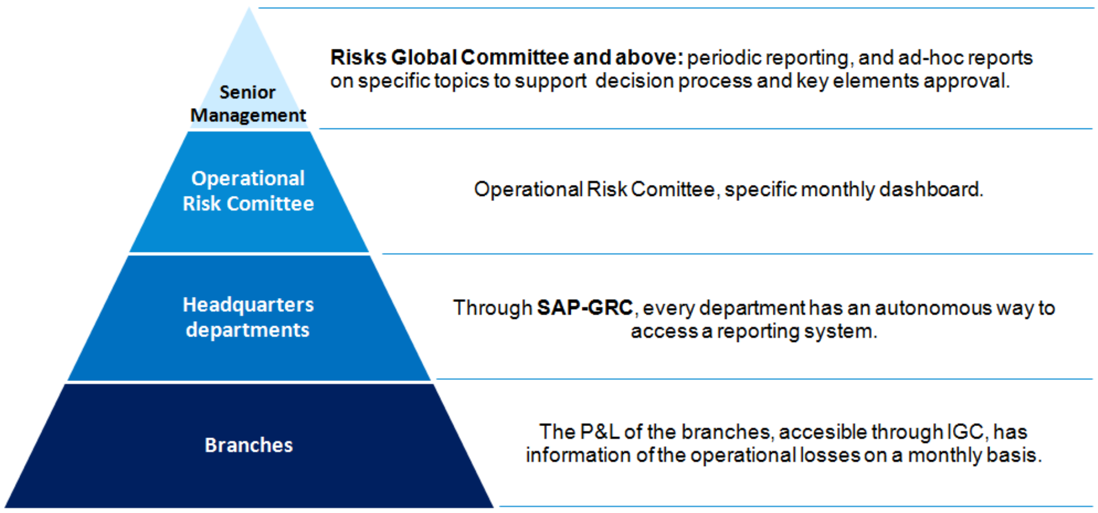


Diagram 9

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.

7.4. Connection with risk catalogue

The risk categories in the CaixaBank risk catalogue identified as operational risk are as follows:

Legal/Regulatory: Loss or decline in CaixaBank Group's profitability due to legislative or regulatory changes, errors in interpreting or applying the laws or regulations in force, court rulings or administrative action that goes against the Entity's interests or tax-related decisions taken by the Entity or the tax authorities.

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 (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. It includes errors overseeing suppliers, model risk, and the custody of securities.

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 position of CaixaBank Group.

7.4.1 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 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 or tax decisions by the entity or by the tax authorities, that is, 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 Advisory, Business Legal, Disputes Advisory and Tax Services Departments, monitors and analyses regulations, and adapts internal rules and regulations, identifies risks, implements procedures and undertakes defence of the entity in all legal proceedings.

Risk management. Measurement and information systems

Legal Advisory has the following duties and responsibilities:

1. Manage and ensure diligent knowledge of the approved laws and regulations and criteria of regulators making up the regulatory framework of financial and non-financial services commercialised by CaixaBank and/or its Group. In addition, management of assets and of jurisprudential decisions on the part of CaixaBank and of subsidiaries that share the Legal Advisory department with CaixaBank. Legal Advisory is also responsible for coordinating its action with the Legal Advisory departments of subsidiaries in order to facilitate their performance of this duty within their respective spheres of responsibility.

2. Define indicators of legal and regulatory risk of CaixaBank in coordination with areas responsible for CaixaBank's global risk management, such that risk management and control is aligned with the risk management and control policy of the entire CaixaBank Group.

3. Define legal and regulatory processes and procedures aimed at ensuring diligent compliance of the Entity's pertinent obligations and prevent or minimise risk arising from management of CaixaBank Group's legal affairs.

4. Define technical and procedural criteria in legal matters, ensure that decisions are reasoned and documented, and that an

appropriate level of responsibility is adopted within the organisation.

5. Evaluate legal risk deriving from products commercialised, transactions executed, decisions made and overall actions of CaixaBank Group in any sphere of its activity and communicate it to other areas of the organisations via relevant procedures in place.

6. Participate in sectoral forums and lead influence actions aimed at promoting regulatory and/or interpretive changes to achieve a fairer and more harmonised legal system, both for the interests of CaixaBank Group and for society as a whole.

Management of legal and regulatory risk is structured into major blocks: (1) management of regulatory changes; (2) participation in regulatory implementation; (3) defence of the Entity's interests in legal and administrative claims and lawsuits; (4) customer's ombudsman.

Management of regulatory changes

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, reporting to the Management Committee, 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 CaixaBank Group more flexible and ready to adapt to new regulatory requirements.

Legal Advisory is actively involved in sector discussions on the consultative documents issued by the various regulatory authorities, whether international (including the European Commission, the Basel Committee, the European Banking Authority (EBA), the European Securities Market Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA)) national or regional (including the Spanish Ministry of the Economy, the Bank of Spain, the National Securities Market Commission (CNMV) and the Directorate General of Insurance), the aim being to contribute as far as possible to improving the new regulatory framework. These discussions are generally channelled through sector associations which the Group belongs to (particularly the CECA and the ESBG) allowing opinions on the consultative documents to be shared as well as other matters of interest for determining the future shape of the banking business.

Participation in regulatory implementation

Legal Advisory prepares and coordinates regulatory impact analyses of new approved and applicable regulations or judicial decisions, by setting criteria of interpretation, identifying and systematising new regulatory requirements and their impact on processes, documentation and internal rules. It also drafts and/or reviews documentation necessary for the commercialisation of products affected by regulatory impacts and coordinates with different areas to promote their rollout, and adaptation of contracts, rules, policies and internal procedures to the new regulation.

Likewise, the Legal Department studies legal changes (other than amendments to regulatory provisions) and jurisprudential changes, that have an impact on our activity, establishing action criteria and applying them to the specific transactions, in coordination with the areas responsible for the study, approval, execution and/or monitoring of transactions.

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.

Also, decisions related to personal data protection and monitoring of implementation and application of current legislation is submitted to the Privacy Committee.

The Tax Services 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.

Defence of the entity's interests

In disputes, the area 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 risk. It also manages court claims and leads and coordinates the defence of the interests of CaixaBank in all judicial proceedings. It establishes provisions in each lawsuit, recording and pre-scoring the risks of suits in the Legal Advisory's Operational Risk Criteria document

To this end, it meticulously monitors developments in Spanish and EU case law, the recommendations of supervisors and regulators in order to asses trends and adapt pre-contractual, contractual and post-contractual information delivered to customers. To reduce the impact of any decisions that are unfavourable for the Entity, criteria and procedures are in place for reaching agreements either in the pre-trial phase or following the start of judicial proceedings, in order to mitigate the outflow or outlay of economic resources.

The risk control and management system of Legal Advisory includes not only a detailed analysis of the regulation and its impact, but also the interpretation and application of the same is always based on criteria of prudence. To this end, it meticulously monitors developments in Spanish and EU case law and the recommendations of supervisors and regulators.

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, Global Risk Control, Regulatory Compliance and/or Internal Audit.

Customers' ombudsman: Customer Service

The Director of Legal Advisory of CaixaBank is responsible for Customer Service (which is part of Legal Advisory) which resolves customer claims related to the financial products and services commercialised by CaixaBank and its Group. It also responds to requests from the claims services of Supervisors (Bank of Spain, CNMV, DGSFP). In performing this duty, Customer Service acts independently of commercial areas and ensures correct application of financial customer protection standards.

Also, under the current legal framework, Customer Services exercises duties of control over legal risks based on data from management of claims and complaints, proposing improvements in policies, internal rules and regulations, procedures and documentation (advertising, pre-contractual, contractual and post-contractual) related to commercialisation of financial services. The results of this work are periodically reported to the Entity's senior management, its management bodies and other interested areas, such as Business Control, Global Risk Management or Regulatory Compliance.

7.4.2. Compliance and conduct risk

Definition and general policy

In the context of operational risk, conduct and compliance risk is defined as the risk of applying criteria for action contrary to the interests of customers and stakeholders. Also, risk arising from a deficient procedure that generates actions or omissions that are not aligned with the legal or regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.

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 conduct and 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 conduct and 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 their 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 conduct and compliance risk implement and manage indicators and controls to detect potential sources of risk and act effectively to mitigate them. As a second line of defence, the Assistant Deputy General Manager of Control and Compliance, which includes the Corporate Regulatory Compliance Division, reviews internal procedures and first-line controls to verify that they are up-to-date and properly implemented. As appropriate, it identifies situations of risk, in which case it calls upon the affected areas to develop and implement the improvement actions necessary.

7.4.3. 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 five categories:

- ICT availability and continuity risk.
- ICT security risk.
- Risk of changes in ICT.
- Data integrity risk in ICT.
- Outsourcing risk in ICT.

CaixaBank 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 following areas:

- IT Governance.
- Information security.
- 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.

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 ISO 22301 standard.
- Technological contingency, designed and developed under the ISO 27031 standard.
- IT governance, designed and developed under the ISO 38500 standard.
- 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

7.4.4. 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.

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.

7.4.5. 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 position of CaixaBank Group.

This risk is managed using the three lines of defence model. Internal Control - Finance and Internal Audit exercise the second and third lines of defence, respectively, providing reasonable assurance of the reliability of the information reported internally and to the market.

For more information on the control environment, refer to the internal control section in chapter 3. Risk Governance, Organisation and Management.

8. RATE RISK IN THE BANKING BOOK

Positioning to increases in interest rates

- In 2017, CaixaBank increased its balance-sheet position to increases in interest rates compared to 2016.
- The reasons for this situation are structural and management-related.
- From a structural point of view, exceptionally low interest rates have continued to drive the movement of deposits from fixed term accounts to demand accounts, whose sensitivity to interest rates is lower.
- From a management point of view, the Entity has continued to adapt its balance sheet structure to the expected environment, positioning it for interest rate increases by arranging hedges for fixed-rate loans.

Comfortable metrics for interest rate risk in the banking book

- The Entity is comfortably within the risk limits defined at the regulatory and management levels, within the Entity's Risk Appetite Framework.
- 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 estimated at +6.85% on the rising scenario and -0.91% on the falling scenario compared to the baseline scenario net interest income.
- 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 estimated at +3.47% on the rising scenario and +1.47% on the falling scenario, compared to the economic value in the baseline scenario.
- Given the current level of interest rates, it should be pointed out that the stress scenario of a 100bp fall assumes a minimum rate level of 0% except for rates already below 0% in the stressed baseline scenario.

Additions to the risk measurement scope

- In 2017, BPI's balance sheet positions exposed to interest rate risk exposure in the banking book were added to the measurement scope.

CONTENTS

6.85% / -0.91%

Sensitivity of the 1-year NII of sensitive balance sheet aggregates: +/- 100 bp in interest rates

3.47% / 1.47%

Sensitivity of economic value of equity for sensitive balance sheet aggregates: +/- 100 bp in interest rates

8.1. Management of interest rate risk in the banking book

Definition and general policy

Interest rate risk is inherent to the activity of banking. 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, which impact their fair value and net interest income.

CaixaBank manages interest rate risk with a twofold purpose:

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

In pursuit of its operating objectives, CaixaBank has established certain thresholds applicable to both the volatility of net interest income and the sensitivity of balance sheet economic value. Compliance with thresholds is monitored on a monthly basis.

These thresholds 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.

Measurements are made of interest income and of the economic value in an interest rate baseline scenario (implicit market rates) and in other stressed scenarios. The results of stressed scenarios are compared with those of the baseline scenario to obtain risk measurements that are compared with the risk thresholds set out in the RAF.

Different stress scenarios are used:

- The scenarios for parallel increases and decreases in interest rates apply different values (200 bp and 100 bp), and gradual and immediate impact. These scenarios are subject to a minimum rate of 0% for scenarios of falling rates, except for points on the curve in the baseline scenario whose rate is already negative, in which case they are maintained at that level and not stressed.
- In addition to the parallel rate increase and fall scenarios mentioned above, parallel rate increase and fall scenarios are calculated according to Basel recommendations, that use a floor that may be lower than 0% (down to current rates of approximately -1.5%) and that is dynamic in relation to the prevailing interest rate environment.
- In addition to the parallel rate movement scenarios, six stress scenarios are used with non-parallel movements of the interest rate curve and that allow for the existence of negative interest rates with a dynamic floor.

In short, the stress scenarios that make up the Risk Appetite Framework and management limits are as follows:

For economic value:

- Parallel and Immediate:
  0. UP+200 bp: Immediate and parallel increase of 200 bp.
  1. Down 200 bp with a floor of 0%: Immediate fall of 200 bp with a floor of 0%:
  2. Parallel UP: Immediate and parallel rise in interest rates of 200 bp for the EUR currency and of different amounts for other currencies:
  3. Parallel Down: Immediate and parallel drop in interest rates of 200 bp for the EUR currency and of different amounts for other currencies. In this scenario, the bank uses a floor that may be lower than 0%, as described above.
- Immediate changes of slope:
  4. Steepening: General increase of slope:
  5. Flattening: General flattening of slope:
  6. Short UP: Rate increase at short end of curve.
  7. Short Down: Rate decrease at short end of curve.
  8. Long UP: Rate increase at long end of curve.
  9. Long Down: Rate decrease at long end of curve.

The same stress scenarios used for economic value and for the following are also used for interest income:

- Parallel and progressive:
  10. UP+200 bp: Progressive increase of 200 bp.
  11. Down -200 bp with a floor of 0%: Progressive fall of 200 bp with a floor of 0%
  12. UP+100 bp: Progressive increase of 100 bp.
  13. Down 100 bp with a floor of 0%: Progressive fall of 100 bp with a floor of 0%

In 2017, the RAF metrics and thresholds for interest income volatility were extended to a time horizon of 24 months for all stresses.

Projection models are updated monthly and assumptions are periodically reviewed to ensure that measurements are appropriate to the current market situations and balance-sheet characteristics of the entity.

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 Risk Committee and the Global Risk Committee, the functions related to the ongoing monitoring of risk management. The 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 RAF, from the twin perspectives of net interest income and economic value.

The ALM, 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 thresholds.

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.

In performance of its functions, the Balance Sheet Analysis and Monitoring Division reports on the development of risks and factors affecting their evolution not only to the ALCO but also to the heads of internal supervision, the second and third lines of defence:

-As second line: Market Risk and Balance Risk Division

-As the third line: Audit of Markets, Risks and International Banking)

With these areas of supervision, the Analysis and Balance Sheet Monitoring Division engages in constant dialogue for the purposes of the necessary clarification of issues as necessary and the adequate maintenance of established operating processes.

Risk management. Measurement and information systems

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. repricing 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.

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 related to net interest income and the economic value of its balance sheet and considering the complexity of the 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 risk 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 level. CaixaBank uses a 1-day horizon and 99% confidence level in its measurement of balance sheet VaR. Accordingly, the VaR figure should be interpreted as a estimation that, with a 99% probability, the one-day loss should not exceed the calculated VaR.

  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 to estimate the parameters.
  2. Parametric VaR with a 250-day data window to estimate 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.

  Additionally, a VaR measure with a time horizon of 1 month and a Confidence level of 99% is calculated on the positions of the available for sale fixed income portfolio, including interest rate risk and Credit spread risk.

  On these VaR measures, the entity also defines risk thresholds.

Dynamic measurements: They are based on the balance sheet position at a given date and also take into account the new business. 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.

- **Interest Margin Volatility:**

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

Hedging policies and mitigation techniques

CaixaBank uses accounting hedges as a strategy to fulfill its structural interest rate risk management objectives, defining the management objective associated with it for each type of hedge.

In 2017, CaixaBank has continued to arrange long-term hedges for new fixed-rate loans.

Some hedging transactions were also restructured in the last quarter of the year.

8.1.1. 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 six scenarios of 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 +6.85% on the rising scenario and -0.91% 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 +3.47% on the rising scenario and +1.47% on the falling scenario, compared to the economic value in the baseline scenario.

The table in the Appendix also shows measurements of this risk for the current year and the previous year in the different scenarios used for management of the entity's balance sheet for both economic value and for net interest income. The table follows the document structure of the Basel (BIS) standard and gives effect to principle 8 in the document on entities' obligation to publish relevant measurements on the IRRBB risk.

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.

The balance sheet interest rate risk assumed by 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.

Table 91. Appendix. Table B

Thousands of Euros***	ΔEVE Economic Value Sensitivity		ΔNII Net Interest Margin (12 months) Sensitivity	
Period	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Parallel Up	17.57%	19.49%	15.45%	16.26%*
Parallel down	-2.57%	-1.87%	-6.34%	-3.80%*
Steepener	5.03%	7.18%		
Flattener	0.08%	0.01%		
Short rate up	5.06%	5.09%		
Short rate down	-0.02%	0.14%		
Maximum**	-2.57%	-1.87%	-6.34%	-3.80%

Period	31/12/2017	31/12/2016
Capital Tier 1	19,074,188	17,790,442

** The calculation as of December 2016 is made in accordance with the regulatory requirements as of that date. The calculation at December 2017 is made with scenarios that allow negative rates adjusted to the current market conditions of very low rates.*

***The "Maximum" concept expresses maximum loss.*

****Data for the period of 31-12-2017 include the BPI Balance sheet position that was legally integrated in CaixaBank in the first quarter of 2017.*

8.1.2. Modelling

There are a number of key assumptions related to measurement and monitoring of interest rate risk in the banking book.

Early cancellation

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 and seasonality variables.

CaixaBank is currently using multi-variant regression models to model the risk of early contract termination of both loans and fixed-term deposits

The dependent variable in these models is the monthly rate of early cancellation.

With this model, the probability of early cancellation is accounted for by aggregation of an independent or constant term of the model β_0 being interpreted. In this case, it is the observed historical average rate of early cancellation. Whereas the rest of coefficients determine the proportion in which every explanatory variable shocks - in a partial way - on the rate of early cancellation, explaining, in this way, deviations of the rate of cancellation with regard to its historic average value.

The selected explanatory variables are grouped into the following categories:

1. Variables related to the passage of time:

-Residual life of contract (in months), to capture the effect of the passage of time on the probability of early cancellation of the loan.

-Ratio between residual life of contract and life from start date, with the same purpose as above for loans.

-Seasonality, to capture the acceleration of cancellation rate due to factors such as tax incentives, among others.

2. Variables relating to refinancing opportunity:

-Fees and commissions, if any, to capture the cost to which customer is exposed in case of early cancellation (the larger the fees and commissions, the less the incentive for early repayment of loans).

-Current loan interest rate (rate + spread), as benchmark of cost/remuneration paid/received by customer at present. For loans, the loan spread is individually added to the regression as an explanatory variable.

-Current market benchmark rate.

3. Variables relating to contract characteristics:

Qualitative variables that take the value 1 if a certain condition is met, and zero if not. Such variables represent 70% of the explanatory variables used for regression models used to estimate the probability of early cancellation of loans. And they refer to aspects such as the contract's indexation type (fixed or variable), whether it is a natural person or a legal person, if they have a guarantee, whether or not it is a resident, etc.

Demand account

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.

The resulting average duration of the modelling of demand accounts in CaixaBank is approximately 2.5 years and the longest term at which these items are modelled is 10 years.

Trade margins in metrics of economic value

The calculation of economic value includes trade margins, and cash flows are discounted with the risk-free curve.

Positions in non-euro currencies

Positions in non-euro currencies have little materiality and do not take into account matches between currencies for modelling purposes.

8.2. Management of 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 CaixaBank 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 2017, the positions in foreign currencies of CaixaBank Group are mainly held by the subsidiaries of the BPI Group, more specifically in Banco de Fomento de Angola, in kwanza, and Banco Comercial de Investimento, in metical.

9. 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.
- 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 2017. As of 31 December 2017, its total liquid assets stood at EUR 72,775 million; its Liquidity Coverage Ratio (LCR) was 202%, double the 100% minimum required from 1 January 2018; and its Net Stable Funding Ratio (NSFR) remained in excess of 100% throughout 2017, although this is not required until January 2019.
- 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 108% at 31/12/2017; (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.

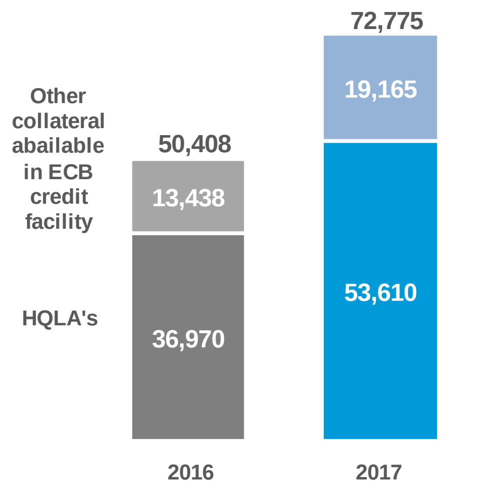
CONTENTS

€ 72,775 MM
Total liquid assets (HQLAS + other collateral available in facility)

202%
LCR ratio

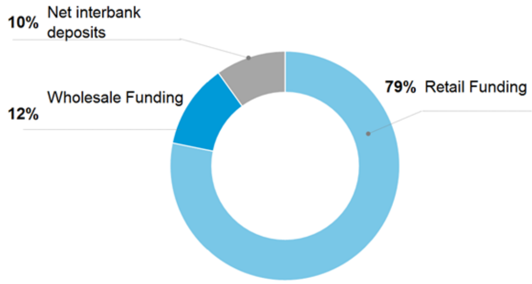
79%
Weight of customer deposits in total funding

TOTAL LIQUID ASSETS
€ MM

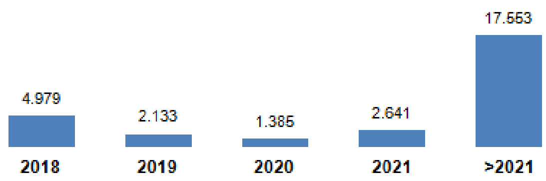


Note: 98.4% of total liquid assets are cash or eligible discountable assets at the ECB

FUNDING STRUCTURE
Distribution by source of funding, %



MATURITIES
Distribution of wholesale issuances by year of maturity



9.1. Liquidity risk management

Definition and general policy

CaixaBank Group 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).

Management of liquidity risk is decentralised in two units. First, in CaixaBank sub-group, which consists of CaixaBank and subsidiaries in regulatory consolidation except BPI Bank and, second, the BPI sub-group.

Formalising and updating the Risk Appetite Framework (RAF) presented to the governing bodies delimits the liquidity risk metrics defined for CaixaBank and for the two management units, 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 Group and its liquidity management units.
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:
   - Intraday liquidity risk management.
   - 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

Risk appetite indicators have been established at Group level and at management unit level. These indicators include the main ones of level 1[22] 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 secondary level 2[23] 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.

The stress metric ensures the integration of stress exercises into the risk appetite and management. This stress metric is based on a new stress model that was developed to comply with best practices (EBA draft document on stress called “Draft Guidelines on institutions’ stress testing EBA/CP/2017/17) and the new requirements (final EBA ILAAP guidelines called “Guidelines on ICAAP and ILAAP: information collected for SREP purposes”).
CaixaBank Group uses liquidity stress tests (internal model, LCR-based model, liquidity stress for ICAAP and liquidity stress for Recovery Plan) as a key element for decision-making. These tests can verify RAF liquidity targets and project metrics to anticipate breaches of liquidity targets and limits set in the Risk Appetite Framework. The internal liquidity model and the recovery plan use as an assumption all risk sources identified in the process of liquidity risk identification. These assumptions take into account the behaviour of depositors (outflows), maturity of issues or asset valuation and classification stress, among others. CaixaBank Group uses tests at a consolidated level (in accordance with the EBA guidelines in the draft document on stress) but also at the level of liquidity risk management unit.

To achieve the liquidity management objectives it:

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

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

- Has a decentralised 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.

Structure and organisation of the risk management function

The Board of Directors of CaixaBank 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, 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) 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. Independently of these two divisions, the Market and Balance Sheet Risk Division, which reports to the General Risks Division as a second line of defence, is responsible for risk control, monitoring and assessment of the risk control environment and for the identification of potential areas of improvement.

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. Use of standby reserves or extraordinary funding sources is also envisaged. Banco BPI has its own contingency plan.

In addition, a Group 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. Banco BPI has its own recovery plan.

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.

With regard to the Declaration of the Board of Directors on the adequacy of the liquidity buffers for existing funding and liquidity risk in the 2016 ILAAP:

- The CaixaBank Board of Directors declares that liquidity risk management and levels at the consolidated sub-group of credit institutions headed by CaixaBank are adequate.

The content of this Statement of the Board of Directors is as follows:

- Scope of application: consolidated sub-group of credit institutions headed by CaixaBank. The liquidity risk management model in this regard is fully centralised at CaixaBank.

- Identification of liquidity risks and formulation of liquidity risk strategies: CaixaBank has identified material funding and liquidity risks on the basis of a quantitative and qualitative risk assessment. Based on this identification of risks, there is a general funding and liquidity risk management strategy that involves maintaining liquidity levels within Risk Appetite Framework (RAF) thresholds to ensure payment obligations can be met comfortably on time, without harming investment activity owing to a lack of lendable funds.

  A series of components ensure successful execution of this general strategy: centralised liquidity management system, efficient level of liquid funds, active management of liquidity and sustainability and stability of funding sources.

  There are also specific strategies for management of material risks (intraday, short-term, funding sources, liquid assets and collateralised assets) and a liquidity management strategy for crisis situations.

- Liquidity risk governance: CaixaBank has sound liquidity and funding risk governance processes based specifically on the involvement of its Board of Directors and senior management, and the segregation of duties among the various functional areas in accordance with the Three Lines of Defence corporate principle.

  Within this governance framework, the Risk Appetite Metrics used cover all the material liquidity and funding risks and their calibration indicates a low liquidity and funding risk appetite.

- Funding strategy and plan CaixaBank has an appropriate funding structure, which adheres to the funding risk management strategy in place and is in line with the established Risk Appetite Framework. Funding through deposits opened through the branch network plays a predominant role, underpinned by wholesale funding that is diversified through the use of a variety of instruments, investors and maturities.

- Management of liquidity buffers: Criteria also has robust procedures in place to identify, manage, monitor and control its liquid asset base. The Entity a satisfactory level of liquid assets considering the regulatory restrictions, risk appetite, and liquidity and funding risks identified.

- Management of collateralised assets (*asset encumbrance*): CaixaBank has classified asset encumbrance risk as a material risk, and has therefore drawn up a specific strategy to manage this risk and a metric for measuring it and setting a threshold in the RAF.

- Transfer pricing system CaixaBank has a transfer pricing system (FTP or internal transfer rates) through which funding transactions are remunerated, while funding costs are passed on to lending transactions. The system is an essential part of the segment accounting used to manage CaixaBank.

- Intraday liquidity: CaixaBank has identified intraday liquidity risk as one of its material funding and liquidity risks. It has therefore devised a strategy to manage this risk, and a metric for controlling, limiting and monitoring this risk in the RAF.

- Liquidity stress tests CaixaBank avails of two specific funding and liquidity stress testing programmes that are regularly performed and then reviewed by the ALCO [1]. The internal stress test (updated in 2016) forms part of the risk management by way of a RAF level 2 metric that measures CaixaBank's ability to re-establish compliance with a specific risk appetite level or early warning threshold of the financial RAF level 1 metrics after implementing measures in a reverse stress test scenario and the liquidity stress test for calculation of the survival period based on LCR criteria. CaixaBank also has a liquidity stress test programme linked to Recovery Plan scenarios, in which it measures the liquidity position in systemic, idiosyncratic and combined scenarios. It also has another liquidity stress test programme for the systemic scenarios in the ICAAP (adverse and severely adverse scenarios).

- Liquidity Contingency Plan CaixaBank has a robust Liquidity Contingency Plan that: (i) permits the early detection of stress scenarios using a series of quantitative and qualitative metrics that are calibrated and tested for a crisis scenario; (ii) establishes an activation and governance framework in which the ALCO plays the lead role and that includes the possible creation of a Liquidity Crisis Management Committee; (iii) includes an internal and external Communications Plan; and (iv) sets out a series of measures for generating and maintaining the liquidity used to restore CaixaBank's liquidity and funding position in a stress situation.

- ILAAP self-assessment CaixaBank has carried out an ILAAP self-assessment.

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.

Funding strategy

CaixaBank Group has developed a decentralised funding model based on autonomous entities that are responsible for meeting their own liquidity needs and based on the following principles:

- Maintain a stable funding base of customers deposits, pursuing customer loyalty to secure stable balances. Knowledge of the different stability levels of retail deposits according to customers' loyalty and operating level.

- Active management of wholesale funding with continuous monitoring of wholesale funding markets, maintenance of different instruments for execution of transactions, ratings by different agencies (credit rating of institution and of instruments issued), close relationship with investors in order to optimise funding costs and market access. Such transactions shall seek diversification of instruments, investors and maturities.

Several metrics are used to monitor and control the funding structure, the loan-to-deposits ratio, the wholesale funding ratio and concentration metrics (concentration of counterparties and of wholesale maturities).

9.2. Quantitative aspects

The detail of CaixaBank Group's liquid assets and liquidity coverage ratio (LCR) is as follows:

Table 92. Liquid Assets

Millions of euros

	31.12.16		31.12.17	
	Market value	Applicable weighted amount	Market value	Applicable weighted amount
Level 1 Assets	34,232	34,232	51,773	51,773
Level 2A Assets	81	69	333	283
Level 2B Assets	4,629	2,670	2,858	1,554
Total (*)	**38,942**	**36,970**	**54,964**	**53,610**

(*) 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 72,775 million and EUR 50,408 million at December 2017 and December 2016, respectively. The Liquidity Coverage Ratio (LCR) came into force on 1 October 2015 and involves maintaining an adequate level of high quality assets available to meet liquidity needs for a 30 calendar day stress scenario which considers a combined financial sector-wide and entity-specific 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.

Tabla 93. LCR Ratio (liquidity coverage ratio)

Millions of euros

	31.12.16	31.12.17
High quality liquid assets (numerator)	36,970	53,610
Total net cash outflows (denominator)	23,116	26,571
Cash outflows	28,323	31,634
Cash inflows	5,207	5,063
LCR (%) (*)	**160%**	**202%**

(*)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.

The following are average monthly figures of the LCR.

Table 94. LCR detail (monthly average values) (EU LIQ1)

Millions of euros

	Total unweighted value (average)	Total weighted value (average)
HIGH-QUALITY LIQUID ASSETS		
Total high-quality liquid assets (HQLA)		45,791
CASH – OUTFLOWS		
Retail deposits and deposits from small business customers, of which:	**119,302**	**7,034**
Stable deposits	98,297	4,915
Less stable deposits	21,005	2,119
Unsecured wholesale funding	**44,431**	**18,175**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	14,054	3,471
Non-operational deposits (all counterparties)	30,288	14,615
Unsecured debt	88	88
Secured wholesale funding		**339**
Additional requirements	**45,911**	**4,390**
Outflows related to derivative exposures and other collateral requirements	892	892
Outflows related to loss of funding on debt products	290	290
Credit and liquidity facilities	44,728	3,207
Other contractual funding obligations	288	25
Other contingent funding obligations	2,614	0
TOTAL CASH OUTFLOWS		29,963
CASH – INFLOWS		
Secured lending (e.g. reverse repos)	3,076	161
Inflows from fully performing exposures	8,729	4,883
Other cash inflows	251	251
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		0
(Excess inflows from a related specialised credit institution)		0
TOTAL CASH INFLOWS	12,056	5,295
Fully exempt inflows	0	0
Inflows subject to 90% cap	0	0
Inflows subject to 75% cap	11,857	5,295
		Total weighted value
LIQUIDITY BUFFER		**45,791**
TOTAL NET CASH OUTFLOWS		**24,668**
LIQUIDITY COVERAGE RATIO (%)		**185%**

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 2017, even though this is not required until January 2019.

Assets that guarantee financing operations (Asset encumbrance)

The table below shows average values for assets securing certain financing transactions and unencumbered assets in 2017, calculated using quarterly data.

Table 95. Assets securing financing operations and unencumbered assets

Millions of euros

	2017 median calculated on quarterly data							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Equity instruments	0				3,501	2,597		
Debt securities	7,277	7,270	7,264	7,227	21,776	19,871	21,964	19,742
of which: covered bonds	457	457	457	457	264	264	264	264
of which: asset-backed securities	0	0	0	0	0	0	0	0
of which: issued by general governments	5,736	5,729	5,724	5,688	18,659	18,577	18,551	18,459
of which: issued by financial corporations	1,391	1,391	1,392	1,392	1,430	983	1,617	979
of which: issued by non-financial corporation	138	138	136	136	1,667	282	1,727	279
Loans and discounts	79,738	0			157,026	8,439		
Other assets	3,167	0			55,937	2,026		
Total	**89,644**	**7,270**			**240,437**	**36,585**		

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. and Banco BPI.

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 2017, calculated using quarterly data:

Table 96. Assets received to secure financing operations and unencumbered assets

Millions of euros

	2017 median values calculated on quarterly data			
			Unencumbered	
	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	2,788	2,700	16,711	**15,010**
Loans on demand	10	0	0	0
Equity instruments	0	0	0	0
Debt securities	2,778	2,700	15,034	15,010
of which: covered bonds	322	322	184	184
of which: asset-backed securities	0	0	0	0
of which: issued by general governments	2,360	2,286	14,821	14,821
of which: issued by financial corporations	331	329	191	191
of which: issued by non-financial corporations	0	0	11	0
Other collateral received	0	0	1,653	0
Own debt securities issued other than own covered bonds or asset-backed securities	0	0	857	0
Own covered bonds and asset-backed securities issued and not yet pledged			28,838	0
TOTAL ASSETS	93,142	10,521		

The following table shows the asset encumbrance ratio, using median values for 2017 calculated using quarterly data.

Table 97. Asset encumbrance ratio median values

Millions of euros

	Median (*)
Encumbered assets and collateral received	**93,142**
Equity instruments	
Debt securities	10,639
Credit portfolio	79,748
Other assets	3,167
Total assets + total assets received	**350,178**
Equity instruments	3,501
Debt securities	48,066
Credit portfolio	236,774
Other assets	60,807
Asset encumbrance ratio	**26.93%**

(*) Median calculated on quarterly data

The asset encumbrance ratio at 31 December 2017 and 2016 is as follows:

Table 98. Asset encumbrance ratio

Millions of euros

	31.12.16	31.12.17
Encumbered assets and collateral received	**99,111**	**99,264**
Equity instruments	0	-
Debt securities	17,481	14,457
Credit portfolio	77,778	81,218
Other assets	3,852	3,588
Total assets + total assets received	**324,986**	**355,644**
Equity instruments	3,238	3,288
Debt securities	42,052	50,246
Credit portfolio	218,849	241,896
Other assets	60,847	60,214
Asset encumbrance ratio	**30.50%**	**27.91%**

The ratio has decreased by 2.59 percentage points, from 30.5% at 31/12/2016 to 27.91% at 31/12/2017. This decrease was due, on one side, to a smaller stock of collateralised assets due to lower use of repos, and a lower balance of covered bonds placed in the market, and, on another side, due to an increase in the balance sheet amount, which also explains the decrease in this ratio.

The following table shows the relationship between the liabilities guaranteed and the assets by which they are guaranteed, using average 2017 values, based on quarterly figures:

Table 99. Guaranteed liabilities, median quarterly values

Millions of euros

	Median values (*)	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**77,883**	**90,193**
Derivatives	3,136	3,394
Deposits	53,404	59,881
Debt securities issued	20,467	26,826
Other sources of encumbrance	**2,760**	**3,009**

(*) Median calculated on quarterly data. The median is calculated on all components of the table below

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.

The data of the asset encumbrance ratio in relation to the business model and the differences between the reporting scope of the ratio and other information are explained below.

CaixaBank Group is a predominantly retail bank that carries out a strategy and maintains a funding structure based mainly in maintaining a stable base of customer deposits, supplemented by active and conservative management of wholesale funding. Customer deposits make up 79% of the funding structure.

This business model facilitates a collateral management strategy oriented towards maintaining a prudent level of collateralised assets that can mitigate the uncertainty of unsecured credits. This facilitates access to funding sources (secured and unsecured), and also contributes to the availability of a sufficient collateral reserve, which is of particular importance in stress situations. CaixaBank Group's has an asset encumbrance ratio of 27.91% at 31 December 2017, which illustrates the foregoing.

From the point of view of segmentation and use of collateral, the main source of collateral is the loan portfolio used for covered bond issues and securitisations (market and own portfolio), and the pledging of the facility in the European Central Bank, followed by the securities portfolio and the paper received for short-term transactions (repos) and the encumbrance of derivatives.

Data within the consolidation scope is used for disclosure of the HQLA and asset encumbrance data for regulatory or prudential purposes in the Pillar 3 disclosures. This scope differs from the scope used for disclosure used for disclosure of public information owing to the non-consolidation of the insurance company.

10. OTHER RISKS

10.1. Reputational risk

Definition and general policy

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

Structure and organisation of the risk management function

As the main area responsible for promoting and strengthening the reputation of CaixaBank, the Executive Division of Communication, Institutional Relations, Brand and CSR is also responsible for measuring, monitoring and reporting to the Corporate Responsibility and Reputation Committee, and to the Entity's senior management and governing bodies. It also monitors the performance of CaixaBank's global reputation and for risks that could adversely affect the entity's reputation should they materialise.

The Corporate Responsibility and Reputation Committee (CRRC) is chaired by the Executive Director of Communication and members include the main organisational divisions that manage relations with stakeholders and the heads of the main subsidiaries of CaixaBank Group (CaixaRenting, VidaCaixa, etc). The duties of the CRRC include analysing the state of CaixaBank's reputation and periodically monitoring identified risks that may affect the Entity's reputation and to propose actions and contingency plans to minimise the detected risks.

CRRC reports the monitoring of reputation risks to the company's Global Risks Committee, which then reports to the Risks Committee of the CaixaBank Board of Directors. The CRRC also reports directly to the Board Appointments Committee for matters related to corporate responsibility.

All CaixaBank's areas and subsidiaries also share responsibility for the reputation of the Entity, CaixaBank Group and take part in identifying and managing reputational risks and establishing mitigation measures and plans.

Reputation measurement: monitoring tools and Reputation Scorecard

CaixaBank is constantly attentive to the constant changes and growing demands of its stakeholders and of society at large. It uses multiple tools of trend measurement and analysis to detect these changes and demands, such as: opinion surveys among its main stakeholders (customers, employees and shareholders); daily reputation monitoring and management in the written and online media, and in social networks; dialogue with significant actors in civil society and monitors and reputation rankings of independent experts.

CaixaBank's reputation is measured with the Reputation Scorecard, which includes multiple internal and external indicators from different sources of analysis of stakeholders' perceptions and expectations. It includes the Entity's main measurement indicators for all its stakeholders, and key reputational values, which are given a weighting based on their strategic importance. The Reputation Scorecard provides a Global Reputation Index (GRI): a global metric enabling data to be compared over time and benchmarked against peers. The metric is also used to set the reputational Risk Appetite Framework (RAF), that is, the perception threshold that CaixaBank always strives to surpass.

Management and monitoring of reputational risk: main levers

The main instrument for formal monitoring of reputational risk management is the Reputational Risk Map. The Map enables CaixaBank to:

- Identify and classify the risks that could affect the Entity's reputation.
- Rank risks by criticality according to their damage to the entity's reputation and the coverage of preventative policies.
- Establish key risk indicators (KRIs) for each risk:
- Establish coverage and mitigation policies for the areas responsible for the different risks.

The Reputational Risk Map is one of the main tools used by CaixaBank's Corporate Responsibility and Reputation Committee and governing bodies to promote reputational risk management and mitigation policies in the bank.

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 a signatory to the United Nations 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.

Internal policies of reputational risk management also include internal training plans aimed at mitigating the materialisation and effects of reputational risks, setting protocols for attending to those affected by the bank's actions or defining crisis and/or contingency plans for any risks that might materialise.

10.2. Actuarial risk and risk relating to the insurance business

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.

In a prudential reporting scope, insurance business risk is included under equity 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.
- Catastrophic risk: risk of loss or of adverse change in the value of insurance liabilities resulting from significant uncertainty in pricing and provisioning assumptions related to extreme or irregular events.

Consequently, in life policies, the main variables that determine actuarial and underwriting risk are rates of mortality, survival, disability, falls and expenses. For all other branches, the claims ratio is the essential variable.

Actuarial risk is managed on the basis of compliance with regulations set by the Solvency II (European Union -EIOPA) and the Directorate

General of Insurance and Pension Funds (DGSFP). These regulations are the basis for the policies and monitoring of 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 2017 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.

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.

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.

The main risk-management milestones achieved in 2017 were:

- 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.
- Development and improvement of monitoring of compliance of VidaCaixa's Risk Appetite Framework through the establishment of level 2 RAF metrics that can anticipate changes in the compliance of level 1 RAF metrics.
- Development, use in management and annual validation of the partial internal model of longevity and mortality.

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.

There is a series of applications that perform management support tasks within these integrated and automated systems. Noteworthy are applications for data processing that are used for preparation of reporting information and risk management. 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.

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 VidaCaixa's Management, Investment and Global Risk Committee and CaixaBank's Global Risk Committee and ALCO. This involves calculation and analysis of the sufficiency of technical provisions, analysis of the sufficiency of expenses, and analysis of products and operations.

The reports prepared include:

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

With respect to application of Solvency II, a presentation was made in 2017 to the insurance supervisor (DGSFP) of the first reporting of annual QRTs (new European reporting for supervision, statistics and accounting). In addition, the first VidaCaixa Solvency and Financial Condition Report was published in the market in 2017.

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.

Internal control systems ensure that all underwriting is carried out in accordance with the reinsurance policy and that planned reinsurance coverage is correct. They can identify and report 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.

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.

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 CaixaBank Group level at all times.

10.3. Risk of impairment of other assets

Definition and general policy

Risk of impairment of other asserts is defined as the risk of a reduction in the carrying amount of shareholdings and in non-financial assets (property, plant and equipment, intangible, deferred tax assets (DTA) and other assets of CaixaBank Group).

Risk management: Structure and organisation of measurement, reporting and monitoring and control systems

CaixaBank carries out individualised management by assigning an area and specific body to each of the risks types included. Its governance is structured from the highest level of the organisation (Board of Directors) towards divisions and management units, with appropriate segregation of functions.

- **Investee risk:** risk of loss arising from unfavourable movements in share prices, or impairment loss, of positions in the Group's investee portfolio, except those over which it exercises control. These positions may originate in explicit management decisions to take a position or from the integration of other entities, or they may result from the restructuring or execution of guarantees within what was initially a credit transaction.
  They are managed mainly through the establishment of policies and frameworks that ensure optimum management of investments within the Group's strategic objectives, such as continuous monitoring of different metrics and risk limits, trends in their economic and financial data, regulatory changes and economic and competitive dynamics in the countries and sectors where each of them operates. In addition, impairment and recoverability analyses carried out with required frequency, using generally accepted methodologies.

- **Tangible assets**: consist mainly of foreclosed assets available for sale and lease. A majority of these assets are owned by the Group's real estate subsidiary BuildingCenter, S.A. The main use of the properties is commercialisation in the real estate market. In 2017, BuildingCenter, S.A. made a substantial effort to resize its structure so as to ensure, though Servihabitat Servicios Inmobiliarios (in which a 51% interest is held by the US fund TPG and 49% by CaixaBank), greater intervention and oversight of proactive portfolio management. This company exclusively manages the real estate assets of CaixaBank Group for commercialisation and management of the majority of the portfolio in all phases of the real estate process.
  In terms of appraisal of the foreclosed assets, prevailing regulations are complied with. To that end, the regulatory requirements stipulated in Royal Decree Law 2/2012 of 3 February, on the restructuring of the financial sector, among others, apply. In addition to Bank of Spain Circular 4/2016 on Public and Reserved Financial Reporting Standards updated by Appendix IX of Circular 4/2004.

- **Intangible assets:** mainly goodwill generated in acquisition processes. The Group periodically assesses its recoverable value to test for impairment.

- **Deferred tax assets (DTAs)**: CaixaBank has a model for applying DTAs to defend the reasonableness of internally developed accounting of deferred tax assets.

The Group's Risk Management Function and Internal Control - Finance perform the second line of defence function for components of impairment risk of Other assets. Highlights include:

- An Internal Control Framework is in place which offers a reasonable degree of assurance that the Group will achieve its objectives. Preparation and formalisation of internal policies, such as the internal control policy and the global risk management policy of equity holdings.

- Monthly risk monitoring within the Risk Appetite Framework, which is reflected in both first level and second level metrics.

- In addition, CaixaBank's models of economic capital reflect the level of available own funds and the capital requirements related to the bank's impairment risk.

Given that management of impairment risk is one of the main objectives of the 2015-2018 strategic plan, highlights in 2017 include:

- Sustained and gradual reduction of problematic assets; with redefinition of model for management of real estate lending, with the creation of a team and centres comprising specialised managers. In addition, aspects such as information traceability were improved, and management and control of the portfolio of leased and foreclosed assets was optimised.

- The Board of Directors has defined a threshold of appetite, tolerance and of non-compliance for the metrics of non-strategic assets, where mostly are included, the non-strategic shares.

- Process of optimising the investee portfolio.

10.4. Business risk

Business profitability risk

This risk is associated with implementation of the Group's strategy, the materialisation of which could entail failure to meet the profitability targets approved by the Board of Directors and ultimately prevent the Group from achieving a profitability level that is sustainable, that is, higher than the cost of capital.

Risk management

Management of this risk is based on the definition of a Strategic Plan backed by financial planning that includes the strategy. In addition, fulfilment of the strategy and of the budget is monitored on a continuous basis. After quantifying potential deviations and identifying the cause, the conclusions are submitted to management and governing bodies to assess whether any adjustments are necessary to ensure achievement of internal targets.

Situation and main activities in 2017

In 2017, profitability measured with RoTE (return on tangible equity) approximated the Group's cost of capital and measures could be taken to contain future expenses. Combined with prudence in risk management, this will lay the basis for higher future profitability.

Internal Control - Finance, as the second line of this risk, is responsible for validating the business risk model. Internal Audit is the third line of defence.

11. 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 Pillar 3 Disclosures 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 “Pillar 3 Disclosures”.

11.1. 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, CaixaBank Group) who are classified as being members of Identified Staff pursuant to applicable regulations relating to 2017.

Quantitative disclosures include remuneration data of professionals in the Identified Staff of BPI,

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 2017, the Remuneration Committee comprised the following Directors:

Ms. María Amparo Moraleda Martínez (independent Director) Chairman

Mr. Alain Minc (independent director), Member

Ms. María Teresa Bassons Boncompte (proprietary): Member

In 2017, the CaixaBank's Appointments and Remuneration Committee met 7 times, and its members received EUR 95,597 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.

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 2017

On 26 February 2015, the Remuneration Committee submitted its proposed Remuneration Policy for 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 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.

As a result of constant review, and with the aim of ensuring correct adaptation to regulations relating to remuneration, on 22 December 2017 the Board of Directors of CaixaBank approved a change to the remuneration policy of Identified Staff.

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 23 February 2017 and approved by the General Shareholders' Meeting on 26 April 2017, with 98.70% of the votes. This policy applies to the period 2017-2020.

The Remuneration Policy for CaixaBank Directors is available on the Company's website (https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/remuneracionesdelosconsejeros_en.html).

11.2. Description of identified staff

During 2017, the professionals who should form part of 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 2017 consisted of 149 professionals, including CaixaBank Group's executive Directors, non-executive Directors, members of the Management Committee, senior executives and key employees. This involves a total of 78 employees of BPI.

11.3. Qualitative information concerning remuneration of identified staff

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 tied to the achievement of previously-established targets and prudent risk management.
- 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.

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.

Variable remuneration

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 2017 these were:

- ROTE
- Recurring expenses
- *Risk Appetite Framework*
- *Know Your Client*
- 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
- Recurring 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
(green)	-3%	(amber)
(amber)	+3%	(green)
(amber)	-6%	(red)
(red)	+6%	(amber)

- 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.

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.

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.

Provided that none of the situations giving rise to reduction obtain, the retained portion of risk-adjusted variable remuneration for executive Directors and members of the Management Committee of CaixaBank included in the identified staff is to be paid in five instalments, in the amounts and on the dates as follows:

- 1/5: 12 months after the Initial Payment Date.
- 1/5: 24 months after the Initial Payment Date.
- 1/5: 36 months after the Initial Payment Date.
- 1/5: 48 months after the Initial Payment Date.
- 1/5: 60 months after the Initial Payment Date.

Provided that none of the situations giving rise to reduction obtain, the retained portion of risk-adjusted variable remuneration for other identified staff is to be paid in three instalments, in the amounts and on the dates 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.

During the period of deferral, the entity obliged to pay the remuneration shall own both the instruments and cash whose delivery is deferred.

Pursuant to the principles of labour and contractual law applicable in Spain, and particularly the bilateral nature of contracts and equity in the accrual of reciprocal considerations, the deferred cash accrues interest in favour of the recipient, calculated by applying the corresponding interest rate to the first tranche of the account payable to the employee. Interest will only be paid at the end of each payment date, and will apply to the cash amount of the effectively receivable variable remuneration, net of any due reduction.

In compliance with EBA guidelines with regard to instruments' returns, the Entity will pay no interest or dividends on deferred instruments either during or after the deferral period from 1 January 2017.

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.

Following the review of the Strategic Plan and its objectives approved on 1 February 2017 by the Board of Directors, at a meeting held on 25 May 2017 this same body agreed to modify the Regulations of the Long-Term Incentives Plan accordingly by updating the ROTE and the Cost-to-Income Ratio to the new objectives proposed.

Some of the beneficiaries of this long-term incentives plan are classified as Identified Staff in CaixaBank.

<u>Duration and settlement of the Plan</u>

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.

<u>Instrument</u>

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.

<u>Determination of the number of units to be assigned to each beneficiary</u>

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:

$$NU = TA / AAP$$

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 will be determined using the following formula:

$$NS = NU \times DFI$$

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 assets or goodwill as part of the Company's equity.

A coefficient of between 0 and 1.2 will be used for the ROTE metric, based on the following scales:

1 January 2015 to 31 December 2016:

- If ROTE is ≥14: 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.

01 January 2017 to 31 December 2018:

- If ROTE is > 9: ROTE coefficient = 1.2
- If the ROTE is = 8: ROTE coefficient = 1
- If the ROTE is = 7: ROTE coefficient = 0.8
- If the ROTE is < 7: ROTE coefficient = 0

The degree of fulfilment of the incentive arising from the ROTE target will be calculated, following the above tables, 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 used for the CIR metric, based on the following scales:

1 January 2015 to 31 December 2016:

- 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.

1 January 2017 to 31 December 2018:

- If 2018 CIR < 53: CIR coefficient = 1.2
- If 2018 CIR = 55: CIR coefficient = 1
- If 2018 CIR = 57: CIR coefficient = 0.8.
- If 2018 CIR > 57: 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.

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.

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.

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 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.

11.4. Quantitative information concerning remuneration of the Identified Staff

In 2017, 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 2017 set out in this 2017 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.).

The following tables include accumulated remuneration data of CaixaBank Group and BPI.

Table 100. Remuneration paid to Identified Staff (I)

(Thousands of euros)

Activity areas	Description of the type of the businesses	Fixed Components of remuneration 2017	Variable Components of remuneration 2017	Total 2017
Investment Banking	Capital markets & Treasury, Markets, ALM and Corporate & Institutional Banking	6,192	5,241	11,433
Retail Banking	Retail Banking, Private Banking & Wealth Management, Business Banking and Transactional	14,834	6,162	20,997
Asset management	Asset Management	478	241	719
All other	Executive and non-executive Directors, members of the Management Committee and Head Office units	34,632	7,944	42,576

Table 101. Remuneration paid to Identified Staff (II)

(Thousands of euros)

Identified staff 2017 remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**28**	**10**	**89**	**104**	**231**
Fixed remuneration 2017	**4,616**	**7,687**	**24,279**	**19,554**	**56,136**
Variable remuneration 2017 (annual bonus)[1]	**466**	**2,382**	**6,834**	**9,700**	**19,381**
In cash	**466**	1,945	4,616	5,329	12,355
In shares or share-linked instruments	-	437	2,218	4,371	7,026
Other types instruments	-	-	-	-	-
Variable remuneration deferred (still not paid)[2]	**725**	**3,058**	**4,709**	**5,508**	**14,000**
Attributed	-	-	-	-	-
Not attributed	725	2,952	4,709	5,508	13,894
In cash	244	1,342	2,672	2,754	7,011
In shares or share-linked instruments	481	1,611	2,037	2,754	6,883
In other types instruments	-	-	-	-	-
Deferred remuneration paid in exercise 2017[3]	**25**	**332**	**1,894**	**1,862**	**4,114**
In cash	11	147	852	824	1,835
In shares or share-linked instruments	14	185	1,042	1,038	2,279
In other types instruments	-	-	-	-	-
Total amount of explicit expost performance adjustment applied in 2017 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	**-**	**4**	**28**	**19**	**51**
Prorated annual bonus target	-	388	1,547	459	2,394
Number of beneficiaries of discretionary pension benefits	**1**	**8**	**12**	**-**	**21**
Total amount of discretionary pension benefits in exercise 2017	8	100	167	-	275

[1] The variable remuneration included in Non-Executive Directors was accrued in executive functions of the previous period.

[2] It includes the def erred v ariable remuneration pending payment at 31/12/2017 (1/3 bonus 2015, 2/3 bonus 2016 and the def erred part of bonus 2017).

[3] It includes the def erred v ariable remuneration awarded in prev ious y ears and paid in February 2018 (1/3 bonus 2014, 1/3 bonus 2015 and 1/3 bonus 2016)

Table 102. Remuneration paid to Identified Staff (III)

(Thousands of euros)

Identified staff 2017 variable remunerations	Non Executive Directors	Executive Directors	Senior management	Other Identified Staff	Total Identified Staff
Number of beneficiaries	**28**	**10**	**89**	**104**	**231**
Variable remuneration 2017 (annual bonus)	**466**	**2,382**	**6,834**	**9,700**	**19,381**
Bonus 2017 paid in 2018	233	1,125	4,213	6,203	11,773
In cash	233	939	3,104	3,580	7,857
In shares or share-linked instruments	-	185	1,109	2,623	3,917
In other types instruments	-	-	-	-	-
Bonus 2017 deferred and not attributed	233	1,257	2,621	3,497	7,608
In cash	233	1,006	1,512	1,748	4,499
In shares or share-linked instruments	-	252	1,109	1,748	3,109
In other types instruments	-	-	-	-	-

Table 103. Remuneration paid to Identified Staff (IV)

Total remuneration; payment band (in EUR)	
€ 1 million to bellow € 1,5 million	5
€ 1,5 million to bellow € 2 million	3
€ 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 2017:

- No payments were made for new hires within the Identified Staff.
- No adjustments to deferred compensation awarded in 2017 were made as a result of performance.

Appendix I. Information on transitory own funds

Amounts in millions of euros

(A) Amount to information date; (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	18,024	*26 (1), 27, 28, 29 EBA list 26 (3)*	
2	Retained earnings	5,173	*26 (1) (c)*	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(179)	*26 (1)*	
5	Minority interests (amount allowed in consolidated CET1)	278	*84, 479, 480*	*5*
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	787	*26 (2)*	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**24,083**		
Common Equity Tier 1 capital : regulatory adjustments				
7	Additional value adjustments (negative amount)	(89)	*34, 105*	
8	Intangible assets (net of related tax liability) (negative amount)	(3,365)	*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)	(1,126)	*36 (1) (c), 38, 472 (5)*	
12	Negative amounts resulting from the calculation of expected loss amounts	(401)	*36 (1) (d), 40, 159, 472 (6)*	
13	Any increase in equity that results from securitised assets (negative amount)	(41)	*32 (1)*	
14	Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing	(27)	*33 (b)*	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(54)	*36 (1) (f), 42, 472 (8)*	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(14)		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(14)	*467 a 468*	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		*36 (1) (j)*	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(5,117)**		
29	**Common Equity Tier 1 (CET1) capital**	**18,966**		
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1,000	*51, 52*	
32	of which: classified as liabilities under applicable accounting standards	1,000		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**1,000**		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	(1)	*52 (1) (b), 56 (a), 57, 475 (2)*	
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	(891)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: Intangible assets	(841)		
	Of which: shortfall of provisions to expected losses	(50)		
43	**Total regulatory adjustments to Additional Tier 1 capital**	**(892)**		
44	**Additional Tier 1 capital (AT1)**	**108**		
45	**Tier 1 capital (Tier 1 = CET1+AT1)**	**19,074**		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	4,619	*62, 63*	
50	Credit risk adjustments	451	*62 (c) y (d)*	
51	**Tier 2 (T2) capital before regulatory adjustments**	**5,070**		
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	(47)	*63 (b) (i), 66 (a), 67, 477 (2)*	
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	(50)	*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	(50)		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(97)**		
58	**Tier 2 (T2) capital**	**4,973**		
59	**Total capital (TC=T1+T2)**	**24,047**		
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)	148,940		
	Of which: CET1 instruments of financial sector entities not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts)	*3,271*	*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)	*2,389*	*475, 475 (2) (b), 475 (2) (c), 475 (4) (b)*	
60	**Total risk weighted assets**	**148,940**		

Amounts in millions of euros

	(A) Amount to information date; (B) CRR reference to article; (C) Amounts subject to treatment prior to RRC or residual amount prescribed by RRC	*(A)*	*(B)*	*(C)*
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**12.7%**	*92 (2) (a), 465*	
62	**Tier 1 (as a percentage of risk exposure amount)**	**12.8%**	*92 (2) (a), 465*	
63	**Total capital (as a percentage of risk exposure amount)**	**16.1%**	*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)**	**7.38%**	*DRC 128, 129, 130*	
65	*of which: capital conservation buffer requirement*	*1.25%*		
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*	*0.125%*		
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)	1,453	*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)	956	*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)	1,308	*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 (80%)
41a Rest of goodwill and intangible assets (20%)
52 Treasury stock and pledged amounts

Appendix II. Main features of equity instruments

Amounts in millions of euros

		ES0140609019	AYTS491201	AYTS490629	XS0989061345	ES0240609000	XS1565131213	ES0240609133	XS1645495349	ES0840609004	PTBFNDPE0001	PTBFNEPE000
1	**Issuer**	CaixaBank, S.A	CajaSol	CajaSol	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	Banco BPI	BPI
2	**Unique identifier (ISIN)**	ES0140609019	AYTS491201	AYTS490629	XS0989061345	ES0240609000	XS1565131213	ES0240609133	XS1645495349	ES0840609004	PTBFNDPE0001	PTBFNEPE000
3	**Governing law(s) of the instrument**	Spanish Law	Spanish Law	Spanish Law	English Law except for the provisions relating to the status of the Notes, the capacity of the Issuer, the Syndicate of Bondholders/the commissioner and the relevant corporate resolutions which are governed by Spanish law	Spanish Law	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant corporate resolutions which are governed by Spanish law	Spanish Law	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant corporate resolutions which are governed by Spanish law	Spanish Law	Portuguese Law	Portuguese Law
4	**Transitional CRR rules**	Common Equity Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional Tier 1	Tier 2 capital	Tier 2 capital
5	**Post-transitional CRR Rules**	Common Equity Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Additional Tier 1	Tier 2 capital	Tier 2 capital
6	**Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated**	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Consolidated	Consolidated
7	**Instrument type**	Ordinary shares	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Contingent Convertible Preferred Securities	Subordinated debt	Subordinated debt
8	**Amount recognised in regulatory capital (currency in million, as of most recent reporting date)**	5,981	18	1	741	1,675	993	150	994	999	0.4	0.2
9	**Nominal amount of the instrument**	5,981	18	15	750	2,072	1.000	150	1,000	1,000	14	14
9a	**Issue price**	n/a	100%	100%	99%	100%	99.9730%	100%	99.9730%	100%	100%	100%
9b	**Redemption price**	n/a	n/a	N/A	100%	100%	100%	100%	100%	100%	100%	100%
10	**Accounting classification**	Equity	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	**Original date of issuance**	n/a	31/12/1990	29/06/1994	14/11/2013	09/02/2012	15/02/2017	7/07/2017	14/17/2017	13/06/2017	1/04/1987	31/12/1987
12	**Perpetual or dated**	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Perpetual	Perpetual	Perpetual
13	**Original maturity date**	n/a	Undated	24/06/2093	14/11/2023	09/02/2022	15/02/2027	07/07/2042	14/17/2028	Undated	Undated	Undated
14	**Issuer call subject to prior supervisory approval**	No	No	n/a	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	**Optional call date, contingent call dates and redemption amount**	n/a	n/a	n/a	14/11/2018 (one-time call) for the full amount at the Issuer's option for taxation reasons or a Capital Event , in each case subject to the supervisor's approval	In full, at the Issuer's option, from 9/2/2017, and any time afterwards subject to the supervisor's approval	15/2/2022 (one-time call) for the full amount at the Issuer's option for taxation reasons or a Capital Event , in each case subject to the supervisor's approval (conditions 6.2 and 6.4)	7/7/2037 and yearly afterwards for the full amount at the Issuer's option for taxation reasons or a Capital Event , in each case subject to the supervisor's approval	14/7/2023 (one-time call) for the full amount at the Issuer's option for taxation reasons or a Capital Event , in each case subject to the supervisor's approval (conditions 6.2 and 6.4)	13/6/2024 and quarterly afterwards for the full amount at the Issuer's option for taxation reasons or a Capital Event , in each case subject to the supervisor's approval (conditions 7.3 and 7.4)	10 years after the issuance (1997) with a 6 months' notice, at the Issuer's option, subject to the supervisor's approval	10 years after the issuance (1997) with a 6 months' notice, at the Issuer's option, subject to the supervisor's approval
16	**Subsequent call dates, if applicable**	n/a	n/a	n/a	n/p	At any time from 9/2/2017	n/p	Yearly	n/p	Quarterly	At any time from 2027 with a 6 months' notice	At any time from 2027 with a 6 months' notice
17	**Fixed or floating dividend/coupon**	Variable	Fixed	n/a	Fixed	Fixed	Fixed	Fixed	Fixed	Variable	Fixed + Variable / with a cap and a floor	Fixed + Variable / with a cap and a floor
18	**Coupon rate and any related index**	n/a	0%		5% until 14/11/18; if not called, resets at the then prevailing 5 years mid-swap rate + 395 bps	4.000%	3.506% until 15/2/2022; if not called, resets at the then prevailing mid-swap 5 years rate + 335 bps	4.000% until 7/7/2037; if not called, resets at the then prevailing mid-swap 5 years rate + 272 bps	2,755% until 14/7/2023 ; if not called, resets at the then prevailing mid-swap 5 years rate + 235 bps	6,75% until 14/11/2024 ; if not called, resets at the prevailing mid-swap 5 years rate + 649,8 bps and 5 years afterwards from that date	(1)	(1)
19	**Existence of a dividend stopper**	n/a	No	n/a	No	No	No	No	No	No	No	No
20a	**Fully discretionary, partially discretionary or mandatory (in terms of timing)**	Fully discretionary	Mandatory	n/a	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Mandatory	Mandatory

Amounts in millions of euros

		ES0140609019	AYTS491201	AYTS490629	XS0989061345	ES0240609000	XS1565131213	ES0240609133	XS1645495349	ES0840609004	PTBFNDPE0001	PTBFNEPE000
20b	**Fully discretionary, partially discretionary or mandatory (in terms of amount)**	Fully discretionary	Mandatory	n/a	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Fully discretionary	Mandatory	Mandatory
21	**Existence of step up or other incentive to redeem**	n/a	No	n/a	No	No	No	No	No	No	No	No
22	**Noncumulative or cumulative**	Non-cumulative	Non-cumulative	n/a	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Non-cumulative	Cumulative	Cumulative
23	**Convertible or non-convertible**	n/a	Convertible	n/a	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Convertible	Non Convertible	Non Convertible
24	**If convertible, conversion trigger(s)**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	This Contingent Convertibles convert into ordinary shares when the CET1 falls down below 5,125% at the Bank or Group level Consolidated	n/a	n/a
25	**If convertible, fully or partially**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Always fully	n/a	n/a
26	**If convertible, conversion rate**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Greater of: i) market price of the sahres at the time of conversion (with a floor of its nominal value); ii) a Floor Price of €2.803	n/a	n/a
27	**If convertible, mandatory or optional conversion**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Mandatory	n/a	n/a
28	**If convertible, specify instrument type convertible into**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Common Equity Tier 1	n/a	n/a
29	**If convertible, specify issuer of instrument it converts into**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	CaixaBank, S.A	n/a	n/a
30	**Write-down features**	n/a	No	n/a	No	No	No	No	No	No	No	No
31	**If write-down, write-down trigger(s)**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
32	**If write-down, full or partial**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
33	**If write-down, permanent or temporary**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34	**If temporary write-down, description of write-up mechanism**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	There are not subordinated instruments to this one	Senior creditors	n/a	Senior creditors	Senior creditors	Senior creditors	Senior creditors	Senior creditors	Tier 2 Capital Instruments	Subordinated debt instruments not included in own funds	Subordinated debt instruments not included in own funds
36	**Non-compliant transitioned features**	No	n/p	n/a	No	No	No	No	No	No	No	No
37	**If yes, specify non-compliant features**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
38	**Prospectus**	n/p	n/a	n/a	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.ise.ie/debt_documents/Final%20Terms_4d3676fe-d968-4977-a14b-4e107812d270.PDF	http://www.cnmv.es/Portal/Consultas/Folletos/FolletosAdmision.aspx?isin=ES0240609133	http://www.ise.ie/debt_documents/Final%20Terms_e17de6d1-419c-4367-ba57-302c9de7d9df.PDF	http://cnmv.es/Portal/Consultas/Folletos/FolletosAdmision.aspx?isin=ES0840609004	n/a	n/a

Capital securities issued by BPI to third-party investors are detailed, whereas the € 300 million Tier 2 subordinated issuance fully subscribed by CaixaBank during Q1 2017 is excluded.

Appendix III. Information on leverage ratio

Amounts in millions of euros

	Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per published financial statements	383,186
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(48,167)
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	(13,120)
5	Adjustments for securities financing transactions "SFTs"	376
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	27,859
6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(5,852)
8	**Leverage ratio exposure**	**344,281**

	Leverage ratio common disclosure	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	316,057
2	Asset amounts deducted in determining Tier 1 capital	(5,852)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**310,205**
	Leverage ratio common disclosure	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	4,489
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,493
5a	Exposure determined under Original Exposure Method	0
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)	(3,218)
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**	**3,764**
	Leverage ratio common disclosure	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	2,077
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	376
14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures**	**2,453**

Amounts in millions of euros

	Leverage ratio common disclosure	
17	Off-balance sheet exposures at gross notional amount	86,766
18	(Adjustments for conversion to credit equivalent amounts)	(58,906)
19	**Other off-balance sheet exposures**	**27,859**
	Excluded exposures	
19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
	Leverage ratio common disclosure	
20	**Tier 1 capital**	**19,074**
21	**Total leverage ratio exposures**	**344,281**
	Leverage ratio common disclosure	
22	**Leverage ratio**	**5.5%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
23	Choice on transitional arrangements for the definition of the capital measure	Transitional
24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	0

Amounts in millions of euros

	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**316,057**
EU-2	Trading book exposures	12
EU-3	Banking book exposures, of which:	316,045
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	61,303
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	3,702
EU-7	Institutions	3,643
EU-8	Secured by mortgages of immovable properties	105,304
EU-9	Retail exposures	29,326
EU-10	Corporate	71,075
EU-11	Exposures in default	12,447
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	29,246

	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	BPI adquisition (1Q) and impact of the transitional aplication of Basel III. AT1 emission (2Q).

Appendix IV. Holdings subject to regulatory limits for deduction purposes

Share	Company	Activity	% participation	
			Direct	Total
Significant shareholdings (>10%)	Banco Comercial de Investimento, SARL	Banking	0.00	30.14
	Banco de Fomento de Angola, SA	Banking	0.00	40.65
	BPI, Incorpored	Other	0.00	84.51
	Brilliance-Bea Auto Finance	Finance for vehicle purchases	0.00	22.50
	Celeris, servicios financieros, SA	Financial services	26.99	26.99
	Comercia Global Payments, Ent. Pago, SL	Payment entity	49.00	49.00
	Companhia de Seguros Allianz Portugal, SA	Insurance entity	0.00	29.58
	Cosec-Companhia de Seguros de Crédito, SA	Credit insurances	0.00	42.26
	Global Payments -Caixa Adq. Corp., SRAL	Payment entity	49.00	49.00
	Global Payments South America, Brasil - Serviços de Pagamento	Payment entity	50.00	50.00
	Inversiones Alaris, SA	Holding company	33.33	66.67
	Monty & Cogroup, SL	Transfer repection	20.47	20.47
	Redsys Servicios de Procesamiento, SL	Payment entity	0.00	20.00
	Servired, Sociedad Española de Medios de	Payment entity	0.00	22.01
	Sociedad de Procedimientos de Pago, SL	Payment entity	0.00	22.92
	SR2, Sociedad de Medios de Pago, SA	Payment entity	0.00	22.01
	Telefónica Factoring do Brasil, LTDA	Factoring	20.00	20.00
	Telefónica Factoring España, SA	Factoring	20.00	20.00
	Unicre - Instituição Financeira de Crédito, SA	Financial services	0.00	17.76
Not significant (<10%)	Erste Group Bank AG	Banking	9.92	9.92

Note: VidaCaixa Group is not included in regulatory scope due to the statement in CRR article 49.1 ("Danish compromise") by which it consumes capital by RWAs instead of equity deduction.

Appendix V. Companies with differing prudential and accounting consolidation treatment (EU LI3)

Treatment		Company	Activity	% Participation	
Financial Statements	Regulatory			Direct	Total
Full consolidable entities	Not consolidated by activity	Aris Rosen, SAU	Services	100.00	100.00
		Biodiesel Processing, SL	Research, development and sale of biofuels	0.00	100.00
		Bodega Sarría, SA	Production and marketing of wine	0.00	100.00
		Cestainmob, SL	Property management and real estate	0.00	100.00
		Estugest, SA	Administrative activites and services	100.00	100.00
		Grupo Aluminios de precisión, SL	Smelting	100.00	100.00
		Grupo Riberebro integral, SL	Production and marketing of agricultural products	0.00	60.00
		Inter Caixa, SA	Services	99.99	100.00
		Inversiones corporativas digitales, SL	Holding company	0.00	100.00
		Inversiones Inmobiliarias Teguise Resort, SL	Hotels and similar	60.00	60.00
		Inversiones vitivinícolas, SL	Production and marketing of	0.00	100.00
		PromoCaixa, SA	Product marketing	99.99	100.00
		Puerto Triana, SA	Real state of shopping centers	100.00	100.00
		Sociedad de gestión hotelera de Barcelona (antes Sihabe Inversiones 2013)	Transactions with real estate	0.00	100.00
		VidaCaixa Mediació, Sociedad de Agencia de Seguros Vinculada, SAU	Insurance agency	0.00	100.00
		BPI Vida e Pensões - Companhia de Seguros, S.A.	Life insurance and pension fund managementes	0.00	100.00
		VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal	Insurance and reinsurance	100.00	100.00
Multigroup method of equity	Proportional consolidated method	Banco Europeo de Finanzas, SA	Wholesale or investment banking	39.52	39.52

For the rest of the entities, the consolidation method for prudential purposes coincides with that applicable in the annual accounts. See financial report for the complete list of companies of the Group.

Appendix VI. Acronyms

Acronym	Description
Additional TIER1 (AT1)	Additional Tier 1 Capital
ALCO	Assets and Liability Committee
AMA	Advanced Measurement Approach for calculating operational risk capital
AMLOU	The Anti-Money Laundering and Counter Terrorist Financing Unit
AVAs	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BEICF	Business environment and internal control factors
BIS	Bank for International Settlements
BoS	Bank of Spain
BPS	Basis Points
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
CCP	Central Counterparty
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CIR	Cost-to-Income ratio
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.

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
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation, EU Regulation Nº 648/2012, on OTC derivatives, central counterparties and trade repositories
FINREP	FINancial REPoting, 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
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICFRS	Internal Control over Financial Reporting
IFRS	International Financial Reporting Standards
IGC	Corporate Management Information
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal Rating Based approach
IRC	Incremental default and migration risk
IRRBB	Interest rate risk for positions in the banking book
ISDA	International Swaps and Derivatives Association
KPI	Key Performance Indicators
KRI	Key Risk Indicators

LCR	Liquidity Coverage Ratio
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
NSFR	Net Stable Funding Ratio
O-SII	Other Systemically Important Institution
ODF	Observed Default Frequency
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
RAR	Risk Adjusted Return
RBA	Rating Based Approach
RAF	Risk Appetite Framework
ROE	Return on Equity
ROTE	Return on Tangible Equity
RWAs	Risk-weighted assets
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TIER2 (T2)	Tier 2 capital

TLTRO	Targeted Longer-term Refinancing Operation
TO	Takeover bid
TSR	Total Shareholder Return
VaR	Value at Risk

Appendix VII. CRR mapping

Table	Table name	EBA Table	CRR article	Section
1	Table 1. Reconciliation between the public and prudential balance sheets			2.5. Accounting reconciliation between the financial statements and regulatory statements
2	Table 2. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk (EU LI1)	EU LI1	436.b	2.5. Accounting reconciliation between the financial statements and regulatory statements
3	Table 3. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EU LI2)	EU LI2	436.b	2.5. Accounting reconciliation between the financial statements and regulatory statements
4	Eligible own funds			4. Capital
5	Table 5. Eligible own funds			4.2.1. Eligible capital
6	Table 6. Variation in regulatory capital			4.2.1. Eligible capital
7	Table 7. Non-deducted participations in insurance undertakings (EU INS1)	EU INS1	438.c and 438.d	4.2.2. Capital requirements
8	Table 8. Capital consumption by segments			4.2.2. Capital requirements
9	Table 9. Risk-weighted assets (RWA) and capital requirements by risk type (EU OV1)	EU OV1	438.c to 438.f	4.2.2. Capital requirements
10	Table 10. Leverage ratio			4.2.4. Leverage ratio
11	Table 11. Conglomerate coverage ratio			4.2.5. Financial conglomerate
12	Table 12. Capital buffer requirements			4.3.2. Capital buffers
13	Table 13. Geographical distribution of exposures			4.3.4. Details of systemic buffers
14	Table 14. Amount of institution-specific countercyclical capital buffer			4.3.4. Details of systemic buffers
15	Table 15. Credit risk dashboard			5. Total Credit Risk
16	Table 16. Exposure by application of mitigation techniques			5.1.1. Credit risk management
17	Table 17. Standardised approach: exposure by application of mitigation techniques			5.1.1. Credit risk management
18	Table 18. IRB approach: exposure by application of mitigation techniques			5.1.1. Credit risk management
19	Table 19. Standardised approach: credit risk exposure and effects of mitigation techniques (EU CR4)	EU CR4	453.f and 453.g	5.1.2. Minimum own funds requirements for credit risk
20	Table 20. Standardised approach: Credit risk exposures by asset class and risk weights (EU CR5)	EU CR5	444.e	5.1.2. Minimum own funds requirements for credit risk
21	Table 21. Standardised approach: Risk-weighted assets by asset class and risk weights (credit risk) (EU CR5)	EU CR5	444.e	5.1.2. Minimum own funds requirements for credit risk
22	Table 22. Standardised approach: exposure guaranteed by real estate assets, by type of collateral			5.1.2. Minimum own funds requirements for credit risk
23	Table 23. IRB: Equivalence between master scale and rating agencies			5.1.2. Minimum own funds requirements for credit risk

Table	Table name	EBA Table	CRR article	Section
24	Table 24. IRB: Credit risk exposures by portfolio			5.1.2. Minimum own funds requirements for credit risk
25	Table 25. IRB: Credit risk exposures by portfolio and PD range (EU CR6)	EU CR6	452.e and 452.g	5.1.2. Minimum own funds requirements for credit risk
26	Table 26. RWA flow statements of credit risk exposures under the IRB approach (EU CR8)	EU CR8	438.d	5.1.2. Minimum own funds requirements for credit risk
27	Table 27. Provisions evolution			5.1.2. Minimum own funds requirements for credit risk
28	Table 28. Average exposure by risk category (EU CRB-B)	EU CRB-B	442.c	5.1.3. Quantitative aspects
29	Table 29. Credit exposure by geographical zone (EU CRB-C)	EU CRB-C	442.d	5.1.3. Quantitative aspects
30	Table 30. EAD by sectors of economic activity			5.1.3. Quantitative aspects
31	Table 31. EAD by sector of non-financial business activity (EU CRB-D)	EU CRB-D	442.e	5.1.3. Quantitative aspects
32	Table 32. RWA by sectors of economic activity			5.1.3. Quantitative aspects
33	Table 33. RWA by sector of non-financial business activity (EU CRB-D)	EU CRB-D	442.e	5.1.3. Quantitative aspects
34	Table 34. Distribution of exposures by residual maturity (EU CRB-E)	EU CRB-E	442.f	5.1.3. Quantitative aspects
35	Table 35. Distribution of RWAs by residual maturity (EU CRB-E)	EU CRB-E	442.f	5.1.3. Quantitative aspects
36	Table 36. Changes in the stock of defaulted and impaired loans and debt securities (EU CR2-B)	EU CR2-B	442.i	5.1.3. Quantitative aspects
37	Table 37. Credit quality of exposures by exposure class and instrument (EU CR1-A)	EU CR1-A	442.g and 442.h	5.1.3. Quantitative aspects
38	Table 38. Credit quality of exposures by industry or counterparty types (EU CR1-B)	EU CR1-B	442.g and 442.h	5.1.3. Quantitative aspects
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