# Pillar 3 Report

**CaixaBank Group**

at 31 December 2018

CaixaBank

**(*)** Translation of Pillar 3 Report 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.

# CONTENTS

# Statement of the Board of Directors

On 22 March 2018, the Board of Directors of CaixaBank approved the review and update of the Policy on Disclosure and Verification of Financial Information, which explicitly sets out the Group's Policy on the verification of information to be disclosed. Under this policy, it is established that the Information of Prudential Relevance shall be subject to the same degree of verification as that applied to the information of the management report, as part of the financial report. This is in accordance with the EBA's guidelines of 4 August 2017 on disclosure requirements, pursuant to part eight of the CRR[1], articles 431(3) and 434(1).

At its meeting on 21 March 2019, the Board of Directors approved this Information of Prudential Relevance document for the 2018 financial year (hereinafter, IPR 2018), having been previously verified by the Audit and Control Committee, in response to the provisions of article 435(1)(e)(f) of the CRR. The Board, in its supervisory duty[2] with regard to the Group's disclosure process and its risk profile, states that:

- This Information of Prudential Relevance document has been prepared in accordance with the Policy on Disclosure and Verification of Financial Information, approved by the Board on 22 March 2018.

- The information published and the risk management systems implemented are appropriate for the profile and strategy of the CaixaBank Group.

The functions of the second line of defence[3] have participated in the review and verification of the information presented, as well as in ensuring that this 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 Governance Bodies, as a third line of defence Internal Audit has reviewed the content of the IPR 2018 and its compliance with the regulatory requirements, as well as the control structures that have been implemented.

[1] Section 3.GOVERNANCE, ORGANISATION AND RISK MANAGEMENT and the successive risk sections provide more details on risk management policies and objectives.

[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] Generally speaking, the second line of defence includes the Risk Management Function and the Compliance function, as established in the EBA's Internal Governance guide of 26 September 2017.

The CaixaBank Group has prepared the Information of Prudential Relevance for 2018 and, in this regard, the Board of Directors declares that the Group:

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

The main areas of action that make it possible to maintain a medium-low risk profile are as follows:

## Risk governance, management and control system


The Group has an effective risk governance, management and control system, which is aligned with: its business model, its stakeholders' expectations and international best practices. The implemented risk management systems are adequate for the profile and strategy of the Group.

## Conservative risk profile

The Group has set itself an objective of maintaining a medium-low risk profile and a comfortable level of capital in order to strengthen its position.

Credit risk is the most significant risk and it relates mainly to the banking activity. It operates primarily in the retail sector, and ensuring the confidence of its stakeholders is one of its core values.

The Group aspires to maintain its leadership position in the Iberian 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 using mitigation techniques.

The Group's activity in the financial markets is focused on serving its 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.

In line with best practices, Operational risk and other non-financial risks use a common risk management infrastructure and framework, which are reinforced with specialists in the control and mitigation of risks that are considered material (e.g. IT risk), with the shared goal of minimising financial, reputational or strategic impacts.

As demonstrated by the contents of this Declaration and of the IPR 2018, the Group has coherent financial ratios that are consistent with its Management Policy and are considered to be aligned with the Risk Appetite Framework (RAF) established by the Board of Directors.

### 1. Robust solvency

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

One of CaixaBank's strategic objectives is to strengthen its capital position, thereby maintaining sufficient headroom to deal with a stress scenario.

In 2018, the Group's capital ratios are above the minimum requirements and in line with its management objectives, as well as being aligned with the Risk Appetite laid down by the Board of Directors, thus providing support to its dividend policy.

### 2. Comfortable liquidity metrics

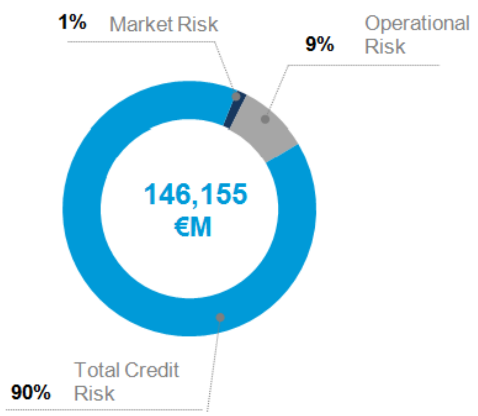
CaixaBank wishes to ensure its permanent capacity to suitably fulfil its funding obligations and requirements, even under adverse market conditions, and thus aims to have a stable, diversified funding base to preserve and protect the interests of its depositors.

It has comfortable liquidity metrics, with a stable funding structure and comfortable a maturity profile over the coming years.

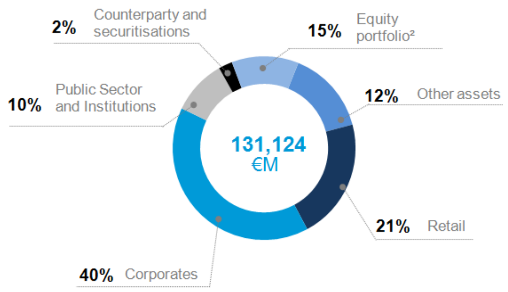
With regards to the contents of this Declaration and the attached IPR, the Group has coherent liquidity metrics that are consistent with its Management Policy, and which are considered to be aligned with the Risk Appetite Framework established by the Board of Directors.

## RISK PROFILE

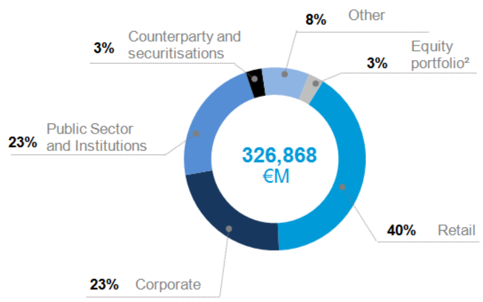
**TOTAL RWA[1]**
Distribution by type of risk, %




**TOTAL CREDIT RISK RWA[1]**
Distribution by type of risk or sector, %




**TOTAL CREDIT RISK EAD[1]**
Distribution by type of risk or sector, %




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

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| NPL (%) | 6.9% | 6.0% | 4.7% |
| Coverage ratio (%) | 47% | 50% | 54% |
| Cost of risk (bps) (*) | 46 | 34 | 4 |
| 12-month cumulative ROTE | 5.6% | 8.4% | 9.3% |
| Efficiency ratio (**) | 51.0% | 54.3% | 52.9% |

(*)The 30-bp reduction is supported by the reversal of provisions amounting to around 275 million euros, associated with updating the recoverable value of a large credit exposure (the ratio would be 16 bps without taking this reversal into consideration).
(**) Excluding extraordinary expenses.

# CAPITAL MANAGEMENT

## REGULATORY

| | 2016[1] | 2017[2] | 2018 | *Min. req. 2018* |
|---|---|---|---|---|
| CET 1 (%) | 13.2% | 12.7% | **11.8%** | ***8.063%*** |
| Tier 1 (%) | 13.2% | 12.8% | **13.3%** | ***9.563%*** |
| Total capital (%) | 16.2% | 16.1% | **15.6%** | ***11.563%*** |
| Leverage ratio (%) | 5.7% | 5.5% | **5.6%** | |
| Coverage ratio of the conglomerate (%)[3] | | 143.4% | **131.4%** | |

## *FULLY LOADED*

| | 2016[1] | 2017[2] | 2018 | *Min. req. 2018* |
|---|---|---|---|---|
| CET 1 (%) | 12.4% | 11.7% | **11.5%** | ***8.75%*** |
| Tier 1 (%) | 12.4% | 12.3% | **13.0%** | ***10.25%*** |
| Total capital (%) | 15.4% | 15.7% | **15.3%** | ***12.25%*** |
| Leverage ratio (%) | 5.4% | 5.3% | **5.5%** | |

(1) The ratios at 31 December 2016 include the capital increase necessary to anticipate the impact of the acquisition of BPI during the first quarter of 2017.
(2) The ratios at 31 December 2017 do not include the impact of the first application of IFRS9.
(3) CaixaBank has been the parent company of the financial conglomerate since the deconsolidation of Criteria in September 2017.

# LIQUIDITY

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| LCR (%) | 160% | 202% | **200%** |
| LTD ratio (%) | 110.9% | 107.7% | **104.6%** |
| High quality liquid assets | 36,970 | 53,610 | **57,093** |

# 1.

# CaixaBank Group Pillar 3

# 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 Bank's risk profile, risk monitoring and management system, capital 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 EBA (European Banking Authority), the recommendations published by the Basel Committee on Banking Supervision (BCBS), as well as CaixaBank's Policy on Disclosure and Verification of Financial Information.

The information in this report has been prepared at the consolidated level, under a prudential scope, in compliance with CRR requirements. Additionally, following the deconsolidation of CaixaBank from Criteria in September 2017, CaixaBank, as a supervised entity, is considered to be the entity of the financial conglomerate it forms with VidaCaixa, primarily, that is subject to these requirements. In this regard, and in order to cover the additional monitoring requirements that apply, the document also contains information regarding the adequacy of the levels of capital and risk management in the conglomerate as a whole. The CaixaBank Group declares that 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.

Specifically, since December 2015 the Bank has been publishing the main tables from this report on a quarterly basis, in Excel format. This information is available on the CaixaBank website, in the same location as this document.

On the basis of all these modifications, and as part of CaixaBank's Policy on Disclosure and Verification of Financial Information, the Disclosure Regulation was updated and approved by its Board of Directors at its meeting on 22 March 2018.

As established in the Policy on Disclosure and Verification of Financial Information, this report has been prepared on the basis of the various verification and control processes established in each of the three lines of defence defined in CaixaBank's Internal Control Framework, as well as complying with the Bank's internal governance procedures.

In accordance with the Disclosure Policy of the CaixaBank Group, this document, which contains data relating to 31 December 2018, has also been approved by CaixaBank's Board of Directors at its meeting on 21 March 2019, after having been verified by the Audit and Control Committee.

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

# 2.

# CaixaBank Group



# 2. CAIXABANK GROUP

## 2.1. Regulatory environment

In 2010, the Basel Committee On Banking Supervision approved the reform of the Global Regulatory Framework on bank capital adequacy, known as Basel 3, in response to the international financial crisis. On 1 January 2014, the package of legislation transposing this framework came into force in the European Union, comprising 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. In particular, these improvements called for stricter requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. The CRR is applied directly in Spain, while CRD IV was implemented through Royal Decree-Act 14/2013, Act 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. In addition, as the parent company of the financial conglomerate it forms mainly with VidaCaixa since the deconsolidation of Criteria in September 2017, CaixaBank is subject to an additional supervisory framework pursuant to Directive 2002/87 of the European Parliament and of the Council of 16 December 2002. This framework relates to supplementary supervision of credit institutions, insurance companies and investment firms within a financial conglomerate.

CaixaBank closely monitors - and actively participates in - the groups in which the various regulatory frameworks are discussed and approved.

In 2014, the ECB took responsibility for supervision of the euro area, after Regulation 1024/2013 of the Council and ECB regulation 468/2014 came into force, giving rise to the creation of the Single Supervisory Mechanism (SSM). Under the SSM, the ECB takes direct responsibility for supervision of the largest financial institutions, including CaixaBank, as well as indirect responsibility for other entities, which are supervised directly by the corresponding national authorities.

In 2015, the ECB completed the first annual cycle of the Supervisory Review and 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. This is achieved through a Europe-wide standardised process and through the EBA's "Guidelines on Common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing" (SREP guide), last updated in June 2018. 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 financial institutions' viability on an individual basis, also considering 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 potential capital conservation, countercyclical 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 were to fail to comply with its Pillar 2G requirements, this would not automatically result in actions being taken by the supervisor in relation to the distribution of profits, also known as the Maximum Distributable Amount (MDA). However, it could lead to stricter individual supervisory measures. Pillar 2G is not generally public information.

In addition to the potential supervisory measures mentioned above, in 2014 Directive 2014/59/EU - otherwise known as the Bank Recovery and Resolution Directive (BRRD) - 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 Act 11/2015 and other lower level regulations. The BRRD, together with Directive 2014/49, on the Deposit Guarantee Scheme, enhances the capacity of the banking sector to absorb the impact of economic and financial crises, and the capacity of financial institutions to wind up their business in an orderly fashion, while maintaining financial stability, protecting depositors and avoiding the need for public bailouts.

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

The CaixaBank Group drew up its first Recovery Plan in 2014, based on data from the 2013 year end. The 2017 Recovery Plan (based on 2017 data) is the fifth edition and was approved by the Board of Directors in September 2018.

CaixaBank's Recovery Plan has been fully incorporated into the company's internal risk and capital management and governance policies. Of particular note is the involvement of senior management in the Recovery and Resolution Plans Committee, as well as the inclusion of recovery indicators in the Risk Appetite Framework (RAF) as part of the Bank'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 are implemented by the National Resolution Authority (in Spain, the FROB as the executive authority and the BoS as the preventative authority). These authorities also draw up the Resolution Plan for each financial institution, with the entities in question cooperating by providing the necessary information. The BRRD also introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL). The SSM came into force on 1 January 2016. The Commission's Delegated Regulation (EU) 2016/1450 of 23 May 2016, which supplemented 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. In particular, this Regulation grants resolution authorities discretionary powers to set the appropriate minimum level and composition of MREL for each bank. The resolution authority has not announced any formal, binding requirements for the CaixaBank Group. Therefore, details regarding the quantity and categories of the eligible liabilities and the compliance schedule 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 their review and 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 funding and boost investment in infrastructure. During 2018, negotiations have been held between the European Council and the European Parliament. After the Parliament declared its position in June 2018, several three-way talks were held between the European Parliament, Council and Commission, ending in an agreement on key aspects being reached between the parties on 22 November. From a political perspective, all the relevant matters were finally agreed upon in December 2018 and the legal text has been subsequently distributed to Member States. The final approval is expected to take place in April 2019.

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

Among the new global and European regulatory developments, the following are of particular note:

- The concentration in exposure to non-performing loans remains one of the key areas of concern, despite there being a clear reduction.

Following on from this, several initiatives have been implemented during this year, aimed at preventing future non-performing exposures (NPEs) from accumulating. These include: i) promoting the development of the secondary market through sales of portfolios and/or individual assets and properties; ii) streamlining insolvency mechanisms and establishing a homogenous management framework for non-performing, refinanced and foreclosed assets; and iii) establishing a common framework for managing NPEs. Furthermore, the Group has sold off non-productive assets and implemented activities with the aim of improving the early NPL approval and management processes in order to reduce entries and adapt RAF metrics to make way for the regulatory requirements. All of this is done with the aim of meeting stakeholders' expectations.

- In the context of complying with the Risk Data Aggregation (RDA) principles established in January 2013 by the Basel Committee on Banking Supervision, in 2015 the Group initiated a project involving the transformation and cultural adjustment of management processes in order to foster information governance and data quality activities.

- The next milestones in adapting to the Basel 3 global reform, which entailed “Basel 3: Finalising post-crisis reforms”, are on 1 January 2019 for the entry into force of the large-exposures regime, followed by 1 January 2022 for the Leverage Ratio (LR) using the revised exposure definition and for the implementation of the revised standardised approach for credit risk, the revised IRB framework, the revised credit valuation adjustment framework and the revised operational risk framework.

- In 2018 the European Banking Authority (EBA) conducted a banking stress test, in which CaixaBank took part for the first time as the Group's parent company.

- This year, the test covered 70% of the European banking sector’s assets and assessed the ability of the main banks to withstand an adverse macroeconomic scenario during the period 2018 to 2020. The EBA did not require any 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).

- As in previous years, the Stress test consisted of an exercise with a bottom-up approach with constraints and with a time horizon of 3 years, under 2 scenarios (one central and another adverse).

## 2.2. Scope

CaixaBank, SA (“CaixaBank”) and its subsidiaries compose the CaixaBank Group (the "CaixaBank Group" or the "Group”). CaixaBank, with tax identification number (NIF) A08663619 and registered office and tax address in Valencia, calle Pintor Sorolla, 2-4, is a listed company as of 1 July of 2011 and registered in the Bank of Spain Register of Credit Institutions.

CaixaBank is the parent company of the financial conglomerate formed by the group's entities that are considered to be regulated, recognising CaixaBank as a significant supervised entity, whereby CaixaBank comprises, together with the credit institutions of its Group, a significant supervised group.

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 and the Spanish national securities market regulator (the Comisión Nacional del Mercado de Valores, CNMV), however, the entities of the Group are subject to oversight by supplementary and industry-based bodies.

## 2.3. Other general information

As at 31 December 2018, the following credit institutions or credit financial establishments of the CaixaBank Group meet the minimum capital requirements that apply to them at the individual level: Banco BPI, Banco Português de Investimento, Banco BPI Cayman and Telefónica Consumer Finance. Additionally, as at the date of reference, CaixaBank and BPI meet the capital requirements at the consolidated and sub-consolidated level, respectively.

The following credit institutions or credit financial establishments of the CaixaBank Group are exempt from capital requirements: Nuevo MicroBank, CaixaBank Consumer Finance, CaixaBank Payments, Corporación Hipotecaria Mutual and Credifimo.

Furthermore, all the other regulated entities of the Group (the asset management companies CaixaBank Asset Management, BPI Gestão de Activos, BPI Global Investment Fund Management Company, BPI Suisse, as well as the insurance companies VidaCaixa and BPI Vida e Pensões) meet the capital requirements established in the various sectorial regulations that apply to them.

Considering the applicable regulations, it should be noted that there are no significant current or foreseeable practical or legal obstacles preventing CaixaBank from immediately transferring capital to the CaixaBank Group subsidiaries or from paying off its liabilities with third parties. With regard to the capacity of the CaixaBank Group subsidiaries to distribute dividends or, in any form, transfer capital to the parent company, those companies that have to meet the minimum capital requirements at the individual level (Banco BPI, Banco Português de Investimento, Banco BPI Cayman and Telefónica Consumer Finance), in order to meet those requirements, might find its capacity to distribute or transfer capital limited. With regard to the other subsidiaries, including those that are exempt from capital requirements, there are no significant current or foreseeable practical or legal obstacles for the distribution of dividends nor, in any form, the transfer of capital beyond those deriving from the company's regulations or, as the case may be, applicable agreements between partners.

## 2.4. Description of the consolidated group for regulatory purposes

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

This relationship basically exists when a dominant entity is exposed to - or has the right to variable returns from - its involvement therein, and also has the ability to influence these returns, as a result 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 in preparing information on the CaixaBank Group in this report and to prepare its consolidated financial statements:

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

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

Appendix IV 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 Appendix 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.

IFRS 9 "Financial Instruments": this standard provides a comprehensive set of accounting requirements for the recognition and measurement of financial assets and financial liabilities (except the part on macro hedging).

The date of initial application is 1 January 2018, when it replaced the current International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement", which was applicable at 31 December 2017. Significant differences exist with the previous standard in respect of aspects such as the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The impact of the adoption of this standard is significant, which is why the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" have been considered, as well as the transitory provisions for application of the standard.

Similarly, in accordance with the provisions of EU Regulation 2017/1988, the application of IFRS 9 can be deferred for insurance companies that form part of a financial conglomerate, as stated in article 2, section 14 of Directive 2002/87/EC. This deferral is also established in IFRS 4, Application of IFRS 9 Financial Instruments, which is the option that the CaixaBank Group has adopted as it complies with the conditions set out in article 2 of the EU Regulation 2017/1988.

Following on from this, the Group has opted to apply this temporary exemption from IFRS 9 for the financial investments of the Group's insurance companies, VidaCaixa and BPI Vida y Pensiones, pending the entry into force of IFRS 17 "Insurance Contracts". Therefore, details of the information that follows are not considered as a change to the accounting policy with regard to investments of the Group's insurance companies, which are grouped under the heading "Assets under the insurance business" on the asset side of the balance sheet (see note 1.4). For the purpose of facilitating the comparison of information, the balances of the technical provisions corresponding to Unit Link and Flexible Investment Life Annuity (the part managed) have also been reclassified, in order to include them under the heading "Liabilities under the insurance business".

The impact on net equity of the first application of IFRS 9 at 1 January 2018 was EUR 556 millions[1].

[1] For further details on the impact see section 1.4. Comparison of information and changes in consolidation perimeter of the CaixaBank Group Financial Statements 2018.

**Table 2.1. 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 consolidat. adj.[2] | Regulatory Scope | Ref.[3] |
|---|---|---|---|---|---|
| Cash and cash balances at central banks and other demand deposits | 19,158 | (39) | 3 | 19,122 | |
| Financial assets held for trading | 9,810 | 0 | 7,454 | 17,264 | |
| Financial assets not designated for trading compulsory measured at fair value through profit or loss | 704 | - | 10 | 714 | |
| Financial Asset designated at fair value through profit or loss | - | - | - | - | |
| Financial assets at fair value w ith changes in other incomprehensive income | 21,888 | - | - | 21,888 | |
| Financial assets at amortised cost | 242,582 | (304) | 1,143 | 243,421 | |
| Derivatives - Hedge accounting | 2,056 | - | - | 2,056 | |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 232 | - | - | 232 | |
| Investments in joint ventures and associates | 3,879 | 2,454 | (27) | 6,306 | |
| Associates | 3,711 | (940) | - | 2,770 | |
| of w hich: Net badw ill | 354 | (300) | - | 54 | 8 |
| Joint ventures | 168 | (4) | (27) | 137 | |
| of w hich: Badw ill[4] | 1 | - | 53 | 55 | 8 |
| Group Entities | (0) | 3,399 | - | 3,399 | |
| of w hich: Badw ill | - | 973 | - | 973 | 8 |
| Insurance and reinsurance assets | 61,688 | (61,688) | - | - | |
| Tangible assets | 6,022 | (266) | - | 5,755 | |
| Intangible assets | 3,848 | (680) | - | 3,168 | 8 |
| Tax assets | 11,340 | (265) | 19 | 11,094 | |
| Other assets | 2,175 | (1,069) | 2,388 | 3,494 | |
| Non-current assets and disposal groups classified as held for sale | 1,239 | (102) | - | 1,137 | |
| **Total Assets** | **386,622** | **(61,960)** | **10,989** | **335,652** | |

| Liabilities | Public | Group entities accounted for the equity method[1] | Intragroup operative and consolidat. adj.[2] | Regulatory Scope | Ref.[3] |
|---|---|---|---|---|---|
| Financial liabilities held for trading | 9,015 | - | 7,454 | 16,469 | |
| Financial liabilities designated at fair value through profit or loss | 0 | (0) | - | - | |
| Financial liabilities measured at amortised cost | 282,460 | (611) | 3,353 | 285,202 | |
| Derivatives - hedge accounting | 793 | - | - | 793 | |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 1,244 | - | - | 1,244 | |
| Insurance and reinsurance liabilities | 60,452 | (60,452) | - | - | |
| Provisions | 4,610 | (4) | 3 | 4,610 | |
| Tax liabilities | 1,269 | (380) | 164 | 1,053 | |
| Other liabilities | 2,639 | (423) | 15 | 2,230 | |
| Liabilities included in disposal groups classified as held for sale | 82 | (82) | - | - | |
| **Total Liabilities** | **362,564** | **(61,952)** | **10,989** | **311,601** | |

| Equity | Public | Group entities accounted for the equity method [1] | Intragroup operative and consolidat. adj. [2] | Regulatory Scope | Ref. [3] |
|---|---|---|---|---|---|
| Shareholders' equity | 24,836 | - | - | 24,836 | |
| Accumulated other comprehensive income | (807) | - | - | (807) | 3 |
| Minority interests (non-controlling interests) | 29 | (8) | - | 22 | |
| **Total Equity** | **24,058** | **(8)** | **-** | **24,051** | |
| **Total Equity and Liabilities** | **386,622** | **(61,960)** | **10,989** | **335,652** | |

*(1) Entities of the Group which do not fully consolidate on the grounds of their activity, mainly VidaCaixa. Their contribution to the public balance is eliminated and their book value is accounted 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) For the purpose of shareholders' equity deduction, per prudential decision, 53 millions which are not segregated from the balance sheet are included.*

**Table 2.2. EU LI1 - Differences betweeen accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories**

*Amounts in millions of euros*

| | Carrying values as reported in published financial statements | Carrying values under scope of rgulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to the capital requirements or subject to deduction from capital[3] |
| Cash and cash balances at central banks and other demand deposits | 19,158 | 19,122 | 19,122 | - | - | - | - |
| Financial assets held for trading [1] | 9,810 | 17,264 | - | 16,161 | - | 17,264 | - |
| Financial assets not designated for trading compulsory measured at fair value through pr | 704 | 714 | 714 | - | - | - | - |
| Financial Asset designated at fair value through profit or loss | - | - | - | - | - | - | - |
| Financial assets at fair value w ith changes in other incomprehensive income[2] | 21,888 | 21,888 | 21,888 | - | 0 | 566 | - |
| Financial assets at amortised cost | 242,582 | 243,420 | 236,261 | 6,842 | 82 | - | 235 |
| Derivatives - Hedge accounting | 2,056 | 2,056 | - | 2,056 | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 232 | 232 | - | - | - | - | 232 |
| Investments in joint ventures and associates | 3,879 | 6,306 | 5,224 | - | - | 140 | 1,082 |
| Insurance and reinsurance assets | 61,688 | - | - | - | - | - | - |
| Tangible assets | 6,022 | 5,755 | 5,755 | - | - | - | 1 |
| Intangible assets | 3,848 | 3,168 | - | - | - | - | 3,168 |
| Tax assets | 11,340 | 11,094 | 7,485 | - | - | - | 3,609 |
| Other assets | 2,175 | 3,494 | 1,511 | - | - | - | 1,982 |
| Non-current assets and disposal groups classified as held for sale | 1,239 | 1,137 | 1,137 | - | - | - | - |
| **Total Assets** | **386,622** | **335,652** | **299,098** | **25,059** | **82** | **17,970** | **10,310** |
| Financial liabilities held for trading[1] | 9,015 | 16,469 | - | 16,070 | - | 16,469 | - |
| Financial liabilities designated at fair value through profit or loss | - | - | - | - | - | - | - |
| Financial liabilities measured at amortised cost | 282,460 | 285,202 | - | 6,681 | - | - | 278,520 |
| Derivatives - hedge accounting | 793 | 793 | - | 793 | - | - | - |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | 1,244 | 1,244 | - | - | - | - | 1,244 |
| Insurance and reinsurance liabilities | 60,452 | - | - | - | - | - | - |
| Provisions | 4,610 | 4,610 | 355 | - | - | - | 4,255 |
| Tax liabilities | 1,269 | 1,053 | 432 | - | - | - | 621 |
| Other liabilities | 2,639 | 2,230 | - | - | - | - | 2,230 |
| Liabilities included in disposal groups classified as held for sale | 82 | 1 | - | - | - | - | 1 |
| **Total Liabilities** | **362,564** | **311,601** | **786** | **23,544** | **-** | **16,469** | **286,872** |
| **Total Equity** | **24,058** | **24,051** | **-** | **-** | **-** | **-** | **24,051** |
| **Total Equity + Total Liabilities** | **386,622** | **335,652** | **786** | **23,544** | **-** | **16,469** | **310,922** |

*(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 €6,227 MM subject to deductions.*

Table 2.3. (LI2) shows how to get to the exposure amounts used for regulatory purposes starting from the carrying values in the consolidated financial statements following the requirements in Part One, Title II, Section 2 and Section 3 of the CRR, which are defined as follows:

- **Total net amount under regulatory scope of consolidation**: the amount after on-balance-sheet netting between assets and liabilities under the regulatory scope of consolidation, regardless of the eligibility of those assets and liabilities of the specific netting rules in the application of Part Three, Title II, Chapters 4 and 5, as well as of Title IV in the CRR.

- **Exposure amounts considered for regulatory purposes**: the expression designates the aggregate amount considered as a starting point of the RWA calculation before the application of CRM methods other than netting in Part Three, Title II, Chapter 4 of the CRR but after the application of netting requirements in Part Three, Title II, Chapters 4 and 5 and Title IV of the same regulation for each of the risk categories. Under the credit risk framework, this should correspond either to the exposure amount applied in the credit risk standardised approach (see Article 111 in Part Three, Title II, Chapter 2 of the CRR) or to the exposures at default (EAD) in the credit risk – IRB approach.

The breakdown of columns according to the risk category of each exposure of the regulatory balance sheet is prescribed in these guidelines:

- The credit risk framework corresponds to the exposures in Part Three, Title II of the CRR, for which the disclosure requirements in Part Eight of the same regulation are specified in section4.9 and section4.10 of the EBA guidelines.
- The CCR framework corresponds to the exposures in Part Three, Title II, Chapter 6 of the CRR, for which the disclosure requirements in Part Eight of the same regulation are specified in section 4.11 of the EBA guidelines.
- The securitisation framework corresponds to exposures from the non-trading book given in Part Three, Title II, and Chapter 5 of the CRR.
- The market risk framework corresponds to exposures in Part Three, Title IV of the CRR, for which the disclosure requirements in Part Eight of the same regulation are specified in section 4.13 of the EBA guidelines.

The main items of reconciliation between the carrying values and the exposure, which are reflected in the different lines of the table LI2, are:

- **Off-balance-sheet amounts**: Include off-balance-sheet original exposures, prior to the use of a conversion factor, from the established off-balance-sheet statement, following the regulatory scope of consolidation in column (a) and the off-balance-sheet amounts subject to the regulatory framework, after the application of the relevant conversion factors in columns (b) to (e). The conversion factor for off-balance-sheet items to be risk-weighted in the application of Part Three, Title II of the CRR is defined in Article 111, Article 166, Article 167 and Article 182 (as applicable for credit risk), Article 246 (as applicable for securitisation risk), Article 274 to Article 276 and Article 283 of the same regulation (as applicable for CCR).

- **Differences in valuations**: Include the impact of the carrying amount of value adjustments in accordance with Part Two, Title I, Chapter 2, Article 34 and Part Three, Title I, Chapter 3, Article 105 of the CRR on trading book and non-trading book exposures measured at fair value in accordance with the applicable accounting framework.

- **Differences due to different netting rules**, other than those already included in the second row of the table LI2: Refer to the net on-balance-sheet and off-balance-sheet exposure amounts after the application of the specific netting rules in Part Three, Title II, Chapters 4 and 5 as well as of Title IV in the CRR. The impact of the application of the netting rules can be negative (in case more exposures have to be netted than the use of on-balance-sheet netting in row 2) or positive (in the case of the application of netting rules in the CRR leading to a lower amount being netted out than on-balance-sheet netting in row 2).

- **Differences due to consideration of provisions**: Discloses the re-integration in the exposure value of specific and general credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) that have been deducted in accordance with the applicable accounting framework from the carrying amount of exposures under Part Three, Part II, Chapter 3 of the CRR for risk-weighting purposes. Regarding exposures risk-weighted in accordance with Part Three, Part II, Chapter 2 of the CRR, when the carrying amount in the financial statements under the regulatory scope of consolidation has been reduced by elements qualifying as general credit risk adjustments under the aforementioned delegated regulation, these elements have to be re-integrated in the exposure value.

- **Differences due to prudential filters**: Include the impact on the carrying amount under the regulatory scope of consolidation of the prudential filters listed in Articles 32, 33 and 35 in Part Two, Title I, Chapter 2 of the CRR and applied in accordance with the requirements in Part Ten, Title I, Chapter 1, Article 467 and 468 in the CRR and CEBS 04/91 Guidelines on prudential filters for regulatory capital.

**Table 2.3. EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

*Amounts in millions of euros*

| | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | **342,209** | **299,098** | **25,059** | **82** | **17,970** |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 40,799 | 786 | 23,544 | - | 16,469 |
| **Total net amount under the regulatory scope of consolidation** | **301,410** | **298,311** | **1,514** | **82** | **1,502** |
| **Off-balance-sheet amounts** | **79,648** | **79,648** | **-** | **-** | **-** |
| **Add-on** | **5,552** | **-** | **5,552** | **-** | **-** |
| Securitisations with risk transfer | (28) | (2,810) | - | 2,782 | - |
| Differences due to different netting rules (netting, long/short positions, diversification) | (1,156) | - | 346 | - | (1,502) |
| Differences due to consideration of provisions | 4,177 | 4,177 | 0 | 0 | - |
| Differences due to CRMs (Guarantees) | (4,614) | (2,462) | (2,152) | - | - |
| Differences due to CCFs | (59,284) | (59,284) | (0) | - | - |
| Other | (27) | (27) | - | - | - |
| **Exposure amounts considered for regulatory purposes** | **325,678** | **317,553** | **5,260** | **2,865** | **-** |

*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.

# Governance, organisation and risk management



# 3. GOVERNANCE, ORGANISATION AND RISK MANAGEMENT

The CaixaBank Group has an efficient risk governance, management and control system, aligned with its business model, its stakeholders' expectations and international best practices.

The Board of Directors, the Senior Management and the rest of the Group are firmly committed to effective risk management.

Risk culture is a differentiating factor in the Group's decision-making and business management. This culture, together with the risk policies and systems in place and the skills of its workforce, has allowed the Group to maintain a moderate risk profile and a noteworthy level of solvency in the Spanish market.

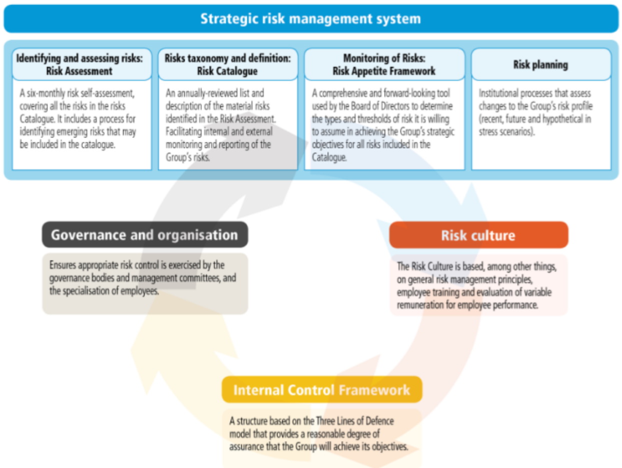
The Group has a strategic risk management system in place to identify, measure, monitor, control and report risks, based on the following processes: Risk Assessment, Risk Catalogue, Risk Appetite Framework (RAF) and Risk Planning.

The CaixaBank Group's Internal Control Framework provides reasonable assurance that the Group will achieve its objectives and it is based on the "three lines of defence" model.

In 2018, the General Risks Division initiated an organisational transformation process in order to achieve the best risk management standards and to boost profitable and controlled business growth in the context of the 2019-2021 Strategic Plan. This process is based on gaining greater knowledge of the customer and the particularities of each portfolio, making it possible to maintain a proactive and preemptive approach; improving efficiency and agility through a new push to automate processes; and strengthening the control and corporate environment of the risks function.

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

## CORE ELEMENTS OF THE RISK GOVERNANCE, MANAGEMENT AND CONTROL SYSTEM



## 3.1. Governance and organisation

### 3.1.1. Corporate governance

The governing bodies are the General Shareholders' Meeting and the Board of Directors, which have the powers that, respectively, are assigned to them by law and by the Articles of Association (Articles of Association | Corporate Governance and Remuneration Policy | CaixaBank), and, in accordance with these, in developments of the Regulations of each body.

As a result, the Company is managed and run by its Board of Directors: this is its representative body and, apart from matters that fall within the remit of the General Meeting, it is the highest decision-making body, equating to the "management body" referred to in the EBA and ESMA regulations and guidelines[2].

#### CaixaBank Board of Directors

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 set out in the current regulations on the arrangement, supervision and solvency of credit institutions. The current law contains specific conditions depending on the nature of the position and the combination with other positions held by the director[3].

Pursuant to the provisions of article 529.10 of Royal Legislative Decree 1/2010 of 2 July, approving the amended text of the Corporate Enterprises Act, and Articles 5 and 18-21 of the Regulations of the Board of Directors, any proposed appointments and reappointments of directors that are submitted by the Board of Directors to the General Shareholders' Meeting, as well as any resolutions regarding appointments which the Board adopts by virtue of the cooption powers that are legally attributed to it, must be preceded by the pertinent proposal by the Appointments Committee in the case of independent directors, or by a report in the case of the remaining directors. Director appointment or reappointment proposals must be accompanied by a supporting report from the Board of Directors, assessing the competence, experience and merits of the proposed candidate.

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 large majority over executive directors and that the latter should be make up the minimum number required.

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).

When qualifying directors, the definitions established in the applicable regulations and set out in article 19 of the Regulations of the Board of Directors are used.

It shall also strive to ensure that among its external directors, the proportion of proprietary and independent directors on the Board reflects the existing proportion of the Company's share capital represented by proprietary directors and the rest of the share capital and that at least one third of all the directors are independent.

No shareholder may be represented on the Board of Directors by a number of proprietary directors that accounts for more than 40% of the total number of Board members, without affecting the shareholders' right to proportional representation as laid down by law.

Directors shall remain in their posts for the term of office stipulated in the Articles of Association, as long as the General Shareholders' Meeting does not rule to remove them and they do not resign from their position, and they may be reappointed one or more times for periods of an equal length. Nevertheless, independent Directors may only hold such a position for a continuous period of no more than 12 years.

---

2 In particular, the Guidelines on Internal Governance (EBA-GL-2017-11) and the ESMA Guide on assessing the suitability of members of the management bodies and key positions (ESMA-GL-2017-12).

3 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 (https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/consejodeadministracionycomisiones/consejodeadministracion_en.html) and the statements on positions held in other listed companies in the 2018 Annual Corporate Governance Report (section C.1.11).

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

Pursuant to article 529.9 of Royal Legislative Decree 1/2010 of 2 July and article 16.7 of the Regulations of the Board of Directors, at least once a year and in full session, the Board shall: evaluate the quality and efficiency of the functioning of the Board; the performance of their duties by the Chairman of the Board and by the Company's chief executive; and the functioning of the Committees. The Board shall propose an action plan to correct any issues detected in this review.

CaixaBank has a Selection, diversity and suitability assessment policy in place for Directors and members of Senior Management, and other key positions in CaixaBank and its group (hereinafter, the 'Policy'), which was approved by the Board of Directors on 20 September 2018, replacing the previous Director Selection Policy approved in November 2015.

The aim of this Policy, among others, is to establish suitable diversity in the composition of the Board of Directors, thus ensuring a wide range of knowledge, qualities, perspectives and experiences in the heart of the Board, helping to foster diverse and independent opinions and a solid and mature decision-making process.

Ensuring proper diversity in the composition of the Board, particularly in terms of gender and, where relevant, training and professional experience, age and geographical origin, and respecting the principle of non-discrimination and equal treatment, all constitute a fundamental element of the selection and suitability assessment procedures for CaixaBank directors.

In particular, the following considerations are made:

- In the director selection and re-election procedures, the suitability assessment will consider the objective of favouring diversity of gender, knowledge, training and professional experience, age and geographical origin in the composition of the Board.

- At all times, the Board of Directors and the Appointments Committee will ensure that there is an appropriate balance of knowledge and experience, also facilitating the selection of candidates of the less represented gender, and avoiding any kind of discrimination in this respect.

In the annual assessment of the composition of abilities of the Board of Directors, the diversity aspects discussed previously will be taken into account and, in particular, the percentage of Board members of the less represented gender, with a view to ensure that, by 2020, the number of female directors represents at least 30% of total members of the Board of Directors. For these purposes, the Appointments Committee must document the degree of fulfilment of the objective, as well as that of those that, where relevant, have been considered relevant, and indicate, in the case of a breach, the reasons, resolution measures and schedule of actions.

Furthermore, the Appointments Committee, with the assistance of the General Secretary and that of the Board, and taking into account the necessary and existing balance of knowledge, experience, capacity and diversity on the Board of Directors, elaborates and continually updates a matrix of competences, approved by the Board of Directors.

Furthermore, adequate diversity in the composition of the Board of Directors has been taken into account throughout the entire process of selection and suitability assessment at CaixaBank, considering, in particular, diversity of gender, training, professional experience, age, and geographic origin.

With respect to 2018, after a report from the Appointments Committee, the Board has deemed the structure, size and composition suitable, particularly with respect to gender diversity and diversity in training and professional experience, age and geographical origin, in accordance with the verification of compliance with the selection policy, and also taking into account the individual suitability re-assessment of each director carried out by the Appointments Committee, thus concluding that the overall composition of the Board of Directors is suitable.

In particular, it should be noted that there is an intent to reduce its size so that it meets the diversity objectives established in the Policy, particularly with regard to gender diversity and the objective to have a portion of female directors of 30% or more across the members of the Board by 2020.

At year end 2018, women comprised 27.8% of all directors, 33.3% of the independent Directors and 25% of proprietary Directors.

Women comprise 25% of the Executive committee, and 33.3% of the Appointments committee and Remunerations Committee, whereby the chairmanship of the latter is held by a female director.

The Risk Committee has 2 female directors, representing 40%. Women comprise 25% of the Auditing and Control Committee.

That is to say, women are represented on all the Committees of CaixaBank.

Therefore, the number of female directors, despite not being equal, it is not considered to be scarce.

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 selection procedure for members of the Board established in the Policy will be complemented, in any applicable areas, with the provisions of the Protocol on the Procedures for the Suitability Assessment and Appointments of Directors and Senior Management, and other key positions in CaixaBank (hereinafter, the 'Suitability Protocol'), or equivalent internal standard in place at any 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. Furthermore, with regard to the procedure for assessing candidates' suitability prior to their appointment as Director, the Suitability Protocol establishes procedures to continually evaluate Directors and to assess any unforeseeable circumstances which may affect their suitability for the post.

Any limitations on the exercising of directorships that are established in the applicable regulations are also taken into account. Sections C.1.10 and C.1.11 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.

Directors' term of office shall come to an end when the period for which they were appointed has elapsed, when it is so decided by the General Shareholders’ Meeting based on the powers it is granted by law or by the articles of association, and when they resign.

In the event of the conditions described in section C.1.19 of the 2018 Corporate Governance Report arising, directors must offer their position to the Board of Directors and, if the Board deems it appropriate, file their resignation.

When a director leaves office prior to the end of their term, they must explain the reasons in a letter which is to be sent to all members of the Board of Directors.

From September 2014, and pursuant to Act 10/2014 on the arrangement, supervision and solvency of credit institutions, CaixaBank's Board of Directors resolved to: change the Appointments and Remuneration Committee into an Appointments Committee; create a Remuneration Committee and a Risk Committee; and amend the Regulations of the Board of Directors accordingly to incorporate the provisions of the new Act and establish the duties of the new Board Committees. These changes resulted in the Bank having five Board Committees, namely: the Appointments Committee, the Remuneration Committee, the Risk Committee, the Audit and Control Committee and the Executive Committee. The Committees met a number of times in 2018. The Appointments Committee met 10 times; the Remuneration Committee, 7 times; the Audit and Control

Committee, 17 times; the Executive Committee, 22 times; and the Risk Committee, 13 times.

In regards to the changes in the Board of Directors that took place during the financial year, on 6 April 2018, the Ordinary General Shareholders' Meeting approved the ratification and appointment of Eduardo Javier Sanchiz Irazu (independent director) and Tomás Muniesa Arantegui (executive director), in the latter case subject to a suitability verification by the European Central Bank.

The Board of Directors, in a meeting held after the AGM, at the proposal of the Appointments Committee and subject to a director suitability verification by the banking supervisor, agreed to re-elect Tomás Muniesa Arantegui as Deputy Chairman of the Board and member of the Executive Committee.

Likewise, also at the proposal of the Appointments Committee and subject to verification by the European Central Bank, Mr Muniesa was appointed Deputy Chairman of the Board of Directors and member of the Executive Committee.

On 26 April 2018, Tomás Muniesa Arantegui accepted his appointments as executive director, Deputy Chairman of the Board of Directors and member of the Executive Committee of CaixaBank, after receiving communications from the European Central Bank on his suitability to fill the roles of director and Deputy Chairman of CaixaBank.

Tomás Muniesa Arantegui performed executive functions up to 22 November 2018, the date on which he resigned from his duties as Managing Director for Insurance and Asset Management and member of the Management Committee, taking on the category of Propriety Deputy Chairman.

Furthermore, during the financial year and regarding the changes in the Committees, on 1 February 2018, the Board of Directors adopted the following agreements regarding the composition of its Committees:

With respect to the Risk Committee, the contracts of Mr Ibarz, Mr Rosell and Ms Moraleda as members of the Committee were terminated, and Mr Garralda, Mr Sanchiz, Ms Usarraga and the Caja Canarias Foundation were appointed new members thereof. With respect to the Audit and Control Committee, Mr Sanchiz was appointed a new member thereof.

With respect to the Appointments Committee, the contracts of Mr Sáinz de Vicuña (Chairman) and Ms Moraleda as members were terminated, and Mr Reed and Mr Minc were appointed President and member of said Committee, respectively.

With respect to the Remuneration Committee, the contracts of Mr Minc and Ms Bassons as members were terminated, and Mr García-Bragado and Mr Rosell were appointed as new members.

Therefore, as at 31 December 2018, CaixaBank's Board of Directors was made up of 18 members. Pursuant to prevailing corporate governance legislation, there are 8 proprietary directors, 9 independent directors and 1 executive director.

We must emphasise that on 26 February 2019, CaixaBank announced the call for its General Shareholders' Meeting. Amongst the proposals that the Board of Directors has agreed submitting for approval to the General Meeting we found the setting of the number of members of the Board of Directors to sixteen, the re-election of Mr Gonzalo Gortázar Rotaeche, as executive director, the re-election of Ms María Amparo Moraleda Martínez and Mr John S. Reed, assigned to the category of independent directors, the re-election of Ms María Teresa Bassons Boncompte, assigned to the category of dominical director, and the appointments of Ms Cristina Garmendia Mendizabal, assigned to the category of independent director, and Mr Marcelino Armenter Vidal, assigned to the category of dominical director.

Likewise, it is also stated the non-renewal in their positions of directors Mr Alain Minc, Mr Juan Rosell Lastortras, Mr Antonio Sáinz de Vicuña y Barroso and Mr Javier Ibarz Alegría.

Especially, in the proposals of re-election and appointment, it has been taken into account the goal that in 2020 the number of female directors represents at least 30% of the total members of the Board of Directors. Specifically, the proposals of appointments and re-elections submitted to the General Meeting together with the proposal of setting the number of members of the Board of Directors to sixteen make the percentage of female directors of the Board of Directors reach the 37.5%.

### Executive Committee

The Executive Committee has been delegated all of the responsibilities and powers available to it both legally and under the Company's articles of association. For internal purposes, the Executive Committee is subject to the limitations set out in Article 4 of the Regulations 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 (a majority of whom must be independent directors) 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, among others, are to[4]:

- 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 (RAF).
- Propose the Group's risk policy to the Board, including the different types of risk to which the Company is exposed, the information and internal controls systems used to control and manage these risks, the level of risk that the Company considers acceptable, and the measures in place to mitigate the impact of the risks identified, should they 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, as well as establishing what the Committee should receive.
- Regularly review exposures with its main customers and business sectors, as well as broken down by geographic area and type of risk.
- Examine the Group's risk reporting and control processes, as well as its information systems and indicators.
- Evaluate regulatory compliance risk in its scope of action and decision making, monitoring the risk and examining any 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. The majority of its members must be independent, and the Committee's Chairman is appointed from among these.

Its main responsibilities, among others, are to:

- Evaluating and proposing to the Board of Directors the assessment of skills, knowledge and experience required of Board members and key personnel at the Company.
- To submit to the Board of Directors the proposals for the nomination of the independent Directors to be appointed by co-option or for submission to the decision of the General Shareholders' Meeting, as well as the proposals for the reappointment or removal of such Directors by the General Shareholders Meeting;
- Reporting on the appointment and, as the case may be, dismissal of the Lead Director, the Secretary and the Deputy Secretaries for approval by the Board of Directors.
- To examine and organise, in collaboration with the Coordinating Director, and with the Chairman of the Board of Directors, the succession of the latter and of the Company's chief executive and, as the case may be, send proposals to the Board of Directors so that the succession process is suitably planned and takes place in orderly fashion.
- Report to the Board on gender diversity issues, ensuring that the procedures for selecting its members favour a diversity of experience and knowledge, and facilitate the selection of female directors, whilst establishing a representation target for the less represented sex on the Board of Directors as well as preparing guidelines on how this should be achieved. In any case, it must always ensure compliance with the diversity policy applied in relation to the Board of Directors, which will be specified in the Annual Corporate Governance Report.

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

- Periodically evaluate, at least once a year, the structure, size, composition and actions of the Board of Directors and of its committees, its Chairman, CEO and Secretary, making recommendations regarding possible changes to these. Here, the committee shall act under the direction of the Lead Director when assessing the performance of the Chairman. It should also evaluate the composition of the Management Committee, as well as its replacement lists, to ensure proper coverage as members come and go.

- Supervising the Company's activities when it comes to corporate social responsibility and submitting to the Board any proposals it deems appropriate here.

### Remuneration Committee

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

Among others, in its main functions include the following:

- Draft the resolutions related to remuneration and, particularly, report and propose to the Board of Directors the remuneration policy for the Directors and Senior Management, the system and amount of annual remuneration for Directors and Senior Managers, as well as the individual remuneration of the Executive Directors and Senior Managers, and the other conditions of their contracts, particularly financial, and without prejudice to the competences of the Appointments Committee in relation to any conditions that it has proposed not related to remuneration.

- Ensuring compliance with the remuneration policy for Directors and Senior Managers as well as reporting the basic conditions established in the contracts of these and compliance of the contracts.

- Reporting and preparing the general remuneration policy of the Company and in

- regarding the Company and, where relevant, the Group, reviewing the Company accounts, compliance with regulatory requirements in this area, the adequate definition of the consolidation perimeter, and the correct application of generally accepted accounting criteria.

particular the policies relating to the categories of staff whose professional activities have a significant impact on the risk profile of the Company and those that are intended to prevent or manage conflicts of interest with the Company's customers.

- Analyse, formulate and periodically review the remuneration programmes, weighing up their adequacy and performance and ensuring compliance.

### 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 in accounting or auditing, or both.

Furthermore, the Board of Directors will ensure that members of the Audit and Control Committee, particularly its Chairperson, have sufficient knowledge and experience in accounting, auditing or risk management, and in any other areas required for the Audit and Control Committee to fulfil all its duties.

Overall, and notwithstanding the principle to foster diversity, the members of the Audit and control Committee, who will be allocated in consideration of their capacity of dedication needed to fulfil the duties assigned to them, will have the required technical knowledge regarding the Company's activities.

Among others, the Committee's main functions are to:

- Report to the General Shareholders' Meeting on any matters put forward that are within the Committee's remit, particularly on the result of the audit, explaining how this has contributed to the integrity of the financial information and the Committee's role in this process.

- Oversee the process of elaborating and presenting mandatory financial information
- Ensure that the Board of Directors presents the annual Financial Statements to the General Shareholders' Meeting, without limitations or qualifications in the audit report, and in the exceptional case of there being qualifications in the report, ensure that both the Chairman of the Committee and the auditors

clearly explain the content and scope of these limitations or qualifications.

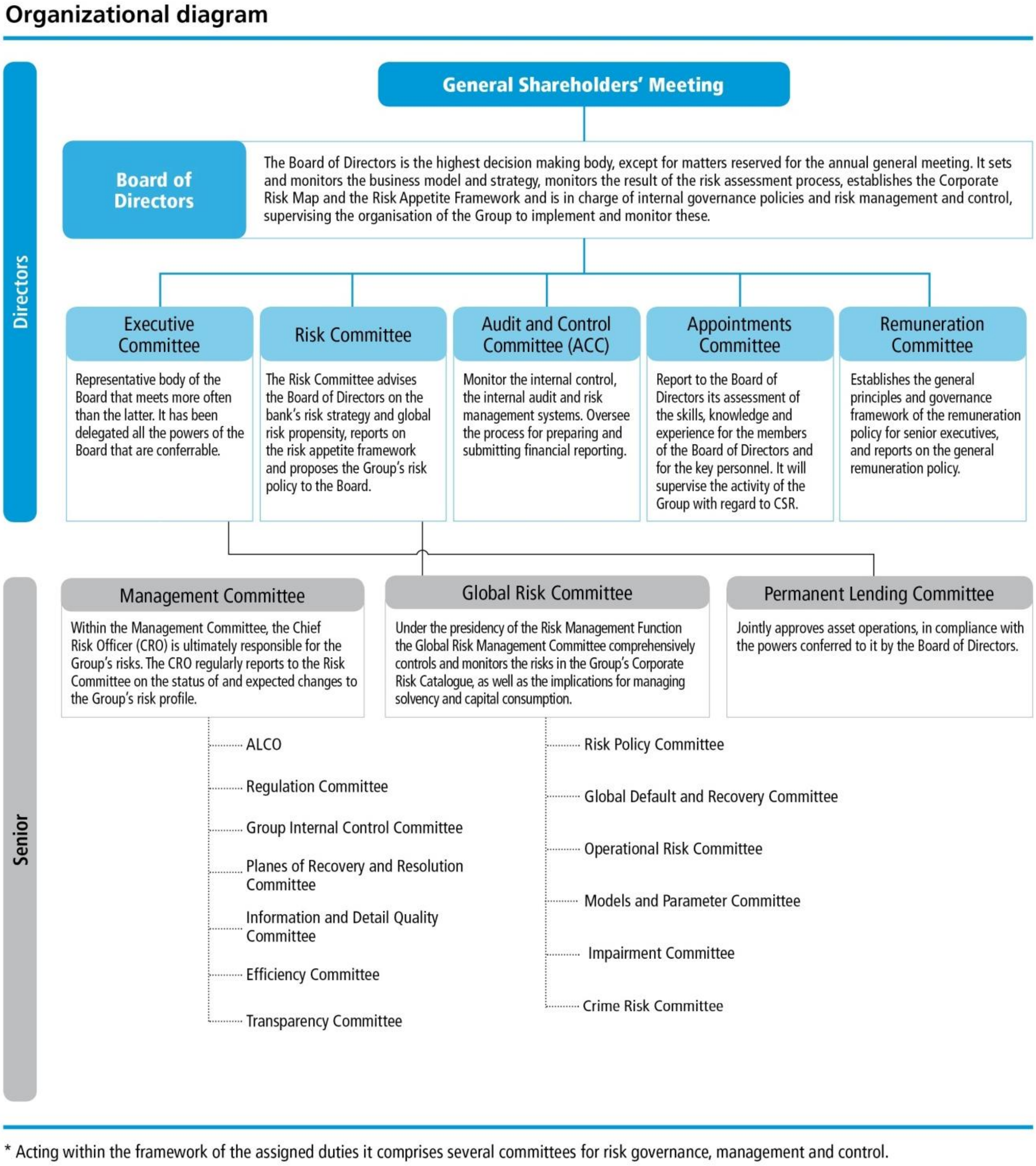
- Report to the Board of Directors, in advance, on the financial information and related non-financial information that the Company must periodically disclose to the markets and its supervisory bodies;

- Oversee the effectiveness of internal control systems, and discuss with the auditor any weaknesses identified in the internal control system during the audit, all without jeopardising its independence. For such purposes, and if appropriate, it may submit recommendations or proposals to the Board of Directors and the corresponding deadline for their follow-up;

- Oversee the efficiency of the internal audit, establish and supervise a mechanism which allows the employees of the Company or of the group to which it belongs to report potentially significant irregularities, confidentially and, if deemed appropriate, anonymously, especially financial and accounting ones, which they observe within the Company, receiving periodical information on its functioning, and proposing any actions it deems relevant for improvement and reducing the risk of irregularities in the future.

### 3.1.2. Committees relevant to risk management and control

The organisational diagram in relation to the governance of the Group's risk management is set out below:




*Organisational chart*

**Diagram 1**

As part of the executive team, the Chief Risks Officer (CRO) is a member of Management Committee, and is the person ultimately responsible for coordinating the management, monitoring and control of the Group's risks. The CRO operates independently of the business areas and has full access to the Governance Bodies of the Group.

One of the General Management's most important missions, in collaboration with other areas of the Group, is to head up the process of implementing instruments across the entire branch network to ensure integral risk management under Basel guidelines, the ultimate aim being to attain a balance between the risks assumed and the expected returns.

The Risk Management Function, responsible for developing and implementing the risk management and control framework and for the second line of defence[5] , acts independently from the risk-taking areas and has direct access to the Group's Governance Bodies, especially the Risk Committee, reporting regularly to the members thereof on the status and expected changes to the Group's risk profile.

Below is a brief description of the first level committees and subsequently the main committees and commissions with a relevant responsibility in the field of risks of the Group.

## 1. Committees connected with the risks function:

### Management Committee

The Management Committe evaluates and reaches agreements regarding the development of the Strategic Plan and the Annual Budget, as well as those affecting the organizational life of the Group. It also approves the structural changes, the appointments, the expenses lines and the business strategies.

### Permanent Lending Committee (PLC)

A Committee which, by express delegation of the Board of Directors, is responsible for officially approving loan, credit and guarantee operations, as well as investment operations in general that are specific to the Bank's corporate objective, and its approval level is defined in the Bank's internal regulations. Its current functions, as set out in a notarised contract, are: "To officially approve loan, credit and guarantee operations, as well as investments operations in general that are specific to the Bank's corporate objectives", based on delegated powers of the Board.

### Global Risk Committee

This Committee is responsible for the overall management, control and monitoring of risks affecting the CaixaBank Group's Corporate Risks Catalogue, together with their implications for solvency management and capital consumption.

The Committee therefore analyses the Group's global risk position and establishes policies to optimise their management, monitoring and control within the framework of its strategic objectives.

The GRC is responsible for adapting CaixaBank's risk strategy to the RAF (Risk Appetite Framework) set out by the Board of Directors, coordinating measures to mitigate any breaches and reactions to early warnings of the RAF, as well as keeping CaixaBank's Board of Directors informed (through its Risk Committee) of the main actions being carried out by the CaixaBank Group and the status of its risks.

## 2. Committees reporting to the Management Committee

### ALCO Committee

This committee is responsible for the management, monitoring and control of structural liquidity, interest rate and exchange rate risks relating to CaixaBank's balance sheet.

It is responsible for optimising the financial structure of the CaixaBank Group's balance sheet and making it more profitable, including the net interest margin and the extraordinary profits in the Profit from Financing Operations; determining transfer rates with the various lines of business (IGC/MIS); monitoring prices, terms and volumes of the activities that generate assets and liabilities; managing wholesale financing.

All of this, under the policies of the risk appetite framework and the risk limits approved by the Board of Directors.

As a result, it will take the appropriate decisions and may make recommendations to the various operating areas.

### Regulation Committee

This committee is the decision-making body for all aspects related to financial regulation.

Its functions include spearheading the activity to represent the Bank's interests, as well as the systematisation of regulatory activities, periodically assessing the initiatives carried out in this field.

In addition, this committee approves and reviews the Interest Representation Map in order to coordinate the participation of the Bank's

[5] See section 3.4. which describes the Group's Internal Control Framework.

executives in associations and forums at the national and international level[6].

### Business Committee

This committee defines and validates the business strategies, specifying the guidelines for their execution in order to take advantage of opportunities based on monitoring of the business, of the environment and based on analysing best practices. In addition, it communicates relevant business developments. The Business Committees for each region also stand below it.

### Group Internal Control Body

This is a collegiate body at the Group level, responsible for deliberating on and taking decisions as set out in Act 10/2010 of 28 April on Anti-money laundering and prevention of terrorism financing. It is therefore responsible for promoting the development and implementation of AML/TF policies and procedures at the Group level.

### Recovery and Resolution Plan Committee (RRPC)

This committee is responsible for preparing, approving, reviewing and updating plans to minimise the impact of future financial crises on contributors.

In the preparation process of the Recovery Plan, the RRPC determines the scope of the plan and the areas that are implicated, it proposes updates at least annually in accordance with the applicable regulations, and it leads the project, supervising and monitoring the drafting process, which is performed by the Project Office. Such Office is composed of a specialized team from the Solvency and PL Department and it manages the operational coordination of the majority of aspects regarding the Recovery and Resolution Plan, as well as the ordinary dialogue with the supervisor and the follow-up of the related regulations.

Before approving the Recovery Plan the RRPC validates the Report proposed by the Project Office and submits it to the Management Committee, who in turn submits it to the Board of Directors for approval.

Regarding the recovery indicators, the RRPC reviews the Report drawn up by the Project Office every quarter and, depending on the findings, can submit a proposal to activate/deactivate a Recovery Plan.

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.

### Information and Data Quality Governance Committee (IDQGC)

This committee's function is to oversee the coherence, consistency and quality of the information reported to the regulator and to the Group's management, providing a comprehensive 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, as well as on the level of data quality and the level of compliance with regulatory information and data requirements.

### Efficiency Committee

Its mission is to improve the organisation's efficiency, and it is responsible for proposing and agreeing with the Divisons and Subsidiaries the proposed annual cost and investment budgets, before they are presented to the Management Committee for approval.

### Transparency Committee

This committee determines all transparency-related aspects of the design and marketing of financial instruments, banking products and investment and savings insurance plans.

[6] For further details on Public Policy, see: https://www.caixabank.com/responsabilidadcorporativa/nuestromodelo/public-policy_en.html

It is tasked with ensuring the transparent marketing of the Bank's products by defining and approving policies covering marketing, the prevention of conflicts of interest, the safeguarding of customer assets and enhanced execution of transactions.

It also validates the classification of new financial instruments, banking products and savings and investment plans on the basis of their risk and complexity, in accordance with the provisions of MIFID and banking and insurance transparency regulations.

Reporting to the Transparency Committee, the Product Committee is the body responsible for approving any new product or service that is designed and/or marketed, after analysing its characteristics and associated risks as well as its suitability for the customer group it is aimed at. All of this is performed taking into account client protection and transparency regulations.

The purpose of the Product Governance Policy is to establish a procedure that allows the marketing of new products to be designed and approved, as well as the procedure for monitoring their life cycle. This Policy has been designed in order to quickly respond to clients' needs, thus providing them better protection and minimising legal and reputational risks arising from financial products being designed and marketed inappropriately.

Other committees that report to the Management Board include the following:

#### Privacy Committee

This is the permanent body tasked with discussing, working on and taking decisions regarding all aspects related to personal data protection in the Group. The purpose of the committee is focused on monitoring the application of the data protection legislation in force, resolving any issues that are detected, and leading the implementation of new regulations and criteria in the field.

The Committee reports to the Management Committee, which is responsible for informing the Board of Directors regarding key aspects or those with potentially serious consequences in terms of reputation or corporate interests.

#### Planning Committee

This committee is responsible for coordinating, monitoring and integrating the different planning processes (challenges of the sales network, 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 predefined milestones are met.

### 3. Committees that report to the Global Risk Committee (GRC):

#### Risk Policies Committee and Investee Risk Policies Committee

The responsibilities of these committees cover all aspects relating to the review and approval of activity policies and procedures linked to the approval of credit and market risks, with the exception of any that the GRC has decided or decides to deal with itself due to their importance, their critical nature in terms of structural or economic management, their urgency or for any other reason. They also define policies for mitigating and managing non-performing assets and recovering impaired loans.

They are responsible for defining policies that are aligned with and support the Risk Appetite Framework.

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.

#### Global Default and Recovery Committee

This committee analyses the default objectives established by Senior Management and transfers them to the managed portfolios and to the stakeholders of the process. 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 also reports to the Global Risk Committee on the transferred competencies.

### 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.

### Models and Parameters 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.

### Impairment Committee

This committee is responsible for establishing 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, as well as being generally responsible for performing any necessary adjustments to the provisioning structure that has a significant impact on the impairment provisions for the lending portfolio.

### Corporate Responsibility and Reputation Committee (CRRC)

This committee is responsible for monitoring the corporate responsibility strategy and practices. It proposes and presents (for their approval by the corresponding governing bodies) general policies for managing corporate responsibility and reputation.

Its mission is to contribute to making CaixaBank the best bank in terms of quality and reputation, strengthening its reputation as a responsible and socially-committed bank.

Another of the CRRC's objectives is to adapt CaixaBank's reputational risk strategy to the Risk Appetite Framework set out by the Board of Directors, as well as coordinating measures to mitigate breaches and reacting to early warnings of the RAF.

### Criminal Risk Committee

The Corporate Criminal Management Committee is a high-level body with autonomous powers of initiative and control, which were bestowed upon it by the Board of Directors of CaixaBank, the main ruling organ of the entity. The Committee has sufficient capacity to raise queries, request information, propose measures, initiate investigation proceedings or carry out any necessary procedure in order to prevent any criminal conduct and manage the Criminal Prevention Model. Such powers shall be understood in respect of all instances and departments of CaixaBank and its perimeter.

## 3.1.3. Organisational structure

### General Risks Division

As part of the executive team, the Chief Risks Officer (CRO) of CaixaBank is responsible for coordinating the management, monitoring and control of the Group's risks. The CRO operates independently of the business area and has full access to the Group's Governance Bodies.

With the aim of boosting profitable and controlled growth of the Business, the General Risks Directorate has been transformed to better align itself with the priorities of the new 2019-2021 Strategic Plan of the Group. This process has involved:

1. Gaining greater knowledge of the customer and the particularities of each portfolio, making it possible to maintain a proactive and preemptive approach.

2. Improving the function's efficiency and agility by a fresh impetus in automating processes and decision-making.

3. Strengthening the control environment and the corporate structure of the risk function.

The transformation plan for the risk function aims to turn it into a more agile organisation that is aligned and focused on achieving the strategic objectives within the Group's risk appetite.

The most significant changes are in the fields of support to the business and in the control and planning of the Group's risks.

The function is organised into two major areas, under the responsibility of Chief Lending Officers

(CLOs), with specialist risk management functions: Business and Retail. In addition to the approval processes, these areas include a person responsible for overseeing portfolio risks, who defines criteria, policies, models and processes, as well as monitoring the risk of each of the portfolios in close conjunction with the business managers.

Furthermore, the overall risk management function is strengthened with the Corporate Risk Management & Planning area, which is responsible for implementing the Group's risk strategy and monitoring all the assigned risks at the corporate level: both financial (credit, market, liquidity, etc.) and non-financial (model, operational, IT, sustainability etc.).

Additionally, boosting environmental management from the perspective of the Group's credit risk has been added to the Risk scope.

Thus, the General Risks Director has structured the team as follows:

- **Retail Lending Office (Executive Directorate)**, responsible for the comprehensive management of the retail portfolio, the risk management models, infrastructure, transformational projects and innovation, as well as unified data management (RDA).

- **Business Credit Loan Officer (Executive Directorate)**, responsible for the comprehensive management of the portfolio of all other business segments and specialised sectors (Businesses and SMEs, Corporate, Public Sector, Sovereign, Financial Institutions, Real Estate, Project Finance, the Tourism Sector and Agri-food).

- **Default and Restructurings**, responsible for analysing and approving operations to manage impaired credit exposures, e.g. through refinancing or restructuring, for all segments.

- **Real Estate Building Centre (Executive Directorate)**, which controls and monitors real estate investments and divestments, and is responsible for the policies associated with property management.

- **Corporate Risk Management Function (RMF) & Planning (Executive Directorate)**, responsible for risk management and overseeing asset performance, as well as solvency and capital adequacy mechanisms. To this end, it is responsible for identifying, measuring, monitoring, validating, controlling and reporting risks. It deals with the validation and integration of the various exposures, as well as the risk-adjusted return in each activity from the overall Group perspective and in accordance with its business strategy. It is also responsible for determining limits and defining policies for granting, managing and mitigating risks.

  As the team responsible for the second line of defence in the risk management process, it acts independently of the risk-taking areas and has direct access to the Group's Governance Bodies, especially the Risk Committee, reporting regularly to its members on the status of the Group's risk profile and any expected changes thereof.

- **Environmental Risk Management**

  One of the 5 major objectives of the Group's 2019-2021 Strategic Plan is “To be leaders in responsible management and commitment to society”, and one of the core areas in this field is the environment. Following on from this, the Group has defined an Environmental Strategy that consists of 3 main areas of action:

  1. Promoting green business, generating *climate-friendly* production and supporting the transition towards more sustainable business models.

  2. Improving management relating to the risk of climate change and environmental risk, integrating ESG aspects (Environmental, Social and of Good Governance) into this management.

  3. Minimising the Company's own environmental impact, reducing the carbon footprint with environmental efficiency initiatives and offsetting CO2 emissions.

With this goal in mind, the Group has created this new Directorate which, reporting directly to the Managing Director of Risks, takes responsibility for coordinating the execution of an Environmental Risk Management Plan with a 3-year time horizon, including specifically aspects relating to climate change. This plan is aimed at making the most of opportunities and managing risks related to environmental protection and climate change, within the framework of the Company's Sustainable Finances.

The main responsibilities of this Management Division include:

- Defining the Environmental Risk Appetite Framework, included Climate Change Risk.
- Elaborating, development and implementing control mechanisms for the correct identification and monitoring of the portfolio according to its contribution to environmental sustainability.
- Monitoring the overall portfolio, as well as overseeing its control and reporting.
- Active management of the portfolio: ensuring correct application of policies, management mechanisms, cost-benefit analyses of the decisions taken, etc.

One of its most important missions, in collaboration with other areas of the Bank, is to head up and oversee the process of implementing instruments across the entire branch network to ensure integral risk management under Basel guidelines, with the ultimate aim of achieving a balance between the risks assumed and the expected returns.

#### Deputy General Manager of Compliance

The Deputy General Manager of Compliance, reporting directly 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.7.

#### Assistant General Manager of Internal Audit

To guarantee the independence and powers of the audit function, the Internal Audit Directorate reports to the Audit and Control Committee – a specialist 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.

7 For further information on this position's activity and functions, see the Internal Control Framework section.

#### Executive Directorate of Payment default, recovery and foreclosures

Reporting directly to the CEO, the role of the Executive Directorate is to manage non-performing and foreclosed assets, acting in coordination with the Branch network and with an overall vision of the associated life cycle. Its main responsibilities and lines of work include: (i) proposing and implementing recovery strategies; (ii) defining the recovery function's objectives; and (iii) managing the flow and stock of non-performing assets.

## 3.2. Strategic risk management processes

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

### 3.2.1. Risk assessment

The Group conducts a risk self-assessment process every six months, seeking to:

- Identify, assess, classify and internally report significant changes in inherent risks assumed in its environment and business model.
- Perform 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.

The result of this self-assessment is reported at least annually, first to the Global Risk Committee and then to the Risk Committee, before finally being submitted to the Board of Directors for approval.

### 3.2.2. Corporate Risk Catalogue

The Corporate Risk Catalogue is subject to ongoing review, particularly on risks of a material impact. The catalogue is reported at least annually, first to the Global Risk Committee and then to the Risk Committee, before finally being submitted to the Board of Directors for approval.

The Group has a Corporate Risk Catalogue that facilitates the internal and external monitoring and reporting of risks.

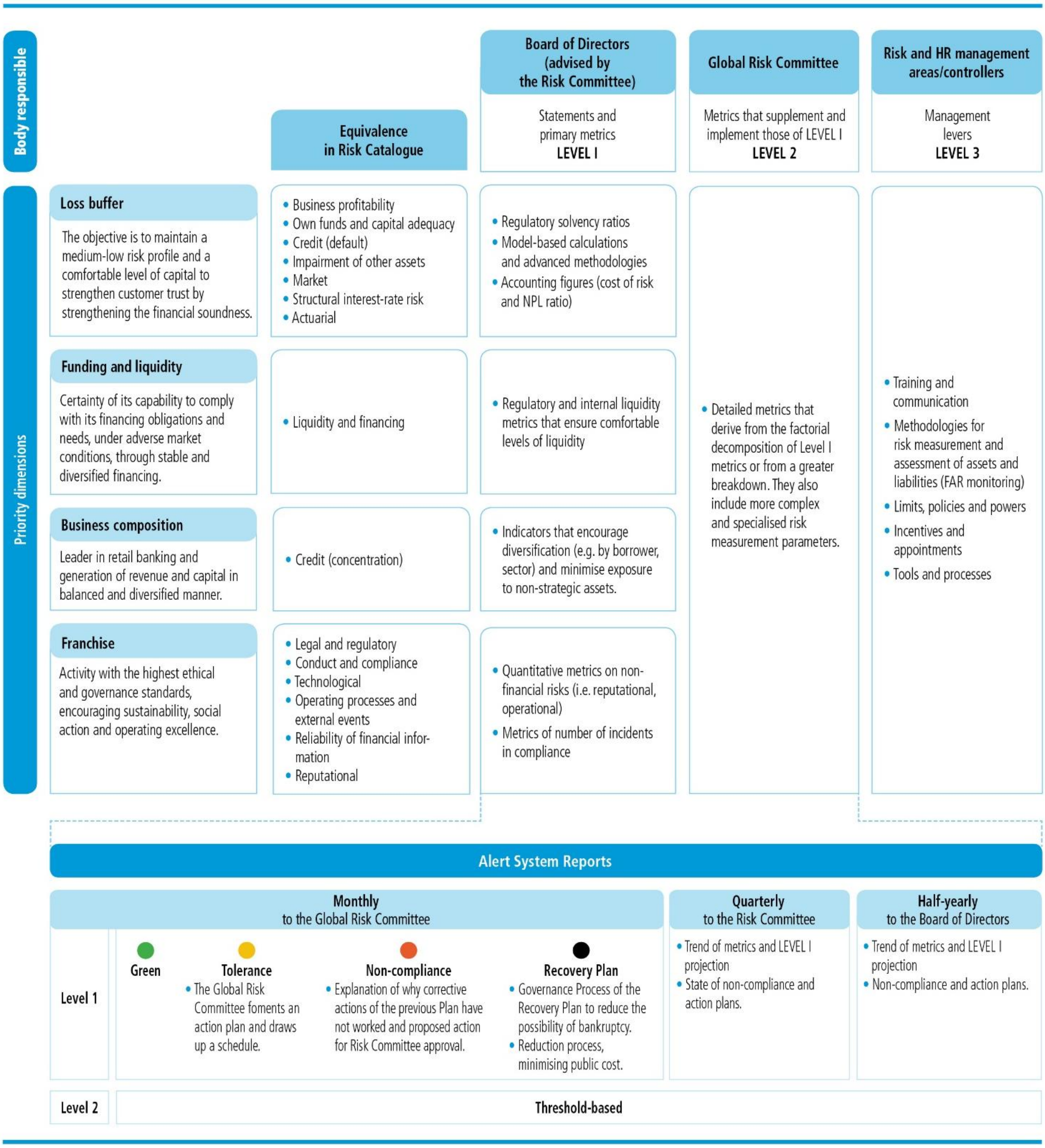
| Risks | Description |
|---|---|
| **Business model risks** | |
| Business returns | Obtaining results below market expectations or Group targets that, ultimately, prevent the company from reaching a level of sustainable returns that exceeds the cost of capital. |
| Eligible own funds/Solvency | Risk resulting from constraints on the Group's ability to adapt its level of capital to regulatory requirements or changes in its risk profile. |
| Funding and liquidity | Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements, or the investment needs of the Group. |
| **Risks affecting financial activity** | |
| Credit | Risk of a decrease in the value of the Group's assets due to uncertainty about a counterparty's ability to meet its obligations. |
| Impairment of assets | Reduction in the carrying amount of the shareholdings and non-financial assets (tangible, intangible, deferred tax assets (DTAs) and other assets) of the Group. |
| Market | Risk of decrease in value of the Group's assets or increase in value of its liabilities held for trading or to maturity, due to fluctuations in interest rates, credit spreads, external factors or prices in markets where such assets/liabilities are traded. |
| Interest rate risk in the banking book | Negative impact on the economic value of the balance sheet's items or on the financial margin due to changes in the temporary structure of interest rates and its impact on asset and liability instruments and those off the Group's balance sheet not recorded in financial assets held for trading. |
| Actuarial | Risk of a loss or adverse change to the value of the commitments assumed through insurance or pension contracts with customers or employees due to the differences between the estimate for the actuarial variables used in the tariff model and reserves and the actual performance of these. |
| **Reputation and Operational risks** | |
| Legal/Regulatory | The potential loss or decrease in the profitability of the CaixaBank Group as a result of changes in the legislation or in the regulation in force or due to conflicts of standards (in any field, including tax), in its interpretation or application by the corresponding authorities, or in its transfer to administrative or court rulings. |
| Conduct and compliance | Risk of CaixaBank applying criteria for action contrary to the interests of its clients or other stakeholders, or actions or omissions by the Group not compliant with the legal or regulatory framework, or internal policies, rules or procedures. |
| Technological | Risks of losses due to hardware or software inadequacies or failures in technical infrastructure, due to cyberattacks or other circumstances, that could compromise the availability, integrity, accessibility and security of the infrastructures and data. |
| Operating processes and external events | Risk of loss or damage caused by operational errors in processes related to the Group's activity, due to external events beyond its control, or due to third parties outside the bank, both accidentally and fraudulently. It includes errors in the management of 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 the CaixaBank Group. |
| Reputational | The risk of loss of competitiveness due to the loss of trust in CaixaBank by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Group, its Senior Management, its Governance Bodies, or because of related unconsolidated entities becoming bankrupt (step-in risk). |

*Risk Catalogue*

**Diagram 2**

### 3.2.3. Risk Appetite Framework (RAF)

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




*Risk Appetite Framework*

**Diagram 3**

### 3.2.4. Risk planning

The 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 Group plans the expected performance of the different factors and ratios that define the future risk profile, as part of the current Strategic Plan, with regular monitoring of compliance.

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

## 3.3. Risk culture

### Risk Management General Principles

The general principles guiding risk management in the Group can be summarised as follows:

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

### Training

Training is a key mechanism in the Group through which the risk culture is instilled. The Bank's main training programmes and initiatives are set out below.

With the aim of enabling the Group's branch managers, premier bank managers and private banking advisors to offer customers the best service and build their trust in the Group, since 2015 some 8,020 branch managers and premier banking managers have obtained a diploma in Financial Advisory services from the UPF School of Management (Pompeu Fabra University), and a similar number have 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 university diploma in Financial Advisory and with a prestigious international qualification in the financial sector.

Turning to risks specifically, the Senior Management define the content of any 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 RAF throughout the whole organisation; the decentralisation of decision-making; the updating of risk analysis competencies; and optimisation of risk quality.

The Group structures its training programme through the Risk School. It sees training as a strategic tool to provide support to business areas, whilst providing a conduit for disseminating the Group's risk policies, providing training, information and tools for all of the staff. The proposal comprises a training calendar for specialising in risk management, which will be linked to the professional development of all employees, from Retail Banking staff 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, covering the acceptance and monitoring, through to renegotiation and recovery, where necessary.

- Different credit products and the risks inherent to each one, 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 and awarded by the Pompeu Fabra University - Barcelona School of Management (UPF-BSM) (aimed at branch managers and deputy managers), over 4,740 members of staff have either obtained or are in the process of obtaining risk qualifications. In May 2018, the first Master's Certificate in Banking Branch Management was awarded, also by the UPF-BSM.

The following training on risk has been 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.

  Since 2015, a total of 1,229 employees have taken part in the three editions of this course. 2018 saw the fourth edition, with 289 employees enrolled.

- **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.

  This postgraduate course began with its first edition in 2015, and has reached its 7th edition in 2018. With the 355 members of staff enrolled in this latest edition, the total number of employees who have undertaken the diploma course will reach 3,223. 478 of them will have completed it, leaving 2,745 employees still enrolled.

  In this same year, the second half of the postgraduate course for the Business speciality began. Its first two editions saw a total of 360 employees take part, primarily from the risks division.

- **Specialist training in risks for Agrobank branches:** Aimed at employees of the AgroBank branch network. The 1st edition was launched in 2018, with 1,169 employees enrolled and 633 employees having already completed their training.

- **Specialist training in risks for BusinessBank branches:** Aimed at employees of the BusinessBank branch network. In 2018, there were 242 enrolled on this course.

- **Specialist training for Private Banking branches:** Aimed at employees of the Bank's Private Banking network. In 2018, all employees of this segment from the Barcelona and Canary Island regions have undertaken this training, as have employees of the Altium segment in Madrid. In total, 366 staff have atended the course, and it is due to be extended to the rest of the staff of the segment in 2019.

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.

- **Cash:** for risk teams to deepen their understanding of currency hedges, renegotiations, exchange rate risk and derivatives.

- **Forecasting model interpretation technique:** for all Loan Approval Centre analysts.

- **Risk in Commercial Channels:** aimed at analysts in specific territories and run by Commercia Global Payment.

- **Economic sectors:** run by specialists and aimed at the Risk Approval teams**.**

## Communication

Promoting the corporate risk culture is a key element for maintaining a robust and coherent framework in line with the Group's risk profile. The corporate risk intranet is a particularly relevant tool in this regard, providing a dynamic environment for directly communicating key updates in the risk environment. It is notable for its content on news, institutional information, sector information and training.

- In 2018, the Bank also undertook a number of internal communication initiatives in order to disseminate the risk culture. These included the analysis of the 2018 Stress test's results: exercise to disclose the Group's results carried out on a mass scale via the corporate intranet, as well as in thematic sessions for employees with a special connection to the aspects related to stress tests.

- Appendix IX to Bank of Spain Circular 4/2017 (transposition of IFRS 9): once the new standard was implemented and the main implications of the change were set out, the entire network was sent a communication in which additional educational training was provided to help staff understand it better, especially at an operational level.

## Performance assessment and remuneration

As described in the RAF section, the 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.

Along these lines, there are compensation schemes directly linked to the annual progress of the RAF metrics and which are specified in the Annual Remunerations Report.

# 3.4. Internal Control Framework

The Internal Control Framework is a set of rules and controls that govern the CaixaBank Group's organisational and operating structure, including reporting processes and functions of risk management, compliance and internal audit.

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

The Group has an ICFR model in line with: (i) the EBA Internal Guidelines on Internal Governance of 26 September 2017, implementing internal governance requirements established in Directive 2013/36/EU of the European Parliament, and (ii) with other regulatory guidelines on control functions applicable to financial institutions and to the recommendations of the CNMV[8]; providing a reasonable degree of assurance that the Group will achieve its objectives.

During the current year, in the context of the corporatisation of control functions, the limits of accountability, functional corporate limits and internal control limits of the subsidiaries have been formalised, in order to ensure that risks are monitored and controlled throughout the Group.

The governance model is based on three principles:

- **The Group's strategy**: the Board of Directors is responsible for both defining the Group's structure and approving and supervising the guidelines on strategic and management matters, which are established in the interest of each and every one of the Group companies.

8 Other regulatory guidance on financial institutions' control functions include:
- 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.
- Act 10/2014 of 26 June, on the arrangement, supervision and solvency of credit institutions; Royal Decree 84/2015 of 13 February, implementing Act 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.
- Recommendations of the CNMV on the establishment of a system of Internal Control over Financial Reporting (ICFR) for listed companies.

- Adequate and efficient **coordination** between CaixaBank and the other Group companies.

- The establishment of **governance models** in certain fields that allow the management of the Group to be improved, as well as its internal governance and the parent company's compliance with its obligations.

### Internal control functions at CaixaBank

The guidelines for the Group's Internal Control Framework are set out in the Internal Control Policy and are structured around the "three lines of defence" model, in line with regulatory guidance and best practices in the sector:

| Corporate risks | First line of defence (1) | Second line of defence: B | Second line of defence: RMF (2) | Second line of defence: RMV | Second line of defence: IFC | Third line of defence |
|---|---|---|---|---|---|---|
| Business returns | Accounting, Management Control and Capital EM | | ● | | ● | |
| Eligible Own Funds/Solvency | Accounting, Management Control and Capital EM | | ● | | ● | |
| Funding and liquidity | Finance EM | | ● | | | |
| Credit | Business GM, Risk GM, CIB and International Banking EM, NPL, Recoveries and Foreclosed Assets EM | | ● | ● | | |
| Impairment of assets | Intervention, Management Control and Capital EM, Legal Advice EM and Foreclosed Assets EM | | ● | | ● | |
| Market | Finance EM | | ● | ● | | |
| Structural interest-rate | Finance EM | | ● | | | Internal audit |
| Actuarial | Insurance EM | | ● | ● | | |
| Legal and regulatory | Legal Advice EM | ● | | | | |
| Conduct and Compliance | Business GM, Legal Advice EM, Finance EM and CIB and International Banking EM | ● | | | | |
| Technological | Media EM | | ● | | | |
| Operating processes and external events | Media EM, Business GM and CIB and International banking EM | | ● | ● | | |
| Reliability of financial information | Accounting, Management Control and Capital EM | | ● | | ● | |
| Reputational | EM of Communication, Institutional Relationships, Brand and CSR and GM of Business | ● | | | | |

(1) Areas of the Management Committee are identified, as well as other specific fields in particular.
(2) Risk Management Function, as per its name, comprising the Corporate Risk Management Function & Planning and its dependent fields including RMV.
RMF - Risk Management Function
RMV - Risk Model Validation
IFC - Internal Financial Control
C - Compliance
GM - General Management
EM - Executive Management

*Three lines of defence model*

**Diagram 4**

## 3.4.1. First line of defence

This comprises the business lines (risk takers) and support functions. They are 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. 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.

These functions may be embedded in the business units and support areas. However, when a situation's complexity, intensity or need for focus require it, specific control units with greater specialism should be set up to ensure that the risks relating to these activities are properly controlled.

### 3.4.2. Second line of defence

This 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 drafting policies in coordination with the first line of defence, advising and critically assessing the actions of the first line of defence, monitoring risks (including emerging risks), monitoring weaknesses in the control environment and action plans, and expressing an opinion on the Risk Control Environment.

The Group's second line of defence is organised as follows:

- The RMF covers the management, monitoring and control of most of the risks in the catalogue, with the exception of those which correspond to the Compliance function.

  The Internal Financial Control 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.

- The Risk Models Validation department (RMV), which falls under the remit of the RMF, 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 Lifespan risk, and for risk associated with Operational processes and External Events.

The functions included in the second line of defence act independently of the business units and comprise:

**Policies, standards and procedures:**

- The establishment of risk management and control policies in coordination with the first line of defence, assessing their subsequent compliance.

**Risks and controls:**

- The identification, measurement and monitoring of the risks (including emerging risks), contributing to the definition and implementation of risk indicators aligned with the RAF.

- In addition, they coordinate the compliance and monitoring of the Risk Assessment process, the Corporate Risk Catalogue and the RAF

**Monitoring of indicators:**

- Periodically monitoring indicators of both the first and second lines of defence, in relation to the established risk profiles.

**Control weaknesses and action plans:**

- Following up control weaknesses that are identified, as well as establishing and implementing Action Plans.

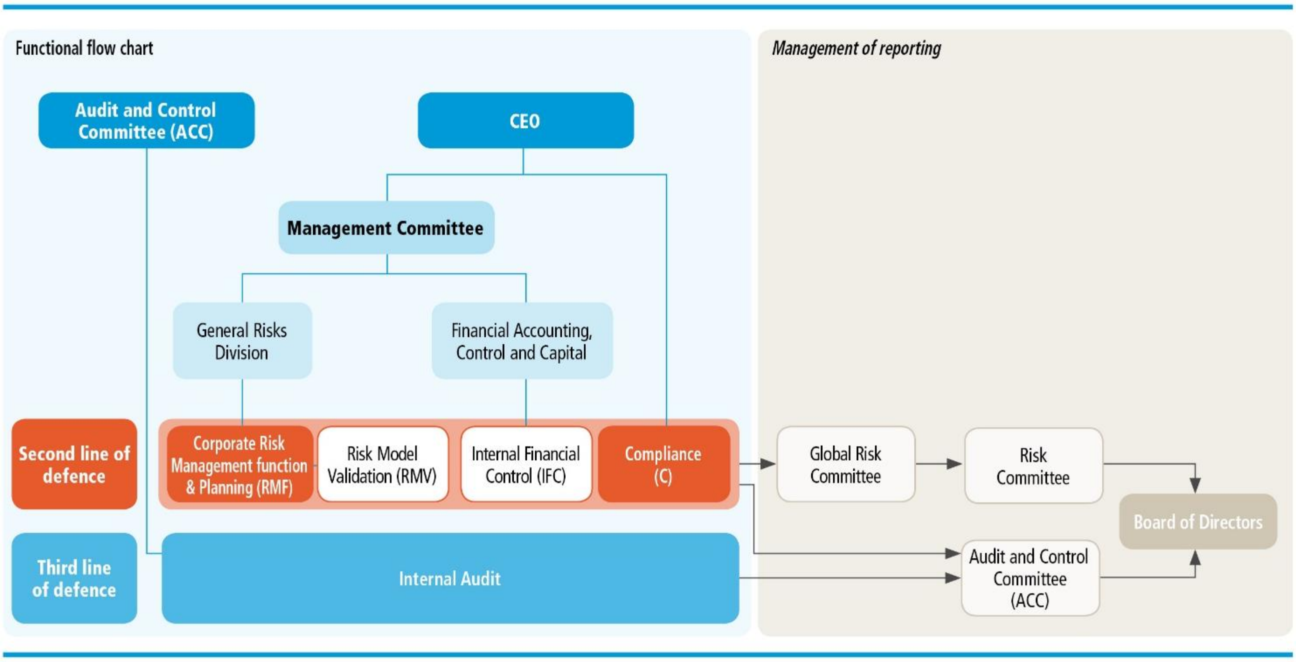
**Internal Validation:**

- Performing independent checks on the internal models.

The activities of the second line of defence, as well as i) the identified weaknesses, ii) the monitoring of action plans and iii) the opinion on the adequacy of the control environment in the Group, are regularly reported to the bodies responsible for the control environment, following the established hierarchy, as well as to supervisory bodies.

With regard to the Information of Prudential Relevance document, CaixaBank's second line of defence, which is responsible for providing reasonable assurance over the reliability of its financial information, has validated the existence of the necessary controls. These controls are in place to ensure the information's quality and integrity, thus guaranteeing that the information presented is accurate.

The second line of defence includes the following functions:




*Functional organisational and reporting diagram of the second and third lines*

**Diagram 5**

The second line of defence consists of:

### Corporate Risk Management Function (RMF) & Planning

The RMF is responsible for identifying, monitoring, analysing, measuring, managing and reporting risks, thus gaining a comprehensive view of all the Group's risks. To this end, all aspects that are considered relevant for it to perform its function and that are implemented by second line of defence functions without hierarchical dependency will be reported to the RMF.

In addition, on matters that fall within its remit, the RMF: i) monitors the internal organisation of the second line of defence, general plans and activities, and evaluates their effectiveness; ii) oversees the appropriate scaling of the second line of defence in order to ensure effective management of its responsibilities, monitors its objectives as well as improvement projects relating to risk management and monitoring processes and systems; and iii) provides assurance to Management and Governance Bodies that risk control policies and procedures are in place in the organisation, and that they are designed correctly and applied effectively, evaluating the risk control environment. In addition, the RMF must reinforce coordination mechanisms of Risk Management Units of the first, second and third lines of defence, as necessary.

### Internal Financial Control

The Internal Financial Control department, which falls within the Financial Accounting, Control and Capital (FACC) department, is functionally integrated into the RMF and performs functions as the second line of defence in relation to the following risks: i) business profitability; ii) own funds/capital adequacy; iii) impairment of other assets; and iv) the reliability of the financial information.

CABK has a system of Internal Controls over Financial Reporting (ICFR), coordinated by Internal Financial Control, which strives to ensure reliability of the financial information that is reported. ICFR is defined as the set of processes that are carried out to provide reasonable assurance on the reliability of financial information published by the bank 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).

Details of this function are presented in the Annual Corporate Governance Report for 2018, along with the activities carried out during the period.

https://www.caixabank.com/deployedfiles/caixabank/Estaticos/PDFs/Informacion_accionistas_inversores/Gobierno_corporativo/CABK_IAGC_2018_en.pdf

### Compliance

Compliance is a function that is dependent upon the CEO, and reports directly, within the scope of its activities, to the Senior Management, to the Governance Bodies, as well as to the supervisory bodies (Bank of Spain, ECB, SEPBLAC, Treasury, CNMV and other bodies).

The Compliance supervision model is based on four main management mechanisms: i) defining and maintaining a detailed taxonomy of risks in each area of activity; ii) an annual Compliance Plan, where the activities for monitoring and reviewing internal procedures are determined according to their criticality; iii) monitoring gaps (control deficiencies or regulatory breaches) identified, either by the first line of defence, via the activities included in the Compliance Plan, or by reports from external experts, reports on the inspections of the supervisory bodies, and customer complaints, etc. and improvement Action Plans, which are subject to regular monitoring; iv) reporting and scaling of the relevant information, monitoring inspections or deficiencies in the area of Compliance.

Furthermore, the Compliance function carries out advisory activities on the matters that fall under its responsibility, and carries out actions to develop and transform the Compliance “culture”. This is done by redesigning technology-based processes, through awareness-raising and communication plans conducted throughout the organisation, and through training activities, establishing a compulsory regulatory training plan which is linked to the annual bonus.

Another activity that is undertaken involves ensuring that best practices in the field of integrity and codes of conduct are followed. One of the measures implemented to this end is an internal and confidential whistle-blowing channel that is made available to employees.

**Risk Model Validation (internal validation)**

The internal validation function in CaixaBank is carried out by the Model Validation and Risk unit, which reports to the RMF. Its objective is to issue an independent technical report on the suitability of internal models used for internal management and/or regulatory purposes within the Group. Included within its scope of action are activities such as reviewing methodological and management aspects (e.g. use of management models and tools, 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.

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

### 3.4.3. Third line of defence

Internal Audit is the third line of defence in the CaixaBank Group's "three lines of defence" control model. It oversees the activities of the first and second lines of defence.

To guarantee the independence and powers of the audit function, Internal Audit reports to the Audit and Control Committee – an expert board committee – as well as to the Chairman of the Board of Directors.

Internal Audit has a rule book governing how it operates, which has been approved by the Board of Directors. It establishes that it is an independent and objective assurance and consultation function, established to add value and improve operations. Its objective is to provide reasonable assurance to Senior Management and the Governance Bodies with regard to:

- The effectiveness and efficiency of internal control systems in offsetting the risks associated with the Group's activities;
- Compliance with prevailing legislation, especially the requirements of Supervisors and the appropriate application of the defined RAF.
- Compliance with internal policies and regulations, and alignment with best practices and uses in the sector, for adequate internal governance of the Group.
- The reliability and integrity of financial and operational information, including the effectiveness of Internal Control over Financial Reporting (ICFR).

Its main supervisory functions include:

- The adequacy, effectiveness and implementation of policies, regulations and procedures.
- The effectiveness of controls.
- Adequate measurement and monitoring of first line of defence and second line of defence indicators.
- The existence and correct implementation of action plans to remedy weaknesses of controls.
- The validation, monitoring and assessment of the control environment by the second line of defence.

Its functions also include: i) preparing the multi-year 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; ii) reporting regularly on the conclusions of the work carried out and weaknesses identified to Governance Bodies, Senior Management, external auditors, supervisors and other applicable control and management areas; and iii) adding value by proposing recommendations to address weaknesses detected in reviews and monitoring their implementation by the appropriate centres.

In relation to Information of Prudential Relevance, 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 internal and external regulations relating to credit risk management. This includes reviewing the main approval and granting, arrears management, borrower monitoring and recovery processes.
- Reviewing the proper integration of risk models into the Bank's day-to-day management processes.
- 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 corporate systems, as well as 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.
- Assessing accounting classifications and whether provisions for large debtors are sufficient.
- Reviewing valuation models for coverage of loan portfolio impairment.
- Supervising the risk management control framework, assessing the independent control functions carried out by the first and second lines of defence.

For operational risk, Internal Audit reviews the relevant measurement, assessment and management processes. These include:

- Reviewing compliance with, and implementation of, the Operational Risk Corporate Policy.
- Verifying compliance with regulatory requirements for use of the standardised approach to calculating minimum capital requirements.
- Assessing 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.
- Assessing the management procedures and tools implemented and their ongoing evolution, verifying compliance with internal regulations.
- Reviewing the measurement system, mainly verifying the accuracy and integrity of data.
- Reviewing the technological environment and applications: as they relate to information integrity and confidentiality, as well as system availability and business continuity.

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. In particular, this involves:

- Checking that the methodologies used consider relevant risk factors.
- Reviewing the process, and the integrity and consistency of the data used in risk management.
- Supervising 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 day-to-day management processes.
- Verifying that procedures relating to the risk management system and process are appropriately documented.
- Verifying compliance with the Bank's internal and external regulations in connection with management and regulatory reporting of market risk, liquidity risk, and interest rate risk in the banking book.

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

In terms of compliance risk, policies and procedures established in the Group are assessed to ensure they are consistent with the legal and regulatory framework, and with 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 annual Recovery Plan, as well as this document, prior to their approval by the Board of Directors.

# 4.

# Capital



# 4. CAPITAL

The goal of capital management in the CaixaBank Group is not only to ensure compliance with regulatory requirements but also to ensure that the internal capital objectives are met, taking into account the status of the market and the risk profile assumed by the Bank, among other aspects.

One of CaixaBank's strategic objectives is to strengthen its capital position, thereby maintaining sufficient headroom to deal with a stress scenario.

With this goal in mind, the Board of Directors determines the Group's risk and capital policies and objectives. The Management Committee oversees management of these policies and objectives at the highest level, in accordance with the strategies established by the Board.

In turn, the strong solvency allows the objective of distributing a cash dividend of at least 50% of the net profit to be met (51% in 2018).

## Annual trend

Throughout 2018, the CaixaBank Group has maintained a solid solvency position, with fully-loaded ratios of 11.5% for CET1, 13.0% for Tier 1 capital and 15.3% for Total Capital.

The year's organic generation has amounted to +54 basis points, which has been entirely offset by the impact of extraordinary items and market volatility.

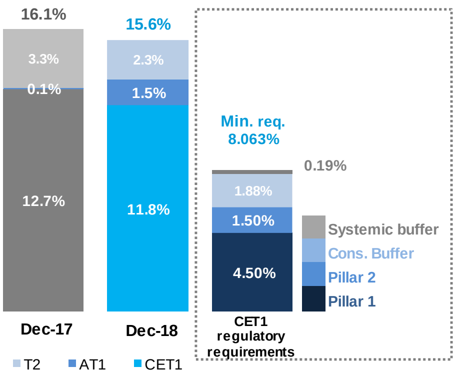
The Tier 1 capital and Total Capital ratios have been strengthened in 2018 by an issue of EUR 1,250 million of AT1 capital in March and an issue of EUR 1,000 million in subordinated debt (Tier 2) in April.

There was also an issue of EUR 1,000 million in senior non-preferred (SNP) debt in 2018, in order to meet future MREL requirements. In January 2019, another issue was carried out of EUR 1,000 million in SNP debt, which is not reflected in the figures disclosed in this report.

| 11.8% (€17,217 M) Basel 3 CET1 Regulatory | 11.5% (€16,800 M) BIS 3 CET1 Fully-loaded |
|---|---|
| 15.6% (€22,746 M) Basel 3 TOTAL CAPITAL Regulatory | 15.3% (€22,328 M) Basel 3 TOTAL TAPITAL Fully loaded |

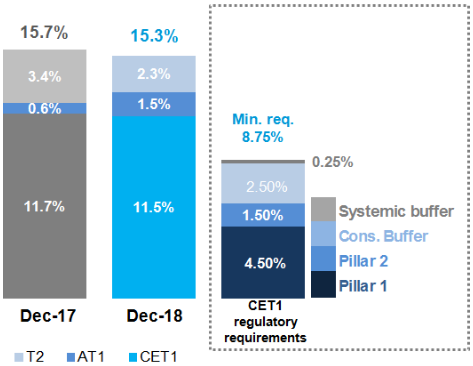
## REGULATORY CAPITAL RATIOS

%




## FULLY LOADED CAPITAL RATIOS

%




## ELIGIBLE OWN FUNDS

**Table 4.1. CaixaBank Solvency**

*Amounts in millions of euros*

| | BIS 3 (Regulatory) 2017 | BIS 3 (Regulatory) 2018 | BIS 3 (Fully Loaded) 2017 | BIS 3 (Fully Loaded) 2018 |
|---|---|---|---|---|
| CET1 | 18,966 | 17,217 | 17,323 | 16,800 |
| Adittional Tier 1 | 108 | 2,233 | 999 | 2,233 |
| TIER 1 | 19,074 | 19,451 | 18,322 | 19,033 |
| TIER 2 | 4,973 | 3,295 | 5,023 | 3,295 |
| TOTAL CAPITAL | 24,047 | 22,746 | 23,345 | 22,328 |
| RWA | 148,940 | 146,155 | 148,695 | 145,942 |
| **CET1 ratio** | **12.7%** | **11.8%** | **11.7%** | **11.5%** |
| **Tier 1 ratio** | **12.8%** | **13.3%** | **12.3%** | **13.0%** |
| **Total Cap. ratio** | **16.1%** | **15.6%** | **15.7%** | **15.3%** |
| **Subordinated MREL ratio** | **17.2%** | **17.1%** | **16.8%** | **16.9%** |
| Buffer MDA (*) | 5,856 | 5,433 | 3,081 | 4,030 |
| Expos. Leverage | 344,281 | 344,902 | 343,484 | 344,485 |
| **Leverage ratio** | **5.5%** | **5.6%** | **5.3%** | **5.5%** |
| **Ratio CET1 ind.** | **13.6%** | **13.3%** | | |
| Buffer MDA Ind.(*) | 9,380 | 8,985 | | |

*(*)The relevant MDA buffer is either the non-consolidated or the consolidated, whichever is lower.*

## 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 financial institutions in the European banking market.

With this goal in mind, the Board of Directors determines the Group's risk and capital policies and objectives. The Management Committee oversees management of these policies and objectives at the highest level, in accordance with the strategies established by the Board.

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

Capital is managed so as to ensure compliance with both regulatory requirements and the Bank's internal capital targets at all times. Indeed, one of the pillars of the Bank’s financial strength is maintaining a high solvency level. This lays the foundations for achieving the objective set for the end of the period covered by the 2019-2021 Strategic Plan, on the basis of which the CET1 ratio would stand at around 12% from the end of 2019. In addition, a 1-percentage point prudential buffer would be established over the time frame covered by the plan in order to cover any future regulatory changes, including the end of the Basel 3 framework on 1 January 2022.

The total remuneration planned for distribution to shareholders for the 2018 financial year is EUR 0.17 gross per share, equating to 51% of the consolidated net profit. For 2019, CaixaBank expects to distribute between 50% and 60% of its consolidated net profit, according to the dividend policy that was approved by the Board of Directors on 31 January 2019.

## 4.2. SREP and capital buffers

### 4.2.1. Minimum requirements (Pillar 1 and Pillar 2R)

In the context of Basel Pillar 2, the CaixaBank Group carries out an annual Internal Capital Adequacy Assessment Process (ICAAP), with a financial conglomerate approach. This process covers the Group's banking-insurance activities, thus capturing the specific characteristics of the CaixaBank Group's business model. This process consists of the following: (i) financial planning over a three-year horizon, in a range of stress scenarios; (ii) a risk assessment to identify risks to which the Bank may be exposed; and (iii) a capital adequacy analysis, in terms of both own funds and capital requirements, from a purely internal (economic) perspective. In particular, an assessment is made of 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 Bank's management, and it is carried out in accordance with guidance from the supervisor and the European Banking Authority (EBA). The results of the process are reported each year to the supervisor.

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

Based on the SREP, every year the ECB sets minimum capital requirements for each entity. These requirements comprise the sum of the minimum level that is common to all financial institutions (Pillar 1, pursuant to article 92 of the CRR) and a specific minimum requirement also known as Pillar 2R (pursuant to article 104 of CRD IV). In 2018, Pillar 2R had to be complied with in full through CET1. The supervisor has determined that Pillar 2R does not apply at the CaixaBank individual level.

### 4.2.2. Capital buffers

In addition to the Pillar 1 and Pillar 2R minimum requirements, each financial institution must comply with its combined specific capital requirements, which comprise the specific capital conservation buffers for unexpected losses, the countercyclical buffers and the systemic buffers. This combined buffer requirement (CBR) must be met using the highest quality capital (CET 1).

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

**The specific countercyclical buffer** is the capital buffer that must be accumulated during expansive periods to strengthen solvency and neutralise the capital requirements' procyclical impact on credit. 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).

**The systemic buffers** are set according to whether a financial institution is considered:

- A Globally Systematically Important Bank (G-SIB) or an Other Systemically Important Institution (O-SII).
- A bank representing a systemic risk.

Since 2016, CaixaBank has been identified each year as an O-SII. The capital surcharge has remained unchanged at 0.25% fully loaded.

The current transposition of CRD IV into Spanish law requires 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 4.2. These buffers apply at both the individual and the consolidated level.

### 1. Systemically important institutions

Each year, the Bank of Spain identifies financial institutions that classify as the following, in accordance with the EBA's methodology:

- Globally Systematically Important Banks (G-SIBs).
- Other Systemically Important Institutions (O-SIIs).

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

The buffer for classification as a G-SIB varies between 1% and 3.5%, while for an O-SII it can reach up to 2% of the total exposure to risk.

The CaixaBank Group's main indicators at 31 December 2017 can be found on the company's website at:

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

The indicators at 31 December 2018 will be published on the Bank's corporate website by no later than 30 April 2019.

### 2. Systemic risks

Systemic risks 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 potentially serious consequences, as well as disturbing the real economy. The competent authorities may require a buffer of between 1% and 3% for some or all exposures in Spain or in the Member State setting the buffer, as well as for exposures in other countries and other European Union member states. This buffer may either apply to all financial institutions, whether part of a consolidated group or not, or to one or more subsectors of such institutions.

**Table 4.2. Capital buffer requirements**

*In %*

| Capital buffer | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Capital conservation | 0.63% | 1.25% | 1.875% | 2.50% |
| Specific anticyclical(1) | 0.0% | 0.0% | 0.0% | 0.0% |
| Systemic(2) | 0.063% | 0.125% | 0.188% | 0.25% |

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

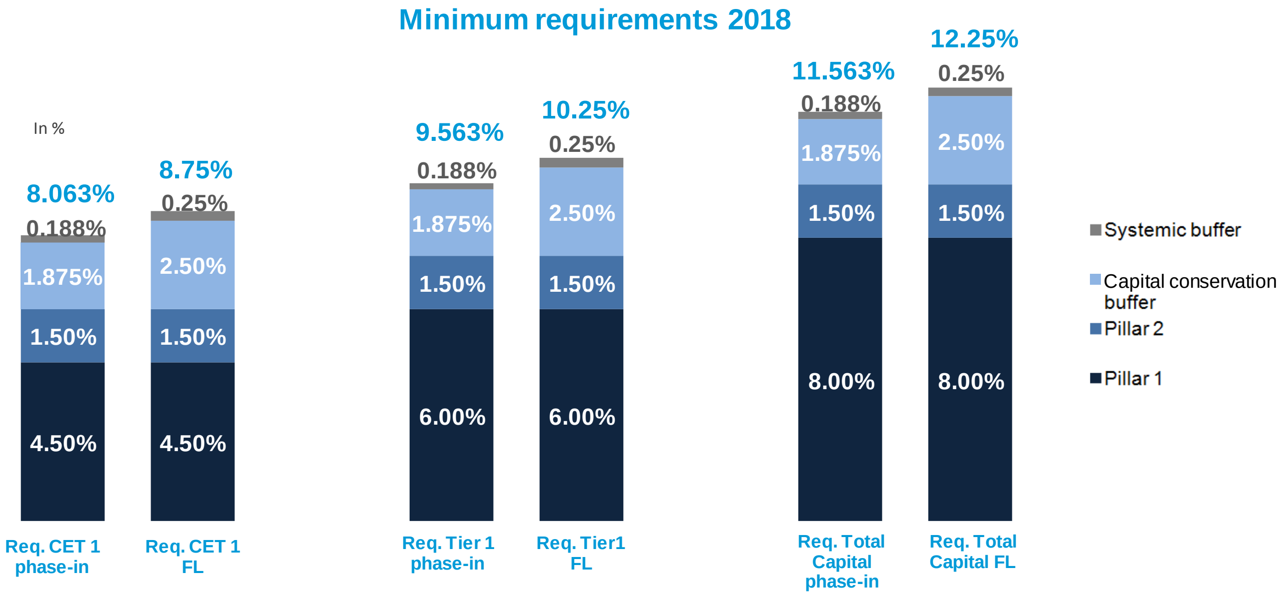
*(2) As discretion of competent authorities. D-sib Buffer for 2019.*

## 4.2.3. Total SREP requirements

For 2018, the European Central Bank (ECB) required CaixaBank to maintain a regulatory CET1 ratio of 8.063%. This comprised the general minimum requirement for Pillar 1 of 4.5%, a specific Pillar 2R requirement of 1.5%, a capital conservation buffer of 1.875% and an O-SII buffer of 0.1875%.

In February 2019, CaixaBank received the decision from the European Central Bank (ECB) on the updated minimum regulatory capital requirements. In fully-loaded terms, they remain unchanged from 2018 and require the CaixaBank Group to maintain a CET1 ratio of 8.75% in 2019. This ratio includes: the minimum Pillar 1 requirement (4.5%), the Pillar 2R requirement (1.5%), the capital conservation buffer (2.5%) and the O-SII buffer (0.25%). Similarly, taking the 8% Pillar 1 requirement, the minimum Total Capital requirements would reach 12.25% fully loaded. From 1 January 2019, after the transitional period comes to an end, the phase-in and fully loaded requirements will be the same. Pillar 2R does not apply at the individual company level.

The ECB's decision indicates the regulatory CET1 level below which the CaixaBank Group would be required to limit dividend payments, as well as variable pay and interest to holders of additional Tier 1 capital instruments. This threshold, known as the maximum distributable amount trigger (MDA trigger), is set at 8.75% in 2019. This threshold would need to be increased by any potential additional Tier 1 or Tier 2 capital deficits arising at any given time relative to the minimum implicit Pillar 1 levels of 1.5% and 2%, respectively. As of December 2018, CaixaBank does not have any such deficits. Compared to current CET1 ratio levels, this requirement means that the requirements applicable to the CaixaBank Group will not entail any limitation whatsoever of the types referred to in the solvency regulations.




The following table provides a geographical breakdown of exposure by country of origin. The exposures are greater in Spain, where a 0% surcharge applies.

## Table 4.3. EU CCyB1 - Geographical distribution of credit exposures used in the countercyclical capital buffer

*Amounts in millions of euros*

| Country | Credit risk exposures (1) | | Trading book exposures | | Securitisation exposures | | Own funds requirements | | | | Own funds requirement weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | STD approach (2) | IRB approach | Sum of short and long positions | Exposure for internal models | STD approach | IRB approach | Of which: Credit Risk exposure | Of wich: Trading book exposures | Of which: Securitisation exposures | Total | | |
| Spain | 36,549 | 172,961 | 5 | 468 | 3 | 2,802 | 7,258 | 51 | 17 | 7,326 | 77.9% | 0.0% |
| Portugal | 22,254 | 359 | - | - | 50 | - | 1,076 | - | 2 | 1,078 | 11.5% | 0.0% |
| Unitd Kingdom | 1,768 | 880 | - | - | - | - | 121 | - | - | 121 | 1.3% | 1.0% |
| Luxemburgo | 811 | 696 | 5 | - | - | - | 117 | 0 | - | 117 | 1.2% | 0.0% |
| Austria | 18 | 1,399 | - | - | - | - | 109 | - | - | 109 | 1.2% | 0.0% |
| Mexico | 667 | 826 | - | - | - | - | 103 | - | - | 103 | 1.1% | 0.0% |
| France | 487 | 635 | - | - | 29 | - | 77 | - | 2 | 79 | 0.8% | 0.0% |
| Poland | 829 | 5 | - | - | - | - | 66 | - | - | 66 | 0.7% | 0.0% |
| USA | 552 | 308 | - | - | - | - | 60 | - | - | 60 | 0.6% | 0.0% |
| Netherlands | 484 | 594 | 4 | - | - | - | 56 | 0 | - | 56 | 0.6% | 0.0% |
| Germany | 319 | 623 | - | - | - | - | 43 | - | - | 43 | 0.5% | 0.0% |
| Ireland | 191 | 202 | - | - | - | - | 28 | - | - | 28 | 0.3% | 0.0% |
| Canada | 272 | 5 | - | - | - | - | 22 | - | - | 22 | 0.2% | 0.0% |
| Italy | 79 | 341 | - | - | - | - | 20 | - | - | 20 | 0.2% | 0.0% |
| Singapore | 10 | 111 | - | - | - | - | 19 | - | - | 19 | 0.2% | 0.0% |
| Others | 1,387 | 1,220 | - | - | - | - | 160 | - | - | 160 | 1.7% | 0.0% |
| **Total** | **66,678** | **181,165** | **14** | **468** | **82** | **2,802** | **9,334** | **51** | **21** | **9,407** | **100.0%** | **0.0%** |

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

*(2) 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 4.4. Amount of institution-specific countercyclical capital buffer**

*Amounts in millions of euros and %*

| | Amount |
|---|---|
| Total risk exposure amount | 146,155 |
| Institution specific countercyclical buffer rate | 0.0% |
| Institution specific countercyclical buffer requirement | - |

# 4.3. Regulatory capital

## 4.3.1. Eligible own funds

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

In addition, although there is no official requirement for 31 December 2018, the volume of subordinated instruments eligible for MREL (Minimum Requirement for own funds and Eligible Liabilities) is shown. This includes Total Capital among other eligible subordinated instruments, mostly senior non-preferred (SNP) debt, in accordance with the BRRD (Bank Recovery Resolution Directive).

Details of CaixaBank's eligible own funds at 31 December 2018, as set out in Appendix VI of the Commission's Implementing Regulation (EU) 1423/2013, are set out in Appendix I of this document. Starting from December 2018, subordinated liabilities eligible as MREL are also included in the table, despite not being eligible as own funds under the CRR. This does not affect the eligibility of other non-subordinated liabilities as MREL.

**Table 4.5. Eligible own funds**

*Amounts in millions of euros*

| | BIS 3 (Regulatory) | | BIS 3 (Fully Loaded) | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| **CET1 Instruments** | **23,927** | **23,257** | **23,973** | **23,257** |
| Shareholders' equity | 24,204 | 24,836 | 24,204 | 24,836 |
| Capital | 5,981 | 5,981 | 5,981 | 5,981 |
| Profit | 1,685 | 1,985 | 1,685 | 1,985 |
| Reserves and others | 16,538 | 16,870 | 16,538 | 16,870 |
| Minority interests and OCIs | 472 | (786) | 472 | (786) |
| Adjustments of comput. of minority int. and OCIs | (140) | (36) | (86) | (36) |
| Other adjustments [1] | (609) | (758) | (617) | (758) |
| **Deductions from CET1** | **(4,961)** | **(6,040)** | **(6,650)** | **(6,458)** |
| Intangible assets | (3,365) | (4,250) | (4,206) | (4,250) |
| Financial investments | - | - | - | (10) |
| Deferred tax assets | (1,126) | (1,581) | (1,876) | (1,991) |
| Other CET1 deductions | (470) | (209) | (568) | (206) |
| **CET1** | **18,966** | **17,217** | **17,323** | **16,800** |
| **AT1 instruments** | **999** | **2,233** | **999** | **2,233** |
| **AT1 deductions** | **(891)** | **-** | **-** | **-** |
| **TIER 1** | **19,074** | **19,451** | **18,322** | **19,033** |
| **T2 instruments** | **5,023** | **3,295** | **5,023** | **3,295** |
| Financing of subordinated issues | 4,572 | 3,147 | 4,572 | 3,147 |
| Excess of IRB provisions | 451 | 148 | 451 | 148 |
| **T2 deductions** | **(50)** | **-** | **-** | **-** |
| **TIER 2** | **4,973** | **3,295** | **5,023** | **3,295** |
| **TOTAL CAPITAL** | **24,047** | **22,746** | **23,345** | **22,328** |
| Senior non-preferred issues | 1,245 | 2,250 | 1,245 | 2,250 |
| Other computable subordinate MREL items [2] | 363 | 53 | 363 | 53 |
| **SUBORDINATED MREL** | **25,655** | **25,049** | **24,953** | **24,631** |

*(1) Mainly the forecast for outstanding dividends and prudential valuation adjustments (AVAs).*

*(2) Mainly subordinated issues not computable as Tier 2.*

Common Tier 1 (CET1) capital consists of the highest-quality elements of own funds (mostly accounting own funds), after applying the prudential filters set out in the regulations and progressively applying the transitory provisions in accordance with national discretionary standards. These elements are reduced with the CET1 deductions, after applying the regulatory limits and taking into consideration the regulation's gradual phase-in.

In addition to the EUR 24,836 million of eligible own funds for 2018, 100% of the other comprehensive income (OCI) are also added, except those adjustments corresponding to cash flow hedges, as set out in the Basel 3 application calendar. Instruments eligible as CET1 are further reduced by other elements. These primarily include the expected amount of any outstanding dividends, which is charged to the current year, any additional valuation adjustments (AVAs), and the irrevocable commitments to the national Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF).

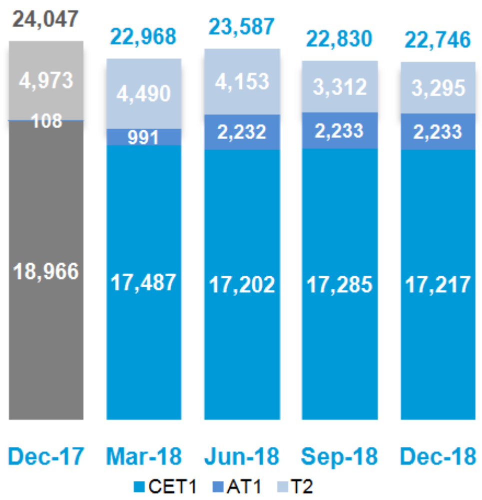
Instruments that are eligible for regulatory CET1 amount to EUR 23,257 million (EUR 670 million less than in 2017). This reduction is partly due to the initial application of IFRS9, which has had a -20 basis point impact on the regulatory CET1 ratio (-15 bps on the fully-loaded ratio). This impact is net of a -38 basis point impact of the effect in reserves and a +18 basis point impact due to other items affecting capital, primarily the release of deductions as a result of a lack of provisions compared to expected losses in the IRB portfolio. CaixaBank has opted out of the voluntary phase-in period set out in the regulations in relation to the impact on capital.

Deductions applicable to regulatory CET1 capital include , EUR 4,250 million for intangible assets, of which EUR 3,168 million is for on-balance sheet intangible assets and EUR 1,082 million for goodwill of investee companies, net of impairment. Other deductions are mostly for deferred tax assets arising from tax losses and other tax credits, which are included in the phase-in portion.

As a result, regulatory CET1 stood at EUR 17,217 million (EUR 1,749 million less than in 2017), while the CET1 regulatory ratio stood at 11.8% (11.5% on a fully-loaded basis).

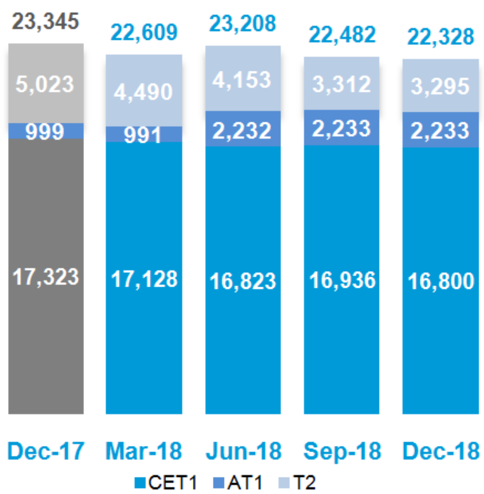
**Phase-in capital evolution**

*In millions of euros*




**Fully loaded capital evolution**

*In millions of euros*




Additional Tier 1 (AT1) capital is composed of issuances of eligible hybrid instruments, net of deductions for AT1. In June 2018, CaixaBank issued EUR 1,250 million eligible as AT1 instruments (the characteristics of the issue are set out in Appendix II). Starting from 2018, all deductions are allocated to CET1. Therefore, Tier 1 capital stood at EUR 19,451 million (EUR 377 millions more than in 2017), while the Tier 1 ratio reached 13.3% (13.0% fully loaded).

The components of Tier 2 capital include subordinated funding and the surplus of provisions under the IRB approach. All deductions have been transferred to CET1.

During 2018, CaixaBank carried out an issue of subordinated debt amounting to EUR 1,000 million, and it has amortised two issues with a nominal amount of EUR 2,822 million (of which EUR 2,312 million are eligible).

In December 2018, CaixaBank had 6 own subordinated debt issues with an eligible amount of EUR 3,147 million, taking into consideration the loss of eligibility according to the regulatory schedule. The details of these issues are provided in Appendix II of this document, as set out in Appendix III of the Commission's Implementing Regulation (EU) 1423/2013.

Total Capital stood at EUR 22,746 million (EUR 1,301 million less than in 2017), placing the regulatory Total Capital ratio at 15.6% (15.3% fully loaded).

In order to comply with future MREL requirements, in October 2018, EUR 1,000 million was issued in senior non-preferred (SNP) debt. The ratio of subordinated instruments (subordinated MREL) over RWAs, including mostly Total Capital and SNP debt, was 17.1% (16.9% fully loaded). The details of these issues has been included in Appendix II of this document, despite not being eligible for the purpose of own funds under the CRR.

In January 2019, a new issue of EUR 1,000 million of senior non-preferred debt instruments was carried out, which is not included in this report.

### Table 4.6. Variation in regulatory capital

*Amounts in millions of euros and %*

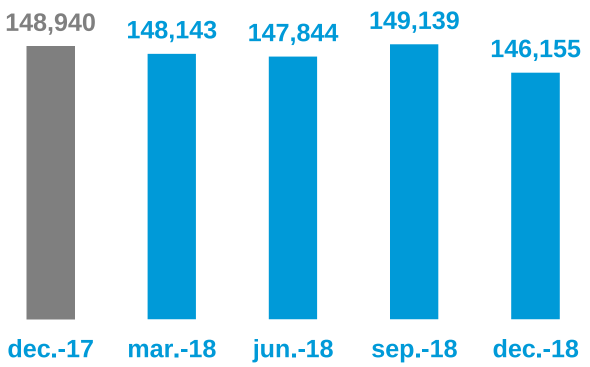
| | 2017-2018 |
|---|---|
| **CET1 at the beginning of the period** | **18,966** |
| **CET1 instrum. movements** | **(670)** |
| Profit | 1,985 |
| Dividend | (1,016) |
| Reserves | (455) |
| Minority interests | (278) |
| OCIs & others | (905) |
| **CET1 deduc. movements** | **(1,079)** |
| Intangible assets | (885) |
| Deferred tax assets | (456) |
| Other CET1 deductions | 262 |
| **CET1 at the end of the period** | **17,217** |
| | |
| **Additional Tier 1 at the begining of the period** | **108** |
| **TIER 1 instrum. movements** | **1,234** |
| Eligible Tier 1 instruments | 1,234 |
| **Tier 1 deduc. movements** | **891** |
| Intangible assets | 841 |
| Other Tier 1 deductions | 50 |
| **Additional Tier 1 at the end of the period** | **2,233** |
| | |
| **Tier 2 at the begining of the period** | **4,973** |
| **Tier 2 instrum. movements** | **(1,728)** |
| Subordinated debt | 1,000 |
| Redemption of issuances | (2,822) |
| Other Tier 2 instruments | 94 |
| **Tier 2 deduc. movements** | **50** |
| Other Tier 2 deductions | 50 |
| **Tier 2 at the end of the period** | **3,295** |

## 4.3.2. Capital requirements

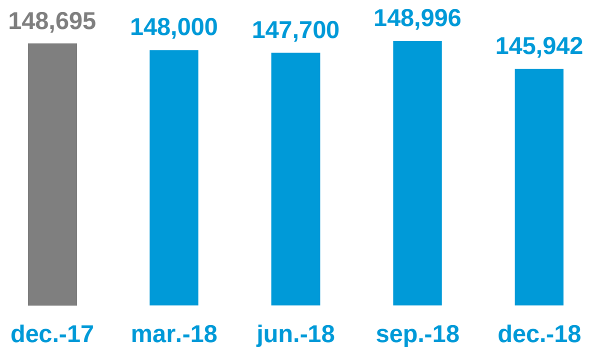
The quantitative information in this document meets the revised Pillar 3 disclosure requirements of the Basel Committee on Banking Supervision (BCBS).

A number of the most significant tables requested by the BCBS are published on the CaixaBank website every quarter.

### Regulatory RWAs evolution




### Fully loaded RWAs evolution




The total volume of RWAs stood at EUR 146,155 million at 31 December 2018, EUR 2,785 million less than in 2017. Partly due to the sale of the real estate business, that compensates the organic evolution and the adjustment of the credit risk requirements of the non-performing mortgage portfolio deriving from the European Central Bank's TRIM[9] process. The risk-weighted assets of the equity portfolio include the RWAs of holdings in insurance companies that are not deducted from eligible own funds (mainly VidaCaixa).

### Table 4.7. EU INS1 - Non-deducted participations in insurance undertakings

*Amounts in millions of euros*

| | 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) | 2,174 |
| Total RWAs | 8,045 |

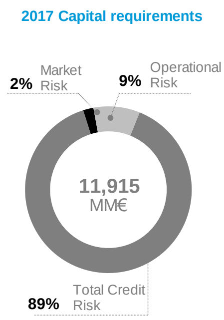
*(*) Corresponding to the equity position hold by VidaCaixa Group under which is applied the art. 49,1of the CRR ("Danish compromise").*
*Exposures do not include 973 million Euros of goodwill which are deducted in CET1*

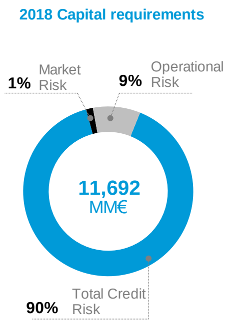
### Table 4.8. Capital consumption by segments

*In millions of euros and %*

| | 2017 | | 2018 | |
|---|---|---|---|---|
| | Capital | % | Capital | % |
| Credit (*) | 10,694 | 89% | 10,490 | 90% |
| Market | 182 | 2% | 154 | 1% |
| Operational | 1,039 | 9% | 1,049 | 9% |
| **Total** | **11,915** | **100%** | **11,692** | **100%** |

*(*) Includes equity, counterparties and securitizations.*




[9] Targeted Review of Internal Models

Table 4.9 provides details of the CaixaBank Group's risk-weighted assets and capital requirements for each type of risk at 31 December 2018. The requirements for eligible own funds are equivalent to 8% of the RWAs.

**Table 4.9. EU OV1 - Overview of RWAs**

*Amounts in millions of euros*

| | | | RWA | | Capital | |
|---|---|---|---|---|---|---|
| | | | 2017 | 2018 | 2017 | 2018 |
| | 1 | **Credit risk (excluding CCR)** | **128,577** | **125,568** | **10,286** | **10,045** |
| Article 438 c) d) | 2 | Of which the standardised approach | 61,941 | 58,046 | 4,955 | 4,644 |
| Article 438 c) d) | 3 | Of which the foundation IRB (FIRB) approach | - | - | - | - |
| Article 438 c) d) | 4 | Of which the advanced IRB (AIRB) approach | 56,020 | 57,729 | 4,482 | 4,618 |
| Article 438 d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 10,616 | 9,793 | 849 | 783 |
| Article 107, Article 438 c) d) | 6 | **CCR** | **2,517** | **2,939** | **201** | **235** |
| Article 438 c) d) | 7 | Of which mark to market | 1,721 | 1,781 | 138 | 142 |
| Article 438 c) d) | 8 | Of which original exposure | - | - | - | - |
| | 9 | Of which, Credit Value Adjustment risk (CVA) | - | - | - | - |
| | 10 | Of which internal model method (IMM) | - | - | - | - |
| | 11 | Financial collateral comprehensive method | 124 | 289 | 10 | 23 |
| Article 438 c) d) | 12 | Of which risk exposure amount for contributions to the default fund of a CCP | 2 | 3 | 0 | 0 |
| Article 438 c) d) | 13 | Of which CVA | 669 | 866 | 54 | 69 |
| Article 438 e) | 14 | **Settlement risk** | **-** | **-** | **-** | **-** |
| Article 449 o) i) | 15 | **Securitisation exposures in the banking book (after the cap)** | **197** | **267** | **16** | **21** |
| | 16 | Of which IRB approach | 33 | 28 | 3 | 2 |
| | 17 | Of which IRB supervisory formula approach (SFA) | 130 | 187 | 10 | 15 |
| | 18 | Of which internal assessment approach (IAA) | - | - | - | - |
| | 19 | Of which standardised approach | 34 | 52 | 3 | 4 |
| Article 438 e) | 20 | **Market risk** | **2,278** | **1,922** | **182** | **154** |
| | 21 | Of which the standardised approach | 1,228 | 1,183 | 98 | 95 |
| | 22 | Of which IMA | 1,051 | 739 | 84 | 59 |
| Article 438 e) | 23 | **Large exposures** | **-** | **-** | **-** | **-** |
| Article 438 f) | 24 | **Operational risk** | **12,983** | **13,109** | **1,039** | **1,049** |
| | 25 | Of which basic indicator approach | - | - | - | - |
| | 26 | Of which standardised approach | 12,983 | 13,109 | 1,039 | 1,049 |
| | 27 | Of which advanced measurement approach | - | - | - | - |
| Article 437 2), Article 48 and Article 60 | 28 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **2,389** | **2,350** | **191** | **188** |
| Article 500 | 29 | **Floor adjustment** | **-** | **-** | **-** | **-** |
| | 30 | **Total** | **148,940** | **146,155** | **11,915** | **11,692** |

### 4.3.3. Trends in solvency

As explained above, CaixaBank's solvency performance during 2018 was affected by several significant impacts. The first quarter of the year saw the initial application of IFRS9, issues of Additional Tier 1 instruments amounting to EUR 1,250 million, and the reclassification of approximately EUR 450 million of generic provisions considered eligible for Tier 2 as having a lower exposure to credit risk.

In the second quarter, a 51% stake in Servihabitat was repurchased, as was a portion of the minority holdings in BPI. In addition, EUR 1,000 million in Tier 2 instruments were issued and EUR 2,072 million were amortised (including EUR 1,574 million of eligible items).

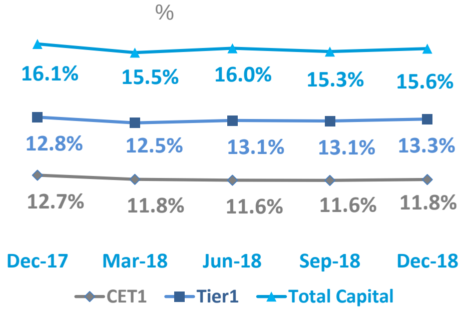
In the third quarter, the credit risk requirements of the non-performing mortgage portfolio were amended, as a result of the European Central Bank's TRIM process, and an issue of EUR 750 million in Tier 2 instruments was amortised (which included EUR 738 million of eligible instruments).

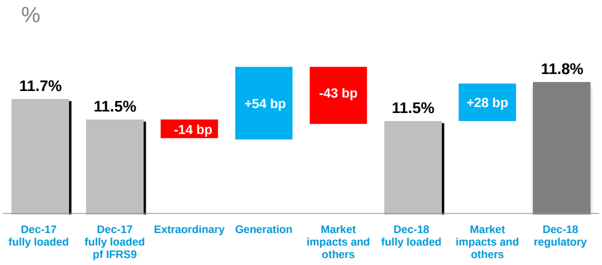
In the fourth quarter, the remaining minority holdings in BPI were repurchased and 80% of the real estate business was sold.

There was also an issue of EUR 1,000 million of senior non-preferred (SNP) debt in the fourth quarter, in order to meet future MREL requirements.

At the end of the period, the Group's fully-loaded CET1 ratio stood at 11.5%, excluding the -15 basis point impact for the initial application of IFRS9 and the -14 basis point impact due to extraordinary movements during the year (the purchase of minority interests in BPI and the sale of 80% of the real estate business). On the other hand, the CET1 ratio has increased by +54 basis points through the organic generation of capital, offset by a -43 basis point decrease primarily due to the volatility of the markets and other impacts.

**Ratios phase-in**




### 4.3.4. Leverage ratio

The Basel 3 framework introduces the leverage ratio as a complementary measure to risk-based capital requirements. Currently, the CRR does not contain any minimum leverage-based capital requirement, although texts of the revised banking regulations, which are due to come into force in 2019, establish a compulsory requirement of 3%.

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

At 31 December 2018, the CaixaBank Group had a regulatory leverage ratio of 5.6% (5.5% fully loaded), comfortably above the minimum regulatory.

Appendix III includes the mandatory disclosures established in the Basel Committee on Banking Supervision document and in the EBA's document on leverage ratio disclosure, pursuant to article 451 (2) of the CRR.

**Table 4.10. Leverage ratio**

*Amounts in millions of euros and %*

| | Regulatory | Fully Loaded |
|---|---|---|
| **Tier 1** | **19,451** | **19,033** |
| Total regulatory assets | 335,652 | 335,652 |
| Tier 1 deductions | (6,040) | (6,458) |
| Other adjustments(*) | 15,290 | 15,290 |
| **Leverage exposure** | **344,902** | **344,485** |
| **Leverage ratio** | **5.6%** | **5.5%** |

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

### 4.3.5. Financial Conglomerate

The CaixaBank Group has been a financial conglomerate subject to additional supervision since 2014. This supervision entails a heightened degree of monitoring by the supervisor in relation to the Group's financial and insurance operations.

With the application of Basel 3, for solvency purposes, the Bank of Spain authorises CaixaBank to not deduct its investment in insurance companies, in virtue of article 49.1 of the CRR. The investment is weighted at the rate of 370%.

In December 2018, the financial conglomerate's coverage ratio (i.e. the conglomerate's own funds compared to the minimum requirements under Solvency 2) stood at 131.4%.

**Table 4.11. Conglomerate coverage ratio**

*Amount in millions euros and %*

| | Amount |
|---|---|
| Eligible own funds of the entity | 22,746 |
| Addicional items | 893 |
| **Own funds at conglomerate level** | **23,640** |
| Total requirements of the credit institution | 16,899 |
| Other requirements | 1,086 |
| **Total requirements at conglomerate level** | **17,986** |
| **Conglomerate coverage ratio** | **131.4%** |

## 4.4. Stress test

In 2018, the European Banking Authority (EBA) conducted a banking stress test. CaixaBank took part in the test directly as parent company of the CaixaBank Group for prudential purposes for the first time, following the deconsolidation of Criteria in September 2017.

This exercise covered 70% of the assets of the European banking sector and assessed the ability of Europe's biggest banks to withstand an adverse macroeconomic scenario during the period 2018-2020, based on figures as at December 2017. The EBA has not required any minimum level of common capital to pass the test, and the projection will be crucial to the ECB's decisions on capital requirements in the context of the Supervisory Review and Evaluation Process (SREP).

As in previous years, it consisted of an exercise based on a bottom-up approach with constraints and a time horizon of 3 years, under 2 scenarios (one central scenario and another adverse scenario).

This exercise, as in 2016, constitutes a critical component in the SREP.

## 4.5. Economic capital

The CaixaBank Group has developed a model for economic capital that measures its available own funds and the capital requirements for all of the risks involved in the Group's activity, from an internal perspective. This measure complements the regulatory view of solvency and enables better alignment with the Group's risk profile, since it incorporates risks that are not considered, or are only partially considered, in the regulatory requirements. This approach is used i) for the self-assessment of capital, subject to presentation and review in the Group's corresponding bodies; ii) as a control and monitoring tool, and iii) to calculate the Risk-Adjusted Return (RAR) and the Pricing.

The available own funds for economic purposes are determined on the basis of adjusted regulatory own funds, which basically consists of the gains or losses of the fixed-income and equity portfolios that are not registered at their fair value in the accounts.

The own fund requirements for economic purposes are determined by an internal estimate which the entity adjusts according to its level of tolerance to risk, volume, and type of business activity. In addition to the risks referred to in Pillar 1 (credit, market and operational risk), it includes others also included in the risk catalogue, e.g. structural interest rate, liquidity, business and actuarial risk, etc. When managing it, the Group uses the same confidence level as that used in the Pillar I calculations, 99.9% of Basel II, which allows it to maintain its desired target rating in alignment with best sector practices.

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

1. **Concentration in large exposures:** Single large exposures (in excess of EUR 100 million) have a significant impact on economic capital estimates, particularly in the equity portfolio and in 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 it simulates potential default on these specific positions. This means the simulated

loss distribution already contains the individual concentration risk for large exposures. This concentration induces diversification among portfolios.

2. **Estimation of sensitivities and diversification:** The CaixaBank Group has developed its own scheme for determining sensitivities of probabilities of default to specific economic and financial variables, thereby implicitly estimating correlations of probabilities of default adjusted to the Group's scope of activity. In practice, these estimates introduce additional diversification among portfolios and industrial sectors, as a 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.

## 4.6 Recovery and resolution plans

In 2014, Directive 2014/59/EU - otherwise known as the Bank Recovery and Resolution Directive (BRRD) - 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 Act 11/2015 and other lower level regulations. The BRRD, together with Directive 2014/49, on the Deposit Guarantee Scheme, enhances the capacity of the banking sector to absorb the impact of economic and financial crises, and the capacity of financial institutions to wind up their business in an orderly fashion, while maintaining financial stability, protecting depositors and avoiding the need for public bailouts.

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.

During the course of 2018, the CaixaBank Group updated its Recovery Plan (with data as at the 2017 year end). This Plan was approved by the Board of Directors and passed on to the Single Supervisor in September 2018.

With regards to the Plan's scope, it covers the entire Group, including BPI and the branches and representative offices abroad.

The Recovery Plan makes it possible to check the feasibility, complexity and effectiveness of a series of recovery measures that could be applied if the company were to suffer a severe crisis situation, thus avoiding a public bailout. The Recovery Plan poses scenarios that simulate hypothetical situations involving severe financial stress, with the aim of assessing the viability of the measures available in these situations and their ability to ensure the Bank's recovery.

The CaixaBank Group's Recovery Plan is fully integrated into the Bank's internal management. In this regard, the Plan is aligned with the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), as well as the Risk Appetite Framework (RAF) through recovery indicators, and it is included in the Bank's regular monitoring reports. These recovery indicators facilitate the monitoring and control of the Bank's financial situation, and a breach of the associated thresholds could result in escalating the decision as to whether to activate the Recovery Plan or not.

With regards to the Group's resolution plan, this is drawn up and approved by the resolution authorities. CaixaBank collaborates with the resolution authorities and is developing the necessary projects to ensure the availability and supply of the relevant information in the event of resolution. These include the automation process for the liability data report (LDR) templates and a contract repository with information on significant suppliers.

In the field of resolution, the BRRD requires financial institutions to have a buffer to absorb losses (the minimum requirement of eligible liabilities, or MREL) to ensure the possible application of the bail-in resolution tool. Following on from this, CaixaBank has defined a plan to establish a buffer of instruments that are eligible for the MREL and, additionally, a culture of ensuring the Bank's ability to continue operating in a resolution scenario.

# 5.

## Total credit risk



# 5. TOTAL CREDIT RISK

Credit risk is the most significant risk item on the balance sheet and arises from the banking and insurance business, treasury operations and long-term equity investments.

Through the design and periodic review of the Risk Appetite Framework (RAF), 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 the Bank's activity on its solvency and profitability.

98% of the Group's capital requirements for credit risk relate to traditional lending activity and the equity portfolio.

56% of the total loan portfolio is assessed using the IRB approach. If we exclude the risk held with the public sector and financial institutions, as well as assets other than debt (real estate and others), the IRB coverage is 76%.

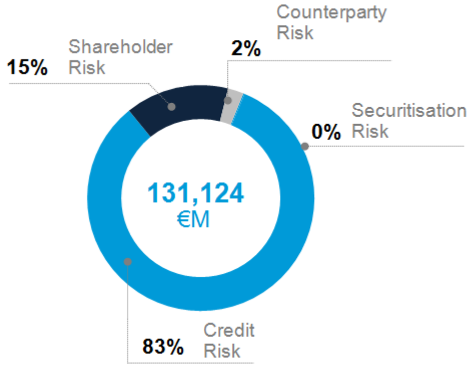
**€131,124 M**
**Total credit risk RWA**

**€326,868 M**
**Total credit risk EAD**

**56% (76% vs private sector)**
**EAD under internal models**

## TOTAL CREDIT RISK RWAs

Distribution by risk %

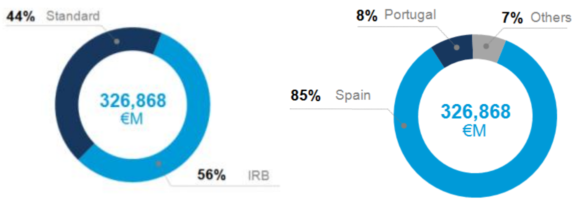



## Annual Change

The total RWAs decreased by EUR 2,555 million compared to the prior year. The following movements are of particular note: on the one hand, the reduction arising from the sale of the real estate business that, which offsets the organic trend and the increase due to the adjustment to the credit risk requirements of the doubtful mortgage portfolio derived from the TRIM process(*) of the European Central Bank; and on the other hand, the reduction in the risk associated with the equity portfolio, due to the divestment in Repsol announced in September.

## TOTAL CREDIT RISK EAD

Distribution by approach and country %




## TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK

### Table 5.1. Credit risk dashboard

*Amounts in millions of euros*

| | EAD | | | RWA | | | Density | Capital requirements[5] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | STD | IRB | Total | STD | IRB | Total | | STD | IRB | Total |
| Credit risk[1] | 137,015 | 171,547 | 308,563 | 58,046 | 50,525 | 108,571 | 35.2% | 4,644 | 4,042 | 8,686 |
| Counterparty credit risk[2] | 5,803 | 627 | 6,430 | 2,551 | 388 | 2,939 | 45.7% | 204 | 31 | 235 |
| Securitisation risk[3] | 82 | 2,802 | 2,884 | 52 | 215 | 267 | 9.3% | 4 | 17 | 21 |
| Equity risk[4] | - | 8,991 | 8,991 | - | 19,347 | 19,347 | 215.2% | - | 1,548 | 1,548 |
| **Total credit risk** | **142,901** | **183,967** | **326,868** | **60,649** | **70,475** | **131,124** | **40.1%** | **4,852** | **5,638** | **10,490** |

*(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.*

(*) *Targeted Review of Internal Models.*

# 5.1

## Credit Risk




## 5.1. Credit risk

Credit risk is the most significant risk item on the balance sheet and arises from the banking business.

The group gears its lending activity towards meeting the finance needs of households and businesses in an environment of medium-low credit risk profile, in line with the RAF. This is with the aim of maintaining its position of leadership in penetrating the market of loans to individuals and SMEs, while also providing more value-added services to the large companies segment.

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

With regard to the geographic distribution credit risk, 85% is in Spain, 9% in Portugal, 4% in Europe and 2% elsewhere in the world. In terms of distribution by sector, the greatest exposure is to individuals, accounting for 42% of the total, followed by non/financial companies with 35%. By residual maturity, 75% of the exposure has a maturity of more than 1 year, and 52% a maturity of more than 5 years.

### Annual Change

The RWAs of credit risk have not varied significantly in relation to the prior year. The release of risk arising from the sale of the real estate business is offset by the organic trend and the adjustment to the credit risk requirements of the doubtful mortgage portfolio derived from the TRIM process (*) of the European Central Bank.

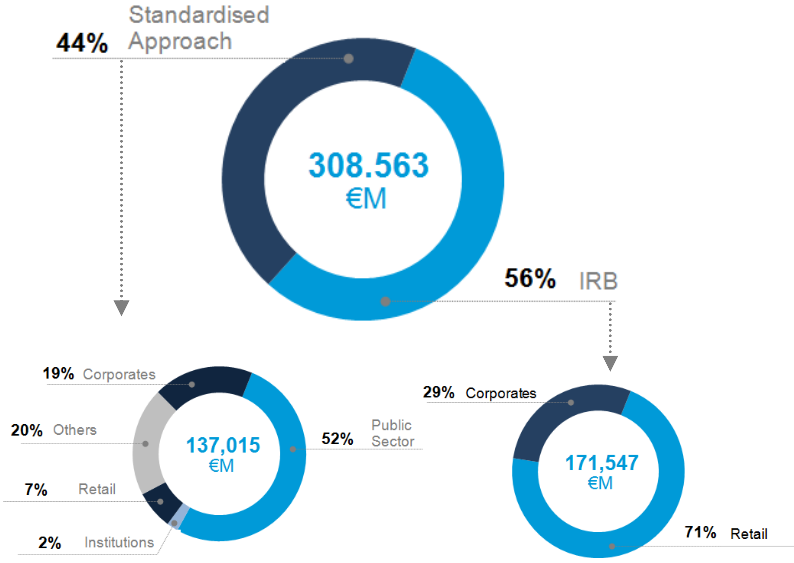
**€108,571 M**
**Credit risk RWA**

**€308,563 M**
**Credit risk EAD**

**56% (76% vs private sector)**
**EAD under internal models**

### CREDIT RISK EAD

Distribution by approach, %

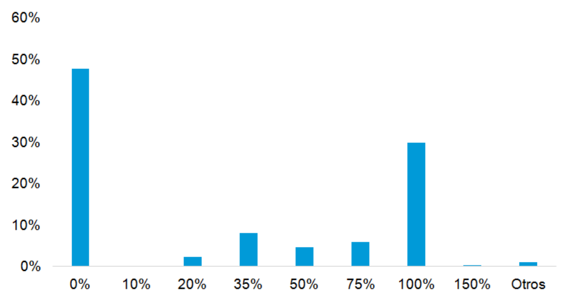



EAD under standardised approach

EAD under IRB approach

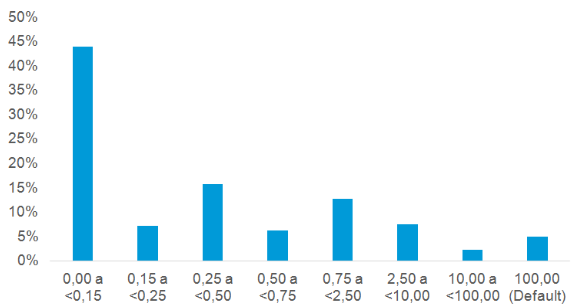
### EAD UNDER STANDARDISED APPROACH

Distribution by risk-weighting, %




### EAD UNDER IRB APPROACH

Distribution by PD,%




(*) *Targeted Review of Internal Models.*

### 5.1.1. Credit risk management

#### Description and general policy

Credit risk is the most significant risk item on the balance sheet and arises from the banking business.

Regarding its ordinary business, the group gears its lending activity towards meeting the funding needs of households and businesses in an environment with a medium-low credit risk profile, in line with the RAF, while maintaining its position of leadership in loans to individuals and SMEs, as well as providing more value-added services to the large companies segment, as set out in the 2015-2018 Strategic Plan.

Having achieved the objectives set in the Strategic Plan ending in the current year, the Group has drawn up a new Strategic Plan for the period 2019-2021. In this new Plan, in order to boost profitable and controlled business growth, the General Risks Directorate has initiated an organisational transformation process based on greater knowledge of the customer and the particularities of each portfolio. This focus makes it possible to maintain a proactive and preemptive approach, to improve efficiency and agility through a new push for process automation, and to strengthen the control and corporate environment of the risks function.

To ensure appropriate protection is given to customers, individuals and credit institutions, the current legal framework (the 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 financial institutions to establish policies, methods and procedures to ensure that process of assessing and granting loan applications is appropriate. 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 Appendix 6 of Bank of Spain Circular 5/2012 of 27 June, addressed to credit institutions and payment service providers regarding transparency in banking services and responsible lending.

The Corporate Credit Risk Policy, which is reviewed and approved each year by the Board of Directors, not only fulfils the requirements established in the aforementioned Circular but it also establishes the general framework and basic principles that serve as a reference and minimum standard for the approval, management, measurement and control of all activities related to credit risk, extending to specific policies, standards and procedures.

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

The key principles and policies that underpin credit risk management in the Group are as follows:

- 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.
- A Group-wide policy of not granting foreign currency loans to individuals.

The current economic juncture calls for policies to provide certain kinds of assistance to customers, within a framework approved by the Bank'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-Act 6/2012 of 9 March, on urgent measures to protect mortgagors without funds, as amended by Act 1/2013 of 14 May, on measures to strengthen the protection of mortgage borrowers, debt restructuring and subsidised housing rentals, as well as Royal Decree-Act 1/2015 of 27 February, regarding second chance mechanisms and the reduction in the financial burden, and Royal Decree- Act 5/2017 of 27 March, amending Royal Decree-Act 6/2012 of 9 March and Act 1/2013 of 14 May.

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

- Pro-actively prevent default.
- Offer assistance to households with a history as good customers of the Bank and who are at risk of default due to unemployment of one of the mortgage holders, illness, a temporary drop in income, or other circumstantial factors
- Reduce the NPL ratio.

### Structure and organisation of the credit risk management function

As discussed above, the main role of the Global Risk Committee, composed of members of the senior management team, is to analyse and set the general credit approval strategies and policies across the network.

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

The new *Corporate Risk Management Function (RMF) & Planning* division strengthens the Group's RMF functions, including: corporate, planning and risk monitoring functions.

Reporting to this division is the **Credit Risk Policies, Monitoring and Control** department, which is responsible for: i) defining the policies, approval procedures and activity frameworks, in coordination with the rest of the areas involved, as well as defining approval criteria through CLOS; ii) monitoring, classifying and providing against Major Risks; iii) defining the policies, management and monitoring procedures for non-performing loans and their recovery; iv) managing and handling operations yielded to securitisation funds; v) controlling credit risk; and, vi) centralising and establishing the prioritisation of information and regulatory reporting and of profile management for the portfolio.

The company CLO and Retail Lending Office management divisions are responsible for preventive credit risk management by segment and, in the latter case, for developing tools for their integration into the management processes, as well as for defining, accepting and monitoring the portfolio's risk measurement models, at both the operational and the customer level (credit ratings and scores, likelihood of default, severity and exposure).

Additionally, and under the supervision of the *Corporate Risk Management Function & Planning* division, they are responsible for:

- **Structural Risks and Parameters,** where we can distinguish two major areas of activity:
  - Market Risk and Structural Management, which is responsible for quantifying and monitoring market risk, valuing financial instruments, ALM, liquidity and assumed actuarial risk. This area also strives to ensure compliance with general policies and authorised management models in order for them to be accepted, which includes monitoring compliance with approved limits.
  - Regulated Credit Risk Model Management, which is responsible for building regulated models and parameters (PD, LGD, EAD, etc.), as well as its governance and monitoring model.
- **Model risk**

  This includes the functions of:
  - Internal model validation for credit, market, operational and capital risk. This function is responsible for monitoring the models' alignment with their objectives, their implementation and their integration into the management processes.
  - Model risk, which is responsible for defining the *Model Risk Apetite* and associated policies.
- **Planning, Impairment and Regulatory Capital**

  This area is responsible for the Risk Planning coordination function, together with Financial Planning and CLOs.

  It is involved in the budgeting and budget monitoring role in relation to the changes in assets, the forecast of non-performing loans and the recognition of provisions. It also performs an analysis of possible deviations, coordinates and integrates classifications and provisions with the Network, and handles the integration and governance of the recognition of impairment in the accounting records.

  In addition, in relation to the regulatory capital requirements for inventoried credit risk, it is responsible for the calculation, regulatory reporting and management processes.

- **Non-financial risks**

  The department's functions consist of identifying, measuring, assessing, managing, mitigating and reporting all risks that are considered non-financial, among which currently including operational, IT, real estate, risk information integrity and environmental risk.

- **Strategy, Risk Governance and Regulation**, which is a cross-disciplinary unit responsible for coordinating, controlling and executing the processes for the identification, measurement, monitoring, control and reporting of Strategic Risk Processes: Risk Assessment, Risk Catalogue and Risk Appetite Framework (RAF). It must maintain an overall vision of the risk governance framework and of its governing bodies, as well as of the regulatory environment that affects the field of risks.

### Credit risk management objectives

- Policies, models and limits for controlling credit quality in new lending, to increase funding to the economy whilst ensuring sustainable levels of future defaults.

- Automation and digitalisation of the granting of credit to individual customers, increasing competitiveness and maximising efficiency through remote channels.

- Management of the portfolio of unproductive assets (mainly foreclosed assets) in order to minimise their impact on profitability, with a decrease in new real-estate entries and the maintenance of high levels of marketing, obtaining positive returns on sales.

- Analysis, interaction with supervisors and preparation for the future implementation of the Basel 3 finalisation regulatory changes to the consumption of regulatory capital.

- Employment of mitigation and risk transfer strategies for the optimisation of capital requirements, such as synthetic securitisation.

## 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.

## Approval and granting

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.

The decision on the approval of a risk must always be based on documented and verified information on the applicants and on the purpose of the loan. To this end, the authorisation system is based on an electronic dossier that includes all the documentation needed to analyse and take a decision on the transaction at the corresponding level, automatically capturing basic information from the computer systems (of a general nature).

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

In order to streamline the loan approval process for individuals and self-employed workers, there is a risk approval centre that handles applications from individuals and commits to providing a response within 48 hours. In addition, applications are pre-approved in certain cases through specific channels. Furthermore, applications by legal entities are distributed on a regional level via Risk Approval Centres (RACs), which manage the applications within their power levels, and transfer them to specialised Central Service centres in the event the application exceeds their powers.

In particular, the internal organisation of Business Risk Approvals at Central Services is based on the following specialised structure, according to the type of risk and customer segment:

| | |
|---|---|
| **Corporate risk** | Centralises business groups with annual turnover above EUR 200 million. |
| **Company risk** | Legal entities or business groups with turnover up to EUR 200 million and those with turnover over EUR 200 million not managed by Corporate centres. |
| **Real estate risk** | Covers developers in any segment, regardless of turnover, and real estate investment companies. |
| **Tourism and Agri-Food risk** | Covers all companies and business groups that operate in the tourism and food and agriculture sectors. |
| **Project Finance** | Includes all transactions presented under the project finance scheme. |
| **Sovereign, Country and Financial Institution risk** | Transactions of regional or central governments, town councils and local public agencies. |
| **Country risk and Financial Sector risk** | Management of bank counterparty risk and country risk inherent in funding transactions for the various segments. |

*Specialised structure for risk approval*

**Diagram 6**

On the other hand, there are policies, methods and procedures for studying and granting loans, or responsible lending, as required in Act 2/2011 on Sustainable Economy and EHA Order 2899/2011 on transparency and protection of customers of banking services.

As part of the Strategic Plan for 2015-2018, CaixaBank implemented a line of preapproved loans with the aim of strengthening its leadership position in retail banking in Spain. Based on centralised calculations and rigorous compliance with the Group's risk approval principles and policies, this line allows for greater agility and effectiveness in granting and processing the target operations.

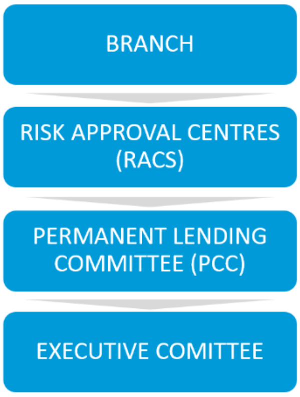
### Risk approval hierarchy

Except those that can be approved at branch level or by the Business Area Manager, the risk of operations can only be approved when countersigned by a business manager and risk manager.

This way, branches will deal with applications that require approval levels that fall within their authority. Operations that exceed a branch's authority will be passed on to the appropriate RAC, based on the type of customer in question. The RACs also have a set risk approval level, so if the level of risk requested to approve an operation does not exceed their authorisation level, it can be approved within its scope. Otherwise, the application is transferred to the required higher level centre.

Finally, the following superior risk authorisation levels also exist:

- Permanent Credit Committee (PCC), which has the authority to approve individual operations up to EUR 100 million, provided that the accumulated risk with the customer is up to EUR 150 million inclusive. It also has general authority to approve operations that involve exceptions in their characteristics relative to those that can be approved in branches and in the RACs.
- Executive Committee, with authority to approve amounts above the PCC's remit.




*Hierarchical tiers for risk approval*

**Diagram 7**

### Authority system

For this purpose, CaixaBank has developed an authority system based on an electronic file that includes all the relevant information so it can be analysed and resolved by the corresponding approval level. The approval levels are assigned by default to employees holding a position of responsibility according to the delegation established by Management as the standards associated with their position. The authority system is based on the study of four key parameters:

**1. Amount**

The amount applied for, together with any risk already granted; this is the first key element and it involves calculating the accumulated risk for each of the title holders of the application and their economic group, where applicable. The amount of the operation is defined based on two alternative methods according to the sector to which the operations belong:

- Based on the accumulated expected loss of all the customer's transactions and those of its economic group. This is used for applications where the principal borrower is a private company or real estate developer classified in the Risk Information System (RIS) as a microenterprise, small enterprise, SME, medium-large company or large company.
- Based on the nominal amount and collateral of all risks posed by the customer or its economic group. This is applicable to individuals and all other legal entities (very large companies, public sector entities, temporary joint ventures, etc.).

**2. Guarantee**

This consists of the set of assets and/or funds that are pledged to secure fulfilment of a repayment obligation. The guarantee may either be personal, consisting of the solvency of the borrower and their guarantors, or real, involving a specific asset secured as collateral for a loan.

Any long-term transactions must have more robust guarantees such as a mortgage or guarantee from partners or a parent company, as repayment capacity is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects.

Decisions on whether or not to approve finance must be based on an evaluation of the borrower's repayment ability. In any event, the guarantees must be used when there is no repayment capacity or if there is an uncertain purpose for the operation.

Mortgage guarantees are the main guarantees the Group uses to determine the degree of risk involved in an operation.

This policy assesses the type, purpose and other aspects of mortgage guarantees, as well as the loan-to-value ratio. This assessment determines which risk approval authority level is able to sign off on the finance application being considered.

### 3. General Risk Policy

This is the set of policies identifying and evaluating the relevant variables of each type of transaction. These policies include a general study to assess certain characteristics of applications and/or customers, and they can be used to assign a risk approval level. They play a particularly important role in the field of individuals and self-employed workers, where there are more adjustment criteria. Below are some examples of these policies:

- Relative small amounts: determines the level for requests that are of little significance in terms of the cumulative risk of the borrower or its group.
- Penalty for refinancing: establishes the approval level for operations which are for refinancing purposes or where the holder already has other refinanced operations.
- Person alerts: assesses applications where the holder has default alerts in internal or external databases.
- Risk monitoring: this policy amends the approval levels depending on the outcome of the monitoring activities.
- Debt ratio: measures the repayment capacity of self-employed workers and individuals. For legal entities, the debt ratio is incorporated into the rating calculation on the basis of financial statements.
- Credit score diagnosis penalty: for individual and self-employed applications, the credit score is calculated and, based on the result, a diagnosis is obtained on the approval, review or rejection of the operation.

### 4. Term

This refers to the duration of the operations requested, which must always be coherent with the purpose of the loan. For instance, loans to be used for investment require longer repayment periods. By contrast, it is advisable that the term for funding working capital should be no longer than one year.

The term of the loan is a variable that is significant in calculating the consumption of equity for an operation given that, in the longer-term, there is greater uncertainty regarding the borrower's financial future, the value of guarantees and changes to the legal framework and to the socio-economic environment.

There are specific policies according to the type of operation and its term, which require a higher level of authority for their approval.

Therefore, a longer period should be offset with a greater return.

CaixaBank has an authorisation system for approving risks which, along with analysing the four key parameters, guarantees finance applications are evaluated correctly.

## Risk-Adjusted Pricing

The purpose of calculating the risk-adjusted pricing is to determine the price that covers the total cost of the operation and allows the asset's return to be better managed.

For pricing purposes, all the factors associated with the operation will be considered. In other words, costs involving structure, financing, customer historical profitability and expected loss of the operation. In addition to these costs, operations must provide a contribution to capital, which will be calculated net of tax.

Tools related to pricing and RAR (Risk-Adjusted Return) allow the highest standards to be reached in controlling the balance between risk and return, making it possible to identify the factors determining the returns of each customer more easily and, thus, to analyse customers and portfolios in accordance with their adjusted returns.

The Chief Business Officer is responsible for approving the prices of the operations. Following on from this, the determination of the prices is subject a power system focused on obtaining compensation equal to the estimated cost of capital for the Group and, additionally, on establishing margins according to different businesses.

## Concentration of risks

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.

In the Corporate Risk Catalogue, concentration risk is conceptually included within credit risk, although it covers all types of assets, as recommended by sector supervisors and as reflected in the best practices.

As is specified in CEBS Guideline 7, the Group has developed methodologies, processes and tools to systematically identify its overall exposure. Wherever it is considered necessary, limits on relative exposures to each of these areas have been defined under the RAF. In keeping with the internal communication policy of the Risk Appetite Framework (RAF), trends in these indicators are reported monthly to the Global Risk Committee and quarterly to the Risk Committee, as well as to the Board of Directors at least twice a year.

Specifically, exposures are identified: (i) in relation to the customer concentration, whereby the Group monitors and controls compliance with the regulatory limits (25% on eligible own funds) and the risk appetite concentration thresholds; (ii) in relation to the type of product, where the Group monitors a full perspective of all accounting positions, segregated by product and issuer/counterparty, classified under Loans and advances, debt securities, equity instruments, derivatives and guarantees given, complementing the other positions of the Group and of the secured investment and pension funds; (iii) by geographical location; and (iv) by business sector, differentiating the position held with different activity segments of the private business sector and lending to the public sector.

### Mitigation of the risk

The Group's credit risk management profile is characterised by a prudent granting policy, at a price in keeping with the conditions of the borrower and suitable hedges/guarantees. In any case, long-term operations must have more robust guarantees due to the uncertainty arising from the passage of time. These guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the operation.

The following is a summary of the main credit risk reduction techniques normally permitted in the 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 provide an offsetting facility between contracts of the same type. In this respect, when managing risk and calculating own funds, the reciprocal positions between the Group 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 guarantees is also considered.

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 an individual or a legal entity, who pledge all of their existing and future assets to secure fulfilment of the obligations concerned. Besides the debtor's personal guarantee, additional security may be required. Such additional security always helps to reduce the risk factor, since it allows unforeseen contingencies to be covered. Therefore, as the likelihood of these contingencies occurring rises, greater guarantees must be demanded.

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 can be demonstrated as valid as risk mitigators, according to: i) the amount of time required to enforce the guarantees; ii) the ability to realise the guarantees; and iii) the experience in realising guarantees. The different types of guarantees and collateral, along with the policies and procedures in their management and assessment, are as follows:

*Personal guarantees*

Most of these relate to risk operations with companies in which the collateral provided by the shareholders, irrespective of whether they are individuals or legal entities, is considered relevant. For individuals, collateral is estimated on the basis of asset declarations. Where the backer is a legal entity, it is analysed as the borrower for the purposes of the approval process.

*Collateral*

The main types of collateral accepted are:

- Pledged guarantees: they notably include the pledge of operations of liabilities or the intermediated balances. To be admitted as collateral, financial instruments must, among other requirements: i) be managed or deposited with the Group; ii) be free of liens and charges; iii) their contractual definition must not restrict their pledge; and iv) their credit quality or change in value must not be related to the borrower. The pledge remains in place until the loan matures, it is repaid early, or it is derecognised. During the guarantee registration process, the system ensures that a pledge can be applied on the security in question and determines the applicable pledge percentage. This varies depending on the type of financial instrument involved, between 100% for cash and 50% for equities.

  The main financial instruments that can be pledged are:

  - On-demand savings accounts: a pledge is drawn up for a specific sum on the account. The rest may be freely used, and may even be used in other ongoing operations.
  - Time deposits and savings facilities: the total sum of the deposit is effectively withheld.
  - Investments in mutual funds: these 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: pledge in line with the policy and for the lowest value between the surrender value and the sum of the capital, pensions and contributions. The pledged policy is fully affected.
  - Fixed income securities: these must be issues of senior or mortgage bonds, and they may not be subordinated, convertible or preference issues. The securities must be admitted for trading in 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 market of the European Union or similar.
- Mortgage collateral: this is a real right on immovable property given as security for an obligation.

Internal policies establish the following:

- The procedure for approval of guarantees and the requirements for drawing up operations, e.g. the documentation that must be supplied to the Group and the mandatory legal certainty of this documentation.
- The review processes for the appraisals registered, in order to ensure proper monitoring and control of the guarantees. Regular processes are also carried out to check and confirm the appraisal values, in order to detect any anomalies in the procedures used by the valuation companies acting as suppliers to the Group.
- The outlay policy, mainly concerning property development and self-development operations.
- Loan-to-value (LTV) of the operation. 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 the appraisal value and, if the transaction is a purchase, the value shown on the official deed. The computer systems calculate the level of Approval required for each type of operation.
- Credit derivatives: guarantors and counterparty. The Group occasionally uses credit derivatives, contracted with entities with a high credit level and protected by collateral contracts, to hedge against credit risk.

The following tables show information on credit risk exposures by type of guarantee applied to mitigate credit risk as at 31 December 2018 (not including the equity portfolio, counterparty, or securitisations).

### Table 5.2. Exposure by application of mitigation techniques

*Amounts in millions of euros*

| Type of guaranty | EAD STD approach | EAD IRB approach | EAD Total | EAD % |
|---|---|---|---|---|
| Mortgages | 15,159 | 114,391 | 129,549 | 41,98% |
| Collateral | 202 | 2,064 | 2,266 | 0,73% |
| Personal | 121,655 | 55,093 | 176,748 | 57,28% |
| **Total** | **137,015** | **171,547** | **308,563** | **100,00%** |

### Table 5.3. 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 | EAD Collateral | EAD Personal guarantees | EAD Total |
|---|---|---|---|---|
| Central governments or central banks | 10 | 0 | 56,002 | 56,012 |
| Regional governments or local authorities | 225 | 8 | 10,540 | 10,774 |
| Public sector entities | 358 | 11 | 4,018 | 4,387 |
| Multilateral development banks | - | - | 164 | 164 |
| International organisations | - | - | - | - |
| Institutions | 0 | 2 | 2,758 | 2,760 |
| Corporates | 260 | 158 | 25,106 | 25,524 |
| Regulatory retail exposures | 29 | 22 | 9,760 | 9,811 |
| Exposures secured by mortgages on immovable property | 14,044 | - | 184 | 14,228 |
| Exposures in default | 234 | 1 | 1,142 | 1,376 |
| Exposures associated with particularly high risks | - | - | - | - |
| Covered bonds | - | - | 8 | 8 |
| 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 | - | - | 11,972 | 11,972 |
| **Total** | **15,159** | **202** | **121,655** | **137,015** |

### Table 5.4. 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 | EAD Collateral | EAD Personal guarantees | EAD Total |
|---|---|---|---|---|
| Corporates | 5,440 | 397 | 28,622 | 34,459 |
| SME | 7,112 | 552 | 7,065 | 14,728 |
| Retail - Residential Mortgage | 92,228 | - | - | 92,228 |
| SME - Mortgage | 9,611 | - | - | 9,611 |
| Retail - Qualifying Revolving | - | - | 6,020 | 6,020 |
| Retail - SME | - | 632 | 7,064 | 7,696 |
| Other Retail | 0 | 482 | 6,322 | 6,804 |
| **Total** | **114,391** | **2,064** | **55,093** | **171,547** |

## 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.

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

| | Observed impairment of credit risk since its initial recognition | | | |
|---|---|---|---|---|
| **Credit risk category** | **Performing**<br>**Stage 1** | **Watch-liperforming**<br>**Stage 2** | **Non-performing**<br>**Stage 3** | **Write-off** |
| **Classification and transfer criteria** | Operations whose credit risk has not significantly increased since their initial recognition. | Operations whose credit risk has significantly increased (SICR), but they do not have any default events. | Operations with credit impairment.<br>Default event: with amounts past due of over 90. | Operations without reasonable expectations of recovery. |
| **Calculation of the impairment hedge** | Expected credit losses at twelve months. | Expected credit losses during life of the operation. | | The recognition in results of losses for the carrying amount of the operation and the total derecognition of the asset. |
| **Interest calculation and recognition** | It is calculated by applying the effective interest rate to the gross carrying amount of the operation. | | It is calculated by applying the effective interest rate at amortised cost (adjusted to reflect any impairment value correction). | It is not recognised in the income statement. |
| **Included operations** | Initial recognition of the financial instruments. | Operations included in sustainability agreements that have not completed the trial period.<br>Operations made by insolvent borrowers that should not be classified as non-performing or write-off.<br>Refinanced or restructured operations that should not be reclassified as non-performing and that are still in the trial period.<br>Operations with amounts past due of over **30 days.**<br>Operations for which, through market indicators/triggers, it is possible to determine that a significant increase of risk has occurred. | **Doubtful due to borrower arrears:** operations with amounts past due of over **90 days.** Transactions where all holders are classified as non-performing (personal risk criteria).<br>**Doubtful for reasons other than borrower arrears:**<br>• Operations that pose reasonable doubts regarding full repayment.<br>• Operations with legally demanded balances.<br>• Operations in which the collateral execution process has been initiated.<br>• Operations and guarantees of the holders in insolvency proceedings with no liquidation petition.<br>• Refinanced operations classifiable as non-performing.<br>• Operations bought/ originating with credit impairment. | Operations with remote recovery possibility.<br>Partial write-offs without the extinction of the rights (partial write-off).<br>Operations that are non-performing due to borrower arrears in excess of 4 years when the amount not secured by effective guarantees is fully covered for more than 2 years (except when it has effective collaterals that cover at least 10% of the gross amount).<br>Operations with all the holders in insolvency proceedings in the liquidation phase (unless they have effective collaterals that cover at least 10% of the gross amount). |

*Impairment of Credit risk*

**Diagram 8**

Performing, or Stage 1, thus consists of instruments that do not meet the requirements for classification in other categories.

The next tranche, known as Stage 2 or watch-list performing, encompasses all transactions which, without qualifying individually for classification as non-performing or write-off, show weaknesses that may entail higher losses for the Group than similar performing transactions. It is assumed that any transactions with amounts that are more than 30 days overdue show weaknesses, unless proven otherwise.

With regard to Stage 3, considered non-performing, due to the customer's arrears, the amount to be classified in this category includes the total amount of any debt instruments with a portion of principal, interest or contractually agreed expenses that is past-due more than 90 days, regardless of who the obligor is and whatever the guarantee or collateral, unless such instruments should be classified as write-off. This category also includes guarantees given where the guaranteed transaction is non-performing. Cluster effect criteria for personal risk are also applied to a borrower when transactions with amounts that are more than 90 days overdue represent more than 20% of the outstanding amounts.

In the case of off-balance sheet exposures not classified as non-performing due to customer arrears which are likely to be paid, and where their recovery is considered unlikely, they will be classified as Stage 3 for reasons other than the arrears.

The Group classifies as impairments the debt instruments, whether due or not, for which after analysing them individually, it considers the possibility of recovery to be remote and proceeds to derecognise them, without prejudice to any actions that may be initiated to seek collection until their contractual rights are extinguished definitively by expiry of the statute-of-limitations period, forgiveness or any other cause.

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. The conditions that need to be met for a borrower to be considered individually significant are set out in the *Monitoring and measurement of credit risk* section of the Credit Risk Cycle.

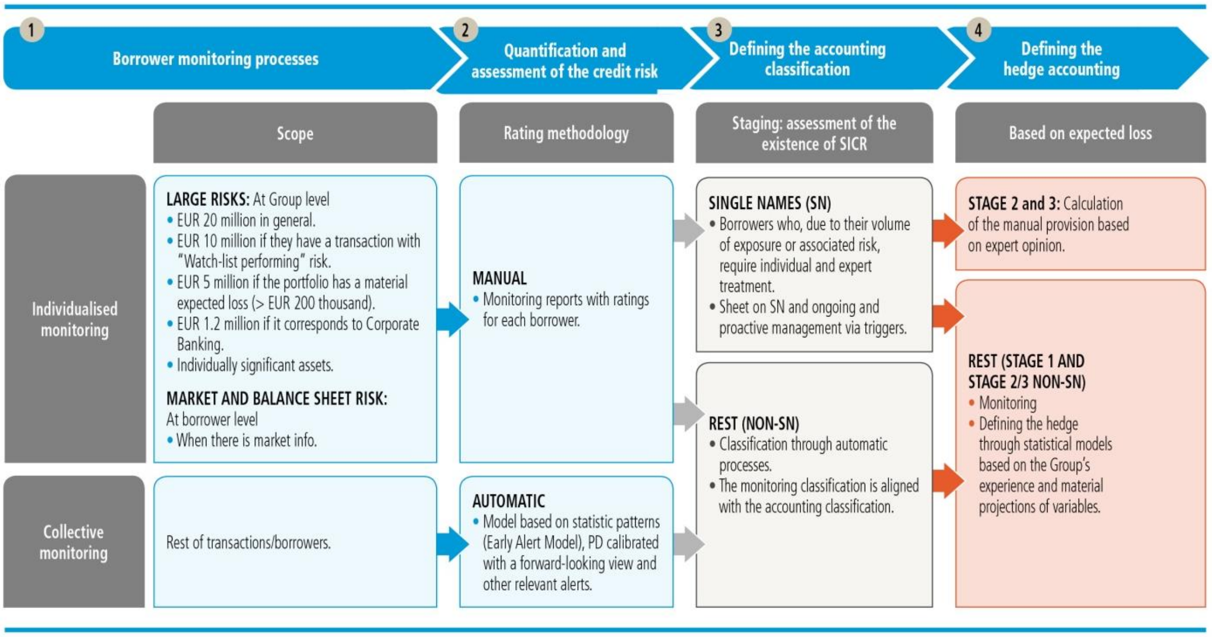
In order to reclassify transactions to this category before these terms expire, the Group must demonstrate the remote likelihood of recovering the corresponding balances.

Based on the Group's experience of recoveries, it deems the recovery of the remaining balance of mortgage operations remote when there is no additional collateral once the good has been recovered, and therefore, the aforementioned remainder is classified as a write-off.

For further details on the Group's accounting criteria, see note *"2. Account principles and policies and valuation criteria"* in the Notes to the Group Financial Statements.

## Monitoring and measurement of credit risk

The Group has a monitoring and measurement system that guarantees the coverage of any borrower and/or operation through methodological procedures adapted to the nature of each holder and risk:




*Credit risk monitoring and measurement process*

**Diagram 9**

### 1. Borrower monitoring processes

The objective is to reach a conclusion on the quality of the risk assumed with the borrower ("Monitoring Ratings") and any actions that need to be taken, including the estimation of impairment. The targets of risk monitoring are the borrowers that hold the debt instruments and off-balance sheet exposures that bear credit risk, and the profit or loss is a reference for the future granting policy.

The exposure monitoring is guided by the Credit Risk Monitoring Policy, based on the exposure in question and the specific nature of the exposure and segregated into differentiated areas, in accordance with the various credit risk measurement methods.

The monitoring rating is an assessment of each customer's situation and risks. The different risk monitoring ratings are, from best to worse: imperceptible, low, medium, medium-high and non-performing; and they can be generated manually (in the case of the scope of borrowers under individualised monitoring) or automatically (for the rest).

According to the scope of monitoring and rating relating to the borrowers, it can be:

- **Customised monitoring:** these procedures are applied to exposures of a significant amount and/or that have specific characteristics. The monitoring of major risks leads to the issuance of group monitoring reports, concluding in a monitoring rating for the borrowers in the group.
- **Collective monitoring:** the ratings in this case are obtained by combining a statistical model, referred to as the Early Alert Model (EAM), the Probability of Default (PD) calibrated with a forward-looking view[10] (consistent with the PD used to calculate the credit risk hedges) and other relevant alerts. Both the EAM and the PD are obtained at least on a monthly basis, and daily in the case of the alerts.
- Furthermore, the EAM and PD models are subject to the Model Policy of the Group and

10 For further details on the incorporation of forward-looking information into the expected loss models, see section 3.3.2.3.Monitoring and measurement of credit risk in the CaixaBank Group Report.

they must fulfil the requirements included therein.

2. **Quantification and assessment of credit risk**

Credit risk quantifies losses that might derive from failure by borrowers to comply with their financial obligations, based on two concepts: expected loss and unexpected loss.

- **Expected Loss (EL).** This is the average or mathematical expectation 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 losses with respect to the estimated expected loss, which may occur due to sudden changes in cycles, alterations in risk factors, and the dependence between the credit risk for the various debtors. Unexpected losses have a low probability and large amount, and should be absorbed by the Group's own funds. The calculation of unexpected loss is also mainly based on the operation's PD, EAD and LGD.

Credit risk parameters are estimated based on the historical default experience. To do so, the Bank has a set of tools and techniques for the specific needs of each type of risk, which are described below based on how they affect the three factors for calculating the expected loss:

- **Exposure at default (EAD):** The exposure provides an estimate of the outstanding debt in the event of default by the customer. This measurement is significant for financial instruments with a repayment structure that varies according to customer drawdowns (in general, any revolving credit product).

  The estimate is based on the internal default experience, relating the drawdown levels upon default and to drawdown levels over the 12 preceding months. To build the model, several variables are considered, such as product type, term to maturity and customer characteristics.

- **Probability of default (PD):** the Group uses management tools covering virtually all of its lending business to help predict the probability of default associated with each borrower.

  These tools, implemented in the branch network and the risk monitoring and granting channels, were developed on the basis of NPL experience and include the measurements required to fine-tune the results both to the business cycle, with a view to securing relatively stable measures in the long term, and to recent experience and future projections. The models can be classified according to their orientation toward the product or customer:

  - Product-oriented tools are used mainly within the scope of authorisation of new retail banking operations (approval scorings) and take account of the debtor's characteristics, information derived from the customer relationship, internal and external alerts, and the specific characteristics of the operation to determine its probability of default.
  - Customer-oriented tools assess the debtor's probability of default. They comprise behavioural 'scoring' models for the monitoring of risk of individuals and ratings or companies.

    Rating tools for companies are specific according to the customer segment. The rating process for micro-enterprises and SMEs, in particular, is based on a modular algorithm, which rates three different sets of data: the financial statements, the information drawn from dealings with customers, internal and external alerts and certain qualitative factors.

    As regards large corporations, the Group has models that seek to replicate and be coherent with the ratings of rating agencies and require the expert criteria of analysts. In view of the lack of sufficient frequency of internal default rates in this segment for drawing up purely statistical models, the models were built in line with the Standard & Poor's methodology, and thus the global default rates published by the rating agency could be used, making the methodology much more reliable.

  The customers are scored and rated on a monthly basis in order to keep the credit rating up-to-date, except for the rating of large corporations, which is updated at least annually, and whenever significant events occur that can alter the borrower's credit quality. For legal entities, the financial statements and qualitative information is updated periodically to achieve the maximum level of coverage of the internal rating.

- **Loss given default (LGD):** Loss given default (LGD) is the percentage of debt that cannot be recovered in the event of customer default.

The historic loss given default is calculated using internal information, taking into account the cash flows associated with contracts from the moment of default. The models allow different loss given defaults to be obtained based on the guarantee, the loan to value relationship, the product type, the borrower's credit quality and, for uses in which it is required by regulation, the recessional conditions of the economic cycle. This calculation also makes an estimate of the indirect expenses (office staff, infrastructure costs and similar) associated with the recovery process. In the case of large businesses, loss given default also includes elements of expert judgement, coherent with the rating model.

In addition to regulatory use to determine the Group's minimum own funds and the calculation of hedges, 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, pricing tools, customer pre-qualification tools, monitoring tools and alert systems.

### 3. Defining the accounting classification

The accounting classification of operations with credit risk from among the different Stages of IFRS 9[11] will be defined according to whether there has been a significant increase in credit risk (SICR) since the operation's initial recognition, and/or whether a default event has occurred.

It will be considered that there has been significant increase in credit risk (SICR), and therefore the operations will be classified as Stage 2, when there are weaknesses that may involve assuming significantly higher losses than expected at the time the loan is granted. Following on from this, to identify weaknesses in operations and borrowers, the Group has the aforementioned monitoring and rating processes.

For these purposes, the Group proceeds to classify an accounting operation as Stage 2 when the borrower's rating has significantly deteriorated compared to at the start of the operation, or when there is a relative increase of relevant PD compared to the start of the operation.

Lastly, as well as by applying of the criteria above, the following operations are classified as Stage 2: i) operations included in sustainability agreements that have not reached the end of their trial period; ii) refinancing, refinanced or restructured operations that should not be reclassified as non-performing and that are still in the trial period; iii) operations involving insolvent borrowers that should not be classified as Stage 3 or write-offs; and iv) operations with amounts that are more than 30 days overdue, unless proven otherwise.

Unless they are identified as refinancing, refinanced or restructured operations, those that no longer meet the conditions to qualify for Stage 2 will be classified as Stage 1.

With respect to refinancing, refinanced or restructured operations that classify as Stage 2 due to failing to proceed to classify them as Stage 3 on the date of refinancing or restructuring or due to having been reclassified from the Stage 3 category, they will remain identified as Stage 2 for a probationary period until they meet all the following requirements: i) 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; ii) 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 Stage 3; iii) one of the borrowers must have no other operations with past due amounts for more than 30 days at the end of the trial period; and iv) 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 Stage 3.

Furthermore, the borrower must have made regular payments of an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing operation, or that were derecognised as a result of it, or when it is deemed more appropriate given the nature of the operations that the borrower complies with other objective criteria that demonstrate their payment capacity. This implies that there are no contractual clauses that may delay repayments, such as grace periods for the principal.

It will be considered that default has occured, and therefore an operation will be classified as Stage 3, when there is an amount (whether capital, interests or contractually agreed costs) that is more than 90 days overdue, regardless of who the holder is and what guarantees are in place. This will also be the case when the amount that is more than 90 days overdue represents more than 20% of the total outstanding amount.

Operations classified in Stage 3 due to the customer being non-performing will be reclassified to Stage 1 or Stage 2 when, as a result of charging part of the overdue amounts, the reasons that caused their classification as Stage 3

11 See Note 2 of the CaixaBank Group Report.

disappear and there remain no reasonable doubts regarding their full repayment by the holder for other reasons.

In addition, the following operations will be classified as Stage 3: i) operations with legally demanded balances; ii) operations in which the collateral execution process has been initiated; iii) operations made by insolvent borrowers that should not be classified as write-offs; iv) refinancing, refinanced or restructured operations classifiable as non-performing including those that having been classified as non-performing before the trial period, are refinanced or restructured or that have amounts that are more than 30 days past-due; and v) operations with holders who, after an individualised review, pose reasonable doubts regarding full repayment (principal and interest) in the contractually agreed terms.

Unless they are identified as refinancing, refinanced or restructured operations, those classified as Stage 3 for reasons other than the customer being non-performing can be reclassified to Stage 1 or Stage 2 if, as a result of an individualised study, the reasonable doubts regarding their full repayment by the holder in the contractually agreed terms disappear and there are no amounts overdue by more than ninety days on the date of reclassification to Stage 1 or Stage 2.

In the case of refinanced, restructured or refinancing operations, in order to consider the credit quality of the operation to have improved and, therefore, to proceed to reclassify it to Stage 2, all the following criteria must be verified in general: i) a period of one year has elapsed from the refinancing or restructuring date; ii) the borrower has covered all the principal and interest payments (i.e. the operation has no overdue amounts) 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; iii) furthermore, regular payments must have been made 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 that the borrower complies with other objective criteria that demonstrate their payment capacity; and iv) one of the borrowers must have no other operations with past due amounts for more than 90.

The exposures of borrowers declared subject to bankruptcy proceedings without an application for liquidation shall be reclassified to Stage 2 if the borrower has paid at least 25% of the credit from the entity that is affected by the bankruptcy proceedings (once the agreed debt reduction, if any, has been deducted), or if two years have elapsed since the order approving the creditors' agreement was registered with the Mercantile Register, provided that this agreement is being faithfully performed and the equity and financial situation of the corporation dispels any doubts regarding full repayment of its debts, all unless interest has been agreed that is noticeably lower than the market rate.

The process for determining the borrower's accounting classification is specified below:

- **Single Name:** These borrowers are constantly assessed as regards the existence of evidence or indications of impairment, as well as a potential significant increase in credit risk (SICR) from the initial recognition, and losses associated with the assets of this portfolio are assessed.

  In order help with the proactive management of evidence and indications of impairment and a significant increase in risk, the Group has developed triggers, for borrowers and for the operation, that are grouped according to the sector to which they belong, since the latter conditions the type of information required to analyse the credit risk and the sensitivity to the evolution of variables indicative of the impairment. The triggers are an indication of impairment of the asset affecting the customer or the operations. These triggers are assessed by the analyst to determine the classification of the customer's operations in Stage 2 or Stage 3:

  - Global triggers:
    - Financial difficulties of the issuer or debtor. There are subjective doubtful triggers (i.e. unfavourable financial information on the debtor, measured via various ratios on the available financial statements) and triggers of a minimum of Stage 2 (due to deterioration of the monitoring rating).
    - A breach of contract, such as a default or delinquency in interest or principal payments. There are Stage 3 triggers (i.e. non-payments exceeding 90 days) and triggers of a minimum of Stage 2 (non-payments exceeding 30 days).
    - In the event of financial difficulties, the borrowers are given concessions or advantages that would otherwise not be

considered. Trigger of a minimum of Stage 2 (refinancing).

- Probability of the borrower declaring bankruptcy or restructuring. Stage 3 trigger (Declaration of Insolvency).
- Market triggers. There are triggers referring to identifying financial difficulties of the debtor or issuer, referring to breaches of contractual clauses or to the disappearance of an active market for the financial security.
- Specific triggers: For sectors such as property developers, project finance and public administrations.

In cases in which, in the opinion of the analyst, contracts are classified as Stage 2 or Stage 3, the expert calculation of the specific provision is used.

- **Other contracts (not Single Name):** As previously stated, when the borrower's rating has significantly deteriorated with respect to the start of the operation or when there is a relative increase of relevant PD also with respect to the start of the operation, the contract is classified as being in accounting Stage 2. For these purposes, the classification is revised on a monthly basis, using the most recent monitoring classification and PD classification, which are also updated monthly or more frequently.
  All other classification criteria in Stage 2 or Stage 3 are also revised monthly.

### 4. Determining the accounting hedge

The aim of the IFRS 9 requirements as regards impairment is to ensure recognition of the expected credit losses of operations, assessed collectively or individually, considering all the reasonable and substantiated information available, including information of a prospective nature (forward looking).

### Principles for measuring expected credit losses for the purpose of defining the credit risk loss hedges

The calculated hedge 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, considering the effective guarantees received.

The Group estimates the expected credit losses of an operation so that these losses reflect:

a. a weighted and non-biased amount, determined through the assessment of a series of possible results;
b. the time value of the money, and
c. the reasonable and substantial information that is available at the reference date, at no disproportionate cost or effort, on past events, current conditions and forecasts of future economic conditions.

In line with applicable rules, the hedging 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 has operations that are non-performing (whether for reasons of delinquency or for other reasons) or in Stage 2, the specific allowances for the non-performing operations are estimated through a detailed analysis of customer flows, factoring in the status of their owner and the flows expected to be paid out, which are assessed using two methodologies according to the borrower’s capacity to generate flows from their activities.
- In all other cases, hedging is estimated collectively using internal methodologies, subject to the Policy of Models and Parameters in force, based on past experience of portfolio defaults and recoveries and factoring in the updated and adjusted value of the effective guarantees. Additionally, future economic condition predictions will be considered under various scenarios.

  To determine hedging for credit losses of portfolios under collective analysis, models are used to estimate the PD; probability of correcting defaulting cycles (specifically its complementary measurement, PNC); loss given loss (LGL) in the event of no correction; recoverable value models for mortgage guarantees (haircuts); and adjustments to include lifetime or forward-looking effects, according to the agreement's accounting classification.

  The models used are re-estimated or re-trained every six months, and they are executed monthly in order to properly reflect the current economic environment at any given time. This makes it possible to reduce the differences between estimated loss and recent observations. The models will include an unbiased view of the potential forward-looking evolution to determine the expected loss, taking into account further relevant macroeconomic factors: i) GDP growth, ii) the unemployment rate, iii) 12-month EURIBOR and iv) evolution of property prices. Following on from this, the Group generates a baseline scenario, as well as a range of potential scenarios that make it possible to adjust the estimated expected loss, based on its probability.

The calculation process is structured in two steps:

- Setting the basis for the calculation of allowances, in two steps:
  1. Calculation of the exposure amount, 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 hedging to be applied on this basis for the calculation of allowances:

  This calculation factors in the probability of the borrower defaulting on the operation 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 Group may use the default coverage rates established in the current national regulations.

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% hedging. This percentage will only be applied to the hedged risk.

The hedges estimated individually or collectively must be coherent in terms of the way in which the different categories into which the operations can be classified are processed. Thus, the hedging level for an operation must be higher than the level that would correspond to it, if it were classified in another category of a lower credit risk.

The necessary improvements detected in the backtesting and benchmarking exercises are also incorporated into the review cycles. Similarly, the models developed are documented so they can be replicated by a third party. The documentation contains key definitions, information regarding the process of acquiring samples and data processing, methodological principles and results obtained, as well as the comparison of said results with those of previous years.

CaixaBank has a total of 80 models, in order to obtain the parameters necessary to calculate the hedges using a collective analysis. For each of the risk parameters, different models can be used to adapt to each type of exposure. Specifically, the models include those indicated below:

- 18 Scoring and Rating parameter models
- 21 PD parameter models
- 9 EAD parameter models
- 19 PNC parameter models
- 9 LGL parameter models
- 3 Haircut parameter models
- 1 LT/FL (Life-time/Forward-looking) transformation parameter model

Other subsidiaries also have their own internal models. In the case of BPI a total of 50 and in the case of CaixaBank Consumer Finance a total of 27.

### NPL management

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

The recovery activity has been a top priority in the Group's risk management in recent years. In this sense, the Group has strengthened the governance model and the operational framework on the management of problematic assets, and has a comprehensive view of the whole life cycle associated with the default recoveries process and management of foreclosed assets.

The recovery activity is the responsibility of the branch network, although during the fourth quarter of 2017 the Bank created the Executive Management of Non-performing Assets, Recoveries and Foreclosed Assets division. This division reports to the CEO and, in coordination with the branch network, manages non-performing balances, potentially non-performing balances and, finally, sales of foreclosed asset or of assets received as payment of debts.

This begins as a preventive activity before default occurs or before a liability falls due, and ends with either its recovery or its definitive write-off. The disaggregated nature and specialisation of the branch network make it possible to gain knowledge of customers' situations and to detect the first indications of impairment in the borrower's solvency, thus allowing appropriate measures to be adopted more diligently. Following on from this, the operations and their associated guarantees are monitored and, where applicable, claims are brought to recover the debt based on the following principles: i) prevention with the early detection of default risk; ii) activities intended to help the customer find solutions to situations of payment irregularities, considering its relationship; and iii) seeking the utmost anticipation to reach a better stance to deal with the debtor and other creditors.

Knowledge of and proximity to the customer make it possible to apply a specific management approach to customers who find themselves in particularly vulnerable social situations, mainly caused by an unfavourable macroeconomic environment experienced in the past. In this respect, the Group has also adhered to the Code of Good Practices for the viable restructuring of mortgage debts on primary residences included in Royal Decree-Act 6/2012 and its subsequent amendments, on measures to strengthen the protection of mortgage borrowers, debt restructuring and subsidised housing rentals. In this field, it has developed an Aid Plan and customised solutions for customers who are undergoing current economic hardships, who are willing to collaborate and have good historic behaviour. All these actions contribute to better progress in the default rate and strengthen the Group's connection and commitment to its customers.

Foreclosed assets

BuildingCenter is the Group's company responsible for the ownership of property assets in Spain, which basically originate from streamlining of the Group's credit activity through any of the following ways: i) acquisition at auctions held after assets have been foreclosed, mainly in relation to mortgage loans; ii) acquisition of mortgaged real estate assets of individuals, with the subsequent subrogation and cancellation of the debts; and iii) acquisition of real estate assets of companies, mainly property developers, to cancel their debts.

The acquisition process includes conducting full legal and technical reviews of the properties using the committees appointed for such purpose.

In all cases, purchase prices are based on appraisals performed by appraisal firms approved by the Bank of Spain and in accordance with the parameters set forth in the internal rules approved for this type of transaction.

The strategies undertaken for the sale of these assets are as follows:

- Individual sale: there is a servicing contract with Servihabitat Servicios Inmobiliarios, which performs multi-channel marketing activities over 5 years via its own branches, the external collaboration of the network of real-estate agents and has an active presence on the Internet. This marketing activity comes in addition to a key factor: support in prescribing properties generated by the branch network.
- Institutional sales: the strategy of the Group features institutional operations of sales of asset portfolios to other specialised companies.
- Completion of housing developments: a number of minor measures to improve some of these developments are made to ensure they can be sold. These measures are performed using the synergies of the Group.
- In-house property development: restricted to very specific transactions where the asset's quality and characteristics mean that developing the asset is the clearest and most secure means to recovering the investment.
- Rental: it is a means of benefiting from rising demand and generating recurring income, as well as creating added value on the property in the event of its future institutional sale.

## Refinancing policies

The Group has a detailed customer debt refinancing policy that contains the same general principles issued by the EBA for this type of operation.

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 derive from:

- A new transaction (refinancing operation) granted that fully or partially cancels other transactions (refinanced operations) previously granted by any 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 Bank. These terms must be adjusted to reflect the terms offered to borrowers with a similar risk profile.

For further details on the classification and risk transition criteria, see point 3 "Defining the accounting classification" in the section "Monitoring and Measurement of Credit Risk"**.**

The risk management procedures and policies applied allow for detailed monitoring of credit transactions. In this regard, any transaction uncovered whose terms may need to be changed due to evidence of impairment of the borrower's solvency is marked appropriately so the associated provision for impairment at the date of the change is made. Therefore, as these transactions are correctly classified and valued according to the Group's best judgement, no additional provisions emerge in relation to the impairment of refinanced loans.

### 5.1.2. Minimum capital requirements for credit risk

The tables in this section, both under the standardised and advanced approach, present:

- The original exposure ("Exposure prior to the application of the credit conversion factor and credit risk mitigation provisions", which includes exposures to credit risk both on and off the balance sheet).
- EAD ("Exposures post CCF and CRM").
- Risk-weighted assets (RWAs).
- The ratio of EAD to RWAs gives the RWA density ratio. This calculation equates to the average weighting applied to each category of exposure.

## Minimum capital 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. The 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.

### Table 5.5. Mapping of the credit quality step by rating agencies

| Credit quality step | S&P's | Moody's | Fitch | DBRS |
|---|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- | AAA to AAL |
| 2 | A+ to A- | A1 to A3 | A+ to A- | AH to AL |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- | BBBH to BBBL |
| 4 | BB+ to BB- | Ba1 to Ba3 | BB+ to BB- | BBH to BBL |
| 5 | B+ to B- | B1 to B3 | B+ to B- | BH to BL |
| 6 | Below B- | Below B3 | Below B- | CCCH and below |

### Table 5.6. Mapping of the credit quality step by weight and exposure class(1)

| Credit quality step | Central governments or central banks | Public sector entities | Rated institutions ≤ 3 months | Rated institutions > 3 months | Unrated institutions(2) | Corporates |
|---|---|---|---|---|---|---|
| 1 | 0% | 20% | 20% | 20% | 20% | 20% |
| 2 | 20% | 50% | 20% | 50% | 50% | 50% |
| 3 | 50% | 100% | 20% | 50% | 100% | 100% |
| 4 | 100% | 100% | 50% | 100% | 100% | 100% |
| 5 | 100% | 100% | 50% | 100% | 100% | 150% |
| 6 | 150% | 150% | 150% | 150% | 150% | 150% |

*(1) General processing of exposures. The individual cases set by the CRR are beyond the scope of this table.*

*(2) The rating used on the "Unrated institutions" category is that of the central government of the country the exposure belongs to.*

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

- Central government administrations and central banks.
- Regional administrations and local authorities.
- Institutions.
- Public sector entities.
- Companies.
- Within companies, the project finance portfolio.

In addition, all exposures outside the scope of the internal ratings-based (IRB) models are assessed under the standardised approach, as are the exposures incorporated from Banco BPI.

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 following tables provide details of original exposure, EAD and RWA at December 2018 by category, under the standardised approach. This does not include counterparty risk, securitisations or equity portfolio exposure:

### Table 5.7. EU CR4 - Standardised approach – Credit risk exposure and CRM effects

*Amounts in millions of euros*

| | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| Exposure classes | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 54,469 | 4 | 56,000 | 12 | 9,401 | 16.78% |
| Regional governments or local authorities | 10,549 | 2,011 | 10,299 | 475 | 409 | 3.79% |
| Public sector entities | 3,877 | 1,046 | 4,005 | 381 | 2,038 | 46.45% |
| Multilateral development banks | 25 | 36 | 164 | - | - | - |
| International organisations | - | - | - | - | - | - |
| Institutions | 2,475 | 1,271 | 2,404 | 356 | 872 | 31.59% |
| Corporates | 26,524 | 7,250 | 23,232 | 2,292 | 24,202 | 94.82% |
| Regulatory retail exposures | 10,363 | 3,235 | 9,563 | 248 | 5,590 | 56.97% |
| Exposures secured by mortgages on immovable property | 13,871 | 1,432 | 13,798 | 430 | 5,471 | 38.45% |
| Exposures in default | 2,510 | 168 | 1,359 | 17 | 1,582 | 114.96% |
| Exposures associated with particularly high risks | - | - | - | - | - | - |
| Covered bonds | 8 | - | 8 | - | 2 | 20.00% |
| 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 | 11,991 | - | 11,972 | - | 8,480 | 70.83% |
| **Total** | **136,661** | **16,453** | **132,804** | **4,211** | **58,046** | **42.36%** |

**2017**

*Amounts in millions of euros*

| Exposure classes | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 52,768 | 302 | 54,301 | 117 | 9,216 | 16.93% |
| Regional governments or local authorities | 10,465 | 1,957 | 10,400 | 174 | 371 | 3.51% |
| Public sector entities | 3,344 | 1,081 | 3,165 | 254 | 3,072 | 89.84% |
| Multilateral development banks | 17 | 24 | 144 | 0 | - | - |
| International organisations | - | - | - | - | - | - |
| Institutions | 2,158 | 805 | 2,347 | 390 | 984 | 35.95% |
| Corporates | 24,413 | 6,822 | 21,018 | 2,138 | 21,654 | 93.51% |
| Regulatory retail exposures | 9,212 | 2,771 | 8,732 | 191 | 4,958 | 55.56% |
| Exposures secured by mortgages on immovable property | 12,683 | 677 | 12,623 | 104 | 4,674 | 36.73% |
| Exposures in default | 3,092 | 221 | 1,640 | 29 | 1,961 | 117.46% |
| Exposures associated with particularly high risks | - | - | - | - | - | - |
| Covered bonds | 19 | - | 19 | - | 4 | 20.00% |
| Exposures to institutions and corporates with a short-term credit | - | - | - | - | - | - |
| Exposures in the form of units or shares in collective investment | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | - | - |
| Other assets | 17,405 | - | 17,389 | - | 15,049 | 86.55% |
| **Total** | **135,576** | **14,661** | **131,778** | **3,397** | **61,941** | **45.82%** |

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 5.8. EU CR5 - Standardised approach (EAD)**

*Amounts in millions of euros*

| Exposure classes | EAD | | | | | | | | | | | | | | | | Total | *Of which unrated* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| Central governments or central banks | 48,838 | - | - | - | 1 | - | - | - | - | 5,687 | - | 1,485 | - | - | - | - | 56,012 | 56,005 |
| Regional governments or local authorities | 9,725 | - | - | - | 800 | - | - | - | - | 249 | - | - | - | - | - | - | 10,774 | 10,774 |
| Public sector entities | 574 | - | - | - | 265 | - | 3,126 | - | - | 422 | - | - | - | - | - | - | 4,387 | 4,386 |
| Multilateral development banks | 164 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 164 | 164 |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | 1 | 13 | - | - | 2,088 | - | 408 | - | - | 250 | 0 | - | - | - | - | - | 2,760 | 1,305 |
| Corporates | 926 | - | - | - | 1 | - | 145 | - | - | 24,448 | 3 | - | - | - | - | - | 25,524 | 25,356 |
| Regulatory retail exposures | 1,695 | - | - | - | - | - | 3 | - | 8,113 | - | - | - | - | - | - | - | 9,811 | 9,811 |
| Exposures secured by mortgages on immovable property | - | - | - | - | 1 | 11,107 | 2,646 | - | 136 | 337 | - | - | - | - | - | - | 14,228 | 14,228 |
| Exposures in default | - | - | - | - | - | - | 0 | - | - | 964 | 412 | - | - | - | - | - | 1,376 | 1,375 |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | 8 | - | - | - | - | - | - | - | - | - | - | - | 8 | 8 |
| 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 | 3,451 | - | - | - | 51 | - | - | - | - | 8,470 | - | - | - | - | - | - | 11,972 | 11,972 |
| **Total** | **65,375** | **13** | **-** | **-** | **3,216** | **11,107** | **6,328** | **-** | **8,249** | **40,828** | **414** | **1,485** | **-** | **-** | **-** | **-** | **137,015** | **135,384** |

*Amounts in millions of euros* **2017**

| Exposure classes | EAD | | | | | | | | | | | | | | | | Total | *Of which unrated* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| 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** | **62,190** | **11** | **-** | **-** | **2,889** | **11,378** | **1,348** | **-** | **7,502** | **47,954** | **594** | **1,308** | **-** | **-** | **-** | **-** | **135,175** | **134,207** |

### Table 5.9. EU CR5 - Standardised approach (RWA)

*Amounts in millions of euros*

| Exposure classes | RWA | | | | | | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| Central governments or central banks | - | - | - | - | 0 | - | - | - | - | 5,687 | - | 3,714 | - | - | - | - | 9,401 | 9,394 |
| Regional governments or local authorities | - | - | - | - | 160 | - | - | - | - | 249 | - | - | - | - | - | - | 409 | 409 |
| Public sector entities | - | - | - | - | 53 | - | 1,563 | - | - | 422 | - | - | - | - | - | - | 2,038 | 2,037 |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | 0 | - | - | 418 | - | 204 | - | - | 250 | 0 | - | - | - | - | - | 872 | 373 |
| Corporates | - | - | - | - | 0 | - | 73 | - | - | 24,126 | 4 | - | - | - | - | - | 24,202 | 24,035 |
| Regulatory retail exposures | - | - | - | - | - | - | 1 | - | 5,588 | - | - | - | - | - | - | - | 5,590 | 5,590 |
| Exposures secured by mortgages on immovable property | - | - | - | - | 0 | 3,861 | 1,206 | - | 97 | 306 | - | - | - | - | - | - | 5,471 | 5,471 |
| Exposures in default | - | - | - | - | - | - | 0 | - | - | 964 | 618 | - | - | - | - | - | 1,582 | 1,580 |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | 2 | - | - | - | - | - | - | - | - | - | - | - | 2 | 2 |
| 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 | - | - | - | - | 10 | - | - | - | - | 8,470 | - | - | - | - | - | - | 8,480 | 8,480 |
| **Total** | **-** | **0** | **-** | **-** | **643** | **3,861** | **3,047** | **-** | **5,686** | **40,474** | **622** | **3,714** | **-** | **-** | **-** | **-** | **58,046** | **57,370** |

*Amounts in millions of euros* **2017**

| Exposure classes | RWA | | | | | | | | | | | | | | | | Total | *Of which unrated* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| 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** | **-** | **0** | **-** | **-** | **578** | **3,948** | **647** | **-** | **5,102** | **47,502** | **892** | **3,271** | **-** | **-** | **-** | **-** | **61,941** | **61,543** |

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

### Table 5.10. 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 | 3,074 | 3,043 | 2,693 | 1,367 | 50.75% | 109 |
| Residential | 12,229 | 12,185 | 11,534 | 4,104 | 35.58% | 328 |
| **Total** | **15,303** | **15,228** | **14,228** | **5,471** | **38.45%** | **438** |

*Amounts in millions of euros* **2017**

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

## 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 Group has advanced models for calculating own fund requirements for the retail portfolio (consumer loans, mortgages, etc.), as well as for the business portfolio (corporates, SMEs, etc.) and for equities. In the sub-section "Use of the internal ratings-based approach" in 5.1.3. Quantitative aspects are related to the IRB models authorised to date.

Since the Group has no advanced models for the exposures incorporated from BPI bank, these are evaluated under the standardised approach.

### Table 5.11. IRB: Credit risk exposures by portfolio

*Amounts in millions of euros*

| | Average PD [(1)] | Original exposure: On-balance sheet | Original exposure: Off-balance sheet | Original exposure: Total | EAD: On-balance sheet | EAD: Off-balance sheet | EAD: Total | Number of debtors [(2)] | LGD | Average maturity (years) | RWA | RWA density | EL | Valuation adjustments and provisions | Capital (8%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate** | **6.45%** | **39,346** | **23,791** | **63,137** | **39,346** | **9,842** | **49,188** | **61** | **36.06%** | **5.44** | **28,171** | **57.27%** | **1,326** | **(1,491)** | **2,254** |
| Corporates | 5.11% | 26,693 | 19,165 | 45,858 | 26,693 | 7,766 | 34,459 | 7 | 38.18% | 4.43 | 21,886 | 63.51% | 843 | (907) | 1,751 |
| SME | 9.59% | 12,653 | 4,626 | 17,279 | 12,653 | 2,075 | 14,728 | 54 | 31.12% | 7.80 | 6,286 | 42.68% | 483 | (585) | 503 |
| **Retail** | **6.14%** | **116,762** | **39,382** | **156,144** | **116,762** | **5,598** | **122,360** | **9,277** | **25.99%** | **15.21** | **22,354** | **18.27%** | **2,700** | **(2,685)** | **1,788** |
| Retail - Residential Mortgage | 5.71% | 91,764 | 23,643 | 115,407 | 91,764 | 464 | 92,228 | 1,506 | 18.33% | 18.12 | 12,503 | 13.56% | 1,641 | (1,686) | 1,000 |
| SME - Mortgage | 12.51% | 9,437 | 2,225 | 11,662 | 9,437 | 174 | 9,611 | 113 | 18.36% | 12.73 | 2,398 | 24.95% | 339 | (267) | 192 |
| Retail - Qualifying Revolving | 2.90% | 3,288 | 8,853 | 12,141 | 3,288 | 2,733 | 6,020 | 5,104 | 76.79% | 2.99 | 1,599 | 26.56% | 127 | (117) | 128 |
| Retail - SME | 5.61% | 6,172 | 2,711 | 8,883 | 6,172 | 1,524 | 7,696 | 465 | 53.26% | 2.61 | 2,739 | 35.59% | 263 | (260) | 219 |
| Other Retail | 6.40% | 6,101 | 1,949 | 8,051 | 6,101 | 703 | 6,804 | 2,088 | 64.82% | 4.39 | 3,115 | 45.78% | 329 | (356) | 249 |
| **Total credit risk - IRB portfolio [(3)]** | **6.23%** | **156,108** | **63,173** | **219,281** | **156,108** | **15,440** | **171,547** | **9,338** | **28.88%** | **12.41** | **50,525** | **29.45%** | **4,026** | **(4,176)** | **4,042** |

*(1) Default Fund is included.*

*(2) Number of debtors in thousands.*

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

*Amounts in millions of euros*

**2017**

| | Average PD [(1)] | 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 [(2)] | LGD | Average maturity (years) | RWA | RWA density | EL | Valuation adjustments and provisions | Capital (8%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate** | **10.29%** | **37,722** | **22,782** | **60,504** | **37,722** | **9,280** | **47,002** | **58** | **35.31%** | **5.83** | **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% | 5.08 | 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% | 7.60 | 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%** | **15.66** | **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% | 18.52 | 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% | 12.97 | 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% | 3.07 | 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% | 2.75 | 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% | 4.36 | 3,732 | 49.24% | 312 | (319) | 299 |
| **Total credit risk - IRB portfolio [(3)]** | **7.62%** | **158,797** | **61,343** | **220,139** | **158,797** | **14,723** | **173,520** | **9,036** | **28.37%** | **12.99** | **46,164** | **26.60%** | **5,388** | **(4,974)** | **3,693** |

*(1) Default Fund is included.*

*(2) Number of debtors in thousands.*

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

**Table 5.12. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 a <0,15 | 69,605 | 31,571 | 17.38% | 75,091 | 0.07% | 3,627 | 22.90% | 14.85 | 4,137 | 5.51% | 12 | (236) |
| 0,15 a <0,25 | 10,837 | 4,532 | 32.94% | 12,330 | 0.18% | 578 | 33.17% | 11.68 | 2,404 | 19.49% | 7 | (36) |
| 0,25 a <0,50 | 23,918 | 10,350 | 28.12% | 26,828 | 0.33% | 729 | 31.47% | 10.78 | 7,672 | 28.60% | 27 | (99) |
| 0,50 a <0,75 | 9,138 | 4,130 | 37.21% | 10,675 | 0.62% | 581 | 35.99% | 7.41 | 5,482 | 51.36% | 23 | (34) |
| 0,75 a <2,50 | 19,061 | 7,357 | 34.54% | 21,603 | 1.48% | 2,318 | 34.85% | 8.73 | 12,669 | 58.64% | 112 | (159) |
| 2,50 a <10,00 | 11,501 | 3,812 | 29.83% | 12,638 | 4.98% | 993 | 31.24% | 11.69 | 10,178 | 80.53% | 200 | (223) |
| 10,00 a <100,00 | 3,738 | 721 | 18.79% | 3,874 | 25.77% | 360 | 29.72% | 12.82 | 4,881 | 126.00% | 299 | (262) |
| **Perfoming Portfolio** | **147,799** | **62,474** | **24.39%** | **163,040** | **1.33%** | **9,185** | **28.33%** | **12.35** | **47,422** | **29.09%** | **681** | **(1,048)** |
| 100,00 (Default) | 8,308 | 700 | 28.49% | 8,508 | 100.00% | 153 | 39.31% | 13.65 | 3,103 | 36.48% | 3,344 | (3,129) |
| **Total** | **156,108** | **63,173** | **24.44%** | **171,547** | **6.23%** | **9,338** | **28.88%** | **12.41** | **50,525** | **29.45%** | **4,026** | **(4,176)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

**Table 5.13. EU CR8 - RWA flow statements of credit risk exposures under the IRB approach**

*Amounts in millions of euros*

| | RWA amounts | Capital requirements(*) |
|---|---|---|
| **RWAs as at the end of the previous reporting period** | **46,164** | **3,693** |
| Asset size | 2,450 | 196 |
| Asset quality | 2,771 | 222 |
| Model updates | (400) | (32) |
| Methodology and policy | (3,034) | (243) |
| Acquisitions and disposals | (57) | (5) |
| Foreign exchange movements | - | - |
| Other | 2,632 | 211 |
| **RWAs as at the end of the reporting period** | **50,525** | **4,042** |

*(*) Capital requirements 8%.*

During 2018, the Risk-Weighted Assets (RWAs) in the credit risk portfolio assessed using IRB models increased by EUR 4,361 million (EUR 349 million in regulatory capital at 8%). This is mainly a result of the adjustment to the credit risk requirements of the non-performing mortgage portfolio derived from the TRIM process[12] of the European Central Bank.

## Impairment losses

Below are the Group's funds for asset impairment losses and provisions for contingent liabilities and commitments corresponding to the last four financial years and for each of the risk categories.

The following aspects were largely behind the movement in the provisions during 2018:

- The increase of the provision fund in the portfolio subject to assessment under the standardised approach, primarily in the company category.
- In the portfolio subject to IRB models, there was a decrease in the provision fund in the company category, primarily due to the significant effort put into managing NPLs and the sales of portfolios completed during the year. There was also a provision fund decrease in the retail category, due to the improvement in the macroeconomic environment, particularly relating to the improvement in the real estate market in Spain and Portugal (increase in the average price of housing).

[12] *Targeted Review of Internal Models.*

### Table 5.14. Provisions evolution

| *Amounts in millions of euros* | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|
| **Regulatory exposure class** | **Provisions** | **%** | **Provisions** | **%** | **Provisions** | **%** | **Provisions** | **%** |
| Central governments or central banks | (0) | 0.00% | (11) | 0.16% | (11) | 0.15% | (5) | 0.08% |
| Regional governments or local authorities | (5) | 0.06% | (5) | 0.07% | (3) | 0.05% | (1) | 0.02% |
| Public sector entities | (76) | 0.78% | (106) | 1.50% | (79) | 1.15% | (63) | 1.01% |
| Multilateral development banks | - | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - | - |
| Institutions | (2) | 0.02% | (5) | 0.07% | (0) | 0.00% | (3) | 0.04% |
| Corporates | (417) | 4.29% | (286) | 4.04% | (212) | 3.06% | (601) | 9.60% |
| Regulatory retail exposures | (110) | 1.14% | (63) | 0.89% | (136) | 1.97% | (166) | 2.65% |
| Exposures secured by mortgages on immovable property | (24) | 0.25% | (24) | 0.34% | (38) | 0.55% | (47) | 0.75% |
| Exposures in default | (1,451) | 14.94% | (1,063) | 14.99% | (1,462) | 21.09% | (1,180) | 18.84% |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | - | - | - | - |
| 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 | - | - | - | - | (16) | 0.24% | (19) | 0.31% |
| **Total Credit Risk - SA portfolio** | **(2,087)** | **21.49%** | **(1,564)** | **22.06%** | **(1,958)** | **28.25%** | **(2,086)** | **33.31%** |
| **Corporate** | **(4,465)** | **45.97%** | **(2,747)** | **38.75%** | **(2,409)** | **34.75%** | **(1,491)** | **23.81%** |
| Corporates | (2,349) | 24.18% | (1,695) | 23.91% | (1,626) | 23.46% | (907) | 14.48% |
| SME | (2,116) | 21.79% | (1,052) | 14.84% | (782) | 11.29% | (585) | 9.34% |
| **Retail** | **(3,160)** | **32.54%** | **(2,778)** | **39.19%** | **(2,565)** | **37.00%** | **(2,685)** | **42.88%** |
| Retail - Residential Mortgage | (2,160) | 22.24% | (1,973) | 27.83% | (1,632) | 23.55% | (1,686) | 26.92% |
| SME - Mortgage | (654) | 6.73% | (427) | 6.03% | (295) | 4.26% | (267) | 4.26% |
| Retail - Qualifying Revolving | (14) | 0.14% | (39) | 0.55% | (74) | 1.07% | (117) | 1.87% |
| Retail - SME | (249) | 2.57% | (178) | 2.52% | (245) | 3.53% | (260) | 4.15% |
| Other Retail | (83) | 0.85% | (161) | 2.26% | (319) | 4.60% | (356) | 5.68% |
| **Total Credit Risk - IRB portfolio** | **(7,625)** | **78.51%** | **(5,525)** | **77.94%** | **(4,974)** | **71.75%** | **(4,176)** | **66.69%** |
| **Total[(*)]** | **(9,712)** | **100.00%** | **(7,089)** | **100.00%** | **(6,932)** | **100.00%** | **(6,262)** | **100.00%** |

*(*) Credit risk exposures included. Counterparty, securitisation 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 exposures.
- Geographical area.
- Business sector.
- Residual maturity period.
- Information on the exposures in default and asset impairment adjustments.

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 5.15. EU CRB-B - Total and average net amount of exposures**

*Amounts in millions of euros*

| | Net value of exposures at the end of the period | Average net exposures over the period |
|---|---|---|
| Central governments or central banks | 54,467 | 53,763 |
| Regional governments or local authorities | 12,558 | 12,489 |
| Public sector entities | 4,860 | 4,603 |
| Multilateral development banks | 61 | 51 |
| International organisations | - | - |
| Institutions | 3,743 | 3,352 |
| Corporates | 33,173 | 32,098 |
| Regulatory retail exposures | 13,431 | 12,639 |
| Exposures secured by mortgages on immovable property | 15,256 | 14,290 |
| Exposures in default | 1,497 | 1,675 |
| Exposures associated with particularly high risks | - | - |
| Covered bonds | 8 | 13 |
| Exposures to institutions and corporates with a short-term credit | - | - |
| Exposures in the form of units or shares in collective investment | - | - |
| Equity exposures | - | - |
| Other assets | 11,972 | 14,680 |
| **Total Credit Risk - SA portfolio** | **151,028** | **149,653** |
| **Corporate** | **61,646** | **59,870** |
| Corporates | 44,951 | 43,692 |
| SME | 16,694 | 16,178 |
| **Retail** | **153,459** | **155,265** |
| Retail - Residential Mortgage | 113,721 | 115,234 |
| SME - Mortgage | 11,395 | 12,077 |
| Retail - Qualifying Revolving | 12,024 | 11,530 |
| Retail - SME | 8,624 | 8,350 |
| Other Retail | 7,695 | 8,074 |
| **Total Credit Risk - IRB portfolio** | **215,105** | **215,135** |
| **Total (*)** | **366,133** | **364,789** |

*(*) Credit risk exposures included. Counterparty, securisitation and equity exposures not included.*

## Geographical distribution of exposures

Below is the distribution, at 31 December 2018, of the net exposure of value adjustments and provisions, broken down by geographical area - for regions that are significant for the CaixaBank Group - and by regulatory exposure category according to the approach used to calculate capital requirements.

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

At the 2018 year end, 85% of the CaixaBank Group's exposure was concentrated in Spain, 9% was in Portugal, 4% in other European Union countries and 2% elsewhere in the world.

### Tabla 5.16. EU CRB-C - Geographical breakdown of exposures

| | Net Value | | | | |
|---|---|---|---|---|---|
| *Amount in miillions of euros.* | Spain | Portugal | European Union | Other countries | Total |
| Central governments or central banks | 48,117 | 3,404 | 1,844 | 1,102 | 54,467 |
| Regional governments or local authorities | 11,086 | 1,062 | 0 | 409 | 12,558 |
| Public Sector entities | 3,538 | 363 | 576 | 383 | 4,860 |
| Multilateral development banks | - | - | 61 | - | 61 |
| International organisations | - | - | - | - | - |
| Institutions | 835 | 364 | 898 | 1,646 | 3,743 |
| Corporates | 15,960 | 9,206 | 5,039 | 2,969 | 33,173 |
| Regulatory retail exposures | 9,166 | 4,057 | 110 | 98 | 13,431 |
| Exposures secured by mortgages on immovable property | 3,915 | 11,262 | 55 | 23 | 15,256 |
| Exposures in default | 690 | 655 | 20 | 133 | 1,497 |
| Exposures associated with particularly high risks | - | - | - | - | - |
| Covered bonds | 8 | - | - | - | 8 |
| 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 | 11,496 | 476 | - | 0 | 11,972 |
| **Total Credit Risk - SA portfolio** | **104,812** | **30,849** | **8,604** | **6,763** | **151,028** |
| **Corporate** | **55,022** | **629** | **4,070** | **1,925** | **61,646** |
| Corporates | 38,328 | 629 | 4,070 | 1,925 | 44,951 |
| SME | 16,694 | - | - | - | 16,694 |
| **Retail** | **151,787** | **8** | **1,052** | **612** | **153,459** |
| Retail - Residential Mortgage | 112,206 | 6 | 983 | 526 | 113,721 |
| SME - Mortgage | 11,356 | 0 | 17 | 22 | 11,395 |
| Retail - Qualifying Revolving | 11,936 | 1 | 40 | 47 | 12,024 |
| Retail - SME | 8,620 | - | 2 | 2 | 8,624 |
| Other Retail | 7,670 | 0 | 11 | 14 | 7,695 |
| **Total Credit Risk - IRB portfolio** | **206,809** | **637** | **5,121** | **2,537** | **215,105** |
| **Total** | **311,622** | **31,486** | **13,725** | **9,300** | **366,133** |

## Distribution of exposures by business sector

The following tables show the distribution of exposures for the CaixaBank Group at 31 December 2018, in terms of the net value of valuation adjustments and provisions, split by activity sector according to each of the regulatory exposure categories and by approach used to calculate regulatory capital.

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

**Table 5.17. EU CRB-D - Concentration of exposures by industry or counterparty types (Net Value)**

*Amounts in millions of euros*

| | | | | | | | Business non financial activities | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Regulatory exposure class | Total | Central Banks | Public administration | Credit entities | Other business financial activities | Households | Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, steam and air conditioning supply | Water supply | Construction | Wholesale and retail trade | Transport and storage | Accommodation and food service activities | Information and communication | Real estate activities | Professional, scientific and technical activities | Administrative and support service activities | Education | Human health services and social work activities | Arts, entertainment and recreation | Other services |
| Central governments or central banks | **54,467** | 36,258 | 18,209 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Regional governments or local authorities | **12,558** | - | 12,558 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Public sector entities | **4,860** | - | 4,860 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Multilateral development banks | **61** | - | - | - | 11 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 50 |
| International organisations | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | **3,743** | - | - | 3,231 | - | - | - | - | 56 | 425 | 0 | 3 | 7 | - | - | 2 | - | 19 | - | - | - | - | - |
| Corporates | **33,173** | - | 1 | - | 5,635 | 804 | 510 | 147 | 2,729 | 4,947 | 429 | 3,608 | 1,787 | 2,868 | 766 | 493 | 1,800 | 2,662 | 1,027 | 191 | 508 | 187 | 2,073 |
| Regulatory retail exposures | **13,431** | - | 1 | - | 18 | 9,317 | 322 | 15 | 766 | 25 | 22 | 367 | 989 | 210 | 271 | 143 | 185 | 213 | 116 | 60 | 135 | 91 | 164 |
| Exposures secured by mortgages on immovable property | **15,256** | - | 1 | - | 311 | 11,649 | 84 | 7 | 65 | 1 | 0 | 1,360 | 102 | 6 | 280 | 55 | 673 | 238 | 10 | 83 | 135 | 81 | 115 |
| Exposures in default | **1,497** | - | 20 | - | 4 | 421 | 16 | 0 | 49 | 18 | 41 | 169 | 37 | 30 | 23 | 38 | 189 | 42 | 3 | 17 | 4 | 5 | 370 |
| Exposures associated with particularly high risks | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | **8** | - | - | - | 8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Exposures in the form of units or shares in collective investment | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity exposures | **-** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | **11,972** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 11,972 |
| **Total Credit Risk - SA portfolio** | **151,028** | **36,258** | **35,650** | **3,231** | **5,986** | **22,191** | **931** | **170** | **3,665** | **5,417** | **492** | **5,507** | **2,922** | **3,115** | **1,340** | **732** | **2,847** | **3,175** | **1,155** | **352** | **781** | **364** | **14,745** |
| **Corporate** | **61,646** | **-** | **-** | **-** | **4,286** | **-** | **790** | **395** | **9,751** | **4,395** | **652** | **9,917** | **7,134** | **4,102** | **3,392** | **2,602** | **5,416** | **3,171** | **1,328** | **170** | **585** | **349** | **3,210** |
| Corporates | **44,951** | - | - | - | 4,076 | - | 253 | 354 | 7,377 | 4,179 | 565 | 5,770 | 4,491 | 3,429 | 2,018 | 2,252 | 3,230 | 2,533 | 1,041 | 73 | 366 | 183 | 2,762 |
| SME | **16,694** | - | - | - | 210 | - | 537 | 41 | 2,375 | 216 | 88 | 4,147 | 2,643 | 673 | 1,374 | 350 | 2,187 | 638 | 287 | 97 | 220 | 165 | 448 |
| **Retail** | **153,459** | **-** | **-** | **-** | **62** | **130,285** | **1,522** | **56** | **1,979** | **188** | **63** | **3,769** | **4,730** | **1,299** | **1,880** | **647** | **1,993** | **2,222** | **559** | **405** | **783** | **347** | **671** |
| Retail - Residential Mortgage | **113,721** | - | - | - | - | 108,942 | 325 | 11 | 376 | 25 | 13 | 559 | 935 | 283 | 499 | 139 | 118 | 567 | 123 | 213 | 333 | 58 | 202 |
| SME - Mortgage | **11,395** | - | - | - | 22 | 3,377 | 411 | 11 | 427 | 31 | 15 | 2,178 | 1,129 | 215 | 582 | 243 | 1,553 | 555 | 124 | 69 | 192 | 108 | 154 |
| Retail - Qualifying Revolving | **12,024** | - | - | - | - | 10,264 | 77 | 2 | 106 | 4 | 2 | 121 | 382 | 108 | 164 | 39 | 38 | 413 | 44 | 35 | 76 | 38 | 112 |
| Retail - SME | **8,624** | - | - | - | 40 | 356 | 644 | 32 | 1,049 | 125 | 33 | 896 | 2,213 | 681 | 587 | 221 | 278 | 636 | 260 | 82 | 170 | 138 | 185 |
| Other Retail | **7,695** | - | - | - | - | 7,346 | 66 | 0 | 20 | 3 | 0 | 16 | 71 | 12 | 49 | 5 | 6 | 51 | 8 | 6 | 12 | 5 | 19 |
| **Total Credit Risk - IRB portfolio** | **215,105** | **-** | **-** | **-** | **4,347** | **130,285** | **2,312** | **451** | **11,730** | **4,583** | **715** | **13,687** | **11,864** | **5,401** | **5,272** | **3,249** | **7,409** | **5,393** | **1,886** | **575** | **1,368** | **695** | **3,881** |
| **Total** | **366,133** | **36,258** | **35,650** | **3,231** | **10,334** | **152,477** | **3,243** | **621** | **15,395** | **10,000** | **1,207** | **19,194** | **14,786** | **8,516** | **6,612** | **3,980** | **10,257** | **8,568** | **3,042** | **927** | **2,149** | **1,060** | **18,626** |

*(*) 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 5.18. EU CRB-D - Concentration of exposures by industry or counterparty types (APR)**

*Amounts in millions of euros*

| Regulatory exposure class | Total | Central Banks | Public administration | Credit entities | Other business financial activities | Households | Business non financial activities: Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, steam and air conditioning supply | Water supply |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | **9,401** | 8,837 | 564 | - | - | - | - | - | - | - | - |
| Regional governments or local authorities | **409** | - | 407 | - | - | - | 1 | - | - | - | - |
| Public sector entities | **2,038** | - | 2,037 | - | - | - | - | - | 0 | - | - |
| Multilateral development banks | **-** | - | - | - | - | - | - | - | - | - | - |
| International organisations | **-** | - | - | - | - | - | - | - | - | - | - |
| Institutions | **872** | - | - | 756 | - | 1 | 0 | - | 37 | 12 | 5 |
| Corporates | **24,202** | - | 1 | 73 | 3,410 | 438 | 409 | 108 | 1,691 | 4,427 | 336 |
| Regulatory retail exposures | **5,590** | - | 0 | - | 5 | 3,984 | 142 | 5 | 277 | 10 | 7 |
| Exposures secured by mortgages on immovable property | **5,471** | - | 0 | - | 138 | 3,977 | 32 | 3 | 27 | 0 | 0 |
| Exposures in default | **1,582** | - | 8 | - | 1 | 419 | 16 | 0 | 48 | 20 | 53 |
| Exposures associated with particularly high risks | **-** | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | **2** | - | - | - | 2 | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit | **-** | - | - | - | - | - | - | - | - | - | - |
| Exposures in the form of units or shares in collective investment | **-** | - | - | - | - | - | - | - | - | - | - |
| Equity exposures | **-** | - | - | - | - | - | - | - | - | - | - |
| Other assets | **8,480** | - | - | - | - | - | - | - | - | - | - |
| **Total Credit Risk - SA portfolio** | **58,046** | **8,837** | **3,018** | **829** | **3,556** | **8,820** | **600** | **116** | **2,080** | **4,470** | **401** |
| **Corporate** | **28,171** | **-** | **-** | **-** | **2,095** | **-** | **332** | **146** | **3,829** | **641** | **360** |
| Corporates | **21,886** | - | - | - | 2,019 | - | 152 | 137 | 2,996 | 541 | 330 |
| SME | **6,286** | - | - | - | 75 | - | 181 | 9 | 833 | 100 | 30 |
| **Retail** | **22,354** | **-** | **-** | **-** | **16** | **16,601** | **366** | **11** | **522** | **56** | **14** |
| Retail - Residential Mortgage | **12,503** | - | - | - | - | 11,785 | 54 | 2 | 55 | 3 | 1 |
| SME - Mortgage | **2,398** | - | - | - | 6 | 394 | 81 | 2 | 99 | 10 | 3 |
| Retail - Qualifying Revolving | **1,599** | - | - | - | - | 1,350 | 8 | 0 | 14 | 1 | 0 |
| Retail - SME | **2,739** | - | - | - | 11 | 86 | 200 | 7 | 347 | 42 | 8 |
| Other Retail | **3,115** | - | - | - | - | 2,985 | 23 | 0 | 7 | 1 | 0 |
| **Total Credit Risk - IRB portfolio** | **50,525** | **-** | **-** | **-** | **2,111** | **16,601** | **698** | **157** | **4,351** | **696** | **374** |
| **Total** | **108,571** | **8,837** | **3,018** | **829** | **5,667** | **25,420** | **1,298** | **273** | **6,431** | **5,166** | **775** |

| Regulatory exposure class | Business non financial activities: Construction | Wholesale and retail trade | Transport and storage | Accommodation and food service activities | Information and communication | Real estate activities | Professional, scientific and technical activities | Administrative and support service activities | Education | Human health services and social work activities | Arts, entertainment and recreation | Other services |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | - | - | - | - | - | - | - | - | - | - | - | - |
| Regional governments or local authorities | - | - | - | - | - | - | - | - | - | - | 0 | - |
| Public sector entities | - | - | - | - | - | - | - | - | - | - | - | - |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | 1 | 8 | 36 | 0 | 0 | 2 | 11 | 0 | - | 2 | - | 0 |
| Corporates | 2,000 | 1,261 | 2,212 | 621 | 387 | 1,636 | 1,573 | 443 | 145 | 377 | 120 | 2,537 |
| Regulatory retail exposures | 118 | 372 | 98 | 119 | 79 | 63 | 79 | 49 | 24 | 58 | 38 | 61 |
| Exposures secured by mortgages on immovable property | 533 | 39 | 1 | 152 | 28 | 254 | 111 | 3 | 37 | 65 | 21 | 47 |
| Exposures in default | 119 | 35 | 29 | 22 | 35 | 273 | 35 | 2 | 17 | 3 | 5 | 440 |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - |
| Exposures to institutions and corporates with a short-term credit | - | - | - | - | - | - | - | - | - | - | - | - |
| Exposures in the form of units or shares in collective investment | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - | - | - | - | 8,480 |
| **Total Credit Risk - SA portfolio** | **2,771** | **1,714** | **2,376** | **915** | **529** | **2,229** | **1,808** | **498** | **224** | **504** | **185** | **11,566** |
| **Corporate** | **4,952** | **3,512** | **1,987** | **1,560** | **1,461** | **3,102** | **1,285** | **543** | **80** | **620** | **254** | **1,412** |
| Corporates | 3,323 | 2,561 | 1,743 | 1,113 | 1,307 | 2,220 | 1,062 | 438 | 54 | 540 | 182 | 1,168 |
| SME | 1,629 | 951 | 244 | 447 | 155 | 882 | 224 | 106 | 26 | 79 | 72 | 244 |
| **Retail** | **1,021** | **1,229** | **342** | **516** | **150** | **503** | **439** | **142** | **59** | **116** | **90** | **163** |
| Retail - Residential Mortgage | 106 | 150 | 44 | 98 | 17 | 18 | 69 | 24 | 12 | 26 | 9 | 31 |
| SME - Mortgage | 607 | 267 | 38 | 139 | 58 | 416 | 132 | 32 | 15 | 33 | 32 | 34 |
| Retail - Qualifying Revolving | 18 | 56 | 17 | 39 | 6 | 4 | 41 | 7 | 5 | 7 | 6 | 21 |
| Retail - SME | 284 | 728 | 238 | 215 | 68 | 63 | 182 | 77 | 26 | 46 | 41 | 70 |
| Other Retail | 6 | 28 | 5 | 25 | 2 | 2 | 15 | 2 | 2 | 3 | 2 | 8 |
| **Total Credit Risk - IRB portfolio** | **5,974** | **4,741** | **2,329** | **2,076** | **1,611** | **3,605** | **1,724** | **685** | **139** | **735** | **344** | **1,575** |
| **Total** | **8,745** | **6,456** | **4,705** | **2,991** | **2,140** | **5,834** | **3,532** | **1,183** | **362** | **1,240** | **528** | **13,140** |

*(*) 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

The following tables show the distribution of exposures for the CaixaBank Group at 31 December 2018, in terms of the net value of valuation adjustments and provisions, split according to the residual maturity term and the exposure categories, for each of the approaches used to calculate minimum capital requirements.

The breakdown by maturity includes the total credit risk, excluding exposures relating to counterparty risk, securitisations or equity exposures

By residual maturity, 75% of the exposures have a maturity greater than 1 year, and 52%, greater than 5 years. This is primarily due to the weight of the mortgage portfolio in the overall exposure.

### Table 5.19. EU CRB-E - Maturity of exposures

*Amounts in millions of euros*

| | Exposure amount breakdown by maturity (1) (2) (3) | | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory exposure class | On demand | < 3 months | 3 months - 1 year | 1-5 years | > 5 years | No stated maturity | Total |
| Central governments or central banks | 13,836 | 2,238 | 4,968 | 22,202 | 4,297 | 6,927 | 54,467 |
| Regional governments or local authorities | 0 | 1,251 | 4,072 | 2,329 | 4,792 | 115 | 12,558 |
| Public sector entities | 2 | 254 | 729 | 1,236 | 2,047 | 591 | 4,860 |
| Multilateral development banks | 5 | - | 25 | - | - | 31 | 61 |
| International organisations | - | - | - | - | - | - | - |
| Institutions | 421 | 1,027 | 682 | 777 | 54 | 782 | 3,743 |
| Corporates | 694 | 3,354 | 2,842 | 8,881 | 13,873 | 3,529 | 33,173 |
| Regulatory retail exposures | 3,512 | 620 | 1,513 | 3,723 | 3,133 | 930 | 13,431 |
| Exposures secured by mortgages on immovable property | 0 | 10 | 259 | 807 | 13,917 | 263 | 15,256 |
| Exposures in default | | | | | | | 1,497 |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - |
| Covered bonds | - | 1 | - | 8 | - | - | 8 |
| 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 | 2,189 | - | - | - | 7,794 | 1,989 | 11,972 |
| **Total Credit Risk - SA portfolio** | **20,659** | **8,755** | **15,089** | **39,962** | **49,908** | **15,157** | **151,028** |
| **Corporate** | **1** | **4,675** | **11,107** | **22,039** | **18,591** | **5,232** | **61,646** |
| Corporates | 0 | 3,018 | 8,010 | 19,447 | 10,202 | 4,275 | 44,951 |
| SME | 1 | 1,657 | 3,097 | 2,592 | 8,389 | 958 | 16,694 |
| **Retail** | **1,871** | **1,494** | **4,310** | **22,024** | **123,211** | **549** | **153,459** |
| Retail - Residential Mortgage | - | 61 | 142 | 3,642 | 109,875 | 0 | 113,721 |
| SME - Mortgage | - | 71 | 69 | 1,218 | 10,029 | 8 | 11,395 |
| Retail - Qualifying Revolving | 32 | 108 | 1,152 | 10,476 | 257 | - | 12,024 |
| Retail - SME | 8 | 1,178 | 2,632 | 3,014 | 1,261 | 530 | 8,624 |
| Other Retail | 1,831 | 76 | 315 | 3,674 | 1,789 | 11 | 7,695 |
| **Total Credit Risk - IRB portfolio** | **1,872** | **6,169** | **15,417** | **44,063** | **141,802** | **5,781** | **215,105** |
| **Total** | **22,531** | **14,924** | **30,506** | **84,026** | **191,710** | **20,938** | **366,133** |

*(1) Exposures post-CCF and CRM.*

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

*(3) Real State foreclosures are included.*

**Table 5.20. Distribution of RWAs by residual maturity**

*Amounts in millions of euros*

| Regulatory exposure class | Exposure amount breakdown by maturity (1) (2) (3) | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | < 3 months | 3 months - 1 year | 1-5 years | > 5 years | No stated maturity | TOTAL |
| Central governments or central banks | - | - | 0 | 3 | 4 | 9.393 | 9.401 |
| Regional governments or local authorities | - | 153 | 92 | 23 | 140 | 0 | 409 |
| Public sector entities | 0 | 75 | 316 | 557 | 995 | 95 | 2.038 |
| Multilateral development banks | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - |
| Institutions | 79 | 245 | 227 | 126 | 29 | 166 | 872 |
| Corporates | 160 | 2.689 | 2.027 | 6.423 | 11.034 | 1.869 | 24.202 |
| Regulatory retail exposures | 484 | 329 | 483 | 2.126 | 2.016 | 151 | 5.590 |
| Exposures secured by mortgages on immovable property | 0 | 3 | 68 | 334 | 5.048 | 17 | 5.471 |
| Exposures in default | | | | | | | 1.582 |
| Exposures associated with particularly high risks | - | - | - | - | - | - | - |
| Covered bonds | - | 0 | - | 2 | - | - | 2 |
| 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 | 0 | - | - | - | 6.812 | 1.668 | 8.480 |
| **Total Credit Risk - SA portfolio** | **724** | **3.493** | **3.214** | **9.594** | **26.078** | **13.361** | **58.046** |
| **Corporate** | **1** | **2.031** | **4.207** | **10.170** | **10.851** | **912** | **28.171** |
| Corporates | 0 | 1.418 | 2.990 | 9.364 | 7.373 | 740 | 21.886 |
| SME | 1 | 613 | 1.217 | 806 | 3.478 | 172 | 6.286 |
| **Retail** | **405** | **544** | **1.202** | **4.595** | **15.537** | **71** | **22.354** |
| Retail - Residential Mortgage | - | 40 | 12 | 168 | 12.283 | 0 | 12.503 |
| SME - Mortgage | - | 20 | 11 | 189 | 2.177 | 1 | 2.398 |
| Retail - Qualifying Revolving | 22 | 12 | 94 | 1.442 | 29 | - | 1.599 |
| Retail - SME | 3 | 426 | 918 | 909 | 416 | 67 | 2.739 |
| Other Retail | 379 | 46 | 168 | 1.889 | 631 | 2 | 3.115 |
| **Total Credit Risk - IRB portfolio** | **406** | **2.575** | **5.409** | **14.765** | **26.388** | **982** | **50.525** |
| **Total** | **1.129** | **6.068** | **8.623** | **24.359** | **52.466** | **14.343** | **108.571** |

*(1) Exposures post-CCF and CRM.*

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

*(3) Real State foreclosures are included.*

In total terms, the gross carrying amount of CaixaBank's exposures stood at EUR 373,886 million at 31 December 2018, with 67% relating to the loan portfolio, 24% relating to off-balance sheet exposures, and the remaining 9% relating to debt securities.

Exposures in default amounted to EUR 11,541 million at the close of December 2018, including EUR 725 million in off-balance sheet exposures. The default rate among exposures stood at 3.09% of the total exposures (4.34% for loans) and the coverage ratio of the provisions recognised on the exposures in default is 52.75% of the total exposures (53.02% for loans).

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

**Table 5.21. EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities**

*Amounts in millions of euros*

| | Gross carrying amount of defaulted exposures |
|---|---|
| **Opening balance (dec-17)** | **14,108** |
| Loans and representative debt securities that have gone into a default situation or whose value has deteriorated since the last reference period | 2,117 |
| Reclassification to non-default situation | (1,269) |
| Amounts recognized as failed | (3,633) |
| Other changes | (508) |
| **Closing balance (dec-18)** | **10,816** |

In general terms, the gross carrying amount of non-performing loans and debt securities fell by EUR 3,292 million in 2018, going from EUR 14,108 million at the 2017 year end to EUR 10,816 million at the 2018 year end.

This is explained by:

- (+) EUR 2,117 million in loans and debt securities declared as non-performing since December 2017.
- (-) EUR 1,269 million in previously non-performing loans and debt securities that returned to performing since December 2017.
- (-) EUR 3,633 million in loans and debt securities discharged and/or fully amortised during the year.
- (-) EUR 508 million in loans and debt securities explained by other changes.

The following table shows CaixaBank's exposures by FINREP sector, i.e. by the different sectors or segments of the CaixaBank Group financial statements at 31 December 2018.

**Table 5.22. EU CR1-A - Credit quality of exposures by sector FINREP**

*Amounts in millions of euros*

| | Gross carrying amount of | | Specific credit risk adjustment (c) | General credit risk adjustment (d) | Accumulated failures (e) | Credit risk adjustment charges | Net value (a+b-c-d) |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures (a) | Non-defaulted exposures (b) | | | | | |
| Central Banks | - | 15,789 | - | - | - | - | 15,789 |
| General governments | 49 | 45,164 | 13 | - | 39 | (9) | 45,200 |
| Credit institutions | 0 | 9,023 | 0 | - | 2 | 0 | 9,022 |
| Other financial corporations | 18 | 8,707 | 29 | - | 92 | (50) | 8,696 |
| Non-financial corporations | 4,648 | 120,550 | 2,975 | - | 10,332 | (1,982) | 122,223 |
| Households | 6,826 | 163,113 | 3,070 | - | 3,813 | 875 | 166,869 |
| **Total** | **11,541** | **362,346** | **6,087** | **-** | **14,278** | **(1,166)** | **367,799** |
| Of which: Loans | 10,803 | 238,277 | 5,728 | - | 14,278 | (1,127) | 243,352 |
| Of which: Representative debt values | 13 | 35,520 | 5 | - | 0 | (36) | 35,528 |
| Of which: Off-balance exposures | 725 | 88,548 | 355 | - | - | (2) | 88,919 |

As the table shows, a substantial portion of the portfolio relates to funding for households (45% of the gross carrying amount), which also accounts for 59% of non-performing exposures and 50% of all provisions.

On the other hand, 40% of non-performing exposures relate to non-financial companies, accounting for 49% of provisions. The following table provides information on loans to non-financial companies, by economic sector.

A substantial portion of the portfolio is concentrated in the manufacturing industry (13.6% of the gross carrying amount), in wholesale and retail trade (13.4%), in real estate activities (13.3%) and in construction (12.5%),

**Table 5.23. EU CR1-B - Credit quality of exposures by industry or counterparty types**

*Amounts in millions of euros*

| | Gross carrying amount of | | Specific credit risk adjustment (c) | General credit risk adjustment (d) | Accumulated failures (e) | Credit risk adjustment charges | Net value (a+b-c-d) |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures (a) | Non-defaulted exposures (b) | | | | | |
| Agriculture, forestry and fishing | 108 | 1,597 | 43 | - | 204 | (3) | 1,662 |
| Mining and quarrying | 8 | 503 | 7 | - | 27 | 2 | 504 |
| Manufacturing | 349 | 10,110 | 237 | - | 1,004 | (41) | 10,222 |
| Electricity, gas, steam and air conditioning supply | 125 | 5,815 | 141 | - | 26 | (46) | 5,799 |
| Water supply; sewerage; waste management and remediation activities | 55 | 1,074 | 28 | - | 31 | (9) | 1,101 |
| Construction | 937 | 8,688 | 779 | - | 5,575 | 30 | 8,846 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 493 | 9,838 | 372 | - | 715 | (74) | 9,959 |
| Transporting and storage | 173 | 6,181 | 109 | - | 129 | (19) | 6,245 |
| Accommodation and food service activities | 264 | 4,414 | 164 | - | 240 | (3) | 4,514 |
| Information and communication | 106 | 2,157 | 78 | - | 244 | 14 | 2,185 |
| Real estate activities | 782 | 9,424 | 205 | - | 965 | (391) | 10,001 |
| Professional, scientific and technical activities | 229 | 3,477 | 162 | - | 630 | (539) | 3,543 |
| Administrative and support service activities | 58 | 1,967 | 49 | - | 212 | 6 | 1,976 |
| Public administration and defense; compulsory social security | 0 | 444 | 0 | - | 1 | (1) | 444 |
| Education | 69 | 327 | 49 | - | 20 | 11 | 348 |
| Human health and social work activities | 33 | 970 | 17 | - | 23 | (2) | 985 |
| Arts, entertainment and recreation | 56 | 518 | 36 | - | 34 | (18) | 538 |
| Other services activities | 235 | 5,228 | 180 | - | 252 | (908) | 5,283 |
| **Total** | **4,081** | **72,732** | **2,658** | **-** | **10,332** | **(1,990)** | **74,155** |

whilst non-performing exposure is primarily concentrated in the construction sector (23% of the gross carrying amount), in real estate activities (19.2%) and in wholesale and retail trade (12.1%).

The following table shows CaixaBank's exposures broken down by geographical area, split between Spain, Portugal, the rest of the European Union, and the rest of the world.

**Table 5.24. EU CR1-C - Credit quality of exposures by geography**

*Amounts in millions of euros*

| | Gross carrying values of | | Credit Risk adjustment on standard exposures | | Accumulated write-offs (e) | Credit risk adjustment charges | Net Value |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures (a) | Non-defaulted exposures (b) | Specific (c) | General (d) | | | |
| Spain | 10,048 | 304,046 | 5,102 | - | 14,050 | (1,409) | 308,992 |
| Portugal | 1,126 | 31,255 | 547 | - | 21 | (42) | 31,834 |
| Rest European Union | 15 | 10,597 | 53 | - | 51 | (31) | 10,559 |
| Rest of the w orld | 352 | 16,448 | 385 | - | 156 | 316 | 16,415 |
| **Total** | **11,541** | **362,346** | **6,087** | **-** | **14,278** | **(1,166)** | **367,799** |

At the 2018 year end, 84% of the gross carrying amount of the exposures was concentrated in Spain, 8.7% in Portugal, 2.8% in the rest of the European Union and 4.5% in the rest of the world.

The following table shows the gross carrying amount of exposures that are overdue, broken down by maturity tranche and product.

**Table 5.25. EU CR1-D - Ageing of past-due exposures**

*Amounts in millions of euros*

| | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 1,844 | 633 | 240 | 569 | 779 | 3,937 |
| Debt securities | - | - | - | - | - | - |
| **Total exposures** | **1,844** | **633** | **240** | **569** | **779** | **3,937** |

Of the total of all overdue exposures, 49% are more than a year overdue, while 34% are less than 90 days overdue.

**Table 5.26. EU CR1-E - Non-performing and forborne exposures**

*Amounts in millions of euros*

| | 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 | | |
| Debt securities | 35,533 | 0 | 8 | 13 | 13 | 13 | 13 | 1 | (0) | 4 | 4 | - | - |
| Loans and advances | 249,080 | 570 | 3,931 | 10,837 | 10,803 | 10,801 | 6,211 | 1,460 | 177 | 4,267 | 2,320 | 5,107 | 6,275 |
| Off-balance exposures | 89,273 | - | 23 | 737 | 725 | - | 1 | 93 | 0 | 262 | 0 | 193 | 8 |
| **Total exposures** | **373,886** | **571** | **3,962** | **11,587** | **11,541** | **10,814** | **6,225** | **1,554** | **177** | **4,533** | **2,324** | **5,301** | **6,283** |

Of CaixaBank's total exposures at the 2018 year end, EUR 11,587 million are doubtful, while EUR 11,541 million are exposures in default.

The restructured and refinanced loan portfolio, meanwhile, totalled EUR 10,187 million at 31 December 2018, including EUR 3,962 million considered to be performing and EUR 6,225 million of doubtful loans.

The following table splits the total of CaixaBank's exposures as at December 2018 between those that are guaranteed and those that are not. Of the total of all exposures at the 2018 year end, the exposures guaranteed with collateral represented 47% of the total, and 54% in the case of loans. As for the exposures in default, those guaranteed with collateral represent 70% of the total.

**Table 5.27. EU CR3 - CRM techniques – Overview**

*Amounts in millions of euros*

| | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 114,230 | 134,850 | 125,978 | 1,177 | - |
| Total debt securities | 35,325 | 208 | 203 | 5 | - |
| **Total exposures** | **149,555** | **135,057** | **126,181** | **1,182** | **-** |
| Of which defaulted | 3,246 | 7,569 | 1,435 | 40 | - |

## Variations in impairment losses and provisions

### 1. Variations in provisions

A breakdown of the movements in value corrections applied to the various line items of the CaixaBank Group's consolidated balance sheet and to its provisions and contingent liabilities in 2018 is shown below[13].

**Table 5.28. EU CR2-A - Changes in the stock of general and specific credit risk**

*Amounts in millions of euros*

| | Accumulated specific credit risk adjustment | Accumulated general credit risk adjustment |
|---|---|---|
| Opening balance | 7,909 | - |
| Increases by origination and acquisition | 914 | - |
| Decreases due to derecognition | (2,245) | - |
| Changes by credit risk variation (net) | (65) | - |
| Changes by modifications without derecognition (net) | 87 | - |
| Changes by updating the entity estimation method (net) | - | - |
| Decrease in the corrective account of value due written off failed | (543) | - |
| Other adjustments | 14 | - |
| **Closing balance** | **6,073** | **-** |
| Recoveries on failed amounts which have been written off in the income statement | 424 | - |
| Written off failed amounts in the income results | (455) | - |

[13] See Notes 12.3 “Impairment fund” and 21 "Provisions" to the 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 the CaixaBank Group in 2018[14].

### Table 5.29. Impairment losses and reversals of losses

*Amounts in millions of euros*

| | Total |
|---|---|
| **Provisions** | **(559)** |
| Loans and receivables | (512) |
| Shareholder´s equity instruments | - |
| Debt Securities | - |
| Tangible Assets - Own use | (23) |
| Intangible Assets | (24) |
| Other assets | - |
| **Net loan-loss provisions** | **(69)** |
| Loans and receivables | (68) |
| Debt Securities | 1 |
| Otros assets - Stocks | (7) |
| Tangible Assets - Investment properties | 4 |
| Tangible Assets - Own use | 1 |
| **Assets recoveries** | **455** |
| **Total Value** | **(173)** |

## Utilisation of the IRB approach

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

The Bank of Spain has authorised the use of the Internal Ratings-Based Approach (IRB) to calculate own fund 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 fund 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 the 2009 year end.

### 1. Implementation of internal estimates in the management process

The results obtained from these tools are used for the following courses of action[15]:

- Back-up for the decision-making process.
- System of authorisations for expected loss in the approval of risk for companies.

[14] Refer to 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" to the CaixaBank Group's 2017 financial statements.

[15] See the end of this section for more details on the integration of internal estimates in management.

- System of diagnostics by risk premium in the authorisation of retail lending.
- Optimisation of internal processes and monitoring function.
- Risk-Adjusted Return (RAR) system.
- Risk approval pricing system.
- Calculation of provisions and accounting classification using internal models under IFRS9 or Bank of Spain Circular 4/2017.

**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 real estate used as collateral, the nature of the property is checked to determine whether it is residential or commercial.

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

**1. Structure of the internal rating systems**

The Group has internal credit rating models which, by assigning solvency or internal ratings to customers, provide predictions of the probability of each borrower defaulting, covering practically all lending activity.

These internal models, used at both a product and customer level, have been developed on the basis of historical experience of defaults and incorporate the necessary measurements to adjust the results to the business cycle.

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. As for customer-oriented tools, they assess the debtor’s probability of default on a general basis, though the results for individuals may differ according to the product.

Customer-orientated tools consist of behaviour scores for individuals and credit ratings for companies. They are implemented across the entire branch network and integrated within the normal asset product approval tools.

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

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

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

  There are 26 internal probability of default (PD) estimation models in place, covering most of the Group's portfolios. In segments not yet covered, relevant information is captured in order to develop tools for making estimates in the future.

  The type of probability of default (PD) that the Group uses in its estimates is "through the cycle": i.e. the scores assigned by the rating models are associated with average PDs[16] for a complete business cycle. The estimate is performed by anchoring the PD curve to the long-term trend (central trend) estimated for each 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.

- **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 a customer is expected to owe to the credit institution at the time, in the event of hypothetically going into default at some point over the next 12 months.

  EAD is calculated as the current balance (amount included as assets on the Group's balance sheet) plus a percentage of the

16 Default is defined as a counterparty's inability to meet its payment obligations.

unused (available) credit line that has been granted, i.e. an equivalence factor known as Credit Conversion Factor (CCF), which represents a quantitative estimate of the percentage available to the customer that is expected to be drawn down on at the time default occurs.

The method used to estimate EAD is the variable-horizon approach (setting a one-year horizon for the calculation of realised CCFs). On the one hand, the models for available balance commitments have been developed according to the holder segment and product.

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

  CaixaBank has 38 internal loss given default (LGD) estimation models.

  LGD is the economic loss arising from a default. The Bank currently estimates average long-term LGD, as well as LGD in adverse cycle conditions (downturns) for all transactions that are 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 fund requirements through the IRB approach is shown below:

**Individuals and the self-employed**

- **Asset behaviour model:** Provides a monthly evaluation of all customers who have been with the Bank for at least 6 months (both private individuals and self-employed workers) and who hold a loan with either a personal guarantee or a mortgage.

  This is mainly used to monitor the risk outstanding on all operations that were arranged at least 6 months ago.

  The methodology of construction of the model is based on multivariant analysis (logistic regression), according to the customer's financial behaviour.

- **Non-asset-related behaviour model:** Provides a monthly evaluation of all customers (private customers and self-employed workers) who hold no asset-related contracts other than credit cards.

  This is mainly used to monitor the risk outstanding on cards that were issued at least 6 months ago, as well as overdrafts.

  The method used to build the model is logistic regression, primarily based on data regarding 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.

  The estimate model is based on multivariant analysis (logistic regression), using information concerning the transaction, socio-demographic information and information relating to 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.

  The method used by this model is different to that of the Mortgage Customer model, as it only uses information relating to the transaction, the collateral and socio-demographic information about the holder.

- **Self-employed Customer:** Used for evaluation in the approval of operations with a non-mortgage guarantee for customers to be used 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.

- **Customer Cards model:** Used for evaluation in the approval of credit cards for customers. The rating at the time of approval is maintained over the first six months of the transaction.

  A Gradient Boosting Machine (GBM) methodology was used to build the model. 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 credit 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 about the holder (socio-demographic, work-related, economic, etc.) and internal and external alerts.

**Companies**

- **Ratings of SMEs and Property Developer SMEs:** The aim of the SME and property developer SME rating model is to assign an internal rating to private companies classified as microenterprises, small enterprises, medium-sized enterprises or property developer SMEs in accordance with the internal risk segmentation system. The entire SME and property developer SME portfolio is evaluated monthly, as well as whenever a new transaction is approved for an SME or property 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 example: total assets, equity and 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 example: average balance of liabilities or average CIRBE utilisation.

  - Qualitative information: based on the company's characteristics and position within its sector. For example: the company manager's experience, real estate asset status, etc.

- **Corporate rating:** The aim of the Corporate rating model is to assign an internal rating to private companies and property developers classified as Large Companies, in accordance with CaixaBank's internal risk segmentation system. The corporate rating is calculated by a centralised unit, and the frequency of recalculation of the rating will depend on the receipt of new information added to the appraisal, with a maximum validity of 12 months.

  The corporate model is based on an expert opinion produced in accordance with the Standard & Poor's methodology, using a number of different rating tools (templates) depending on the sector to which the company belongs.

  The variables used for the corporate model take into account both qualitative and quantitative factors:

  - The qualitative variables represent business risk – the position of the company within the sector, for example.
  - Quantitative variables are usually financial ratios – total debt/EBITDA, for example.

## Exposure values and RWAs for IRB loan portfolios

The following tables show information on the CaixaBank Group's exposures at 31 December 2018 by IRB segment, for the various debtor levels.

**Table 5.30. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Corporates)**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 3,733 | 5,788 | 44.28% | 6,295 | 0.12% | 1 | 33.95% | 2.99 | 1,625 | 25.81% | 2 | (2) |
| 0,15 to <0,25 | 2,548 | 2,140 | 47.78% | 3,570 | 0.18% | 0 | 44.61% | 2.87 | 1,481 | 41.48% | 3 | (2) |
| 0,25 to <0,50 | 6,561 | 5,250 | 35.44% | 8,421 | 0.27% | 1 | 39.71% | 3.75 | 4,373 | 51.93% | 9 | (10) |
| 0,50 to <0,75 | 4,301 | 2,145 | 40.89% | 5,178 | 0.59% | 1 | 36.97% | 4.45 | 3,729 | 72.01% | 11 | (5) |
| 0,75 to <2,50 | 5,531 | 2,093 | 38.81% | 6,343 | 1.46% | 3 | 36.02% | 5.37 | 5,865 | 92.46% | 33 | (30) |
| 2,50 to <10,00 | 2,404 | 1,166 | 39.77% | 2,868 | 5.94% | 1 | 36.27% | 8.36 | 3,855 | 134.43% | 61 | (28) |
| 10,00 to <100,00 | 382 | 258 | 26.57% | 451 | 21.59% | 0 | 33.76% | 5.94 | 811 | 179.92% | 34 | (29) |
| **Perfoming Portfolio** | **25,459** | **18,840** | **40.70%** | **33,127** | **1.29%** | **7** | **37.63%** | **4.36** | **21,738** | **65.62%** | **154** | **(106)** |
| 100,00 (Default) | 1,234 | 325 | 30.37% | 1,332 | 100.00% | 1 | 51.77% | 6.21 | 147 | 11.06% | 690 | (800) |
| **Total** | **26,693** | **19,165** | **40.52%** | **34,459** | **5.11%** | **7** | **38.18%** | **4.43** | **21,886** | **63.51%** | **843** | **(907)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

**Table 5.31. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME)**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 1,788 | 686 | 54.29% | 2,160 | 0.13% | 8 | 32.25% | 5.05 | 409 | 18.94% | 1 | (7) |
| 0,15 to <0,25 | 538 | 156 | 50.00% | 616 | 0.15% | 3 | 31.67% | 6.64 | 124 | 20.08% | 0 | (1) |
| 0,25 to <0,50 | 2,401 | 998 | 47.41% | 2,874 | 0.30% | 9 | 31.33% | 6.36 | 848 | 29.51% | 3 | (8) |
| 0,50 to <0,75 | 1,577 | 575 | 51.07% | 1,870 | 0.60% | 6 | 33.09% | 5.53 | 801 | 42.84% | 4 | (6) |
| 0,75 to <2,50 | 3,396 | 1,135 | 41.60% | 3,868 | 1.56% | 17 | 29.40% | 8.16 | 2,170 | 56.09% | 18 | (28) |
| 2,50 to <10,00 | 1,516 | 732 | 37.05% | 1,787 | 4.77% | 6 | 28.17% | 13.80 | 1,316 | 73.64% | 24 | (32) |
| 10,00 to <100,00 | 382 | 118 | 29.61% | 417 | 25.85% | 1 | 31.56% | 11.40 | 519 | 124.28% | 33 | (17) |
| **Perfoming Portfolio** | **11,597** | **4,400** | **45.35%** | **13,593** | **2.04%** | **51** | **30.78%** | **7.70** | **6,186** | **45.51%** | **82** | **(99)** |
| 100,00 (Default) | 1,056 | 227 | 35.39% | 1,136 | 100.00% | 3 | 35.25% | 9.25 | 99 | 8.73% | 400 | (486) |
| **Total** | **12,653** | **4,626** | **44.86%** | **14,728** | **9.59%** | **54** | **31.12%** | **7.82** | **6,286** | **42.68%** | **483** | **(585)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

**Table 5.32. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail - Covered by Residential Mortgage)**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 57,654 | 17,830 | 2.03% | 58,015 | 0.06% | 1,005 | 16.62% | 17.80 | 1,611 | 2.78% | 6 | (199) |
| 0,15 to <0,25 | 6,064 | 1,243 | 1.98% | 6,089 | 0.19% | 91 | 19.40% | 19.45 | 474 | 7.79% | 2 | (24) |
| 0,25 to <0,50 | 11,349 | 2,723 | 1.54% | 11,391 | 0.38% | 175 | 19.00% | 18.75 | 1,446 | 12.70% | 8 | (54) |
| 0,50 to <0,75 | 2,023 | 344 | 1.96% | 2,030 | 0.72% | 30 | 20.46% | 18.79 | 440 | 21.68% | 3 | (11) |
| 0,75 to <2,50 | 4,690 | 697 | 1.98% | 4,704 | 1.40% | 73 | 20.40% | 18.46 | 1,563 | 33.24% | 13 | (32) |
| 2,50 to <10,00 | 3,580 | 531 | 1.92% | 3,590 | 4.72% | 62 | 18.83% | 17.71 | 2,200 | 61.28% | 32 | (58) |
| 10,00 to <100,00 | 1,979 | 224 | 2.11% | 1,984 | 25.39% | 29 | 19.38% | 17.57 | 2,229 | 112.34% | 98 | (104) |
| **Perfoming Portfolio** | **87,339** | **23,591** | **1.97%** | **87,803** | **0.96%** | **1,465** | **17.57%** | **18.09** | **9,964** | **11.35%** | **162** | **(482)** |
| 100,00 (Default) | 4,424 | 52 | 0.00% | 4,424 | 100.00% | 41 | 33.42% | 18.71 | 2,539 | 57.39% | 1,479 | (1,204) |
| **Total** | **91,764** | **23,643** | **1.96%** | **92,228** | **5.71%** | **1,506** | **18.33%** | **18.12** | **12,503** | **13.56%** | **1,641** | **(1,686)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

**Tabla 5.33. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME - Covered by Residential Mortgage)**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 2,110 | 671 | 2.72% | 2,128 | 0.07% | 36 | 13.27% | 12.77 | 39 | 1.85% | 0 | (7) |
| 0,15 to <0,25 | 454 | 111 | 4.72% | 459 | 0.18% | 6 | 16.31% | 12.25 | 22 | 4.75% | 0 | (1) |
| 0,25 to <0,50 | 1,137 | 353 | 14.55% | 1,188 | 0.37% | 13 | 17.46% | 12.94 | 104 | 8.78% | 1 | (5) |
| 0,50 to <0,75 | 274 | 80 | 24.04% | 294 | 0.66% | 2 | 18.41% | 13.29 | 41 | 13.93% | 0 | (2) |
| 0,75 to <2,50 | 1,933 | 386 | 9.49% | 1,969 | 1.47% | 18 | 18.49% | 12.27 | 477 | 24.24% | 5 | (10) |
| 2,50 to <10,00 | 2,174 | 525 | 7.97% | 2,216 | 4.49% | 25 | 18.78% | 13.23 | 1,106 | 49.90% | 19 | (25) |
| 10,00 to <100,00 | 409 | 55 | 2.75% | 411 | 28.77% | 5 | 17.79% | 13.20 | 328 | 79.87% | 21 | (14) |
| **Perfoming Portfolio** | **8,490** | **2,183** | **7.98%** | **8,665** | **2.94%** | **105** | **16.99%** | **12.81** | **2,117** | **24.44%** | **47** | **(65)** |
| 100,00 (Default) | 947 | 42 | 0.36% | 947 | 100.00% | 8 | 30.88% | 12.17 | 281 | 29.63% | 292 | (202) |
| **Total** | **9,437** | **2,225** | **7.84%** | **9,611** | **12.51%** | **113** | **18.36%** | **12.74** | **2,398** | **24.95%** | **339** | **(267)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

### Tabla 5.34. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Eligible Revolving Retail)

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 1,241 | 6,125 | 30.58% | 3,114 | 0.06% | 2,375 | 77.00% | 2.92 | 98 | 3.16% | 1 | (6) |
| 0,15 to <0,25 | 182 | 634 | 33.00% | 391 | 0.20% | 377 | 77.00% | 3.12 | 33 | 8.53% | 1 | (1) |
| 0,25 to <0,50 | 187 | 472 | 33.56% | 346 | 0.33% | 297 | 77.00% | 3.20 | 45 | 12.91% | 1 | (2) |
| 0,50 to <0,75 | 252 | 552 | 30.56% | 421 | 0.55% | 396 | 76.98% | 2.96 | 80 | 18.94% | 2 | (3) |
| 0,75 to <2,50 | 650 | 753 | 30.01% | 876 | 1.46% | 789 | 76.88% | 3.02 | 352 | 40.19% | 10 | (9) |
| 2,50 to <10,00 | 498 | 279 | 30.69% | 583 | 5.01% | 567 | 76.68% | 3.21 | 551 | 94.39% | 22 | (21) |
| 10,00 to <100,00 | 207 | 38 | 31.07% | 219 | 25.35% | 254 | 75.43% | 3.22 | 440 | 201.45% | 42 | (31) |
| **Perfoming Portfolio** | **3,217** | **8,853** | **30.87%** | **5,950** | **1.74%** | **5,056** | **76.89%** | **3.01** | **1,599** | **26.88%** | **79** | **(73)** |
| 100,00 (Default) | 71 | 0 | 0.00% | 71 | 100.00% | 48 | 68.31% | 1.93 | 0 | 0.23% | 48 | (44) |
| **Total** | **3,288** | **8,853** | **30.87%** | **6,020** | **2.90%** | **5,104** | **76.79%** | **3.00** | **1,599** | **26.56%** | **127** | **(117)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

### Tabla 5.35. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail SME)

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 897 | 407 | 63.22% | 1,155 | 0.07% | 40 | 56.08% | 3.19 | 97 | 8.42% | 0 | (5) |
| 0,15 to <0,25 | 437 | 240 | 61.71% | 585 | 0.17% | 26 | 55.18% | 2.68 | 97 | 16.51% | 1 | (3) |
| 0,25 to <0,50 | 1,143 | 541 | 58.14% | 1,457 | 0.35% | 86 | 53.97% | 2.96 | 369 | 25.30% | 3 | (9) |
| 0,50 to <0,75 | 423 | 158 | 54.80% | 510 | 0.61% | 14 | 54.59% | 2.40 | 181 | 35.57% | 2 | (3) |
| 0,75 to <2,50 | 1,958 | 829 | 57.48% | 2,435 | 1.48% | 135 | 51.15% | 2.32 | 1,155 | 47.46% | 18 | (25) |
| 2,50 to <10,00 | 896 | 461 | 45.66% | 1,107 | 4.52% | 133 | 49.10% | 2.44 | 643 | 58.11% | 25 | (28) |
| 10,00 to <100,00 | 150 | 23 | 47.02% | 161 | 30.58% | 14 | 54.16% | 2.80 | 168 | 104.58% | 26 | (20) |
| **Perfoming Portfolio** | **5,905** | **2,659** | **56.58%** | **7,409** | **1.96%** | **448** | **52.79%** | **2.64** | **2,711** | **36.58%** | **75** | **(94)** |
| 100,00 (Default) | 267 | 52 | 37.20% | 286 | 100.00% | 17 | 65.56% | 2.26 | 28 | 9.82% | 188 | (166) |
| **Total** | **6,172** | **2,711** | **56.21%** | **7,696** | **5.61%** | **465** | **53.26%** | **2.63** | **2,739** | **35.59%** | **263** | **(260)** |

*(*) Number of debtors in thousands.*

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

**Tabla 5.36. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Other Retail Exposures)**

*Amounts in millions of euros*

| PD scale | Original on-balance-sheet gross exposures | Off-balance-sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWA | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 2,183 | 65 | 63.30% | 2,224 | 0.06% | 162 | 62.47% | 5.63 | 257 | 11.56% | 1 | (10) |
| 0,15 to <0,25 | 614 | 8 | 73.42% | 619 | 0.19% | 75 | 68.01% | 4.58 | 173 | 27.94% | 1 | (4) |
| 0,25 to <0,50 | 1,140 | 14 | 74.05% | 1,150 | 0.36% | 146 | 67.29% | 4.29 | 486 | 42.29% | 3 | (11) |
| 0,50 to <0,75 | 288 | 276 | 30.87% | 373 | 0.65% | 132 | 63.57% | 3.24 | 210 | 56.40% | 2 | (4) |
| 0,75 to <2,50 | 904 | 1,463 | 34.41% | 1,408 | 1.63% | 1,283 | 61.30% | 2.64 | 1,086 | 77.14% | 14 | (25) |
| 2,50 to <10,00 | 434 | 118 | 45.76% | 488 | 5.24% | 199 | 65.94% | 3.37 | 508 | 104.09% | 17 | (30) |
| 10,00 to <100,00 | 228 | 5 | 62.97% | 231 | 28.84% | 56 | 68.22% | 3.44 | 386 | 166.75% | 45 | (45) |
| **Perfoming Portfolio** | **5,791** | **1,948** | **36.06%** | **6,493** | **1.92%** | **2,054** | **64.13%** | **4.26** | **3,106** | **47.83%** | **82** | **(130)** |
| 100,00 (Default) | 310 | 1 | 57.47% | 311 | 100.00% | 34 | 79.29% | 7.18 | 9 | 2.86% | 247 | (226) |
| **Total** | **6,101** | **1,949** | **36.07%** | **6,804** | **6.40%** | **2,088** | **64.82%** | **4.39** | **3,115** | **45.78%** | **329** | **(356)** |

*(*) 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. It is calculated taking the following items into consideration:

- **Probability of Default - Through the Cycle (PD):** Indicates the ratio of defaults to average total risk on non-distressed assets expected during one year of the economic cycle for a given credit rating.
- **Downturn Loss Given Default (DT LGD):** Indicates the proportion of debt expected to not be recovered 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. It can be broken down into following concepts:

- **Observed Default Frequency (ODF):** Proportion of non-distressed loans that default in a one-year time horizon
- **Realised Loss Given Default (LGD):** Calculated based on recovery flows and losses on contracts in default. This LGD indicates the proportion of debt recovered during the recovery process.
- **Realised exposure:** Risk assigned to a contract at the time of default.

Because effective loss is calculated using the values corresponding to each observation period, the values obtained for this item will depend directly on the economic situation during that period.

Based on the definitions set out above, the historical ODFs and comparisons applied to the main IRB portfolios are given:

- **ODF vs PD:** A comparison is made of the ODF risk tranche for 2018 with the PD calculated at 31 December 2017 and used to calculate the own fund requirements at the same date.
- **EAD vs realised exposure:** For contracts that entered into default in 2018, the estimated EAD at 31 December 2017 is compared to the actual realised exposure when the default was identified.
- **DT LGD vs realised LGD:** Compares downturn LGD at 31 December 2015 with realised LGD of defaults identified in a one-year period 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.
- **Observed effective loss vs. expected loss:** The estimated expected loss at 31 December is compared to the observed effective loss on the portfolio during the following year. The analysis covers the period 2014-2018.

The large companies portfolio is not included in the analysis of LGD, since the low number of defaults in this portfolio are not considered representative.

### 2. Historical ODFs

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

#### Table 5.37. ODF series

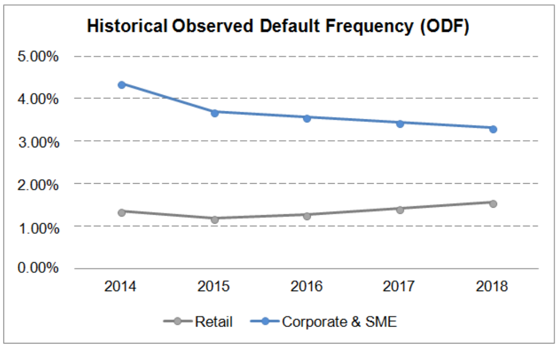
| | Historical ODF | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Retail | 1,35% | 1,18% | 1,27% | 1,41% | 1,56% |
| Companies | 4,37% | 3,70% | 3,57% | 3,44% | 3,33% |

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 in recent years.

- As for the ODF for individuals, although it increased slightly compared to 2017, it remains stable at the levels seen in recent years.

**Chart 1. ODF performance**




### 3. Comparison of ODFs and PD

The regulatory estimate of own fund 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 the prudential requirement regulations, and to maintain stability in the estimates, a portfolio's Through-the-Cycle PD (hereinafter "PD" for simplicity) 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 during weak points in the economic cycle should be naturally higher than the respective estimated PDs, whilst in boom times ODFs should be lower than PDs.

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 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 default frequency (ODF), due to a wider range of reasons for refinancing being considered as doubtful and a larger drag effect. Nevertheless, the entry into force of Circular 4/2017 did not have any additional impact on default rates.

Depending on the score for contracts as compared to that of individuals, or on the ratings of legal entities, 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 Group'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:

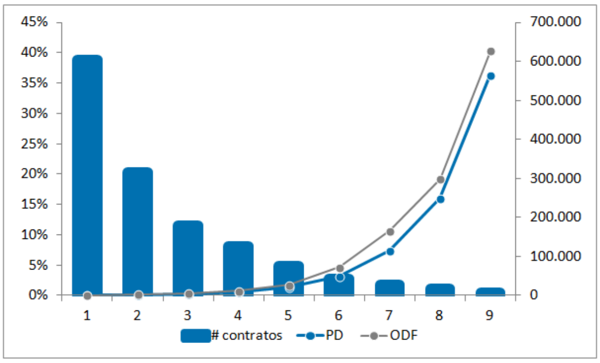
- 2018 ODFs. Figures for default between January and December 2018 are used.

- The PDs for 2018 estimated at year-end 2017.

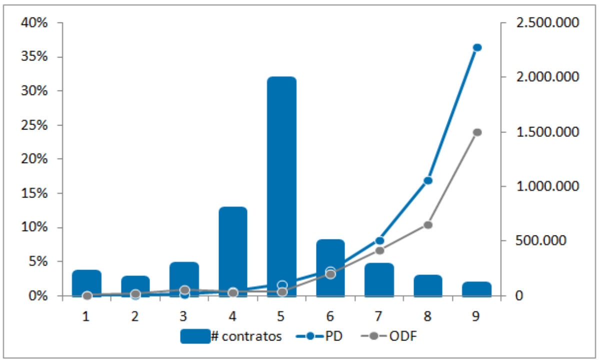
A distribution is shown of the number of retail contracts along with the number of legal entity customers at the 2017 year end, to facilitate understanding of the data.

**<u>Retailer</u>**

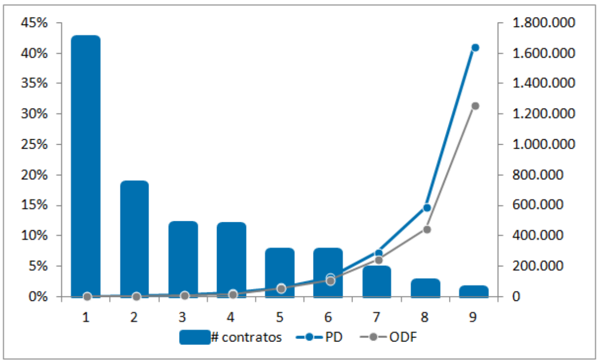
**Chart 2. Mortgages**



### Chart 3. Consumer spending




### Chart 4. Cards



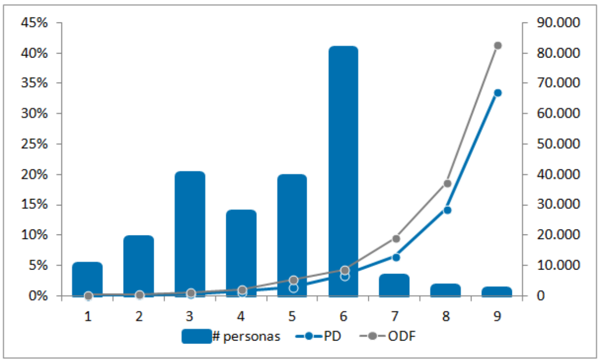

The Individuals portfolio confirms that the ODF series is a rising monotone function of the master scale. In other words, as indicated previously, it reflects the fact that the internal retail models discriminate customers correctly by level of risk.

The PD for the mortgage portfolio is in line with the default frequency observed in 2018 for the lower tranches of the master scale, which is where the majority of this portfolio's exposure is focused. In other products, in contrast, the PD lies above the ODF in most cases, particularly in the case of the consumer credit portfolio, reflecting the current economic environment.

As for the trend in PDs and ODFs over the past three years, a decreasing trend can be seen, in line with the consolidation of the expansive period. This trend is not observed for the consumer credit portfolio. This is due to the growth strategy in this sector, which entails assuming higher default frequencies, a situation which is adequately reflected in the risk parameters since the PDs are set above the observed default frequencies.

## SME

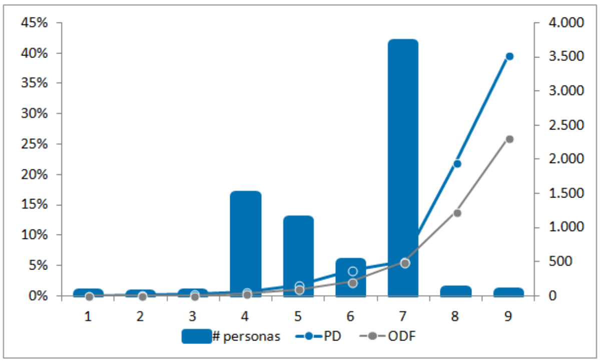
### Chart 5. Non-property developer SMEs




In the non-property developer SME portfolio, the ODF is a monotonous rising function with respect to the master scale. Thus, the internal models are correctly classifying customers by risk level.

This portfolio has a PD that lies slightly below the ODF, demonstrating that in the case of this portfolio we are still at a point in the cycle above the central trend, as is explained in greater detail further below. With regards to previous years, a slight recovery in the default rate can be seen in the last two financial years.

### Chart 6. Developer SMEs



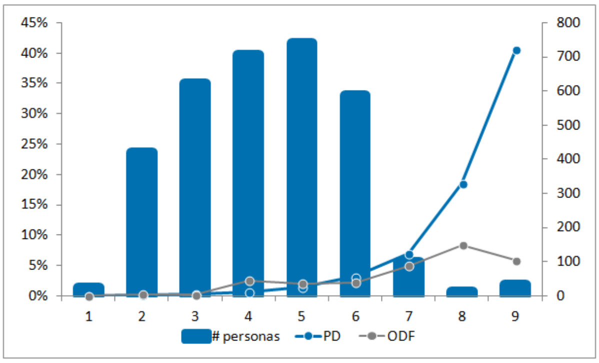

Just as is the case for the non-property developer portfolio, the ODF series for developer SMEs is a monotonous rising function with respect to the master scale. As such, the internal models are considered to discriminate customers reasonably by risk level.

In this case, on average the portfolio has a PD that is more conservative than the observed default frequencies observed in 2018, and very much in line with the ODF in the tranches with a greater number of observations, thus confirming that the model is performing well in the current economic situation.

For property developer SMEs, there has been a reduction in the observed default frequencies in recent years.

**Businesses**

### Chart 7. Large company




The small numbers of customers in the large companies portfolio means that the ODF on the master scale is not statistically representative. However, the ODF series is generally a rising monotonous functions with respect to the master scale, except the last tranche, where the volume of observations is unrepresentative.

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

As for the trend in ODFs over the past three years, a decreasing trend can be seen, in line with the consolidation of the expansive period.

### Average PD and ODF for IRB loan portfolios

The following tables show information on the average PD of the Group's exposure at 31 December 2018, 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 5.38. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporates non-SME portfolio

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.12% | 0.14% | 814 | 735 | 3 | 0 | 0.33% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.18% | 0.18% | 192 | 193 | 0 | 0 | 1.30% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.27% | 0.29% | 1,072 | 1,418 | 10 | 1 | 1.04% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.59% | 0.59% | 890 | 896 | 22 | 1 | 1.80% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.46% | 1.51% | 2,037 | 2,636 | 52 | 4 | 2.79% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 5.94% | 5.16% | 1,019 | 701 | 31 | 0 | 4.74% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 21.59% | 23.56% | 146 | 156 | 23 | 0 | 14.16% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 652 | 547 | - | - | - |

## Table 5.39. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporate SME portfolio

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.13% | 0.11% | 11,562 | 8,032 | 24 | 0 | 0.22% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.15% | 0.15% | 877 | 3,267 | 0 | 0 | 0.38% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.30% | 0.30% | 6,824 | 9,466 | 25 | 5 | 0.55% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.60% | 0.60% | 6,070 | 5,902 | 30 | 7 | 0.85% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.56% | 1.63% | 11,106 | 16,528 | 182 | 9 | 2.43% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 4.77% | 4.59% | 9,388 | 6,262 | 305 | 7 | 7.52% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 25.85% | 30.05% | 1,467 | 1,290 | 276 | 1 | 23.50% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 3,734 | 3,236 | - | - | - |

### Table 5.40. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – residential mortgage

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.06% | 0.06% | 1,004,340 | 1,004,861 | 840 | 5 | 0.13% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.19% | 0.19% | 93,513 | 90,565 | 282 | 0 | 0.46% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.38% | 0.38% | 183,251 | 175,366 | 879 | 5 | 0.73% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.72% | 0.72% | 31,494 | 29,819 | 295 | 3 | 0.88% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.40% | 1.43% | 76,663 | 73,057 | 1,337 | 17 | 2.05% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 4.72% | 4.65% | 66,666 | 61,657 | 4,121 | 23 | 6.38% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 25.39% | 25.18% | 31,560 | 29,454 | 11,517 | 42 | 25.59% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 44,556 | 41,386 | - | - | - |

### Table 5.41. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME mortgage

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.07% | 0.06% | 38,795 | 36,061 | 69 | 0 | 0.24% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.18% | 0.18% | 6,005 | 5,596 | 23 | 0 | 0.36% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.37% | 0.37% | 13,398 | 13,215 | 103 | 0 | 0.65% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.66% | 0.68% | 6,162 | 2,472 | 37 | 0 | 1.12% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.47% | 1.49% | 14,728 | 18,027 | 241 | 3 | 1.55% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 4.49% | 4.39% | 26,375 | 24,580 | 1,167 | 0 | 5.98% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 28.77% | 27.81% | 5,842 | 4,982 | 2,004 | 5 | 24.46% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 10,070 | 8,146 | - | - | - |

## Table 5.42. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - (Eligible Revolving Retail)

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.06% | 0.07% | 2,227,880 | 2,374,978 | 451 | 31 | 0.02% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.20% | 0.19% | 330,597 | 377,003 | 235 | 13 | 0.06% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.33% | 0.32% | 229,469 | 297,177 | 389 | 12 | 0.17% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.55% | 0.56% | 392,308 | 396,434 | 1,071 | 75 | 0.13% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.46% | 1.53% | 681,909 | 789,316 | 5,585 | 465 | 0.51% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 5.01% | 5.30% | 482,023 | 567,154 | 15,351 | 2,157 | 1.81% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 25.35% | 23.03% | 217,814 | 254,081 | 25,617 | 4,549 | 9.15% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 36,061 | 48,038 | - | - | - |

## Tabla 5.43. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other SME)

*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.07% | 0.07% | 61,106 | 39,642 | 163 | 16 | 0.18% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.17% | 0.18% | 32,228 | 25,664 | 128 | 12 | 0.41% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.35% | 0.37% | 64,626 | 86,161 | 485 | 57 | 0.76% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.61% | 0.64% | 43,994 | 14,113 | 513 | 53 | 0.96% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.48% | 1.42% | 85,745 | 135,400 | 2,658 | 150 | 2.65% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 4.52% | 4.12% | 130,972 | 133,055 | 5,643 | 184 | 6.58% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 30.58% | 30.29% | 14,875 | 14,092 | 4,402 | 20 | 24.97% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 15,347 | 17,141 | - | - | - |

## Tabla 5.44. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other Retail)

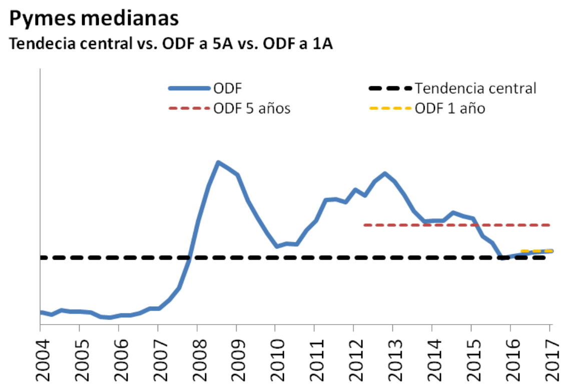
*Number of debtors in units*

| PD Range | External rating equivalent | | | Weighted average PD | Arithmetic average PD by obligors | Number of debtors | | 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 | | | |
| 0,00 to <0,15 | AAA / AA+ / AA / AA- | AAA / AA+ / AA / AA- | Aaa / Aa1 / Aa2 / Aa | 0.06% | 0.07% | 151,618 | 162,263 | 354 | 50 | 0.18% |
| 0,15 to <0,25 | BBB | BBB | Baa2 | 0.19% | 0.19% | 69,220 | 75,384 | 294 | 5 | 0.57% |
| 0,25 to <0,50 | BBB- / BB+ | BBB- / BB+ | Baa3 / Ba1 | 0.36% | 0.37% | 150,617 | 146,082 | 1,714 | 123 | 1.09% |
| 0,50 to <0,75 | BB | BB | Ba2 | 0.65% | 0.58% | 145,009 | 131,605 | 1,051 | 88 | 0.97% |
| 0,75 to <2,50 | BB- / B+ | BB- / B+ | Ba3 / B1 | 1.63% | 1.74% | 1,445,005 | 1,282,935 | 6,646 | 400 | 1.46% |
| 2,50 to <10,00 | B / B- | B / B- | B2 / B3 | 5.24% | 4.84% | 224,978 | 199,174 | 10,855 | 509 | 3.92% |
| 10,00 to <100,00 | CCC+ / CCC / CCC- | CCC+ / CCC / CCC- | Caa1 / Caa2 / Caa3 | 28.84% | 25.23% | 57,428 | 56,405 | 16,533 | 132 | 17.63% |
| 100,00 (Default) | D | D | D | 100.00% | 100.00% | 33,470 | 34,303 | - | - | - |

The chart shows that 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 2018. This difference is due, on the one hand, to PD being a through-the-cycle metric that seeks to assess the average probability of default over the cycle, whilst on the other hand, ODF reflects the default rate at the present time. In this case, the average of the last five years, which includes years still marked by 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 2017. The frequency of default in 2017 was slightly above the central trend, whilst the average frequency of default for the last five years is much higher, as it includes the peaks in default in 2013.

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




## 4. Comparison of EAD and realised exposure

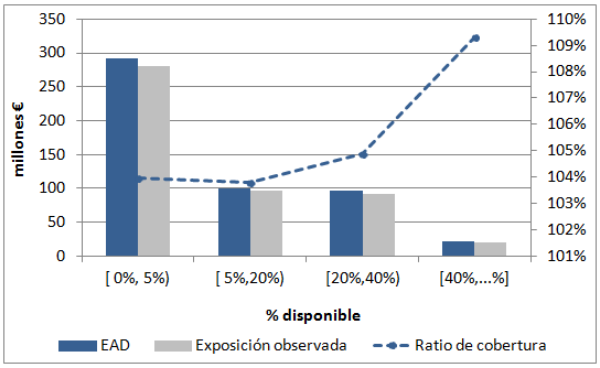
EAD (exposure at default) is defined as the estimated amount that will be drawn by the customer at the time of default. This value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

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 2017 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.

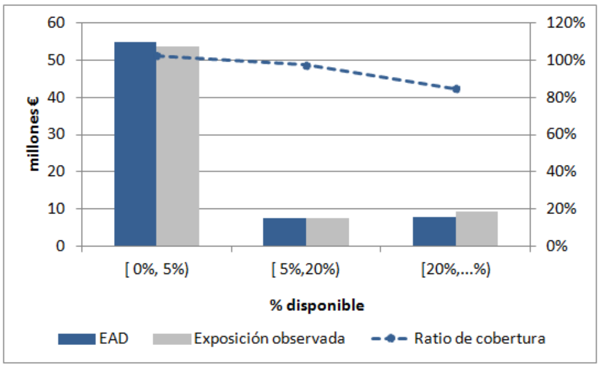
**Retailer**

### Chart 9. Open credit



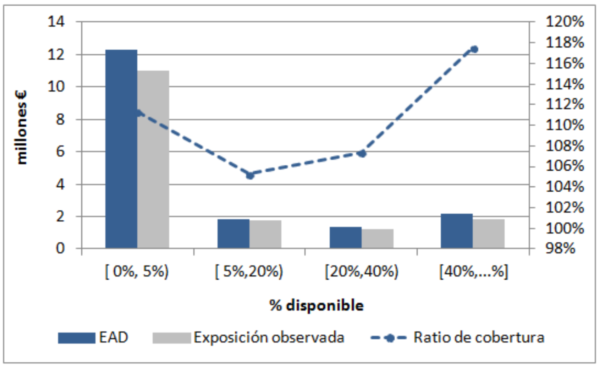

Open credit is one of the main products with available balances in CaixaBank, especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 104%, indicating that the CCF of this product provides an accurate prediction of the 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 100%.

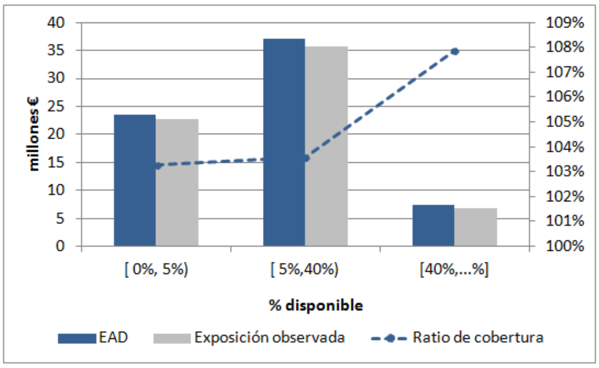
## Chart 11. Credit accounts




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 111%.

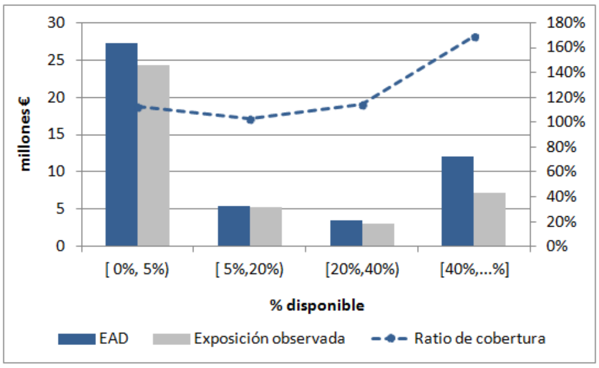
### SME

## 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 104%.

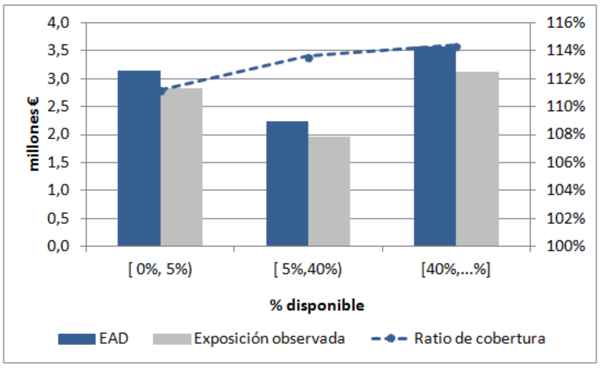
## Chart 13. Credit accounts




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 Group.

The coverage ratio of this portfolio is 122%. Therefore, a relatively conservative CCF has been estimated, for instance in the case of retail customers for this product, resulting in an EAD that comfortably covers the observed exposure at the time of default.

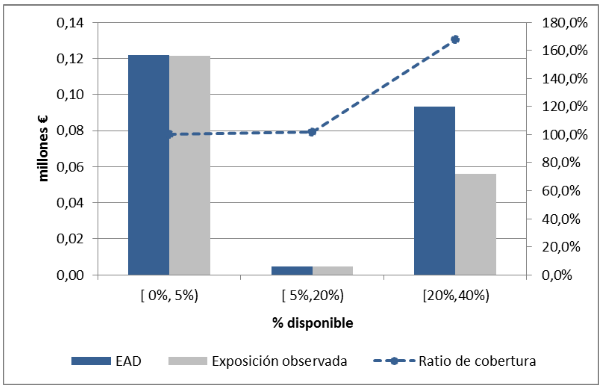
## Chart 14. Cards




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 113%.

### Businesses

## Chart 15. Open-End Credit




In all undrawn tranches, total estimated EAD for open credit to companies is far 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 account portfolios for large companies also have very high coverage ratios and are unrepresentative.

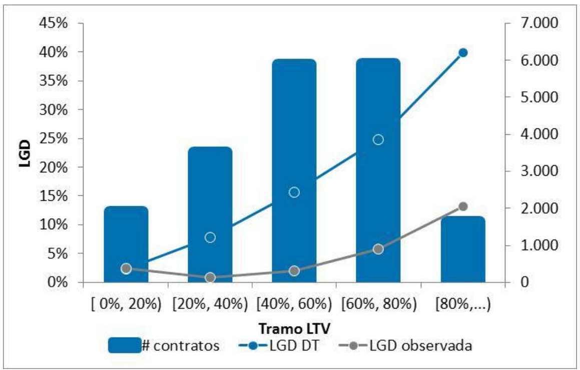
## 5. Comparison of DT LGD and realised LGD

LGD (loss given default) measures the proportion of EAD that it has not been possible 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 for the ODF of exposure to obtain the realised LGD. Moreover, for the same portfolio in default, the average realised LGD can vary from one year to another due to the inclusion of new completed defaults.

To provide an observation period longer than one year, in the following analyses, defaults of non-distressed loans at 31 December 2015 that went into default in 2016 and for which the recovery process was completed by 31 December 2018 were selected.

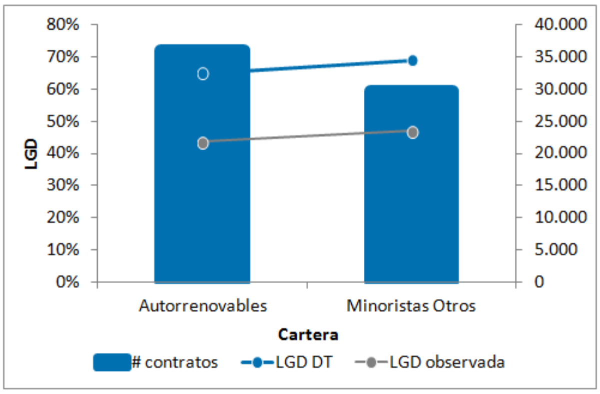
**Retailer**

### Chart 16. Mortgage guarantee




Generally speaking, realised LGD for individuals with mortgage collateral (3.8%) is much lower than estimated DT LGD (18.47%): this is to be expected, since the observation period corresponds to a time of economic recovery (2016 – 2018).

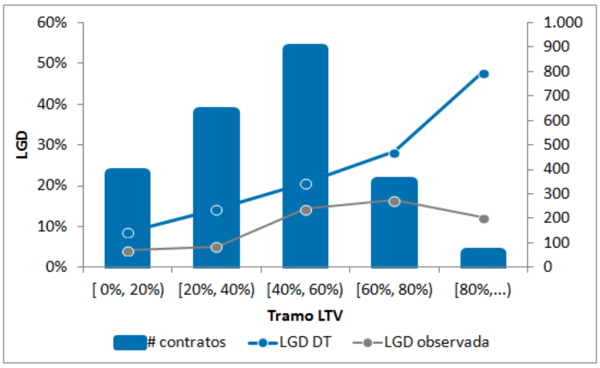
### Chart 17. Personal guarantees




In the retail portfolio without guarantees, realised LGD (45.10%) is much lower than estimated LGD (66.7%). CaixaBank's estimate therefore includes a substantial prudential margin.

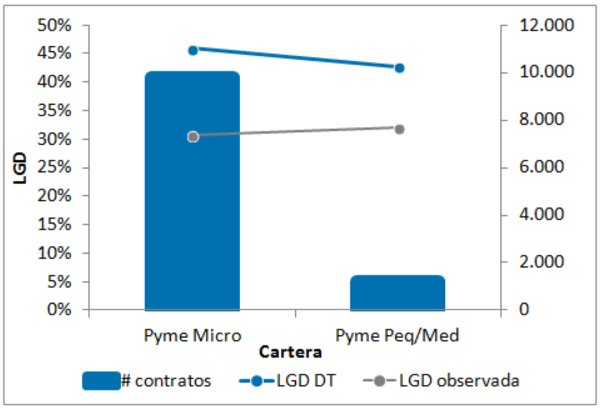
**SME**

### Chart 17. Mortgage guarantee




In the SME portfolio with mortgage guarantee, realised LGD (10.37%) is also below estimated LGD (18.74%).

### Chart 18. Personal guarantees




Realised LGD (30.86%) for the SME without guarantees portfolio is below estimated LGD (45.52%), 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 internal recovery policies.

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 into default, whereby the exposure value is taken as 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 2018 is used as the best estimate of effective loss. This means that, for the most recent year (2018), where the majority of the uncompleted cycles are concentrated, effective loss for such contracts cannot be estimated with adequate certainty. Previous years are not exempt from this problem, although it affects them to a lesser extent. For this reason, the effective loss for 2018 has been excluded from the comparison.
- 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.

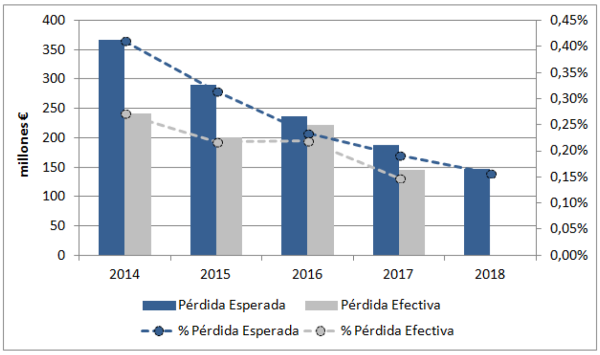
Finally, CaixaBank carries out an adjustment process in which it calibrates the most relevant parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters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

- First, having a sample with adjusted data, and a larger volume of data, improves the precision of the estimated parameters;
- Second, through the continuous process of analysing and studying the information contained in the systems, which makes it possible to identify new patterns and explicative variables and/or to renew the existing patterns and variables, thus improving the predictability of expected loss.

Changes in expected loss and effective loss in recent years in different advanced IRB portfolios are shown below:

**<u>Retailer</u>**

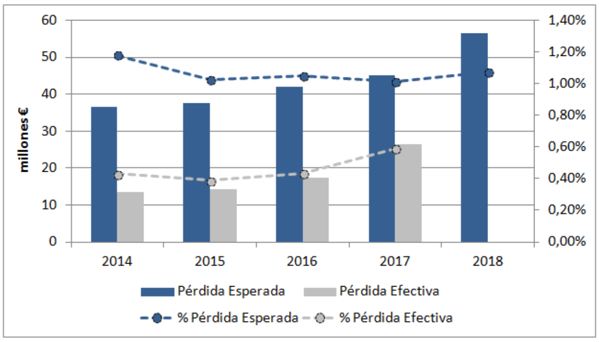
### Chart 20. Expected and effective loss in the retail mortgage portfolio




Whilst the effective loss on the retail portfolio with mortgage guarantee fluctuates slightly, in general expected loss and effective loss behave similarly, becoming more aligned in 2016 (a year in which there was a greater exposure for this portfolio).

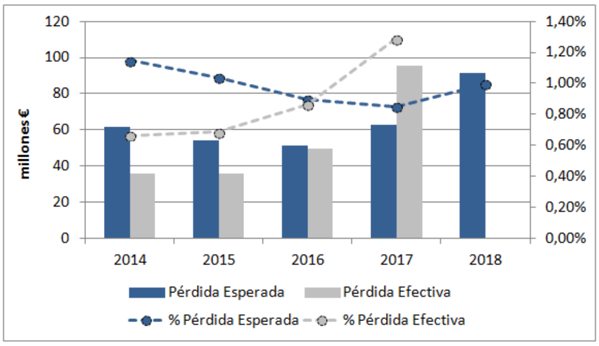
Moreover, the relative indicators show that the reduction in loss totals are mainly due to improved credit quality, and therefore not to a reduction in the portfolio's exposure.

### Chart 21. Expected and effective loss in the cards portfolio




Expected loss has been relatively stable over the observation period at around 1.06%, well above effective loss (around 0.59%). In prior years it was noted that up until 2014, which coincided with a period of severe economic recession, both expected loss and effective loss grew as a percentage of exposure, indicating an increase in the estimated/observed risk. On the other hand, from 2014 onwards the values have stabilised, whilst the volume of the portfolio in EAD has gradually increased due to growth strategy in this sector. Similarly, this has entailed assuming higher default frequencies, a situation that is fully reflected in the estimated expected loss.

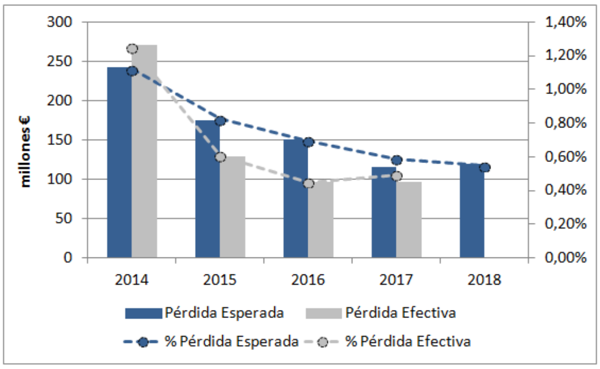
### Chart 22. Expected and effective loss in the other retail portfolio




At the start of the historical series, effective losses from consumer operations stood below the expected loss, after which they become increasingly aligned. That said, in 2017 the observed loss is higher than the expected loss. This is primarily due to the costs associated with the efforts made in 2018 to reduce NPLs, as well as due to the fact that a significant number of contracts have not completed their default cycles in recent years and are therefore assigned their expected loss at 31 December 2018.

## SMEs

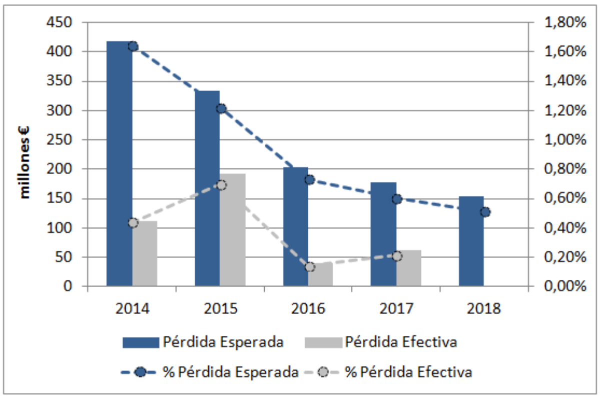
### Chart 23. Expected and effective loss in the SME portfolio




In the first year of the series, which coincided with the final years of the economic recession, effective loss exceeds expected loss. However, management of the portfolio has increased its quality, reducing estimated and effective risk in the portfolio in recent years (while maintaining exposure levels), thus reversing the trend.

## Businesses

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




In the large companies portfolio, expected loss was higher than effective loss over the period observed. Notably, and despite expected loss falling in percentage terms, over the last two years the portfolio's exposure has increased significant, 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 CaixaBank'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 Bank, 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. It offers an estimate of the price of the transaction as the sum of:

  - The expected loss.
  - The cost of capital.
  - An estimate of internal operating costs.
  - Liquidity premium.

- System of diagnostics by risk premium 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).

  Establishing a transaction acceptance/denial boundary point, with a penalisation in the approval authorisations when they involve an especially high risk level.

- Risk-Adjusted Return (RAR) system

  Calculation of the return on capital consumption, after deducting expected loss, operating costs and the cost of the funds:

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

  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 Bank's profit, 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 risk and return relative to the Bank's customer portfolio.

- Calculation of provisions using internal models under IFRS9 or Bank of Spain Circular 4/2017:

  This Circular establishes that - with the exception of the doubtful portfolio corresponding to assets classified as Single Names - expected loss shall be calculated using internal models sharing a significant basis with IRB models: such internal models differ from IRB models in the nature of their estimates, which are forward-looking rather than through-the-cycle, since they have to reflect the economic conditions of the present and those expected in the future.

  In addition, internal models are also used in classifying risk in terms of their accounting stage.

## 5.2. Counterparty risk and CVA

Counterparty risk, including CVA risk and Default Fund risk, quantifies the losses derived from the counterparty's potential default before the cash flows are definitively settled. It is calculated for operations involving derivative instruments, repurchase transactions, securities lending and borrowing transations and long settlement transations.

The CaixaBank Group manages counterparty risk in a prudent manner by assigning internal limits and using risk-mitigation policies and techniques in order to reduce exposure to counterparty risk. An integrated system is used which provides real-time data on the available exposure threshold of any counterparty, product and timeline.

Through this counterparty risk management approach, the assumption of this risk is aligned with the Group's business objectives, based on the principles set out in the RAF.

10% of the total counterparty risk is assessed under the IRB approach. 99% of the counterparty risk EAD subject to the IRB approach corresponds to companies. 54% of the counterparty risk EAD subject to the standardised approach corresponds to institutions, while 42% corresponds to companies.

### Annual Change

The EAD of counterparty risk increased by EUR 955 million compared to the prior year, mostly due to various government debt security loans being entered into with banking counterparties. The RWAs of counterparty risk increased by EUR 225 million in the year.

The EAD for CVA (Credit Valuation Adjustment) risk remains in line with that of the prior year end, while the corresponding RWAs increased by EUR 197 million.

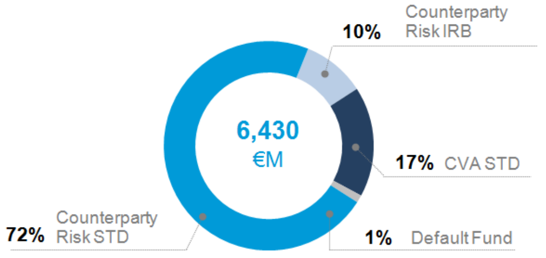
**€2,939 M**
**Counterparty risk RWA, Default Fund and CVA**

**€6,430 M**
**Counterparty risk EAD, Default Fund and CVA**

**10%**
**Counterparty risk EAD under internal models**

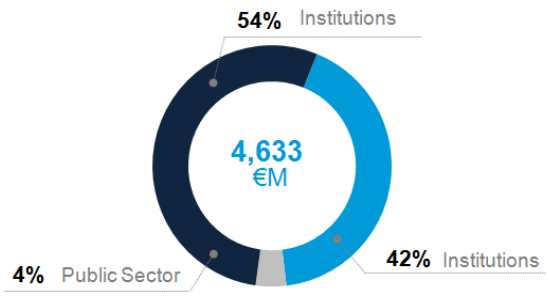
### EAD FOR COUNTERPARTY, DEFAULT FUND AND CVA RISK

Distribution by approach, %




### COUNTERPARTY RISK EAD (STANDARDISED APPROACH)

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, repurchase transactions, securities lending and borrowing transations and long settlement transations.

The main goal of counterparty risk management in the Group is to align the assumption of this risk with the business objectives set out in the Risk Appetite Framework (RAF), establishing a risk profile that simultaneously helps profitability and value creation budgets to be achieved, while also guaranteeing the Bank's solvency in the medium and long term.

The Group controls and monitors counterparty risk for two purposes. On the one hand, it does so to ensure that the risk generated by operations of this nature are correctly treated in the Bank's general control and monitoring system for credit risk. On the other hand, it is to control the specific aspects that affect counterparty risk in order to optimise it and elaborate specific monitoring reports, both for management and governing bodies and for the supervisor.

The approval of new transactions involving counterparty risk in CaixaBank is subject to an internal framework that has been approved by the Global Risk Committee and that enables rapid decision making about assuming such risk, for both financial and other counterparties. Accordingly, in its business with financial institutions, the Group has a credit approval system in place that has been approved by the Global Risk Committee and in which the maximum authorised exposure to credit risk with an institutions (including counterparty risk) is determined by a complex calculation, mainly based on the institution's ratings and an 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 depending on whether the assigned risk limit is met, or depending on individual analysis. Approval of transactions corresponds to the risk areas responsible for loan analysis and approval.

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 managing risk with central counterparties (CCPs). This framework has been approved by the Global Risk Committee and specifies how the limits for such entities are determined, as well as how exposure is calculated to determine the available balance on this limit.

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

#### 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 **Country, Banks and Institutions Risk Department**, which falls under the Chief Lending Officer for Companies, is responsible for risks undertaken by CaixaBank with financial entities, regardless of the type of operation and the business activity 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 and exceptions to the internal framework;
  - Monitoring legal risk;
  - Preparing risk information for internal bodies.

- Other centres reporting to the Chief Lending Officers for Companies and for Retail, which 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 business activity that generates them. This, therefore, also includes operations that generate counterparty risk.

- The **Structural Risks and Regulated Models Department**, which forms part of the *Corporate Risk Management Function & Planning* Division. Its main functions, relating to counterparty risk, are:

- Defining and implementing calculation methodologies for estimating the equivalent credit exposure;
- Daily valuation of OTC derivative collateral agreements, repos and securities lending;
- Calculating the minimum capital requirements for counterparty risk and preparing regular reports for the supervisor.
- Preparing regular information on counterparty risk for internal bodies.

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

  - Generating margin calls for counterparties.
  - Reconciling encumbered positions and managing discrepancies.
  - Monitoring settlements and the accounting entries associated with the management of such contracts.

- **Legal Advisory** is the division responsible for preparing framework agreements between CaixaBank and counterparties.

## Measurement and information systems for the 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 future value (possible changes in their 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 transactions.

Counterparty risk exposure for repos and securities lending is calculated in CaixaBank as the difference between the market value of the securities/cash granted to the counterparty and the market value of the securities/cash 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 (see the section "Hedging policies and mitigation techniques for counterparty risk"). In general, the methodology for calculating counterparty risk exposure described above is applied during the acceptance of new operations and in recurrent calculations on subsequent days.

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

## Hedging policies and mitigation techniques for counterparty risk

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

- **ISDA / CMOF contracts.** Standardised contracts for global derivative transactions 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 Annex 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 (repurchase transactions and securities lending and borrowing transations).** 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 the 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 derivative 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 BPI), CSA contracts/CMOF Annex III and break-up clauses, as well as 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 wrong way risk

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

### Effectiveness of collateral

As mentioned previously, the Group applies collateral agreements, mainly with financial institutions, in order to guarantee transactions that are subject to counterparty risk. 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 surcharges related to its rating. Bearing in mind that most contracts with financial institutions have a zero threshold,[17] 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 surcharges which, in the event of a rating downgrade of two notches, would require an increase in collateral of USD 9.8 million.

## 5.2.2. Minimum capital requirements for counterparty risk, default fund and CVA

This section provides details on exposures and RWAs for 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).

The EAD of counterparty risk increased by EUR 955 million compared to the prior year, mostly due to various government debt security loans being entered into with banking counterparties. The RWAs of counterparty risk increased by EUR 225 million in the year.

The EAD for CVA (Credit Valuation Adjustment) risk remains in line with that of the prior year end, while the corresponding RWAs increased by EUR 197 million.

**Table 5.45. Counterparty Credit Risk RWA, Default Fund and CVA**

*Amounts in millions of euros*

| Method | RWA |
|---|---|
| Standarised Approach | 2,551 |
| of w ich Counterparty | 1,682 |
| of w ich Credit Value Adjustement (CVA) | 866 |
| of w ichDefault Fund | 3 |
| IRB Approach | 388 |
| **Total** | **2,939** |

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

## Table 5.46. EU CCR1 - Analysis of CCR exposure by approach

*Amounts in millions of euros*

| | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|
| Mark to market | | 5,969 | 3,001 | | | 3,922 | 1,781 |
| Original exposure | - | | | | | - | - |
| Standardised approach | | - | | | - | - | - |
| IMM (for derivatives and SFTs) | | | | - | - | - | - |
| Of which securities financing transactions | | | | - | - | - | - |
| Of which derivatives and long settlement transactions | | | | - | - | - | - |
| Of which from contractual cross-product netting | | | | | | - | - |
| Financial collateral simple method (for SFTs) | | | | | | - | - |
| Financial collateral comprehensive method (for SFTs) | | | | | | 1,338 | 289 |
| VaR for SFTs | | | | | | | - |
| **Total** | **-** | **5,969** | **3,001** | | **-** | **5,260** | **2,070** |

The CaixaBank Group calculates EAD for counterparty risk using the mark-to-market method, rather than the internal model method. Therefore, table EU CCR7, which relates to counterparty risk internal models, is not shown.

### 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 5.47. Exposures to counterparty risk and effects of mitigation techniques**

*Amounts in millions of euros*

| | Original exposure | EAD | RWA | RWA density | Capital (8%) |
|---|---|---|---|---|---|
| Central governments or central banks | 6 | 6 | - | 0.00% | - |
| Regional governments or local authorities | 35 | 35 | 0 | 0.11% | 0 |
| Public sector entities | 151 | 151 | 76 | 50.00% | 6 |
| Multilateral development banks | - | - | - | - | - |
| International organisations | - | - | - | - | - |
| Institutions | 2,507 | 2,494 | 531 | 21.31% | 43 |
| Corporates | 4,106 | 1,943 | 1,071 | 55.12% | 86 |
| Retail | 1 | 1 | 0 | 62.74% | 0 |
| Secured by mortgages on immovable property | - | - | - | - | - |
| Exposures in default | 8 | 4 | 4 | 100.00% | 0 |
| Items associated with particularly high risks | - | - | - | - | - |
| Covered bonds | - | - | - | - | - |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - |
| Collective investments undertakings | - | - | - | - | - |
| Equity exposures | - | - | - | - | - |
| Other exposures | - | - | - | - | - |
| **Total standardised approach** | **6,814** | **4,633** | **1,682** | **36.30%** | **135** |

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

*Amounts in millions of euros* **2017**

| | Original exposure | EAD | RWA | RWA density | Capital (8%) |
|---|---|---|---|---|---|
| Central governments or central banks | 18 | 18 | - | 0.00% | - |
| Regional governments or local authorities | 39 | 39 | 0 | 0.14% | - |
| Public sector entities | 156 | 156 | 156 | 100.00% | 12 |
| Multilateral development banks | - | - | - | - | - |
| International organisations | - | - | - | - | - |
| Institutions | 1,686 | 1,675 | 360 | 21.50% | 29 |
| Corporates | 1,821 | 1,805 | 1,006 | 55.76% | 81 |
| Retail | 1 | 1 | 1 | 63.47% | - |
| Secured by mortgages on immovable property | - | - | - | - | - |
| Exposures in default | 10 | 2 | 2 | 100.00% | - |
| Items associated with particularly high risks | - | - | - | - | - |
| Covered bonds | - | - | - | - | - |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - |
| Collective investments undertakings | - | - | - | - | - |
| Equity exposures | - | - | - | - | - |
| Other exposures | - | - | - | - | - |
| **Total standardised approach** | **3,732** | **3,696** | **1,525** | **41.27%** | **122** |

*Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

### Tabla 5.48. EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (EAD)

*Amounts in millions of euros*

| Exposure classes | EAD | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | | |
| Central governments or central banks | 6 | - | - | - | - | - | - | - | - | - | - | 6 | 6 |
| Regional government or local authorities | 35 | - | - | - | 0 | - | - | - | - | - | - | 35 | 35 |
| Public sector entities | - | - | - | - | - | 151 | - | - | - | - | - | 151 | 151 |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | 97 | 93 | - | 2,122 | 162 | - | - | 21 | - | - | 2,494 | 1,126 |
| Corporates | 295 | - | - | - | 720 | - | - | - | 927 | - | - | 1,943 | 1,932 |
| Retail | - | - | - | - | - | - | - | 1 | - | - | - | 1 | 1 |
| Institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other items | - | - | - | - | - | - | - | - | 4 | - | - | 4 | 4 |
| **Total** | **336** | **97** | **93** | **-** | **2,842** | **313** | **-** | **1** | **952** | **-** | **-** | **4,633** | **3,254** |

*Credit risk exposures included. Counterparty, securisitation and equity exposures not included.*

### Table 5.49. EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (RWA)

*Amounts in millions of euros*

| Exposure classes | RWA | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | | |
| Central governments or central banks | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Regional government or local authorities | - | - | - | - | 0 | - | - | - | - | - | - | 0 | - |
| Public sector entities | - | - | - | - | - | 76 | - | - | - | - | - | 76 | 76 |
| Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | 2 | 4 | - | 424 | 81 | - | - | 21 | - | - | 531 | 242 |
| Corporates | - | - | - | - | 144 | - | - | - | 927 | - | - | 1,071 | 1,060 |
| Retail | - | - | - | - | - | - | - | 0 | - | - | - | 0 | 0 |
| Institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other items | - | - | - | - | - | - | - | - | 4 | - | - | 4 | 4 |
| **Total** | **-** | **2** | **4** | **-** | **568** | **156** | **-** | **0** | **951** | **-** | **-** | **1,682** | **1,382** |

*Credit risk exposures included. Counterparty, securisitation and equity exposures not included.*

## Table 5.50. 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 provisions | Capital (8%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate** | **1.37%** | **618** | **618** | **2** | **35.53%** | **0.19** | **385** | **62.28%** | **3** | **(0)** | **31** |
| Corporates | 1.11% | 536 | 536 | 1 | 35.90% | 0.05 | 337 | 62.85% | 1 | (0) | 27 |
| SME | 3.09% | 82 | 82 | 2 | 33.10% | 1.08 | 48 | 58.58% | 1 | (0) | 4 |
| **Retail** | **3.40%** | **9** | **9** | **2** | **48.01%** | **2.98** | **3** | **33.33%** | **0** | **(0)** | **0** |
| Retail - Residential Mortgage | - | - | - | - | - | - | - | - | - | - | - |
| SME - Mortgage | - | - | - | - | - | - | - | - | - | - | - |
| Retail - Qualifying Revolving | - | - | - | - | - | - | - | - | - | - | - |
| Retail - SME | 3.53% | 8 | 8 | 2 | 46.98% | 3.09 | 3 | 33.84% | 0 | (0) | 0 |
| Other Retail | 0.12% | 0 | 0 | 0 | 73.17% | 0.49 | 0 | 21.00% | - | - | 0 |
| **Total Credit Risk - IRB portfolio** | **1.40%** | **627** | **627** | **4** | **35.71%** | **0.23** | **388** | **61.87%** | **3** | **(0)** | **31** |

*(*) Number of debtors in thousands.*

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

*Amounts in millions of euros*

**2017**

| | 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** | **34,03%** | **0.20** | **315** | **53,32%** | **5** | **(0)** | **25** |
| Corporates | 1,49% | 472 | 472 | 1 | 33,42% | 0.06 | 257 | 54,35% | 3 | (0) | 21 |
| SME | 3,34% | 118 | 118 | 2 | 36,48% | 0.77 | 58 | 49,17% | 2 | (0) | 5 |
| **Retail** | **2,48%** | **18** | **18** | **2** | **50,23%** | **1.70** | **5** | **29,69%** | **0** | **(0)** | **0** |
| Retail - Residential Mortgage | 0,00% | - | - | - | 0,00% | - | - | 0,00% | - | - | - |
| SME - Mortgage | 0,00% | - | - | - | 0,00% | - | - | 0,00% | - | - | - |
| Retail - Qualifying Revolving | 0,00% | - | - | - | 0,00% | - | - | 0,00% | - | - | - |
| Retail - SME | 2,50% | 18 | 18 | 2 | 49,92% | 1.53 | 5 | 29,85% | 0 | (0) | 0 |
| Other Retail | 1,92% | 1 | 1 | 0 | 60,97% | 7.75 | 0 | 24,11% | 0 | (0) | 0 |
| **Total Credit Risk - IRB portfolio** | **1,88%** | **608** | **608** | **5** | **34,79%** | **0.24** | **320** | **52,60%** | **5** | **(1)** | **26** |

*(*) Number of debtors in thousands.*

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

## Table 5.51. EU CCR4 - IRB approach - CCR exposures by portfolio and PD scale

*Amounts in millions of euros*

| PD scale | EAD post CRM | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWAs | RWA density |
|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 132 | 0,12% | 1 | 27,11% | 0.04 | 29 | 21,96% |
| 0,15 to <0,25 | 92 | 0,18% | 0 | 37,53% | 0.05 | 43 | 46,99% |
| 0,25 to <0,50 | 117 | 0,27% | 1 | 43,92% | 0.20 | 77 | 65,79% |
| 0,50 to <0,75 | 126 | 0,59% | 1 | 32,75% | 0.08 | 80 | 63,61% |
| 0,75 to <2,50 | 127 | 1,49% | 1 | 39,52% | 0.31 | 126 | 99,25% |
| 2,50 to <10,00 | 28 | 4,66% | 0 | 34,12% | 2.00 | 30 | 108,29% |
| 10,00 to <100,00 | 2 | 20,43% | 0 | 28,44% | 1.09 | 2 | 125,57% |
| **Perfoming Portfolio** | **623** | **0,79%** | **4** | **35,78%** | **0.23** | **387** | **62,18%** |
| 100,00 (default) | 4 | 100,00% | 0 | 24,19% | 0.65 | 0 | 11,94% |
| **Total** | **627** | **1,40%** | **4** | **35,71%** | **0.23** | **388** | **61,87%** |

*(*) Number of debtors in thousands.*

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

*Amounts in millions of euros*

**2017**

| PD scale | EAD post CRM | Average PD | Number of debtors (*) | Average LGD | Average maturity (years) | RWAs | RWA density |
|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 178 | 0,13% | 1 | 30,41% | 0.11 | 39 | 21,84% |
| 0,15 to <0,25 | 69 | 0,20% | 0 | 40,94% | 0.06 | 36 | 51,20% |
| 0,25 to <0,50 | 123 | 0,29% | 1 | 34,49% | 0.23 | 59 | 47,57% |
| 0,50 to <0,75 | 67 | 0,60% | 1 | 34,79% | 0.13 | 37 | 55,29% |
| 0,75 to <2,50 | 125 | 1,40% | 1 | 35,51% | 0.35 | 100 | 80,33% |
| 2,50 to <10,00 | 37 | 4,49% | 1 | 38,67% | 1.13 | 44 | 118,51% |
| 10,00 to <100,00 | 2 | 38,11% | 0 | 42,90% | 0.71 | 5 | 192,61% |
| **Perfoming Portfolio** | **602** | **0,91%** | **5** | **34,56%** | **0.24** | **319** | **53,00%** |
| 100,00 (default) | 6 | 100,00% | 0 | 57,51% | 0.20 | 1 | 12,47% |
| **Total** | **608** | **1,88%** | **5** | **34,79%** | **0.24** | **320** | **52,60%** |

*(*) Number of debtors in thousands.*

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

The following table shows the effect of netting agreements and collateral arrangements on counterparty risk exposure in derivatives contracts at 31 December 2018.

**Table 5.52. EU CCR5-A - Impact of netting and collateral held on exposure values**

*Amounts in millions of euros*

| | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|
| Derivatives | 18,576 | 12,607 | 5,969 | 4,398 | 1,572 |
| SFTs | 11,004 | 9,665 | 1,338 | - | 1,338 |
| Cross-product netting | - | - | - | - | - |
| **Total** | **29,580** | **22,272** | **7,308** | **4,398** | **2,910** |

The following table provides details of all collateral provided or received in relation to transactions on derivatives and securities financing transactions (SFTs). It also includes transactions cleared through a central counterparty. In the case of SFTs, both parts of each trade are considered collateral (i.e. the cash and securities received and delivered).

**Table 5.53. EU CCR5-B - Composition of collateral for exposures to CCR**

*Amounts in millions of euros*

| | Collateral used in derivative transactions | | | | Collateral used in SFTs | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated |
| Cash - domestic currency | - | 1,369 | - | 4,395 | - | 6,191 | - | 2,343 |
| Cash - other currencies | - | 12 | - | 176 | - | 1 | - | 2 |
| Domestic sovereign debt | - | 3,586 | 407 | 5 | - | 8,563 | 121 | 4,828 |
| Other sovereign debt | - | - | 431 | - | - | 447 | 37 | 1,709 |
| Government agency debt | - | - | - | - | - | - | - | 87 |
| Corporate bonds | - | - | - | - | - | 562 | - | 1,400 |
| Securitizations | - | - | - | - | - | 500 | 6,916 | 875 |
| Equity securities | - | - | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - | - | - |
| **Total** | **-** | **4,967** | **839** | **4,577** | **-** | **16,264** | **7,074** | **11,243** |

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

**Table 5.54. EU CCR8 – Exposures to CCPs**

*Amounts in millions of euros*

| | EAD post CRM | RWAs |
|---|---|---|
| **Exposures to QCCPs (total)** | **1,123** | **178** |
| Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 1,025 | 173 |
| (i) OTC derivatives | 861 | 157 |
| (ii) Exchange-traded derivatives | 69 | 14 |
| (iii) SFTs | 95 | 2 |
| (iv) Netting sets where cross-product netting has been approved | - | - |
| Segregated initial margin | - | - |
| Non-segregated initial margin | 22 | 2 |
| Prefunded default fund contributions | 75 | 3 |
| Alternative calculation of own funds requirements for exposures | - | - |
| **Exposures to non-QCCPs (total)** | **-** | **-** |
| Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which | - | - |
| (i) OTC derivatives | - | - |
| (ii) Exchange-traded derivatives | - | - |
| (iii) SFTs | - | - |
| (iv) Netting sets where cross-product netting has been approved | - | - |
| Segregated initial margin | - | - |
| Non-segregated initial margin | - | - |
| Prefunded default fund contributions | - | - |
| Unfunded default fund contributions | - | - |

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

Pursuant to article 306 “Own fund requirements for trade exposures” of the CRR, assets posted as collateral to a CCP, and that are bankruptcy remote in the event that the CCP becomes 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 5.55. EU CCR2 - CVA capital charge

*Amounts in millions of euros*

| | Exposure value | RWA |
|---|---|---|
| Total portfolios subject to the advanced method | - | - |
| (i) VaR component (including the 3× multiplier) | | - |
| (ii) SVaR component (including the 3× multiplier) | | - |
| All portfolios subject to the standardised method | 1,094 | 866 |
| Based on the original exposure method | - | - |
| **Total subject to the CVA capital charge** | **1,094** | **866** |

The following table shows the outstanding exposure to credit derivatives at the 2018 year end, all of which are in the trading book.

### Table 5.56. EU CCR6 - Credit derivatives exposures

*Amounts in millions of euros*

| | Credit derivative hedges | | Other credit derivatives |
|---|---|---|---|
| | Protection bought | Protection sold | |
| **Notionals** | | | |
| Single-name credit default swaps (CDS) | - | - | - |
| Index credit default swaps | 439 | 25 | - |
| Total return swaps | - | - | - |
| Credit options | - | - | - |
| Other credit derivatives | - | - | - |
| **Total notionals** | **439** | **25** | **-** |
| **Fair values** | | | |
| Positive fair value (asset) | 0 | 0 | - |
| Negative fair value (liability) | (12) | (0) | - |

Exposure to credit derivatives includes the hedging derivatives bought in 2018 to hedge credit risk for CVA.

As of 31 December 2018, the CaixaBank Group had not contracted any internal hedging for credit risk in the banking book through the purchase of protection involving credit derivatives, and it was also not involved in any intermediation activity for credit derivatives.

## 5.3. Securitisations

Credit risk for securitisations quantifies losses of principal and interest on issuances deriving from potential failure by borrowers of securitised assets to comply with their financial obligations.

The CaixaBank Group is not an active investor in the securitisations market and is mainly involved in securitisation operations as the originator entity, in order to obtain liquidity. Investments in other entities' securitisations represent a residual risk.

CaixaBank transforms groups of homogeneous loans and lending from its portfolio into fixed-income securities through the transfer of such assets to traditional securitisation funds. It generally retains the title to all of these securities.

In addition, in relation to capital management, the CaixaBank Group has two own synthetic securitisations with significant transfer for a total current securitised exposure amount of EUR 2,865 million.

### Annual Change

During 2018, the CaixaBank Group has generated three traditional securitisations, with an initial total securitised exposures value of EUR 5,067 million, and one synthetic securitisation with an initial securitised balance of EUR 2,025 million.

The EAD subject to RWAs, corresponding to own securitisation positions with significant transfer and to positions in third-party securitisations, increased by EUR 810 million. This increase was mostly a result of the new synthetic securitisation being issued in 2018, partly offset by the partial amortization of the synthetic securitisation in active at the 2017 year end. RWAs relating to credit risk in securitisations increased by EUR 70 million during the year.

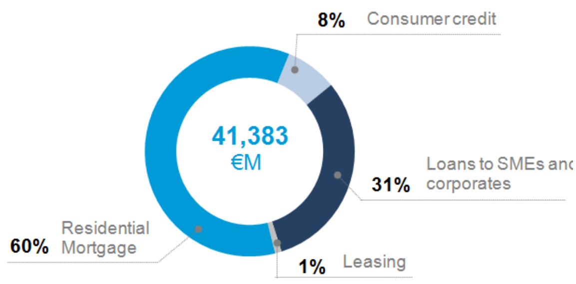
**€267 M**
**Securitisations risk RWA**

**€2,884 M**
**Securitisations risk EAD (before deductions)**

**97 %**
**EAD under internal models**

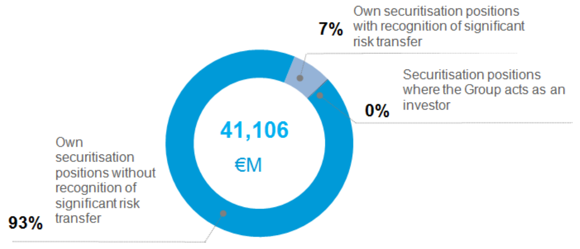
### SECURITISED ASSETS PORTFOLIO

Distribution by type of exposure, %




### EXPOSURE IN SECURITISATIONS

Distribution by significant transfer of risk and origin of the risk, %



### 5.3.1. Qualitative aspects

#### Description and general policy

The CaixaBank Group treats securitisation operations as set forth in Chapter 5, Heading 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 through which the credit risk associated with an exposure or pool of exposures is split into different tranches. Under this mechanism:
  - 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:** an exposure to a securitisation.
- **Tranche:** 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 either greater 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 or equity tranche:** the most subordinated tranche in a securitisation, being the first tranche to bear losses incurred on the securitised exposures. It therefore provides protection to the second loss tranche and, where applicable, higher ranking tranches.
- **Intermediate risk or mezzanine 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.
- **Preferred or senior tranche:** any tranche other than first loss and mezzanine 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 derivative contracts for interest or exchange rates, brokerage fees or other charges.
- **Traditional securitisation**: a securitisation involving the economic transfer of the exposures being securitised. This is accomplished through the transfer of ownership of the securitised exposures from the originator institution to an SSPE (securitisation special purpose entity) or through sub-participation by an SSPE. The securities issued do not represent payment obligations of the originator institution.
- **Synthetic securitisation:** 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 institution that:
  - a) itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or
  - b) purchases a third party's exposures itself and then securitises them.
- **Sponsor:** 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:

- **Acquisition of liquidity:** securitisations mobilise the balance sheet, transforming non-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:** selling 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 portion of their risk also allow the management of capital to be optimised.

### The nature of the risks inherent to the securitisation business

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 established. 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 originator's perspective:** this is reduced by the securitisation process, which transforms assets that are intrinsically illiquid into debt securities that can be traded in organised financial markets.

  **From the investor's perspective:** there is no guarantee that there will be sufficient trading volumes or frequency for the bonds in the market to enable it to unwind its position at a particular time.

### Risk in the ranking of securitisation positions

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

The first set of tranches is described as preferred or "senior". This comprises the bonds of the highest credit quality and, therefore, with 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 of the lowest credit quality, which are known as "first loss" or equity tranches: in some cases, these are subordinated loans that the CaixaBank Group has granted to the fund, whilst in others they are a series of bonds. The first loss tranches meet the first percentage of losses on the securitised portfolio.

## Functions performed by the CaixaBank Group in the securitisation process

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

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

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

- **Funding provider:** CaixaBank also acts as the supplier of finance for securitisation funds in relation to subordinated loans for the purposes of establishing reserve funds, as well as supplying loans to finance the initial costs these vehicles incur.

- **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 in the majority of the BPI securitisation funds the payment agent is a third party.

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

- **Counterparty in financial swaps:** the 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 management:** CaixaBank Titulización S.G.F.T.A., a CaixaBank Group company, acts as CaixaBank's securitisation fund manager. For securitisations where BPI is the originator, in one case the manager is "GTI Asset Management" and in all other issuances it is "SAGRES – Sociedade de Titularição de Créditos, S.A.".

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

**Chart – Functions in the securitization process and involvement of the Group**

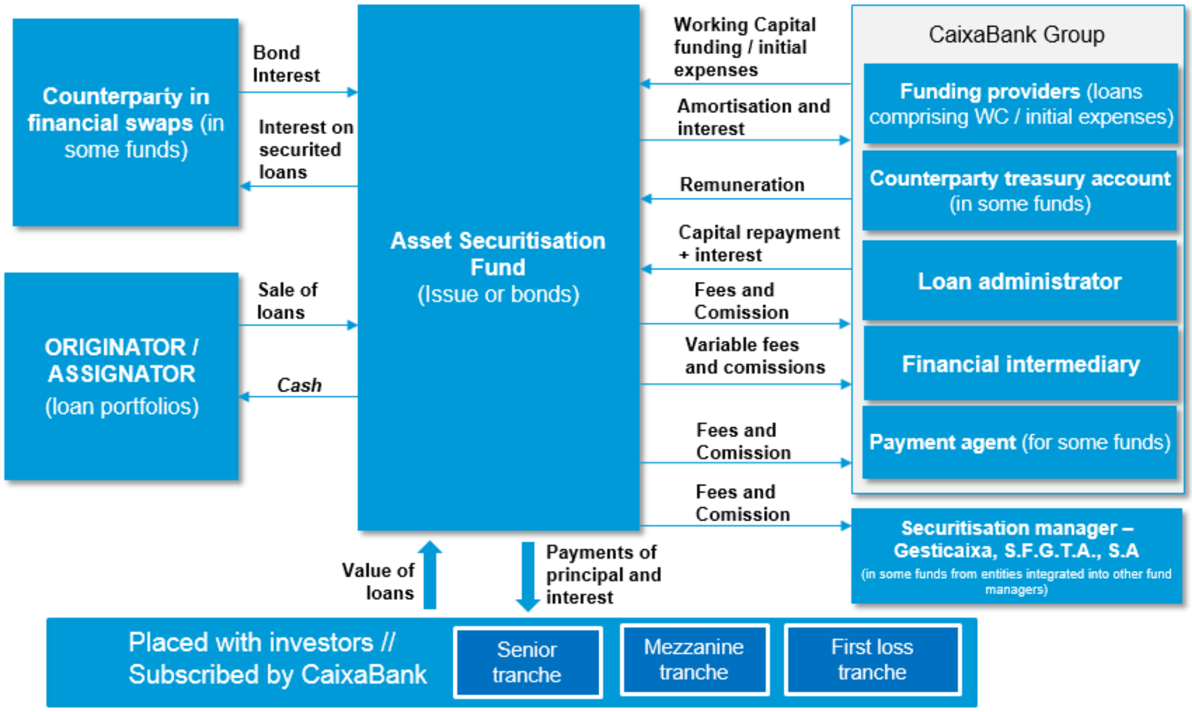



**Diagram 10**

It also acts as an investor of securitisation operations that have been originated by other institutions.

For the purpose of quantifying its degree of involvement in these tasks, the following table shows the securitisation exposures in which the Group acts as originator, sponsor or investor.

**Table 5.57. Securitisation exposures by type of intervention of the Group**

*Amounts in millions of euros*

| | 2018 | 2017 |
|---|---|---|
| Securitisation positions where the Group acts as originator | 41,056 | 40,792 |
| Securitisation positions where the Group acts as investor | 50 | 58 |

## Functions performed by the Bank in synthetic securitisations

The main differential functions performed in the field of synthetic securitisation have been as follows:

- **Protection purchaser:** the CaixaBank Group acts as a purchaser of protection against the credit risk passed on to investors.
- **Monitoring agent and credit event controller:** the CaixaBank Group acts as the administrator of the securitised assets, managing collections of repayments and interest, and monitoring and undertaking recovery actions for assets in a credit event.
- **Calculation agent:** CaixaBank Titulización S.G.F.T.A., a CaixaBank Group company, performs functions as a calculation agent.

## Other considerations

As already mentioned, the CaixaBank Group's main activity with regard to securitisations is as an originator. This involves transforming homogenous parts of its loan and credit portfolio into fixed income securities by transferring assets to traditional securitisation funds. It generally retains all such instruments. In addition, this year CaixaBank originated its second synthetic securitisation, enabling it - among other things - to optimise its capital requirements. CaixaBank also retains some very residual positions in traditional securitisations, in which the CaixaBank Group was not the originator (third-party securitisations). These mainly derive from the held-to-maturity portfolios of entities it has absorbed. The objective in managing these positions has been to sell 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 Bank'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 weightings for calculating RWAs for these securitisations.

All of the CaixaBank's securitisation positions belong to the banking book: there are no securitisation positions in the trading book. Therefore, all securitisation positions are excluded from the capital requirements for market risk.

The CaixaBank Group does not act as the sponsor in any securitisation schemes or as the originator in any resecuritisations.

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

The CaixaBank Group does not provide implicit support in synthetic securitisations that involve significant transfer at a regulatory level.

The traditional securitisation funds that are 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 securitisations issued to date.

The CaixaBank Group had no assets awaiting securitisation at 31 December 2018.

## Securitisation activity in 2018

CaixaBank originated two traditional securitisation funds in 2018. These are managed by CaixaBank Tituización, with CaixaBank retaining all of the securities issued. In addition, in the last year CaixaBank has issued a synthetic securitisation involving a significant transfer of the risk. BPI has also originated a traditional securitisation, retaining a portion of the instruments issued. The details were as follows:

- **CAIXABANK CONSUMO 4, F.T.** (May 2018): A traditional securitisation of consumer loans, with an initial securitised exposures value of EUR 1,700 million.
- **CAIXABANK PYMES 10, F.T.** (November 2018): A traditional securitisation of SME loans, with an initial securitised exposures value of EUR 3,325 million.
- **GAUDI-II** (August 2018): A synthetic securitisation of fiduciary loans to SMEs and self-employed workers, with an initial securitised exposures value of EUR 2,025 million instrumented through a purchased protection CDS on the mezzanine trench (2%-8%, EUR 121.5 million).

- **FCT Vasco** (September 2018): A traditional securitisation of the credit portfolio of BPI's Paris branch, with an initial securitised exposures value of EUR 35 million.

## Risk management. Accounting policies

### Criteria for derecognising securitised assets or maintaining them on the balance sheet

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 an unrelated third party.

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:

- If substantially all the risks and rewards of ownership of the transferred asset are transferred (such as in the case of, among others: unconditional sales, a sale with an option to repurchase the financial asset at its fair value at the time of repurchase, a sale of a financial asset together with a put or call option that is deep out of the money, or 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 risks and rewards of ownership of the transferred financial asset are substantially retained (such as in the case of, among others: sale and repurchase transactions where the repurchase price is a fixed price or the sale price plus a lender's return, a securities lending agreement under which the borrower has the obligation to return the securities or similar), it is not derecognised and continues to be measured by the same criteria used before the transfer and the following are recognised:

  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: a sale of a financial asset together with a put or call option that is neither deep in the money nor deep out of the money, a securitisations in which the transferor assumes a subordinated loan or some 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, then 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, then it continues to recognise the asset for an amount equal to its exposure to changes in the asset's value, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

According to the terms of the transfer agreements in place, virtually the entire portfolio of loans and receivables securitised by the Group does not need to be written off the balance sheet.

To determine whether there is control over a structured entity and, therefore whether it should be consolidated, the Group analyses the contractual rights other than voting rights. For this, it considers the purpose and design of each entity and, inter alia, evidence of the ability to direct the relevant activities, potential indications of special relationships or the ability to affect the returns from its involvement. With regard to securisation funds, the Group is highly exposed to variable returns and has decision-making power over the entity, either directly or through an agent, so they are consolidated.

### Criteria for the recognition of gains or losses in cases where assets are derecognised from the balance sheet

In order for the Group to recognise the gain or loss generated in a sale of financial instruments, it must derecognise them from its accounts. To do this, the requirements regarding substantial transfer of risks and rewards described in the previous point must be met.

The gain or loss should be recognised in the income statement and will be calculated as the difference between the net book value and the total consideration received, including any new asset obtained less any liabilities that are assumed.

When the amount of the financial asset being transfered matches the total amount of the original financial asset, any new financial assets, financial liabilities and liabilities from the provision of services that arise as a result of the transfer will be recognised at fair value.

In the case of the issuances of securitisations that the CaixaBank Group carries out, it retains the underlying assets on its balance sheet. Therefore, at present, when a securitisation is generated in the CaixaBank Group, no gain or loss is produced in the accounting records.

**Assumptions for assessing the retention of risks and rewards on securitised assets**

The Group considers that the risks and rewards of securitisations are substantially retained when the subordinated bonds of issuances are kept and/or subordinated loans are granted to the securitisation funds in question which involve substantially retaining the expected credit losses of the loans that are transferred.

**Synthetic securitisations**

With regard to synthetic securitisations, the transfer of credit risk takes the form of a financial guarantee and it is not considered a substantial transfer of risks and rewards. Therefore, the underlying exposure is retained on the balance sheet.

## 5.3.2. Minimum capital 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 determining whether a significant portion 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 do 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 capital requirements for securitisations, depending on the method that would be applied to the underlying portfolio for the issue if it were not securitised.

The following table provides details of exposure to securitisations and their capital requirements in cases where the CaixaBank Group acts as the originator. This table includes securitisations in which the transfer of a significant portion of the risk is recognised, and shows investor tranches of multi-seller securitisations where the CaixaBank Group acts as the originator, and for which the calculation of capital requirements is independent of whether or not the risk on the originator tranches has been transferred.

### Tabla 5.58. EU SEC 3 - Exposición y APR en operaciones de titulización de la cartera de inversión en las que el Grupo CaixaBank actúa como originador

*Importes en millones de euros*

| | Valor de la exposición (4) (por intervalo de RW) | | | | | Valor de la exposición (4) (por método regulador) | | | | RWA antes del cap (por método regulador) | | | | RWA (por método regulador) | | | | Requerimiento de capital después del techo | | | | Deducciones de recursos propios |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ≤ 20% RW | > 20% a 50% RW | > 50% a 100% RW | > 100% a 1250% RW | 1250% RW | IRB - RBA(1) (incluido IRB - IAA(3)) | IRB - SF(2) | Estándar | 1250% | IRB - RBA(1) (incluido IRB - IAA(3)) | IRB - SF(2) | Estándar | 1250% | IRB - RBA(1) (incluido IRB - IAA(3)) | IRB - SF(2) | Estándar | 1250% | IRB - RBA(1) (incluido IRB - IAA(3)) | IRB - SF(2) | Estándar | 1250% | |
| **Exposición total** | 2.728 | 0 | 31 | - | 56 | 59 | 2.669 | 30 | 56 | 6 | 187 | 27 | 47 | 1 | 187 | 27 | 27 | 0 | 15 | 2 | 2 | 20 |
| **Titulización tradicional** | **59** | **0** | **31** | **-** | **4** | **59** | **-** | **30** | **4** | **6** | **-** | **27** | **47** | **1** | **-** | **27** | **27** | **0** | **-** | **2** | **2** | **3** |
| De la cual, titulización | 59 | 0 | 31 | - | 4 | 59 | - | 30 | 4 | 6 | - | 27 | 47 | 1 | - | 27 | 27 | 0 | - | 2 | 2 | 3 |
| De la cual, subyacente minorista | 59 | 0 | 31 | - | 4 | 59 | - | 30 | 4 | 6 | - | 27 | 47 | 1 | - | 27 | 27 | 0 | - | 2 | 2 | 3 |
| De la cual, subyacente mayorista | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, retitulización | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, preferente | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, no preferente | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Titulización sintética** | **2.669** | **-** | **-** | **-** | **52** | **-** | **2.669** | **-** | **52** | **-** | **187** | **-** | **-** | **-** | **187** | **-** | **-** | **-** | **15** | **-** | **-** | **17** |
| De la cual, titulización | 2.669 | - | - | - | 52 | - | 2.669 | - | 52 | - | 187 | - | - | - | 187 | - | - | - | 15 | - | - | 17 |
| De la cual, subyacente minorista | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, subyacente mayorista | 2.669 | - | - | - | 52 | - | 2.669 | - | 52 | - | 187 | - | - | - | 187 | - | - | - | 15 | - | - | 17 |
| De la cual, retitulización | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, preferente | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| De la cual, no preferente | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

*En la tabla superior, solo se informa la exposición regulatoria de las titulizaciones con transferencia de riesgo significativa y efectiva. También se incluye la exposición de los tramos inversores de las titulizaciones multicedentes en las que el Grupo CaixaBank participa como originador, cuyo cálculo de requerimientos de capital es independiente de tener transferencia de riesgo en los tramos originadores.*

*(1) IRB - RBA (IRB - Rating Based Method): Método IRB basado en calificaciones externas.*

*(2) IRB - SF (IRB - Supervisory Formula Method): Método IRB basado en la fórmula supervisora.*

*(3) IRB - IAA (IRB-Internal Assessment Approach): Método IRB basado en evaluación interna.*

*(4) Exposición (EAD) después de deducciones de recursos propios. Se corresponde con la exposición regulatoria, neta de correcciones de valor por deterioro de activos, calculada siguiendo los criterios de información de la EAD de titulizaciones en los COREP.*

As can be seen in the table, at the 2018 year end the CaixaBank Group applied the IRB-RBA (IRB - Ratings-Based Approach) method in a large part of its traditional securitisation exposures, while it applied the IRB-SF (IRB - Supervisory Formula) method in the case of synthetic securitisations. The CaixaBank Group does not apply the IRB-IAA (IRB - Internal Assessment Approach) approach in any cases. The table also shows that most of the securitisation exposure subject to capital requirements receives the lowest level of risk weighting (less than 20%).

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

Compared to the prior year, regulatory exposure has changed by EUR 817 million, primarily due to the new synthetic securitisation (GAUDI-II) that CaixaBank originated in 2018, which was partly offset by the partial write-off of the synthetic securitisation in operation at the 2017 year end (GAUDI SYNTHETIC 2015-I). The RWAs increased by EUR 74 million compared to the 2017 year end.

The securitisations in which the CaixaBank Group acts as an investor are not shown in an additional table (SEC4) as they are very residual and insignificant in size. These securitisations involved regulatory exposure of EUR 50 million at the end of December 2018. Compared to the prior year, there was a reduction of EUR 7 million. The standardised approach is used in calculating capital requirements for all such securitisations, which amount to EUR 2 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 the CaixaBank Group, all through CaixaBank, at 31 December 2018, 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 5.59. Securitisation positions by type of exposure**

*Amounts in million euros*

| | 2018 | | 2017 |
|---|---|---|---|
| Type of exposure | Exposure | % weight | Exposure |
| **1) Securitisation positions where the Group acts as originator** | **41,056** | **99.88%** | **40,792** |
| **A) On-balance securitisation positions** | **41,040** | **99.84%** | **40,774** |
| Securitisation bonds - senior tranche | 32,985 | 80.25% | 32,564 |
| Securitisation bonds - mezzanine tranche | 2,271 | 5.52% | 2,556 |
| Securitisation bonds - equity tranche | 3,802 | 9.25% | 3,737 |
| Subordinated loans | 1,981 | 4.82% | 1,917 |
| **B) Off-balance securitisation positions** | **16** | **0.04%** | **19** |
| Liquidity facilities | - | - | - |
| Interest rate derivatives | 16 | 0.04% | 19 |
| **2) Securitisation positions where the Group acts as investor** | **50** | **0.12%** | **58** |
| **A) On-balance securitisation positions** | **50** | **0.12%** | **58** |
| Securitisation bonds - senior tranche | 50 | 0.12% | 58 |
| Securitisation bonds - mezzanine tranche | 0 | 0.00% | 0 |
| Securitisation bonds - equity tranche | 0 | 0.00% | 0 |
| Subordinated loans | - | - | - |
| **B) Off-balance securitisation positions** | **-** | **-** | **-** |
| Liquidity facilities | - | - | - |
| Interest rate derivatives | - | - | - |
| **Total** | **41,106** | **100.00%** | **40,850** |

*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 2017 year end shows that CaixaBank's regulatory exposure to securitisation tranches increased overall by EUR 256 million. This increase was mainly down to:

- An increase in exposure of EUR 6,956 million due to the synthetic securitisation (GAUDI-II) which CaixaBank originated in 2018, as well as the retention of the two new own traditional securitisation (CAIXABANK CONSUMO 4, F.T. and CAIXABANK PYMES 10, F.T.).

- A reduction of EUR 1,825 million due to the termination of several securitisations during 2018, primarily FONCAIXA PYMES 7, F.T. and FONCAIXA PYMES 6, F.T.

- A reduction in exposure of EUR 4,923 million in the securitisations retained due to their periodic amortization.

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

The variations compared to the previous year share the same explanations as the "Securitisation positions by type of exposure" table.

As previously mentioned, all of the CaixaBank Group's securitisation positions belong to banking book: there are no securitisation positions in the trading book. Therefore, the "Exposure to securitisation in the trading book" (SEC2) table has not been included in this document.

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

**Table 5.60. EU SEC1 - Securitisation exposures in the banking book**

*Amounts in million euros*

| | CaixaBank acts as originator | | | CaixaBank acts as sponsor | | | CaixaBanks acts as investor | | |
|---|---|---|---|---|---|---|---|---|---|
| | Traditional | Synthetic | Sub-total | Traditional | Synthetic | Sub-total | Traditional | Synthetic | Sub-total |
| **Retail (total) – of which** | **28,056** | **-** | **28,056** | **-** | **-** | **-** | **50** | **-** | **50** |
| residential mortgage | 24,346 | - | 24,346 | - | - | - | - | - | - |
| credit card | - | - | - | - | - | - | - | - | - |
| other retail exposures | 3,709 | - | 3,709 | - | - | - | 50 | - | 50 |
| re-securitisation | - | - | - | - | - | - | - | - | - |
| **Wholesale (total) – of which** | **10,284** | **2,738** | **13,022** | **-** | **-** | **-** | **0** | **-** | **0** |
| loans to corporates | 9,929 | 2,738 | 12,667 | - | - | - | - | - | - |
| commercial mortgage | - | - | - | - | - | - | - | - | - |
| lease and receivables | 355 | - | 355 | - | - | - | - | - | - |
| other wholesale | - | - | - | - | - | - | 0 | - | 0 |
| re-securitisation | - | - | - | - | - | - | - | - | - |
| **Total** | **38,340** | **2,738** | **41,078** | **-** | **-** | **-** | **50** | **-** | **50** |

*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").*

**Table 5.61. Securitisation positions and current amount of securitised exposures by exposure type**

*Amounts in million euros*

| | Securitisation positions retained | Total current amount(*) of securitised exposures | Current amount(*) of exposures securitised in traditional securitisations | Current amount(*) of exposures securitised in synthetic securitisations | Of which: current amount of transactions impaired or in default | Effective impairment losses |
|---|---|---|---|---|---|---|
| Residential mortgage | 24,331 | 24,795 | 24,795 | - | 582 | 241 |
| Commercial mortgage | - | - | - | - | - | - |
| Credit card | - | - | - | - | - | - |
| *Leasing* | 355 | 303 | 303 | - | 10 | 5 |
| Loan to corporate or SME treated as corporate | 12,660 | 13,022 | 10,157 | 2,865 | 333 | 211 |
| Consumer credit | 3,709 | 3,263 | 3,263 | - | 103 | 115 |
| Commercial debtor | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - |
| **Total** | **41,056** | **41,383** | **38,518** | **2,865** | **1,028** | **572** |

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

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

Finally, at the date of this report, the Group held no securitised positions in revolving structures, understood to be securitisation operations in which outstanding customer balances are permitted to fluctuate within a previously defined range, in accordance with their availability and repayment decisions.

## 5.4. Equity portfolio

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.

This portfolio primarily includes strategic investments, with a medium-long term horizon which the Group manages actively, as well as stakes in subsidiaries that are not fully consolidated in the prudential balance sheet due to the nature of their business activity, primarily VidaCaixa, the parent company of CaixaBank's insurance group.

As part of the necessary monitoring and control of the risks associated with the portfolio, there is a Corporate Policy on the monitoring and management of impairment in other assets and especially the Global Risk Management Policy of Equity Holdings, which defines the approval levels in the management processes and, within the Risk Appetite Framework, a structure of alerts regarding metrics based on VaR, stop-loss and regulatory capital requirements of the investee companies.

In measuring risk in the equity portfolio, the CaixaBank Group mostly uses the PD/LGD method, complemented by the simple method.

### Annual trend

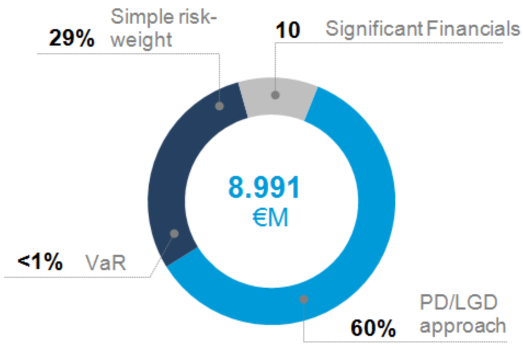
During 2018, the RWAs of the equity portfolio were reduced by EUR 3,513 million, representing a 15% decrease compared to the prior year. This significant decrease is mostly due to the divestment in Repsol announced in September[18].

**€19,347 M**
**Equity portfolio risk RWA**

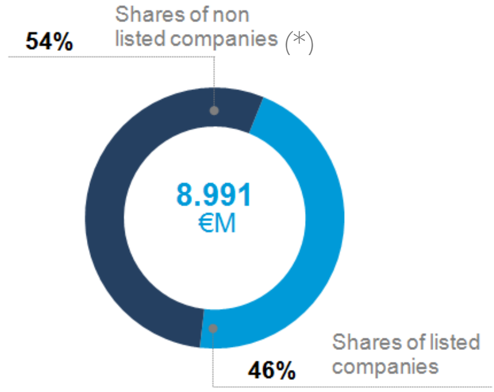
**€8,991 M**
**Equity portfolio risk EAD**

**100%**
**EAD under internal models**

**EAD FOR EQUITY PORTFOLIO**
Distribution by approach, %




**EAD FOR EQUITY PORTFOLIO**
Distribution by type of company, %




*(*) Unlisted companies includes the stake in VidaCaixa.*

[18] See Significant event of 20 September 2018 in CaixaBank Significant Events

## 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 the CaixaBank Group manages actively, as well as stakes in subsidiaries which serve a specific or complementary financial purpose.

In line with the active management of equity investments, we should highlight the strategic agreement with Erste Bank 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 make progress with the international expansion of the Group, tapping emerging business opportunities and adopting the best practices of other markets.

### Structure and organisation of the risk management function

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

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

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

- **Financial control and analysis:** through specialists focusing exclusively on monitoring changes in economic and financial data, as well as understanding and issuing alerts in the event of changes in regulations and competition in the countries and sectors in which the investees operate. The banking shareholdings division, as well as the industrial shareholdings division and the company control division (for subsidiaries) – which report to Financial Accounting, Control and Capital (FACC) – gather and share information on these shareholdings.

  These financial analysts also liaise with listed investees' investor relations departments and gather the information - including reports by third parties (e.g. investment banks, rating agencies) - needed to gain an overview of possible risks to the value of the 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, etc.) are shared with Senior Management for regular comparison with the market.

  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 division ensures that all information meets the relevant quality requirements, is entered into the Group's IT systems by the required deadlines, and that the subsequent external reporting is carried out. In this process, the controls established in the Internal Control over Financial Reporting (ICFR) system are applied, and the regulations set out 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

As a result of the banking regulations, the Corporate Risk Management, Function & Planning Division monitors exposure and the consumption of regulatory capital associated with the investee companies, according to their classification.

This uses, among others, tools under the framework of the new European regulation governing capital requirements: CRD IV and CRR[19].

This unit collaborates with other divisions, directly carrying out the calculation and regulatory reporting on the solvency of the Group's portfolio of investees, as well as other tasks related to risk management in investee companies.

As part of the necessary monitoring and control of the risks associated with the portfolio, there is a Corporate Policy on the monitoring and management of impairment in other assets and especially the Global Risk Management Policy of Equity Holdings, which defines the approval levels in the management processes and, within the Risk Appetite Framework, a structure of alerts regarding metrics based on VaR, stop-loss and regulatory capital requirements of the investee companies.

The same management division also carries out duties related to quantifying and monitoring shareholding risk, including: i) the incorporation, on a daily basis, of the market risk of derivatives and the exchange risk associated with the investee portfolio into the Group's market risk monitoring procedures; and ii) the ongoing monitoring of risks in relation to financial market operations in connection with financial investee companies.

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 3 framework and subsequent revisions thereof, 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 risk-weight 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.

## 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 investments intended to be held on a long-term basis, the most significant risk is credit risk, and, therefore, the PD/LGD approached is used where possible. For investments classified in the portfolio at fair value with changes in other comprehensive income, the calculation is carried out using the internal VaR model, as the most significant risk is market risk (see section *6. Market risk*). If the requirements for applying the aforementioned methods are not met, the simple risk-weight approach is applied in accordance with current regulations.

However, in the portfolio of financial assets at fair value with changes through other comprehensive income, that are strategic for the Group and, in some cases, which there is a long-term commitment in their management, the PD/LGD approach is applied. 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 approach 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

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

those required by regulations and that are designed 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, below are some of the reports which the Corporate Risk Management Function & Planning Division generates and distributes to the pertinent Committees:

- Market risk report, monitoring the risk (VaR) of the Group's trading derivatives in connection with its strategic holdings.

- The report on Currency Risk in Investee Companies, which includes monitoring of risk (VaR) for the exchange rate associated with these holdings.

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

### 5.4.2. Minimum capital requirements for risk associated with 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 set out in the European capital requirements regulation (CRD IV and CRR), and also in accordance with the equity instrument category[20].

[20] Described in section 5.4.1. of this same document.

**Table 5.62. Equity Portfolio exposures**

*Amounts in million Euros*

| Method | % | Original exposure | EAD | LGD | RWA | RWA density | EL | Capital (8%) |
|---|---|---|---|---|---|---|---|---|
| Simple risk-weight approach | 29% | 2,652 | 2,652 | 90% | 9,761 | 368% | 63 | 781 |
| PD/LGD approach(*) | 60% | 5,394 | 5,394 | 90% | 7,204 | 134% | 10 | 576 |
| Internal Model approach | 0% | 5 | 5 | 90% | 32 | 695% | 0 | 3 |
| Risk weighted equity exposures | 10% | 933 | 940 | 90% | 2,350 | 250% | 0 | 188 |
| **Total** | **100%** | **8,984** | **8,991** | **90%** | **19,347** | **215%** | **73** | **1,548** |

*(*) It uses an LGD of 90%.*

*Amounts in million Euros* **2017**

| 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(*) | 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** | **90%** | **22,860** | **216%** | **82** | **1,829** |

*(*) Se utiliza LGD del 90%*

## 5.4.3. Quantitative aspects

### Description, accounting recognition and measurement

The Group's equity investment portfolio features major companies that hold a prominent position in their respective markets and have a capacity to generate recurring value and profits. In general, these are strategic investments, and the Group is involved in their governing bodies and in defining their future policies and strategies. The CaixaBank Group's 2018 financial statements show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity.

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

- **Investments**[21]**:** Investments in the capital of entities classified as Group companies, jointly controlled entities or associates. It is classified in the balance sheet assets as "Investments in joint ventures and associates".
- Other shareholdings in equity instruments: In general, the Group irrevocably exercises the option in the initial recognition by including – in the portfolio of **financial assets at fair value with changes in other comprehensive income** – investments in equity instruments that are not classified as held for trading and that, in the event of not exercising this option, would be classified as financial assets compulsorily measured at fair value through profit or loss.

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

[21] For prudential purposes, 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.

country. The growth rates used to calculate the terminal value beyond the period covered by the forecasts drawn up are determined on the basis of the data for the last period projected, and never exceed the estimated GDP growth of the country or countries in which the investees operate. In addition, sensitivity analyses are performed for the assumptions using reasonable changes in the key hypotheses on which the recoverable amount is based, to confirm whether this continues to exceed the amount to be recovered.

## Financial assets at fair value with changes in other comprehensive income

Financial assets at fair value with changes in other comprehensive income 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. At the time of sale, the corresponding loss or gain previously recognised in other comprehensive income is taken to reserves.

## Fair value and carrying amount of equity investments

The following table shows the fair value and carrying amount of the Groups' stakes and equity instruments not held for trading or in the portfolio of financial assets at fair value through profit or loss, at 31 December 2018.

### Table 5.63. Carrying amount of stakes and equity instruments not held for trading

*Amounts in millions of euros*

| | |
|---|---|
| **Financial assets at fair value with changes in other comprehensive income (*)** | **3,565** |
| Shares in listed companies | 2,697 |
| Shares in unlisted companies | 868 |
| **Investments** | **6,306** |
| Listed | 1,381 |
| Unlisted | 4,925 |
| **Total carrying amount** | **9,871** |

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

### Table 5.64. Fair value of stakes and equity instruments not held for trading

*Amounts in millions of euros*

| | |
|---|---|
| **Financial assets at fair value with changes in other comprehensive income (1)** | **3,565** |
| Shares in listed companies | 2,697 |
| Shares in unlisted companies | 868 |
| **Investments** | **6,164** |
| Listed | 1,239 |
| Unlisted | 4,925 |
| **Total carrying amount** | **9,729** |

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

*(2) At 31 December 2018, the market value of 9.92% of the stake was EUR 1,238,525 thousand. CaixaBank has arranged a cash flow microhedge on 136% of this stake.*

At 31 December 2018, the market value of the Group's portfolio of listed investee companies, which includes those classified as "Investments in joint ventures and associates" and as "Financial assets at fair value with changes in other comprehensive income - equity instruments", amounted to EUR 3,936 million.

At 31 December 2018, the market value of the portfolio of "Financial assets at fair value with changes through profit and loss - equity instrument" amounted to EUR 232 million.

## Value of equity exposures

At 31 December 2018, the EAD for the risk associated with the equity shareholdings portfolio amounted to EUR 8,991 million. This amount includes the value of the portfolio of Financial assets at fair value with changes in other comprehensive income, stakes in associates and those in subsidiaries that are not consolidated due to their business activity.

**Table 5.65. 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 |
|---|---|---|---|---|---|---|
| **Financial assets at fair value in other comprehensive income(*)** | **3,758** | **3,758** | **90%** | **6,905** | **184%** | **15** |
| **Shares of listed companies** | **2,721** | **2,721** | | **3,801** | **140%** | **5** |
| Simple risk-weight approach | 63 | 63 | | 182 | 290% | 1 |
| Internal Model approach | 5 | 5 | | 32 | 695% | - |
| PD/LGD approach | 2,654 | 2,654 | | 3,586 | 135% | 4 |
| **Shares of non listed companies** | **1,037** | **1,037** | | **3,103** | **299%** | **10** |
| Simple risk-weight approach | 414 | 414 | | 1,532 | 370% | 10 |
| PD/LGD approach | 47 | 47 | | 132 | 279% | 1 |
| Risk weighted equity exposures | 576 | 576 | | 1,439 | 250% | - |
| **Shares (multigroup and associated subsidiaries)** | **5,226** | **5,233** | **90%** | **12,443** | **238%** | **58** |
| **Listed company shares** | **1,389** | **1,389** | | **1,340** | **96%** | **1** |
| PD/LGD approach | 1,389 | 1,389 | | 1,340 | 96% | 1 |
| Risk weighted equity exposures | - | - | | - | - | - |
| **Non listed shares** | **3,837** | **3,843** | | **11,103** | **289%** | **57** |
| Simple risk-weight approach | 2,175 | 2,175 | | 8,047 | 370% | 52 |
| PD/LGD approach | 1,304 | 1,304 | | 2,146 | 165% | 4 |
| Risk weighted equity exposures | 358 | 364 | | 911 | 250% | - |
| **Total** | **8,984** | **8,991** | **90%** | **19,347** | **215%** | **73** |

*(*) The exposure of "Mandatory financial assets at fair value with changes in P&L" is also included.*

Other information

The table below shows exposure in relation to the equity portfolio in accordance with the simple risk-weight approach, broken down into risk-weight categories.

**Tabla 5.66. EU CR10 - IRB (specialised lending and equities)**

*Amounts in millions of euros*

| Equities under the simple risk-weighted approach | | | | | | |
|---|---|---|---|---|---|---|
| Categories | On-balance-sheet amount | Off-balance-sheet amount | Risk weight | Exposure amount | RWA | Capital requirements |
| Private equity exposures | - | - | 190% | - | - | - |
| Exchange-traded equity exposures | 63 | - | 290% | 63 | 182 | 15 |
| Other equity exposures | 2,589 | - | 370% | 2,589 | 9,578 | 766 |
| **Total** | **2,652** | **-** | | **2,652** | **9,761** | **781** |

CaixaBank does not have a project finance portfolio assessed under the IRB approach.

The following table shows exposure to risk associated with the equity portfolio, LGD and average risk weighting.

This shows that most shareholdings are concentrated in PD tranches of a good credit quality (with a PD below 0.50%).

### Table 5.67 Equity portfolio exposures (PD/LGD method)

*Amounts in million Euros*

| PD Range | Average PD | Original exposure | EAD | LGD | RWA | RWA density | EL | Capital (8%) |
|---|---|---|---|---|---|---|---|---|
| 0,00 to <0,15 | 0.09% | 1,422 | 1,422 | 90% | 1,381 | 97% | 1 | 110 |
| 0,15 to <0,25 | 0.18% | 2,803 | 2,803 | 90% | 3,788 | 135% | 5 | 303 |
| 0,25 to <0,50 | 0.29% | 1,089 | 1,089 | 90% | 1,823 | 167% | 3 | 146 |
| 0,50 to <0,75 | 0.64% | 18 | 18 | 90% | 42 | 229% | 0 | 3 |
| 0,75 to <2,50 | 1.34% | 61 | 61 | 90% | 170 | 280% | 1 | 14 |
| 2,50 to <10,00 | 3.64% | 0 | 0 | 90% | 0 | 263% | 0 | 0 |
| 10,00 to <100,00 | 0.00% | 0 | 0 | 0% | 0 | 0% | 0 | 0 |
| **Performing Portfolio** | **0.19%** | **5,393** | **5,393** | **90%** | **7,204** | **134%** | **9** | **576** |
| 100,00 (Default) | 100.00% | 1 | 1 | 90% | 0 | 0% | 1 | 0 |
| **Total** | **0.21%** | **5,394** | **5,394** | **90%** | **7,204** | **134%** | **10** | **576** |

## Other cumulative comprehensive income in equity instruments measured at fair value

The table below shows changes in the cumulative other comprehensive income in equity instruments measured at fair value for the CaixaBank Group in 2018, with the amounts taken to the income statement[22] :

### Table 5.68. Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income

*Importes en millones de euros*

| Balance global to 31.12.2017 | 1st IFRS9 application | Balance global valuation adjustments to 01.01.2018 | Amounts transfered to P&L[(1)] | Amounts transfered to Reserves | Liabilities and assets deferred taxes | Capital gains and losses by valuation[(2)] | Balance global valuation adjustments to 31.12.2018 |
|---|---|---|---|---|---|---|---|
| - | (447) | (447) | - | (18) | 32 | (431) | (865) |

*(1) After taxes*
*(2) Before taxes*
*Includes the adjustments attributed to the Group*

[22] See Note 22.2 "Other comprehensive income" of the CaixaBank Group's 2017 financial statement.

# 6.

# Market risk



# 6. MARKET RISK

The market risk of the Group's held-for-trading portfolio quantifies possible losses that might arise due to changes in: interest rates, foreign exchange rates, stock prices, commodity prices, volatility, inflation rates and credit spreads on private fixed-income positions.

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

CaixaBank uses internal models to estimate capital requirements for market risk. Market risk of Caixabank's CVA hedges and BPI's held-for-trading and foreign exchange positions are assessed under the standardised approach.

CaixaBank carries out three types of stress testing on the present value of its positions (under extreme crisis scenarios) in order to estimate potential losses on the portfolio in the event of extraordinary changes in the risk factors to which they are exposed.

The losses estimated using the VaR (Value at Risk) calculation are compared to actual daily results to verify that the risk estimates supplied by the internal model are appropriate, in a backtesting exercise. The results of these comparisons in 2018 were satisfactory, meaning that there were no additional capital requirements for this risk.

The capital requirements for exchange risk are concentrated in BPI's shareholding in Banco de Fomento de Angola (BFA).

## Annual Change

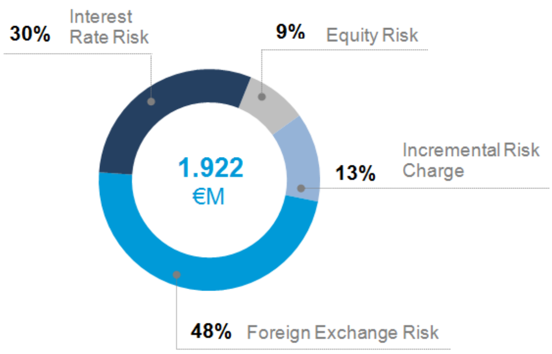
There was a decrease in RWAs, mostly due to the reduction in the Default Risk in Incremental Risk Charge amount to EUR 224 million because of an improvement in the average rating profile of the portfolio.

**€1,922 M**
**Market risk RWA**

**€3.2 M**
**Annual average VaR 10d - 2018**

**38%**
**RWA under internal models**

### MARKET RISK RWAs
Distribution by type of risk, %



## 6.1. Market risk management

### Definition and general policy

Market risk encompasses almost all the Group's trading portfolio, as well as the deposits and repos arranged by trading desks for management.

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, CaixaBank has been using internal models to calculate capital requirements for market risk associated with the held-for-trading portfolio, for foreign exchange and gold risk, and for commodity price risk, ever since the Bank of Spain authorised the Group to apply these methods on 13 December 2007. In 2012, the Bank of Spain extended this authorisation to the calculation of regulatory capital for Default Risk in Incremental Risk Charge 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 for the measurement, control and monitoring of the related risks, for the estimation of counterparty risk and for the operational risk associated with activities in financial markets.

The Corporate Risk Management & Planning Division (which comprises the Market Risk and Balance Sheet Risk Department) acts, organisationally and functionally, independently of the risk-taking divisions. 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

The benchmark market risk measurement is VaR at 99% with a one-day holding period for which the RAF defines a limit for trading activities of EUR 20 million (excluding the economic hedging CDS for the CVA, recognised for accounting purposes in the held-for-trading portfolio). Daily VaR is defined as the highest of the following three calculations:

- *The parametric VaR technique, applied to two time series window:* based on the statistical treatment of parameters such as volatility and matching fluctuations in the prices and interest and exchange rates of the assets comprising the portfolio. This is applied to two different data windows: a 75-day data window, giving more weight to recent observations; and a one-year data window, giving equal weight to all observations. Parametric VaR with a covariance matrix arising from historical performance over one year and equal weightings.

- *Historical VaR*: which calculates the impact on the value of the current portfolio of historical changes in risk factors. Daily changes observed over the last year are taken into account, with a confidence level of 99%. Historical VaR is an extremely useful system for completing the estimates obtained by the parametric VaR technique, since it does not include any assumptions on the statistical distribution of risk factors. The parametric VaR technique assumes fluctuations that can be modelled using normal statistical distribution. Historical VaR is also an especially suitable technique since it includes non-linear relationships between the risk factors.

Moreover, since a downgrade in the credit rating of asset issuers can also give rise to adverse changes in market prices, quantification of risk is completed with an estimate of the losses arising from changes in the volatility of the credit spread on corporate 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 method while 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.

To verify the suitability of the risk estimates, two backtests (gross, i.e. actual; and net, i.e. hypothetical) are conducted to compare the daily results to the VaR. Stress tests are also performed on the value of the risk taking 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 BPI, the standard measurement for market risk is parametric VaR at 99% with a 10-day time horizon.

### Hedging policies and mitigation techniques

Formalising and updating the risk appetite presented to the governing bodies delimits and validates that the market risk metrics defined by the CaixaBank Group are commensurate with the established risk tolerance levels. The Risk Appetite Framework (RAF) approved by the Board of Directors sets a limit for VaR with a one-day holding period and confidence level of 99% for the Group's trading activities, excluding hedging derivatives for the Credit Valuation Adjustment (CVA), which are considered within the CVA management framework. Moreover, positions in both the held-for-trading portfolio and in the banking investments portfolio are restricted to the concentration limits set out in the Risk Appetite Framework (RAF) (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 activities operations.
- **Limit on operations of CaixaBank's Markets division.** 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 accordance with the general framework determined 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 for market risk.

In addition, CaixaBank's Global Risk Committee supplements the limit structuring by defining specific limits on incremental risk of default and rating migration (IRC) of the fixed-income portfolios, as well as on stressed VaR.

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

## 6.2. Minimum capital requirements for market risk

The CaixaBank Group's capital requirements for market risk at 31 December 2018 are EUR 154 million.

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

**Table 6.1. EU MR1 - Market risk under the standardised approach**

*Amounts in millions of euros*

| | RWAs | Capital requirements |
|---|---|---|
| **Outright products** | | |
| Interest rate risk (general and specific) | 385 | 31 |
| Equity risk (general and specific) | 11 | 1 |
| Foreign exchange risk | 787 | 63 |
| Commodity risk | - | - |
| **Options(*)** | | |
| Simplified approach | 0 | 0 |
| Delta-plus method | - | - |
| Scenario approach | - | - |
| **Securitisation (specific risk)** | - | - |
| **Total** | **1,183** | **95** |

*(*) Only when IRB approach is used.*

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

Similarly, capital requirements for market risk attributable to BPI are calculated under the standardised approach. These include requirements for foreign exchange risk, which is concentrated in BPI's equity investment in Banco de Fomento de Angola (BFA).

Capital requirements for market risk under internal models amount to EUR 59 million, which represent 38% of the total 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.

The trading activities include operations related to the management of market risk arising from commercial or distribution efforts involving typical operations in financial markets with the Group's 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 exists for determining, identifying and managing this scope, as well as for potentially including it in the internal approach, monitoring and controlling it. 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. It also has 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 Bank 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[23], alternative models to those used and their unobservable inputs, concentration or the limited 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 limited 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. It should be noted that the volume of Level III assets in the trading portfolio is residual (EUR 9.4 million of fixed income) and null within the perimeter subject to the internal market risk model, thus reducing the potential model risk significantly.

For prudential purposes, the trading portfolio consists of financial assets and liabilities that are held for trading by the Bank 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, "trading intent" exists when positions are intended to be either resold in the short term or held to benefit in the short term from actual or expected differences between the buying and selling price or from other price or interest rate variations.

### Internal models

The Group is subject to market risk as the result of adverse movements in the following risk factors: interest and currency exchange rates, share prices, inflation, volatility and changes in the credit spread of corporate fixed-income positions, and credit derivatives. 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.

23 Difference between bid and offer prices.

The scope of application of the internal model encompasses the aforementioned risk factors for the held-for-trading accounting portfolio, except for those arising from CVA credit default swaps. Deposits and repos arranged by trading desks are also included in the scope of the model. The risk management function is performed 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. CVA and FVA Management and Pricing is responsible for hedging the CVA risk, as well as for determining the marginal CVA and FVA of new derivatives that are acquired. 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 the 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 incremental default and migration risk and stressed VaR. In 2012, following the appropriate validation process, the Bank of Spain authorised 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 V, Sections 1-4 of Regulation EU 575/2013 for calculating own fund requirements according to the 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 of a slight change in risk factors has on the value of positions, without providing any assumptions about the probability of such 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). Two methodologies are 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.

  - **Historical VaR** is calculated according to the impact on the portfolio's present value of historical daily changes in risk factors over the past year, with daily updating of the observation window.

Total VaR is the aggregate VaR arising from fluctuations in interest rates, exchange rates (and the volatility of both) and from the VaR spread - which are aggregated on a conservative basis, assuming zero correlation between the two groups of risk factors -, and the addition of VaR of the equities portfolio and VaR of the commodities portfolio (currently with no position), assuming in both cases a correlation of one with the other risk factor groups.

A single model is used that splits out the general and specific risk of equities, whilst the specific risk of corporate fixed-income and credit derivatives is estimated in a separate calculation (VaR spread), 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).

### Additional measures to VaR

As an analysis measurement, the Group completes the VaR measurements with the following risk metrics, updated weekly:

- **Stressed VaR** indicates the maximum loss on adverse movements in market prices based on a stressed historical period of one year, with a 99% confidence level and a daily time horizon (subsequently extrapolated to the regulatory horizon of 10 market days, multiplying by the root of 10). The stressed VaR calculation is leveraged by the same methodology and infrastructure as the historical VaR, with the only significant difference being the historical window selected.
- The **Default Risk in Incremental Risk Charge** reflects the risk related to changes in credit ratings or default in fixed-income positions and credit derivatives in the held-for-trading portfolio, with a confidence level of 99.9%, a one-year time horizon, and a quarterly liquidity horizon. The latter is justified by the high liquidity of portfolio issuances and is due to the existence of strict inclusion criteria that limit the concentration by country, rating, issuance and issuer. It is estimated using Monte Carlo simulation of possible future states for external issuer and issue ratings, based on transition matrices published by the main rating agencies, where dependence among credit quality variations between the different issuers is modelled using Student's t-distributions calibrated using historical CDS data series.

  This 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 corporate fixed income securities. It covers all products with specific fixed income risk: bonds, bond futures and credit derivatives.

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-day 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 2018, as well as their value at the close of the reference period, are shown in the following table.

**Table 6.2. EU MR3 - IMA values for trading portfolios**

*Amounts in millions of euros*

| | | |
|---|---|---|
| **VaR (10 day, 99 %)** | | |
| 1 | Maximum value | 5 |
| 2 | Average value | 3 |
| 3 | Minimum value | 2 |
| 4 | Period end | 3 |
| **SVaR (10 day, 99 %)** | | |
| 5 | Maximum value | 22 |
| 6 | Average value | 12 |
| 7 | Minimum value | 7 |
| 8 | Period end | 10 |
| **IRC (99,9 %)** | | |
| 9 | Maximum value | 42 |
| 10 | Average value | 19 |
| 11 | Minimum value | 10 |
| 12 | Period end | 17 |
| **Comprehensive risk capital** | | |
| 13 | Maximum value | - |
| 14 | Average value | - |
| 15 | Minimum value | - |
| 16 | Period end | - |

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 Default Risk in Incremental Risk Charge 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 on RWAs of changes to the calibration and current time frame: weekly for IRC and stressed VaR, and daily for VaR.

**Table 6.3. EU MR2-A - Market risk under the Internal Model Approach**

*Amounts in million Euros*

| | RWAs | Capital requirements |
|---|---|---|
| **VaR (higher of values a and b)** | 120 | 10 |
| Previous day's VaR | | 3 |
| Average 60d x multiplication | | 10 |
| **Stressed VaR (higher of values a and b)** | 367 | 29 |
| Latest SVaR | | 10 |
| Average 60d x multiplication | | 29 |
| **IRC** | 251 | 20 |
| Most Recent | | 17 |
| Average over 12 weeks | | 20 |
| ***Comprehensive risk*** | - | - |
| Most recent risk number | | - |
| Average over 12 weeks | | - |
| Other | | - |
| **Total** | **739** | **59** |

**Table 6.4. EU MR2-B - RWA flow statements of market risk exposures under the IMA**

*Amounts in million euros*

| | | VaR | SVaR | IRC | *Comprehensive risk measure* | Other | Total RWAs | Total capital requirements |
|---|---|---|---|---|---|---|---|---|
| 1 | **RWAs at previous year end** | **109** | **466** | **475** | **-** | **-** | **1,051** | **84** |
| 1a | Regulatory adjustment | 62 | 277 | - | - | - | 339 | 27 |
| 1b | **RWAs at the previous year-end (end of the day)** | **47** | **189** | **475** | **-** | **-** | **712** | **57** |
| 2 | Movement in risk levels | 4 | (13) | (207) | - | - | (216) | (17) |
| 3 | Model updates/changes | (2) | (1) | (58) | - | - | (62) | (5) |
| 4 | Methodology and policy | - | - | - | - | - | - | - |
| 5 | Acquisitions and disposals | - | - | - | - | - | - | - |
| 6 | Foreign exchange movements | - | - | - | - | - | - | - |
| 7 | Other | - | - | - | - | - | - | - |
| 8a | **RWAs at the end of the reporting period (end of the day)** | **48** | **175** | **210** | **-** | **-** | **434** | **35** |
| 8b | Regulatory adjustment | 72 | 192 | 41 | - | - | 305 | 24 |
| **8** | **RWAs at the end of the reporting period** | **120** | **367** | **251** | **-** | **-** | **739** | **59** |

The decrease in Risk Weighted Assets was mostly due to the reduced exposure, primarily relating to the reduction of default and migrations risk because of an improvement in the average rating profile of the portfolio.

**Verification of the reliability and consistency of the internal models**

To confirm the suitability of the estimates of the internal model, daily results are compared against the losses estimated under the VaR technique, an exercise known as backtesting. The risk estimate model is checked in two ways, as required by the Regulator:

- **Hypothetical backtesting**, which relates the portion of the daily marked-to-market P&L due just to open positions at previous business day vs VaR estimation 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.

- **Actual backtesting**, which compares the actual P&L obtained during the day (including intraday transactions) to VaR for a one-day time horizon, 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 estimating the risk.

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)**

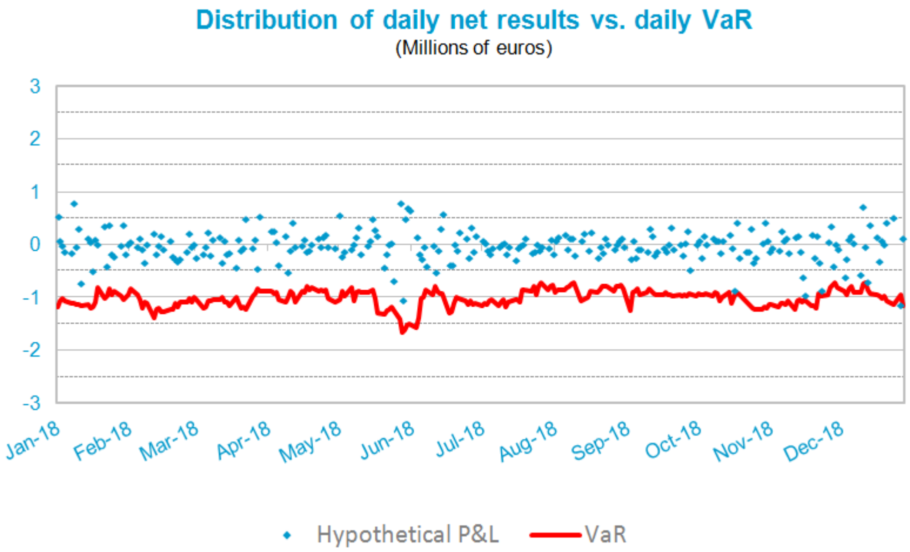
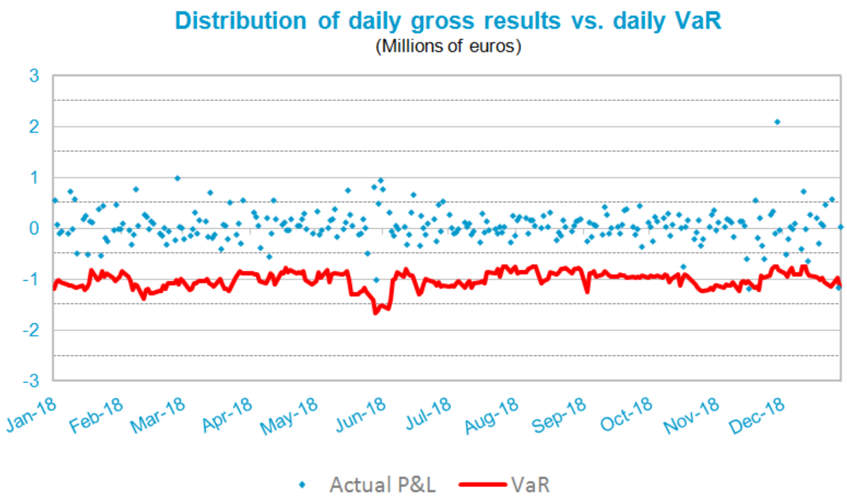



**Chart. Comparison of VaR estimates with gains/losses - Gross backtesting (EU MR4)**



As shown in the charts, on 16 November and 27 December, two breaches occurred in the internal model backtest: in the first instance, the P&L (profit and losses) 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. In the second instance, the breach occurs following a rise in the implied volatility of the equity options, due to an absence of market liquidity.

No backtesting is performed on the incremental default and migration risk (IRC) model. Simulations, with an annual 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 to calculate capital requirements. Lastly, an assessment is made of the IRC's sensitivity to changes in the matrix of correlations, recovery rates and the probabilities of default.

## Stress testing

Two stress testing techniques are used on the value of the trading positions to calculate the possible losses on the portfolio in situations of extreme stress:

- **Systematic stress**: 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. It considers parallel interest rate shifts (rising and falling); changes at various points of the slope of the interest rate curve (steepening and flattening); variation of the spread between the instruments subject to credit risk and public debt securities (bond-swap spread); parallel shifts in the EUR/USD curves; higher and lower volatility of interest rates; variation of the euro with respect to the USD, JPY and GBP; variation in exchange rate volatility, share prices; and higher and lower volatility of shares and commodities.

- **Historical scenarios**: 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.

- Reverse stress test: a technique that assumes a high-vulnerability scenario given the portfolio's composition and determines what variations in the risk factors lead to this situation.

- To complete these analyses of risk in extreme situations, a “**worst-case scenario**” is determined for the Markets activity 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 internal 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 types of 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. Lastly, an analysis is performed of the sensitivity of the IRC to changes in the matrix of correlations, recovery rates and the probabilities of default.

## Monitoring and control

As part of the required monitoring and control of the market risks that is assumed, 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 sub-limits for activity in the field of Markets. 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 using economic hedges on the basis of the return/risk ratio determined by market conditions and expectations, always within the assigned limits.

Beyond the trading portfolio, fair-value hedge accounting is used, which eliminates potential accounting mismatches between the balance sheet and statement of profit or loss caused by the different treatment of hedged instruments and their hedges at market values. In the area of market risk, levels for each hedge are established and monitored, expressed as ratios between total risk and the risk of the hedged items.

The Market and Balance Sheet Risk Department, located within the Corporate Risk Management & Planning Division, as well as the General Risk Management Division in turn, is responsible for monitoring these risks. To perform its functions, on a daily basis, the responsible departments monitor the contracts traded, calculate how changes in the market will affect the positions held (daily marked-to-market results), quantify the market risk undertaken, monitor compliance with global limits and analyse the ratio of actual return to the risk undertaken. With the results obtained from these activities, a daily report is produced on positions, risk quantification and the utilisation of risk thresholds, which is distributed to Senior Management, the officers in charge of managing these risk and to the Internal Audit division.

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 comparison between actual consumption and the authorised limits. Daily estimates are also provided of sensitivity and VaR, both in 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 the Markets division.
- The position constituted by the internal market risk model for the calculation of capital requirements, including equity derivatives on investees.
- The foreign exchange currency position in the banking book.

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 Bank'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 2018 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 2018, Internal Audit concluded that the control systems for market risk in association with trading on financial markets were adequate and complied with the prevailing requirements in the areas analysed.

Based on the set of measures described above, management of market risk on trading positions in the markets is in accordance with the current methodological and monitoring guidelines.

# 7. Operational risk



# 7. OPERATIONAL RISK

**€13,109 M**
**Operational risk RWA**

**83%**
**Commercial practices (46%) Process management (37%)**

**100%**
**RWA under standardised approach**

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.

CaixaBank integrates operational risk into its management processes in order to deal with the financial sector's complex regulatory and legal environment. The main objective is to improve the quality of business management, supplying the necessary information to allow decisions to be made that ensure the organisation's long-term continuity, improvements to its processes and the quality of both internal and external customer service.

Although the standardised method is used to calculate regulatory capital, the Group's operational risk measurement and management is based on policies, processes, tools and methodologies that are risk-sensitive, in line with market best practices.

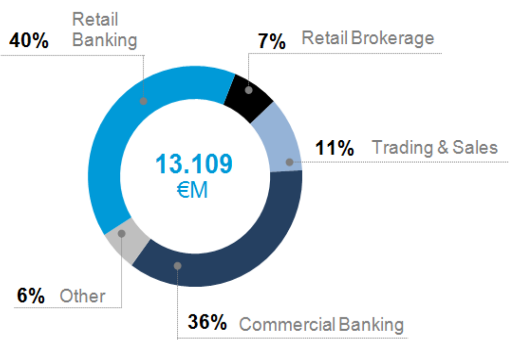
## Annual Change

The consolidation of operational risk management continued throughout 2018, under the monthly monitoring of the Operational Risk Committee.

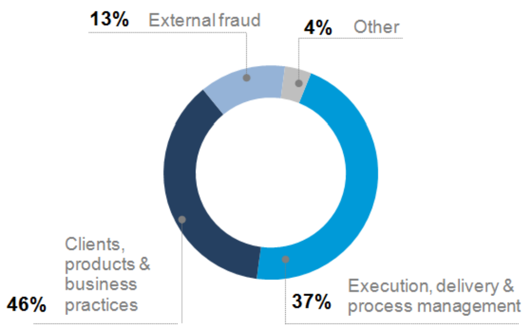
The capital requirements for operational risk have remained practically stable relative to 2017, registering just a 1% increase, in line with the evolution of the business.

Operational losses are concentrated in the categories of execution, delivery and process management and customers, products and commercial practices.

### OPERATIONAL RISK RWAs
Distribution by business line, %




### OPERATIONAL LOSSES
Distribution by operational risk category, %



## 7.1. Operational risk management

### General policy

The Group seeks to manage operational risk consistently across all 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 business sector; these are implemented consistently with the degree of development and maturity in each sector.

The Group manages 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 management division forms part of the Non-Financial Risk Management Division, which falls under the remit of the Corporate Risk Management Function & Planning 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 the various divisions 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 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.

Likewise, the second lines of defence ensure the proper identification, measurement and monitoring of the different risk categories linked to the operational risk (see section 3.4. Internal Control Framework)

According to the three lines of defence model that has been 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 assurance over regulatory compliance and the appropriate application of internal policies and regulations regarding operational risk management, among other aspects.

IT Services is responsible for the technological infrastructure on which operational risk management is based.

### Operational risk categories

Operational risks are structured into four categories or hierarchical levels, from the most generic to the most specific and detailed.

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

The Group has defined its own main risk categorisation based on an analysis of operational risk in the various divisions and companies of the Group. 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.

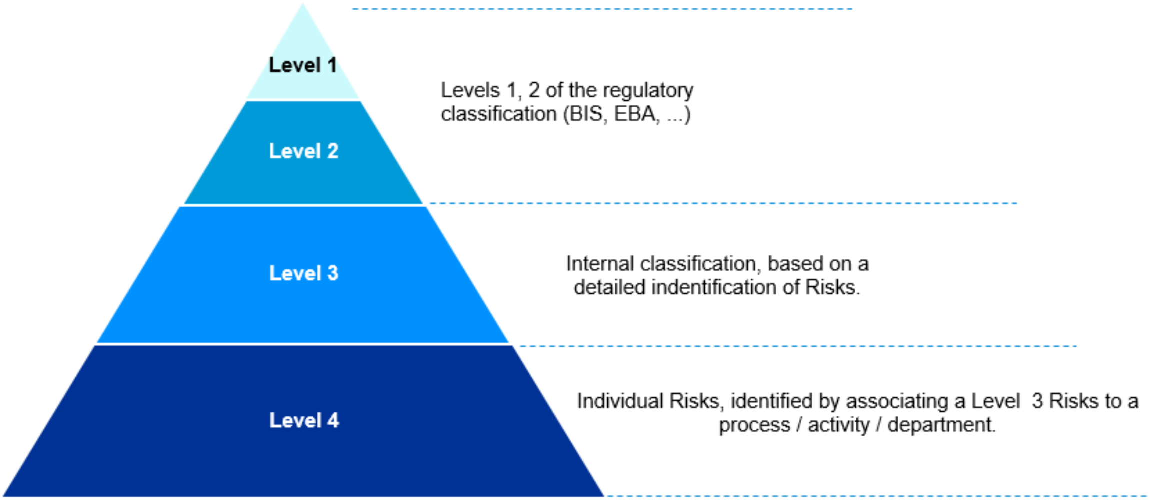



Diagram 11

### 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 and/or emerging operational risks.
- To ensure the organisation's long-term continuity.
- To promote the establishment of systems for continuous improvement of the operating process and of the control structure.
- To exploit operational risk management synergies.
- 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 2018 were:

- Progress achieved in the implementation of the Three Lines of Defence scheme for managing the risks associated with the Corporate Risks Catalogue.
- Risk Appetite Framework (RAF): consolidation of the legal risk metric, creating a new model risk metric and a new metric for non-exceptional losses.
- Annual updating of operational risk self-assessments and related controls.
- Update of the extreme operational loss scenarios.
- Specific projects to reduce the main recurrent operational losses.
- Beginning of the collection of data on operational loss events in VidaCaixa.

## 7.2. Minimum capital requirements

The following table shows the Group's RWAs of capital for operational risk at 31 December 2018.

**Table 7.1. RWA by Business Line**

*Amounts in millions euros*

| | Gross Income Average | RWA | RWA Density | Capital Requirements |
|---|---|---|---|---|
| Retail Banking | 3,499 | 5,249 | 150% | 420 |
| Retail Brokerage | 636 | 954 | 150% | 76 |
| Asset Management | 166 | 249 | 150% | 20 |
| Commercial Banking | 2,542 | 4,767 | 188% | 381 |
| Agency Services | 34 | 63 | 188% | 5 |
| Trading and Sales | 645 | 1,452 | 225% | 116 |
| Corporate Finance | 166 | 374 | 225% | 30 |
| Payment and Settlements | - | - | - | - |
| **Total** | **7,689** | **13,109** | **170%** | **1,049** |

## Calculation of eligible own fund 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.

The regulations establish 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 7.2. 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 financial institutions are able to map the corresponding part of the Relevant Indicator to each of these regulatory business lines.

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

## 7.3. Operational risk management levels

The management model is structured as follows:

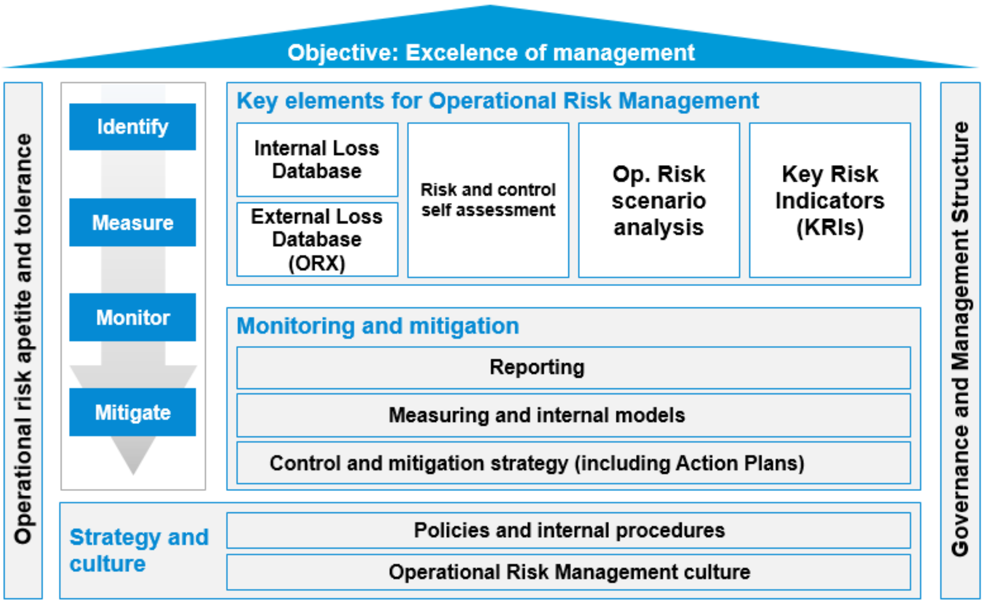



Diagram 12

The different 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 Group companies) on a daily basis to capture key events, losses and key risk indicators (KRIs) for operational risk. It also offers interfaces for updating the organisational structure and other companies included 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 it into the Big Data environment to provide an analytical environment.

The main operational risk management mechanisms are set out in Diagram 8.

### Quantitative measurement

### Internal Database

The internal operational loss database is one of the foundations for managing operational risk (and the future calculation of capital for operational risk).

An **operational event** is the implementation of an identified operational risk, an event that causes an operational loss. The operational event is the most important and central concept in the Internal Database model. An event can have none (in this case we refer to “near losses”), one, or multiple loss effects; loss effects are defined as each individual economic impact related to an operational loss or recovery.

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 following chart shows the distribution of the Group's gross operational losses by type of risk in 2017 and 2018:

**Chart. Distribution of the Group's gross operational losses**

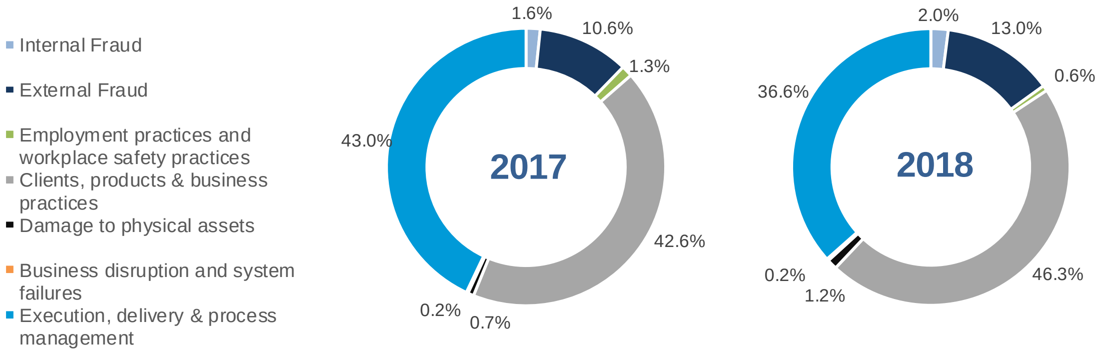



**Diagram 13**

## External database (ORX)

The internal historical data on operational losses is supplemented by **external data**. For this reason, the Group is registered with the ORX (Operational Riskdata eXchange) consortium, which anonymously exchanges operational loss information from banks on a worldwide level, and allows geographical subgrouping, among other functions, to manage risks (news service, working groups, methodological initiatives on operational risk). ORX requires its members to classify operational loss data using a series of parameters, both regulatory and proprietary. As a result, all events in the database include the parameters required by the ORX.

## Qualitative measurement

One of the foundations of the Group's management of operational risk is identification through qualitative techniques.

## Self-assessments

Operational risks are subjected to self-assessments on an annual basis which, with regard to operational risk, make it possible to: (i) obtain knowledge about the operational risk profile and new critical risks; and (ii) maintain a standardised update process for the taxonomy of operational risks, which is the foundation upon which this risk's management is defined.

The self-assessments process involves the following phases:

- The centres update and confirm the operational risk map.
- Assessment of the risk by the area. The input parameters requested are estimates of data relating to: the potential frequency and impact of possible loss events, the allocation of the risk to the appropriate Business Line, and assessment of the associated control.
- Validation of the assessment by the area manager.
- Final validation by the Operational Risk Division.

During 2018, the annual update of the self-assessment of operational risks has been completed (identifying more than 650). This process was accompanied by a specific programme to train those involved, in order to improve the results of the backtest carried out following the 2017 campaign coming to an end.

### Operational risk scenarios

A series of expert workshops and meetings are also held to generate hypothetical extreme operational loss scenarios. The objective is to use these scenarios to detect areas of improvement in the management and to supplement the available external and internal historical data on operational losses.

### Operational risk indicators (KRIs)

**Key Risk Indicators (KRIs) relating to operational risk** are a tool used to measure quantitative or qualitative aspects that make it possible to: (i) anticipate changes in operational risks, enabling a forward-looking approach to their management; and (ii) provide information on changes to the operational risk profile and the reasons for such changes. A KRI is a metric, supported by the operational risk corporate management tool, which allows changes in the levels of this risk to be detected and anticipated. 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 KRIs for operational risk are: the definition of each KRI (including any sub-KRIs), thresholds, alerts (and related actions), frequency, the updating method and criticality.

Over 350 KRIs remained under study during 2018, specifically to assess their suitability, predictive capability, usefulness for managing operational risk, and importance in global monitoring.

In addition to the existing Tier 2 indicators, there is also a new metric for model risk and another new metric for non-extraordinary operational losses.

### Action and mitigation plans

With the aim of mitigating operational risk, action plans that entail appointing a centre to be in charge, setting out the actions to be undertaken to mitigate the risk, the percentage or degree of progress, which is updated regularly, and the plan's final commitment date have been defined. This allows mitigation by (i) decreasing the frequency at which the events occur, as well as their impact; (ii) having a solid control structure in place based on policies, methodologies, processes and systems; and (iii) integrating information generated by the operational risk management mechanisms into the Bank's day-to-day management processes.

The action and mitigation plans may originate from any of the operational risk management tools or other sources: self-assessments, scenarios, external sources (ORX, specialist press), KRIs, losses due to operational events, and internal audit and internal validation reports.

The definition and monitoring process for action and mitigation plans involves the following three stages:


Diagram 14

### Risk transfer (insurance)

The corporate insurance programme for mitigating operational risk is designed to cover certain risks, and it is updated annually. Risk transfer depends on risk exposure, tolerance and risk 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 management 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:

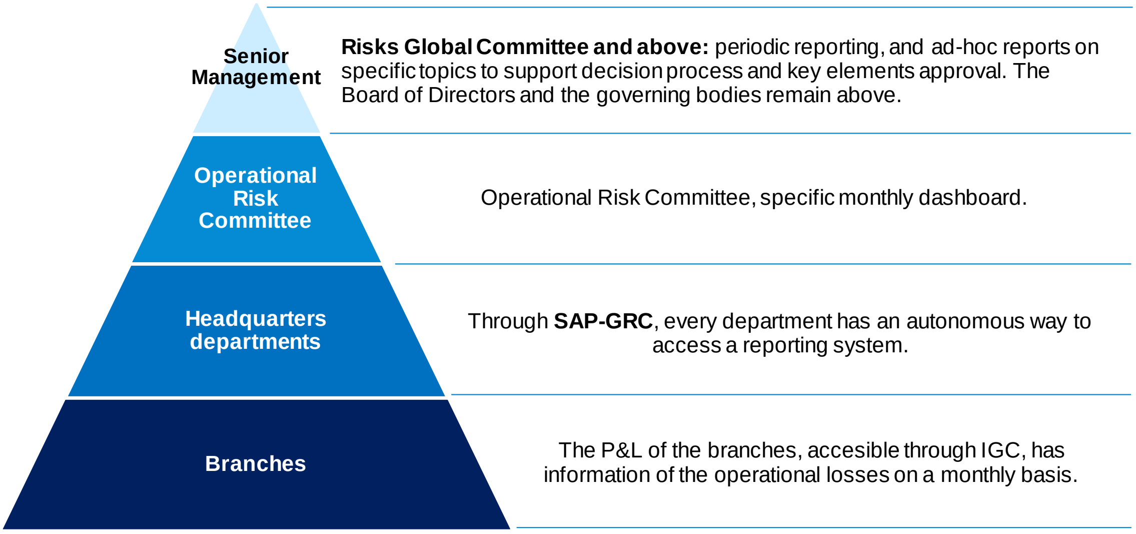



Diagram 15

## 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 place at three levels: 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 in order to promote day-to-day risk management.
- Specific initiatives: 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 the Risk Catalogue

The risk categories in the Corporate Risk Catalogue that are identified as operational risk are as follows:

### Legal/Regulatory risk

The potential loss or decrease in the profitability of the CaixaBank Group as a result of changes in the legislation or in the regulation in force or due to conflicts of standards (in any field, including tax), in its interpretation or application by the corresponding authorities, or in its transfer to administrative or court rulings.

### Conduct and compliance risk

Risk of CaixaBank applying criteria for action contrary to the interests of its clients or other stakeholder groups, or actions or omissions by the Group that are not compliant with the legal or regulatory framework, or with internal policies, rules or procedures.

### Information Technology (IT) risk

Losses due to the unsuitability or failures of the hardware or software of technological infrastructures, due to cyber attacks or other circumstances, which can compromise the availability, integrity, accessibility and security of infrastructure and data.

### Operating processes and external events

Losses or damages caused by operating errors in processes related to the Group's activity, due to external events that are beyond the Group's control, or by third parties external to the Group, whether accidentally or intentionally. This includes errors in the management of suppliers, model risk, and the custody of securities.

### 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 position of the CaixaBank Group.

### 7.4.1. Legal and regulatory risk

Legal and regulatory risk is understood as the likelihood of the Group incurring losses or seeing its profitability reduced, whether due to legislative or regulatory changes, errors in interpreting or applying the laws or regulations in force, court rulings, administrative actions taken against the Group's interests, or tax-related decisions taken by the Group or the tax authorities.

This risk is managed by complying with certain activity principles in order to ensure that the risk appetite and tolerance limits defined in CaixaBank's Risk Appetite Framework are respected. Accordingly, and in order for Legal Advisory to manage this risk, procedures are performed to continuously monitor and follow regulatory changes, to defend the Bank's interests (actively participating in the regulators' consultations), to analyse and adapt to regulations, to identify risks, to implement procedures and to argue the Bank's case in legal proceedings.

Given the impact of the regulatory framework on the Bank's activities and the potential impact on its long-term sustainability, these procedures involve Senior Management, via the Regulation Committee, the Transparency Committee and the Privacy Committee.

During 2018, the Bank worked actively on: (i) implementing the various rules and decisions taken by the Supreme Court; (ii) projects to improve the formal and material transparency of contractual documents with consumers, and (iii) specific actions to improve risk management and the effectiveness of the control measures.

Below, we set out the main consultation processes in which the Bank has participated due to their importance:

- Incorporation of various European directives into the national regulations, in particular: (i) the Mortgage Credit Directive (MCD); (ii) the Basic Payment Accounts Directive (PAD); (iii) the Second Payment Services Directive (PSD2); (iv) the General Data Protection Regulation (GDPR); (v) the Markets in Financial Instruments Directive (MiFID 2); (vi) the Fourth Anti-Money Laundering Directive (AMLD 4) and (vii) the Insurance Distribution Directive (IDD).

- The Development of PSD2 at EU level, actively participating in the enquiries of the Commission and the EBA with regards to second-level standards (Guidelines, Technical Standards and Opinions), as well as in the deliberations of the API Evaluation Group.

- In terms of taxation, the draft bills published on 23 October 2018 have been especially monitored: i) Draft bill for the Tax on Financial Transactions; ii) Draft bill for the Tax on Specific Digital Services; and iii) Draft bill for Measures to Prevent and Combat Tax Fraud.

- With regard to the banking sector's digital transformation, it has actively participated on a national level in setting up the new controlled testing mechanism (regulatory sandbox), and at European and international level, in: the European Commission FinTech Action Plan, the EBA Guidelines on externalisation to the cloud, initiatives regarding crowdfunding service suppliers, including the sale and exchange of virtual assets (ICOs), and electronic communication privacy regulations (ePrivacy).

- In other matters relating to the retail banking market, particular attention has been paid to monitoring consultations relating to consumer credit, the second opportunity mechanism and the representation of collective interests.

The Group has also ensured that the following standards have been properly implemented, although certain aspects of the related European Union Directives and/or Regulations are still pending full incorporation into Spanish legislation:

- Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (**General Data Protection Regulation**).

- Directive (EU) 2015/2366 of the European Parliament and of the Council on **payment services** in the domestic market (PSD2).

- Directive 2014/92/EU of the European Parliament and of the Council on comparability of fees related to payment accounts, payment account transfers and access to **basic payment accounts** (PAD).

- Directive 2014/65/EU of the European Parliament and of the Council regarding markets in **financial instruments**, modifying Directive 2002/92/EC and implementing provisions (MiFID 2).

- Directive 2014/17/EU of the European Parliament and of the Council on **credit contracts entered into with consumers for residential-use real estate properties.**

- Order HFP 187/2018 of 22 February, introducing new technical requirements on the **Immediate Supply of Information**, in compliance with Royal Decree 596/2016 for the modernisation, improvement and promotion of the **use of electronic means in managing value added tax**, which has required new adjustments in the Group's processes and information systems.

Similarly, decisions made by the High Court have been adopted and general projects have been carried out to improve the formal and material transparency of contractual documents with consumers and specific actions to improve risk management and the effectiveness of the control measures.

There is currently a particular trend of litigation in Spain which, among others matters, is linked to contracts with consumers, financial instruments and regulatory control. After performing the corresponding legal risk assessment, the appropriate provisions are recognised, where applicable, to cover the potential outflow of resources when an adverse court or administrative ruling is considered probable.

The Group has policies, criteria, analysis and monitoring procedures, as well as specific periodic controls for the purposes of identifying and updating the provisions required to cover the present obligations arising as a result of past events which could lead to an outflow of economic resources, provided their occurrence is considered probable as a result of unfavourable rulings and administrative penalties against the Group, in or out of court (i.e. customer claims), whether of a civil, criminal, fiscal or administrative nature.

## 7.4.2. Conduct and compliance risk

### Definition and general policy

Insofar as operational risk is concerned, conduct and compliance risk is defined as the Group's risk arising from the application of conduct criteria that run contrary to the interests of its customers and stakeholders, along with deficient procedures resulting in acts 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.

The 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 compliance and conduct risk is not limited to any specific area, but rather the entire Group. All employees must ensure compliance with prevailing regulations, applying procedures that capture regulations in their activity.

In order to manage compliance and conduct risk, the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics are encouraged, and members of the governance bodies and other employees and Senior Management must ensure that they are compliant as a core criterion guiding their day-to-day activities. Therefore, the divisions 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.

## 7.4.3. Information Technology (IT) risk

It refers to risks of losses due to hardware or software inadequacies or failures in technical infrastructure, due to cyberattacks or other circumstances, which could compromise the availability, integrity, accessibility and security of the infrastructures and data. The risk is broken down into 5 categories that affect ICT (Information and Communications Technology): (i) availability and continuity; (ii) security; (iii) change; (iv) data integrity; and (v) outsourcing.

Its measurement is included in a level-2 monthly-monitored RAF indicator, calculated using individual indicators linked to the governance of information technologies, information security and technological contingencies. Resources 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.

The governance frameworks available in the area of IT risk have been designed according to leading international standards, applied in the areas of:

- IT governance, designed and developed under the ISO 38500 standard.
- Information security, designed and developed under the ISO 27001 standard.
- Information Technology contingency, designed and developed under the ISO 27031 standard.

  In particular, business continuity refers to an organisation's ability to continue to deliver products or services at acceptable predefined levels following a disruptive incident. Its management consists of identifying potential threats to the organisation and their impact on operations. It provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand, and value-creating activities.

  Within this scope, CaixaBank has adopted and maintained a Business Continuity Management System (BCMS) based on the international ISO 22301 standard and certified by the British Standards Institution (BSI), with number BCMS 570347. Similarly, CaixaBank has been designated a critical infrastructure operator by virtue of the provisions of Act 8/2011 and is under the supervision of the National Centre for the Protection of Critical Infrastructures dependent on the State Secretary of Home Office Security.

Furthermore, CaixaBank holds a general emergency plan and various internal regulations on different areas of the Banks, which include priority aspects such as: **(i)** cybersecurity strategy; **(ii)** the fight against customer and internal fraud; **(iii)** data protection; **(iv)** security governance and disclosure; and **(v)** supplier security.

## 7.4.4. Operating processes and external events

### Definition and general policy

Within the operational risk framework, 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 its control, or due to third parties outside the Bank, whether due to accident or fraud.

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 means 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. Financial information reliability risk

The Financial Information Reliability Risk is the risk of damage, whether financial or other, stemming from possible deficiencies in the accuracy, integrity and criteria of the processes used in preparing the data necessary to evaluate the financial and equity situation of the Group.

The accounts closing constitutes the fundamental pillar of almost all the financial information that is generated in the Group. The 1st line of defence activities on the accounts closing process include: i) defining accounting criteria to apply in the Group as well as the processing of the unique corporate operations and transactions; ii) reviewing the reasonableness of the judgements and estimates as well as of the rest of the changes in accounting figures; iii) monitoring the implementation of new accounting circuits and standards as well as analysing the differences between estimated and actual impacts; iv) working on and controlling the applications and other manual processes, and v) coordinating the Group's companies to prepare the consolidated accounting closings.

To manage and monitor the Reliability Risk of the Financial Information, the Group has a System of Internal Control over Financial Reporting (ICFR), which is defined as the set of processes that are carried out to provide reasonable assurance on the reliability of financial information published by the Group 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). For further information, see section F of the Annual Corporate Governance Report, accompanying the Comprehensive Management Report.

This risk is managed by assessing whether the financial information reported by the various companies composing 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 Group 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).

Also of note is the existence of the Bank's "Policy on disclosure and verification of financial information", which has been approved by the Board of Directors. The main objectives of this policy are to:

- Define the scope of information to disclose, the general policy and criteria related to control and verification of financial information.
- Provide the Group with a reference framework that allows management of the reliability risk of the financial information to be disclosed, and standardises control activities.
- Define the governance framework to be followed both for information to disclose and for verification of documentation.

# 8.

# Risks in the banking book



# 8. RISKS IN THE BANKING BOOK

Interest rate risk is inherent to the activity of banking. It arises from the impact that changes in market interest rates might have on net interest income and economic value of a financial institution's balance sheet.

The Group's management of this risk seeks:

- To optimise the net interest margin and
- To preserve the economic value of the balance sheet.

To carry out these management procedures, measurements are taken 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 the stressed scenarios are compared with those of the baseline scenario to obtain risk measurements, which are then compared to the risk thresholds established in the Risk Appetite Framework (RAF).

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

The Group is comfortably within the risk limits defined at the regulatory and management levels within the RAF.

At 31 December 2018, the Group uses fair value macro-hedges as a strategy to mitigate its exposure to interest-rate risk and to preserve the economic value of its balance sheet.

**10.67% / -8.87%**

**Sensitivity of 1-year net interest margin of sensitive balance sheet items: +/- 100 bp in interest rates**

**4.30% / -2.12%**

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

## Annual change:

In 2018, CaixaBank held its balance-sheet position to increases in interest rates. The reasons for this balance positioning 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 on-demand accounts, which are less sensitive to interest rates.

From a management point of view, the Group has continued to adapt its balance sheet structure to the expected environment, positioning it for interest rate increases.

## 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 net interest income and economic value of an entity's balance sheet. As balance sheet assets and liabilities are linked to different benchmark indices and have differing maturities, they may be contracted (in the case of new production) or renewed at interest rates different to those currently prevailing. This can affect their fair value and the margin they generate.

The Group's management of this risk seeks:

- To optimise the net interest margin and
- To preserve the economic value of the balance sheet,

considering at all times the metrics and thresholds of the Risk Appetite Framework in terms of the volatility of the net interest margin and value variation, respectively.

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 the stressed scenarios are compared to those of the baseline scenario to obtain risk measurements, which are then compared to the risk thresholds set out in the RAF.

Different stress scenarios are considered:

- The scenarios for parallel increases and decreases in interest rates apply different values (200 bp and 100 bp), with an immediate and a gradual 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. These scenarios 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 shift scenarios, six shock-scenarios are considered with non-parallel movements of the interest rate curve that also allow for negative interest rates with a dynamic floor.

- As mentioned, the interest-rate reduction scenarios include the possibility of negative interest rates. However, in order to apply a realistic assumption, the Group has defined a limit on the magnitude of the shock applied in each scenario. This limit has been defined to be dynamic. That is, its value changes depending on the type of scenario and the current level of interest rates, fluctuating between -1% and the shock being considered in each scenario (-200 bp in the case of parallel-shift scenarios, and -250 bp and -100 bp with changes at the short and long end of the curve, as well as change in slope). The size of the shock to be applied at any given time is calculated based on the differential between the minimum historical rate observed for the Euribor reference rate and the current rate.

In short, the shock scenarios that constitute the Risk Appetite Framework (RAF) and the limits for management purposes 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 minimum rate of 0%: Immediate and parallel 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 Group applies a floor, or minimum rate, which can be below 0% as explained in previous sections.

- Immediate changes of slope:
  4. Steepening: General increase of slope.
  5. Flattening: General flattening of slope.

6. Short Up: Rate increase at the short end of curve.
7. Short Down: Rate reduction at the short end of the curve.
8. Long Up: Rate increase at the long end of curve.
9. Long Down: Rate reduction at the long end of the curve.

For net interest margin, the same shock scenarios as those applied to economic value are used, in addition to the following scenarios:

- Parallel and progressive:
  10. Up +200 bp: Progressive increase of 200 bp.
  11. Down -200 bp with a minimum rate of 0%: Progressive reduction of 200 bp with a minimum rate of 0%.
  12. Up +100 bp: Progressive increase of 100 bp.
  13. *Down* -100 bp with a minimum rate of 0%: Progressive reduction of 100 bp with a minimum rate of 0%.

The forecasting models are updated monthly and the assumptions are periodically revised to ensure that the measurements are suitable for the current market situation and the characteristics of the Group's balance sheet.

## 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 supervision of internal monitoring and control systems. Accordingly, the Board is the Group's highest risk policy-setting body.

The Board of Directors has assigned functions related to the ongoing monitoring of risk management to the Risk Committee and to the Global Risk Committee. The ALCO is in charge of managing, monitoring and controlling interest rate risk in the banking book. To this end, it monitors compliance with the RAF on a monthly basis, focusing both on net interest margin and on 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.

As part of its functions, the Balance Sheet Analysis and Monitoring Division reports on changes arising in the risk, and the factors affected by such changes, not only to the ALCO but also to those responsible for internal monitoring and for the second and third lines of defence:

- As the second line of defence: the Market Risk and Balance Sheet Risk Division.

- As the third line of defence: 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 broad set of market-type scenarios, including the potential impact of all possible sources of structural interest rate risk, 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 not only dependent on interest rates.

The Group 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 considering its complexity.

It uses both static and dynamic measurements:

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

- **Static gap:** it 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:** this 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 Group. 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 employed.

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

- **Balance sheet VaR:** defined as the maximum economic value that could be lost from the balance sheet in a certain period of time, applying market prices and volatilities as well as correlation effects using a specific confidence level and time horizon.

  A 1-month horizon and a 99.9% confidence interval is used when measuring balance sheet VaR. Accordingly, the VaR figure should be interpreted as an estimate that, with a 99.9% probability, the one-month loss should not exceed the calculated VaR.

  The treasury activity methodology is used to calculate the 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 guidance 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.

  In addition, a VaR is calculated with a 1-month horizon and a 99% confidence level on positions in the Fair Value OCI fixed-income portfolio, including for interest rate risk and credit spread risk.

  Risk thresholds are also set for this VaR measure.

**Dynamic measurements:** These 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 Group's operating plan are included.

- **Net interest income projections:**

  The Group projects future net interest income (1, 2 and 3 years ahead) under various interest rate scenarios. The objective is to project net interest income based on current market curves, the forecast for the business and wholesale issuances and portfolio purchases and sales, and to predict how it will vary under stressed interest-rate scenarios.

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

  Net interest income forecast depends 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 on-demand accounts and the future performance of the Group's business.

- **Net interest income volatility:**

  The difference between these net interest income figures (the differences resulting from an increase or decrease scenario 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 Group'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 budgeted in the financial plan (volumes, products and margins) and information on the various market scenarios (interest and exchange rate curves) are also fed into this tool, in order to perform a reasonable estimate of the risks involved. It measures the Group's static gaps, net interest income and economic value.

### Hedging policies and mitigation techniques

To mitigate the structural interest rate risk, the Group actively manages risk by arranging additional hedging transactions on financial markets to supplement the natural hedges generated on its own balance sheet as a result of the complementarity between the sensitivity to fluctuations in interest rates on deposits and on lending transactions agreed with customers or other counterparties. At 31 December 2018, CaixaBank uses fair value macro-hedges as a strategy to mitigate its exposure to interest-rate risk and to preserve the economic value of its balance sheet.

## 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 into account scenarios of rising and falling interest rates of 100 bp each is approximately 10.67% in the rising scenario and -8.87% in 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 bp each is approximately 4.30% in the rising scenario and -2.12% in the falling scenario, compared to the economic value in the baseline scenario.

The following table shows measurements of this risk for the current year and the previous year in the different scenarios used for management of the Bank’s balance sheet for both economic value and 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 their IRB risk.

The sensitivities of net interest income and equity are measurements that complement each other and provide an overview of risk in the banking book, 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 the treasury-specific methodology.

The interest rate risk in the banking book assumed by CaixaBank Group is below levels considered significant (outliers) under current regulations.

The Bank continues to carry out a series of actions designed to strengthen the monitoring and management of interest-rate risk in the banking book.

**Table 8.1. Appendix. Table B**

*Amounts in millions euros*

| | ΔEVE | | ΔNII | |
|---|---|---|---|---|
| | Economic Value Sensitivity | | Net Interest Margin (12 months) Sensitivity | |
| Period | 2018 | 2017 | 2018 | 2017 |
| Parallel Up | 19.76% | 17.57% | 23.21% | 15.45% |
| Parallel down | -3.98% | -2.57% | -9.35% | -6.34% |
| Steepener | 7.12% | 5.03% | | |
| Flattener | -2.23% | 0.08% | | |
| Short rate up | 3.51% | 5.06% | | |
| Short rate down | 0.52% | -0.02% | | |
| Maximum(*) | -3.98% | -2.57% | -9.35% | -6.34% |

| Period | 2018 | 2017 |
|---|---|---|
| Capital Tier 1 | 19,451 | 19,074 |

*(*) The "Maximum" concept expresses maximum loss.*

## 8.1.2. Modelling

There are a number of key assumptions related to measurement and monitoring of interest rate risk in the banking book. Both the models used and the updates and changes made to them are included within the scope of control of the three lines of defence model.

### 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 this models is the monthly rate of early cancellation.

With this model, the probability of early cancellation is explained by the aggregation of an independent or constant term of the model $\beta_0$ being interpreted. In this case, it is the observed historical average rate of early cancellation. At the same time, other ratios determine the proportion in which each explanatory variable partially impacts the rate of early cancellation. This explains the deviations in the cancellation rate from its historical average.

The selected explanatory variables are grouped into the following categories:

1. Variables related to the passage of time:

- Residual life of the contract (in months), to capture the effect of the passage of time on the probability of early cancellation of loans.
- Ratio between residual life of contract and life from start date, with the same purpose as in the previous variable in the case of loans.
- Seasonality, to capture the acceleration in the cancellation rate caused by 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 a benchmark of the cost/remuneration paid/received by the 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 an individual or a corporate, if they have a guarantee, whether or not they are resident, etc.

### Current accounts

The treatment of on-demand accounts is based on the Bank's customer assessments and its past experience and aims at adapting the indefinite maturity of the 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 on-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 exchange rate risk in the banking book

The Group has foreign currency assets and liabilities in its balance sheet as a result of its commercial activity and its positions in foreign currencies, in addition to the foreign currency assets and liabilities deriving from the Group’s measures to mitigate exchange rate risk.

The Executive Finance Division is responsible for managing the exchange risk arising from balance sheet positions denominated in foreign currency, a task performed through the market-risk hedging activity undertaken by the Markets Division.

The Group hedges its foreign exchange risk by arranging cash transactions or using financial derivatives to mitigate asset and liability positions on the balance sheet. However, the nominal amount of these instruments is not reflected directly on the balance sheet but rather as memorandum items for financial derivatives. This risk is managed by seeking to minimise the level of foreign exchange risk assumed in commercial operations, which explains why the Group's exposure to the risk is low or virtually non-existent.

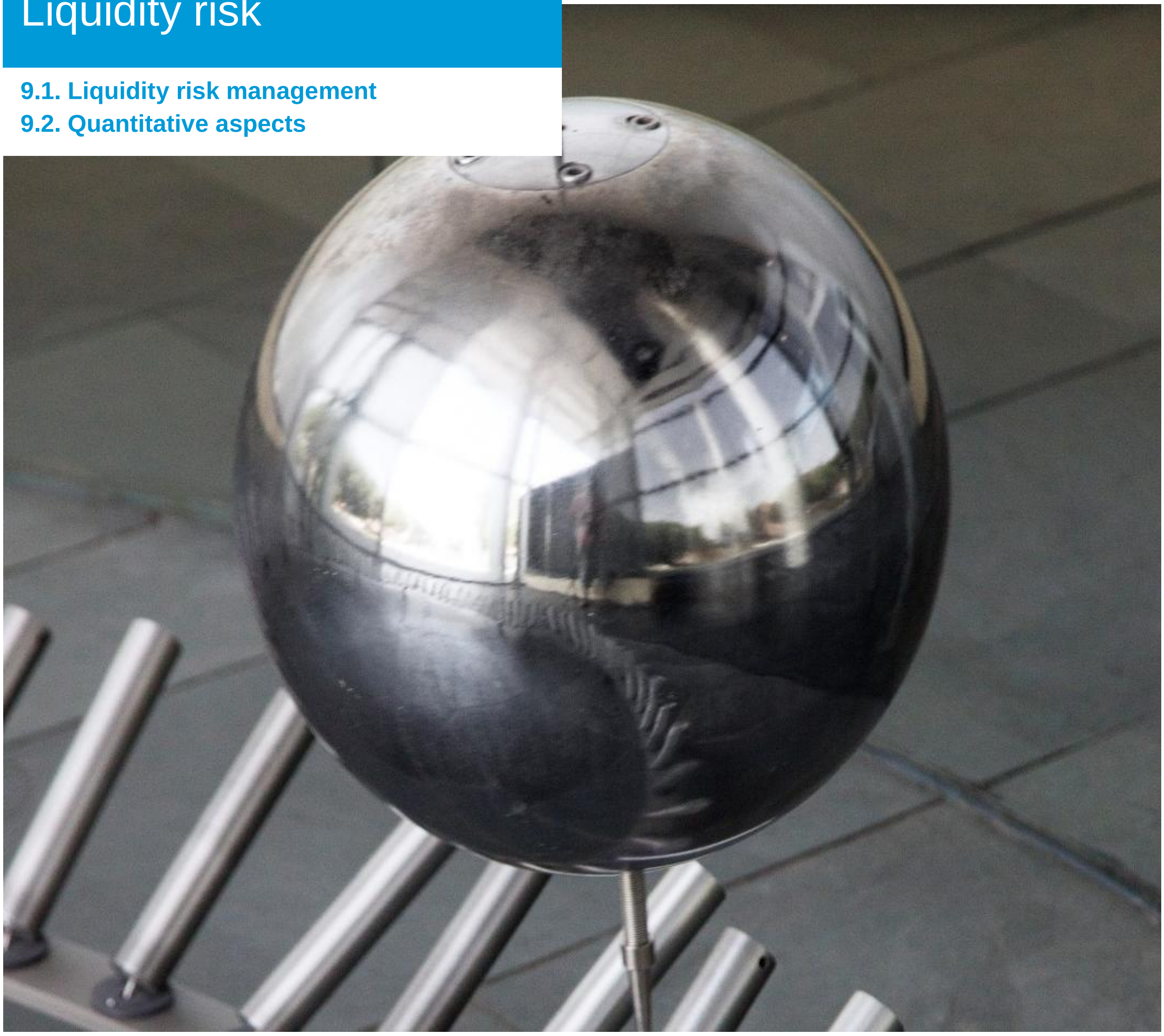
As a result of the active management of currency risk by the Markets Area, the remaining minor foreign currency positions of the commercial balance sheet and of the treasury activity are primarily held with credit institutions in major currencies (such as US dollar, pound sterling or Swiss franc). The methods used to quantify these positions are the same and are applied alongside the risk measurements used for the treasury activity as a whole.

As of 31 December 2018, the Group's foreign currency positions are mostly concentrated in the equity shareholdings of BPI, specifically in Banco de Fomento de Angola, denominated in kwanza, and Banco Comercial de Investimento, denominated in metical.

# 9.

# Liquidity risk





# 9. LIQUIDITY RISK

Liquidity risk measures the Bank's capacity to meet the payment obligations it has acquired and to finance its investment activity.

Liquidity risk in the CaixaBank Group is managed to ensure that the Group 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 with the Risk Appetite Framework (RAF) at all times.

This goal makes it possible to maintain a stable and balanced funding structure, with a significant role played by customer deposits and limited use of wholesale markets, in line with the Group's funding strategy.

## Annual Change

Liquidity metrics remained at comfortable levels throughout 2018. At 31 December 2018, total liquid assets stood at EUR 79,530 million, with a growth of EUR 6,755 million over the year. The Liquidity Coverage Ratio (LCR) at that date was 200%, double the minimum requirement of 100% applicable from 1 January 2018. The Net Stable Funding Ratio (NSFR), pending regulatory definition in the European Union (it is calculated using Basel criteria) stood at 117% by year-end 2018.

The funding strategy is based on two key aspects: (i) a structure based mainly on customer deposits, as reflected in an LTD ratio of 105% at 31 December 2018; (ii) complemented by funding in capital markets.

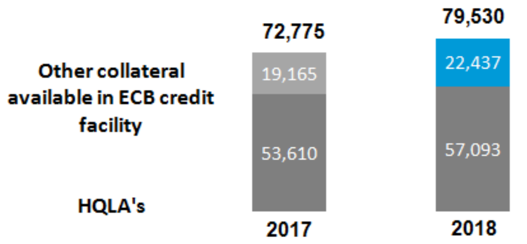
The structure of wholesale issuances, meanwhile, is diversified, with a comfortable maturity profile of relatively low amounts maturing over the coming financial years.

**€79,530 M**
**Total liquid assets (HQLAs + other collateral available in ECB credit facility)**

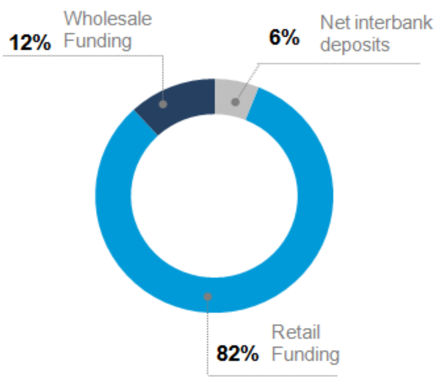
**200%**
**LCR at 31 December 2017**

**82%**
**Customer funds over total funding**

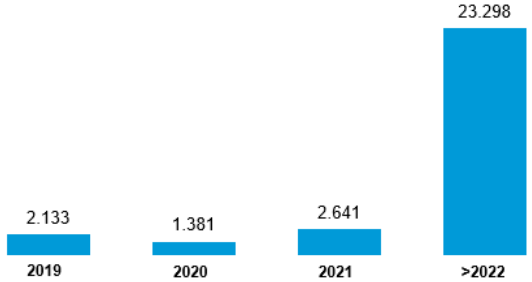
### TOTAL LIQUID ASSETS
€ million




### FUNDING STRUCTURE
Distribution by source of funding, %




### MATURITIES
Distribution of wholesale issuances by year of maturity, in € millions



# 9.1. Liquidity risk management

## Definition and general policy

The Group manages this risk in order to ensure liquidity is maintained at levels that allow it to comfortably meet all its payment obligations and to prevent its investment activities from being affected by a lack of lendable funds, operating at all times within the Risk Appetite Framework (RAF).

Management of liquidity risk is decentralised in two units: in the CaixaBank sub-group (which consists of CaixaBank and subsidiaries in regulatory consolidation except Banco BPI) and in the BIP sub-group.

Drafting and updating the RAF presented to the governing bodies delimits the liquidity risk metrics defined for the CaixaBank Group 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, tolerance and, where applicable, recovery thresholds within the RAF.
e) The establishment of management and control procedures for each of these risks, including systematic internal and external reporting mechanisms;
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 the maintenance of liquidity levels within the RAF in order to comfortably meet all payment obligations on time and prevent investment activities from being affected by a lack of lendable funds.

In particular, the Group holds specific strategies with regard to: (i) management of intraday liquidity risk; (ii) management of short-term liquidity; (iii) management of the sources of financing/concentrations; (iv) management of liquid assets; and (v) management of encumbered assets.

Furthermore, the Bank has procedures to minimise liquidity risks in stress conditions through: (i) the early detection of the circumstances that could cause it; (ii) minimising negative impacts; and (iii) active management to overcome a potential crisis situation.

Risk appetite indicators have been established at Group level and at management unit level. These indicators include the main ones at Level 1[24] relating to short-term liquidity (position and LCR - Liquidity Coverage Ratio), the long-term funding structure (retail and wholesale) and the cost of wholesale funding; and nine secondary Level 2 indicators[25] relating to short-term liquidity (position), balance sheet structure with NSFR ratio, concentration of wholesale maturities, concentration of liability counterparties, concentration of ECB funding, intraday liquidity, asset encumbrance and stress metrics.

The stress metric ensures the integration of stress test exercises into the risk appetite and risk management processes. 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”).

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

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

The 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 in the field of liquidity risk. Among other purposes, these tests can verify RAF liquidity targets and project metrics to anticipate breaches of liquidity targets and limits set in the Risk Appetite Framework (RAF). The internal liquidity model and the recovery plan use as an assumption all risk sources identified in the process of liquidity risk identification. Among other assumptions, it takes into account the behaviour of depositors (outflows), the maturity of issues, and asset valuation and classification stress. The CaixaBank Group uses tests at a consolidated level (in accordance with the EBA guidelines in the draft document on stress) but also at the liquidity risk management unit level.

To achieve the liquidity management objectives it:

- Has a decentralised liquidity management system across two units (the CaixaBank subgroup and the BPI subgroup), which includes a segregation of duties to ensure optimal management, 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 Risk 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 Bank'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 the liquidity risk in the banking book in accordance with 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 Risk 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 one 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 test 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 calculated on a daily basis, including certain Risk Appetite Framework (RAF) metrics. Monthly liquidity projections are performed, including the most relevant RAF metrics, together with two stress test exercises (internal approach and LCR-based model). Annual liquidity exercises are carried out for the Recovery Plan and the Internal 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 2017 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 Declaration of the Board of Directors is as follows:

- Scope of application: consolidated sub-group of credit institutions headed by CaixaBank. Liquidity risk management within this scope is decentralised in two units (CaixaBank subgroup and BPI subgroup).

- 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 managing material risks (intraday, short-term, sources of funding/concentration, liquid assets and encumbered 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, together with 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: CaixaBank also has robust procedures in place to identify, manage, monitor and control its liquid asset base. The Bank has 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 has two specific funding and liquidity stress testing programmes that are regularly performed and then reviewed by the ALCO [1]. The internal stress test forms part of the risk management process by way of a Level 2 RAF metric that measures CaixaBank's capacity to re-establish compliance with a specific risk appetite level or early warning threshold of the financial Level 1 RAF metrics after implementing measures in a reverse stress test scenario, and through the liquidity stress test for calculating 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 exercise: CaixaBank has carried out an ILAAP self-assessment.

## Hedging policies and mitigation techniques

The measures in place for liquidity risk management and anticipatory measures feature:

- Authority from the Annual General Meeting to issue securities.

- Availability of several facilities open with: (i) the ICO, under credit facilities – mediation; (ii) the EIB; and (iii) the Council of Europe Development Bank (CEB). In addition, there are financing instruments with the ECB for which a number of guarantees have been posted to ensure that liquidity can be obtained immediately:

- Maintaining issuance programmes aimed at expediting formalisation of securities issuances in the market:

- To facilitate access to short-term markets, CaixaBank currently maintains the following:

  - Interbank facilities with a significant number of banks and third-party states.
  - Repo lines with a number of domestic counterparties.
  - Access to central counterparty clearing houses for repo business (LCH Ltd – London, LCH SA – Paris, Meffclear – Madrid and EUREX – Frankfurt).

- The Contingency Plan and Recovery Plan contain a wide range of measures that allow for liquidity to be generated in a wide range of crisis situations. These include potential issuances of secured and unsecured debt, use of the repo market, and so on. For all these, viability is assessed under different crisis scenarios and descriptions are provided of the steps necessary for their execution and the expected period of execution.

## Funding strategy:

The 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:

- Maintaining a stable funding base of customer 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 NSFR, wholesale funding ratio and concentration metrics (concentration of counterparties, of wholesale maturities and of ECB funding).

## 9.2. Quantitative aspects

Below is a breakdown of the CaixaBank Group's liquid assets and liquidity coverage ratio (LCR):

**Table 9.1. Liquid Assets (HQLAs)**

*Amounts in millions euros*

| | 2017 | | 2018 | |
|---|---|---|---|---|
| | Market value | Applicable weighted amount | Market value | Applicable weighted amount |
| Level 1 Assets | 51,773 | 51,773 | 54,841 | 54,771 |
| Level 2A Assets | 333 | 283 | 51 | 43 |
| Level 2B Assets | 2,858 | 1,554 | 4,308 | 2,279 |
| **Total (*)** | **54,964** | **53,610** | **59,200** | **57,093** |

*(*) 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 79,530 million and EUR 72,775 million at December 2018 and December 2017, respectively. Compliance with the liquidity coverage ratio became came mandatory on 1 October 2015. This entails maintaining an adequate level of high-quality liquid assets (HQLA) available to meet liquidity needs for a 30 calendar day stress scenario which considers a combined financial sector-wide and entity-specific crisis. The established regulatory limit is 100%, as of 1 January 2018. CaixaBank has included thresholds for this metrics within the Risk Appetite Framework (RAF).

**Table 9.2. LCR Ratio (liquidity coverage ratio)**

*Amounts in millions euros*

| | 2017 | 2018 |
|---|---|---|
| High quality liquid assets (numerator) | 53,610 | 57,093 |
| Total net cash outflows (denominator) (a-b) | 26,571 | 28,602 |
| Cash outflows (a) | 31,634 | 33,819 |
| Cash inflows (b) | 5,063 | 5,217 |
| **LCR (%) (*)** | **202%** | **200%** |

*(*) 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 for the last four quarters.

**Table 9.3. EU LIQ1 - LCR detail (monthly average values)**

| Consolidated CaixaBank<br>EUR million | | Total unweighted value (average) | | | | Total weighted value (average) | | | |
|---|---|---|---|---|---|---|---|---|---|
| Quarter ending on | | 31.03.2018 | 30.06.2018 | 30.09.2018 | 31.12.2018 | 31.03.2018 | 30.06.2018 | 30.09.2018 | 31.12.2018 |
| Number of data points used in the calculation of averages | | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | - | - | - | - | 49,865 | 53,613 | 54,634 | 56,621 |
| **CASH-OUTFLOWS** | | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 120,083 | 121,183 | 122,193 | 124,943 | 7,106 | 7,216 | 7,301 | 7,492 |
| 3 | Stable deposits | 98,452 | 98,584 | 99,037 | 100,837 | 4,923 | 4,929 | 4,952 | 5,042 |
| 4 | Less stable deposits | 21,631 | 22,600 | 23,156 | 24,106 | 2,184 | 2,287 | 2,349 | 2,450 |
| 5 | Unsecured wholesale funding | 47,234 | 50,320 | 52,231 | 54,225 | 18,893 | 20,061 | 21,021 | 21,751 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 15,917 | 17,121 | 17,595 | 18,030 | 3,931 | 4,228 | 4,343 | 4,448 |
| 7 | Non-operational deposits (all counterparties) | 31,186 | 32,894 | 34,199 | 35,551 | 14,831 | 15,528 | 16,241 | 16,658 |
| 8 | Unsecured debt | 130 | 305 | 437 | 644 | 130 | 305 | 437 | 644 |
| 9 | Secured wholesale funding | - | - | - | - | 1,332 | 1,338 | 2,233 | 2,021 |
| 10 | Additional requirements | 46,064 | 46,090 | 46,191 | 46,349 | 4,429 | 4,507 | 4,605 | 4,612 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 906 | 946 | 1,003 | 1,057 | 906 | 946 | 1,003 | 1,057 |
| 12 | Outflows related to loss of funding on debt products | 290 | 306 | 318 | 230 | 290 | 306 | 318 | 230 |
| 13 | Credit and liquidity facilities | 44,868 | 44,838 | 44,871 | 45,061 | 3,233 | 3,256 | 3,285 | 3,324 |
| 14 | Other contractual funding obligations | 327 | 367 | 440 | 532 | 62 | 60 | 60 | 108 |
| 15 | Other contingent funding obligations | 2,996 | 3,097 | 3,148 | 3,076 | - | - | - | - |
| 16 | TOTAL CASH OUTFLOWS | - | - | - | - | 31,822 | 33,182 | 35,219 | 35,985 |
| **CASH-INFLOWS** | | | | | | | | | |
| 17 | Secured lending (eg reverse repos) | 4,181 | 4,416 | 6,299 | 5,740 | 987 | 990 | 1,724 | 1,701 |
| 18 | Inflows from fully performing exposures | 8,554 | 8,855 | 9,082 | 9,305 | 4,863 | 5,071 | 5,169 | 5,256 |
| 19 | Other cash inflows | 237 | 185 | 95 | 77 | 237 | 185 | 95 | 77 |
| EU-19a | (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) | - | - | - | - | - | - | - | - |
| EU-19b | (Excess inflows from a related specialised credit institution) | - | - | - | - | - | - | - | - |
| 20 | TOTAL CASH INFLOWS | 12,972 | 13,457 | 15,476 | 15,123 | 6,086 | 6,246 | 6,988 | 7,034 |
| EU-20a | Fully exempt inflows | - | - | - | - | - | - | - | - |
| EU-20b | Inflows Subject to 90% Cap | - | - | - | - | - | - | - | - |
| EU-20c | Inflows Subject to 75% Cap | 10,684 | 11,124 | 11,466 | 11,288 | 6,086 | 6,246 | 6,988 | 7,034 |
| **21** | **LIQUIDITY BUFFER** | - | - | - | - | 49,865 | 53,613 | 54,634 | 56,621 |
| **22** | **TOTAL NET CASH OUTFLOWS** | - | - | - | - | 25,735 | 26,936 | 28,231 | 28,951 |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | - | - | - | - | 194% | 199% | 193% | 196% |

## NSFR (Net Stable Funding Ratio)

Regarding the NSFR (Net Stable Funding Ratio), the definition was approved by the Basel Committee in October of 2014. In November 2016, 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, their regulatory transposition is currently being awaited.

Regarding this ratio, currently calculated using Basel criteria, the large weight of (more stable) customer deposits in the Group's funding structure and the limited use of wholesale markets for short-term funding provides a balanced funding structure, which would result in a NSFR of 117% at the end of 2018.

## Asset encumbrance

The table below shows average values for assets securing certain financing transactions and unencumbered assets in 2018, calculated using quarterly data.

### Table 9.4. Assets securing financing operations and unencumbered assets

*Amounts in millions euros*

| | 2018 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 | - | - | | | 3,631 | 2,647 | | |
| Debt securities | 9,971 | 9,965 | 9,926 | 9,919 | 25,801 | 23,667 | 26,553 | 23,562 |
| of which: covered bonds | 13 | 7 | 13 | 7 | 8 | 4 | 8 | 4 |
| of which: issued by general governments | 9,098 | 9,098 | 9,052 | 9,052 | 23,251 | 22,948 | 23,134 | 22,842 |
| of which: issued by financial corporations | 906 | 865 | 907 | 866 | 1,193 | 807 | 1,173 | 807 |
| of which: issued by non-financial corporation | - | - | - | - | 1,697 | 186 | 1,747 | 184 |
| Loans and discounts | 75,486 | - | | | 169,930 | 14,143 | | |
| Other assets | 4,473 | - | | | 51,706 | 2,327 | | |
| **Total** | **90,178** | **9,965** | | | **250,452** | **43,944** | | |

These assets relate mainly to loans securing issuances of mortgage-covered bonds, public sector loan-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 the purposes of gaining 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 or collateral received arise mainly from reverse repos, securities-lending, cash and debt securities received to secure trading in derivatives and own senior debt securities issued. The table below shows average values for assets securing financing transactions and unencumbered assets in 2018, calculated using quarterly data:

### Table 9.5. Assets received to secure financing operations and unencumbered assets

*Amounts in millions euros*

| | 2018 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** | **2,535** | **2,505** | **15,494** | **14,096** |
| Loans on demand | 12 | - | - | - |
| Equity instruments | - | - | - | - |
| Debt securities | 2,522 | 2,505 | 14,097 | 14,096 |
| of which: covered bonds | 286 | 286 | 201 | 201 |
| of which: asset-backed securities | 304 | 304 | 196 | 196 |
| of which: issued by general governments | 2,125 | 2,125 | 13,699 | 13,699 |
| of which: issued by financial corporations | 600 | 591 | 396 | 396 |
| of which: issued by non-financial corporations | 9 | 1 | 1 | - |
| Other collateral received | - | - | 1,397 | - |
| **Own debt securities issued other than own covered bonds or asset-backed securities** | **-** | **-** | **251** | **-** |
| **Own covered bonds and asset-backed securities issued and not yet pledged** | | | **35,705** | **-** |
| **Total Assets** | **92,945** | **12,777** | | |

The following table shows the asset encumbrance ratio, using average values for 2018 calculated using quarterly data.

### Table 9.6. Asset encumbrance ratio median values

*Amounts in millions euros*

| | Median (*) |
|---|---|
| **Encumbered assets and collateral received** | **92,945** |
| Equity instruments | |
| Debt securities | 12,795 |
| Credit portfolio | 75,500 |
| Other assets | 4,473 |
| **Total assets + total assets received** | **352,616** |
| Equity instruments | 3,631 |
| Debt securities | 52,566 |
| Credit portfolio | 242,964 |
| Other assets | 57,658 |
| **Asset encumbrance ratio** | **25.88%** |

*(*) Median calculated on quarterly data*

The asset encumbrance ratio at 31 December 2018 and 2017 is as follows:

### Table 9.7. Asset encumbrance ratio

*Amounts in millions euros*

| | 2017 | 2018 |
|---|---|---|
| **Encumbered assets and collateral received** | **99,264** | **84,534** |
| Equity instruments | - | - |
| Debt securities | 14,457 | 10,399 |
| Credit portfolio | 81,218 | 69,555 |
| Other assets | 3,588 | 4,580 |
| **Total assets + total assets received** | **355,644** | **351,072** |
| Equity instruments | 3,288 | 4,144 |
| Debt securities | 50,246 | 50,345 |
| Credit portfolio | 241,896 | 243,364 |
| Other assets | 60,214 | 53,218 |
| **Asset encumbrance ratio** | **27.91%** | **24.08%** |

The ratio has decreased by 3.83 percentage points, from 27.91% at 31/12/2017 to 24.08% at 31/12/2018. This decrease was due to reduced guarantees in a collateralised loan of securities, reduced use of the repo market and a lower balance of secured issuances placed on the market.

The following table shows the relationship between the liabilities guaranteed and the assets by which they are guaranteed, using average 2018 values, based on quarterly figures:

**Table 9.8. Guaranteed liabilities, median quarterly values**

*Amounts in millions euros*

| | Median values (*) | |
|---|---|---|
| | Matching liabilities, contigent libilities or security lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
| **Carrying amount of selected financial liabilities** | **77,764** | **90,382** |
| Derivatives | 5,094 | 5,549 |
| Deposits | 53,095 | 59,434 |
| Debt securities issued | 19,409 | 25,316 |
| **Other sources of encumbrance** | **2,284** | **2,518** |

*(*) Median calculated on quarterly data. The median is calculated on all components of the table belowTable*

The table above 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, central bank funding and securities loans with Vidacaixa) and issuances (covered bonds and securitisation bonds).

As can be seen from the previous table, the value of the encumbered 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:

The CaixaBank Group is a predominantly retail bank that carries out a strategy and maintains a funding structure that is mainly based on maintaining a stable base of customer deposits, supplemented by active and conservative management of wholesale funding. Customer deposits make up 82% of the funding structure.

This business model facilitates a collateral management strategy oriented towards maintaining a prudent level of encumbered 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. The CaixaBank Group has an asset encumbrance ratio of 24.08% at 31 December 2018, which illustrates the foregoing.

With regard to the 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), as well as the pledging of the facility in the European Central Bank. This is followed by the securities portfolio and the securities 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 Information of Prudential Relevance. This scope differs from the scope used for disclosure of public information owing to the non-consolidation of the insurance company.

# 10.

# Other risks



# 10. OTHER RISKS

## 10.1. Reputational risk

### Definition and general policy

Reputational risk is the possibility that the Group's competitive edge could be blunted by loss of trust by some of its stakeholders, based on their assessment of actions or omissions, whether real or purported, by the Bank, its Senior Management or Governance Bodies, or because of related unconsolidated financial institutions going bankrupt (step-in risk).

### Structure and organisation of the risk management function

The Executive Communication, Institutional Relations, Brand and Corporate Social Responsibility Division is responsible for measuring and monitoring changes in CaixaBank's overall reputation and any risks that could have a potentially detrimental effect on it. The functions of the Corporate Responsibility and Reputation Committee (CRRC) include analysing the state of CaixaBank's reputation and periodically monitoring identified risks that could affect the Group's reputation, as well as proposing actions and contingency plans to minimise the detected risks. CRRC reports on the status of reputation risks to the company's Global Risk Committee, which then reports to the Risk Committee of the CaixaBank Board of Directors. In addition, the CRRC reports directly to the Appointments Committee of the Board of Directors on aspects related to corporate responsibility.

All CaixaBank's divisions and subsidiaries also have joint responsibility for the reputation of the Bank and the CaixaBank Group. They are involved in identifying and managing the reputational risks to which they are exposed, and in establishing mitigation plans and measures.

### Assessing reputation: reputation managing report and monitoring tools

The risk is monitored using internal and external selected reputational indicators from various sources of stakeholder expectations and perception analysis. The measurement indicators are weighted according to their strategic importance and are grouped in a balanced reputation scorecard that enables a Global Reputation Index (GRI) to be obtained. This metric enables the positioning to be monitored quarterly by sector and time, and the tolerated ranges and metrics to be set in the RAF.

### Reputational risk monitoring and management: main mechanisms

The main instrument for formal monitoring of reputational risk management is the Reputational Risk taxonomy. This allows the Group to:

- Identify and classify the risks that could affect its 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.

### Hedging policies and mitigation techniques

A number of policies, covering different scopes, are used to control and mitigate reputational risk across the Group.

In addition, there are specific procedures and activities implemented by the divisions most directly implicated in managing the main reputational risks, ensuring that the possibility of the risk materialising is prevented and/or mitigated.

Similarly, the Internal Reputational Risk Management Polices also include developing in-house training to mitigate the appearance and effects of reputational risks, establishing protocols to deal with those affected by the Bank's actions, or defining crisis and/or contingency plans to be activated if various risks 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, mainly VidaCaixa S.A.U., de Seguros y Reaseguros. The main risks of the investee company SegurCaixa Adeslas, S.A.de Seguros y Reaseguros are also monitored.

Within the prudential reporting scope, the risk associated with the insurance business is included within the equity portfolio risk.

The European regulatory framework of reference for insurance companies, known as Solvency II, is transposed into to the Spanish legal system through Act 20/2015 and Royal Decree 1060/2015, which are known, respectively, as LOSSEAR and ROSSEAR. This framework is supplemented by the technical standards approved by the European Commission (ITS), which are directly applicable, and guidelines published by EIOPA, which have been adopted by the Directorate General for Insurance and Pension Funds (DGSFP) as their own.

In addition to other risks, the insurance business is exposed to subscription or actuarial risk, defined as the risk of loss or adverse change to the value of commitments contracted through provisions in insurance or pension contracts with customers or employees, as a result of the deviation between the estimate for actuarial variables used in setting the rates and reserves versus their actual evolution.

Furthermore, the aforementioned regulatory framework establishes the framework for managing the credit and liquidity risk of the insurance business, determining credit quality and the level of diversification (see the risk structure of the insurance business in these fields, presented in a segmented way in Notes 3.3 and 3.12). Similarly, in relation to interest rate risk, the Group manages insurance contract commitments and the affected assets jointly using financial immunisation techniques envisaged in the provisions of the DGSFP.

.

According to the EC Solvency II Directive, actuarial risk 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 adverse change in the value of benefits (reduction) or future expected losses (increase) of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
- Expense risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance and reinsurance contracts.
- Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty in pricing and provisioning assumptions related to extreme or irregular events.

Therefore, the main variables that determine actuarial and underwriting risk in the life insurance branch are: the mortality, survival, disability, lapse and expense rates. For all other types of insurance, the key variable is the claim ratio.

Actuarial risk is managed on the basis of compliance with regulations established by 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 2018, and include the following:

- Underwriting and provision of reserves: on this note, and for each line of business, the policy of underwriting and provision of reserves - which is updated at least annually - identifies various parameters 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 regulation. Under this regulation, the governance system for insurance companies must address four basic functions: risk management, actuarial, regulatory compliance and internal audit.

The Risk Management function in VidaCaixa is responsible for identifying, measuring, defining, monitoring and reporting on the risk at the company level, in a segregated manner.

This function embraces the entire Group and plays a key role in ensuring the effective deployment of the risk management framework and policies, as well as providing a general overview of all risks.

The risk management function carries out the functions related to managing and updating the Risk Assessment, the Risk Catalogue and the RAF.

At the organisation level, the risk management function is part of the Risk Control Department, which is assigned to the Actuarial and Risks Function Division.

The divisions of the Insurance Group that are directly involved in managing actuarial risk are the Business Sub-Management Division and the Risks and Capital Management Division.

With regard to the specific management of actuarial risk, pursuant to the provisions of Solvency II, the Insurance Group has its own Actuarial Function department.

This department performs tasks that enable it to control and manage the liabilities and the reinsurance operations, considering the Bank's governance system. In this respect, the Royal Decree on the Arrangement, Supervision and Solvency of Insurance and Reinsurance Companies assigns to the Actuarial Function responsibilities over the suitability of the methods, models and hypotheses used in the calculation of technical provisions, as well as over the assessment of the adequacy and quality of data, the comparison of the best estimate with the past experience, and the supervision in case of using approximations. The same regulation also requires to decide on underwriting policy, reinsurance agreements and to contribute to risk management.

The Actuarial Function's contribution to risk management is focused on the effective application of the risk management system and the internal assessment of risks and solvency.
At the organisational level, the Actuarial Function is part of the Actuarial Function Department, which is assigned to the Actuarial and Risks Function Division.

### Risk management. Measurement and information systems

In addition to monitoring 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.

The most significant risk-management milestones achieved in 2018:

- Update of the corporate policies required under Solvency II, carried out by the Global Risk Committee and the VidaCaixa Board of Directors. These policies have been 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

Systems for measuring actuarial risk, from which the sufficiency of the actuarial reserves are quantified and assessed policy-by-policy, are integrated into the management of the insurance business. In this way, production operations, irrespective of the channel, are recorded in the systems using the different contracting, benefits management and provision calculation applications (e.g. TAV for individual and ACO or Avanti for group insurance). Investment software 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. They include applications for data processing that are used for the preparation of reporting information and risk management. There is also a solvency and risk datamart, which serves as a support tool for the 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 to the market.

### Reporting

As indicated previously, monitoring of the technical evolution of the products is reported allowing to monitor and to control the actuarial risk of the Group.

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

Following are some of the reports prepared therefore:

- 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 (Semi-annual – Management Committee).
- The Actuarial Risk Report (Annual – Global Risk Committee).
- The Actuarial Function Report (Annual – Global Risk Committee).

With respect to the application of Solvency II, in 2018 the annual QRTs report (new European reporting for supervision, statistics and accounting) was presented to the insurance supervisor (DGSFP). In addition, the VidaCaixa Solvency and Financial Condition Report was published in May 2018.

### Hedging policies and mitigation techniques

The Group mitigates the actuarial risk assumed by acquiring insurance with reinsurers. To do so, the Group has a policy, updated at least annually, which identifies the extent to which risk is passed on, taking into account the risk profile of direct insurance contracts, and the type, suitability and effectiveness of the reinsurance agreements in place.

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 the 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, per risk or event (or a combination of both). These limits are set in accordance with the risk profile and reinsurance cost.

The internal control systems ensure that all underwriting is carried out pursuant to the reinsurance policy and that the planned reinsurance cover is appropriate. 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 Bank's capital levels or reinsurance coverage.

Handling benefits 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.

### Future action programme of the Insurance Group

Future action programme of the Insurance Group focuses on the continuity of the 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 the CaixaBank Group level at all times.

## 10.3. Risk of impairment of other assets

### Definition and general policy

Risk of impairment of other assets is defined as the risk of a reduction in the carrying amount of shareholdings and in non-financial assets of the Group.

### Risk management: Structure and organisation of measurement, reporting and monitoring and control systems

The management of this risk is customised according to the asset classification:

- **Investee risk:** potential loss in a medium or long term arising from adverse movements in share prices, or from impairment losses in the positions of the equity portfolio of the Group, except for those over which it exercises control. These positions could have been originated by the explicit management decisions to take a position or by the integration of other entities, or they could have resulted from the restructuring or the 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 are carried out with required frequency, using generally accepted methodologies.

- **Tangible assets**: consist mainly of foreclosed assets available for sale and lease. Majority of these assets are owned by the Group's real estate subsidiary, BuildingCenter, S.A.U.

- **Intangible assets:** consist of goodwills and software and other finite useful life intangible assets derived from business combinations processes. The origin and generation of such assets respond, mostly, to the acquisitions of other financial and insurance institutions that have been added, for the purpose of impairment analysis, to the Banking and Insurance (Life and Non-life) Cash-generating Units together with the rest of the banking and insurance activity of the Group. Hence, impairment and recovery analysis based on generally accepted methodologies are held as often as necessary.

- **Deferred Tax Assets (DTAs):** the origin of these assets respond, mostly, to the assets and liabilities generated by the existing temporary differences between accounting and fiscal criteria of profits allocation, as well as tax credits for deductions and for tax losses carried forward, and have been generated both in CaixaBank Group itself and in integration processes (both those coming from the integrated company itself as well as those generated in the Purchase Price Allocation exercise). Each semester, a recovery analysis of these assets is held based on a utilization model, developed internally in order to sustain the reasonability of its accounting record, with the aim of determining the need or not to deteriorate them according to the applicable accounting regulations.

The Risk Management Function and Internal Financial Control perform the second line of defence function in the Group for components of impairment risk of other assets. Highlights include:

- Existence of an Internal Control Framework, offering a reasonable degree of assurance that the Group will achieve its targets. Preparation and formalisation of internal policies, such as the Internal Control Policy, the Global Risk Management Policy of Equity Holdings and the Corporate Global Risk Management Policy of Intangible Assets Impairment and Deferred Tax Assets established during the first quarter 2019.
- Monthly risk monitoring within the Risk Appetite Framework, reflected in both first and second-level metrics.
- Validation and verification of the reasonability and adequacy of the valuation methodologies and assumptions used.
- In addition, CaixaBank’s models of economic capital reflect the level of the available own funds and the capital requirements related to the bank’s impairment risk.

## 10.4. Business risk

Business profitability risk refers to obtaining results lower than market expectations or the Group's targets which prevent the Group from reaching a sustainable profitability level higher than the cost of capital.

The Group's targets, backed by a process of financial planning, are defined in the strategic plan and in the budget and are subject to ongoing monitoring.

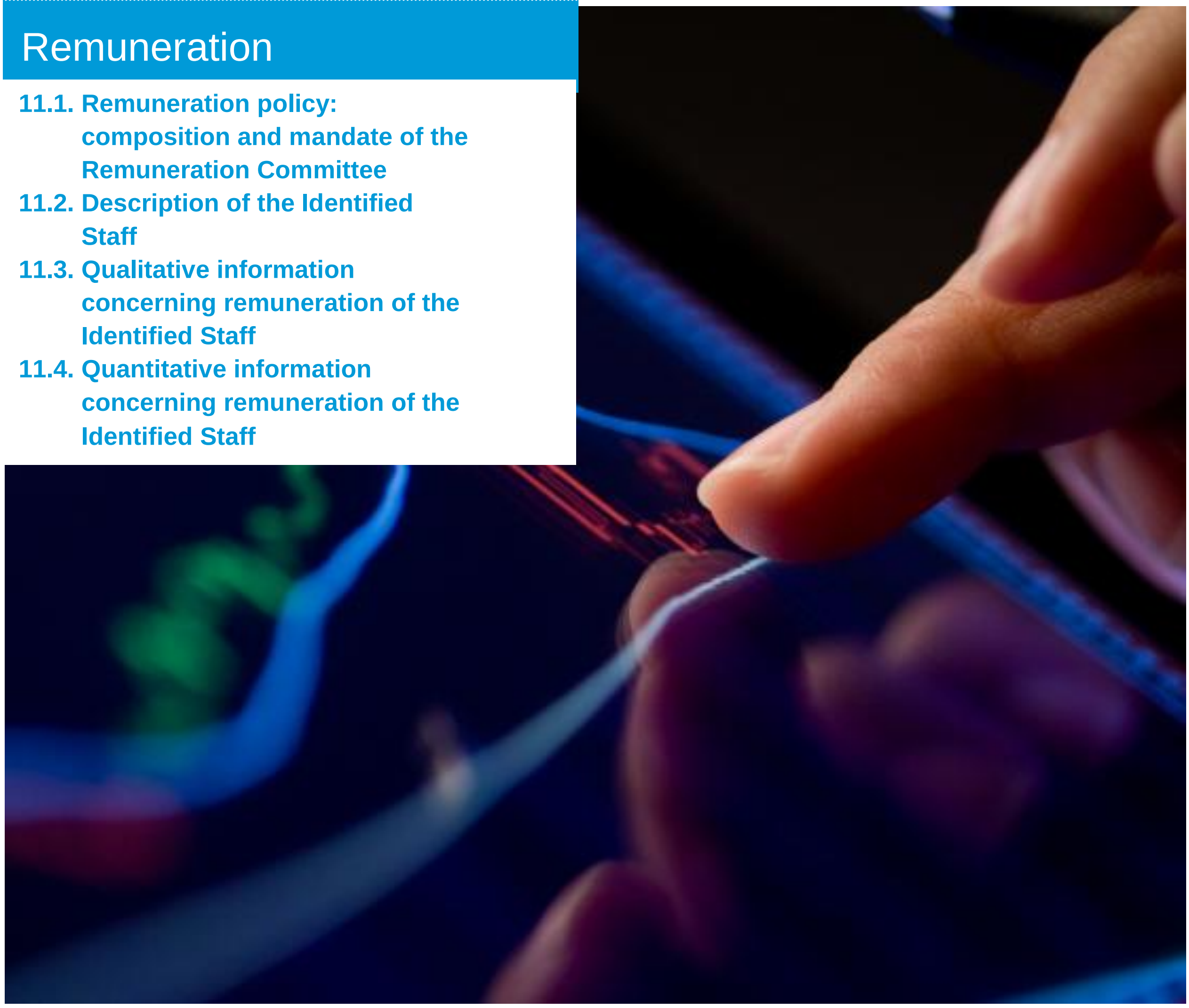
Business Profitability Risk is managed considering the following levels:

- Level 1: the overall aggregated profitability at a Group level.
- Level 2: business profitability generated by each of the Group's segments (bancassurance business, investments, non-core real estate business and BPI business).
- Level 3: business profitability generated by the commercial network for different business segments and for different sectors and business centres.
- Level 4: business profitability generated from at the level of a customer/product/contract. Additionally, the return generated by different projects/operations with a relevant impact on the profitability.

# 11.

## Remuneration





# 11. REMUNERATION

Article 85 of the Act 10/2014 of 26 June, on the regulation, supervision and solvency of credit institutions (hereinafter, the Credit Institution Act), and article 93 of Royal Decree 84/2015 of 13 February, implementing Credit Institution Act, laid down the contents of the reporting required on the remuneration policies and practices in the Information of Prudential Relevance 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 of this report.

## 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, the CaixaBank Group) who are classified as being members of Identified Staff pursuant to applicable regulations and is confined to year 2018.

The quantitative information includes as well details of the remuneration of the professionals of BPI's Identified Staff.

### Duties of CaixaBank's Remuneration Committee

The Corporate Enterprises Act (CEA) assigns to a Remuneration Committee (RC) of a listed company, among other functions, to propose to the Board of Directors, the director's and managing directors' remuneration policy and of whoever else performs senior management duties under the direct supervision of the Board, Executive Committees and Delegated Directors. Moreover, according to the Credit Institution Act, 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 the decisions on remuneration to be taken by the Board of Directors, (ii) provide its support and advice to the Board of Directors on the design of the institution remuneration policy; (iii) support the Board of Directors in overseeing the remuneration policies, practices and processes and the compliance with the remuneration policy; (iv) ensure that the current remuneration policy is still up-to-date and, if necessary, make proposals for changes; (v) assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is consistent with and promotes, sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values and the long/term interests of the institution.

The proposals from the RC, after consulting the Charmain for the CEO and after consulting the CEO for the members of the Management Committee in the cases established by the Remuneration Policy, are 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 CEA and the Credit Institution Act, the Remuneration Committee comprised the following directors, as of 31 December 2018:

María Amparo Moraleda Martínez (independent director), Chairman

Alejandro García Bragado Dalmau (proprietary director), Member

Juan Rosell Lastortras (independent director), Member

In 2018, CaixaBank's Remuneration Committee met 7 times, and its members received remuneration of EUR 96,000.

## 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), other competent corporate bodies (human resources, legal, strategic planning, budget, etc.) and the business units shall provide with the necessary information for the definition, implementation and supervision of the institution's remuneration policies. The EBA's guidelines also place specific responsibilities on the human resources, risk management and internal audit functions, which are undertaken by the corresponding CaixaBank departments.

On the other hand CaixaBank's Management Committee comprises representatives from 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 Management Division (hereinafter, HR) is in charge of promoting 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.

Human Resources Division, upon delegation of the Management Committee, carried out various studies and research in collaboration with external advisors (Garrigues Abogados y Asesores Tributarios), in order to update and adapt the Group's remuneration policy to the new legal requirements.

## Approval of the Remuneration Policy applicable to the Identified Staff in force in 2018

On 26 February 2015, the Remuneration Committee submitted its proposed Remuneration Policy for the CaixaBank Group's Identified Staff to the Board of Directors for its approval, pursuant to the requirements of Article 29.1d) of Act 10/2014, of 26 June, on the arrangement, supervision and solvency of credit institutions.

The Board of Directors approved the new Remuneration Policy for the CaixaBank Group's Identified Staff, at the proposal of the Remuneration Committee, on 15 December 2016. This came into effect on 1 January 2017, with the exception of the adjustment system and proportionality criteria applied to deferred payments, which were already applied in 2016.

As a result of constant review, and with the aim of ensuring correct adaptation to regulations relating to remuneration, on 25 October 2018 the Board of Directors of CaixaBank approved a change to the Remuneration Policy applicable to the Identified Staff.

The purpose of this change was to correctly identify the practices performed in the Bank, which is why it included a new section regarding disassociation payment processing as part of the collective plan.

This change provides greater legal security, both for members of the Identified Staff and for CaixaBank, properly regulating the process to be followed and the processing to be applied with regard to deferral, share-based payments, malus and clawback and the maximum variable payment ratio (1:1). On 22 February 2018, CaixaBank's Board of Directors approved a change to its own remuneration policy, which included executive directors in their capacity as members of the Identified Staff. The change was approved by the General Shareholders' Meeting on 6 April 2018, with 98.21% of the votes, and it applies to the period 2017-2020.

At the General Shareholders' Meeting on 5 April 2019, it is due to be presented an amendment to the Remuneration Policy of the Board of Directors motivated by the change of executive directors, the proposal on the renewal of the long term incentive for executive directors and the 2019 amounts will be updated.

The modification mentioned in the previous paragraph is published on the CaixaBank website, in the section Shareholder Documentation 2019.

The Remuneration Policy for CaixaBank directors is available on the Company's website (https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/remuneracionesdelosconsejeros/politicaderemuneracion_en.html).

## 11.2. Description of the Identified Staff

During 2018, the professionals who should form part of the CaixaBank Group's Identified Staff, at the individual or consolidated level, were determined in accordance with Commission Delegated Regulation (EU) 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. In 2018, this list consisted of a total of 150 positions that have been occupied by 155 professionals during the year, including the CaixaBank Group's executive directors, non-executive directors, members of the Management Committee, senior executives and key employees. For MicroBank the list includes 2 professionals and for BPI 92 professionals.

## 11.3. Qualitative information concerning remuneration of the Identified Staff

### General aspects

The remuneration policy for the Identified Staff is structured taking into account both the prevailing circumstances and the Entity's results, and comprises:

1. Fixed remuneration based on the level of responsibility and the career path of each employee, which constitutes a relevant part of total compensation.

2. Variable remuneration tied to the achievement of previously-established targets and prudent risk management.

3. Social Benefits.

4. 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 cannot be no more than 200% of the fixed components.

The Credit Institution Act 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 might otherwise create incentives for short-term-oriented excessive risk taking, where without such short-term risk taking the performance of the institution or staff would not allow for the award of variable remuneration.

In lines with this, CaixaBank considers that the higher the possible variable remuneration compared to the fixed remuneration, the stronger will be the incentive to deliver the performance needed, but the higher may be 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.

Therefore, and attending to the objective of a reasonable and prudential balance between fixed and variable components, in CaixaBank the amount of fixed components is sufficient, and the percentage representing the variable remuneration over the fixed annual remuneration is, generally, relatively small.

Specifically, group companies have pre-established amounts of variable remuneration in form of a bonus applicable to the salary bands of each function.

Lastly, the EBA Guidelines establish that the remuneration of professionals who are responsible for independent control functions should be predominantly fixed and that, when these professionals receive variable remuneration, it should be determined independently from the business units they control including the results derived from the business decisions they participate in (e.g. the approval of new products).

## Non-variable 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 organization according to their role.

Positions 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 Bank remains competitive among its peers, these salary bands are quantified on the basis of the Bank's competitive position. To this end, market trends in salaries is monitored, by taking a part in different 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 positions not specific to the financial sector, leading companies in the IBEX and other companies with comparable business volumes.

## Variable remuneration

### Variable remuneration in the form of an 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, for each level and category, must be specified and clearly documented.

For the purposes of the ex-ante adjustment of variable remuneration, all Identified Staff are assigned to one of the categories described below, with the exception of members of the Board of Directors in their supervisory role and any other positions determined based on their characteristics that have no variable remuneration. This assignment is carried out based on each person's functions and the staff in question are notified individually.

<u>a) Executive directors and members of the CaixaBank Management Committee</u>

The variable remuneration applicable to the executive directors and to the members of the Management Committee is determined on the basis of an objective bonus that is established for each individual by the Board of Directors, as proposed by RC, with a maximum achievement of 120%; the achievement level is set out on the basis of the following measurement criteria:

- 50% based on individual targets
- 50% based on corporate targets

The 50% corresponding to corporate targets is set out for every year by CaixaBank's Board of Directors, as proposed by the RC. It is weighted across various concepts for which targets can be set, based on the Bank's main target conceps used in 2018:

- ROTE
- Core Efficiency Ratio
- Variation in non-performing Assets
- RAF
- Digitisation (KYC)
- Quality

The proposed composition and weighting of these corporate targets is established in accordance with the Credit Institution Act 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.

<u>b) All other categories</u>

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 the 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 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 the 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 percentage of attainment varies between 100% and 150%, depending on the bonus scheme applicable to each professional. The payment level is determined based on achievement of individual and corporate targets, in the proportions set out in the corresponding bonus schemes approved by the Management Committee, after review by the Regulatory Compliance function to ensure its alignment with the remuneration policy and 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 the following:

- 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 Credit Institution Act and its implementing regulations.

Pursuant to the Credit Institution Act and the EBA Guidelines, 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 RAF approved for CaixaBank are used as 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 RAF 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 the Markets activity.
- Business composition: comprising 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 RAF 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:

- Based on the sum of the variations in the RAF indicators between the prior year end and the year end of the current year in which the variable remuneration is accrued: the value of the indicator will fluctuate within the interval of 0.85-1, according to the following attainment scale of:

| Initial colour | Assessment | Final colour |
|---|---|---|
| Green | -3% | Amber |
| Amber | +3% | Green |
| Amber | -6% | Red |
| Red | +6% | Amber |

- If one of the metrics included in the risk adjustment of a certain staff 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 the performance and the results of the business and the Bank. The initial amount is adjusted according to a "bonus-adjustment factor" determined each year by the Entity's management, pursuant to applicable regulations. The correction factor basically includes the Entity's overall results, and other aspects of a more qualitative type.

As a general rule, this correction factor is applied equally to all the employees, and may be between 0.85 and 1.15.

**Special incentives**

Members of the Identified Staff can occasionally be given incentives to achieve certain objectives, usually linked to the marketing and sale of third-party products or other products. The amount of the incentives they are given in a particular financial year, plus any variable remuneration they accrue in the same year in the form of a bonus, shall be together considered part of the non-deferred cash portion of their remuneration for the purposes of deferment to be settled starting in the following financial year. The amount of the incentive will be set based on the conditions and parameters established in each particular case.

**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.

**Variable remuneration payment cycle**

Professionals subject to deferred payment

In application of the principle of proportionality set down in the Credit Institution Act, 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 executive directors, 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 specific professional category is paid outright (hereinafter, initial 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%

A 60% deferral will be applied to all of the variable remuneration granted that in total exceeds 50% of the minimum total remuneration amount that the EBA considers to qualify as a high earner for any particular financial year. For the purposes of calculating this figure, the portion of the early termination payments that has to be considered variable remuneration will be divided by the number of years the specific professional spent in the company.

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 occur, 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 occur, 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.

50% of the amount payable at each of these three dates, is paid in cash. The remaining 50% is paid in CaixaBank shares, after the corresponding taxes (withholdings and payments on account) have been settled.

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 is deferred to be paid.

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.

As far as returns on instruments are concerned, as provided for under EBA Guidelines, the Bank will not pay interest or dividends on deferred instruments either during or after the deferral period, starting from 1 January 2017.

**Long-term, share-based incentive plan for 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 targets 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 ended on 31 December 2018 (hereinafter, the "End Date") without prejudice to the effective settlement of the Plan, which will occur prior to 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 Bank until delivery of the shares. Therefore, the units awarded do not confer economic or voting rights over the Bank, or any other shareholder entitlements.

<u>Determination of the number of units to be assigned to each beneficiary</u>

To determine the Units to be awarded to each Beneficiary, the following was taken into account: (i) a "target" reference amount, which was determined on the basis of the professional role of the Beneficiary, and (ii) the arithmetic average price, rounded to three decimal places, of the closing stock prices of CaixaBank during the trading sessions corresponding to the month of February 2015. The Units to be allocated to each Beneficiary were determined in accordance with 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.

<u>Determination of the number of shares to be delivered on settlement of the Plan</u>

The total number of shares to deliver to each Beneficiary on the Settlement Date is determined according to the following formula:

NS = NU x DIA

Where:

NS = Number of Shares in the entity to be 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.

DIA = Degree of Incentive Attainment, depending on the degree of fulfilment of the targets to which the plan is linked.

<u>Maximum number of shares to be delivered</u>

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.

<u>Metrics</u>

The degree of incentive attainment will depend on the extent to which the plan objectives are accomplished.

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 Bank's Total Shareholder Return (hereinafter, TSR) in comparison with the same indicator for 19 peer banks (20 banks in total, including CaixaBank); (ii) the Bank's Return on Tangible Equity (hereinafter, ROTE); and (iii) the Bank's Cost-to-Income ratio (hereinafter, CIR).

a) TSR:

Difference (expressed as a percentage) between the final value of an investment in ordinary shares and the initial value of that same investment, where the final value has taken into consideration dividends and any other similar items (such as script dividends) that are received by the shareholder as a result of holding the investment over the corresponding term.

A coefficient of between 0 and 1.5 is used, depending on where CaixaBank ranks in the selected sample of 20 comparable peer banks:

- 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 atypical fluctuations in the indicator, the arithmetic average price rounded to three decimal places of the closing prices of the shares of 31 trading sessions has been considered as reference a value for the date immediately preceding the start of the Measurement Period (31 December 2014) and for the end date of the Measurement Period (31 December 2018). These 31 sessions comprise the 31 December session and the 15 sessions immediately preceding and following this date.

The final position of CaixaBank in the TSR ranking is 11, hence the TSR coefficient is 0.5.

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 capital.

A coefficient of between 0 and 1.2 is 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

1 January 2017 to 31 December 2018:

- If ROTE is ≥ 9: ROTE coefficient = 1.2
- If ROTE is = 8: ROTE coefficient = 1
- If ROTE is = 7: ROTE coefficient = 0.8
- If ROTE is < 7: ROTE coefficient = 0

The degree of achievement of the incentive arising from the ROTE target has been calculated, following the above tables, by linear interpolation.

For the ROTE indicator, the average ROTE has been calculated between 31 December 2017 and 31 December 2018, resulting in a value of 8.9%.

The degree of achievement of the ROTE target is 0 for the first period and 118% for the second, resulting in a total of 58.84%.

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 CIR ≤ 43: CIR coefficient = 1.2
- If CIR = 45: CIR coefficient = 1
- If CIR = 47: CIR coefficient = 0.8
- If CIR > 47: CIR coefficient = 0

1 January 2017 to 31 December 2018:

- If CIR ≤ 53: CIR coefficient = 1.2
- If CIR = 55: CIR coefficient = 1
- If CIR = 57: CIR coefficient = 0.8
- If CIR > 57: CIR coefficient = 0

The degree of fulfilment of the incentive arising from the CIR target has been calculated, following the above table, by linear interpolation.

The value of the CIR indicator on 31 December 2018 has been used, which was 52.9%.

The degree of achievement of the CIR metric is 0 for the first period and 120% for the second, resulting in a total of 60%.

The Degree of Fulfilment of the Incentive shall be determined with the following formula and its weightings:

DIA = CTSR x 34% + CROTE x 33% + CCIR x 33% = 0.5 x 34% + 0.5884 x 33% + 0.6 x 33% = 56.22%

Where:

**DIA =** Degree of Incentive Attainment, expressed as a percentage.

**CTSR =** Coefficient of the TSR target, according to the scale established for this target.

**CROTE =** Coefficient of the ROTE target, according to the scale established for this target.

**CCIR =** Coefficient reached with regard to the CIR target, according to the scale established for the CIR target.

The TSR metric has been calculated by an independent and well-renowned expert at the end of the Plan, at the Bank's request. The ROTE and CIR metrics have been determined by the Bank itself, subject to the corresponding audit of the Company's financial statements.

Requirements for receiving shares

The requirements for the beneficiary to receive shares under the Plan are:

- They must comply with the objectives set for them under the Plan, subject to the terms and conditions set out in the Plan regulations.

- 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 out in the Plan.

The Plan will only be settled and the shares delivered if this is sustainable and justified given CaixaBank's situation and profits.

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.

<u>Early termination or modification of the Plan</u>

The Plan may be settled in advance or modified in the event of the Company being taken over, of a change of control, or in situations which significantly affect the Plan, as determined by the Board of Directors.

**Plan of conditioned annual incentives linked to the 2019-2021 Strategic Plan**

In order to ensure the continuity of the long term variable remuneration, once the 2015-2018 LTI has been completed, in the General Shareholders' Meeting of 5 April 2019, the implementation of an annual conditioned Incentives Plan related to the 2019-2021 Strategic Plan will be presented, which, after a certain time period has elapsed, will allow for a certain number of ordinary CaixaBank shares to be received, provided that the Company's strategic objectives are met, along with the requirements described herein.

The Plan will consist in the free assignment, in 2019, 2020 and 2021, of a number of units to each beneficiary (the 'Units', which will be used as a base to establish the number of CaixaBank shares to deliver, where relevant, to each beneficiary of the Plan.

The assignment of Units in itself does not attribute the condition of shareholders in the Company to beneficiaries, given that the Units do not entail the attribution of economic or political rights, or any other kind of right related to the condition of shareholder. By virtue of this Plan, the condition of shareholder will be acquired, where relevant, upon the delivery of shares in the Company.

The rights conferred by the assignment of Units will not be transferable, with the exception of any special circumstances established in the Regulations of the Plan.

<u>Plan duration, objective measurement periods and settlement date</u>:

The Plan consists of three cycles, each one three years long, with three Unit allocations taking place in 2019, 2020 and 2021.

The first cycle spans the period from 1 January 2019 to 31 December 2021; the second cycle spans the period from 1 January 2020 to 31 December 2022; and the third cycle spans the period from 1 January 2021 to 31 December 2023.

Each cycle will have two periods for measuring objectives. The "First Measurement Period" shall correspond to the first year of each cycle of the Plan, in which certain objectives linked to metrics described herein must be met. The "Second Measurement Period" corresponds to the 3-year duration of each cycle of the Plan, in which certain objectives linked to the metrics described herein must also be met.

According to the degree to which the objectives of the First Measurement Period are attained, and on the basis of the Units assigned at the start of each cycle, in the second year of each cycle (“Grant Date”) the Beneficiaries will be granted a “Provisional Incentive" equivalent to a certain number of shares in the Company (“Granting of the Provisional Incentive"). The Granting of the Provisional Incentive does not entail CaixaBank shares being delivered at that time.
The final number of shares to be delivered (the 'Final Incentive') will be determined after each of the Plan's cycles ends, and will be subject to and dependent on the objectives corresponding to the Second Measurement Period of each of the Plan's

cycles being met ("Determination of the Final Incentive"). Under no circumstances can the number of shares to be delivered corresponding with the Final Incentive exceed the number of shares in the Provisional Incentive on the Grant Date.

The shares corresponding to the Final Incentive of each cycle will be delivered by third parties on the third, fourth and fifth anniversary of the Grant Date for members of the Board of Directors who have executive functions and for members of the Management Committee (the “Settlement dates”, each one individually the “Settlement date”). For all other Beneficiaries belonging to the Identified Staff group, shares will be delivered in full on a single Settlement Date, on the third anniversary of the Grant Date.

Notwithstanding the above, the Plan will be formally launched on 5 April 2019 (the "Commencement Date"), except for those Beneficiaries subsequently incorporated into the Plan, for whom a different Commencement Date may be set in the Invitation Letter.

The Plan will end on the last Settlement Date of shares corresponding with the third cycle of the Plan, i.e. in 2027 for members of the Board of Directors with executive functions and members of the Management Committee, and in 2025 for all other Beneficiaries belonging to the Identified Staff group (the "End Date").

<u>Reference share value</u>

The share value that will be used as a reference for assigning the Units in each of the cycles of the Plan, and which in turn will be used to determine the number of shares to be delivered, will correspond to the arithmetic average price of the closing CaixaBank share price, rounded to three decimal places, during the trading sessions in January of each year in which a Plan cycle begins (i.e. January 2019, January 2020 and January 2021).

The value of shares corresponding to the Final Incentive that, where relevant, are finally delivered under the scope of the Plan, will correspond with the listed closing CaixaBank share price on the Settlement Dates of each of the Plan's cycles.

<u>Determination of the number of Units to be assigned</u>

The number of Units to be assigned to each Beneficiary in each of the Plan's cycles will be determined by the Board of Directors, at the suggestion of the Remuneration Committee according to 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 position.

AAP = Arithmetic average price, rounded to three decimal places, of CaixaBank share closing prices in stock market trading sessions in January of each year in which a Plan cycle begins (i.e. January 2019, January 2020 and January 2021).

<u>Determination of the number of shares corresponding to the granting of the Provisional Incentive and of the number of shares corresponding to the Final Boost</u>

The total number of shares corresponding to the Granting of the Provisional Incentive on the Grant Dates will be determined according to the following formula:

$$NCS = NU \times DIA$$

Where:

NCS = Number of Company Shares corresponding with the Granting of the Provisional Incentive of each Beneficiary, rounded up to the nearest whole number.

NU = Number of Units assigned to the Beneficiary at the start of each cycle of the Plan.

DIA Degree of Incentive Attainment, according to the degree to which the objectives linked to the metrics linked to the Plan during the first year of each cycle are achieved, and which will be determined in accordance with section 8 below.

The total number of shares corresponding to the Final Incentive to be delivered to each Beneficiary on the Settlement Dates will be determined according to the following formula:

NS = NCS x Ex-post adj.

Where:

NS = Number of Shares in the Company corresponding to the Final Incentive to be delivered to each Beneficiary, rounded up to the nearest full number.

Adj. Ex-post adj. = Ex-post adjustment on the Provisional Incentive of each cycle, according to the fulfilment of objectives corresponding to each cycle of the Plan.

<u>Plan Metrics</u>

The Degree of Fulfilment of the Provisional Incentive and, therefore, the specific number of CaixaBank shares corresponding to the Granting of the Provisional Incentive for each Beneficiary, on each of the Grant Dates in each cycle of the Plan, will depend on the degree of fulfilment of a series of objectives during the First Measurement Period of each of the Plan's cycles, related to the following Company metrics: (I) the evolution of the Core Efficiency Ratio (CER), (ii) the evolution of the Return on Tangible Equity (ROTE), and (iii) the evolution of the Customer Experience Index (CEI).

The Degree of Fulfilment of the Provisional Incentive will be determined according to the following formula, with the weightings included therein:

DIA = CCER x 40% + CROTE x 40% + CCEI x 20%

Where:

DIA = Degree of Fulfilment of the Provisional Incentive expressed as a percentage rounded to one decimal place.

CCER = Coefficient achieve in relation to the CER objective, according to the scale established for the CER objective in this section.

CROTE = Coefficient achieved in relation to the ROTE objective, according to the scale established for the ROTE objective under this Section.

CCEI = Coefficient achieved in relation to the CEI objective, according to the scale established for the CEI objective under this section.

For the three metrics, CER, ROTE and CEI, a coefficient of between 0% and 120% will be established according to the scale of fulfilment of the objectives related to each of said measures. The objectives reached in relation to the three metrics will be determined by the Company itself.

A condition of the Granting of the Provisional Incentive will be that, in each of the Plan's cycles, on the end of the First Measurement Period of each, the ROTE metric exceeds a specific minimum value, which the Board of Directors will establish for each of the Plan's cycles.

The metrics for calculating the Ex-post Adjustment will be: (I) the CaixaBank Risk Appetite Framework (RAF), (ii) the Total Shareholder Return (TSR) of the Company's shares, and (iii) the Global Reputation Index of the CaixaBank Group ('GRI').

The Ex-post Adjustment will be calculated according to the objectives reached in relation to each of said metrics upon the end of each cycle of the Plan, in accordance with the formula indicated below, with the weightings included therein:

Adj. Ex-post = CRAF x 60% + CTSR x 30% + CGRI x 10%

Where:

Adj. Ex-Post = Ex-post adjustment to apply to the Provisional Incentive granted during each of the Plan's cycles, expressed as a percentage, with a maximum potential of 100%.

CRAF = Coefficient achieved in relation to the RAF objective, according to the scale established for the RAF objective in this section.

CTSR = Coefficient achieved in relation to the TSR objective, based on the scale established for the TSR target in this section.

CGRI = Coefficient achieved in relation to the GRI objective, according to the scale established for the GRI objective in this section.

To calculate the fulfilment of the objective related to the RAF metric, an aggregate level of the scorecard of the Company's Risk Appetite Framework is used. This scorecard is formed of quantitative metrics that measure the different types of risk, and the Board of Directors establishes areas of appetite (green), tolerance (amber) or non-compliance (red), and determines the scale of fulfilment that establishes penalisation or bonus percentages according to the variation on each metric, between the situation of the RAF item at the start and end of the period.

In relation to the Company's TSR evolution in each of the Plan's cycles, this will be calculated by comparing the same indicator for another nineteen (19) calculable reference banks (twenty (20) banks in total including CaixaBank). A coefficient between 0 and 1 will be established according to CaixaBank's ranking among the twenty (20) comparable banks. For anything beneath the median of the comparison group, the coefficient will be 0.

To determine the TSR, and with a view to avoid atypical movements in the indicator, the reference values will take into consideration the average mean price rounded to three decimal places of the shares' closing prices over 31 calendar days, both on the start and end date of the Second Measurement Period on each cycle. As well as 31 December, these 31 days will include the 15 days preceding and following the date in question.

The TSR metric will be calculated at the end of each of the Plan's cycles by a renowned independent expert, at the request of the Company.

The fulfilment of the GRI as an Ex-post Adjustment will be calculated on the basis of the variation of this metric in each of the Plan's cycles. For the first cycle of the Plan, the evolution between the value calculated at the end of 31 December 2018 and that of 31 December 2021 will be measured; for the second cycle, the evolution between 31 December 2019 and 31 December 2022 will be calculated; and for the third cycle, the evolution between 31 December 2020 and 31 December 2023 will be measured. If the variation is negative, i.e. if the reputation indicator goes down, the degree of fulfilment will be 0%. Otherwise it will be 100%. The GRI indicator includes indicators related to CaixaBank's reputation risk, which, among other things, measures social, environmental and climate-change-related aspects, whereby any negative impact related to any of these issues would entail an adjustment to the total number of shares of the Final Incentive.

The Ex-post Adjustment could make the number of final shares to deliver lower, but never higher, than the number of shares corresponding to the Provisional Incentive on each of the Grant Dates.

As well as the foregoing, if, on the end date of each of the Plan's cycles, the CaixaBank TSR ranks between sixteen (16) and twenty (20) (both inclusive) out of the twenty (20) banks comparable to the Company, the Final Incentive that may have resulted from the application of Ex-post Adjustments referred to in this section would be reduced by 50%.

Exceptionally, and only to determine the shares corresponding to the Granting of the Provisional Incentive on the Grant Date of the third cycle of the Plan, an additional multiplying coefficient will be included, which can be up to 1.6, and which will be applied to the DIA, and which will depend on the evolution of the CaixaBank TSR indicator in comparison to the same indicator for the twenty (20) comparable banks during the first cycle of the Plan. Nevertheless, if CaixaBank ranks below the median among the aforementioned twenty (20) banks at the end of the first cycle of the Plan, no additional multiplying factor on the DIA will be applied.

Requirements for receiving shares

The requirements for the beneficiary to receive shares derived from each of the Plan's cycles are:

- They must comply with the objectives set for them under the Plan, subject to the terms and conditions set out in the Plan regulations.

- The beneficiary must remain part of the Company until the Settlement Dates corresponding to each of the Plan's cycles, except in special circumstances, such as death, permanent disability, retirement, and others as set out in the Plan regulations. In the event of voluntary resignation or lawful dismissal, the Beneficiary will forfeit their entitlement to shares under the Plan, notwithstanding the provisions of the Plan regulations. The shares will be delivered in all cases on the dates established for Beneficiaries of the Plan, in accordance with the requirements and procedures laid out 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 established for each of the Settlement Dates 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 dividends or does not pass the stress tests required by the European Banking Authority at the end of the 2019-2021 Strategic Plan, i.e. at the end of the 2021 fiscal year.

**Cases resulting in a reduction or recovery of the variable remuneration (ex-post adjustment of the annual bonus and long-term incentive).**

Cases of reduction

Pursuant to the Credit Institution Act, 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 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 Bank'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 jeopardise the solvency of a business line, and, in general, any 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 laid down in applicable legislation or by regulatory authorities in exercise of their powers to issue or interpret regulations, or their executive powers.

Cases of recovery

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.

Scenarios in which the professional concerned has made a major contribution to poor or negative financial results shall be considered particularly serious breaches, as shall cases of fraud or other instances of fraudulent behaviour or gross negligence leading to significant losses.

## 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 the CaixaBank Group. Such agreements shall consist of an amount that in general shall not exceed the sum of the fixed components of remuneration that the professional would have received had they remained with the entity.

The amount of the compensation shall be divided into equal instalments, payable at regular intervals over the non-competition period.

Any breach of the post-contractual non-competition agreement shall give the Entity the right to seek compensation from the professional proportionate to the compensation paid.

### Deferral and payment

Payment of amounts for early severance considered to be variable remuneration shall be subject to deferral and payment in the manner set down for variable remuneration in the form of bonuses.

### Reduction and recovery

Payments for early termination must be based on the results secured over time, and must not compensate poor results or undue conduct. The amount of payments for termination considered to represent variable remuneration under prevailing regulations shall be subject to the cases of reduction and recovery set down for variable remuneration.

### Disassociation payment processing as part of a collective plan

Members of the Identified Staff group with an employment relationship may join any of the disassociation plans covered in a collective plan, regardless of the legal nature of the contract termination and provided they are generally applicable to all CaixaBank employees who meet the requirements established therein. Joining such plans will be subjected to the following rules:

- In the case of members of the Identified Staff who are members of the Company's Management Committee or directly report to the Board of Directors or to one of its members, the specific disassociation conditions must be ratified by the Board of Directors, on the basis of a report drawn up before hand by the RC. Furthermore, the RC may establish the actions necessary to ensure a smooth transition in their functions.

- The benefits applicable under the disassociation plan shall be considered a form of variable remuneration and shall be generally subject to the requirements regarding variable remuneration in the form of a bonus, as set out in the Remuneration Policy. However, these benefits will not count for the purpose of the calculation of the maximum ratio between fixed and variable remuneration, nor may they be deferred or paid in instruments insofar as the current value of the benefits to be received under the disassociation plan does not exceed the sum of:
  - The minimum legal and obligatory redundancy payment, as established under the labour laws, that the employee would have received if they had been dismissed for improper conduct on the disassociation date; plus
  - The amount of any remuneration for non-competition commitments that the employee had received after the termination fo the contract, in the conditions laid down in section 154.b) of the EBA Guidelines.
- The amount of the collective plan benefits that exceeds the sum referred to above shall be subject to deferral and payment in instruments, in a manner compatible with the characteristics of the benefits of the deferral scheme and the rules established in the Remuneration Policy.
- With regards to the provisions of the EBA Guidelines, the parameters for calculating the profits applicable to the corresponding disassociation plans will be based on a generic formula, to be defined in advance in CaixaBank's remuneration policy.
- In any case, the implementation of the above rules is subject to the competent authorities' interpretation of the applicable standards and guidelines. Therefore, they may require adapting in order to comply with such interpretations.

## 11.4. Quantitative information concerning remuneration of the Identified Staff

In 2018, remuneration paid to the Identified Staff, in adherence to the applicable regulatory provisions concerning remuneration, and according to the Bank's different areas of activity, was as follows.

The information on the fixed remuneration for 2018 set out in this report includes all the 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 details of the cumulative remuneration of the CaixaBank Group, MicroBank and BPI.

### Table 11.1. Remuneration paid to Identified Staff (I)

*Amounts in thousands of euro*

| Activity areas | Description of the type of the businesses | Number of beneficiaries | Fixed Components of remuneration 2018 | Variable Components of remuneration 2018 | Total 2018 |
|---|---|---|---|---|---|
| Non-executive Directors[1] | Management body in its supervisory function | 32 | 6,672 | 14 | 6,686 |
| Executive Directors[2] | Management body in its management function | 10 | 7,673 | 2,089 | 9,762 |
| Investment Banking | Capital Markets & Treasury, Markets, ALM and Corporate & Institutional Banking | 37 | 6,783 | 5,646 | 12,429 |
| Retail Banking | Individual banking, Private banking & Wealth management, Business banking and Transactional banking | 43 | 9,531 | 4,436 | 13,967 |
| Asset management | Asset management | 3 | 522 | 301 | 823 |
| Corporate Functions | Steering committee and all other corporate functions | 80 | 21,138 | 7,318 | 28,456 |
| Internal control functions | Independent control areas | 44 | 7,415 | 1,828 | 9,243 |
| All other | | - | | | - |

*(1) The variable remuneration contemplated in Non-Executive Directors was accrued in the development of previous executive functions.*

*(2)The variable remuneration of BPI's Executive Directors corresponds to the variable remuneration accrued in 2017.*

### Table 11.2. Remuneration paid to Identified Staff (II)

*Amounts in thousands of euro*

| Identified staff 2018 remunerations | Non Executive Directors[1] | Executive Directors | Investment Banking | Retail Banking | Asset management | Corporate Functions | Internal control functions | All other | Total Identified Staff |
|---|---|---|---|---|---|---|---|---|---|
| **Number of beneficiaries** | **32** | **10** | **37** | **43** | **3** | **80** | **44** | **-** | **249** |
| of which Senior Executives | 32 | 10 | | | | 10 | | | 52 |
| of which in Control Functions | | | | | | 2 | 30 | | 32 |
| **Fixed remuneration 2018** | **6,672** | **7,672** | **6,783** | **9,532** | **522** | **21,138** | **7,415** | **-** | **59,734** |
| **Variable remuneration 2018 (annual bonus)** | **-** | **2,036** | **5,646** | **4,437** | **302** | **7,158** | **1,828** | **-** | **21,407** |
| In cash | | 1,018 | 2,903 | 2,405 | 176 | 4,092 | 1,381 | | 11,975 |
| In shares or share-linked instruments | | 1,018 | 2,743 | 2,032 | 126 | 3,066 | 447 | | 9,432 |
| Other types instruments | | - | - | - | | - | - | | - |
| **Variable remuneration deferred (still not paid)[2]** | **528** | **2,796** | **4,030** | **2,879** | **374** | **4,881** | **744** | **-** | **16,232** |
| Attributed | - | - | - | - | - | - | - | - | - |
| Not attributed | 528 | 2,796 | 4,030 | 2,879 | 374 | 4,881 | 744 | - | 16,232 |
| In cash | 489 | 1,992 | 2,109 | 1,485 | 314 | 2,491 | 372 | - | 9,252 |
| In shares or share-linked instruments | 39 | 804 | 1,921 | 1,394 | 60 | 2,390 | 372 | - | 6,980 |
| In other types instruments | - | - | - | - | - | - | - | - | - |
| **Deferred remuneration paid in exercise 2018[3]** | **388** | **1,024** | **1,221** | **852** | **-** | **1,486** | **290** | **-** | **5,261** |
| In cash | 357 | 878 | 654 | 454 | | 782 | 152 | | 3,277 |
| In shares or share-linked instruments | 31 | 146 | 567 | 398 | | 704 | 138 | | 1,984 |
| In other types instruments | - | - | - | - | | - | - | | - |
| Total amount of explicit expost performance adjustment applied in 2018 for previously awarded remuneration | - | - | - | - | - | - | - | - | - |
| **Number of beneficiaries of severance payments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Total amount of severance payments | | | | | | | | | - |
| Average permanence period | | | | | | | | | - |
| Highest severance payment to a single person | | | | | | | | | - |
| **Number of beneficiaries of Long Term Incentive 2015-2018** | **2** | **3** | **1** | **9** | **-** | **33** | **9** | **-** | **57** |
| Prorated annual bonus target | 125 | 350 | 25 | 325 | | 1,463 | 225 | | 2,513 |
| Variable Rem. LTI 2015-2018 still not paid (Not attributed and in shares) | 298 | 787 | 14 | 668 | | 2,839 | 448 | | 5,054 |
| **Number of beneficiaries of discretionary pension benefits** | **1** | **7** | **-** | **-** | **-** | **10** | **-** | **-** | **18** |
| Total amount of discretionary pension benefits in exercise 2017 | 14 | 112 | - | - | - | 161 | - | - | 287 |

*(1) The variable remuneration contemplated in Non-Executive Directors was accrued in the development of previous executive functions.*

*(2) It includes the deferred variable remuneration pending payment at 31/12/2018 (1/3 bonus 2016, 2/3 bonus 2017 and the deferred part of bonus 2018)*

*(3) It includes the deferred variable remuneration awarded in previous years and paid in February 2019 (1/3 bonus 2015, 1/3 bonus 2016 and 1/3 or 1/5 bonus 2017, as appropriate)*

*(4) It includes the variable remuneration resulting from its participation in the LTI accrued in the period from 2015 to 2018, to be paid foreseeably in May 2019, and deferred to 3 or 5 years following the same scheme as for the annual bonus.*

**Table 11.3. Remuneration paid to Identified Staff (III)**

*Amounts in thousands of euro*

| Identified staff 2018 variable remunerations | Non Executive Directors | Executive Directors | Investment Banking | Retail Banking | Asset management | Corporate Functions | Internal control functions | All other | Total Identified Staff |
|---|---|---|---|---|---|---|---|---|---|
| **Number of beneficiaries** | **32** | **10** | **37** | **43** | **3** | **80** | **44** | **-** | **249** |
| **Variable remuneration 2018 (annual bonus)** | **-** | **2,034** | **5,645** | **4,436** | **300** | **7,158** | **1,828** | **-** | **21,401** |
| Bonus 2018 paid in 2019 | - | 814 | 3,451 | 2,653 | 200 | 4,332 | 1,425 | | 12,875 |
| In cash | - | 407 | 1,805 | 1,519 | 125 | 2,679 | 1,179 | | 7,714 |
| In shares or share-linked instruments | - | 407 | 1,646 | 1,134 | 75 | 1,653 | 246 | | 5,161 |
| In other types instruments | - | - | - | - | - | - | - | | - |
| Bonus 2018 deferred and not attributed | - | 1,220 | 2,194 | 1,784 | 100 | 2,826 | 403 | | 8,527 |
| In cash | - | 610 | 1,097 | 884 | 50 | 1,413 | 202 | | 4,256 |
| In shares or share-linked instruments | - | 610 | 1,097 | 900 | 50 | 1,413 | 201 | | 4,271 |
| In other types instruments | - | - | - | - | - | - | - | | - |

**Table 11.4. Remuneration paid to Identified Staff (IV)**

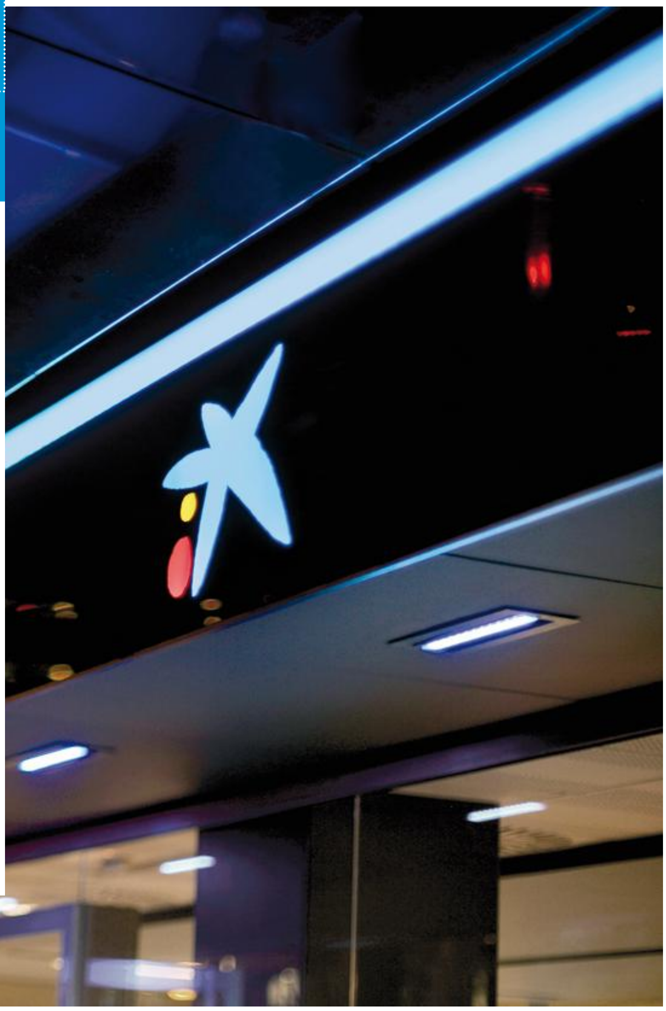
| Total remuneration; payment band (in EUR) | Number of beneficiaries |
|---|---|
| € 1 million to bellow € 1,5 million | 6 |
| € 1,5 million to bellow € 2 million | 2 |
| € 2 million to bellow € 2,5 million | 0 |
| € 2,5 million to bellow € 3 million | 1 |
| € 3 million to bellow € 3,5 million | 0 |
| € 3,5 million to bellow € 4 million | 1 |

In 2018:

- No payments were made for new hires within the Identified Staff.
- No adjustments to deferred compensation awarded in 2018 were made as a result of performance.

# Appendix





# 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 | 18,033 | *26 (1), 27, 28, 29 list of EBA 26 (3)* | |
| 2 | Retained earnings | 6,382 | *26 (1) (c)* | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | (1,943) | *26 (1)* | |
| 3a | Funds for general banking risks | (86) | | |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 968 | *26 (2)* | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **23,355** | | |
| | **Capital level 1 ordinary: regulation adjustments** | | | |
| 7 | Additional value adjustments (negative amount) | (114) | *34, 105* | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (4,250) | *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) | (1,581) | *36 (1) (c), 38, 472 (5)* | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | (73) | *36 (1) (d), 40, 159, 472 (6)* | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | (20) | *32 (1)* | |
| 14 | Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing | (31) | *33 (b)* | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | (55) | *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* | |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(6,138)** | | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **17,217** | | |
| | **Additional Tier 1 (AT1) capital: instruments** | | | |
| 30 | Capital instruments and the related share premium accounts | 2,235 | *51, 52* | |
| 32 | of which: classified as liabilities under applicable accounting standards | 2,235 | | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **2,235** | | |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | (2) | *52 (1) (b), 56 (a), 57, 475 (2)* | |
| **43** | **Total regulatory adjustments to Additional Tier 1 capital** | **(2)** | | |
| **44** | **Additional Tier 1 capital (AT1)** | **2,233** | | |
| **45** | **Tier 1 capital (Tier 1 = CET1+AT1)** | **19,451** | | |
| | **Tier 2 (T2) capital: instruments and provisions** | | | |
| 46 | Capital instruments and the related share premium accounts | 3,156 | *62, 63* | |
| 50 | Credit risk adjustments | 148 | *62 (c) y (d)* | |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | **3,304** | | |
| | **Tier 2 (T2) capital: regulatory adjustments** | | | |
| 52 | EU CR1-B - Credit quality of exposures by sector FINREP | (9) | *63 (b) (i), 66 (a), 67, 477 (2)* | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **(9)** | | |
| **58** | **Tier 2 (T2) capital** | **3,295** | | |

*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)* |
|---|---|---|---|---|
| **59** | **Total capital (TC=T1+T2)** | **22,746** | | |
| 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) | 146,155 | | |
| | *Of which: CET1 instruments of financial sector entities not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts)* | *3,714* | *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)* | *2,350* | *475, 475 (2) (b), 475 (2) (c), 475 (4) (b)* | |
| **60** | **Total risk weighted assets** | **146,155** | | |
| **Capital ratios and buffers** | | | | |
| **61** | **Common Equity Tier 1 (as a percentage of risk exposure amount)** | **11.8%** | ***92 (2) (a), 465*** | |
| **62** | **Tier 1 (as a percentage of risk exposure amount)** | **13.3%** | ***92 (2) (a), 465*** | |
| **63** | **Total capital (as a percentage of risk exposure amount)** | **15.6%** | ***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)** | **8.063%** | ***DRC 128, 129, 130*** | |
| **65** | *of which: capital conservation buffer requirement* | *1.880%* | | |
| **66** | *of which: countercyclical buffer requirement* | *0.0%* | | |
| **67a** | *of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer* | *0.188%* | | |
| **Amount below deduction thresholds (before risk weighing)** | | | | |
| 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) | 1,515 | *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) | 940 | *36 (1) (i), 45, 48, 470, 472 (11)* | |
| 75 | Deferred tax assets arising from temporary differences (amount below the threshold of 10%, net of liabilities for related taxes, provided that the conditions established in article 38, section 3) | 1,485 | *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) *Includes exchange unrealised gains and losses*

(5a) *Profit attributable to the Group (audited), net of dividends (interim and final)*

(8) *Goodwill and intangible assets*

(52) *Im Treasury stock and pledged amounts*

# Appendix II. Capital instruments main features

*Amounts in millions of euros*

| | | ES0140609019 | AYTS491201 | AYTS490629 | XS1565131213 | ES0240609133 | XS1645495349 | XS1808351214 | ES0840609004 | ES0840609012 | XS1679158094 | XS1897489578 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | CaixaBank, S.A | CaixaBank, S.A |
| 2 | **Unique identifier (ISIN)** | ES0140609019 | AYTS491201 | AYTS490629 | XS1565131213 | ES0240609133 | XS1645495349 | XS1808351214 | ES0840609004 | ES0840609012 | XS1679158094 | XS1897489578 |
| 3 | **Governing law(s) of the instrument** | Spanish Law | 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 | 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 | 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 | 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 |
| 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 | Additional Tier 1 | Additional Tier 1 | MREL subordinated eligible liability | MREL subordinated eligible liability |
| 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 | Additional Tier 1 | Additional Tier 1 | MREL subordinated eligible liability | MREL subordinated eligible liability |
| 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 | Solo and Consolidated | Solo and Consolidated |
| 7 | **Instrument type** | Ordinary shares | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Subordinated debt | Contingent Convertible Preferred Securities | Contingent Convertible Preferred Securities | Senior Non Preferred debt | Senior Non Preferred debt |
| 8 | **Amount recognised in regulatory capital (currency in million, as of most recent reporting date)** | 5,981 | 18 | 1 | 994 | 150 | 994 | 990 | 993 | 1,242 | 1,250 | 1,000 |
| 9 | **Nominal amount of the instrument** | 5,981 | 18 | 15 | 1,000 | 150 | 1,000 | 1,000 | 1,000 | 1,250 | 1,250 | 1,000 |
| 9a | **Issue price** | n/a | 100.00% | 100.00% | 99.97% | 100.00% | 99.97% | 99.53% | 100.00% | 100.00% | 99.85% | 99.61% |
| 9b | **Redemption price** | n/a | n/a | N/A | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| 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 | 15/02/2017 | 7/07/2017 | 14/07/2017 | 17/04/2018 | 13/06/2017 | 23/03/2018 | 12/09/2017 | 24/10/2018 |
| 12 | **Perpetual or dated** | Perpetual | Perpetual | Dated | Dated | Dated | Dated | Dated | Perpetual | Perpetual | Dated | Dated |
| 13 | **Original maturity date** | n/a | Undated | 24/06/2093 | 15/02/2027 | 07/07/2042 | 14/07/2028 | 17/04/2030 | Undated | Undated | 12/01/2023 | 24/10/2023 |
| 14 | **Issuer call subject to prior supervisory approval** | No | No | n/a | Yes | Yes | Yes | Yes | Yes | Yes | No | No |

*Amounts in millions of euros*

| | | ES0140609019 | AYTS491201 | AYTS490629 | XS1565131213 | ES0240609133 | XS1645495349 | XS1808351214 | ES0840609004 | ES0840609012 | XS1679158094 | XS1897489578 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15 | **Optional call date, contingent call dates and redemption amount** | n/a | n/a | n/a | 15/2/2022 (one-time call) at the Issuer's option; in addition, for taxation reasons or due to a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval | 7/7/2037 and yearly afterwards at the Issuer's option; in addition, for taxation reasons or due to a Capital Event. In each case for the full amount subject to the supervisor's approval | 14/7/2023 (one-time call) at the Issuer's option; in addition, for taxation reasons or due to a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval | 17/4/2025 (one-time call) at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval | 13/6/2024 and quarterly afterwards at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 7.3 and 7.4). In each case for the full amount subject to the supervisor's approval | 23/3/2026 and quarterly afterwards at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 7.3 and 7.4). In each case for the full amount subject to the supervisor's approval | n/a | n/a |
| 16 | **Subsequent call dates, if applicable** | n/a | n/a | n/a | n/p | Yearly | n/p | n/p | Quarterly | Quarterly | n/a | n/a |
| 17 | **Fixed or floating dividend/coupon** | Variable | Fixed | n/a | Fixed | Fixed | Fixed | Fixed | Variable | Variable | Fixed | Fixed |
| 18 | **Coupon rate and any related index** | n/a | 0 | | 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 | 2.250% until 23/3/2025; if not called, resets at the then prevailing mid-swap 5 years rate + 168 pbs | 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 | 5.25% until 23/3/2026; if not called, resets at the prevailing mid-swap 5 years rate + 450.4 bps and 5 years afterwards from that date | 1,13% | 1,75% |
| 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 | Fully discretionary | Fully discretionary | n/a | n/a |
| 20b | **Fully discretionary, partially discretionary or mandatory (in terms of amount)** | Fully discretionary | Mandatory | n/a | Mandatory | Mandatory | Mandatory | Mandatory | Fully discretionary | Fully discretionary | n/a | n/a |
| 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 | Non-cumulative | Non-cumulative | Cumulative | Cumulative |
| 23 | **Convertible or non-convertible** | n/a | Convertible | n/a | Non Convertible | Non Convertible | Non Convertible | Non Convertible | Convertible | Convertible | Non Convertible | Non Convertible |

*Amounts in millions of euros*

| | | ES0140609019 | AYTS491201 | AYTS490629 | XS1565131213 | ES0240609133 | XS1645495349 | XS1808351214 | ES0840609004 | ES0840609012 | XS1679158094 | XS1897489578 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 24 | If convertible, conversion trigger(s) | 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 | This Contingent Convertibles convert into ordinary shares when the CET1 falls down below 5.125% at the Bank or Group level Consolidated | n/p | n/p |
| 25 | If convertible, fully or partially | n/a | n/a | n/a | n/a | n/a | n/a | n/a | Always fully | Always fully | n/p | n/p |
| 26 | If convertible, conversion rate | n/a | n/a | n/a | n/a | n/a | n/a | n/a | Greater of: i) market price of the shares at the time of conversion (with a floor of its nominal value); ii) a Floor Price of €2.803 | Greater of: i) market price of the shares at the time of conversion (with a floor of its nominal value); ii) a Floor Price of €2.583 | n/p | n/p |
| 27 | If convertible, mandatory or optional conversion | n/a | n/a | n/a | n/a | n/a | n/a | n/a | Mandatory | Mandatory | n/p | n/p |
| 28 | If convertible, specify instrument type convertible into | n/a | n/a | n/a | n/a | n/a | n/a | n/a | Common Equity Tier 1 | Common Equity Tier 1 | n/p | n/p |
| 29 | If convertible, specify issuer of instrument it converts into | n/a | n/a | n/a | n/a | n/a | n/a | n/a | CaixaBank, S.A | CaixaBank, S.A | n/p | n/p |
| 30 | Write-down features | n/a | No | n/a | No | No | No | No | No | No | n/p | n/p |
| 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/p | n/p | n/p |
| 32 | If write-down, full or partial | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/p | n/p | n/p |
| 33 | EU CR1-B - Credit quality of exposures by sector FINREP | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/p | n/p | n/p |

*Amounts in millions of euros*

| | | ES0140609019 | AYTS491201 | AYTS490629 | XS1565131213 | ES0240609133 | XS1645495349 | XS1808351214 | ES0840609004 | ES0840609012 | XS1679158094 | XS1897489578 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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/p | n/p | n/p |
| 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 | Ordinary | Tier 2 Capital Instruments | Tier 2 Capital Instruments | Senior Preferred Creditors | Senior Preferred Creditors |
| 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_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://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/ShowSecTranch | http://cnmv.es/Portal/Consultas/Folletos/FolletosAdmision.aspx?isin=ES0840609004 | https://www.cnmv.es/Portal/Consultas/Folletos/FolletosAdmision.aspx?isin=ES0840609012 | http://www.ise.ie/debt_documents/FinalSeriesProspectus2_f93532da-64cb-423e-bceb-b480e259f75d.PDF | http://www.ise.ie/debt_documents/Final%20Terms_86b469d7-03f0-43d6-a376-3cd5cdfcf52d.PDF |

*As of December 2018, the subordinated liabilities eligible as MREL in the BRRD (Non-Preferred Senior Debt) are included in the table, although they cannot be computed for the purposes of own founds in the CRR. All this without prejudice to the computability as MREL of other non-subordinated liabilities.*

# Appendix III. Capital instruments main features

*Amounts in millions of euros*

| | Summary reconciliation of accounting assets and leverage ratio exposures | |
|---|---|---|
| 1 | Total assets as per published financial statements | 386,622 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | (50,970) |
| 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") | - |
| 4 | Adjustments for derivative financial instruments | (14,679) |
| 5 | Adjustments for securities financing transactions "SFTs" | 1,122 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 28,848 |
| 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) | - |
| 6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | - |
| 7 | Other adjustments | (6,040) |
| **8** | **Leverage ratio exposure** | **344,902** |

| | Leverage ratio common disclosure | |
|---|---|---|
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 315,315 |
| 2 | Asset amounts deducted in determining Tier 1 capital | (6,040) |
| **3** | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **309,274** |
| | **Leverage ratio common disclosure** | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 4,760 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 3,001 |
| 5b | Exposure determined under Original Exposure Method | - |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | (4,223) |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | - |
| **11** | **Total derivative exposures** | **3,538** |
| | **Leverage ratio common disclosure** | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 2,121 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - |
| 14 | Counterparty credit risk exposure for SFT assets | 1,122 |
| 14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles | - |
| 15 | Agent transaction exposures | - |
| 15a | (Exempted CCP leg of client-cleared SFT exposure) | - |
| **16** | **Total securities financing transaction exposures** | **3,242** |
| | **Leverage ratio common disclosure** | |
| 17 | Off-balance sheet exposures at gross notional amount | 88,492 |
| 18 | EU CR1-B - Credit quality of exposures by sector FINREP | (59,644) |
| **19** | **Other off-balance sheet exposures** | **28,848** |

*Amounts in millions of euros*

| | | |
|---|---|---|
| | **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)) | - |
| 19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | - |
| | **Leverage ratio common disclosure** | |
| **20** | **Tier 1 capital** | **19,451** |
| **21** | **Total leverage ratio exposures** | **344,902** |
| | **Leverage ratio common disclosure** | |
| **22** | **Leverage ratio** | **5.6%** |
| | **Choice on transitional arrangements and amount of derecognised fiduciary items** | |
| 23 | Choice on transitional arrangements for the definition of the capital measure | Transitory measure |
| 24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013 | - |

*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:** | **315.315** |
| EU-2 | Trading book exposures | 9 |
| EU-3 | Banking book exposures, of which: | 315.305 |
| *EU-4* | *Covered bonds* | - |
| *EU-5* | *Exposures treated as sovereigns* | 63.214 |
| *EU-6* | *Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns* | 4.643 |
| *EU-7* | *Institutions* | 4.090 |
| *EU-8* | *Secured by mortgages of immovable properties* | 102.454 |
| *EU-9* | *Retail exposures* | 30.212 |
| *EU-10* | *Corporate* | 74.815 |
| *EU-11* | *Exposures in default* | 9.516 |
| *EU-12* | *Other exposures (eg equity, securitisations, and other non-credit obligation assets)* | 26.362 |

| | | |
|---|---|---|
| | **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 | Improvement of the ratio in 1Q for the new AT1 instruments (1.2bn€), reduction in 2Q for punctual increase of the asset due to excess of liquidity management. Improvement of the 3Q ratio due to the reversal of the occasional increase of assets in Q2. Flat in 4T. |

# Appendix IV. Holdings subject to regulatory limits for deduction purposes

| Share | Company | Activity | % participation | |
|---|---|---|---|---|
| | | | Direct | Total |
| Significant shareholdings (>10%) | Aris Rosen, S.A.U. | Services | 100.00 | 100.00 |
| | Banco Comercial de Investimento, S.A.R.L. | Banking | 0.00 | 35.67 |
| | BPI, Incorporated | Banking | 0.00 | 100.00 |
| | Brilliance-Bea Auto Finance Co., L.T.D. | Vehicle financing | 0.00 | 22.50 |
| | Comercia Global Payments, Ent. Pago, S.L. | Payment entity | 49.00 | 49.00 |
| | Companhia de Seguros Allianz Portugal, S.A. | Insurances | 0.00 | 35.00 |
| | Cosec-Companhia de Seguros de Crédito, S.A. | Credit insurances | 0.00 | 50.00 |
| | Global Payments - Caixa Acquisition Corporation S.A.R.L. | Payment entity | 49.00 | 49.00 |
| | Global Payments South America, Brasil - Serviços de Pagamento, S.A. | Payment systems | 50.00 | 50.00 |
| | Inversiones Alaris, S.L. en liquidación | Holding of Securities | 33.33 | 66.67 |
| | Redsys Servicios de Procesamiento, S.L. | Payment methods | 0.00 | 20.00 |
| | Servired, Sociedad Española de Medios de Pago, S.A. | Payment methods | 0.00 | 22.01 |
| | Sistema de Tarjetas y Medios de Pago, S.A. | Payment methods | 0.00 | 18.11 |
| | Sociedad de Procedimientos de Pago, S.L. | Payment entity | 0.00 | 22.92 |
| | Telefónica Factoring do Brasil, Ltda | Factoring | 20.00 | 20.00 |
| | Telefónica Factoring España, S.A. | Factoring | 20.00 | 20.00 |
| | Unicre - Instituição Financeira de Crédito, S.A. | Financial services | 0.00 | 21.01 |
| 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. EU LI3 - Companies with differing prudential and accounting consolidation treatment

| Name of the entity | Accounting consolidation treatment | Prudencial consolidation treatment | | | | Description of the entity |
|---|---|---|---|---|---|---|
| | | Global integration | Proportional consolidated method | Equity method | Deducted | |
| Aris Rosen, S.A.U. | Full consolidable entities | | | X | | Services |
| Cestainmob, S.L. | Full consolidable entities | | | X | | Property management and real estate |
| Coia Financiera Naval, S.L. | Full consolidable entities | | | X | | Financial services and intermediation in naval sector |
| El Abra Financiera Naval, S.L. | Full consolidable entities | | | X | | Financial services and intermediation in naval sector |
| Estugest, S.A. | Full consolidable entities | | | X | | Administrative activities and services |
| Finandia E.F.C. S.A. | Equity method | | X | | | Consumer financing |
| Grupo Aluminios de precisión, S.L.U. | Full consolidable entities | | | X | | Smelting |
| Grupo Riberebro Integral, S.L. | Full consolidable entities | | | X | | Production and marketing of agricultural products |
| Inter Caixa, S.A. | Full consolidable entities | | | X | | Services |
| Inversiones corporativas digitales, S.L. | Full consolidable entities | | | X | | Holding company |
| Inversiones Inmobiliarias Teguise Resort, S.L. | Full consolidable entities | | | X | | Hotels and similars |
| PromoCaixa, S.A. | Full consolidable entities | | | X | | Product marketing |
| Puerto Triana, S.A.U. | Full consolidable entities | | | X | | Real state of shopping centers |
| Sociedad de gestión hotelera de Barcelona, S.L. | Full consolidable entities | | | X | | Transactions with real estate |
| VidaCaixa Mediació, Sociedad de Agencia de Seguros Vinculada, S.A.U. | Full consolidable entities | | | X | | Insurance agency |
| VidaCaixa, S.A. de Seguros y Reaseguros Sociedad Unipersonal | Full consolidable entities | | | X | | Insurance and reinsurance |

*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. |

| Acronym | Description |
|---|---|
| CRM | Credit Risk Mitigators |
| CRR | The Capital Requirements Regulation, Regulation 575/2013, of the Parliament and the Council, on prudential requirements for credit institutions and investment firms |
| CVA | Credit Valuation Adjustment |
| DGF | Deposit Guaranteed Fund |
| 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 |
| G-SIBs | Global Systemically Important Banks |
| 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 |

| Acronym | Description |
|---|---|
| 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 |
| MDA | Maximum Distributable Amount |
| MREL | Minimum Requirement for Own Funds and Eligible Liabilities |
| NSFR | Net Stable Funding Ratio |
| O-SII | Other Systemically Important Institution |
| OCI | Other Comprehensive Income |
| 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 |

| Acronym | Description |
|---|---|
| ROTE | Return on Tangible Equity |
| RWAs | Risk-weighted assets |
| SNP | Senior non preferred |
| SREP | Supervisory Review and Evaluation Process |
| SRM | Single Resolution Mechanism |
| SRF | Single Resolution Fund |
| SSM | Single Supervisory Mechanism |
| TIER2 (T2) | Tier 2 capital |
| TLTRO | Targeted Longer-term Refinancing Operation |
| TRIM | Targeted Review of Internal Models |
| TO | Takeover bid |
| TSR | Total Shareholder Return |
| VaR | Value at Risk |

# Appendix VII. Tables EBA Guide

| Template | EBA/GL/2016/11, version 2 | IRP Section | Table Nº |
|---|---|---|---|
| EU LI1 | EU LI1 - Differences betweeen accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories | 2.5. Accounting reconciliation between the financial statements and regulatory statements | 2.2 |
| EU LI2 | EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements | 2.5. Accounting reconciliation between the financial statements and regulatory statements | 2.3 |
| EU INS1 | EU INS1 - Non-deducted participations in insurance undertakings | 4.3.2. Capital requirements | 4.7 |
| EU OV1 | EU OV1 - Overview of RWAs | 4.3.2. Capital requirements | 4.9 |
| EU CR4 | EU CR4 - Standardised approach – Credit risk exposure and CRM effects | 5.1.2. Minimum capital requirements for credit risk | 5.7 |
| EU CR5 | EU CR5 - Standardised approach (EAD) | 5.1.2. Minimum capital requirements for credit risk | 5.8 |
| EU CR5 | EU CR5 - Standardised approach (APR) | 5.1.2. Minimum capital requirements for credit risk | 5.9 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range | 5.1.2. Minimum capital requirements for credit risk | 5.12 |
| EU CR8 | EU CR8 - RWA flow statements of credit risk exposures under the IRB approach | 5.1.2. Minimum capital requirements for credit risk | 5.13 |
| EU CRB-B | EU CRB-B - Total and average net amount of exposures | 5.1.3. Quantitative aspects | 5.15 |
| EU CRB-C | EU CRB-C - Geographical breakdown of exposures | 5.1.3. Quantitative aspects | 5.16 |
| EU CRB-D | EU CRB-D - Concentration of exposures by industry or counterparty types (Net Value) | 5.1.3. Quantitative aspects | 5.17 |
| EU CRB-D | EU CRB-D - Concentration of exposures by industry or counterparty types (APR) | 5.1.3. Quantitative aspects | 5.18 |
| EU CRB-E | EU CRB-E - Maturity of exposures | 5.1.3. Quantitative aspects | 5.19 |
| EU CR2-B | EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities | 5.1.3. Quantitative aspects | 5.21 |
| EU CR1-A | EU CR1-A - Credit quality of exposures by sector FINREP | 5.1.3. Quantitative aspects | 5.22 |
| EU CR1-B | EU CR1-B - Credit quality of exposures by industry or counterparty types | 5.1.3. Quantitative aspects | 5.23 |
| EU CR1-C | EU CR1-C - Credit quality of exposures by geography | 5.1.3. Quantitative aspects | 5.24 |
| EU CR1-D | EU CR1-D - Ageing of past-due exposures | 5.1.3. Quantitative aspects | 5.25 |
| EU CR1-E | EU CR1-E - Non-performing and forborne exposures | 5.1.3. Quantitative aspects | 5.26 |
| EU CR3 | EU CR3 - CRM techniques – Overview | 5.1.3. Quantitative aspects | 5.27 |
| EU CR2-A | EU CR2-A - Changes in the stock of general and specific credit risk adjustments | 5.1.3. Quantitative aspects | 5.28 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Corporates) | 5.1.3. Quantitative aspects | 5.30 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME) | 5.1.3. Quantitative aspects | 5.31 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail - Covered by Residential Mortgage) | 5.1.3. Quantitative aspects | 5.32 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME - Covered by Residential Mortgage) | 5.1.3. Quantitative aspects | 5.33 |

| Template | EBA/GL/2016/11, version 2 | IRP Section | Table Nº |
|---|---|---|---|
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Eligible Revolving Retail) | 5.1.3. Quantitative aspects | 5.34 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail SME) | 5.1.3. Quantitative aspects | 5.35 |
| EU CR6 | EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Other Retail Exposures) | 5.1.3. Quantitative aspects | 5.36 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporates non-SME portfolio | 5.1.3. Quantitative aspects | 5.38 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporate SME portfolio | 5.1.3. Quantitative aspects | 5.39 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – residential mortgage | 5.1.3. Quantitative aspects | 5.40 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME mortgage | 5.1.3. Quantitative aspects | 5.41 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - (Eligible Revolving Retail) | 5.1.3. Quantitative aspects | 5.42 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other SME) | 5.1.3. Quantitative aspects | 5.43 |
| EU CR9 | EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other Retail) | 5.1.3. Quantitative aspects | 5.44 |
| EU CCR1 | EU CCR1 - Analysis of CCR exposure by approach | 5.2.2. Minimum capital requirements for counterparty risk, default fund and CVA | 5.46 |
| EU CCR3 | EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (EAD) | 5.2.3. Quantitative aspects | 5.48 |
| EU CCR3 | EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (RWA) | 5.2.3. Quantitative aspects | 5.49 |
| EU CCR4 | EU CCR4 - IRB approach - CCR exposures by portfolio and PD scale | 5.2.3. Quantitative aspects | 5.51 |
| EU CCR7 | EU CCR7 - RWA flow statements of CCR exposures under the IMM | 5.2.3. Quantitative aspects | N/A |
| EU CCR5-A | EU CCR5-A - Impact of netting and collateral held on exposure values | 5.2.3. Quantitative aspects | 5.52 |
| EU CCR5-B | EU CCR5-B - Composition of collateral for exposures to CCR | 5.2.3. Quantitative aspects | 5.53 |
| EU CCR8 | EU CCR8 – Exposures to CCPs | 5.2.3. Quantitative aspects | 5.54 |
| EU CCR2 | EU CCR2 - CVA capital charge | 5.2.3. Quantitative aspects | 5.55 |
| EU CCR6 | EU CCR6 - Credit derivatives exposures | 5.2.3. Quantitative aspects | 5.56 |
| EU CR10 | EU CR10 - IRB (specialised lending and equities) | 5.4.3. Quantitative aspects | 5.66 |
| EU MR1 | EU MR1 - Market risk under the standardised approach | 6.2. Minimum capital requirements for market risk | 6.1 |
| EU MR3 | EU MR3 - IMA values for trading portfolios | 6.3. Quantitative aspects | 6.2 |

| Template | EBA/GL/2016/11, version 2 | IRP Section | Table Nº |
|---|---|---|---|
| EU MR2-A | EU MR2-A - Market risk under the Internal Model Approach | 6.3. Quantitative aspects | 6.3 |
| EU MR2-B | EU MR2-B - RWA flow statements of market risk exposures under the IMA | 6.3. Quantitative aspects | 6.4 |
| EU MR4 | EU MR4 - Comparison of VaR estimates with gains/losses | 6.3. Quantitative aspects | |
| EU LIQ1 | EU LIQ1 - LCR detail (monthly average values) | 9.2. Quantitative aspects | 9.3 |
| EU LI3 | EU LI3 - Companies with differing prudential and accounting consolidation treatment | Appendix V | |

| BCBS Template | Pillar 3 - Disclosure requirements | IRP Section | Table Nº |
|---|---|---|---|
| EU CCyB1 | EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer | 4.2.3. Total SREP requirements | 4.3 |
| SEC1 | EU SEC1 - Securitisation exposures in the banking book | 5.3.3. Quantitative aspects | 5.60 |
| SEC3 | EU SEC3 -Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator | 5.3.2. Minimum capital requirements for securitisation risk | 5.58 |

# Appendix VIII. Map Part Eight Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013

| CRR Article | IRP 2018 |
|---|---|
| **Article 431. Scope of disclosure requirements** | |
| 431.1 | Pilar 3 Disclosure. It is published on: https://www.caixabank.com/informacionparaaccionistasteinversores/inf |
| 431.2 | Section 7.2 |
| 431.3 | Declaration of the Board of Directors, Section 1 |
| 4.31.4 | Section 5.1.3 |
| **Article 432. Non-material, proprietary or confidential information** | |
| 432.1 | N/A ; Section 1 |
| 432.2 | N/A; Section 1 |
| 432.3 | N/A |
| 432.4 | N/A |
| **Article 433. Frequency of disclosure** | |
| 433 | Section 1 |
| **Article 434. Means of disclosures** | |
| 434.1 | Section 1 |
| 434.2 | Section 1 |
| **Article 435. Risk management objectives and policies** | |
| 435.1 | |
| *435.1.a* | Sections 5.1.1, 5.2.1, 5.3.1 , 5.4.1, 6.1, 7.1, 8.1, 9.1, 10 |
| *435.1.b* | Sections 3.1.3, 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10 |
| *435.1.c* | Sections 3.1.3 y 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10 |
| *435.1.d* | Sections 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10 |
| *435.1.e* | Section 3 |
| *435.1.f* | Declaration of the Board of Directors |
| 435.2 | |
| *435.2.a* | Section 3.1.1 |
| *435.2.b* | Section 3.1.1 |
| *435.2.c* | Section 3.1.1 |
| *435.2.d* | Section 3.1.1 |
| *435.2.e* | Section 3.1.1, 3.1.2, 3.1.3, 3.4.2 |
| **Article 436. Scope of application** | |
| 436.a | Section 2.2 |
| 436.b | Appendix IV,V |
| 436.b.i | Appendix IV,V |
| 436.b.ii | Appendix IV,V |
| 436.b.iii | Appendix IV,V |
| 436.b.iv | Appendix IV,V |
| 436.c | Section 2.3 |
| 436.d | N/A;Section 2.3 |
| 436.e | N/A;Section 2.3 |

| CRR Article | IRP 2018 |
|---|---|
| **Article 437. Own funds** | |
| 437.1 | |
| *437.1.a* | Section 4.3.1, Appendix I |
| *437.1.b* | Section, Appendix II |
| *437.1.c* | Section 4.3.1, Appendix II |
| *437.1.d* | |
| *437.1.d.i* | Appendix I |
| *437.1.d.ii* | Appendix I |
| *437.1.d.iii* | Appendix I |
| *437.1.e* | Section 4.3.1, Appendix I |
| *437.1.f* | Appendix I |
| **Article 438. Capital requirements** | |
| 438.a | Section 4.1, 4.2.1, 4.5 |
| 438.b | Section 4.2.1, 4.2.2 |
| 438.c | Section 5.1.2 |
| 438.d | Section 5.1.2, 5.2.2 |
| 438.d | Section 5.1.2, 5.2.2, 5.4.2 |
| *438.d.ii* | Section 5.4.2 |
| *438.d.iii* | Section 5.4.2 |
| *438.d.iv* | |
| 438.e | Section 6.2 |
| 438.f | Section 7.2 |
| 438 | Section 5.4.3 |
| **Article 439. Exposure to counterparty credit riske** | |
| 439.a | Section 5.2.1 |
| 439.b | Section 5.2.1 |
| 439.c | Section 5.2.1 |
| 439.d | Section 5.2.1 |
| 439.e | Section 5.2.3 |
| 439.f | Section 5.2.2 |
| 439.g | Section 5.2.3 |
| 439.h | Section 5.2.3 |
| 439.i | N/A |
| **Article 440. Capital buffers** | |
| 440.1 | |
| *440.1.a* | Section 4.3.2 |
| *440.1.b* | Section 4.3.2 |
| **Article 441. Indicators of global systemic importance** | |
| 441.1 | Section 4.2.2 |

| CRR Article | IRP 2018 |
|---|---|
| **Article 442. Credit risk adjustments** | |
| 442.a | Section 5.1.3 |
| 442.b | Section 5.1.3 |
| 442.c | Section 5.1.3 |
| 442.d | Section 5.1.3 |
| 442.e | Section 5.1.3 |
| 442.f | Section 5.1.3 |
| 442.g | Section 5.1.3 |
| *442.g.i* | Section 5.1.3 |
| *442.g.ii* | Section 5.1.3 |
| *442.g.iii* | Section 5.1.3 |
| 442.h | Section 5.1.3 |
| 442.i | Section 5.1.3 |
| 442.i.i | Section 5.1.3 |
| 442.i.ii | Section 5.1.3 |
| 442.i.iii | Section 5.1.3 |
| 442.i.iv | Section 5.1.3 |
| 442.i.v | Section 5.1.3 |
| **Article 443. Unencumbered assets** | |
| 443 | Section 9.2 |
| **Article 444. Use of ECAIs** | |
| 444.a | Section 5.1.2 |
| 444.b | Section 5.1.2 |
| 444.c | N/A |
| 444.d | Section 5.1.2 |
| 444.e | Section 5.1.3 |
| **Article 445. Exposure to market risk** | |
| 445 | Section 6.2 |
| **Article 446. Operational risk** | |
| 446 | Section 7.3 |
| **Article 447. Exposures in equities not included in the trading book** | |
| 447.a | Section 5.4.3 |
| 447.b | Section 5.4.3 |
| 447.c | Section 5.4.3 |
| 447.d | Section 5.4.3 |
| 447.e | Section 5.4.3 |
| **Article 448. Exposure to interest rate risk on positions not included in the trading bo** | |
| 448.a | Section 8.1 |
| 448.b | Section 8.1 |

| CRR Article | IRP 2018 |
|---|---|
| **Article 449. Exposure to securitisation positions** | |
| 449.a | Section 5.3.1 |
| 449.b | Section 5.3.1 |
| 449.c | Section 5.3.1,5.3.3 |
| 449.d | Section 5.3.1 |
| 449.e | Section 5.3.1 |
| 449.f | Section 5.3.1 |
| 449.g | Section 5.3.1 |
| 449.h | Section 5.3.2 |
| 449.i | Section 5.3.1 |
| 449.j | Section 5.3.1 |
| *449.j.i* | Section 5.3.1 |
| *449.j.ii* | Section 5.3.1 |
| *449.j.iii* | Section 5.3.1 |
| *449.j..iv* | Section 5.3.1 |
| *449.j.v* | Section 5.3.1 |
| *449.j.vi* | Section 5.3.1 |
| 449.k | Section 5.3.1, 5.3.2 |
| 449.l | Section 5.3.2 |
| 449.m | Section 5.3.2, 5.3.3 |
| 449.n | Section 5.3.1, 5.3.3 |
| *449.n.i* | Section 5.3.3 |
| *449.n.ii* | Section 5.3.3 |
| *449.n.iii* | Section 5.3.1 |
| *449.n.iv* | Section 5.3.3 |
| *449.n.v* | Section 5.3.2 |
| *449.n.vi* | Section 5.3.1 |
| 449.o | |
| *449.o.i* | Section 5.3.1, 5.3.2, 5.3.2 |
| *449.o.ii* | Section 5.3.1, 5.3.2, 5.3.3 |
| 449.p | Section 5.3.3 |
| 449.q | Section 5.3.1, 5.3.3 |
| 449.r | Section 5.3.1 |
| **Article 450. Remuneration policy** | |
| 450 | |
| 450.1.a | Section 11.1 |
| 450.1.b | Section 11.3, 11.4 |
| 450.1.c | Section 11.3 |
| 450.1.d | Section 11.3 |
| 450.1.e | Section 11.3 |
| 450.1.f | Section 11.3 |
| 450.1.g | Section 11.4 |
| 450.1.h | Section 11.4 |

| CRR Article | IRP 2018 |
|---|---|
| **Article 450. Remuneration policy** | |
| *450.1.h.i* | Section 11.4 |
| *450.1.h.ii* | Section 11.4 |
| *450.1.h.iii* | Section 11.4 |
| *450.1.h.iv* | Section 11.4 |
| *450.1.h.v* | Section 11.4 |
| *450.1.h.vi* | Section 11.4 |
| 450.1.i | Section 11.4 |
| 450.1.j | N/A |
| 450.2 | Section 11 |
| **Article 451. Leverage** | |
| 451.1 | Section 4.3.4, Appendix III |
| *451.1.a* | Section 4.3.4, Appendix III |
| *451.1.b* | Section 4.2.4, Appendix III |
| *451.1.c* | N/A |
| *451.1.d* | Section 4.3.4, Appendix III |
| *451.1.e* | Section 4.3.4, Appendix III |
| **Article 452. Use of the IRB Approach to credit risk** | |
| 452.a | Section 5.1.3 |
| 452.b | |
| *452.b.i* | Section 5.1.3 |
| *452.b.ii* | Section 5.1.3 |
| *452.b.iii* | Section 5.1.3 |
| *452.b.iv* | Section 5.1.3 |
| 452.c | Section 5.1.3 |
| *452.c.i* | Section 5.1.3 |
| *452.c.ii* | Section 5.1.3 |
| *452.c.iii* | Section 5.1.3 |
| *452.c.iv* | Section 5.1.3 |
| *452.c.v* | Section 5.1.3 |
| 452.d | Section 5.1.3 |
| 452.e | Section 5.1.3 |
| *452.e.i* | Section 5.1.3 |
| *452.e.ii* | Section 5.1.3 |
| *452.e.iii* | Section 5.1.3 |
| 542.f. | Section 5.1.3 |
| 452.g | Section 5.1.3 |
| 452.h | Section 5.1.3 |
| 452.i | Section 5.1.3 |
| 452.j | Section 5.1.3 |
| *452.j.i* | Section 5.1.3 |
| *452.j.ii* | Section 5.1.3 |

| CRR Article | IRP 2018 |
|---|---|
| **Article 453. Use of credit risk mitigation techniques** | |
| 453.a | Section 5.1.1 |
| 453.b | Section 5.1.1, 5.1.3 |
| 453.c | Section 5.1.1 |
| 453.d | Section 5.2.1, 5.2.3 |
| 453.e | Section 5.1.3 |
| 453.f | Section 5.1.2 |
| 453.g | Section 5.1.2, 5.1.3 |
| **Article 454. Use of the Advanced Measurement Approaches to operational risk** | |
| 454 | N/A |
| **Article 455. Use of Internal Market Risk Models** | |
| 455.a | Section 6.1 |
| *455.a.i* | Section 6.1 |
| *455.a.ii* | Section 6.1, 6.3 |
| *455.a.iii* | Section 6.1 |
| *455.a.iv* | Section 6.3 |
| 455.b | Section 6.3 |
| 455.c | Section 6.3 |
| 455.d | Section 6.3 |
| *455.d.i* | Section 6.3 |
| *455.d.ii* | Section 6.3 |
| *455.d.iii* | Section 6.3 |
| 455.e | Section 6.3 |
| 455.f | Section 6.3 |
| 455.g | Section 6.3 |

Access the online version at

**www.CaixaBank.com/pillar3report2018**


CaixaBank