Further information concerning the CaixaBank Group's 2013 Consolidated Financial Statements

ISSUE 1. The cash flows from investing activities in consolidated statement of cash flows show payments and collections for non-current assets and associated liabilities held for sale for €5,219 million and €1,821 million, respectively. In accordance with Note 17 "Non-current assets held for sale" to the consolidated financial statements, disposals were recognised for the gross balance of assets of this type for €1,963 million, and additions for incorporations were recognised in 2013 for €5,044 million, mostly arising from loan adjustments.

Paragraph 10 of IAS 7, Statement of cash flows, establishes that "the statement of cash flows must report cash flows during the period classified by operating, investing and financing activities".

Based on the foregoing:

1.1. Justify that the changes recognised in the consolidated statement of cash flows as payments and collections of non-current assets and associated liabilities held for sale in fact relate to outflows and inflows of cash and not to changes in balance sheet headings. Otherwise, a pro-form consolidated statement of cash flows should be presented that includes only changes in cash.

Response

The Group uses the indirect method to present the statement of cash flows. The changes recognised in the consolidated statement of cash flows for collections of non-current assets and associated liabilities held for sale amounting to €1,821 million does in fact relate to the inflow of cash as a result of the sale of non-current assets held for sale and equals the sale price of the transactions. The profit from the sale transaction is recorded under "Other adjustments to profit" to obtain cash flows from operating activities.

The changes recognised in this statement as payments for non-current assets held for sale and associated liabilities amounting to €5,218 million relate to:

a) €30 million actually relate to payments made in cash and that were recognised as an addition under "Non-current assets held for sale".
b) €5,188 million relate to the additions to "Non-current assets held for sale", mainly from loan adjustments, which did not represent an actual cash outflow for the group.

If the monetary cash flow had only been recognised in the heading on non-current assets held for sale and associated liabilities in the consolidated statement of cash flows, the line item on payments for non-current assets and associated liabilities held for sale under cash flows from investing activities would increase by €5,188 million, thereby giving rise to a final amount of €-30 million, and the line item on loans and receivables under cash flows from operating activities would be reduced by €-5,188 million, giving rise to a final amount of €13,214 million.

Cash flows from operating activities are obtained using the indirect method, based on the consolidated profit or loss for the year, and lastly, by eliminating income tax income amounting to €1,208 million (€291 million in 2012), despite that it is shown as a payment with a negative sign.

1.2. With regard to the preparation of financial statements in future years, it should be remembered that, in accordance with paragraph 35 of IAS 7 and regardless of the necessary adjustments resulting from tax expenses/income that may have to be made to profit or loss for the year, cash flows arising from payments/collections "related to taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities [...]".

Response

We have noted your comments and will take them into consideration in the preparation of financial statements in future years.

ISSUE 2. Note 8 "Business combinations, acquisition and disposal of ownership interests in subsidiaries" to the consolidated financial statements explains that on 27 November 2012, the FROB awarded 98.9% of Banco de Valencia (BdV) to Caixabank for €1 with an asset protection scheme (APS).

This APS led to the recognition of an asset for €1,203 million under "Loans and receivables" to reflect the expected losses to be borne by the FROB. In accordance with paragraph B64(g) of IFRS 3, Business combinations, the entity must disclose "an estimate of the range of possible settlements (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated shall be disclosed" for indemnification assets.

With regard to assets acquired and liabilities assumed in the BdV acquisition, "liabilities and contingent liabilities were measured at the best estimate of the outflow of resources that could be required of uncertain timing". Specifically, liabilities for contingent liabilities and commitments were recognised amounting to €359 million. Paragraph 85(a) of IAS 37, Provisions, contingent liabilities and contingent assets, requires "the expected timing of any resulting outflows of economic benefits" to be disclosed for each type of provision recognised.

With regard to acquired assets, loans and receivables were recognised at a fair value for €11,978 million. Paragraph B64(h) of IFRS 3 requires " the gross contractual amounts receivable; and the best estimate at the acquisition date of the contractual cash flows not expected to be collected" to be disclosed for acquired accounts receivable.

With regard to the foregoing, the following is disclosed:

2.1. The estimated settlements of the APS, in accordance with paragraph B64(g) of IFRS 3.

Response

The Protocol of Financial Support Measures for restructuring Banco de Valencia signed by CaixaBank, Banco de Valencia, and the Fund for Orderly Bank Restructuring (FROB) included the assignment by the FROB of an Asset Protection Scheme whereby the FROB would assume 72.5% of the losses incurred from a series of assets from the loan portfolios (SMEs and self-employed professionals) and contingent liabilities ("Guaranteed assets"), up to a certain maximum amount, retroactively effective as of 30 September 2012 and maturing in 10 years, i.e., at 30 September 2022. The agreement included a threshold from which these losses would be assumed by the FROB.

Net losses are calculated and settled each year. Each year CaixaBank must submit, prior to 28 February of each year, the list of losses, gains and recoveries relating to the previous year. The FROB will make payments, if applicable, provided that the net loss is above the agreed-upon threshold and prior to 30 June of each year. At the date of the business combination, CaixaBank calculated the value of the asset for the APS by applying 72.5% to the expected loss calculated on the guaranteed assets, once the agreed-upon threshold is deducted.

The amount calculated and recognised at the date of the business combination was €1,203 million. The characteristics of the guaranteed assets and the long term of the agreement, which is 10 years, makes it difficult to estimate the effective timetable of the settlements to be made by the FROB, which will depend on the actual loss incurred each year with regard to the guaranteed assets, and once the threshold of the first loss assumed by CaixaBank is exceeded. In 2014, the calculation of losses, gains and recoveries with regard to 2013 did not give rise to any settlement on the part of the FROB as it did not exceed the threshold.

2.2. The information required by paragraph 85(a) of IAS 37 for contingent liabilities and commitments acquired.

Response

At the date of acquisition of Banco de Valencia, the balance of contingent liabilities and commitments recognised in Banco de Valencia, which included basically guarantees, irrevocable documentary credits and other obligations, amounted to €1,409 million. At the date of acquisition, CaixaBank estimated the expected loss on the contingent liabilities and commitments, based on their nature and the segment to which they belong, at €359 million, of which €48 million were already recognised as provisions in the consolidated balance sheet of Banco de Valencia at 31 December 2012. Due to the nature of these risks, whereby if the guaranteed party fails to comply with its obligations, the Group must pay the amount of the contingent liabilities at the time of non-compliance, the timetable for the outflow of economic benefits is uncertain and cannot be reliably estimated.

2.3. For accounts receivable, the gross contractual amounts and the best estimate of the contractual amounts not expected to be collected in accordance with paragraph B64(h) of IFRS 3.

Response

At the date of the business combination, the fair value of the loans and receivables recognised is that shown in the table below:

	Banco de Valencia accounting balances at 31 December 2012					
(Thousands of euros)	Total, gross	Valuation adjustments	Provision	Net balance	Fair value adjustments	Fair value
Loans and advances to credit instituti	235,652	93		235,745		235,745
Loans and advances to customers	12,872,777	-10,869	-1,323,808	11,538,100	-1,001,401 (1)	10,536,699
Debt securities	1,269,305	12,039		1,281,344	-75,238 (2)	1,206,106
Total	14,377,734	1,263	-1,323,808	13,055,189	-1,076,639	11,978,550

(1) Reflects mainly the adjustment made to reflect the expected loss of the assets recognised as loans and advances to customers after deducting the asset receivable from the APS totalling €1,203 million as mentioned in response 2.1 above, calculated as 72.5% of the expected loss of the protected assets.
(2) Relates to the adjustment to fair value of the debt securities recognised under loans and receivables, and which mostly related to investments in multiseller issues and asset securitisation funds.

Banco de Valencia recognised provisions to cover the loss incurred from loans and advances to customers, in accordance with applicable accounting legislation. The adjustment to fair value was calculated based on the expected loss for each segment of the loan portfolio.

ISSUE 3. Note 8 to the consolidated financial statements indicates that the loans and receivables were reduced by €1,000 million in 2013, as a result of an adjustment to the provisional recognition of the Banca Cívica business combination that took place on 1 July 2012. This adjustment entailed the recognition of deferred tax assets amounting to €300 million, and the goodwill arising from the transaction was increased by the differences between both amounts. Accordingly, the goodwill arising from the transaction increased from €1,340 million to €2,040 million.

Paragraph 45 of IFRS 3 allows the acquirer, during the measurement period, to "retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date".

In relation to this adjustment:

3.1. Detail the nature of the new information obtained on the credit files of the investee and justify, as set forth in paragraph 45 of IFRS 3: (i) that the information relates to facts and circumstances that existed at 1 July 2012 and not to events that took place after this date; and (ii) why it was not possible to obtain this information until 2013.

Response

As described in Notes 1 and 7 to the consolidated financial statements of the CaixaBank Group at 31 December 2012, on 26 July 2012 all conditions precedent to which the Banca Cívica acquisition was subject were met and, therefore, CaixaBank took control of Banca Cívica. Banca Cívica's assets and liabilities were included in the CaixaBank's consolidated balance sheet on 1 July 2012. At that date, Banca Cívica was the central company (sociedad central) of the Institutional Protection Scheme (Sistema Institucional de Protección, or "SIP") comprising Caja Navarra, Caja Canarias, Caja de Burgos and Cajasol. The technological and operational integration of Banca Cívica therefore entailed the sequential integration of various platforms. Caja Navarra and Cajasol were included in CaixaBank in the fourth quarter of 2012 and Caja Canarias and Caja Burgos in the first half of 2013. These sequential integrations, which were completed in the first half of 2013, entailed the progressive acquisition of greater knowledge and more reliable information regarding the portfolios acquired on integrating the files in CaixaBank's systems.

Specifically, this greater experience and knowledge of Banca Cívica's portfolio after the mergers allowed further information to be obtained regarding the nature and value of the guarantees at the date of acquisition. Consequently, a difference between the value of the guarantee used for initially recognising Banca Cívica's assets and liabilities at fair value and their value at the date of the business combination became apparent.

With the objective of not including those effects not attributable to the lack of original information, such as the effect of the impairment from the time the portfolio was initially analysed to when the new appraisal as a result of changes in market prices, the difference detected in the value in the guarantees was adjusted.

Once these effects are adjusted, the difference obtained reflected facts and circumstances existing at 1 July 2012, and not events taken place subsequently, and could be applied to the calculation of the severity to obtain the final expected loss of the mortgage loan portfolio at the date of the business combination.

ISSUE 4. Note 8 to the consolidated financial statements explains that the La Caixa Group reorganised and sold the real estate management business. Caixabank therefore acquired 100% of Servihabitat Gestión Inmobiliaria (SGI) from Criteria CaixaHolding for €98 million. SGI then sold the real estate servicing business to Servihabitat Servicios Inmobiliarios (SSI), a newly created company controlled by Texas Pacific Group with 51% of the share capital, and considered an associate for Caixabank since it owned the remaining 49%. The sale price amounted to €310 million plus a variable portion that may be increased or decreased by up to €60 million. The gain for the entity, as a result of the loss of control of the servicing business, amounted to €255 million.

In accordance with paragraph 34 of IAS 27, Consolidated and separate financial statements, when a parent losses control of a subsidiary: it will derecognise the assets and liabilities of the subsidiary at their carrying amount at the date when control is lost; it will recognise the fair value of the consideration received from the transaction that resulted in the loss of control; it will recognise the investment retained at its fair value, and; it will recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

In addition, paragraph 41(f) of IAS 27 requires "the gain or loss, if any, recognised in accordance with paragraph 34, and: (i) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost" to be disclosed under loss of control".

In relation to this loss of control:

4.1. Indicate the amount of the subsidiary's assets and liabilities derecognised in accordance with that established in paragraph 34(a) of IAS 27, the total amount at which the

consideration received was recognised, in accordance with paragraph 34(e) of IAS 27, and if part of the variable price was recognised.

Response

As indicated in Note 8 to the consolidated financial statements, in 2013 the real estate management business was sold through the sale of the 51% holding in Servihabitat Gestión Inmobiliaria (SGI) to Texas Pacific Group (TPG). As a result of the sale, control over this subsidiary was lost and, therefore, the assets and liabilities recognised in the balance sheet were derecognised for a net amount of €78 million, respectively.

The consideration received amounted to €310 million, plus a variable portion, which may be increased or decreased by up to €60 million. In this regard, CaixaBank recognised the €310 million received as cash consideration and the €25 million in variable compensation, which related to the income that was virtually certain on the total variable compensation, estimated by the entity. This valuation took into consideration the best estimate of the inflows of assets under management according to the business plan established in the agreement.

4.2. In accordance with paragraph 41(f) of IAS 27, disclose the portion of earnings from the transaction recognised according to paragraph 34 that relates to the recognition of the investment retained at its fair value.

Response

As a result of the aforementioned sale, the CaixaBank Group recognised a total gross gain of €255 million (€179 million, net of the related tax effect), of which €122 million relate to the gain attributable to the ownership interest retained in SGI.

4.3. Justify the reasons for the difference between the price paid by Caixabank to purchase the 100% holding in SGI from Criteria Caixaholding (€98 million) and the price of selling the servicing business to SSI (€310 million, plus a variable price that may be increased or decreased by up to €60 million).

Response

As indicated in Note 8 to the consolidated financial statements of the CaixaBank Group, following the growing interest of investors in the real estate services management platforms, the "la Caixa" Group decided to reorganise its real estate business and concentrate the management of asset acquisitions, development, management and marketing in Servihabitat Gestión Inmobiliaria, S.L.U.("SGI").

Prior to selling the business to a third party, CaixaBank acquired SGI from Criteria CaixaHolding, S.A.U. for €98 million. In determining the aforementioned price, for which both parties had respective fairness opinions issued by independent experts, the experience and know-how in the management of real estate assets by qualified SGI personnel, the computer platforms, the current sales network and the website were taken into consideration. Estimated cash flows arising from the capacity to manage the existing real estate portfolios owned by Criteria CaixaHolding and CaixaBank mainly through Building Center were also considered.

In addition, the price obtained by CaixaBank in its sale to TPG reflects mainly the sales capacity and access to new assets that the banking channel provides to the asset manager through the CaixaBank branch network, which is clearly a differentiating factor in the Spanish market. This price, as indicated in Note 8, was set at €310 million plus/minus a variable price which could reach up to €60 million.

ISSUE 5. According to Note 8 to the consolidated financial statements, in December 2013 CaixaBank sold the non-life insurance business arising from the mergers with Banca Cívica and Banco de Valencia (which includes Cajasol Seguros Generales and CAN Seguros de Salud) to SegurCaixa Adeslas, which is considered a jointly controlled entity, for a total of €193 million, obtaining a profit after tax of €79 million.

In relation to this loss of control:

5.1. In accordance with paragraph 41(f) of IAS 27, disclose the portion of earnings from the transaction recognised according to paragraph 34 that relates to the recognition of the investment retained at its fair value.

Response

As indicated in appendix 2 to the 2013 consolidated financial statements, the CaixaBank Group's ownership interest in the share capital of SegurCaixa Adeslas, S.A. de Seguros y Reaseguros was 49.92% at 31 December 2013. Consequently, the portion of earnings from this transaction attributable to the ownership interest retained in the aforementioned subsidiary at its fair value, indirectly through the ownership interest in SegurCaixa Adeslas, amounted to €39 million.

ISSUE 6. Note 8 to the consolidated financial statements explains that in January 2012 CaixaBank entered into an agreement to sell its investment fund, securities investment companies (SICAVs) and individual system pension fund depository businesses to the Association of Spanish Savings Banks (CECA) for a total initial fixed price of €100 million.

In December 2012, Banca Cívica's depository business was transferred to CECA under the scope of this agreement. The transaction amounted to €3.8 million, recognised as a decrease in the goodwill arising on the Banca Cívica acquisition. In 2013, under the scope of the same agreement, this business from BdV was transferred, without generating any gain or loss. With regard to this transaction:

6.1. Describe the main conditions of the sale and for assigning the fixed price, and justify the accounting treatment applied through which the sale of the BdV business did not generate any profit.

Response

As indicated in Note 7 to the 2012 financial statements of the CaixaBank Group, CaixaBank entered into an agreement to sell its investment fund, securities investment companies

(SICAVs) and individual system pension fund depository businesses to the Association of Spanish Savings Banks (currently, CecaBank). The depository business was sold at a fixed price paid on signing the agreement, with a variable price to be collected over the next 10 years based on compliance with a certain volume of depository fees.

The aforementioned agreement governs the assignment of the depository business arising from future business combinations by CaixaBank. Specifically, it was determined that the value of the business to be transferred as a result of a business combination, in terms of fees to be generated by this business, will first be applied to guarantee compliance of the envisaged fee volumes which are necessary to ensure that CaixaBank collects the variable payments stipulated in the initial contract. The remainder will be received by CecaBank in cash when this business is sold.

When recognising the business combination with Banco de Valencia, the value attributed to this business was not considered material. The sale of this business did not generate any cash collections, but rather it was applied to increase the volume of depository fees which will allow the envisaged deferred payments to be collected in the future, which is the reason the transaction was not recognised in profit or loss in 2013.

ISSUE 7. Note 8 to the consolidated financial statements explains that on 28 December 2012, CaixaBank subscribed a capital increase in Caixa Card 1, EFC, a wholly-owned subsidiary, for €2,100 million (€260 million in share capital and the rest as a share premium), through the non-monetary contribution of a line of business (credit, debit and prepaid card business). Subsequently, Caixa Card 1, EFC, SA distributed a share premium for the amount of €1,840 million, recognised as a reduction from the cost of the investment. As indicated, "with regard to the balance sheet, this subsidiarization led to a reduction of €1,726 million and €62 million in 'Loans and receivables' and 'Other liabilities', respectively".

With regard to this transaction:

7.1. Justify the recognition of this transaction in the consolidated financial statements which, as indicated, led to a reduction of €1,726 million and €62 million in "Loans and receivables" and "Other liabilities", respectively.

Response

As described in the title of Note 8 to the 2013 consolidated financial statements of the CaixaBank Group, not only are the business combinations for 2013 and 2012 explained in this note, but also the main changes and transactions involving shareholdings in CaixaBank subsidiaries.

Since this was a subsidiary and since CaixaCard 1 EFC, S.A. is an investee wholly owned by CaixaBank, the transaction did not have any impact on the consolidated balance sheet. With the objective of facilitating the most relevant information on subsidiaries, the effects of the transaction on CaixaBank's individual balance sheet are included in the consolidated financial statements, i.e. the reduction under "Loans and receivables" and "Other liabilities" in CaixaBank's individual balance sheet.

ISSUE 8. As explained in Note 15 "Held-to-maturity investments" to the consolidated financial statements, the entity has, as a result of the merger with BdV, bonds received as consideration for the assets transferred by the entity to Sociedad de Activos procedentes de la Reestructuración Bancaria (hereinafter, SAREB). These non-subordinated bonds guaranteed by the government include clauses for extending the redemption period.

In accordance with paragraph 11 of IAS 39, Financial instruments: Recognition and measurement, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this standard if, and only if: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract (see Appendix A paragraphs AG30 and AG33); a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated). Paragraphs 15 et seq. of IAS 39 govern the conditions for derecognising financial assets.

In accordance with paragraph AG18 of IAS 39, the criteria for classification as a held-to-maturity investment are met for a financial asset that is callable by the issuer if the holder intends and is able to hold it until it is called or until maturity and the holder would recover substantially all of its carrying amount. The call option of the issuer, if exercised, simply accelerates the asset's maturity. However, if the financial asset is callable on a basis that would result in the holder not recovering substantially all of its carrying amount, the financial asset cannot be classified as a held-to-maturity investment. The entity considers any premium paid and capitalised transaction costs in determining whether the carrying amount would be substantially recovered.

In relation to these bonds, the following is requested:

8.1. Justify the initial and subsequent recognition of debt securities issued by the SAREB, and disclose the considerations taken into account with regard to the accounting treatment of clauses for extending the repayment period.

Response

The senior bonds issued by the SAREB arose from the Banco de Valencia merger and have not undergone any change in accounting classification with regard to their initial classification at Banco de Valencia. CaixaBank considers that the conditions to be classified as held to maturity were met at the time of the business combination and subsequently, since CaixaBank has the positive intention and ability to hold these debt instruments until maturity.

CaixaBank considered the extension of the period in the bond to be similar to an instrument with a prepayment option (cancellation option) available to the issuer, and in which the exercise price of this early cancellation option would be approximately equal to the amortised cost of the debt at the maturity date for the year. Consequently, and in accordance with AG27 of IAS 39, the existing embedded derivative would be closely tied with the debt instrument and, therefore, does not need to be treated separately.

8.2. In the event certain bonds were partially redeemed during the year and new bonds were received as partial payment for this redemption, justify the accounting treatment applied and its impact on the financial statements, indicating whether or not the bond exchange was considered to represent the disposal of those initially acquired and the recognition of the new bonds at fair value, with the difference recognised in the income statement.

Response

In 2013, a SAREB bond owned by CaixaBank was fully redeemed at par upon maturity for €588.5 million. A new bond issued at par for a nominal amount of €545.2 million, and cash for the difference, was received as consideration . New bonds were obtained at their market value on acquisition, without having any impact on the income statement. In the case of a hypothetical partial redemption in which there is a difference between the carrying amount of the bonds redeemed and the market value of the new bonds received, the difference would be recognised in profit or loss. In accordance with the bond subscription agreement, the SAREB has the possibility of redeeming the bonds early. In the first half of 2014, the SAREB offered bondholders a reverse auction, although CaixaBank did not attend the auction.

8.3. Indicate, where applicable, whether or not any amount was recognised as an increase in the initial carrying amount of such debt securities in connection with transaction costs and, if so, the nature and amount thereof.

Response

At the time of initial recognition, no amount was recognised in connection with transaction costs that was recognised as an increase in the asset's carrying amount.

8.4. Taking into account that envisaged in paragraph AG 18 of IAS 39, justify the classification of the bonds under held-to-maturity investments.

Response

See response 8.1.

ISSUE 9. Note 23.3 "Marketable debt securities" to the consolidated financial statements provides details on the issue in November 2013 of bonds exchangeable for Repsol shares for a total nominal amount of €594 million. The issue is treated for accounting purposes as a hybrid financial instrument, with the financial liability and the embedded derivative treated separately, the latter of which is considered a cash flow hedge. According to Note 16 "Hedging derivatives (assets and liabilities)", this derivative is included in the €103 million relating share purchase options.

In accordance with paragraph 11 of IAS 39, an embedded derivative shall be treated separately for accounting purposes as a derivative according to IAS 39, and the host

contract, which is a financial instrument, will also be recognised according to this standard, in this case, as a liability at amortised cost.

For a derivative, as it is designated as a hedging instrument, in a cash flow hedge relationship, the disclosures of IFRS 7, Financial instruments: Disclosures, must be presented for this type of hedge. Specifically, the information of:

- ***Paragraph 22(a) and (c) on the description of the hedge and nature of the risks hedged.***
- ***Paragraph 23(a), (c) and (d) on the periods when the cash flows are expected to occur and when they are expected to affect profit or loss, the amounts recognised in other comprehensive income, and the amounts reclassified to profit or loss.***
- ***Paragraph 24(b) on the ineffectiveness recognised in profit or loss for the year.***

In relation to this hybrid instrument, the following is requested:

9.1. Issue price of the instrument and amounts for which both components associated with the host contract were initially recognised under "Marketable debt securities" and "Hedging derivatives" on the asset side of the consolidated balance sheet, and their carrying amount at 31 December, indicating whether or not any transaction cost was initially capitalised or any profit or loss was recognised.

Response

As indicated in Note 23.3 "Marketable debt securities" to the consolidated financial statements and in Significant Event no. 195082 and no. 195069, in November 2013, CaixaBank issued bonds exchangeable for Repsol ordinary shares among institutional and qualified investors, representing a maximum of 2.5% of its share capital, for a total nominal amount of €594.3 million.

The minimum exchange price was set at €18.25 and the maximum price at €22.8125. At maturity, the bondholders receive a number of shares calculated by dividing the nominal amount of the bonds by the exchange price, which will be between the maximum and minimum price depending on the market value of Repsol shares. CaixaBank can elect to repay the nominal amount in cash.

This issue includes a combination of embedded derivatives to ensure a maximum and minimum exchange price which, in accordance with that established in paragraph 11 of IAS 39, must be separated from the host contract. The issue is therefore treated as a hybrid financial instrument for accounting purposes, with the combination of embedded derivatives and the financial liability treated separately. The net amount recognised on issue for the combination of embedded derivatives amounted to €44 million and the amount relating to the financial liability amounted to €638 million. The costs directly attributable to the issue are recognised in the income statement using the effective interest rate method in accordance with applicable legislation. No profit or loss was initially recognised.

The combination of embedded derivatives in the issue was measured using valuation techniques that were appropriate given the characteristics thereof and maximising the use of relevant observable input data. Within the range of values obtained, the Entity considered the difference between the fair value of the hybrid instrument and the fair value of the host contract to be the most representative value.

As indicated in Significant Event no. 195069 on 11 November 2013, this transaction falls within CaixaBank's policy of optimising its capital base within the new regulatory context. Therefore, the disposal of the 2.5% holding in Repsol's share capital through the delivery of shares in the exchange upon maturity of the issue (22 November 2016) is considered to be a cash flow hedge of a highly likely transaction, based on that set forth in point F.3.7 of IAS 39.

The Entity designated the combination of embedded derivatives in the issue, which, as indicated, ensure a maximum and minimum exchange price, as a hedging instrument of the previous highly probable forecast transaction.

In 2013, €22 million were charged to "Valuation adjustments - Cash flow hedges" under equity in relation to this hedge, and no ineffective portions were detected.

9.2. Characteristics and nature of the embedded derivative, indicating the rights and obligations of the counterparties, as well as the methodology and main assumptions used in their measurement.

Response

See response 9.1

9.3. Disclosures of paragraphs 22, 23 and 24 of IFRS 7.

Response

See response 9.1

ISSUE 10. In accordance with Note 31 "Interest expense and similar charges", the Entity recognised €1,090 million in income for adjustments to expenses as a consequence of hedging transactions, which represents 27% of the Entity's consolidated interest margin. Note 3.2.2 "Structural balance sheet interest rate risk" indicates that "in 2013, the Entity arranged a macro-hedge against cash flow interest rate risk. By entering into financial derivatives in the market, this macro-hedge hedges the risk of fixing interest rates on the Entity's loans indexed to the 12-month Euribor rate".
As mentioned above, paragraphs 22, 23 and 24 of IFRS 7 require a series of disclosures for hedges.

In relation to hedges that have given rise to adjustments to net interest income, the following is requested:

10.1. Disclose, where applicable, information on the description of the hedge and nature of risks of paragraph 22, in the case of cash flow hedges, for the years in which cash flows are expected to occur, and that affect the profit or loss of paragraph 23 and the information on ineffectiveness of paragraph 24 of IFRS 7.

Response

The most significant hedge within the adjustments is that relating to the fair value micro-hedge, which amounts to €1,156 million, of which €1,090 million of the total balance is for adjustments to expenses as a consequence of hedging transactions. The other hedges in this section include other macro-hedges and micro-hedges, whose impact on adjustments is not material.

The fair value macro-hedge covers the balance sheet positions exposed to interest rate risk: fixed-rate issues and certain fixed-rate loans, by changing them to floating rates, whereby the interest rates are the substance of the hedged risks. The fair values of the hedging instruments recognised on the asset and liability side amount to €4,309 million and €1,036 million, respectively, at 31 December 2013. The following instruments were used in order to achieve the hedge: interest rates swaps, caps, floors and cross currency swaps.

Note 34 to the consolidated financial statements reports the profit for the year from hedged instruments, amounting to €1,559 million, and the loss incurred from hedging derivatives, amounting to €1,352 million.

With regard to cash flow micro-hedges, and in view of the tightening undergone by the 12-month Euribor implicit yield curve, the entity decided to hedge the risk that the 12-month Euribor rates and, consequently, the official reference indices used to establish most of the CaixaBank Group's loans, were less than expected and that they may therefore adversely affect the net interest margin for 2014. The hedge was established with the objective of protecting the cash flows generated by the loan portfolio against possible decreases in benchmark rates in 2014.

Note 16 to the consolidated financial statements reports that fair value macro-hedges "cover the interest rate risk on a set of financial assets and liabilities recognised on the balance sheet". With regard to the effectiveness thereof, the financial statements indicate that "in 2013 and 2012, the corresponding effectiveness tests on these hedges were performed. Any ineffective portions of fair value hedges were recognised under 'Gains/(losses) on financial assets and liabilities' on the income statement". Note 3.2.2 indicates that the Entity "uses fair value macro-hedges were used as a strategy to mitigate exposure to interest-rate risk.

For fair value macro-hedges:

10.2. Indicate whether or not the hedge is effective, according to the terms of paragraph 88(b) of IAS 39 and developed in paragraphs AG105 to AG113, and state whether or not it fully complies with that stipulated by IAS 39 in its assessment, as approved by the IASB or make use of the carve-outs approved by the European Union, indicating the impact where applicable.

Response

In compliance with that established in IAS 39, the valuation methods used to estimate the fair value of the hedged and hedging instruments are adjusted to best market practices, while retrospective and prospective measures are used for assessing hedge effectiveness that meet the requirements of AG105-113:

- The effectiveness of the hedge are within a range of 80-125%.
- The formula used to retrospectively assess the hedge is as follows:

$$80\% < \frac{(\text{Changes in present value + carried out in the month})^{\text{Hedged}}}{(\text{Changes in present value + carried out in the month})^{\text{To be hedged}}} < 125\%$$

- Effectiveness is assessed, at a minimum, at the time an entity prepares its annual or interim financial statements for retrospective methods and daily for prospective methods.
- VaR and sensitivity methods verify the high statistical correlation between the changes in fair value of the hedged item and item to be hedged that arise from the hedged risk (general interest rate risk).
- VaR and sensitivity methods take into consideration the temporary value of money (sensitivities based on discounted cash flows and, therefore, present values).
- The prospective method verifies that the ratio of interest rate sensitivity of the item to be hedged and the interest rate sensitivity of the hedging instruments is within a range of 80-125%.
- Interest rate macro-hedges are verified daily to ensure that the ratio between the one-day VaR at 99% of the overall portfolio (item to be hedged and market hedges) and the one-day VaR at 99% of the item to be hedged is less than 10%.

The entity did not use the carve-outs in IAS 39 approved by the European Union in its fair value macro-hedges.

10.3. Indicate the amounts which, if applicable, were recognised in 2012 and 2013 under "Gains/(losses) on financial assets and liabilities" relating to possible ineffective portions.

Response

The changes in fair value of the hedging instrument and the hedged item are recognised under "Gains/(losses) on financial assets and liabilities - Macro-hedges" in the income statement, as indicated in response 10.1. The differences between both changes appear as ineffective portions in the income statement. These ineffective portions did not represent a failure to comply with the effectiveness tests performed on the macro-hedges.

ISSUE 11. Note 3.3 "Liquidity risk" indicates that the Entity "has master netting agreements for its derivatives operations". In accordance with Note 12 "Held-for-trading portfolio (assets and liabilities)" to the consolidated financial statements, "the introduction of new settlement and reporting requirements for OTC derivatives, [...] as well as improvements to netting processes among banks, has led to the need to manage positions more actively and efficiently with respect to capital use, and reduce the risks offset between them. This resulted in a decrease in the amounts of derivative assets and liabilities recognised in the balance sheet".

Paragraphs 13A and 13B of IFRS 7 require information to be disclosed on financial instruments to be offset in accordance with the paragraph 42 of IAS 32, Financial instruments: Presentation, as well as those financial instruments subject to an enforceable master netting arrangement and similar agreement, regardless of whether or not they are offset in accordance with this paragraph. For these financial instruments, in accordance with paragraph 13C of this standard, the Entity must disclose:

"(a) the gross amounts of those recognised financial assets and recognised financial liabilities;
(b) the amounts that are set off in accordance with the criteria in paragraph 42 of IAS 32 when determining the net amounts presented in the statement of financial position;
(c) the net amounts presented in the statement of financial position;
(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including: (i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32; and (ii) amounts related to financial collateral (including cash collateral); and
(e) the net amount after deducting the amounts in (d) from the amounts in (c) above".

According to paragraph 13E of IFRS 7, "Entities shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 13C(d), including the nature of those rights".

In relation to the aforementioned, it is requested that:

11.1. Disclose the balance of the held for trading portfolio, differentiating between those instruments that are not offset from those that are offset.

Response

The Group does not have balances offset given that it does not have any netting agreements that imply a legal or contractual right to settle the net amounts.

11.2. In the case of instruments within the scope of application of paragraph 13A, disclose the information of paragraph 13C of IFRS 7, in particular, (a) the gross amounts, (b) the amounts to be offset in accordance with paragraph 42 of IAS 32, (c) the net amounts presented in the balance sheet, (d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b).

Response

See response 11.1

11.3. Disclose, where applicable, the information of paragraph 13E of IFRS 7 for instruments subject to enforceable master netting arrangements and that are disclosed in accordance with paragraph 13C(d).

Response

See response 11.1

ISSUE 12. In accordance with Note 14.2 "Loans and advances to customers" to the consolidated financial statements, "other loans securitised by different CaixaBank subsidiaries were derecognised from assets as the risk was transferred to third parties".

In Note 29.2 "Asset securitisations", an initial €1,328 million in derecognised assets are disclosed as securitisations carried out under "Other securitisation funds in group subsidiaries", of which €547 million have yet to be redeemed at 31 December 2013.

In relation to the aforementioned securitisations:

12.1. Disposal date of the assets.

Response

"Other securitisation funds in group subsidiaries" relates to the securitisation funds of the investee Unión de Crédito para la Financiación Inmobiliaria (Credifimo), acquired in a business combination with Banca Cívica. The derecognition date of these funds is detailed in the table below:

Name	Date on which the fund was opened and derecognised	31/12/2013 (thousands of euros)
AyT 11 FTH	**30/10/2002**	17,354
TDA 16 FTH	**26/05/2003**	25,588
TDA 22 FTH	**01/12/2004**	38,576
AyT Hipotecario Mixto III FTH	**26/04/2005**	52,969
TDA 24 FTH	**28/11/2005**	56,372
TDA 25 FTH	**28/07/2006**	109,539
TDA 27 FTH	**22/12/2006**	104,943
TDA 28 FTH	**18/07/2007**	141,382
Total		546,723

12.2. Describe, where applicable, the impact on profit or loss for the year in which the fund was derecognised.

Response

These funds were derecognised when they were opened, all prior to the business combination with Banca Cívica, and this did not have any impact on profit or loss.

12.3. Grounds on which the risks were transferred to third parties and whether or not the entity has any type of continued involvement in the assets derecognised.

Response

The assets securitised through securitisation funds prior to 2004, in accordance with the prospective application mentioned in paragraph 106 of IAS 39, which entered into force with the application of the International Accounting Standards, and in accordance with Transitional Provision One of Circular 4/2004, were not recognised on the balance sheet.

In the case of funds arranged subsequent to 1 January 2004, and in accordance with regulations, the securitised loans were derecognised when the bonds were issued, given that circumstances arose that substantially allowed all risks and rewards relating to the underlying securitised financial asset to be transferred. All bonds issued by these securitisation funds were transferred to third parties, and the bondholder bore the majority of the losses arising from the securitised loans that were derecognised.

The entity does not have any continued involvement in the derecognised assets, and only as an agreement with the securitisation fund to manage the loans in market conditions.

ISSUE 13. Note 29.4 "Financial assets derecognised due to impairment" to the consolidated financial statements indicates that in 2013 a portfolio (amounting to €828 million) written off due to the cancellation of an agreement to sell these assets, entered into at the time by Banca Cívica, was repurchased.

13.1. Indicate the repurchase price of the written-off portfolio, the impact of this transaction on profit or loss, and the line item in the consolidated income statement in which it was recognised. Where applicable, report the existence of other similar transactions performed by the group, or by absorbed entities, that may have a future impact on profit or loss.

Response

The written-off portfolio sold on 31 December 2011 by Banca Cívica was repurchased for a total of €27,000 thousand. The impact of the repurchase transaction on profit or loss, in any case, was an exceptional event that amounted to a net loss of €9,947 thousand, since CaixaBank recognised a provision to cover the estimated losses incurred in this transaction during the purchase price allocation process. This net loss was recognised under "Impairment losses on financial assets (net)" in the consolidated income statement for 2013.

There are no other similar transactions performed by the Group or other Group companies for which CaixaBank estimates any future impact on profit or loss.

Note 29.4 also reports that the assets written off and derecognised with a direct charge to the income statement amount to €603 million.

13.2. Reconcile the amount reported in Note 29.4 with the amount of impairment losses and write-downs of financial assets in Note 38.

Response

The reconciliation of the additions to write-offs with a direct charge to the income statement and the amount of write-downs indicated in Note 38 is as follows:

	Thousands of euros
Total write-downs (Note 38)	**555,630**
Provision for doubtful assets prior to being written off	47,836
Additions to write-offs with a direct charge to the income statement (Note 29.4)	**603,466**

According to CaixaBank's internal operations, when a loan classified as doubtful and that is not provisioned for in full is reclassified as written off, the additional provision recognised to round off its total coverage is recognised under "Write-downs" in the disclosures detailed in Note 38. However, for those doubtful loans for which coverage was rounded off in 2013, and were subsequently reclassified as written off in the same year, the additional provision is recognised under "Net allowances" in the same disclosures detailed in Note 38. "Additions to write-offs with a direct charge to the income statement" in Note 29.4 includes both impacts.

14. According to Note 3.1 "Credit risk" to the consolidated financial statements, the entity performs asset refinancing transactions. At 31 December 2013, gross refinancing transactions amounted to €25,275 million (€20,420 million in 2012). This amount represents 11.9% of the gross value of the loans and receivables portfolio - loans and advances to customers.

On 20 December 2012, ESMA published the document on "renegotiations" in the banking sector: Public Statement: Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions, the purpose of which is to improve the consistency of the renegotiation practices of credit institutions and the disclosures in this area. In 2014 European supervisors, together with ESMA, agreed to established the financial assets area, the conditions of which were renegotiated as a priority area for review in the 2013 financial statements. In accordance with the foregoing:

14.1. Reconcile the beginning and ending balance of the refinanced assets, as well as the provisions for associated impairment losses, separately in both cases, for the standard, substandard and doubtful categories, specifying the assets refinanced in the period, reclassifications carried out during the year between categories, and the assets that were no longer considered as such. Indicate the amount of refinanced or restructured assets that were reclassified to any of the three aforementioned categories at the same time as this refinancing or restructuring. Indicate the effects of all these measures in the income statement.

Response

The reconciliation between the beginning balance at 31 December 2012 and the balance at 31 December 2013 is shown in the table below:

	Standard		Doubtful			Substandard			Total		
(thousands of euros)	Transaction no.	Gross amount	Transaction no.	Gross amount	Provision	Transaction no.	Gross amount	Provision	Transaction no.	Gross amount	Provision
Balance at 31.12.2012	127,375	10,668,180	29,491	6,277,910	(2,035,806)	20,238	3,474,338	(903,922)	177,104	20,420,428	(2,939,728)
Additions due to BdV merger	4,319	770,816	1,982	682,473	(471,817)	636	297,902	(58,418)	6,937	1,751,190	(530,235)
Additions	40,765	3,193,260	33,430	3,407,641	(1,516,592)	3,312	1,176,590	(229,878)	77,507	7,777,491	(1,746,470)
Reductions	(27,214)	(1,311,291)	(11,772)	(2,281,596)	785,331	(2,956)	(809,795)	232,973	(41,942)	(4,402,682)	1,018,304
Reclassifications	(15,064)	(2,212,155)	18,004	2,929,578	(385,839)	(2,940)	(717,423)	531,566	0	0	145,727
Changes in balance	0	(318,541)	0	89,707	(1,527,508)	0	(42,073)	(164,371)	0	(270,907)	(1,691,878)
Balance at 31.12.2013	130,181	10,790,269	71,135	11,105,712	(5,152,231)	18,290	3,379,539	(592,050)	219,606	25,275,520	(5,744,281)

"Additions" includes the balance outstanding at 31 December 2013 of the refinanced transactions and their provisions which were reclassified in the first half of 2013 as a result of the detailed review process for the refinancing transactions.

"Reductions" includes the balances of those transactions that were completely cancelled during the year, either due to collection, an award, or a new renegotiation.

"Changes in balance" includes other changes taken place during the year in refinanced transactions, mainly amounts collected.

As indicated in Note 3.1.1 to the 2013 consolidated financial statements, the refinancing policy is an instrument to facilitate compliance with the commitments of borrowers experiencing temporary difficulties. Refinancing decisions are based on an individual analysis of the borrower's sources of income to determine their payment capacity based on the generation of recurring, sufficient and verifiable income to meet the debt assumed with the entity. Similarly, refinancing conditions are based on realistic payment schemes and the value of the new current guarantees that are appropriate given market circumstances. The refinanced debt is classified as "standard" when the entity has objective and verifiable evidence that make the recovery of all amounts owed highly probable. The net amount recognised in the income statement in 2013 as lower hedging requirements to cover credit risk due to refinancing was €84 million. The interest payable that was not recognised for accounting purposes as income, since the transactions were in an accounting situation of interest accrual, and that was recognised as income in the income statement as a result of refinancing amounted to €35 million, including late-payment interest.

ISSUE 15. In Note 1 "Corporate and other information" to the consolidated financial statements, the Entity indicates that the new definition of fair value " resulted in changes to the determination of the fair value of the financial assets and liabilities measured at fair value". Note 2.2 "Financial instruments" explains that "CaixaBank made improvements to the valuation techniques for measuring derivatives to allow for the inclusion of the impact of default risk, including own credit risk in estimating the fair value of these instruments. The impact of the re-estimation was the recognition of €100 million under 'Gains/(losses) on financial assets and liabilities' in the income statement for 2013".

Paragraph 42 of IFRS 13, Fair value, stipulates that "the fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk". In addition, paragraph 56 of this standard indicates that when the exception of paragraph 48 is used, relating to the measurement of a group of financial assets and liabilities managed based on their net exposure, the effect of the entity's net exposure to the credit risk of the counterparty or the entity itself must be included in the measurement.

In relation to the foregoing:

15.1. Indicate the quantitative impact that the change in valuation techniques for measuring derivatives described in Note 2.2 had on the assets and liabilities, separately, as a result of derivative contracts recognised in the consolidated balance sheet, and whether or not the €100 million impact on the consolidated income statement gave rise to a profit or loss in the year.

Response

The change in valuation techniques for measuring default risk in derivatives generated an initial profit of €100 million in the 2013 income statement. The impact arose from the difference between:

- The reversal, amounting to €202 million, of the liabilities account in which, according to the aforementioned methodology, the margin on transactions with derivatives yet to be taken to profit or loss was recognised, whereby the margin is understood to be the difference between the market price of the derivative and the price arranged with the customer. This margin was recognised in the income statement from the beginning of the transaction until the maturity thereof.

- A net amount of €-102 million was recognised from the calculation obtained from the default risk in the derivatives using new valuation techniques, which included a credit of €-160 million for counterparty risk (Credit Value Adjustment, CVA) and a debit of €58 million for its own risk (Debit Value Adjustment, DVA).

The amount of the embedded credit risk adjustment in derivative positions is recognised under "Gains/(losses) on financial assets and liabilities" in the income statement.

15.2. Indicate whether or not the exception to the measurement of financial assets and liabilities with offsetting positions established in paragraph 48 of IFRS 13 was used for derivatives and, if this is the case, disclose the methods for calculating the adjustments of paragraph 56 to the debit and credit positions and the affect on these adjustments.

Response

The CVA and DVA were made, in accordance with market standards, based on their net exposure. The Entity is working on a methodology that allows the CVA and DVA calculation to be individually reflected for each transaction.

In Note 2.12 "Tangible assets" to the consolidated financial statements, the Entity provides information on techniques for measuring investment property, which relate to "ECO appraisals for properties for which the latest appraisal available was prior to 1 January 2012, while statistical appraisals were carried out for the other properties. At 31 December 2013, the fair value of tangible assets classified as investment property did not differ from their carrying amounts".

Paragraph 97 of IFRS 13 requires disclosures with regard to instruments not measured at fair value on the balance sheet, but for which their value is disclosed in the financial statements, the information of paragraph 93(d) on valuation techniques and variables used.

15.3. Provide a description of the variables used in measuring fair value for investment property, in accordance with paragraph 93(d).

Response

As indicated in Note 20 to the CaixaBank Group's financial statements for 2013, investment property is appraised each year using statistical methods, except for appraisals over two years old or in special cases where the unit value exceeds €500,000, and land, in which case the appraisals are performed individually. The related write-downs are recognised, if applicable, as a result of these appraisals.

All statistical and individual appraisals of special assets and land based on Ministerial Order ECO/850/2003 are performed by independent appraisal companies.

Statistical appraisals that are performed for houses, car parks and storerooms with a unit value less than €500,000 are carried out either by applying the market value of equivalent or comparable assets in the area, or by updating the value of a previous mortgage appraisal, applying the price correction indices based on the appraisal company's knowledge of changes in the market.

Individual appraisals in the case of houses, business premises and other assets are performed by applying the aforementioned Ministerial Order and applying values of comparable assets. Plots suitable for development are measured using the residual value method.

In addition, the entity contracted an expert in the real estate market to carry out an valuation of the group of foreclosed real estate assets, included mainly on the balance sheet of BuildingCenter, for the purpose of checking the valuations obtained through the aforementioned appraisals and taking the necessary impairment losses where applicable. This market valuation is based on RICS (Royal Institution of Chartered Surveyors) methodology.

In relation to the preparation of financial statements in future years, we would remind you of the following:

15.4. In accordance with paragraph 95 of IFRS 13, a description of the entity's policies for transferring between levels must be provided, and, in accordance with paragraph 93(e)(iv), transfers into level 3 shall be disclosed and discussed separately from transfers out of level 3.

Response

We have noted your comments and will take them into consideration in the preparation of financial statements in future years.

ISSUE 16. Note 3.3 to the consolidated financial statements presents a detail of the contractual maturity dates of the balances on the balance sheet, indicating that the total balances of debt securities available for sale amounts to €19,922 million, whereas this portfolio amounts to €52,117 million on the consolidated balance sheet.

16.1. Justify the reason for this difference.

Response

The Assets and Liabilities Committee (ALCO) analyses liquidity, interest rate and exchange rate risks both in the banking and insurance business.

For the insurance business, liquidity that emerges from commitments (liabilities) arising from insurance contracts, mainly life savings insurance, sold by the CaixaBank Group through VidaCaixa, is managed through the actuarial financial estimate of cash flows arising from the aforementioned contracts. Financial immunisation techniques are also applied based on estimated actuarial financial maturity, i.e. not necessarily contractual, and the financial assets affected.

In this regard, it should be noted that the liquidity of the consolidated balance sheet is managed separately for the insurance business and other businesses, mainly banking, and for this reason, the maturities of the insurance group's portfolio of financial assets, mainly classified as held for sale, are not presented in the matrix of maturities.

In response to this request, detailed below are the maturities of VidaCaixa's portfolio according to certain accounting values, after eliminating the balances held with Group companies.

Thousands of euros	
Less than 1 month	133,586
1 to 3 months	230,894
3 to 12 months	949,945
1 to 5 years	5,100,158
More than 5 years	25,729,200
	32,143,783

In addition, Note 3.2.5 to CaixaBank's consolidated financial statements presents the maturities of the insurance group's sovereign debt portfolio, by portfolio, country and maturity, and the VidaCaixa Group's consolidated financial statements for 2013, which are available on the CNMV website, present the information detailed in the table above at ex-coupon market value and do not include the related eliminations on consolidation.

In relation to the disclosures required in IFRS 7, the following information is requested, where applicable:

16.2. As reported in Note 15 to the consolidated financial statements, the entity reclassified the debt issued by the Autonomous Communities amounting to €1,878 million from "Available-for-sale financial assets" to "Held-to-maturity investments". In accordance with paragraph 12 of IFRS 7, the reason for this reclassification must be reported.

Response

As indicated in Note 15 to the Group's consolidated financial statements, in December 2013, a nominal amount of €1,878 million in bonds issued by the Autonomous Communities was reclassified from "Available-for-sale financial assets" to "Held-to-maturity investments". This reclassification was carried out based on the Group's strategy of effectively holding this investment until maturity and its ability to do so.

The fair value at the reclassification date amounted to €1,920 million, which was recognised as the new cost. The gains and losses recognised to date under other comprehensive income will be depreciated until maturity as a higher or lower effective rate, without prejudice to the fact that indications of impairment in the portfolio were shown. In this regard the effective rate of the portfolio at the reclassification date amounted to 4.57%. Regardless of the classification, the increase in the fair value of the portfolio in 2013, the year in which the portfolio was reclassified, amounted to €73 million.

16.3. In accordance with paragraph 28 of IFRS 7, if the entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability, in accordance with paragraph AG76(b) of IAS 39, it must disclose: "(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability; (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference; (c) why the entity concluded that the transaction price was not the

best evidence of fair value, including a description of the evidence that supports the fair value".

Response

The entity did not recognise any asset or financial liability whose fair value differed from the transaction price and was not assessed using methodologies and assumptions that allowed its classification in level I or level II. Therefore, no gains or losses were recognised to reflect the changes in the factors used in the valuation that market participants would have to take into account when establishing the price of the asset or liability.

16.4. Paragraph 15 of IFRS 7 states "when an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose: (a) the fair value of the collateral held; (b) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and (c) the terms and conditions associated with its use of the collateral".

Response

The entity did not receive significant collateral with regard to which it is permitted to sell or repledge in the absence of default by the owner of the collateral, except for the collateral inherent to the treasury activity, mainly reverse repurchase agreements. At 31 December 2013, the maturities of this transaction did not exceed three months and, therefore, their fair value does not substantially differ from the carrying amount reported in Note 14.2. The fair value of the assets sold through the reverse repurchase agreement are included in Note 12 under "Short positions" and amount to €417 million.

Accordingly, the assets sold arising from this transaction amount to €1,762 million and are included, by nature, under "Repurchase agreements" in Note 23.

Similarly, and in relation to the preparation of financial statements in future years, we would remind you of the following:

16.5. In accordance with paragraph B5(e) of IFRS 7, it should be indicated "whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date".

Response

We have noted your comments and will take them into consideration in the preparation of financial statements in future years.

ISSUE 17. The entity's consolidated balance sheet includes deferred tax assets amounting to €9,418 million, respectively. This amount represents 40% of the entity's consolidated equity at the end of 2013.

In accordance with paragraphs 24, 28 and 29 of IAS 12, Income taxes, deferred tax assets are recognised to the extent that it is probable that the entity will have future taxable profit

against which the deductible temporary differences can be utilised, either because there are sufficient deferred tax liabilities or because it is probable that there will be sufficient future taxable profit to offset these assets at the time of their reversal. Paragraph 31 of IAS 12 warns of the need for additional precautionary measures when the entity has a history of recent losses, such as the case in hand, given that the entity has had consolidated losses before tax over the last two financial years (€713 million in 2013 and €62 million in 2012).

Consequently, in relation to the deferred tax assets recognised in the consolidated balance sheet at the end of 2013 and taking into account the current context, the following is requested:

17.1. In accordance with paragraph 82 of IAS 12, provide and disclose convincing objective evidence supporting the fact that the entity will most likely have sufficient future taxable profits available to offset these tax losses and, therefore will recover the tax assets recognised at the balance sheet date.

Response

As indicated in Note 27 to the CaixaBank Group's financial statements for 2013, every six months CaixaBank assess the recoverable amount of all tax assets recognised in the balance sheet, regardless of whether they are monetizable or not.

The CaixaBank Group has therefore developed a dynamic model that analyses the recoverability of the tax assets recognised for accounting purposes and those generated in subsequent years until the date covered by the model.

The purpose of the model is to verify that the CaixaBank Group is able to offset all tax losses and other tax assets recognised in the balance sheet with future taxable profits; and the best estimate of the new tax assets that can be generated in the future.

The model uses the following as the most relevant estimates:

a) The forecast profit or loss for each year covered by the model. The estimates are consistent with the various reports used by the entity for internal management and for supervisory information, including certain details regarding the composition thereof, and,

b) The reversible nature of the tax assets recognised in the balance sheet.

The entity considers the information used in the model to be relevant and strategic.

The model is updated every six months with information provided by the entity's various areas and an independent tax expert (JA Garrigues SLP) contracted by CaixaBank subsequently revises and validates the reasonability of the working tax assumptions used therein.

The model concludes that the CaixaBank Group has sufficient capacity to recover, in a reasonable period of time, the tax assets recognised at the revision date as well as the estimated future tax assets that will be generated by the CaixaBank Group.

The aforementioned model constitutes the best objective evidence available to justify the reasonability of the tax assets recognised on its balance sheet.

17.2. Indicate any other criteria taken into account which, based on current accounting regulations, justifies the existence of the aforementioned deferred tax assets on the balance sheet at 31 December 2013.

Response

The company only takes into consideration the reasonable estimate of future taxable profit generated as a method for supporting the recognition of tax assets in the balance sheet.

In relation to the preparation of financial statements in future years, we would remind you of the following:

17.3. Paragraph 81 of IAS 12 requires the Entity to disclose, if any, "(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet; (f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised".

Response

We have noted your comments and will take them into consideration in the preparation of financial statements in future years.

ISSUE 18. According to that reported in Note 20 "Tangible assets" to the consolidated financial statements, on 18 December 2012 CaixaBank sold 439 offices to Soinmob Inmobiliaria, S.A.U. for €428.2 million, with a gross gain of €204 million in 2012. An operating lease agreement was entered into at the same time for a mandatory period of 25 years. During this time, lease income will be increased on a yearly basis in accordance with year-on-year change in the eurozone harmonized consumer price index times 1.4.

According to paragraph 10 of IAS 39, lease agreements may include an embedded derivative financial instrument that causes the cash flows of the contracts to be modified according to a price index or other variable, and that may have to be a separate financial instrument.

In relation to the foregoing:

18.1. Explain whether or not there are clauses that change the shares based on any price index and, if this is the case, the nature of these clauses, the corrective factors used and the accounting treatment followed, where applicable. If there is no separation of the host contract, justify, according to paragraph AG33(f) of IAS 39, why it is closely related to the host contract.

Response

As indicated in Note 20 “Tangible assets” to the Group’s consolidated financial statements, the lease income agreed upon in the transaction is increased each year in accordance with the increase of the Harmonised European Consumer Price Index for the eurozone, excluding tobacco, multiplied by a factor of 1.4 This factor adjusts the change undergone by the Harmonised European Consumer Price Index for the eurozone to the price index that includes the index of lease payments of the entity’s economic environment, which in this case is Spain, since all properties subject to lease agreements are located in Spain. The factor is estimated based on the historical series. Therefore, and taking into consideration the insignificance of the value of the corrective factor and the economic characteristics and risks associated with this factor, it was not considered necessary to separate any embedded derivative under the terms envisaged in paragraph AG33(f) of IAS 39.

18.2. If a multiplier or corrective factor for the price index is used that is greater than one, give an estimate of the fair value of the embedded derivative.

Response

See response 18.1

ISSUE 19. According to that indicated in Note 35 “Other operating income and expenses” to the consolidated financial statements, the Group’s insurance business was basically carried out through VidaCaixa (life insurance) and Segur Caixa Adeslas (non-life insurance). In Note 24 “Liabilities under insurance contracts” to the consolidated financial statements, the entity discloses the balance of liabilities under insurance contracts which, as indicated, relate mainly to life savings products with guaranteed returns. Liabilities under insurance, with a balance of €32,028 million, represent 10% of the entity’s liabilities.

In accordance with paragraphs 36 and 38 of IFRS 4, Insurance contracts, the entity must disclose the information necessary to explain the amounts recognised that arise from insurance contracts and that allow the nature and extent of the risks arising from these contracts to be assessed. Specifically, and taking into account that envisaged in paragraphs 37 and 39 of this standard, the following must be disclosed:

The process used to determine the assumptions that have the greatest effect on the measurement of the assets, liabilities, income and expenses that arise from insurance contracts, and whether it is possible to obtain quantitative information on these assumptions.

A sensitivity analysis on the assumptions referred to above.

Reconciliations of changes in insurance liabilities and reinsurance assets.

Information on insurance risk, including information regarding sensitivity to insurance risk, concentrations of insurance risk and actual claims compared with previous estimates.

In relation to the foregoing:

19.1. Disclose the information required by paragraphs 37 and 39 of IFRS 4.

Response

Note 2.21 "Insurance transactions" to the Group's consolidated financial statements describes the accounting policies applied to insurance contracts, indicating that this comply with that envisaged in IFRS 4, Insurance contracts.

In this regard, and as envisaged in IFRS 4, given that a liability adequacy test is carried out, the Group determines the provisions for insurance contracts in accordance with that envisaged in Spanish accounting law for insurance companies and, in particular, according to that established in Regulations on the Organization and Supervision of Private Insurance (ROSSP) and other implementing provisions, and other applicable legislation. In this regard, the VidaCaixa Group's consolidated financial statements, which are available on the CNMV website, contain a detailed description of the assumptions used according to the type of provisions for each insurance contract.

As indicated above, the Group also carries out annual liability adequacy tests in order to identify any provision deficit and make the related provision. Otherwise, if the result of the liability adequacy test shows that the provisions recognised were adequate or that excess provisions were recognised, the Group adopts the principle of prudence as established in IFRS 4.

The liability adequacy test consists of assessing liabilities under insurance contracts based on the most up-to-date estimates of future cash flows from their contracts in relation to the assets covered. The future estimated cash flows arising from insurance contracts and the derivatives of the financial assets subject to a yield curve of assets with high credit quality are therefore discounted. In order to estimate future cash flows arising from insurance contracts, the surrender rates observed in the portfolio in accordance with the average over the last three months are taken into consideration.

In addition, a sensitivity analysis is carried out with regard to the discounted curve used. This sensitivity analysis consists of entering a drop in the interest rate of 100, 150 and 200 basis points of the discounted curve used, and an increase of 80, 100 and 200 basis points.

Note 3 to the consolidated financial statements provides both qualitative and quantitative information with regard to that required by paragraph 39 of IFRS 4 and, in particular, that relating to objectives, policies and processes for managing risks that arise from the insurance contracts and the methods used to manage such risks.

In general, and as described in the VidaCaixa Group's consolidated financial statements, the group through which CaixaBank carries out its insurance activity, the risk of this activity is managed in accordance with that established in Spanish insurance law. In particular, according to that set forth in the ROSSP and other provisions of the Directorate-General of Insurance and Pension Funds (DGSyFP), which establishes, among other rules, the framework for managing credit and liquidity risk, determining the credit rating and level of diversification. 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 Directorate-General of Insurance and Pension Funds.

In particular, Note 3.1 to the CaixaBank Group's consolidated financial statements provides information relating to the credit risk associated with financial assets acquired to manage the commitments arising from the insurance contracts. This note provides quantitative information regarding credit ratings based on Standard&Poor's rating scale. Note 3.2.5 describes the Group's policies in relation to its exposure to sovereign risk, whereby a report is drawn up each month showing all positions of the consolidated group, and of guaranteed mutual and pension funds. The report looks at portfolio performance by product type, category, country risk and issuer/counterparty risk. The quantitative information on the exposure of the insurance activity in sovereign debt is also detailed by portfolio, country and residual maturity.

ISSUE 20. As explained in Note 21 "Intangible assets" to the consolidated financial statements, the entity assigns goodwill to the banking cash-generating unit and/or the insurance cash-generating unit. The Entity indicates that "analyses carried out suggested that no impairment needs to be recognised for the goodwill or intangible assets recorded, even under adverse scenarios, calculated using variables in the key assumptions for the most significant variables in the model. In addition, there were no reasonably likely changes in the assumptions or projections that could result in the recognition of impairment allowances for goodwill".

Disclose the following for the insurance CGU:

20.1. In accordance with paragraph 134(d)(ii) of IAS 36, Impairment of assets, "a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information".

Response

At last each year the Group analyses the impairment of the insurance CGU as a whole, distinguishing between life and non-life businesses. The valuation of the CGU is based on the Dividend Discount Model (DDM), taking into consideration the regulatory capital requirements of insurance companies once intangible assets and goodwill are deducted. This model, which is widely accepted by the economic community, is based on the Company's forecast of expected dividends for the coming years. Projections over five years were therefore made based on the operating plans of the entities in the insurance group. In addition, cash flows until maturity were taken into account for the life savings business. The residual value was determined based on a constant growth rate of 2% based on estimates for the macroeconomic variables of the sphere of activity of the insurance CGU. The average discount rate used in the adjustments stood at 10% for life and 9% for non-life, calculated based on the interest rate of a ten-year Spanish bond, plus a risk premium in line with country risk. The lapse rates are based on the past experience of the insurance group.

20.2. Information on what is understood to be an "adverse scenario", including the margin for changes in the main assumptions that would not give rise to the recognition of impairment losses.

Response

The CaixaBank Group assess the insurance CGU for impairment considering a central scenario and taking into account the assumptions described in the previous section, and also carries out an analysis taking into consideration the sensitivity of the most significant variables. In this regard, possible changes in the main key assumptions of the model were assessed (discount rate: -/+1% and growth rate: -/+0.5%), in order to confirm that the recoverable amount is greater than the carrying amount. From the analysis carried out and taking into consideration the adverse assumptions described, there was no need to make a provision for impairment in 2013 with regard to goodwill or the intangible assets associated with the insurance CGU.

ISSUE 21. In Note 39 "Impairment losses on other assets (net)" to the consolidated financial statements, the entity discloses €85 million in connection to impairment losses on investment property, and in Note 20, €300 million are recognised under "Allowances and transfers" and €1.3 million under "Amounts recovered and used".

In accordance with paragraph 79(d) of IAS 40, Investment property, "the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with IAS 36" must be disclosed.

In relation to the aforementioned, the following is requested:

21.1. Disclose the following amounts: €85 million in allowances and reversals under "Net allowances"; €300 million in allowances and transfers under "Allowances and transfers", and; €1.3 million in amounts recovered and used under "Amounts recovered and used".

Response

The net allowances amounting to €85 million that appear in Note 39 disclose €185 million in allowances and €100 million in reversals.

The allowances and transfers of impairment losses amounting to €300 million that appear under changes in impairment losses on investment property in Note 20 are broken down into €85 million in net allowances and €215 million in transfers. Transfers mainly include the impairment losses on property reclassified from other balance sheet headings when the property was put up for lease.

The amounts recovered and used totalling €1.3 million that appear under changes in impairment losses on investment property in Note 20 relate to a use of funds.

22. Similarly, and in relation to the preparation of financial statements in future years, we would remind you of the following:

22.1. In accordance with paragraph 55 of Rule Sixty of Bank of Spain Circular 4/2004, for non-current assets held for sale, the entity must provide the name of the valuation and

appraisal companies and agencies used and the total amount assessed for each class of asset and for each asset.

22.2. In accordance with paragraph 12(b) of IFRS 12, Disclosure of interests in other entities, the entity must provide the summarised financial information for each significant jointly controlled entity and associate as specified in paragraphs B12 and B13.

22.3. Paragraph 75(f) of IAS 40 requires the entity to disclose direct operating expenses from investment property, distinguishing between investment property that generated and did not generate rental income during the period.

22.4. Paragraph 36(f) of IAS 2, Inventories, requires the entity to disclose "the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34".

22.5. With regard to finance leases, paragraph 47 of IAS 17, Leases, requires the entity to disclose both the gross investment and the present value of minimum lease payments receivable, in instalments, as a result of the leases; unearned finance income; the accumulated allowance for uncollectible minimum lease payments receivable, and; contingent rents recognised as income in the period.

22.6. In accordance with paragraph 84 of IAS 37, the following must be disclosed separately: "(b) additional provisions made in the period, including increases to existing provisions. (d) unused amounts reversed during the period".

22.7. Article 229.3 of the Corporate Enterprises Act indicates that "directors must notify the board of directors and, failing this, the other directors or, in the case of a sole director, the general meeting of any direct or indirect conflict of interest they might have with the company's interests", and this information must be included in the financial statements.

22.8. Note 2.6 "Transfers of financial assets" and Note 2.15 "Non-current assets held for sale" to the consolidated financial statements should not make any reference to the accounting policies and measurement bases of Bank of Spain Circular 4/2004, applicable to the entity's individual financial statements.

22.9. Both ESMA and IOSCO are drafting Guidelines on Non-GAAP Measures or Alternative Performance Measures (APM), as recommendations on those indicators regarding the entity's performance which, without regulatory benchmark framework governing their calculation and presentation, are included either in the financial statements or not. Once the public consultation period is over, in the case of the ESMA Guidelines or Directives, and once made available to the public, in the case of IOSCO, the legal nature of the guidelines or recommendations will be adopted, in which the issuers must comply with requirements or explain, in the case of ESMA, the effort made to comply.

Other recommendations include the need to reconcile these measures or APM with the information in the financial statements, regardless of whether they are included in the financial statements, management report, significant events or any other document made available to the public. In addition, they establish the need to disclose the reasons why the directors consider the use of such APM relevant for assessing the entity's performance and that any names or labels that may lead to confusion may not be used. In this regard, Note 9 "Segment information" to the consolidated financial statements provides information on the net operating income, without taking into consideration the impact of the restructuring costs; and the management report, in the section on the entity's business performance and results, includes margins and ratios, excluding non-recurring costs.

Response

We have noted your comments and will take them into consideration in the preparation of financial statements in future years.