CaixaBank

CaixaBank Group

STATUTORY DOCUMENTATION

for 2017

Financial statements and management report of the CaixaBank Group that the Board of Directors, at a meeting held on 22 February 2018, agreed to submit to the Annual General Meeting

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

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of CaixaBank, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CaixaBank, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements, for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, have been of most significance in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation of impairment losses on loans and receivables

Description	Procedures applied in the audit
As described in Note 3 to the accompanying consolidated financial statements, the credit risk relating to the loans and receivables at 31 December 2017 is one of the risks to which the Group is most exposed. The Group estimates the impairment losses due to credit risk relating to loans and receivables on an individual and on a collective basis, as described in Note 2.9 to the aforementioned consolidated financial statements. The aforementioned estimate is based on internal models designed by the Group on the basis of incurred loss methodologies in accordance with the applicable regulations in force. These models entail the application of a high level of judgement and complexity, as well as technical difficulty since, among other factors, the following are taken into account: (i) the use of significant assumptions and hypotheses, (ii) the correct accounting classification of transactions and the appropriate segmentation of credit risk and (iii) the performance of complex calculations that require mass data processing in order to calculate the impairment losses that are assessed on a collective basis using statistical procedures. Therefore, we considered this matter to be a key matter in our audit.	In order to address this key matter, our work included the performance of audit procedures to assess the operating effectiveness of the relevant controls established by the Group in this area, as well as the conduct of substantive audit procedures on the estimates of impairment losses calculated on an individual and on a collective basis. In this respect, among others, we carried out the following procedures: (i) analysis of the reasonableness of the calculation methodology of the internal models designed by the Group, reviewing the criteria adopted, as well as the compliance thereof with applicable regulations, (ii) analysis of the classification criteria and the reasonableness of the segmentation variables, (iii) review of the relevant applications supporting the calculation engines for estimating impairment and the transfer of information to the accounting applications, (iv) tests to verify the completeness of the information used as the basis for estimating impairment, (v) replication of the calculation of certain variables for determining impairment, (vi) analysis of the backtesting of the models and of the results obtained by the Group's Validation and Internal Audit Unit in its reviews and (vii) tests, on a selective basis, to assess the correct classification and recognition of impairment.

Estimation of impairment losses on loans and receivables

Description	Procedures applied in the audit
	In addressing this matter, we involved internal specialists in information technology systems and mass data processing, as well as internal specialists in modelling and the valuation of credit risk. In addition, with regard to the impairment losses estimated on an individual basis, we reviewed borrowers' files, on a selective basis, to evaluate whether they have been properly classified and adjusted for impairment, considering, among other information, the cash flow discounting model used to determine the recoverable amount, the existing financial information on the debtor and, where appropriate, the value of any collateral provided. Lastly, we evaluated whether the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Estimation of impairment losses on property assets held for sale

Description	Procedures applied in the audit
As indicated in Note 22 to the accompanying consolidated financial statements, the Group manages a portfolio of property assets held for sale arising from loan foreclosures. Note 2.19 explains how the Group estimates the impairment losses on such property assets on the basis of appraisals conducted by third parties, and subsequently adjusts them using internal models designed by the Group to estimate the discount on the appraisal value and the costs to sell. The use of internal models involves the application of judgements and estimates that include, among other factors, experience of sales of similar assets and the expenses expected to be incurred until the assets are realised. Therefore, we considered this matter to be a key matter in our audit.	Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of property assets, as well as tests to verify that the aforementioned controls operate effectively. Tests were also conducted to verify the completeness of the information used as the basis for estimating the impairment and, in particular, the adjustment applied by the Group in accordance with the internal valuation model. In this connection, with the cooperation of our internal specialists in the valuation of property assets, we: (i) assessed the competence, capability and objectivity of the experts engaged by the Group to value its property assets, as well as the appropriateness of their work to be used as audit evidence, (ii) analysed, for a sample of appraisals determined on a selective basis, the reasonableness of the valuation procedures and methodology used by the experts engaged by Group management and (iii) analysed the reasonableness and consistency of the main property-related assumptions considered in the internal valuation model. Lastly, we evaluated whether the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Accounting for the business combination carried out in the year

Description	Procedures applied in the audit
As described in Note 7, on 7 February 2017, CaixaBank, S.A. obtained effective control of Banco BPI, S.A. with an ownership interest of 84.51%. The transaction was considered by the Parent to be a business combination achieved in stages. Accounting for the business combination requires, on the one hand, the recognition of the prior ownership interest to the takeover bid price and, on the other hand, the recognition of a negative difference arising on consolidation, resulting in a total net impact on profit or loss of EUR 256 million. In this context, determining the fair value of the identifiable assets acquired and identifiable liabilities assumed required the application of valuation techniques, such as, inter alia, the use of comparable market data and the estimation of discounted future cash flows, which require significant judgements and estimates to be made with respect to the assumptions considered. For the above reasons, we considered this matter to be a key matter in our audit.	Our audit procedures included, among others, obtaining the analysis performed by the Group to allocate the purchase price, and verifying the arithmetical accuracy of the calculations made and the reasonableness of the main key assumptions considered in determining the fair value of the identifiable assets and liabilities of the BPI Group acquired. We involved our internal specialists in valuations to assess mainly the methodology used by the Parent in the analysis performed, the discount rates and the useful lives considered, as well as to assess the reasonableness of the fair values allocated to certain identifiable assets and liabilities. Lastly, we evaluated whether the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Recoverability of deferred tax assets

Description	Procedures applied in the audit
As described in Note 26, the consolidated balance sheet as at 31 December 2017 includes 10.255 million euros of deferred tax assets that are recoverable in the context of the tax group to which the Parent belongs. At the end of the year, the management of CaixaBank, S.A. prepared financial models to assess the recoverability of the aforementioned tax assets, taking into consideration new legislative developments and the most recently approved business plans. We identified this matter as key in our audit, since the preparation of these models requires a significant level of judgement, mainly in connection with the projections of business performance, which affect the estimate made of the recoverability of the tax assets.	Our audit procedures included, among others, the review of the aforementioned financial models, including the analysis of the consistency of the actual results obtained compared with the results projected in the previous year's models, the reasonableness of the budgeted results included in the current year's models and the tax legislation applicable where the deferred tax assets are recognised, as well as the reasonableness of the projections for future years and their consistency with those used in other judgements and estimates. We also involved our internal specialists from the tax area in the analysis of the reasonableness of the tax assumptions considered on the basis of the applicable legislation. Lastly, we evaluated whether the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Legal contingencies

Description

As indicated in Note 2.22, as a result of its business activity the Group is involved in various court and administrative proceedings, including most notably those relating to claims in connection with the so-called floor clauses. Management of the Group's Parent must evaluate whether these proceedings represent contingencies or whether, on the contrary, a provision associated with them should be recognised. This is a key matter for our audit, since the analysis of contingencies requires significant judgements to be made, in particular as to whether it is probable that there will be a future outflow of resources and whether the amount of the obligation can be estimated reliably. The directors make these judgements and estimates mainly on the basis of the analysis of the legal and financial department -which in turn is based on the information available at any given time-, the outcomes of similar litigation and, as applicable, the opinion of their legal or other advisers.

Procedures applied in the audit

Our audit procedures included, among others, an analysis of the judgements used by the directors and management of the Group's Parent on the basis of the available information in each moment and events occurred in similar litigation.

The main audit procedures we have carried out with the purpose of analysing the reasonability of the conclusions reached by the management consisted in (i) analysis of the judicial processes, monitoring and estimate of the possible consequences in its different phases, (ii) understanding the answer established by CaixaBank to attend the potential claims and (iii) understanding and review of the different claim scenarios established by the Entity.

We also verified the accounting treatment applied and evaluated whether the accompanying consolidated financial statements contain the disclosures required in this connection by the regulatory financial reporting framework applicable to the Group.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the directors' report or, where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulations, and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this part of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as previously described, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit and Control Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's Audit and Control Committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description in the aforementioned Appendix I forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's Audit and Control Committee dated 23 February 2018.

Engagement Period

The Annual General Meeting held on 28 April 2016 appointed us as auditors for a period of one year from the year ended 31 December 2016.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2000, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

DELOITTE, S.L.
Registered in R.O.A.C. under no. S0692

Francisco Ignacio Ambrós
Registered in R.O.A.C. under no. 20526

23 February 2018

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's Audit and Control Committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's Audit and Control Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

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- Statement of profit or loss for the years ended 31 December 2017 and 2016
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- Statement of total changes in equity for the years ended 31 December 2017 and 2016
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- Notes to the financial statements for the year ended 31 December 2017

CONSOLIDATED BALANCE SHEET

at 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

Assets

	31.12.2017	31.12.2016 (*)
Cash and cash balances at central banks and other demand deposits (Note 10)	**20,155,318**	**13,259,957**
Financial assets held for trading (Note 11)	**10,596,684**	**11,667,687**
Derivatives	8,162,172	9,575,832
Equity instruments	402,714	294,923
Debt securities	2,031,798	1,796,932
Memorandum items: Loaned or advanced as collateral with the right of sale or pledge	*1,052,526*	*1,796,932*
Financial assets designated at fair value through profit or loss (Note 12)	**6,499,807**	**3,139,646**
Equity instruments	4,299,161	1,806,976
Debt securities	2,100,347	1,332,670
Loans and advances	100,299	0
Credit institutions	100,299	0
Available-for-sale financial assets (Note 13)	**69,554,707**	**65,076,973**
Equity instruments	2,882,849	2,946,030
Debt securities	66,671,858	62,130,943
Memorandum items: Loaned or advanced as collateral with the right of sale or pledge	*7,383,023*	*9,377,156*
Loans and receivables (Note 14)	**226,272,499**	**207,640,937**
Debt securities	2,575,603	561,139
Loans and advances	223,696,896	207,079,798
Central banks	5,000	0
Credit institutions	7,374,035	6,741,354
Customers	216,317,861	200,338,444
Memorandum items: Loaned or advanced as collateral with the right of sale or pledge	*103,154,984*	*80,981,698*
Held-to-maturity investments (Note 15)	**11,084,829**	**8,305,902**
Memorandum items: Loaned or advanced as collateral with the right of sale or pledge	*3,600,019*	*2,875,627*
Derivatives - Hedge accounting (Note 16)	**2,596,939**	**3,090,475**
Fair value changes of the hedged items in portfolio hedge of interest rate risk (Note 16)	**10,847**	**134,586**
Investments in joint ventures and associates (Note 17)	**6,224,425**	**6,420,710**
Joint ventures	187,107	141,294
Associates	6,037,318	6,279,416
Assets under insurance or reinsurance contracts (Note 18)	**275,495**	**344,144**
Tangible assets (Note 19)	**6,480,434**	**6,436,908**
Property, plant and equipment	3,076,344	3,004,662
For own use	*3,076,344*	*3,004,662*
Investment properties	3,404,090	3,432,246
Intangible assets (Note 20)	**3,804,983**	**3,687,352**
Goodwill	3,050,845	3,050,845
Other intangible assets	754,138	636,507
Tax assets	**11,054,984**	**10,521,402**
Current tax assets	800,143	878,739
Deferred tax assets **(Note 26)**	10,254,841	9,642,663
Other assets (Note 21)	**2,505,282**	**1,795,723**
Inventories	877,586	1,012,896
Other assets	1,627,696	782,827
Non-current assets and disposal groups classified as held for sale (Note 22)	**6,068,930**	**6,404,860**
Total assets	**383,186,163**	**347,927,262**
Memorandum items:		
Guarantees given (Note 27)	**6,015,352**	**3,486,709**
Contingent commitments given (Note 27)	**80,650,751**	**75,651,105**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated balance sheet at 31 December 2017.

CONSOLIDATED BALANCE SHEET

at 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

Liabilities

	31.12.2017	31.12.2016 (*)
Financial liabilities held for trading (Note 11)	**8,604,930**	**10,292,298**
Derivatives	7,860,638	9,394,559
Short positions	744,292	897,739
Financial liabilities designated at fair value through profit or loss (Note 12)	**8,241,088**	**3,763,976**
Deposits	8,240,972	3,763,976
Customers	8,240,972	3,763,976
Other financial liabilities	116	0
Financial liabilities measured at amortised cost (Note 23)	**280,897,381**	**254,093,295**
Deposits	246,804,137	223,511,848
Central banks	31,680,685	30,029,382
Credit institutions	11,515,365	6,315,758
Customers	203,608,087	187,166,708
Debt securities issued	29,918,503	27,708,015
Other financial liabilities	4,174,741	2,873,432
Memorandum items: Subordinated liabilities	5,053,814	4,118,792
Derivatives - Hedge accounting (Note 16)	**793,132**	**625,544**
Fair value changes of the hedged items in portfolio hedge of interest rate risk (Note 16)	**1,409,702**	**1,984,854**
Liabilities under insurance contracts (Note 18)	**49,750,389**	**45,803,579**
Provisions (Note 24)	**5,000,941**	**4,730,271**
Pensions and other post employment defined benefit obligations	2,107,776	2,028,612
Other long term employee benefits	1,223,077	972,767
Pending legal issues and tax litigation	802,700	633,224
Commitments and guarantees given	356,927	228,553
Other provisions	510,461	867,115
Tax liabilities	**1,388,070**	**1,186,209**
Current tax liabilities	193,944	218
Deferred tax liabilities **(Note 26)**	1,194,126	1,185,991
Share capital repayable on demand	**0**	**0**
Other liabilities (Note 21)	**2,335,108**	**1,805,635**
Liabilities included in disposal groups classified as held for sale	**82,141**	**86,039**
Total liabilities	**358,502,882**	**324,371,700**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated balance sheet at 31 December 2017.

CONSOLIDATED BALANCE SHEET

at 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

Equity

	31.12.2017	31.12.2016 (*)
SHAREHOLDERS' EQUITY (Note 25)	**24,203,895**	**23,399,819**
Capital	5,981,438	5,981,438
Paid up capital	5,981,438	5,981,438
Share premium	12,032,802	12,032,802
Other equity items	10,054	7,499
Retained earnings	5,553,704	5,239,487
Other reserves	(628,066)	(716,893)
Less: Treasury shares	(11,753)	(14,339)
Profit/(loss) attributable to owners of the parent	1,684,167	1,047,004
Less: Interim dividends **(Note 6)**	(418,451)	(177,179)
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 25)	**45,366**	**126,621**
Items that will not be reclassified to profit or loss	0	0
Items that may be reclassified to profit or loss	45,366	126,621
Foreign currency exchange	74,199	2,332
Hedging derivatives. Cash flow hedges (effective portion)	16,081	25,316
Available-for-sale financial assets	(16,370)	(26,494)
Debt instruments	407,959	366,815
Equity instruments	(424,329)	(393,309)
Share of other recognised income and expense of investments in joint ventures and associates	(28,544)	125,467
MINORITY INTERESTS (non-controlling interests) (Note 25)	**434,020**	**29,122**
Accumulated other comprehensive income	25,760	50
Other items	408,260	29,072
Total equity	**24,683,281**	**23,555,562**
Total equity and total liabilities	**383,186,163**	**347,927,262**

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated balance sheet at 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the years ended 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

	2017	2016 (*)
Interest income **(Note 29)**	6,970,444	6,753,052
Interest expenses **(Note 30)**	(2,224,911)	(2,596,196)
NET INTEREST INCOME	**4,745,533**	**4,156,856**
Dividend income **(Note 31)**	127,232	198,618
Share of profit/(loss) of entities accounted for using the equity method **(Note 17)**	526,153	628,518
Fee and commission income **(Note 32)**	2,759,849	2,261,910
Fee and commission expenses **(Note 32)**	(261,180)	(171,657)
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net **(Note 33)**	169,479	786,714
Gains/(losses) on financial assets and liabilities held for trading, net **(Note 33)**	46,876	21,176
Gains/(losses) from hedge accounting, net **(Note 33)**	(9,132)	12,689
Exchange differences (net)	75,620	28,562
Other operating income **(Note 34)**	697,875	588,419
Other operating expenses **(Note 34)**	(1,128,043)	(995,774)
Income from assets under insurance or reinsurance contracts **(Note 34)**	823,140	803,630
Expenses from liabilities under insurance or reinsurance contracts **(Note 34)**	(351,515)	(493,129)
GROSS INCOME	**8,221,887**	**7,826,532**
Administrative expenses	(4,150,279)	(3,745,413)
Staff expenses **(Note 35)**	(2,981,413)	(2,745,349)
Other administrative expenses **(Note 36)**	(1,168,866)	(1,000,064)
Depreciation and amortisation **(Notes 19 and 20)**	(426,929)	(370,202)
Provisions or reversal of provisions **(Note 24)**	(761,648)	(486,532)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss **(Note 37)**	(948,563)	(582,077)
Available-for-sale financial assets	(143,782)	(233,048)
Loans and receivables	(804,781)	(467,974)
Held-to-maturity investments	0	118,945
NET OPERATING INCOME/(LOSS)	**1,934,468**	**2,642,308**
Impairment or reversal of impairment on investments in joint ventures and associates **(Note 17)**	5,278	(3,986)
Impairment or reversal of impairment on non-financial assets **(Note 38)**	(170,367)	(228,413)
Tangible assets	(100,004)	(224,278)
Intangible assets	(70,364)	(503)
Other	1	(3,632)
Gains/(losses) on derecognition of non-financial assets and investments, net **(Note 39)**	(114,770)	(151,752)
Negative goodwill recognised in profit or loss **(Note 7)**	441,555	66,925
Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (net) **(Note 40)**	1,819	(787,020)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**2,097,983**	**1,538,062**
Tax expense or income related to profit or loss from continuing operations **(Note 26)**	(377,628)	(482,183)
PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**1,720,355**	**1,055,879**
Profit/(loss) before tax from discontinued operations	(1,727)	(944)
PROFIT/(LOSS) FOR THE PERIOD	**1,718,628**	**1,054,935**
Attributable to minority interests (non-controlling interests) **(Note 25)**	34,461	7,931
Attributable to owners of the Parent	1,684,167	1,047,004
Earnings per share		
Basic earnings per share (euros) **(Note 6)**	0.28	0.18
Diluted earnings per share (euros) **(Note 6)**	0.28	0.18

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated statement of profit or loss for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PART A)
STATEMENT OF OTHER COMPREHENSIVE INCOME

for the years ended 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

	2017	2016 (*)
PROFIT/(LOSS) FOR THE PERIOD	**1,718,628**	**1,054,935**
OTHER COMPREHENSIVE INCOME	**(55,545)**	**(1,354,149)**
Items that will not be reclassified to profit or loss	**0**	**0**
Items that may be reclassified to profit or loss	**(55,545)**	**(1,354,149)**
Foreign currency exchange	85,969	(375,135)
Translation gains/(losses) taken to equity	*85,969*	*(130,474)*
Transferred to profit or loss	*0*	*(244,661)*
Other reclassifications		
Cash flow hedges (effective portion)	1,275	(85,293)
Valuation gains/(losses) taken to equity	*41,333*	*(68,004)*
Transferred to profit or loss	*(40,058)*	*(17,289)*
Transferred to initial carrying amount of hedged items		
Other reclassifications		
Available-for-sale financial assets	18,713	(843,676)
Valuation gains/(losses) taken to equity	*(27,909)*	*(443,562)*
Transferred to profit or loss	*46,622*	*(400,114)*
Other reclassifications		
Non-current assets and disposal groups classified as held for sale	0	0
Valuation gains/(losses) taken to equity		
Transferred to profit or loss		
Other reclassifications		
Share of other recognised income and expense of investments in joint ventures and associates	*(154,011)*	(74,513)
Income tax relating to items that may be reclassified to profit or loss	*(7,491)*	24,468
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,663,083**	**(299,214)**
Attributable to minority interests (non-controlling interests)	60,171	7,451
Attributable to owners of the parent	1,602,912	(306,665)

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated statement of other comprehensive income for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PART B)

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY

for the years ended 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

	Equity attributable to the parent										Minority interests		
	Shareholders' equity												
2017	Capital	Share premium	Other equity items	Retained earnings	Other reserves	Less: Treasury shares	Profit/(loss) attributable to owners of the parent	Less: Interim dividends	Accumulated other comprehensive income		Accumulated other comprehensive income	Other items	**Total**
Opening balance (before restatement)	**5,981,438**	**12,032,802**	**7,499**	**5,239,487**	**(716,893)**	**(14,339)**	**1,047,004**	**(177,179)**	**126,621**	**0**	**50**	**29,072**	**23,555,562**
Effects of corrections of errors													0
Effects of changes in accounting policies													0
Opening balance at 31.12.2016	**5,981,438**	**12,032,802**	**7,499**	**5,239,487**	**(716,893)**	**(14,339)**	**1,047,004**	**(177,179)**	**126,621**		**50**	**29,072**	**23,555,562**
Total comprehensive income for the period							**1,684,167**		**(81,255)**		**25,710**	**34,461**	**1,663,083**
Other changes in equity	**0**	**0**	**2,555**	**314,217**	**88,827**	**2,586**	**(1,047,004)**	**(241,272)**	**0**		**0**	**344,727**	**(535,364)**
Issuance of ordinary shares													0
Issuance of other equity instruments													0
Dividends (or remuneration to shareholders)				(358,675)				(418,451)				(1,200)	(778,326)
Purchase of treasury shares (Note 25)						(208)							(208)
Sale or cancellation of treasury shares (Note 25)					34	2,794							2,828
Transfers among components of equity				736,360	134,439		(1,047,004)	177,179				(974)	0
Other increase/(decrease) in equity			2,555	(63,468)	(45,646)							346,901	240,342
Closing balance at 31.12.2017	**5,981,438**	**12,032,802**	**10,054**	**5,553,704**	**(628,066)**	**(11,753)**	**1,684,167**	**(418,451)**	**45,366**	**0**	**25,760**	**408,260**	**24,683,281**

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated statement of total changes in equity for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (PART B)
CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY

for the years ended 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

	Equity attributable to the parent									Minority interests		
	Shareholders' equity											
2016	Capital	Share premium	Other equity items	Retained earnings	Other reserves	Less: Treasury shares	Profit/(loss) attributable to owners of the parent	Less: Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	**Total**
Opening balance (before restatement)	**5,823,990**	**12,032,802**	**5,120**	**4,850,813**	**413,916**	**(19,713)**	**814,460**	**(232,754)**	**1,480,290**	**530**	**35,096**	**25,204,550**
Effects of corrections of errors												0
Effects of changes in accounting policies												0
Opening balance at 31.12.2015	**5,823,990**	**12,032,802**	**5,120**	**4,850,813**	**413,916**	**(19,713)**	**814,460**	**(232,754)**	**1,480,290**	**530**	**35,096**	**25,204,550**
Total comprehensive income for the period							**1,047,004**		**(1,353,669)**	**(480)**	**7,931**	**(299,214)**
Other changes in equity	**157,448**	**0**	**2,379**	**388,674**	**(1,130,809)**	**5,374**	**(814,460)**	**55,575**	**0**	**0**	**(13,955)**	**(1,349,774)**
Issuance of ordinary shares	157,448			(157,448)								0
Issuance of other equity instruments												0
Dividends (or remuneration to shareholders)				(283,205)				(177,179)			(4,656)	(465,040)
Purchase of treasury shares						(2,008,803)						(2,008,803)
Sale or cancellation of treasury shares					(703,684)	2,014,177						1,310,493
Transfers among components of equity				889,327	(307,621)		(814,460)	232,754				0
Other increase/(decrease) in equity			2,379	(60,000)	(119,504)						(9,299)	(186,424)
Closing balance at 31.12.2016	**5,981,438**	**12,032,802**	**7,499**	**5,239,487**	**(716,893)**	**(14,339)**	**1,047,004**	**(177,179)**	**126,621**	**50**	**29,072**	**23,555,562**

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated statement of total changes in equity for the year ended 31 December 2017.

CONSOLIDATED STATEMENTS OF CASH FLOWS (INDIRECT METHOD)

for the years ended 31 December 2017 and 2016, in thousands of euros

CAIXABANK, SA AND COMPANIES COMPOSING THE CAIXABANK GROUP

	2017	2016 (*)
A) CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**6,554,404**	**14,145,969**
Profit/(loss) for the period	**1,718,628**	**1,054,935**
Adjustments to obtain cash flows from operating activities	**4,500,905**	**6,181,210**
Depreciation and amortisation	426,929	370,202
Other adjustments	4,073,976	5,811,008
Net increase/(decrease) in operating assets	**3,312,040**	**2,554,125**
Financial assets held for trading	3,290,115	1,864,377
Financial assets designated at fair value through profit or loss	(2,099,474)	(1,573,686)
Available-for-sale financial assets	(712,810)	(2,794,520)
Loans and receivables	438,877	1,566,538
Other operating assets	2,395,332	3,491,416
Net increase/(decrease) in operating liabilities	**(3,131,442)**	**4,254,551**
Financial liabilities held for trading	(1,883,646)	(1,907,992)
Financial liabilities designated at fair value through profit or loss	2,263,802	1,688,575
Financial liabilities measured at amortised cost	(510,992)	6,547,081
Other operating liabilities	(3,000,606)	(2,073,113)
Income tax (paid)/received	**154,273**	**101,148**
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	**(1,377,922)**	**(2,906,210)**
Payments:	**(4,056,031)**	**(4,910,698)**
Tangible assets	(358,354)	(459,494)
Intangible assets	(226,913)	(179,366)
Investments in joint ventures and associates	(32,307)	(104,890)
Subsidiaries and other business units	(644,523)	0
Non-current assets and liabilities classified as held for sale	(31,307)	(35,160)
Held-to-maturity investments	(2,762,627)	(4,131,788)
Proceeds:	**2,678,109**	**2,004,488**
Tangible assets	152,612	209,403
Investments in joint ventures and associates	2,341	699,607
Non-current assets and liabilities classified as held for sale	1,173,196	1,095,478
Other proceeds related to investing activities	1,349,960	0
C) CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES (Note 23.3)	**1,721,195**	**(4,596,291)**
Payments:	**(6,156,633)**	**(7,406,883)**
Dividends (Note 6)	(777,126)	(460,384)
Subordinated liabilities	(1,301,502)	0
Purchase of own equity instruments (Note 25)	(208)	(346)
Other payments related to financing activities	(4,077,797)	(6,946,153)
Proceeds:	**7,877,828**	**2,810,592**
Subordinated liabilities	2,150,000	0
Disposal of own equity instruments (Note 25)	2,828	1,310,592
Other proceeds related to financing activities	5,725,000	1,500,000
D) EFFECT OF EXCHANGE RATES CHANGES	**(2,316)**	**1,317**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**6,895,361**	**6,644,785**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**13,259,957**	**6,615,172**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD (E+F)	**20,155,318**	**13,259,957**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash on hand	2,177,351	1,584,407
Cash equivalents at central banks	17,092,094	10,909,339
Other financial assets	885,873	766,211
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD	**20,155,318**	**13,259,957**

(*) Presented for comparison purposes only.

Note 1: Interest received and paid at 31 December 2017 amounted to EUR 7,425 million and EUR 2,404 million, respectively (EUR 6,608 million and EUR 3,022 million, respectively, at 31 December 2016).

Note 2: Dividends received at 31 December 2017 amounted to EUR 535 million (EUR 546 million at 31 December 2016).

The accompanying Notes 1 to 42 and Appendices 1 to 6 are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Notes to the financial statements of the CaixaBank Group for 2017

INDEX OF EXPLANATORY NOTES

CAIXABANK, SA
AND COMPANIES COMPOSING THE CAIXABANK GROUP

As required by current legislation governing the content of consolidated financial statements, these notes to the consolidated financial statements complete, extend and discuss the balance sheet, statement of profit or loss, statement of changes in equity and the statement of cash flows, and form an integral part of them to give a true and fair view of the equity and financial position of the CaixaBank consolidated group at 31 December 2017, and the results of its operations, the changes in equity and the cash flows during the year then ended.

1. Corporate and other information

Corporate information

CaixaBank, SA (“CaixaBank” or the “Entity”) and its subsidiaries compose the CaixaBank Group (the “CaixaBank Group” or the “Group”). CaixaBank, with tax identification (NIF) number A08663619 and registered address at Pintor Sorolla, 2-4, Valencia (until 6 October 2017 Avenida Diagonal 621, Barcelona), was created through the transformation of Criteria CaixaCorp, SA which culminated on 30 June 2011 with the entry of CaixaBank in the Bank of Spain’s Registry of Credit Institutions (*Registro de Entidades de Crédito*) and its listing on the Spanish stock markets – as a credit institution – on 1 July 2011.

On 26 September 2017, the ECB Governing Committee ruled that given that the terms and conditions established in Article 26.8 of EU Regulation 1024/2013, of the Council, have been met, CriteriaCaixa no longer has control or exercises a significant dominant influence over CaixaBank, and consequently is no longer the parent of the financial conglomerate. This ruling came into force the same day. Therefore, CaixaBank has become 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 of which CaixaBank is the entity at the highest level of prudential consolidation.

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

Basis of presentation

The Group's consolidated financial statements have been authorised for issue by the Board of Directors in accordance with the regulatory financial reporting framework applicable to the Group ay 31 December 2017, which is set forth in the International Financial Reporting Standards ("IFRS") as adopted by the European Union through EU Regulations, in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and subsequent amendments. They have also been prepared bearing in mind the provisions of Bank of Spain Circular 4/2004 of 22 December ("the Circular") on Public and Reserved Financial Information Standards and Formats for Credit Institutions, which constitutes the adaptation of the IFRS adopted by the European Union to Spanish credit institutions, and CNMV Circular 31/2017 and subsequent amendments in force at 31 December 2017.

The financial statements, which were prepared from the accounting records of CaixaBank and the other Group companies, are presented in accordance with the regulatory financial reporting framework applicable to them and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Group's equity, financial position, results of operations and cash flows for 2016. The accompanying financial statements include certain adjustments and reclassifications required to apply the policies and criteria used by the Group companies on a consistent basis with those of CaixaBank.

Figures are presented in thousands of euros unless the use of another monetary unit is stated explicitly. Certain financial information in these notes was rounded off and, consequently, the figures shown herein as totals may differ slightly from the arithmetic sum of the individual figures given before them.

Standards and interpretations issued by the International Accounting Standard Board (IASB) that became effective in 2017

At the date of authorisation for issue of these consolidated financial statements, no new standards that are relevant for the CaixaBank Group have entered into force with mandatory application as from 1 January 2017.

Standards and interpretations issued by the IASB but not yet effective

At the date of authorisation for issue of the accompanying consolidated financial statements, following are the most significant standards and interpretations issued by the IASB but not yet effective, either because their effective date is subsequent to the date of the consolidated financial statements or because they have not yet been endorsed by the European Union:

Standards and interpretations	**Title**	**Mandatory application for annual periods beginning on or after:**
Approved for use in the EU		
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Amendment to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	1 January 2018

Standards and interpretations	Title	Mandatory application for annual periods beginning on or after:
Not approved for use		
IFRS 17	Insurance Contracts	1 January 2021
Amendment to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Replacement of IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendment to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Replacement of IAS 40	Transfers of investment properties	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The Group has elected not to early adopt these standards, where possible.

Approved for use in the EU

IFRS 9 Financial Instruments: Classification and Measurement

The Group completed the implementation of IFRS 9 Financial Instruments in the last quarter of 2017, and at the current date is focused on streamlining the different processes affected by the adoption of this standard.

IFRS 9 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, applicable at 31 December 2017. Significant differences exist with the current standard in respect of aspects such as the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

In accordance with the amendments made to IFRS 4 Applying IFRS Financial Instruments with IFRS 4 Insurance Contracts, which has been adopted by the EU, application of IFRS 9 can be deferred for insurance companies that form part of a financial conglomerate. The CaixaBank Group has opted to apply this temporary exemption of IFRS 9 for the financial investments of the Group's insurance companies, VidaCaixa, SA de Seguros y Reaseguros and BPI Vida y Pensiones, for periods prior to 1 January 2021.

Therefore, the information contained in the following paragraphs applies only to the CaixaBank Group, and excludes the financial instruments relating to its insurance business.

Regarding the classification and measurement of financial assets, the approach in IFRS 9 considers both the business model within which the assets are held and their contractual cash flows, effectively reducing the number of portfolios and impairment models currently envisaged in IAS 39. Financial assets that give rise to cash flows that are solely payments of principal and interest are measured at amortised cost if they belong to a business model whose objective is to collect the contractual cash flows, but at fair value through other comprehensive income if the objective is to both collect the cash flows and sell the instrument. All other financial assets, including embedded derivatives, must be fully measured at fair value through profit or loss.

For all assets not measured at fair value through profit or loss, the entities must recognise expected credit losses, differentiating between assets whose creditworthiness has not deteriorated significantly since initial recognition and those whose creditworthiness has.

It is precisely in respect of impairment of financial instruments, based on expected loss, where IFRS 9 reflects the most substantial changes compared to the currently model under IAS 39, which is based on the accounting of losses incurred for credit risk. In particular, IFRS 9 requires an entity to use an impairment model as a basis for measuring its loan loss allowance. The model differentiates between three stages. Measurement of expected loss depends on whether there has been a significant increase in the credit since initial recognition, whereby: (i) 12-month expected credit loss (Stage 1) applies to all assets (from initial recognition) as long as there is no significant deterioration in credit quality, (ii) life-time expected loss (Stages 2 and 3) applies when a significant increase in credit risk has occurred on an individual or collective basis. For impaired financial assets in Stage 3, interest revenue is calculated on net carrying amount.

The assessment of whether there has been a significant increase in credit risk should consider reasonable and supportable information that is available without undue cost or effort that is an indicator of increases in credit risk from initial recognition and reflects historical, current and forward-looking information.

Noteworthy differences between the new expected loss model in IFRS 9 and the current incurred loss model of IAS 39 include:

- Upon initial recognition, IFRS 9 requires expected loss to be recognised rather than incurred loss.
- The degree of judgement required to incorporate *forward-looking* information and assumptions regarding the behaviour affecting the life of the instruments that should be considered and how the assumptions are incorporated in the measurement of expected losses, increases in the expected-loss model.
- The requirement to calculate full lifetime losses for exposures that have experienced significant increase in its credit risk since initial recognition and for and for those operations with impairment losses.

Regarding financial liabilities, the categories set out in IFRS 9 are similar to those in IAS 39, and their measurement does not change, only the requirement to recognise changes in fair value related to own credit risk as a component of equity for financial liabilities designated under the fair value option.

For hedge accounting, the granularity in current IAS 39 requirements is replaced with a new model that better reflects internal risk management activities in the financial statements. There are changes with respect to IAS 39 in a number of other areas, such as hedged items, hedging instruments, the accounting of the time value of options and the assessment of effectiveness, which will enable Group entities that carry out financial activities to expand the transactions to which hedge accounting is applied and facilitate the application of hedge accounting, whereas the rest of the entities will benefit mainly from the possibility of hedging non-financial risks.

In 2015, the Group began work for application of this standard. Spearheaded by a CaixaBank Internal Project committee, this has mainly entailed taking the necessary steps to implement IFRS 9 in all areas of the Group that are affected so as to ensure compliance at the date of first application.

The committee, led by the CaixaBank Executive Global Risk Management Division, in conjunction with the CaixaBank Executive Financial Accounting, Control and Capital Division, liaises with the CaixaBank Group's Management Committee and is in charge of operational management and strategic decision making (e.g. resources, deadlines, definition of models).

A number of teams have been involved in the project (Systems, Models, *Impairment*, Financial Accounting, Accounting Policies, Monitoring) who oversee day-to-day management. In addition, a monitoring committee was set up, composed of the heads of each of these areas.

The most relevant tasks carried out by the CaixaBank Group in the implementation of IFRS 9 relate to the following:

- Modification of the department-level organisational model and redefinition of the governance model
- Determination of the business model under which financial assets will be managed
- Analysis of the characteristics of cash flows deriving from financial instruments
- Identification of the triggers or indicators for classifying financial instruments in Stages 1, 2 or 3.
- Necessary modifications in the tools currently available in the Group for measuring the risk parameters needed to calculate expected loss and for the individual and collective analysis of the different instruments
- Review of internal processes and controls in the onboarding and approval of transactions, accounting policies, reporting to governance bodies, etc.

The most relevant qualitative and quantitative impacts resulting from the implementation of IFRS 9 from 1 January 2018 are described below.

Classification and measurement of assets

- Certain financial assets will be reclassified from "Loans and receivables" to "Financial assets at fair value through profit or loss", having concluded that either these assets are not managed within a business model comprising the collection of contractual cash flows and/or the sale of these financial assets, or that the characteristics of these contractual cash flows were insufficient to conclude that they correspond only to payment of principal and interest on the principal amount outstanding (SPPI test).

  The Group considers that if, at the transition date, there are loan portfolios where the carrying amount is expected to be recovered through sale to a third party outside the Group, they should be recognised as “Financial assets at fair value through profit or loss”.

- Those equity instruments currently classified under "Available-for-sale financial assets" will be classified as "Financial assets at fair value with changes in other comprehensive income", considering that the Group is using the option to irrevocably designate most equity instruments in this category at the transition date. Gains or losses on equity instruments classified in this category and recognised in equity at the time of sale, and any impairment losses thereon, will not be recognised in the statement of profit or loss.

Impairment losses

Under IFRS 9, impairment losses are recognised earlier than under IAS 39. Upon initial recognition of financial assets, valuation adjustments must be made for the expected losses resulting from default events that could occur in the coming 12 months. If credit risk increases significantly, full lifetime expected credit losses are recognised.

In accordance with the methodology applied in the internal implementation project described above, the portfolio of financial instruments subject to impairment (financial assets at amortised cost and certain financial assets at fair value with changes in other comprehensive income, lease agreements and certain commitments and guarantee contracts) was provisionally separated out in the three stages described above at 1 January 2018. The parameters developed by the Group were applied to these stages, using both historical information and the best assumptions on forward-looking information in order to measure expected loss (EL).

Those operations for which it is considered that there has been a significant increase in risk since the initial recognition of an operation, specifically, when it presents weaknesses that may involve assuming losses significantly higher than those expected at the time of the concession, will be classified in stage 2. For the identification of weaknesses in operations and customers CaixaBank has a monitoring and qualification process that combines the use of statistical models with the individual analysis of the borrowers with significant exposures. In addition to the classification based on the tracking qualification, a criterion is also applied based on a relative increase in the probability of default (PD).

Complementing the above criteria, and unless they should be classified in stage 3, operations included in a sustainability or refinancing agreement, refinanced or restructured and not considered to be cured will be classified in stage 2; operations in which there are amounts due with more than 30 days old, unless proven otherwise; and operations that can be determined by market indicators / triggers that there has been a significant increase in risk.

For the incorporation of forward-looking information in the calculation of the EL, it is based on projections of the macroeconomic conjuncture under various potential scenarios. For each of these scenarios, the associated expected loss is estimated, which will be 12 months for operations in stage 1 and the life of the operation in the rest of the cases. The EL that determines the coverage corresponds to the weighted average of the expected losses under each scenario, where the weighting is given by the plausibility of each conjuncture.

Hedges

Since 1 January 2018, the Group applies IFRS 9 to accounting hedges, as it considers that this option is best aligned with the CaixaBank Group's risk management strategy. Nevertheless, other than the attendant greater disclosure requirements, no significant quantitative impacts have emerged.

Estimate of impacts

Based on data at 31 December 2017, the best estimates of the impacts of IFRS 9 are as follows:

- an increase in impairment allowances of EUR 758 million.
- reclassification between financial instrument portfolios with insignificant exposure,
- a negative impact on reserves in the amount of EUR 564 million.

At the date of authorisation for issue of these consolidated financial statements, there is uncertainty regarding the tax effect of the above-mentioned adjustments, as the more reasonable assumption is that they will generate non-monetisable deferred tax assets. However, given the limited impact, CaixaBank will opt out of the voluntary phase-in period for absorbing the prudential impact of the initial adoption of IFRS 9.

Based on the above, the CaixaBank Group's best estimate, taking into consideration the figures at 31 December 2017, is a decrease in the fully-loaded CET 1 ratio of 15 basis points at the transition date.

The above-mentioned impacts all refer to the transition date for the whole Group. It must be considered for this purpose that the Group took control of the subsidiary BPI in February 2017. As a result of integrating its identifiable assets at fair value, applying this standard in BPI has no material impact on the CaixaBank Group.

At the date of authorisation for issue of these condensed interim consolidated financial statements, these impacts are the best estimate of the effects that could be most significant for the subject scope, but are not a complete and exact listing of all impacts that could ultimately derive from application of this standard upon definitive application as of 1 January 2018.

At the date of first application, in accordance with IFRS 9 and IAS 8, the amounts resulting from the accounting change are recognised in the CaixaBank Group's reserve accounts. Therefore, the CaixaBank Group will not re-state previous periods with the criteria established under IFRS 9 when it reports for the first time under this new standard, implying that the impacts from its implementation will be recognised under accumulated reserves at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

This standard establishes a model for recognising ordinary income other than income from financial instruments, based on identifying the obligations under each contract, determining the price thereof, assigning this to the obligations identified, and lastly, recognising income when control of the assets is transferred (in the widest sense, including the provision of services).

Although this may entail certain changes in the timing of revenue recognition, the Group does not expect that implementation of the standard at 1 January 2018 will give rise to a material impact.

IFRS 16 Leases

The standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The main change derives from the lessee's obligation to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation in terms of the present value of future lease payments. The asset is depreciated over the life of the contract, while the liability will generate a financial expense.

In late 2016, the CaixaBank Group undertook a specific project for implementing this standard, focusing on analysing the impacts as a result of its business model. The main type of contracts identified for which a right-of-use asset and a lease liability must be estimated are real estate leases (office buildings) in connection with the operating activity.

At the date of preparing these consolidated financial statements, the contracts covered by this standard have been identified but the software for the new accounting has only started to be rolled out. Consequently, a reliable estimate of the impact of the standard on CaixaBank cannot be made at this time.

Not approved for use in the EU

IFRS 17 Insurance Contracts

The standard sets out the requirements an entity must apply when accounting for insurance contracts issued and reinsurance contracts entered into. The effective date of this standard is 1 January 2021, at which time it will replace IFRS 4 Insurance Contracts, a temporary standard allowing for the continued use of local accounting practices, whereby insurance contracts are accounted for differently in different jurisdictions.

Implementation of IFRS 17 will standardise the accounting treatment for all insurance contracts, based on a measurement model using calculation assumptions updated at each reporting date (such as the discount rate, mortality and survival tables, and other financial variables).

The effects of changes in these assumptions could be recognised in either the statement of profit or loss or in equity, based on the related nature and on whether the changes are associated with the provision of a service already rendered, or else entail a reclassification between insurance liability components recognised. With respect to insurance financial income or expenses, entities may choose to recognise them fully in the statement of profit or loss or else to recognise part of that income or expense in equity.

For all non-onerous contracts, entities will recognise a contractual service margin over the period in which the entity provides insurance cover under a contract.

The Group launched an internal project at the end of 2017 to adapt to the new regulatory framework for insurance contracts, IFRS 17. The main aim is to take the necessary steps to implement IFRS 17 in the affected insurance business so as to ensure compliance at the effective date, and evaluate the potential quantitative and qualitative impacts (e.g. on the business, infrastructure) sufficiently in advance in order to enhance their management.

The goal of the first phase of the project, to be conducted in the first half of 2018, is:

- To first draw up an approach to identify the key aspects of the new accounting standard, a diagnosis of different aspects to be analysed and an action plan to guarantee implementation of IFRS 17,
- To ensure all quantitative and qualitative requirements are identified and planned appropriately to achieve implementation by the effective date, and
- To guarantee that the impact can be calculated before the effective date.

A number of teams have been involved in the project (Accounts, Actuarial, Solvency and Risk Control, Systems, Financial Accounting, Accounting Policies, etc.) who oversee day-to-day management and perform the necessary tasks. A Monitoring Committee has also been set up, comprising officers from the aforesaid areas, which controls and oversees the project and has decision-making powers.

The Project Management Committee – headed up by VidaCaixa in coordination with the Executive Financial Accounting, Control and Capital Division – is the most senior decision-making and supervisory body for the project. It is responsible for any strategic decisions that need to be taken at the highest level, and is the link between the management committees of VidaCaixa and CaixaBank.

Amendment to IFRS 9 Prepayment Features with Negative Compensation

In October 2017, the IASB amended IFRS 9, whereby any financial assets containing early repayment or termination clauses that could lead to reasonable negative compensation for early contract termination can be measured at amortised cost or fair value through other comprehensive income.

Although not yet adopted by the EU, the Group has taken these amendments into consideration when applying IFRS 9, including the estimate of impacts described beforehand.

In addition to the previous standards, details are provided below of other standards and interpretations issued by the IASB which have yet to be endorsed by the EU and which are not expected to have a material impact on CaixaBank.

Amendment to IAS 28 Long-term Interests in Associates and Joint Ventures

These amendments do not reconsider the accounting treatment in IAS 28 for long-term interests, which must be treated as long-term loans or receivables with an associate or joint venture for which settlement is neither planned nor likely to occur in the foreseeable future.

In essence, the long-term interests form part of the net investment in the associate or joint venture. Nonetheless, the amendment clarifies that IFRS must be applied for these long-term interests, which are not recognised using the equity method. Therefore, when applying IFRS 9, losses of an associate or joint venture or any impairment of the net investment, recognised as adjustments to the net investment in the associate or joint venture using IAS 28, are not considered.

Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions

There are cases where a cash-settled share-based payment is modified, cancelling and substituting it with a new equity-settled share based payment and, at the modification date, the fair value of the post-modification awards is different to the value recognised for the original awards. Before the amendment was issued, there was diversity in entities' practice in the accounting treatment of these modifications.

By way of these amendments, the IASB requires that an equity-settled share based payment transaction is recognised in equity on the modification date to the extent to which the goods and services have been received. This measurement will be performed by reference to the fair value of the equity instruments granted at the modification date.

The liability for the share based payment originally settled in cash is derecognised on the modification date, as it is considered to have been settled when the entity grants the equity-settled share based payment replacing the cash-settled share-based payment. This is because on the modification date, the entity is no longer under the obligation to transfer cash (or other assets) to the counterparty. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Amendment to IAS 40 Transfers to Investment Property

The amendment clarifies the principles for transfers into, or out of, Investment properties when, and only when, there has been a change in use of the property and this change requires analysis to determine whether the property continues to meet the definition of Investment properties. Change in use must be evidenced.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This interpretation clarifies the exchange rate to be used for transactions that include the receipt or payment of advance consideration in a foreign currency.

IFRIC 23 Uncertainty over Income Tax Treatments:

The interpretation addresses those situations in which an entity disagrees with the tax authorities or when a particular tax inspection is underway, and where these disputes may affect recognition of the entity's current and/or deferred tax assets and tax liabilities.

Accounting rules issued by the Bank of Spain not yet in force

On 6 December 2017, Bank of Spain Circular 4/2017, of 27 November, was published on public and reserved financial information standards and formats for credit institutions. This new circular aims to incorporate IFRS 9 and IFRS 15 into Spanish law as from 1 January 2018, constituting the adaptation of the IFRS adopted by the EU for Spanish credit institutions.

Its effective date is 1 January 2018 and applies to CaixaBank's individual financial statements, repealing Circular 4/2004 of 22 December from that date.

Responsibility for the information and for the estimates made

The financial statements of CaixaBank and the consolidated financial statements of the CaixaBank Group and Subsidiaries for 2017 were authorised for issue by the Board of Directors at a meeting held on 22 February 2018. They have not yet been approved by the Annual General Meeting. However, the Board of Directors of CaixaBank expects they will be approved without any changes. The financial statements of CaixaBank and the consolidated financial statements of the CaixaBank Group for 2016 were approved by the Ordinary Annual General Meeting on 6 April 2017.

The preparation of the financial statements required the Group's directors to make certain judgements, estimates and assumptions in order quantify certain of the assets, liabilities, revenues, expenses and obligations shown in them. These estimates relate primarily to:

- The fair value of certain financial assets and liabilities (Note 2.2)
- The criterion for timing of recognition in profit and loss of income from ancillary activities provided by CaixaBank (Note 2.12).
- The fair value of assets, liabilities and contingent liabilities in the context of the purchase price allocation in business combinations (Note 7)
- Impairment losses on certain financial assets and the fair value of the related guarantees (Notes 13 to 15).
- The measurement of investments in joint ventures and associates (Note 17)
- Determination of the share of profit/(loss) of associates (Note 17)
- Actuarial assumptions used to measure liabilities under insurance contracts (Note 18)
- The useful life of and impairment losses on other tangible assets and intangible assets (Notes 19 and 20).
- The measurement of goodwill and intangible assets (Note 2.17 and 20).
- Impairment losses on non-current assets and disposal groups classified as held for sale (Note 22).
- Actuarial assumptions used to measure post employment liabilities and commitments (Note 24).
- The measurement of the provisions required to cover labour, legal and tax contingencies (Note 24)
- The income tax expense based on the income tax rate expected for the full year and the capitalisation and recoverability of tax assets (Note 26).

These estimates were made on the basis of the best information available at the date of authorisation for issue of the financial statements. However, events may occur that make it necessary for them to be changed in future periods. According to applicable legislation, the effects of these changes would be recognised prospectively in the corresponding consolidated statement of profit or loss.

Comparison of information and changes in consolidation perimeter

The 2016 figures in the accompanying 2017 financial statements are given for comparison purposes only.

On 7 February 2017, the CaixaBank Group took control of Banco BPI, SA (Banco BPI, or BPI). Since February, the Group's total interest in BPI (84.5%) has been fully consolidated. In prior reporting periods, the financial information on BPI contained in this document was presented using the equity method. (see Notes 7 and 17).

In 2017 and 2016, there were no significant amendments with respect to the accounting regulations applicable that affected the comparability of information.

Seasonality of operations

The cyclical or seasonal nature of CaixaBank's operations is not significant. Nevertheless, pursuant to the interpretation of IFRIC 21, certain taxes and levies are expensed when the payment obligation arises, as per prevailing regulations.

The Group recognises property tax on 1 January each year. The expense in the statement of profit or loss for the year ended 31 December 2017 was EUR 50 million (EUR 59 million in the previous year), while contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) are recognised once notification has been received stating the amount payable to each fund.

In April 2017, the Group recognised a contribution to the Single Resolution Fund (SRF) of EUR 105 million, of which EUR 90 million were recognised in the statement of profit and loss under "Other operating expenses" and EUR 15 million under "Loans and receivables" as CaixaBank elected to materialise 15% of the contribution using irrevocable payment commitments, for which it provided cash collateral (the contribution for 2016 was EUR 87 million, of which EUR 74 million were recognised in the statement of profit or loss under "Other operating expenses" and EUR 13 million under "Loans and receivables"). The ordinary contributions from the institutions are based on: (i) the proportion it represents relative to the total aggregate of the institutions in terms of total liabilities, excluding own funds and the amount of guaranteed deposits, and (ii) the institution's risk profile, including an assessment, inter alia, of the probability of resolution, the complexity of its structure and resolvability, and indicators of the institution's financial position and level of risk.

Of the total contributions of EUR 105 million in 2017, EUR 88 million correspond to the business in Spain (of which EUR 75 million are recognised in the statement of profit or loss and EUR 13 million in the balance sheet).

In October 2017, the Group recognised a contribution of EUR 214 million to the DGF on the statement of profit or loss under "Other operating expenses" corresponding to that year (the contribution for 2016 was EUR 187 million). At its meeting of 19 July 2017, the Fund Management Committee resolved to set the annual contribution for the deposit guarantee part at 1.8 per thousand of the calculation basis of deposits effectively guaranteed (compared to 1.6 per thousand in the previous year). Guaranteed deposits of less than EUR 100,000 hold the direct guarantee of the Deposit Guarantee Fund, and in addition, will have a preferential treatment maximum in the hierarchy of creditors. The annual contributions made by entities for the deposit guarantee part are adjusted according to their risk profile, according to the calculation method developed by the Bank of Spain.

The ordinary contributions from the institutions are based on: (i) the proportion it represents relative to the total aggregate of the institutions in terms of total liabilities, excluding own funds and the amount of guaranteed deposits, and (ii) the institution's risk profile, including an assessment, inter alia, of the probability of resolution, the complexity of its structure and resolvability, and indicators of the institution's financial position and level of risk.

In addition, in deciding what information to disclose in these consolidated annual financial statements, materiality was assessed in relation to the annual financial data.

Investments in credit institutions

At 31 December 2017, the CaixaBank Group held no direct ownership interests equal to or greater than 5% of the capital or voting rights in any credit institution other than the investments in subsidiaries and associates as shown in Appendices 1 and 3.

Minimum reserve ratio

Throughout 2017, CaixaBank complied with the minimum reserve ratio required by applicable regulations.

Acquisition of control of Banco BPI

On 16 January 2017, the Portuguese securities commission registered the prospectus for CaixaBank's takeover bid for BPI at a price per share of EUR 1,134, and the acceptance period of the bid was opened. This period closed on 7 February 2017. Having secured the required approvals and following completion of the acceptance period for the takeover bid, CaixaBank obtained a stake of 84.51% in BPI. The payment for the 39.01% of share capital acquired in the bid stood at EUR 645 million.

The acquisition of control of Banco BPI entailed a change in the nature of this investment, from an investment in an associate to an investment in a Group company. From an accounting perspective, the change in the nature of the investment led to a revaluation of the previous stake of 45.5% in BPI to the bid price, generating a gross loss of EUR 186 million under Gains/(losses) on derecognition of non-financial assets and investments (net) in the Group's accompanying consolidated statement of profit or loss for 2017, and a simultaneous recognition of 100% of the assets and liabilities comprising the stake in Banco BPI as part of the purchase price allocation (PPA) required under IFRS 3. Note 7 explains the accounting treatment of the PPA, which resulted in a negative difference arising on consolidation of EUR 442 million under "Negative goodwill recognised in profit or loss" in the accompanying condensed consolidated statement of profit or loss.

In view of the foregoing, at the date of acquisition of control, the total impact of the business combination on profit or loss was EUR 256 million.

Events after the reporting period

Issuances of debt securities

On 3 January 2018, CaixaBank successfully placed a long-term issue of mortgage covered bond. This new 10-year issuance, for the amount of EUR 1,000 million, was placed at 22 basis points above the midswap rate. The coupon was set at 1%. The issuance of 15-year mortgage covered bonds completed in July 2017 was also reopened and increased by a further EUR 375 million, thus bringing the total to EUR 750 million. The price was set at 32 basis points over the midswap rate.

Additionally, on 10 January 2018, a 5 year and 3 months senior debt issuance was made for the amount of EUR 1,000 million, paying a coupon of 0.75% (midswap + 0.48%).

2. Accounting policies and measurement bases

The principal accounting policies and measurement bases used in the preparation of the 2017 consolidated financial statements of the CaixaBank Group for were as follows:

2.1. Business combinations and basis of consolidation

In addition to data relating to the parent company the consolidated financial statements also contain information on subsidiaries, joint ventures and associates. The procedure for integrating the assets and liabilities of these companies depends on the type of control or influence exercised.

Subsidiaries

The Group considers as subsidiaries companies over which it has the power to exercise control. Control is evidenced when it has:

- power to direct the relevant activities of the investee, i.e. the rights (legal, statutory or through agreements) that give the ability to direct the activities of the investee that significantly affect the investee's returns,

- the present (practical) ability to exercise the rights to exert power over the investee to affect its returns, and,

- exposure, or rights, to variable returns from its involvement with the investee.

In general, voting rights give the ability to direct the relevant activities of a subsidiary. To calculate voting rights, all direct and indirect voting rights, as well as potential voting rights (e.g. call options on equity instruments of the subsidiary) are considered. In some circumstances, a company may have power to direct the activities without holding a majority of the voting rights.

In these cases, the investor considers whether it has the practical ability to direct the relevant activities unilaterally. Relevant activities include establishing financial and operating decisions, or appointing and remunerating governing bodies, among others.

The financial statements of the subsidiaries are consolidated, without exception, on the grounds of their activity, with those of CaixaBank using the full consolidation method, which consists of the aggregation of the assets, liabilities, equity, income and expenses of a similar nature included in their separate financial statements. The carrying amount of direct and indirect investments in the share capital of subsidiaries is eliminated in proportion to the percentage of ownership in the subsidiaries held by virtue of these investments. All other balances and transactions between consolidated companies are eliminated on consolidation.

The share of third parties in the equity and profit or loss of the CaixaBank Group is shown under "Minority interests [non-controlling interests]" in the consolidated balance sheet and "Profit/(loss) attributable to minority interests [non-controlling interests]" in the statement of profit or loss, respectively (see Note 25).

The results of subsidiaries acquired during the year are consolidated from the date of acquisition. Similarly, the results of subsidiaries that are no longer classified as subsidiaries in the year are consolidated at the amount generated from the beginning of the year up to the date on which control is lost.

Acquisitions and disposals of investments in subsidiaries without a change of control are accounted for as equity transactions, with no gain or loss recognised in the statement of profit or loss. The difference between the consideration paid or received and the decrease or increase in the amount of minority interests, respectively, is recognised in reserves.

According to IFRS 10, on loss of control of a subsidiary, the assets, liabilities, minority interests and other items recognised in valuation adjustments are derecognised, and the fair value of the consideration received and any remaining investment recognised. The difference is recognised in the consolidated statement of profit or loss.

Regarding non-monetary contributions to jointly controlled entities, the IASB recognised a conflict in standard between IAS 27, under which on the loss of control, any investment retained is measured at fair value and the full gain or loss on the transaction is recognised in the statement of profit or loss, and paragraph 48 of IAS 31 and the interpretation SIC 13, which, for transactions under their scope restrict gains and losses to the extent of the interest attributable to the other equity holders of the jointly controlled entity. The Group has elected to apply, in a consistent manner, the provisions of IAS 27 to transactions under the scope of these standards.

Relevant information on these entities is disclosed in Appendix 1. The above information is based on the most recent actual or estimated data available at the time of preparation of these Notes.

Joint ventures

The Group considers as joint ventures those which are controlled jointly under a contractual arrangement, by virtue of which, decisions on relevant activities are taken unanimously by the entities that share control with rights over the net assets.

Investments in joint ventures are accounted for using the "equity method", i.e. in the proportion to the Group's share of the assets of the investee, after adjusting for dividends received and other equity eliminations.

The amortisation of intangible assets with a finite useful life defined as a result of a purchase price allocation (PPA) is recognised with a charge to "Share of profit/(loss) of entities accounted for using the equity method" in the statement of profit or loss.

Relevant information on these companies is disclosed in Appendix 2 and, where appropriate, Note 17. For listed companies, the latest public figures are shown. Otherwise, the information relates to the latest actual or estimated data available at the date of authorisation for issue of these notes to the financial statements.

Associates

Associates are companies over which the CaixaBank Group exercises significant direct or indirect influence, but which are not subsidiaries or joint ventures. In the majority of cases, significant influence is understood to exist when the company holds 20% or more of the voting rights of the investee. If it holds less than 20%, significant influence is evidenced by the circumstances indicated in IAS 28. The existence of significant influence is usually evidenced by representation on the board of directors, participation in policy-making processes, material transactions between the entity and its investee, interchange of managerial personnel or the provision of essential technical information.

Exceptionally, investees in which more than 20% of the voting rights is held, but it can clearly be demonstrated that significant influence does not exist, and therefore the CaixaBank Group effectively does not have the power to govern the Entity's financial and operating policies, are not considered associates.

Based on these criteria, at 31 December 2017, the Group held some equity investments, for immaterial amounts, ranging from 20% to 50% classified under "Available-for-sale financial assets" in the balance sheet.

The most representative investments in which the Group has significant influence with a stake of less than 20% are as follows:

- Erste Group Bank AG (Erste): the relationship with this investee began in 2008 and it is classified as an associate. There is a preferred partnership agreement between Erste's controlling shareholder (the Erste Foundation) and CaixaBank that confirms the amicable nature and long-term outlook of the investment, a corporate and sales collaboration agreement between Erste Bank and CaixaBank, and a collaboration agreement between Erste Foundation and "la Caixa".

  Under this preferred partnership agreement, CaixaBank can appoint a director to Erste's Supervisory Board. In December 2014, CaixaBank strengthened its strategic agreement with Erste Foundation through an amendment to the preferred partnership agreement. Under the amended agreement, CaixaBank can appoint a second director to Erste's Supervisory Board. The same agreement also states that CaixaBank will vote at the Annual General Meeting in the same way as Erste Foundation, solely in respect of the election of members of the Supervisory Board. Through this agreement, CaixaBank has become one of the Austrian bank's stable shareholders, alongside a group of Austrian savings banks and some of their foundations, and the WSW holding company. Combined, they have a shareholding of approximately 30%. CaixaBank's stake at 31 December 2017 was 9.92%.

- Repsol, SA (Repsol): with a stake of 9.64% at 31 December 2017, CaixaBank is currently Repsol's largest shareholder. Since it was created, CaixaBank has always held a relevant position in Repsol's shareholder structure and on its Board of Directors. The chairman of CaixaBank is a member of the Repsol Board, Nomination Committee and Sustainability Committee. CaixaBank's Chief Executive Officer is a Repsol director, the First Vice Chairman of its Board, and a member of both its Board Committee and its Remuneration Committee.

In the consolidated financial statements, investments in associates are accounted for using the "equity method", i.e. in proportion to the Group's share of the assets of the investee, after adjusting for dividends received and other equity eliminations. The profits and losses arising from transactions with an associate are eliminated to the extent of the Group's interest in the share capital of the associate. The Group's share of the profit or loss according to its economic stake is recognised in the statement of profit or loss.

The Group has not used the financial statements of companies accounted for using the equity method that refer to a different date than that of the Group's Parent.

The amortisation of intangible assets with a finite useful life defined as a result of a purchase price allocation (PPA) is recognised with a charge to "Share of profit/(loss) of entities accounted for using the equity method" in the statement of profit or loss.

Relevant information on these companies is disclosed in Appendix 3 and, where appropriate, Note 17. For listed companies, the latest public figures are shown. Otherwise, the information relates to the latest actual or estimated data available at the date of authorisation for issue of these notes to the financial statements.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Where the Group creates or holds ownership interests in entities to provide customers access to investments or transfer certain risks to third parties, it analyses whether it has control over the investee and, therefore, whether it should or should not be consolidated.

- *Consolidated structured entities*:

  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.

  There are instances in which the Group is highly exposed to variable returns and has decision-making power over the entity, directly or through an agent. This is the case of securitisation funds. Information on these funds, the financial support given to the vehicles and the reason are detailed in Note 28.2. At 31 December 2017, there were no agreements to provide significant additional financial support to other types of consolidated structured entities than those described.

- *Unconsolidated structured entities*:

  The Group creates vehicles to provide its customers access to certain investments or to transfer risks or for other purposes. These vehicles are not consolidated, as the Group does not have control and as the criteria for consolidation set out in IFRS 10 are not met.

  At 31 December 2017, the Group did not have any significant interests in or provide financial support to unconsolidated structured entities.

Business combinations

Accounting standards define business combinations as the combination of two or more entities within a single entity or group of entities. "Acquirer" is defined as the entity which, at the date of acquisition, obtains control of another entity.

For business combinations in which the Group obtains control, the cost of the combination is calculated. Generally, it will be the fair value of the consideration transferred. This consideration includes the assets transferred by the acquirer, the liabilities assumed by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

In addition, the acquirer recognises, at the acquisition date, any difference between:

i) the aggregate of the fair value of the consideration transferred, of the minority interest and the previously held equity interest in the company or business acquired, and

ii) the net amount of the identifiable assets acquired and liabilities assumed, measured at their fair value.

Any positive difference is recognised under "Intangible assets – Goodwill" in the balance sheet provided it is not attributable to specific assets or identifiable intangible assets of the company or business acquired. Any negative difference is recognised under "Negative goodwill recognised in profit or loss" in the statement of profit or loss.

2.2. Financial instruments

Classification of financial assets and liabilities

Financial assets are classified in the balance sheet for management and measurement purposes under the categories of: “Financial assets held for trading”, “Financial assets designated at fair value through profit or loss”, “Available-for-sale financial assets”, “Loans and receivables” and “Held-to-maturity investments”, unless they must be presented under “Non-current assets classified as held for sale" or relate to “Cash and cash balances at central banks and other demand deposits”, “Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Derivatives – Hedge accounting”, which are presented separately.

Financial liabilities are classified under: “Financial liabilities held for trading”, “Financial liabilities designated at fair value through profit or loss” and “Financial liabilities measured at amortised cost”, unless they must be presented under “Liabilities included in disposal groups classified as held for sale” or relate to “Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Derivatives – Hedge accounting”, which are presented separately.

Financial assets and liabilities held for trading: This portfolio comprises mainly financial assets or liabilities acquired or issued for the purpose of selling in the short term or which are part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent pattern of short-term profit-taking. Financial liabilities held for trading also comprise short positions arising from sales of assets acquired temporarily under a non-optional reverse repurchase agreement or borrowed securities. Also included as financial assets or liabilities held for trading are derivative assets and liabilities that do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.

Financial assets and liabilities designated at fair value through profit or loss: includes, where applicable, financial instruments designated by CaixaBank upon initial recognition, e.g. hybrid financial assets or liabilities mandatorily measured in full at fair value, or with financial derivatives, the purpose of which is to mitigate the exposure to changes in fair value, or managed as a group with financial liabilities and derivatives to mitigate the overall exposure to interest rate risk. In general, the category includes all financial assets and liabilities when such designation eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatches) that would otherwise arise. Financial instruments in this category must be subject at all times to an integrated and consistent measurement system, management and control of risks and returns permitting verification that risk has effectively been mitigated. Financial assets and liabilities may only be included in this category on the date they are acquired or originated.

Available-for-sale financial assets: includes debt and equity instruments not classified under any of the preceding categories.

Loans and receivables: includes financing granted to third parties through ordinary lending and credit activities carried out by CaixaBank, receivables from purchasers of goods and services it renders, and for debt securities not quoted in an active market.

Held-to-maturity investments: includes debt securities traded in an active market, or those whose fair value can be reliably estimated despite not being quoted on an active market, with fixed or determinable payments and fixed maturity dates that the Entity has the positive intention and ability to hold to maturity.

Financial liabilities measured at amortised cost: includes financial liabilities not classified as financial liabilities held for trading or as other financial liabilities at fair value through profit or loss. The balances recognised in this category, irrespective of the substances of the contractual arrangement and maturity of such liabilities, arise from the ordinary deposit-taking activities of credit institutions.

Measurement of financial instruments and recognition of changes in subsequent measurements

All financial instruments are initially recognised at their fair value, which, unless there is evidence to the contrary, is the transaction price.

Subsequently, at a specified date, the fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The most objective reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market. Accordingly, the quoted or market price is used.

If there is no market price, fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, always taking into account the specific features of the instrument to be measured and, in particular, the various types of risk associated with it.

Any changes in fair value of financial instruments, except for trading derivatives, due to the accrual of interest and similar items are recognised in the statement of profit or loss of the year of the accrual. Dividends received from other companies are recognised in the statement of profit or loss of the year in which the right to receive the dividend is established.

Changes in fair value after initial recognition for reasons other than those indicated in the preceding paragraph are treated as described below based on the category of financial asset or financial liability:

- Financial instruments classified as “Financial assets held for trading”, “Financial assets designated at fair value through profit or loss”, “Financial liabilities held for trading”, and “Financial liabilities designated at fair value through profit or loss” are measured initially at fair value, with any changes in fair value recognised with a balancing entry in the statement of profit or loss.

- Financial instruments classified as "Available-for-sale financial assets" are measured initially at fair value, with subsequent changes, , net of the related tax effect, recognised with a balancing entry in "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Available-for-sale financial assets” and “Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Foreign currency exchange” in the balance sheet.

- Derivatives are recognised in the balance sheet at fair value. When derivatives are entered into, in the absence of evidence to the contrary, fair value is the transaction price. The derivative is recognised as an asset if the fair value is positive and a liability if it is negative. For derivatives classified in Levels 1 and 2 of the fair value hierarchy (see section on "Fair value of financial instruments" of this Note), if the price differs from the fair value when the derivative is entered into, the difference is recognised immediately in the statement of profit or loss.

  Subsequent changes in fair value of derivatives are recognised in the statement of profit or loss, except with cash flow hedges, in which case they are recognised under "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Hedging derivatives. Cash flow hedges.

  Derivatives embedded in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the instrument or host contract, provided a reliable fair value can be attributed to the embedded derivative taken separately.

- Financial instruments classified as “Loans and receivables” and “Financial liabilities measured at amortised cost” are measured at amortised cost. Amortised cost is the acquisition cost, plus or minus (as applicable) principal repayments and the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, in the case of assets, minus any reduction for impairment.

  The effective interest rate is the discount rate that exactly equates the initial value of a financial instrument to the estimated cash flows for all items until the instrument matures or is cancelled. For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate plus any commission or transaction costs included in its yield. Where the fixed rate of interest is contingent, the Company includes it in the estimate of the effective interest rate only if it is highly probable that the triggering event will be reached. For floating-rate financial instruments, the effective interest rate is calculated as a fixed rate until the next reference rate reset.

Fair value of financial instruments

All financial instruments are classified into one of the following levels using the following hierarchy for determining fair value by valuation technique:

- Level 1: on the basis of quoted prices in active markets.
- Level 2: using valuation techniques in which the assumptions correspond to directly or indirectly observable market data or to quoted prices on organised markets for similar instruments.
- Level 3: using valuation techniques where some of the significant assumptions are not supported by directly observable market data.

The fair value of the Group's financial instruments, according to their calculation method and carrying amounts at 31 December 2017 and 2016 are as follows:

Fair value of financial assets

(Thousands of euros)

	31.12.2017					31.12.2016				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Total	*Level 1*	*Level 2*	*Level 3*		Total	*Level 1*	*Level 2*	*Level 3*
Financial assets held for trading (Note 11)	**10,596,684**	**10,596,684**	***2,432,785***	***8,149,738***	***14,161***	**11,667,687**	**11,667,687**	***2,104,647***	***9,563,040***	***0***
Derivatives	8,162,172	8,162,172	*12,887*	*8,149,285*	*0*	9,575,832	9,575,832	*14,693*	*9,561,139*	
Equity instruments	402,714	402,714	*402,714*	*0*	*0*	294,923	294,923	*294,923*		
Debt securities	2,031,798	2,031,798	*2,017,184*	*453*	*14,161*	1,796,932	1,796,932	*1,795,031*	*1,901*	
Financial assets designated at fair value through profit or loss (Note 12)	**6,499,807**	**6,499,807**	***6,499,807***	***0***	***0***	**3,139,646**	**3,139,646**	***3,139,646***	***0***	***0***
Equity instruments	4,299,161	4,299,161	*4,299,161*	*0*	*0*	1,806,976	1,806,976	*1,806,976*		
Debt securities	2,100,347	2,100,347	*2,100,347*	*0*	*0*	1,332,670	1,332,670	*1,332,670*		
Loans and advances	100,299	100,299	*100,299*	*0*	*0*					
Available-for-sale financial assets (Note 13)	**69,554,707**	**69,554,707**	***65,568,912***	***3,450,150***	***535,645***	**65,076,973**	**65,076,973**	***60,662,436***	***3,838,759***	***575,778***
Equity instruments	2,882,849	2,882,849	*2,427,283*	*6,338*	*449,228*	2,946,030	2,946,030	*2,374,973*	*605*	*570,452*
Debt securities	66,671,858	66,671,858	*63,141,629*	*3,443,812*	*86,417*	62,130,943	62,130,943	*58,287,463*	*3,838,154*	*5,326*
Loans and receivables (Note 14)	**233,651,534**	**241,070,236**	***0***	***256,983***	***240,818,253***	**207,640,937**	**225,093,825**	***0***	***332,324***	***224,761,501***
Debt securities	2,575,603	2,584,865	*0*	*256,983*	*2,327,882*	561,139	566,529		*332,324*	*234,205*
Loans and advances	231,075,931	238,485,371	*0*	*0*	*238,490,371*	207,079,798	224,527,296	*0*	*0*	*224,527,296*
Central banks	5,000	*5,000*	*0*	*0*	*5,000*					
Credit institutions	*7,374,035*	*7,956,572*	*0*	*0*	*7,956,572*	*6,741,354*	*7,378,299*			*7,378,299*
Customers	*223,696,896*	*230,528,799*	*0*	*0*	*230,528,799*	*200,338,444*	*217,148,997*			*217,148,997*
Held-to-maturity investments (Note 15)	**11,084,829**	**11,206,942**	***9,529,634***	***1,677,308***	***0***	**8,305,902**	**8,409,854**	***6,138,097***	***2,271,757***	
Derivatives - Hedge accounting (Note 16)	**2,596,939**	**2,596,939**	***0***	***2,596,939***	***0***	**3,090,475**	**3,090,475**		***3,090,475***	
Total	**333,984,500**	**341,525,315**	***84,031,138***	***16,131,118***	***241,368,059***	**298,921,620**	**316,478,460**	***72,044,826***	***19,096,355***	***225,337,279***

Fair value of financial liabilities

(Thousands of euros)

	31.12.2017					31.12.2016				
	Carrying amount	Fair value Total	*Level 1*	*Level 2*	*Level 3*	Carrying amount	Fair value Total	*Level 1*	*Level 2*	*Level 3*
Financial liabilities held for trading (Note 11)	**8,604,930**	**8,604,930**	**777,073**	**7,827,857**	**0**	**10,292,298**	**10,292,298**	***944,174***	***9,348,124***	***0***
Derivatives	7,860,638	7,860,638	32,781	7,827,857	0	9,394,559	9,394,559	*46,435*	*9,348,124*	
Short positions	744,292	744,292	744,292	0	0	897,739	897,739	*897,739*		
Financial liabilities designated at fair value through profit or loss (Note 12)	**8,241,088**	**8,241,088**	**8,241,088**	**0**	**0**	**3,763,976**	**3,763,976**	***3,763,976***	***0***	***0***
Deposits	8,240,972	8,240,972	8,240,972	0	0	3,763,976	*3,763,976*	*3,763,976*	*0*	*0*
Other financial liabilities	116	*116*	116	0	0					
Financial liabilities measured at amortised cost (Note 23)	**280,897,381**	**282,190,657**	**28,496,513**	**0**	**253,694,144**	**254,093,295**	**255,645,326**	***26,657,824***	***0***	***228,987,502***
Deposits	246,804,137	246,568,051	0	0	246,568,051	223,511,848	223,453,778	*0*	*0*	*223,453,778*
Central banks	*31,680,685*	*31,827,426*	*0*	*0*	*31,827,426*	*30,029,382*	*30,067,713*			*30,067,713*
Credit institutions	*11,515,365*	*11,425,823*	*0*	*0*	*11,425,823*	*6,315,758*	*6,309,916*			*6,309,916*
Customers	*203,608,087*	*203,314,802*	*0*	*0*	*203,314,802*	*187,166,708*	*187,076,149*			*187,076,149*
Debt securities issued	29,918,503	*31,447,865*	28,496,513	0	2,951,352	27,708,015	*29,318,115*	*26,657,824*		*2,660,291*
Other financial liabilities	4,174,741	*4,174,741*	0	0	4,174,741	2,873,432	*2,873,433*			*2,873,433*
Derivatives - Hedge accounting (Note 16)	**793,132**	**793,132**	**0**	**793,132**	**0**	**625,544**	**625,544**		***625,544***	
Total	**298,536,531**	**299,829,807**	**37,514,674**	**8,620,989**	**253,694,144**	**268,775,113**	**270,327,144**	***31,365,974***	***9,973,668***	***228,987,502***

Process for determining fair value

The Entity's process for determining fair value ensures that its assets and liabilities are measured appropriately. A committee structure has been put in place on which the process for proposing and approving the arrangement of financial instruments on the market is based. The market inputs and other risk quantification and measurement parameters and methodologies, together with the conditioning factors for registering trades and their potential accounting, legal and tax impacts, are analysed by the Areas responsible prior to authorisation. An independent unit is responsible for issues related to the measurement of derivatives and fixed income securities. It reports organisationally to CaixaBank's Risks Area, which discloses the decisions taken to the management area where the new product should be arranged. Without reducing its freedom and independence when making decisions about risk evaluation and quantification, this analysis does entail a process of comparing, reconciling and, where possible, obtaining the consensus of the business areas.

For the CaixaBank Group, most of the financial instruments recognised as available-for-sale financial assets have, as the objective reference for determining their fair value, quoted prices in active markets (Level 1) and, therefore, the fair value is determined on the basis of the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price"). In general, this level includes debt securities with a liquid market, quoted equity securities, derivatives traded on organised markets and mutual funds.

The fair value of the instruments classified in Level 2, for which there is no market price, is estimated on the basis of the quoted prices of similar instruments and valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it. The fair value of OTC (over the counter) derivatives and financial instruments (mainly debt securities) traded in scantly deep or transparent organised markets is determined using methods such as "net present value" (NPV), where each flow is estimated and discounted bearing in mind the market to which it belongs, the index to which it refers and the credit risk assumed with the issuer or counterparty, or option pricing models based on observable market data (e.g. Black'76 for caps, floors and swaptions, and Black-Scholes for exchange rates and equity options). Virtually all the financial instruments classified as trading and hedging derivatives are measured following the criteria for Level 2.

"Loans and receivables" and "Financial liabilities measured at amortised cost" are classified mostly in Level 3. Their fair value is estimated based on expected discounted cash flows, bearing in mind the estimate of interest rate and credit risks in the discount rate. These estimates use, inter alia, historical early repayment rates and estimated credit loss rates based on internal models.

In 2017, the in-house method for calculating the fair value of loans and receivables and financial liabilities measured at amortised cost was reviewed, and their fair value for 2016 was restated using this method. As a result of this review, the fair value of the debt securities issued by CaixaBank and traded on active markets is now their market value and they have been reclassified as Level 1.

The fair value of the rest of the financial instruments classified in Level 3, for which there are no directly observable market data, is determined using alternative techniques, including price requests submitted to the issuer or the use of market parameters corresponding to instruments with a risk profile that can be equated to that of the instrument being measured, adjusted to reflect the different intrinsic risks.

For unquoted equity instruments, classified in Level 3, acquisition cost less any impairment loss determined based on publicly available information is considered the best estimate of fair value.

The main valuation techniques, assumptions and inputs used in fair value estimation for levels 2 and 3 by type of financial instruments are as follows:

Assets

(Thousands of euros)

	Main valuation techniques	Main inputs used
Financial assets held for trading (Note 11)		
Derivatives	Swaps: Present value method; currency options: Black-Scholes model; interest-rate options: Black model; index and equity options: Black-Scholes model, local volatility, Heston model; inflation rate options: Black Normal model; credit: Discounted cash flows and default intensity	Observable market data, correlations (equities), dividends (equities)
Debt securities	Present value method	Market interest rates and risk premiums Market peers
Available-for-sale financial assets (Note 13)		
Equity instruments	Present value method	Observable market data (interest rates, risk premiums, market peers), net asset value or underlying carrying amount
Debt securities		
Derivatives – Hedge accounting (Note 16)	Swaps: Present value method; interest rate options: Black model	Observable market data

Liabilities

(Thousands of euros)

	Main valuation techniques	Main inputs used
Financial liabilities held for trading (Note 11)		
Derivatives	Swaps: Present value method; currency options: Black-Scholes model; interest-rate options: Black model; index and equity options: Black-Scholes model, local volatility, Heston model; inflation rate options: Black Normal model; credit: Discounted cash flows and default intensity	Observable market data, correlations (equities), dividends (equities)
Short positions	Present value method	Observable market data
Derivatives - Hedge accounting (Note 16)	Swaps: Present value method; interest rate options: Black model	Observable market data

The measurements obtained using internal models may differ if other techniques were applied or assumptions used regarding interest rates, credit risk spreads, market risk, foreign currency risk, or the related correlations and volatilities. Nevertheless, the Group's Directors consider the models and techniques applied appropriately reflect the fair values of financial assets and financial liabilities recognised in the balance sheet, and the gains and losses on these financial instruments.

Credit risk and funding valuation adjustment

Credit Valuation Adjustment (CVA) is a valuation adjustment of OTC (Over The Counter) derivatives made due to the risk related to each counterparty's credit exposure.

Debit Valuation Adjustment (DVA) is a similar valuation adjustment to CVA, but arises from CaixaBank's own credit risk assumed by its counterparties in OTC derivatives.

Funding Valuation Adjustment (FVA) is a valuation adjustment of derivatives of customer transactions that are not perfectly collateralised that includes the funding costs related to the liquidity necessary to perform the transaction.

The CVA is calculated bearing in mind the expected exposure with each counterparty in each future maturity. The CVA for an individual counterparty is equal to the sum of the CVA for all maturities. Adjustments are calculated by estimating expected exposure, the probability of default and loss given default for all derivatives on any underlying at the level of the legal entity with which CaixaBank has exposure.

Similarly, DVA is calculated by multiplying the expected negative exposure given the probabilities of default by CaixaBank's loss given default.

The data necessary to calculate probability of default and loss given default come from the credit markets (Credit Default Swaps). Counterparty data are applied where available. Where the information is not available, CaixaBank performs an exercise that considers, among other factors, the counterparty's sector and rating to assign the probability of default and the loss given default, calibrated directly to market or with market adjustment factors for the probability of default and the historical expected loss.

With FVA, the adjustment shares part of the CVA/DVA approaches, since it is also based on the future credit exposure of the derivatives, but in this case the exposures are not netted by counterparty, but rather at aggregate level in order to recognise the joint management of the liquidity.

The data necessary to calculate funding cost for CaixaBank are also based on prices taken from its issuance and credit derivatives markets.

The CVA/FVA and DVA/FVA adjustments recognised in the balance sheet at 31 December 2017 amounted to EUR -121.2 million and EUR 26.9 million, respectively, on the fair values of derivatives. At 31 December 2016, they amounted to EUR -236.7 million and EUR 52.7 million, respectively. The change in the value of the adjustments in 2017, for EUR 89.7 million, resulted in a positive impact on "Gains/(losses) on financial assets and liabilities held for trading, net" in the statement of profit or loss. In addition, the impact on 2017 of the CVA on matured or cancelled derivatives resulted in the recognition of a negative impact of EUR 19.5 million in "Gains/(losses) on financial assets and liabilities held for trading, net" in the statement of profit or loss (see Note 33).

Transfers between levels

The criteria applied for the revaluation of the portfolio are reviewed at least monthly, and can give rise to improvements/deterioration in the valuation of the financial instruments as a result of for having/not having obtained prices published by contributors to market prices or because the quality of the published price has improved/deteriorated.

In 2017, there were no transfers between levels (in 2016 there was a transfer of EUR 936 thousand from level 1 to level 2).

Movements in Level 3 financial instruments

Movements in Level 3 balances in 2017 and 2016 were as follows:

Level 3 movements
(Thousands of euros)

	Available-for-sale financial assets			
	31.12.2017		31.12.2016	
	Debt securities	Equity instruments	Debt securities	Equity instruments
Opening balance	**5,326**	**570,452**	**2,245**	**680,346**
Additions due to business combinations (**Note 7)**	85,944	24,945		
Total gains or losses	9,220	(140,819)	(369)	(362,364)
To profit or loss	721	(138,602)		(397,671)
To equity valuation adjustments	8,499	(2,217)	(369)	35,307
Acquisitions	1,469	3,263	5,667	45
Settlements and others	(15,542)	(8,613)	(2,217)	252,425
Closing balance	**86,417**	**449,228**	**5,326**	**570,452**
Total gains/(losses) in the period for instruments held at the end of the period	**(9,220)**	**140,819**	**369**	**362,364**

Sensitivity analysis

To determine whether there is a significant change in the value of financial instruments classified in Level 3 due to changes in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions, the CaixaBank Group analysed the most significant instruments. This analysis indicated that the values obtained would not change significantly.

The impacts on the fair value of the main financial instruments categorised within Level 3 of changes to the value of the most important unobservable inputs, taking the highest value (best-case scenario) and lowest (worst-case scenario) at 31 December 2017 are as follows:

Impacts arising from changes in the assumptions used to measure financial instruments categorised in Level 3
(Thousands of euros)

	Potential impact on profit or loss		Potential impact on valuation adjustments (*)	
	Best-case scenario	Worst-case scenario	Best-case scenario	Worst-case scenario
Available-for-sale financial assets – Equity instruments			15,723	(15,723)
Total	**0**	**0**	**15,723**	**(15,723)**

(*) Considering a -5%, +5% change in the valuation.

2.3. Accounting hedges

The CaixaBank Group uses financial derivatives as a financial risk management tool (see Note 3). When these transactions meet certain requirements, they qualify for hedge accounting.

When the CaixaBank Group designates a transaction as a hedge, this is done at inception of the transaction or of the instruments included in the hedge and the hedging relationship is documented in accordance with the regulations in force. The hedge accounting documentation duly identifies the hedging instrument or instruments, and the hedged item or forecast transaction, the nature of the risk being hedged and how the hedging instrument's effectiveness will be assessed over its entire life.

The CaixaBank Group applies hedge accounting for hedges that are highly effective. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or in the cash flows that are attributed to the hedged risk are almost entirely offset by changes in the fair value or in the cash flows, as appropriate, of the hedging instrument or instruments.

To measure the effectiveness of hedges, an analysis is performed to determine whether if, at the inception of the hedge and during its life, it can be expected, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk are nearly completely offset by changes in the fair value or cash flows of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

In compliance with 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 the regulatory framework:

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

$$80\% \geq \frac{\text{(Change in PV + amount realised in the month) of hedging instruments}}{\text{(Change in PV + amount realised in the month) of hedged items}} \leq 125\%$$

PV: present value or fair value, is the present value of future cash flows from the transaction.
Realised: cash flows from the transaction already settled.

- 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.
- Value at Risk (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 (mainly interest rate risk).
- VaR and sensitivity methods take into consideration the time 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%.

Hedging transactions performed by the CaixaBank Group are classified into two categories:

- Fair value hedges, which hedge the exposure to changes in fair value of financial assets and liabilities or unrecognised firm commitments, or an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk and could affect profit or loss.
- Cash flow hedges, which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised financial asset or liability or with a highly probable forecast transaction and could affect profit or loss.

The CaixaBank Group also hedges a certain amount of interest-rate sensitive financial assets or liabilities which, although forming part of the instruments composing the portfolio, are not identified as specific instruments, for interest-rate risk. These hedges, known as macro-hedges, can be fair value hedges or cash flow hedges.

In fair value hedges, the gains or losses on the hedging instrument or on the hedged item for the portion attributable to the hedged risk are recognised in the statement of profit or loss. In fair value macro-hedges, gains or losses arising on the hedged items attributable to interest rate risk are recognised directly in the statement of profit or loss, but the balancing entry is recognised in “Assets – Fair value changes of the hedged items in portfolio hedge of interest rate risk” or “Liabilities – Fair value changes of the hedged items in portfolio hedge of interest rate risk” depending on the substance of the hedged item, rather than in the items under which the hedged items are recognised.

In cash flow hedges, the portion of the hedging instrument that qualifies as an effective hedge is recognised temporarily in “Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Hedging derivatives. Cash flow hedges” in equity until the hedged transactions occur. At this moment, the amounts previously recognised in equity are taken to the statement of profit or loss in a symmetrical manner to the hedged cash flows. The hedged items are recognised using the methods described in Note 2.2, without any changes for their consideration as hedged instruments.

When hedging derivatives no longer meet the requirements for hedging accounting, they are reclassified as trading derivatives. For fair value hedges, the previously recognised gains or losses on the hedged item are recognised in the statement of profit or loss using the effective interest rate method at the date hedge accounting is discontinued. For cash flow hedges, the cumulative gain or loss recognised in equity remains in equity until the forecast transaction occurs, at which point it is recognised in the statement of profit or loss. However, if it is expected that the transaction will not be carried out, the cumulative gain or loss is recognised immediately in the statement of profit or loss.

For the most part, the CaixaBank Group hedges the market risk related to derivatives arranged with customers individually by arranging symmetric derivatives on the market, recognising both in the trading portfolio. In this way, position or market risk arising from these operations is not significant.

2.4. Reclassification of financial assets

As at 31 December 2017, the amounts of financial assets reclassified in previous years were not significant.

2.5. Asset encumbrance

Assets securing certain financing transactions and unencumbered assets at 31 December 2017 and 2016 are as follows.

Assets securing financing operations and unencumbered assets

(Thousands of euros)

	31.12.2017		31.12.2016	
	Carrying amount of encumbered assets	**Carrying amount of unencumbered assets**	**Carrying amount of encumbered assets**	**Carrying amount of unencumbered assets**
Equity instruments	0	3,288,124	0	3,237,554
Debt securities	11,070,894	20,157,391	14,015,220	11,206,846
Of which: covered bonds	*16,905*	*5,068*	*457,920*	*256,556*
Of which: asset-backed securities	*0*	*23*	*0*	*26*
Of which: issued by public administrations	*10,206,875*	*17,643,164*	*13,227,131*	*8,599,885*
Of which: issued by financial corporations	*847,114*	*1,121,038*	*189,041*	*1,770,392*
Of which: issued by non-financial corporations	*0*	*1,388,097*	*141,127*	*579,988*
Loans and receivables	81,207,842	160,677,874	77,778,187	141,070,775
Other assets	3,588,236	55,028,379	3,851,952	54,834,447
Total	**95,866,972**	**239,151,768**	**95,645,358**	**210,349,622**

These assets relate mainly to loans securing issuances of mortgage covered bonds, public sector covered bonds and asset-backed securities, debt securities provided in repos, securitisation bonds pledged for securities lending transactions and assets pledged as collateral (loans or debt securities) for access to ECB financing operations. They also include the balance of cash delivered to secure derivatives transactions.

In addition to the table above on own assets, the following presents 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 guaranteed debt, senior debt and secured instruments issued. The following table presents the collateral received and unencumbered and that may be pledged to raise finance at 31 December 2017 and 2016:

Encumbered assets

(Thousands of euros)

	31.12.2017		31.12.2016	
	Fair value of encumbered assets	**Fair value of unencumbered assets**	**Fair value of encumbered assets**	**Fair value of unencumbered assets**
Collateral received	**3,396,585**	**17,228,487**	**3,466,126**	**15,525,120**
Equity instruments.	0	0	0	0
Debt securities	3,386,308	15,631,276	3,466,126	13,364,143
Other guarantees received	10,276	1,597,211	0	2,160,977
Own debt securities other than covered bonds or asset-backed securities	**0**	857,986	0	**975,145**
Own covered bonds and asset-backed securities issued and not pledged	0	34,160,906	**0**	**31,775,797**
Total	**3,396,585**	**52,247,379**	**3,466,126**	**48,276,062**

The asset encumbrance ratio at 31 December 2017 and 2016 is as follows:

Asset encumbrance ratio

(Millions of euros)

	31.12.2017	31.12.2016
Encumbered assets and collateral received	**99,263,557**	**99,111,485**
Equity instruments	0	0
Debt securities	14,457,202	17,481,346
Loans and receivables	81,218,119	77,778,187
Other assets	3,588,236	3,851,952
Total assets + Total assets received	**355,643,811**	**324,986,227**
Equity instruments	3,288,124	3,237,554
Debt securities	50,245,869	42,052,335
Loans and receivables	241,895,993	218,848,962
Other assets	60,213,826	60,847,376
Asset encumbrance ratio	**27.91%**	**30.50%**

In 2017, the asset encumbrance ratio decreased by 2.59 percentage points due to the lower balance of collateralised assets as a result of reduced repo activity, and a lower balance of mortgage covered bonds placed on the market. In addition, the increase in the balance also explains the decrease in this ratio.

Secured liabilities and the assets securing them at 31 December 2017 and 2016 are as follow:

Secured liabilities

(Millions of euros)	31.12.2017		31.12.2016	
	Liabilities hedged, contingent liabilities or securities ceded	Assets, guarantees received and treasury securities issued (*)	Liabilities hedged, contingent liabilities or securities ceded	Assets, guarantees received and treasury securities issued (*)
Financial liabilities	**81,989,607**	**95,664,166**	**83,179,417**	**97,148,388**
Derivatives	4,313,986	4,593,897	2,845,180	3,851,952
Deposits	57,138,993	64,275,051	59,022,547	67,520,077
Issuances	20,536,628	26,795,219	21,311,689	25,776,359
Other sources of charges	**3,182,882**	**3,599,390**	**1,910,189**	**1,963,096**
Total	**85,172,489**	**99,263,557**	**85,089,606**	**99,111,485**

(*) Excluding encumbered covered bonds and asset-backed securities

2.6. Offsetting of financial assets and liabilities

A financial asset and a financial liability shall be offset and the net amount reported in the balance sheet when, and only when, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously, taking into consideration the following:

- The legally enforceable right to set off the recognised amounts should not be contingent on a future event and must be legally enforceable in all circumstances, including cases of default or insolvency of any or all of the counterparties.
- Settlements are considered equivalent to 'net settlement' that meet the following requirements: they eliminate or result in insignificant credit and liquidity risk, and settlement of the asset and liability is made in a single settlement process.

At 31 December 2017, the CaixaBank Group presented collateral exchange transactions net. These transactions were instrumented through repos and entail the simultaneous acquisition and transfer of certain collateral. The repos derive from a simultaneous offset transaction, whereby one cannot be cancelled without the cancellation of the other. Exchange transactions are generally carried out at 12 months. Additionally, at 31 December 2017 a tax lease and trading derivatives were presented net.

Details of these offsetting transactions at 31 December 2017 and 2016 are shown below:

Offsetting of assets and liabilities

(Thousands of euros)

	31.12.2017			31.12.2016		
	Gross amount recognised (A)	Amount offset in the balance sheet (B)	Net amount reported in the balance sheet (C=A-B)	Gross amount recognised (A)	Amount offset in the balance sheet (B)	Net amount reported in the balance sheet (C=A-B)
Trading derivatives	149,192	24,019	125,173			
Reverse repurchase agreement	6,728,929	6,728,929	0	1,013,791	1,013,752	39
Tax lease transaction	244,014	244,014				
Total assets	**7,122,135**	**6,996,962**	**125,173**	**1,013,791**	**1,013,752**	**39**
Trading derivatives	239,916	220,977	18,939			
Repurchase agreement	6,678,541	6,992,601	(314,060)	1,013,752	1,013,752	0
Tax lease transaction	244,014	244,014				
Total liabilities	**7,162,471**	**7,457,592**	**(295,121)**	**1,013,752**	**1,013,752**	**0**

2.7. Derecognition of financial instruments

All or part of a financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the entity transfers the asset to a third party outside the entity.

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with ownership of the transferred assets are transferred to third parties. In this regard:

- If substantially all the risks and rewards of ownership of the transferred financial asset are transferred (such as in the case of: 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 deeply 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 substantially all the risks and rewards of ownership of the transferred financial asset are retained (such as in the case of: 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 assets, or other similar arrangements) it is not derecognised and continues to be measured by the same criteria used before the transfer and the following are recognised:

    - A financial liability equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements to be classified under other liabilities at fair value through profit or loss; and

    - The income generated on the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offset.

- If substantially all the risks and rewards of ownership of the transferred financial asset are neither transferred nor retained (such as in the case of: 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, securitisations in which the transferor assumes a subordinated loan or other type of credit enhancement for part of the transferred asset, or other similar cases), the following distinction is made:

    - If the transferor does not retain control over the financial asset transferred it is derecognised and any right or obligation retained or arising from the transfer is recognised; or

    - If the transferor retains control over the financial asset transferred it continues to recognise the asset for an amount equal to its exposure to changes in value of the asset, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

According to the terms of the transfer agreements in place, virtually the entire portfolio of loans and receivables securitised by the CaixaBank Group does not need to be written off the balance sheet.

Financial liabilities shall equally be derecognised when the obligation specified in the contract is discharged or cancelled or expires.

2.8. Financial guarantees

Financial guarantees given

Financial guarantees are defined as contracts whereby the issuer thereof undertakes to make specific payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations in accordance with contractual terms and conditions, irrespective of the legal form of the obligation, such as deposits (including those to participate in auctions and tenders), financial and technical guarantees, irrevocable documentary credits, insurance contracts or credit derivatives.

Financial deposits comprise all manner of deposits that directly or indirectly guarantee debt securities such as: loans, credit facilities, finance leases and deferred payment arrangements for all types of debt.

All these transactions are recognised under the memorandum item “Guarantees given” in the balance sheet.

Financial guarantees and guarantee contracts are recognised upon execution at fair value plus transaction costs, which is equal to the premium received plus the present value of the future cash flows, under "Loans and receivables”, with a balancing entry in “Financial liabilities measured at amortised cost – Other financial liabilities” and “Other liabilities”. The changes in the fair value of the contracts are recognised as financial income in the statement of profit or loss.

Financial guarantee and guarantee contract portfolios, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, estimate any provision required. The credit risk is determined by applying criteria similar to those established for quantifying impairment losses on debt securities measured at amortised cost as set out in Note 2.9, except in the case of technical guarantees, where the criteria set out in Note 2.22 are applied.

Provisions set aside for this type of arrangements are recognised under "Provisions – Commitments and guarantees given" on the liability side of the balance sheet. Additions to and reversals of provisions are recognised in “Provisions or reversal of provisions” in the statement of profit or loss.

Should it become necessary to establish provisions for these financial guarantees, any fees that may accrue on these transactions in future which would be recognised in “Financial liabilities measured at amortised cost – Other financial liabilities” are reclassified to “Provisions – Commitments and guarantees given”.

Financial guarantees received

No significant guarantees or collateral were received with regard to which there is authorisation to sell or repledge without default by the owner of the guarantee or collateral, except for the collateral inherent to CaixaBank's cash management (see Note 2.5).

2.9. Impairment of financial assets

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.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to “Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss” in the statement of profit or loss for the period in which the impairment becomes evident. The reversal, if any, of previously recognised impairment losses is recognised in the same item in the statement of profit or loss for the period in which the impairment no longer exists or has decreased.

Debt securities measured at amortised cost

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

- *Performing*: all transactions that do not meet the requirements for classification in other categories.
- *Watch-list performing*: all transactions which, without qualifying individually for classification as non-performing or write-off, show weaknesses that may entail higher losses for CaixaBank than similar performing transactions. CaixaBank assumes that any transactions with amounts past due of over 30 days show weaknesses, unless proven otherwise.

  These include (i) transactions included in sustainability agreements that have not completed the trial period. Unless there is evidence that would enable it to be classified as performing earlier, the trial period ends two years after the amendment of the terms and conditions of the agreement, all payments on the transactions are up to date and the associated principal has been reduced, (ii) refinancing, refinanced or restructured transactions that should not be reclassified as non-performing and that are still in the trial period (see Note 2.10), and (iii) transactions made by insolvent borrowers that should not be classified as non-performing or write-off.

- *Non-performing*:

    - *Due to customer arrears*: includes the total amount of debt securities, whosoever the obligor and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is past-due more than 90 days, unless such instruments should be classified as a write-off. This category also includes guarantees given where the guaranteed transaction is non-performing.

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

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

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

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

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

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

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

        - Transactions with demanded balances or on which repayment by the entity has been legally demanded, despite being secured, in addition to transactions where the borrower is involved in litigation which can be resolved through collection.
        - Finance lease transactions where the contract is terminated in order to recover possession of the goods.
        - Transactions made by borrowers who have declared insolvency proceedings or are expected to declare insolvency proceedings where no liquidation petition has been made.
        - Guarantees extended to borrowers that are undergoing insolvency proceedings where the liquidation phase has or will be declared, or that have undergone a significant and

irrecoverable loss of solvency, even though the beneficiary of the guarantee has not demanded payment.

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

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

  This category includes (i) non-performing transactions due to customer arrears older than four years, or, before the end of the four-year period when the amount not secured by effective guarantees is fully covered for more than two years, and (ii) transactions made by borrowers declared to be insolvent which have entered or will enter the liquidation phase. In both cases, the transactions are not considered to be write-offs if they are effectively secured by collateral that covers at least 10% of the gross carrying amount.

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

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

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

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

- Borrowers with total exposure of more than EUR 5 million, of which more than 5% of the balance is classified as non-performing.

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

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

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

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

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

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

- If, in addition to being individually significant, the customer is in a situation of impairment (due to arrears or reasons other than arrears), the specific allowances of the operation is estimated using differentiated valuation methodologies depending on whether or not the client has the capacity to generate flows due to its activity or not.

  If the client has such capacity, then a detailed analysis of the client's flows is carried out, taking into account the holder's situation and the flows that are expected to be recovered. Otherwise, the present value of the future cash flows that could result from the execution of the guarantee is calculated, deducting the costs of obtaining and selling the guarantee, regardless of whether the execution of the guarantee is likely or not.

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

  The collective allowance is calculated using the Company's internal models that form part of the valid Models and Parameters Policy, in accordance with Circular 4/2016.

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

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

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

     The aforementioned guarantees are not considered to be effective when there is an adverse correlation between the effectiveness of the guarantee and the borrower's credit rating (e.g. borrower's assets pledged).

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

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

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

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

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

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

Debt securities classified as available for sale

The market value of quoted debt securities is deemed to be a reliable estimate of the present value of their future cash flows.

When there is objective evidence that the negative differences arising on measurement of these assets are due to impairment, they are removed from "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Available-for-sale financial assets" and the cumulative amount considered impaired at that date is recognised in the statement of profit or loss. If all or part of the impairment loss is subsequently reversed, the reversed amount is recognised in the statement of profit or loss for the period in which the reversal occurs.

Equity instruments classified as available for sale

When there is objective evidence that a decline in the fair value is due to impairment, such as a fall of 40% of its market price over a period of a year and a half, the unrealised losses are recognised in accordance with the impairment loss recognition criteria applied to available-for-sale debt securities, with the exception that any recovery arising on these losses is recognised under "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Available-for-sale financial assets".

When testing for impairment, the CaixaBank Group considers whether there are any legal, market, technological or other factors in the environment in which the assessed entity operates that could suggest the cost of the investment will not be recovered. The price volatility of each security is also individually considered to determine what share may be recovered through the sale thereof on the market. These considerations may result in different thresholds for certain securities or sectors to those mentioned in the previous paragraph.

Equity instruments measured at cost

The impairment loss on equity instruments measured at cost is the positive difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities. In estimating the impairment, account is taken of the equity of the investee, except for "Accumulated other comprehensive income" due to cash flow hedges, determined on the basis of the latest approved balance sheet, adjusted for the unrealised gains at the measurement date.

Impairment losses are recognised in the statement of profit or loss for the period in which they arose, as a direct reduction of the cost of the instrument.

2.10. Refinancing or restructuring operations

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

These transactions may derive from:

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

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

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

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

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

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

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

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

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

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

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

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

- A period of one year has elapsed from the refinancing or restructuring date.
- The borrower has covered all the principal and interest payments (i.e. they are up to date on payments) thereby reducing the renegotiated principal, from the date of authorisation of the restructuring or refinancing operation, or, if later, from the date of its reclassification to the non-performing category.
- The borrower has made regular payments to an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing operation, or that were derecognised as a result of it, or when it is deemed more appropriate given the nature of the operations, the borrower complies with other objective criteria that demonstrate their payment capacity.
- The borrower has no other operations with past-due amounts for more than 90 days at the date the refinancing, refinanced or restructured operation is reclassified to the watch-list performing category.

2.11. Foreign currency transactions

The CaixaBank Group's functional and presentation currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency. The functional currency is the currency of the primary economic environment in which the CaixaBank Group operates. The functional currency may be other than the euro, depending on the country in which the subsidiaries are based. The presentation currency is the currency in which the CaixaBank Group's consolidated financial statements are presented.

All foreign currency transactions are recorded, on initial recognition, by applying the spot exchange rate between the functional currency and the foreign currency.

At the end of each reporting period, foreign currency monetary items, including unmatured purchase and sale contracts considered as hedges, are translated to Euros using the average exchange rate prevailing on the spot currency market at the end of each period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to Euros using the exchange rate at the date of acquisition. Non-monetary items measured at fair value in a foreign currency are translated to Euros using the exchange rates at the date when the fair value is determined.

Unmatured forward foreign exchange purchase and sale transactions not considered as hedges are translated to Euros at the year-end exchange rates on the forward currency market.

The exchange rates used in translating the foreign currency balances to Euros are those published by the ECB at 31 December of each year.

The exchange differences arising on the translation of foreign currency balances and transactions to the functional currency of the Group are generally recognised under "Exchange differences (net)" in the statement of profit or loss. However, exchange differences arising on changes in the value of non-monetary items are recognised under "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences" in the balance sheet until they are realised, and exchange differences arising on financial instruments classified as at fair value through profit or loss are recognised in the statement of profit or loss with no distinction made from other changes in fair value.

In order to combine the separate financial statements of foreign branches whose functional currency is not the euro in the CaixaBank Group's consolidated financial statements, the following policies are applied:

- Translate the financial statements of the foreign branches to the CaixaBank Group's presentation currency. The translation is performed at the exchange rates used in translating foreign currency balances, except for income and expenses, which are translated at the closing exchange rate of each month.

- Recognise any exchange differences under "Equity – Accumulated other comprehensive income – Items that may be reclassified to profit or loss – Foreign currency exchange" in the balance sheet until the related item is derecognised, when it is reclassified to profit or loss.

2.12. Recognition of income and expenses

The main policies applied by the CaixaBank Group to recognise revenue and expenses are as follows:

Interest income, interest expenses, dividends and similar items

Interest income, interest expenses and similar items are recognised on an accrual basis using the effective interest method, regardless of when the resulting monetary or financial flow arises. Interest accrued on non-performing loans, including loans exposed to country risk, is credited to profit or loss upon collection, which is an exception to the general rule. Dividends received from other companies are recognised as income when the right to receive payment is established. This is when the dividend is officially declared by the company's relevant body.

Fees and commissions

The criteria for recognising fee and commission income and expenses vary according to their nature.

- *Financial fees and commissions*, such as loan and credit origination fees, are an integral part of the effective cost or yield of the financial transaction and are recognised under the same heading as financial income or expense i.e. "Interest income" and "Interest expenses". Fees and commissions, which are collected in advance, are taken to profit or loss over the life of the transaction, except when they are used to offset directly related costs.

  Fees and commissions offsetting directly related costs, understood to be those which would not have arisen if the transaction had not been arranged, are recognised under "Other operating income" as the loan is taken out when these direct costs are individually identified.

  Once the individually-identified direct costs have been deducted, the remaining fees and commissions are recognised in the statement of profit or loss to offset other directly related costs, to a limit of 0.4% of the principal of the financial instruments, or a maximum of EUR 400. Any surplus fees and commissions are recognised in the statement of profit or loss throughout the life of the operation (see Notes 29 and 31).

  If the total sum of financial fees and commissions does not exceed EUR 90, it is recognised immediately in profit or loss.

  For financial instruments measured at fair value through profit or loss, the amount of the fee or commission is recognised immediately in the statement of profit or loss.

- *Non-financial fees and commissions* arising from the provision of services are recognised under "Fee and commission income" and "Fee and commission expenses" over the life of the service, except for those relating to services provided in a single act, which are accrued when the single act is carried out.

Non-financial income and expense

Non-financial income and expenses are recognised for accounting purposes on an accrual basis. If non-financial up-front payments are received, CaixaBank generally recognises them immediately in profit or loss if there is an effective transfer of the risks and benefits associated with the asset or service to a third party, releasing the company from the risks associated thereto. Therefore, it must be possible to identify and reliably measure the service provided or the asset transferred, decide whether it has been completed, and measure the price or compensation accrued.

Deferred receipts and payments

Deferred receipts and payment are recognised for accounting purposes at the amount resulting from discounting the expected cash flows to net present value at market rates.

2.13. Mutual funds, pension funds and other assets under management

Mutual funds and pension funds managed are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the period from this activity are included under "Fee and commission income" in the consolidated statement of profit or loss.

Other assets owned by third parties and managed by consolidated entities for which a management fee is received are not presented on the face of the consolidated balance sheet (see Note 28.1).

2.14. Employee benefits

Employee benefits include all forms of consideration given in exchange for services rendered to the Group by employees or for benefits payable after completion of employment. They can be classified into four categories:

- Short-term employee benefits.
- Post-employment benefits.
- Other long term employee benefits.
- Termination benefits.

Short-term employee benefits

These are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the period in which the employees render the related service. They include: wages, salaries and social security contributions; paid annual leave and paid sick leave; profit-sharing and bonuses; and non-monetary benefits payable to employees such as medical care, housing, cars and free or subsidised goods or services.

The cost of services rendered is recognised under "Administrative expenses – Staff expenses" in the statement of profit or loss.

Credit facilities made available to employees at below market rates are considered to be non-monetary benefits and are calculated as the difference between market rates and the rates agreed with employees. The difference is recognised under "Administrative expenses – Staff expenses" with a balancing entry under "Interest income" in the statement of profit or loss.

Post-employment benefits

Post-employment benefits are employee benefits which are payable by the CaixaBank Group to its employees after completion of employment with the Group. They include: retirement benefits, such as pensions and one-off retirement payments; and other post-employment benefits, such as post-employment life insurance and post-employment medical care, at the end of the employment relationship.

Defined contribution plans

The CaixaBank Group's post-employment obligations with its employees are deemed to be defined contribution obligations when the Group makes pre-determined contributions to a separate entity and has no legal or constructive obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Defined contribution plans each year are recognised under “Administrative expenses – Staff expenses” in the consolidated statement of profit or loss.

Post-employment obligations that do not meet the aforementioned conditions are considered defined benefit obligations.

Defined benefit plans

The present value of defined benefit post-employment obligations, net of the fair value of plan assets, is recorded under “Provisions – Pensions and other post-employment defined benefit obligations” in the balance sheet (see Note 24).

Plan assets are defined as those assets that will be used to directly settle plan obligations and that meet the following conditions:

- They are not owned by CaixaBank, but rather by a legally separate, non-related third party;
- They are available to be used only to pay or fund post-employment benefits and are not available to CaixaBank’s own creditors, even in bankruptcy. Assets cannot be returned to CaixaBank, unless the remaining assets of the plan are sufficient to meet all the related employee benefit obligations of the plan or CaixaBank, or are used to reimburse it for post-employment benefits CaixaBank has already paid to employees.

Virtually all of CaixaBank’s defined benefit commitments are assured through polices taken out with the Group subsidiary VidaCaixa, SA de Seguros y Reaseguros. Consequently, these contracts do not meet the requirements to be considered plan assets. The fair value of the insurance contracts is shown under “Other assets – Insurance contracts linked to pensions” in CaixaBank’s separate balance sheet.

CaixaBank’s remaining defined benefit commitments, arising mostly from mergers, are assured through polices contracted with the entities that are not considered related parties and which do meet the requirements to be considered plan assets. The fair value of these insurance contracts is recognised as a decrease in the value of the liabilities under “Provisions – Pensions and other post-employment defined benefit obligations”. When the value of plan assets is greater than the value of the obligations, the positive difference is recognised under “Other assets”.

The assets and liabilities of VidaCaixa, SA de Seguros y Reaseguros, which include the mathematical provisions of the policies taken out, are included on consolidation. Therefore, in this process the amount recognised under “Other assets - Insurance contracts linked to pensions” is eliminated and the same amount is deducted from “Liabilities under insurance contracts”.

Post-employment benefits are recognised as follows:

- Service cost is recognised in the statement of profit or loss and includes the following:
    - Current service cost, understood as the increase in the present value of obligations arising from employee service in the current period, recognised under "Administrative expenses – Staff expenses".
    - Past service cost, resulting from amendments to existing post-employment benefits or the introduction of new benefits, and the cost of curtailments, recognised under "Provisions or reversal of provisions".
    - Any gain or loss arising on settlement of a plan is recognised in "Provisions or reversal of provisions".

- The net interest on the net defined post-employment benefit liability/(asset), understood to be the change during the period in the net defined benefit liability/(asset) that arises from the passage of time, is recognised in "Interest expenses", or "Interest income" if it results in income, in the statement of profit or loss.

- Remeasurements of the net liability/(asset) for defined benefit post-employment benefits are recognised in "Accumulated other comprehensive income" in the balance sheet. The standard provides the option of reclassifying them subsequently to voluntary reserves or maintaining them as valuation adjustments. In this respect, the Group elected to reclassify them to voluntary reserves. Includes:

  - Actuarial gains and losses arising in the period from differences between the previous actuarial assumptions and what has actually occurred and from changes in the actuarial assumptions used.

  - The return on plan asset, excluding the amounts included in the net interest on the net defined post-employment liability/(asset) for defined benefit post-employment benefits.

  - Any change in the impact of the asset ceiling, excluding the amounts included in the net interest on the net defined post-employment liability/(asset) for defined benefit post-employment benefits.

Other long term employee benefits

Other long term employee benefits, understood as obligations with pre-retired employees (those who have ceased rendering services for the Entity but who, without being legally retired, continue to enjoy economic rights vis-à-vis the Entity until they acquire the status of legally retired), long-service bonuses and similar items, are treated for accounting purposes, where applicable, as established for defined benefit post-employment plans, except that the actuarial gains and losses are recognised in "Provisions or reversal of provisions" in the statement of profit or loss (see Note 24).

Termination benefits

These benefits are payables as a result of an entity's decision to terminate an employee's employment before the normal retirement date, a valid expectation has been raised in the employee or an employee's decision to accept voluntary redundancy in exchange for those benefits.

A liability and an expense for termination benefits are recognised when there is no realistic possibility of withdrawing the offer to pay the termination benefits or when the costs for restructuring which involves the payment of termination benefits are recognised. These amounts are recognised as a provision under "Provisions – Other long term employee benefits" in the balance sheet until they are settled.

2.15. Income tax

The expense for Spanish corporation tax is considered to be a current expense and is recognised in the statement of profit or loss, except when it results from a transaction recognised directly in equity, in which case the corresponding tax effect is recognised in equity.

Income tax expense is calculated as the sum of the current tax for the year resulting from applying the tax rate to the taxable profit for the year and any changes in deferred tax assets and liabilities recognised in the year in the statement of profit or loss, less any allowable tax deductions.

Temporary differences, tax loss carryforwards pending offset and unused tax deductions are recognised as deferred tax assets and/or deferred tax liabilities. The amounts are recognised at the tax rates that are expected to apply when the asset is realised or the liability is settled.

All tax assets are recognised under “Tax assets” in the balance sheet as current, for amounts to be recovered in the next 12 months, or deferred, for amounts to be recovered in future reporting periods.

Similarly, tax liabilities are recognised in “Tax liabilities" in the balance sheet, also by current and deferred. Current tax liabilities include the amount of tax payable within the next 12 months and deferred tax liabilities as the amount expected to be paid in future periods.

Deferred tax liabilities arising from temporary differences related to investments in subsidiaries, associates and or joint ventures are not recognised when the CaixaBank Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised when it is probable that they will be reversed in the foreseeable future and it is estimated that there is sufficient taxable profit against which they can be used.

Deferred tax assets recognised are reviewed at the end of each reporting period to ensure that they remain valid, and adjusted, where appropriate, based on any new estimates. Recognised tax assets are tested for impairment every six months to ensure that they can be utilised.

2.16. Tangible assets

“Tangible assets” includes the amount of property, land, furniture, vehicles, IT equipment and other facilities owned or acquired under a finance lease. “Tangible assets” in the balance sheet is broken down into two line items: “Property, plant and equipment” and “Investment properties”.

“Property, plant and equipment” comprises tangible assets for own use and other assets leased out under an operating lease. Property, plant and equipment for own use includes assets held by the CaixaBank Group for present or future administrative uses or for the production or supply of goods and services that are expected to be used over more than one financial period.

“Investment properties” reflects the carrying amounts of land, buildings and other structures owned to obtain rental income or gains through sale.

Tangible assets are generally stated at cost less accumulated depreciation and any impairment losses determined by comparing the carrying amount of each item to its recoverable amount.

Depreciation is calculated using the straight-line method on the basis of the acquisition cost of the assets less their residual value. Land is not depreciated since it is considered to have an indefinite life.

The depreciation charge is recognised under “Depreciation and amortisation” in the statement of profit or loss and is calculated basically using the depreciation rates set out in the table below, which are based on the years of estimated useful life of the various assets.

Depreciation of tangible assets

	Years of estimated useful life
Constructions	
Buildings	16 - 50
Facilities	8 - 25
Furniture and fixtures	4 - 50
Electronic equipment	4 - 8
Other	7 - 14

At the end of each reporting period, the CaixaBank Group assesses tangible assets for any indications that their net carrying amount exceeds their recoverable amount, understood as fair value less costs to sell and value in use.

At CaixaBank, tangible assets for own use are mostly allocated to the banking business cash-generating unit (CGU). This CGU was tested for impairment to verify whether it generated sufficient cash flows to support the value of its assets.

In the particular case of investment properties, fair value corresponds to the market appraisal of the asset in its current condition by independent experts. To determine fair value at 31 December 2017, appraisals were requested in accordance with the criteria established by Ministerial Order ECO/805/2003 when the latest available appraisal was over two years old. Statistical appraisals were used for properties with a gross carrying amount of less than EUR 250 thousand. These assets are classified as Level 2 in the fair value hierarchy.

In this respect, the CaixaBank Group has a corporate policy that guarantees the professional competence and the independence and objectivity of external valuation agencies as provided for in legislation, under which these agencies must comply with neutrality and credibility requirements so that use of their estimates does not undermine the reliability of their valuations. This policy stipulates that all valuation agencies and appraisers used by the Group in Spain must be included in the Bank of Spain's Official Registry and that their valuations be performed in accordance with the methodology set out in Ministerial Order ECO/805/2003, of 27 March. The main appraisers and valuation agencies with which the CaixaBank Group worked in Spain in 2017 are listed in Note 19.

Any impairment loss determined is recognised with a charge to "Impairment or reversal of impairment on non-financial assets – Tangible assets" in the statement of profit or loss and a reduction to the carrying amount of the asset to its recoverable amount. After the recognition of an impairment loss, the depreciation charges for the asset in future periods are adjusted in proportion to its revised carrying amount and remaining useful life.

Similarly, when there are indications of a recovery in the value of the assets, a reversal of the impairment loss recorded in prior periods is recognised and the depreciation charge for the asset in future periods is adjusted. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have had no impairment losses had been recognised in prior years.

Likewise, the estimated useful lives of items of tangible assets are reviewed each year or whenever indications are noted which make it advisable to do so and, where appropriate, the depreciation charges are adjusted in the statement of profit or loss of future years.

Upkeep and maintenance expenses are recognised under "Administrative expenses – Other administrative expenses" in the statement of profit or loss. Similarly, operating income from investment properties is recognised under "Other operating income" in the statement of profit or loss and the related operating expenses under "Other operating expenses".

2.17. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance acquired from third parties or developed internally.

Goodwill

Goodwill represents the payment made by the acquirer in anticipation of future benefits from assets that are not capable of being individually identified and separately recognised. Goodwill is only recognised in the acquisition of a business combination for valuable consideration.

In business combinations, goodwill arises as the positive difference between:

- the consideration transferred plus, as appropriate, the fair value of any previously-held equity interest in the acquiree and the amount of minority interests; and

- the net fair value of the identifiable assets acquired less the liabilities assumed.

Goodwill is recognised in "Intangible assets – Goodwill" and is not amortised.

At the end of each reporting period or whenever there are indications of impairment, an estimate is made of any impairment that reduces the recoverable amount to below carrying amount and, where there is impairment, the goodwill is written down with a balancing entry in "Impairment or reversal of impairment on non-financial assets – Intangible assets" in the statement of profit or loss. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Other intangible assets

This includes the amount of other identifiable intangible assets, such as assets arising in business combinations and computer software.

Other intangible assets have an indefinite useful life when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group, and a finite useful life in all other cases.

Intangible assets with an indefinite life are not amortised. However, at the end of each reporting period, or whenever there is any indication of impairment, the remaining useful lives of the assets are reviewed in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with a finite useful life are amortised over the useful life, applying policies similar to those followed for the depreciation of tangible assets.

The amortisation charge for these assets is recognised in "Depreciation and amortisation" in the statement of profit or loss.

Any impairment losses on assets with either indefinite or finite useful lives are recognised with a balancing entry in "Impairment or reversal of impairment on non-financial assets – Intangible assets" in the statement of profit or loss. The policies for recognising impairment losses on these assets and for reversing impairment losses recognised in prior years are similar to those for tangible assets.

<u>Internally developed computer software</u>

Computer software developed internally is recognised as an intangible asset when, among other requirements, it is capable of being used or sold, and it is identifiable and its ability to generate future economic benefits can be demonstrated.

Expenses incurred during the research phase are recognised directly in the statement of profit or loss for the period in which they are incurred, and cannot subsequently be capitalised.

At 31 December 2017 and 2016, practically all intangible assets corresponding to software were developed by third parties.

2.18. Inventories

This item in the balance sheet includes non-financial assets held for sale in the ordinary course of business, that are in the process of production, construction or development for such sale, or that are to be consumed in the production process or in the rendering of services.

Inventories are measured at the lower of cost, including financial charges, and net realisable value. Net realisable value is defined as the estimated selling price less the estimated costs of production and the estimated costs necessary to make the sale. The accounting principles and measurement bases applied to assets received as payments of debts classified under this item are the same as those set out in Note 2.19. These assets are classified as Level 2 in the fair value hierarchy.

The cost of inventories of items that are not ordinarily interchangeable and of goods and services produced and segregated for specific projects is determined individually, while the cost of other inventories is assigned mainly by using the First-In-First-Out method (FIFO) or weighted average cost formula, as appropriate.

Any write-downs to inventories or subsequent reversals of write-downs are recognised under “Impairment or reversal of impairment on non-financial assets – Other” in the statement of profit or loss for the year in which the write-down or reversal occurs.

When inventories are sold, the carrying amount of those inventories is derecognised and an expense recognised in the statement of profit or loss for the period in which the related revenue is recognised. The expense is recognised under “Other operating expenses” in the statement of profit or loss.

2.19. Non-current assets and disposal groups classified as held for sale and liabilities included in disposal groups classified as held for sale

Assets recognised under this heading in the balance sheet reflect the carrying amount of individual assets or disposal groups, or assets that form part of a line of business that will be disposed of (discontinued operation) whose sale is highly probable in their present condition within one year from the reporting date. Assets that will be disposed of within a year but where disposal is delayed by events and circumstances beyond the Group’s control may also classified as held for sale, when there is sufficient evidence that the Company is still committed to selling them. The carrying amount of these assets will be recovered principally through a sale transaction.

Specifically, property or other non-current assets received as total or partial settlement of debtors’ payment obligations in credit operations are recognised under "Non-current assets and disposal groups classified as held for sale" unless it has been decided to make continuing use of the assets.

The CaixaBank Group has centralised the ownership of virtually all the real estate assets acquired or foreclosed in payment of debts in its holding company BuildingCenter, SAU, in a bid to optimise management.

Non-current assets classified as held for sale are generally measured initially at the lower of the carrying amount of the financial assets and their fair value less costs to sell the asset to be foreclosed:

- To estimate provisions for the financial assets, the estimated fair value less the costs to sell of the foreclosure asset are taken as the recoverable value of the guarantee when the Company's sales experience attests to its ability to realise this asset at fair value. This recalculated carrying amount is compared with the previous carrying amount and the difference is recognised as an increase or a release of provisions as appropriate.

- To determine the fair value less the costs to sell the foreclosure asset the Company uses the market value extended in the full individual ECO appraisal at the time of foreclosure or reception. Internal valuation models are used to calculate the adjustment to be applied to this market value in order to estimate the discount on the reference price and the costs to sell. These internal models consider the Company's experience in selling similar assets (in terms of price and volume).

These assets are classified as Level 2 in the fair value hierarchy.

After the initial recognition, the Group compares the carrying amount with the fair value less costs to sell, recognising any possible additional impairment in the statement of profit or loss. The main valuation used to estimate fair value is updated at least once a year for all assets recognised. In line with the procedure followed in the initial recognition process, the Group also applies an adjustment to the main valuation, based on the internal models in line with Circular 4/2016.

When the fair value less costs to sell exceeds the carrying amount, the Group recognises the difference in the statement of profit or loss, as an impairment reversal, up to the limit of the impairment accumulated as from the initial recognition of the foreclosure asset.

Fair value is determined on the basis of appraisals or valuations made by independent experts applying the criteria established in Ministerial Order ECO/805/2003. These appraisals are no more than a year old if there are any indications of impairment. Homes that can be valued using mass models and which have a fair value of less than EUR 250,000 are an exception. The values of these are updated using statistical appraisals.

In this respect, the CaixaBank Group has a corporate policy that guarantees the professional competence, independence and objectivity of external valuation agencies as provided for in legislation, under which these agencies must comply with neutrality and credibility requirements so that use of their estimates does not undermine the reliability of their valuations. This policy stipulates that all valuation agencies and appraisers used by CaixaBank in Spain must be included in the Bank of Spain's Official Registry and that their valuations be performed in accordance with the methodology set out in Ministerial Order ECO/805/2003, of 27 March. The main appraisers and valuation agencies with which the CaixaBank Group worked in Spain in 2017 are listed in Note 22.

Non-current assets held for sale are not depreciated while they are classified as held for sale.

Impairment losses on an asset or disposal group are recognised under "Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the statement of profit or loss. Gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the same statement of profit or loss item up to an amount equal to the previously recognised impairment losses.

2.20. Leases

Finance leases

Leases that transfer substantially all the risks and rewards inherent in the asset to the lessee are considered finance leases.

Leases in which the CaixaBank Group acts as the lessor of the asset are recognised as lending under “Loans and receivables” in the balance sheet at the sum of the present values of the lease payments receivable. These payments include the exercise price of the lessee’s purchase option at expiry of the lease, where this price is sufficiently below the fair value of the asset at expiry of the purchase option making it reasonably certain that the option will be exercised.

When the CaixaBank Group acts as lessee, the cost of the leased asset is recognised in the related item in the balance sheet based on the nature of the leased asset, and, simultaneously, a liability is recognised for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option).

These assets are depreciated using the same criteria as for the rest of the items of tangible assets for own use.

Financial income, when it acts as lessor, and financial expenses, when it acts are lessee, are recognised in the statement of profit or loss under “Interest income” and “Interest expenses”, respectively.

Operating leases

Operating leases are leases in which substantially all the risks and rewards inherent in the asset and ownership of the asset are retained by the lessor.

In operating leases in which the CaixaBank Group acts as lessor, the acquisition cost of the leased assets is included under “Tangible assets” in the balance sheet. The assets are depreciated using the policies adopted for other items of tangible assets for own use and income from the leases is recognised under “Other operating income” in the statement of profit or loss.

When the CaixaBank Group acts as lessee, the lease payments are recognised under “Administrative expenses – Other administrative expenses” in the statement or profit or loss.

Sale and leaseback transactions

In sales of assets at fair value and the leasing back under an operating lease, the profit or loss from the transaction is recognised immediately in the statement of profit or loss. If the sale was made at a price below fair value, the gain or loss is also recognised immediately in the statement of profit or loss unless the loss is compensated for by future lease payments at below market price, in which case the loss is deferred and recognised in proportion to the lease payments over the period for which the asset is expected to be used. Conversely, if the asset is sold above fair value, the profit is deferred and recognised in the statement of profit or loss over the period for which the asset is expected to be used.

In sale and leaseback transactions, the CaixaBank Group has a procedure for monitoring the transaction prospectively, paying special attention to changes in market office rental prices compared to the contractual rents CaixaBank is required to pay and the condition of the assets sold.

The review is carried out annually, or more frequently if exceptional circumstances in the office rental market or in the conditions of the properties make this advisable. The appropriate provisions will be recognised if, as a result of the monitoring described above, any permanent or significant situation occurs that requires it.

In addition, upon initial recognition an assessment is made of whether the lease includes a derivative embedded in a financial instrument that requires separation.

2.21. Contingent assets

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the contingent asset is disclosed.

2.22. Provisions and contingent liabilities

Provisions cover present obligations at the date of authorisation for issue of the financial statements arising from past events which could give rise to a loss that is considered likely to occur and which is certain as to its nature but uncertain as to its amount and/or timing.

The CaixaBank Group's financial statements include all the material provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Provisions are recognised on the liability side of the balance sheet on the basis of the obligations covered, e.g. provisions for pensions and similar obligations, provisions for tax and provisions for commitments and guarantees given.

Provisions, which are quantified based of the best information available on the consequences of the event giving rise to them and are re-estimated at the end of each reporting period, are used for specific expenditures for which the provision was originally recognised. Provisions are fully or partially reversed when the obligations cease to exist or are reduced.

CaixaBank's tax contingency policy is to set aside provisions for the possible tax expense and late-payment interest arising from the income tax assessments initiated by the tax authorities for the main applicable taxes, irrespective of whether an appeal has been lodged. Meanwhile, provisions are made for legal suits, in those instances where there is over a 50% probability of losing the case.

Contingent liabilities are possible obligations of the Entity, arising as a consequence of past events, whose existence is conditioned to the occurrence of one or more future events independent of the will of the Entity. They include the current obligations of the Entity whose cancellation is not likely to result in a decrease in resources that incorporate economic benefits, or whose amount, in exceptional cases, can not be quantified with sufficient reliability. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes more probable than not that an outflow of future economic benefits will be required, a provision is recognised in the balance sheet.

Provisions are recognised under "Provisions" on the liability side of the balance sheet in accordance with the obligations covered. Contingent liabilities are recognised under memorandum items in the balance sheet.

2.23. Insurance transactions

The Group applies the requirements of IFRS 4 Insurance Contracts to all the assets and liabilities in its consolidated financial statements derived from insurance contracts in accordance with the definition provided in this standard.

The Group does not unbundle any deposit component of insurance contracts. This unbundling is voluntary. In addition, the fair value of the policyholders' option to surrender insurance contracts is estimated to be zero, otherwise it is measured as part of the value of the insurance contract liabilities.

In accordance with the applicable IFRS, insurance entities must carry out an adequacy test of their on-balance sheet insurance contract liabilities in relation to their contractual obligations.

In this respect, it determines:

i) The difference between the carrying amount of the insurance contracts less any related deferred acquisition costs and any related intangible assets, and the present value of contractual cash flows from the insurance contracts and any related cash flows, such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.

ii) The difference between the carrying amount and the present value of projected cash flows from the financial assets related to the insurance contracts.

The present value of the contractual cash flows in insurance contracts is determined using the same interest rate as that used to estimate the present value of the financial assets related to the insurance contracts.

The main components of technical provisions are as follows.

- *Unearned premiums and unexpired risks*

  The provision for unearned premiums includes the proportion of premiums written in the year that must be allocated to the period between the close of the reporting period and the expiry of the policy period.

  The provision for unexpired risks is designed to complement the provision for unearned premiums by the amount which is not sufficient to cover the measurement of all the risks and expenses corresponding to the coverage period not elapsed at the end of the reporting period.

- *Life insurance*

  This provision consists mainly of the mathematical provisions of the insurance contracts and the provision for unearned premiums of insurance contracts with a period of coverage equal to or less than one year. Mathematical provisions represent the excess of the current actuarial value of the future obligations of subsidiary insurance companies over that of the premiums which the policyholder must satisfy.

  The insurance companies have used the PERM/F-2000P mortality and survival tables for all new contracts since 15 October 2000. PERM/F-2000C tables are applied to contracts before this date.

- *Life insurance provision where the investment risk is borne by the policyholders*

  These provisions correspond to the technical provisions of insurance contracts where the investment risk is born by the policyholder.

- *Claims*

  The provision for claims represents the total amount of outstanding liabilities on claims occurred before the end of the reporting period. The Group calculates this provision as the difference between the total estimated or exact cost of the claims that have occurred and are pending declaration, settlement or payment, including external and internal expenses for handling and processing the files, and the combined amount of the amounts already paid as a result of the claims.

- *Provisions for bonuses and rebates*

  These include the benefits accrued to the policyholders or beneficiaries and not yet assigned at the end of the reporting period. Not included is the effect of allocating part of the unrealised gains on the investment portfolio to policyholders.

Technical provisions corresponding to accepted reinsurance are determined using the same criteria as for direct insurance.

Technical provisions for direct insurance and accepted reinsurance are presented in the balance sheet under “Liabilities under insurance contracts” (see Note 18).

Technical provisions linked to risks assigned to reinsurers are calculated on the basis of the reinsurance contracts entered into and by applying criteria similar to those used for direct insurance. These provisions are recognised in the consolidated balance sheet under “Assets under insurance or reinsurance contracts” (see Note 18).

In addition, the Group has been applying the 'shadow accounting' in IFRS 4. According to this option, the insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset related to insurance contracts affects those measurements in the same way as a realised gain or loss does. The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) shall be recognised in the statement of profit or loss in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income.

2.24. Statement of cash flows

The following terms are used in the presentation of the statement of cash flows:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments subject to a low risk of changes in value.
- Operating activities: the indirect method is used to present cash flows from operating activities, which are the principal revenue-producing activities of the Entity and other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets, such as equity investments and strategic investments, and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and liabilities. The issues launched by the CaixaBank Group and placed on the institutional market are classified as financing activities, whereas the issues placed on the Spanish retail market are classified as operating activities.

2.25. Statements of changes in equity. Part A) Statement of other comprehensive income

This statement presents the income and expense recognised as a result of CaixaBank’s activity in the period, with a distinction between those taken to profit or loss in the statement of profit or loss and other comprehensive income recognised directly in equity.

The items used to present the statement of other comprehensive income are as follows:

i) The profit or loss for the year.

ii) The net income or expense recognised temporarily in equity as "Accumulated other comprehensive income".

iii) The net income or expense recognised definitively in equity.

iv) The tax accrued on the previous items.

v) The total recognised income and expense calculated as the sum of the above items.

2.26. Statements of changes in equity. Part B) Statement of total changes in equity

This statement presents all changes in the Group's consolidated equity, including those due to accounting policy changes and error corrections. This statement presents a reconciliation between the carrying amount of each component of equity at the beginning and the end of the period, grouping movements by nature under the following headings:

i) Adjustments due to changes in accounting policy and error corrections: includes changes in equity as a result of the retrospective restatement of financial statement balances on account of changes in accounting policies or for correction of errors.

ii) Total comprehensive income: represents the aggregate of all items recognised in the statement of total changes in equity income part A) other comprehensive income, outlined above.

iii) Other changes in equity: includes the remaining items recognised in equity, such as capital increases or decreases, distribution of dividends, treasury share transactions, equity-based payments, transfers between equity items, and any other increase or decrease in equity.

3. Risk management

3.1. Environment and risk factors

The year 2017 has been a challenge for the sector, which has had to respond to new scenarios in an increasingly demanding and ever-changing regulatory environment. Despite these circumstances, the Group has achieved better results and higher credit quality.

The following risk factors had a significant influence on the Group's management in 2017, due to their impact during the year and their long-term implications for the Entity:

1. **Macroeconomic environment:** stronger than expected economic recovery, both globally and in the euro area, beating market expectations. In this context, the last three years have been positive for the Spanish economy, which saw growth rates of over 3%, closing this year with growth of 3.1%. The Portuguese economy grew at above 2.5% and continued to mark a positive trend. In both countries, growth outstripped the European average of 2.4% in the year

2. **Low interest rates:** a market with persistently low interest rates gives rise to an assessment of high liquidity, credit and market risks, see the *ESMA Risk Dashboard* published in December 2017, which, coupled with the still elevated stock of non-performing assets in Europe puts enormous pressure on NII and jeopardises the sustainability of the long-term business model, obliging financial institutions to identify new opportunities to generate sustainable profits.

3. **Regulatory changes:** as in previous years, 2017 also saw a proliferation of legislative developments. Given the complexity of this ever-changing regulatory environment the CaixaBank Group continues to work actively to stay ahead in the assessment and implementation of new regulations and takes part in industry forums that analyse the content of proposals and consultative documents.

   In 2017, the most notable were:

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

     The changes proposed in this reform include:

     - enhancing the risk sensitivity of the standardised approaches for credit and operational risk
     - constraining the use of the internal model approaches, with regard to the value of the parameters used (input floors), and the maximum capital savings that can be obtained, with respect to the standard model (output floor).
     - adjustment of the calculation of the leverage ratio

     The next steps in the BIS III global reform are:

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

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

- IFRS 9: Since the end of 2015, the CaixaBank Group, due to the complexity of the changes that IFRS 9 incorporates, initiated an internal project with the objective of ensuring compliance, in time and form, with the Standards. To this end, a specific Committee was created, in charge of monitoring the progress made and taking the corresponding decisions, meeting weekly. At the date of formulation of these accounts, after all the meetings held, the actions carried out and the current status of the project, the initial objective established more than two years ago is considered reached (see Note 1 - IFRS 9 "Financial instruments: Classification and valuation").

- **2018 stress testing**, which will include all relevant risk areas and the new accounting standards set out in IFRS 9 for the first time. More detailed disclosure of EU banks' balance sheets will also be required, including: composition of capital, leverage ratios, RWAs by risk type, sovereign exposures, credit risk exposures and non-performing and forborne exposures. The data will also cover market risk and securitisation exposures.

Other reviews and regulatory consultation processes carried out to date include the publication of various final reports: "*Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013*", "*Guidance on leveraged transactions*", "*Guidelines on Identification and management of step-in risk*" and particularly the EBA's "*Final Guidelines on internal governance*". In addition to consultative documents such as the "*Draft Addendum to the ECB Guidance to banks on non-performing loans (NPL): Prudential provisioning backstop for non-performing exposures*" which has had far-reaching implications in the market or the draft guidelines on security measures for operational and security risks under PSD2.

4. **Impact of technological development:** in its *2017 Risk Assessment* of the European banking system, the EBA concludes that risk relating to information and communications technologies (ICT) is one of the key risks in today's environment. Therefore, it has implemented new guidelines for the assessment of this risk in the Supervisory Review and Evaluation Process (SREP) and opened for consultation its proposed approach to *FinTechs*, and the outsourcing of cloud technology providers. Data management, previously considered an emerging risk, is now considered critical by the regulator.

   The *WannaCry cyber-attack* is the clearest example of the scope of the many attacks that took place in 2017, testing the security of entities' systems and their ability to respond and marking a before and after in the Group's security procedures. The severity of these attacks led the regulator to stress the need to pay special attention to risks relating to cyber-crime and information security.

5. **Trust in the sector and image:** in 2017 the capacity of financial institutions to maintain the trust of the Spanish and European public in the banking industry was once again put to the test. The geopolitical context makes it necessary to take strategic decisions to mitigate a potential reputational impact in the Spanish financial system.

In addition, during the year 2017, the CaixaBank Group has integrated Group BPI (see Note 1 - Acquisition of control of Banco BPI). Both groups have worked to align the appetite for risk, consolidate the information and apply the best practices in the management, control and governance of risks at the corporate level.

3.2. Risk control, management and governance

The CaixaBank Group's risk appetite levels, internal capacity and prudent approach to decision-making ensure it enjoys a stable leading position in retail banking. This position should not prevent it from continuously enhancing its global risk management and control system in the interests of maximising efficiency and satisfying stakeholder expectations: shareholders, investors, customers, regulators, supervisors and society at large, adhering to the mandate deriving from the corporate values of "quality, trust and social commitment".

The main features of the Group's risk management and control framework are described below to provide a comprehensive overview thereof:

- Governance and organisation
- Risk assessment
- Risks catalogue
- Risk Appetite Framework (RAF)
- Risk planning
- Risk culture
- Internal control framework

Governance structure and organisation

<u>**Corporate governance**</u>

The governing bodies are the Annual General Meeting and the Board of Directors. As part of its responsibilities, the Board of Directors sets and monitors the business model and strategy, monitors the result of the risk assessment process, establishes the Corporate Risk Map and the Risk Appetite Framework and is in charge of internal governance policies and risk management and control, supervising the organisation of the Entity to implement and monitor these.

The Board of Directors has created several committees, including the Risks Committee, whose functions are described below.

Risks Committee

The Risks Committee comprises exclusively non-executive Directors who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity. The majority of the members must be independent Directors.

The main functions of this committee are:

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

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

Organisational structure

General Risks Division

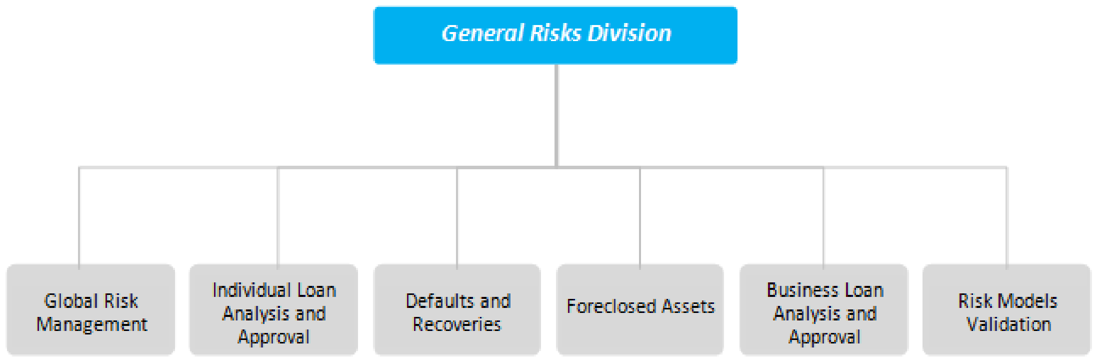
As part of the executive team, the Chief Risks Officer (CRO), a member of CaixaBank's Management Committee, is ultimately responsible for the Group's risks. The CRO operates independently of the business areas from both a reporting and operational perspective. The CRO has direct access to the Group's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

The Risks Division's functions include identifying, measuring and integrating the different risk exposures and risk-adjusted returns of each area of business, from the global perspective of the CaixaBank Group and in accordance with its management strategy;

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

The CRO has organised his team as follows:

- Risk Validation Model, responsible for ensuring the internal models used for internal management and/or regulatory purposes are fit for purpose.
- Individual Loan Analysis and Approval division, responsible for analysing and granting loans to individuals (retail customers and self-employed professionals, the latter not including self-employed professionals in the farming sector).
- Business Loan Analysis and Approval division, responsible for analyses and approvals of risk for other business segments and specialised sectors (Companies and SMEs, Corporate, Public Sector, Sovereign, Financial Entities, Real Estate, Project Finance, Tourism and Food & Agriculture).
- Global Risk Management Committee, responsible for risk management and overseeing asset performance, and solvency and capital adequacy mechanisms;
- Foreclosure assets division, which controls and monitors property investments and divestments, and is responsible for the policies associated with property management.
- Defaults and Recoveries.



Collegiate bodies in the risk area

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

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

<u>Committees connected with the risks function:</u>

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

- **Permanent Lending Committee**

The Permanent Lending Committee ("the PLC") analyses and, where appropriate, approves the transactions that fall within its scope, and refers any transactions that exceed its level of authority to the Executive Committee. Related operations and those related to senior positions are raised for approval by the Audit and Control Committee and the Board of Directors.

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

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

- **Global Risks Committee**

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

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

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

<u>Committees reporting to the Global Risks Committee</u>

- **Risk Policies Committee and Investee Risk Policies Committee**

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

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

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

- **Operational Risks Committee**

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

- **Corporate Responsibility and Reputation Committee (CRRC)**

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

- **Crime Risks Committee**

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

- **Models and 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.

- **Global Default and Recovery Committee**

This committee analyses default targets set by Senior Management and applies them to the managed portfolios and parties involved in lending. It oversees and monitors the level of compliance with the targets set, and liaises with the various areas to take the steps needed to redress any deviations.

It defines and monitors recovery policies and procedures, which are presented to the Policies Committee for approval before roll-out. It reports to the Global Risks Committee on matters within its remit.

- **Impairment Committee**

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

Recovery, Non-performing and Foreclosed Assets Executive Division

In 2017, CaixaBank strengthened its governance model and operating framework for the management of non-performing assets. Therefore, during the year, a new executive division was set up, the Executive Recovery, Non-performing and Foreclosed Assets Division, reporting directly to the Chief Executive Officer. The purpose of this new executive division is to gain a comprehensive view of the whole life cycle associated with the default recoveries process and management of foreclosed assets. The main responsibilities and work lines of the new executive division are as follows:

- Propose and implement the recoveries strategy
- Define the targets of the recovery function
- Default flow and stock management

The new strategy ensures the specialisation and independence of the activity, mitigating conflicts of interest and strengthening autonomy to optimise the management of non-performing assets. Its functions are based on two main pillars: a broad geographical presence and a team that offers specialised solutions to shore up CaixaBank's strategy to scale back these assets. It benefits from the competitive advantage offered by the capacity to manage non-performing assets through the commercial network, which combines familiarity with and knowledge of the customer to provide individual solutions according to each particular case. All of this, under a criteria of prudence and with a view to maximising the recoverable value, fostering an active search for early solutions to manage default risk, optimising management and working to achieve normalisation. This new management strategy buoys up CaixaBank's commitment to the market and the regulator, putting the customer at the centre of its decision-making.

Another key aspect is obtaining synergies between the business function, the risks function and the recoveries and foreclosed assets function, through the global coordination of all parties involved in the process. There are also subsidiaries of the CaixaBank Group specialised by business area that collaborate in strengthening the recoveries activity (GDS Cusa) and management of the sale of foreclosed assets (BuildingCenter). All of this under a robust internal framework of policies and procedures that allows for clear and specific management guidelines.

Lastly, from an organisational standpoint, the new executive division has a governance model that is supported by specialised committees with clearly defined roles and responsibilities. In addition to its role as Secretary to the Global Default and Recovery Committee**,** the following committee models also stand out:

- **Committee for Monitoring the Operating Plan and management initiatives**

  This committee reviews the performance of flows by portfolio and the status of early warning events and the measures adopted to address them.

- **Large Auctions Committee**

  This committee analyses and authorises the foreclosure of real estate assets securing debts of over EUR 600,000. Specifically, it defines how the assets will be auctioned off and makes any decisions related thereto (e.g.: halting the auction).

- **Real Estate Acquisition and Appraisal Committee**

  This committee assesses any acquisitions of real estate assets and assets whose holders are undergoing bankruptcy proceedings. In this committee participates the Recovery, Non-performing and Foreclosed Assets area.

In addition to the above, and in relation to the reputational aspect, CaixaBank is a member of the Defaults, Evictions and Occupancy Committee headed by BuildingCenter. The purpose of this committee is to review potential eviction cases among foreclosed assets and take the relevant decisions in this regard. Its members are representatives of CaixaBank, BuildingCenter and Servihabitat. CaixaBank's Mortgage Customer Care Service (MCCS), Legal advisory area, Recovery, Non-performing and Foreclosed Assets area, and Risks area are the main participants.

Strategic risk management process

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

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

Risk Assessment

As a CaixaBank *Risk Management Function* (RMF), it is the responsibility of Global Risk Management to develop and manage the Bank's internal risk assessment process, the results of which are reported, at least annually, first to the Global Risks Committee and then to the Risks Committee, and lastly to the Board of Directors for approval.

However, the CaixaBank Group carries out this internal assessment process every six months, seeking to:

- Identify, assess, classify and internally report significant changes in inherent risks assumed by the Entity in its environment and business model, due to changes in the level of risk (evolving) or to the appearance of other risks that could potentially become significant (emerging). The result of this process forms part of the annual review of CaixaBank's Corporate Risk Catalogue.

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

The scope and depth of this process, which originated in the context of the ICAAP report and is now a stand-alone and autonomous process, has been evolving in alignment with the self-defined goal of continuous improvement, and through the inclusion of the guidelines and recommendations published by European regulatory and supervisory bodies in recent years.

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

Risk Catalogue

As a CaixaBank *Risk Management Function* (RMF), it is the responsibility of Global Risk Management to develop and manage the CaixaBank Group's risk catalogue to ensure it is aligned with the material risks to which the Group is exposed, which must be reviewed, at least annually, reporting first to the Global Risks Committee and then to the Risks Committee, and lastly to the Board of Directors for approval.

CaixaBank Group has a Corporate Risk Catalogue, updated in December 2017, to support internal and external monitoring and reporting of the Group's risks, grouped into three main categories: Business Model Risks, Specific risks for the Bank's financial activity and Operational and Reputational Risk.

The update of the Risk Catalogue primarily entailed the following changes: clearly specify the inclusion of model risk as an operational risk (in Operational processes and external events) and step-in risk as a reputational risk.

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

- **Business model risk**
  - **Profitability**: Obtaining results lower than market expectations or the Group's targets which prevent the Entity from reaching a profitability level that is higher than the cost of capital.

- Eligible Own Funds/Solvency: Risk caused by a restriction of the CaixaBank Group's ability to adapt its level of capital to regulatory requirements or to a change in its risk profile.

- **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:** Risk of a decrease in the value of the CaixaBank Group's assets due to uncertainty in a counterparty's ability to meet its obligations.

  - **Impairment of other assets:** Reduction in the carrying amount of the shareholdings and non-financial assets (tangible, intangible, deferred tax assets (DTAs) and other assets) of the CaixaBank Group

  - **Market risk:** Risk of a decrease in the value of the Group's assets held for trading or an increase in the value of its liabilities held for trading or held to maturity, due to fluctuations in interest rates, credit spreads, external factors or prices in the markets where the assets and liabilities are traded.

  - **Interest rate risk in the banking book:** Risk of a negative impact on the economic value of the balance sheet or results, caused by the renewal of assets and liabilities at rates that are different to those previously established, arising from changes in the structure of the interest rate curve.

  - **Actuarial risk:** risk of an increase in the value of commitments assumed through insurance contracts with customers (insurance business) and employee pension plans (pension obligations), due to differences between the claims estimates and actual performance.

- **Operational and reputational risk**

  - **Legal/Regulatory risk**: Loss or decline in the CaixaBank Group's profitability due to legislative or regulatory changes, errors in the interpretation or application of existing legislation and regulations, or adverse judicial rulings or administrative action that goes against the Entity's interests or tax-related decisions taken by the Entity or the tax authorities.

  - **Conduct and Compliance:** Risk of CaixaBank applying criteria for action contrary to the interests of its clients and stakeholders and deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.

  - **Technological:** risk of losses due to inadequate hardware or software or failures in the technical infrastructures 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 Bank's activity, due to external events beyond its control, or due to third parties outside the Bank, both accidentally and fraudulently. Includes errors overseeing suppliers, model risk, and the custody of securities.

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

- **Reputational risk:** The possibility that CaixaBank's competitive edge could be blunted by loss of trust by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or governance bodies, or because of related unconsolidated entities becoming bankrupt (step-in risk).

In order to bolster the confidence of its customers in the Group, the CaixaBank Group has focused on solvency and quality as strategic priorities. In this regard, CaixaBank has spent the last few years strengthening the necessary internal control and compliance structures.

Risk Appetite Framework

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

Based on this fundamental conviction, in response to the global financial crisis that commenced in 2007 and following the recommendations and best practices published by the FSB, EBA and the Bank of Spain, in 2013 and 2014 started designing a Risk Appetite Framework (RAF), which was approved by the Board of Directors in 2014.

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

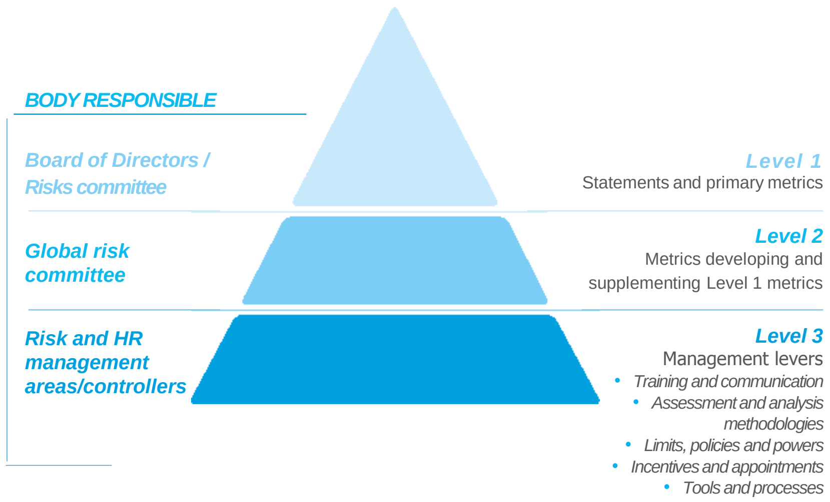
Through this framework the Group aligned itself with the best market practices, developing what was later to become a fundamental requirement under both the SSM and other agents of the banking sector (e.g. some analysts and rating agencies).

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

- **Loss buffer**: CaixaBank has set an objective of maintaining a medium-low risk profile and a comfortable level of capital to strengthen its position as one of the soundest entities in the European banking market.
- **Funding and liquidity:** CaixaBank wants to make sure that it is always able to meet its obligations and funding requirements on time, even under adverse market conditions, and one objective is to have a stable and diversified funding base as a means of preserving and protecting the interests of its depositors.
- **Business composition:** CaixaBank aspires to maintain its leading position in the retail banking market and be able to generate revenue and capital in a balanced and diversified manner.
- **Franchise**: CaixaBank is committed to the highest ethical and governance standards in its business conduct, encouraging sustainability and social responsibility, and ensuring operating excellence.

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

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



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

  "Appetite" and "Tolerance" levels are set for each of the metrics through a system of alert traffic lights:

  - "Green traffic light": appetite zone
  - "Amber traffic light": tolerance zone (early warning)
  - "Red traffic light": non-compliance

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

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

  To illustrate, some metrics considered for each dimension are:

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

- Tier 2 includes more detailed metrics, which are monitored by the management team, especially the Global Risks Committee. These indicators tend to derive from the factorial decomposition of Tier 1 or from a greater breakdown of the contribution to the higher tier of risk portfolios or business segments. They also include the most complex and specialised risk measurement parameters, which allow the tier 1 metrics to be taken into account by risk management units in the decision-making process.

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

- Lastly, Tier 3 represents the management levers that the management team, through the various business units and areas in charge of authorising, monitoring and controlling each risk, defines and implements for alignment with the established Framework.

  These mechanisms are:

  - Training and communication as key vehicles through which the risk culture is instilled.
  - The methodologies used to measure risk and assets-liabilities, which are crucial to monitoring the RAF properly.
  - The definition of risk approval, management and control policies, including limits and approval powers across the different levels of the organisation and in governance.
  - The incentives and appointments, used as key tools in HR policies, which help shape staff conduct.
  - The tools and processes used to properly construct and monitor the RAF and introduce the metrics and thresholds thereof in the relevant environments.

The Board of Directors defines and supervises the Group’s risk profile, updating the framework’s metrics and thresholds where necessary, and at least annually. The development of the Framework in 2017 continued to prove useful for the Board of Directors and the Risks Committee as a single comprehensive platform from which to direct the Group’s strategy, management and control. In the annual review conducted during the year, new metrics were added and thresholds were modified to take account of new regulatory requirements and the Entity's strategic developments.

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

The Global Risks Committee is an executive body that reports directly to the Risks Committee. It is responsible for proposing the design and development of the RAF, and monitoring compliance therewith at least monthly. If the pre-established risk appetite levels are exceeded, the necessary measures are taken to reshape the situation.

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

- Monthly presentation by the Executive Global Risk Management Division to the Global Risks Committee, indicating the past and future trends of Tier 1 and Tier 2 metrics, according to the Strategic Plan/projection made as part of the ICAAP (Internal Capital Adequacy Assessment) exercise. If current risk levels breach the threshold for:

  - Tolerance: an amber traffic light or early alert is assigned to the indicator and the party responsible or the Management Committee is entrusted by the Global Risks Committee with preparing an action plan to return to the "green" zone, and a timeline is drawn up. The status of the action plan must be reported to the Risks Committee as part of its recurring reporting.

- Non-compliance: a "red traffic light" is assigned, including an explanation as to why the previous action plan did not work (if there was one). Corrective or mitigating measures are proposed to reduce exposure. This must be approved by the Risks Committee. The Board must receive information with the content and frequency established by the Risks Committee.

- *Recovery Plan*: would trigger the Plan's governance process, which envisages a set of measures designed to:

  - Reduce the possibility of the Entity going bankrupt or entering into a resolution process; and
  - Minimise the impact in the event of bankruptcy, and avoid the need for a bail out.

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

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

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

  At these meetings, the Board can amend or update the metrics and thresholds previously assigned.

  If a risk breaches a non-compliance threshold which could threaten the Group's ability to continue as a going concern, the Board may initiate the measures set forth in the Recovery Plan.

Since its approval in November 2014, the Framework has become a key pillar of internal planning processes and simulation processes in the event of possible stress scenarios. An overarching view of compliance with the RAF in different scenarios has been provided to the Board through the ICAAP and ILAAP (Internal Liquidity Adequacy Assessment Process), to be able to take the right decisions on amending or signing off the forecasts prepared by the individuals responsible for these processes.

Risk planning

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

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

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

Risk Culture

General risk management principles

The general principles guiding risk management at CaixaBank can be summarised as follows:

- Risk is inherent to CaixaBank's business:

  Creating value through the provision of financial intermediation services involves assuming risks of varying extremes, which have to be managed appropriately.

- Risk is the ultimate responsibility of the Board and requires involvement of Senior Management:

  The Board of Directors is the most senior risk management body. It approves and regularly reviews the main policies and strategies. Management is involved in risk management:

  - It reports to the Board of Directors on the status and changes in all the risks to which the Group is exposed on a timely basis. It also answers any additional requests for information that the Bank's governance bodies deem appropriate.
  - It analyses in the Global Risks Committee the status and changes in the principal risk parameters, and proposes risk management measures to ensure best practices are adopted. The Global Risks Committee's decisions are taken jointly.

- Medium-low risk profile

  CaixaBank has set an objective of maintaining a medium-low risk profile and a comfortable level of capital adequacy to strengthen its position as one of the soundest entities in the European banking market.

- Involvement throughout the organisation:

  - The risk and control areas identify, from an overarching perspective, all the risks to which activity is exposed. Their main duty is to manage and control risks using specialist teams.
  - The business units of the branch network and operating centres of Central Services have first-hand knowledge of customers and operations, which is essential to adequately documenting and approving transactions and monitoring the evolution thereof.

- Life cycle of transactions

  Management throughout the full cycle of transactions: from preliminary analysis until approval, monitoring of solvency and profitability, to repayment or recovery of impaired assets

- Joint decision-making, with an authorisation system always requiring approval by two employees.

- Independence of business and operating units

- Approval based on the borrower's repayment ability and an appropriate return

- The use of standard criteria and tools

  Risk definitions, analysis criteria and management and control tools are standard across the organisation. Risk policies and procedures are published in internal regulations available to all staff. Risks are identified taking into account the development of new products and businesses, as well as relevant changes to these, in order to ensure they are in line with the Group's risk profile.

- Decentralised decision-making

  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. Staff avail of sufficient information to identify, manage and report risks, and are aware of their responsibilities with regards to these duties.

- Use of advanced techniques

  Risks are measured and analysed using advanced methods and tools in accordance with sector best practices. These include probability of default calculations obtained through rating and scoring tools, loss given default and expected loss calculations in connection with the various portfolios and risk-adjusted return tools, both at customer and branch level. Value at Risk (VaR) calculations are also performed for the portfolios as a method for controlling and setting market risk thresholds, and the various operational risks relating to each CaixaBank activity are identified using both quantitative techniques, such as the calculation of VaR, and qualitative techniques through key risk indicators (KRI), self-assessment of operational risks and the establishment of action plans and risk mitigation plans.

  All risk measurement, monitoring and management work is carried out in accordance with the recommendation of the Basel Committee on Banking Supervision, European directives and Spanish legislation.

- Allocation of appropriate resources

<u>Training</u>

With the objective of enabling the Group's branch managers, premier bank managers and private banking consultants to offer customers the best service and build their trust, since 2015 more than 6,000 branch managers and premier banking managers have obtained a diploma in Financial Advisory services from the UPF School of Management (run by Pompeu Fabra University) and almost the same number obtained a Certificate in Wealth Management from the Chartered Institute for Securities & Investment (CISI). This makes the Group the first Spanish financial institution to certify employees' training with a post-graduate Financial Advisory diploma and a prestigious international financial sector certificate.

In the area of Risks, the General Risks Division and the General Human Resources Division define the content of all training for functions supporting the Board/Senior Management covering specific matters that help high-level decision-making, as well as the rest of the organisation's functions, especially with respect branch network staff. The aim is to facilitate the transfer throughout the organisation of the Risk Appetite Framework, the decentralisation of decision-making, the update of risk analysis skills and the optimisation of risk quality.

The Entity is structuring its training programme through the Risk School. In this way, training is seen as a strategic tool designed to provide support to business areas. The school also acts as a conduit for disseminating the Bank's risk policies; providing training, information and tools for all the Entity's staff. The proposal comprises a training circuit for specialising in risk management, which will be linked to the professional development of the entire Bank's workforce from Retail Banking staff to specialists from any field. It aims to ensure that all personnel have sufficient knowledge of:

- the financial system and different risks affecting the economic climate and the banking business,
- the structure and operations of the Group’s Risk Management activity,
- the processes and tools associated with lending operations with regard to approval, monitoring and eventual re-negotiation and repayment phases,

- lending products and the risk inherent to each one, in addition to legislation governing lending contracts.

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

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

- **Basic Banking Risk course**: Basic level university qualification designed for generalist managers and staff from the branch network and other stakeholders who may need a basic knowledge of the organisation's risk management criteria to carry out their work. The second and third editions of this course were completed in 2017, with a total of 506 people receiving their certificates.
- **Postgraduate diploma in Banking Risk Analysis**: University diploma for commercial branch deputy managers and managers and other stakeholders who, given their role, may be involved in approving loans or may require in-depth knowledge of risk at CaixaBank. The third, fourth, fifth and sixth editions of the first part of this diploma started in 2017, attended by 1,489 individuals, as well as the second and third editions of the second part, involving a further 1,543 professionals.

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

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

Specific training courses were also run on the following topics:

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

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

Performance assessment and remuneration

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

Two different plans are in place to achieve this:

- 15% of the variable remuneration received by members of the Management Committee and the Identified Group is directly related to annual compliance with the Risk Appetite Framework.
- Employees working in business areas set down their objectives in a bottom-up/top-down process to ensure that, on aggregate, the objectives of the Strategic Plan (for the corresponding year) are

met. Therefore, insofar as these objectives are already calibrated to ensure compliance with the Risk Appetite Framework, in addition to other institutional objectives (identification and knowledge of customers, according to KYC principles), efficient and effective transference and subsequent alignment with the risk profile set by the Board is achieved).

Internal control framework

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

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

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

Applicable standards and regulations

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

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

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

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

Internal control functions at CaixaBank

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

- The first line comprises the Group's business and support units, which are risk taking areas responsible for developing and maintaining effective controls over their businesses, and for identifying, managing and measuring, controlling, mitigating and reporting the main risks that arise in their ongoing activity.
  It is therefore comprised of all the CaixaBank Group's areas, except those specifically designated as second and third lines of defence.
- The second line of defence acts independently from the business units and it performs risk identification, measurement, monitoring and reporting, establishes management policies and control procedures, and is responsible for reviewing application thereof by the first line. The second line of defence comprises the Global Risk Management functions (RMF), and the Compliance function which is responsible for, among others, ensuring the Bank operates with integrity and in compliance with applicable legislation, regulations and internal policies.
- and internal audit, as the third line of defence, which is an independent and objective function for assurance and consultation; it is designed to add value and improve activities. It contributes to achieving the strategic objectives of the CaixaBank Group, providing a systematic and disciplined approach to evaluating and improving risk control and management processes and corporate governance.

Global assessment procedures in the Risks Control environment

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

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

First line of defence

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

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

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

- Identify and evaluate the risks associated with its processes. Identify potential emerging risks.

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

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

Second line of defence

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

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

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

The CaixaBank's second line of defence consists of:

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

The second line of defence includes the following functions:

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

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

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

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

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

Risk Management Function

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

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

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

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

The ICFRS, as part of its internal control function, is defined as the set of processes that are carried out to provide reasonable assurance on the reliability of the financial information disclosed by the Entity in the markets. It is designed in accordance with the guidance established by the Spanish National Securities Market Regulator (CNMV) in its document "Guidelines on Internal Control over Financial Reporting in Listed Companies" (companies issuing securities admitted to trading). As a second line of defence, it monitors whether the practices and processes in place at the Bank to produce the financial information ensure its reliability and compliance with applicable regulations.

This function should specifically assess whether the financial information reported by the entities within the Group complies with the following principles:

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

Details of this function are presented in the Annual Corporate Governance Report for 2017, along with the activities carried out during the period.

Regulatory Compliance

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

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

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

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

Internal Validation

CaixaBank's Internal Validation function is performed by the Risk Models Validation unit (RMV) that reports directly to the General Risks Division. This ensures its independence from the areas in charge of developing risk models and policies, and risk infrastructures. The RMV's mission is to issue a technical opinion on the suitability of the internal models used for internal management and/or regulatory purposes in the CaixaBank Group.

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

The RMV's main activities are classified into two categories:

- **Validation cycles**: the group of regular reviews that guarantee an updated opinion on the status of the internal models.

- **Changes in internal models**: the activities that must been completed in order to reach an **informed opinion** of the suitability of the changes put forward by the areas in charge of the models.

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

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

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

Third line of defence

<u>Internal Audit</u>

Internal Audits has a rule book governing how it operates, approved by the Board of Directors. It establishes that Internal Audit is an independent and objective assurance and consultation function, established to add value and improve operations. It contributes to achieving the strategic objectives of the CaixaBank Group, providing a systematic and disciplined approach to evaluating and improving risk control and management processes and corporate governance.

Internal Audit is the third line of defence in the three lines of defence model. It oversees the activities of the first and second lines of defence so as to provide reasonable certainty to Senior Management and 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, particularly with regard to the requirements of supervisors, and adequate application of the defined Global Management and Risk Appetite frameworks;
- Compliance with internal policies and regulations, and alignment with best practices and uses in the sector, for adequate internal governance of the Group; and
- 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 suitability, 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 in controls.
- The validation, monitoring and assessment of the control environment by the second line of defences.

Its duties also include:

- Preparation of the multiannual 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. The Annual Plan is submitted to the Audit and Control Committee for review and then to the Board of Directors for approval.
- Reporting regularly to governance bodies (particularly the Audit and Control Committee), Senior Management, auditors, supervisors and other applicable control and management areas on the conclusions of the work carried out and weaknesses identified.
- Adding value by proposing recommendations to address weaknesses detected in reviews and monitoring their implementation by the appropriate centres.

3.3. Credit risk

3.3.1 Overview

Credit risk is the most significant risk item in the CaixaBank Group's balance sheet and arises from the banking and insurance business, treasury operations and long-term equity investments in financial entities and sector leaders. The maximum credit risk exposure at 31 December 2017 of financial instruments recognised as “Financial assets held for trading”, “Available-for-sale financial assets”, “Loans and receivables”, “Held-to-maturity investments” and “Derivatives – Hedge accounting” in the accompanying balance sheet, and “Guarantees given” and “Contingent commitments given” as memorandum items in the accompanying balance sheet, does not differ significantly from the carrying amount.

Regarding its ordinary business, CaixaBank gears its lending activity towards meeting the finance needs of households and businesses. Credit risk management is characterised by a prudent approvals policy and appropriate coverage. Most loans are to private borrowers and consist primarily of mortgages to first-time homebuyers. Therefore, the loan structure has a significantly low level of risk given the high degree of diversification and fragmentation. In line with CaixaBank's Risk Appetite Framework, the Entity is seeking a medium-low credit risk profile, while maintaining its position of leadership in loans to individuals and SMEs, while providing more value added services to the large companies segment, as set down in the 2015-2018 Strategic Plan.

A considerable effort has also been made to adopt and prepare for implementation of regulatory changes (see point 3.1 on regulatory changes in this note).

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

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

The document was approved by the CaixaBank Board of Directors in January 2015, in compliance with Bank of Spain Circulars 5/2012 and 3/2014, and establishes the following policies, among others:

- An appropriate relationship between income and the expenses borne by consumers.

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

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

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

CaixaBank also adheres to the Code of Good Practices for the viable restructuring of mortgage debts on primary residences included in Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgagors without funds, as amended by Law 1/2013, of 14 May, on measures to strengthen the protection of mortgage borrowers, debt restructuring and subsidised housing rentals.

3.3.2 Key indicators

At 31 December 2017 and 2016, the non-performing loan (NPL) ratio (including non-performing contingent liabilities) stood at 6.0% and 6.9%, respectively. The non-performing ratio for the Spanish financial system as a whole according to the figures for October 2017 stood at 8.22%. Non-performing loans amounted to EUR 14,305 million and EUR 14,754 million at 31 December 2017 and 2016 respectively.

Provisions for loans and contingent risks at 31 December 2017 and 2016 amounted to EUR 7,135 million and EUR 6,880 million, respectively, with a coverage ratio of 50% and 47%, respectively.

3.3.3 Credit risk cycle

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

3.3.3.1 Credit risk measurement and rating

The mission of the Corporate Risk Models and Policies Division within Global Risk Management at CaixaBank is to build, maintain and monitor the credit risk measurement systems. It is also in charge of guaranteeing and advising on the use of these systems, while seeking to ensure that the decisions based on these measurements take their quality into account. As established in best practices, this corporate division is independent from the business areas in order to ensure that risk rating policies are not affected by commercial considerations.

In accordance with the Delegated Regulation (EU) No. 529/2014 of the European Commission (CRR), CaixaBank uses internal models to assess credit risk related to the following types of exposure:

- Mortgage loans granted to individuals
- Personal loans granted to individuals
- Cards issued to individuals
- Loans and credit granted to SMEs
- Loans and credit granted to large companies (corporations)
- Portfolio of industrial stakes

In addition to the above, the Entity uses internal models for management tasks but not for the purposes of calculating minimum regulatory capital requirements to some types of exposure, e.g. Specialist financing.

Internal models, with specific calibrations to estimate incurred losses, are also used to calculate allowances.

Periodic reviews are performed of all the models to detect any deterioration in the quality of the measurements and of the estimates made for the purpose of including any fluctuations in the economic cycle. Practically the entire retail banking portfolio, which includes the individual and SME segments, is assessed on a monthly basis, enabling the knowledge base for these customers and their portfolios to be continually updated. This continual risk assessment provides information on the distribution of risk exposure in the various portfolios with respect to creditworthiness, expressed as a probability of default.

Risk measurement involves two basic concepts, described below.

- **Expected loss*:*** Expected loss is the result of multiplying three factors: exposure at default, probability of default, and loss given default.

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

  The estimate is based on the Bank's internal default experience, relating the drawdown levels upon default to drawdown levels over the 12 preceding months. The relationships observed in terms of product type, term to maturity and customer characteristics are modelled for each transaction.

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

  These tools were developed on the basis of the Entity's NPL experience and include the measurements required to fine-tune the results to the business cycle, with a view to securing relatively stable measures in the long term, which may differ from the incidences of default observed at any given time. Moreover, the tools are implemented across the entire branch network and integrated within the normal authorisation and monitoring tools of asset products.

  Credit risk assessment tools can be either product or customer oriented. Product-oriented tools are used mainly within the scope of authorisation of new retail banking transactions and take account of the debtor's specific characteristics, information derived from the customer relationship, internal and external alerts, and the specific characteristics of the transaction to determine the probability of default of the transaction. Customer-oriented tools, on the other hand, assess the debtor's probability of default on a general basis, though the results for individuals may differ according to the product. This second group comprises behavioural 'scoring' models for the monitoring of risk of individuals and ratings or companies.

Rating tools for companies vary considerably according to the customer segment. The rating process for micro-enterprises and SMEs is very similar to that used for individuals. In this case a modular algorithm was developed, which rates four different sets of data: the financial statements, the information drawn from dealings with customers, internal and external alerts and certain qualitative factors.

The Corporate Rating function, which reports to the CaixaBank Global Risk Management Division, has internal models in place to obtain ratings for the large companies segment. These are expert models that seek to replicate the ratings of rating agencies and require expert criteria of analysts. In view of the lack of sufficient statistical frequency of internal default delinquency in this segment, 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 models were developed on the basis of data with sufficiently significant historical depth, so they include the cycle effect to a reasonable degree and ensure the stability of the measurements obtained.

The results of all the tools are linked to a risk master scale that provides a standard classification for the lending portfolio, i.e. it allows risk to be grouped according to a common expected NPL ratio.

- **Loss given default (LGD):** LGD is the percentage of debt that cannot be recovered in the event of customer default. CaixaBank reviews the default recovery and default remedial procedures on an ongoing basis to minimise the impact of a potential default.

  Historical LGD rates are calculated using internal information of CaixaBank, taking into consideration all the cash flows associated with the contracts from the moment of default until the situation is either remedied or a default is finally declared. This calculation also includes an estimate of the indirect expenses (office staff, infrastructure costs and similar) associated with the process.

  Additionally, the LGD is modelled in order to provide correct initial estimates, based on the collateral, the loan-to-value ratio, the type of product, the borrower's creditworthiness and, as required by current legislation, the recessionary phases of the economic cycle.

  As a result of credit approval policies, mandatory provision of collateral and the related loan-to-value ratio, and active default management, improving the levels of settlement and recovery in the event of default, the estimated LGD rates for the now performing portfolio are quite low.

- **Unexpected loss:** Measuring the expected loss guarantees proper control of credit risk under "normal" market conditions. The expected loss, in fact, may be considered as an additional business cost. However, at times real losses can exceed the expected losses due to sudden changes in the cycle or variations in the specific risk factors of each portfolio and the natural correlation between the various debtors' credit risk.

  The variability of the expected losses from the portfolio constitutes unexpected losses, which represent potential unforeseen losses. They are calculated as the loss associated with a sufficiently high confidence level in the distribution of losses, less the expected losses. In its normal business activity, the Entity must have the ability to absorb these unforeseen losses.

- **Incurred loss**: An estimate is made of incurred loss; i.e. the need to set aside provisions for the exposures set out in IAS 39, defined as the difference between the carrying amount of the exposure and the estimated future cash flows for the non-performing transactions. For transactions classified as standard, an estimate of incurred but not reported losses is made taking the losses associated with new non-performing exposures over a 12-month horizon as reference.

For individually significant non-performing exposures, the estimates are based on individual assessments. In all other cases, they are based on internal models or collective assessments.

The parameters used for the collective estimation are similar to those discussed previously, except they are Point-in-Time calibrations; i.e. they reflect prevailing economic conditions, as opposed to Through-the-Cycle or Downturn metrics, which are used to calculate risk weighted assets for solvency purposes (Basel).

Specifically, incurred loss is obtained by multiplying the basis for the calculation of allowances, calculated as EAD less the recoverable amount of collateral, by the *intensity* of provisions. Meanwhile, the recoverable amount of collateral is obtained by applying a haircut to the valuation of the collateral (appraisal value) to reflect foreclosure, possession, maintenance and selling costs, and adjustments to the selling price based on the Entity's recent experience. The *intensity* indicated above is the product of multiplying the probability of default by the probability that, after default, the exposure is not adjusted by estimated losses if there is no foreclosure. All these parameters are estimated based on the Entity's recent experience and, where possible, the approaches used for the risk parameters taken for solvency and management purposes.

3.3.3.2 Admission and approval

Approval of lending transactions at CaixaBank follows the basic criterion of evaluation of the borrower's repayment capacity. It is not the Entity's policy to approve transactions merely because guarantees exist. Additionally, with regard to the basic criterion, it is important for the Entity to obtain additional guarantees, particularly in respect of long-term transactions, and to fix a price in accordance with the characteristics of the transaction that covers the funding, overhead and inherent credit risk costs.

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

The Entity has an approval system in place to authorise loans, which is a highly effective tool for delegating powers to manage risk. The system is based on the establishment of maximum approval levels by guarantee and customer/Group in the case of individuals and large companies, and by customer/economic Group expected-loss thresholds in other business segments. Decisions that, due to level of risk required, are resolved on a decentralised basis always require the signature of two employees with sufficient powers of approval.

The level of approval powers is determined based on the evaluation of five key parameters:

- **Amount**: the total finance applied for plus any finance already extended. This determines the level of risk to be approved.
- **Collateral**: the group of assets and/or funds pledged to secure fulfilment of a repayment obligation. This key parameter analyses what percentage of the finance is secured by the collateral.
- **General Risk Policy**: raft of policies identifying and evaluating the relevant variables of each transaction.
- **Term:** the requested payment term for the finance; a critical variable introducing uncertainty into the transaction.
- **Price:** the transaction price should cover all costs, including funding, operating, expected loss and capital remuneration.

Scorings and ratings of customers are updated monthly to always have an appropriate credit rating. For legal persons, the Entity periodically updates the financial statements and qualitative information of its companies to achieve the maximum level of coverage of the internal rating.

This system is based on electronic files for both new applications and existing transactions, eliminating the need to physically move files and making the process more efficient. This includes all documentation necessary to analyse and resolve the transaction for the related level, capturing basic information automatically from information systems and by scanning documentation offering a digital signature by the parties (e.g. provision of guarantee).

To determine the price of operations, the pricing tools included in the applications systems (based on appropriate coverage of the risk premium, the cost of liquidity and operating expenses) and data from the risk-adjusted return (RAR) tool are used. This RAR measure aims to achieve greater control over the balance between risk and returns. It can identify the factors determining the returns on each customer adequately and analyse customers and portfolios in accordance with their risk-adjusted returns. For virtually all of the Company's products, the manager knows, at the time of the grant, the impact of new transactions on the customer's risk-adjusted return. This provides it with more information for pricing transactions.

There is a specific, centralised area for risk operations with individuals and self-employed professionals: the Individual Loan Approval Centre. The main objective of this area is to manage authorisation of loans to individuals that exceed the approval powers of the branch offices, with a commitment to provide a response with 48 hours.

For requests submitted by legal persons, there are several Regional Risk Approvals Centres (RACs). These centres deal with requests up to a specific level of risk approval, so that if the risk level requested to approve a transaction does not exceed their approval level, it may be approved at the centre. Otherwise, the request is passed on to Central Services.

Therefore, the internal organisation of Companies Loan Approvals at Central Services is based on the following structure adjusted for the type of risk and customer segment:

- **Corporate risks:** centralises business groups with annual turnover above EUR 200 million managed by Corporate centres.
- **Company risks:** legal persons 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 food and agriculture 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.
- **Financial sector risk and country risk:** management of bank counterparty risk and country risk inherent in funding transactions for the various segments.

Highlights for the year include:

- The decision to grant a loan must be taken based on documented and verified information on the applicant and the purpose of the transaction. Aware of the importance of having correct documentary support to evaluate transactions, the Entity developed an automated document control system. The automated control shows the office what documentation is required for the application being processed based on borrower segment and transaction type.
- Further progress was made on centralising risk pre-approvals for natural and legal persons in the micro and small business loan segments based on multiple risk criteria. The pre-approval campaigns are designed:
    - To focus commercial activities as selecting a target customer can help identify possible pockets of potential credit.
    - To strengthen existing relations with customers.
    - To detect potential customers.
    - To speed up the approval of transactions for customers based on their loyalty and credit behaviour.

  Depending on the type of campaign, transactions can be arranged through Línea Abierta, an ATM or may require the direct involvement of a branch, whose management is facilitated through a fast-track service, with no or minimal documentation.

- Progress was made on the digitalisation of loan transaction processes (digital signature and transaction authorisation). Digitalisation introduces greater and more sophisticated control over transactions, improving the reliability and quality of the data used in granting loans.
- Progress was also made in integrating models in management, particularly in implementing a pricing scheme that takes into consideration the profitability of the customer, as well as that of the transaction for companies.
- A **Communication Protocol** was implemented to improve the interaction between risk analysts and sales managers.
- Regarding measurement of the area's service quality, more intense monitoring was carried out, which led to the design of action plans for specific regions. These efforts resulted in significant improvements in the quality perception index during the year.
- A promotion and specialisation plan for specific products was rolled out successfully, driving initiatives and implementing improvements. This enabled the risk analysts to acquire greater knowledge about some specific financing products.

3.3.3.3. Limits on large exposures

As part of the approvals process, the CaixaBank Group monitors and ensures compliance with the regulatory limits (25% of eligible own funds) and the concentration risk appetite thresholds. See Note 3.3.4 Concentration risk for further details.

At year-end 2017 no breach of the defined thresholds had been observed.

3.3.3.4 Credit risk mitigation

The Entity applies the following policies to mitigate credit risk:

- Compensation policies and processes: transaction offsetting agreements included in clauses of framework offsetting agreements are used as credit risk mitigation techniques since they provide an offsetting facility between contracts of the same type. In this respect, in managing risk and calculating capital, the existing and reciprocal cash balances between the Entity and the counterparty are offset.

- Transactions at CaixaBank are approved based on an evaluation of the borrower's repayment capacity. If this condition is fulfilled, the contribution of additional guarantees or collateral (mortgages, collateral provided by shareholders or the parent company, or pledges) is assessed and a price is set in accordance with the aforementioned conditions that guarantees appropriate coverage of the risk premium.

  However, long-term operations must have more solid guarantees, as repayment capacity is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects. These guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the project.

  All transactions involving a risk are secured by the personal guarantee of the borrowers, irrespective of whether they are a natural or legal person, who pledge all of their existing and future assets to secure fulfilment of the obligations concerned. Further guarantees may also be required alongside a borrower's personal guarantee. Acquiring additional guarantees always reduces exposure to risk as they cover us against unexpected contingencies. Guarantees must therefore increase as the likelihood of these contingencies occurring rises.

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

  The different types of guarantees and collateral, along with the policies and procedures their management and assessment, are as follows:

  - Personal guarantees: Most of these relate to pure-risk operations with companies in which the collateral provided by the shareholders, irrespective of whether they are individuals or legal persons, is considered relevant, as those ultimately responsible for the operation. In the case of individuals, the collateral is estimated on the basis of declarations of assets, and where the backer is a legal entity, it is analysed as the holder for the purposes of the approval process.

  - Collateral: the main types of collateral accepted are:

    - Pledged guarantees: applicable to loans, open credits, credit accounts, guarantee lines, risk lines or leases, guaranteed through CaixaBank intermediation or pledging of accounts held against the bank. To be admitted as collateral, the financial instruments must be deposited at CaixaBank, they must be free of liens and charges, their contractual definition must not restrict their pledge, and their credit quality or change in value must not be related to the borrower.

      The pledge remains until the loan matures or is repaid early, or it is derecognised.

      The main types of acceptable financial guarantees are as follows:

- demand savings accounts: A pledge is drawn up for a specific sum on the account. The rest may be freely used, and may even be used in other ongoing operations.
- time deposits and savings facilities: The entire sum of the product is effectively withheld.
- Interests in mutual funds: 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.
- insurance policies: Pledge in line with the policy and for the lowest value between the surrender value and the sum of capital, pensions and contributions. The pledged policy is fully affected.
- Fixed income securities: these must be senior or mortgage covered bond issuances, and may not be subordinated, convertible or preference issuances. The securities must be admitted to trading on a regulated market of the European Union or similar, and have a rating of at least BBB.
- Equity securities: Securities deposited at CaixaBank may be pledged, provided they are quoted on a regulated market of the European Union or similar.

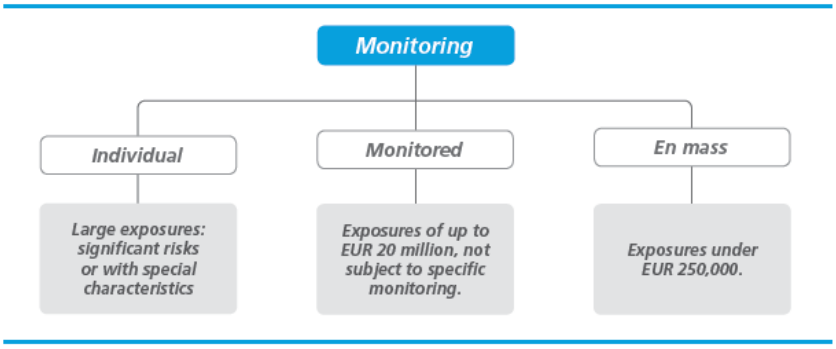
- Mortgage collateral: the mortgage is a real right on immovable property to secure an obligation. The internal policy establishes the following:
  - the procedure for approval of guarantees and the requirements for drawing up operations, e.g., the documentation that must be supplied to the Bank and the mandatory legal certainty of this documentation.
  - review processes for the appraisals registered, in order to ensure proper monitoring and control of the guarantee. Regular processes are also carried out to test and validate the appraisal values in order to detect any anomalies in the procedures of the appraisal entities acting as suppliers to CaixaBank.
  - outlay policy, mainly concerning property development operations, to allow funds to be released as work progresses, depending on the valuation drawn up by the appraisal entity.
  - *Loan to value* (LTV) of the transaction. The capital to be granted in mortgage operations is limited to percentages of the value of the guarantee, which is defined as the lowest of three values: the appraisal value, the value as estimated by the applicant and, if the transaction is a purchase, the value shown on the official deed. IT systems calculate the level of approval required for each type of transaction.

3.3.3.5 Credit risk monitoring

To adequately manage credit risk, borrowers must be monitored continuously over the entire term of their loans. The objective is to reach a conclusion on the quality of the risk assumed with the borrower and any actions that need to be taken, including the estimation of impairment. The targets of risk monitoring are the accredited holders of the debt instruments and off-balance sheet exposures that bear credit risk.

The risk monitoring teams at CaixaBank report to the Executive Global Risk Management Division. Its function is two-fold: to provide individual and expert analysis of borrowers or economic groups with significant levels of risk, or large exposures, and to monitor models of risk holders in the collectively monitored portfolio, based on alerts built in the systems.

Monitoring of portfolios is guided by several different policies and procedures, based on the exposure in question and the specific nature of the portfolios:



The outcome of monitoring action is the establishment of *Action Plans* or *Monitoring Ratings* for each of the borrowers analysed. The conclusion is reached through individual analysis or the application of models and alerts, which provide a reference for future approval policies.

3.3.3.6 Arrears management

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

Recovery is conceived as an integral management circuit that begins even before default or before an obligation falls due through a prevention system implemented by CaixaBank and ends with recovery or definitive write-off.

The CaixaBank branch network oversees the recovery activity. The Entity's extensive network allows for coverage of the entire national territory, ensuring proximity to and knowledge of the customer, which it leverages applying criteria of effectiveness and efficiency.

One of CaixaBank's main risk management priorities since economic recession in Spain began has been to ensure that the units responsible for arrears management have the resources they need to operate successfully.

The aim is to act on the first signs of any deterioration in the creditworthiness of debtors and carefully implement measures to monitor operations and the related guarantees and, if necessary, instigate claims to recover debt quickly. These measures make up the first three "Principles and premises of the Entity's recovery activity":

- Prevention: One of the most important principles at CaixaBank is the early detection of the risk of non-payment, so it can be managed and the situation normalised even before it occurs.
- Customer-orientation: Recovery actions are designed to help customers find solutions to irregularities in payments. They also provide a tool for increasing customer loyalty, as recovery management is carried out with and for the customer. This requires knowledge and an analysis of the customer to decide on the best action for both the Entity and the customer.

  Incidents are managed bearing in mind the customer's overall position, rather than each position showing incidents separately. Also taken into account is the customer's relationship within an economic group or with other customers. In general, efforts are made to avoid overlaps in actions, which increases costs.

- Anticipation: CaixaBank attempts to act as early as possible to arrive at a solution and pre-empt other creditors in order to have the best position vis-à-vis the debtors and any other creditors.

The situation of the Spanish real estate market poses extreme difficulties for those who took out mortgage loans when property prices were at their highest, leaving them in a situation now where they cannot meet their payment obligations.

In this context, CaixaBank was among the first to embrace and adopt the Code of Good Practices and is still applying today a set of measures for private customers experiencing temporary difficulties in paying off mortgage loans on their normal residence. These measures, which apply only to customers whose relationship with the Entity shows their unequivocal desire to honour the commitments made, aim to adapt the conditions of the operation to the borrower's current situation. Interest-only periods, waiting clauses, unification of debts and a payment moratorium, for example, are some of the measures that are analysed when deciding with customers on the process that best suits their particular situation, also applying the prudence criteria established in the "Principles and premises of the Entity's recovery activity".

- Prudence: The objective of the recovery activity is to obtain the highest amount possible at the lowest cost at any time during the life of the loan (including the judicial stage), always acting with maximum prudence in ongoing negotiations with the customer. In this respect, actions that lead to an improvement in the customer's classification and exceed the powers delegated in the recovery officer must be agreed jointly, never unilaterally. Moreover, agreements should only be made when they are reasonable and realistic, and have completed the related approval circuit.

3.3.3.7. Recoveries

Policies and strategies of the CaixaBank Group in relation to problematic assets in the construction and property development sectors

The underlying criterion guiding the CaixaBank Group's management of problematic assets in the real estate sector is to help borrowers meet their obligations.

First, with the commitment of shareholders and other companies within the borrower group, it studies the possibility of granting interest-only periods so that the financed land can be developed, ongoing property development can be finalised and finished units can be sold.

The analysis places special importance on the feasibility of projects, thereby avoiding a higher investment for those properties whose sale is not reasonably assured.

With regard to refinancing operations, the aim is to add new guarantees to reinforce those already in place. The policy is to not exhaust the current margin of value provided by the initial guarantees with further mortgages.

For completed projects, the possibility of helping with the sale is analysed through Servihabitat Servicios Inmobiliarios, SL, which is 49%-owned by CaixaBank and exclusively manages, for a period of 10 years, the CaixaBank Group's real estate assets. This allows for the efficient management of the investment, pursuing recovery and adding value and profitability.

In all cases, detailed purchaser quality checks are run to ensure the feasibility of providing loans to the end buyers.

Finally, when there is no reasonable possibility that the borrower can continue to maintain its position, the mortgaged asset is acquired. The acquisition price is calculated using the appraisal performed by a valuation company approved by the Bank of Spain. When the acquisition price is lower than the outstanding debt, the loan is written down to the foreclosure value.

Policies and strategies relating to foreclosure assets

BuildingCenter, SAU is the CaixaBank subsidiary responsible for ownership of the Group's real estate assets. BuildingCenter acquires the real estate assets deriving from CaixaBank's lending activity and manages them through Servihabitat Servicios Inmobiliarios, SL.

Real estate assets are acquired through three different channels:

1) Acquisition at auctions held after assets have been foreclosed, mainly in relation to mortgage loans. Activities involving adjudication at auction are controlled by the Auctions Committee comprising CaixaBank's Risks and Legal Services Areas and representatives of BuildingCenter, which is the ultimate holder of the assets.

2) Acquisition of mortgaged real estate assets of individuals, with the subsequent subrogation and cancellation of the debts.

3) Acquisition of real estate assets of companies, mainly property developers, to cancel their debts. The acquisition process includes conducting legal and technical reviews of the properties. The Real Estate Acquisition and Appraisal Committee, comprising CaixaBank's Risk and Legal Services Areas and representatives of BuildingCenter, which is the ultimate holder of the assets, permanently controls this process and is first in line for approving the transactions prior to them being put before CaixaBank's Management Committee.

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 rules approved in CaixaBank for this type of transaction.

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

- Land development: Certain procedures have yet to be completed for some plots that are suitable for development in order for them to be developed, such as completion of the planning process, redistribution of plots and development of urban infrastructure. These procedures are performed through the specialised services of Servihabitat Servicios Inmobiliarios, pursuant to very strict investment criteria. They are only performed when the investment ensures that the value of the affected assets will be maintained.
- Completion of housing developments: A number of minor measures to improve some of these developments are made to ensure that they can be sold. These measures are performed using the technical resources and experience of CaixaBank Facilities Management SA, a Group subsidiary, also pursuant to very strict investment criteria.
- 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 recover the investment and generate a positive margin.
- Rental: A means of benefiting from rising demand and generating recurring income. This strategy also involves a social dimension when former owners are offered the opportunity to rent the property they have handed over in lieu of their debt to allow them to continue living in it.
- Sale: Servihabitat Servicios Inmobiliarios, the company that manages the real estate assets of BuildingCenter, implements an intense sales campaign through an online-multichannel system, CaixaBank branches, its own offices, and estate agents, etc., which continuously positions it as a benchmark in terms of sales volume and brand recognition and innovation.

Foreclosure assets

The table below shows foreclosure assets by source and type of property at 31 December 2017 and 2016:

31.12.2017

Foreclosure real estate assets (*)

(Thousands of euros)

	Gross carrying amount	Allowances for impairment of assets (**)	*Of which: Allowances for impairment of assets from time of foreclosure*	Net carrying amount
Property acquired from loans to real estate constructors and developers	**7,786,645**	**(4,244,919)**	***(2,369,684)***	**3,541,726**
Buildings and other completed constructions	3,202,077	(1,403,420)	*(657,064)*	1,798,657
Homes	*2,389,960*	*(1,010,168)*	*(431,813)*	*1,379,792*
Other	*812,117*	*(393,252)*	*(225,251)*	*418,865*
Buildings and other constructions under construction	835,392	(463,481)	*(176,374)*	371,911
Homes	*667,373*	*(372,890)*	*(141,796)*	*294,483*
Other	*168,019*	*(90,591)*	*(34,578)*	*77,428*
Land	3,749,176	(2,378,018)	*(1,536,246)*	1,371,158
Consolidated urban land	*1,799,762*	*(1,062,875)*	*(582,669)*	*736,887*
Other land	*1,949,414*	*(1,315,143)*	*(953,577)*	*634,271*
Property acquired from mortgage loans to homebuyers	**2,813,410**	**(964,034)**	**(438,601)**	**1,849,376**
Other foreclosure real estate assets or received in lieu of payment of debt	**1,658,547**	**(698,383)**	**(343,550)**	**960,164**
Total	**12,258,602**	**(5,907,336)**	***(3,151,835)***	**6,351,266**

(*) Does not include foreclosure assets classified as “Tangible assets – Investment properties” amounting to EUR 3,030 million, net, and includes foreclosure rights deriving from auctions in the amount of EUR 473 million, net. Also excludes foreclosure assets of Banco BPI, with a gross carrying amount of EUR 53 million, as this is not included in business in Spain.
(**) Cancelled debt associated with the foreclosure assets totalled EUR 14,899 million and total write-downs of this portfolio amounted to EUR 8,548 million, EUR 5,907 million of which are impairment allowances recognised in the balance sheet.

31.12.2016

Foreclosure real estate assets (*)

(Thousands of euros)

	Gross carrying amount	Allowances for impairment of assets (**)	*Of which: Allowances for impairment of assets from time of foreclosure*	Net carrying amount
Property acquired from loans to real estate constructors and developers	**9,103,128**	**(4,819,323)**	***(2,701,044)***	**4,283,805**
Buildings and other completed constructions	3,887,167	(1,634,838)	*(752,300)*	2,252,329
Homes	*2,794,739*	*(1,188,241)*	*(516,283)*	*1,606,498*
Other	*1,092,428*	*(446,597)*	*(236,017)*	*645,831*
Buildings and other constructions under construction	840,434	(478,528)	*(168,736)*	361,906
Homes	*797,160*	*(453,611)*	*(154,805)*	*343,549*
Other	*43,274*	*(24,917)*	*(13,931)*	*18,357*
Land	4,375,527	(2,705,957)	*(1,780,008)*	1,669,570
Consolidated urban land	*2,069,470*	*(1,198,973)*	*(668,240)*	*870,497*
Other land	*2,306,057*	*(1,506,984)*	*(1,111,768)*	*799,073*
Property acquired from mortgage loans to homebuyers	**2,791,270**	**(1,019,676)**	***(462,651)***	**1,771,594**
Other foreclosure real estate assets or received in lieu of payment of debt	**1,337,773**	**(580,817)**	***(232,669)***	**756,956**
Foreclosed finance to real estate asset holding companies or received in lieu of payment of debt	**63,963**			**63,963**
Total	**13,296,134**	**(6,419,816)**	**(3,396,364)**	**6,876,318**

(*) Does not include foreclosure assets classified as "Tangible assets – Investment properties" amounting to EUR 3,078 million, net, but includes real estate assets in the process of foreclosure at auctions in the amount of EUR 556 million, net.
(**) Cancelled debt associated with the foreclosure assets totalled EUR 16,504 million and total write-downs of this portfolio amounted to EUR 9,691 million, EUR 6,420 million of which are impairment allowances recognised in the balance sheet.

3.3.3.8 Refinancing policies

The CaixaBank Group has a detailed customer debt refinancing policy, which complies with Circular 4/2016 and contains the same general principles issued by the EBA for this type of operation.

From the very beginning, CaixaBank has adhered to the Code of Good Practices for the viable restructuring of mortgage debts on primary residences included in Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgagors without funds, as amended by Law 1/2013, of 14 May, on measures to strengthen the protection of mortgage borrowers, debt restructuring and subsidised housing rentals.

The risk management procedures and policies applied allow for detailed monitoring of credit transactions at all times. In this regard, any transaction that CaixaBank uncovers 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 CaixaBank's best judgement, no additional provisions emerge in relation to the impairment of refinanced loans.

Refinancing

The detail of refinancing by economic sector at 31 December 2017 and 2016 is as follows:

31.12.2017

(Thousands of Euros)

	Total						
	Unsecured loans		Secured loans				Accumulated impairment or losses in fair value due to credit risk (*)
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate mortgage secured	Rest of secured loans	
Credit institutions	0	0	0	0	0	0	0
Public administrations	54	180,962	466	77,521	52,821	0	(6,880)
Other financial corporations and individual entrepreneurs (financial business)	60	36,587	12	1,394	1,306	4	(25,829)
Non-financial corporations and individual entrepreneurs (non-financial business)	8,484	2,961,308	13,434	3,342,143	2,209,914	28,729	(1,879,563)
Of which: Financing for real estate construction and development (including land)	*807*	*148,761*	*3,520*	*1,181,833*	*811,463*	*1,842*	*(415,869)*
Other households	37,163	349,021	95,946	5,421,689	4,737,552	8,957	(731,467)
Total	**45,761**	**3,527,878**	**109,858**	**8,842,747**	**7,001,593**	**37,690**	**(2,643,739)**
Memorandum items: Financing classified as non-current assets and disposal groups classified as held for sale							

	Of which: Non-performing loans						
	Unsecured loans		Secured loans				Accumulated impairment or losses in fair value due to credit risk (*)
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate mortgage secured	Rest of secured loans	
Credit institutions	0	0	0	0	0	0	0
Public administrations	17	64,208	164	19,360	12,303	0	(6,880)
Other financial corporations and individual entrepreneurs (financial business)	45	26,208	11	1,004	944	4	(25,784)
Non-financial corporations and individual entrepreneurs (non-financial business)	6,542	1,742,260	9,830	2,252,478	1,442,637	16,225	(1,791,722)
Of which: Financing for real estate construction and development (including land)	*711*	*112,666*	*2,361*	*842,721*	*522,361*	*1,790*	*(385,724)*
Other households	22,702	246,733	60,548	3,506,778	2,937,614	5,643	(699,648)
Total	**29,306**	**2,079,409**	**70,553**	**5,779,620**	**4,393,498**	**21,872**	**(2,524,034)**
Memorandum items: Financing classified as non-current assets and disposal groups classified as held for sale							

(*) At 31 December 2017, provisions identified collectively amounted to EUR 1,588,009 thousand, while provisions identified individually stood at EUR 1,055,780 thousand.

31.12.2016

(Thousands of Euros)

	Total						
	Unsecured loans		Secured loans				Accumulated impairment or losses in fair value due to credit risk
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate mortgage secured	Rest of secured loans	
Credit institutions	1	5,018	0	0	*0*		
Public administrations	20	108,665	424	62,115	54,630		(832)
Other financial corporations and individual entrepreneurs (financial business)	30	26,797	7	661	510		(24,906)
Non-financial corporations and individual entrepreneurs (non-financial business)	2,001	2,028,662	10,790	3,790,487	2,594,801	9,995	(1,708,964)
Of which: Financing for real estate construction and development (including land)	*60*	*65,915*	*3,119*	*1,630,791*	*1,055,839*	*3,088*	*(566,891)*
Other households	23,283	229,713	82,298	5,480,696	4,566,811	5,382	(834,341)
Total	**25,335**	**2,398,855**	**93,519**	**9,333,959**	**7,216,752**	**15,377**	**(2,569,043)**
Memorandum items: Financing classified as non-current assets and disposal groups classified as held for sale							

	Of which: Non-performing loans						
	Unsecured loans		Secured loans				Accumulated impairment or losses in fair value due to credit risk
					Maximum amount of the collateral that can be considered		
	Number of transactions	Gross carrying amount	Number of transactions	Gross carrying amount	Real estate mortgage secured	Rest of secured loans	
Credit institutions							
Public administrations	12	40,555	130	15,913	13,247		(827)
Other financial corporations and individual entrepreneurs (financial business)	19	24,609	6	569	425		(24,674)
Non-financial corporations and individual entrepreneurs (non-financial business)	1,000	1,168,836	6,626	2,839,235	1,771,879	4,197	(1,601,245)
Of which: Financing for real estate construction and development (including land)	*30*	*55,408*	*1,789*	*1,251,943*	*738,438*	*2,579*	*(521,221)*
Other households	10,412	147,308	43,748	3,077,070	2,441,070	1,719	(715,131)
Total	**11,443**	**1,381,308**	**50,510**	**5,932,787**	**4,226,621**	**5,916**	**(2,341,877)**
Memorandum items: Financing classified as non-current assets and disposal groups classified as held for sale							

(*) At 31 December 2016, provisions identified collectively amounted to EUR 1,572,254, while provisions identified individually stood at EUR 996,789 thousand.

Changes in refinanced operations in the 2017 and 2016 are:

Changes in refinanced transactions (*)

(Thousands of euros)

	31.12.2017	31.12.2016
Opening balance	9,163,771	16,629,652
Additions due to business combinations **(Note 7)**	1,089,608	
Refinancings and restructurings in the period	2,205,797	3,887,446
Memorandum items: Impact recognised in the statement of profit or loss for the period (**)	*(86,943)*	*(286,906)*
Debt repayments	(2,147,656)	(2,874,646)
Foreclosures	(287,469)	(349,000)
Derecognitions (reclassification to written-off assets)	(301,049)	(384,996)
Other changes (***)	3,884	(7,744,685)
Closing balance	**9,726,886**	**9,163,771**

(*)No release of impairment allowances for credit risk due to refinancing has been recorded in 2017 or 2016. 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 as of December 31, 2017 and 2016 amounted to EUR 16 million and EUR 6 million, respectively (including late-payment interest).

(**) It includes net impairment allowances for the year of the refinanced contracts.

(***) In 2016, movements primarily comprised transactions to comply with exit criteria.

The table below provides information on guarantees received for refinanced operations at 31 December 2017 and 2016 by classification of customer insolvency risk:

Guarantees received for refinanced transactions (*)

(Thousands of euros)

	31.12.2017	31.12.2016
Value of collateral	**15,869,084**	**16,818,386**
Of which: Guarantees non-performing risks	10,120,880	10,020,152
Value of other guarantees	**218,222**	**4,898**
Of which: Guarantees non-performing risks	25,276	1,054
Total	**16,087,306**	**16,823,284**

(*) The value of the guarantee is the lower amount of the collateral and the loan value, except for non-performing loans, in which it is fair value.

3.3.4 Concentration risk

1According 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 CaixaBank's Corporate Risk Catalogue, concentration risk is conceptually included within credit risk However, according to sector supervisors and in line with best practices, the scope of analysis and monitoring of concentration risk should be broader than just loans and advances and include any type of asset.

Moreover, in line with the CEBS Guideline 7, the CaixaBank Group has developed methodologies, processes and tools to systematically identify its overall exposure with regard to a particular customer, product,

1 "CEBS Guidelines on the management of concentration risk under the supervisory Review process (GL31)"

industry or geographic location. Wherever it is considered necessary, limits on relative exposures to each of these have been defined under the CaixaBank Group's Risk Appetite Framework.

Lastly, the impact of interdependencies between and degree of diversification of risks is measured in terms of both regulatory and economic capital.

Concentration in customers or in "large exposures"

As explained in section 3.3.3.3. "Limits on large exposures", a regulatory standpoint and assessment is coupled with the management perspective used as a reference in the Risk Appetite Framework.

In addition, as explained in the introduction to this note on risk management, in the section on regulatory changes, the European Commission has unveiled a raft of financial system reforms including the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR). One of the reforms put forward by the European Commission is to change the definition of the base for calculating large exposures, limiting eligible capital so that total capital is replaced by Tier 1 capital, while Tier 2 capital is excluded.

Concentration by product type

CaixaBank's internal reporting integrates both a traditional intra-risk perspective and a transversal inter-risk vision for monitoring and offering the management and governance bodies a holistic view of positions classified for accounting purposes in "Loans and receivables", "Fixed income portfolio", "Equity portfolio" and "Derivatives".

In addition, a report is drawn up monthly showing all the positions of the CaixaBank Group, and of guaranteed mutual and pension funds. The report looks at financial portfolio performance by product type, category, country risk and issuer/counterparty risk.

Concentration by geographic location

Risk concentration by geographic area in 2017 and 2016, respectively, is as follows:

31.12.2017

(Thousands of euros)

	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	**37,392,330**	**21,800,503**	**13,242,627**	**776,232**	**1,572,968**
Public administrations	**83,899,852**	**72,595,598**	**10,983,012**	**26,220**	**295,022**
Central government	70,793,952	60,402,201	10,070,607	26,122	295,022
Other public administrations	13,105,900	12,193,397	912,405	98	0
Other financial corporations and individual	**15,596,770**	**6,428,068**	**8,598,244**	**391,023**	**179,435**
Non-financial corporations and individual	**96,802,213**	**75,204,955**	**16,848,514**	**3,437,362**	**1,311,382**
Real estate construction and development	6,555,214	6,135,558	418,741	20	895
Civil engineering	4,727,172	3,879,783	412,339	416,365	18,685
Other	85,519,827	65,189,614	16,017,434	3,020,977	1,291,802
Large corporations	49,279,778	35,438,561	10,792,947	2,403,742	644,528
SMEs and individual entrepreneurs	36,240,049	29,751,053	5,224,487	617,235	647,274
Other households	**123,132,043**	**110,015,741**	**12,514,815**	**204,505**	**396,982**
Home purchase	97,344,111	86,067,220	10,819,567	133,990	323,334
Consumer	13,861,214	13,104,925	719,060	12,128	25,101
Other	11,926,718	10,843,596	976,188	58,387	48,547
TOTAL	**356,823,208**	**286,044,865**	**62,187,212**	**4,835,342**	**3,755,789**

31.12.2016

(Thousands of euros)

	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	**33,200,970**	**16,656,177**	**14,838,596**	**535,129**	**1,171,068**
Public administrations	**74,810,221**	**70,939,680**	**3,755,248**	**12,351**	**102,942**
Central government	60,632,360	56,764,404	3,753,775	11,752	102,429
Other public administrations	14,177,861	14,175,276	1,473	599	513
Other financial corporations and individual entrepreneurs (financial business)	**15,842,105**	**9,416,489**	**6,041,849**	**263,501**	**120,266**
Non-financial corporations and individual entrepreneurs (non-financial business)	**82,938,363**	**73,187,881**	**5,089,754**	**3,211,986**	**1,448,742**
Real estate construction and development (including land)	6,720,497	6,699,438	19,521	610	928
Civil engineering	4,489,444	3,809,720	218,022	439,892	21,810
Other	71,728,422	62,678,723	4,852,211	2,771,484	1,426,004
Large corporations	41,536,305	34,807,941	3,766,683	2,137,797	823,884
SMEs and individual entrepreneurs	30,192,117	27,870,782	1,085,528	633,687	602,120
Other households	**113,712,930**	**111,769,356**	**1,403,689**	**163,084**	**376,801**
Home purchase	89,407,684	87,960,605	998,086	127,031	321,962
Consumer	11,701,381	11,664,760	16,237	9,878	10,506
Other	12,603,865	12,143,991	389,366	26,175	44,333
TOTAL	**320,504,589**	**281,969,583**	**31,129,136**	**4,186,051**	**3,219,819**

The detail of risk in Spain by Autonomous Community in 2017 and 2016 is as follows:

31.12.2017 **1 / 2**

(Thousands of euros)

	Total	Andalucía	Baleares	Canarias	Castilla-La Mancha	Castilla-León
Central banks and credit institutions	**21,800,503**	**59,006**	**80**	**19**	**34**	**1,921**
Public administrations	**72,595,598**	**1,302,401**	**172,962**	**315,481**	**134,985**	**139,396**
Central government	60,402,201					
Other public administrations	12,193,397	1,302,401	172,962	315,481	134,985	139,396
Other financial corporations and	**6,428,068**	**88,026**	**4,359**	**9,007**	**3,047**	**18,248**
Non-financial corporations and individual entrepreneurs (non-financial business)	**75,204,955**	**5,710,526**	**1,955,899**	**2,421,277**	**1,211,534**	**1,644,938**
Real estate construction and development (including land)	6,135,558	819,311	227,588	329,963	30,316	192,543
Civil engineering	3,879,783	214,832	59,742	99,195	55,690	52,414
Other	65,189,614	4,676,383	1,668,569	1,992,119	1,125,528	1,399,981
Large corporations	35,438,561	854,511	657,272	778,677	300,364	513,275
SMEs and individual entrepreneurs	29,751,053	3,821,872	1,011,297	1,213,442	825,164	886,706
Other households	**110,015,741**	**18,093,918**	**4,195,492**	**6,333,511**	**2,722,553**	**3,726,392**
Home purchase	86,067,220	13,817,835	3,349,498	5,388,891	2,215,914	3,128,871
Consumer	13,104,925	2,307,694	492,360	705,158	302,827	326,515
Other	10,843,596	1,968,389	353,634	239,462	203,812	271,006
TOTAL	**286,044,865**	**25,253,877**	**6,328,792**	**9,079,295**	**4,072,153**	**5,530,895**

31.12.2017 **2 / 2**

(Thousands of euros)

	Catalonia	Madrid	Navarra	Comunidad Valenciana	País Vasco	Other (*)
Central banks and credit institutions	**475,447**	**20,108,786**	**506**	**279,618**	**636,164**	**238,922**
Public administrations	**4,135,801**	**3,114,721**	**556,624**	**1,017,414**	**675,124**	**628,488**
Central government						
Other public administrations	4,135,801	3,114,721	556,624	1,017,414	675,124	628,488
Other financial corporations and individual	**1,128,751**	**5,054,634**	**1,753**	**60,392**	**15,026**	**44,825**
Non-financial corporations and individual entrepreneurs (non-financial business)	**15,326,096**	**30,924,335**	**1,271,339**	**5,098,182**	**3,546,421**	**6,094,408**
Real estate construction and	1,454,887	2,072,980	152,577	363,957	165,439	325,997
Civil engineering	1,064,583	1,638,097	82,708	170,354	91,052	351,116
Other	12,806,626	27,213,258	1,036,054	4,563,871	3,289,930	5,417,295
Large corporations	5,693,167	19,886,684	426,033	1,782,464	2,161,131	2,384,983
SMEs and individual entrepreneurs	7,113,459	7,326,574	610,021	2,781,407	1,128,799	3,032,312
Other households	**32,938,581**	**16,307,689**	**3,385,780**	**8,511,295**	**3,423,020**	**10,377,510**
Home purchase	23,518,845	13,674,519	2,870,419	6,852,981	2,868,229	8,381,218
Consumer	4,535,351	1,544,341	319,897	1,004,887	348,275	1,217,620
Other	4,884,385	1,088,829	195,464	653,427	206,516	778,672
TOTAL	**54,004,676**	**75,510,165**	**5,216,002**	**14,966,901**	**8,295,755**	**17,384,153**

(*) Includes autonomous communities that combined represent no more than 10% of the total.

31.12.2016 **1 / 2**

(Thousands of euros)

	Total	Andalucía	Baleares	Canarias	Castilla-La Mancha	Castilla-León
Central banks and credit institutions	**16,656,177**	**49,212**	**87**	**275**	**35**	**138**
Public administrations	**70,939,680**	**1,744,964**	**312,224**	**366,171**	**154,891**	**349,206**
Central government	56,764,404					
Other public administrations	14,175,276	1,744,964	312,224	366,171	154,891	349,206
Other financial corporations and individual entrepreneurs (financial business)	**9,416,489**	**142,948**	**2,617**	**14,941**	**2,735**	**46,524**
Non-financial corporations and individual entrepreneurs (non-financial business)	**73,187,881**	**5,637,799**	**1,996,134**	**2,518,482**	**1,168,942**	**1,655,243**
Real estate construction and development (including land)	6,699,438	999,433	216,339	450,606	35,756	193,778
Civil engineering	3,809,720	209,191	60,706	105,814	46,797	55,454
Other	62,678,723	4,429,175	1,719,089	1,962,062	1,086,389	1,406,011
Large corporations	34,807,941	803,129	688,505	618,890	268,475	576,122
SMEs and individual entrepreneurs	27,870,782	3,626,046	1,030,584	1,343,172	817,914	829,889
Other households	**111,769,356**	**18,685,418**	**4,178,551**	**6,490,780**	**2,792,798**	**3,817,293**
Home purchase	87,960,605	14,334,793	3,387,978	5,630,304	2,292,938	3,215,839
Consumer	11,664,760	2,017,959	427,732	597,419	260,186	285,187
Other	12,143,991	2,332,666	362,841	263,057	239,674	316,267
TOTAL	**281,969,583**	**26,260,341**	**6,489,613**	**9,390,649**	**4,119,401**	**5,868,404**

(Thousands of euros)

	Catalonia	Madrid	Navarra	Comunidad Valenciana	País Vasco	Other (*)
Central banks and credit institutions	**696,409**	**14,736,132**	**136**	**2,637**	**405,504**	**765,612**
Public administrations	**4,535,845**	**3,604,170**	**503,425**	**1,112,144**	**754,777**	**737,459**
Central government	0					
Other public administrations	4,535,845	3,604,170	503,425	1,112,144	754,777	737,459
Other financial corporations and individual entrepreneurs (financial business)	**3,402,409**	**5,636,377**	**5,776**	**55,140**	**43,492**	**63,530**
Non-financial corporations and individual entrepreneurs (non-financial business)	**16,005,286**	**28,763,489**	**1,179,664**	**4,606,172**	**3,564,045**	**6,092,625**
Real estate construction and development (including land)	1,499,048	2,305,160	145,582	344,451	181,213	328,072
Civil engineering	1,064,647	1,683,435	78,546	131,540	87,140	286,450
Other	13,441,591	24,774,894	955,536	4,130,181	3,295,692	5,478,103
Large corporations	6,813,129	18,450,438	427,137	1,421,530	2,174,371	2,566,215
SMEs and individual entrepreneurs	6,628,462	6,324,456	528,399	2,708,651	1,121,321	2,911,888
Other households	**32,856,871**	**16,881,374**	**3,470,988**	**8,593,582**	**3,444,325**	**10,557,376**
Home purchase	23,480,162	14,139,095	2,979,902	7,035,928	2,884,615	8,579,051
Consumer	4,162,915	1,417,543	295,604	830,307	310,460	1,059,448
Other	5,213,794	1,324,736	195,482	727,347	249,250	918,877
TOTAL	**57,496,820**	**69,621,542**	**5,159,989**	**14,369,675**	**8,212,143**	**18,216,602**

(*) Includes autonomous communities that combined represent no more than 10% of the total.

Concentration by economic sector

Risk concentration by economic sector is subject to the limits established by the CaixaBank Group's Risk Appetite Framework (Tier 1), differentiating between private business economic activities and public sector financing. In keeping with the internal communication policy of the Risk Appetite Framework, trends in these indicators are reported monthly to the Global Risks Committee and quarterly to the CaixaBank Risks Committee (at least).

For the private business sector, a maximum concentration limit in any economic sector is established by aggregating the accounting positions recognised under loans and receivables, investment portfolio and equity investments (excluding treasury repo operations, deposits and trading portfolio).

In addition, in calculating the economic capital charge, the impact of diversification of the lending portfolio based on sector concentration is determined.

Exposure to the public sector is also regularly analysed and monitored. See 3.3.5 Sovereign risk for details.

Loans and advances to customers by activity in 2017 and 2016, respectively, were as follows:

31.12.2017

(Thousands of euros)	TOTAL	*Of which: Real estate mortgage secured*	*Of which: Rest of secured loans*	Secured loans. Carrying amount based on latest available appraisal (loan to value)				
				≤ 40%	> 40% ≤ 60%	> 60% ≤ 80%	> 80% ≤100%	>100%
Public administrations	**11,745,147**	**668,013**	**284,837**	**153,224**	**258,260**	**377,941**	**88,869**	**74,556**
Other financial corporations and individual entrepreneurs (financial business)	**4,077,535**	**408,601**	**915,013**	**984,376**	**238,547**	**91,099**	**2,093**	**7,499**
Non-financial corporations and individual entrepreneurs (non-financial business)	**78,433,818**	***23,681,280***	***3,911,756***	**9,944,323**	**8,928,733**	**4,504,843**	**1,545,263**	**2,669,874**
Real estate construction and development (including land)	6,222,891	5,348,308	71,609	1,507,556	2,049,286	1,149,276	413,463	300,336
Civil engineering	4,380,676	583,309	89,407	269,297	220,604	95,210	29,023	58,582
Other	67,830,251	*17,749,663*	*3,750,740*	8,167,470	6,658,843	3,260,357	1,102,777	2,310,956
Large corporations	32,694,567	4,139,174	1,604,440	1,740,142	1,695,338	683,497	118,133	1,506,504
SMEs and individual entrepreneurs	35,135,684	13,610,489	2,146,300	6,427,328	4,963,505	2,576,860	984,644	804,452
Other households	**122,598,361**	***106,574,210***	***1,107,742***	**29,762,798**	**38,938,623**	**29,116,519**	**7,292,963**	**2,571,049**
Home purchase	97,344,110	96,074,380	314,281	25,092,544	35,389,374	27,238,630	6,592,871	2,075,242
Consumer	13,852,737	3,816,095	385,859	1,896,057	1,322,352	634,485	237,783	111,277
Other	11,401,514	6,683,735	407,602	2,774,197	2,226,897	1,243,404	462,309	384,530
TOTAL	**216,854,861**	**131,332,104**	**6,219,348**	**40,844,721**	**48,364,163**	**34,090,402**	**8,929,188**	**5,322,978**
MEMORANDUM ITEMS								
Refinancing, refinanced and restructured transactions	9,706,647	7,329,779	324,966	1,286,103	1,894,209	2,323,024	1,214,748	936,660

31.12.2016

(Thousands of euros)	TOTAL	*Of which: Real estate mortgage secured*	*Of which: Rest of secured loans*	Secured loans. Carrying amount based on latest available appraisal (loan to value)				
				≤ 40%	> 40% ≤ 60%	> 60% ≤ 80%	> 80% ≤100%	>100%
Public administrations	**12,590,556**	***647,727***	***14,053***	**96,393**	**149,912**	**272,473**	**78,750**	**64,252**
Other financial corporations and individual entrepreneurs (financial business)	**5,405,747**	***304,183***	***139,990***	**168,349**	**247,591**	**17,068**	**699**	**10,466**
Non-financial corporations and individual entrepreneurs	**69,402,571**	***22,437,643***	***1,794,391***	**9,861,112**	**8,377,416**	**4,032,717**	**1,065,859**	**894,930**
Real estate construction and development	6,712,076	*5,648,994*	*28,814*	1,604,239	2,210,334	1,190,792	370,955	301,488
Civil engineering	4,485,508	*720,097*	*28,541*	312,486	278,970	116,373	28,358	12,451
Other	58,204,987	*16,068,552*	*1,737,036*	7,944,387	5,888,112	2,725,552	666,546	580,991
Large corporations	29,218,771	*3,915,468*	*486,541*	2,022,913	1,511,705	544,758	84,196	238,437
SMEs and individual entrepreneurs	28,986,216	*12,153,084*	*1,250,495*	5,921,474	4,376,407	2,180,794	582,350	342,554
Other households and non-profit institutions serving households	**113,317,394**	***101,437,999***	***509,899***	**28,084,751**	**37,716,416**	**27,845,398**	**5,745,986**	**2,555,347**
Home purchase	89,403,560	*89,451,988*	*160,452*	22,892,520	33,543,436	25,800,205	5,194,790	2,181,489
Consumer	11,701,382	*4,029,763*	*169,620*	1,924,811	1,413,309	641,520	144,104	75,639
Other	12,212,452	*7,956,248*	*179,827*	3,267,420	2,759,671	1,403,673	407,092	298,219
TOTAL	**200,716,268**	**124,827,552**	**2,458,333**	**38,210,605**	**46,491,335**	**32,167,656**	**6,891,294**	**3,524,995**
MEMORANDUM ITEMS								
Refinancing, refinanced and restructured transactions	9,163,768	*7,405,688*	*32,063*	2,056,957	3,293,906	1,742,278	223,997	120,615

Risk concentration according to the rating assigned to fixed income instruments at year-end 2017 and 2016, respectively, is as follows:

31.12.2017

(Thousands of euros)

	Loans and receivables (Note 14.1)	Financial assets held for trading (Note 11)	Available-for-sale financial assets (Note 13)	Held-to-maturity investments (Note 15)	TOTAL
AAA	0	0	333,828	0	333,828
AA+	0	0	2,400	0	2,400
AA	16,904	0	102,608	0	119,512
AA-	0	0	149,665	0	149,665
A+	57,065	0	777,341	0	834,406
A	13,268	0	414,360	0	427,628
A-	0	221,458	709,826	0	931,284
BBB+	0	1,186,625	54,717,528	11,070,415	66,974,568
BBB	150,276	482,394	4,958,991	0	5,591,661
BBB-	331,305	117,464	4,050,159	0	4,498,928
Investment grade	**568,818**	**2,007,941**	**66,216,706**	**11,070,415**	**79,863,880**
	22.1%	98.8%	99.3%	99.9%	97.0%
BB+	0	7,182	85,501	0	92,683
BB	101,264	393	62,736	0	164,393
BB-	0	106	157,406	0	157,512
B+	54,313	0	982	14,414	69,709
B	304,466	0	0	0	304,466
B-	0	0	0	0	0
CCC+	0	0	113,571	0	113,571
CCC	1,351	0	0	0	1,351
CC	0	0	0	0	0
C	11,586	0	0	0	11,586
D	45,551	0	0	0	45,551
No rating	1,488,254	16,176	34,956	0	1,539,386
Non-investment grade	**2,006,785**	**23,857**	**455,152**	**14,414**	**2,500,208**
	77.9%	1.2%	0.7%	0.1%	3.0%
Balance at 31.12.2017	**2,575,603**	**2,031,798**	**66,671,858**	**11,084,829**	**82,364,088**

31.12.2016

(Thousands of euros)

	Loans and receivables (Note 14.1)	Financial assets held for trading (Note 11)	Available-for-sale financial assets (Note 13)	Held-to-maturity investments (Note 15)	TOTAL
AAA	5,059		342,062		347,121
AA+			2,357		2,357
AA	786		135,185		135,971
AA-		5,002	939,739		944,741
A+			549,352		549,352
A			355,619		355,619
A-		6,211	573,486		579,697
BBB+		1,744,749	55,584,506	8,305,902	65,635,157
BBB	150,072	35,221	1,960,310		2,145,603
BBB-		2,223	1,264,583		1,266,806
Investment grade	**155,917**	**1,793,406**	**61,707,199**	**8,305,902**	**71,962,424**
	27.8%	99.8%	99.3%	100.0%	98.9%
BB+		3,526	164,473		167,999
BB			61,493		61,493
BB-			91,716		91,716
B+			1,491		1,491
B					0
B-					0
CCC+			68,553		68,553
CCC	1,325				1,325
CC					0
C	11,586				11,586
D	45,550				45,550
No rating	346,761		36,018		382,779
Non-investment grade	**405,222**	**3,526**	**423,744**	**0**	**832,492**
	72.2%	0.2%	0.7%	0.0%	1.1%
Balance at 31.12.2016	**561,139**	**1,796,932**	**62,130,943**	**8,305,902**	**72,794,916**

Standard & Poor's sovereign rating for the Kingdom of Spain at 31 December 2017 and 2016 was BBB+.

The methodology applied to assign credit ratings to fixed income issuances is based on the regulatory banking criteria defined in the CRD IV regulation and the CRR on capital requirements, and therefore, the second best rating of all those available is used, if more than two ratings are available.

The following table details the CaixaBank Group's credit exposure (excluding fixed income securities, as indicated above) in accordance with internal levels for 2017 and 2016, respectively:

Quality of credit exposure (excluding fixed income securities)
(Percentage)

	31.12.2017	31.12.2016
AAA/AA+/AA/AA-	20.7%	23.8%
A+/A/A-	18.5%	21.6%
BBB+/BBB/BBB-	24.7%	20.5%
BB+/BB/BB-	23.6%	21.4%
B+/B/B-	10.4%	9.8%
CCC+/CCC/CCC-	2.1%	2.9%
Total	**100.0%**	**100.0%**

3.3.5. Sovereign risk

The Group's position in sovereign debt, concentrated mainly in CaixaBank and the insurance group, is subject to the Company's general risk-taking policy, which ensures that all positions taken are aligned with the target risk profile.

First, the position in public, regional and local debt is subject to the general concentration and country risk limits established. Regular control procedures are in place for both, preventing new positions from being taken that could increase the credit risk on names or countries in which the Company has a high risk concentration unless express approval is given by the pertinent authority.

For fixed income securities, a framework is in place regulating the solvency, liquidity and geographical location of all of the Group's fixed income issuances (e.g. bonds, private fixed-income, public debt, preference shares) and any similar transaction involving payment in cash for the buyer and the assumption of the issuer's credit risk or related collateral. This control is exercised during the risk acceptance phase and throughout the life of the position in the portfolio.

Public debt positions held on the Treasury Desk are also subject to the framework for market risk control and limits established for the treasury positions (see section on market risk).

In addition to these controls, a report is drawn up monthly showing all the 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 carrying amounts of the main items related to sovereign risk exposure at 31 December 2017 and 2016 are shown below. The information is shown separately for the CaixaBank Group (excluding the Insurance Group) – basically CaixaBank and Banco BPI, and the Insurance Group – including VidaCaixa SAU de Seguros y Reaseguros and BPI Vida e Pensões, Companhia de Seguros, SA:

31.12.2017 (CaixaBank Group, excluding the insurance group)

(Thousands of euros)

Country	Residual maturity	Financial assets held for trading - debt securities	Financial liabilities held for trading - short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Spain	Less than 3 months	128,730	(14,324)	0	655,365	0
	Between 3 months and 1 year	147,971	(102,933)	524,847	3,565,806	0
	Between 1 and 2 years	86,737	(103,751)	4,324,814	709,804	0
	Between 2 and 3 years	63,469	(55,426)	3,329	736,301	2,533,297
	Between 3 and 5 years	80,173	(86,142)	1,382,352	1,474,136	7,163,626
	Between 5 and 10 years	165,316	(211,937)	6,137,810	2,291,480	0
	Over 10 years	33,264	(64,410)	7,773	1,292,539	0
	Total	705,660	(638,923)	12,380,925	10,725,431	9,696,923
Italy	Less than 3 months	1,570	0	0	0	0
	Between 3 months and 1 year	76,165	(6,194)	0	0	0
	Between 1 and 2 years	13,042	0	187,272	0	0
	Between 2 and 3 years	1,122	(9,017)	0	0	0
	Between 3 and 5 years	11,534	0	944,051	0	0
	Between 5 and 10 years	20,750	(15,467)	265,559	0	0
	Over 10 years	72	0	0	0	0
	Total	124,255	(30,678)	1,396,882	0	0
Portugal	Less than 3 months	2	0	895,281	3,197	0
	Between 3 months and 1 year	10,457	0	2,087,321	19,333	0
	Between 1 and 2 years	11,026	0	328,781	15,778	0
	Between 2 and 3 years	34,500	0	80	76,240	0
	Between 3 and 5 years	6,675	(13,481)	0	83,156	0
	Between 5 and 10 years	28,595	(45,462)	0	376,743	0
	Over 10 years	1,431	0	0	479,603	0
	Total	92,686	(58,943)	3,311,463	1,054,050	0
Other	Less than 3 months	0	0	0	307	0
	Between 3 months and 1 year	0	0	693	1,888	0
	Between 1 and 2 years	0	0	0	13,967	0
	Between 2 and 3 years	0	0	0	5,074	0
	Between 3 and 5 years	0	0	0	98,724	0
	Between 5 and 10 years	0	(10,089)	0	111,347	0
	Over 10 years	0	0	0	78,284	0
	Total	0	(10,089)	693	309,591	0
Total countries		**922,601**	**(738,633)**	**17,089,963**	**12,089,072**	**9,696,923**

31.12.2017 (insurance group)

(Thousands of euros)

Country	Residual maturity	Financial assets held for trading - debt securities	Financial liabilities held for trading - short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Spain	Less than 3 months	306,119		123,014		
	Between 3 months and 1 year	301,488		202,109		
	Between 1 and 2 years	0		998,171		
	Between 2 and 3 years	0		923,374		
	Between 3 and 5 years	0		4,196,654		
	Between 5 and 10 years	0		9,330,955		
	Over 10 years	0		26,337,540		
	Total	**607,607**	**0**	**42,111,817**	**0**	**0**
Belgium	Between 3 months and 1 year			0		
	Between 1 and 2 years			652		
	Between 2 and 3 years			0		
	Between 3 and 5 years			10,285		
	Between 5 and 10 years			0		
	Over 10 years			143		
	Total	**0**	**0**	**13,997**	**0**	**0**
Ireland	Between 2 and 3 years			1,722		
	Total	**0**	**0**	**1,722**	**0**	**0**
Italy	Less than 3 months			2,184		
	Between 3 months and 1 year			5,635		
	Between 1 and 2 years			147,492		
	Between 2 and 3 years			0		
	Between 3 and 5 years			588,418		
	Between 5 and 10 years			947,368		
	Over 10 years			2,243,105		
	Total	**0**	**0**	**3,934,202**	**0**	**0**
Portugal	Between 3 months and 1 year	26				
	Between 1 and 2 years	1,098				
	Between 2 and 3 years	1,372				
	Over 10 years	298				
	Total	**2,794**	**0**	**0**	**0**	**0**
Other	Between 3 months and 1 year	113,134		104		
	Between 1 and 2 years	1,605		2,943		
	Between 2 and 3 years	0		3,983		
	Between 3 and 5 years	0		1,061		
	Between 5 and 10 years	0		4,763		
	Over 10 years	0		42,793		
	Total	**341,576**	**0**	**55,647**	**0**	**0**
Total countries		**951,977**	**0**	**46,117,385**	**0**	**0**
Total Group (CaixaBank + insurance group)		**1,874,578**	**(738,633)**	**63,207,348**	**12,089,072**	**9,696,923**

31.12.2016 (CaixaBank Group, excluding the insurance group)

(Thousands of euros)

Country	Residual maturity	Financial assets held for trading - debt securities	Financial liabilities held for trading - short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Spain	Less than 3 months	178,366		2,885,559	967,533	
	Between 3 months and 1 year	681,289	(37,430)	874,544	4,030,415	514,137
	Between 1 and 2 years	164,461	(41,225)	537,292	350,381	
	Between 2 and 3 years	38,156	(44,864)	4,460,214	1,065,573	
	Between 3 and 5 years	350,651	(303,341)	228,716	1,458,765	6,083,828
	Between 5 and 10 years	88,943	(359,813)	3,464,955	2,889,429	259,036
	Over 10 years	64,044	(73,424)	8,061	1,656,078	
	Total	1,565,910	(860,097)	12,459,341	12,418,174	6,857,001
Italy	Less than 3 months	2,999				
	Between 3 months and 1 year	96,863	(27,750)			
	Between 1 and 2 years	2,561				
	Between 2 and 3 years	6,623				
	Between 3 and 5 years	19,370	(9,892)			
	Between 5 and 10 years	50,048		261,844		
	Total	178,464	(37,642)	261,844	0	0
Other	Less than 3 months			351,136	1,885	
	Between 3 months and 1 year			150,390	28,106	
	Between 1 and 2 years				9,875	
	Between 3 and 5 years				6,333	
	Between 5 and 10 years				67,834	
	Total	0	0	501,526	114,033	0
Total countries		**1,744,374**	**(897,739)**	**13,222,711**	**12,532,207**	**6,857,001**

31.12.2016 (insurance group)

(Thousands of euros)

Country	Residual maturity	Financial assets held for trading - debt securities	Financial liabilities held for trading - short positions	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments
Spain	Less than 3 months			133,649		
	Between 3 months and 1 year			861,061		
	Between 1 and 2 years			871,245		
	Between 2 and 3 years			959,768		
	Between 3 and 5 years			2,188,740		
	Between 5 and 10 years			8,875,922		
	Over 10 years			26,571,415		
	Total	**0**	**0**	**40,461,800**	**0**	**0**
Belgium	Between 3 months and 1 year			140		
	Between 1 and 2 years			3,049		
	Between 2 and 3 years			682		
	Between 3 and 5 years			10,556		
	Between 5 and 10 years			168		
	Over 10 years			143		
	Total	**0**	**0**	**14,738**	**0**	**0**
Ireland	Between 3 and 5 years			1,795		
	Total	**0**	**0**	**1,795**	**0**	**0**
Italy	Less than 3 months			16,810		
	Between 3 months and 1 year			5,798		
	Between 1 and 2 years			8,717		
	Between 2 and 3 years			129,828		
	Between 3 and 5 years			224,297		
	Between 5 and 10 years			773,191		
	Over 10 years			1,331,604		
	Total	**0**	**0**	**2,490,245**	**0**	**0**
Other	Less than 3 months			2,198		
	Between 1 and 2 years			109		
	Between 2 and 3 years			3,077		
	Between 3 and 5 years			4,518		
	Between 5 and 10 years			5,628		
	Over 10 years			45,299		
	Total	**0**	**0**	**60,829**	**0**	**0**
Total countries		**0**	**0**	**43,029,407**	**0**	**0**
Total Group (CaixaBank + insurance group)		**1,744,374**	**(897,739)**	**56,252,118**	**12,532,207**	**6,857,001**

3.3.6 Information regarding financing for property development, home purchasing, and foreclosure assets

The main data at 31 December 2017 and 2016 regarding financing for property development, home purchasing and foreclosure assets are discussed below.

Financing for real estate development

The tables below show financing for real estate developers and developments, including development carried out by non-developers, business in Spain, at 31 December 2017 and 2016.

31.12.2017

(Thousands of euros)	Gross amount	Allowances for impairment losses	Carrying amount	Excess gross exposure over the maximum recoverable value of effective collateral
Financing for real estate construction and development (including land)	**6,829,524**	**(636,609)**	**6,192,915**	**1,418,495**
Of which: Non-performing	1,480,517	(549,323)	931,194	602,142
Memorandum items:				
Asset write-offs	3,816,292			

Memorandum items: Public consolidated balance sheet	**Amount**
Loans and advances to customers excluding public administrations (carrying amount)	185,256,929
Total assets (total businesses)	383,186,163
Impairment and provisions for performing exposures	(1,823,033)

31.12.2016

(Thousands of euros)	Gross amount	Allowances for impairment losses	Carrying amount	Excess gross exposure over the maximum recoverable value of effective collateral
Financing for real estate construction and development (including land)	**8,023,602**	**(1,061,631)**	**6,961,971**	**2,063,420**
Of which: Non-performing	2,434,777	(953,625)	1,481,152	988,580
Memorandum items:				
Asset write-offs	4,410,756			

Memorandum items: Public consolidated balance sheet	**Amount**
Loans and advances to customers excluding public administrations (carrying amount)	187,984,625
Total assets (total businesses)	347,927,262
Impairment and provisions for performing exposures	(1,471,859)

The tables below show the breakdown of financing for real estate developers and developments, including developments carried out by non-developers, by collateral:

Financing for real estate developers and developments by collateral

(Thousands of euros)

	Carrying amount	
	31.12.2017	**31.12.2016**
Not real estate mortgage secured	**813,393**	**1,188,212**
Real estate mortgage secured	**6,016,131**	**6,835,390**
Buildings and other completed constructions	4,335,892	5,187,722
Homes	*2,811,016*	*3,390,538*
Other	*1,524,876*	*1,797,184*
Buildings and other constructions under construction	931,428	668,262
Homes	*839,971*	*598,002*
Other	*91,457*	*70,260*
Land	748,811	979,406
Consolidated urban land	*422,489*	*696,961*
Other land	*326,322*	*282,445*
Total	**6,829,524**	**8,023,602**

The following table presents financial guarantees given for real estate construction and development, including the maximum level of exposure to credit risk (i.e. the amount the Bank could have to pay if the guarantee is called on) at 31 December 2017 and 2016.

Financial guarantees

(Thousands of euros)

	Carrying amount	
	31.12.2017	**31.12.2016**
Financial guarantees given related to real estate construction and development	**175,478**	**171,223**
Amount recognised under liabilities	*54,910*	*6,166*

The table below provides information on guarantees received from real estate development loans at 31 December 2017 and 2016 by classification of customer insolvency risk:

Guarantees received for real estate development transactions (*)

(Thousands of euros)

	31.12.2017	**31.12.2016**
Value of collateral	**14,883,082**	**16,710,954**
of which: Guarantees non-performing risks	2,519,777	4,616,097
Value of other guarantees	**115,137**	**162,334**
Of which: Guarantees non-performing risks	11,710	13,240
Total	**14,998,219**	**16,873,288**

(*) The value of the guarantee is the lower amount of the collateral and the loan value, except for non-performing loans, in which it is fair value.

Financing for home purchases

The breakdown of home purchase loans, business in Spain, at 31 December 2017 and 2016 is as follows:

Home purchase loans

(Thousands of euros)	Gross amount	
	31.12.2017	**31.12.2016**
Not real estate mortgage secured	767,099	745,922
Of which: Non-performing	*14,806*	*5,771*
Real estate mortgage secured	82,494,803	85,853,616
Of which: Non-performing	*3,529,788*	*3,554,446*
Total home loans	**83,261,902**	**86,599,538**

Note: Includes financing for home purchases granted by investee Unión de Créditos para la Financiación Inmobiliaria, EFC, SAU (Credifimo) and Corporación Hipotecaria Mutual.

Real estate loans granted in 2017 and 2016 to buyers of foreclosure homes sold by CaixaBank amounted to EUR 443 million and EUR 504 million, respectively, while the average percentages financed were 70% and 82%, respectively.

Home purchase loans with mortgage at these dates by the loan-to-value (LTV) ratio, based on the latest available appraisal, are as follows:

Home purchase loans by LTV

(Thousands of euros)	31.12.2017		31.12.2016	
LTV ranges (*)	**Gross amount**	***Of which: Non-performing***	**Gross amount**	***Of which: Non-performing***
LTV ≤ 40%	21,020,919	*226,950*	20,627,716	*255,488*
40% < LTV ≤ 60%	31,351,499	*515,957*	32,189,704	*499,355*
60% < LTV ≤ 80%	22,524,204	*811,889*	25,569,575	*1,014,221*
80% < LTV ≤ 100%	4,682,038	*779,881*	5,242,340	*822,054*
LTV > 100%	2,916,143	*1,195,111*	2,224,281	*963,328*
Total home loans	**82,494,803**	***3,529,788***	**85,853,616**	***3,554,446***

(*) LTV calculated based on appraisals available at the grant date. The ranges are updated for non-performing transactions in accordance with prevailing regulations.

3.3.7 Counterparty risk generated by transactions with derivatives, repos and securities lending

Quantification and management of counterparty risk originating from trading in derivatives, repos and securities lending show certain peculiarities, basically as a result of the type of financial instruments used and of the expediency and flexibility required primarily for treasury transactions.

For banking counterparties, the maximum authorised exposure to counterparty credit risk for credit approval purposes is determined using a complex calculation, primarily based on ratings for the entities and on analysis of their financial statements. In transactions with other counterparties, including retail customers, derivative transactions relating to loan applications (loan interest rate risk hedging) are approved jointly with the application. All other transactions are approved in accordance with their compliance with the assigned risk limit (and included in the corresponding derivatives risk line) or their individual assessment by the risk areas in charge of analysis and approval.

Virtually all exposures are with European and US counterparties. Additionally, the distribution by ratings of banking counterparties reflects the significance of operations with counterparties assessed as *investment grade* i.e. those which international rating agencies have considered to be safe due to their high payment capacity.

The Executive Global Risk Management Division is responsible for integrating these risks within the Entity's overall exposure management framework, although specific responsibility for managing and approving exposure to counterparty risk arising from activity with the financial sector lies with the Executive Risk Analysis and Approval Division, which draws up the proposals for approval of risk lines, and analyses operations.

Within the CaixaBank Group, counterparty risk with credit institutions is controlled through an integrated real-time system that provides information at any given time on the available limit for any counterparty, by 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. Risk is measured both in terms of current market value and future exposure (the value of risk positions in due consideration of future changes to underlying market factors).

Furthermore, as part of the monitoring process for credit risks assumed by market operations, the Executive Risk Analysis and Approval Division and the Executive Legal Advisory Division actively manage and monitor the adequacy of the related contractual documentation. To mitigate exposure to counterparty risk, CaixaBank has a solid base of collateral agreements. Virtually all the risks undertaken in connection with derivative instruments are covered by standardised ISDA and/or Spanish CMOF contracts, which provide for the possibility of offsetting the outstanding collection and payment flows between the parties.

Meanwhile, CaixaBank has signed collateral agreements (CSA or Appendix III of the ISDA) with interbank counterparties, which provide a guarantee of the market value of derivative transactions. In addition, CaixaBank's policy requires collateralisation of repo transactions hedged with Global Master Repurchase Agreements (GMRAs) or similar.

3.3.8 Risk associated with the investee portfolio

At the CaixaBank Group, equity holdings are subject to monitoring and specialist analysis.

The risk relating to the CaixaBank Group's investee portfolio is the risk associated with the possibility of incurring losses due to changes in market prices and/or losses on the positions composing the investment portfolio at medium to long term.

The Executive Global Risk Management Division measures the risk of these positions, and calculates the related capital charge.

For investments not classified as available for sale, i.e. intended to be held on a long-term basis, the most significant risk is default risk, and, therefore, the PD/LGD approached is used where possible. For investments classified as available for sale, the calculation is carried out using the internal Value at Risk model, as the most significant risk is market risk. The Market Risk on the Balance Sheet Department calculates the risk inherent in market price volatility using a statistical estimate of maximum potential losses by reference to historical price data. If the requirements for applying the aforementioned methods are not met, the simple risk-weighting method is applied in accordance with current regulations.

The Executive Global Risk Management Division monitors these indicators on an ongoing basis to ensure that the most appropriate decisions are always taken on the basis of the market performance observed and predicted and of the CaixaBank Group's strategy.

Controlling and financial analysis of the main investees are also performed through specialists responsible exclusively for monitoring changes in economic and financial data and for understanding and issuing alerts in the event of changes in regulations and fluctuations in competition in the countries and sectors in which the investees operate. The Banking Investments centre and the Industrial Investments and Holding Companies area (for subsidiaries), both of which report to the Executive Financial Accounting, Control and Capital Division, gather and share information on these investments.

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

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

The CaixaBank Market Risk on the Balance Sheet Department, moreover, studies derivatives and the foreign currency risk and price risk associated with the investee portfolio, and monitors risk in relation to finance markets associated with investees on an ongoing basis.

All these measures and their implementation are necessary to monitor management of the investee portfolio and enable CaixaBank Group Senior Management to take strategic decisions on portfolio composition.

3.4. Market risk

3.4.1. Exposure

The financial activity of credit institutions involves assuming market risk, which includes exposures from various sources: commercial risk in the banking book from interest rate and exchange rate fluctuations, the risk caused by taking up treasury positions, and the risk associated with equity investments which form part of the CaixaBank Group's diversification business. Although in all instances, risk refers to the potential loss of profitability or portfolio value as a result of adverse fluctuations in market rates or prices, below we refer specifically to market risk linked to treasury and trading activities.

3.4.2. Overview

Subject to the methodological specifications and the additional comments set out below to provide a specific description of the various exposure groups, there are two concepts which constitute common denominators and market standards for measurement of this risk: sensitivity and VaR (Value at Risk).

These sensitivity analyses provide information concerning the impact on the economic value of positions of a rise in interest rates, exchange rates, prices or volatility in the value of positions, but do not provide any assumptions as to the likelihood of such changes.

In order to standardise risk measurement across the entire portfolio, and to include certain assumptions regarding the extent of changes in market risk factors, VaR methodology (statistical estimate of potential losses from historical data on price fluctuations) is used with a one-day time horizon and a statistical confidence level of 99% (i.e. under normal market conditions, 99 out of 100 times, the actual daily losses would be less than the losses estimated under the VaR method).

The main factors affecting market risk are as follows:

- Interest rate risk: risk that changes in the level of interest rate curves will affect the value of instruments in portfolio, including but not limited to bonds, deposits, repos and derivatives.
- Exchange rate risk: risk that changes in exchange rates will affect the value of instruments in portfolio, including mainly any product with cash flows in a currency other than the euro and foreign exchange derivatives.
- Share price risk: risk that changes in share prices and equity indices will affect the value of the instruments in portfolio.
- Inflation risk: risk that changes in expected inflation will affect the value of the instruments in portfolio, including inflation derivatives.
- Commodity price risk: risk that changes in prices of commodities will affect the value of the instruments in portfolio, including commodity derivatives.
- Credit *spread* risk: risk that changes in credit spreads will affect the value of the instruments in portfolio, including mainly private fixed income issuances.
- Volatility risk: risk that changes in the volatility of the underlyings will affect the value of the instruments in portfolio, including options.

In addition, there are other, more complex types of market risks, including:

- Correlation risk: risk that changes in the correlation between risk factors will affect the value of the instruments in portfolio, including options on baskets of underlying assets.
- Dividend risk: risk that changes in expected future dividends will affect the value of the instruments in portfolio, including mainly equity derivatives and dividend futures.

3.4.3. Mitigation of market risk

The RAF approved by the Group's Board of Directors sets a limit for VaR with a one-day time horizon and confidence level of 99% for all trading activities of EUR 20 million, excluding the market risk hedging derivatives of the *Credit Valuation Adjustment*, recognised for accounting purposes in the held-for-trading portfolio.

As part of the required monitoring and control of the market risks taken, there is a structure of overall VaR limits in line with the Risk Appetite Framework, complemented by the definition of VaR sublimits, stressed VaR and incremental default and migration risk (IRC), stress test results, maximum losses and sensitivities for the various management units that could assume market risk. The risk factors are managed by CaixaBank's Executive Finance Division using economic hedges as appropriate within the scope of its responsibility on the basis of the return/risk ratio determined by market conditions and expectations, always within the assigned limits.

The Risk in Market Operations and on the Balance Sheet Division is in charge of monitoring CaixaBank's compliance with these thresholds and the risks assumed, and reporting excesses to the areas in charge of their resolution and subsequent monitoring. To do so, it produces a daily report on position, risk quantification and the utilisation of risk thresholds, which is distributed to Senior Management, the officers in charge of its management and the Internal Audit division.

Beyond the trading portfolio, noteworthy for accounting purposes is the use of tools such as fair value micro and macro hedges to eliminate 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 macro hedge are established and monitored, expressed as ratios between total risk and the risk of the hedged items.

3.4.4. Market risk cycle

The Risk in Market Operations and on the Balance Sheet Division, in the Executive Global Risk Management Division within CaixaBank's General Risks Division, is responsible for valuing financial instruments in addition to measuring, monitoring and following up on associated risks and estimating the counterparty risk and operational risk associated with financial market activities. To perform its functions, on a daily basis this division monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market result), quantifies the market risk assumed, monitors compliance with the thresholds, and analyses the ratio of actual returns to the assumed risk.

In addition to tasks relating to market and balance sheet risk, the CaixaBank Risk Models Validation Division conducts internal validations of the models and methodologies used to quantify and monitor market risk.

The initial version of the internal model for estimating minimum capital requirements for market risk in CaixaBank's trading activities was approved by the Bank of Spain in 2006 (Circular 3/2003). This circular has been repealed for those purposes by Regulation (EU) 575/2013 (CRR). The model includes almost all CaixaBank's trading portfolio and the asset and liability are reflected in the balance sheet under "Financial assets held for trading" and "Financial liabilities held for trading", shown in Note 11. Deposits and repos arranged by trading desks are also included for management of market risk. Credit default swaps (CDS) in the Credit Valuation Adjustment are excluded from the internal model. Therefore, the standardised approach is used to calculate the charge for regulatory capital requirements, as for currency risk in the banking book and equity holdings.

Capital requirements for market risk attributable to BPI are calculated using the standardised method.

Two methodologies are used to obtain this measurement:

- The parametric VaR technique, 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. It is applied to two time horizons: a 75-day data window, giving more weight to recent observations, and a one-year data window, giving equal weight to all observations.
- The historical VaR technique, which calculates the impact on the value of the current portfolio of historical changes in risk factors. Daily changes over the last year are taken into account and, 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 behaviour 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.

A downgrade in the credit rating of asset issuers can also give rise to adverse changes in quoted market prices. Accordingly, the quantification of market risk is completed with an estimate of the losses arising from changes in the volatility of the credit spread on private fixed income positions (Spread VaR) using a historical approach, which constitutes an estimate of the specific risk attributable to issuers of securities.

Total VaR results from the aggregation of VaR arising from fluctuations in interest rates, exchange rates (and the volatility of both) and from the Spread VaR, 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.

Decomposition of relevant risk factors

The table below shows the average 1-day VaR at 99% attributable to the various risk factors at CaixaBank. As can be observed, the consumption levels are of moderate significance and are mainly concentrated on risk in the interest rate curve, which includes the credit spread on sovereign debt. The risk amounts for other risk factors have less significance. Exposure to equity price risk and its implied volatility decreased compared to the prior year, due to a reduced positioning in equity derivatives.

Parametric VaR by risk factors

(Thousands of euros)

	Total	Interest rate	Exchange rate	Share price	Inflation	Commodity price	Credit spread	Interest rate volatility	Exchange rate volatility	Share price volatility
Average VaR 2016	**2,739**	1,252	131	752	318	0	391	76	111	413
Average VaR 2017	**1,116**	612	141	144	299	0	332	44	82	188

At BPI, the standard measurement for market risk is 10-day VaR at 99%. In 2017, the average 1-day VaR and maximum 1-day VaR at 99% for BPI's trading activities (rescaled at the root of 10) was EUR 0.5 million and EUR 1.5 million, respectively.

The highest market risk levels, up to EUR 24 million, were reached in January, mainly as VaR anticipates a potentially negative movement in the daily market value of transactions with sovereign debt positions.

Additional measures to VaR

Since January 2012, VaR measures are complemented in CaixaBank by two risk metrics related to the new regulatory requirements of Circular 4/2011 (repealed for these purposes by Regulation (EU) 575/2013 (CRR)) and approved by the Bank of Spain following validation: stressed VaR and incremental default and migration risk.

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 calculation of historical VaR for VaR, with the only significant difference being the historical window selected.

Incremental default and migration risk reflects the risk related to changes in credit ratings or breach of positions in fixed income instruments and credit derivatives in the trading portfolio, with a confidence level of 99.9%, one-year time horizon, and a quarterly liquidity horizon, which is justified by the high liquidity of portfolio issuances. The estimate is made using Montecarlo simulation of possible future states of external rating of the issuer and the issuance, based on transition matrices published by the main rating agencies, where dependence between credit quality variations between the different issuers is modelled using Student’s t-distribution.

The maximum, minimum and average values of these measurements for CaixaBank in 2017, as well as their value at the close of the period of reference, are shown in the following table.

Summary of Risk Measurements - 2017

(Thousands of euros)

	Maximum	Minimum	Medium	Last
1-day VaR	2,374	613	1,116	1,195
1-day Stressed VaR	12,568	2,325	4,605	4,793
Incremental risk	62,023	8,192	32,095	38,028

Regulatory capital using internal market risk models

Regulatory capital for market risk using internal models is the sum of three charges associated with each of the aforementioned measurements: VaR, stressed VaR and incremental default and migration risk. In contrast to the foregoing, both regulatory VaR and regulatory Stressed VaR are calculated with a 10 market days' time horizon, for which values obtained with the one-day horizon are scaled by multiplying them by the square root of 10.

The different elements that appear in the determination of the final charges using the internal market risk model for each of the aforementioned measurements are shown below. Charges for VaR and stressed VaR are identical and correspond to the maximum between the last value and the arithmetic mean of the last 60 values, multiplied by a factor depending on the number of times the actual daily result was less than the estimated daily VaR. Similarly, capital for Incremental Default and Migration Risk is the maximum of the last value and the arithmetic mean of the preceding 12 weeks.

Capital requirements at 31 December 2017

(Thousands of euros)

	Last value	60-day average	Exceeded	Multiplier	Capital
10-day VaR	3,778	2,912	1	3	**8,737**
10-day Stressed VaR	15,158	12,428	1	3	**37,285**
Incremental risk	38,028	31,095	-	-	**38,028**
Total					**84,050**

VaR and daily gains and losses

To confirm the suitability of the risk estimates, daily results are compared against the losses estimated under the VaR technique (backtesting). As required by bank regulators, the risk estimate model is checked in two ways:

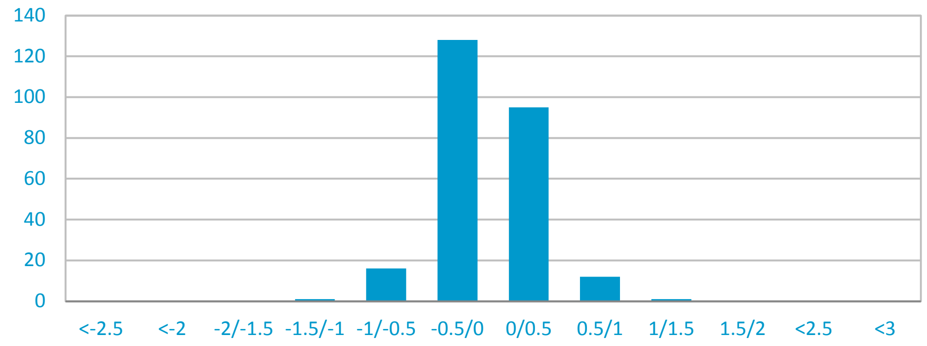
- Net backtesting (or hypothetical), which relates the portion of the daily marked-to-market result of open positions at the close of the previous session to the estimated VaR for a time horizon of one day, calculated on the basis of the open positions at the close of the previous session. This backtesting is the most appropriate means of performing a self-assessment of the methodology used to quantify risk.
- Gross backtesting (or actual), which compares the total result obtained during the day (therefore including any intraday transactions) to VaR for a time horizon of one day, calculated on the basis of the open positions at the close of the previous session. This provides an

assessment of the importance of intraday transactions in generating profit and calculating the total risk of the portfolio.

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

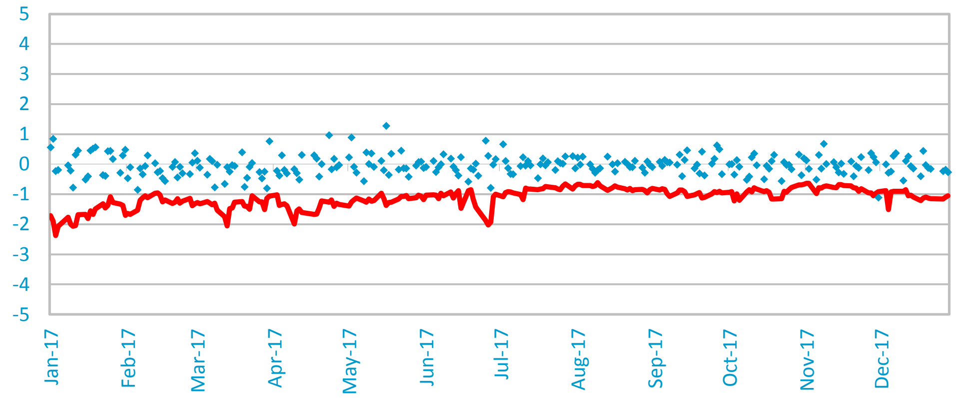
Distribution of net results from trading activities in 2017

(frequency – number of days. Millions of euros)



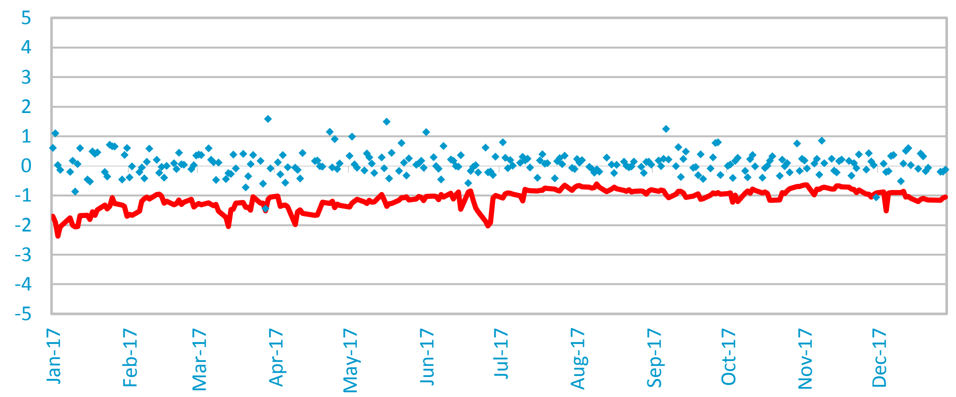
Distribution of daily net results vs. daily VaR

(Millions of euros)



Distribution of daily gross results vs. daily VaR

(Millions of euros)



During the year, there was one excess in the gross backtesting exercise and one excesses in the net backtesting exercise.

Stress testing

Lastly, 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 testing: this technique calculates the change in value of the portfolio in the event of a specific series of extreme changes in the main risk factors. It considers parallel interest rate shifts (rising and falling), changes at various points of the slope of the interest rate curve (steepening and flattening), increased and decreased spread between the instruments subject to credit risk and government debt securities (swap spread), parallel shifts in the dollar and euro curves, higher and lower volatility of interest rates, appreciation and depreciation of the euro with respect to the dollar, the yen and sterling, increases and decreases in exchange rate volatility, increases and decreases in share prices, and higher and lower volatility of shares and commodities.
- Analysis of historical scenarios: this technique addresses the potential impact of actual past situations on the value of the positions held.

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 sum of the losses that would arise if the market factor movement causing the losses were calculated on the basis of a 99.9% confidence level.

Based on the set of measures described above, management of market risk on trading positions in CaixaBank's markets is in accordance with the methodological and monitoring guidelines set out in prevailing legislation.

3.5. Risks in the banking book

3.5.1 Interest rate risk in the banking book

Interest rate risk in the banking book is managed and controlled directly by CaixaBank management through the Asset and Liability Committee (ALCO). Under the scope of the Risk Appetite Framework, the competent bodies monitor and validate that the interest rate risk metrics defined are commensurate with the established risk tolerance levels.

CaixaBank manages this risk with a two-fold objective:

- Optimise the Entity's net interest income within the volatility limits of the RAF.
- Preserve the economic value of the balance sheet at all times within the range established in the RAF.

To attain these objectives, risk is actively managed by arranging additional hedging transactions on financial markets to supplement the natural hedges generated on its own balance sheet as a result of the complementary nature of the sensitivity to interest rate fluctuations of the deposits and lending transactions arranged with customers or other counterparties.

The Executive Finance Division is responsible for analysing and managing this risk, and proposing hedging transactions, management of the fixed income portfolio or other appropriate actions to the Asset and Liability Committee to achieve this dual objective.

At 31 December 2017, CaixaBank used fair value macro-hedges as a strategy to mitigate its exposure to interest-rate risk and to preserve the economic value of its balance sheet. In 2017, CaixaBank arranged hedges for new fixed-rate loans and purchases of the long-term fixed income portfolio.

The table below shows, using a static gap, the breakdown of maturities and interest rate resets at 31 December 2017 of sensitive items on the balance sheets of the CaixaBank Group and Banco BPI.

Matrix of maturities and revaluations of the sensitive balance sheet at 31 December 2017

(Thousands of euros)

	1 year	2 years	3 years	4 years	5 years	> 5 years	TOTAL
ASSETS							
Mortgage collateral	98,283,084	11,391,844	1,445,759	1,273,157	1,166,268	10,072,333	123,632,445
Other guarantees	68,522,431	3,978,533	2,427,353	1,564,458	1,059,001	3,091,619	80,643,395
Debt securities	5,876,783	4,539,468	2,363,001	4,497,000	4,920,713	5,945,082	28,142,047
Total assets	**172,682,297**	**19,909,846**	**6,236,113**	**7,334,615**	**7,145,982**	**19,109,034**	**232,417,887**
LIABILITIES							
Customer funds	119,072,322	19,064,080	9,254,837	7,808,281	7,951,267	35,869,449	199,020,235
Issuances	7,543,419	2,091,872	1,536,046	2,641,300	4,582,499	13,519,015	31,914,151
Money market, net	564,695	256,830	27,798,072	1,045,099	56,256	264,920	29,985,872
Total liabilities	**127,180,436**	**21,412,781**	**38,588,955**	**11,494,680**	**12,590,021**	**49,653,383**	**260,920,257**
Assets less liabilities	**45,501,861**	**(1,502,936)**	**(32,352,842)**	**(4,160,065)**	**(5,444,039)**	**(30,544,350)**	**(28,502,371)**
Hedges	**(6,854,114)**	**5,679,251**	**(507,180)**	**1,316,712**	**1,404,202**	**(1,061,578)**	**(22,708)**

The sensitivity to interest rates – explained by the speed with which market rates are transposed and the expected terms to maturity – have been analysed for items without a contractual maturity date (such as demand accounts) on the basis of past experience of customer behaviour, including the possibility that the customer may withdraw the funds invested in this type of products.

For other products, in order to define the assumptions for early termination, internal models are used that capture behavioural variables of customers, products, seasonality and interest rate fluctuations.

Interest rate risk in the banking book is subject to specific control and includes various risk measures, such as analysis of the sensitivity to interest rates of net interest income and the economic value of the balance sheet, and VaR measurements.

The sensitivity of net interest income shows the impact on the review of balance sheet transactions caused by changes in the interest rate curve. This sensitivity is determined by comparing a net interest income simulation, at one or two years, on the basis of various interest rate scenarios (immediate parallel and progressive movements of different intensities, as well as changes in slope). The most likely scenario, which is obtained using the implicit market rates, is compared with other scenarios of rising or falling interest rates and parallel and non-parallel movements in the slope of the curve. The one-year sensitivity of net interest income to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each, is approximately +7.88% on the rising scenario and -1.55% on the falling scenario.

The sensitivity of equity to interest rates measures the effect of interest rate fluctuations on economic value. The one-year sensitivity of equity to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each, is approximately +3.48% on the rising scenario and +1.36% on the falling scenario, compared to the economic value in the baseline scenario.

Given the current level of interest rates, it should be pointed out that the stress scenario of a 100bp fall includes a floor of 0%, except for interest rates that are already below 0% in the baseline scenario being stressed.

The sensitivities of net interest income and equity are measurements that complement each other and provide an overview of structural risk, which focuses more on the short and medium term, in the case of net interest income, and on the medium and long term in the case of equity.

As a supplement to these measurements of sensitivity of equity, VaR measures are applied in accordance with treasury-specific methodology.

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

The CaixaBank Group continues to carry out a series of actions designed to strengthen the monitoring and management of balance sheet interest rate risk.

3.5.2 Currency risk in the banking book

The CaixaBank Group has foreign currency assets and liabilities in its balance sheet as a result of its commercial activity, in addition to the foreign currency assets and liabilities deriving from the entity's measures to mitigate foreign currency. The equivalent euro value of all foreign currency assets and liabilities in the CaixaBank Group's balance sheet at 31 December 2017 and 2016 is as follows:

Foreign currency positions

(Thousands of euros)

	31.12.2017	**31.12.2016**
Foreign currency assets		
Cash and cash balances at central banks and other demand deposits	1,148,537	1,244,140
Financial assets held for trading	1,123,809	1,797,646
Loans and receivables	*7,126,396*	*6,262,541*
Investments (1)	*668,424*	*17,741*
Other assets	*173,588*	*56,385*
Total foreign currency assets	**10,240,754**	**9,378,453**
Foreign currency liabilities		
Financial liabilities measured at amortised cost	6,737,266	5,560,452
Deposits	*5,872,869*	*5,256,794*
Central banks	*2,388,808*	*2,608,793*
Credit institutions	*1,033,623*	*272,257*
Customers	*2,450,438*	*2,375,744*
Debt securities issued	*807,379*	*241,092*
Other financial liabilities	57,018	62,566
Other liabilities	1,121,230	1,898,906
Total foreign currency liabilities	**7,858,496**	**7,459,358**

(1) Includes Banco BPI's stakes in associates (see Notes 7 and 17).

The Executive Treasury and Capital Markets Division at CaixaBank is responsible for managing the foreign currency risk arising from balance sheet positions denominated in foreign currency, a task performed through the market risk hedging activity undertaken by the Markets Area. Different financial instruments available on the market are used for this purpose. The hedging of foreign currency risk involves the arrangement of cash transactions such as active deposits or foreign currency liabilities, which are recognised in the Entity's balance sheet. Financial derivatives can also be used to mitigate asset and liability positions in the balance sheet. However, the nominal amount of these instruments is not reflected directly in the balance sheet but as memorandum items for financial derivatives. The management approach aims to minimise assumed foreign currency risks, which explains why the CaixaBank Group is hardly or virtually not exposed to this type of market risk.

The remaining minor foreign currency positions in the banking book and of cash management are chiefly held with credit institutions in major currencies (e.g. dollars, sterling and Swiss francs). The methods for quantifying these positions, which are the same, are applied alongside the risk measurements used for cash management as a whole.

The percentage breakdown, by currency, of loans and receivables, investments and financial liabilities measured at amortised cost is as follows:

Main balance sheet items by currency

(Percentage)

	31.12.2017	31.12.2016
Loans and receivables		
US dollar	69	66
Japanese yen	9	10
Pound sterling	9	8
Polish zloty	4	4
Swiss franc	3	4
Other	6	8
Total loans and receivables	**100**	**100**
Investments		
Kwanza	85	
US dollar		68
Brazilian real	3	32
Other	12	
Total investments	**100**	**100**
Financial liabilities measured at amortised cost		
US dollar	92	77
Pound sterling	4	18
Other	4	5
Total financial liabilities measured at amortised cost	**100**	**100**

3.6. Liquidity risk

3.6.1 Overview

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

To achieve these objectives, it:

- Has a decentralised liquidity management system across two units (the CaixaBank subgroup and the BPI subgroup) that includes a segregation of duties to ensure optimum 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; this entails 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 fund structure that entails mainly customer deposits
    - Funding in capital markets to complement the funding structure

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

The ALM (Asset and Liability Management) Division, which reports to the Executive Finance Division, is responsible for management liquidity risk, ensuring that liquid assets are permanently available in the balance sheet, i.e. minimising the liquidity risk in the banking book inherent to banking business under the guidelines established by the ALCO.

The Balance Sheet Analysis and Monitoring Division, which reports to the Executive Finance Division, oversees the analysis and monitoring of liquidity risk. The analysis is performed under both normal and business-as-usual market situations and under stress situations.

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

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

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

3.6.2 Residual maturity periods

The detail, by contractual term to maturity of the balances of certain items on the CaixaBank and Banco BPI balance sheets at 31 December 2017 and 2016, in a scenario of normal market conditions, is as follows:

31.12.2017

(Millions of euros)

	Demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets							
Cash and cash balances at central banks and other demand deposits	19,891	0	0	0	0	0	19,891
Financial assets held for trading – Derivatives	0	1,847	1,114	2,012	4,006	11,802	20,781
Financial assets held for trading – Debt securities	0	58	83	268	392	275	1,076
Available-for-sale financial assets – Debt securities	0	522	427	2,618	7,222	6,439	17,228
Loans and receivables	4,597	10,553	8,094	14,882	45,365	152,211	235,702
Loans and advances	*4,087*	*10,372*	*7,934*	*14,756*	*44,906*	*151,248*	*233,303*
Debt securities	*510*	*181*	*160*	*126*	*459*	*963*	*2,399*
Held-to-maturity investments	0	0	0	1,373	9,697	0	11,070
Derivatives – Hedge accounting	5	743	1,727	4,521	1,195	1,360	9,551
Total assets	**24,493**	**13,723**	**11,445**	**25,674**	**67,877**	**172,087**	**315,299**
Liabilities							
Financial liabilities held for trading – Derivatives	16	1,891	1,120	2,004	3,625	11,798	20,454
Financial liabilities measured at amortised cost	169,492	18,712	10,990	23,696	46,810	18,002	287,702
Deposits	166,290	17,062	9,512	21,655	37,896	2,777	255,192
Central banks	*0*	*1,015*	*1,257*	*1,391*	*28,023*	*0*	*31,686*
Credit institutions	*1,913*	*5,452*	*480*	*40*	*1,684*	*1,377*	*10,946*
Customers	*164,377*	*10,595*	*7,775*	*20,224*	*8,189*	*1,400*	*212,560*
Debt securities issued	420	1,209	1,024	1,955	8,748	15,044	28,400
Other financial liabilities	2,782	441	454	86	166	181	4,110
Derivatives – Hedge accounting	5	756	1,724	4,269	450	449	7,653
Total liabilities	**169,513**	**21,359**	**13,834**	**29,969**	**50,885**	**30,249**	**315,809**
Assets less liabilities	**(145,020)**	**(7,636)**	**(2,389)**	**(4,295)**	**16,992**	**141,838**	**(510)**

31.12.2016

(Millions of euros)

	Demand	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets							
Cash and cash balances at central banks and other demand deposits	12,974						12,974
Financial assets held for trading – Derivatives		558	133	774	2,270	12,269	16,004
Financial assets held for trading – Debt securities		59	136	785	601	216	1,797
Available-for-sale financial assets – Debt securities		1,247	1,989	1,823	5,526	3,967	14,552
Loans and receivables	17,630	7,246	6,762	19,245	68,416	104,161	223,460
Loans and advances	*17,630*	*7,246*	*6,349*	*19,170*	*68,125*	*103,907*	*222,427*
Debt securities			*413*	*75*	*291*	*254*	*1,033*
Held-to-maturity investments				1,034	7,027	245	8,306
Derivatives – Hedge accounting		87	35	26	1,171	1,782	3,101
Total assets	**30,604**	**9,197**	**9,055**	**23,687**	**85,011**	**122,640**	**280,194**
Liabilities							
Financial liabilities held for trading – Derivatives		455	73	408	2,007	12,880	15,823
Financial liabilities measured at amortised cost	126,175	32,413	17,187	27,200	43,364	12,295	258,634
Deposits	125,858	29,835	15,002	25,348	34,020	626	230,689
Central banks		*1,309*	*896*	*1,044*	*26,819*		*30,068*
Credit institutions		*3,817*	*1,076*	*134*	*478*	*269*	*5,774*
Customers	*125,858*	*24,709*	*13,030*	*24,170*	*6,723*	*357*	*194,847*
Debt securities issued		2,016	1,108	1,423	9,344	11,314	25,205
Other financial liabilities	317	562	1,077	429		352	2,737
Derivatives – Hedge accounting		2	1	2	162	459	626
Total liabilities	**126,175**	**32,870**	**17,261**	**27,610**	**45,533**	**25,634**	**275,083**
Assets less liabilities	**(95,571)**	**(23,673)**	**(8,206)**	**(3,923)**	**39,478**	**97,006**	**5,111**

Bear in mind that the calculation of the gap in the total balance included in the previous tables projects transaction maturities according to their contractual and residual maturity, irrespective of any assumption that the assets and/or liabilities will be renewed. At a financial entity with a high degree of retail financing, assets have a longer average maturity than liabilities, which produces a negative gap in the short term. The tables also indicate a high degree of stability in customers' demand accounts. Meanwhile, given the current liquidity climate, the analysis must keep in mind the influence exerted on this calculation by maturities of repurchase agreements and of deposits obtained through guarantees pledged on the loan with the European Central Bank. In conclusion, a large portion of the liabilities is stable and others are very likely to be renewed, while additional guarantees are available at the European Central Bank, and there is the capacity to generate new deposits through asset securitisation and the issuance of mortgage- and/or public sector-covered bonds. In addition, the Group has access to liquid assets allowing it to immediately obtain liquidity. Also worth noting is the fact that the calculation does not consider growth assumptions, and consequently disregards internal strategies for raising net liquidity, which are especially important in the retail market.

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.

Detailed below are the maturities of VidaCaixa's portfolio by carrying amounts after eliminating balances held with Group companies. In addition, Note 3.3.5 details the sovereign risk maturities of the Insurance Group (VidaCaixa SAU de Seguros y Reaseguros and BPI Vida e Pensões, Companhia de Seguros, SA).

Maturities of the Insurance Group's portfolio of financial assets

(Thousands of euros)

	31.12.2017	**31.12.2016**
Less than 1 month	10,233	684,954
Between 1 and 3 months	105,866	183,509
Between 3 and 12 months	366,306	1,160,155
Between 1 and 5 years	8,551,794	5,890,890
Over 5 years	40,491,084	39,287,493
Total	**49,525,283**	**47,207,001**

Financial instruments that include accelerated repayment terms

At 31 December 2017, CaixaBank had instruments containing terms that could trigger accelerated repayment if one or more of the events set out in the agreements occurred. The balance of transactions including accelerated repayment terms stood at EUR 1,121 million, with the entire amount related to transactions in which downgrades in credit rating could trigger accelerated repayment. Details of these operations, by nature of the agreement, are as follows:

Instruments with accelerated repayment terms

(Thousands of euros)

	31.12.2017	**31.12.2016**
Loans received (1)	1,121,030	699,692

(1) These loans are recognised under "Financial liabilities measured at amortised cost – Deposits from credit institutions" (see Note 23.1). Only includes loans with repayment terms featuring a rating downgrade of up to three notches.

In addition, master agreements with financial counterparties for trading in derivatives (CSA agreements) had a balance of EUR 10 million at 31 December 2017 subject to accelerated repayment terms.

3.6.3 Composition of liquid assets, the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio)

The following table presents a breakdown of the CaixaBank Group's liquid assets at 31 December 2017 and 2016 based on the criteria established for determining high quality liquid assets (HQLA) to calculate the LCR:

Liquid assets (1)
(Thousands of euros)

	31.12.2017		31.12.2016	
	Market value	Applicable weighted amount	Market value	Applicable weighted amount
Level 1 assets	51,772,969	51,772,969	34,231,671	34,231,671
Level 2A assets	332,627	282,733	80,962	68,818
Level 2B assets	2,858,172	1,554,070	4,629,488	2,669,560
Total liquid assets	**54,963,768**	**53,609,772**	**38,942,122**	**36,970,049**

(1) Criteria established to determine the LCR (Liquidity Coverage Ratio)

Banking liquidity, as shown by high quality liquid assets (HQLA) used to calculate the LCR, plus the balance that can be drawn on the credit facility with the European Central Bank that does not comprise the aforementioned assets, amounted to EUR 72,775 million and EUR 50,408 million at 31 December 2017 and 2016, respectively.

The LCR, which came into force on 1 October 2015, has been complied with since 1 January 2017, with a ratio of 80%. This involves 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 regulatory limit established is 70% from 1 January 2016, rising to 80% from 1 January 2017 and 100% from 1 January 2018. The data for this ratio for the CaixaBank Group are:

LCR (*)
(Thousands of euros)

	31.12.2017	31.12.2016
High quality liquid assets (numerator)	53,609,772	36,970,049
Total net cash outflows (denominator)	26,570,899	23,116,298
Cash outflows	31,633,523	28,322,907
Cash inflows	5,062,624	5,206,609
LCR (%)	**202%**	**160%**

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

The definition of the NSFR (Net Stable Funding Ratio) was approved by the Basel Committee in October 2014. In November 2016, the European Union, the European Commission sent proposed amendments to Directive 2013/36/EU (the "CRD IV") and Regulation 575/2013 (the "CRR") to the European Parliament and the European Commission, which included, among other aspects, the regulation of the NSFR. Therefore, their regulatory transposition is pending.

Regarding this ratio, the large weight of (more stable) customer deposits on CaixaBank's funding structure and limited use of wholesale markets for short-term funding results in a balanced funding structure. Indeed, the NSFR ratio remained about 100% in 2017, even though this is required since January 2018.

3.6.4 Liquidity strategy

The liquidity risk strategy and appetite for liquidity risk and financing involves:

a. identifying significant liquidity risks for the Entity;
b. formulating the strategic principles the Group must observe when managing each of these risks;
c. defining significant metrics for each risk;
d. setting appetite, alert, tolerance and, as the case may be, stress levels within the Risk Appetite Framework (RAF);
e. establishing management and control procedures for each of the risks, including mechanisms of systematic internal and external reporting;
f. defining a stress testing framework and a Liquidity Contingency Plan to ensure that liquidity risk is managed accordingly in situations of moderate and serious crisis; and
g. a Recovery Planning framework, in which scenarios and measures are devised for stress conditions.

The liquidity strategy can be summarised as follows:

a. General liquidity strategy: maintenance of liquidity levels within the Risk Appetite Framework to enable comfortably meeting payment obligations on time and without harming investment activity owing to a lack of lendable funds.

b. Specific strategy: there are specific strategies for the following areas:
    - management of intraday liquidity risk
    - management of short-term liquidity risk
    - management of sources of financing
    - management of liquid assets
    - management of collateralised assets

c. Liquidity management strategy under crisis conditions, which pursues three main objectives:
    - early detection of a possible liquidity crisis
    - minimisation of negative impact on the initial liquidity position in a crisis situation
    - liquidity management focused on overcoming a potential liquidity crisis

CaixaBank, as part of this approach to managing liquidity risk and to allow it to anticipate potential needs for lendable funds, has various mechanisms in place to afford it access to the market and expedite the financing process. These are:

a. securities placement programmes registered at the CNMV so as to expedite the formalisation of securities issuances on the market.
b. authority from the Annual General Meeting to issue securities.
c. 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)
d. CaixaBank has several lines in effect with:
    - The Spanish Instituto de Crédito Oficial (ICO) in order to facilitate lending facilities offered by the Institute under its intermediation credit line.
    - The European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).
e. public sector and mortgage covered bond issuance capacity.
f. financing instruments with the European Central Bank for which a number of guarantees have been posted to ensure that high liquidity can be obtained immediately.

g. the Group's Liquidity Contingency Plan and Recovery Plan contain a wide range of measures that allow for liquidity to be generated in diverse 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.

Financing obtained from the European Central Bank through various monetary policy instruments was EUR 28,820 million at 31 December 2017, compared to EUR 26,819 million at 31 December 2016. The difference is due to the incorporation of BPI (EUR 2,001 million). The amount at 31 December 2017 relates to the extraordinary liquidity auctions, known as TLTRO I (Targeted Longer-Term Refinancing Operations I) maturing in 2018 (EUR 637 million, and the remainder to the TLTRO II extraordinary auctions (EUR 28,183 million) maturity in September 2020 (balance of EUR 24,729 million in June and EUR 2,500 million in December) and in 2021 (a balance of EUR 954 million in March).

The scope of the CaixaBank Group’s issuance programme at 31 December 2017 is shown in the tables below:

Debt issuance capacity

(Thousands of euros)

	Total issuance capacity	Nominal used at 31.12.2017
Promissory notes programme (1)	3,000,000	1,494
Fixed income programme (2)	15,000,000	7,860,813
CaixaBank EMTN ("Euro Medium Term Note") programme (3)	10,000,000	5,000,000
EMTN (Euro Medium Term Note) programme, BPI (4)	7,000,000	339,525
BPI mortgage covered bonds programme (5)	7,000,000	6,150,000
Public sector covered bonds programme (Portugal) (6)	2,000,000	600,000

(1) Promissory notes programme registered with the CNMV on 18/07/2017.

(2) Base prospectus for non-participating securities registered with the CNMV on 20/07/2017.

(3) Registered with the Irish Stock Exchange on 20.06,2017

(4) Registered with the Commission de surveillance du secteur financier (the “CSSF”) in Luxembourg on 17 February 2017.

(5) Registered with the CMVM (Comissão do Mercado de Valores Mobiliários) on 16 February 2017.

(6) Programme registered with the CNVM (Comissão do Mercado de Valores Mobiliários) on 12 October 2017.

Covered bond issuance capacity

(Thousands of euros)

	31.12.2017	31.12.2016
Mortgage covered bond issuance capacity	2,804,590	4,000,171
Public sector covered bond issuance capacity	355,016	1,493,769

Wholesale financing maturities (net of own securities acquired) are as follows:

Wholesale funding maturities (net of own securities acquired) (*)

(Thousands of euros)

	Up to 1 month	1-3 months	3-12 months	1-5 years	>5 years	Total
Mortgage covered bonds	1,000,000	1,053,100	1,928,723	7,530,939	9,858,592	21,371,353
Public sector covered bonds	0	0	87,800	0	0	87,800
Mortgage covered bonds (Portugal)	200,000	0	0	0	0	200,000
Senior debt	0	0	709,282	76,861	1,062,247	1,848,390
Subordinated debt and preference shares	0	0	0	0	3,933,056	3,933,056
Senior, non-preference	0	0	0	0	1,250,000	1,250,000
Total wholesale issuance maturities	**1,200,000**	**1,053,100**	**2,725,805**	**7,607,800**	**16,103,895**	**28,690,599**

(*) Includes issuances placed with the Insurance Group

The Group’s financing policies take into account a balanced distribution of issuance maturities, preventing concentrations and diversifying financing instruments. In addition, its reliance on wholesale markets is limited.

3.7. Operational risk

3.7.1 Introduction

Operational risk is defined as: “The risk of loss arising from inadequate or failed internal processes, people and systems or from external events”.

The overall objective is to improve the quality of business management, supplying information on operational risks to allow decisions to be made that ensure long-term continuity within the organisation, improvements to its processes and the quality of both internal and external customer service, in accordance with the regulatory framework established, and the optimisation of capital consumption.

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

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

3.7.2 Corporate governance

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

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

3.7.3 Operational risk cycle

Although the method used to calculate regulatory capital is the standard method, the operational risk measurement and management model used by the Group is designed to support management with risk-sensitive approaches, in line with market best practices. The two main objectives are as follows: To establish an operational risk model based on policies, processes, tools and methodologies that improve operational risk management in the companies; and to help ultimately to reduce operational risk.

The operational risk model has two main pillars:

Operational Risk Management Framework (ORMF)

This is the Governance Framework and Management Structure for the operational risk model set out in the Operational Risk Management Framework and the documents implementing it.

Operational Risk Measurement System (ORMS)

This is defined as the operational risk management system the Bank uses to measure its operational risk. It is a system that integrates operational risk management into the Group's day-to-day activities, and is based on the combination and interaction of qualitative and quantitative methodologies.

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, to capture primarily loss events and impacts and operational risk indicators (KRIs).

3.7.4 Operational risk management levers

Operational risk management is supported by the following mechanisms:

- Qualitative measurement of operational risk and scenarios of extreme operational losses based on self-assessments. These exercises help greatly to align and raise awareness of operational risk management throughout the organisation, as it is a transversal aspect that is shared across the Bank.

- Quantitative measurement of operational loss events using an internal database; and an external database: CaixaBank belongs to the ORX Consortium (Operational Riskdata eXchange), which provides information on operating losses for banks worldwide; this information is shared anonymously.

- Key operational risk indicators (KRIs), are metrics, indices or measures to detect and anticipate changes in operational risk levels.

3.7.5 Action and mitigation plans

An action and mitigation plan methodology has been implemented to:

- effectively mitigate operational risks by reducing the likelihood of them occurring and cushioning the impact if they do arise, or both at the same time.
- have in place a solid control structure based on policies, methodologies, processes and systems.
- integrate information generated by the operational risk management mechanisms into the Entity's day-to-day management.

Standard action plan content entails appointing a centre to be in charge, and setting out the actions to be undertaken to mitigate the risk covered by the plan, the percentage or degree of progress, which is updated regularly, and the final commitment date.

The corporate insurance programme for dealing with operational risk is designed to cover and counterbalance certain risks, and, therefore, mitigate their impact. Risk transfer depends on risk exposure, tolerance and appetite at any given time.

3.7.6 Business continuity plan

Business continuity refers to the capability of an organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident.

Business continuity management is a holistic management process that identifies potential threats to an organisation and the impacts to business operations those threats, if realised, might cause. 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.

CaixaBank has adopted and maintained a Business Continuity Management System (BCMS) based on the international ISO 22301:2012 standard and certified by the British Standards Institution (BSI), with number BCMS 570347. The Business Continuity Plan is part of this system.

CaixaBank was designated a critical infrastructure operator under the provisions of Act 8/2011, on the protection of critical infrastructure. The National Centre for the Protection of Critical Infrastructure is responsible for promoting, coordinating and supervising all activities delegated to the Interior Ministry's Security Secretariat.

3.7.7 Technology contingency plan, emergency plans and security measures

IT contingency plan

To correctly manage and control technological infrastructure, an IT contingency governance framework must be in place. Technology infrastructure is essential to guarantee the continuity of the Bank's operations.

The governance framework is based on the international ISO 27031:2011 standard.

This governance framework ensures compliance with the recommendations of regulators (e.g. Bank of Spain, ECB) and shows customers, regulators and other stakeholders:

- CaixaBank's commitment to IT contingency.
- The implementation and operation of an IT contingency management system in accordance with an internationally renowned standard.
- Best practices in IT contingency management.
- The existence of a process based on continuous improvement.

The result is a regulatory body for IT contingency governance, audited by Ernst & Young, which issued a certificate of Certified ISO 27031.

Emergency plans and security measures

There are several internal regulations on security measures in the different areas of the Entity, in addition to a general Emergency Plan.

- Security in central offices
- Information security
- Personal data processing and confidentiality

Moreover, efforts are put into developing and continuously improving protection and defence capabilities on the organisational, compliance and IT fronts by designing and carrying out projects pooled together in security programmes (202 projects in 19 programmes for 2017). The main lines established are:

- Cybersecurity strategy:
    0. Adaptation of the cybersecurity strategy to the constant changes required by the complicated global cybercrime scene, resulting in an innovative strategy aligned with best practices and standards in the market.
    1. CaixaBank has a team of IT security specialists working daily to ensure it has the best tools for combating cybercrime, backed by a team of cybersecurity specialists (Cyber Security Response Team), which is trained and ready 24/7 to address the most advanced threats. The importance of cybersecurity at present and its relationship with operational and reputational risk management pose a huge responsibility for the organisation as a whole. Therefore, the Entity encourages informing and raising awareness about information security among everyone related to the Bank (employees, customers, collaborators, etc.) as a core element of its cybersecurity strategy, raising knowledge and applying best practices.

- Customer fraud: Improved controls to fight customer fraud, with tools that can detect and protect, at source, increasingly sophisticated banking malware bearing in mind the new digital banking models.
- Technology fraud: Implement new technology fraud prevention controls to mitigate and prevent new fraud scenarios, information theft and malpractice by users of CaixaBank's information systems.
- Security governance: Ensure compliance with new regulatory requirements in the area of information security (e.g. General Data Protection Regulation, PSD2, ECB requirements, S&Ps) and perform ongoing control reviews.
- Supplier security: Implement a new methodology to ensure suppliers meet the level of security required by CaixaBank.
- Security strategy - new trends (Cloud, APIs, Blockchain): Establish the general requirements needed to guarantee information security in Cloud based systems and in the CaixaBank services open to the outside for use by third-party applications. Implemented security controls to operate these environments.
- Global endpoint and email security strategy: Migrate the security platform to a new ecosystem of advanced products to deal with new threats.
- Transformation of identity management in the Group: Transform identity management in all corporate areas, factoring in cloud environments. Improve security in the management of privileged users and update of approval policies.
- Security awareness raising: Make employees aware of security, as a key to reinforcing security at CaixaBank, group companies and suppliers.

3.7.8 Activities during the year

On 7 December 2017, the Basel Committee published the document “Basel III: finalising post-crisis reforms”, including a new method for calculating minimum regulatory capital requirements for operational risk. The impact of this new model known as the Standardised Measurement Approach (SMA) has been assessed. It is envisaged that this reform will be definitely implemented in 2022.

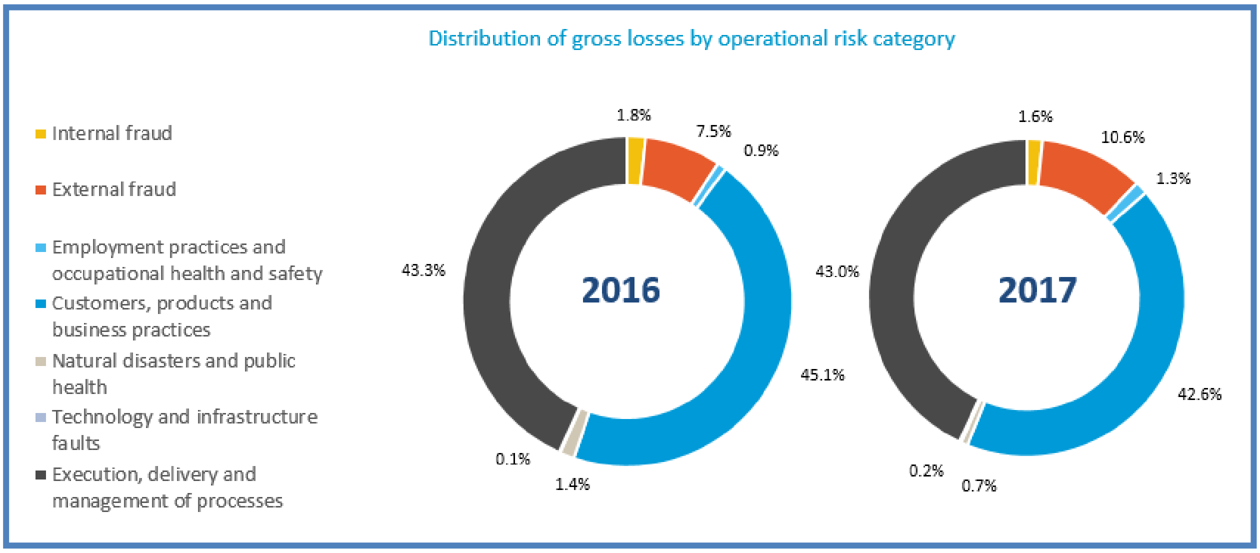
During the year, as part of the self-assessment process the taxonomy of operational risks was brought into line with the new corporate risk map. A self-assessment of over 600 operational risks identified in the management perimeter was conducted, while the different areas' sensitivity to culture of aversion to operational risk was enhanced.

The updating of the Risk Catalogue during 2017 has implied the explicit mention of the Model Risk in the definition of the Risk of Operational Processes and External Events. Understanding as such, the risk derived from the potential loss that an entity could incur as a result of decisions based mainly on the results of internal models, due to errors in the conception, application or use of such models.

As part of the set of RAF metrics (risk appetite framework), the level 2 indicators for conduct risk and IT risk were made more robust, and a specific indicator for legal risk was introduced.

Parameters were drawn up in 2017 to shape collaboration with BPI vis-à-vis adapting policies and procedures to ensure a common operational risk management framework can be rolled out across the entire group.

Gross losses by type of risk break down as follows:



3.8. Conduct and compliance risk

Insofar as operational risk is concerned, conduct and compliance risk is defined as risk arising from the application of conduct criteria that run contrary to the interests of its customers and stakeholders, along with deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory framework, or with internal codes and rules, and which could result in administrative sanctions or reputational damage.

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

The management of compliance and conduct risk is not limited to any specific area, but rather the entire Entity. All employees must ensure compliance with prevailing regulations, applying procedures that capture regulations in their activity.

In order to manage compliance and conduct risk, management and governance bodies encourage the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics, and its members and other employees and Senior Management must ensure that they are compliant as a core criterion guiding their day-to-day activities. Therefore, as the first line of defence, the areas whose business is subject to compliance and conduct risk implement and manage a first level of indicators and controls to detect potential sources of risk and act effectively to mitigate them. As a second line of defence, the General Control & Compliance Subdivision, which encompasses the Corporate Regulatory Compliance Division, reviews internal procedures to verify that they are up-to-date and, as appropriate, to identify situations of risk, in which case it calls upon the affected areas to develop and implement the improvement actions necessary.

3.9. Reputational risk

Reputational risk is the risk of loss of competitiveness due to the loss of trust in the CaixaBank Group by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or governance bodies.

Structure and organisation of the risk management function

- As the main area responsible for enhancing and strengthening CaixaBank's reputation, the Executive Communication, Institutional Relations, Brand and Corporate Social Responsibility Division is also in charge of measuring and monitoring changes in CaixaBank's global reputation and any risks that could negatively affect this, reporting on this matter to the Entity's Corporate Responsibility and Reputation Committee, Senior Management and governance bodies.

- The chair of the Corporate Responsibility and Reputation Committee is the Executive Communication Manager, and its members include the main organisational divisions handling relations with stakeholders and the management of the CaixaBank Group's main investees (CaixaRenting, VidaCaixa, etc.). The CRRC's functions include analysing CaixaBank's reputation and regularly monitoring any identified risks that might affect CaixaBank's reputation and proposing actions and contingency plans to minimise the risks detected.

  The CRRC reports on the results of its reputational risk monitoring to the Global Risks Committee of the company, which then reports to the Risks Committee of CaixaBank's Board of Directors. The CRRC also reports directly to the Board Appointments Committee.

All CaixaBank's areas and subsidiaries also have joint responsibility for the reputation of the Entity and of the CaixaBank Group. They are involved in identifying and managing the reputational risks to which CaixaBank is exposed, and establishing mitigation plans and measures.

Assessing reputation: Reputation Scorecard and monitoring tools

CaixaBank uses a raft of tools to measure and analyse trends to remain permanently abreast of the constant changes and growing demands of its stakeholders and society at large. These include: opinion surveys among principal stakeholders (customers, staff and shareholders); daily monitoring and management of reputation in the printed and online media and on social networks; dialogue with the main players in civil society; reputation rankings and monitoring by independent experts.

CaixaBank's reputation is measured using a Reputation Scorecard featuring a range of (internal and external) reputational indicators using data gleaned from various sources of stakeholder expectations and perception analysis. These include the main indicators for all CaixaBank's stakeholders and key reputational values, which are given a weighting based on their strategic importance. The Reputation Scorecard provides a Global Reputation Index (GRI): a global metric enabling data to be compared over time and benchmarked against peers. This metric is also used to determine the reputational risk appetite framework, i.e. the perception threshold that CaixaBank strives to remain above at all times.

Reputational risk monitoring and management: Main mechanisms

CaixaBank has codes of conduct and responsible practice policies (such as the Corporate Social Responsibility Policy, Human Rights Policy and Defence Policy). These policies are approved by the Board of Directors and set out the conduct-related objectives and principles of CaixaBank staff. They also help to prevent and mitigate the Entity's exposure to reputational risk, and adoption of best corporate responsibility practices.

The Reputational Risk Map is the key tool used to formally oversee reputational risk management. This Map enables CaixaBank to:

- Identify and classify the risks that could affect the Entity's reputation.
- Rank risks by criticality according to their damage to the Entity's reputation and the coverage of preventative policies.
- Establish indicators for monitoring each risk (KRIs).
- Establish coverage and mitigation policies for the areas responsible for the different risks.

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

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 the various risks arise.

Key highlights and progress in the management of reputation in 2017

The Reputational Risk Map was updated in 2017, in response to the Entity's current position and external circumstances. New risks to be prevented have been included, such as connections with tax havens or controversial sectors, while other existing risks have been rehashed, as is the case with those associated with responding to digitalisation or disruptive competitors.

Progress has been made throughout the year in relation to reputational risk management, following the requirements of the European regulator (Basel Committee, European Banking Authority guidelines and ECB recommendations). Work has taken place to integrate reputational risk with the Entity's other risks, looking at both the effects on reputation of these risks and standardisation of control and management measures used. One of the steps taken has been to bolster the work of the Corporate Responsibility and Reputation Committee, increasing the frequency of its meetings and giving it more executive powers.

Turning to the tools for measuring reputation, the Global Reputation Index (GRI) has been strengthened with the introduction of new indicators and inclusion of BPI in the scope of measurement and analysis.

In 2017, the Governing bodies, Management Committee and Board of Directors also approved the CSR Master Plan, which has five main lines of action: integrity, transparency and diversity; good governance, the environment, financial inclusion; and social initiatives and volunteering.

The Reputational Risk Support Service (RRSS) has also been set up to handle branch enquires concerning matters that could result in a breach of the corporate social responsibility policies and therefore, pose a reputational risk.

3.10. Actuarial risk

3.10.1 Overview

The applicable regulatory framework for insurance entities from 1 January 2016 is Directive 2009/138/EC, of the European Parliament and of the Council, of 25 November 2009, on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). This Directive is complemented by Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 (also known as Omnibus II).

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

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

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

This regulatory framework establishes, inter alia, the framework for managing the credit and liquidity risk of the insurance business, determining credit quality and the 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 DGSFP.

In particular, Note 3.3.4 provides information relating to the credit risk associated with financial assets acquired to manage the commitments arising from the insurance contracts. Note 3.3.5 provides additional quantitative information regarding credit ratings based on Standard&Poor's rating scale. Note 3.3.5 also describes the Group's policies regarding exposure to sovereign risk. The quantitative information on the exposure of the insurance activity in sovereign debt is also detailed by portfolio, country and residual maturity. Note 3.4 includes information on liquidity risk in the insurance activity.

The insurance business is exposed to subscription or actuarial risk. Actuarial risk is defined as the risk of an increase in the value of commitments assumed for benefits under insurance contracts with customers and employee pension plans, due to differences between estimates for claims and management costs used in determining the price of the insurance (the premium) and the actual performance of these.

According to the EC Solvency II Directive, underwriting or 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 loss, or of adverse change in the value of benefits (reduction) or future expected losses (increase) of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.

- Expense risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance and reinsurance contracts.
- Catastrophe risk: The risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

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

3.10.2 Actuarial risk cycle

Actuarial risk management is guided by the regulations established by Solvency II (European Union – EIOPA) and the Directorate-General of Insurance and Pension Funds (DGSFP). The policies are based on these regulations. This entails monitoring technical trends in products, which fundamentally depend on the actuarial factors indicated previously.

This stable, long-term management is reflected in the actuarial risk management policies:

These policies are updated at least annually and are as follows:

- Underwriting and provision of reserves: for each line of business, various parameters are identified for risk approval, measurement, rate-setting and lastly, to calculate and set aside reserves covering underwritten policies. General operating procedures are also in place for underwriting and the provision of reserves.

- Reinsurance: The extent to which risk is passed on is determined taking into account the risk profile of direct insurance contracts, and the type, suitability and effectiveness of the reinsurance agreements in place.

These policies have been updated and approved by the VidaCaixa Global Risks Committee, the VidaCaixa Board, and the CaixaBank Global Risks Committee.

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

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

Handling claims and ensuring the adequacy of the provisions are basic principles of insurance management. The definition and follow-up of the aforementioned policies enables them to be changed, if required, to adapt risks to the Group's global strategy.

3.10.3 Management tools

Technical provisions are estimated using specific procedures and tools and are quantified and tested for adequacy on an individual policy basis.

Technological support

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

Under the framework of these integrated and automated systems, there are also a number of applications that perform management support duties, including the treatment and preparation of reporting and risk management information. In addition, there is a solvency and risk datamart, which serves as a support tool for compliance with all the requirements of the Solvency II Directive.

Reports drafted

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

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

Pursuant to Solvency II, the first Quantitative Annual Reporting Templates were submitted to the insurance supervisor (DGSFP) in 2017. The first Own Risk and Solvency Assessment Report of VidaCaixa was also published.

3.11. Legal and regulatory risk

Legal and regulatory risk is defined as the probability of losses or decrease in the CaixaBank Group's profitability as a result of changes to the regulatory framework or unfavourable court rulings. It includes two risks types:

(i) risks arising from legislative or regulatory changes; i.e. from amendments to the general legal framework or to specific sector regulations (banking, insurance, and asset management) that cause a loss or decrease in the Group's profitability.

(ii) risk arising from judicial or administrative claims; i.e. claims by public administrations, customers, investors, suppliers or employees alleging non-compliance or illegal actions, violation of contractual clauses, or a lack of transparency in the products marketed by the Group.

Aware of the influence that the regulatory framework can have on the Bank's activities and its potential impact on its long-term sustainability, the CaixaBank Group regularly monitors all regulatory changes. Senior management, especially through the Regulation Committee set up as an offshoot of the Management Committee, carefully considers the transcendence and scope of new regulatory measures.

To manage this risk accordingly from Legal Advisory, work is undertaken to continuously monitor and follow regulatory changes, defend the Entity's interests, and analyse and adapt to regulations, identify risks, implement procedures, and argue the Entity's case in legal proceedings.

The regulatory agenda continued to advance considerably in 2017. In addition to further developments in the prudential framework and crisis management, regulation also increased in terms of customer and investor protection and digital and technological matters. Among others, the Entity participated in:

- Basel Committee consultative processes over revisions to its proposals for the standardised approach (SA) for capital charges for credit, market and operational risks. Along with proposals to amend the Capital Requirements Directive (CRD V) and the Capital Requirements Regulation (CRR 2).

- Consultations on crisis management by contributing to and actively participating in the proposed review of the Bank Recovery and Resolution Directive (BRRD II), especially concerning the introduction of a new category of senior debt and the necessary review of the Minimum Requirement of Eligible Liabilities (MREL). Further, modification of the Regulation on the Single Resolution Mechanism.

- Monitoring and involvement in consultations on the new European framework for the management of NPLs.

- Monitoring of the adoption in the European Union of international accounting standards, specifically the interaction of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts and IFRS 16 Leases.

- Consultations run by a number of regulators on FinTech activities: (i) European Commission consultation on the FinTech phenomenon in general; (ii) European Banking Authority consultation on its approach to FinTech; (iii) Basel Committee on Banking Supervision on the implications of FinTech developments for banks and bank supervisors; and (iv) European Central Bank consultation on a guide for evaluating FinTech bank licences.

- Consultations on specific matters concerning the financial sector's digital transformation such as: (i) the European Supervisory Authorities Joint Committee consultation on the use of Big Data by financial institutions; and (ii) the EBA's consultation on recommendations on outsourcing to cloud service providers.

- Monitoring of ESMA and European Commission developments of the Directive on markets in financial instruments ("MIFID 2") and the Regulation on financial markets amending Regulation 648/2012 EMIR (MIFIR). At European level, the Entity has also contributed to the consultations on ESMA product governance guidelines.

- Consultations on regulations implementing the Directive on Payment Services (PSD2), in particular on strong customer authentication and secure communication.

- Monitoring of the various European initiatives vis-à-vis the Capital Markets Union, Consumer Financial Services Action Plan and future FinTech Action Plan.

- Monitoring of the inclusion of various European Directives in Spanish regulations, specifically: (i) the Mortgage Credit Directive (MCD); (ii) the Basic Payment Accounts Directive (PAD); (iii) the Second Payment Services Directive (PSD2); (iv) the General Regulation on Data Protection (GDPR); (v) the Markets in Financial Instruments Directive (MiFID 2); and the Fourth Anti Money Laundering Directive (AMLD 4).

In addition, the Entity worked actively on implementing the various rules:

- Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs). Key Investor Information Documents (KIIDs) have been drawn up for products to be sold.

- Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU; Regulation (EU) No. 600/2014, of 15 May 2014, on financial markets and amending Regulation (EU) No. 648/2012, (MIFID II and MIFIR) and implementing standards and regulations, especially Commission Delegated Directive (EU)) 2017/593, of 7 April 2016, supplementing Directive 2014/65/EU with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits; and Commission Delegated Regulation (EU) 2017/565, of 25 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

- Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation). CaixaBank has launched a project to comply with the new EU rules on data protection affecting the companies in its group of companies. The project is underway and the first milestone is for Group companies to fulfil the requirements of the new regulations by May 2018. This project entails, inter alia, adapting information systems and customer relations, rolling out new systems for logging and controlling campaigns, appointing a Data Protection Officer, and rehashing the Group's rules on privacy and suppliers.

- Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC and analysis of the proposed Regulatory Technical Standards on strong customer authentication and common and secure open communication supplementing Directive (EU) 2015/2366. Impact assessment and implementation, prior to incorporation into domestic law.

- Royal Decree Law 5/2017, of 17 March, modifying Royal Decree Law 6/2012 of 9 March, on urgent measures to protect low-income mortgage debtors, and Law 1/2013, of 14May, on measures to strengthen the protection of mortgage borrowers, debt restructuring and social rent. Impact assessment and implementation.

A broad project was also carried out to improve the formal and material transparency of contractual documents for consumer of the most widely distributed products, in order to ensure they are fully understood by all parties involved, and effect a legal review of the procedure by which financing operations are used as collateral to cover CaixaBank's obligations with the Bank of Spain, specifically in regard to (i) better identification of transactions that meet eligibility requirements, (ii) identification of legal requirements to ensure the transaction in question may be used as collateral, and (iii) monitoring the life cycle of the transactions used and their inclusion in the policy.

Further, the importance extended to the regulatory framework for tax risk management in Spain and abroad, in addition to the growing interest of stakeholders and society in general in corporate tax management, led the Tax Division, in coordination with the corresponding business areas, to continue rolling out a series of measures in 2017 to improve tax risk management and the effectiveness of the control measures in place.

- In 2017, CaixaBank continued with the recurring review and update of the standard procedures in place, and began implementing new solutions for data management and automated processing in compliance with existing tax obligations and new tax obligations that must be addressed in 2018. From a synthetic viewpoint:

- Subsequent to Royal Decree 596/2016, of 2 December for the modernisation, improvement and stimulus of the use of electronic methods in VAT management, amending VAT regulations and other tax regulations, and the approval of Order HFP/417/2017, of 12 May, regulating the regulatory and technical specifications for the management of the Value Added Tax Record Books through the E-Office of the Tax Agency, the Immediate Information Supply system was designed and implemented as a new information system in response to an existing obligation (management of VAT record books) which required the Group to adapt its IT applications.
- With regard to transfer price, 2016 was the first year in which it was mandatory to carry out Country by Country Reporting in Spain through the AEAT electronic platform. Given the volume of data and information managed by the CaixaBank Group, IT tools have been rolled out to comply with this obligation.
- Following the approval of Royal Decree Law 1/ 2017, of 20 January, on urgent measures to protect consumers in relation to floor clauses, controls and IT solutions have been implemented to ensure compliance with the related requirements.
- In relation to Corporation Tax, the measures set down in Royal Decree Law 3/2016, of 2 December, adopting tax measures aimed at consolidating public finances and other urgent measures in the social domain, were implemented, in addition to those of Royal Decree 683/2017, of 30 June, amending the Corporation Tax Regulation.

3.12. Capital adequacy risk

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

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

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

Regulatory capital

Since 1 January 2014, the capital adequacy of financial corporations has been regulated by Regulation (EU) 575/2013 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council, both dated 26 June 2013, which implement the Basel III regulatory framework (BIS III) in the European Union.

Additionally, following the transposition to European legislation, the Basel Committee and other relevant bodies published a series of additional rules and documents containing new specifications for the calculation of capital. This means that procedures are constantly being updated, and therefore the CaixaBank Group continuously adapts its processes and systems to ensure the calculation of capital consumption and direct deductions from capital are fully aligned with the new established requirements.

As stipulated in the regulation, the CaixaBank Group is subject to minimum eligible capital and disclosure requirements at individual and consolidated level.

Economic capital

The economic capital model forms the basis of the internal estimate of capital requirements and supplements the regulatory view of capital adequacy. This is an internal estimate the Bank adjusts according to its level of tolerance to risk, volume, and type of business activity.

Therefore, CaixaBank's Board of Directors and Management are responsible for ensuring that it has sufficient capital at all times to deal with any incident, with a high confidence level.

With this objective, CaixaBank 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.

Hence, economic capital is not a substitute for regulatory capital, but a supplement which is used to better offset the actual risk assumed by the CaixaBank Group and it includes risks that have not been factored in at all or only partially, by the regulatory measures.

In addition to the risks referred to in Pillar 1 (credit, market and operational risk), it includes interest rate risk in the banking book, liquidity risk and other risks (business, reputational, concentration, concentration and actuarial).

The economic capital model is used in Pillar 2 of Basel III reporting by the CaixaBank Group to the supervisor as it measures, based on its own criteria, the group of risks to which the Group's activity is exposed.

4. Capital adequacy management

Regulatory framework

In 2010, the Basel Committee on Banking Supervision approved the reform of the global regulatory framework known as Basel III in the aftermath of the international financial crisis. The package of legislation transposing this framework came into force in the European Union with effect from 1 January 2014. It comprised Regulation 575/2013 (CRR) and Directive 2013/36 (CRD IV). These modifications sought to improve the banking sector's ability to absorb the impact of economic and financial crises, whilst enhancing risk management and governance, transparency and information disclosure. Specifically, these improvements called for stricter requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. The CRR was applied directly in Spain and CRD IV was implemented through Royal Decree-Law 14/2013, Law 10/2014 and Royal Decree 84/2015, in addition to other lower level provisions such as Bank of Spain Circular 2/2016. The CRR establishes a progressive implementation schedule for the new requirements in the European Union. Bank of Spain Circular 2/2014, partially repealed by Circular 2/2016, and Circular 3/2014 implemented the regulatory options applicable during the Basel III phase-in period. However, on 1 October 2016 these Circulars were replaced by European Regulation 2016/445 of the ECB, which sought to standardise various significant national discretions and options.

From a supervisory perspective, in 2014, the ECB took responsibility for supervision of the euro area, following Regulation 1024/2013 of the Council and ECB regulation 468/2014 coming into effect, giving rise to the creation of the Single Supervisory Mechanism (SSM). Under the SSM, the ECB takes direct responsibility for supervision of the most significant entities, including CaixaBank, and indirect responsibility for other entities, which are supervised directly by national authorities.

In 2015, the ECB completed the first 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 as an ongoing supervisory process to evaluate the adequacy of capital, liquidity, corporate governance, and risk management and control using a standardised European process put in place by the European Banking Authority (EBA). The SREP process may require additional capital or liquidity, or other qualitative measures in response to any risks and weaknesses detected by the supervisor in an entity. The SREP seeks to assess the viability of entities on an individual basis, also considering comparisons against their peers. Any additional capital requirements under the SREP process ("Pillar 2" requirements) may also be complemented by combined capital buffer requirements (CBR, Combined Buffer Requirement) comprising capital conservation, anti-cyclical capital and systemic risk buffers.

CaixaBank Group solvency

At 31 December 2017, the CaixaBank Group had a Common Equity Tier 1 (CET1) ratio of 12.7% (down 46 basis points versus 31 December 2016), primarily due to the integration of the Portuguese bank BPI in the first quarter of the year, which had an impact of -115 basis points[2] on this ratio.

In 2017 CaixaBank issued EUR 1,000 million of eligible Additional Tier 1 (AT1), putting the regulatory ratio at 12.8% at the year end. As the issuance absorbs deductions during the Basel III phase-in period, that were being sustained by CET1, the improved capital adequacy is largely transferred to the CET1 regulatory ratio.

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[2] *The impact of the integration of BPI includes the sale of 2% of Banco de Fomento Angola (BFA), with a reduction in capital requirements for operational risk due to the loss of control over the Angola-based bank.*

The Total Capital ratio stands at 16.1% (16.2% at 31 December 2016). This year, three new issuances of subordinated debt were made for a total amount of EUR 2,150 million, and one issuance with a nominal amount of EUR 1,302 million was redeemed.

Risk-weighted assets (RWA) at 31 December 2017 stood at EUR 148,940 million, up EUR 14,076 million (10%) from the end of the previous year, primarily due to the acquisition of BPI.

Applying the criteria expected for the end of the transitional period (fully loaded), the CaixaBank Group had a CET1 ratio of 11.7% at 31 December 2017 (in line with the Strategic Plan target range of 11%-12%), a Tier 1 ratio of 12.3% and a Total Capital ratio of 15.7%, also in line with the minimum target of 14.5% established in the Strategic Plan.

In relation to subordinated instruments to comply with future MREL requirements, in September EUR 1,250 million of senior non-preferred debt was issued. The ratio of subordinated instruments, including mainly Total Capital and senior non-preferred debt stands at 16.8% (fully loaded).

For 2017, the ECB requires the CaixaBank Group to maintain a CET1 regulatory ratio of 7,375%, entailing: the minimum requirement of Pillar I of 4.5%; the requirement of Pillar II (supervisory review process) of 1.5%; the capital conservation buffer of 1.25% (2.5% phased-in over four years, to 2019) and the O-SII (Other Systemically Important Institution) buffer of 0,125% (0.25% phased-in over four years, to 2019). On a *fully loaded* basis, the minimum CET1 requirement would be 8.75%.

Similarly, taking the Pillar I requirements of 6% and 8% for Tier 1 and Total Capital, respectively, the minimum Tier 1 requirements were 8.875% (regulatory) and 10.25% (fully loaded), and 10.875% (regulatory) and 12.25% (fully loaded) for Total Capital.

For 2018, due to the transitional application of buffers, regulatory requirements are 8,063% for CET1, 9,563% for Tier 1 and 11,563% for Total Capital. Fully loaded requirements remain unchanged in 2018.
Given the current solvency levels of the CaixaBank Group, the requirements applicable would not give rise to any of the automatic limitations set down in solvency regulations regarding distributions of dividends, variable remuneration and interest to holders of additional Tier 1 capital instruments.

CaixaBank's dividend policy meets the conditions established by the ECB in its recommendation of 28 December 2017, on dividend distribution policies for credit institutions, and therefore represents no limitation for the Entity.

The composition of the CaixaBank Group's eligible own funds at 31 December 2017 and 2016 is as follows:

Eligible own funds

(Thousands of euros)

	31.12.2017		31.12.2016	
	Amount	%	Amount	%
Net equity	**24,683,281**		**23,555,562**	
Shareholders' equity	24,203,895		23,399,819	
Capital	*5,981,438*		*5,981,438*	
Profit/(loss)	*1,684,167*		*1,047,004*	
Reserves and other	*16,538,290*		*16,371,377*	
Minority interests and valuation adjustments	479,386		155,743	
Other CET1 instruments	**(755,785)**		**(632,187)**	
Adjustments applied to the eligibility of minority interests and valuation adjustments	(147,896)		(111,629)	
Other adjustments (1)	(607,889)		(520,558)	
CET1 instruments	**23,927,496**		**22,923,375**	
Deductions from CET1	**(4,961,008)**		**(5,134,157)**	
Intangible assets	(3,364,813)		(2,415,643)	
Deferred tax assets	(1,125,674)		(685,185)	
Other deductions from CET1	(470,521)		(337,822)	
AT1 deductions covered by CET1	0		(1,695,507)	
CET1	**18,966,488**	**12.7%**	**17,789,218**	**13.2%**
AT1 instruments	**999,000**		**0**	
Deductions from AT1	**(891,300)**		**0**	
Intangible assets	(841,203)		(1,610,428)	
Other deductions from AT1	(50,097)		(85,079)	
AT1 deductions to be covered by CET1	0		1,695,507	
TIER1	**19,074,188**	**12.8%**	**17,789,218**	**13.2%**
T2 instruments	**5,023,123**		**4,087,736**	
Deductions from T2	**(50,097)**		**(85,079)**	
TIER 2	**4,973,026**	**3.3%**	**4,002,657**	**3.0%**
TOTAL CAPITAL	**24,047,214**	**16.1%**	**21,791,875**	**16.2%**
Memorandum items: Risk-weighted assets	**148,940,259**		**134,863,962**	
Credit risk	*110,818,912*		*98,190,228*	
Shareholder risk	*22,860,407*		*23,703,136*	
Market risk	*2,278,293*		*1,688,891*	
Operational risk	*12,982,647*		*11,281,707*	

(1) Mainly the forecast for dividends expected to be distributed.

Leverage ratio

(Thousands of euros)

	31.12.2017	31.12.2016
Exposure	344,281,393	309,678,048
Leverage ratio	5.5%	5.7%

The table below shows the changes in regulatory capital in 2017 and 2016:

Changes in regulatory capital

(Thousands of euros)

	31.12.2017		31.12.2016	
	Amount	**%**	**Amount**	**%**
CET1 at 1 January	**17,789,218**	**13.2%**	**18,485,412**	**13.0%**
Changes in CET1 instruments	**1,004,121**		**(1,061,068)**	
Profit	1,684,167		1,047,004	
Dividend	(896,966)		(536,066)	
Reserves	(103,011)		(1,169,301)	
Minority interests	269,161			
Valuation adjustments and other	50,770		(402,705)	
Changes in deductions from CET1	**173,149**		**364,874**	
Intangible assets	(949,170)		(453,569)	
Financial investments	0		238,215	
Deferred tax assets	(440,489)		(474,437)	
Other deductions from CET1	(132,699)		(295,031)	
AT1 deductions covered by CET1	1,695,507		1,349,697	
CET1 at 31 December	**18,966,488**	**12.7%**	**17,789,218**	**13.2%**
Additional Tier 1 at 1 January	**0**	**0.0%**	**0**	**0.0%**
Changes in AT1 instruments	**999,000**		**0**	
Changes in deductions from CET1	**(891,300)**		**0**	
Deductions from AT1	(891,300)		(1,349,697)	
Deductions to be covered by CET1	0		1,349,697	
Additional Tier 1 at 31 December	**107,700**	**0.1%**	**0**	**0.0%**
TIER 2 at 1 January	**4,002,657**	**3.0%**	**4,342,083**	**3.1%**
Changes in Tier 2 instruments	**935,387**		**(356,439)**	
Subordinated issuances	2,150,000		0	
Redemption of issuances	(1,302,000)		(33,925)	
Other	87,387		(322,514)	
Changes in Tier 2 deductions	**34,982**		**17,013**	
TIER 2 at 31 December	**4,973,026**	**3.3%**	**4,002,657**	**3.0%**

Information on capital requirements by risk calculation method for 2017 and 2016 is presented below:

Detail of risk weighted assets by method

(Thousands of euros)

	31.12.2017		31.12.2016	
	Risk weighted assets	**%**	**Risk weighted assets**	**%**
Credit risk	**110,818,912**	**74.4%**	**98,190,228**	**72.8%**
Standardised approach	64,171,518	43.1%	48,815,577	36.2%
IRB approach	46,647,394	31.3%	49,374,651	36.6%
Shareholder risk	**22,860,407**	**15.4%**	**23,703,136**	**17.6%**
PD/LGD method	10,040,278	6.7%	14,111,263	10.5%
Simple method	12,559,782	8.4%	9,426,977	7.0%
VaR method	260,347	0.2%	164,896	0.1%
Market risk	**2,278,293**	**1.5%**	**1,688,891**	**1.3%**
Standardised approach	1,227,668	0.8%	324,504	0.2%
Internal models (IMs)	1,050,625	0.7%	1,364,387	1.0%
Operational risk	**12,982,647**	**8.7%**	**11,281,707**	**8.4%**
Standardised approach	12,982,647	8.7%	11,281,707	8.4%
Total	**148,940,259**	**100.0%**	**134,863,962**	**100.0%**

5. Appropriation of profit

The appropriation of profit of CaixaBank in 2017, to be presented by the Board of Directors for approval at the Annual General Meeting, is as follows:

Appropriation of CaixaBank's profit

(Thousands of euros)

	2017
Basis of appropriation	
Profit/(loss) for the year	1,428,131
Distribution:	
To dividends (1)	**896,969**
To interim dividend (November 2017)	418,454
To final dividend (2)	478,515
To reserves (3)	**531,162**
Legal reserve (4)	0
Voluntary reserves (5)	531,162
Net profit for the year	**1,428,131**

(1) Estimated maximum amount (see Note 2 below).

(2) The Board of Directors will submit a proposal at the Annual General Meeting to approve a final dividend of EUR 0.08 per share, to be paid in April 2018. The total distributable amount is the estimated maximum, which will be reduced in accordance with the number of treasury shares held by CaixaBank at the date of payment of the divided as, in accordance with the Spanish Corporate Enterprises Act, treasury shares are not eligible to receive dividends.

(3) Estimated amount (see Note 5 below).

(4) It is not necessary to transfer part of the 2017 profit to the legal reserve, as this reserve has reached 20% of the share capital (article 274 of the Spanish Corporate Enterprises Act).

(5) Estimated amount to be appropriated to voluntary reserves. This amount will increase by the same amount that the amounts earmarked for payment of the final dividend decreases (see Notes 1 and 2 above).

The table below shows the liquidity statements prepared by the directors indicating there is sufficient liquidity to pay the interim dividend against 2017 profits approved by the Board of Directors on 23 October 2017 and published by means of a Significant Event notice issued at that date and paid in November 2017:

Liquidity statement

(Thousands of euros)

Actual liquidity (1)	41,805,639
Potential liquidity (2)	57,898,055
High-quality liquid assets	49,311,004
High-quality liquid assets + balance available through the ECB facility (3)	62,785,227
Balance in current accounts	10,482,412
Maximum amount payable	**418,701**

(1) Basically cash on hand, the interbank balance and unencumbered sovereign debt, less the balance to be withheld as a cash ratio.

(2) As well as Balance Sheet Liquidity, also includes the balance available through the ECB facility.

(3) Includes the balance available through the ECB facility not includes in high quality liquid assets.

6. Shareholder remuneration and earnings per share

Shareholder remuneration

The frequency of dividend payments was agreed under the new dividend policy approved by the CaixaBank Board of Directors at its meeting of 23 February 2017. At that meeting, the Board resolved that remuneration for 2017 would be paid through two half-yearly cash dividends. In line with the 2015-2018 Strategic Plan, CaixaBank has reiterated its intention of remunerating shareholders by distributing an amount in cash equal to or greater than 50% of consolidated net profit (53% in 2017).

The following dividends were distributed in 2017:

Distribution of dividends paid in 2017
(Thousands of euros)

	Euro per share	Amount paid in cash	Date of announcement	Payment date
Final dividend for 2016	0.06	358,675	06.04.2017	13.04.2017
Interim dividend - 2017	0.07	418,454	23.10.2017	02.11.2017
Total	**0.13**	**777,129**		

Earnings per share

Basic and diluted earnings per share in 2017 and 2016, as per the consolidated profit of the CaixaBank Group attributable to the Parent, are as follows:

Calculation of basic and diluted earnings per share

	2017	2016
Numerator		
Profit attributable to the Parent (thousands of euros)	**1,684,167**	**1,047,004**
Denominator (thousands of shares)		
Average number of outstanding shares (*)	5,977,811	5,841,965
Adjusted number of shares (Basic earnings per share denominator)	**5,977,811**	**5,841,965**
Basic earnings per share (euro) (**)	**0.28**	**0.18**
Diluted earnings per share (in euros)	**0.28**	**0.18**

(*) Number of shares outstanding at the beginning of the period, excluding the average number of treasury shares held during the period. Includes the retrospective adjustments set out in IAS 33.

(**) Including CaixaBank's 2017 individual profit, basic earnings per share would be 0.24.

7. Business combinations, acquisition and disposal of ownership interests in subsidiaries

Business combinations - 2017

Banco BPI Group

On 16 January 2017, the Portuguese securities commission (Comisión del Mercado de Valores Mobiliarios) registered the prospectus for CaixaBank's takeover bid for Banco BPI at a price per share of EUR 1,134, and the acceptance period of the bid was opened. This period closed on 7 February 2017. Having secured the required approvals and following completion of the acceptance period for the takeover bid, CaixaBank was able to obtain a stake of 84.51% in Banco BPI. The payment for the 39.01% of share capital acquired in the bid stood at EUR 645 million.

Accounting of the business combination

The business combination is recognised in these consolidated financial statements. Effective control was assumed on 7 February 2017. The acquisition date for accounting purposes was 31 January 2017. The impact on equity and profit of the difference between the acquisition date and the date control was effectively obtained is not significant.

The revaluation of the previous 45.5% holding in BPI at the takeover bid price (EUR 1,134 per share) gave rise to a loss of EUR 186 million (before and after tax), which was recognised under "Gains/(losses) on derecognition of non-financial assets and investments, net".

The Group recognised a positive amount equivalent to the negative difference arising on consolidation of EUR 442 million under “Negative goodwill recognised in profit or loss” in the accompanying condensed interim consolidated statement of profit or loss (before and after tax).

In view of the foregoing, at the date of acquisition of control, the total impact of the business combination was EUR 256 million.

The fair value of the Banco BPI Group's assets and liabilities at 31 January 2017 was as follows:

Fair value of the Banco BPI Group's assets and liabilities

(Thousands of euros)

	Carrying amount	Adjustments	Fair value
Assets:			
Cash and cash balances at central banks and other demand deposits (Note **10)**	1,349,960	0	1,349,960
Financial assets held for trading **(Note 11)**	1,060,796	(11,000)	1,049,796
Financial assets designated at fair value through profit or loss **(Note 12)**	1,260,688	0	1,260,688
Available-for-sale financial assets **(Note 13)**	3,876,398	(41,000)	3,835,398
Equity instruments	*294,693*	*(41,000)*	*253,693*
Debt securities	*3,581,705*		*3,581,705*
Loans and receivables **(Note 14)**	23,180,948	(371,000)	22,809,948
Debt securities	2,242,220	36,000	2,278,220
Loans and advances	20,938,728	(407,000)	20,531,728
Credit institutions	*674,039*		*674,039*
Customers	*20,264,689*	*(407,000)*	*19,857,689*
Held-to-maturity investments **(Note 15)**	16,300		16,300
Derivatives – Hedge accounting	23,966		23,966

Fair value of the Banco BPI Group's assets and liabilities

(Thousands of euros)

	Carrying amount	Adjustments	Fair value
Fair value changes of the hedged items in portfolio hedge of interest rate risk	27,204		27,204
Investments in joint ventures and associates **(Note 17)**	639,755	35,000	674,755
Tangible assets **(Note 19)**	49,957	(3,000)	46,957
Intangible assets **(Note 20)**	24,966	140,000	164,966
Tax assets **(Note 26)**	480,635	162,756	643,391
Other assets **(Note 21)**	207,777	0	207,777
Non-current assets and disposal groups classified as held for sale **(Note 22)**	101,225	(8,000)	93,225
Total assets	32,300,575	(96,244)	32,204,331
Liabilities:			
Financial liabilities held for trading **(Note 11)**	196,278	0	196,278
Financial liabilities designated at fair value through profit or loss **(Note 12)**	2,213,194	0	2,213,194
Financial liabilities measured at amortised cost **(Note 23)**	24,868,494	(49,000)	24,819,494
Deposits	23,438,844	0	23,438,844
Central banks	*1,999,911*	*0*	*1,999,911*
Credit institutions	*1,792,150*	*0*	*1,792,150*
Customers	*19,646,783*	*0*	*19,646,783*
Debt securities issued	1,118,383	(49,000)	1,069,383
Other financial liabilities	311,267	0	311,267
Derivatives - Hedge accounting	96,384	0	96,384
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(515)	0	(515)
Liabilities under insurance contracts	2,016,674	41,000	2,057,674
Provisions **(Note 24)**	104,435	93,000	197,435
Tax liabilities **(Note 26)**	61,990	63,020	125,010
Other liabilities	308,975	13,983	322,958
Total liabilities	29,865,909	162,003	30,027,912
Equity:			
Shareholders' equity	2,432,888	(258,247)	2,174,641
Accumulated other comprehensive income			0
Minority interests	1,778		1,778
Total equity	2,434,666	(258,247)	2,176,419
Minority interests (15.49%)			338,626
Attributable equity (84.51%)			1,837,793
Consideration paid (*)			1,396,238
Negative goodwill			**441,555**

(*) Comprises payment of EUR 645 million for 39.01% of the share capital acquired through the takeover and and the reduction of the cost of 45.5% of pre-existing participation in BPI for an amount of EUR 751 million.

The following contingent assets and liabilities of the acquiree were measured during the *Purchase Price Allocation* process (PPA):

- The fair value of loans and receivables was primarily obtained by applying the estimated percentages of expected loss to loans and advances to customers, determined basically in accordance with the characteristics of the financing granted and the collateral of the debt. In accordance with paragraph B64 of IFRS 3, the gross contractual amounts receivable from loans and advances to customers and the provisional adjustments made under the scope of the purchase price allocation process are as follows:

Contractual amounts and provisional adjustments to loans and advances to customers

(Thousands of euros)	Accounting balances of BPI Group at 31 January 2017				Adjustments made during purchase price allocation (1)	
	Gross amount	Valuation adjustments	Provisions	Net balance		Fair value
Loans and advances **(Note 13)**	21,573,212	46,715	(681,199)	20,938,728	(407,000)	20,531,728
Credit institutions	*673,753*	*286*		*674,039*		*674,039*
Customers	*20,899,459*	*46,429*	*(681,199)*	*20,264,689*	*(407,000)*	*19,857,689*

(1) Adjustments for expected loss related with credit risk amount to EUR 468 million, after taking into account the adjustments made to contingent liabilities (see Note 24).

The conclusion concerning the appropriate classification of receivables in terms of recoverability is supported by a due diligence analysing a representative sample of the receivables, comparing the results obtained with CaixaBank's experience and adjusting any differences associated with the reclassifications identified.

- The fair value of the portfolio of real estate assets was obtained considering appraisals available and other parameters such as the type, use and location of the assets, sales experience, sales costs, etc.
- The fair values of the portfolio of non-listed holdings were estimated using a variety of generally accepted valuation techniques, primarily discounted cash flows, dividend discount, analysis using multiples and prices based on recent transactions.

  In the specific case of Banco de Fomento de Angola, in which BPI has a 48.1% stake, the valuation has been confirmed using a combination of methods, including the following: (i) analysis of ROE/PBV equivalence with another African bank (particularly Nigeria given its reliance on oil); (ii) dividend discount, based on the available budget and applying discount rates of between 21.2% and 23.5% and a normalised growth rate of 5%.
- For fixed income instruments, either market prices or discounted cash flows applying market inputs were used, based on the type of asset.
- Intangible assets have been recognised when they are identifiable and separable or arises from a contractual-legal relationship. Separability is when an asset is capable of being separated and transferred by the entity, either individually or together with a related contract or other assets or liabilities, regardless of whether the entity intends to do so (IAS 38.12).The fair value and main features of the identified intangible assets are as follows:

Intangible assets arising on business combinations

(Millions of euros)	Fair value	Useful life	Valuation method	Main assumptions (1)
Brand	20	Indefinite	Royalty method	Royalty rate of 0.5% applied to BPI's business plan until 2020
Core deposits (2)	38	6 years	Cost savings method	Projections using 12M Euribor yield curve Cost to income ratio approaching 50%
Asset management	17	4 to 10 years	Multi-period earnings method	Management fee from run-off portfolio BPI's projected operating expenses as a percentage of ordinary income, including sales costs
Insurance brokerage	28	10 years	Multi-period earnings method	Premium sales fee from run-off portfolio Cost to income ratio approaching 50%
Pension funds and insurance	17	5 to 10 years	Multi-period earnings method	Management fee from run-off portfolio BPI's projected operating expenses as a percentage of ordinary income, including sales costs
Depositary business	20	6 years	Multi-period earnings method	Operating fee from run-off portfolio Cost to income ratio approaching 50%

(1) A discount rate of 11.1% is applied based on the average discount rate used to assess the recoverable value of the investee (formerly an associate) in December 2016, plus an additional 1%.
(2) Estimated financial expense saving associated with a lower cost of funding through demand deposits compared to the wholesale funding cost.

- In all cases, the tax credit for amortisation was added to the value of the intangible asset. in accordance with IFRS 13, this approach is based on valuing the asset as if it were acquired separately, assigning it the corresponding tax amortisation value.
- Wholesale debt issuances, including any treasury shares, were estimated at their fair values.
- Liabilities and contingent liabilities were measured at the best estimate of the outflow of resources that could be required of uncertain timing. These adjustments include the recognition of the estimated amount to be paid to settle legal and tax risks, even where such risks are considered remote.
- For fair value adjustments made, the corresponding deferred tax asset or deferred tax liability was recognised.

Banco BPI, which is fully consolidated in the CaixaBank Group, contributed EUR 770 million in gross income since its integration (see Note 8).

Business combinations - 2016

There were no business combinations in 2016.

8. Segment information

Segment reporting is carried out on the basis of internal control, monitoring and management of the CaixaBank Group's activity and results, and developed in accordance with the various areas of business established with regard to the Group's structure and organisation. The Board of Directors is the highest operational decision-making body of each business.

The business segments are defined bearing in mind the inherent risks and management characteristics of each. For the purposes of business segment reporting of activities and income, the core business units on which accounting and management figures are available are taken as a reference. The same general principles are applied as those used in Group management information, and the measurement, valuation bases and accounting principles applied are basically the same as those used to prepare the interim financial statements.

Segment reporting is presented in the same way as prior to the acquisition of BPI, although from February 2017, the profits attributable to this investee are not included in the Investments business but as a new business (BPI), with the following **different business lines:**

Banking and insurance business: the CaixaBank Group's core business and includes the entire banking business (retail banking, corporate and institutional, cash management and markets), together with the insurance business and asset management, primarily carried out in Spain through the branch network and the other complementary channels. It encompasses the activity and profits generated from the Group's customers, whether individuals, companies or institutions. It also incorporates the liquidity management and the Assets and Liabilities Committee (ALCO), and income from the financing of the other businesses and corporate activities.

This segment includes the result of the Group's insurance companies in Spain, mainly VidaCaixa, whose retail products are distributed to the same customer base and through the CaixaBank branch office network.

Following the takeover bid and the acquisition of control over Banco BPI, this segment also includes the result of the business combination, as it derived from a corporate operation.

Non-core real estate activity: includes the results, net of the related financing charge, of non-core real estate assets *in* Spain, which comprise:

- Non-core developer lending.
- Foreclosure real estate assets (available for sale and rental) mainly owned by the real estate subsidiary BuildingCenter, SA.
- Other real estate assets and holdings.

Investments business: primarily includes income from dividends and/or the share of profit/(loss) of entities accounted for using the equity method, less financing costs, in respect of investments in Erste Group Bank, Repsol, SA and Telefónica, SA, as well as the significant impacts on profit and loss from other relevant investments acquired in order to diversify investment sectors. In 2016, this business segment included Banco BPI's contribution to Group profit and loss. Until May 2016, it also included the contribution from investments in Bank of East Asia and Grupo Financiero Inbursa. In 2017, it includes Banco BPI's profit and loss for January. Following completion of the takeover bid and the acquisition of control, Banco BPI's profit and loss was reassigned to a new business segment.

The gross income of the investments business includes, essentially, income from the equity accounting of the respective investments and from dividends, net of the related financing charge.

The allocation of capital to the non-core real estate and investments businesses is in line with the corporate objective of maintaining a Common Equity Tier 1 (CET1) “fully loaded” ratio of between 11% and 12%, taking into account both the 11% weighting applied to risk-weighted assets and any applicable deductions. The allocation of capital to BPI is at sub-consolidated level, i.e., taking into account the subsidiary's equity.

The difference between total CaixaBank Group equity and the capital assigned to these businesses, including BPI, is attributed to the banking and insurance business.

Operating expenses for these business segments include both direct and indirect costs, which are assigned according to internal distribution methods.

BPI: Includes the profit and loss contributed by BPI to the consolidated Group as from the acquisition of control in February 2017, at which time the Group began fully consolidating the interest held. Equity in this business segment essentially relates to BPI's equity at the sub-consolidated level, and the statement of profit or loss includes the reversal of adjustments derived from the fair value measurement of assets and liabilities assumed in the business combination.

The performance of the CaixaBank Group by business segment at 31 December 2017 and 2016 is shown below:

Profit/(loss) attributable to the Group

(Thousands of euros)	January-December	
	2017	**2016**
Banking and insurance business	1,748,432	1,979,027
Non-core real estate activity	(413,444)	(1,124,602)
Investments	172,736	192,579
BPI	176,443	
Total profit/(loss) attributable to reporting segments	**1,684,167**	**1,047,004**
Plus: Other results (including result attributable to minority interests)	34,461	7,931
Plus: Income tax and/or gains/(losses) on discontinued operations	379,355	483,127
Total profit/(loss) before tax	**2,097,983**	**1,538,062**

Consolidated statement of profit or loss of the CaixaBank Group - By business segment

(Millions of euros)

	Banking and insurance [1]		Non-core real estate activity		Investments [2]		BPI [3]		CaixaBank Group	
	January-December		January-December		January-December		February-December		January-December	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income	**4,603**	**4,387**	**(71)**	**(66)**	**(163)**	**(164)**	**377**		**4,746**	**4,157**
Dividend income and share of profit/(loss) of entities accounted for using the equity method	191	159	32	18	318	651	112		653	828
Net fee and commission income	2,222	2,089	1	1			276		2,499	2,090
Gains/(losses) on financial assets and liabilities and others	303	846			(44)	2	23		282	848
Income and expenses under insurance or reinsurance contracts	472	311							472	311
Other operating income and expenses	(80)	(156)	(332)	(251)			(18)		(430)	(407)
Gross income/(loss)	**7,711**	**7,636**	**(370)**	**(298)**	**111**	**489**	**770**	**-**	**8,222**	**7,827**
Administrative expenses	(3,602)	(3,687)	(42)	(55)	(4)	(4)	(502)		(4,150)	(3,746)
Depreciation and amortisation	(328)	(309)	(63)	(61)			(36)		(427)	(370)
Pre-impairment income	**3,781**	**3,640**	**(475)**	**(414)**	**107**	**485**	**232**	**-**	**3,645**	**3,711**
Impairment losses on financial assets and other provisions	(1,606)	(769)	(138)	(136)	4	(164)	29		(1,711)	(1,069)
Net operating income/(loss)	**2,175**	**2,871**	**(613)**	**(550)**	**111**	**321**	**261**	**-**	**1,934**	**2,642**
Gains/(losses) on disposal of assets and other	154	21	6	(1,034)	5	(91)	(1)		164	(1,104)
Profit/(loss) before tax from continuing operations	**2,329**	**2,892**	**(607)**	**(1,584)**	**116**	**230**	**260**	**-**	**2,098**	**1,538**
Income tax	(575)	(904)	194	459	57	(37)	(54)		(378)	(482)
Profit/(loss) after tax from continuing operations	**1,754**	**1,988**	**(413)**	**(1,125)**	**173**	**193**	**206**	**-**	**1,720**	**1,056**
Profit/(loss) attributable to minority interests	6	9					30		36	9
Profit/(loss) attributable to the Group	**1,748**	**1,979**	**(413)**	**(1,125)**	**173**	**193**	**176**	**-**	**1,684**	**1,047**
Equity [4]	*19,641*	*20,332*	*1,331*	*1,598*	*1,012*	*1,470*	*2,220*		*24,204*	*23,400*
Total assets	*335,945*	*327,606*	*11,530*	*12,949*	*6,167*	*7,372*	*29,544*		*383,186*	*347,927*

(1) This segment includes the impact of the business combination resulting from the acquisition of Banco BPI (EUR 256 million), as it derived from a corporate operation.

(2) Profit and loss of Banco BPI was included in the investments business until acquisition of control in February 2017.

(3) BPI includes the profit and loss contributed by BPI to the consolidated Group from February 2017, using the full consolidation method to account for the assets and liabilities (considering the adjustments made in the business combination) (see Note 7).

(4) Equity allocated to the businesses.

The banking and insurance businesses have an integrated Banking-Insurance management model. Under a regulatory framework with similar accounting and supervision objectives, sales and risks are managed jointly, as the model is integrated.

The CaixaBank Group sells insurance products, which complement the other financial products, through the CaixaBank commercial network to the same customer base. Sales are managed in an integrated manner because the majority of the insurance products offer savings alternatives (life-savings and pensions) to the banking products (deposits and mutual funds).

The results of the Banking-Insurance business are presented as a single business segment in the segment reporting because of this integrated Banking-Insurance management model.

Details of the contribution to the CaixaBank Group of the revenues from the insurance and pension plan management business are as follows:

Contribution of insurance and pensions to the Group's revenues

(Millions of euros)

	2017	2016
Net interest income	305	297
Share of profit/(loss) of entities accounted for using the equity method	155	125
Net fee and commission income	424	367
Gains/(losses) on other financial assets and liabilities and others	64	88
Income and expenses of assets and liabilities under insurance or reinsurance contracts	472	311
Other operating income and expenses	32	13
Gross income/(loss)	**1,452**	**1,201**

CaixaBank also holds a 100% stake in VidaCaixa, SA, which owns 49.92% of SegurCaixa Adeslas, SA

The VidaCaixa Group posted an after-tax profit of EUR 634 million in 2017 (EUR 492 million in 2016). The Insurance Group also generated EUR 9,666 million of accrued premiums in 2017 (EUR 9,492 million in 2016).

The main items in the VidaCaixa Group's balance sheet at 31 December 2017 and comparative figures for the previous year are as follows:

Key items in the VidaCaixa Group's balance sheet

(Millions of euros)

	2017	2016
Total assets	**64,016**	**55,352**
Of which: position in sovereign debt ***(Note 3.3.5)***	*47,069*	*43,029*
Technical provisions	**59,762**	**51,287**

At the end of December, VidaCaixa de Seguros y Reaseguros acquired all of the share capital of BPI Vida e Pensoes, Companhia de Seguros, SA. This acquisition has not affected the VidaCaixa Group's statement of profit or loss. However, the assets and liabilities acquired have been recognised in the consolidated balance sheet of VidaCaixa SAU de Seguros y Reaseguros and subsidiaries. The consolidated balance sheet of VidaCaixa SAU de Seguros y Reaseguros and subsidiaries at 31 December 2017 therefore includes assets of EUR 4,307 million, sovereign debt positions of EUR 1,017 million, and technical provisions of EUR 4,096 million from BPI Vida e Pensoes, Companhia de Seguros, SA. This acquisition has not had an impact at CaixaBank Group consolidated level.

The income of the CaixaBank Group for 2017 and 2016 by segment and geographical area is as follows.

Distribution of interest and similar income by geographical area

(Thousands of euros)	January-December			
	CaixaBank		CaixaBank Group	
	2017	2016	2017	2016
Domestic market	4,278,028	4,564,658	6,550,243	6,734,992
Export	19,156	18,060	420,201	18,060
a) European Union	15,567	13,329	405,421	13,329
b) OECD countries			2	
c) Other countries	3,589	4,731	14,778	4,731
Total	**4,297,184**	**4,582,718**	**6,970,444**	**6,753,052**

Distribution of ordinary income (*)

(Thousands of euros)	January-December					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
	2017	2016	2017	2016	2017	2016
Banking and insurance	10,727,138	11,113,629	316,457	334,937	11,043,595	11,448,566
Spain	*10,703,810*	*11,092,718*	*316,457*	*334,937*	*11,020,267*	*11,427,655*
Other countries	*23,328*	*20,911*			*23,328*	*20,911*
Non-core real estate activity	259,334	288,533	0	0	259,334	288,533
Spain	*259,334*	*288,533*			*259,334*	*288,533*
Other countries	*0*	*0*			*0*	*0*
Investments	273,725	652,564	0	0	273,725	652,564
Spain	*239,446*	*385,072*			*239,446*	*385,072*
Other countries	*34,279*	*267,492*			*34,279*	*267,492*
BPI	851,719	0	3,263	0	854,982	0
Portugal/Spain	*713,713*	*0*	*3,263*		*716,976*	*0*
Other countries	*138,006*	*0*			*138,006*	*0*
Adjustments and eliminations of ordinary income between segments			(319,720)	(334,937)	(319,720)	(334,937)
Total	**12,111,916**	**12,054,726**	**0**	**0**	**12,111,916**	**12,054,726**

(*) Correspond to the following line items of the CaixaBank Group's public statement of profit or loss calculated pursuant to Bank of Spain Circular 5/2014.

1. Interest income
2. Dividend income
3. Share of profit/(loss) of entities accounted for using the equity method
4. Fee and commission income
5. Gains/(losses) on financial assets and liabilities
6. Gains/(losses) from hedge accounting
7. Other operating income
8. Income from assets under insurance or reinsurance contracts

9. Remuneration of key management personnel

Under the provisions of Bank of Spain Circular 4/2004 and applicable international accounting regulations, key management personnel at CaixaBank are those persons having authority and responsibility for planning, directing and controlling the activities of the Entity, directly or indirectly, including all members of the Board of Directors (executive or other) and Senior Management. Given their posts, each member of key management personnel is a "related party" of CaixaBank. Therefore, CaixaBank must disclose, among other transactions, the information provided in this Note.

Also considered CaixaBank related parties are family members close to "key management personnel" and companies over which key personnel or their close family members exercise control, joint control or significant influence, or have, directly or indirectly, significant voting power. The transactions carried out by the CaixaBank Group with the aforementioned parties and other related parties are disclosed in Note 41.

Remuneration of the Board of Directors

At the Ordinary Annual General Meeting of CaixaBank held on 6 April 2017, the Directors' remuneration policy was approved for 2017-2020, in accordance with Article 529 *novodecies* of the Corporate Enterprises Act, introduced by Law 31/2014, of 3 December, to improve corporate governance.

The remuneration policy for the Board of Directors is in line with the remuneration scheme set out in the By-laws and the Regulations of the Board of Directors in conformity with the Corporate Enterprises Act and Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (LOSS).

Non-executive director remuneration only comprises fixed component, with the exception of variable components, pension schemes, remuneration in kind of systems based on shares or instruments linked to its share price described below. Non-executive Directors have a purely organic working relationship with CaixaBank, and as such do not hold contracts with the Company nor are they entitled to any form of payment should they be dismissed from their position as Director.

Article 34 of CaixaBank's By-laws, amended pursuant to a resolution adopted at the Annual General Meeting held 25 April 2013, stipulates that the position of Director shall be remunerated and that this remuneration shall consist of a fixed annual sum with a maximum amount determined by the Annual General Meeting and which shall remain in force until the General Meeting agrees to modify it. This maximum amount shall be used to remunerate all the Directors in their condition as such and shall be distributed as deemed appropriate by the Board of Directors, following the proposal of the Remuneration Committee, both in terms of remuneration to members, especially the Chairman, which receives additional fixed remuneration for carrying out his duties, and according to the duties and position of each member and to the positions they hold in the various Committees.

Likewise, within the maximum limit determined by the Annual General Meeting, Directors may be remunerated with Company shares or shares in another publicly traded Group company, options or other share-based instruments or of remuneration referenced to the value of the shares. This compensation must be ratified at the Annual General Meeting. The resolution will specify, if applicable, the maximum number of shares that can be assigned in each year to this remuneration system, the strike price for the options or the system for calculating the strike price for the options, if applicable, taken as a reference and the duration of the plan.

Independently of the above, Directors carrying out executive duties at the Company, whatever the nature of their legal relationship, are entitled to receive remuneration for these duties to be determined by the Board of Directors on the basis of a proposal submitted by the Remuneration Committee. This remuneration may be either a fixed amount, a variable amount in addition to incentive schemes and benefits which may include pension plans and insurance and, where appropriate, social security payments. In addition, providing execution functions may be remunerated by granting Company shares or shares in another publicly traded Group company, options or other share-based instruments or by other remuneration referenced to the value of the shares. In the event of departure not caused by a breach of their functions, Directors may be entitled to compensation.

In addition, in accordance with section 6 of Article 34 of the Bylaws and given the enormous practical issues involving an individual policy, Non-executive Directors are also covered by the civil liability policy for Directors and executives of the CaixaBank Group to cover any third-party liabilities they may incur when carrying out their duties. The amounts corresponding to the part of the premium attributable are considered remuneration in kind.

Details of remuneration and other benefits received in 2017 and 2016 by the members of the Board of Directors of CaixaBank for their membership in that body those years (by item in 2017), including remuneration received by Directors in their condition as such, and for the Chief Executive and Deputy Chairman, the amounts received in relation to their executive duties, are as follows:

2017

(Thousands of euros)

	Position	Type of director	Board of Directors	Other board committees	Non-variable remuneration	Variable remuneration (1)	Other long-term benefits (2)	Other items (3)	Other positions in Group companies	TOTAL 2017	TOTAL 2016
Gual Solé, Jordi (4)	Chairman	Proprietary	1,090	60						1,150	340
Fainé Casas, Isidre (4)										0	579
Antonio Lavilla Masanell (5)	Deputy Chairman	Executive	90	50	794	267	100	52		1,353	1,537
Gortázar Rotaeche, Gonzalo	Chief Executive Officer	Executive	90	50	1,150	720	255	47	520	2,832	2,816
Francesc Xavier Vives Torrents	Lead Director	Independent	107	50						157	144
Aurín Pardo, Eva (6)										0	169
Bassons Boncompte, Maria Teresa	Director	Proprietary	90	53						143	124
Fisas Vergés, M. Verónica (7)	Director	Independent	90	21						111	87
Fundación Caja Navarra, represented by Juan Franco Pueyo (8)										0	76
Fundación Privada Monte de Piedad y Caja de Ahorros San Fernando de Huelva, Jerez y Sevilla (Fundación Cajasol), represented by Guillermo Sierra Molina (9)			14							14	91
Fundación Bancaria Canaria Caja General de Ahorros de Canarias (Fundación CajaCanarias), represented by Natalia Alvárez Gómez (10)	Director	Proprietary	74							74	0
Gabarró Serra, Salvador (11)			19	17						36	174
García-Bragado Dalmau, Alejandro (12)	Director	Proprietary	90							90	0
Garralda Ruiz de Velasco, Ignacio (13)	Director	Proprietary	55							55	0
Ibarz Alegría, Javier	Director	Proprietary	90	100					90	280	284
Llobet María, María Dolors (14)										0	117
López Burniol, Juan José (14)										0	97
Minc, Alain	Director	Independent	90	90						180	184
Moraleda Martínez, María Amparo	Director	Independent	90	166						256	260
Reed, John S.	Director	Independent	90							90	94
Rosell Lastortras, Juan	Director	Independent	90	50					90	230	159
Sáinz de Vicuña y Barroso, Antonio	Director	Independent	90	146						236	240
Sanchiz Irazu, Eduardo Javier (15)	Director	Independent	25							25	0
Serna Masiá, José (16)	Director	Proprietary	90	39						129	47
Usarraga Unsain, Koro (17)	Director	Independent	90	50						140	48
Total			**2,554**	**942**	**1,944**	**987**	**355**	**99**	**700**	**7,581**	**7,667**

(1) Variable remuneration corresponds to the amount received by the Director in 2017. Half of this amount is received in shares and half in cash, and a portion is deferred over five years. It also includes the portion received under the long-term share-based variable remuneration scheme approved at the Annual General Meeting of 23 April 2015.

(2) Includes pension plan contributions.

(3) Includes remuneration in kind (health and life insurance premiums paid in favour of executive Directors), interest accrued on deferred variable remuneration, other insurance premiums paid and other benefits. This year, it does not include the premium for the group civil liability policy as this is not considered to be benefit in kind for directors according to binding consultations issued by the tax authorities.

(4) On 30 June 2016, Isidre Fainé stepped down as Chairman and Jordi Gual was appointed to this position. Jordi Gual accepted the post on 14 September 2016.

(5) 31 December 2017 was their last day in the role due to retirement. A future payment agreement for a non-competition clause exists for EUR 1.6 million.

(6) Departure on 15 December 2016.

(7) Appointed on 25 February 2016.

(8) The Caja Navarra Foundation stood down as director on 27 October 2016, within the framework of the amendment to the Integration Agreement between CaixaBank and Banca Cívica, and the Shareholders' Agreement.

(9) Fundación Cajasol tendered its resignation on 23 February 2017.

(10) Appointed director on 23 February 2017 to replace Fundación Cajasol. Accepted the post on 6 March 2017.

(11) Departure due to death on 17 March 2017.

(12) Appointed director on 15 December 2016 with effect from 1 January 2017.

(13) Appointed as director on 6 April 2017, and took up the post on 22 May.

(14) Departure on 30 June 2016.

(15) Appointed director on 21 September 2017.

(16) Appointed as director of CaixaBank on 30 June 2016, and took up the post on 8 July.

(17) Appointed as director of CaixaBank on 30 June 2016, and took up the post on 4 August.

At the 28 April 2016 Ordinary Annual General Meeting, shareholders voted to set the number of Board members at 18. At 31 December 2017, there were 18 members of the Board of Directors (16 at 31 December 2016).

During 2017, the following changes occurred in the Board of Directors:

- At its meeting of 15 December 2016, the Board of Directors, subject to a report from the Appointments Committee and after receiving ECB approval on his suitability for the post of director, resolved to appoint Alejandro García-Bragado Dalmau to the Board of Directors as a proprietary director, at the proposal of "la Caixa" Banking Foundation. Mr. García-Bragado Dalmau accepted the appointment, with effect from 1 January 2017. At the same meeting, Alejandro Garcia-Bragado tendered his resignation as Board Secretary from 31 December 2016, and the Board of Directors, subject to a report in favour from the Appointments Committee, appointed Oscar Calderón de Oya, at the time General Secretary and First Deputy Secretary to the Board, to this post. From 1 January 2017, Mr Calderón has held the post of General Secretary and Secretary to the Board of Directors.

- At the meeting held on 23 February 2017, Fundación Privada Monte de Piedad y Caja de Ahorros de San Fernando de Huelva, Jerez y Sevilla ("Fundación Cajasol") tendered its resignation as member of the Board. To cover the vacancy, the Board of Directors, subject to a report from the Appointments Committee and after receiving ECB approval on its suitability for the post of director, resolved to appoint by co-option Fundación Bancaria Canaria Caja General de Ahorros de Canarias ("Fundación CajaCanarias") to the Board of Directors as a proprietary director. Fundación CajaCanarias then designated Natalia Aznárez Gómez as its representative on the Board.

- On 17 March 2017, Salvador Gabarró Serra was removed from the Board upon his death. To cover this vacancy, on 21 September 2017, the Board, based on a proposal from the Appointments Committee, resolved to appoint Eduardo Javier Sanchiz Irazu as independent director. This appointment has been approved by co-option until the next General Meeting.

- In addition, at the Ordinary Annual General Meeting held on 6 April 2017, the shareholders approved the proposal made by the Board of Directors at its meeting of 23 February 2017, subject to a report from the Appointments Committee to appoint Ignacio Garralda Ruiz de Velasco to the Board of Directors as a proprietary director, at the proposal of the shareholder Mutua Madrileña Automovilística, Sociedad de Seguros a Prima Fija. Ignacio Garralda Ruiz de Velasco accepted this appointment on 23 May 2017, after receiving ECB approval on his suitability for the post of director.

- Further, at the Board of Directors' meeting of 22 June 2017, and subject to a favourable report from the Appointments Committee, the Board resolved to appoint Francesc Xavier Vives Torrents (independent director) as lead director. This appointment took effect from 18 July, after obtaining ECB approval for the bylaw amendment approved at the Annual General Meeting of 6 April 2017.

- On 21 December 2017, Antonio Massanell Lavilla resigned as Deputy Chairman and member of the Board of Directors with effect from 31 December 2017. To fill the post, the Board of Directors of CaixaBank resolved, based on a favourable report from the Appointments Committee and subject to a suitability assessment by the European Central Bank, to appoint Tomás Muniesa Arantegui as a member of the Board of Directors. He will retain his current duties as CaixaBank's Chief Insurance and Asset Management Officer. Further and also subject to verification by the European Central Bank and at the proposal of the Appointments Committee, Tomás Muniesa Arantegui has been appointed Deputy Chairman of the Board of Directors and member of the Board Executive Committee.

Remuneration received in 2017 by members of Board of Directors of CaixaBank in connection with their duties as representatives of the Entity on the Boards of listed companies and of other companies in which CaixaBank has a significant presence or representation and that are CaixaBank consolidated companies (excluding Group companies) amounted to EUR 974 thousand (EUR 1,113 thousand in 2016), recognised in the companies' respective statements of profit or loss.

CaixaBank does not have any pension obligations with former or current members of the Board of Directors in their capacity as such. Note 41 provides the balances of contingent risks and commitments, as well as defined benefit post employment obligations accrued with Executive Directors and Senior Management.

There are no termination benefits agreed in the event of termination of the appointment as Director for their duties as such, except for those agreed with the Executive Deputy Chairman and the Chief Executive.

Remuneration of the Senior Management

CaixaBank's Senior Management at 31 December 2017 comprised 11 people (12 at 31 December 2016), holding the following positions: General Managers (4), Deputy General Managers (1), Executive Directors (5) and the General Secretary and Secretary to the Board of Directors (1).

Total remuneration received by members of CaixaBank's Senior Management in 2017 and 2016 is shown below. This remuneration is recognised under "Staff expenses" on CaixaBank's statement of profit or loss.

Detail of remuneration of Senior Management

(Thousands of euros)

	2017	2016
Salary (*)	9,924	9,170
Post employment benefits	1,233	1,140
Other long-term benefits	110	89
Total	**11,267**	**10,399**

(*) Includes total non-variable remuneration, remuneration in kind and variable remuneration received by Senior Management, in cash or shares, as well as the part of the deferred variable remuneration (cash and shares) receivable on a straight-line basis over the next five years. It also includes the portion received under the long-term share-based variable remuneration scheme approved at the Annual General Meeting of 23 April 2015.

NOTE: To ensure a correct comparison of the remuneration received by Senior Management in 2017 and 2016, the differences in the composition of this body must be taken into account.

The remuneration paid in 2017 to Senior Management at CaixaBank in connection with their activities as representatives of the Parent on the Boards of listed companies and other companies in which it has a significant presence or representation and that are CaixaBank consolidated companies was EUR 796 thousand (EUR 715 thousand in 2016), recognised in the statements of profit or loss of these companies.

The employment agreements with members of the Management Committee contain clauses on termination benefits for early termination or rescission of these contracts.

Other disclosures concerning the Board of Directors

Article 229.3 of the Corporate Enterprises Act establishes the duty to report to the Board of Directors any situation of direct or indirect conflicts of interest between each Director or parties related thereto and the Company.

In this connection, the Directors have informed of the following at 31 December 2017:

Conflicts of interest

Director	Conflict of interest
Gual Solé, Jordi	- Abstention from the deliberation and voting on the resolution regarding the 2016 *bonus* corresponding to him as former director and member of the Identified Staff. - Abstention from deliberation and voting on the motion to assess his suitability in relation to the proposal for appointment to be laid before the Annual General Meeting. - Abstention from the deliberation and voting on the resolution regarding his appointment as member of the Executive Committee of CaixaBank's Board of Directors.
Massanell Lavilla, Antonio	- Abstention from the deliberation and voting on resolutions regarding the remuneration of executive directors and senior executives for 2017. - Abstention from the deliberation and voting on the resolution regarding 2017 objectives of the Deputy Chairman, Chief Executive, Management Committee and Deputy General Manager of Control & Compliance. - Abstention from deliberation and voting on the motion regarding the terms of the depository agreement with CecaBank. - Abstention from deliberation and voting on the motion regarding a loan arrangement with a related party. - Abstention from the deliberation and voting on the resolution regarding the appointment of the lead director.
Gortázar Rotaeche, Gonzalo	- Abstention from the deliberation and voting on resolutions regarding the remuneration of executive directors and senior executives for 2017. - Abstention from the deliberation and voting on the resolution regarding 2017 objectives of the Deputy Chairman, Chief Executive, Management Committee and Deputy General Manager of Control & Compliance. - Abstention from the deliberation and voting on the resolution regarding the appointment of the lead director.
Vives Torrents, Xavier	- Abstention from the deliberation and voting on the resolution regarding his appointment as lead director. - Abstention from the deliberation and voting on the resolution regarding his remuneration as lead director.
Bassons Boncompte, Mª Teresa	- Abstention from the deliberation and voting on the resolution regarding the extension of financing to a related party. - Abstention from the deliberation and voting on the resolution regarding her appointment as member of the Remuneration Committee.
Fisas Vergés, Mª Verónica	- Abstention from the deliberation and voting on the resolution regarding the extension of financing to a related party. - Abstention from the deliberation and voting on the resolution regarding her appointment as member of the Executive Committee of the Company's Board of Directors.
Fundación CajaCanarias, represented by Natalia Aznárez Gómez	- Abstention from the deliberation and voting on the resolution regarding the extension of financing to a related party.
Rosell Lastortras, Juan	- Abstention from the deliberation and voting on resolutions regarding the arrangement of a credit line, trade risk lines, and working capital financing with related parties.
Serna Masiá, José	- Abstention from the deliberation and voting on the resolution regarding the extension of financing to a related party. - Abstention from deliberation and voting on the resolution to assess his suitability in relation to the proposal for appointment to be laid before the Ordinary Annual General Meeting. - Abstention from the deliberation and voting on the resolution regarding his appointment as member of the Audit and Control Committee.
Usarraga Unsain, Koro	- Abstention from deliberation and voting on the resolution to assess his suitability in relation to the proposal for appointment to be laid before the Ordinary Annual General Meeting. - Abstention from deliberation and voting on motions regarding the extension of financing to a related party. - Abstention from the deliberation and voting on the resolution regarding his appointment as member of the Audit and Control Committee.

Pursuant to article 229.1f) of the Corporate Enterprises Act, Board members may not carry out for their own account or the account of other activities which actually or potentially constitute effective competition with those carried out by the Company or which, in any other way, permanently conflict with the Company's interests. Article 230 of the Corporate Enterprises Act stipulates that this prohibition can be lifted if the Company is not expected to incur damages or it is expected that it will be indemnified for an amount equal to the benefits expected to be obtained from the exemption. Express and separate approval of the exemption must be obtained from shareholders at the Annual General Meeting.

In this regard, Ignacio Garralda Ruiz de Velasco was appointed proprietary director at the Annual General Meeting of 6 April 2017, representing the shareholder Mutua Madrileña Automovilista, Sociedad de Seguros a Prima Fija (“Mutua Madrileña”), owner at that time of 2.1% of CaixaBank's share capital and hence the entity's largest shareholder after Criteria Caixa, SAU. According to this professional profile, Mr Garralda is Chairman and CEO of Mutua Madrileña, the parent of a business group which, much like the CaixaBank Group, operates in numerous sectors of the insurance universe, with a presence also in pension fund management, mutual fund management and the real estate business. Both companies maintain their strategic alliance through SegurCaixa Adeslas, a company owned by Mutual Madrileña (50%) and CaixaBank (49.92%) and engaged in the exclusive development, marketing, sale and distribution of general insurance products in Spain, this despite the fact that Mutual Madrileña competes with SegurCaixa Adeslas in all insurance sectors except Health. This situation is expressly addressed in the Shareholders' Agreement signed by both companies.

In those sectors of the market in which both groups might be seen to compete (insurance, pension fund and investment fund management and the real estate business), the extent of that competition is actually of little significance due to the different scale (equity, turnover, earnings, etc.) and market position of the companies belonging to both groups. Consequently, the risk of damage to the CaixaBank Group is currently practically non-existent. Meanwhile, the recent inclusion of Ignacio Garralda Ruiz de Velasco's as board member is likely to bring with it a number of significant benefits due to his extensive experience and expertise, while also facilitating the current strategic alliance between both groups. In any case, the Board of Directors approved a specific protocol to ensure that CaixaBank is not exposed to any imminent or potential damage as a result of Ignacio Garralda Ruiz de Velasco's new status as board member.

In view of the above, and in accordance with article 230.3 of the Corporate Enterprises Act, and to come into force from the moment he is appointed direct of the Company, a motion was laid before the Annual General Meeting of 6 April 2017 asking shareholders to exempt Ignacio Garralda Ruiz de Velasco from the non-compete obligation prescribed by article 229.1 f) of the Corporate Enterprises Act and, therefore, to allow him to hold office and discharge any functions at companies belonging to the group at which Mutua Madrileña is the parent. This dispensation extends also to positions and functions at companies directly or indirectly owned by Mutua Madrileña and deriving from its ownership or the exercise of office or functions at Mutua Madrileña.

CaixaBank shares held by Board members

At 31 December 2017, the (direct and indirect) stakes held by members of the Board of Directors in the share capital of the Company are as follows:

CaixaBank shares held by Board members

	Direct	Indirect	Total shares held	Percentage (*)
Jordi Gual Solé	51,191	0	51,191	0.001%
Massanell Lavilla, Antonio	119,251	0	119,251	0.002%
Gonzalo Gortázar Rotaeche	602,473	0	602,473	0.010%
Francesc Xavier Vives Torrents	3,345	0	3,345	0.000%
Mª Teresa Bassons Boncompte	19,369	0	19,369	0.000%
Fundación Caja Canarias	38,237,375	0	38,237,375	0.639%
Alejandro García-Bragado Dalmau	3,718	0	3,718	0.000%
Javier Ibarz Alegría	14,058	0	14,058	0.000%
Alain Minc	12,932	0	12,932	0.000%
John S. Reed	12,564	0	12,564	0.000%
Joan Rosell Lastortras	0	42,031	42,031	0.001%
Antonio Sainz de Vicuña y Barroso	609	0	609	0.000%
José Serna Masiá	2,040	10,462	12,502	0.000%
Total	**39,078,925**	**52,493**	**39,131,418**	**0.654%**

(*) % calculated on issued capital at 31 December 2017.

10. Cash and cash balances at central banks and other demand deposits

The breakdown of this item in the balance sheet is as follows:

Detail of cash and cash balances at central banks and other demand deposits

(Thousands of euros)

	31.12.2017	31.12.2016
Cash on hand	2,177,351	1,584,407
Cash balances at central banks	17,092,094	10,909,339
Other demand deposits	885,873	766,211
Total	**20,155,318**	**13,259,957**

Cash balances at central banks includes balances held to comply with the mandatory minimum reserves requirement in the central bank based on eligible liabilities. The mandatory reserves earn interest at the rate applicable to all major Eurosystem financing operations.

At the acquisition date, the business combination with Banco BPI entailed the inclusion of EUR 1,350 million under this heading (see Note 7).

11. Financial assets and liabilities held for trading

The detail of the balance of these headings in the balance sheet is as follows:

Breakdown of financial assets and liabilities held for trading

(Thousands of euros)	31.12.2017		31.12.2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	8,162,172	7,860,638	9,575,832	9,394,559
Equity instruments	402,714		294,923	
Debt securities	2,031,798		1,796,932	
Short positions		744,292		897,739
Total	**10,596,684**	**8,604,930**	**11,667,687**	**10,292,298**

At the acquisition date, the business combination with Banco BPI entailed the inclusion of EUR 1,050 million under assets held for trading and EUR 196 million under liabilities held for trading (see Note 7).

Derivatives

The detail, by type of product, of the fair value of the Group's derivatives arranged at 31 December 2017 and 2016 is as follows:

Fair value by product

(Thousands of euros)	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Unmatured foreign currency purchases and sales	**456,820**	**410,046**	**513,005**	**400,586**
Purchases of foreign currencies against euros	67,038	293,668	332,869	35,583
Purchases of foreign currencies against foreign currencies	93,841	99,828	127,120	111,224
Sales of foreign currencies against euros	295,941	16,550	53,016	253,779
Acquisitions and sales of financial assets	**657**	**808**	**7,283**	**2,954**
Acquisitions	434	400	3,521	2,881
Sales	223	408	3,762	73
Financial futures on shares and interest rates	**0**	**0**	**0**	**0**
Share options	**113,442**	**115,755**	**150,989**	**131,769**
Bought	113,442		150,989	
Issued	0	115,755		131,769
Interest rate options	**194,654**	**210,645**	**297,705**	**308,680**
Bought	194,654		297,705	
Issued		210,645		308,680
Foreign currency options	**113,337**	**142,178**	**73,263**	**110,824**
Bought	113,337		73,263	
Issued		142,178		110,824
Other share and interest rate transactions	**4,575,552**	**4,837,279**	**6,075,235**	**6,211,164**
Share swaps	16,820	57,802	112,939	106,648
Future rate agreements (FRAs)	1,126	264	728	758
Interest rate swaps	4,557,606	4,779,213	5,961,568	6,103,758
Credit derivatives	**0**	**33,659**	**0**	**15,842**
Sold		33,659		15,842
Commodity derivatives and other risks	**2,707,710**	**2,110,268**	**2,458,352**	**2,212,740**
Swaps	2,698,314	2,096,574	2,452,481	2,205,761
Bought	9,396	13,694	5,871	215
Sold				6,764
Total	**8,162,172**	**7,860,638**	**9,575,832**	**9,394,559**

The detail by counterparty of the fair value of financial derivatives is as follows:

Fair value by counterparty

(Thousands of euros)

	31.12.2017		31.12.2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Organised markets	**12,887**	**32,781**	**14,693**	**46,435**
OTC markets	**8,149,285**	**7,827,857**	**9,561,139**	**9,348,124**
Credit institutions	882,970	5,819,838	3,872,936	4,149,794
Other financial entities	5,665,771	1,789,735	2,782,356	4,579,157
Other sectors	1,600,544	218,284	2,905,847	619,173
Total	**8,162,172**	**7,860,638**	**9,575,832**	**9,394,559**

Equity instruments

The detail of this item is as follows:

Breakdown of equity instruments (*)

(Thousands of euros)

	31.12.2017	31.12.2016
Shares in Spanish companies	268,244	293,434
Shares in foreign companies	134,470	1,489
Total	**402,714**	**294,923**

(*) At 31 December 2017, EUR 134 million of equity instruments are included as a result of the business combination with Banco BPI.

Debt securities

The detail, by counterparty, of the balance of this item is as follows:

Detail of assets held for trading - debt securities (**)

(Thousands of euros)

	31.12.2017	31.12.2016
Spanish government debt securities (*)	1,313,266	1,565,910
Treasury bills	*669,419*	*691,001*
Government bonds and debentures	*240,793*	*546,439*
Other issuances	*403,054*	*328,470*
Foreign government debt securities (*)	561,312	178,465
Issued by credit institutions	64,448	11,409
Other Spanish issuers	51,650	27,363
Other foreign issuers	41,122	13,785
Total	**2,031,798**	**1,796,932**

(*) See Note 3.3.5 “Information relating to sovereign risk exposure”.

(**) See ratings classification in Note 3.3.4, 'Risk associated with debt securities'.

Short positions

The detail, by product type, of short positions is as follows:

Breakdown of short positions

(Thousands of euros)

	31.12.2017	31.12.2016
On securities lending agreements	**0**	**0**
Equity instruments	0	0
On overdrafts on repurchase agreements (Note 2.5(*)	**744,292**	**897,739**
Debt securities - public debt	738,633	897,739
Debt securities - other issuers	5,659	
Total	**744,292**	**897,739**

(*) See Note 3.3.5 "Information relating to sovereign risk exposure".

Overdrafts on repurchase agreements of debt securities are short-term transactions arranged to offset off-balance sheet positions that have been sold or are subject to a repurchase agreement.

12. Financial assets and liabilities designated at fair value through profit or loss

The breakdown of these items in the consolidated balance sheets at 31 December 2017 and 2016 is as follows:

Detail of assets and liabilities designated at fair value through profit or loss
(Thousands of euros)

	31.12.2017	31.12.2016
Assets	**6,499,807**	**3,139,646**
Equity instruments	4,299,161	1,806,976
Debt securities	2,100,347	1,332,670
Loans and advances (*)	100,299	0
Liabilities	**8,241,088**	**3,763,976**
Deposits	8,240,972	3,763,976
Customers	*8,240,972*	*3,763,976*
Other financial liabilities	116	

(*) At 31 December 2017, EUR 100 million is included as a result of the business combination with Banco BPI (see Note 1 - Acquisition of Banco BPI).

Financial assets at fair value through profit or loss

This heading primarily comprises investments related to unit-linked life insurance products where the investment risk is borne by the policyholder, sales of which rose in 2017. This product is marketed through VidaCaixa, SAU de Seguros y Reaseguros.

Moreover, at the acquisition date, the business combination with Banco BPI entailed the inclusion of EUR 1,261 million under this heading (see Note 7).

Financial liabilities at fair value through profit or loss

This item includes only mathematical reserves for unit-linked life insurance products.

At the acquisition date, the business combination with Banco BPI entailed the inclusion of EUR 2,213 million under this heading (see Note 7).

13. Available-for-sale financial assets

The breakdown, by type of transaction, of the balance of this item in the balance sheet is as follows:

Breakdown of available-for-sale financial assets

(Thousands of euros)

	31.12.2017	31.12.2016
Equity instruments	**2,882,849**	**2,946,030**
Shares in listed companies	2,229,712	2,320,626
Shares in non-listed companies	449,228	570,452
Ownership interests in mutual funds and other listed investments	203,909	54,952
Debt securities (*)	**66,671,858**	**62,130,943**
Spanish government debt securities (**)	54,492,743	52,935,106
Treasury bills	*65,037*	*2,337,234*
Government bonds and debentures	*50,638,225*	*47,655,781*
Other issuances	*3,789,481*	*2,942,091*
Foreign government debt securities (**)	8,714,605	3,317,012
Issued by credit institutions	2,678,671	3,813,610
Other Spanish issuers	49,358	338,081
Other foreign issuers	736,481	1,727,134
Total	**69,554,707**	**65,076,973**

(*) See ratings classification in Note 3.3.4 “Risk associated with debt securities”.

(**) See Note 3.3.5 "Information relating to sovereign risk exposure".

Equity instruments

The table below presents a breakdown of the percentage of ownership interests and market value of the main listed companies classified as available for sale equity instruments as it is considered that the CaixaBank Group does not exercise significant influence over them.

Market value of listed companies

(Thousands of euros)	31.12.2017		31.12.2016	
Company	% interest	Market value	% interest	Market value
Telefónica, SA (*)	5.00%	2,109,346	5.15%	2,288,453
Market value		**2,109,346**		**2,288,453**

(*) At 31 December 2017, CaixaBank has arranged a fair value micro-hedge on 0.88% of this stake.

The change in the interest corresponds mainly to dilution resulting from the conversion of the Entity's convertible bonds into shares.

The tables below show the main variations in “Equity instruments” in 2017 and 2016:

Movements in available-for-sale financial assets – equity instruments - 2017

(Thousands of euros)

	Additions due to business combinations (Note 7)	Acquisitions and capital increases	Sales	Transferred to profit or loss	Adjustments to market value and exchange differences	Transfers and other	Impairment losses (Note37)	Total
Balance at 31.12.2016								**2,946,030**
Telefónica, SA		1,347			(180,454)			(179,107)
Sociedad de gestión de Activos Procedentes de la Reestructuración Bancaria, SA (Sareb)							(127,665)	(127,665)
Other	253,693	7,086	(60,841)	(4,343)	49,123	11,412	(12,539)	243,591
Changes in 2017	**253,693**	**8,433**	**(60,841)**	**(4,343)**	**(131,331)**	**11,412**	**(140,204)**	**(63,181)**
Balance at 31.12.2017								**2,882,849**

Movements in available-for-sale financial assets – equity instruments - 2016

(Thousands of euros)

	Acquisitions and capital increases	Sales	Transferred to profit or loss	Adjustments to market value and exchange differences	Transfers and other	Total
Balance at 31.12.2015						**3,379,273**
Telefónica, SA	80,179			(345,179)		(265,000)
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA (Sareb)					243,765	243,765
Visa Europe Ltd.			(165,074)	32,489		(132,585)
Visa Inc				2,088	37,979	40,067
Other	10,340	(61,492)	(32,041)	17,874	(21,123)	(86,442)
Changes in 2016	**90,519**	**(61,492)**	**(197,115)**	**(292,728)**	**260,621**	**(200,195)**
Changes in impairment losses (Note 37)						**(233,048)**
Balance at 31.12.2016						**2,946,030**

Impairment tests were carried out on equity instruments classified as "Available-for-sale financial assets" (see Note 2.9), uncovering the need to recognise a charge to profit for 2017 of EUR 140 million under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" (see Note 37).

This impairment primarily includes EUR 128 million from Sociedad de Gestión de Activos procedentes de la Restructuración Bancaria, SA (Sareb) and forms part of the EUR 154 million write down recognised during the period for all exposures, including subordinated debt recognised under “Loans and receivables”.

With regard to the stake held by the CaixaBank Group in Telefónica SA, in March 2017, for approximately two months, the share price exceeded the consolidated acquisition cost (during 20 sessions in March and April 2017), leading to an interruption in the calculation of the time period to be used to determine whether there has been a prolonged fall in market value that could indicate impairment, as per the IFRS.

Key data on the main investments classified as available-for-sale financial assets are as follows:

Financial information on key investments

(Millions of euros)

Company name	Registered office	% interest	% voting rights	Equity	Latest published profit/(loss)
Telefónica, SA (1)	Gran Vía, 28 28013 Madrid	5.00%	5.00%	26,685	2,439
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, SA (Sareb) (2)	Paseo de la Castellana, 89 28046 Madrid	12.24%	12.24%	(2,657)	(663)
Caser, Compañía de Seguros y Reaseguros, SA (2)	Avenida de Burgos, 109 28050 Madrid	11.51%	11.51%	1,111	40

(1) Listed company. Information on equity and latest published profit/(loss) is at 31.12.2017

(2) Non-listed companies. Information on equity and latest published profit/(loss) is at 31.12.2016

The tables below show the main variations in “Debt securities” in the accompanying balance sheet:

Movement in available-for-sale financial assets – debt securities

(Thousands of euros)

	2017	2016
Opening balance	**62,130,943**	**59,617,962**
Plus:		
Additions due to business combinations **(Note 7)**	3,581,705	
Acquisitions	34,084,520	23,439,630
Gains/(losses) recognised with adjustments to equity **(Note 25.2)**	126,015	97,169
Less:		
Sales and redemptions	(33,092,612)	(19,677,690)
Implicit accrued interest	(82,237)	(634,322)
Reclassifications and transfers		(104,281)
Amounts transferred to statement of profit or loss **(Note 33)**	(72,898)	(607,525)
Impairment losses **(Note 37)**	(3,578)	0
Closing balance	**66,671,858**	**62,130,943**

14. Loans and receivables

The breakdown of the balance of this item in the accompanying balance sheet, based on the nature of the related financial instruments, is as follows:

31.12.2017

(Thousands of euros)

		Valuation adjustments				
	Gross balance	Impairment allowances	Accrued interest	Fees and commissions	Other	Balance
Debt securities	2,627,181	(53,039)	1,461			2,575,603
Loans and advances	230,154,521	(6,815,817)	546,210	(348,987)	160,969	223,696,896
Central banks	5,000					5,000
Credit institutions	7,369,414	0	4,654	(33)		7,374,035
Customers	222,780,107	(6,815,817)	541,556	(348,954)	160,969	216,317,861
Total	**232,781,702**	**(6,868,856)**	**547,671**	**(348,987)**	**160,969**	**226,272,499**

31.12.2016

(Thousands of euros)

		Valuation adjustments				
	Gross balance	Impairment allowances	Accrued interest	Fees and commissions	Other	Balance
Debt securities	561,036	(1,198)	1,301			561,139
Loans and advances	213,591,405	(6,688,507)	463,440	(286,540)		207,079,798
Credit institutions	6,738,721	0	2,641	(8)		6,741,354
Customers	206,852,684	(6,688,507)	460,799	(286,532)		200,338,444
Total	**214,152,441**	**(6,689,705)**	**464,741**	**(286,540)**		**207,640,937**

Credit quality of loans and receivables

Details of loans and receivables in terms of their creditworthiness at 31 December 2017 and 2016:

Credit quality of loans and receivables

(Thousands of euros)

	31.12.2017			31.12.2016		
	Gross amount	Allowances for impairment losses	Carrying amount	Gross amount	Allowances for impairment losses	Carrying amount
Performing	218,985,027	(1,752,723)	217,232,304	199,801,043	(1,471,859)	198,329,184
Non-performing	13,796,675	(5,116,133)	8,680,542	14,351,398	(5,217,846)	9,133,552
Total	**232,781,702**	**(6,868,856)**	**225,912,846**	**214,152,441**	**(6,689,705)**	**207,462,736**

Guarantees received

The detail of guarantees received in the approval of lending transactions at CaixaBank at 31 December 2017 and 2016 is as follows:

Guarantees received (*)
(Thousands of euros)

	31.12.2017	31.12.2016
Value of collateral	**361,574,675**	**343,466,181**
Of which: Guarantees non-performing risks	20,144,026	22,671,881
Value of other guarantees	**5,775,682**	**3,276,490**
Of which: Guarantees non-performing risks	181,121	229,645
Total	**367,350,357**	**346,742,671**

(*) The value of the guarantee is the lower amount of the collateral and the loan value, except for non-performing loans, in which it is fair value.

14.1. Debt securities

The detail of the balance of this heading in the balance sheet is as follows:

Breakdown of loans and receivables - debt securities (*)
(Thousands of euros)

	31.12.2017	31.12.2016
Other Spanish issuers	141,291	118,009
Other foreign issuers	2,485,890	443,027
Total	**2,627,181**	**561,036**

(*) At 31 December 2017, EUR 2,109 million is included, which is from Banco BPI (see Note 1 - Acquisition of Banco BPI).

14.2. Loans and advances

Loans and advances – Credit institutions

The detail of the balance of this heading by loan type and credit status excluding valuation adjustments is as follows:

Breakdown of loans and advances to credit institutions
(Thousands of euros)

	31.12.2017	31.12.2016
Demand	**5,099,388**	**4,837,695**
Other accounts	5,099,388	4,837,695
Time	**2,270,026**	**1,901,026**
Deposits with agreed maturity	1,296,960	928,490
Reverse repurchase agreement	961,232	972,521
Non-performing assets	11,834	15
Total	**7,369,414**	**6,738,721**

Loans and advances - Loans and advances to customers

The detail of the balance of this heading by loan type and credit status excluding valuation adjustments is as follows:

Loans and advances - Loans and advances to customers by type

(Thousands of euros)

	31.12.2017	31.12.2016
Loan type and status	**222,780,107**	**206,852,684**
Public administrations	11,471,603	12,305,908
Commercial loans	9,177,063	8,094,858
Secured loans	128,678,416	118,732,831
Reverse repurchase agreement	912,148	1,440,504
Other term loans	47,547,107	42,426,782
Finance leases	3,775,457	2,700,690
Receivables on demand and others	7,421,638	6,799,713
Non-performing assets	13,796,675	14,351,398
By counterparty	**222,780,107**	**206,852,684**
Public sector: Spanish public administrations	10,810,086	12,829,892
Public sector: Other countries	1,223,728	113,145
Private sector: Resident	180,955,812	183,594,101
Private sector: Non-resident	29,790,481	10,315,546
By interest rate type	**222,780,107**	**206,852,684**
Fixed	48,299,289	36,224,915
Floating	174,480,818	170,627,769

Finance lease

In all types of finance leases marketed by the CaixaBank Group for capital goods or real estate, the risks and rewards are transferred to the lessee. The lease arrangements always contain a purchase option for a value below the fair value of the asset on the market. Where the value of the purchase option is similar to fair value, a repurchase agreement available to the supplier of the asset is added to the lease.

Assets leased under finance leases are recognised at the present value of the lease payments payable by the lessee, plus the guaranteed and non-guaranteed residual value, excluding interest expenses and value-added tax. The detail is as follows:

Finance leases

(Thousands of euros)

	31.12.2017	31.12.2016
Lease payments payable by the lessee	3,562,763	2,469,007
Third-party guarantees	44,650	29,778
Unguaranteed residual value	168,044	201,905
Total	**3,775,457**	**2,700,690**

The following table provides a detail, by term, of finance lease payments receivable (capital and interest, excluding tax and residual values) from both the public and private sector:

Minimum lease payments receivable from finance leases at 31 December 2017

(Thousands of euros)

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
Minimum lease payments receivable	1,053,639	2,899,171	1,208,891	5,161,701

Impaired and past-due but not impaired assets

The breakdown of loans and advances to customers with an arrears status classified as performing at 31 December 2017 and 2016 is as follows:

Breakdown of loans and advances to customers according to arrears status
(Thousands of euros)

	31.12.2017	31.12.2016
Less than 30 days or up to date on payments	208,780,623	192,044,130
From 30 to 60 days	422,404	413,636
From 61 to 90 days	133,976	217,787
Total	**209,337,003**	**192,675,553**

The detail of non-performing assets, by loan type and counterparty, is as follows:

Detail of non-performing loans
(Thousands of euros)

	31.12.2017	31.12.2016
Public sector	**166,221**	**190,262**
Private sector	**13,630,454**	**14,161,136**
Mortgage loans	8,992,468	9,716,884
Other loans	1,877,913	1,350,269
Credit accounts	1,925,091	2,332,534
	63,595	56,349
Commercial loans	101,870	16,211
Other loans	669,517	688,889
Total	**13,796,675**	**14,351,398**

The changes in “Non-performing assets” in 2017 and 2016 were as follows:

Non-performing assets
(Thousands of euros)

	2017	2016
Opening balance	**14,351,398**	**16,606,667**
Plus:		
Additions due to business combinations **(Note 7)**	1,394,137	
Increase due to refinancings	1,305,400	
Additions	3,758,990	6,502,547
Less:		
Assets foreclosed and acquired from developers and individuals	(941,297)	(1,366,279)
Standardised and other assets	(4,295,065)	(4,927,773)
Assets derecognised due to disposal	(910,411)	(988,091)
Other assets written-off	(866,477)	(1,475,673)
Closing balance	**13,796,675**	**14,351,398**

In 2017, CaixaBank sold several portfolio assets (mainly non-performing assets and assets written off the balance sheet due to impairment) for the gross sum of EUR 1,976 million (see Note 28.4).

Past-due receivables on non-performing assets at 31 December 2017 and 2016 were EUR 910 million and EUR 1,137 million, respectively, recognised under "other memorandum accounts" supplementing those in the balance sheet.

The detail, by age, of non-performing loans at 31 December 2017 and 2016, is as follows:

Non-performing loans, by age

(Thousands of euros)

	31.12.2017	31.12.2016
Less than 90 days	6,506,447	6,049,555
Between 90 days and 6 months	885,921	892,682
Between 6 months and 1 year	1,327,747	1,390,446
Over 1 year	5,076,560	6,018,715
Total	**13,796,675**	**14,351,398**

14.3. Impairment allowances

Changes in the balance of allowances for impairment losses on assets comprising “Loans and receivables” in 2017 and 2016 were as follows:

2017

(Thousands of euros)

	Balance at 31.12.2016	Additions due to business combinations (Note 7)	Net impairment allowances (Note 37)	Amount used (Note 28.4)	Transfers and other	Balance at 31.12.2017
Credit risk allowance of the borrower	**6,679,873**	**1,105,321**	**584,043**	**(970,947)**	**(539,258)**	**6,859,032**
Debt securities	1,198	17,122	30,319	0	4,400	53,039
Loans and advances	6,678,675	1,088,199	553,724	(970,947)	(543,658)	6,805,993
Credit institutions	*0*	*0*	*3,513*	*0*	*(3,513)*	*0*
Public sector	*3,753*	*0*	*62,139*	*(4)*	*10,960*	*76,848*
Other sectors (*)	*6,674,922*	*1,088,199*	*488,072*	*(970,943)*	*(551,105)*	*6,729,145*
Country risk allowance	**9,832**	**0**	**(8)**	**0**	**0**	**9,824**
Loans and advances to customers	9,832	0	(8)	0	0	9,824
Total	**6,689,705**	**1,105,321**	**584,035**	**(970,947)**	**(539,258)**	**6,868,856**

(*) At 31 December 2017 and 2016, includes provisions to cover other financial assets amounting to EUR 5,291 thousand and EUR 4,675 thousand, respectively.

2016

(Thousands of euros)

	Balance at 31.12.2015	Net impairment allowances (Note 37)	Amount used (Note 28.4)	Transfers and other	Balance at 31.12.2016
Credit risk allowance of the borrower	**9,168,386**	**334,195**	**(1,727,575)**	**(1,095,133)**	**6,679,873**
Debt securities		1,198			1,198
Loans and advances	9,168,386	332,997	(1,727,575)	(1,095,133)	6,678,675
Credit institutions	5	(375)		370	0
Public sector	10,535	(10,009)	(2,400)	5,627	3,753
Other sectors (*)	9,157,846	343,381	(1,725,175)	(1,101,130)	6,674,922
Country risk allowance	**3,150**	**6,682**	**0**	**0**	**9,832**
Loans and advances to customers	3,150	6,682			9,832
Total	**9,171,536**	**340,877**	**(1,727,575)**	**(1,095,133)**	**6,689,705**

(*) At 31 December 2016 and 2015, includes provisions to cover other financial assets amounting to EUR 4,675 thousand and EUR 8,545 thousand, respectively.

The breakdown of provisions to cover credit risk, according to how they are identified, is as shown:

Provisions for credit risk according to how they are identified
(Thousands of euros)

	31.12.2017	31.12.2016
Specific allowance identified individually	2,331,136	2,336,687
Specific allowance identified collectively	2,784,997	2,881,159
Collective allowance for losses incurred but not reported (IBNR)	1,752,723	1,471,859
Total	**6,868,856**	**6,689,705**

The breakdown of provisions to cover NPL credit risk, based on the situation of the asset, is as shown:

Provision according to situation of the asset
(Thousands of euros)

	31.12.2017	31.12.2016
NPL coverage for reasons of arrears	3,020,437	3,192,554
NPL coverage for reasons other than arrears	2,095,696	2,025,292
Closing balance	**5,116,133**	**5,217,846**

15. Held-to-maturity investments

The breakdown, by type of transaction, of the balance of this item in the balance sheet is as follows:

(Thousands of euros)

	31.12.2017	31.12.2016
Debt securities (*)	**11,084,829**	**8,305,902**
Spanish government debt securities (**)	9,696,923	6,857,001
Government bonds and debentures	*9,696,923*	*6,857,001*
Other Spanish issuers	1,387,906	1,448,901
Senior debt - Sareb	*1,387,906*	*1,448,901*
Total	**11,084,829**	**8,305,902**

(*) See ratings classification in Note 3.3.4 "Risk associated with debt securities".

(**) See Note 3.3.5 "Information relating to sovereign risk exposure".

In 2017, there were purchases of Spanish public debt issuances, mainly short- and long-term government bonds for a nominal value of EUR 3,907 million, and debt maturities for a nominal value of EUR 1,030 million.

Impairment tests conducted did not uncover the need to recognise any impairment in 2017 in relation to financial investments in debt instruments reported under this heading.

16. Derivatives – Hedge accounting (assets and liabilities)

The detail, by type of product, of the fair value of derivatives designated as hedges at 31 December 2017 and 2016, is as follows:

Fair value by product

(Thousands of euros)	31.12.2017		31.12.2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Financial futures on shares, interest rates and currencies	**11**	**0**	**0**	**0**
Bought	11			
Interest rate options	**0**	**17,076**	**0**	**42,363**
Issued		17,076		42,363
Other share and interest rate transactions	**2,343,268**	**288,648**	**2,954,811**	**376,113**
Share swaps	126,922	0		
Interest rate swaps	2,216,346	288,648	2,954,811	376,113
Commodity derivatives and other risks	**253,660**	**487,408**	**135,664**	**207,068**
Swaps	253,660	487,203	135,664	206,304
Sold	0	205		764
Total	**2,596,939**	**793,132**	**3,090,475**	**625,544**

The detail, by type of market and counterparty, of the fair value of derivatives designated as hedging derivatives is as follows:

Fair value by counterparty

(Thousands of euros)	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Organised markets	**0**			
OTC markets	**2,596,939**	**793,132**	**3,090,475**	**625,544**
Credit institutions	1,222,684	721,134	1,993,090	502,466
Other financial entities	1,369,196	67,248	1,091,284	115,345
Other sectors	5,059	4,750	6,101	7,733
Total	**2,596,939**	**793,132**	**3,090,475**	**625,544**

The detail, by type of hedge, of the fair value of derivatives designated as hedging derivatives is as follows:

Fair value by type of hedge

(Thousands of euros)	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges	**2,400,875**	**401,500**	**2,897,579**	**420,278**
Micro-hedges	*258,832*	*98,558*	*18,983*	*2,782*
Macro-hedges	*2,142,043*	*302,942*	*2,878,596*	*417,496*
Cash flow hedges	**196,064**	**391,632**	**192,896**	**205,266**
Micro-hedges	*181,111*	*377,653*	*148,207*	*205,266*
Macro-hedges	*14,953*	*13,979*	*44,689*	*0*
Total	**2,596,939**	**793,132**	**3,090,475**	**625,544**

At 31 December 2017 and 2016, the main exposures and the derivatives designated to hedge them are as follows:

Type of hedging derivative

(Thousands of euros)

	Hedged item	Risk covered	Hedging instrument used	31.12.2017 Value of hedging instrument Assets	31.12.2017 Value of hedging instrument Liabilities	31.12.2016 Value of hedging instrument Assets	31.12.2016 Value of hedging instrument Liabilities
Fair value hedges							
Macro-hedges	Issuances	Transformation from fixed to floating	Interest rate swaps	2,044,896	231,913	2,769,236	331,923
	Fixed-rate loans (*)	Transformation from fixed to floating	Interest rate swaps	29,641	34,356		85,429
	Other			67,506	36,673	109,360	144
	TOTAL			**2,142,043**	**302,942**	**2,878,596**	**417,496**
Micro-hedges	Sale of available for sale public debt portfolio	Transformation from fixed to floating	Interest rate swaps	64,690	1,337	17,036	1,243
	Sale of available for sale public debt portfolio	Transformation from floating to fixed rate	Interest rate swaps	86,374	97,221		
	Floating rate loans	Transformation from 12M Euribor to 3M Euribor	Interest rate swaps	0	0		
	Available-for-sale equity instruments	Value of the instrument	Equity Swap	107,437	0		
	Other			331	0	1,947	1,539
	TOTAL			**258,832**	**98,558**	**18,983**	**2,782**
Cash flow hedges							
Macro-hedges	Floating rate loans	Protection against market rate curve fluctuations	Interest rate swaps	14,953	0	31,792	
	Other			0	13,979	12,897	
	TOTAL			**14,953**	**13,979**	**44,689**	**0**
Micro-hedges	Inflation-linked public debt.	Transformation from inflation-linked floating to fixed rate	Inflation-linked options and interest rate swaps	161,441	377,446	146,209	205,165
	Other			19,670	207	1,998	101
	TOTAL			**181,111**	**377,653**	**148,207**	**205,266**

(*) There is a hedge for a closed loan book and another for an open loan book covering fixed rate loans arranged after 1 January 2016.

17. Investments in joint ventures and associates

The breakdown of the cost of investments in associates and joint ventures is as follows:

Breakdown of investments in associates and joint ventures

(Thousands of euros)

	31.12.2017			31.12.2016		
	Carrying amount	***Of which: Goodwill***	***Of which: Impairment allowances***	**Carrying amount**	***Of which: Goodwill***	***Of which: Impairment allowances***
Investments in associates	**6,037,318**	***360,875***	***(12,732)***	**6,279,416**	***665,899***	***(550,975)***
Repsol, SA	2,705,048			2,903,712		
Erste Group Bank AG	1,352,724			1,272,003		*(4,957)*
SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros	1,014,572	*299,618*		1,052,668	*299,618*	
Banco BPI, SA				912,847	*350,197*	*(532,965)*
Banco BPI Group associates	790,416	*42,467*				
Other companies	174,558	*18,790*	*(12,732)*	138,186	*16,084*	*(13,053)*
Investments in joint ventures	**187,107**	***1,624***	***(37)***	**141,294**	**1,882**	**(37)**
Comercia Global Payments, Entidad de Pago, SL	104,283			91,459		
Banco BPI Group jointly controlled entities	35,065					
Other companies	47,759	*1,624*	*(37)*	49,835	*1,882*	*(37)*
Total	**6,224,425**	***362,499***	***(12,769)***	**6,420,710**	***667,781***	***(551,012)***

The tables below show the changes in "Investments in joint ventures and associates" in 2017 and 2016:

Changes in investments - 2017

(Thousands of euros)

	Underlying carrying amount	**Goodwill**	**Impairment allowances**	**Total**
Balance at 31.12.2016	**6,303,941**	**667,781**	**(551,012)**	**6,420,710**
Acquisitions and capital increases	24,027	8,451	0	32,478
Disposals and capital reductions	(3,493)	0	0	(3,493)
Profit/(loss) for the period	526,153	0	0	526,153
Dividends declared	(450,487)	0	0	(450,487)
Translation differences	99,410	(257)	0	99,153
Changes in consolidation method	(1,103,357)	(350,198)	532,965	(920,590)
Valuation adjustments - investees	(160,829)	0	0	(160,829)
Additions due to business combinations **(Note 7)**	637,561	37,194	0	674,755
Reclassifications and other	1,769	(472)	5,278	6,575
Balance at 31.12.2017	**5,874,695**	**362,499**	**(12,769)**	**6,224,425**

Changes in investments - 2016

(Thousands of euros)

	Underlying carrying amount	Goodwill	Impairment allowances	Total
Balance at 31.12.2015	**8,614,995**	**1,679,690**	**(620,991)**	**9,673,694**
Acquisitions and capital increases	123,688	7,354	(15,821)	115,221
Disposals and capital reductions	(2,673,753)	(984,608)	119,827	(3,538,534)
Profit/(loss) for the period	628,518			628,518
Dividends declared	(274,536)			(274,536)
Translation differences	(89,201)	(43,384)		(132,585)
Changes in consolidation method	11,279	14,807		26,086
Valuation adjustments - investees	(25,460)			(25,460)
Reclassifications and other	(11,589)	(6,078)	(34,027)	(51,694)
Balance at 31.12.2016	**6,303,941**	**667,781**	**(551,012)**	**6,420,710**

The main changes in 2017 are as follows:

Banco BPI

On 5 January 2017, Banco BPI sold 2% of Banco de Fomento Angola (BFA) to Unitel, reducing its stake in BFA and ceasing to exercise control over that company. This transaction gave rise to a net loss of EUR 212 million for Banco BPI, EUR 97 million of which was attributable to CaixaBank because of its 45.5% stake at that date, which was recognised under "Share of profit/(loss) of entities accounted for using the equity method" in the accompanying consolidated statement of profit or loss. This loss was largely the result of valuation adjustments due to conversion differences in Banco BPI's statement of profit or loss, when these had previously been reported in equity.

As indicated in Note 1, on 7 February 2017 CaixaBank assumed control of the Portuguese bank BPI, upon which it reclassified its investment from "Associates" to “Group Companies". As from that date, the interest in Banco BPI is fully consolidated in the CaixaBank Group (see Note 1 - Acquisition of control of Banco BPI).

This entailed the integration of Banco BPI's portfolio of investments in non-listed associates and joint ventures, where the most significant investments are Banco de Fomento Angola, SA (BFA), Companhia de Seguros Allianz Portugal, SA and Banco Comercial e de Investimentos, SARL.

Banco de Fomento Angola, SA

The accounting of BFA using the equity method since taking control of BPI has led to the recognition of income of EUR 88 million, EUR 14 million of which is attributable to minority interest. This result includes the negative impact of EUR 119 million of extraordinary results, of which EUR 76 million correspond to the application of IAS 29 to BFA's financial statements, taking into account the situation of inflation in Angola. Qualitative reasons for this include the fact that its cumulative inflation rate over the last three years exceeded 100%. The effect on CaixaBank's assets and liabilities of applying IAS 29 when preparing BFA's financial statements has been practically non-existent as impacts on results are offset primarily in equity as larger valuation adjustments for exchange differences.

Lastly, in January 2018 Angola changed its currency mechanism that regulated parity between the local currency, the Kwanza, and the US dollar. An orderly and gradual devaluation process has started with the Kwanza losing against the US dollar. At the date of preparing the accompanying consolidated financial statements, the total impact of the devaluation in CaixaBank for the book value held in BFA amounts to, approximately, EUR -87 million. In any event, BFA's carrying amount at 31 December 2017 remains unaffected by these events because the recoverable amount based on information available at the date of authorisation for issue does not indicate any impairment of the investee.

SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros

In 2017, within the framework of the project to implement the IFRS regulatory framework in the main shareholder of the investee SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros, the Group decided to retroactively reclassify the aforementioned participation as of 1 January 2016, of which it has 49%, and present it as an investment in an associate in the consolidated balance sheet of the CaixaBank Group, instead of as a joint venture investment. This reclassification has not had any accounting or prudential impact, due to the fact that the Group already applied the equity method to SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros.

The market value of listed companies classified as associates and the percentage stake held at 31 December 2017 and 2016 are shown in the table below:

Main listed companies

(Thousands of euros)

	31.12.2017		31.12.2016	
	% interest	**Market value**	**% interest**	**Market value**
Repsol, SA (*)	9.64%	2,171,148	10.05%	1,976,047
Erste Group Bank, AG	9.92%	1,539,310	9.92%	1,186,298
Banco BPI, SA (**)			45.50%	749,727
Market value		**3,710,458**		**3,912,072**

(*) At 31 December 2017, CaixaBank has arranged a cash flow micro-hedge of this stake.

(**) See Note 1 Acquisition of control of Banco BPI.

Impairment of equity investments

For the purpose of assessing the recoverable amount of equity investments in associates and jointly-controlled entities, the CaixaBank Group has a methodology in place for performing a quarterly assessment of potential indicators of impairment in the carrying amount of these investments. Specifically, it assesses investees' business performance and, where applicable, the companies' share prices throughout the period and the target prices published by renowned independent analysts. The Group uses the data to determine the recoverable value of the investment and, if this exceeds the carrying amount, it considers that there are no indications of impairment.

The CaixaBank Group carried out impairment tests to assess the recoverable amount of its investments and verify the valuation adjustments recognised. It used generally accepted valuation methods such as discounted cash flows (DCF), regression curves, dividend discount models (DDM) and others. It did not consider potential control premiums in any of the valuations.

Balance sheet and statement of profit or loss projections were made, as a base reference, for between four and five years, as these investments are long-term. They are updated and adjusted on a half-yearly basis.

The assumptions used are based on macroeconomic data on each country and sector obtained from renowned external sources and published strategic plans of listed companies or internal strategic plans in the case of non-listed entities. The same methodology has been applied for associates and joint ventures. The main assumptions used are as follows:

- Individual discount rates for each activity and country, ranging from 7.3% to 10.1% (from 7.6% to 10.9% in the tests performed at 31 December 2016). The discount rate used for investments in emerging countries, the recoverable amount of which has been calculated using the dividend discount method is around 18.5%.

- The growth rates used to calculate residual value beyond the projected period were between 0.5% and 2.5% for significant holdings, unchanged from December 2016. Rates of between 3.6% and 5% were used for stakes in emerging countries.

Given the uncertainty inherent in these assumptions, sensitivity analyses are performed using reasonable changes in the key assumptions on which the recoverable amount of the investments analysed is based to confirm whether this continues to exceed the amount to be recovered. In this respect, possible variations in the main assumptions used in the models were calculated and a sensitivity analysis carried out for the most significant variables, including the various business drivers and statements of profit or loss of investees, to assess the resistance of the value of these investments to more adverse scenarios.

The following sensitivity analyses were carried out:

- For banking stakes: possible variations in the main assumptions used in the model were calculated, including the discount rate: -0.5%, + 0.5%, growth rate: -0.5%, +0.5%, net interest income: -0.05%, + 0.05%, and credit risk: -0.05% + 0.05%.
- For investments in the insurance business: possible variations in the main assumptions used in the model were calculated, including the discount rate: -0.5%, +0.5%, and growth rate: -0.5%, +0.5%.
- For Repsol: possible variations in the main assumptions used in the model: Brent prices: -$10/bbl, +$10/bbl

The sensitivity analyses carried out showed no need to recognise any significant impairment losses.

Financial information on companies accounted for using the equity method

Appendices 2 and 3 disclose the percentage of ownership, share capital, reserves, results, ordinary income, total comprehensive income, profit/(loss) from discontinued operations, net cost and dividends paid by each of the investments in associates and joint ventures.

Summarised financial information on significant associates accounted for using the equity method, based on the latest information available at the date of authorisation for issue of these annual financial statements, is as follows:

Summarised financial information of associates

(figures in millions of euros or the corresponding local currency)	Erste Group Bank	Repsol	SegurCaixa Adeslas	Banco de Fomento de Angola
Nature of the company's activities	Note (1)	Note (2)	Note (3)	Note (5)
Country of incorporation and countries of operation	Austria, the Czech Republic, Hungary, Croatia, Slovakia, Romania and Serbia	Spain, North America, Canada, Brazil, Indonesia, Brazil, Venezuela and T&T	Spain	Angola
Ownership interest (voting rights)	9.92%	9.64%	49.92%	48.10%
Restrictions on dividend payments			Note (4)	
Dividends received	43	120	108	11,874
Reconciliation of financial information related to fair value adjustments at the time of acquisition and adjustments due to changes in accounting policy		Treatment of issued perpetual bonds as a financial liability		

Summarised financial information of associates

(figures in millions of euros or the corresponding local currency)	Erste Group Bank	Repsol	SegurCaixa Adeslas	Banco de Fomento de Angola
Summarised financial information for the last available period	**30.09.2017**	**30.09.2017**	**30.09.2017**	**31.12.2017**
Current assets		16,049		
Non-current assets	221,715	44,682	3,921	1,443,064
Current liabilities		14,363		
Non-current liabilities	203,746	16,312	2,863	1,225,643
Ordinary income	5,951	31,274	2,358	138,295
(Attributable) profit/(loss) from continuing operations	988	1,583	200	69,085
Profit/(loss) from discontinued operations (after tax)				
Other comprehensive income	44		(6)	
Total comprehensive income	1,085	1,583	195	69,085
Summarised financial information at 31.12.2016				
Current assets		15,928		
Non-current assets	208,227	48,921	3,366	1,312,880
Current liabilities		14,737		
Non-current liabilities	191,625	19,001	2,316	1,139,858
Ordinary income	8,793	37,433	2,959	99,572
(Attributable) profit/(loss) from continuing operations	1,265	1,437	177	61,713
Profit/(loss) from discontinued operations (after tax)		299		
Other comprehensive income	(26)		8	
Total comprehensive income	1,203	1,736	185	61,713

(1) Erste Group Bank AG has a strong deposits business and offers retail and corporate banking products and investment banking services.
(2) Repsol is an integrated global energy company that develops Upstream and Downstream across the world.
CaixaBank is Repsol's leading shareholder.
(3) Strategic alliance for the development, sale and distribution of non-life general insurance of SegurCaixa Adeslas. The company is 50%-owned by Mutua Madrileña Automovilista, SA Sociedad de Seguros a Prima Fija and 49.92% by VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal, with 0.08% held by minority shareholders.

(4) There are regulatory restrictions on the distribution of dividends in accordance with certain solvency levels inherent in the insurance business (120% of the minimum solvency requirement) and other contractual restrictions of higher amounts to anticipate potential requirements brought about by future amendments to regulations.

(5) BFA provides various banking products and services to retail and corporate customers in Angola. It sells deposits and current accounts, and offers personal and home loans, along with debit, credit and pre-paid cards. The company also provides collection and payment services, short-term loans, guarantees, investment products, trade finance and credit lines, as well as online and text message banking services.

Summarised financial information on significant joint ventures accounted for using the equity method, based on the latest information available at the date of authorisation for issue of these annual financial statements, is as follows:

Summarised financial information of joint ventures

(Millions of euros)

	Comercia Global Payments	
Nature of the company's activities	Note (1)	
Country of incorporation and countries of operation	Spain	
% of voting rights (if different from the % stake)		
Restrictions on dividend payments		
Dividends received	8	
Reconciliation of financial information related to fair value adjustments at the time of acquisition and adjustments due to changes in accounting policy	-	
Summarised financial information at	**Latest period available 31.12.2017 (12 months)**	**31.12.2016 (12 months)**
Cash and cash equivalents	75	24
Current assets	334	208
Non-current assets	150	165
Current liabilities	(287)	(191)
Non-current liabilities	(2)	(2)
Current financial liabilities	(197)	(65)
Ordinary income	148	75
Interest income	0	0
Interest expenses	(0)	(0)
Depreciation and amortisation	(19)	(12)
Profit/(loss) from continuing operations	42	23
Income tax expense/revenue	(11)	(6)
Total comprehensive income	32	16

(1) Provision of the payment service (acquiring).

18. Assets and liabilities under insurance or reinsurance contracts

The breakdown of and movement in these balances in the consolidated balance sheet at 31 December 2017 and 2016 are as follows:

Breakdown of assets and liabilities under insurance or reinsurance contracts

(Thousands of euros)

	Assets under insurance or reinsurance contracts		Liabilities under insurance contracts	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Unearned premiums	3,799	2,585	3,622	4,412
Mathematical provisions	260,764	323,125	49,142,374	45,223,258
Claims	10,932	18,434	567,374	526,592
Bonuses and rebates			36,914	49,317
Other technical provisions			105	0
Total	**275,495**	**344,144**	**49,750,389**	**45,803,579**

Changes in assets and liabilities under insurance contracts

(Thousands of euros)

	Assets under insurance or reinsurance contracts		Liabilities under insurance contracts	
	2017	**2016**	**2017**	**2016**
Opening balance	344,144	391,225	45,803,579	40,290,523
Additions due to business combinations (Note 7)			2,057,674	
Provision	275,495	344,144	47,692,715	45,803,579
Amounts used	(344,144)	(391,225)	(45,803,579)	(40,290,523)
Closing balance	**275,495**	**344,144**	**49,750,389**	**45,803,579**

Assets under insurance or reinsurance contracts

This balance sheet heading includes mainly mathematical provisions relating to Berkshire Hathaway Life Insurance Company of Nebraska, assumed as a result of the reinsurance agreement signed in 2012 by VidaCaixa to mitigate longevity risk associated with its life annuities portfolio.

Liabilities under insurance contracts

The Group performs insurance and reinsurance transactions directly through VidaCaixa, SAU de Seguros y Reaseguros.

The majority of liabilities under insurance contracts at 31 December 2017 and 2016 basically relate to life-savings products with guaranteed returns valued in accordance with prevailing insurance regulations and the technical specifications of each product.

Note 2.23 “Insurance transactions” describes the accounting policies applied to insurance contracts, indicating that these comply with the guidance of 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 Additional Provision Five of Royal Decree 1060/2010, of 20 November, on the regulation, supervision and solvency of insurance and reinsurance entities (ROSSEAR), the Regulations on the Organisation and Supervision of Private Insurance (ROSSP), and other implementing provisions, and other applicable legislation.

The Group carries out an annual liability adequacy *test* in order to identify any provision shortfall and to make the related charges to provisions. 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 (the "Government" curve for Spain has been used as the valuation curve). 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 years for Pensión 2000 and the average observed over the last five years for other products 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.

As a previous step to the analysis result of the liability adequacy test, capital gains/(losses) on assets covered by insurance contracts previously recognised in Group equity are reclassified to "Provisions for insurance contracts" (tacit accounting, as described in 2.23). Reclassified capital gains/(losses) at 31 December 2017 amounted to EUR 2,140 million, net (EUR 2,357 million at 31 December 2016).

The following table presents the flows of these liabilities under insurance contracts:

Residual maturities of liabilities under insurance contracts

(Thousands of euros)	Less than one year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Liabilities under insurance contracts	3,068,977	4,328,515	4,038,899	38,313,998	49,750,389

19. Tangible assets

The composition of and changes in items of “Tangible assets” and of the related accumulated depreciation and impairment in 2017 and 2016 are as follows:

Breakdown of tangible assets **(1 / 2)**

(Thousands of euros)	31.12.2017			31.12.2016		
	Land and buildings	**Furniture, facilities and other**	**Total**	**Land and buildings**	**Furniture, facilities and other**	**Total**
Cost						
Opening balance	2,619,654	3,568,294	6,187,948	2,805,518	3,514,768	6,320,286
Additions due to business combinations **(Note 7)**	91,331	340,681	432,012			0
Additions	17,982	258,572	276,554	29,155	224,619	253,774
Disposals	(11,916)	(133,744)	(145,660)	(26,375)	(203,697)	(230,072)
Transfers	(59,944)	10,533	(49,411)	(188,644)	32,604	(156,040)
Closing balance	**2,657,107**	**4,044,336**	**6,701,443**	**2,619,654**	**3,568,294**	**6,187,948**
Accumulated depreciation						
Opening balance	(472,731)	(2,686,934)	(3,159,665)	(499,048)	(2,751,842)	(3,250,890)
Additions due to business combinations **(Note 7)**	(68,918)	(313,137)	(382,055)			0
Additions	(24,240)	(149,913)	(174,153)	(24,262)	(121,388)	(145,650)
Disposals	11,131	67,369	78,500	21,386	182,916	204,302
Transfers	8,239	36,818	45,057	29,193	3,380	32,573
Closing balance	**(546,519)**	**(3,045,797)**	**(3,592,316)**	**(472,731)**	**(2,686,934)**	**(3,159,665)**
Impairment allowances						
Opening balance	(12,260)	(11,361)	(23,621)	(17,481)	(12,092)	(29,573)
Allowances **(Note 38)**	(34,837)	(435)	(35,272)	(5,689)	(167)	(5,856)
Reversals **(Note 38)**	3,276	2,263	5,539	10,150	1,281	11,431
Transfers	24,186	(3,814)	20,372	(52)	(383)	(435)
Amounts used	199	0	199	812		812
Closing balance	**(19,436)**	**(13,347)**	**(32,783)**	**(12,260)**	**(11,361)**	**(23,621)**
Own use, net	**2,091,152**	**985,192**	**3,076,344**	**2,134,663**	**869,999**	**3,004,662**

Breakdown of tangible assets (2 / 2)

(Thousands of euros)	31.12.2017			31.12.2016		
	Land and buildings	Furniture, facilities and other	Total	Land and buildings	Furniture, facilities and other	Total
Cost						
Opening balance	4,626,328	90,006	4,716,334	4,229,060	62,839	4,291,899
Additions	71,274	7,527	78,801	199,622	6,098	205,720
Disposals	(343,177)	(3,951)	(347,128)	(196,756)	(9,684)	(206,440)
Transfers	346,605	11,249	357,854	394,402	30,753	425,155
Closing balance	**4,701,030**	**104,831**	**4,805,861**	**4,626,328**	**90,006**	**4,716,334**
Accumulated depreciation						
Opening balance	(172,036)	(15,244)	(187,280)	(126,104)	(10,078)	(136,182)
Additions	(52,440)	(8,688)	(61,128)	(54,096)	(7,356)	(61,452)
Disposals	20,494	923	21,417	11,945	2,995	14,940
Transfers	4,812	(2,637)	2,175	(3,781)	(805)	(4,586)
Closing balance	**(199,170)**	**(25,646)**	**(224,816)**	**(172,036)**	**(15,244)**	**(187,280)**
Impairment allowances						
Opening balance	(1,096,808)	0	(1,096,808)	(902,221)	0	(902,221)
Allowances **(Note 38)**	(293,569)	0	(293,569)	(248,547)		(248,547)
Reversals (**Note 38)**	270,686	0	270,686	214,175		214,175
Transfers	(142,098)	0	(142,098)	(219,914)		(219,914)
Amounts used	84,834	0	84,834	59,699		59,699
Closing balance	**(1,176,955)**	**0**	**(1,176,955)**	**(1,096,808)**	**0**	**(1,096,808)**
Investment properties	**3,324,905**	**79,185**	**3,404,090**	**3,357,484**	**74,762**	**3,432,246**
Total tangible assets	**5,416,057**	**1,064,377**	**6,480,434**	**5,492,147**	**944,761**	**6,436,908**

Transfers to "Investment properties" in 2017 and 2016 mainly include the value of properties reclassified from other balance sheet headings: from “Own use” when an office is closed or from “Non-current assets and disposal groups classified as held for sale” when the asset is put up for rent (see Note 22).

At 31 December 2017 and 2016, there were no restrictions on the realisation of tangible assets and the collection of the proceeds.

Property, plant and equipment for own use

Property, plant and equipment for own use is allocated to the Banking Business cash generating unit (CGU). At 31 December 2017 and 2016, impairment tests were performed on the net amount of the assets associated with the Banking Business CGU. The results of the tests carried out did not uncover any need to make allowances for the assets included under this heading (see Note 20).

However, the Entity carries out regular valuations of property for own use classified as “Land and buildings”. The market value of these assets at 31 December 2017 does not differ significantly from their carrying amounts.

At 31 December 2017, the Group had fully depreciated tangible assets amounting to EUR 2,498 million (EUR 2,198 million at 31 December 2016).

The CaixaBank Group does not have significant commitments to acquire items of property, plant and equipment. Sales made in previous years with sale and leaseback agreements include buy options that may be exercised by CaixaBank on termination of the lease agreement at the market value of the offices at that date, to be determined where appropriate by independent experts (see Note 36).

Investment properties

As a result of the appraisals process (see Note 2.16) at 31 December 2017 and 2016 net impairment losses of EUR -22,883 thousand and EUR -34,386 thousand were recognised respectively.

On the basis of the appraisals available at 31 December 2017, the fair value of the portfolio of investment properties totals EUR 3,862 million (EUR 4,129 million at 31 December 2016). The fair value of property assets classified as investment properties, based on the fair value hierarchy, is classified as Level 2.

The net carrying amount of investment properties generating rental income in 2017 was EUR 3,298 million.

Rental income accrued on the operation of investment properties is recognised under “Other operating income” in the statement of profit or loss (see Note 34), totalling EUR 145 million in 2017 (EUR 149 million in 2016), and associated expenses under “Other operating expenses” (see Note 34), totalling EUR 42 million in 2017 (EUR 42 million in 2016).

The table below shows the appraisers that carried out valuations of investment properties in 2017:

Appraisers of investment properties

(Percentage)

	31.12.2017	31.12.2016
Krata, SA	35%	0%
Tasaciones Inmobiliarias, SA	24%	36%
Sociedad de Tasación, SA	23%	30%
Gesvalt, SA	4%	8%
JLL Valoraciones, SA	4%	7%
Ibertasa, SA	4%	6%
CBRE Valuation Advisory, SA	3%	6%
Valtecnic, SA	1%	4%
Valoraciones y Tasaciones Hipotecarias, SA	1%	2%
Tecnitasa, SA	1%	1%
Other	0%	0%
Total	**100%**	**100%**

20. Intangible assets

Goodwill

The table below shows the composition of goodwill at 31 December 2017 and 2016:

Goodwill
(Thousands of euros)

	CGU	31.12.2017	31.12.2016
Acquisition of Banca Cívica	Banking	2,019,996	2,019,996
Acquisition of Banca Cívica Vida y Pensiones	Insurance	137,180	137,180
Acquisition of CajaSol Vida y Pensiones	Insurance	50,056	50,056
Acquisition of CajaCanarias Vida y Pensiones	Insurance	62,003	62,003
Acquisition of Banca Cívica Gestión de Activos	Banking	9,220	9,220
Acquisition of the Morgan Stanley business in Spain	Banking/Insurance (1)	402,055	402,055
Acquisition of Bankpime, SA	Banking	39,406	39,406
Acquisition of VidaCaixa, SA de Seguros y Reaseguros (VidaCaixa Grupo, SA Group)	Insurance	330,929	330,929
Total		**3,050,845**	**3,050,845**

(1) Of which EUR 3.7 million are allocated to the Insurance CGU and the remainder to the Banking CGU.

Other intangible assets

The breakdown of "Other intangible assets" at 31 December 2017 and 2016 is as follows:

Breakdown of other intangible assets
(Thousands of euros)

	Useful life	CGU	Remaining useful life	2017	2016
Customer relationships (core deposits) of Barclays Bank	9 years	Banking	6 years	15,703	18,320
Customer relationships (core deposits) of Banca Cívica	4 to 9.5 years	Banking	1 to 4 years	71,812	89,777
Customer relations (core deposits) of Banco de Valencia	6.2 years	Banking	1.2 years	6,351	11,645
Insurance portfolio of Banca Cívica y Pensiones	10 years	Insurance	5.5 years	35,272	42,698
Insurance portfolio of CajaSol Vida y Pensiones	10 years	Insurance	5.5 years	7,303	8,694
Insurance portfolio of CajaCanarias Vida y Pensiones	10 years	Insurance	5.5 years	4,499	5,356
Customer funds of Banco de Valencia	10 years	Insurance	6 years	1,007	1,171
Customer funds of Barclays Bank	10 years	Insurance	8.5 years	18,164	20,256
Software and others	4 years		1 to 4 years	458,932	390,113
Life insurance portfolios of VidaCaixa, SA	10 years	Insurance		0	18,191
Contracts with Morgan Stanley customers	11 years	Banking/ Insurance	1 year	2,611	13,251
Contracts with Banca Cívica Gestión de Activos customers	10 years		5.5 years	3,687	4,357
Contracts with Barclays Gestión de Activos customers	9 years		6 years	4,899	5,716
Contracts with Bankpime customers	10 years	Banking/ Insurance		0	6,962
Customer relationships (core deposits) of BPI	5.8 years	Banking	4.8 years	31,994	
BPI brand	-	Banking		20,000	
Life insurance portfolios of BPI Vida	5 to 10 years	Insurance	4 to 9 years	14,085	
Customer portfolios - asset management	10 years	Banking	9 years	15,442	
Customer portfolios - Insurance brokerage	10 years	Banking	9 years	25,433	
Deposit portfolio	6 years	Banking	5 years	16,944	
Total				**754,138**	**636,507**

The changes to this heading in the balance sheet in 2017 and 2016 are as follows:

Changes in other intangible assets

(Thousands of euros)	2017			2016		
	Software	**Other assets**	**Total**	**Software**	**Other assets**	**Total**
Gross cost						
Opening balance	**989,314**	**556,635**	**1,545,949**	**865,536**	**541,936**	**1,407,472**
Additions due to business combinations (Note 7)	93,933	164,915	258,848			0
Additions	200,133	26,779	226,912	153,707	22,699	176,406
Transfers and other	11,108	(11,580)	(472)	10,797	(8,000)	2,797
Write-downs (Note 38)	(62,223)	(58,478)	(120,701)			
Other disposals	(12,216)	(1,150)	(13,366)	(40,726)	0	(40,726)
Subtotal	**1,220,049**	**677,121**	**1,897,170**	**989,314**	**556,635**	**1,545,949**
Accumulated amortisation						
Opening balance	**(605,184)**	**(291,676)**	**(896,860)**	**(547,480)**	**(226,367)**	**(773,847)**
Additions due to business combinations (Note 7)	(78,248)	(15,633)	(93,881)			0
Additions	(119,841)	(71,807)	(191,648)	(101,271)	(61,829)	(163,100)
Transfers and other	1,824	(5,433)	(3,609)	9,795	2,520	12,315
Write-downs (Note 38)	8,464	42,620	51,084			
Other disposals	3,470	796	4,266	33,772	(6,000)	27,772
Subtotal	**(789,515)**	**(341,133)**	**(1,130,648)**	**(605,184)**	**(291,676)**	**(896,860)**
Impairment allowances						
Opening balance	**(431)**	**(12,151)**	**(12,582)**	**(431)**	**(12,452)**	**(12,883)**
Additions due to business combinations (Note 7)			0			0
Allowances (Note 38)	(1,049)	(3,725)	(4,774)		(805)	(805)
Reversals (Note 38)	0	4,027	4,027		301	301
Transfers and other			0		1	1
Amounts used	940	5	945		804	804
Closing balance	**(540)**	**(11,844)**	**(12,384)**	**(431)**	**(12,151)**	**(12,582)**
Total	**429,994**	**324,144**	**754,138**	**383,699**	**252,808**	**636,507**

In 2017, research and development expenditure by the CaixaBank Group amounted to EUR 94 million.

At 31 December 2017 and 2016, there were no intangible assets with restrictions on ownership or used as guarantee or collateral of debts.

Additionally, at 31 December 2017 and 2016, there were no significant commitments to acquire intangible assets.

At 31 December 2017 and 2016, the CaixaBank Group had fully amortised intangible assets still in use amounting to a gross EUR 551 million and EUR 251 million, respectively.

Impairment test of the banking CGU

The amount to be recovered from the Banking Business CGU was determined from the allocation of the CaixaBank Group's capital based on internal regulatory capital models, which take into account the risks assumed by each of the businesses. The amount to be recovered from the CGU is compared to its recoverable amount to determine any potential impairment.

The CaixaBank Group estimates recoverable amount based on value in use, which was determined by discounting the estimated dividends over the medium term according to the Group's budgets and extrapolated to 2022 (five annual financial periods). The Group also updates the projected cash flows every six months to factor in any potential deviations in the recoverable amount estimation model. The test carried out at 31 December 2017 confirmed that the projections used in the previous impairment test and actual figures would not have affected the conclusions of that test.

The main assumptions used in the cash flow projections were based on the estimates made by CaixaBank's Strategic Planning and Studies Department on the main macroeconomic and interest rate variables. These estimates applied to the Group's activity translate into a progressive improvement in the ratio of the margin of interest on average total assets between 2017 and 2022, which would increase from 1.27% to 1.60% (previous valuation: between 1.23% in 2016 and 1.45% in 2021), mainly because when considering a year in the forecast horizon, the level of interest rates is higher (convergence at the equilibrium level). A risk cost is contemplated on the gross loan portfolio, which varies between 0.39% and 0.37% (between 0.47% and 0.30% in the previous valuation), and a growth rate of 2% (the same as that used in the previous test), tending to collect the effects of inflation. The discount rate applied for the projections was 9.3% (9.2% under the previous test), calculated on the rate of interest of the German 10-year bond, plus a risk premium associated with the banking business and the Entity.

The CaixaBank Group performs a sensitivity analysis on the most significant variables. In this respect, in addition to the baseline scenario, possible variations in the main assumptions used in the model have been calculated, including the discount rate: -1.5%, + 1.5%, growth rate: -0.5%, +0.5%, net interest income: -0.05%, + 0.05%, and credit risk: -0.1% + 0.1%, to confirm that recoverable amount still exceeds the amount to be recovered. The results of the sensitivity analysis, including adverse assumptions, did not uncover the need to recognise any impairment of the goodwill assigned to the Banking Business CGU in 2017. The analysis also showed that the value of the CGU in an adverse scenario is still substantially higher than the value of its equity operations.

In addition, there were no reasonably likely changes in the assumptions or projections that could result in the recognition of impairment allowances for goodwill and intangible assets assigned to this CGU at the end of 2017.

Impairment test of the Insurance CGU

The amount to be recovered from the Insurance Business CGU was determined from the allocation of the CaixaBank Group's capital based on internal regulatory capital models, which take into account the risks assumed by each of the businesses. The amount to be recovered from the CGU is compared to its recoverable amount to determine any potential impairment.

The recoverable amount of the Insurance Business CGU is based on value in use. A calculation was made of the cash flows expected over the next five years on the life business acquired, assuming a subsequent growth rate of 2% (intended to include the effects of inflation). These expected flows were discounted at a rate of 8.84% (9.07% in the previous test). The CaixaBank Group also updates the projected cash flows every six months to factor in any potential deviations to the recoverable amount estimation model. The test carried out at 31 December 2017 confirmed that the projections used in the previous impairment test were fairly accurate and that the deviations would not have affected the conclusions of that test.

The CaixaBank Group performs a sensitivity analysis on the most significant variables. In this respect, in addition to the baseline scenario, possible variations in the main assumptions used in the model have been calculated, including the discount rate: -0.5%, +0.5%, growth rate: -0.5%, + 0.5%, to confirm that recoverable amount still exceeds the amount to be recovered. The results of the sensitivity analysis, including adverse assumptions, did not uncover the need to recognise any impairment of the goodwill assigned to the Insurance Business CGU in 2017. The analysis also showed that the value of the CGU in an adverse scenario is still substantially higher than the value of its equity operations.

In addition, there were no reasonably likely changes in the assumptions or projections that could result in the recognition of impairment allowances for goodwill and other intangible assets assigned to this CGU at the end of 2017.

21. Other assets and liabilities

The breakdown of these items in the balance sheet is as follows:

Breakdown of other assets and other liabilities
(Thousands of euros)

	31.12.2017	31.12.2016
Inventories	877,586	1,012,896
Other assets	1,627,696	782,827
Accrued expenses and deferred income	699,370	575,799
Of which: Expenses paid not accrued	*456,821*	*267,262*
Of which: Shortfall in the Deposit Guarantee Fund to be settled over the next five years	*143,062*	*176,109*
Ongoing transactions (*)	427,205	42,006
Dividends on equity securities accrued and receivable	114,830	51,682
Other	386,291	113,340
Total other assets	**2,505,282**	**1,795,723**
Accrued expenses and deferred income	1,055,794	976,384
Of which: Accrued general expenses payable	*267,262*	*186,190*
Ongoing transactions (**)	951,508	657,611
Other	327,806	171,640
Total other liabilities	**2,335,108**	**1,805,635**

(*) At 31 December 2017, EUR 333 million is included, which is from Banco BPI (see Note 1 - Acquisition of Banco BPI).

(**) At 31 December 2017, EUR 312 million is included, which is from Banco BPI (see Note 1 - Acquisition of Banco BPI).

"Other assets" includes the fair value of insurance policies associated with defined-benefit obligations assured through policies arranged with entities not considered related parties and eligible to be considered plan assets after deducting the present value of the obligations. If the value of the obligations is higher, it is recognised in "Provisions – Pensions and other post employment defined benefit obligations" (see Note 24).

"Inventories," which consists mainly of land and property under construction, are measured at the lower of cost, including financial charges, and realisable value, understood to be the estimated net selling price less the estimated production and marketing costs.

Changes in “Inventories” in 2017 and 2016 are as follows:

Changes in inventories

(Thousands of euros)

	2017		2016	
	Foreclosure assets	**Other assets**	**Foreclosure assets**	**Other assets**
Gross cost, inventories				
Opening balance	**2,621,960**	**62,187**	**2,631,700**	**97,641**
Plus:				
Acquisitions	85,342	175,453	125,686	18,178
Transfers and other	0	0	49,894	17
Less:				
Cost of sales (1)	(285,149)	(172,326)	(185,320)	(3,549)
Transfers and other	(65,107)	(11,037)		(50,100)
Subtotal	**2,357,046**	**54,277**	**2,621,960**	**62,187**
Impairment allowances, inventories				
Opening balance	**(1,653,757)**	**(17,494)**	**(1,531,755)**	**(62,249)**
Plus:				
Net allowances **(Note 38)**	(47,470)	82	(177,605)	41
Transfers and other	9,705	(10)	(42,899)	(1,612)
Less:				
Amounts used	174,796	411	98,502	181
Transfers	0	0		46,145
Subtotal	**(1,516,726)**	**(17,011)**	**(1,653,757)**	**(17,494)**
Closing balance	**840,320**	**37,266**	**968,203**	**44,693**

(1) Includes the costs attributable to sales and income from the provision of non-financial services.

“Transfers and other” in 2017 and 2016 basically include reclassifications from “Non-current assets and disposal groups classified as held for sale” and “Investment properties” to this heading (see Notes 22 and 19).

Foreclosure assets are measured using internal models for calculating recoverable amounts, which are used as inputs for revised appraisals in accordance with Ministerial Order ECO/805/2003. The method for measuring these assets is described in Note 2.18. The fair value thereof, calculated using the Group’s internal models at 31 December 2017, total EUR 1,078 million (EUR 1,302 million at 31 December 2016).

The table below shows the companies and agencies that carried out appraisals in 2017:

Appraisers of inventories

(Percentage)

	31.12.2017	31.12.2016
Tasaciones Inmobiliarias, SA	23%	18%
Valtecnic, SA	14%	3%
Ibertasa, SA	13%	12%
JLL Valoraciones, SA	11%	8%
Tecnitasa, SA	10%	14%
Sociedad de Tasación, SA	8%	13%
CBRE Valuation Advisory, SA	7%	6%
Gesvalt, SA	7%	11%
Krata, SA	2%	9%
Other	2%	0%
Valoraciones Mediterráneo, SA	1%	5%
Valoraciones y Tasaciones Hipotecarias, SA	1%	1%
UVE Valoraciones, SA	1%	0%
Total	**100%**	**100%**

22. Non-current assets and disposal groups classified as held for sale

This item in the balance sheet includes assets from purchases and foreclosures in payment of loans which are not included as assets for own use, investment properties or inventories, and assets initially classified as investment properties, once the decision to sell them has been made.

Movements in this heading in 2017 and 2016 were as follows:

2017

(Thousands of euros)

	Foreclosure assets			
	Foreclosure rights (1)	**Other foreclosure assets**	**Other assets (2)**	**Total**
Cost				
Opening balance	680,941	9,929,270	778,618	11,388,829
Additions due to business combinations (**Note 7**)	0	126,782	0	126,782
Additions in the period	536,218	486,947	31,306	1,054,471
Transfers (3)	(647,387)	487,062	(41,348)	(201,673)
Reductions in the period	0	(1,628,707)	(97,579)	(1,726,286)
Closing balance	569,772	9,401,354	670,997	10,642,123
Impairment allowances				
Opening balance	(124,737)	(4,641,322)	(217,910)	(4,983,969)
Additions due to business combinations (**Note 7**)		(33,557)		(33,557)
Allowances **(Note 40)**	(15,574)	(1,279,591)	(29,416)	(1,324,581)
Reversals **(Note 40)**	17,052	1,105,500	26,807	1,149,359
Transfers (4)	26,928	(172,371)	34,867	(110,576)
Amounts used	0	710,703	19,428	730,131
Closing balance	(96,331)	(4,310,638)	(166,224)	(4,573,193)
Total	**473,441**	**5,090,716**	**504,773**	**6,068,930**

(1) Foreclosure rights are measured initially at the net value at which the asset will be recognised when the definitive foreclosure occurs.

(2) Mostly includes: investments reclassified as non-current assets classified as held for sale, assets deriving from the termination of operating lease agreements and closed branches.

(3) Includes mainly reclassifications of foreclosure rights to "Other foreclosure assets" or "Tangible assets - Investment properties" when the property is put up for lease (see Note 19).

(4) Includes provisions recognised to hedge against the risk of insolvency on credit operations of CaixaBank cancelled through the acquisition of real estate assets by BuildingCenter.

2016

(Thousands of euros)

	Foreclosure rights (1)	Foreclosure assets	Other assets (2)	Total
	Foreclosure assets			
Cost				
Opening balance	889,582	10,185,722	1,353,986	12,429,290
Additions in the period	781,127	347,485	35,160	1,163,772
Transfers (3)	(989,768)	892,798	(477,016)	(573,986)
Disposals due to sale		(1,496,735)	(133,512)	(1,630,247)
Closing balance	680,941	9,929,270	778,618	11,388,829
Impairment allowances				
Opening balance	(197,899)	(4,027,149)	(243,579)	(4,468,627)
Additions due to business combinations **(Note 7)**				0
Allowances **(Note 40)**	(15,669)	(2,188,679)	(58,251)	(2,262,599)
Reversals **(Note 40)**	20,614	1,367,795	45,805	1,434,214
Transfers (4)	68,217	(369,112)	37,803	(263,092)
Amounts used		575,823	312	576,135
Closing balance	(124,737)	(4,641,322)	(217,910)	(4,983,969)
Total	**556,204**	**5,287,948**	**560,708**	**6,404,860**

(1) Foreclosure rights are measured initially at the net value at which the asset will be recognised when the definitive foreclosure occurs.
(2) Mostly includes: investments reclassified as non-current assets classified as held for sale, assets deriving from the termination of operating lease agreements and closed branches.

(3) Includes mainly reclassifications to "Tangible assets - Investment properties" when the properties are put up for lease (see Note 19) and additions of foreclosure assets arising from foreclosure rights.

(4) Includes provisions recognised to hedge against the risk of insolvency on credit operations of CaixaBank cancelled through the acquisition of real estate assets by BuildingCenter.

The detail, by age, of foreclosure assets at 31 December 2017 and 2016, excluding impairment allowances, determined on the basis of the foreclosure date, is as follows:

Age of foreclosure assets

	31.12.2017		31.12.2016	
	No. of assets	Thousands of	No. of assets	Thousands of
Up to 1 year	11,085	1,114,854	15,536	1,502,570
Between 1 and 2 years	11,848	1,159,211	21,946	2,100,296
Between 2 and 5 years	50,367	4,898,216	54,975	5,505,383
Over 5 years	25,399	2,798,845	11,568	1,501,962
Total	**98,699**	**9,971,126**	**104,025**	**10,610,211**

Foreclosure assets are measured using internal models for calculating recoverable amounts, which are used as inputs for revised appraisals in accordance with Ministerial Order ECO/805/2003. The method for measuring these assets is described in Note 2.19. The fair value thereof, calculated using the Group's internal models at 31 December 2017, total EUR 6,733 million (EUR 6,889 million at 31 December 2016).

The table below shows the companies and agencies that carried out appraisals in 2017:

Appraisers of non-current assets classified as held for sale

(Percentage)

	31.12.2017	31.12.2016
Tasaciones Inmobiliarias, SA	33.7%	26.0%
Sociedad de Tasación, SA	19.8%	19.2%
CBRE Valuation Advisory, SA	10.5%	7.0%
Ibertasa, SA	9.9%	12.0%
Gesvalt, SA	7.2%	11.0%
JLL Valoraciones, SA	6.1%	8.8%
Valtecnic, SA	5.2%	7.1%
Tecnitasa	2.7%	2.1%
Valoraciones y Tasaciones Hipotecarias, SA	2.2%	4.4%
Other	0.9%	0.2%
UVE Valoraciones, SA	0.8%	
Valoraciones Mediterráneo, SA	0.6%	0.9%
Krata, SA	0.4%	1.3%
Total	**100.0%**	**100.0%**

23. Financial liabilities measured at amortised cost

The breakdown of this item in the balance sheet, by type of financial instrument, is as follows:

31.12.2017

(Thousands of euros)		Valuation adjustments				
	Gross balance	**Accrued interest**	**Micro-hedges**	**Transaction costs**	**Premiums and discounts**	**Outstanding amount**
Deposits	247,364,772	7,890	0	(18,377)	(550,148)	246,804,137
Central banks	31,833,210	(152,525)				31,680,685
Credit institutions	11,500,576	14,795	0	0	(6)	11,515,365
Customers (1)	204,030,986	145,620	0	(18,377)	(550,142)	203,608,087
Debt securities issued	29,585,354	418,241	7,541	(19,225)	(73,408)	29,918,503
Other financial liabilities	4,174,741					4,174,741
Total	**281,124,867**	**426,131**	**7,541**	**(37,602)**	**(623,556)**	**280,897,381**

31.12.2016

(Thousands of euros)		Valuation adjustments				
	Gross balance	**Accrued interest**	**Micro-hedges**	**Transaction costs**	**Premiums and discounts**	**Outstanding amount**
Deposits	224,059,423	156,242	6,277	(21,545)	(688,549)	223,511,848
Central banks	30,067,713	(38,331)				30,029,382
Credit institutions	6,300,522	8,964	6,277	0	(5)	6,315,758
Customers (1)	187,691,188	185,609	0	(21,545)	(688,544)	187,166,708
Debt securities issued	27,334,347	448,886	1,755	(14,376)	(62,597)	27,708,015
Other financial liabilities	2,873,432					2,873,432
Total	**254,267,202**	**605,128**	**8,032**	**(35,921)**	**(751,146)**	**254,093,295**

(1) "Premiums and discounts" includes the fair value adjustments made to customer deposits contributed by Banca Cívica and Banco de Valencia at the date of integration, mainly single covered bonds.

23.1. Deposits from credit institutions

The breakdown, by type of deposit, of this item in the accompanying balance sheet excluding valuation adjustments is as follows:

Breakdown of deposits from credit institutions

(Thousands of euros)	**31.12.2017**	**31.12.2016**
Demand	**1,402,535**	**2,122,486**
Reciprocal accounts	242	62
Other accounts	1,402,293	2,122,424
Time or at notice	**10,098,041**	**4,178,036**
Deposits with agreed maturity	5,825,616	3,163,748
Of which: registered mortgage covered bonds **(Note 23.3)**	*20,000*	*20,000*
Hybrid financial liabilities	2,517	2,200
Repurchase agreement	4,269,908	1,012,088
Total	**11,500,576**	**6,300,522**

At the acquisition date, the business combination with Banco BPI entailed the incorporation of EUR 1,792 million under "Deposits from credit institutions".

23.2. Customer deposits

The breakdown, by sector and type of deposit, of this item in the accompanying balance sheet excluding valuation adjustments is as follows:

(Thousands of euros)	31.12.2017	31.12.2016
By type	**204,030,986**	**187,691,188**
Current accounts and other demand deposits	102,237,743	79,946,463
Savings accounts	56,534,437	52,744,693
Deposits with agreed maturity	37,858,043	42,461,394
Of which: registered mortgage covered bonds (**Note 23.3**)	*3,899,367*	*4,999,367*
Hybrid financial liabilities	1,417,818	1,607,734
Repurchase agreements (*)	5,982,945	10,930,904
By sector	**204,030,986**	**187,691,188**
Public administrations	10,867,918	8,172,053
Private sector (*)	193,163,068	179,519,135

(*) Includes repurchase agreements in money market transactions through counterparty entities of EUR 5,076 million and EUR 9,841 million at 31 December 2017 and 2016, respectively.

At the acquisition date, the business combination with Banco BPI entailed the incorporation of EUR 19,647 million under "Customer deposits".

23.3. Debt securities issued

The detail of this heading in the accompanying balance sheet excluding valuation adjustments is as follows:

Breakdown of debt securities issued

(Thousands of euros)	Outstanding amount	
	31.12.2017	31.12.2016
Mortgage covered bonds	17,555,564	18,555,198
Public sector covered bonds	50,300	50,000
Plain vanilla bonds	3,076,649	1,693,058
Asset-backed securities	2,442,920	2,342,743
Structured notes	447,900	530,000
Promissory notes	14,184	63,687
Preference shares	1,000,000	10,000
Subordinated debt	4,997,837	4,089,661
Total	**29,585,354**	**27,334,347**

Mortgage covered bonds

Details of mortgage covered bond issuances are as follows:

Mortgage covered bonds (1 / 2)

(Thousands of euros) Date		Initial nominal amount in currency	Nominal interest rate	Redemption date	Outstanding amount 31.12.2017	Outstanding amount 31.12.2016
31.10.2003		1,000,000	4.75%	31.10.2018	1,000,000	1,000,000
17.02.2005		2,500,000	3.88%	17.02.2025	2,500,000	2,500,000
09.01.2006		1,000,000	E3M + 0,075	09.01.2018	1,000,000	1,000,000
18.01.2006		2,500,000	3.63%	18.01.2021	2,500,000	2,500,000
28.06.2006		2,000,000	4.25%	26.01.2017	0	2,000,000
28.06.2006		1,000,000	4.50%	26.01.2022	1,000,000	1,000,000
01.11.2006		255,000	Lib 3M	02.02.2037	212,624	241,912
07.02.2007	(1)	1,000,000	E3M	30.03.2017	0	6,380
30.03.2007		227,500	E3M + 0,045	20.03.2017	0	227,500
04.06.2007		2,500,000	4.63%	04.06.2019	2,500,000	2,500,000
12.06.2007	(1)	1,500,000	E3M + 0.1%	30.09.2017	0	13,462
13.07.2007		25,000	E3M + 0,045	20.03.2017	0	25,000
13.06.2008		100,000	5.43%	13.06.2038	100,000	100,000
27.04.2009		1,000,000	E1A + 0.20%	27.06.2019	1,000,000	1,000,000
27.04.2009		390,000	E1A + 0.25%	27.09.2022	390,000	390,000
14.05.2009		175,000	E3M + 1.00%	14.05.2021	175,000	175,000
22.09.2009		150,000	E3M + 1.50%	22.09.2017	0	150,000
07.05.2010		100,000	E3M + 0.95%	07.05.2019	100,000	100,000
21.05.2010	(2)	350,000	E3M + 0.65%	21.05.2025	350,000	
02.07.2010		300,000	E3M + 1.75%	02.07.2018	300,000	300,000
05.08.2010	(2)	600,000	E3M + 0.65%	05.08.2020	600,000	
25.01.2011	(2)	200,000	E3M + 0,471%	28.01.2018	200,000	
02.08.2011		150,000	E3M + 3.85%	02.08.2027	150,000	150,000
25.08.2011	(2)	600,000	E3M + 0.65%	25.08.2021	600,000	
14.11.2011		250,000	4.25%	26.01.2017	0	250,000
16.02.2012		1,000,000	4.00%	16.02.2017	0	1,000,000
07.06.2012		2,000,000	E6M + 3.85%	07.06.2022	2,000,000	2,000,000
07.06.2012		4,000,000	E6M + 3.80%	07.06.2023	1,000,000	1,000,000
07.06.2012		3,500,000	E6M + 3.80%	07.06.2024	2,900,000	2,900,000
07.06.2012		1,000,000	E6M + 3.75%	07.06.2025	1,000,000	1,000,000
19.06.2012		4,250,000	E6M + 3.75%	19.06.2026	3,000,000	3,000,000
03.07.2012		1,000,000	E6M + 4.00%	03.07.2027	1,000,000	1,000,000
17.07.2012		750,000	E6M + 4.25%	17.07.2027	750,000	750,000
17.07.2012		3,000,000	E6M + 4.25%	17.07.2028	2,800,000	2,800,000
26.07.2012		500,000	E6M + 4.70%	26.07.2020	175,000	175,000
22.03.2013		2,000,000	3.00%	22.03.2018	1,000,000	1,000,000
21.03.2014		1,000,000	2.63%	21.03.2024	1,000,000	1,000,000
10.07.2014		1,000,000	E1A + 0.82%	10.07.2024	1,000,000	1,000,000
30.07.2014		300,000	E3M + 0.50%	30.07.2017	0	300,000
27.03.2015		1,000,000	0.63%	27.03.2025	1,000,000	1,000,000
30.03.2015	(2)	1,250,000	E3M + 0.50%	31.03.2025	1,250,000	
07.10.2015	(2)	200,000	E3M + 0.50%	07.10.2022	200,000	
12.11.2015		1,000,000	0.63%	12.11.2020	1,000,000	1,000,000
08.02.2016		1,500,000	1.00%	08.02.2023	1,500,000	1,500,000

Mortgage covered bonds (2 / 2)

(Thousands of euros)

Date		Initial nominal amount in currency	Nominal interest rate	Redemption date	Outstanding amount 31.12.2017	Outstanding amount 31.12.2016
30.05.2016	(2)	500,000	E3M + 0.80%	30.05.2023	500,000	
22.12.2016		4,000,000	E6M + 0.55%	22.12.2022	4,000,000	4,000,000
11.01.2017		1,500,000	1.25%	11.01.2027	1,500,000	
22.02.2017	(2)	700,000	E3M + 1.00%	22.02.2024	700,000	
25.07.2017	(2)	1,750,000	E3M + 0.60%	25.07.2022	1,750,000	
14.07.2017		375,000	1.63%	14.07.2032	375,000	
11.10.2017		3,250,000	E6M + 0.15%	11.10.2023	3,250,000	
11.10.2017		3,250,000	E6M + 0.26%	11.10.2026	3,250,000	
19.10.2017		750,000	E6M + 0.24%	19.10.2025	750,000	
30.10.2017		711,200	Lib 6M+0.59	30.10.2025	593,013	
Mortgage covered bonds					**53,920,637**	**42,054,254**
Own mortgage covered bonds bought					**(36,365,073)**	**(23,499,056)**
Acquired by CaixaBank					(36,247,973)	(23,344,856)
Acquired by Group companies					(117,100)	(154,200)
Total					**17,555,564**	**18,555,198**

(1) Issuances placed on the retail market. The remainder was placed on the institutional market.

(2) Issuances from Banco BPI (see Note 1 - Acquisition of control of Banco BPI).

In accordance with current legislation, CaixaBank expressly assigns the mortgages registered in its name as collateral for the principal and interest of mortgage covered bond issuances.
CaixaBank has registered mortgage covered bonds issued and outstanding which, depending on the counterparty, are recognised under "Deposits from credit institutions" or "Customer deposits" in the accompanying balance sheet (see Notes 23.1 and 23.2).

The degree of collateralisation and overcollateralisation of the mortgage covered bonds issued at 31 December 2017 and 2016 is as follows:

Collateralisation and overcollateralisation

(Thousands of euros)

		31.12.2017	31.12.2016
Non-registered mortgage covered bonds		47,770,637	42,054,255
Registered mortgage covered bonds placed as customer deposits **(Note 23.2)**		3,899,367	4,999,367
Registered mortgage covered bonds issued by credit institutions **(Note 23.1)**		20,000	20,000
Mortgage covered bonds issued	**(A)**	**51,690,004**	**47,073,622**
Total outstanding mortgage loans and credits (*)		121,264,013	127,609,257
Mortgage participations issued		(5,848,560)	(6,578,652)
Mortgage transfer certificates issued		(22,170,892)	(18,880,674)
Mortgage bonds issued			
Portfolio of loan and credit collateral for mortgage covered bonds	**(B)**	**93,244,561**	**102,149,931**
Collateralisation:	**(B)/(A)**	**180%**	**217%**
Overcollateralisation:	**[(B)/(A)]-1**	**80%**	**117%**

(*) Includes on and off-balance sheet portfolio

Public sector covered bonds

Details of public sector covered bond issuances are as follows:

Public sector covered bonds

(Thousands of euros)

Date		Initial nominal amount in currency		Nominal interest rate	Redemption date	Outstanding amount 31.12.2017	31.12.2016
01.02.2012		250,000	€	6,500%	01.02.2017	0	250,000
24.05.2012		500,000	€	4,900%	24.05.2018	500,000	500,000
24.05.2012		500,000	€	5,200%	24.05.2019	500,000	500,000
07.06.2013		1,300,000	€	3,000%	07.06.2018	1,300,000	1,300,000
26.03.2014		1,500,000	€	E6M + 0.95%	26.03.2020	1,500,000	1,500,000
19.06.2015		1,500,000	€	E6M + 0.20%	19.06.2019	1,500,000	1,500,000
19.06.2015		1,500,000	€	E6M + 0.25%	19.06.2021	1,500,000	1,500,000
07.10.2015	(1)	100,000	€	E3M + 0.65%	07.10.2022	100,000	
15.06.2016	(1)	150,000	€	E3M + 0.80%	15.06.2023	150,000	
20.10.2017	(1)	350,000	€	E3M + 0.50%	20.10.2022	350,000	
Public sector covered bonds						**7,400,000**	**7,050,000**
Own public sector covered bonds bought						**(7,349,700)**	**(7,000,000)**
Acquired by CaixaBank						(7,312,200)	(6,962,200)
Acquired by Group companies						(37,500)	(37,800)
Total						**50,300**	**50,000**

(1) Issuances from Banco BPI (see Note 1 - Acquisition of control of Banco BPI).

The public sector covered bonds are issued using as collateral loans and advances to the central government, regional communities, local bodies, autonomous community organisations and dependent public business entities and other such institutions in the European Economic Area.

Plain vanilla bonds

Details of plain vanilla bond issuances are as follows:

Plain vanilla bonds **(1 / 2)**

(Thousands of euros)

Date		Initial nominal amount in currency		Nominal interest rate	Redemption date	Early redemption	Outstanding amount 31.12.2017	31.12.2016
24.01.2007		40,157	€	0.212%	24.01.2022		0	40,019
15.06.2007		30,000	€	2.500%	17.06.2019		30,000	30,000
22.11.2007		100,000	€	E12M + 0.25%	22.11.2027		100,000	100,000
30.01.2013		300,000	€	3.964%	30.01.2018		300,000	300,000
11.04.2013		250,000	€	4.358%	31.10.2019		250,000	250,000
14.05.2013		1,000,000	€	3.125%	14.05.2018		1,000,000	1,000,000
18.10.2013		1,000,000	€	2.500%	18.04.2017		0	1,000,000
10.04.2014	(2)	3,175	€	4.400%	10.04.2018		428	1,256

Plain vanilla bonds (2 /2)

(Thousands of euros)

Date		Initial nominal amount in currency		Nominal interest rate	Redemption date	Early redemption	Outstanding amount 31.12.2017	Outstanding amount 31.12.2016
10.04.2014	(2)	5,525	€	E6M + 3.50%	10.04.2018		691	2,072
12.05.2014	(2)	7,875	€	E6M + 3.50%	10.05.2018		937	2,812
10.06.2014	(2)	3,325	€	3.630%	10.06.2018		442	1,303
10.06.2014	(2)	4,400	€	E6M + 3.00%	10.06.2018		431	1,294
10.06.2014	(2)	6,825	€	E6M + 2.75%	10.06.2018		844	2,533
10.07.2014	(2)	3,400	€	3.609%	10.07.2018		896	1,761
10.07.2014	(2)	10,025	€	E6M + 2.75%	10.07.2018		2,444	5,013
10.07.2014	(2)	4,525	€	E6M + 3.25%	10.07.2023		2,847	3,519
10.08.2014	(2)	3,450	€	3.644%	10.08.2018		910	1,787
10.08.2014	(2)	7,725	€	E6M + 2.75%	10.08.2018		1,931	3,863
10.08.2014	(2)	4,450	€	E6M + 2.75%	10.08.2020		932	1,400
10.09.2014	(2)	6,275	€	E6M + 2.75%	10.09.2018		1,569	3,138
10.09.2014	(2)	5,000	€	E6M + 2.75%	10.09.2020		2,500	3,333
10.10.2014	(2)	4,825	€	E6M + 2.75%	10.10.2018		1,206	2,413
10.10.2014	(2)	11,850	€	E6M + 2.35%	10.10.2020		2,525	3,367
10.10.2014	(2)	5,675	€	E6M + 2.75%	10.10.2020		904	1,283
10.11.2014	(2)	7,950	€	E6M + 2.35%	10.11.2018		1,598	3,410
10.12.2014	(2)	7,550	€	E6M + 2.35%	10.12.2018		1,690	3,380
10.12.2014	(2)	3,300	€	3.191%	10.12.2018		865	1,702
17.05.2017		1,000,000	€	1.125%	17.05.2024		1,000,000	
12.09.2017		1,250,000	€	1.125%	12.01.2023		1,250,000	
Other issuances of	(1)						65,906	
Total issued							**4,022,496**	**2,770,658**
Own plain vanilla bonds bought							**(945,847)**	**(1,077,600)**
Acquired by CaixaBank							(902,747)	(1,015,700)
Acquired by Group companies							(43,100)	(61,900)
Total							**3,076,649**	**1,693,058**

(1) Issuances from Banco BPI (see Note 1 - Acquisition of control of Banco BPI).

(2) ICO issuances for a total amount of EUR 27 million.

Asset-backed securities

The detail of outstanding bonds issued by the securitisation funds placed with third parties at 31 December 2017 and 2016, respectively, is as follows:

Asset-backed securities
(Thousands of euros)

	Outstanding amount	
	31.12.2017	**31.12.2016**
FonCaixa FTGENCAT 3, FTA	32,070	45,380
FonCaixa FTGENCAT 4, FTA	67,326	84,460
FonCaixa FTGENCAT 5, FTA	204,829	245,680
FonCaixa FTGENCAT 6, FTA	152,590	182,044
Valencia Hipotecario 1, FTA	49,514	63,156
Valencia Hipotecario 2, FTA	146,453	173,412
Valencia Hipotecario 3, FTA	165,433	185,414
AyT Hipotecario Mixto II, FTA	13,857	19,736
TDA 22 Mixto, FTH	11,072	11,901
AyT Hipotecario Mixto IV FTA	19,883	23,321
AyT Hipotecario Mixto V FTA	12,118	12,564
AyT Génova Hipotecario II, FTH	74,726	87,472
AyT Génova Hipotecario III, FTH	91,182	106,408
AyT Génova Hipotecario IV, FTH	126,322	147,613
AyT Génova Hipotecario VI, FTH	67,675	77,171
AyT Génova Hipotecario VII, FTH	257,971	295,292
AyT Génova Hipotecario VIII, FTH	271,008	312,154
AyT Génova Hipotecario IX, FTH	240,830	269,565
Douro Mortgages nº 1 (*)	157,362	
Douro Mortgages nº 2 (*)	101,504	
Douro Mortgages nº 3 (*)	219,393	
Adjustment for business combination with Banco BPI	(40,198)	
Total	**2,442,920**	**2,342,743**

(*) Issuances from Banco BPI (see Note 1 - Acquisition of control of Banco BPI).

These issuances are repaid periodically according to the amortisation of the underlying assets.

Structured notes

Details of structured note issuances are as follows:

Structured notes

(Thousands of euros)

Issuance date	Initial nominal amount in currency		Redemption date	Outstanding amount 31.12.2017	Outstanding amount 31.12.2016
17.12.2013	21,600	€	18.12.2017	0	21,600
11.02.2014	53,500	€	13.08.2018	53,500	53,500
13.06.2014	28,300	€	13.06.2019	28,300	28,300
07.08.2014	13,500	€	07.08.2017	0	13,500
07.08.2014	9,400	€	07.08.2019	13,500	9,400
15.10.2014	6,200	€	15.10.2019	6,200	6,200
05.12.2014	8,000	€	05.12.2019	8,000	8,000
16.02.2015	9,000	€	16.02.2017	0	9,000
16.02.2015	3,700	€	17.02.2020	9,000	3,700
01.04.2015	22,000	€	01.04.2020	22,000	22,000
19.05.2015	36,700	€	19.05.2020	36,700	36,700
19.06.2015	15,200	€	19.06.2020	15,200	15,200
31.07.2015	9,900	€	31.07.2020	9,900	9,900
23.10.2015	55,100	€	23.10.2018	55,100	55,100
05.02.2016	38,000	€	05.02.2020	38,000	38,000
18.03.2016	86,400	€	18.03.2019	0	86,400
18.03.2016	40,000	€	18.03.2022	40,000	40,000
06.05.2016	85,000	€	06.05.2022	85,000	85,000
14.10.2016	12,900	€	14.10.2022	12,900	12,900
29.12.2016	11,700	€	31.12.2018	11,700	11,700
08.02.2017	11,200	€	08.02.2019	11,200	
24.04.2017	41,900	€	24.04.2023	41,900	
09.06.2017	11,800	€	09.06.2023	11,800	
10.07.2017	26,100	€	10.01.2020	26,100	
28.07.2017	10,800	€	28.01.2020	10,800	
01.12.2017	7,000	€	01.12.2022	7,000	
Structured notes				**553,800**	**566,100**
Own structured notes bought				**(105,900)**	**(36,100)**
Total				**447,900**	**530,000**

Preference shares

Details of outstanding preference share issuances at 31 December 2017 and 2016 are as follows:

Preference shares

(Thousands of euros)

Issuance date	Maturity	Nominal amount	Nominal Interest rate	Outstanding amount 31.12.2017	Outstanding amount 31.12.2016
December 2007	Perpetual	30,000	E6M + 3.000%	0	30,000
June 2017	Perpetual	1,000,000	6.75%	1,000,000	
Preference shares				**1,000,000**	**30,000**
Own preference shares bought				**0**	**(20,000)**
Total				**1,000,000**	**10,000**

The June 2017 EUR 1,000 million placement of perpetual contingent convertibles (CoCos) exchangeable for new-issue CaixaBank shares (*"Additional Tier 1")* including the option to redeem them early from year seven onward.

The issuance was made at par and remuneration for the preference shares, where payment is subject to conditions and is also discretionary, was set at 6.75% per year for the first seven years. From then on, it will be revised according to the applicable five-year midswap rate (*5-year EUR midswap rate*) plus 649.8 basis points. Under the current accounting framework and considering that payment of this remuneration is discretionary for CaixaBank, and would in any case be payable quarterly in arrears, it would be charged against the Group's available reserves.

The preference shares are perpetual, although they may be redeemed under specific circumstances at the option of CaixaBank and, in all cases, are convertible into ordinary newly-issued shares of the entity if CaixaBank or the CaixaBank Group has a Common Equity Tier 1 ratio (*CET*1), of less than 5.125%, calculated in accordance with European Regulation 575/2013, of 26 June, of the European Parliament and Council, on prudential requirements of credit institutions and investment firms. The conversion price of the preference shares shall be the highest of(i) the volume-weighted daily average price of CaixaBank's shares in the five trading days prior to the day the corresponding conversion is announced, (ii) €2,803 (*Floor Price*) and (iii) the nominal value of CaixaBank's shares at the time of conversion (on the issue date, the par value of the shares is one euro (€1)).

The issuance was placed exclusively with professional investors and the preference shares were listed for trading on the Spanish Fixed Income Market (AIAF).

The European Central Bank has approved these preference shares as eligible *Additional Tier 1* capital for CaixaBank and the CaixaBank Group, in accordance with Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, and with the criteria of the aforementioned Regulation 575/2013.

Subordinated debt

Details of subordinated debt issuances are as follows:

Subordinated debt

(Thousands of euros)		Nominal	Nominal	Outstanding amount	
Issuance date	**Maturity**	**amount**	**interest rate**	**31.12.2017**	**31.12.2016**
01.04.1987 (*)	12.12.2049	14,209	E12M*75%*85%+Var.	14,209	
01.04.1987 (*)	12.12.2049	13,872	E12M*75%*85%+Var.	13,872	
06.09.2007 (*)	Perpetual	60,000	E3M + 1.65%	60,000	
09.02.2012	09.02.2022	2,072,363	4.00%	2,072,363	2,072,363
09.02.2012	09.02.2022	1,301,502	5.00%	0	1,301,502
14.11.2013	14.11.2023	750,000	5.00%	750,000	750,000
15.02.2017	15.02.2027	1,000,000	3.50%	1,000,000	
24.03.2017 (*) (**)	24.03.2027	300,000	E6M + 5.74%	300,000	
07.07.2017	07.07.2042	150,000	4.00%	150,000	
14.07.2017	14.07.2028	1,000,000	2.75%	1,000,000	
Subordinated debt				**5,360,445**	**4,123,865**
Own subordinated debt bought				**(362,608)**	**(34,204)**
Total				**4,997,837**	**4,089,661**

(*) Issuances from Banco BPI (see Note 1 - Acquisition of control of Banco BPI).
(**) Issuance fully subscribed by CaixaBank

Reconciliation of cash flows from/(used in) financing activities

A reconciliation of cash flows from/(used in) financing activities at 31 December 2017 is shown below:

Reconciliation of cash flows from/(used in) financing activities

(Thousands of euros)

		Cash flows		With no effect on cash flows	
	31.12.2016	Collected	Payments	Additions due to business combinations	31.12.2017
Wholesale funding (see Note 3.6.4)	25,637,374	7,875,000	(5,379,299)	557,524	28,690,599
Dividends paid (see Note 6)			(777,126)		
Acquisition/disposal of own equity instruments (see Note 25)		2,828	(208)		
Total		**7,877,828**	**(6,156,633)**		

23.4. Other financial liabilities

The detail of the balance of this heading in the balance sheet is as follows:

Breakdown of other financial liabilities

(Thousands of euros)

	31.12.2017	31.12.2016
Payment obligations	1,710,338	1,528,149
Guarantees received	60,136	24,427
Clearing houses	466,163	346,525
Tax collection accounts	847,419	262,764
Special accounts	619,887	450,787
Other items	470,798	260,780
Total	**4,174,741**	**2,873,432**

At the acquisition date, the business combination with Banco BPI entailed the incorporation of EUR 311 million under "Other financial liabilities".

Payment obligations at 31 December 2017 and 2016 include EUR 357 million and EUR 363 million, respectively, corresponding to contributions and shortfalls pending payment to the Deposit Guarantee fund (see Note 1).

24. Provisions

The changes in 2017 and 2016 in this item and the nature of the provisions recognised in the accompanying balance sheet are as follows:

Changes in provisions - 2017

(Thousands of euros)	Balance at 31.12.2016	Additions due to business combinations (Note 7)	Provisions net of releases charged to income (**)	Other charges (*)	Actuarial (gains)/losses	Amounts used	Transfers and other	Balance at 31.12.2017
Provisions for pensions and other post-employment defined benefit obligations	**2,028,612**	**33,548**	**0**	**30,170**	**38,144**	**(120,265)**	**97,567**	**2,107,776**
Provisions for other long term employee benefits	**972,767**	**3,000**	**463,729**	**280**	**0**	**(213,187)**	**(3,512)**	**1,223,077**
Provisions for pending legal issues and tax litigation	**633,224**	**72,758**	**230,284**	**0**	**0**	**(168,041)**	**34,475**	**802,700**
Legal contingencies	343,533	9,782	220,857	0	0	(99,551)	29,515	504,136
Tax litigation	289,691	62,976	9,427	0	0	(68,490)	4,960	298,564
Provisions for commitments and guarantees given	**228,553**	**83,394**	**50,012**	**0**	**0**	**(8)**	**(5,024)**	**356,927**
Country risk allowance	8,703	0	0	0	0	0	0	8,703
Allowance for identified losses	219,850	83,394	50,012	0	0	(8)	(5,024)	348,224
Contingent liabilities	*187,553*	*83,394*	*27,880*	*0*	*0*	*0*	*(5,033)*	*293,794*
Contingent commitments	*32,297*		*22,132*	*0*	*0*	*(8)*	*9*	*54,430*
Other provisions	**867,115**	**4,735**	**17,623**	**106,400**	**0**	**(370,949)**	**(114,463)**	**510,461**
Losses from agreements not formalised and other risks	807,475	4,735	45,842	0	0	(357,528)	(11,366)	489,158
Ongoing legal proceedings	17,763		0	0	0	0	(17,063)	700
Other	41,877		(28,219)	106,400	0	(13,421)	(86,034)	20,603
Total provisions	**4,730,271**	**197,435**	**761,648**	**136,850**	**38,144**	**(872,450)**	**9,043**	**5,000,941**

(*) Interest cost of pension fund (Note 30)	35,431
Staff expenses	101,419
Total other provisions	136,850

(**) Of which:

(Thousands of euros)	Provisions for legal contingencies	Provisions for taxes	Other provisions
Allowances recognised in profit or loss	335,651	15,541	95,644
Releases charged to profit or loss	(114,794)	(6,114)	(78,022)
Total	**220,857**	**9,427**	**17,623**

Changes in provisions - 2016

(Thousands of euros)

	Balance at 31.12.2015	Additions due to business combinations (Note 7)	Provisions net of releases charged to income (**)	Other charges (*)	Actuarial (gains)/losses	Amounts used	Transfers and other	Balance at 31.12.2016
Provisions for pensions and other post-employment defined benefit obligations	**1,958,334**		**0**	**44,180**	**114,673**	**(110,367)**	**21,792**	**2,028,612**
Provisions for other long term employee benefits	**900,311**		**161,250**	**124,069**	**0**	**(209,621)**	**(3,242)**	**972,767**
Provisions for pending legal issues and tax litigation	**514,206**	**0**	**335,765**	**0**	**0**	**(220,503)**	**3,756**	**633,224**
Legal contingencies	169,742		235,091	0	0	(65,799)	4,499	343,533
Tax litigation	344,464		100,674	0	0	(154,704)	(743)	289,691
Provisions for commitments and guarantees given	**381,477**	**0**	**(136,862)**	**0**	**0**	**0**	**(16,062)**	**228,553**
Country risk allowance	7,278		1,425					8,703
Allowance for identified losses	374,199	0	(138,287)	0	0	0	(16,062)	219,850
Contingent liabilities	*341,513*		*(154,302)*	*0*	*0*	*0*	*342*	*187,553*
Contingent commitments	*32,686*		*16,015*	*0*	*0*	*0*	*(16,404)*	*32,297*
Other provisions	**843,412**	**0**	**126,379**	**0**	**0**	**(104,540)**	**1,864**	**867,115**
Losses from agreements not formalised and other risks	775,218		91,210	0	0	(60,536)	1,583	807,475
Ongoing legal proceedings	19,633		11,643	0	0	(13,388)	(125)	17,763
Other	48,561		23,526	0	0	(30,616)	406	41,877
Total provisions	**4,597,740**	**0**	**486,532**	**168,249**	**114,673**	**(645,031)**	**8,108**	**4,730,271**

(*) Interest cost of pension fund (Note 30)	45,186
Staff expenses	123,063
Total provisions	168,249

(**) Of which:

(Thousands of euros)	Provisions for legal contingencies	Provisions for taxes	Other provisions
Allowances recognised in	276,598	102,081	181,780
Releases charged to profit or	(41,507)	(1,407)	(55,401)
Total	**235,091**	**100,674**	**126,379**

24.1. Pensions and other post-employment defined benefit obligations

Provisions for pensions and similar obligations – Defined benefit post-employment plans

The CaixaBank Group has undertakings with certain employees or their right holders to supplement public social security benefits for retirement, permanent disability, death of spouse or death of parents. These obligations were basically assumed by CaixaBank and Banco BPI.

At 31 December 2017 and 2016, details of the present value of the undertakings assumed by the CaixaBank Group regarding post-employment benefits pursuant to the form in which the commitments are covered and the fair value of the plan assets earmarked to cover these undertakings are as follows:

Breakdown of the present value of post-employment benefit obligations

(Thousands of euros)

	31.12.2017	31.12.2016
Present value of obligations	**3,710,841**	**2,103,959**
Vested obligations	2,113,061	2,018,114
Non-vested obligations	35,317	83,900
Obligations with Group companies	1,562,463	1,945
Less:		
Fair value of plan assets	1,610,066	75,347
Other assets **(Note 21)**	(7,001)	0
Provisions - Pension funds	**2,107,776**	**2,028,612**

A reconciliation of the opening and closing balances of the present value of the liability (asset) for defined benefit post-employment benefits are as follows:

2017

(Thousands of euros)

	Defined benefit obligations	Fair value of plan assets	Other assets	Net (asset)/liability for defined benefit obligations
Opening balance	**2,103,959**	**75,347**	**0**	**2,028,612**
Included in profit or loss				
Service cost for the current year	(3,168)			(3,168)
Interest cost (income)	64,626	31,288		33,338
Components of cost of defined benefit recognised in profit or loss	**61,458**	**31,288**	**0**	**30,170**
Revaluations included in the statement of other comprehensive income				
Actuarial (gains)/losses arising from changes in financial assumptions	174,939	136,795		38,144
Components of cost of defined benefit recognised in equity	**174,939**	**136,795**	**0**	**38,144**
Other				
Plan payments	(121,866)	(1,601)		(120,265)
Settlements	(40,271)	(36,255)		(4,016)
Additions due to business combinations **(Note 7)**	1,464,359	1,430,811		33,548
Transactions	68,263	(26,319)	(7,001)	101,583
Total others	**1,370,485**	**1,366,636**	**(7,001)**	**10,850**
Closing balance	**3,710,841**	**1,610,066**	**(7,001)**	**2,107,776**

"Settlements" relates mainly to certain arrangements (with unrelated parties) considered to date as defined benefit obligations which, due to constant vesting of benefits, were reconsidered as defined contribution obligations.

2016

(Thousands of euros)	Defined benefit obligations	Fair value of plan assets	Other assets	Net (asset)/liability for defined benefit obligations
Opening balance	**1,982,663**	**29,578**	**(5,249)**	**1,958,334**
Included in profit or loss				
Service cost for the current year	2,102			2,102
Interest cost (income)	44,163	2,085		42,078
Components of cost of defined benefit recognised in profit or loss	**46,265**	**2,085**	**0**	**44,180**
Revaluations included in the statement of other comprehensive income				
Actuarial (gains)/losses arising from changes in financial assumptions	112,417	(283)	(1,973)	114,673
Components of cost of defined benefit recognised in equity	**112,417**	**(283)**	**(1,973)**	**114,673**
Other				
Plan payments	(111,472)	(1,105)		(110,367)
Settlements	(16,996)	(18,640)		1,644
Transactions	91,082	63,712	7,222	20,148
Total others	**(37,386)**	**43,967**	**7,222**	**(88,575)**
Closing balance	**2,103,959**	**75,347**	**0**	**2,028,612**

1% of CaixaBank's defined-benefit post-employment benefit obligations with serving and former employees is covered with insurance contracts covering the obligations. These obligations are covered with insurance policies. Therefore, the Entity is not exposed to unusual market risks, nor does it need to apply asset-liability matching strategies or longevity swaps. The fair value of plan assets at the year-end corresponds to the insurance policies of companies not belonging to the Group. Asset-liability matching techniques are not applied to the rest of CaixaBank's defined-benefit post-employment benefit obligations as there are no qualifying plan assets for them. Meanwhile, BPI has assumed all the obligations externalised in the "Fundo de Pensoes Banco BPI" pension fund, and recognises the present value of the obligations, net of the fair value of plan assets.

Most of CaixaBank's obligations arise from the "Pensions Caixa 30" Pension Fund, the CaixaBank employee pension plan, which mostly covers its risks in Group entities. The Entity has a duty to oversee the plan, which it exercises through its membership of the plan's Control Committee. For insurance contracts not taken out by the pension plan, but with third parties outside the Group, CaixaBank is the policyholder, and the contracts are managed by each insurance company, which also assumes the risks.

The value of defined benefit obligations was calculated using the following criteria:

a) The "projected unit credit" method has been used, which considers each year of service as giving rise to one additional unit of benefit entitlement and measures each unit separately.

b) The actuarial assumptions used are unbiased and mutually compatible. The main assumptions used in the calculations were as follows:

Actuarial assumptions

	2017	2016
Long-term discount rate (1)	1.66%	1.68%
Short-term discount rate (1)	0.12%	0.14%
Mortality tables	PERM-F/2000 - P	PERM-F/2000 - P
Annual pension review rate (2)	0% - 2%	0% - 2%
Annual cumulative CPI	1.2% 2017, 1.8% 2018, 1.8% 2019 and onwards	1.5% 2017 and onwards
Annual salary increase rate	1.75% 2017; 2% 2018; CPI + 0.5% 2019 and onwards	1.75% 2017; 2% 2018; CPI + 0.5% 2019 and onwards

(1) Rate obtained by using a rate curve based on high-rated corporate bonds, with the same currency and terms as the commitments assumed.

(2) Depending on each obligation.

At 31 December 2017, BPI had a net defined post-employment benefit asset of EUR 7 million. The actuarial assumptions used to calculate this net obligation are as follows:

- Discount rate of 2.00%
- Annual pension review rate: 0.5%
- Annual salary increase rate: [1-2]%
- Mortality tables for males: TV 88/90
- Mortality tables for females: TV 88/90 – 3 years

c) The estimated retirement age of each employee is the first at which the employee has the right to retire or the agreed age, as applicable.

Reasonably possible changes at the year-end in one of the key assumptions, holding all other assumptions constant, would have the following impact on the value of the obligations at the year-end:

2017

	Defined benefit obligations	
	Increase	Decrease
Discount rate (0.5%)	(127,752)	140,786
Annual pension review rate (0.5%)	107,388	(97,324)

Changes in the value of the obligations presented in the sensitivity analyses for 2017 and 2016 have been calculated using the 'projected unit credit method', the same method used to calculate the value of defined benefit obligations. For the sensitivity analysis the calculation of the value of the obligations is replicated, changing the specific variable and maintaining the remaining actuarial assumptions unchanged. One drawback of this method is that it is unlikely that a change will occur in one variable alone as some of the variables may be correlated.

No changes in the methods and assumptions used to prepare the sensitivity analysis were made in 2017 compared to the previous year.

The fair value of the insurance contracts linked to pensions and the fair value of the plan assets were calculated taking into account the value of the future payments guaranteed discounted at the discount rate, given that the expected flows of payments guaranteed by the insurance company with which the contracts are held are matched to the future estimated flows of the obligations. Therefore, reasonably possible changes at the year-end in the discount rate assumed would have the same impact on the fair value of the insurance contracts linked to pensions and the fair value of the plan assets.

The Group estimates that contributions to defined benefit post-employment plans for 2018 will be similar to the amount in 2017.

The average weighted duration of defined-benefit obligations at the end of the year was 12.2 years. Estimated payments of post-employment benefits for the various defined benefit plans for the next 10 years are as follows:

Estimated payments of post-employment benefits

(Thousands of euros)

	2018	2019	2020	2021	2022	2023-2027
Estimated payments of post-employment benefits	160,316	152,647	145,569	137,867	129,504	567,913

24.2. Provisions for other long term employee benefits and termination benefits

The CaixaBank Group has pension funds covering the obligations assumed under its early retirement schemes. The funds cover the obligations with personnel who retire early – with regard to salaries and other welfare charges – from the date of early retirement to their actual retirement date. Funds are also in place covering obligations with personnel who are partially retired, and obligations assumed in relation to length of service bonuses and other obligations with existing personnel.

On 17 July 2014, a new labour agreement was signed under which CaixaBank could allocate specific amounts in 2014 to the employee restructuring plan. The associated cost of this labour agreement amounted to EUR 182 million, all intended for employees born before 1 January 1958. These retirements took place over the course of 2015.

A labour restructuring agreement was reached in the first half of 2015 with trade union representatives. The deal envisages an adjustment in the workforce coming from Barclays Bank, affecting a total of 968 individuals of the 975 initially covered by the agreement, through voluntary redundancies, repostings in Group companies, internal reassignments and compulsory redundancies. The associated extraordinary restructuring cost was recognised under this item in 2015 and amounted to EUR 187 million.

On 29 June 2015, CaixaBank and trade union representatives signed a new labour agreement to set out a raft of measures aimed at restructuring and rebalancing the existing geographical distribution of the workforce and the associated costs. The plan affected 700 people (voluntary redundancies). The restructuring cost was EUR 284 million, which was recognised under this Fund in 2015.

CaixaBank approved a paid early retirement scheme on 16 April 2016. The scheme targeted individuals born before 1 January 1959 and affected 371 people at a cost of EUR 160 million, recognised under this heading.

On 29 July 2016, CaixaBank and trade union representatives signed a labour agreement designed to optimise the geographical distribution of the workforce. The agreement affected 386 employees, for a cost of EUR 121 million.

On 10 January 2017, a paid early retirement scheme was launched for employees born between 1 March 1953 and 31 December 1959. A total of 350 people accepted the plan, with a cost of EUR 152 million.

On 19 May 2017, a paid early retirement scheme was completed for employees born before 1 January 1962. A total of 610 people accepted the plan, with a cost of EUR 303 million.

At 31 December 2017 and 2016, the present value of these obligations is as follows:

Breakdown of the present value of obligations

(Thousands of euros)

	31.12.2017	31.12.2016
Present value of obligations	**1,223,077**	**972,767**
With pre-retired personnel	730,876	411,852
Termination benefits	252,850	272,021
Supplementary guarantees for partial retirement programme and special agreements	122,059	159,826
Length of service bonuses and other	55,975	55,382
Other commitments from Banca Cívica and Banco de Valencia		9,304
Other commitments deriving from Barclays Bank, SAU.	60,796	63,916
Other obligations of Group companies	521	466
Provisions for pensions and similar obligations	**1,223,077**	**972,767**

A reconciliation of the opening and closing balances of the present value of the long-term defined benefit obligations are as follows:

Reconciliation of balances of other long term employee benefits

(Thousands of euros)

	Net (asset)/liability for defined benefit obligations	
	2017	**2016**
Opening balance	**972,767**	**900,311**
Included in profit or loss		
Service cost for the current year	(2,320)	
Past service cost	471,592	283,216
Interest cost (income)	2,602	3,133
Revaluations (gains)/losses	(7,865)	(1,030)
Components of cost of defined benefit recognised in profit or loss	**464,009**	**285,319**
Other		
Plan contributions		
Plan payments	(213,187)	(209,621)
Additions due to business combinations (**Note 7**)	3,000	
Transactions	(3,512)	(3,242)
Total others	**(213,699)**	**(212,863)**
Closing balance	**1,223,077**	**972,767**

24.3. Provisions for pending legal issues and tax litigation

Provisions for pending legal issues

CaixaBank and the other Group companies are subject to claims. Therefore, they are party to certain legal proceedings arising from the normal course of their business, including claims in connection with lending activities, relationships with employees and other commercial or tax matters.

The outcome of court proceedings is inherently uncertain.

Based on available information, the CaixaBank Group considers that at 31 December 2017 and 2016, it had reliably estimated the obligations arising from each proceeding and had recognised, where appropriate, sufficient provisions to reasonably cover the liabilities that may arise as a result of these tax and legal situations. It also considers that any responsibility arising from these proceedings will not, as a whole, have a material adverse effect on the Group's businesses, financial position or results of operations.

Provisions for taxes

The detail of "Provisions – Pending tax litigation" in the balance sheet at 31 December 2017 and 2016 are as follows:

Provisions for taxes

(Thousands of euros)

	31.12.2017	**31.12.2016**
Income tax assessments for years 2004 to 2006 **(Note 26)**	33,171	33,171
Income tax assessments for years 2007 to 2009 **(Note 26)**	11,533	11,354
Income tax assessments for years 2010 to 2012 **(Note 26)**	14,758	
Tax on deposits	53,083	116,131
Other	186,019	129,035
Total	**298,564**	**289,691**

24.4. Provisions for commitments and guarantees given

This heading includes the provisions for credit risk of the guarantees and contingent commitments given detailed in Note 27.

24.5. Other provisions

The main provisions recognised under "Provisions – Other provisions" are as follows:

Losses from agreements not formalised and other risks

Other provisions includes the estimate of present obligations that could give rise to a loss which are considered likely to occur. Given the nature of these obligations, the expected timing of outflows of resources embodying economic benefits, should they arise, is unknown.

"Other provisions" also comprises provisions made upon elimination of the floor clauses existing in certain mortgage contracts within the Group. In 2015 and 2016, the Group recognised total provisions of EUR 625 million (EUR 515 million and EUR 110 million respectively) to cover the reasonable estimate of the disbursements that could derive from this matter. That estimate took into account the status of the process and the uncertainty surrounding the matter, and was verified by an independent expert.

In 2017, in accordance with the provisions of Royal Decree-Law 1/2017, of 20 January, on urgent consumer protection measures in connection with floor clauses, the CaixaBank Group implemented a code of best practices, creating a specialised department or service to swiftly handle claims filed in relation to this Royal Decree-Law, and thereby attend and provide responses to its customers within three months. The established procedure has been activated. Claims are still being reviewed and customers are being informed of the decisions made and disbursements are made when applicable. The "Amounts used" total includes, among others, EUR 241 million of disbursements related to claims of Royal Decree-Law 1/2017.

Ongoing legal proceedings

The unit value of the provision covering the obligations that may derive from the various ongoing legal proceedings is not material at 31 December 2017. Given the nature of these obligations, the expected timing of outflows of resources embodying economic benefits, should they arise, is unknown.

25. Equity

The movement in equity in 2017 and 2016 is shown in the consolidated statement of total changes in equity. The following sections provide key data on certain equity items during the year.

25.1. Shareholders' equity

Share capital

CaixaBank's share capital at 31 December 2017 consisted of 5,981,438,031 fully subscribed and paid up shares. All the shares are in book-entry form, with a par value of EUR 1 each. There were no changes in share capital in 2017.

CaixaBank's shares are traded on the four official stock exchanges in Spain and on the continuous electronic trading system, forming part of the Ibex-35. The share price at 29 December 2017 was EUR 3,889 (EUR 3,140 at 31 December 2016).

Retained earnings, revaluation reserves and other reserves

The detail of "Retained earnings", "Revaluation reserves" and "Other reserves" at 31 December 2017 and 2016 is as follows

:

Detail of retained earnings and other reserves

(Thousands of euros)

	31.12.2017	31.12.2016
Reserves attributable to the parent company of the CaixaBank Group	10,387,088	8,892,437
Legal reserve	*1,196,288*	*1,164,798*
Restricted reserves for financing the acquisition of treasury shares	*3,452*	*6,732*
Other restricted reserves	*508,798*	*508,801*
Unrestricted reserves	*1,225,291*	*836,820*
Other consolidation reserves assigned to the Parent	*7,453,259*	*6,375,286*
Reserves of fully-consolidated subsidiaries (*)	(5,813,032)	(4,875,280)
Reserves of companies accounted for using the equity method (**)	351,582	505,437
Total	**4,925,638**	**4,522,594**

(*) Most of the negative reserves related to losses at BuildingCenter, SAU

(**) Reserves generated using the equity method primarily correspond to SegurCaixa Adeslas, SA de Seguros Generales y Reaseguros and Repsol, SA.

Legal reserve

According to the restated text of the Corporate Enterprises Act, companies must earmark an amount equal to 10% of profit for the year for the legal reserve until such reserve represents at least 20% of capital. The legal reserve may not be used to offset losses unless it exceeds 20% of the capital and no other sufficient reserves are available for such purpose.

The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the balance of share capital after the increase.

In 2017, this reserve increased by EUR 31,490 thousand following the appropriation of 2016 profit, whereby the legal reserve reached an amount equal to 20% of share capital.

Restricted reserves

Restricted reserves at 31 December 2017 included EUR 3,452 thousand relating mainly to finance provided to customers to acquire shares, and EUR 508,736 thousand relate to the amortisation of goodwill generated on the acquisitions of Morgan Stanley, Bankpime and Banca Cívica.

Other equity instruments

This item includes the accrued portion of the value of shares included in variable share-based remuneration plans not delivered, which at 31 December 2017 stood at EUR 10,054 (EUR 7,499 thousand at 31 December 2016).

Treasury shares

Changes in treasury shares during 2017 and 2016 are as follows:

Changes in treasury shares - 2017

(Thousands of euros)

	2016	Acquisitions and other	Disposals and other	2017
Number of treasury shares	4,335,865	59,634	(829,540)	3,565,959
% of share capital (*)	0.072%	0.001%	(0.014%)	0.060%
Cost / Sale	14,339	208	(2,794)	11,753

(*) Percentage calculated on the basis of the total number of CaixaBank shares at 31 December 2017

Changes in treasury shares - 2016

(Thousands of euros)

	2015	Acquisitions and other	Disposals and other	2016
Number of treasury shares	5,150,471	585,037,348	(585,851,954)	4,335,865
% of share capital (*)	0.088%	9.781%	(9.795%)	0.072%
Cost / Sale	19,713	2,008,803	(2,014,177)	14,339

(*) Percentage calculated on the basis of the total number of CaixaBank shares at 31 December 2016

In 2017, treasury share transactions generated net gains of EUR 34 thousand, recognised under "Other reserves - Unrestricted reserves".

Additionally, at 31 December 2017 and 2016, the number of treasury shares accepted as financial guarantees given by the Group and treasury shares owned by third parties and managed by a Group company were as follows:

Treasury shares accepted as financial guarantees and owned by third parties

(thousands of shares / thousands of euros)

	Treasury shares accepted as financial guarantees		Treasury shares accepted owned by third parties managed by the Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Number of treasury shares	11,807	16,179	12,088	24,041
% of share capital (*)	0.197%	0.270%	0.202%	0.402%
Nominal amount	11,807	16,179	12,088	24,041

25.2. Accumulated other comprehensive income

This heading in the consolidated balance sheet includes the amount, net of the related tax effect, of the differences between the market value and acquisition cost (net gains/losses) of assets classified as available for sale. These differences are recognised in the statement of profit or loss when the assets that give rise to them are sold or when there is objective evidence of impairment.

The changes to this heading in 2017 and 2016 were as follows:

31.12.2017

(Thousands of euros)	Balance at 31.12.2016	Amounts transferred to the statement of profit or loss (after tax)	Amounts transferred to reserves	Deferred tax assets/liabilities	Valuation gains/(losses) (before tax)	Balance at 31.12.2017
Attributable to the Group						
Available-for-sale financial assets	(26,494)	46,295	0	3,120	(39,291)	(16,370)
Equity instruments	(393,309)	94,740	0	39,546	(165,306)	(424,329)
Debt securities **(Note 13)**	366,815	(48,445)	0	(36,426)	126,015	407,959
Cash flow hedges	25,316	(40,057)	0	(10,510)	41,332	16,081
Exchange differences	2,332	0	0	113	71,754	74,199
Entities accounted for using the equity method	125,467	0	0	0	(154,011)	(28,544)
Actuarial gains/(losses) on pension plans (*)	0	0	(7,420)	0	7,420	0
Total	**126,621**	**6,238**	**(7,420)**	**(7,277)**	**(72,796)**	**45,366**

(*) Actuarial (gains)/losses **(Note 24.1)**	117,318
Other actuarial gains/losses	(106,718)
Tax effect	(3,180)
	7,420

31.12.2016

(Thousands of euros)	Balance at 31.12.2015	Amounts transferred to the statement of profit or loss (after tax)	Amounts transferred to reserves	Deferred tax assets/liabilities (*)	Valuation gains/(losses) (before tax)	Balance at 31.12.2016
Attributable to the Group						
Available-for-sale financial assets	816,586	(399,665)	0	307	(443,722)	(26,494)
Equity instruments	54,809	25,603		67,170	(540,891)	(393,309)
Debt securities **(Note 13)**	761,777	(425,268)		(66,863)	97,169	366,815
Cash flow hedges	85,622	(17,289)		24,987	(68,004)	25,316
Exchange differences	378,102	(244,661)		(635)	(130,474)	2,332
Entities accounted for using the equity method	199,980				(74,513)	125,467
Actuarial gains/(losses) on pension plans	0		78,889		(78,889)	0
Total	**1,480,290**	**(661,615)**	**78,889**	**24,659**	**(795,602)**	**126,621**

(*) Actuarial (gains)/losses (**Note 24.1**)	(114,673)
Other actuarial gains/losses	1,382
Tax effect	34,402
	(78,889)

25.3 Minority interests

"Minority interests" represents the portion of equity of subsidiaries attributable to equity instruments not owned, directly or indirectly, by CaixaBank, including the share of profit for the period.

The breakdown of "Minority interests" in the consolidated balance sheet at 31 December 2017 and 2016 is as follows:

Details of minority interests

(Thousands of euros)

	31.12.2017	31.12.2016
Reserves of minority interests	373,799	21,741
Profit/(loss) attributable to minority interests	34,461	7,931
Interim dividends paid		(600)
Valuation adjustments attributable to minority interests	25,760	50
Total	**434,020**	**29,122**

At the acquisition date, the business combination with Banco BPI entailed the inclusion of EUR 339 million under this heading (see Note 7).

The following table shows the CaixaBank Group subsidiaries in which certain minority shareholders held a stake of 10% or more at 31 December 2017 and 2016.

Subsidiaries with minority shareholders with stakes greater than 10%

		Minority interest	
Subsidiary	**Minority shareholder**	**31.12.2017**	**31.12.2016**
Inversiones Inmobiliarias Teguise Resort, SL	Metrópolis Inmobiliarias y Restauraciones, SL	40%	40%
Grupo Riberebro Integral, SL	Inversiones Cuevas Villoslada Hermanos SL	10%	10%
	Hermanos Ayensa Ambrosi, SL	10%	10%
	Javier Sánchez Muro	10%	10%
	Luis Sánchez Muro	10%	10%
CaixaBank Electronic Money, SA	Erste Group Bank AG	10%	10%
Telefonica Consumer Finance, EFC, SA	Telefonica, SA	50%	50%

26. Tax position

Tax consolidation

In accordance with prevailing tax legislation, the consolidated tax group includes CaixaBank, as the parent, and subsidiaries that comply with the requirements for inclusion under regulations. The other Group companies file taxes in accordance with applicable tax legislation.

Furthermore, CaixaBank and some its subsidiaries belong to a consolidated tax group for value added tax (VAT) since 2008, whose parent company has been CaixaBank since 1 January 2016.

Years open for review

The inspections for 2010 to 2012 were completed this year, with no material impact. Assessments signed in agreement were paid, while those signed under protest, which are still awaiting a ruling, have been duly provisioned for the amount of EUR 14,758 thousand.

The main tax proceedings ongoing at the close of the year are as follows:

- In 2011, the tax authorities began an inspection of ”la Caixa” for the main taxes applicable between 2007 and 2009. This inspection was completed in 2013 and assessments were issued, mainly in relation to temporary differences arising from divergences between accounting and tax standards.

  Provisions of EUR 11,533 thousand have been allocated for assessments signed under protest (see Note 24.3) for which appeals have been lodged.

  - Income tax assessments are as yet unresolved by the National High Court (*Audiencia Nacional*).
  - During 2017, the National High Court issued a ruling partially upholding the appeals lodged against VAT assessments, which has been contested before the Supreme Court.

- In 2008, the tax authorities began an inspection of ”la Caixa” for the main taxes applicable between 2004 and 2006. This inspection was completed in 2010 and assessments were issued, mainly in relation to temporary differences arising from divergences between accounting and tax standards.

  The Entity has allocated provisions for EUR 33,171 thousand to cover the maximum contingencies that may arise in relation to income tax and VAT assessments signed under protest (see Note 24.3). During 2017, the National High Court issued rulings partially upholding the appeals lodged against VAT and income tax assessments, which have been contested before the Supreme Court.

Accordingly, CaixaBank has the year 2013 and following open for review for the main taxes applicable. Furthermore, as the successor of Banca Cívica and the savings banks that formerly contributed their assets comprising the financial activity to Banca Cívica, Banco de Valencia and Barclays Bank, these institutions are open to inspection for the main taxes applicable to them from 2010 and beyond.

The various interpretations which can be made of the tax regulations applicable to transactions carried out by financial institutions may give rise to certain contingent tax liabilities that cannot be objectively quantified. The Entity's management considers that the provision under “Provisions - Pending legal issues and tax litigation” in the balance sheet is sufficient to cover these contingent liabilities.

Tax credit for reinvestment of extraordinary profits

Appendix 4 presents the main magnitudes, pursuant to Article 42 of the restated text of the Corporation Tax Law approved by Royal Decree-Law 4/2004, of 5 March, and Transitional provision twenty-four of Corporation Tax Law 27/2014.

Accounting revaluations

In accordance with Transitional Provision One of Bank of Spain Circular 4/2004, whereby the cost of unrestricted tangible assets may be their fair value at 1 January 2004, "la Caixa" and the other credit institutions absorbed by CaixaBank elected this option and restated the value of their property, plant and equipment for own use on the basis of the appraisals performed by appraisers approved by the Bank of Spain.

Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognised in the consolidated statements of profit or loss for 2017 and 2016 to the corresponding pre-tax profit for these years applying the prevailing tax rate in Spain is as follows:

Reconciliation of accounting profit to taxable profit

(Thousands of euros)

	2017	2016
Profit/(loss) before tax (A)	**2,097,983**	**1,538,062**
Adjustments to profit/(loss)		
Return on equity instruments	(98,530)	(187,988)
Share of profit/(loss) of entities accounted for using the equity method	(526,153)	(628,544)
Negative goodwill (*)	(256,151)	(66,925)
Taxable income/(tax loss)	**1,217,149**	**654,605**
Tax payable (taxable income * 30%)	**(365,145)**	**(196,381)**
Adjustments:	**(28,051)**	**(133,409)**
Changes in taxation of sales and gains/(losses) of portfolio assets	(5,463)	(47,349)
Changes in portfolio provisions excluding tax effect and other non-deductible expenses	(17,944)	(3,352)
Change in deferred tax assets and liabilities	17,389	(83,590)
Recognition of deferred tax assets and liabilities	956	4,300
Effect on tax expense of jurisdictions with different tax rates	3,609	
Withholdings from foreign dividends and other	(26,598)	(3,418)
Income tax (B)	**(377,628)**	**(482,183)**
Income tax for the year (revenue/(expense)) (D)	(393,196)	(329,790)
Tax rate (**)	32.3%	50.4%
Reform of Corporation Tax Law 3/2016		(148,923)
Income tax adjustments (2016 / 2015)	15,568	(3,470)
Profit/(loss) after tax (A) + (B)	**1,720,355**	**1,055,879**

(*) Badwill from the business combinations adjusted for measuring the pre-existing stake at fair value (see Notes 7 and 39).

(**) The effective tax rate is calculated by dividing income tax for the year by taxable income

Practically all of CaixaBank's income and expense is taxed at the general rate of 30% in the case of the businesses in Spain, and around 29% for the businesses in Portugal. However, some income is recognised in the statement of profit or loss that is to a large extent exempt from tax for CaixaBank because it has already been taxed at source. This includes dividends from investees and the share of profits of entities accounted for using the equity method. In addition, the income from the business combination is not included in taxable income/(tax loss).

Tax recognised in equity

In addition to the income tax recognised in the statement of profit or loss, in 2017 and 2016, CaixaBank recognised certain valuation adjustments in its equity net of tax. This tax effect was also recognised as a deferred tax asset or liability (see Note 25.2).

Deferred tax assets/liabilities

Pursuant to current tax legislation, in 2017 and 2016 there were certain temporary differences which must be taken into account when quantifying the corresponding income tax expenditure. The sources and movements in deferred tax assets/liabilities recognised in the balance sheet at 31 December 2017 and 2016 are as follows:

Deferred tax assets

(Thousands of euros)

	31.12.2016	Regularisations	Additions due to business combinations (Note 7)	Increases due to movements in the year	Decreases due to movements in the year	31.12.2017
Pension plan contributions **(Note 24)**	470,808	24,655	96,450		(8,463)	583,450
Credit loss allowances	4,103,383	75,549	122,598		(56,880)	4,244,650
Early retirement obligations **(Note 24)**	42,510	(370)			(14,675)	27,465
Provision for foreclosure property	1,185,578	25,305		286	(176,157)	1,035,012
Origination fees for loans and receivables	10,744	(2,119)			(222)	8,403
Unused tax credits	1,220,909	(23,067)			(134,817)	1,063,025
Tax loss carryforwards	1,178,959	348,414	29,382	43,077	(8,823)	1,591,009
Tax assets for adjustments to equity	32,755		15,336	8,034		56,125
Other deferred tax assets arising on business combinations (1)	50,090		163,933		(19,185)	194,838
Other (2)	1,346,927	75,370	172,724	500,114	(644,271)	1,450,864
Total	**9,642,663**	**523,737**	**600,423**	**551,511**	**(1,063,493)**	**10,254,841**

(1) Includes deferred tax assets from negative fair value adjustments to assets and liabilities of Banco Cívica, Banco de Valencia, Barclays and BPI, except those from adjustments to loans and receivables.

(2) Includes, inter alia, deferred tax assets deriving from impairment losses on investments, eliminations from intra-group operations and those corresponding to different provisions, and other adjustments due to differences between accounting and tax rules.

The Group does not have any significant unrecognised deferred tax assets.

Estimated monetisable deferred tax assets in accordance with Royal Decree-Law 14/2013, of 29 November, amount to EUR 5,891 million.

The Group assesses the recoverable amount of its recognised tax assets, whether monetisable or not, every six months.

To do so, it has developed a dynamic model that analyses the recoverability of the tax assets recognised for accounting purposes and those generated in subsequent periods up to the date covered by the model. The purpose of the model is to verify that the 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 main tax assets recognised in the balance sheet.

The Group 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 contracted by CaixaBank subsequently revises and validates the reasonableness of the working tax assumptions used therein.

At 31 December 2017, in light of the results of the model and back tests performed, it is estimated that the Group has sufficient options to recover the deferred tax assets.

In the current interest-rate environment, the nominal value of deferred tax assets does not different significantly from present value.

Details of deferred tax liabilities are as follows:

Deferred tax liabilities

(Thousands of euros)

	31.12.2016	Regularisations	Additions due to business combinations (Note 7)	Increases due to movements in the year	Decreases due to movements in the year	31.12.2017
Revaluation of property on first time	242,038	(89)			(6,181)	235,768
Tax liabilities on measurement of available-for-sale financial assets	223,172		6,201		(36,968)	192,405
Tax liabilities relating to intangible assets generated in business combinations	57,463				(14,189)	43,274
Tax liabilities relating to an extraordinary allowance to the mathematical provision	271,329				(67,492)	203,837
Other tax liabilities arising on business combinations in the period (1)	250,791		61,366		(32,486)	279,671
Other	141,198	4,673	52,259	57,220	(16,179)	239,171
Total	**1,185,991**	**4,584**	**119,826**	**57,220**	**(173,495)**	**1,194,126**

(1) Includes mainly deferred tax liabilities from positive fair value adjustments to assets and liabilities acquired in business combinations.

27. Guarantees and contingent commitments given

The detail of "Guarantees and contingent commitments given" included as memorandum items in the balance sheet at 31 December 2017 and 2016 is as follows:

Off-balance-sheet exposures

(Thousands of euros)

	31.12.2017	31.12.2016
Financial guarantees given	6,015,352	3,486,709
Of which: classified as non-performing	*179,888*	*138,807*
Amount recognised under liabilities	*107,750*	*60,631*
Loan commitments given	61,189,718	56,189,582
Of which: classified as non-performing	*387,807*	*321,693*
Amount recognised under liabilities	*54,430*	*23,778*
Other commitments given	19,461,033	19,461,523
Of which: Non-performing contingent liabilities	*347,890*	*263,384*
Amount recognised under liabilities	*194,747*	*144,144*
Total	**86,666,103**	**79,137,814**

At the acquisition date, the business combination with Banco BPI entailed the incorporation of financial guarantees given amounting to EUR 1,268 million, along with EUR 2,951 million of loan commitments given. The detail of "Loan commitments given" included as memorandum items in the balance sheet at 31 December 2017 and 2016 is as follows:

Contingent commitments

(Thousands of euros)	31.12.2017		31.12.2016	
	Drawable	Limits	Drawable	Limits
Drawable by third parties	**61,189,718**	**110,597,743**	**56,189,582**	**108,987,609**
Credit institutions	37,335	90,254	47,913	85,827
Public administrations	1,813,647	2,646,747	1,538,644	2,096,039
Other sectors	59,338,736	107,860,742	54,603,025	106,805,743
Of which: conditionally drawable	*3,789,522*		*2,897,864*	
Total	**61,189,718**	**110,597,743**	**56,189,582**	**108,987,609**

The provisions relating to contingent liabilities and commitments are recognised under "Provisions" in the balance sheet (see Note 24).

The table below details the contractual maturities of the balances of loan commitments given at 31 December 2017:

Contractual maturities

(Thousands of euros)

	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Drawable by third parties	786,661	1,469,226	7,416,205	18,558,675	32,958,951	61,189,718

The Group is only obliged to pay the sum of contingent liabilities if the counterparty guaranteed fails to comply with its obligations at the time of non-compliance. The CaixaBank Group believes that most of these risks will reach maturity without being settled.

With respect to contingent commitments, the Group has an undertaking to facilitate funds to customers through drawables on lines of credit and other commitments, whenever it receives a request and subject to compliance with certain conditions by the counterparties. It believes that not all the drawables will be used by customers, and that a large portion of them will fall due prior to drawdown, either because they will not be requested by customers or because the drawdown conditions will not be met.

28. Other significant disclosures

28.1. Transactions for the account of third parties

The detail of off-balance sheet funds managed for the account of third parties is as follows:

Breakdown of customer funds

(Thousands of euros)

	31.12.2017 (*)	31.12.2016
Assets under management	**96,551,941**	**81,889,259**
Mutual funds, portfolios and SICAVs	66,882,469	56,673,671
Pension funds	29,669,472	25,215,588
Other (**)	**5,363,258**	**4,881,674**
Total	**101,915,199**	**86,770,933**

(*) At 31 December 2017, includes €11 million of customer funds from Banco BPI.

(**) Includes temporary funds associated with transfers and collections, in addition other funds distributed by CaixaBank and Banco BPI.

28.2. Transferred financial assets

The CaixaBank Group converted a portion of its homogeneous loan and credits into fixed income securities by transferring the assets to various securitisation funds set up for this purpose, whose operators assume the risks inherent in the securitised assets. In accordance with current regulations, securitisations in which substantially all the risk is retained may not be derecognised.

Securitisations carried out after 1 January 2004 have not been derecognised from the balance sheet.

The carrying amounts of transferred financial assets, mainly securitisation funds, not derecognised, and the financial liabilities recognised at 31 December 2017 and 2016 are as follows:

31.12.2017

(Thousands of euros)

	Carrying amount of transferred assets (*)	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Securitisation funds				
AyT Génova Hipotecario II, FTH	114,514	114,560	124,219	124,219
AyT Génova Hipotecario III, FTH	126,872	126,873	137,626	137,626
AyT Génova Hipotecario IV, FTH	146,455	146,494	158,874	158,874
Valencia Hipotecario 1, FTA	49,570	49,578	53,755	53,755
AyT Hipotecario Mixto II, FTA	791	791	381	381
TDA 22 Mixto, FTH	34,191	34,375	37,091	37,091
AyT Hipotecario Mixto IV, FTA	39,286	39,286	42,613	42,613
AyT Génova Hipotecario VI, FTH	165,877	166,041	179,952	179,952
FonCaixa FTGENCAT 3, FTA	62,106	62,344	67,292	67,292
AyT Génova Hipotecario VII, FTH	389,465	389,673	422,496	422,496
Valencia Hipotecario 2, FTH	185,292	185,927	200,984	200,984
AyT Génova Hipotecario VIII, FTH	567,691	567,915	615,824	615,824
FonCaixa FTGENCAT 4, FTA	85,921	86,424	93,116	93,116
AyT Hipotecario Mixto V, FTA	82,094	82,107	89,045	89,045
Valencia Hipotecario 3, FTA	260,470	261,828	282,559	282,559
AyT Génova Hipotecario IX, FTH	357,071	357,312	387,358	387,358
AyT Génova Hipotecario X, FTH	400,716	401,129	434,720	434,720
FonCaixa FTGENCAT 5, FTA	240,070	243,422	260,345	260,345
AyT Génova Hipotecario XI, FTH	478,525	479,334	519,161	519,161
FonCaixa FTGENCAT 6, FTA	177,022	178,715	191,919	191,919
AyT Génova Hipotecario XII, FTH	344,101	344,996	373,348	373,348
Bancaja BVA-VPO 1, FTA	19,895	19,895	21,568	21,568
AyT ICO-FTVPO I, FTA	33,927	33,928	36,796	36,796
AyT Goya Hipotecario III, FTA	2,189,000	2,196,510	2,375,134	2,375,134
AyT Goya Hipotecario IV, FTA	716,202	718,417	777,065	777,065
AyT Goya Hipotecario V, FTA	809,265	810,586	877,952	877,952
FonCaixa Leasings 2, FTA	300,183	307,521	326,282	326,282
FonCaixa PYMES 6, FTA	581,755	584,383	629,824	629,824
FonCaixa PYMES 7, FTA	929,305	945,335	1,006,148	1,006,148
CaixaBank RMBS 1, FT	12,640,593	12,689,806	13,705,939	13,705,939
CaixaBank Consumo 2, FT	727,574	741,655	786,285	786,285
CaixaBank Pymes 8, FT	1,673,765	1,683,672	1,812,538	1,812,538
CaixaBank Pymes 9, FT	1,803,563	1,811,419	1,951,214	1,951,214
CaixaBank RMBS 2, FT	2,592,756	2,601,294	2,809,979	2,809,979
CaixaBank Consumo 3, FT	2,076,123	2,111,515	2,241,580	2,241,580
CaixaBank RMBS 3, FT	2,531,730	2,536,047	2,743,259	2,743,259
AyT Hipotecario Mixto, FTA (**)	20,112	19,411	20,112	19,411
Douro SME Series 2(***)	3,392,300	3,392,300	3,392,300	3,392,300
Douro Mortgages nº 1(***)	292,377	292,377	292,377	292,377
Douro Mortgages nº 2(***)	416,365	416,365	416,365	416,365
Douro Mortgages nº 3(***)	635,597	635,597	635,597	635,597
Total	**38,690,487**	**38,867,157**	**41,530,992**	**41,530,291**

(*) Includes capital, interest accrued and asset provisions.

(**) Funds from Credifimo.

(***) Funds from Banco BPI.

31.12.2016

(Thousands of euros)

	Carrying amount of transferred assets (*)	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Securitisation funds				
AyT Génova Hipotecario II, FTH	134,001	134,037	147,790	147,790
AyT Génova Hipotecario III, FTH	147,769	147,774	162,973	162,973
AyT Génova Hipotecario IV, FTH	171,172	171,183	188,784	188,784
Valencia Hipotecario 1, FTA	62,026	62,050	68,407	68,407
AyT Hipotecario Mixto II, FTA	17,181	17,222	18,950	18,950
TDA 22 Mixto, FTH	37,540	37,943	41,443	41,443
AyT Hipotecario Mixto IV, FTA	46,223	46,224	50,978	50,978
AyT Génova Hipotecario VI, FTH	190,158	190,334	209,741	209,741
FonCaixa FTGENCAT 3, FTA	76,555	77,136	84,479	84,479
AyT Génova Hipotecario VII, FTH	444,269	444,848	490,036	490,036
Valencia Hipotecario 2, FTH	216,051	217,045	238,371	238,371
AyT Génova Hipotecario VIII, FTH	649,076	649,606	715,909	715,909
FonCaixa FTGENCAT 4, FTA	103,744	105,185	114,550	114,550
AyT Hipotecario Mixto V, FTA	92,661	92,762	102,204	102,204
Valencia Hipotecario 3, FTA	293,405	295,469	323,790	323,790
AyT Génova Hipotecario IX, FTH	399,156	399,681	440,276	440,276
AyT Génova Hipotecario X, FTH	448,464	449,392	494,700	494,700
FonCaixa FTGENCAT 5, FTA	280,251	285,716	309,605	309,605
AyT Génova Hipotecario XI, FTH	535,100	537,478	590,398	590,398
FonCaixa FTGENCAT 6, FTA	206,845	210,583	228,481	228,481
AyT Génova Hipotecario XII, FTH	382,938	384,463	422,493	422,493
Bancaja BVA-VPO 1, FTA	23,936	23,937	26,397	26,397
AyT ICO-FTVPO I, FTA	39,578	39,592	43,651	43,651
AyT Goya Hipotecario III, FTA	2,405,429	2,419,218	2,654,321	2,654,321
AyT Goya Hipotecario IV, FTA	790,554	794,435	872,285	872,285
Foncaixa Consumo 1, FTA	1,189,028	1,207,124	1,312,990	1,312,990
AyT Goya Hipotecario V, FTA	893,838	896,739	986,096	986,096
FonCaixa Leasings 2, FTA	365,042	380,028	404,238	404,238
FonCaixa PYMES 6, FTA	778,780	782,962	859,135	859,135
FonCaixa PYMES 7, FTA	1,514,124	1,528,617	1,670,914	1,670,914
CaixaBank RMBS 1, FT	13,469,704	13,540,545	14,861,675	14,861,675
CaixaBank Consumo 2, FT	1,086,260	1,095,160	1,198,309	1,198,309
CaixaBank Pymes 8, FT	2,168,615	2,175,723	2,391,984	2,391,984
AyT Hipotecario Mixto, FTA (**)	21,933	21,404	21,933	21,404
Total	**29,681,406**	**29,861,615**	**32,748,286**	**32,747,757**

(*) Includes capital, interest accrued and asset provisions.

(**) Funds from Credifimo.

"Loans and receivables" at 31 December 2017 and 2016 includes the following amounts, corresponding to the outstanding amounts of loans securitised:

Breakdown of securitised assets

(Thousands of euros)

	31.12.2017	31.12.2016
Securitised mortgage loans	29,365,891	25,451,151
Other securitised loans	9,450,088	4,372,866
Loans to companies	7,017,467	3,180,638
Leasing arrangements	307,465	379,783
Consumer financing	2,122,674	804,321
Other	2,482	8,124
Total	**38,815,979**	**29,824,017**

Details of securitisations arranged, with the initial amounts of each, the amounts outstanding and the amounts corresponding to credit enhancements granted to the securitisation funds at 31 December 2017 and 2016, respectively, are provided below.

Asset securitisations

(Thousands of euros)

			Outstanding balance		Credit enhancements	
Issuance date	**Acquired by:**	**Initial amount**	**2017**	**2016**	**2017**	**2016**
December	2000 TDA 13 Mixto, FTA	40,268	0	1,840	0	403
June	2001 TDA 14 Mixto, FTA	122,005	3,975	5,310	1,382	1,382
June	2002 AyT 7 Promociones Inmobiliarias 1, FTA	269,133	1,995	2,665	3,792	3,792
May	2003 TDA 16 Mixto, FTA	100,000	5,459	6,708	1,294	1,294
June	2003 AyT Hipotecario III, FTH	130,000	9,898	12,458	1,460	1,460
October	2002 AyT 11, FTH (*)	120,055	12,497	13,666	573	766
March	2003 TDA 16 Mixto, FTA (*)	152,000	18,502	20,534	2,668	2,668
November	2004 TDA 22 Mixto, FTH (*)	150,000	26,130	28,699	749	749
April	2005 AyT Hipotecario Mixto III, FTH (*)	170,000	38,988	42,248	297	297
November	2005 TDA 24, FTA (*)	144,117	40,191	43,449	520	520
July	2006 TDA 25, FTA (*)	205,000	76,708	82,776	753	752
December	2006 TDA 27, FTA (*)	186,993	71,168	77,413	1,782	1,782
July	2007 TDA 28, FTA (*)	200,000	97,068	105,518	2,324	2,324
Transactions derecognised from balance sheet		**1,989,571**	**402,579**	**443,284**	**17,594**	**18,189**

Asset securitisations

(Thousands of euros)

Issuance date	Acquired by:	Initial amount	Outstanding balance 2017	Outstanding balance 2016	Credit enhancements 2017	Credit enhancements 2016
June	2003 AyT Génova Hipotecario II, FTH	800,000	114,536	134,001	8,136	8,364
July	2003 AyT Génova Hipotecario III, FTH	800,000	126,853	147,743	8,000	8,000
February	2004 AyT Hipotecario Mixto, FTA (*)	140,000	20,112	21,933	8,317	8,317
March	2004 AyT Génova Hipotecario IV, FTH	800,000	146,472	171,149	8,000	8,000
April	2004 Valencia Hipotecario 1, FTA	472,015	49,554	62,013	4,720	4,720
June	2004 AyT Hipotecario Mixto II, FTA	160,000	790	17,191	1,911	1,911
November	2004 TDA 22 Mixto, FTH	120,000	34,357	37,922	2,292	2,292
June	2005 AyT Hipotecario Mixto IV, FTA	200,000	39,277	46,212	1,152	2,600
June	2005 AyT Génova Hipotecario VI, FTH	700,000	166,016	190,296	5,000	5,000
November	2005 FonCaixa FTGENCAT 3, FTA	649,998	62,243	77,006	7,349	7,697
November	2005 AyT Génova Hipotecario VII, FTH	1,400,000	389,612	444,759	9,973	11,294
November	2005 Douro Mortgages nº 1 (**)	1,500,000	292,377			
December	2005 Valencia Hipotecario 2, FTH	940,243	185,835	216,896	9,900	9,900
June	2006 AyT Génova Hipotecario VIII, FTH	2,100,000	567,821	649,467	11,023	11,179
July	2006 FonCaixa FTGENCAT 4, FTA	599,999	86,290	105,014	6,475	6,871
July	2006 AyT Hipotecario Mixto V, FTA	317,733	82,086	92,734	1,937	1,937
September	2006 Douro Mortgages nº 2 (**)	1,500,000	416,365			
November	2006 Valencia Hipotecario 3, FTA	900,711	261,691	295,272	5,909	10,400
November	2006 AyT Génova Hipotecario IX, FTH	1,000,000	357,255	399,598	8,216	9,089
June	2007 AyT Génova Hipotecario X, FTH	1,050,000	401,068	449,305	11,650	11,650
July	2007 Douro Mortgages nº 3 (**)	1,500,000	635,597			
November	2007 FonCaixa FTGENCAT 5, FTA	1,000,000	243,053	285,251	26,500	26,500
December	2007 AyT Génova Hipotecario XI, FTH	1,200,000	479,264	537,375	39,500	39,500
July	2008 FonCaixa FTGENCAT 6, FTA	750,015	178,455	210,250	18,800	18,800
July	2008 AyT Génova Hipotecario XII, FTH	800,000	344,946	384,388	30,106	30,106
April	2009 Bancaja BVA-VPO 1, FTA	55,000	33,915	23,917	4,695	4,695
March	2009 AyT ICO-FTVPO I, FTA	129,131	19,879	39,576	3,218	3,218
December	2010 AyT Goya Hipotecario III, FTA	4,000,000	2,196,117	2,418,672	208,433	213,983
February	2011 Douro SME Series 2 (**)	3,472,400	3,392,300			
April	2011 AyT Goya Hipotecario IV, FTA	1,300,000	718,274	794,244	66,555	66,555
December	2011 Foncaixa Consumo 1, FTA	3,080,000	0	1,204,636	0	154,338
December	2011 AyT Goya Hipotecario V, FTA	1,400,000	810,438	896,539	77,311	78,969
March	2013 FonCaixa Leasings 2, FTA	1,216,494	307,465	379,783	111,861	181,268
October	2015 FonCaixa PYMES 6, FTA	1,119,358	582,940	780,876	45,067	45,333
November	2015 FonCaixa PYMES 7, FTA	2,529,055	942,155	1,523,650	87,823	101,733
February	2016 CaixaBank RMBS 1, FT	14,200,000	12,678,320	13,526,835	568,417	568,750
June	2016 CaixaBank Consumo 2, FT	1,300,000	737,708	1,088,873	52,525	52,825
November	2016 CaixaBank Pymes 8, FT	2,250,000	1,679,774	2,170,641	92,925	93,150
March	2017 CaixaBank RMBS 2, FT	2,720,000	2,597,867		130,033	
July	2017 CaixaBank Consumo 3, FT	2,450,000	2,098,718		98,917	
November	2017 CaixaBank Pymes 9, FT	1,850,000	1,805,703		85,175	
December	2017 CaixaBank RMBS 3, FT	2,550,000	2,532,481		115,750	
Transactions kept in the balance sheet		**67,022,152**	**38,815,979**	**29,824,017**	**1,983,571**	**1,808,944**
Total		**69,011,723**	**39,218,558**	**30,267,301**	**2,001,165**	**1,827,133**

(*) Funds from Credifimo.

(**) Funds from Banco BPI.

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 in the balance sheet.

Securitisation funds set up before 1 January 2004 relate basically to the securitisation funds of investee Unión de Crédito para la Financiación Inmobiliaria (Credifimo), acquired in the business combination with Banca Cívica. These funds were derecognised when they were opened, all prior to the business combination with Banca Cívica, and this did not have any impact on profit or loss. In accordance with regulations, the securitised loans were derecognised when the bonds were issued, given that circumstances arose that substantially allowed all risks and rewards relating to the underlying securitised financial asset to be transferred. All bonds issued by these securitisation funds were transferred to third parties, and the bondholder bore the majority of the losses arising from the securitised loans that were derecognised.

The Group 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.

Details of the asset-backed securities initially acquired by the CaixaBank Group and of the balances outstanding at 31 December 2017 and 2016 are as follows:

(Thousands of euros)				Outstanding amount	
Date		**Issuance**	**Amount**	**31.12.2017**	**31.12.2016**
June	2001	TDA 14 Mixto - FTA	261	197	544
May	2003	TDA 16 Mixto - FTA	1,582	258	342
December	2002	AyT Hipotecario III - FTH	6,235	4,356	5,822
Issued before 01.01.2004			**8,078**	**4,811**	**6,708**

(Thousands of euros)				Outstanding amount	
Date		**Issuance**	**Amount**	**31.12.2017**	**31.12.2016**
June	2003	AyT Génova Hipotecario II, FTH	115,357	40,631	47,573
July	2003	AyT Génova Hipotecario III, FTH	131,731	40,550	47,252
March	2004	AyT Génova Hipotecario IV, FTH	150,372	24,050	28,103
April	2004	Valencia Hipotecario 1, FTA	50,586	1,072	0
June	2004	AyT Hipotecario Mixto II, FTA	15,211	1,379	2,767
November	2004	TDA 22 Mixto - FTA	28,118	18,365	21,040
June	2005	AyT Hipotecario Mixto IV, FTA	37,814	17,930	21,030
June	2005	AyT Génova Hipotecario VI, FTH	172,365	104,690	119,674
November	2005	FonCaixa FTGENCAT 3, FTA	60,239	27,384	28,380
November	2005	AyT Génova Hipotecario VII, FTH	393,510	135,538	155,147
December	2005	Valencia Hipotecario 2, FTH	186,919	40,467	46,674
June	2006	AyT Génova Hipotecario VIII, FTH	579,515	308,506	351,111
July	2006	FonCaixa FTGENCAT 4, FTA	87,128	19,802	20,151
July	2006	AyT Hipotecario Mixto V, FTA	76,052	63,934	73,058
November	2006	Valencia Hipotecario 3, FTA	256,925	91,492	105,928
November	2006	AyT Génova Hipotecario IX, FTH	366,158	125,329	138,905
June	2007	AyT Génova Hipotecario X, FTH	402,595	402,595	450,531
November	2007	FonCaixa FTGENCAT 5, FTA	242,329	37,500	37,500
December	2007	AyT Génova Hipotecario XI, FTH	484,933	484,933	541,720
July	2008	FonCaixa FTGENCAT 6, FTA	175,090	22,500	22,500
July	2008	AyT Génova Hipotecario XII, FTH	345,697	345,697	385,206
March	2009	AyT ICO-FTVPO I, FTA	41,472	41,472	48,800
April	2009	Bancaja-BVA VPO 1, FTA	22,875	22,875	26,727
December	2010	AyT Goya Hipotecario III, FTA	2,191,871	2,191,871	2,412,646

(Thousands of euros)

Date		Issuance	Amount	Outstanding amount 31.12.2017	31.12.2016
April	2011	AyT Goya Hipotecario IV, FTA	734,910	734,910	814,037
December	2011	FonCaixa Consumo 1, FTA	0	0	1,189,764
December	2011	AyT Goya Hipotecario V, FTA	832,653	832,653	917,857
March	2013	FonCaixa Leasings 2, FTA	312,748	312,748	414,235
October	2015	FonCaixa PYMES 6, FTA	622,502	622,502	844,215
November	2015	FonCaixa PYMES 7, FTA	973,173	973,173	1,589,749
February	2016	CaixaBank RMBS 1, FT	12,742,422	12,742,422	13,607,489
June	2016	CaixaBank Consumo 2, FT	812,532	812,532	1,191,177
November	2016	CaixaBank Pymes 8, FT	1,795,787	1,795,787	2,250,000
March	2017	CaixaBank RMBS 2, FT	2,639,211	2,639,211	0
July	2017	CaixaBank Consumo 3, FT	2,161,974	2,161,974	0
November	2017	CaixaBank Pymes 9, FT	1,850,000	1,850,000	0
December	2017	CaixaBank RMBS 3, FT	2,550,000	2,550,000	0
Issued after 01.01.2004			**34,642,774**	**32,638,474**	**27,950,946**
Total			**34,650,852**	**32,643,285**	**27,957,654**

Asset-backed securities placed in the market are recognised under "Financial liabilities measured at amortised cost - Debt securities issued" in the accompanying consolidated balance sheets (see Note 23.3).

28.3. Securities deposits and investment services

The detail, by type, of the securities deposited by customers with CaixaBank and third parties is as follows.

Securities deposited by third parties

(Thousands of euros)

	31.12.2017	31.12.2016
Book entries	**173,267,100**	**87,729,336**
Securities recorded in the market's central book-entry office	129,248,840	61,470,559
Equity instruments. - quoted	*65,005,329*	*44,850,257*
Equity instruments. - unquoted	*3,453,793*	*27,522*
Debt securities. - quoted	*60,789,718*	*16,592,780*
Securities registered at the Entity	13,466	0
Debt securities. - quoted	*13,466*	
Securities entrusted to other depositories	44,004,794	26,258,777
Equity instruments. - quoted	*16,895,795*	*14,936,954*
Equity instruments. - unquoted	*12,960*	*561*
Debt securities. - quoted	*27,038,249*	*11,321,262*
Debt securities. - unquoted	*57,790*	*0*
Securities	**3,691,001**	**436**
Held by the Entity	3,651,188	129
Equity instruments	*3,651,069*	
Debt securities	*119*	*129*
Entrusted to other entities	39,813	307
Equity instruments	*39,813*	*307*
Other financial instruments	**18,291,119**	**154,104**
Total	**195,249,220**	**87,883,876**

In September 2017, CaixaBank became the depository for VidaCaixa, SA de Seguros y Reaseguros' Spanish fixed income portfolio, incorporating its positions for the amount of EUR 24,749 million.

Furthermore, at 31 December 2017 the business combination with Banco BPI entailed the incorporation of EUR 75,604 million of securities deposited by third parties.

28.4. Financial assets derecognised due to impairment

The changes in 2017 and 2016 to items derecognised from the balance sheet because recovery was deemed to be remote are summarised below. These financial assets are recognised under "Suspended assets" in the memorandum accounts supplementing the balance sheet.

Details of changes in written-off assets

(Thousands of euros)

	2017	2016
Opening balance	**15,457,081**	**14,603,686**
Additions:	**3,203,738**	**3,325,945**
With a charge to impairment losses **(Note 14.3)**	970,947	1,727,575
With a direct charge to the statement of profit or loss **(Note 37)**	518,512	542,427
Other reasons (1)	429,820	1,055,943
Business combinations **(Note 7)**	1,284,459	
Disposals:	**2,837,838**	**2,472,550**
Cash recovery of principal **(Note 37)**	297,766	415,330
Cash recovery of past-due receivables	75,189	58,429
Disposal of written-off assets (2)	1,505,068	547,913
Due to expiry of the statute-of-limitations period, forgiveness or any other cause	959,815	1,450,878
Closing balance	**15,822,981**	**15,457,081**

(1) Primarily includes interest on financial assets at the time of derecognition from the balance sheet.

(2) Corresponds to the sale of non-performing and written-off assets and includes interest related to these portfolios (see Note 14.2).

The balance of items derecognised from the balance sheet because recovery was deemed to be remote includes EUR 4,497 million and EUR 4,622 million at 31 December 2017 and 2016, respectively, of interest accrued on the non-performing loans.

29. Interest income

This item in the statement of profit or loss includes the interest earned during the year on financial assets with implicit or explicit returns obtained by applying the effective interest method, along with the adjustments to income arising from hedging transactions.

The breakdown of this item in the accompanying statement of profit or loss is as follows:

Breakdown of interest income

(Thousands of euros)

	2017	2016
Central banks	**124**	**305**
Credit institutions	**30,782**	**16,230**
Debt securities	**2,169,385**	**2,246,769**
Financial assets held for trading	18,175	45,550
Available-for-sale financial assets	2,082,137	2,090,493
Held-to-maturity investments	48,325	84,054
Loans and receivables	20,748	26,672
Loans and advances to customers and other financial income	**4,657,005**	**4,418,160**
Public administrations	131,584	163,236
Trade credits and bills	185,302	193,164
Mortgage loans	2,063,449	2,070,536
Personal loans	1,667,519	1,509,160
Credit accounts	467,914	312,575
Other	141,237	169,489
Adjustments to income due to hedging transactions (Note 16)	**(67,836)**	**(10,508)**
Liability interest income	**180,984**	**82,096**
Total	**6,970,444**	**6,753,052**

The average effective interest rate of the various financial liabilities categories in 2017 and 2016, respectively, calculated on average gross balances, is as shown below. This rate is the result of interest accrued in the year and does not include adjustments to income arising from hedging transactions:

Average effective interest rate

	2017	2016
Deposits at central banks	0.00%	0.01%
Financial assets held for trading - debt securities	0.67%	1.41%
Available-for-sale financial assets – debt securities	3.21%	3.38%
Loans and receivables		
Loans and advances to credit institutions	0.92%	0.31%
Loans and advances to customers (*)	2.17%	2.20%
Debt securities	0.85%	3.70%
Held-to-maturity - debt securities	0.51%	1.65%

(*) Does not include reverse repos

30. Interest expenses

This item in the accompanying statement of profit or loss includes interest accruing in the year on financial liabilities with implicit or explicit returns, including the interest arising from payments in kind, calculated by applying the effective interest method, along with the cost adjustments arising from hedging transactions and the cost due to interest attributable to existing pension funds.

The breakdowns of this item in the accompanying statement of profit or loss for 2017 and 2016, by types of financial transaction, are as follows:

Breakdown of interest expenses

(Thousands of euros)

	2017	2016
Central banks	(36,682)	(35,521)
Credit institutions	(73,740)	(111,235)
Customer deposits and other finance costs	(409,266)	(734,127)
Debt securities issued	(738,637)	(853,515)
Adjustments to expenses due to hedging transactions **(Note 16)**	581,743	665,377
Interest cost attributable to pension funds **(Note 24.1)**	(35,431)	(45,186)
Finance cost of insurance products	(1,433,892)	(1,444,605)
Asset interest expenses	(79,006)	(37,384)
Total	**(2,224,911)**	**(2,596,196)**

The average effective interest rate of the various financial liabilities categories in 2017 and 2016, respectively, is shown below. This rate is the result of interest accrued in the period and does not include adjustments to income arising from hedging transactions.

Average effective interest rate

	2017	2016
Deposits from central banks	0.11%	0.14%
Deposits from credit institutions	0.54%	0.77%
Customer deposits	0.20%	0.40%
Marketable debt securities	2.35%	2.70%
Subordinated liabilities	3.68%	4.46%

31. Dividend income

The breakdown of this item in the accompanying statement of profit or loss for 2017 and 2016 is as follows:

Breakdown of dividend income

(Thousands of euros)

	2017	2016
Telefónica, SA	103,785	184,617
Other	23,447	14,001
Total	**127,232**	**198,618**

32. Fees and commissions

The main fee and commission income and expenses recognised in the accompanying consolidated statement of profit or loss for 2017 and 2016, by type of non-financial services, are as follows:

Fee and commission income

(Thousands of euros)

	2017	2016
Contingent liabilities	126,905	114,953
Credit facility drawdowns	52,668	54,609
Exchange of foreign currencies and banknotes	109,543	97,322
Collection and payment services	914,251	801,757
Of which: credit and debit cards	*444,495*	*371,377*
Securities services	97,737	78,638
Marketing of non-banking financial products	989,847	788,892
Other fees and commissions	468,898	325,739
Total	**2,759,849**	**2,261,910**

Fee and commission expenses

(Thousands of euros)

	2017	2016
Assigned to other entities and correspondents	(96,508)	(43,063)
Of which: transactions with cards and ATMs	*(83,659)*	*(38,935)*
Securities transactions	(18,466)	(14,074)
Other fees and commissions	(146,206)	(114,520)
Total	**(261,180)**	**(171,657)**

33. Gains/(losses) on financial assets and liabilities

The breakdown of these items in the accompanying statement of profit or loss is as follows:

Breakdown of gains/(losses) on financial assets and liabilities by heading
(Thousands of euros)

	2017	2016
Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	169,479	786,714
Gains/(losses) on financial assets and liabilities held for trading, net	46,876	21,176
Gains/(losses) from hedge accounting, net	(9,132)	12,689
Total	**207,223**	**820,579**

The breakdown of the balance of this item by source for 2017 and 2016 is as follows:

Gains/(losses) on financial assets and liabilities
(Thousands of euros)

	2017	2016
Assets and liabilities held for trading	**46,876**	**21,176**
Debt securities	988	(2,886)
Equity instruments	105,863	6,398
Financial derivatives	(59,975)	17,664
Of which: interest rate risk	*(106,076)*	*(41,040)*
Of which: securities risk	*(182,692)*	*(62,722)*
Of which: commodities risk and other	*573*	*1,996*
Of which: credit risk ***(Note 2.2)***	*31,655*	*(30,563)*
Of which: currency risk	*(52,635)*	*(20,265)*
Of which: inflation risk	*249,200*	*170,258*
Available-for-sale financial assets	**77,241**	**823,549**
Debt securities **(Note 13)**	72,898	607,525
Equity instruments **(Note 13)**	4,343	216,024
Loans and receivables	**4,204**	**611**
Financial liabilities measured at amortised cost	**88,034**	**(37,446)**
Ineffective portions of hedging derivatives	**(9,132)**	**12,689**
Cash flow hedges	(23,672)	559
Fair value hedges	*14,540*	*12,130*
Valuation of hedging derivatives	(365,560)	*(380,516)*
Valuation of hedged items	380,100	*392,646*
Total	**207,223**	**820,579**

34. Other operating income and expenses and assets and liabilities under insurance or reinsurance contracts

The breakdown of this item in the accompanying consolidated statement of profit or loss for 2017 and 2016 is as follows:

Other operating income
(Thousands of euros)

	2017	2016
Financial fees and commissions offsetting direct costs	43,706	49,266
Income from investment properties and other income	144,960	148,630
Sales and income from provision of non-financial services	241,063	252,037
Other income	268,146	138,486
Total	**697,875**	**588,419**

Other operating expenses
(Thousands of euros)

	2017	2016
Contribution to the Deposit Guarantee Fund/National Resolution Fund	(308,773)	(263,159)
Operating expenses from investment properties and other (1)	(357,593)	(333,753)
Changes in inventories and other expenses of non-financial activities	(211,348)	(228,140)
Other items	(250,329)	(170,722)
Total	**(1,128,043)**	**(995,774)**

(1) Includes expenses related to leased investment properties

Breakdown of income and expenses of assets and liabilities under insurance or reinsurance contracts
(Thousands of euros)

	2017	2016
Income		
Insurance and reinsurance premium income (*)	815,409	751,305
Reinsurance income	7,731	52,325
Total	**823,140**	**803,630**
Expenses		
Benefits paid (*)	(117,299)	(233,540)
Net technical provisions (*)	(211,748)	(76,670)
Insurance and reinsurance premiums paid	(22,468)	(182,919)
Total	**(351,515)**	**(493,129)**

(*) Net of the portion relating to financial expenses.

On 28 June 2017, CaixaBank announced that, with its mediation, CaixaBank Asset Management SGIIC, SAU (CaixaBank AM) and VidaCaixa, SAU de Seguros y Reaseguros (VidaCaixa) had reached an agreement with Cecabank, SA whereby, until 31 March 2027, the latter will continue to act as exclusive depository of 80% of the assets held in mutual funds, variable capital investment companies (SICAVs) and individual system pension funds managed by CaixaBank AM and VidaCaixa, respectively. Cecabank will act as the exclusive custodian of the remaining 20% until 31 March 2022, except for a small percentage, for which the exclusive nature of the agreement will be phased out between 31 March 2025 and 31 March 2027. This agreement upholds the original agreement reached in 2012, when Cecabank began serving as depository for the two CaixaBank subsidiaries.

As a result of the foregoing, CaixaBank received, in its capacity as mediator, a payment of EUR 115 million, which was recorded as income in the second quarter of 2017 and could receive, over the next ten years and based on the performance of Cecabank's depository business, variable payments for a total additional amount of up to EUR 85 million.

Subsequent to the signing of this agreement and the formulation of the interim consolidated financial statements as of June 30, 2017, the CNMV has verbally informed CaixaBank that, in its opinion, the criterion to be applied in relation to the imputation of income derived from this contract is the linear accrual throughout the life of the contract. The impact on the income statement of the application of this criterion does not differ significantly from that recorded in the financial statements of CaixaBank.

35. Staff expenses

The breakdown of this item in the accompanying statement of profit or loss for 2017 and 2016 is as follows:

Breakdown by type of remuneration

(Thousands of euros)

	2017	2016
Wages and salaries	(2,137,427)	(1,850,345)
Social security contributions	(471,625)	(417,243)
Transfers to defined contribution plans	(136,240)	(127,969)
Transfers to defined benefit plans	2,189	(2,179)
Other staff expenses	(238,310)	(347,613)
Total	**(2,981,413)**	**(2,745,349)**

The expense recognised in "Transfers to defined contribution plans" includes mainly mandatory contributions stipulated in the labour agreement on the pension scheme entered into on 31 July 2000 at "la Caixa" and upheld by CaixaBank after the "la Caixa" Group's reorganisation in 2011. Contributions are made to the pension plan to cover retirement, disability and death obligations of serving employees. To cover retirement, CaixaBank makes a monthly contribution equal to a percentage of pensionable wage items ranging from 0% to 8.5% depending on the length of service at the Entity and other agreed terms and conditions. Specifically, a period of 60 months to standardise conditions has been established for Banco de Valencia and Barclays Bank personnel. The contribution for disability and death is annual and equals the cost of the premium required to ensure against these risks.

"Other staff expenses" includes, inter alia, training expenses, education grants and indemnities and other short term benefits.

In 2017, "Other staff expenses" including the non-recurring costs from the restructuring labour agreement, totalling EUR 106 million, as a result of taking control of BPI (see Note 1 - Acquisition of control of Banco BPI). In 2016, it included staff expenses of EUR 121 million from the geographical reorganisation and rebalancing plan.

The cost of share-based payments, which is of little significance, is recognised under this heading.

The average number of employees, by professional category and gender, in 2017 and 2016 is as follows:

Average number of employees (*)

(Number of employees)	2017 (**)		2016	
	Male	Female	Male	Female
Executives	244	78	199	60
Managers	8,865	6,643	8,647	6,059
Clerical staff	7,434	11,922	5,999	10,190
Assistants	344	424	135	92
Temporary employees	629	703	414	413
Total	**17,516**	**19,770**	**15,394**	**16,814**

(*) In 2017, there was 215 employees with a disability level of 33% or higher (142 clerks, 64 managers, 5 assistants and 4 temporary employee).

(**) At 31 December 2017, an average of 5,370 employees from Banco BPI are included (see Note 1 - Acquisition of Banco BPI).

The distribution, by professional category and gender, at 31 December 2017, is not significantly different from that shown in the preceding table. At 31 December 2017 and 2016, the CaixaBank Group had 36,972 and 32,403 employees, respectively. At 31 December 2017, 4,931 employees from Banco BPI are included (see Note 1 - Acquisition of Banco BPI).

36. Other administrative expenses

The breakdown of this item in the accompanying statement of profit or loss is as follows:

Breakdown of general administrative expenses

(Thousands of euros)

	2017	2016
IT and systems	(297,859)	(252,630)
Advertising and publicity (1)	(142,541)	(133,954)
Property and fixtures	(113,127)	(99,985)
Rentals	(178,385)	(147,975)
Communications	(60,355)	(48,380)
Outsourced administrative services	(141,967)	(104,932)
Taxes other than income tax	(30,496)	(39,101)
Surveillance and security carriage services	(32,390)	(30,202)
Representation and travel expenses	(50,138)	(41,643)
Printing and office materials	(14,532)	(12,806)
Technical reports	(55,966)	(25,874)
Legal and judicial	(15,638)	(6,062)
Governing and control bodies	(7,989)	(10,108)
Other expenses	(27,483)	(46,412)
Total	**(1,168,866)**	**(1,000,064)**

(1) Includes advertising in media, sponsorships, promotions and other commercial expenses

On 18 December 2012, CaixaBank sold 439 offices to Soinmob Inmobiliaria, SAU, subsidiary of the Mexican company Inmobiliaria Carso, SA de CV, for EUR 428.2 million. At the same time, an operating lease contract was signed with this company, with the lessee responsible for maintenance, insurance and taxes other than income tax, 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 euro area harmonised consumer price index times 1.4. In no circumstance, taking into consideration the insignificance of the value of adjustment factors and the associated economic characteristics and risks, it was not considered necessary to separate any embedded derivative under the terms envisaged in paragraph AG33(f) of IAS 39.

The Group confirmed, through the necessary tests, that the rents paid remain at market prices.

The agreement includes a purchase option that may be exercised by CaixaBank at the termination of the lease contract at the market value of the offices at that date (determined, where appropriate, by independent experts) and the right of first refusal in the event the lessor wishes to sell any of the offices subject to the lease. Additionally, as is commonplace in the operating lease market, the transfer of ownership of the properties to CaixaBank is not being considered at the termination of the agreement, with CaixaBank holding the right to not extend rentals beyond the minimum mandatory period. The lease expense recognised by CaixaBank in 2017 and 2016 in relation to these agreements totalled EUR 35.5 million per annum.

The value of the future minimum lease payments receivable by the CaixaBank Group during the mandatory period of the lease, excluding future rental increases are as follows:

Future payments on operating leases

(Thousands of euros)

	2018	2018 to 2022	2023 and beyond
Sales and leaseback agreement with Soinmob Inmobiliaria, SAU	36,193	144,772	542,895
Other operating leases	79,918	262,367	764,278
Total	**116,111**	**407,139**	**1,307,173**

Note: None of these amounts includes the related VAT.

"Technical reports" relates to fees and expenses, excluding the related VAT, paid to the auditor, Deloitte, SL and related companies in 2017, broken down as follows:

Fees paid to the auditor

(Thousands of euros)

	2017	2016
Deloitte	**11,028**	**9,637**
Audit (1)	3,766	2,838
Audit-related services	5,050	4,010
Other services (2)	2,212	2,789
Other auditors	**4,205**	**8,312**
Audit	188	296
Other services	4,017	8,016
Total	**15,233**	**17,949**

(1) In 2016, includes fees for limited reviews of the interim consolidated financial statements and the audit of CaixaBank's separate balance sheet at 30 June.

(2) Includes EUR 48 thousand and EUR 204 thousand of tax advice in 2017 and 2016, respectively

Information on the average payment period to suppliers: Additional provision three: disclosure requirements under Law 15/2010 of 5 July

The entry into force of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, establishes the obligation for companies to expressly publish information on the payment periods to their suppliers in the notes to the financial statements. Pursuant to this disclosure obligation, on 4 February 2016, the corresponding resolution issued by the Spanish Accounting and Audit Institute (ICAC) was published in the Official State Gazette (BOE).

In accordance with Transitional Provision Two of this ruling, following is a breakdown of the information required relating to payments made and pending at the balance sheet date:

Payments made and outstanding at the reporting date

	Amount	
(Thousands of euros)	2017	2016
Total payments made	2,065,315	1,787,848
Total payments pending	26,500	22,962
Total payments in the year	**2,091,815**	**1,810,810**

Average supplier payment period and ratios

(Days)

	Days 2017	Days 2016
Average payment period to suppliers	25.96	27.16
Ratio of payments made	25.98	27.22
Ratio of outstanding payments	24.87	22.59

In 2017 and 2016, in accordance with Transitional Provision Two of Law 15/2010, the general maximum statutory period is 30 days, which may be extended to 60 days upon agreement of the parties.

37. Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss

The breakdown of this item in the accompanying statement of profit or loss for 2017 and 2016 is as follows:

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss
(Thousands of euros)

	2017	2016
Loans and receivables	**(804,781)**	**(467,974)**
Net allowances **(Note 14.3)**	(553,716)	(339,679)
Write-downs **(Note 28.4)**	(518,512)	(542,427)
Recovery of loans written off **(Note 28.4)**	297,766	415,330
Debt securities **(Note 14.3)**	(30,319)	(1,198)
Other financial instruments not measured at fair value through profit or loss	**(143,782)**	**(114,103)**
Write-downs	(143,782)	(114,103)
*Equity instruments **(Note 13)***	*(140,204)*	*(233,048)*
*Debt securities **(Note 13)***	*(3,578)*	*118,945*
Total	**(948,563)**	**(582,077)**

38. Impairment or reversal of impairment on non-financial assets

The breakdown of this item in the accompanying statement of profit or loss for 2017 and 2016 is as follows:

Impairment or reversal of impairment on non-financial assets.
(Thousands of euros)

	2017	2016
Tangible assets	**(100,004)**	**(224,278)**
Property, plant and equipment for own use **(Note 19)**	(29,733)	(12,328)
Allowances	*(35,272)*	*(5,856)*
Releases	*5,539*	*11,431*
Write-downs	*0*	*(17,903)*
Investment properties **(Note 19)**	(22,883)	(34,386)
Allowances	*(293,569)*	*(248,547)*
Releases	*270,686*	*214,175*
Write-downs	*0*	*(14)*
Inventories **(Note 21)**	(47,388)	(177,564)
Allowances	*(315,090)*	*(454,828)*
Releases	*267,702*	*277,264*
Intangible assets (Note 20)	**(70,364)**	**(503)**
Allowances	(4,774)	(805)
Releases	4,027	302
Write-downs	(69,617)	0
Other assets	**1**	**(3,632)**
Total	**(170,367)**	**(228,413)**

39. Gains/(losses) on derecognition of non-financial assets and investments, net

The detail and changes in this item in the accompanying statement of profit or loss for the years ended 31 December 2017 and 2016 are as follows:

Gains/(losses) on derecognition of non-financial assets and investments, net

(Thousands of euros)	2017			2016		
	Gains	**Losses**	**Net profit/(loss)**	**Gains**	**Losses**	**Net profit/(loss)**
On disposals of tangible assets	105,969	(71,848)	34,121	44,585	(55,373)	(10,788)
On disposals of investments (*)	1,560	(187,865)	(186,305)	10,815	(158,713)	(147,898)
On disposals of other assets (**)	40,563	(3,149)	37,414	8,445	(1,511)	6,934
Total	**148,092**	**(262,862)**	**(114,770)**	**63,845**	**(215,597)**	**(151,752)**

(*) Includes EUR 186 million forming part of the impact of the business combination with Banco BPI (see Note 7) for the revaluation of the previous holding prior to the takeover.

(**) Corresponds to gains or losses on selling real estate classified as inventories (see Note 21).

40. Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The detail and changes in this item in the accompanying statement of profit or loss for the years ended 31 December 2017 and 2016 are as follows:

Breakdown of profit/(loss) from non-current assets classified as held for sale

(Thousands of euros)

	2017	2016
Impairment losses on non-current assets held for sale (**Note 22**)	(175,222)	(828,385)
Gains(losses) on disposal of non-current assets held for sale	177,041	41,365
Total	**1,819**	**(787,020)**

The total gains/(losses) on the disposal of non-current assets relate to property to satisfy loans, none of which were for significant amounts individually.

41. Related party transactions

Under the provisions of Bank of Spain Circular 4/2004, key management personnel at CaixaBank are those persons having authority and responsibility for planning, directing and controlling the activities of the Entity, directly or indirectly, including all members of the Board of Directors (executive or other) and Senior Management of CaixaBank. Given their posts, each member of key management personnel is a "related party" of CaixaBank. Therefore, CaixaBank must disclose, among other transactions, the information provided in this Note.

Also considered CaixaBank related parties are family members close to “key management personnel”, understood as being those family members who may influence or be influenced by that person in their dealings with the Entity. These include: (i) that person’s spouse or partner through an analogous relationship; (ii) that person’s parents, children or siblings or the spouses or partners through an analogous relationship of these individuals; (iii) the parents, children or siblings of the person’s spouse or partner through an analogous relationship; and (iv) any individuals under the person’s care or that of the spouse or partner through an analogous relationship. They also include any companies over which key personnel or their close family members exercise control, joint control or significant influence, or have, directly or indirectly, significant voting power.

According to the Regulations of the Board of Directors, transactions between Directors and their related parties must be authorised by the Board of Directors, subject to a report by the Audit and Control Committee, except if they meet the following three conditions: (i) they are performed pursuant to contracts with standardised conditions and applied en masse to a large number of clients; (ii) they are performed at market prices or rates, generally established by the party acting as the provider of the relevant good or service; and (iii) their amount does not exceed one per cent (1%) of the annual revenue of the Company.

Notwithstanding the above, according to prevailing legislation, express authorisation by the Bank of Spain is required for the granting of loans, credits or guarantees to the Chairman, Deputy Chairman, and other directors and General Managers and similar office holders.

The approval policy for loans to members of the Board of Directors who are employees of CaixaBank and Senior Management is governed by the provisions of the collective bargaining agreement for savings bank and financial savings institutions, as well as the internal employment regulations that implement this agreement.

All other loan and deposit transactions or financial services arranged by CaixaBank with key management personnel (Board of Directors and Senior Management), which are not subject to employment regulations, were approved under normal market conditions. None of these transactions involves any material amounts affecting the correct interpretation of the annual financial statements.

CaixaBank also has service level agreements with related parties. These agreements form part of its ordinary course of business and are carried out under normal market conditions. None of them individually is for a significant amount.

The most significant balances at 31 December 2017 and 2016 between CaixaBank and subsidiaries, joint ventures and associates, and with CaixaBank Directors, Senior Management and other related parties (relatives and companies with links to members of the Board of Directors and Senior Management, to the best of the Entity’s knowledge) and those with other related parties such as the CaixaBank employee pension plan, are shown in the table below: Details are also provided of the amounts recognised in the statement of profit or loss from transactions carried out. All transactions between related parties form part of the ordinary course of business and are carried out under normal market conditions.

Balances and transactions with significant shareholders at 31 December 2017 include those relating to ”la Caixa” Banking Foundation, CriteriaCaixa and its subsidiaries.

Because of the deconsolidation from CriteriaCaixa (see Note 1), the related party scope no longer includes: balances and transactions with (i) other associates and jointly-controlled of the significant shareholders, or (ii) key management personnel of ”la Caixa” Banking Foundation and CriteriaCaixa.

2017

(Thousands of euros)

	Significant shareholder (1)	Associates and joint ventures	Directors and Senior Management (2)	Other related parties (3)	Employee pension plan
ASSETS					
Loans and advances to credit institutions					
Loans and advances	209,768	477,106	8,933	11,173	0
Reverse repurchase agreement					
Mortgage loans	114,320	3,522	8,748	6,309	
Other (4)	95,448	473,584	185	4,864	
Of which: credit loss provisions	*(627)*	*(3,606)*	*(1)*	*(10)*	
Equity instruments					5,416
Debt securities	9,362	4,581			
Total	**219,130**	**481,687**	**8,933**	**11,173**	**5,416**
LIABILITIES					
Deposits from credit institutions	16,555	29			
Customer deposits	782,482	1,802,183	23,873	18,694	56,696
Debt securities issued					1,000
Off-balance sheet liabilities (5)			320,185	74,855	
Total	**799,037**	**1,802,212**	**344,058**	**93,549**	**57,696**
INCOME STATEMENT					
Interest income	3,401	717	41	202	
Interest expenses (6)		(80)	(5)	(6)	(155)
Dividend income (7)					
Fee and commission income	471	192,542	(1)	3	397
Fee and commission expenses					
Total	**3,872**	**193,179**	**35**	**199**	**242**
OTHER					
Security posted – Guarantees and others	9,382	107,220	10	92	
Contingent commitments given – Drawable by third parties and others (8)		299,869	2,038	6,703	
Accrued post-employment obligations			44,604		
Total	**9,382**	**407,089**	**46,652**	**6,795**	**0**

(1) “Significant shareholder” refers to any shareholder that is the parent of or has joint control of or significant influence over the CaixaBank Group, the latter term as defined in IAS 28, irrespective of its economic rights.

(2) Directors and Senior Management of CaixaBank.

(3) Family members and entities related to members of the Board of Directors and Senior Management of CaixaBank.

(4) Includes other loans and receivables.

(5) Includes mutual funds, insurance contracts, pension funds and post-employment commitments contributed.

(6) Does not include the finance cost relating to off-balance sheet liabilities.

(7) Set on an accrual basis.

(8) Includes amounts drawable against commercial risk lines.

2016

(Thousands of euros)	With the majority shareholder, "la Caixa" Banking Foundation and its Group (1)	Associates and joint ventures	Directors and Senior Management (2)	Other related parties (3)	Employee pension plan
ASSETS					
Loans and advances to credit institutions		588			
Loans and advances	1,973,065	374,603	11,444	25,932	0
Reverse repurchase agreement					
Mortgage loans	424,456	3,775	10,992	17,667	
Other (4)	1,548,609	370,828	452	8,265	
Of which: credit loss provisions	(49)	*(8,498)*	(9)	(4,930)	
Equity instruments					4,035
Debt securities	1,364,805	5,683			
Total	**3,337,870**	**380,874**	**11,444**	**25,932**	**4,035**
LIABILITIES					
Deposits from credit institutions	22,655	1,387	15		
Customer deposits	2,391,577	875,519	52,750	54,427	43,509
Debt securities issued					4,700
Off-balance sheet liabilities (5)			70,354	32,763	
Total	**2,414,232**	**876,906**	**123,119**	**87,190**	**48,209**
INCOME STATEMENT					
Interest income	47,187	7,763	75	544	
Interest expenses (6)	(814)	(910)	(100)	(69)	(554)
Dividend income (7)					
Fee and commission income	5,407	172,575	9	20	
Fee and commission expenses			(4)		
Total	**51,780**	**179,428**	**(20)**	**495**	**(554)**
OTHER					
Security posted – Guarantees and others	160,000	82,666	10	97	
Contingent commitments given – Drawable by third parties and others (8)	1,743,269	457,657	6,344	11,108	
Accrued post-employment obligations			49,375		
Total	**1,903,269**	**540,323**	**55,729**	**11,205**	**0**

(1) Includes transactions with "la Caixa" Banking Foundation and its Group companies, joint ventures and associates.

(2) Information provided on the directors and Senior Management of "la Caixa" Banking Foundation, CaixaBank and Criteria.

(3) Family members and entities related to members of the Boards of Directors and Senior Management of "la Caixa" Banking Foundation, CaixaBank and Criteria and other related parties.

(4) Includes other loans and receivables.

(5) Includes mutual funds, insurance contracts, pension funds and post employment obligations contributed.

(6) Does not include the financial expense relating to off-balance sheet liabilities.

(7) Set on an accrual basis.

(8) Includes amounts drawable against commercial risk lines.

Transactions between Group companies form part of the ordinary course of business and are carried out under normal market conditions. The most significant transactions between Group companies in 2017, other than or further to those covered in the following notes to the financial statements, were as follows:

- On 23 November 2017, CaixaBank Asset Management SGIIC, SAU signed an agreement to acquire from Banco BPI all the share capital of the companies BPI Gestão de Activos, Sociedade Gestora de Fundos de Investimento, SA and BPI Global Investment Fund Management Company SA for EUR 75 million and EUR 8 million, respectively. Banco BPI will continue distributing the mutual funds of the aforementioned acquiree.

- On 23 November 2017, VidaCaixa SAU de Seguros y Reaseguros signed an agreement to acquire from Banco BPI all the share capital of BPI Vida e Pensões, Companhia de Seguros, SA for EUR 135 million. Banco BPI will continue to distribute the life insurance and pension products of the aforementioned acquiree.

- On 23 November 2017, CaixaBank SA signed an agreement to acquire from Banco Português de Investimento, SA (a Banco BPI subsidiary) its brokerage, research and corporate finance business. The cost of the deal will be equivalent to the carrying amount of the net operating assets transferred at the reporting close, which is expected to total approximately EUR 4 million. CaixaBank will establish a branch in Portugal to operate the business acquired.

- CaixaBank Payments, EP, EFC, SAU (“CaixaBank Payments”) signed an agreement to acquire Banco BPI's card issuance business for a price of EUR 53 million on 21 December 2017. Further, Comercia Global Payments, EP, SL signed an agreement to purchase Banco BPI's Adquirencia business (POS-Points of Sale) for EUR 60 million.

  CaixaBank Payments and Comercia will appoint Banco BPI as their exclusive marketing agent for the products included in the businesses acquired.

These transactions are subject to obtaining the necessary regulatory approvals (except the sale of BPI Vida e Pensões a VidaCaixa, which has already been completed). As they are intragroup transactions, they have no impact on the CaixaBank Group's consolidated balance sheet and statement of profit or loss, or on its capital ratios.

Furthermore, at 31 December 2017 and 2016, CriteriaCaixa holds derivatives with CaixaBank to hedge the interest rates on bilateral loans for a nominal amount of EUR 1,100 million. The fair value of this derivative at 31 December 2017 and 2016 was EUR 11 million and EUR 20 million, respectively.

At 31 December 2017 and 2016, there was no evidence of impairment to the value of the financial assets or the guarantees or contingent commitments held with key management personnel and executives.

The balances of loans at 31 December 2017 and 2016 arranged with serving directors and Senior Management at those two dates have an average maturity of 21.84 and 21.05 years, respectively, and bear interest at an average rate of 0.38% and 0.57%, respectively.

Financing granted in 2017 to serving Directors and Senior Management at 31 December 2017 and 2016 amounted to EUR 15 thousand and EUR 2,526 thousand, respectively, with an average maturity period of 3.7 and 1 years, earning interest at an average rate of 0% (credit cards) and 1.90%, respectively.

Description of the relationship between ”la Caixa” Banking Foundation and CaixaBank

As a result of the transformation of "la Caixa" into a banking foundation and the conclusion of the indirect exercise of banking activity through CaixaBank, and in accordance with the provisions of Law 26/2013, of 27 December, governing savings banks and banking foundations, on 24 July 2014, the Board of Trustees of ”la Caixa" Banking Foundation approved a protocol for managing its ownership interest in the financial institution (modified on 18 May 2017, to which Criteria adhered on 25 May 2017) which primarily regulates the following aspects:

- The basic strategic lines governing ”la Caixa” Banking Foundation’s management of its stake in CaixaBank .
- Relations between the Board of Trustees and CaixaBank’s governance bodies.
- The general criteria governing transactions between the “la Caixa” Foundation and CaixaBank.
- The mechanisms to avoid the emergence of conflicts of interest.
- The basic criteria relating to the assignment and use of distinctive signs and domain names owned by ”la Caixa” Banking Foundation by CaixaBank and the companies in its Group.
- The provision for ”la Caixa” Banking Foundation to have a right of pre-emptive acquisition in the event of transfer by CaixaBank of Monte de Piedad, which it owns.
- The basic principles for a possible collaboration so that (a) CaixaBank may implement corporate social responsibility policies through ”la Caixa” Banking Foundation, and, at the same time (b) ”la Caixa” Banking Foundation may disseminate its welfare projects through the CaixaBank branch network, and where appropriate, through other material means.
- The flow of adequate information to allow ”la Caixa” Banking Foundation and CaixaBank to prepare their financial statements and to comply with periodic reporting and supervisory duties with the Bank of Spain and other regulatory bodies.

Under this protocol governing management of the financial investment, “la Caixa” Banking Foundation, CriteriaCaixa and CaixaBank agreed to formalise a new internal relations protocol, modifying the prevailing protocol of 19 December 2016 and including aspects of the protocol for the management of the financial investment required by CaixaBank's role as a counterparty of "la Caixa" Banking Foundation and of CriteriaCaixa. This protocol was signed by the CaixaBank Board of Directors on 1 February 2018, and by the Board of Trustees of “la Caixa” Banking Foundation and CriteriaCaixa Board of Directors on 25 January 2018.

42. Other disclosure requirements

42.1. Environment

CaixaBank is committed to carrying out its business, projects, products and services in the most environmentally-friendly way possible. To that end, the Group encourages financing for projects that take environmental aspects into account, such as energy efficiency and long-term sustainability.

For further information see section 9 of the accompanying Management Report.

42.2. Customer service

CaixaBank has a Customer Service Office charged with handling and resolving customer complaints and claims. This office has no connections with commercial services and performs its duties with independent judgment and is aux fait with customer protection rules.

If complaints are not resolved satisfactorily or two months have elapsed without obtaining a reply, claimants can contact the complaints services of the supervisors: Bank of Spain, CNMV and the Directorate-General of Insurance and Pension Plans. Reports issued by the supervisors' complaints services are not binding and the entity against which a complaint has been lodged must decide whether any rectification is needed.

As well as handling and resolving claims, the Customer Service Office's functions include: presentation of arguments to the claims services of the supervisory authorities (Bank of Spain/CNMV/Directorate-General of Insurance); deciding on mutual agreements before such bodies and on how supervisors' reports (rectifications) are adhered with; executing resolutions; identifying legal and operational risks by analysing claims and improvement proposals to mitigate identified risks; ensuring the claims system and system for reporting on claims management to the Entity's governing bodies and to the supervisory authorities is fit for purpose.

The Customer Service Office is supported by the Customer Service team, who report directly to the Chief Business Officer. Their duties include handling telephone claims and complaints and any related with service quality and requests for information, as well as reputation-related matters from a corporate perspective. They are also responsible for offering support to branches so they can prevent and resolve any disputes with customers, and sharing with the Entity's other departments and subsidiaries the main reasons for dissatisfaction to determine which processes to correct and help roll out improvements reducing the likelihood of possible customer claims.

In April 2017, CaixaBank's Customer Ombudsman ceased operations. Until then, this offered an alternative to the Customer Service Office, having the remit to handle and resolve matters related with the products and services sold by CaixaBank and its Group as long as the amounts involved were less than EUR 120,000.

Pursuant to Ministerial Order ECO/734/2004, of 11 March, during the first quarter of each year, the Customer Service Office must furnish the Board of Directors with a report on its performance. This section provides a summary of the report which, according to the aforesaid order, must be attached to the financial statements.

Complaints received

	Number of complaints	
	2017	**2016**
Handled by the Customer Service Office, Customer Service team, and Customer Ombudsman	**155,704**	**33,730**
Customer Service and Customer Service Office	154,366	31,224
Customer Ombudsman	1,338	2,506
Telephone claims and complaints	**8,243**	**5,641**
Customer Service	8,243	5,641
Claims and complaints filed with the supervisors' claims services	**3,407**	**1,044**
Bank of Spain	3,331	871
Spanish Securities Market Regulator (CNMV)	70	73
Directorate-General of Insurance and Pension Plans	6	100

There was a very sharp rise in claims in 2017 compared to 2016, mainly comprising claims related with reimbursements of loan arrangement fees. The number of reports or resolutions issued by customer services and the supervisors' complaints services was as follows:

Resolutions issued by the Customer Service, the Customer Service Office, and the Customer Ombudsman

	Customer Service and Customer Service Office		Customer Ombudsman	
Type of resolution	**2017**	**2016**	**2017**	**2016**
Resolved in favour of the claimant	20,376	11,901	191	324
Resolved in favour of the entity	108,838	18,765	330	1,526
Acceptance			70	377
Other (rejected/unresolved)	21,060	2,428	658	101
Total	**150,274**	**33,094**	**1,249**	**2,328**

Report issued by the supervisors' complaints services

	Bank of Spain		CNMV		Directorate-General of Insurance	
Type of resolution	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Resolved in favour of the claimant	406	395	26	33	1	15
Resolved in favour of the entity	229	229	29	17		17
Acceptance	172	230	14	6		
Other (rejected/unresolved)	105	38	2	4		2
Total	**912**	**892**	**71**	**60**	**1**	**34**

A number of potential improvements to the policies, procedures and documents for marketing the products and services of CaixaBank and its Group have been identified from an in-depth analysis of claims and especially, the reports issued by the supervisors' claims services in 2017. These led to the Customer Service Office and Customer Service team drawing up 26 and 2 improvement proposals respectively.

Appendix 1 - CaixaBank investments in subsidiaries of the CaixaBank Group

(1 / 7)

(Thousands of euros)

Company name and line of business	Registered office	% interest		Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
		Direct	Total				
Aris Rosen, SAU Services	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	60	(4,685)	1,784	3,999
Arquitrabe activos, SL Holder of property assets	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	98,431	34,321	916	87,757
Banco BPI Cayman, Ltd Banking	103, South Church Street - Harbour Place, 4th Floor, L-1855 Cayman Islands	0.00	84.51	150,000	9,594	9,301	-
Banco BPI, SA (C) Banking	Rua Tenente Valadim, 284 4100-476 Porto Portugal	84.51	100.00	1,293,063	609,587	232,774	1,731,501
Banco Português de Investimento, SA Venture capital	Rua Tenente Valadim, 284 L-1855 Luxembourg Luxembourg	-	84.51	17,500	9,352	(3,431)	-
Biodiesel Processing, SL Research, creation, development and sale of biofuel manufacturing projects.	Av. Diagonal, 621-629 08028 Barcelona	-	100.00	100	(4,613)	1	-
Bodega Sarría, SA Wine production	Señorío de Sarría, s/n 31008 Puente la Reina Navarra	-	100.00	5,745	13,850	1,109	-
BPI (Suisse), SA (2) Management of collective investment schemes	1, etienne dumont 1204 Geneva Switzerland	-	84.51	3,000	9,935	4,605	-
BPI - Global Investment Fund Management Company, SA Management of collective investment schemes	60, Avenue John F. Kennedy L-1855 Luxembourg Luxembourg	-	84.51	150	451	1,958	-

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	Total	Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
BPI Capital Africa (Proprietary) Limited (3) Finance	20th Floor, Metropolitan Life Centre, 7 Walter Sisulu 8001 Cape Town South Africa	-	84.51	1	21,531	(19,807)	-
BPI Gestão de Activos - Sociedade Gestora de Fundos de Investimento Management of collective investment schemes	Largo Jean Monnet, 1 – 5º 1269-067 Lisbon Portugal	-	84.51	2,500	6,371	7,329	-
BPI Madeira, SGPS, Unipessoal Financial stakes	R. da Alfândega, 18 - 3º 9000-059 Funchal Portugal	-	84.51	150,000	2,028	(609)	-
BPI Private Equity - Sociedade de Capital de Risco, SA Venture capital company	Rua Tenente Valadim, 284 4100-476 Porto Portugal	-	84.51	28,895	3,903	31	-
BPI Vida e Pensões - Companhia de Seguros, SA Life insurance and pension fund management	R. Braamcamp, 11 - 6º 1250-049 Lisbon Portugal	-	100.00	76,000	34,413	13,475	-
BPI, Incorpored (4) Other	92, Ferry Street 2nd floor - Front Newark 7105 New Jersey US	-	84.51	5	845	(7)	-
BuildingCenter, SAU Real estate services	Paseo de Recoletos.37 Planta 6 28004 Madrid	100.00	100.00	2,000,060	697,483	(419,299)	3,272,969
Caixa Capital Biomed, SCR SA Venture capital company	Av. Diagonal, 621 Torre II 08028 Barcelona	90.91	90.91	1,200	7,570	(1,455)	6,674
Caixa Capital Fondos, SCR SAU Venture capital company	Pº de la Castellana, 51 28046 Madrid	100.00	100.00	1,200	59,437	(3,478)	58,889
Caixa Capital Micro, SCR SAU Venture capital company	Pº de la Castellana, 51 28046 Madrid	100.00	100.00	1,200	2,443	(402)	3,404

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
Caixa Capital TIC SCR SA Venture capital company	Av. Diagonal, 621 Torre II 08028 Barcelona	80.65	80.65	1,209	9,520	(661)	8,478
Caixa Corp, SA Holding company	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	361	342	(6)	585
Caixa Emprendedor XXI, SA Development of business and entrepreneurial initiatives	Av. Diagonal, 621 Torre II 08028 Barcelona	0.00	100.00	1,007	23,131	(177)	-
CaixaBank Asset Management, SGIIC, SAU Management of collective investment schemes	Paseo de la Castellana, 51 28046 Madrid	100.00	100.00	81,910	(9,328)	58,695	89,350
CaixaBank Brasil Escritório de representaçao, LTDS (1) Representative office	Av. Presidente Juscelino Kubitschek, 1327 18º 04543-011 Sao Paulo Brazil	100.00	100.00	1,200	(50)	540	345
CaixaBank Business Intelligence, SAU Development of digital projects	Av. Diagonal, 613, Planta 3ª 08028 Barcelona	100.00	100.00	100	1,098	267	1,200
CaixaBank Consumer Finance, EFC, SAU Consumer finance	Caleruega,102 planta 9 28033 Madrid	100.00	100.00	135,156	53,400	29,989	236,216
CaixaBank Digital Business, SA Electronic channel management	Provençals, 35 08019 Barcelona	100.00	100.00	13,670	9,764	334	21,144
CaixaBank Electronic Money, EDE, SL Payment entity	Calle Caleruega 102, Planta 9 28033 Madrid	-	88.45	350	2,713	1,186	-
CaixaBank Equipment Finance, SAU Vehicle and equipment leasing	Caleruega,102 28033 Madrid	-	100.00	10,518	31,644	8,907	-

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
CaixaBank Facilities Management, SA Project management, maintenance, logistics and procurement, and office supplies	Provençals, 39 (Torre Pujades) 08019 Barcelona	100.00	100.00	1,803	1,871	2,398	2,053
CaixaBank Payments EFC EP, SAU Finance	Caleruega,102 28033 Madrid	100.00	100.00	261,803	53,528	274,338	261,980
CaixaBank Titulizacion, SGFT, SA Securitisation fund management	Paseo de la Castellana, 51 28046 Madrid	91.00	100.00	1,503	1,495	2,240	4,723
Caja San Fernando Finance, SA Finance	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	60	987	5	18,397
Cestainmob, SL Property management	Av. Diagonal, 621-629 08028 Barcelona	-	100.00	120	520	(3)	-
Corporación Hipotecaria Mutual, EFC, SA Mortgage lending	Pº de la Castellana, 51 28046 Madrid	100.00	100.00	3,005	81,610	543	80,666
Credifimo - Unión de crédito para la financiación mobiliaria e immobiliaria, EFC, Mortgage lending	Goya, 77, esc. Izquierda, 1º 28001 Madrid	100.00	100.00	70,415	(10,789)	(10,747)	41,122
Estugest, SA Administrative activities and services	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	661	1,734	8	2,381
GDS-CUSA, SAU Specialised back office administration services	Provençals, 39 (Torre Pujades) 08019 Barcelona	100.00	100.00	1,803	15,341	1,466	9,579
Grupo Aluminios de Precisión, SL * Smelting of other non-ferrous metals	Merindad de Cuesta Urria, 26 09001 Burgos	100.00	100.00	7,500	19,320	(23)	3,360

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
Grupo Riberebro Integral, SL * Manufacture and distribution of agricultural products	P.I. la Llanada, parcela 31397 26540 Alfaro La Rioja	-	60.00	6,940	1,675	(466)	-
HipoteCaixa 2, SL Mortgage loan management company	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	3	96,695	(962)	97,518
Hiscan Patrimonio, SA Holding company	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	46,867	207,251	1,713	220,416
Holret, SAU Real estate services	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	156,433	33,497	(125)	189,939
Inter Caixa, SA Services	Av. Diagonal, 621-629 08028 Barcelona	99.99	100.00	16	-	-	17
Inversiones corporativas digitales, SL Holding company	Av. Diagonal, 621-629 08028 Barcelona	-	100.00	3	(3,066)	1	-
Inversiones Inmobiliarias Teguise Resort, SL Hotels and similar accommodation	Av. Del Jablillo, 1 Hotel Teguise Playa 35508 Teguise-Lanzarote Las Palmas	60.00	60.00	7,898	8,081	3,043	11,218
Inversiones Valencia Capital, SA Holding company	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	10,557	(3,402)	409	2,105
Inversiones vitivinícolas, SL Wine production	Av. Carlos III, 8 31002 Pamplona Navarra	-	100.00	3	(466)	(29)	-
Líderes de empresa Siglo XXI, SL Private security for goods and people	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	378	403	216	753

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
Negocio de Finanzas e Inversiones II, SL Finance	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	6	8,547	(4)	8,169
Nuevo MicroBank, SAU Financing of microcredits	Alcalá, 27 28014 Madrid	100.00	100.00	90,186	153,167	42,034	90,186
PromoCaixa, SA Product marketing	Gran Via Carles III, 105 1ª pl. 08028 Barcelona	99.99	100.00	60	1,894	13,231	1,644
Puerto Triana, SA Real estate developer specialised in shopping centres	Gonzalo Jiménez de Quesada, 2 41092 Seville	100.00	100.00	140,000	39,605	(9,164)	168,385
Sercapgu, SL Holding company	Av. Diagonal, 621-629 08028 Barcelona	100.00	100.00	4,230	(110)	(299)	632
Silc Immobles, SA Real estate management and administration	Pº de la Castellana, 51 28046 Madrid	0.00	100.00	40,070	106,599	220	0
Silk Aplicaciones, SL Provision of IT services	Sabino Arana, 54 08028 Barcelona	100.00	100.00	15,003	100,370	815	176,211
Sociedad de gestión hotelera de Barcelona, SL Real estate operations	Av. Diagonal, 621-629 08028 Barcelona	-	100.00	8,144	8,938	547	-
Telefónica Consumer Finance, EFC, SA Consumer financing and financing for commercial transactions	Caleruega,102 planta 9 28033 Madrid	-	50.00	5,000	30,725	7,264	-
VidaCaixa Mediació, Sociedad de Agencia de Seguros Vinculada, SAU Insurance agency	Paseo de Recoletos 37, 3ª 28004 Madrid	-	100.00	60	4,232	380	-

CaixaBank investments in subsidiaries of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest		Share capital	Reserves	Profit/(loss)	Cost of direct ownership interest (net)
		Direct	Total				
VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal Direct life insurance, reinsurance and pension fund management	Paseo de Recoletos 37, 3ª 28004 Madrid	100.00	100.00	1,347,462	635,556	527,692	2,251,712

(*) Companies classified as non-current assets held for sale
(C) Listed companies. Latest publicly-available data at the date of authorisation for issue of the notes to these financial statements.
Note: The information corresponding to non-listed companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.
Data relating to paid up capital, reserves and profit/(loss) have been standardised in the consolidated CaixaBank financial statements in accordance with IFRS.
(1) All data except cost are in local currency: Brazilian real (thousand).
(2) All data except cost are in local currency: Swiss franc (thousands)
(3) All data except cost are in local currency: South African rand (thousands)
(4) All data except cost are in local currency: US dollar (thousands)

Appendix 2 - CaixaBank investments in joint ventures of the CaixaBank Group

(1 / 1)

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Banco europeo de finanzas, SA Activities of a wholesale or investment bank investment bank	Bolsa, 4 Planta Baja 29015 Malaga	39.52	39.52	95,347	166	236	60,702	34,303	175	175	32,057	-
Cartera Perseidas, SL Holding company	Paseo Recoletos, 29 28004 Madrid	40.54	40.54	859	606	-	359	(47)	(59)	(59)	0	-
Comercia Global Payments, Entidad de Pago, SL Payment entity	Caleruega,102 28033 Madrid	49.00	49.00	483,993	288,967	148,528	4,425	158,833	31,768	31,768	89,148	8,250
Cosec - Companhia de Seguros de Crédito, SA Credit insurance	Av. República, 58 1069 Lisbon Portugal	-	42.26	114,723	64,089	20,251	7,500	34,855	8,280	10,505	-	2,780
Global Payments South America, Brasil – Serviços Payment methods	Rua dos Pinheiros, 610 - Cj. 83 05422-001 Sao Paulo Brazil	50.00	50.00	587,007	572,116	67,889	144,363	(116,527)	(12,945)	(12,945)	8,454	-
Inversiones Alaris, SL (L) Holding company	Av. Carlos III, 8 planta 4ª 31002 Pamplona Navarra	33.33	66.67	16,655	6,884	-	11,879	(1,615)	(493)	(493)	-	-
Knowledge Discovery and Predictions SA Advanced modelling projects in the field of Big	Av. Torre Blanca, 57 08172 Sant Cugat del Vallés Barcelona	49.00	49.00	961	1,278	1,415	60	-	(377)	(377)	29	-
Vivienda protegida y suelo de Andalucía, SA Real estate development	Exposición, 14 - 2 Polígono PISA 41927 Mairena del Aljarafe Seville	-	50.00	6,861	8,080	1,978	60	(548)	(731)	(731)	-	-

(L) Companies in liquidation.
(1) All data except cost are in local currency: Brazilian real (thousand).
Note: The information corresponding to non-listed companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.
Data relating to paid up capital, reserves and profit/(loss) have been standardised in the consolidated CaixaBank financial statements in accordance with IFRS.

Appendix 3 – Investments in associates of CaixaBank

(1 / 6)

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Ábaco Iniciativas Inmobiliarias, SL (L) Real estate	Plaza de Cuba, 2, 1ºA 41011 Seville	-	40.00	57,887	79,537	29	13,222	(34,832)	(40)	(40)	-	-
Ape Software Components, SL Business Intelligence	Av.Alcalde Barnils.72-P.2 PTA. B 08174 St. Cugat del Vallés Barcelona	-	25.22	2,623	2,317	1,528	11	323	(27)	(27)	-	-
Arena Comunicación Audiovisual, SL Cinema and video production	San Blas, 2 Bajo exterior 31014 Pamplona Navarra	-	50.00	1,138	138	299	6	981	(41)	(41)	-	-
Banco Comercial de Investimento, SARL (2) Banking	Av. 25 de Setembro, 4 Maputo Mozambique	-	30.14	155,046,739	139,991,509	26,150,889	6,808,799	6,235,442	2,010,990	2,010,990	-	-
Banco de Fomento Angola, SA (4) Banking	Rua Amilcar Cabral nº 58, Maianga 458 Luanda Angola	-	40.65	1,443,064,441	1,225,642,709	162,737,459	3,972,714	144,363,995	69,085,024	69,085,024	-	11,873,561
Bandit Solutions, SL Online freelancer platform	Carrer de la llacuna, 161 - P 3 08018 Barcelona	-	6.34	4,469	2,540	1,121	1,143	963	(177)	(177)	-	-
BIP & Drive, SA Teletoll systems	Plaza Colón.2 - Torre 2, plt 19 28046 Madrid	-	25.00	17,852	8,825	210,077	4,613	3,955	459	459	-	-
Brilliance-Bea Auto Finance (3) Finance for vehicle purchases	12th, No. 8, Lane 1267 Dongfang Road 200127 Shanghai Free Trade Zone China	-	22.50	3,675,633	2,871,245	110,106	800,000	943	3,445	3,445	-	-

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Celeris, Servicios Financieros, SA (L) Financial services	Juan Esplandiu, 13 Planta C-1 28007 Madrid	26.99	26.99	2,073	-	-	10,710	(8,012)	(625)	(625)	-	-
Companhia de Seguros Allianz Portugal, SA Insurance, reinsurance and pension fund management	Rua Andrade Corvo, 32 1069-014 Lisbon Portugal	-	29.58	1,303,015	1,124,054	590,027	39,545	133,041	6,375	11,694	-	6,035
Dermalumics, SL Manufacture of tomography systems	Ronda de poniente, 16 - Piso 1 E 28760 Tres Cantos Madrid	-	18.12	4,243	1,723	-	158	3,289	(926)	(926)	-	-
Drembul, SL Real estate development	Sagasta, 4 Bajo 26001 Logroño La Rioja	-	25.00	60,051	35,386	549	30	18,845	(1,123)	(1,123)	-	-
Ensanche Urbano, SA Real estate development	Santo Domingo, 5, Bajo 12003 Castelló de la Plana	-	49.30	38,957	68,308	6,748	9,224	(37,967)	(608)	(608)	-	-
Erste Group Bank AG (C) Banking	Am Belvedere, 1 01100 Vienna Austria	9.92	9.92	221,714,803	203,745,650	6,002,524	859,600	11,128,468	987,617	1,084,972	1,363,405	42,634
Genmedica Therapeutics SL Pharmaceutical development	Joan XXIII, 10 08950 Esplugues de Llobregat Barcelona	-	9.38	2,257	2,140	-	1,794	450	(2,207)	(2,207)	-	-
Geotexan, SA Manufacture of other textile products for technical and industrial use	Avenida Reino Unido, 1 Planta 1 41012 Seville	-	20.00	12,159	3,969	11,137	7,000	601	(386)	(386)	-	-
Girona, SA Other business management consulting activities	Travessia del Carril, 2 6è 3ª. 17004 Gerona	34.22	34.22	6,747	729	924	1,200	4,637	181	181	1,642	119

CaixaBank investments in associates of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Global Payments - Caixa Acquisition Corporation, SARL Payment methods	6 C, rue Gabriel Lippmann 05365 Luxembourg Luxembourg	49.00	49.00	30,243	32	-	13	30,198	(33)	(33)	14,831	-
Grupo Kiniluku SL Production and sale of headstones	Passeig de Gràcia, 12 1er 08007 Barcelona	-	1.67	1,431	765	325	1,940	(754)	(520)	(520)	-	-
Guadapelayo, SL (L) Real estate development	Miguel Yuste, 16 5º D 28037 Madrid	-	40.00	389	5,241	-	1,981	(3,482)	(3,351)	(3,351)	-	-
Icinetic TIC, SL IT services	Historiador Juan Manzano, 2 - LOC 23 41089 Dos Hermanas Seville	-	11.96	1,484	1,545	324	6	228	(312)	(312)	-	-
Integrated Microsystems for Quality of Life SL Development, manufacture and sale of pathogen and toxin detection kits	P.Industrial Riu Clar. C/ Ferro 6 (Nau 7) 43006 Tarragona	-	11.78	2,828	1,336	287	97	2,108	(809)	(809)	-	-
Inter-Risco – Sociedade de Capital de Risco, SA Venture capital company	Av. da Boavista, 1081 4100-113 Porto Portugal	-	41.41	1,264	269	1,131	400	739	(144)	(144)	-	-
Ircio Inversiones, SL (L) Real estate development	Vitoria, 2 09200 Miranda de Ebro Burgos	35.00	35.00	6,660	7,360	-	675	(1,368)	(7)	(7)	0	-
IT Now, SA Services for IT technology projects	Numància, 164 7ª planta 08029 Barcelona	49.00	49.00	109,986	104,653	236,399	3,382	1,784	167	167	1,663	-

CaixaBank investments in associates of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Justinmid, SL Development of IT systems	Marie Curie, 8 08042 Barcelona	-	16.98	1,014	588	1,475	5	264	96	96	-	-
Knowledge Development for POF, SL Development of a 1Gbit chip for plastic fibre optic technology	Ronda de Poniente 12, Bajo-G 28760 Tres Cantos Madrid	-	8.79	9,636	2,672	171	1,869	6,789	(1,957)	(1,957)	-	-
Laboratoris Sanifit, SL Research and development of new compounds to regulated organic calcification processes	Parc Bit-Edi.Disset D 3 Crta. Valldemosa km 7.4. 07121 Palma de Mallorca Balearic Islands	-	6.57	17,521	3,793	-	42,701	(16,433)	(12,540)	(12,540)	-	-
Medlumics, SL Manufacture of optical coherence tomography systems	Ronda de poniente, 16 - Piso 1 E 28760 Tres Cantos Madrid	-	6.49	14,004	3,679	-	224	11,837	(2,215)	(2,215)	-	-
Minoryx Therapeutics, SL Development of treatment for diseases	Av. Ernest Lluch, 32 08302 Mataró Barcelona	-	0.73	15,844	3,466	298	539	19,451	(8,044)	(8,044)	-	-
Monty & Cogroup, SL Transfer reception	Miguel Ángel nº 21 7ª planta 28010 Madrid	20.47	20.47	8,399	7,600	10,200	27	502	270	270	252	61
Nlife Therapeutics, SL Development of therapeutic agents	BIC Granada. Parque Tecnológico de Ciencias de la Salud. Av. De la Innovación 1 18100 Armilla Granada	-	37.18	11,850	8,663	1,218	8,544	(5,581)	(965)	(965)	-	-
Parque científico tecnológico de Córdoba, SL Science park operation and management	Astrónoma Cecilia Payne, 8.1.-Edif.Centauro 14014 Cordoba	15.54	35.59	31,621	22,469	1,426	21,814	(17,165)	577	577	-	-
Peñíscola Green, SL Real estate development	Plaza de Cardona Vives, 28 12001 Castelló de la Plana	-	33.33	12,846	3,848	-	12,000	(2,952)	(49)	(49)	-	-

CaixaBank investments in associates of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Pórtic Barcelona, SA Port de Barcelona logistics platform	Plaça Word Trade Center, Edif.Est pª6 08039 Barcelona	-	15.97	2,150	361	2,282	291	1,245	253	253	-	-
ProteoDesign SL Development of antibodies solely to eliminate cancerous cells	Baldiri Reixac (Parc Científic Barcelona) , 10 - 12 08028 Barcelona	-	3.09	585	198	19	100	656	(385)	(385)	-	-
Redsys Servicios de Procesamiento, SL Payment methods	Francisco Sancha, 12 28034 Madrid	-	20.00	129,627	80,292	170,454	5,815	35,567	7,903	7,903	-	-
Repsol, SA (C) Oil and gas market operation	Méndez Álvaro, 44 28045 Madrid	9.64	9.64	60,731,000	30,675,000	30,059,000	1,527,000	26,743,000	1,583,000	1,583,000	2,765,812	119,859
Sagetis Biotech, SL Pharmaceutical development	Via Augusta, 394 08017 Barcelona	-	21.10	3,675	2,376	12	81	1,389	(191)	(191)	-	-
Sanifit Medtech, SL Development of implants and other healthcare products	Parc Bit, Ed. Norte PB-4 07121 Palma de Mallorca Balearic Islands	-	20.89	225	87	-	6	302	(173)	(173)	-	-
SegurCaixa Adeslas, SA de Seguros y Reaseguros Non-life insurance	Paseo de la Castellana, 259 C 28046 Madrid	-	49.92	3,753,636	2,879,187	2,895,529	469,670	155,266	222,125	231,258	-	107,737
Servihabitat Servicios Inmobiliarios, SL Real estate services	Av. Burgos.12 28036 Madrid	49.00	49.00	533,589	390,101	289,361	499	76,860	66,128	66,128	3,435	-
Servired, Sociedad Española de Medios de Pago, SA Payment methods	Gustavo Fdez.Balbuena, 15 28002 Madrid	-	22.01	40,732	13,822	18,577	16,372	7,557	2,981	2,981	-	962
Smart Solutions Technologies SL Production and marketing of biometric solutions	Toronga, 21. 28043 Madrid	-	5.04	5,745	5,049	462	163	3,210	(2,687)	(2,687)	-	-

CaixaBank investments in associates of the CaixaBank Group

(Thousands of euros)

Company name and line of business	Registered office	% interest Direct	% interest Total	Assets	Liabilities	Ordinary income	Share capital	Reserves	Profit/(loss)	Total comprehensive income	Cost of direct ownership interest (net)	Dividends accrued in the year on total ownership interest
Sociedad de Procedimientos de Pago, SL Payment entity	Francisco Sancha, 12 28034 Madrid	-	22.92	2,079	259	635	2,346	-	(526)	(526)	-	-
Societat Catalana per a la Mobilitat, SA Development of new transport technologies	Roc Boronat, nº 133 08018 Barcelona	23.50	23.50	44,408	34,636	4,010	9,874	(92)	(10)	(10)	1,846	-
Sofiland, SA Real estate development	Av. Al-Nasir, 3 - 4 1 y 2 14008 Cordoba	-	35.00	13,842	3,000	-	1,502	9,455	(115)	(115)	-	-
SR2, Sociedad de Medios de Pago, SA Payment methods	Gustavo Fernandez Balbuena 15 28002 Madrid	-	22.01	66	23	-	62	-	(19)	(19)	-	-
Telefónica Factoring do Brasil, LTDA (1)	Rua Desembragador Eliseu Guilherme, 69 pt. E. 04004-030 Paraíso - Sao Paulo Brazil	20.00	20.00	239,388	188,351	61,489	5,000	1,000	45,037	45,037	2,029	2,565
Telefónica Factoring España, SA	Zurbano, 76 pl. 8. 28010 Madrid	20.00	20.00	40,008	26,840	3,411	5,109	1,740	6,320	6,320	2,525	1,381
Unicre - Instituição Financeira de Crédito, SA Finance	Av. António Augusto de Aguiar, 122 1050 Lisbon Portugal	-	17.76	350,693	247,965	155,405	102,658	68,349	24,309	38,640	-	-
Vía 10, Sociedad mixta viviendas de alquiler SL (L) Real estate development	Plaza de España, 8 09200 Miranda de Ebro Burgos	-	40.00	2,306	-	-	2,360	(43)	(11)	(11)	-	-

(L) Companies in liquidation.
(C) Listed companies. Latest publicly-available data at the date of authorisation for issue of the notes to these financial statements.
Note: The information corresponding to non-listed companies is based on the most recent data available (actual or estimated) at the time of preparation of the notes to these financial statements.
Data relating to paid up capital, reserves and profit/(loss) have been standardised in the consolidated CaixaBank financial statements in accordance with IFRS.
(1) All data except cost are in local currency: Brazilian real
(2) All data except cost are in local currency: New Mozambique metical (thousands)
(3) All data except cost are in local currency: Renmimbi (thousands)
(4) All data except cost are in local currency: Angolan Kwanza (thousands)

Appendix 4 - Tax credit for reinvestment of extraordinary profit

Profit qualifying for the tax credits set forth in Article 42 of the restated text of the Corporation Tax Law approved by Royal Decree-Law 4/2004, of 5 March (Transitional provision twenty-four of Corporation Tax Law 27/2014):

(Thousands of euros)	CaixaBank				CaixaBank Group				Banca Cívica		
Year	Profit qualifying	Deduction base	Tax credit (1)	Year of reinvestment	Profit qualifying	Deduction base	Tax credit (1)	Year of reinvestment	Profit qualifying	Tax credit	Year of reinvestment
2011 (3)	9,875	9,875	1,185	2011	493,819	265,124	31,815	2011 and 2012	41,292	4,955	2011
2012 (2) (3)	30,840	30,840	3,700	2012	51,055	279,507	33,540	2012			
2013	53,581	53,581	6,430	2013	67,518	67,518	8,102	2013			
2014	281,738	281,738	33,809	2014	298,346	298,346	35,802	2014			
2015					17,994	17,994	2,159	2015 [2]			
2016					13,227	13,227	1,586	2016			

(1) There are unused tax credits due to a shortage of taxable income in the consolidated income tax return.

(2) Banco de Valencia obtained income subject to tax credits in 2012 of EUR 5,468 thousand, reinvesting the full amounts obtained on transfer in that year.

(3) Barclays Bank obtained income subject to tax credits in 2011 and 2012 of EUR 11,394 thousand and EUR 3,345 thousand, respectively, reinvesting the full amounts obtained on transfer in those years.

Reinvestment is carried out in equity securities granting holdings in excess of 5%, and on property, plant and equipment, intangible assets and investment properties relating to the business activity.

Appendix 5 - Disclosure on the acquisition and disposal of stakes in 2017

(Article 155 of the Corporate Enterprises Act and Article 125 of the restated text of Spanish Securities Market Law).

On 18 January 2017 CaixaBank SA filed a notice with the CNMV reporting that following the capital increase carried out by Repsol SA on 17 January 2017, that its stake had fallen below the 10% threshold.

On 5 April 2017 CaixaBank SA filed a notice with the CNMV reporting that following the capital increase carried out by Abengoa SA on 28 March 2017, its stake stands at 5,008%.

On 19 April 2017 CaixaBank SA filed notices with the CNMV reporting the sale of Abengoa SA stakes and subsequent falling to below the 5% (on 11 April 2017) and 3% (13 April 2017) thresholds.

On 1 August 2017, CaixaBank, SA issued a statement of related party connections for the arrangement of an equity swap on 45,754,163 shares in Telefónica, SA on 28 July 2017. Through this financial instrument, CaixaBank, SA has arranged a fair value hedge of the underlying shares at the agreed unit price.

On 27 October 2017, CaixaBank, SA issued a statement of related party connections for the arrangement of an equity swap on 30,547,921 shares of Repsol, SA on 26 October 2017. Through this financial instrument, CaixaBank, SA has arranged a hedge of the underlying shares at the agreed unit price. At 26 October 2017 the definitive parameters for the instrument were established, although the instructions for the creation of the transaction had been arranged previously.

Appendix 6 – Annual banking report

In accordance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, credit institutions are required to publish the following information on a consolidated basis for the last financial year ended, broken down by country where the credit institutions are established:

Pursuant to the above, the information required is provided hereon:

a) Name, nature and geographical location of activity

CaixaBank, with tax identification number (NIF) A08663619 and registered address at Pintor Sorolla, 2-4, Valencia (until 6 October 2017 Avenida Diagonal 621, Barcelona), was created through the transformation of Criteria CaixaCorp, SA which culminated on 30 June 2011 with the entry of CaixaBank in the Bank of Spain's Registry of Credit Institutions ("Registro de Entidades de Crédito") and its listing on the Spanish stock markets – as a credit institution – on 1 July 2011.

On 26 September 2017, the ECB Governing Committee ruled that given that the terms and conditions established in Article 26.8 of EU Regulation 1024/2013, of the Council, have been met, CriteriaCaixa no longer has control or exercises a significant dominant influence over CaixaBank, and consequently is no longer the parent of the financial conglomerate. This ruling came into force the same day. Therefore, CaixaBank has become 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 of which CaixaBank is the entity at the highest level of prudential consolidation.

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 other; and
c) acquisition, holding, enjoyment and disposal of all manner of securities and drawing up takeover bids and sales of securities, and of all manner of ownership interests in any entity or company.

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

CaixaBank is also a public limited company (sociedad anónima) whose shares are admitted to trading on the Barcelona, Madrid, Valencia and Bilbao stock exchanges and on the continuous market and have been included on the IBEX 35 since February 4, 2008. It is subject to the oversight of the Spanish Securities Market Regulator (Comisión Nacional del Mercado de Valores or CNMV). CaixaBank is also listed on other international stock market indices, such as the Euro Stoxx Bank Price EUR, the MSCI Europe, the MSCI Pan-Euro, the FTSE4Good (a FTSE index that rates the investments of companies as sustainable on the basis of their corporate social responsibility practices), the FTSE Eurofirst 300 (consisting of the 300 leading European companies by market capitalisation), and the Dow Jones Sustainability Index, which reflects, among other things, the Bank's commitment to sustainability and corporate reputation in its business activities and investments. It is also listed on the Advanced Sustainable Performance Index (ASPI), which features the top 120 DD Euro Stoxx companies in terms of sustainable development performance.

Appendices 1, 2 and 3 of the CaixaBank Group's consolidated financial statements detail the subsidiaries, joint ventures and associates that make up the CaixaBank Group.

Appendix 5 discloses notices on the acquisition and disposal of ownership interests in 2017, in accordance with Article 155 of the Corporate Enterprises Act and Article 125 of the restated text of the Securities Market Act.

b) Business volume

CaixaBank, SA is established in Spain, and has four foreign branches in Poland, Morocco, the UK and Frankfurt.

CaixaBank also has 17 representative offices which do not carry out banking activities but provide information on the Entity's services in the following 15 jurisdictions: Algeria, Brazil, China (3), Chile, Colombia, Egypt, United Arab Emirates, United States of America, France, India, Italy, Turkey, Peru, Singapore and South Africa.

Banco BPI has 505 branches in Portugal, a foreign branch in Spain and another one in France.

Business volume by country on a consolidated basis is as follows:

Geographic information: distribution of ordinary income (*)

(Millions of euros)	**Banking and insurance**		**Non-core real estate activity**		**Investments**		**BPI**		**TOTAL CaixaBank GROUP**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Spain	10,704	11,093	259	289	240	385	9		11,212	11,767
Portugal							705		705	0
Poland	14	14							14	14
Morocco	5	5							5	5
United Kingdom	4	2							4	2
Share of profit/(loss) of international associates accounted for using the equity method (**)					34	267	96		130	267
Other							42		42	
Total ordinary income	**10,727**	**11,114**	**259**	**289**	**274**	**652**	**852**	**0**	**12,112**	**12,055**

(*) Correspond to the following headings of the CaixaBank Group's public statement of profit or loss calculated pursuant to Bank of Spain Circular 5/2014:

1. Interest income
2. Dividend income
3. Share of profit/(loss) of entities accounted for using the equity method
4. Fee and commission income
5. Gains/(losses) on financial assets and liabilities
6. Gains/(losses) from hedge accounting
7. Other operating income
8. Income from assets under insurance or reinsurance contracts

(**) Corresponds to the share of profit/(loss) of international associates accounted for using the equity method, primarily Erste Group Bank (Austria) and Banco BPI (Portugal) until control was taken in February 2017. GF Inbursa (Mexico) and The Bank of East Asia (Hong Kong) were also included in 2016 until their sale in May of that year.

c) Full-time workforce by country

At 31 December 2017, the full-time workforce by country is as follows:

Full-time workforce by country
(Thousands of euros)

	31.12.2017	31.12.2016
Spain	31,943	32,305
Portugal	4,871	
Poland	17	16
Morocco	22	18
United Kingdom	12	14
Germany	8	
France	13	
Switzerland	28	
Other countries - Representative offices	58	50
Total full-time employees	**36,972**	**32,403**

d) Gross profit/(loss) before tax

Gross profit before tax on a consolidated basis in 2017 amounted to EUR 2,098 million (EUR 1,538 million **in** 2016), and includes ordinary income from the branches detailed in b) above.

e) Income tax

The net income tax expense recognised on consolidated profit in 2017 amounted to EUR 378 million (net rebate of EUR 482 million in 2016), as shown in the consolidated statement of profit or loss.

Payments of income tax in 2017 amounted to EUR 185 million (EUR 101 million in 2016), EUR 31 million of which was settled in Portugal, EUR 677 thousand in Poland, EUR 111 thousand in Morocco and the remainder in Spain.

Income taxes actually paid in the fiscal year in each jurisdiction include the final settlements derived from the payments on account and withholdings paid, which are reduced in turn in the income tax rebates in the current year. The result of the settlements deriving from tax assessments during that year is also included. All ordinary income generated by the CaixaBank Group is taxable.

The amount of income tax payments do not correspond to the amount of the tax expense recorded in the consolidated statement of profit or loss. The main cause of this divergence lies in the different timing of recognition of the items that make up the accrual and cash criteria in relation to income tax.

f) Grants and public aid received

In 2017, the CaixaBank Group received the following grants and public aid:

- Grant received from the Ministry of Industry, Energy and Tourism, through the department of shipbuilding, in virtue of Royal Decree 442/1994 and subsequent amendments, for aid for shipbuilding. The amount received during the year was EUR 3,100 thousand.

- Nuevo MicroBank has signed agreements with the European Investment Fund (EIF) as a part of the Competitiveness and Innovation Framework Programme (CIP), the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME),and the ERASMUS+ programme that cover losses relating to exposure to write-offs on social and financial microcredit portfolios (the first two programmes) and microcredits extended to students (the third programme) eligible for the programmes up to a specified maximum amount. In 2017, the grant received in this connection totalled EUR 5,466 thousand.
- A grant received from the State Foundation for Training in Employment (FEFE) for employee training, for an amount of EUR 4,191 thousand.

No settlements have been made by the Fund for Orderly Bank Restructuring (FROB) during 2017 in connection with the Asset Protection Scheme signed in the protocol of support measures in the award of Banco de Valencia to CaixaBank.

The relevant indicators and ratios are shown in section 2 of the accompanying 2017 Management Report. The return on assets in 2017, calculated as net profit (adjusted to reflect the amount of the *Additional* Tier 1 coupon, after tax, reported in equity) divided by average total assets over the last 12 months, was 0.5% (2016: 0.3%).

CaixaBank Group Management Report for

2017

CaixaBank Group Management Report for 2017

This management report has been prepared in accordance with the Spanish Commercial Code and Royal Legislative Decree 1/2012, of 2 July, enacting the Spanish Corporate Enterprises Act. When including non-financial information and information on diversity, the CaixaBank Group has paid due regard to the provisions of Royal Decree-Law 18 of 24 November 2017, modifying the Commercial Code, as well as the revised text of the Corporate Enterprises Act enacted by Royal Legislative Decree 1 of 2 July 2010, and Directive 2014/95/EU of the European Parliament and of the Council, of 22 October.

The financial information disclosed in this management report has been obtained from the consolidated accounting and management records of the CaixaBank Group, and is presented in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and the criteria set forth in Bank of Spain Circular 4/2004 of 22 December and subsequent amendments.

In drafting the report, the Group has also taken into account the guidelines set out in the Guide for the Preparation of Management Reports of Listed Companies published by the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV) on 29 July 2013, the Guidelines on non-financial reporting published by the European Commission on 26 June 2017, and the international framework containing the ten principles of the UN Global Compact. This report therefore addresses all ten principles, explaining to extent to which each has been applied at the Bank:

- Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights (see section 3.3 - Human Resources).
- Principle 2. Businesses should make sure that they are not complicit in human rights abuses (see section 3.3 - sub-section on Human Rights and Codes of Conduct).
- Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining (see Section 3.3 - Human Resources).
- Principle 4. Business should support the elimination of all forms of forced and compulsory labour (see section 3.3 – sub-section on Human Rights and Codes of Conduct).
- Principle 5. Business should support the effective abolition of child labour (see section 3.3 – sub-section on Human Rights and Codes of Conduct).
- Principle 6. Companies should support the abolition of discriminatory practices in employment and occupation. (see section 3.3 - Human Resources).
- Principle 7. Businesses should support a precautionary approach to environmental challenges (see section 3.2 - Environment).
- Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility (see section 3.2 - Environment).
- Principle 9. Business should encourage the development and diffusion of environmentally friendly technologies (see section 3.2 - Environment).
- Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery (see section 3.3 - sub-section on Human Rights and Codes of Conduct).

For further information on the non-financial information of the CaixaBank Group, please see the 2017 Integrated Corporate Report and its annex and the 2017 Social and Economic Impact Report, both of which can be found on the CaixaBank website at www.caixabank.com.

This report describes the key data and events of 2017 shaping the financial position of the CaixaBank Group and the performance of its businesses. It also contains information on environmental and social concerns, respect for human rights and the fight against corruption and bribery, as well as the risks and foreseeable future outlook.

Content

1. CURRENT SITUATION

CaixaBank is the leading retail bank in Spain with the largest customer base and a robust balance sheet. Following its takeover of Portuguese bank BPI, the CaixaBank Group has consolidated its leading position in retail banking in Spain and Portugal as a whole. It operates a universal banking model based on quality, proximity and expertise, with a value proposition of products and services tailored to each segment. It is a sustainable and socially responsible banking model and one that views innovation as a strategic challenge and a hallmark of its culture. Its priorities are to maintain exacting standards of service quality, a firm commitment to mobility and digitalisation, capacity to innovate, financial strength and proximity.

1.1. Organisational structure

Group structure

CaixaBank is a public limited company (*sociedad anónima*) whose shares are admitted to trading on the Barcelona, Madrid, Valencia and Bilbao stock exchanges and on the continuous market and have been included on the blue-chip IBEX 35 since 4 February 2008. It is subject to the oversight of the Spanish Securities Market Regulator (Comisión Nacional del Mercado de Valores, or CNMV). CaixaBank is also included in other international stock market indices, such as the Euro Stoxx Bank Price EUR, the MSCI Europe, the MSCI Pan-Euro, the FTSE4Good, a prestigious FTSE index that rates the investments of companies as sustainable on the basis of their corporate social responsibility practices, the FTSE Eurofirst 300, consisting of the 300 leading European companies by market capitalisation, and the Dow Jones Sustainability Index, which reflects, inter alia, the company's commitment to sustainability and corporate reputation in its business activities and investments. It is also listed on the Advanced Sustainable Performance Index (ASPI), which features the top 120 DD Euro Stoxx companies in terms of sustainable development performance.

CaixaBank and its subsidiaries compose the CaixaBank Group.

CaixaBank is a benchmark entity in the Spanish market in both the financial and insurance realms thanks to its universal banking model, through which it offers a wide range of products and services tailored to the needs of customers via a commercial network that deftly combines branches and digital channels. The Bank has also formed strategic alliances with large banking groups and has shareholdings in leading companies in the services sector.

As a listed bank, it is subject to oversight by the European Central Bank, the Bank of Spain and the Spanish national securities market regulator (CNMV).

Business segments

For 2017, segment reporting is presented in the same way as prior to the acquisition of BPI, although from February 2017 onward attributable earnings from this investee are no longer included under the equity investments business but as a new business called BPI, meaning that the CaixaBank Group now has the following business segments:

Banking and insurance business	Banking and insurance is the CaixaBank Group's core business and includes the entire banking business (retail banking, corporate and institutional, cash management and markets), together with the insurance business and asset management, primarily carried out in Spain through the branch network and the other complementary channels. It encompasses the activity and the profits generated from the Group's customers, whether individuals, companies or institutions. It also incorporates liquidity management and the Assets and Liabilities Committee (ALCO) and income from the financing of other businesses and corporate activities. The CaixaBank Group rounds out its catalogue of banking products and services with a specialised offer of life insurance, pension plans and general insurance products, primarily instrumented through VidaCaixa, and also asset management through CaixaBank Asset Management.

Non-core real estate business	The non-core real estate business shows the results, net of finance costs, of non-core real estate assets in Spain (non-core real estate developer loans, foreclosed real estate assets, most of which are owned by real estate subsidiary BuildingCenter, S.A., and other real estate assets and holdings).

Equity investments business	This line of business shows earnings on dividends and/or equity-accounted profits from the stakes held in Erste Group Bank, Repsol SA and Telefónica, SA, net of the related finance costs. It also includes other significant stakes recently acquired by the Group as part of its drive to diversify across sectors.

BPI business	The BPI business includes the earnings contributed by BPI to the consolidated Group as from the takeover in February 2017, from which time on the investee has been reported using the full consolidation method.

Note 8 to the accompanying consolidated financial statements for 2017 presents the results of the CaixaBank Group's business segments.

In 2017, the Group continued with its streamlining processes to improve the management of both businesses and costs. This involved merging investees, liquidating idle companies and selling off certain companies.

Governance bodies

Corporate governance at CaixaBank comprises a set of principles and regulations governing the design and functioning of the Bank's governance bodies: the Annual General Meeting, the Board of Directors and the various Board committees.

The Board of Directors is the Bank's senior decision-making body, except for those matters reserved for the Annual General Meeting. The following individuals and bodies are attached to the Board of Directors:

Executive Committee	Delegate body that meets more frequently than the Board. Although it cannot decide on matters reserved for the Board, it has authority to vote on other important matters, particularly those relating to approval of lending transactions.

Audit and Control Committee	Organises the tasks of monitoring and financial control. This involves supervising the internal audit systems and ensuring the efficiency and independence of the internal control systems in place. It also oversees the entire process of preparing and presenting CaixaBank's financial information prior to publication by the Board.

Appointments Committee	Heads the process of appointing new members to the committee and reports on proposed appointments or removals of the senior management. The Appointments Committee likewise reports to the Board on matters relating to gender diversity, and oversees the Bank's conduct in the field of corporate social responsibility. Last but not least, it conducts periodic assessments of the structure, size, composition and actions of the Board of Directors and of its committees, chairman, chief executive and secretary. It also evaluates the make-up of the Management Committee, as well as its lists of replacement candidates to ensure that transitions and vacancies are suitable covered.

Risks Committee	Advises the Board of Directors on the Bank's global propensity to current and future risks and on its strategy in this regard, reporting on the risk appetite framework and proposing the Group's risk policy to the Board. It also regularly reviews exposures with main customers, economic sectors, geographic regions and types of risk, and examines the Group's risk reporting and control systems and information systems and indicators. It likewise reports on new products and services and on significant changes to existing ones.

Remuneration Committee	Reports to the Board and proposes the general principles and framework governing the remuneration policy and the types and amount of remuneration payable to directors and members of the senior management. It is also tasked with preparing and reporting on the Bank's general remuneration policy and with analysing, drawing up and periodically reviewing the remuneration schemes in place, while also gauging their suitability and performance and ensuring they are observed. It seeks the Board's approval of remuneration reports and policies that the Board must itself lay before the Annual General Meeting, and reports to the Board on any pay-related proposals and motions that the latter intends to put before the Annual General Meeting.

The Chief Executive Officer also reports to the Board of Directors and is tasked with the bank's day-to-day management and ordinary decision-making. The CEO is ultimately accountable to the Board and the Executive Committee.

The primary functions of each of these governance bodies are described in detail in the accompanying Annual Corporate Governance Report and on the Bank's corporate website www.caixabank.com.

Board members must meet all applicable legal requirements regarding standing, experience and track record in good governance. CaixaBank's Board of Directors also relies on the recommendations and good corporate governance proposals issued by Spanish and European authorities and experts concerning the composition of governance bodies (in relation to diversity, among other considerations) and director profile (in respect of training, knowledge and experience, among other factors).

At year-end, the Board of Directors comprised 18 members (nine independent, seven proprietary and two executive), all of whom uphold the Bank's corporate interests equally regardless of their category.

It should also be noted that on 26 May 2016, CriteriaCaixa reported that it had consulted the European Central Bank (ECB) on the precise conditions under which it would be deemed to have relinquished control of CaixaBank so as to entail the effective deconsolidation of CaixaBank from CriteriaCaixa for prudential purposes. The ECB then proceeded to communicate the conditions under which it would consider that CriteriaCaixa had relinquished control over CaixaBank for prudential purposes. The relevant conditions established by the ECB included the requirement that the voting and dividend rights of CriteriaCaixa at CaixaBank should not exceed 40% of all voting and dividend rights.

On 26 September 2017, CaixaBank disclosed to the market via a significant event notice that the Board of the European Central Bank had ruled, given that these terms and conditions had been met, that CriteriaCaixa no longer exercises control or a dominant influence over CaixaBank, and consequently is no longer its parent company.

Accordingly, the Regulations of the Board of Directors were amended on 23 February 2017 so as to bring them in line with the changes made to the Bylaws (approved in turn at the Annual General Meeting of 6 April 2017) in order to make certain corporate governance improvements associated with meeting the conditions for prudential deconsolidation of CriteriaCaixa. These changes to the Bylaws included rules governing the Lead Independent Director and their appointment on 22 June.

The Board of Directors met 17 times in 2017. At these meetings, the following resolutions, among others, were discussed, had been informed of and agreed upon:

- CaixaBank's financial situation and results.
- The monitoring of the policy changes introduced by the standard IFRS 9 and the development of the adaptation process.
- The Bank's Strategic Plan.
- Mergers, acquisitions and transfers of stakes in other financial institutions.
- The Bank's policies.
- Budget control and risk management.

The Annual Corporate Governance Report lists the members of CaixaBank's governance bodies and details their representative functions.

Management Committee

In addition to the Board committees mentioned above, which report directly to the Board of Directors, the CaixaBank Group has created a Management Committee organised into the following areas and comprising the following individuals:

Area	Position	Name
Board of Directors	Chief Executive Officer	Gonzalo Gortázar Rotaeche
Business	General Manager	Juan Antonio Alcaraz García
Human Resources and Organisation	General Manager	Xavier Coll Escursell
Risks	General Manager	Jorge Mondéjar López
Insurance and asset management	General Manager	Tomás Muniesa Arantegui
Internal Audit	Deputy General Manager	Joaquim Vilar Barrabeig
Financial Accounting, Financial Management and Capital	Executive Director	Matthias Bulach
Resources	Executive Director	Jordi Fontanals Curiel
Communication, Institutional Relations, Brand and CSR	Executive Director	Maria Luisa Martínez Gistau
International banking	Executive Director	Maria Victoria Matía
Finance	Executive Director	Javier Pano Riera
General Secretary	General Secretary and Secretary to the Board of Directors	Oscar Calderón de Oya

CaixaBank's Management Committee meets weekly to adopt resolutions concerning implementation of the annual operating plan and organisational aspects affecting the Group. This includes approving structural changes, appointments, expense lines and business strategies. All areas and business lines are represented on the committee.

The functions of each area represented on the Management Committee are as follows:

1. Chief Executive Officer: without prejudice to any other functions inherent to the position of Chief Executive Officer, the CEO is specifically entrusted with the following duties:
    - Developing business both nationally and internationally
    - Regulatory Compliance
    - Recovery, Non-performing and Foreclosed Assets

2. General Business Division. Primarily oversees the following:

- Branch network and branches
- Business Banking
- Premier Banking
- Private Banking
- Retail Banking
- Corporate & Institutional Banking - CIB
- Business Development
- Technical Secretary
- Marketing
- Innovation and Quality
- Real Estate Business
- Customer Service
- CaixaBank Payments
- CaixaBank Digital Business
- CaixaBank Consumer Finance
- CaixaBank Business Intelligence
- Technical Secretary to the Chairman's Office in Madrid

3. Human Resources and Organisation. Primarily oversees the following:

- Organisation
- Management, Compensation and Pensions
- Employment Relations, Culture and Diversity
- Legal Advisory - Employment
- Selection and Development
- Internal Talent and Consulting
- Internal Communication
- Human Resource Search and Selection

4. The General Risks Division. Primarily oversees the following:

- Global Risk Management
    - Second line of defence for all financial and non-financial risks except for compliance risk, legal/regulatory risk and reputational risk, for which the Compliance division is responsible.
    - This function includes the following specific responsibilities, which it exercises independently of the functions entrusted to the first and third lines of defence:
        - ✓ Identifying, modelling and measuring risks
        - ✓ Defining risk acceptance and management policies
        - ✓ Monitoring and control
        - ✓ Reporting
- Analysis and approval of legal and natural persons
- Management of restructurings of legal and natural persons
- Management of foreclosed assets
- Validation of risk models

5. Insurance and Asset Management Division. Primarily oversees the following:

- Insurance business and asset management
- Corporate development in the realm of insurance and asset management
- Insurance Alliance Management
- Bankassurance operator

6. Deputy Directorate for Internal Auditing. Primarily oversees the following:

- Internal Audit: as the third line of defence, it must ensure the effective and efficient supervision of the internal control system and is also tasked with risk management at the CaixaBank Group, operating with a high level of independence and objectivity.

7. Executive Division for Financial Accounting, Management Control and Capital. Primarily oversees the following:

- Planning and Capital: financial and capital planning and associated management control; managing and reporting capital position and coordinating recovery and resolution activities.
- Corporate reporting and investee control:

    - Preparing, analysing and reporting the financial information relating to both the Group and the different business units. Managing relations with rating agencies
    - Keeping the management information system
    - Controlling and monitoring the investee portfolio
- Accounting and auditing: defining the Group's accounting policies, keeping and controlling both individual and consolidated accounts, preparing annual accounts and financial statements, regulatory reporting, and liaising with auditors and supervisory bodies.
- Internal Financial Control: supervises the controls risks to business profitability, own funds / capital adequacy, impairment of other assets (investees, goodwill, deferred tax assets, etc.) and the reliability of the financial information.

8. Executive Resources Division. Primarily oversees the following:

- Portfolio of Group-owned real estate assets intended for own use.
- IT and communications infrastructures, as well as IT service development.
- Banking operating services and operating services relating to the securities and capital markets.
- Maintenance, logistics, fixed assets and construction services for the Group, as well as the Procurement Area, with its service procurement platform and control mechanisms to ensure transparency when contracting with suppliers.
- Comprehensive security for the Group (physical, software, intelligence, IT systems, etc.).
- Defining, implementing and improving efficiency and the digitalisation of processes and activities across the entire Group (including Central Services, the branch network and Group subsidiaries)
- Integration of financial institutions.
- Budget management: managing and controlling the Group's expenses and investment, arranging and monitoring implementation of budgets, analysing and monitoring costs by business unit, and tracking and controlling agreements with suppliers (applying the outsourcing policy).

9. Executive Division for Communication, Institutional Relations, Brand and Corporate Social Responsibility. Primarily oversees the following:

- External communication:
    - Managing relations with the international, national and regional press and media and proactively and reactively increasing exposure of the main corporate and commercial milestones reached by the Bank.
    - Monitoring information on the Bank across the social networks and posting content via the Communication Room, corporate blog and corporate profiles on the main social networks.
- Sponsorship: managing the Bank's sponsorship activities for sporting, cultural and institutional events.
- Institutional Advertising and Brand: defining, developing and entrenching the CaixaBank brand and preparing and disseminating institutional publicity and advertising.
- CSR: developing and implementing the Bank's Corporate Social Responsibility policy, which is embodied in its Socially Responsible Banking Master Plan.
- Institutional agreements: managing and arranging all of CaixaBank's institutional agreements.
- Institutional relations: organising or overseeing events involving the Bank's management team.
- Management, measurement and control of reputational risk (First Line of Defence).
- Managing the Bank's inclusion on the main indices relating to sustainability and reputation
- Institutional representation for the Global Compact and Sustainability.

10. Executive International Banking Division. Primarily oversees the following:

- Defining and implementing specific products and services for the international realm.
- Network of international branches and representative offices: managing the Bank's operational branches and representative offices outside Spain, including service branches at investee banks.
- International Financial Institutions: managing correspondent banking relations and relations with supranational and multilateral bodies and central banks.
- International Projects: coordinating international development projects at the business lines.

11. Executive Financial Division. Primarily oversees the following:

- Markets: managing trading books.
- ALM: liquidity, balance sheet management and wholesale funding.
- Analysis of liquidity risk and balance sheet interest rate risk.
- Investor relations.

12. General Secretary and Secretary to the Board of Directors. Primarily oversees the following:

- Secretary to the Board:
    - Offering advice, information and support to the Chairman and Board members in relation to their functions.
    - Occupies the Secretary's Office of the Board and of the governance bodies.

- General Secretary
    - Advising on how best to develop the corporate governance model.
    - Supporting the governance bodies and management in their decision-making processes.
    - Heading relations with regulators and supervisors on the subject of corporate governance.
    - Acts as secretary at investees and coordinates with the parent.
    - Acts as Secretary to the Management Committee.

- Corporate M&A: legal support, analysis and completion of M&A operations and divestment transactions.

- Legal and Tax Advisory:
    - Minimising the legal risks inherent in the Bank's operations.
    - Legal advisory for the banking business.
    - Overseeing the Bank's representation and defence in all manner of court proceedings and responding accordingly to any charges brought against the company.
    - Drawing up contracts for all manner of dealings between the Group and suppliers and partners.
    - Coordinating legal action for all subsidiaries and investees.
    - Organising and arranging the legal side of investment and divestment operations affecting any of the Group's investees.
    - Providing tax advice on transactions and products and keeping the Group's tax records.

1.2. Strategic Plan

CaixaBank continues to base its actions on its 2015-18 Strategic Plan, "**Committed to trustworthy and profitable banking**", as it seeks to consolidate its commercial leadership in Spain and be recognised for its quality of service, social responsibility, financial robustness and capacity to innovate.

CaixaBank remains well on track when it comes to its strategic objectives. The Bank's profitability continues to grow thanks to strong income, cost savings and improvements in credit quality. The Bank has also enhanced its capital adequacy and liquidity, which are comfortably clear of the minimum regulatory requirements.

Strategic priorities: 2015-2018

In the commercial realm, CaixaBank continues to cement its leadership within the Spanish banking and insurance market. In Portugal, business and profits at BPI have been increasingly sharply following its acquisition by CaixaBank in early 2017.

Meanwhile, CaixaBank remains firmly committed to new innovations and functionalities so as to continue leading the way in digitalisation and anticipating new technological challenges.

For 2018, the last year of the plan, the bank will continue fostering diversification of its sources of income, contain its cost base and reduce exposure to non-performing assets in a bid to achieve a RoTE (return on tangible equity) of between 9% and 11%. Against the current backdrop, another key priority is to continue raising awareness within the organisation of conduct risk while strengthening the culture of internal control and compliance. Last but not least, the Bank will continue to provide added-value advice to all its customers so as to ensure unrivalled levels of service and trust.

CaixaBank is also due to start the planning process for its new Strategic Plan in 2018. This Plan will define its priorities for action in response to the challenges and opportunities of the coming years.

Described below are the main milestones reached in 2017 for each strategic line and the key priorities for 2018.

Customer focus: being the best bank for quality of service and reputation

STRATEGIC OBJECTIVES

- Fostering the customer experience and improve satisfaction and positive word of mouth.
- Consolidating CaixaBank's reputation as the standard-bearer for responsible and socially-committed banking.
- Setting a benchmark for corporate governance.

2017 MILESTONES

Service quality indicators fared extremely well in the year across all business segments. This will enable the Bank to reach the strategic objectives initially envisioned for 2018. The Bank is working on new surveys and indicators to gauge key moments in the experience of customers and employees, so as to continue improving the levels of quality and positive word of mouth.

It was named best bank in Spain by Euromoney and Global Finance and has successfully renewed its presence on the indices featuring the world's most demanding banks when it comes to the responsible management of their financial business, including the Dow Jones Sustainability Index World and Europe, the FTSE4Good and the CDP index. The Bank is also developing a socially responsible banking master plan, which will include social welfare and environmental initiatives and foster financial inclusion and education.

When it comes to controlling conduct risk, the bank is strengthening its control and compliance culture through communication and awareness plans targeting the entire organisation, together with training course that focus on the code of ethics, the anti-corruption policy, the internal code of conduct and anti-money laundering. It has also improved its key know-your-customer (KYC) and cash management processes.

Meanwhile, the bank continued to improve its corporate governance in the last year by increasing the number of independent directors, who now account for 50% of total members, appointing a Lead Director from amongst the independent directors and commissioning an external assessment of the Board.

PRIORITIES FOR 2018

- Completing the roll-out of the customer and employee experience methodology, identifying key moments in their experience and launching new surveys and measurements to flag areas for improvement and ensuring their swift implementation.
- Ensuring compliance with the most demanding international corporate social responsibility and corporate governance standards.
- To raise awareness across the organisation of conduct risks and enhance the culture of internal control and compliance.

Recurring returns and profit above the cost of capital

STRATEGIC OBJECTIVES

- Achieving a RoTE (return on tangible equity) of between 9% and 11% in 2018.
- Strengthening the Bank's commercial leadership within the Spanish market.

2017 MILESTONES

CaixaBank reported a significant increase in profit, with a RoTE of 8.4%. At a time of heavy pressure on profitability, banking income continued to grow, thanks to increased customer engagement, the contribution of the insurance business and diversification of the loan portfolio towards the consumer and business segments.

The bank maintained a stable cost base and managed to bring its cost-to-income ratio into line with its strategic objectives. Meanwhile, it continued to reduce loan-loss provisions as credit quality steadily improved, which has also helped improve the Bank's profitability.

In terms of commercial positioning, CaixaBank strengthened its leadership in individual banking in 2017. Its model of providing added-value advice specially segmented for each type of customer has allowed it to increase its customer penetration rate for yet another year, along with its market shares for direct deposit of salaries and customer funds (particularly pension plans and savings insurance). At present, one out of every three Spaniards is a CaixaBank customer and the Bank's market share for the direct deposit of salaries is now 26.3%, 0.3 percentage points higher than the previous year.

Meanwhile, BPI made a sizeable contribution to the CaixaBank Group's figures. Both the profitability and business volume of the Portuguese bank improved in 2017.

PRIORITIES FOR 2018

- Increasing customer engagement by offering value-added advisory services.
- Continuing to diversify the loan portfolio towards the consumer and business segments.
- Containing the cost base.
- Reducing the NPL ratio while improving credit quality.
- Creating value at BPI.

Actively managing capital

STRATEGIC OBJECTIVES

- Managing capital actively while anticipating new regulatory requirements.
- Maintaining a policy of high and stable dividends (minimum cash pay-out of 50% of profits).
- Reducing unproductive assets (non-performing loans and foreclosed assets).

2017 MILESTONES

CaixaBank continued to anticipate and adapt to the capital requirements prescribed by regulatory bodies. In 2017, the Bank completed various issuances of subordinated instruments, including the inaugural placements of contingent convertibles and non-preferred senior debt, all of which have enabled it to strengthen its capital ratios. Here, Common Equity Tier 1 (CET1) and total capital, both fully-loaded, came to 11.7% and 15.7%, respectively, at December 2017, comfortably clear of the minimum prudential requirements.

In the second half of the year, the European Central Bank, as the Bank's supervisory authority, approved the prudential deconsolidation of CaixaBank and CriteriaCaixa, and began to apply its capital adequacy and liquidity requirements to CaixaBank stand-alone.

The Bank has continued to pursue its strategic objective of reducing the volume of non-performing assets. As a result, CaixaBank non-performing loans (NPLs) fell by more than EUR 1,600 million in the year to EUR 13,086 million, due, above all, to the fall in new defaults and sales of real estate portfolios. Further, intensive commercial efforts (sales and

2017 MILESTONES

rentals of real estate assets) enabled the Bank to continue reducing its available-for-sale foreclosed assets. Proceeds on sales of these assets have improved in response to higher levels of coverage and the gradual recovery of the real estate sector.

Reducing these assets as quickly as possible is a key strategic priority. A number key actions were therefore taken in 2017, such as enhancing the management of non-performing loans by the branch network and selling foreclosed real estate assets.

PRIORITIES FOR 2018

- Reducing instances of default and the volume of foreclosed real estate assets.
- Anticipating new regulatory requirements relating to solvency.
- Ensuring the highest quality of regulatory, risk and management information.

Leading the digitisation of the banking world

STRATEGIC OBJECTIVES

- Consolidating leadership in multi-channel approaches and mobility.
- Developing the digital relationship and experience of customers and increasing digital sales.
- Rolling out strategies in response to new technologies, new market players and regulatory changes.

2017 MILESTONES

In 2017, 55% of CaixaBank's customers were digital. The Bank consolidated its leading position amongst digital customers with 33% market penetration, 11 percentage points clear of second place.

CaixaBank is continuing to enhance the customer experience and is championing a relationship based not only on availability "anywhere, anytime" but also on offering a truly bespoke service. Since the roll-out of the Strategic Plan, the Bank has launched various ground-breaking initiatives such as imaginBank mobile banking, which currently boasts over 500 thousand customers; the "My Finances" smart manager, with more than three million users; the CaixaBank Pay mobile payments app and new online advice channels and services.

CaixaBank is a leader when it comes to applying new technologies, such as big data, artificial intelligence and blockchain. Big data and artificial intelligence let companies improve their efficiency and the service they provide to customers. CaixaBank is the first financial institution in Spain to launch an artificial intelligence solution with the imaginBank chatbox. CaixaBank is also involved in various initiatives involving blockchain, including a consortium that seeks to facilitate and speed up foreign trade transactions.

Another priority is promoting the multi-channel approach and strengthening commercial effectiveness. The percentage of transactions carried out through Línea Abierta climbed 86% in the year, up 6 percentage points on 2014 and freeing up the commercial network so it can spend more of its time advising and offering added-value services to customers. CaixaBank has also deployed over 29,500 smart PCs to its commercial and sales employees, thus making them fully functional outside the office and improving commercial activity by allowing products and services to be arranged and signed for digitally.

CaixaBank is also continuing to give the maximum priority to defence against cyber attacks. The bank has a number of control and prevention initiatives under way to guard against cyber attacks and to protect data, processes and systems.

Numerous international awards and accolades have made CaixaBank an international benchmark when it comes to innovation. Highlights here include the "Model Bank of the Year" award from Celent, "Best Artificial Intelligence Project" from The Banker and "Best Digital Bank in Spain and Europe" from Global Finance.

PRIORITIES FOR 2018

- Optimising the experience and mobility of digital customers when arranging products and services.

PRIORITIES FOR 2018

- Completing big data infrastructure and helping to develop new big data applications.
- Digitalising processes that impact on efficiency and improve the customer experience.
- Identifying opportunities for new business models (such as Open Banking) and technologies (such as artificial intelligence).
- Strengthening information security strategies.

Having the best prepared and most dynamic team possible

STRATEGIC OBJECTIVES

- Continuing to provide training in key professional skills.
- Championing a management model based on empowerment.
- Fine-tuning the compensation and promotion structure.
- Strengthening a culture of performance-based advancement and diversity.

2017 MILESTONES

CaixaBank continues to prioritise training and seeks to develop the skills of its employees. Since the launch of its Training Academies in 2016, CaixaBank has tailored its training content to the needs of the various areas of the business while making a sustained effort in relation to certification. More than 10,500 of the bank's employees have been certified by the Pompeu Fabra University (UPF), keeping ahead of the new MiFID II regulatory requirements.

A number of specific actions have been undertaken in order to foster a decentralised management model across all regional divisions based on empowerment, the aim being strengthen the role of the branch manager and get them more involved. The Bank is also continuing to push through its management development programmes in a bid to improve its "transformational leadership" model. To this end, it has launched the "Rethink" programme to certify leadership competencies and promote a strategic vision and a cross-company approach.

All bonus and incentive schemes for the branch network were reviewed in 2017 to bring them in line with the latest regulatory developments, in order to improve and simplify the incentives model for the branch network and associated processes -such as calculation, communication and monitoring- and to achieve greater transparency, visibility and participation.

CaixaBank has also progressed its strategic priority of reinforcing its meritocratic culture by updating competency profiles and reviewing the assessment model so as to enhance professional development and internal talent.

In relation to initiatives aimed at promoting diversity, highlights include the "Wengage" programme, which pursues four main objectives: reinforcing the role of women with initiatives to ensure their professional development; championing a corporate culture that values diversity; improving human resource processes to strengthen the merit-based system; and raising awareness of diversity within the organisation.

This programme also includes actions that help foster equal opportunities and the value of diversity at the Bank. The percentage of women in management positions at the Bank is currently 39.1%, 4.5 percentage points more than in 2014.

PRIORITIES FOR 2018

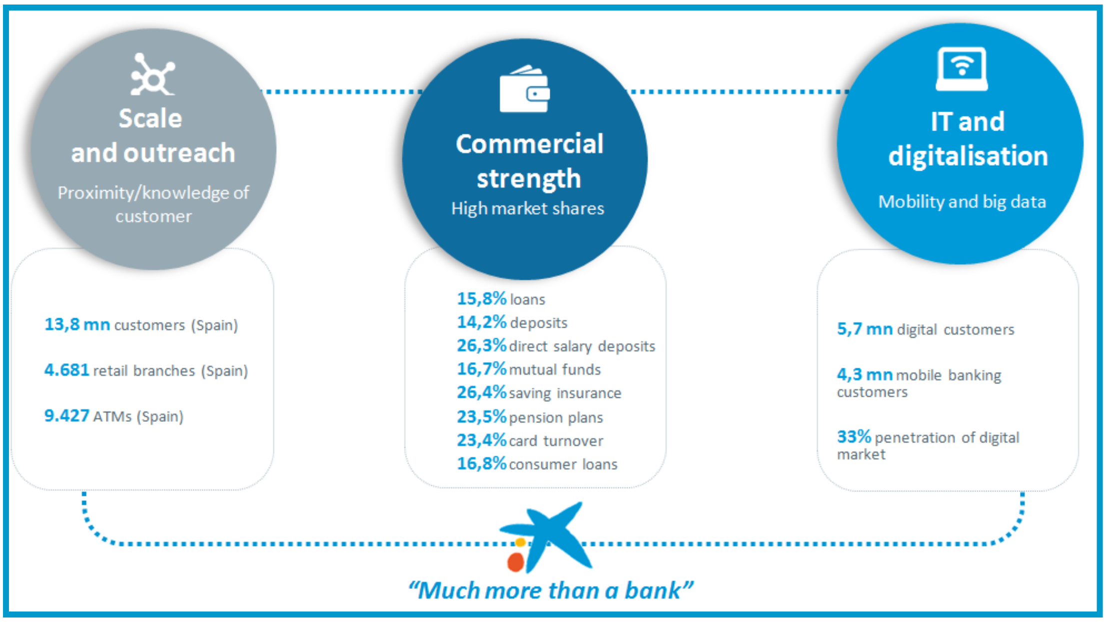
- Continuing the specific training roadmaps for key segments.
- Continuing to strengthen the role of branch manager.
- Further developing the talent assessment culture (competency-based assessment, 180º feedback and performance assessment).
- Continuing to foster all forms of diversity (gender, functional, generational, cultural, etc.) by continuing to roll out specific gender and functional diversity programmes.
- Improving the detection and development of talent for non-management employees.
- Reviewing and updating the succession plan.
- Continuing to adapt remuneration and promotion models to the needs of each business segment.

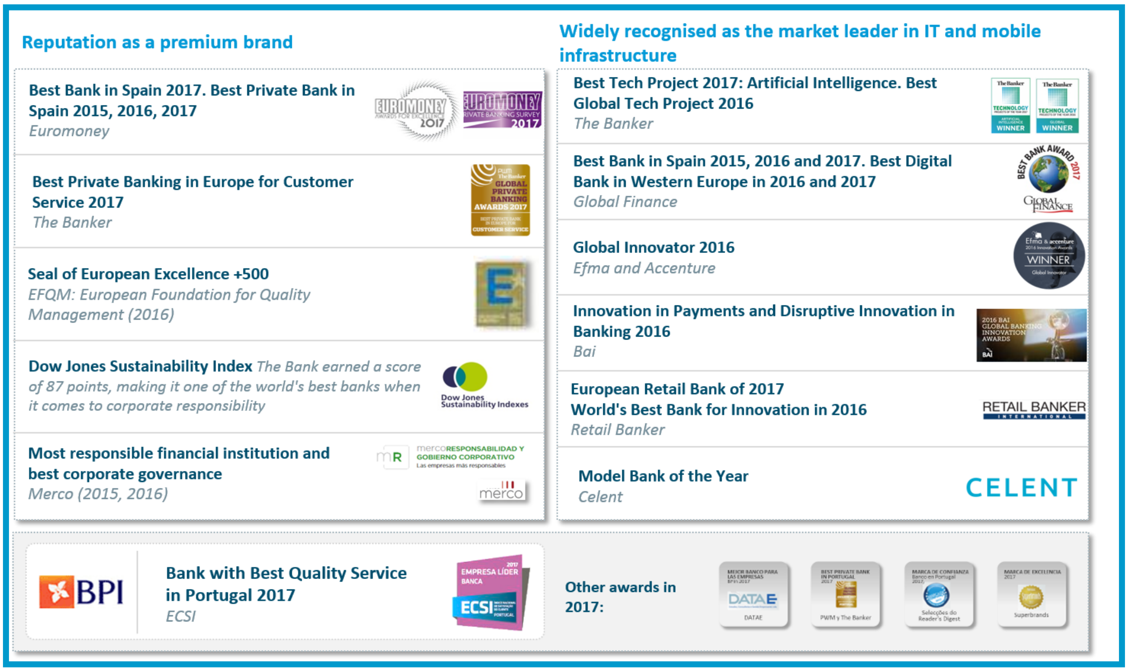
1.3. Key financial and non-financial indicators

CaixaBank relies on a universal banking model based on quality, customer proximity and expertise.

With 13.8 million customers, it is the main bank for one out of every four retail customers in Spain. It has a market penetration among individual customers of 30.0% and for 26.7% CaixaBank is their main bank.

The Bank's commercial prowess has enabled it to maintain high market shares across all the main retail products and services.





In Portugal, **BPI** with 1.9 million customers is the country's fifth largest bank in assets and boasts solid market shares: 9.3% in loans and 10.5% in customer funds, being the leader in customer satisfaction for the second straight year.

The following charts show the key figures for the CaixaBank Group, including both financial and non-financial indicators.

The full accounting consolidation of the results of BPI from February 2017 onward has impacted the main headings of the income statement and the balance sheet when compared with the previous year, thus affecting the comparability of the information.

Results

millions of euros and %		2017	2016	Change
Net interest income		4,746	4,157	14.2%
Net fees and commissions		2,499	2,090	19.5%
Gross income		8,222	7,827	5.1%
Recurring administrative expenses, depreciation and amortisation (a)	(1)	(4,467)	(3,995)	11.8%
Pre-impairment income excluding extraordinary expenses (a)	(2)	3,755	3,832	(2.0%)
Operating income		3,645	3,711	(1.8%)
Profit/(loss) before tax		2,098	1,538	36.4%
Profit/(loss) attributable to the Group		1,684	1,047	60.9%

(a) Figures for 2017 do not include a total of EUR 110 million in extraordinary expenses in connection with BPI, while figures for 2016 do not include a total of EUR 121 million in relation to the labour agreement reached at CaixaBank in the third quarter with the aim of streamlining the workforce.

Balance sheet

millions of euros and %		2017	2016	Change
Total assets		383,186	347,927	10.1%
Equity		24,683	23,556	4.8%
Customer funds using management criteria	(3)	349,458	303,895	15.0%
Loans and advances to customers, gross, under management criteria	(4)	223,951	204,857	9.3%

Cost-to-income and returns

%		2017	2016	Change
Cost-to-income ratio (total operating expenses / gross income)	(5)	55.7%	52.6%	3.1
Cost-to-income ratio excluding extraordinary expenses	(6)	54.3%	51.0%	3.3
RoE (attributable profit / average shareholders’ equity)	(7)	6.9%	4.5%	2.4
RoTE (attributable profit / average tangible equity)	(8)	8.4%	5.6%	2.8
RoA (profit / average total assets)	(9)	0.5%	0.3%	0.2
RoRWA (net profit / risk-weighted assets)	(10)	1.1%	0.8%	0.3

Risk management

millions of euros and %		2017	2016	Change
Non-performing loans		14,305	14,754	(449)
NPL ratio	(11)	6.0%	6.9%	(0.9)
Cost of risk	(12)	0.34%	0.46%	(0.12)
Loan-loss provisions		7,135	6,880	255
NPL coverage ratio	(13)	50%	47%	3
Net foreclosed real estate assets held for sale		5,878	6,256	(378)
Coverage ratio for foreclosed real estate assets available for sale	(14)	58%	60%	(2)

Liquidity

millions of euros and %		2017	2016	Change
High quality liquid assets	(15)	72,775	50,408	22,367
Loan-to-deposit ratio	(16)	108%	111%	(3)
Liquidity Coverage Ratio		202%	160%	42

Solvency - BIS III

millions of euros and %	2017	2016	Change
Common Equity Tier 1 (CET1), fully loaded	11.7%	12.4%	(0.7)
Tier 1, fully loaded	12.3%	12.4%	(0.1)
Total capital, fully loaded	15.7%	15.4%	0.3
Risk-weighted assets (RWAs), fully loaded	148,626	134,385	14,241
Leverage ratio, fully loaded	5.3%	5.4%	(0.1)
Common Equity Tier 1 (CET1)	12.7%	13.2%	(0.5)

Share information

millions of euros and %		2017	2016	Change
Share price (EUR/share)		3,889	3,140	0,749
Stock market capitalisation	(17)	23,248	18,768	4,480
Book value (EUR/share)	(18)	4.06	3.94	0.12
Tangible book value (EUR/share)	(19)	3.35	3.26	0.09
Number of shares outstanding, excluding shares held in treasury *(in millions)*		5,978	5,977	1
Net attributable earnings per share (EUR/share) (12 months)	(20)	0.28	0.18	0.10
Average number of shares excluding treasury stock (in millions)		5,978	5,842	136
P/E ratio (price/earnings)	(21)	14.02	17.52	(3.50)
P/B ratio (listed price/tangible book value)	(22)	1.16	0.96	0.20

(1) **Recurring administrative expenses, depreciation and amortisation:** excluding extraordinary expenses.
(2) **Pre-impairment income excluding extraordinary expenses:** gross income less recurring administrative expenses, depreciation and amortisation.
(3) **Customer funds using management criteria:** see reconciliation with public data in the Appendix - Glossary.
(4) **Loans and advances to customers, net, under management criteria:** see reconciliation with public data in the Appendix - Glossary.
(5) **Cost-to-income ratio:** administrative expenses, depreciation and amortisation divided by gross income.
(6) **Cost-to-income ratio excluding extraordinary expenses:** administrative expenses, depreciation and amortisation without extraordinary expenses divided by gross income.
(7) **RoE (Return on equity):** profit attributable to the Group divided by average equity.
(8) **RoTE (Return on tangible equity):** profit attributable to the Group divided by average equity less, where applicable, intangible assets using management criteria.
The value of **intangible assets under management criteria** is the value of Intangible assets in the public balance sheet, plus the intangible assets and goodwill associated with investees, net of impairment allowances, recognised in Investments in joint ventures and associates in the public balance sheet.
(9) **RoA (Return on assets):** net profit divided by average total assets.
(10) **RoRWA (Return on risk-weighted assets):** net profit divided by regulatory risk-weighted assets.
(11) **Non-performing loan ratio:** non-performing loans, gross, under Loans and advances to customers on the public balance sheet and contingent liabilities divided by total loans and advances to customers, gross, and contingent liabilities.
(12) **Cost of risk:** total loan loss provisions recognised in the last twelve months divided by total loans and advances to customers, gross, plus contingent liabilities at the period-end. The ratio for 2016 excludes the release of provisions made in the last quarter of the year (0.15% including that effect).
(13) **NPL coverage ratio:** Total impairment allowances on Loans and advances to customers and provisions for contingent liabilities divided by non-performing loans under Loans and advances to customers and non-performing contingent liabilities.
(14) **Coverage ratio for available-for-sale real estate assets:** initial loans write-downs at time of foreclosure plus charges to provisions subsequent to foreclosure divided by the debt effectively repaid on foreclosure.
(15) **Total liquid assets***:* HQLAs (High Quality Liquid Assets within the meaning of Commission Delegated Regulation of 10 October 2014), plus the available balance under the facility with the Bank of Spain (non-HQLA).
(16) **Loan-to-deposit ratio:** net loans and advances to customers less brokered loans (funded by Instituto de Crédito Oficial and the European Investment Bank) divided by customer funds (which include demand deposits, term deposits, debt securities and subordinated liabilities).
(17) **Stock market capitalisation:** share price multiplied by the number of issued shares minus the number of shares held in treasury at the end of the period.
(18) **BV (Book value):** equity less minority interests divided by the number of fully-diluted shares outstanding at a specific date.
(19) **TBV (Tangible book value):** equity less minority interests and intangible assets divided by the number of fully-diluted shares outstanding at a specific date.
(20) **EPS (Earnings per share):** profit attributable to the Group for the last twelve months divided by the average number of fully diluted shares outstanding.
The **average number of fully diluted** shares outstanding is the sum of the average number of shares issued less the average number of shares held in treasury, plus the average number of shares resulting from the hypothetical conversion/exchange of convertible/exchangeable debt instruments issued.
(21) **PER (Price-to-earnings ratio):** share price divided by earnings per share (EPS).
(22) **Tangible P/BV and P/TBV:** share price divided by book value. Also calculated using the tangible book value.

Employee indicators

as a number and %	2017	2016	Change
CaixaBank Group employees	36,972	32,403	4,569
CaixaBank employees	29,119	29,990	(871)
Women on CaixaBank workforce	53.5%	52.6%	0.9
Women holding management positions at CaixaBank	39.1%	37.0%	2.1
Executive positions filled internally at CaixaBank	99.6%	98.2%	1.4
Employees with open-ended fixed contract at CaixaBank	95.9%	95.7%	0.2
Talent retention rate at CaixaBank	92.0%	92.3%	(0.3)
New hires in the year	1,031	1,526	(495)
Employees with university studies at CaixaBank	95.9%	94.7%	1.2
Employees trained	100.0%	100.0%	0.0
Hours of training per year per employee at CaixaBank	59.2	49.1	10.1
Hours of online training to total training at CaixaBank	90.9%	90.3%	0.6

Branch network

expressed as a number	2017	2016	Change
CaixaBank branches in Spain	4,874	5,027	(153)
of which retail branches	*4,681*	*4,851*	*(170)*
BPI branches in Portugal	505		505
of which retail branches	*470*		*470*

Environmental issues

millions of euros	2017	2016	Change
Funding for renewable energy projects	929	882	47
Volume of ecoFinancing awarded	6.7	2.6	4.1
Volume of ecoFinancing awarded to the agricultural sector	0.69	0.87	(0.18)
Volume of Ecological Fund managed by MicroBank	11.1	7.9	3.2
Volume of Green Bonds placed	2,050	1,000	1,050

Socially responsible banking

as a number and %	2017	2016	Change
CaixaBank customers (in millions)	13.8	13.8	0.0
Spanish corporate customers of CaixaBank	48.0%	44.9%	3.1
Spanish self-employed customers of CaixaBank	33.1%	33.1%	0.0
Volume of microcredits awarded (in millions)	893.7	808.9	84.8
Indirect jobs created	32,438	35,663	(3,225)
Presence in towns and cities with more than 5,000 residents	94%	93%	1%
Accessible branches	85%	85%	0%
Accessible ATMs	90%	83%	7%
Direct and indirect contribution to Spanish GDP (in millions)	7,511	8,094	(583)

2. BUSINESS PERFORMANCE AND RESULTS

2.1. Macroeconomic scenario for 2017

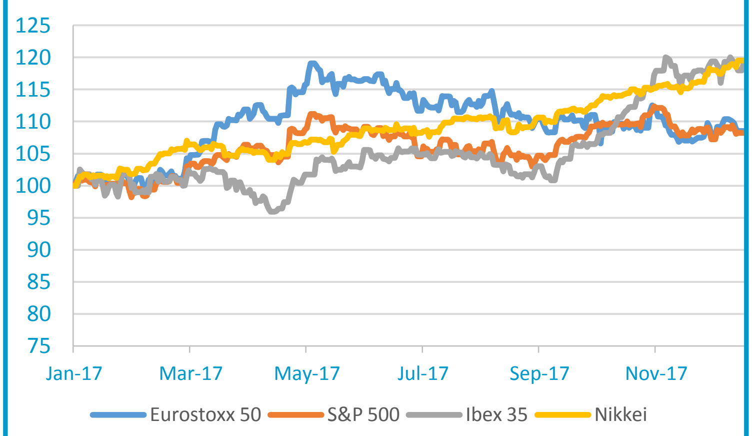
Global and market trends

Global economic growth reached 3.6% in 2017, marking an improvement on the 3.2% reported in 2016, thanks to a healthier showing from both advanced and emerging economies. The main support factors were a still accommodative monetary policy across developed countries, aided by the moderate recovery in commodity prices and the fact that certain key emerging nations, notably Brazil and Russia, finally managed to shake off their recession. Confidence among businesses and consumers also improved during the year, in stark contrast to the episodes of uncertainty that materialised in 2016. This favourable macroeconomic climate was accompanied by a constructive tone across the financial markets, characterised by historically low levels of volatility, major stock market gains and relatively stable interest rates on sovereign debt (although assets were not immune to geopolitical tensions, such as the ongoing stand-off between the United States and North Korea).

However, this generally positive performance was unevenly distributed across the various regions of the world. Among emerging economies, China reported strong growth (6.9% following a 6.7% gain in 2016), in a year that featured the National Congress of the Communist Party of China. Triumphant President Xi Jinping is now embarking on his second five-year term of office and is expected to push on with the process of changing the productive model of the Chinese economy.

Meanwhile, the US economy, with a relatively pragmatic Donald Trump at the helm, continued to move through a mature phase of the economic cycle and ended the year with growth of 2.3%.

Main international stock markets



Source: CaixaBank Research, based on Bloomberg data.

While inflation growth fell short of expectations, healthy levels of economy activity and a buoyant labour market emboldened the Federal Reserve (Fed). After hesitating throughout nearly all of 2016, it finally took the plunge in 2017 by hiking the reference rate on three different occasions, bringing it to 1.25%-1.50% interval.

Events in the euro area, Spain and Portugal

The biggest surprise occurred in the euro area. While the region started 2017 with significant levels of political risk (especially surrounding the elections in France) and a muted growth outlook (in December we expected 1.4% for 2017), the recent emergence of populist and Eurosceptic parties was held in check and the economic activity ended the year with growth of 2.5%, beating expectations as European nations finally began to fall into sync. The European Central Bank (ECB), which continued to offer extraordinarily accommodative monetary conditions over the year, with net asset purchasing of EUR 60 billion a month, finally announced in October that its monetary stimulus programme would be scaled back in 2018.

Aided by this brighter economic outlook, Spain has been performing exceptionally well over the last three years and is expected to close out 2017 with growth of 3.1%, largely on the back of internal demand. Private consumption continued to rally thanks to the significant improvements seen in the labour market (upwards of 500,000 jobs created in the period) and accommodative financial conditions. Business investment also picked up by moving from 3.3% growth in 2016 to around 5% in 2017. This strong growth was key in enabling the country to deliver on its public deficit target with the European Commission (3.1% of GDP), although public debt remained at levels only slightly lower than in 2016, at just below 100% of GDP. Here, the country would do well to remember the importance of harnessing the favourable economic environment if it wishes to continue making progress in fiscal consolidation.

Moving across to Portugal, the country's economy fared well during the year, with growth climbing from 1.5% in 2016 to above 2.5% in 2017, driven by private consumption and investment. In response to this improvement, credit agencies S&P and Fitch upgraded the country's sovereign rating to bring it back within the investment grade band (from BB+ to BBB- and BBB, respectively). These decisions, which were prompted by a healthier set of growth projections, fiscal improvements, lower risks associated with external financing and further progress in the banking resolution processes, had a major impact on investor sentiment and triggered a significant reduction in the risk premium, which fell from a high of 390 basis points in February to 150 basis points at year-end.

2.2. Highlights and key events in the year

Takeover of Banco BPI

On 16 January 2017, the Portuguese securities market commission (Comissão do Mercado de Valores Mobiliários) registered the prospectus for CaixaBank's takeover bid for BPI at a price per share of EUR 1,134, and the bid uptake period was opened, eventually closing on 7 February 2017. Having secured the required approvals and following completion of the uptake period for the takeover bid, CaixaBank obtained a stake of 84.51% in BPI. The payment for the 39.01% of share capital acquired in the bid stood at EUR 645 million.

The acquisition of control of Banco BPI entailed a change in the nature of this investment, from an investment in an associate to an investment in a Group company. From an accounting perspective, the change in the nature of the investment led to a revaluation of the previous stake of 45.5% in BPI to the bid price, generating a gross loss of EUR 186 million under Gains/(losses) on derecognition of non-financial assets and investments (net) in the Group's accompanying consolidated income statement for 2017, and a simultaneous recognition of 100% of the assets and liabilities comprising the stake in Banco BPI as part of the purchase price allocation (PPA) required under IFRS 3. Note 7 to the Consolidated Financial Statement of the CaixaBank Group details the provisional accounting of the PPA, which resulted in a negative difference arising on consolidation of EUR 442 million under Negative goodwill recognised in profit or loss in the accompanying condensed interim consolidated income statement.

In view of the foregoing, the total impact of the business combination on profit or loss at the effective takeover date was EUR 256 million.

2.3. Business performance

Following the integration of BPI, the Group's management information (included in sections 2.3 and 2.4) has been broken down into the following two perimeters in order to make it more readily comparable with other periods:

- CaixaBank: shows the activity and results of CaixaBank Group, which operates largely in Spain. It includes the results of BPI under the equity method in January (prior to the effective takeover completion date in February), as well as the results of the resulting business combination.
- BPI: shows the activity and results that BPI contributes to the Group, which have been reported using the full consolidation method from February onward.

Customer funds

Details of customer funds managed as per management criteria are as follows:

(millions of Euros)	2017	2016	Change
Funds from customer activity	**196,611**	**175,655**	**11.9**
Demand deposits	158,772	132,691	19.7
Term deposits (1)	35,793	39,624	(9.7)
Subordinated liabilities (retail)	2,046	3,340	(38.7)
Repurchase agreements and other accruals	**968**	**1,153**	**(16.0)**
Liabilities under insurance contracts	**49,965**	**40,315**	**23.9**
Total on-balance sheet customer funds	**247,544**	**217,123**	**14.0**
Assets under management	**96,551**	**81,890**	**17.9**
Mutual funds, SICAVs and portfolios	66,882	56,674	18.0
Pension plans	29,669	25,216	17.7
Other accounts	**5,363**	**4,882**	**9.9**
Total off-balance sheet customer funds	**101,914**	**86,772**	**17.4**
Total customer funds under management criteria (2)	**349,458**	**303,895**	**15.0**

(1) Includes retail loans amounting to EUR 490 million at 31 December 2017 (EUR 455 million at CaixaBank and EUR 35 million at BPI).

(2) See reconciliation with the financial statements in the Appendix - Glossary.

Customer funds fared well to close 2017 at EUR 349,458 million, up 15.0% following the incorporation of BPI (+11.5%).

At **CaixaBank** customer funds totalled EUR 314,495 million, showing growth of 3.5 % in the year. Key factors influencing performance:

- On-balance sheet funds totalled EUR 223,264 million, up 2.8% in 2017. Demand deposits climbed to EUR 147,109 million (+10.9% in 2017), while term deposits were down 31.1% to EUR 27,314 million.

  Retail subordinated liabilities were down in the period following the total early redemption in the third quarter of subordinated bonds worth EUR 1,302 million.
- Liabilities under insurance contracts were up 13.7% in response to the intensive commercial efforts. CaixaBank remains the leader with a 26.4% share of the savings insurance market, thanks to the success of the commercial campaigns under the CaixaFu[Tu]ro programme.
- Assets under management climbed to EUR 88,018 million up 7.5% in 2017 on the back of:
  - Increase in assets under management in mutual funds, portfolios and SICAVs to reach EUR 61,077 million (+7.8%), with the gain largely the result of new subscriptions.
  - Positive growth in pension plans, which amounted to EUR 26,941 million (+6.8% in 2017). CaixaBank has a market share of 16.7% in mutual funds and of 23.5% in pension plans.
- The change in Other accounts (-34.2%) is largely down to the maturity in the first quarter of 2017 of the subordinated debt of CriteriaCaixa (EUR 1,505 million) placed among customers.

At **BPI** customer funds grew to EUR 34,963 million in the period.

Loans and advances to customers

Note 3.3 to the accompanying financial statements for 2017 sets out the CaixaBank Group's policies for approving loans, monitoring default, refinancing debt and recovering amounts, all in respect of credit risk.

Note 3 also discloses the geographic distribution of credit risk and the loan-to-value (LTV)ratio for collateralised loans, as well as the maturities profile and the sensitivity of loans and credit facilities to changes in interest rates. Information on refinancing/restructured loans and additional data on financing for the real-estate sector, home purchases and property foreclosed in lieu of payment of debts can also be found in that note.

Meanwhile, Note 14.2 to the consolidated financial statements for 2017 discloses the nature, counterparty and interest rate applicable to customer loans, as well as the composition of and movements in non-performing loans. Note 14.3 details the specific coverage and hedging associated with these.

A breakdown of the lending portfolio as per management criteria and changes therein are as follows:

(millions of Euros)	**2017**	**2016**	**Change (%)**
Loans to individuals	128,490	118,300	8.6
Home purchases	94,187	86,405	9.0
Other	34,303	31,895	7.5
of which: Consumer loans in Spain	*9,929*	*8,109*	*22.4*
Loans to companies	83,463	74,061	12.7
Non real-estate businesses	76,181	64,813	17.5
Real estate developers	7,101	8,024	(11.5)
CriteriaCaixa	181	1,224	(85.2)
Public sector	11,998	12,496	(4.0)
Total loans and advances to customers, gross (2)	**223,951**	**204,857**	**9.3**
of which: Performing	*210,154*	*190,506*	*10.3*
Loan-loss provisions (1)	(6,832)	(6,684)	2.2
Total loans and advances to customers, net	**217,119**	**198,173**	**9.6**
Memorandum items:			
Contingent liabilities	***13,983***	***10,608***	***31.8***

(1) Does not include provisions to cover other financial assets (see Note 14.3).

(2) See reconciliation with the financial statements in the Appendix - Glossary.

Loans and advances to customers, gross, came to EUR 223,951 million (+9.3% in 2017) following the integration of BPI.

At **CaixaBank,** gross lending was down 1.9% while the performing portfolio shed 1.2% in the year. Stripping out the reduction in financing granted to CriteriaCaixa as a result of the prudential deconsolidation process, the decline in the performing portfolio in 2017 would have been limited to -0.6%. Highlights by segment include:

- Loans for home purchases continued to feel the effects of the household deleveraging process, with new loans trailing loan repayments. The Bank's share of the mortgage loan market is now 17.6%.
- Loans to individuals - other gained 3.1% in 2017, largely in response to growth in consumer loans (+22.4% in Spain in the year).
- Sustained growth in financing to businesses - productive sectors ex-real estate developers (+4.0% in the year).

- Financing to real estate developers is steadily accounting for less and less of the loan portfolio, falling to 3.4% at 31 December 2017 (-51bp on December 2016) thanks to the Bank's continuing efforts to manage non-performing assets.
- Meanwhile, loans to the public sector were down due to a number of one-off transactions.

Loans and advances to customers, gross, at **BPI** were down to EUR 22,995 million at 31 December 2017, with growth in loans to individuals but a reduction in loans to businesses and the public sector.

Credit risk quality

NPLs and coverage

(loans + contingent liabilities)	**2017**	**2016**
Non-performing assets	**14,305**	**14,754**
NPL ratio	6.0%	6.9%
Loan-loss provisions	**7,135**	**6,880**
Coverage ratio	50%	47%

Trend in the NPL ratio

At 31 December 2017, non-performing loans, including non-performing contingent liabilities, stood at EUR 14,305 million. At CaixaBank (EUR 13,086 million at 31 December 2017), NPLs were down EUR 1,668 million in the period. At BPI, NPLs totalled EUR 1,219 million at year-end.

The Group's NPL ratio fell to 6.0% in the period as the volume of non-performing loans continues to fall.

Trends in loan default rates by segment are as follows:

	2017			**2016**
	Group	**CaixaBank**	**BPI**	**CaixaBank**
Loans to individuals	**5.2%**	**5.3%**	**4.7%**	**5.0%**
Home purchases	4.2%	4.2%	4.6%	4.0%
Other	7.9%	8.0%	5.6%	7.7%
Loans to companies	**8.3%**	**8.6%**	**5.9%**	**11.1%**
Non real-estate businesses	7.1%	7.3%	5.4%	9.0%
Real estate developers	21.7%	21.6%	23.8%	30.4%
Public sector	**1.4%**	**1.6%**		**1.5%**
Total risks (loans + guarantees)	**6.0%**	**6.1%**	**5.0%**	**6.9%**

Coverage

CaixaBank maintains a solid level of coverage thanks to its prudent risk hedging policies. At 31 December 2017, following the integration of BPI, a total of EUR 7,135 million had been allocated to cover potential loan losses, with a coverage ratio of 50%.

The change in loan-loss provisions in 2017 was largely down to the acquisition of BPI, the cancellation of debt incurred through the acquisition and foreclosure of real estate assets, and the derecognition of assets and write-offs.

Exposure to real-estate risk

The "Customer credit risk" section of Note 3.3.6 to the accompanying financial statements includes quantitative information on financing for real estate developers, home purchases and property foreclosed in lieu of payment of debts.

Loans to real-estate developers

In 2017, financing for the real estate sector was down 15% while coverage to real estate developers came to 44%.

Foreclosed real estate assets

At 31 December 2017, net foreclosed real estate assets available for sale in Spain amounted to EUR 5,878 million (EUR -378 million in 2017), after stripping out real estate assets in the process of foreclosure. The coverage ratio for available-for-sale foreclosed assets came to 58%, while the accounting coverage ratio was 50%.

Meanwhile, CaixaBank's foreclosed real estate assets held for rent (recognised for accounting purposes as Investment Property) amounted to EUR 3,030 million, net of provisions, at 31 December 2017 (EUR -48 million in 2017). The rental property portfolio had an occupancy ratio at year-end of 88%.

Total sales of real estate assets in the year amounted to EUR 1,610 million euros (up 20% year on year), with positive proceeds on sales reported since the fourth quarter of 2015. Proceeds from asset sales to net book value stood at 20% in 2017 (+14 percentage points year on year).

Net foreclosed assets at BPI amounted to EUR 53 million at 31 December 2017.

2.4. Profits and earnings performance

Net profit for the CaixaBank Group in 2017 amounted to EUR 1,684 million (+60.9%). Meanwhile, earnings at CaixaBank stand-alone came to EUR 1,508 million (+44.1% year on year), with BPI contributing a total of EUR 176 million since the takeover.

The abbreviated income statement, for management purposes, is shown below:

(millions of Euros)	Group			CaixaBank		BPI
	2017	2016	Change %	2017	Change %	2017
Net Interest Income	**4,746**	**4,157**	**14.2**	**4,369**	**5.1**	**377**
Dividend income	127	199	(35.9)	120	(39.2)	7
Share of profit/(loss) of entities accounted for using the equity method	526	629	(16.3)	421	(33.0)	105
Net fees and commissions	2,499	2,090	19.5	2,223	6.3	276
Net gain/(loss) on financial assets and liabilities and others	282	848	(66.7)	259	(69.5)	23
Income and expenses under insurance and reinsurance contracts	472	311	51.9	472	51.9	
Other operating income and expense	(430)	(407)	5.6	(412)	1.1	(18)
Gross income	**8,222**	**7,827**	**5.1**	**7,452**	**(4.8)**	**770**
Recurring administrative expenses, depreciation and amortisation	(4,467)	(3,995)	11.8	(4,035)	1.0	(432)
Extraordinary expenses	(110)	(121)	(8.7)	(4)	(96.7)	(106)
Operating income	**3,645**	**3,711**	**(1.8)**	**3,413**	**(8.0)**	**232**
Pre-impairment income excluding extr. costs	***3,755***	***3,832***	***(2.0)***	***3,417***	***(10.8)***	***338***
Impairment losses on financial assets	(799)	(314)		(831)		32
Other charges to provisions	(912)	(755)	20.8	(909)	20.4	(3)
Gains/(losses) on disposal of assets and	164	(1,104)		165		(1)
Profit/(loss) before tax	**2,098**	**1,538**	**36.4**	**1,838**	**19.5**	**260**
Income tax	(378)	(482)	(21.7)	(324)	(32.8)	(54)
Profit/(loss) after tax	**1,720**	**1,056**	**62.9**	**1,514**	**43.4**	**206**
Profit/(loss) attributable to minority interests and others	36	9		6	(32.7)	30
Profit/(loss) attributable to the Group	**1,684**	**1,047**	**60.9**	**1,508**	**44.1**	**176**

Net interest income

Against a backdrop of falling interest rates, net interest income totalled EUR 4,746 million (+14.2% year on year) in the period, in response to the full accounting consolidation of BPI from February onward, which accounted for 9.1% of the growth.

Net interest income at CaixaBank was up 5.1% on account of:

- forceful management of retail activity, with a sharp reduction in the cost of maturity deposits (average cost of 0.07% in 2017, versus an average of 0.53% in 2016) and in the cost of demand deposits, which shed 5 basis points in the period;
- cost savings on institutional financing due to lower volumes and rates;
- change in income due to diminishing returns on the loan portfolio and the fixed income portfolio, in turn due to the drop in market interest rates.

The customer spread at CaixaBank climbed to an average of 2.19% in 2017, versus an average of 2.07% in 2016. The balance sheet spread came to 1.27% thanks to the reduction in the cost of deposits.

An analysis of Group net interest income is as follows:

(millions of Euros)	2017			2016			Chg. in yield/cost		
	Average balance	Yield/ Cost	Int. rate %	Average balance	Yield/ Cost	Int. rate %	Total	By rate	By volume
Credit institutions (*)	15,900	183	1.15	11,718	84	0.72	99	50.5	48.5
Lending portfolio	209,185	4,612	2.20	192,370	4,411	2.29	201	(168.9)	369.9
Debt securities	29,700	367	1.24	23,378	483	2.07	(116)	(194.0)	78.0
Other interest-bearing assets (**)	49,984	1,774	3.55	47,486	1,757	3.70	17	(72.1)	89.1
Other assets	68,136	34		64,555	18		16		16.0
Average total assets	**372,905**	**6,970**	**1.87**	**339,507**	**6,753**	**1.99**	**217**	**(384.5)**	**601.5**
Credit institutions (*)	47,488	(190)	0.40	36,848	(185)	0.50	(5)	37.4	(42.4)
Retail funds	188,068	(85)	0.04	173,049	(382)	0.22	297	289.0	8.0
Demand deposits	*149,686*	*(46)*	*0.03*	*119,344*	*(95)*	*0.08*	49	58.5	(9.5)
Maturity deposits	*38,382*	*(39)*	*0.10*	*53,705*	*(287)*	*0.53*	248	230.6	17.4
Term deposits	*37,152*	*(40)*	*0.11*	*53,090*	*(287)*	*0.54*	247	230.4	16.6
Repurchase agreements and retail loans	*1,230*	*1*	*(0.02)*	*615*		*0.01*	1	0.2	0.8
Institutional debentures and marketable securities	27,057	(301)	1.11	29,635	(391)	1.32	90	60.4	29.6
Subordinated liabilities	5,575	(146)	2.61	4,288	(132)	3.08	(14)	19.9	(33.9)
Other interest-bearing liabilities (**)	59,158	(1,467)	2.48	50,350	(1,490)	2.96	23	241.6	(218.6)
Other liabilities	45,559	(35)		45,337	(16)		(19)		(19.0)
Average total funds	**372,905**	**(2,224)**	**0.60**	**339,507**	**(2,596)**	**0.77**	**372**	**648.3**	**(276.3)**
Net interest income		**4,746**			**4,157**		**589**	**264**	**325**
Customer spread (%)		**2.16**			**2.07**				
Balance sheet spread (%)		**1.27**			**1.22**				

(*) According to applicable accounting standards, income resulting from the application of negative interest rates should be reported in the appropriate income classification. Financial intermediaries on the assets side includes negative interest on the balances of financial intermediaries held on the liabilities side, the most significant being TLTRO II income, while the other way round the relevant heading is financial intermediaries on the liabilities side. Only the net amount between income and expense for both headings has economic significance.
(**) Includes the Group's life savings insurance activity.

Income from equity investments

Income from equity investments totalled EUR 653 million (-21.0%).

The change at **CaixaBank** (-34.5%) was down to:

- Perimeters changes following the swap agreement signed with CriteriaCaixa in 2016 for the stakes in BEA and GFI and the full accounting consolidation of BPI in 2017.
- Lower levels of dividend income.
- Negative impact of BPI's move to sell 2% of its stake in BFA (EUR -97 million). This loss was largely the result of valuation adjustments due to conversion differences in the income statement, when these had previously been reported in equity.

At **BPI**, the figures include extraordinary impacts totalling EUR -119 million, of which EUR -76 million relates to the estimated impact of applying (in accordance with IAS 29) the inflationary impact of Angola on BFA's financial statements.

Fees and commissions

Fee and commission income totalled EUR 2,499 million (+19.5%). The change here was down to BPI's contribution (+13.2%) and the increased income obtained from CaixaBank's commercial activity (+6.3%).

Fee and commission income at **CaixaBank** climbed to EUR 2,223 million, up 6.3% year on year.

- Banking fees, commissions on securities and others amounted to EUR 1,353 million (+2.6%). These include income from securities transactions and fees on other transactions, as well as fees relating to risk activities, deposit management, payment methods and investment banking. Significantly, fee and commission income was up in 2017 due to the increased volume of transactions and income associated with payment methods.
- Mutual fund fees came to EUR 446 million (+10.4%) due to the increase in assets under management. The previous year had been impacted by market volatility, especially during the first six months.
- Growth in pension plan management fees to reach EUR 206 million (+9.2%) due to the increase in assets under management through the wide range of products on offer.
- Fees on insurance sales climbed to EUR 218 million (+21.5%).

Fees and commissions at **BPI** accounted for 13.2% of the growth in the Group's fee and commission income in 2017, with the weight of mutual fund management fees and fees on insurance sales increasing in the period.

(millions of Euros)	Group			CaixaBank		BPI
	2017	2016	Change (%)	2017	Change (%)	2017
Banking fees, commissions on securities and others	1,521	1,320	15.3	1,353	2.6	168
Mutual funds, SICAVs and portfolios	491	403	21.7	446	10.4	45
Pension plans	213	187	13.3	206	9.2	7
Insurance sales	274	180	52.3	218	21.5	56
Net fees and commissions	**2,499**	**2,090**	**19.5**	**2,223**	**6.3**	**276**

Net gain/(loss) on financial assets and liabilities and others

Net gain/(loss) on financial assets and liabilities and others amounted to EUR 282 million (-66.7%).

In 2016, this figure showed mainly the materialisation of unrealised gains on fixed-income assets classified as available-for-sale financial assets and the recognition of a gross capital gain of EUR 165 million following completion of the acquisition of Visa Europe Ltd. by Visa Inc.

Income and expenses under insurance and reinsurance contracts

Sustained growth in income arising from life insurance activity to reach EUR 472 million (+51.9%), on the back of intensive sales activity and also due to the termination in late October 2016 of a reinsurance contract on the individual risk-life portfolio of VidaCaixa (additional income in 2017 of EUR 97 million).

Other operating income and expenses

Highlights in relation to Other operating income and expenses were as follows:

- Recognition of the contributions paid to the Single Resolution Fund in the second quarter and to the Spanish Deposit Guarantee Fund in the fourth quarter. Further, the recognition in the first quarter of the Spanish property tax to have accrued (see Note 1 to the accompanying financial statements for 2017).
- Other operating income and expenses includes, among other items, rental income and expenses incurred from the management of the foreclosed real estate portfolio as well as other operating income and expenses of non-real estate subsidiaries.
- Income reported in the second quarter of 2017 under the agreement reached with Cecabank (EUR +115 million).

(millions of Euros)	Group			CaixaBank		BPI
	2017	**2016**	**Change (%)**	**2017**	**Change (%)**	**2017**
Contribution to the SRF and DGF	(304)	(261)	16.5	(289)	10.7	(15)
Other income and expenses	(126)	(146)	(13.7)	(123)	(15.8)	(3)
Other operating income and expenses	**(430)**	**(407)**	5.6	**(412)**	1.1	**(18)**

Administrative expenses, depreciation and amortisation

Recurring administrative expenses, depreciation and amortisation was up 11.8% to EUR 4,467 million, largely due to the integration of BPI (+10.8%).

Administrative expenses, depreciation and amortisation at **CaixaBank** remained relatively stable compared to 2016 thanks to the Bank's ongoing efforts to control costs and improve efficiency as key strategic priorities.

The cost-to-income ratio excluding extraordinary expenses was 54.3%.

(millions of Euros)	Group			CaixaBank		BPI
	2017	**2016**	**Change (%)**	**2017**	**Change (%)**	**2017**
Administrative expenses	(4,040)	(3,624)	11.5	(3,644)	0.6	(396)
Depreciation and amortisation	(427)	(371)	15.3	(391)	5.6	(36)
Recurring administrative expenses, depreciation and amortisation	**(4,467)**	**(3,995)**	**11.8**	**(4,035)**	**1.0**	**(432)**
Extraordinary expenses (*)	(110)	(121)	(8.7)	(4)	(96.7)	(106)

(*) Recognition of EUR 110 million in extraordinary costs in 2017 in connection with BPI. Recognition in 2016 of EUR 121 million in relation to the CaixaBank labour agreement aimed at streamlining the workforce.

Impairment losses on financial assets

Loan-loss provisions amounted to EUR 799 million.

The annual change (+154.2%) came partly in response to the release of EUR 676 million in provisions on the loan portfolio in the fourth quarter of 2016, following the development of internal models compliant with the terms of Circular 4/2016. Stripping out this impact, the annual performance would have been -19.3%.

Meanwhile, the cost of risk at the Group was 0.34%. At CaixaBank, it fell to 0.39% versus the 0.46% reported the previous year.

Other charges to provisions

Other charges to provisions mainly shows the current estimation of coverage needs for future contingencies and impairment of other assets and came to EUR 912 million.

In 2017, it included, among other items, EUR 455 million in connection with the early retirements and a further EUR 154 million in write-downs on exposure to the SAREB bad bank.

In 2016, it included EUR 160 million associated with the early retirements agreement plus a further provision of EUR 110 million in relation to floor clauses.

(millions of Euros)	Group			CaixaBank		BPI
	2017	**2016**	**Change (%)**	**2017**	**Change (%)**	**2017**
Loan-loss allowances	(799)	(314)	154.2	(831)	164.4	32
Other charges to provisions	(912)	(755)	20.8	(909)	20.4	(3)
Impairment losses on financial assets and other charges to provisions	**(1,711)**	**(1,069)**	**60.0**	**(1,740)**	**62.8**	**29**

Gains/(losses) on disposal of assets and others

Gains/(losses) on disposal of assets and others essentially shows the results of one-off transactions completed during the year, along with proceeds from sales of assets and write-downs mainly in relation to the real estate portfolio.

The year-on-year change was largely down to the following one-off events:

- Sustained increase in proceeds on sales of real estate assets. Proceeds from sales to net book value stood at 20% in 2017 (+14 percentage points year on year).
- This also includes the result of EUR 256 million from the business combination with BPI completed in February 2017.
- In 2016, the heading included the impact of updating the internal models for calculating provisions and the losses incurred from the early redemption of the bond issue exchangeable for Repsol shares.

Income tax

With respect to income tax expense, double taxation avoidance principles are applied to income contributed by investees and to gains or losses on corporate transactions. In 2017, this heading included the impact of the business combination with BPI.

The 2016 included the impact of the tax reforms ushered in by Royal Decree-Law 3 of 2 December 2016 of EUR -149 million, which imposed restrictions on the deductibility of losses on transfers of shares and other equity interests.

2.5. Segment reporting

This section shows the key financial figures and performance of the different businesses of the CaixaBank Group, as per the segment information contained in Note 8 to the consolidated annual financial statements.

Banking and insurance business

The following table shows the income statement for this business and the key financial figures:

(millions of Euros)	2017	2016	Change (%)
Net interest income	**4,603**	**4,387**	**4.9**
Dividend income and share of profit/(loss) of entities accounted for using the equity method	191	159	21.1
Net fees and commissions	2,222	2,089	6.3
Net gain/(loss) on financial assets and liabilities and others	303	846	(64.2)
Income and expenses under insurance and reinsurance contracts	472	311	51.9
Other operating income and expenses	(80)	(156)	(49.2)
Gross income	**7,711**	**7,636**	**1.0**
Recurring administrative expenses, depreciation and amortisation	(3,926)	(3,875)	1.3
Extraordinary expenses	(4)	(121)	
Operating income	**3,781**	**3,640**	**3.9**
Pre-impairment income excluding extraordinary expenses	***3,785***	***3,761***	***0.6***
Impairment losses on financial assets and others	(1,606)	(769)	
Gains/(losses) on disposal of assets and others	154	21	
Profit/(loss) before tax	**2,329**	**2,892**	**(19.5)**
Income tax	(575)	(904)	(36.4)
Profit/(loss) after tax	**1,754**	**1,988**	**(11.9)**
Profit/(loss) attributable to minority interests and others	6	9	(32.7)
Profit/(loss) attributable to the Group	**1,748**	**1,979**	**(11.8)**
Assigned capital	*19,641*	*20,332*	*(3.4)*
Total assets	*335,945*	*327,606*	*2.5*
RoTE (*)	*11.2%*	*10.8%*	*0.4*
Cost-to-income ratio stripping out extraordinary expenses	*50.9%*	*50.7%*	*0.2*
NPL ratio	*5.5%*	*5.8%*	*(0.3)*
NPL coverage ratio	*47%*	*48%*	*(0.9)*

(*) Excluding one-off aspects, net of tax: In 2017 the early retirements (EUR -212 million), the result of the business combination with BPI (EUR +256 million) and extraordinary expenses. The coupon for the part of the AT1 issue assigned to this business has also been deducted. In 2016, the release of provisions in the fourth quarter (EUR +433 million) and extraordinary expenses.

- Profit at 31 December 2017 of EUR 1,748 million (-11.8%).
- Gross income totalled EUR 7,711 million (+1.0%). Here, the improved generation of core income effectively offset the drop in earnings on financial assets and liabilities.
  - **Net gain/(loss) on financial assets and liabilities and others** down 64.2% following the materialisation in 2016 of increased capital gains on available-for-sale fixed-income securities and earnings of EUR 165 million from the Visa Europe Ltd deal.
  - **Income and expenses arising from insurance and reinsurance contracts** up 51.9% to EUR 472 million in response to intensive commercial activity and the termination in late October 2016 of the reinsurance contract on the individual life-risk portfolio of VidaCaixa.
  - **Other operating income and expenses** (-49.2 %) included the income arising from the agreement reached with Cecabank (EUR 115 million) and the expense incurred from the State-levied tax on deposits, formerly recognised under Other charges to provisions (EUR 53 million in 2017). Includes the contribution paid to the SRF and the DGF in both years.

- Recurring administrative expenses, depreciation and amortisation came to EUR 3,926 million, up 1.3% year on year. Extraordinary costs of EUR 121 million were reported in 2016 in connection with the labour agreement.
- Cost-to-income ratio excluding extraordinary expenses remained stable at 50.9% (versus 50.7% in 2016).
- Impairment losses on financial assets totalled EUR -865 in 2017. The previous year included the impact of EUR +618 million following the development of internal models in the fourth quarter of 2016. Without this effect, the heading remained stable (+0.3%).
- Other charges to provisions included EUR 455 million to cover early retirements in 2017 (EUR 160 million in 2016). Additionally, figures for 2016 include EUR 110 million to cover contingencies relating to floor clauses.
- Gains/(losses) on disposal of assets and others included, among other items, the result of the business combination with BPI (EUR 256 million) since it derived from a corporate transaction.
- RoTE for this business was 11.2% excluding one-off impacts.

Non-core real estate business

The following table shows the income statement and key financial figures for this business.

(millions of Euros)	2017	2016	Change (%)
Net interest income	**(71)**	**(66)**	**7.6**
Dividend income and share of profit/(loss) of entities accounted for using the equity method	32	18	75.5
Net fees and commissions	1	1	21.9
Net gain/(loss) on financial assets and liabilities and others	0	0	
Income and expenses under insurance and reinsurance contracts	0	0	
Other operating income and expenses	(332)	(251)	32.5
Gross income	**(370)**	**(298)**	**24.2**
Recurring administrative expenses, depreciation and amortisation	(105)	(116)	(9.5)
Extraordinary expenses			
Operating income	**(475)**	**(414)**	**14.7**
Impairment losses on financial assets and other provisions	(138)	(136)	
Gains/(losses) on disposal of assets and others	6	(1,034)	
Profit/(loss) before tax	**(607)**	**(1,584)**	**(61.7)**
Income tax	194	459	(57.6)
Profit/(loss) after tax	**(413)**	**(1,125)**	**(63.4)**
Profit/(loss) attributable to minority interests and others	0	0	
Profit/(loss) attributable to the Group	**(413)**	**(1,125)**	**(63.4)**
Assigned capital	*1,331*	*1,598*	*(16.7)*
Total assets	*11,530*	*12,949*	*(11.0)*
NPL ratio	*76.2%*	*80.0%*	*(3.8)*
NPL coverage ratio	*42%*	*41%*	*1.0*

- Losses generated by the non-core real estate business fell to EUR -413 million in 2017 (EUR -1,125 million in 2016).
- Impairment losses on financial assets were down due to the lower volume of net loans following the write-downs already carried out, as well as the impact of recoveries. Other charges to provisions in 2017 included EUR 154 million in write-downs on exposure to the SAREB.
- Gains/(losses) on disposal of assets and others (EUR 6 million in 2017) includes the impact of:

- Increased proceeds on sales of real estate assets, which amounted to EUR 248 million (EUR 72 million in 2016).

- Other results on real estate activity essentially shows allowances resulting from asset valuations based on the Group's internal models and from the parameter updates completed in the fourth quarter of 2017. The same quarter of the previous year included the recognition of EUR -656 million following the move to apply internal models.

- Net loans and advances to customers amounted to EUR 1,154 million, down 39.5% in the year.
- Net foreclosed real estate assets available for sale totalled EUR 5,878 million (-6%), while those held for rent amounted to EUR 3,030 million, net.
- The balance sheet of the non-core real estate business is as follows:

(millions of Euros)	2017	2016	Annual chg. (%)
ASSETS	**11,530**	**12,949**	**(11.0)**
Loans and advances to customers, net	1,154	1,906	(39.5)
Foreclosed real estate assets available for sale	5,878	6,256	(6.0)
Portfolio of rental properties	3,030	3,078	(1.6)
Other assets	1,468	1,709	(14.1)
LIABILITIES	**11,530**	**12,949**	**(11.0)**
Customer deposits and other liabilities	491	385	27.5
Intra-group financing	9,708	10,966	(11.5)
Assigned capital	1,331	1,598	(16.7)

Equity investments business

The following table shows the income statement and key financial figures for this business.

(millions of Euros)	2017	2016	Change (%)
Net interest income	**(163)**	**(164)**	**(0.8)**
Dividend income and share of profit/(loss) of entities accounted for using the equity method	318	651	(51.2)
Net fees and commissions	0	0	
Net gain/(loss) on financial assets and liabilities and others	(44)	2	
Income and expenses under insurance and reinsurance contracts	0	0	
Other operating income and expenses	0	0	
Gross income	**111**	**489**	**(77.3)**
Recurring administrative expenses, depreciation and amortisation	(4)	(4)	4.2
Extraordinary expenses			
Operating income	**107**	**485**	**(77.9)**
Impairment losses on financial assets and other provisions	4	(164)	
Gains/(losses) on disposal of assets and others	5	(91)	
Profit/(loss) before tax	**116**	**230**	**(49.3)**
Income tax	57	(37)	
Profit/(loss) after tax	**173**	**193**	**(9.9)**
Profit/(loss) attributable to minority interests and others	0	0	
Profit/(loss) attributable to the Group	**173**	**193**	**(9.9)**
Assigned capital	*1,012*	*1,470*	*(31.2)*
Total assets	*6,167*	*7,372*	*(16.3)*
RoTE (*)	*14.8%*	*15.7%*	*(0.9)*

(*) ROTE for 2016 excludes the impact of the tax reform ushered in by Royal Decree-Law 3/2016.

- In 2017, the business reported a profit of EUR 173 million (-9.9%).
- Net interest income shows the cost of financing the business and came to EUR -163 million.
- Dividend income reflects the impact of the lower dividend paid by Telefónica.
- Earnings at entities accounted for using the equity method were impacted by the perimeter departures and also because of the attributable loss of EUR 97 million following the sale of 2% of BFA.
- The year-on-year change can also be explained by a number of one-off aspects in 2016 in connection with:
    - Extraordinary write-downs made to a number of unlisted stakes under Other charges to provisions.
    - Negative result stemming from the early repayment of Repsol bonds exchangeable for shares (essentially the impact of delivering the shares and of cancelling the embedded derivative on the instrument, which was recognised in equity due to its consideration as cash flow hedge).

BPI

The following table shows the income statement and key financial figures for this business.

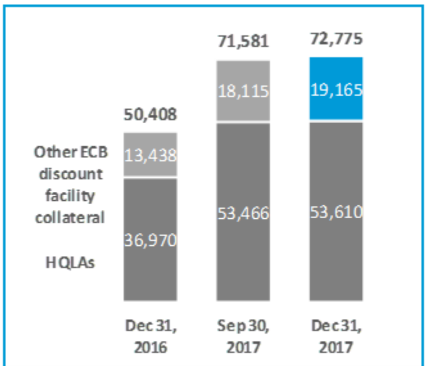
(millions of Euros)	2017
Net interest income	**377**
Dividend income and share of profit/(loss) of entities accounted for using the equity method	112
Net fees and commissions	276
Net gain/(loss) on financial assets and liabilities and others	23
Income and expenses under insurance and reinsurance contracts	0
Other operating income and expenses	(18)
Gross income	**770**
Recurring administrative expenses, depreciation and amortisation	(432)
Extraordinary expenses	(106)
Operating income	**232**
Pre-impairment income excluding extraordinary expenses	**338**
Impairment losses on financial assets and other provisions	29
Gains/(losses) on disposal of assets and others	(1)
Profit/(loss) before tax	**260**
Income tax expense	(54)
Profit/(loss) after tax	**206**
Profit/(loss) attributable to minority interests and others	30
Profit/(loss) attributable to the Group	**176**
Assigned capital	*2,220*
Total assets	*29,544*
NPL ratio	*5.1%*
NPL coverage ratio	*87.0%*

- The BPI business' contribution to the Group's results since its integration in February 2017 amounted to EUR 176 million.
- Share of profit/(loss) of entities accounted for using the equity method shows, among other items, attributed earnings from the stakes held in BFA and BCI.
  Share of profit/(loss) at BFA under the equity method included extraordinary impacts totalling EUR -119 million, of which EUR -76 million related to the estimated impact of having to apply (in accordance with IAS 29) special accounting standards to BFA's financial statements due to Angola's inflationary economy.
- Extraordinary expenses included restructuring costs.

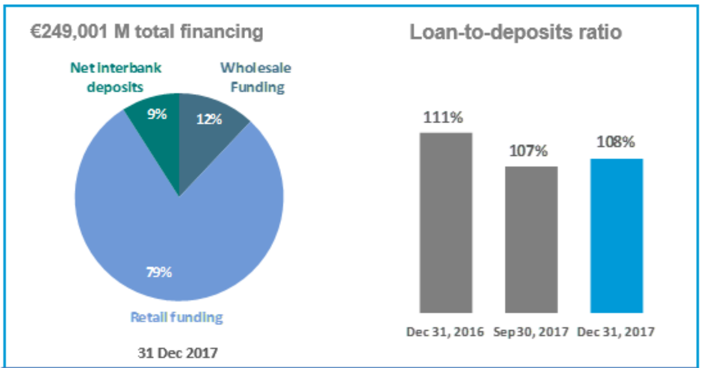
The following information has been included to help readers interpret the criteria for presenting BPI's results at CaixaBank:

- The figures reported by Banco BPI for 2017 differ from its contribution in the financial statements and from the relevant business segment within the CaixaBank Group. This is because of the impact of the fair value adjustments of its assets and liabilities generated from the business combination and the attribution of results to minority interests.
- Moreover, BPI's results in 2017 were recognised at the CaixaBank Group using the equity method in January and then using the full consolidation method over the rest of the period.
- The results published by BPI include the one-off impact arising from the sale in January 2017 of 2% of its stake in BFA. This impact is presented for the attributable amount at the CaixaBank Group under the equity investments business, as previously discussed.
- Meanwhile, the sale of BPI Vida e Pensoes, Companhia de Seguros, SA to VidaCaixa de Seguros y Reaseguros was completed at the end of the fourth quarter of 2017. The capital gain on the sale has impacted the balance sheet and the income statement published by Banco BPI. The segment reporting prepared by CaixaBank for the BPI segment does not include the proceeds from the sale since it has been removed from CaixaBank's consolidated income statement.

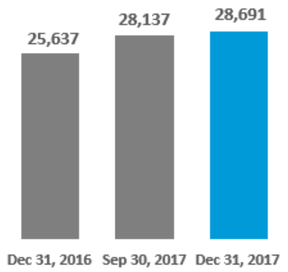
2.6. Funding and liquidity



Total liquid assets
(€ million)



Financing structure



Issuances by maturity

Year	Amount
2018	4,979
2019	2,133
2020	1,385
2021	2,641
>2021	17,553
Total	28,691

Wholesale funding
(€ million)

- Total liquid assets amounted to EUR 72,775 million at 31 December 2017. The change here was down to the integration of BPI (EUR 8,891 million), the shift in the loan-deposit gap and the fact that completed issues exceeded maturities in the year.
- The Group's Liquidity Coverage Ratio (LCR) at 31 December was 202%, comfortably clear of the minimum requirement of 100% from 1 January 2018 onward.
- The balance drawn under the ECB facility at 31 December 2017 amounted to EUR 28,820 million, of which

EUR 637 million related to TLTRO I financing and EUR 28,183 million to TLTRO II financing (EUR 2,001 million deriving from the acquisition of BPI).

- Institutional financing came to EUR 28,691 million. The change in the year to date was largely a result of the following debt issuances, which were well received by investors:
  - Issuance of mortgage covered bonds worth EUR 1,500 million at ten years, with demand exceeding EUR 2,400 million. The coupon rate was set at 1.25% and the issue cost was 60 basis points over the mid-swap rate.
  - Subordinated debt placement worth EUR 1,000 million at ten years including the option to redeem from year five onward. The bond issue pays a coupon of 3.5% per annum and demand has exceeded EUR 2,000 million. From year five onward, the bonds pay an annual fixed coupon equal to the five-year swap rate plus a spread of 3.35%.
  - Issuance of senior bonds worth EUR 1,000 million at seven years, paying a coupon of 1,125% and with demand exceeding EUR 3,500 million.
  - Inaugural EUR 1,000 million placement of perpetual Additional Tier 1 instruments, including the option to redeem them early from year seven onward. The coupon is subject to certain conditions and is also discretionary. It has been set at 6.75% per year for the first seven years. Thereafter, it will be revised by applying a spread of 649.8 basis points to the applicable five-year swap rate. Payment, if and when forthcoming, will be made quarterly in arrears. The issue was placed exclusively among qualified investors and attracted demand in excess of EUR 3,500 million.
  - Private placement of subordinated debt (Tier 2) worth EUR 150 million, with a maturity of 25 years, redeemable from year twenty onward and paying a coupon of 4%.
  - Subordinated debt placement worth EUR 1,000 million at eleven years, including the option to redeem from year six onward. The bond issue pays a coupon of 2.75% per annum and demand has exceeded EUR 2,800 million. From year six onward, the bonds will pay an annual fixed coupon equal to the five-year mid-swap rate plus a spread of 2.35%.
  - Private placement of mortgage-covered bonds worth EUR 375 million at fifteen years, paying a fixed coupon of 1,625%, equivalent to the mid-swap plus 0.33%.
  - First issue of non-preferred senior debt worth EUR 1,250 million at five years, paying a coupon of 1,125% (mid-swap plus 0.95%). Demand for the issue has been close to EUR 3,500 million.
  - Issue of mortgage covered bonds worth EUR 600 million at eight years subscribed by the EIB in US dollars. The bonds pay a variable coupon (6-month Libor + 0.59%).
  - Total maturities in 2017 amounted to EUR 5,379 million.
- Meanwhile, BPI issued subordinated debt worth EUR 300 million in the first quarter of 2017, which was fully subscribed by CaixaBank (having no impact on a consolidated level).
- Available capacity to issue mortgage and regional public sector covered bonds stood at EUR 3,160 million at year-end 2017.

Collateralisation of mortgage covered bonds

(millions of Euros)

		31.12.2017	31.12.2016
Mortgage covered bonds issued	a	51,690	47,074
Portfolio of loan and credit facilities (collateral for mortgage covered bonds)	b	93,245	102,150
Collateralisation	b/a	**180%**	**217%**
Overcollateralisation	b/a - 1	**80%**	**117%**
Mortgage covered bond issuance capacity (*)		**2,805**	**4,000**

(*) The CaixaBank Group's also had available capacity to issue public sector covered bonds in 2017 and 2016 of EUR 355 million and EUR 1,494 million, respectively.

Loan-to-deposits ratio

(millions of Euros)

	31.12.2017	31.12.2016
Loans and advances to customers	**211,769**	**194,811**
Loans and advances to customers, gross	223,951	204,857
Loan-loss provisions	(6,832)	(6,684)
Brokered loans (*)	(5,350)	(3,362)
Customer funds	**196,611**	**175,655**
Demand deposits	158,772	132,691
Term deposits	35,793	39,624
Subordinated liabilities (retail)	2,046	3,340
Loan-to-deposit ratio	**107.7%**	**110.9%**
Loan-to-deposit gap	**(15,158)**	**(19,156)**

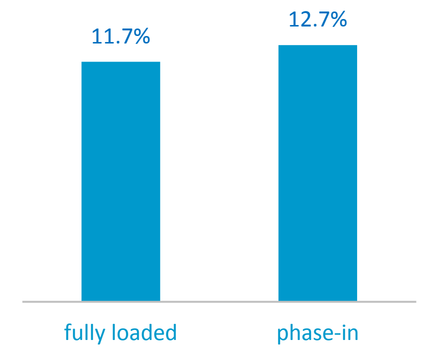
(*) Loans financed with funds from public institutions (Instituto Oficial de Crédito and the European Investment Bank).

2.7. Capital management

One of CaixaBank's main objectives is to maintain a comfortable capital adequacy in keeping with its risk profile as it aims to strengthen its position as one of the most robust entities in the European banking market.

With that target in mind, the Board of Directors determines the Group's risk and capital policy. The Management Committee oversees capital management at the highest level in accordance with the strategies set by the Board. The Financial Accounting, Control and Capital Division is entrusted with monitoring and controlling the Bank's own funds. Capital is managed so as to ensure compliance with both regulatory requirements and the Bank's internal capital targets at all times.

CET1
(percentage)



The **CaixaBank Group** had a fully-loaded Common Equity Tier 1 (CET1) ratio of 11.7% at 31 December 2017, within the 11-12% band envisaged in the Strategic Plan. Excluding the impact of the integration of Portuguese bank BPI, the ratio gained 60 basis points in the year on the back of solid capital generation (net retained earnings from the change in credit risk-weighted assets), but shed 26 basis points due to prevailing market conditions and other factors. *Fully-loaded* risk weighted assets (RWA) amounted to EUR 148,695 million at the end of December 2017.

Meanwhile, the *fully-loaded* Tier 1 ratio was 12.3%. This ratio was bolstered in June by the placement of EUR 1,000 million in additional Tier 1 (AT1) instruments.

Fully-loaded total capital was 15.7%, exceeding the 14.5% target envisaged in the Strategic Plan. The ratio improved further during the year following the aforementioned EUR 1,000 million issue of AT1 instruments and several issuances of subordinated debt totalling EUR 2,150 million placed between February and July. The ratio also incorporates the redemption of the EUR 1,302 million issue of subordinated debt in August.

The entry into force of IFRS 9 will have an impact of -15 basis points in the *fully-loaded* CET1 ratio (specifically, -38 basis points from the impact on reserves and +23 basis points from other impacts on capital, mainly in response to the release of reductions due to the deficit of provisions in respect of expected losses on the IRB portfolio). *Fully-loaded*, CET1 was 11.5%, Tier 1 was 12.2% and total capital was 15.6%. CaixaBank has opted out of the voluntary phase-in period allowed by the regulations for gradually absorbing the impact on capital.

Meanwhile, the *fully-loaded* leverage ratio came to 5.3%. According to the criteria in force in 2017 for phased-in implementation, regulatory capital and leverage were: **CET1 of 12.7%, Tier 1 of 12.8% and total capital of 16.1%, with a leverage ratio of 5.5%.**

Using the criteria in force in 2018 for phased-in implementation, regulatory capital and leverage would be: **CET1 of 11.8%, Tier 1 of 12.5% and total capital of 15.9%, with a** leverage ratio of 5.5%. If we include the impact of the initial adoption of IFRS 9, these ratios would be: CET1 of 11.7%, Tier 1 of 12.4% and total capital of 15.8%.

CaixaBank is also subject to minimum capital requirements on a non-consolidated basis. CaixaBank's individual regulatory CET1 ratio came to 13.6%, with RWAs of EUR 138,758 million.

As for the **capital adequacy of the consolidated CaixaBank perimeter without BPI, regulatory CET1 would be 12.7%** (11.6% fully-loaded), **while BPI's own regulatory CET1 ratio is 13.2%** (12.3% fully-loaded).

On 13 December 2017, CaixaBank, S.A. received the decision of the European Central Bank (BCE) on the minimum prudential capital requirements after hearing the results of the Supervisory Review and Evaluation Process (SREP). CaixaBank also received a decision from the Bank of Spain on the capital buffer required of it due to its status as an Other Systematically Important Institution (O-SII).

These decisions show no changes on the previous year in fully-loaded terms and mean that the CaixaBank Group must maintain in 2018 a phase-in Common Equity Tier 1 (CET1) ratio of 8,063%, which includes: the Pillar 1 regulatory minimum (4.5%); the ECB's Pillar 2 requirement (1.5%); the capital conservation buffer (1,875%); and the O-SII buffer (0,187%). On a fully-loaded basis, the minimum CET1 requirement would therefore be 8.75%. Similarly, taking minimum applicable Pillar 1 requirements for Tier 1 (6%) and for total capital (8%), capital requirements would be 9,563% phase-in / 10.25% fully loaded for Tier 1 and 11,563% phase-in / 12.25% fully loaded for total capital.

The CaixaBank Group's current ratios show that the requirements imposed on the Group will not trigger any of the automatic restrictions envisaged in applicable capital adequacy regulations relating to pay-outs of dividends, variable remuneration and interest to holders of Additional Tier 1 capital instruments (there is a margin of 393 basis points, i.e. EUR 5,856 million, before triggering the Group's regulatory MDA).

For further information on capital adequacy, see Note 4 to the consolidated annual financial statements, as well as the Pillar 3 Disclosures report.

Key capital adequacy indicators

(millions of Euros)	Regulatory	
	31.12.2017	**31.12.2016**
CET1 instruments	23,927	22,923
Deductions	(4,961)	(5,134)
CET1	**18,966**	**17,789**
Additional Tier 1 instruments	999	
Deductions	(891)	
Core capital (Tier 1)	**19,074**	**17,789**
Tier 2 instruments	5,023	4,088
Deductions	(50)	(85)
Supplementary capital (Tier 2)	**4,973**	**4,003**
Eligible own funds (total capital)	**24,047**	**21,792**
Risk-weighted assets	**148,940**	**134,864**
CET1 ratio	12.7%	13.2%
Tier 1 ratio	12.8%	13.2%
Total capital ratio	16.1%	16.2%
MDA buffer (1)	5,856	5,243
Fully-loaded total capital + Senior non-preferred	17.2%	
Leverage ratio	5.5%	5.7%
Individual CET1 ratio	13.6%	12.6%
Individual Tier 1 ratio	14.1%	12.6%
Individual total capital ratio	17.4%	15.5%
Individual risk-weighted assets	138,758	137,093
Individual earnings	1,428	1,035
ADIs (2)	2,235	1,336
Individual MDA buffer (1)	9,380	7,571
Individual leverage ratio	6.1%	5.6%

(1) The applicable MDA buffer is the lowest of the non-consolidated or consolidated figure.

(2) Does not include the share premium or any extra dividend charged 2017 earnings.

2.8. Risks and uncertainties

Adequate risk management is essential for the business of any credit institution, especially for entities mainly involved in retail banking such as CaixaBank.

The year was certainly challenging for the sector, which has had to respond to new scenarios in an increasingly demanding and ever-changing regulatory environment. Despite these conditions, the Group managed to improve its results and credit quality.

According to the latest risk assessment report released by the EBA on the European banking system, the banking sector rallied in 2017 in response to a more favourable macroeconomic and financial environment and widespread improvements were seen in terms of capital position, profitability and asset quality across all of Europe.

The stock of non-performing assets remains one of the main concerns for regulators, as are the relatively poor levels of sustained profitability, which are down to low interest rates. These factors are the main threats to the sustainability of the banking business model within an increasingly competitive market.

The domestic and international banking sectors have been exposed to extreme scenarios, especially geopolitical risks, which have generated considerable uncertainty and have tested the sector’s resolve and responsiveness.

According to the EBA, the European banking sector, which is now a fiercely competitive arena due to increasing levels of technological innovation in relation to financial products and services and the arrival of new market players, showed in 2017 that it has embarked on a process of adapting its business model to ensure sustainable returns. This process is not only intended to generate profit, but has been essential in improving the industry's responsiveness to the main threats that emerged in 2017.

Following the trend seen in recent years, 2017 also saw a proliferation of legislative changes and developments. A key highlight here included the completion of Basel III negotiations, which seeks to reduce variance between banks when calculating Risk-Weighted Assets and make the results more readily comparable.

Final guidelines have also been published on a number of other important subjects to have featured on the agendas of regulatory bodies in recent years, such as internal governance of banks, organisation of internal control functions and the risks function.

In Spain, highlights in the period included the Bank of Spain's approval of Circular 4/2017, on public and inside financial information reporting rules and standard form financial statements for credit institutions. This regulation brings the accounting rules of Spanish credit institutions in line with IFRS 9 (Financial instruments), as adopted in the EU in 2016, and which will apply to financial statements prepared for accounting years beginning 1 January 2018.

Here, the Group's Board of Directors and management team have been focusing heavily on proper risk governance, management and risk control in relation to recurring banking and insurance business. Highlights in 2017 in relation to risk management included the following:

- Ongoing Group-wide efforts by expert teams to analyse the numerous regulatory changes and recommendations to have occurred, while ensuring a full impact study is conducted and action plans drawn up to implement those changes and recommendations.

- High-impact strategic decision-making processes, such as the decision to make BPI part of the CaixaBank Group for accounting purposes and the deconsolidation of CriteriaCaixa.

- Commitment to technological innovation and R&D+i, which takes the form of IT security and technological risk prevention and new commercial solutions. Highlights here included the venture undertaken with Global Payments Inc., Samsung, Visa and Arval (BNP Paribas Group) to create the first hub for innovation in commerce and payment methods in Spain, known as Payment Innovation Hub, which together will allow us to champion new R&D+i projects in response to new consumer trends and patterns.

- The CaixaBank Group was involved in much M&A activity in the period, with highlights including the takeover of Banco BPI in February and the acquisition of the life insurance and pension plan companies and mutual funds of BPI in late 2017. The deal also includes the acquisition of the brokerage, research and corporate finance business of BPI's subsidiary, Banco Português de Investimento, SA. Further highlights included the transactions completed on the primary debt market and preference share placements, which enjoyed considerable uptake.

Note 3 to the accompanying financial statements provides further details on risk management and the Internal Control Model of the CaixaBank Group.

2.9. Key disclosures on the CaixaBank share

CaixaBank shareholder structure

At 31 December 2017, CaixaBank's share capital was represented by 5,981,438,031 shares, each with a par value of EUR 1.00. CaixaBank's significant shareholder is CriteriaCaixa, which holds a 40% stake in the company.

Movements in CaixaBank's share capital are disclosed in Note 25 to the accompanying financial statements.

The Bank's *free float* (meaning the percentage of share capital not held by the majority shareholder or by company directors) stood at 54.8%. This free float was distributed among more than 605,000 shareholders.

CaixaBank has not been informed of any agreements between its shareholders for the concerted exercise of voting rights or any that could restrict the free transfer of shares, except for the agreement described under section A.6 of the accompanying Annual Corporate Governance Report.

At 31 December 2017, minority shareholders (including employees) held approximately 30.3% of the *free float* (16.6% of total share capital), while the remaining 69.7% was held by institutional investors.

The geographic distribution of the free float among institutional investors is as follows:

America	Great Britain and Ireland	Spain	Rest of Europe	Rest of the world
38%	25%	5%	23%	9%

Acquisition and disposal of shares held in treasury

Information on the acquisition and disposal of shares held in treasury during the period is included in Note 25 to the financial statements.

Shareholder remuneration policy and share price performance

Shareholder remuneration (see Note 6)

Shareholder remuneration remains one of CaixaBank's top priorities. In accordance with the 2015-2018 Strategic Plan, the Bank has remained firmly committed, since 2015, to paying at least 50% of its net profit to shareholders as a cash return.

On 23 February 2017, CaixaBank's Board of Directors approved the Bank's dividend policy, whereby shareholder remuneration for 2017 would be paid through two half-yearly cash dividends. The first dividend of EUR 0.07/share was paid in November 2017 and the second is due to be paid in April of 2018.

CaixaBank share performance

European stock markets made significant gains in 2017 thanks to a bullish economy –the euro area has clearly consolidated its recovery, with the Spanish economy having now ended its third straight year of growth exceeding 3.0%– and rallying company earnings.

The Spanish blue chip IBEX 35 added 7.4% versus the close of 2016 while the Euro Stoxx 50 gained 6.5%. This annual growth could well have been more pronounced had the sharp rise in early 2017 not been interrupted by the appearance of various, mainly political episodes of uncertainty towards the end of the year, causing the IBEX 35 to dip 3.3% in the fourth quarter and the Euro Stoxx 50 to slip by 2.5% from the close of September. Among the various factors shackling the performance of European stock markets were Merkel's difficulty in forming a government in Germany, the uncertainty surrounding Brexit talks and, in the case of the Spanish stock market, the political situation in Catalonia.

Meanwhile, the main North American indices remained bullish throughout the year, including the final stretch. This was largely down to the Donald Trump's tax reform and widespread confidence that the Fed will ultimately be successful in normalising monetary policy, having already hiked rates on three occasions in 2017.

Meanwhile, the European banking index gained 10.9% in the year, roughly reflecting the performance of most Spanish financial institutions, which gained 10.4% in the same period, despite having to contend with low interest rates. The ECB announced that interest rates will remain unchanged for the time being since inflation is still well off its target level. Turning to the Spanish banking sector, three corporate transactions in June were of particular note: the resolution of Banco Popular and its subsequent acquisition by Banco Santander, the merger by absorption o Bankia and BMN and the stock market floatation of Unicaja.

The price of the CaixaBank share in 2017 outperformed the rest of the sector, gaining 23.9% in the year to end trading on 31 December 2017 at EUR 3,889/share. Trading of the CaixaBank share in euros also increased in 2017, showing a year-on-year improvement of 43%.

As we move through 2018, the global economy is expected to remain dynamic, albeit with certain lingering macro-financial risks (sustainability of the high stock prices in the United States and financial imbalances in China) and geopolitical risks (worsening of the cold war in the Middle East, rising tensions with North Korea and NAFTA renegotiations).

2017 Key performance indicators for the CaixaBank share

Stock market capitalisation (millions of Euros)	23,248
Number of shares outstanding (1)	5,977,872
Share price (EUR/share)	
Quoted price at start of period (31.12.2016) (2)	3,140
Quoted price at end of period (31.12.2017) (2)	3,889
Highest price (2)	4,500
Lowest price (2)	3,190
Trading volume (number of shares, excluding special transactions, in thousands)	
Highest daily trading volume	53,300
Lowest daily trading volume	3,354
Average daily trading volume	16,133
Stock market ratios	
Attributable profit at the Group (EUR mn) (12 months) (3)	1,658
Average number of shares outstanding (1)	5,977,738
Net earnings per share, attributable (EPS) (EUR/share)	**0.28**
Equity excluding minority interests (EUR mn).	24,249
Number of shares outstanding at 31.12.17 (1)	5,977,872
Book value per share (EUR/share)	**4.06**
Tangible equity excluding minority interests (EUR mn).	20,009
Number of shares outstanding at 31.12.17 (1)	5,977,872
Tangible book value per share (EUR/share)	**3.35**
PER (Price/Earnings; x)	**14.02**
P/B ratio (listed price/tangible book value)	**1.16**
Dividend yield (4)	**3.34%**

(1) Number of shares excluding shares held in treasury.

(2) Share price at close of trading.

(3) Figures adjusted to reflect the amount of the Additional Tier 1 coupon, after tax, reported in equity.

(4) Calculated by dividing the yield for the last 12 months (EUR 0.13/share) by the closing price at the end of the period.

Coverage

At year-end 2017, 30 Spanish and international financial analysis firms provided coverage of the CaixaBank share, publishing target prices and recommendations for the last six months.

"Buy" and "hold" recommendations accounted for 80% of total opinions. At December 2017, the average target price set by analysts was EUR 4.34 per share[1]. Analysts held a positive view of CaixaBank's leadership of the retail banking market in Spain, coupled with the strength of the franchise and its sturdy balance sheet.

Analyst opinions provide CaixaBank shareholders with an independent and external source to help them understand market opinion on the shares and obtain a better overview of the trends and potential upside or downside of these securities.

2.10. Credit ratings

At the date of this management report, CaixaBank holds the following credit ratings:

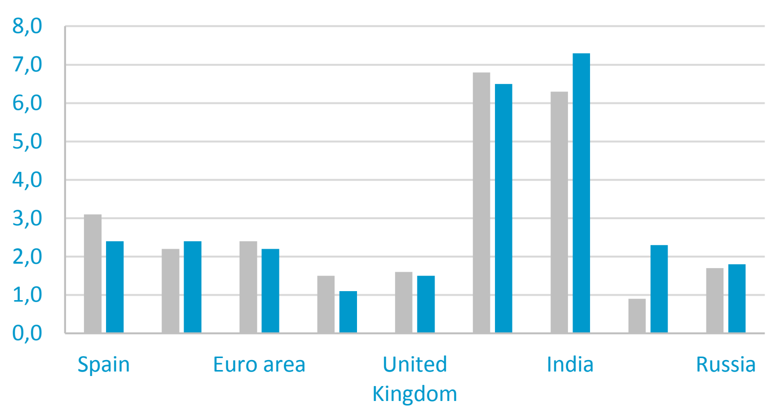
	Long term	Short term	Outlook	Assessment date	Rating of mortgage covered bonds
Standard & Poor's Credit Market Services Europe Limited	BBB	A-2	Positive	06.10.17	A+
Fitch Ratings España, SAU	BBB	F2	Positive	06.02.18	
Moody's Investor Services España, SA	Baa2	P-2	Stable	10.05.17	Aa2
DBRS Ratings Limited	A (low)	R-1 (low)	Stable	14.07.17	AA (high)

2.11. 2018 outlook and forecast performance for the CaixaBank Group

2018 outlook

The healthy economic performance seen in 2017 is set to continue as we move through 2018 as confidence increases. According to CaixaBank Research, economic should reach 3.8%. This relatively bright outlook will continue to find support from the relatively accommodative monetary conditions (the Fed's normalisation process, with three further hikes expected this year, will remain a slow and steady affair) and stable oil prices at just above USD 60 dollars/barrel (supported by the OPEC's agreement to cut crude oil output through to the end of 2018). Yet 2018 will not be immune to risks. On the macro-financial front, in order for the prices of financial assets to remain high, the Fed will need to continue pursuing a conservative approach to interest rate hikes and any sharp or abrupt increase could trigger market turbulence, particularly in the US stock markets.

Main economies: GDP
(annual change: %)



Note: * Tax year
Source: CaixaBank Research

In effect, the United States is expected to see economic growth of slightly over 2% as it moves into 2018 and the labour market, with practically full employment, is likely to generate inflationary pressure, which could effectively force the Fed to move faster in raising interest rates. The Fed may also be swayed by the positive impact on growth and inflation of President Trump's tax reform. Further causes for concern include the financial imbalances in China and the proliferation of geopolitical and trade risks (worsening of the cold war in the Middle East, rising tensions with North Korea, NAFTA negotiations).

[1] Considering only target prices and recommendations published in reports that were issued within the last six months.

In the euro area, we expect growth to consolidate the healthier climate shown in 2017, with forecast gains of 2.2% in 2018, which will continue to find support from a rallying labour market and accommodative financial conditions. The ECB is expected to keep its asset purchasing programme at EUR 30 billion per month through to September 2018 and to maintain interest rates at their current levels. Despite this relatively bright macroeconomic outlook, we still have outstanding business in the form of European integration, which has become particularly significant as Brexit talks press on. After reaching a preliminary agreement on the exit terms in late 2017, the UK and the EU are now entering 2018 with the aim of hammering out a transition agreement which, given how complex the process is, would allow the parties to continue negotiating beyond 2019 without generating any major disruption. In principle, the UK will come off worse if no agreement is reached on the transition period, making it effectively a bargaining chip for the EU, although it is reasonable to assume that both sides will manage to reach an agreement on the matter.

Meanwhile, the Spanish economy is expected to continue reporting strong and well-balanced growth against a positive economic backdrop, despite the recent political uncertainty on the domestic front; albeit growth that is unlikely to match the level seen in 2017 due to the expected slowdown in internal demand and as tailwinds subside (such as low oil prices, the tax reduction and the materialisation of buying decisions that had been put on hold during the crisis). This decline, however, is expected to be partially offset by an increased contribution from the external sector, driven by the healthy state of the global economy and the fact that Spanish exports have become increasingly competitive in recent years. CaixaBank Research therefore expects to see growth of 2.4% for 2018 as a whole.

While the outlook is undeniably positive, the Spanish economy continues to face a number of significant challenges, notably high levels of unemployment and public debt.

Moving across to Portugal, the significant gains made in 2017 have crucially improved investor sentiment and now place the Portuguese economy in better stead to maintain strong levels of growth in 2018 (CaixaBank Research expects to see 2.2%), with internal and external demand now more evenly balanced. This outlook, coupled with encouraging levels of investor confidence, will allow the country to continue correcting its macroeconomic imbalances while reducing its high levels of public debt.

Outlook for the CaixaBank Group

The solid and sustained growth of the economy will allow the Group to continue strengthening its financial structure. In line with the targets set out in the Strategic Plan, the recurring profitability of the banking business (meaning return on equity, net of intangible assets) should exceed 9% in 2018 while the cost-to-income ratio should reach 55%. Meanwhile, the maximum quality capital adequacy ratio (CET1) will comfortably meet the Group's own internal target of 11-12%, well clear of the regulatory minimum level. All this despite considerable interest rate pressure, which has pushed down rates to all-time lows, coupled with weak levels of lending, significant regulatory changes and fierce levels of competition.

To overcome the challenges posed by the current climate and to ensure its objectives are met, **CaixaBank has been working on three mutually complementary fronts.** These involve **flagging and committing to commercial strategies that will allow the Bank to generate more high-quality recurring income while containing the costs base and improving asset quality.**

In 2018, CaixaBank will continue to diversify its income towards segments that promise the best returns, with a strategic focus on consumer loans and loans to businesses, while strengthening its insurance and asset management businesses by relying on its commercial prowess and excellent market positioning. It will also pursue a cost containment policy, albeit one compatible with its continuous investments in technology in a bid to ensure adequate coverage of the general needs of its customers and high standards of quality and regulatory compliance. Meanwhile, active default management and reducing non-performing assets will remain key priorities for the Group because apart from not contributing to the Group's earnings, these assets require additional financing and consume capital. Solvency will remain a key strategic indicator.

In relation to BPI, work is ongoing to continue improving the already solid position of the Portuguese group in its home country in tandem with the recovery of the Portuguese economy. The ultimate goal here is to optimise the results of the integration process and create value for shareholders.

The action plans envisaged by the Group should ensure that the increase in 2018 earnings generates growth in core income and improves the quality of the bank's balance sheet.

Core operating income, meaning net interest income plus fee and insurance income, is expected to continue growing, especially in relation to the insurance business:

- **Gradual though slow recovery in net interest income.** Low interest rates will continue to penalise income from lending activity while the weak growth in lending will not be enough to mitigate this impact. However, with a specialised value proposition that focuses on businesses showing the biggest potential in terms of growth and profitability -such as consumer loans and loans to businesses on the lending side and advisory investment products on the borrowing side- the Bank will be able to protect its margins and this should help push up net interest income to a certain extent.

- **Growth in fee and commission income** despite fierce competition. Nonetheless, lingering uncertainty and market volatility will continue to impact the performance of off-balance sheet funds and, therefore, fee and commission income.
- **Growing contribution from the insurance business** as sales of life-risk and non-life insurance products pick up in response to intensive commercial efforts and an already solid presence in the business.

The Bank will **improve the quality of its balance sheet** by reducing the cost of risk and the volume of non-performing assets. Reducing the NPL ratio and exposure to the real estate sector will be aided by the systemic increase in house prices we have been seeing since 2015.

Meanwhile, the regulatory changes expected **to materialise in the short and mid term will remain a major challenge in terms of both management and foresight.** The rapidly changing regulatory landscape requires banks to continuously monitor and ensure compliance with new requirements, anticipate impacts in terms of both capital and liquidity requirements and also undertake investments in technology or to upgrade systems and processes.

The entry into force of IFRS 9 on 1 January 2018 will have the following impacts on the CaixaBank Group's financial statements:

- Loan-loss provisions up EUR 758 million, generating an estimated impact of approximately 5 percentage points on existing NPL coverage.
- Net impact on reserves of EUR -564 million.

In terms of capital adequacy, it will have an impact of -15 basis points on the fully-loaded CET1 ratio. CaixaBank has opted out of the voluntary phase-in period allowed by the regulations for gradually absorbing the impact on capital.

Further highlights included the implementation of the PSD2 Directive in relation to payment services, and adaptation to the new MiFID II, which will hugely transform existing business models and requirements on eligible liabilities for the internal recapitalisation of banks (MREL).

All things said, the **challenges in store in 2018 are no different to those already present in 2017.** The Bank must continue to weigh up initiatives to help increase profitability against a backdrop of rock-bottom interest rates, while making further progress with the digital transformation and the change of its business model. Furthermore, we have various risks associated with the increased political uncertainty in 2018 and the need to manage the rising number of lawsuits and disputes.

2.12. Events after the reporting period

Issuances of debt securities

On 3 January 2018, CaixaBank made an issuance of long-term mortgage covered bonds. This new 10-year issuance, for the amount of EUR 1,000 million, was placed at 22 basis points above the midswap rate. The coupon was set at 1%. The issuance of 15-year mortgage covered bonds carried out in July 2017 was also reopened and increased by EUR 375 million, setting the new amount for this issuance at EUR 750 million. The price was set at 32 basis points over the midswap rate.

Meanwhile, on 10 January 2018 a 5-year and 3-month senior debt issuance was completed for the amount of EUR 1,000 million, paying a coupon of 0.75% (midswap + 0.48%).

3. NON-FINANCIAL INFORMATION

3.1. Customer quality and experience

Improving the customer experience is a priority for CaixaBank as it reflects one of its strategic values: service quality; one of the competitive drivers and hallmarks of the banking business. Our objective is to achieve the maximum possible satisfaction and positive word of mouth among CaixaBank's stakeholders: customers, employees, shareholders and society at large.

Following on from previous years, CaixaBank remains fully committed to offering high quality service and we therefore aspire to become the best bank when it comes to quality and reputation, a challenge we have set ourselves in the 2015-2018 Strategic Plan. Service excellence will be our calling as we offer the products and services best suited to each customer, along with fully personalised care.

Quality will therefore remain an utmost priority, and will be based on trust, proximity, efficiency and the ability to provide unique and memorable experiences.

CaixaBank continues to attract customers that will help promote and recommend the Bank and it insists that its employees deliver good experiences so as to improve our customers' perception of the service offered by CaixaBank whenever they come into contact with the Bank. We therefore measure the main points in time when customers interact with the Bank with the aim of identifying drivers that will allow us to transform that contact into a satisfying and memorable experience.

CaixaBank asks customers and employees alike to complete a satisfaction survey and a net promoter survey and obtains internal indicators of the quality of service: the Customer Satisfaction Index (CSI) and the Net Promoter Score (NPS). More than 400,000 customer surveys are conducted yearly across all CaixaBank businesses (Individuals, Premier, Private, Business, Institutions and Corporate). These studies are supplemented with mystery shoppers, who visit our branches to observe the quality of care given to potential new customers. Satisfaction benchmarks in the financial sector are a third source of valuable information when it comes to making improvements.

The Bank therefore listens to the "Voice of the Customer" through all channels we provide to customers, enabling us to obtain a 360º view of their perception and expectations as we continue to improve quality of service and the experiences of CaixaBank customers. Customer Quality and Experience coordinates the task of implementing customised action plans at each CaixaBank branch where improvements can be made by providing advice and support from the Head of Quality for the region.

From the start of our 2015-2018 Strategic Plan, levels of satisfaction and word of mouth have continued to improve thanks to the efforts made by all CaixaBank employees. We regularly monitor and publish the results across all areas of the Bank so that action plans can be drawn up to comply with the quality-related challenges of each branch and department, focusing on our customers while aligning ourselves with challenge number 1 of the Strategic Plan.

In 2017, CaixaBank asked employees of the branch network, business centres, Private Banking and Institutions to complete a satisfaction survey in order to gauge their perception of the different services provided by the departments and divisions of CaixaBank. These studies allow us to gather qualitative and quantitative information that will help us identify opportunities to improve the different services and draw up specific action plans to improve and enhance the employee's experience when attempting to sell products and services to customers.

In addition to the studies, we listen to the Voice of the Employee through other channels we provide to our personnel (such as the Ideas mailbox and open panel following surveys to collect spontaneous comments on existing problems, and the INNOVA portal, which allows employees to voice their suggestions on specific subjects). This gives us a full picture of our employees' perception and expectations concerning CaixaBank services as we seek to improve the quality of the services they use in their day-to-day commercial relations with customers and rapidly draw up improvement plans with the areas involved to tackle those aspects that show room for improvement.

CaixaBank is actively seeking to retain its position of leadership in management, by pressing on with various initiatives to complement and further the Bank's strategic lines with a Group-wide roll-out that has not only involved CaixaBank, but also the entire business group and all its stakeholders. Highlights here include:

- Renewal and systematic deployment of the recommended improvements under EFQM-2016 across the main areas of the organisation, thus demonstrating full adoption of the EFQM model.
- Migrating the Internal Quality measurement model towards a model focused on branch employee experience, which aims to press the need for continuous improvement and management excellence.
- Spanish company that ranks among the best in Europe when it comes to management/EFQM: CaixaBank was awarded second place in the EFQM's Good Practice Competition (through Group company MicroBank and its commitment to lending to those segments of society most in need).
- Advances in certification across its main specialised segments: the Companies business, Foreign Trade and International Banking successfully renewed their European Certificate from Aenor, which can be added to the standards already earned by Premier Banking and Retail Banking (Individuals and businesses).

3.2. Environmental information

Climate change is one of the main challenges facing the planet, which must shift towards a low-carbon economy. Banks can contribute to this transition process by managing their direct and indirect environmental impacts and helping their customers do likewise.

CaixaBank manages its business, projects, products and services in an environmentally-conscious manner and with the utmost respect for people. To that end, the Group encourages financing for projects that take environmental aspects into account, such as energy efficiency and long-term sustainability.

In pursuit of this objective, a new climate change risks and opportunities study got under way in 2017 to refresh the study already completed in 2015. CaixaBank has publicly voiced its support for the recommendations issued by the Task Force on Climate-Related Financial Disclosures, a group belonging to the Financial Stability Board that aims to raise awareness, scrutiny and reporting on climate-related risks and opportunities in a bid to help members of the financial markets reach more informed decisions. The environment is one of the five courses of action included in the Bank's Corporate Responsibility Master Plan approved in 2017.

Environmental management

With society increasingly aware of the need to protect the environment in which we live and work and as part of our continuous improvement policy, CaixaBank has implemented an environmental management system in a show of its respect for environmental protection, in accordance with European EMAS Regulation 1221/2009 and ISO 14001. Meanwhile, the Bank's efforts to improve energy management at the Diagonal 621 tower in Barcelona have earned it the ISO 50001 standard.

On the subject of environmental and energy policy, noteworthy is CaixaBank's adherence to the Equator Principles and the United Nations Global Compact and its commitment to promoting environmentally-friendly technologies. It also seeks to include environmental and energy efficiency criteria in products and services and has shown ongoing support for initiatives to combat climate change, including the Spanish Group for Green Growth, where CaixaBank sits on the governing board.

Our commitment extends to employees and the companies that work with us, but it must also provide an extra benefit to our customer relations.

CaixaBank has a three-year Environmental Plan (2016-2018), which focuses on the fight against climate change. Following on from previous years, an audit was conducted in 2017 of the greenhouse gases emitted by CaixaBank activities in 2016 with the aim of calculating its carbon footprint and establishing actions to minimise this. The Bank also offset emissions generated from business at its Central Services building and the emissions produced by its branch network. These include direct emissions from the use of fuels and coolant gases and indirect emissions from consuming non-green electricity. A total of 22,239 tonnes of CO2 emissions were offset during the year thanks to the Bank's involvement in a project recognised by Verified Carbon Standard (VCS) that aims to construct a new biomass cogeneration plant in Chile.

In 2017, CaixaBank cemented its position as one of the world's leading companies when it comes preventing and mitigating climate change, according to the Carbon Disclosure Project (CDP). The Bank has been listed, for the fourth straight year, on the "Climate A list" of the CDP, a non-profit organisation that evaluates thousands of entities and draws up a list comprising the top 5% of companies to have earned the highest score and performance in managing climate change.

CaixaBank has also rolled out a plan to ensure that all of its electricity needs are met by renewable energies in 2018. This lofty objective led to the Bank's inclusion on the RE100 in 2016, a global list featuring the main companies to have announced their commitment to using exclusively green energy when carrying on their business.

Management of social and environmental risk in project financing

CaixaBank endeavours to maximise profits at the lowest possible risk, and avoid, minimise, mitigate and remedy any factors that may threaten the environment or society.

Project finance is carried out under the Equator Principles, which CaixaBank has adhered to since 2007. Accordingly, an analysis of the potential environmental and social risks of the projects is required under the standards established by the International Finance Corporation (IFC) in relation to:

- Project finance entailing an overall investment of more than USD 10 million.
- Loans linked to investment projects in excess of USD 100 million overall.
- Project finance bridge loans and advisory services.
- CaixaBank voluntarily applies this procedure to project bonds exceeding EUR 7 million.
- An internal procedure has been in place since 2011 for syndicated project funding that exceeds EUR 7 million. In 2015, the scope of this procedure was widened to include project finance of over EUR 5 million, in cases where the borrower is a medium-large, large or very large body corporate.

Under these premises, CaixaBank:

- Rejects any project entailing potentially significant and irreversible risks or impacts for which no viable action plan can be established, or which conflicts with corporate values.
- In all other cases, an independent expert is appointed to evaluate each borrower's social and environmental management plan and system. As shown below, projects are classified into categories A. B and C depending on the potential risks and impacts detected during the due diligence process, which involves teams from the sales and risk areas and external and independent experts.
- Category A and certain Category B projects may have potentially significant adverse impacts. In these cases, an action plan must be drawn up to help prevent, minimise, mitigate and remedy the adverse social and environmental impacts.

The Bank assessed a total of five transactions in 2017 for a combined total of EUR 1,159 million. CaixaBank's involvement in these arrangements exceeded EUR 201 million. Of these, four were classified as Category B, meaning they have potentially adverse social and environmental impacts that are limited and easily mitigated, while one was placed in Category C, meaning it has only a minimal potential impact or no adverse impact whatsoever. There were no Category A projects in the year. All projects were duly assessed by an external and independent expert.

Incorporating environmental criteria into our range of products and services

As part of its tireless commitment to combating climate change, CaixaBank also finances renewable energy plants and projects. In 2017, it provided EUR 929 million in funding to a total of 19 facilities, which between them have 3,189 MW of installed capacity. Since 2011, it has financed renewable energy projects with an installed capacity of over 18,500 MW.

ecoFinancing

CaixaBank has a specific line of financing to help borrowers purchase environmentally-friendly vehicles and household appliances and upgrade their homes to make them more energy efficient. It also fosters sustainable investments that improve the efficiency of resources or lower the environmental impact. In 2017, CaixaBank granted 648 ecoLoans and ecoMicrocredits for a total of EUR 6.7 million.

CaixaBank has a new line of ecoFinancing (ecoFinanciación) in place since 2013, offering loans for sustainable development agricultural projects in connection with energy efficiency, efficient use of water, organic farming, renewable energies, waste management and development of rural communities. In 2017, CaixaBank granted a total of 58 loans under the programme for a total of EUR 686 thousand.

Green Accounts

MicroBank also collaborates with the World Wildlife Fund (WWF) on environmental conservation and sustainable development through its own financial contributions and those of its customers, via the Cuenta Verde (Green Account) initiative. In 2017, there were a total of 540 accounts collaborating with the WWF in helping to protect the environment and sustainable development:

- EUR 10,000 allocated to the NGO’s reforestation programme through Green Accounts
- 1,000 trees planted

Socially responsible investment

Pension plan management company VidaCaixa and its fund manager CaixaBank Asset Management, both market leaders, are signatories to the United Nations Principles for Responsible Investment, consistently relying on social, environmental and corporate governance criteria when making their investment decisions.

Similarly, MicroBank markets and sells the MicroBank Ecological Fund, which has EUR 11.1 million under management. The fund invests in a selection of ecologically responsible funds.

Green bonds

CaixaBank has adhered to the Green Bonds Principles (GBP) since 2015. In 2017, it was involved in the placement of three green bonds for a combined total of EUR 2,050 million, which was put towards projects that will have a positive impact on the climate.

3.3. Human Resources

A great team

As part of its quest for excellence -as in all areas of the business- CaixaBank has defined and rolled out a comprehensive human resource management model. This model integrates the Group’s human resources management policies and principles, the processes and systems geared towards satisfying and involving all stakeholders, the management drivers for these processes and systems, and measurement tools to ensure ongoing improvements across the entire model.

The roll-out of challenge number five under CaixaBank's 2015-2018 Strategic Plan will require the Bank to develop and hone professional capacities, ensure a system of decentralised management with local empowerment, adapt the remuneration structure and professional development plans accordingly, and strengthen a culture of meritocracy and diversity of the human team.

The Bank considers it essential to ensure the satisfaction of its employees and a positive working environment, with motivated and committed teams. Every two years, it carries out a Satisfaction Survey to capture the opinions of all CaixaBank employees, enabling improvement actions to be identified and prioritised.

The Bank launched an improvement plan in 2016 based on analysis of the conclusions of the 2015 Satisfaction Survey, to which more than 19,000 people responded. The plan is built around the opinions of employees, reflecting CaixaBank's trust in, and commitment to, its team. The roll-out of the various action plans initiated in 2016 continued throughout 2017.

Workforce - 2017: stable and optimised

CaixaBank always works to achieve the optimum structure and workforce to offer the best possible service, whilst seeking to rejuvenate its workforce. With this objective in mind, in 2017 it offered a voluntary employee restructuring plan to employees aged 56 and over.

At the same time CaixaBank remains committed to creating employment, offering opportunities to young professionals to join the bank as their first job, and to seasoned professionals who are leaders in the market, hiring more than 1,031 people in the year.

CaixaBank was named one of the best companies to work at, according to the Universum survey completed by 22,000 university students in Spain.

Last but not least, an agreement has been reached with the workers' representatives of Store branches to enable a change in the business model and to extend opening hours at some branches so as to adapt to the customers' needs and offer a better quality service. The 28 April 2017 employment agreement envisages new working hours at 290 Store branches by the end of 2018.

In 2017, the average headcount was 37,286 employees.

Management policies and principles

CaixaBank predicates its people management policy on respect for diversity, equal opportunities and non-discrimination on any grounds, including gender, age or disability. It therefore considers it essential to ensure transparency in recruitment processes and when promoting existing employees. To such end, it has defined the following policies and management principles:

- Diversity, equal opportunities and work-life balance
- Promoting career development
- Including performance-based criteria in internal selection and promotion processes
- Performance-based pay directly related to delivery of individual and team targets
- Occupational health and safety
- Optimising internal communication

Diversity, equal opportunities and work-life balance policies

CaixaBank's commitment to equality and work-life balance is demonstrated by its adherence to various initiatives and certification schemes, and by the sustained growth in female representation on the Group's management team and governance bodies, which exceeds the average for IBEX35 companies.

- Family-friendly business (since 2010): seal from the Másfamilia Foundation citing continual improvement in the equality and work-life balance model. In 2017, the Bank successfully renewed its certificate for the third time, maintaining a score of B+ (Proactive company).

- Women's Empowerment Principles: CaixaBank embraces the UN Women and the UN Global Compact, meaning it is publicly committed to aligning its policies to bring about closer levels of equality between men and women.
- Signatory to the Minister of Health, Social Services and Equality's **More women, better companies** voluntary agreement to secure a greater percentage of women in executive positions.
- Diversity Charter (since 2011): voluntary commitment to championing equal opportunities and anti-discrimination measures.
- CaixaBank has been recognised by the Másfamilia Foundation for its work as an employer and certified entity under the family-friendly business initiative, which has been helping people reconcile their work and private lives since 2010.
- CaixaBank is adhered to the Generation and Talent Observatory, whose main aim is to foster the management of inter-generational diversity at companies and organisations.
- The percentage of women holding executive positions at CaixaBank is currently 39.1%.

Turning to initiatives aimed at promoting the diversity of the Bank's human team, highlights for the period included the development of the Gender Diversity Programme to strengthen the role of women in executive positions. More specifically, the programme focuses on:

- **Strengthening the role played by women at the Bank,** so as help them with the professional development by planning their career path, honing their relations-based skills and breaking through the glass ceilings that sometimes exist.
- **Involving everyone** so as to create a culture in which diversity helps us overcome our strategic challenges and champions leadership and innovation.
- **Using processes at Human Resources** to further the professional development of men and women whose performance and talent has earned them that right.
- **Viewing diversity** as a means of growing as an organisation and seeing through stereotypes by addressing different aspects for which diversity can be valuable.

As a socially committed company, the programme also envisages actions that will help us foster equal **opportunities and the value of diversity at the company**.

Policies on development and promotion

One of the Bank's priorities is to bolster its meritocratic culture and ensure that it has the best qualified professionals by strengthening their critical professional competencies.

Work continued in 2017 on our strategic priority of constructing a culture based on meritocracy. Here, the Bank updated competency profiles and reviewed the performance assessment model so as to make it more dialogue-focused, thus improving career development and internal talent and allowing the Bank to flag those employees showing the greatest potential within the organisation so that they can be put on specific career development programmes.

Meanwhile, the Bank is continuing to push its management development programmes in a bid to improve its "transformational leadership" model. A new management development scheme was launched in 2017 under the name "Rethink". The programme focuses on certifying leadership skills and enhancing strategy and interconnection across the entire Bank.

CaixaBank is also continuing to rely more on internal appointments. The percentage of management positions filled internally by CaixaBank employees in 2017 was 99.6% (98.2% in 2016).

CaixaBank seeks out the most qualified professionals. A well-trained team is essential if we are to guarantee high-quality service for customers and anticipate and respond to changing needs within the business and the market. The Bank therefore remains heavily committed to training, having delivered close to 1.72 million training hours in 2017.

Following the arrival of the Banking Union, European regulators are insisting more and more on employee training, as shown by the busy annual schedule of regulatory training activities that Bank employees must complete. A prime example of this is the training course in financial advice. CaixaBank has been keeping one step ahead of the sector by seeing to it that over 10,500 employees have already earned the **Diploma in Financial Advice from Pompeu Fabra University of Barcelona**, and also the **International Certificate in Wealth & Investment Management** from the Chartered Institute for Securities & Investment (CISI), which is accredited by Europe's flagship regulatory body, the Financial Conduct Authority (FSA), the most widely recognised body operating within the financial sector worldwide.

Compensation policy

In December 2016, CaixaBank's Board of Directors approved the latest version of the CaixaBank General Remuneration Policy, which explains the main features of each pay item while reflecting and incorporating the latest set of regulations governing remuneration. The policy is available to all employees via the corporate Intranet.

Remuneration at CaixaBank essentially features the following pay items:

- Fixed remuneration based on the employee's level of responsibility and career path. This accounts for a significant part of total remuneration and is governed by the collective bargaining agreement and the various internal labour agreements.

- Variable remuneration, which takes the form of a performance-related bonus pegged to the attainment of certain pre-defined targets. This remuneration is set up so as to avoid possible conflicts of interest and, when required, includes qualitative assessment principles to help ensure alignment with customer interests and the rules of conduct relating to the securities market. Variable remuneration at CaixaBank is intended to ensure prudent risk management.

Occupational health and safety policy

CaixaBank has an **occupational health and safety management system** in compliance with applicable law and OHSAS 18001:2007 (voluntary certification).

As required by the standard, the relevant internal and external follow-up audits were carried out in 2017. CaixaBank's preventive management system guarantees the health and safety of all employees and effectively integrates a culture of prevention across the organisation.

CaixaBank's Prevention Office has specific mechanisms in place so as to better control and monitor present needs in relation to occupational health and safety. In doing so, it utilises follow-up indicators that can be analysed in order to avoid possible departures and plan corrective action accordingly.

The Prevention Office works alongside the Safety, General Services and Development and Training Department in staging training activities with the aim of raising employee awareness and knowledge of occupational health and safety concerns. Moreover, all employees are offered a health check-up based on the specific risks of their job and asked to take part in various health-oriented campaigns (healthy habits, nutrition and physical activity, preventing back pain, etc.).

Internal communication policy

Internal communication at CaixaBank focuses on three main aspects:

- raising awareness of the Bank's strategic business priorities as these arise;
- disseminating those internal policies that affect employees and good practices and announcing internal and external recognitions and accolades granted to specific employees or to the Bank;
- finding out the expectations and concerns of all employees so as to be able to talk with them effectively.

To achieve these aims, the Bank has the **"Personas"** ("People") page on the Intranet. The page features news every day in relation to the three aspects just discussed. It has also set up a **Direct Channel**; a two-way system allowing the senior management to send their personal responses to the concerns raised by the work force in specific forums.

Human Rights and Codes of Conduct

CaixaBank has a Code of Business Conduct and Ethics, which is binding on all employees, executives and members of the governance bodies.

The Code is rooted in the values of quality, trust and social commitment and fosters the following conduct:

- Compliance with applicable law, rules and regulations
- Respect for people, cultures, institutions and the environment
- Integrity
- Transparency
- Excellence and professionalism
- Confidentiality
- Social responsibility

CaixaBank also has an anti-corruption policy that expressly prohibits any kind of unlawful activity related to corruption, such as extortion, bribery, facilitating payments and influence peddling. The policy covers how to act in all manner of situations that might entail unlawful conduct, such as when and when not to give or accept gifts, representation and travel expenses, sponsorships, donations and contributions to foundations and other non-governmental organisations. This policy, along with proper levels of training for all employees, is the basic prevention instrument at the Bank. The policy is due to be updated over the course of 2018.

Meanwhile, the Bank continued to improve its General Conflicts of Interest Policy in 2017; a broad management framework governing potential conflicts of interests that guides the actions of all Group companies.

The Bank also has a Corporate Responsibility Policy and, since 2017, a Human Rights Policy. This latter policy illustrates the Bank's commitment to human rights and is inspired, among other multinational principles, by the UN Guiding Principles on Business and Human Rights.

In 2016, the Bank carried out a due diligence process as a show of its commitment to protecting human rights. The process of updating the list of approved suppliers got under way in 2017. Suppliers must now meet certain new requirements relating to human rights.

The Bank also has an internal code of conduct for specific areas (such as the Internal Code of Conduct on matters relating to the Securities Market, the Telematic Code of Conduct and the Code of Conduct relating to the Euribor Contribution Process). It also has specific policies relating to ethics and social and environmental values and principles with its stakeholders: ethics, environmental and social values for Group suppliers, anti-money laundering policy, anti-discrimination policies and financial inclusion policies for MicroBank, the Group's social banking arm.

The code of ethics and principles applied and followed by CaixaBank, as well as the Bank's anti-corruption policy and the CaixaBank Group's Internal Code of Conduct on matters relating to the Securities Market, can all be viewed on the Bank's website (www.caixabank.com). Bank employees can also find them on a specific section of the corporate Intranet (Control & Compliance). This site was updated in 2017.

All Bank employees are required to complete specific training in relation to the internal codes of conduct. In 2017, completion of this training formed part of our employees' variable remuneration.

Various mandatory training courses covering regulatory aspects were delivered to Bank employees in 2017:

- Code of Ethics and Anti-Corruption Policy
- Rules Code of Conduct

- Anti-Money Laundering and Counter-Terrorist Financing
- Basic principles governing product sales

These training courses have now been successfully completed by over 95% of CaixaBank employees.

CaixaBank is also a signatory to international ethical standards such as the United Nations Global Compact, the Women's Empowerment Principles, and the Equator Principles on the subject of project financing. VidaCaixa and CaixaBank Asset Management are both signatories (since 2009 and 2016, respectively) to the Principles for Responsible Investment of the United Nations. In 2017, CaixaBank Asset Management devised a specific action plan to further entrench these principles.

The Bank also has a defence sector policy, which explains when the Bank may enter into commercial dealings with companies operating in the sector and imposing restrictions and exclusion criteria. Branches have a specific mailbox called the Reputational Risk Service to resolve any doubts they may have concerning the application of this policy.

The Bank implemented a harassment prevention protocol in 2008, which aims to prevent, address, treat and eliminate any kind of harassment at the Bank. Employees may speak with and report incidents to an external team of harassment prevention officers by telephone or by letter. A total of two inquiries were conducted in 2017 through the protocol.

To ensure compliance with the codes of conduct, a confidential channel has been set up within the company whereby employees can:

- Resolve any doubts they may have on how to interpret or apply the codes.
- Report any possible breaches of the codes.
- Report breaches or grievances in relation to the financial or accounting information.

Regulatory Compliance addresses all incoming questions and claims. It also heads the process of investigating the reports, which may require the involvement of other departments or divisions. The whistle-blower or subject is guaranteed full anonymity at all times and his or her identity will only be disclosed with his or her prior consent and only if absolutely essential for the investigation to continue. A joint body will then reach a final decision on the matter based on the results of the completed investigation. A total of 54 consultations and two grievances were received in 2017 in relation to the Code of Ethics, while five consultations and one grievance were received in connection with the Telematic Code of Conduct.

3.4. Innovation

In 2017, the CaixaBank Group invested a total of EUR 308 million in technology, of which EUR 94 million was in R&D and innovation. Other Group companies have also invested in technology to grow their business.

Given the fiercely competitive and demanding economic climate, financial institutions need innovation to grow and evolve their portfolio of products and the customer experience. CaixaBank is committed to innovation through an open and participative model that generates new sources of income and profit through the implementation of new ideas, improves its position in existing businesses, identifies and anticipates the impact of new technologies and social changes and unlocks new business opportunities.

The innovation process at CaixaBank has various focal points, all allowing for the transfer of both knowledge and technology on the path to developing new initiatives and projects.

- **Identifying emerging ideas and technologies:** identifying, tracking and testing new technologies that could potentially impact the financial system. By arranging consultancy processes, entering into agreements with technological partners and universities and tracking large investments, the Bank is able to identify the main technologies and plan concept tests to gauge and measure their potential impact.

- **Discussing new ideas with the business areas**: Sharing trends and new ideas with the business areas to jointly identify use cases in which technology can herald a significant improvement to our value proposition.
- **Assessing and defining initiatives and projects**: Based on the results of the concept tests and customer assessment process, the Bank draws up a portfolio of projects that will allow CaixaBank to maintain its competitive position and status as innovation leader in the market.

The emerging technologies to have attracted the Bank's attention in 2017 include cognitive technologies and natural-language processing systems, advanced analytics solutions, blockchain and distributed ledger technologies, sensors and other related technologies to be used at branches, and biometric technologies for identification purposes.

When carrying out these activities, the Innovation team is aided by agreements with third parties, providing access to the world's leading research centres and allowing the Bank and its partners to pinpoint opportunities.

Collaboration with technological partners and universities

IBM - CaixaBank Digital Innovation Centre

CaixaBank and IBM continued to work together in 2017 to discover and test emerging technologies within the context of their strategic alliance to manage technological infrastructure.

Extensive work on text processing and to construct natural-language processing capabilities was carried out at the Digital Innovation Centre, making CaixaBank the leading company in the development of Watson cognitive technology in Spanish. The first chatbots were launched in 2017 for customers of ImaginBank. Meanwhile, branch employees now have access to a new virtual assistant, which responds automatically in natural language to the main types of query raised by employees.

Also in 2017 the Innovation Centre launched a number of significant blockchain initiatives and took part in various consortiums with other entities with the aim of leveraging this new technology in a bid to improve processes that require mutual trust between different parties.

Other collaborations

Other collaborations such as the partnership with Everis or the TALP Research Centre of the UPC also came to fruition in 2017. The Bank has been working jointly with Everis to develop technologies that will impact branches by enhancing the experience of customers and employees. Meanwhile, CaixaBank has been developing natural-language processing solutions with the UPC to improve interaction with end users.

Last but not least, highlights in 2017 included a new big data joint venture with AIA to carry out innovative advanced modelling projects at the CaixaBank Group.

Awards and external recognition

The Group received the following awards in 2017, among others:

- In February 2017, CaixaBank was named ***Best Private Bank 2017*** for the third straight year. It was granted recognition by British publication Euromoney at the *Private Banking Survey 2017* awards. The publication was swayed by the excellent customer attention given by Private Banking and its high-quality services and business model.

- In April 2017, CaixaBank was named ***Model Bank 2017*** by consultancy firm Celent in recognition of its strategy of digital transformation.

- In May 2017, CaixaBank was named ***Best Bank in Spain 2017*** for the third straight year by Global Finance due to its ability to tailor its products and services to the needs of its customers and because it outperformed its peers.

- In May 2017, CaixaBank was named ***Retail Banker of the Year*** as Europe's leading financial institution in innovation in the last year. The accolade came in response to the Bank's impressive feats in digital banking, with highlights here including the launch of ImaginBank and the development of various mobility projects.

- In July 2017, CaixaBank was named ***Best Bank in Spain 2017*** by British publication Euromoney, making it the fourth time the Bank has earned this title. This year round, the award was given in recognition of the Bank's continuous growth through the integration of BPI, which should allow it to become even more competitive.

- In August 2017, CaixaBank received an award for its digital strategy. The Bank received the ***Best Artificial Intelligence Project*** award from The Banker for imaginBank's chatbot; the first artificial intelligence solution launched by a Spanish bank. It was also named ***Best Digital Bank in Spain*** in 2017 by US publication Global Finance, in recognition of its commitment to digitalisation in offering better quality service to customers. The US magazine also recognised CaixaBank as ***Best Digital Bank in Western Europe*** in four different categories: Best in Mobile Banking, Best in Social Media, Best Integrated Consumer Bank Site and Best Bill Payment & Presentment.
- In October 2017, The Banker named CaixaBank Private Banking as ***Best private bank in Europe when it comes to customer service in 2017*** at the Global Private Banking Awards. The accolade comes in response to the quality of service provided, the high level of personalised advice and Private Banking's reliance on continuous innovation as part of its business model as it improves customer service and support. BPI, a CaixaBank Group company, also received an award from The Banker for Best Private Banking in Portugal, as a reflection of its growth in this business segment and the quality service it offers customers.
- In November 2017, CaixaBank was crowned ***Best Digital Bank in Western Europe*** in 2017 and as ***World's Best Bank in Social Media*** in 2017**,** at the World´s Best Digital Bank Awards, in recognition of CaixaBank's commitment to digitalisation and innovation.
- CaixaBank also received the EFMA and Accenture award for ***World's most innovative bank*** and the BAI awards for ***Best Innovator in payment services*** and ***Best Disruptive Innovator in Banking.***
- CaixaBank was named Best Bank in Europe and second best in the world in mobile banking services by Forrester Research.
- VidaCaixa named best pensions manager in Spain by AllFunds Bank.
- In 2017, CaixaBank was again listed for the sixth straight year on the Dow Jones Sustainability Index (DJSI), the world's leading indicator of sustainable companies. The Bank earned a score of 87 points, making it one of the world's best banks when it comes to corporate responsibility.

3.5. Business model

CaixaBank branch network

A branch network with regional roots

CaixaBank is the main retail bank in Spain, boasting the country's largest customer base and most extensive branch network. A network widely known and recognised for its proximity and capillarity across all of Spain, allowing the Bank's employees to reach out to customers anywhere in the country. A network that has made the Bank the leader in securing new customers in recent years and which has been further enhanced and supplemented with direct and digital channels in order to offer the best possible care to customers.

Thanks to its ongoing commitment to proximity and to creating a far-reaching commercial network as its key growth drivers, CaixaBank is now present in all Spanish towns and cities with a population of over 10,000 and has increased its outreach in 2017 to towns and villages with less than 10,000 inhabitants after opening new customer attention points at certain small towns in Aragón, Castilla La Mancha and Andalusia, where it previously had no presence. At present, 90.6% of the Spanish population has a CaixaBank branch where they live.

In tandem with this, CaixaBank has carried out a process of optimising and streamlining its branch network, mainly in towns and cities. This process has enabled the Bank to generate important synergies, while increasing the number of specialist managers able to offer the best possible advice to customers. This process has been carried out with the utmost care, relocating customers and reposting employees to branches showing the biggest commercial growth potential and upgrading and improving their facilities.

At 31 December, CaixaBank had a network in Spain of 4,874 branches and 186 teller windows (relocated customer attention centres attached to a main retail branch), plus the sector's largest network of ATMs, which currently amount to more than 9,400. CaixaBank also has 17 representative offices and 6 foreign branches.

Specialisation and enhancing the in-branch experience

Continuing the trend that started in 2014, the number of *Store* branches was increased further in 2017. These special branches mark a step forward in CaixaBank's innovation strategy, which is recognised internationally as one of the leading banks in applying new technologies to financial services. Responding to the new and emerging needs of its existing customers, CaixaBank has provided customers with a new, more technology-oriented yet more personal urban branch, with extended opening hours through to 18:30, Monday to Thursday. Featuring their own unique design, these branches are intended to reinforce our commitment to customers with the ultimate aim of improving their experience at the branch by covering all their needs. The new model of branch allows the Bank to focus customer service on providing value-added advice and other services, while relying on new technologies and direct channels to facilitate the most common types of transactions and business carried out at branches and offering absolute availability, comfort and convenience for customers. At year-end 2017, CaixaBank already had 161 *Store* branches, providing nationwide coverage in all regions and the aim is now to continue rolling out this new branch model in 2018.

One of the main aims of this new model of branch is to generate genuinely new and unique customer experiences. Various actions and initiatives are organised the *Store* branches in order to create added value for customers as we offer them better services and generate new commercial opportunities, thus strengthening ties with CaixaBank customers in the process.

This change in the branch model has not gone unnoticed and in 2016 the Association for Customer Experience Development handed CaixaBank and its Store branch project the Best *Customer Journey award.*

Segmented customer service

In 2017, CaixaBank remained firmly committed to ensuring the expertise of its distribution network by extending the managers model to its Premier Banking, Business Banking, Agrobank and HolaBank businesses, meaning the Bank not only has physical proximity to its customers but also an in-depth knowledge of their needs.

Premier Banking now has over 1,900 fully-trained managers (up 20% year on year) to help customers plan their wealth through a new model of financial advisory services launched in March 2017. The value proposition is enhanced with an offer of exclusive solutions, thus consolidating the Bank's leadership when it comes to providing financial advice.

AgroBank ended the year with 904 branches targeting the agricultural and forming communities, 29 more than in 2016, while **HolaBank** has 161 branches compared to the 100 initially planned in 2015 (the year of its launch), in this case geared towards customers from OECD countries who require unrivalled service from professionals who speak their language.

Meanwhile, ***CaixaBank Negocios* and *Business Bank*** have over 2,050 managers specialised in helping shops and stores, self-employed workers, business owners and micro-enterprises.

With this growth in the number of specialist managers, currently 57% of branches in towns and cities with over 10,000 inhabitants have some kind of in-branch expertise.

Mobility and new technologies

In 2017, CaixaBank successfully completed the mass deployment of *smart PCs*, with nearly 30,000 units delivered to all the employees working across the commercial branch network.

This new tool has made the commercial network much more efficient when doing business out of the office, such as visiting high-value customers for prospecting or cross-selling purposes and further strengthening the value of our already extensive outreach. Thanks to the smart PC, each of our managers has effectively become a walking and talking branch.

Meanwhile, our new Store branches are the ideal platform for deploying a new model of customer service that is much more personal, agile, informal.

Geographic distribution of business volume

Since all CaixaBank branches offer customers our full range of products and services, the geographical breakdown of business volume is provided below by branch in each Spanish autonomous community at 31 December 2017 and 2016, including foreign branches and representative offices:

	31.12.2017		31.12.2016	
Autonomous communities and cities	**No. of branches**	**%**	**No. of branches**	**%**
Andalucía	878	17.93	897	17.78
Aragón	91	1.86	88	1.74
Asturias	61	1.25	64	1.27
Baleares	184	3.76	197	3.90
Canarias	248	5.06	253	5.01
Cantabria	45	0.92	45	0.89
Castilla-La Mancha	154	3.14	149	2.95
Castilla-Leon	250	5.11	246	4.88
Cataluña	1,239	25.30	1,315	26.06
Ceuta	4	0.08	4	0.08
Valencia	427	8.72	438	8.68
Extremadura	68	1.39	67	1.33
Galicia	195	3.98	196	3.88
La Rioja	28	0.57	26	0.52
Madrid	542	11.07	580	11.49
Melilla	2	0.04	2	0.04
Murcia	121	2.47	124	2.46
Navarra	152	3.10	149	2.95
País Vasco	185	3.78	187	3.71
Total branches in Spain	**4,874**	**99.53**	**5,027**	**99.62**
Foreign branches				
Poland (Warsaw)	1	0.02	1	0.02
Morocco (Casablanca)	1	0.02	1	0.02
Morocco (Tangiers)	1	0.02	1	0.02
Morocco (Agadir)	1	0.02	-	-
United Kingdom (London)	1	0.02	1	0.02
Germany (Frankfurt)	1	0.02	-	-
Total branches abroad	**6**	**0.12**	**4**	**0.08**
Representative offices:				
China (Peking)	1	0.02	1	0.02
China (Shanghai)	1	0.02	1	0.02
UAE (Dubai)	1	0.02	1	0.02
France (Paris)	1	0.02	1	0.02
India (New Delhi)	1	0.02	1	0.02
Italy (Milan)	1	0.02	1	0.02
Singapore (Singapore)	1	0.02	1	0.02
Turkey (Istanbul)	1	0.02	1	0.02
Chile (Santiago de Chile)	1	0.02	1	0.02
Egypt (Cairo)	1	0.02	1	0.02
Colombia (Bogota)	1	0.02	1	0.02
United States (New York)	1	0.02	1	0.02
South Africa (Johannesburg)	1	0.02	1	0.02
Brazil (São Paulo)	1	0.02	1	0.02
Algeria (Algiers)	1	0.02	-	-
Hong Kong (Hong Kong)	1	0.02	-	-
Peru (Lima)	1	0.02	-	-
Total representative offices	**17**	**0.35**	**14**	**0.28**
Total branches	**4,897**	**100.00**	**5,045**	**99.98**

Note 1: The 4,874 branches in Spain include 4,681 Retail branches and 193 specialist centres (Private Banking, Business Centres, Corporate, Institutions, Real Estate business, Montes de Piedad and Digital Centres).

Note 2: CaixaBank also has 181 Retail counters that operate as physically separate public information centres but are attached to a main office, along with 5 counters located at various public administrative bodies.

Digital banking: Internet, mobile and imaginBank

Digital channels are now an absolute requirement within the financial markets and CaixaBank works relentlessly to respond to what customers demand of a premium quality bank that is supposed to be innovative, accessible and available anywhere, anytime. Digital banking allows for a closer, more personal and more customised commercial relationship between bank and customer, while also streamlining the workload at branches, which can focus their efforts on the needs of their customers.

In 2017, 57% of CaixaBank's total transactions were completed over the Internet or via mobile banking technologies. In the case of CaixaBank, mobile banking has become the main channel used by customers, with upwards of 4.3 million customers using it every month.

Technology and permanent innovation allow us to optimise our digital banking; a service that must remain simple (everything done in a "click") and ensure a truly excellent user experience. CaixaBank received numerous accolades in 2017 for its tireless efforts in this field. Global Finance named it Best Consumer Digital Bank in Spain and Western Europe and also best bank in a further four categories (Best in Mobile Banking, Best in Social Media, Best Integrated Consumer Bank Site and Best Bill Payment & Presentment). It also received the Model Bank of the Year 2017 award from Celent.

Online banking

CaixaBank was once again the leading player in 2017 when it comes to online banking services in Spain. With over 5.7 million customers, it ranked first in terms of its share of the domestic market and it also topped the international table in relation to the user penetration of its banking services in each country (31.1% at September 2017, according to ComScore). Moreover, and now for the seventh year running, AQmetrix named CaixaBank best bank for service quality.

In 2017, CaixaBank continued to expand its range of products and services to remain on the cutting edge of the digital banking world, enabling the Bank to simplify the decision-making process for customers. Starting this year, customers of the Premier and Private Banking segments can draw up their *TimeMap* or PlanA through a fully digital experience using Línea Abierta. It is a clear and simple process whereby we conduct a complete diagnosis of the customer's situation so as to offer them the investment plan best suited to their needs and define a roadmap for achieving their savings and investment objectives.

Also starting this year, our retirement products feature new tools to help customers define their ideal retirement plan through a new pension plan recommender which, in view of the customer's profile, shows them the plans best suited to their investment profile. This tool already features a number of other functionalities, such as the savings calculator and the retirement simulator.

Meanwhile, nearly three million active customers signed up to the My Finances service in 2017. New functionalities were added during the year, including the option to view and compare expenses by category between different periods, stores or by labels, and create new search filters to provide a more detailed picture of a customer's expenses. Meanwhile, the Bank made further improvements to the *freemium* service for customers that do not belong to the high-value groups.

Work also continued in 2017 to enhance the features of Bolsa Abierta online trading, thus cementing its position as a market-leading online brokerage service, with new functions including capital increases, new analytical tools making it easier for customers to reach informed decisions and faster improvements to the service.

The Bank completed a co-creation project with customers to completely overhaul the system of online transfers, making our customers' day-to-day banking transactions a much simpler affair. The end product is a much simpler process. This new service can be added the other services already available, such as our *Cuentas de Confianza* (Trusted Accounts) service, which allows customers to make quick and easy transfers to their main trusted accounts and is now being used by over one million customers, or the new *Traspaso Rápido* (Rapid Transfer) function, so that customers can swiftly transfer funds between their own accounts without the fuss of having to enter the transfers section.

Last but not least, and so as to ensure that everyone has full access to information on the Bank, CaixaBank's commercial portal was made 100% accessible in 2017, thus meeting the AA accessibility level under the Web Content Accessibility Guidelines 2.0 of the World Wide Web Consortium (W3C) - Web Accessibility Initiative (WAI).

Leading bank in mobile banking

CaixaBank's mobile banking platform is a sector frontrunner in Spain and an international benchmark. This much is shown by the ComScore ranking, where we scored 30.8% in market penetration (figures at September 2017), making CaixaBank the leading institution in Spain and the second-ranked entity in the international table. CaixaBank also tops the list in the AQmetrix ranking, which assesses the quality of mobile banking services.

For year another year, the scores given to our mobile phone apps by customers are among the best in the sector and CaixaBank leads the ranking of financial apps on the various apps stores from which they can be downloaded.

Key figures here are as follows:

- 4.3 million customers of Línea Abierta mobile banking
- 2,736 million transactions a year
- 3.3 million app downloads a year
- 35.5 million financial alerts sent out

Our CaixaBankPay app, which offers a mobile payments solution utilising NFC technology, was made more compatible with Android devices in 2017, with customers now able to make payments by downloading cards in order to make purchases from Apple Pay. It also allows customers to manage their cards, carry out P2P payments and make purchases at online stores through Masterpass. It has now become the Group's second most downloaded app, with only the CaixaBank app itself ahead. More than 200,000 customers use it on a regular basis, with over 450,000 cards registered since October 2017.

A new app was also launched in the year for the AgroBank segment, giving customers all the latest news on the agricultural and farming sector. The app includes daily news bulletins, as well as details of the Bank's agreements, congresses and events. Customers can also use the app to view the quoted prices of their commodities.

imaginBank has cemented its position as the best financial app in Spain.

Two years on from the launch of imaginBank, CaixaBank's mobile-only banking solution, it has become the number-one financial app for the *millennial* crowd, and is now the best rated financial app on the iOS and Android app stores, with a score of 4.6 stars.

imaginBank now features videoconferencing as an identification method and the registration process is 100% digital for new customers, taking just seven minutes get an imagin account up and running.

The range of financial products and services has been expanded to include imagin&buy insurance on purchases made by card and a new credit card, to name but a few.

Turning to services, and as a reflection of imaginBank's innovation-based approach, highlights in the period included ImaginBoard, allowing P2P payments to be made directly through WhatsApp or through Siri, Apple's virtual assistant, and the incorporation of Apple Pay. In addition to other existing forms of biometric authentication such as fingerprint ID, we now have *Face ID* as a mean of logging into the app, coinciding with the launch the iPhone X.

Following the latest trends in relation to user experience, in 2017 imaginBank launched the first banking chatbot in Spain. Named Gina, the bot offers assistance on banking transactions, answers queries and tickets and provides offers and discounts, all exclusive to imagin customers. Gina is available through the messenger app on Facebook and also through the imaginBank app. The highly innovative app has already received praise from various international institutions, including The Banker, which named imaginBank's chatbot Best Artificial Intelligence Project 2017, and EFMA, which in July 2017 awarded the chatbot the title of innovation of the month.

These latest enhancements have made imaginBank the best rated app in the finance category with a score of 4.6 stars (as rated on Android and iOS mobile app stores).

In this field, which also harnesses cognitive systems and artificial intelligence to offer new services to customers, imaginBank also staged Hack UPC by imaginBank in Barcelona in October 2017. Upwards of 700 students from various Spanish and international universities took part in this three-day event organised jointly by imagin and the Polytechnic University of Catalonia.

In late 2017, imaginBank launched its brand new imaginer Zone, a community-based environment in which users who have downloaded the app and who are not imaginBank customers can interact with the app and start to enjoy the benefits of being an imaginer.

In December 2017, imaginCafé was unveiled; an initiative championed by CaixaBank and inspired by the values of the imaginBank brand. Lying at the heart of imaginCafé is a physical establishment spanning 1,200 square metres, located in the centre of Barcelona and divided into three main thematic areas: technology, music and design. imaginCafé has therefore become, above all else, a major online and offline platform for digital content, which will be circulated across the Internet and the social networks. A new form of interaction between brand and user.

CaixaBank self-service network

Key indicators in respect of ATMs are as follows:

- 9,427 ATMs
- Upwards of 250 services available
- 16 languages
- 641 million transactions
- Market share measured by number of terminals in Spain: 18.22% (3Q 2017)

Work continued in 2017 on the ATM upgrade plan, which will enable the Bank to broaden the range of services available via the machines and enhance the user experience. Key new features here include new payment units, with immediate clearance of funds, replacing the former envelope-based payment units. The new ATMs also allow for the use of contactless technologies, making them easier and quicker to use and reducing waiting times.

Highlights in 2017 included a significant increase in ATM transactions via mobile phone (i.e. without having to use a physical card). This change means our ATMs can now be used by a new generation of customer, who can simply "show" their mobile to the contactless aerial on the ATM, thus saving time and making the whole process much easier. Another example of the interaction between mobile phones and ATMs is the option of withdrawing cash by having a code sent to your phone.

In addition, the ATM network now features different menu and transaction customisation options to tailor them to the specific preferences and requirements of each customer. There is also an "easy Caixa" menu for customers who might otherwise find an ATM rather daunting. Customers can also select what options they want to see on their ATM welcome screen. By default, they will see their most common used transactions. Meanwhile, and in keeping with CaixaBank's social commitment, customers can access specific menus that feature sign language, or high contrast lettering or voice guidance for the visually impaired.

The new ATMs have also become a valuable means of communicating with customers, since the double-screen format and cutting-edge technology allows us to display new video content. Our ATMs are also an extremely useful channel for selling products, because they are easy to use and our range of products and service can be personalised for each customer.

Electronic banking: payment methods

CaixaBank is the leading bank when it comes to payment methods, with 16.3 million cards in circulation, roughly 6.7 million of which are deferred debit and revolving credit cards, with 8.4 million standard debit cards and 1.2 million prepaid cards. These cards have been used to make EUR 38,324 million in purchases, up 13.6% year on year and bringing CaixaBank's market share in terms of card revenue to 23.4%.

Nearly 11.5 million cards are now contactless, accounting for 64% of the cards issued by CaixaBank Payments. These cards have purchased a total of EUR 12,000 million, more than twice as much than in 2016. These figures show that in 2017 total purchasing with contactless technology accounted for 32% of total invoicing with CaixaBank cards (versus 23% in 2016).

Priority was also given to mobile payments in 2017 and there are now 489,000 cards registered on the various mobile apps (Caixabankpay, Imaginpay, Samsungpay and Apple pay), with in-store mobile payments totalling EUR 133 million in the year.

Through its subsidiary Comercia Global Payments, CaixaBank has 373,133 point of sale terminals (PoS) installed, and 9 out of every 10 work with contactless technology (337,444 PoS terminals). The popularity of these cards among the Bank's customers increased further in 2017, with EUR 13,085 million in turnover obtained through this technology, up 84% year on year.

An all-time record in purchasing volume was reported on 24 November 2017, or Black Friday, with this extending to both store sales and CaixaBank card purchases, which were up 8.8% and 9.3%, respectively, on Black Friday 2016.

Key figures are as follows:

CAIXABANK CARDS	CUSTOMER STORES
• Market share of 23.4% in card-based purchases • EUR 6,596 million in online sales (17.4% of total purchases) • EUR 3,121 processed per second (cards + stores) • EUR 67,410 million in in-store payments and ATM cash withdrawals (up 11.7% on 2016)	• 27.03% market share in card-based purchases • 373,133 PoS terminals installed • 1,266 million in-store transactions (up 13% on 2016) for a total of EUR 45,157 million (up 10% on 2016)

BPI branch network

BPI is a financial group that focuses on retail and commercial banking in Portugal, where it is the fifth largest financial institution in terms of assets (EUR 29,640 million). BPI has a customer base of 1.9 million, which it manages through a specialist, fully-integrated multichannel distribution network (505 branches in Portugal and two abroad).

BPI's business centres on two main segments - Individual, Professional and SME Banking and Business Banking, all with their own physical and virtual structures and specialist teams. The BPI Group complements its offering of non-life and life-risk insurance through an insurance distribution agreement with Allianz Portugal, in which the BPI Group has a 35% holding.

BPI has a 13.7% share of the individual customers market, and leading market shares for the other products and services it offers. Highlights here include a 10.8% market share for direct deposit of salaries (+10bp on 2016); 12.7% (+30bp on 2016) in life insurance; 11.2% (+60bp on 2016) in consumer loans; and 11.2% (+20bp on 2016) for mortgages.

3.6. Socially Responsible Banking

CaixaBank's business model seeks sustainable returns while upholding the socially-responsible management style the Bank has always embodied since its inception. For the Bank, social commitment means more than financial activity and is ultimately aimed at helping to solve pressing economic, social and environmental challenges and concerns.

CaixaBank's Board of Directors approved a Socially Responsible Banking Plan in 2017 to further strengthen the Bank's existing model of socially responsible banking. The plan envisages ongoing dialogue with stakeholders so as to devise new initiatives that include feedback for the plan.

The plan breaks down into five courses of action:

- **Integrity, transparency and diversity**: to make our actions more responsible, focusing on exemplary conduct, clearly defined relations with customers and diversity.
- **Governance**: to maintain the best possible model of governance and to ensure responsible and up-to-date polices that reflect best market practices.
- **The environment:** to lend our full support to the fight against climate change.
- **Financial inclusion**: the Bank's unflinching commitment since its inception of offering financial services to those with financial or other difficulties.
- **Social action and volunteering**: to help respond to pressing social challenges through support for worthy causes and collaboration with Welfare Projects of the "la Caixa" Banking Foundation.

The last two lines of the plan are linked to the social welfare realm. For CaixaBank, supporting **financial inclusion** is not only a strategic priority, but means offering readily available and friendly banking services to everyone so as to increase the level of savings and champion a financial culture.

CaixaBank strongly believes that offering quality service means being close to customers. The Bank, which boasts an extensive commercial network, is now present in 94% of all towns and cities with more than 5,000 inhabitants and in every single town or city with over 10,000 inhabitants. CaixaBank also includes MicroBank, its social banking arm, which is specialised in micro-finance and targets segments of the population whose financial needs are not catered for sufficiently. In 2017, MicroBank granted a total of 147,389 microcredits for a combined total of EUR 893.7 million in funding. The bank's strategic objective is to award EUR 3,316 million in microcredits between 2015 and 2018. Last but not least, CaixaBank champions a culture of financial awareness and encourages the population to save, relying to such ends on the basic finances workshops given by MicroBank and the "la Caixa" Volunteers Association (227 courses in 2017), as well as courses on the economy and finances under the Aula programme for shareholders (2,300 training hours given to over 1,150 shareholders in 2017) and the CaixaFuturo Events, which are essentially conferences on the subject of retirement planning (8,615 people attended 220 sessions in 2017).

In the field of **social action and volunteering**, CaixaBank champions and channels its action through its so-called Social Welfare Weeks. In 2017, close to 14,000 employees took part in over 6,100 activities arranged through local social welfare institutions. The Bank has also set up its **"la Caixa" Volunteering Association,** alongside the "la Caixa" Banking Foundation and Fundación de la Esperanza. The association comprises close to 10,500 volunteers, 51% of whom are active CaixaBank employees. Meanwhile, a 2017-2019 Volunteering Master Plan was approved in 2017 in a bid to ensure that by 2019 90% of activities are focused on financial education, employability, health, the elderly and child poverty, with a weighting of 20% or 25% for each of these priority courses of action.

Lastly, an alliance has been forged **between CaixaBank, the ”la Caixa” Banking Foundation and CriteriaCaixa**. The alliance is governed by a protocol that describes and sets out the relationship framework between the three entities. Under this new understanding, CaixaBank will actively help to disseminate and promote certain programmes and initiatives of Welfare Projects of the “la Caixa” Banking Foundation, including the active housing policy and Decentralised Welfare Projects; part of the Foundation’s budget specifically intended for the Bank’s branches so they can respond to urgent needs in their local community, focusing on the more vulnerable groups of society. In 2017, this heading amounted to EUR 44.4 million, benefitting 9,897 entities and helping to finance 12,679 activities. Of these activities, 85.4% were social welfare projects, with 34.8% falling within the field of health, disability and addiction and 31.7% used to combat poverty.

For more information, see CaixaBank’s 2017 Social and Economic Impact Report, which can be found under the Corporate Responsibility section at **www.CaixaBank.com**.

”la Caixa” Banking Foundation

The ”la Caixa” Banking Foundation reached various milestones in 2017 across all three of its priority areas of action: social work, research and the dissemination of culture and knowledge. These milestones are a direct product of the Bank’s **2016-2019 Strategic Plan**, which envisions upwards of EUR 2,000 million in investment over this four-year period. This governing document has made the Foundation the largest in Spain and one of the biggest on the international stage.

In 2017, the ”la Caixa” Foundation extended its budget to EUR 510 million, up on the EUR 500 million allocated in the previous nine years. This has been made possible by the contributions (via dividends) received from **CaixaBank** and the other stakes held by **CriteriaCaixa.**

In 2017 the “la Caixa” Banking Foundation undertook almost 50,000 **initiatives targeting 11 million beneficiaries**. Social programmes remained the focus of the Foundation’s actions and the main beneficiaries continue to be the more vulnerable groups of society. The ultimate aim: to foster equal opportunities.

Improving **job prospects or employability** is another priority of the Banking Foundation. Its labour market integration programme, **Incorpora**, has just celebrated its tenth anniversary. The initiative offered over **33,600 jobs** to vulnerable individuals over the course of 2017, compared to the 28,920 jobs reported in the previous year. This was largely down to the **11,000-plus companies** collaborating on the programme and the active promotional efforts made by CaixaBank through its branch network and at meetings with corporate customers.

Providing **easier access to housing** is another strategic priority under the Strategic Plan. The ”la Caixa” Group has upwards of **32,000** housing units available to those earning low incomes, with monthly rents starting at just 85 euros. This figure includes, among others, the 3,812 housing units that CaixaBank has provided to the Spanish Government’s Social Housing Fund (FSV).

On top of all this, we have the hugely successful milk collection campaign called ***Milk moustache for all kids***, which is aimed at vulnerable families and is supported by food banks across all of Spain. In its third year, the scheme collected **1.2 million litres of milk** thanks to public solidarity. The initiative has relied on the support of the **”la Caixa” Volunteering** programme, as well as CaixaBank’s branches and electronic channels.

The Banking Foundation views education as a key driver of individual and collective progress. **Training** therefore remains one of its key priorities. With this goal in mind, the eduCaixa programme has reached out to over 2.4 million pupils from a total of 8,300 schools in Spain. CaixaBank helps to raise awareness of the programme on its website.

On the international stage, CaixaBank stepped up its work with leading companies and institutions in 2017, including the Bill & Melinda Gates Foundation to improve **child vaccination** in developing countries (CaixaBank supports this initiative by actively raising awareness among customers and employees); UNICEF, with the aim of reducing child mortality caused by pneumonia; and UNHCR to improve living conditions for **refugees**, focusing on the fight against malnutrition.

Following the agreement reached with Portuguese bank BPI, the “la Caixa” Banking Foundation has recently announced the expansion of Welfare Projects to **Portugal**, where it intends to channel up to **EUR 50 million** a year by rolling out the Foundation’s most emblematic projects in the country.

Another cornerstone of the 2016-2019 Strategic Plan is its commitment to **medical research,** where it is looking to triple the budget in this realm to **EUR 90 million** by the end of the four-year plan horizon.

To better visualise this commitment, a campaign was launched in 2017 under the name *The Essentials*. The initiative aims to raise awareness of the importance of research in improving the **well-being of people** and to recognise the efforts of scientists who dedicate their lives to fighting disease and protecting one of our most valued assets: our own health.

The Foundation has also deepened its commitment to **scientific progress** through its ongoing support for research into Alzheimer’s, AIDS, neurodegenerative diseases and cardiovascular conditions.

Meanwhile, a total of **six million people visited the different cultural, scientific and educational programmes and events organised across all of Spain by ”la Caixa” Foundation in 2017, up 13% year on year.** This milestone has been reached while maintaining unrivalled levels of cultural and scientific outreach; another priority under the Strategic Plan.

At CaixaForum, Barcelona, the exhibition titled ***Andy Warhol**. **Mechanical Art*** was the most visited event during the year, followed by the exhibitions ***Art and cinema: 120 years of exchange*** and ***The World of Giorgio de Chirico. Dream or reality***. Turning to CosmoCaixa, the science museum of "la Caixa" Foundation in Barcelona, highlights for the year included the ***T. rex*** exhibition, which displays the fossil of a dinosaur that inhabited the Earth some 67 million years ago. Another noteworthy event in 2017 was ***Talking Brains**. **Programmed to talk.***

Meanwhile, at CaixaForum Madrid the most popular exhibitions were ***Ramon Casas**. **A much-yearned modernity; Philippe Halsman. Surprise me!*** and in third place ***Agon! Competition in ancient Greece.***

In organising all these initiatives, “la Caixa” Banking Foundation has relied on the dividends it receives from CriteriaCaixa, with the ultimate aim of building a better and fairer society while giving opportunities to those most in need. This was precisely why the “la Caixa” was born in 1904 and this goal has remained unchanged ever since.

For more information on these initiatives and other programmes of “la Caixa” Banking Foundation, please visit its website.

Appendix – Financial information glossary

In addition to the financial information prepared in accordance with International Financial Reporting Standards (IFRSs), this document includes certain Alternative Performance Measures (APMs) as defined in the guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority on 30 June 2015 (ESMA/2015/1057) (the "ESMA guidelines"). CAIXABANK uses certain APMs, which have not been audited, to provide a better understanding of the Bank's financial performance. These measures are considered additional disclosures and in no case replace the financial information prepared under IFRS. Moreover, the way the Group defines and calculates these measures may differ to the way similar measures are calculated by other companies. As such, they may not be comparable.

ESMA guidelines define an APM as a financial measure of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

In accordance with these guidelines, following is a list of the APMs used, along with a reconciliation between certain management indicators and the indicators presented in the consolidated financial statements prepared under IFRS.

Alternative Performance Measures

		4Q17	4Q16
Customer spread (%)	Average rate of return on the loan portfolio - Average cost of retail deposits	2.16%	2.14%
Average rate of return on loans	Annualised income from loans and advances to customers (net) / Average balance of loans and advances to customers for the period (quarterly)	2.19%	2.27%
Average cost rate of retail deposits	Annualised cost of retail customer funds[1] on the balance sheet (management) / Average balance in the period (quarterly)	0.03%	0.13%
Balance sheet spread (%)	Average return on assets - Average cost of funds	1.22%	1.27%
Average return on assets	Annualised financial income for the period / Average total assets in the period (quarterly)	1.83%	2.02%
Average cost of funds	Annualised financial expenses for the period / Average total funds in the period (quarterly)	0.61%	0.75%
Cost-to-income ratio (last 12 months)	Administrative expenses, depreciation and amortisation / Gross income	55.7%	52.6%
Cost-to-income ratio stripping out extraordinary expenses (last 12 months)	Recurring administrative expenses, depreciation and amortisation / Gross income	54.3%	51.0%
RoE (*Return on equity*) (last 12 months)	Profit [2] attributable to the Group / Average shareholders' equity	6.9%	4.5%

		4Q17	4Q16
RoTE ***(Return on tangible equity)*** **(last 12 months)**	Profit [2] attributable to the Group / Average shareholders' equity - intangible assets (management) [3]	8.4%	5.6%
RoA ***(Return on assets)*** **(last 12 months)**	Net [2] profit / Average total assets	0.5%	0.3%
RoRWA ***(Return on risk weighted assets)*** **(last 12 months)**	Net [2] profit / Regulatory risk weighted assets	1.1%	0.8%
Cost of risk (last 12 months) [4]	Loan-loss provisions / (Customer loans + contingent liabilities) average balance, gross	0.34%	0.46%
NPL ratio [5]	Non-performing customer loans + other contingent liabilities / Customer loans + contingent liabilities (gross)	6.0%	6.9%
Coverage ratio [5]	Impairment allowances for cust. loans + allowances for contingent liabilities / Non-performing customer loans + other contingent liabilities	50%	47%
Coverage ratio for available-for-sale real estate assets	Total coverage (write-downs + accounting provisions) / Debt repaid (net book value + total coverage)	58%	60%
Accounting coverage ratio for available-for-sale real estate assets	Accounting coverage (accounting provisions for foreclosed assets) / Book value of real estate assets, gross (net book value + accounting coverage)	50%	50%
Total liquid assets	Bank HQLAs + available amount (non-HQLA) under Bank of Spain facility	72,775	50,408
Loan to deposits (%) [5]	Loans and advances to customers, net – Brokered loans [6] / On-balance sheet customer funds	108%	111%

(1) Excluding subordinated liabilities.

(2) Figures adjusted to reflect the amount of the Additional Tier 1 coupon, after tax, reported in equity.

(3) Intangible assets: intangible assets in the public balance sheet, plus the intangible assets and goodwill associated with investees, net of impairment allowances, recognised under Investments in joint ventures and associates in the public balance sheet.

(4) Excluding the provisions released in 4Q16 (EUR 676 million).

(5) Loans and customer funds, under management criteria.

(6) Funding extended by public bodies is classified as brokered loans.

Reconciliation of management indicators with public financial statements

Income statement

Earnings indicators	
Net fees and commissions	(+) Fee and commission income (-) Fee and commission expenses
Net gain/(loss) on financial assets and liabilities and others	(+) Gains/(losses) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net. (+) Net gain/(loss) on financial assets and liabilities held for trading. (+) Net gain/(loss) on financial assets and liabilities designated at fair value through profit or loss. (+) Gains/(losses) from hedge accounting, net. (+) Exchange differences, gains/(losses), net.
Operating expenses	(+) Administrative expenses (+) Depreciation and amortisation
Operating income	(+) Gross income (-) Operating expenses
Impairment losses on financial assets and other provisions	(+) Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (+) Provisions or reversal of provisions
Loan-loss allowances	(+) Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss - Loans and receivables (management criteria) (+) Provisions or reversal of provisions - Contingent liabilities (management criteria)
Other charges to provisions	(+) Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (excluding loans and receivables) (management criteria) (+) Provisions or reversal of provisions (excluding provisions for contingent liabilities) (management criteria)
Gains/(losses) on disposal of assets and others	(+) Impairment/(reversal) of impairment on investments in joint ventures or associates. (+) Impairment/(reversal) of impairment on non-financial assets. (+) Gains/(losses) on derecognition of non-financial assets and investments, net. (+) Negative goodwill recognised in profit and loss. (+) Profit/(loss) from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.
Profit/(loss) attributable to minority interests and others	(+) Profit/(loss) after tax from discontinued operations. (+) Profit/(loss) for the period attributable to minority interests (non-controlling interests).

Activity indicators

(Millions of euros)		December 2017	
Loans and advances to customers, gross	(+) Loans and advances to customers (public balance sheet)	226,272	
	(-) Credit institutions and public sector	(7,378)	
	(-) Loan-loss provisions on loans and advances to customers	6,832	
	(-) Other non-retail financial assets (APS assets and other)	(768)	
	(-) Reverse repurchase agreements (public and private sector)	(912)	
	(+) Loans arranged through the debt securities of BPI [1]	(95)	**223,951**
Loan-loss provisions	(+) Loan-loss provisions on loans and advances to customers	6,832	
	(+) Allowances for contingent liabilities	303	**7,135**
Liabilities under insurance contracts	(+) Liabilities under insurance contracts (public balance sheet)	49,750	
	(-) Losses associated with available-for-sale assets under insurance contracts	(8,026)	
	(+) Unit-linked products[2]	8,241	**49,965**
Customer funds	(+) On-balance sheet customer funds	247,544	
	(+) Assets under management (pension plans, mutual funds, portfolios and SICAVs)	96,551	
	(+) Other accounts	5,363	**349,458**
On-balance sheet customer funds	(+) Financial liabilities measured at amortised cost - Customers (public balance sheet)	203,608	
	(-) Non-retail funds included under previous heading	(8,565)	
	(-) Multi-issuer covered bonds and subordinated deposits	*(3,932)*	
	(-) Counterparties and others	*(4,633)*	
	(+) Retail funds under debt securities	2,536	
	(+) Liabilities under insurance contracts (management)	49,965	**247,544**
Institutional issuances for the purpose of managing bank liquidity	(+) Debt securities issued (public balance sheet)	29,919	
	(-) Institutional financing not considered for bank liquidity purposes	(5,160)	
	(-) Securitisation bonds	(2,443)	
	(-) Valuation adjustments	(378)	
	(-) Retail	(2,536)	
	(+) Issuances acquired by Group companies	197	
	(+) Customer deposits for bank liquidity purposes	3,912	
	(+) Multi-issuer covered bonds	*3,879*	
	(+) Subordinated deposits	*33*	
	(+) Deposits from credit institutions (public balance sheet) - EIB mortgage covered bonds	20	**28,691**

(1) Reported as Debt securities under Loans and other receivables on the public balance sheet.

(2) Recognised under Financial liabilities designated at fair value through profit or loss on the public balance sheet.

Market indicators

EPS (Earnings per share)	Attributable [1] profit (12 months) / Average number of shares outstanding
Average number of shares outstanding	Average number of shares issued - average number of shares held in treasury
Market capitalisation	Share price * (number of shares outstanding - shares held in treasury) [1]
BV (Book value)	Equity - minority interests / Average number of shares outstanding fully diluted
Average number of shares outstanding fully diluted	Shares issued - shares held in treasury + number of shares in case of exchange of convertible debt issued
TBV (Tangible book value)	Equity - Minority interests - Intangible assets / Average number of shares outstanding fully diluted
P/E (Price-to-earnings ratio)	Share price / EPS (Earnings per share)
P/BV	Share price / BV (Book value)
P/TBV	Share price / TBV (Tangible book value)
Dividend yield	Dividends paid (12 months) [2] / Share price [3]
MDA (maximum amount distributable) buffer	Pillar 1 capital requirements + Pillar 2 capital requirements + capital buffers + possible AT1 and AT2 deficits
Available Distributable Items (ADIs)	Individual earnings + Unrestricted reserves (net of dividends) [4]

(1) Figures adjusted to reflect the amount of the Additional Tier 1 coupon, after tax, reported in equity.
(2) Dividends paid in shares or cash.
(3) At close of period.
(4) Does not include the share premium.

Corporate Governance Report for 2017

Law 16/2007, of July 4, reforming and adapting Spanish corporate accounting legislation for its international harmonisation with European legislation, redrafted article 49 of the Spanish Commercial Code regulating the minimum scope of management reports. In accordance with this regulation, CaixaBank has included its Annual Corporate Governance Report as a separate section of the wider Management Report.

A full word-processed copy of CaixaBank's 2017 Annual Corporate Governance Report approved by CaixaBank's Board of Directors on 23 February 2017 is provided hereunder. The original report, prepared in accordance with the prescribed format and prevailing regulations, is available on the website www.caixabank.com and on the website of the Spanish National Securities Market Commission (CNMV.)

APPENDIX I

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

ISSUER'S PARTICULARS

FINANCIAL YEAR-END	31/12/2017

Company Tax ID No. (C.I.F.)	A-08663619

CORPORATE NAME
CAIXABANK, S.A.

REGISTERED OFFICE
C/ PINTOR SOROLLA, 2-4 (VALENCIA)

ANNUAL CORPORATE GOVERNANCE
REPORT FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's share capital.

Date of last amendment	Share capital (€)	Number of shares	Number of voting rights
14/12/2016	5,981,438,031.00	5,981,438,031	5,981,438,031

Indicate whether different types of shares exist with different associated rights.

Yes ☐ No ☒

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding Directors.

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
INVESCO LIMITED	0	58,429,063	0.98%
FUNDACIÓN BANCARIA LA CAIXA	3,493	2,392,575,212	40.00%
BLACKROCK, INC	0	196,905,258	3.29%

Name or corporate name of indirect shareholder	Held through: Name or corporate name of direct shareholder	Number of voting rights
INVESCO LIMITED	INVESCO ASSET MANAGEMENT LIMITED	52,428,870
INVESCO LIMITED	TOTAL OWNERSHIP OF OTHER ENTITIES (INDIVIDUALLY LISTED FOR TRADING UNDER SECTION 10)	6,000,193
FUNDACIÓN BANCARIA LA CAIXA	CRITERIA CAIXA, SAU	2,392,575,212
BLACKROCK, INC	OTHER CONTROLLED ENTITIES BELONGING TO BLACKROCK GROUP, INC	196,905,258

Indicate the most significant movements in the shareholder structure during the year.

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
FUNDACIÓN BANCARIA LA CAIXA	06/02/2017	It now holds less than 45% of the share capital
CRITERIA CAIXA, SAU	06/02/2017	It now holds less than 45% of the share capital
BLACKROCK, INC	11/05/2017	It holds over 3% of the share capital
BLACKROCK, INC	27/04/2017	It now holds less than 3% of the share capital
BLACKROCK, INC	17/03/2017	It holds over 3% of the share capital

A.3. Complete the following tables on company Directors holding voting rights through company shares.

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
ANTONIO SÁINZ DE VICUÑA Y BARROSO	609	0	0.00%
ALAIN MINC	12,932	0	0.00%
JOSÉ SERNA MASIÁ	2,040	10,462	0.00%
KORO USARRAGA UNSAÍN	0	0	0.00%
MARÍA VERÓNICA FISAS VERGÉS	0	0	0.00%
ANTONIO MASSANELL LAVILLA	119,251	0	0.00%
JUAN ROSELL LASTORTRAS	0	42,031	0.00%
JORDI GUAL SOLÉ	51,191	0	0.00%
MARÍA AMPARO MORALEDA MARTÍNEZ	0	0	0.00%
GONZALO GORTÁZAR ROTAECHE	602,473	0	0.01%
JOHN S. REED	12,564	0	0.00%
MARÍA TERESA BASSONS BONCOMPTE	19,369	0	0.00%
JAVIER IBARZ ALEGRÍA	14,058	0	0.00%
FRANCESC XAVIER VIVES TORRENTS	3,345	0	0.00%
EDUARDO JAVIER SANCHIZ IRAZU	0	0	0.00%
IGNACIO GARRALDA RUIZ DE VELASCO	0	0	0.00%
ALEJANDRO GARCÍA-BRAGADO DALMAU	3,718	0	0.00%
CAJA CANARIAS FOUNDATION	38,237,375	0	0.64%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of voting rights
JOSÉ SERNA MASIÁ	MARÍA SOLEDAD GARCÍA CONDE ANGOSO	10,462
JUAN ROSELL LASTORTRAS	CIVISLAR, S.A.	20,850
JUAN ROSELL LASTORTRAS	CONGOST, S.A.	21,181

% of total voting rights held by the Board of Directors	0.65%

Complete the following tables on share options held by Directors.

A.4. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities.

A.5. Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related-party name or corporate name
FUNDACIÓN BANCARIA LA CAIXA
CAIXABANK GROUP

Type of relationship: Commercial

Brief description:

There are commercial and contractual relationships which derive from ordinary trading or exchange activities, the regulating principles of which are contained in the Internal Relations between "La Caixa" Banking Foundation, Criteria and CaixaBank. In accordance with the Financial Ownership Management Protocol, the Banking Foundation, as parent of the "la Caixa" Group, Criteria, as direct shareholder, and Caixabank, as listed company, signed a new Internal Relations Protocol on 19 December 2016 which replaced the previous Protocol and whose main objectives are, among others, to manage related-party transactions, the preferential acquisition right over Monte de Piedad, collaboration in CSR, regulate the adequate flow of information to enable "la Caixa" Banking Foundation and Criteria and CaixaBank to prepare their financial statements and meet their periodic reporting and supervisory requirements to regulatory and resolution bodies.

Related-party name or corporate name
FUNDACIÓN BANCARIA LA CAIXA
CAIXABANK GROUP

Type of relationship: Contractual

Brief description:

There are commercial and contractual relationships which derive from ordinary trading or exchange activities, the regulating principles of which are contained in the Internal Relations between "La Caixa" Banking Foundation, Criteria and CaixaBank. In accordance with the Financial Ownership Management Protocol, the Banking Foundation, as parent of the "la Caixa" Group, Criteria, as direct shareholder, and CaixaBank, as listed company, signed a new Internal Relations Protocol on 19 December 2016 which replaced the previous Protocol and whose main objectives are, among others, to manage related-party transactions, the preferential acquisition right over Monte de Piedad, collaboration in CSR, regulate the adequate flow of information to enable "la Caixa" Banking Foundation and Criteria and CaixaBank to prepare their financial statements and meet their periodic reporting and supervisory requirements to regulatory and resolution bodies.

A.6 Indicate whether the company has been notified of any shareholders’ agreements pursuant to articles 530 and 531 of the Corporate Enterprises Act (“LSC”). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes [x] No [ ]

Shareholders bound by agreement
FUNDACIÓN CAJASOL GRUPO CAIXABANK
FUNDACIÓN BANCARIA LA CAIXA
CAJA CANARIAS FOUNDATION
FUNDACIÓN BANCARIA CAJA NAVARRA
CAJA DE BURGOS FOUNDATION, BANKING FOUNDATION

% of share capital affected: 80.60%

Brief description of agreement:

Following the merger by absorption of Banca Cívica by CaixaBank, the shareholders: "la Caixa" Banking Foundation, Caja Navarra (currently Caja Navarra Banking Foundation), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), (hereinafter "the Foundations") entered into an agreement on 1 August 2012 which regulates the relations of "the Foundations" and "la Caixa" Banking Foundation as shareholders of CaixaBank, and their reciprocal relations of cooperation as well as with CaixaBank, with the aim of strengthening their respective actions in respect of the latter and supporting ”la Caixa" Banking Foundation with their control.

CONTINUES IN SECTION H.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable.

Yes ☐ No ☒

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

The company is not aware of the existence of any concerted actions among its shareholders.

A.7. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities' Market Act: If so, identify them:

Yes ☐ No ☒

Comments

A.8. Complete the following tables on the company's treasury stock.

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
3,520,392	45,567	0.06%

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
VIDACAIXA, S.A. DE SEGUROS Y REASEGUROS	31,757
CAIXABANK ASSET MANAGEMENT, SGIIC, S.A.U	13,810
Total:	45,567

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Details of significant changes

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

At the Annual General Meeting of 28 April 2016, it was agreed to authorise the Board of Directors so that, in accordance with the provisions of Articles 146 and 509 of the Corporate Enterprises Act, it could proceed with the derivative acquisition of treasury shares, directly and indirectly, through its subsidiaries, under the following terms:
- The acquisition may be made in the form of a sale, swap, dation in payment or any other legally admissible form, on one or more occasions, providing the combined nominal amount of the acquired shares and those already held by the Company does not exceed 10% of the subscribed capital.
When the acquisition is for consideration, the price or equivalent value shall be the price of the Company share on the Continuous

Market at the close of the day prior to the acquisition, +/-15%.
This authorisation is valid for five years from the adoption of the resolution at the Company's Annual General Meeting. In addition, and for the purposes of article 146.1, section a, paragraph 2 of the Corporate Enterprises Act, a resolution is made to expressly authorise the acquisition of shares in the Company by any of the subsidiaries, in the same terms as set out herein.

The shares acquired by virtue of this authorisation may be subsequently disposed of or redeemed, or else extended to employees and directors of the Company or its group as part of the remuneration systems set out in Article 146, section a, paragraph 3 of the Corporate Enterprises Act.
The Board of Directors is empowered to delegate this authorisation to any person or persons it so deems appropriate. All of the above with the remaining limits and requirements of the Corporate Enterprises Act and other applicable legislation. The unused portion of the previous authorisation granted at the Annual General Meeting held on 19 April 2012 was thereby revoked.
On 28 January 2016, the Board of Directors agreed to set the criteria for intervention in securities held in treasury on the basis of a new alerts system in accordance with the authorisation contemplated in article 46 of the Internal Rules of Conduct to define the discretion in managing the securities held in treasury shares by the ring-fenced area.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	55.02

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes ☐ No ☒

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes ☐ No ☒

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12. Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☐ No ☒

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

B GENERAL SHAREHOLDERS' MEETING

B.1. Indicate the quorum required for constitution of the General Shareholders' Meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

Yes ☐ No ☒

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the LSC.

Yes [ ] No [x]

Describe how they differ from the rules established under the LSC.

A.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

CaixaBank's Bylaws establish the same limits and conditions as those set forth in the Corporate Enterprises Act.

The provisions of the Corporate Enterprises Act shall be applied to protect shareholders' rights when changing the Bylaws.

In addition, as a credit institution, and in accordance with the terms of Article 10 of Royal Decree 84/2015, of 13 February, amendments to CaixaBank's Bylaws are governed by the authorisation and registration procedure set forth therein. Nevertheless, certain amendments (including the change of registered office within Spain, an increase in the share capital, the textual incorporation of mandatory or prohibitive legal or regulatory precepts, or those to comply with judicial or administrative resolutions) are not subject to the authorisation procedure although they still must be reported to the Bank of Spain

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year.

	Attendance data				
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
28/04/2016	58.58%	11.69%	0.03%	1.54%	71.84%
06/04/2017	42.54%	24.43%	0.03%	1.25%	68.25%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes [x] No [ ]

Number of shares required to attend the General Meetings	1,000

B.6 Section revoked.

B .7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

All CaixaBank's corporate governance content is available on the website (www.caixabank.com) under "Shareholders and Investors" "Corporate Governance and Remuneration Policy":
https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo_es.html

Specific information on Annual General Meetings can be found in the "Annual General Meeting" subsection of the "Corporate Governance and Remuneration Policy" section of the website:

https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/juntageneralaccionistas_es.html

Also, when a General Meeting is announced, a banner appears on the CaixaBank homepage with a direct link to all the pertinent information. We would also note that there is a section at the bottom of the CaixaBank homepage entitled "Direct Links" where users can access all the information on the General Meetings through the "Annual General Meeting" link.

C COMPANY MANAGEMENT STRUCTURE

C.1. Board of Directors

C.1.1 List the maximum and minimum number of Directors included in the Bylaws.

Maximum number of Directors	22
Minimum number of Directors	12

C.1.2 Complete the following table with board members' details.

Name or corporate name of Director	Representative	Director category	Position on the Board	Date of first appt.	Date of last appt.	Election procedure
ANTONIO SÁINZ DE VICUÑA Y BARROSO		Independent	DIRECTOR	01/03/2014	24/04/2014	AGM RESOLUTION
ALAIN MINC		Independent	DIRECTOR	06/09/2007	24/04/2014	AGM RESOLUTION
JOSÉ SERNA MASIÁ		Proprietary	DIRECTOR	30/06/2016	06/04/2017	DELEGATE RESOLUTION
KORO USARRAGA UNSAÍN		Independent	DIRECTOR	30/06/2016	06/04/2017	DELEGATE RESOLUTION
MARÍA VERÓNICA FISAS VERGÉS		Independent	DIRECTOR	25/02/2016	28/04/2016	DELEGATE RESOLUTION .
ANTONIO MASSANELL LAVILLA		Executive	DEPUTY CHAIRMAN	30/06/2014	23/04/2015	DELEGATE RESOLUTION
JUAN ROSELL LASTORTRAS		Independent	DIRECTOR	06/09/2007	24/04/2014	DELEGATE RESOLUTION
JORDI GUAL SOLÉ		Proprietary	CHAIRMAN	30/06/2016	06/04/2017	AGM RESOLUTION
MARÍA AMPARO MORALEDA MARTÍNEZ		Independent	DIRECTOR	24/04/2014	24/04/2014	DELEGATE RESOLUTION
GONZALO GORTÁZAR ROTAECHE		Executive	DIRECTOR AGM	30/06/2014	23/04/2015	DELEGATE RESOLUTION
JOHN S. REED		Independent	DIRECTOR	03/11/2011	19/04/2012	AGM RESOLUTION
MARÍA TERESA BASSONS BONCOMPTE		Proprietary	DIRECTOR	26/06/2012	26/06/2012	DELEGATE RESOLUTION
JAVIER IBARZ ALEGRÍA		Proprietary	DIRECTOR	26/06/2012	26/06/2012	DELEGATE RESOLUTION
FRANCESC XAVIER VIVES TORRENTS		Independent	DIRECTOR JST Coordinator (ECB) INDEPENDENT	05/06/2008	23/04/2015	DELEGATE RESOLUTION .
EDUARDO JAVIER SANCHIZ IRAZU		Independent	DIRECTOR	21/09/2017	21/09/2017	CO-OPTION
IGNACIO GARRALDA RUIZ DE VELASCO		Proprietary	DIRECTOR	06/04/2017	06/04/2017	DELEGATE RESOLUTION .
ALEJANDRO GARCÍA-BRAGADO DALMAU		Proprietary	DIRECTOR	01/01/2017	06/04/2017	DELEGATE RESOLUTION .
FUNDACIÓN CAJA CANARY ISLANDS	KORO NATALIA AZNÁREZ	Proprietary	DIRECTOR	23/02/2017	06/04/2017	DELEGATE RESOLUTION .

Total number of Directors	18

Indicate any Board members who left during this period.

Name or corporate name of Director	Status of the Director at the time	Leaving date
SALVADOR GABARRÓ SERRA	Proprietary	17/03/2017
CAJASOL FOUNDATION	Proprietary	23/02/2017

C.1.3 Complete the following tables on board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of Director	Position held in the company
ANTONIO MASSANELL LAVILLA	DEPUTY CHAIRMAN
GONZALO GORTÁZAR ROTAECHE	CHIEF EXECUTIVE

Total number of executive Directors	2
% of the Board	11.11%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Name or corporate name of significant shareholder represented or proposing appointment
JOSÉ SERNA MASIÁ	FUNDACIÓN BANCARIA LA CAIXA
JORDI GUAL SOLÉ	FUNDACIÓN BANCARIA LA CAIXA
MARÍA TERESA BASSONS BONCOMPTE	FUNDACIÓN BANCARIA LA CAIXA
JAVIER IBARZ ALEGRÍA	FUNDACIÓN BANCARIA LA CAIXA
CAJA CANARIAS FOUNDATION	CAJA NAVARRA BANKING FOUNDATION, CAJASOL FOUNDATION, CAJA CANARIAS FOUNDATION AND CAJA DE BURGOS FOUNDATION
ALEJANDRO GARCÍA-BRAGADO DALMAU	FUNDACIÓN BANCARIA LA CAIXA
IGNACIO GARRALDA RUIZ DE VELASCO	MUTUA MADRILEÑA AUTOMOVILISTA SOCIEDAD DE SEGUROS A PRIMA FIJA

Total number of proprietary Directors	7
% of the Board	38.89%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director:

ANTONIO SÁINZ DE VICUÑA Y BARROSO

Profile:

Born in Barcelona in 1948, Antonio Sainz de Vicuña y Barroso has been a member of the CaixaBank Board of Directors since 2014.

He earned his degree in Law and Economic and Commercial Science from Universidad Complutense in Madrid (1971), and then studied a postgraduate course with a final dissertation on European and International Law. He also holds a Diploma in International Law from Pembroke College, Cambridge University. He was awarded a grant from the Juan March Foundation.

In 1974, he became a State Attorney acting as legal advisor to the Spanish Ministries of Finance, Economy and Foreign Affairs between 1974 and 1989. From September 1989 to November 1994 he was the Chief International Legal Counsel of Banco Español de Crédito in Madrid. Between November 1994 and June 1998, he was General Counsel at the European Monetary Institute (EMI) in Frankfurt, the body entrusted with the preparatory work for the launch of the euro. He then worked at the European Central Bank from June 1998 to November 2013, where he was General Counsel and Director of Legal Services, before retiring at 65 in November 2013.

He is also a founder member of and sat on the first Board of Directors of Asociación para el Estudio del Derecho Europeo (1982-1986); a founder member of the Corte Civil y Mercantil de Arbitraje (1989-1994); founder member and member of Supervisory Board of the Institute for Law and Finance, Wolfgang Goethe Universität, Frankfurt (2000-2013); founder member and member of the Advisory Board of PRIME Finance (2011-2013); and a member the Advisory Board of the European Capital Markets Institute (2000-2013).

He has spoken at numerous financial conferences and has published a monography on "State Contracts in International Law" (Ed. Ministerio de Asuntos Exteriores, 1986) and some 30 legal articles in specialist publications. He has been awarded the Commander Cross, Order of Elizabeth the Catholic (1987) for services to Spain joining the European Community and the Commander Cross, Order of Civil Merit (2014).

Name or corporate name of Director:

ALAIN MINC

Profile:

Alain Minc, born in Paris in 1949, has been a member of the Board of Directors of CaixaBank

since 2007.

He is the chairman and chief executive of his own consultancy firm, AM Conseil.

and is a graduate from the École des Mines de Paris and the École Nationale d'Administration (ENA) in Paris. In 1991, he founded his own consultancy firm, AM Conseil.

He has been Chairman of the Supervisory Board of French newspaper Le Monde, Deputy Chairman of Compagnie Industriali Riunite International and General Manager of Cerus (Compagnies Européennes Réunies).

He was also a finance inspector and CFO at the French industrial group Saint-Gobain.

He is currently Chairman of Sanef.

He has been named Commandeur de la Légion d' Honneur and Commander of the British Empire and was awarded Gran Cruz de la Orden del Mérito Civil.

He has written more than 30 books since 1978, many of them best-sellers, including: Rapport sur l´informatisation de la société; La Machine égalitaire; Les vengeances des Nations; Le Nouveau Moyen-âge; Rapport sur la France de l'an 2000; www.capitalisme.fr; Epître à nos nouveaux maîtres (2003); Les Prophètes du bonheur: historie personnelle de la pensée économique (2004); Ce monde qui vient (2004); Le Crépuscule des petits dieux (2006); Une sorte de Diable, les vies de John M. Keynes (December 2006); Une histoire de France (2008); Dix jours qui ébranleront le monde (2009); Une historie politique des intellectuels (2011); Un petit coin de paradis, L'Âme des Nations (2012); L' Homme aux deux visage (2013); Vive l'Allemagne (2013); Le mal français n'est plus ce qu'il était (2014); and Un Français de tant de souches (2015).

Name or corporate name of Director:

KORO USARRAGA UNSAÍN

Profile:

Koro Usarraga Unsain (San Sebastián, 1957) has been a member of CaixaBank's Board of Directors since 2016.

She has a degree in Business Administration and a Masters in Business Management from ESADE, took the PADE (Senior Management Programme) at IESE and is a qualified chartered accountant.

She was an independent Director of NH Hotel Group from 2015 to October 2017.

She worked at Arthur Andersen for 20 years and in 1993 was appointed partner of the audit division.

In 2001 she assumed responsibility for the General Corporate Management of Occidental Hotels & Resorts, a group with significant international presence and specialising in the holiday sector. She was responsible for the finance, administration and management control departments, as well as IT and human resources.

She was General Manager of Renta Corporación, a real estate group specialising in the purchase, refurbishment and sale of properties.

She has been shareholder and administrator of the company 2005 KP Inversiones, S.L. since 2005, which is dedicated to investing in companies and management consultancy.

Name or corporate name of Director:

MARÍA VERÓNICA FISAS VERGÉS

Profile:

Born in Barcelona in 1964, Verónica Fisas has served on the Board of Directors of CaixaBank since February 2016.

She holds a degree in Law and a Master in Business Administration. She joined Natura Bissé very early in her career, thus acquiring extensive knowledge of the company and of all its departments.

She has been the CEO of the Board of Directors of Natura Bissé and the General Director of the Natura Bissé Group since 2007. Since 2008, she has also been a trustee of Ricardo Fisas Natura Bissé Foundation.

In 2001, as the CEO of the United States subsidiary of Natura Bissé, she was responsible for the expansion and consolidation of the business, and obtained outstanding results in product distribution and brand positioning.

In 2009 she joined the Board of Directors of Stanpa, Asociación Nacional de Perfumería y Cosmética. In 2012 she was named Vice Chair of Stanpa and Chair of the Association's Committee of Professional Aesthetics. She received the Work-Life Balance Award at the 2nd Edition of the National Awards for Women in Management in 2009, and the IWEC Award (International Women's Entrepreneurial Challenge) for her professional career, in 2014. In November 2017, the magazine Emprendedores recognised Verónica Fisas with the award of "Woman Executive of the Year".

Name or corporate name of Director:

JUAN ROSELL LASTORTRAS

Profile:

Born in Barcelona in 1957, Juan Rosell Lastortras has been a member of the CaixaBank Board of Directors since 2007.
He holds a degree in Industrial Engineering from Barcelona Polytechnic University and studied Political Science at Universidad Complutense in Madrid. He is currently Chairman of Congost Plastic.

During his professional career, Mr Rosell has served as Managing Director of Juguetes Congost and has been Chairman of Enher (1996-1999), Fecsa-Enher (1999-2002) and Corporación Unliand (2005-2006). He has also been a board member of Gas Natural, S.D.G, S.A., Agbar, Endesa, Endesa Italia S.p.A., Siemens España and Applus Servicios Tecnológicos.

In addition, he is Chairman of the Spanish Confederation of Business Organisations (CEOE), a member of the Mont Pelerin Society, and Deputy Chairman of Business Europe.

Mr. Rosell has received numerous decorations including the Gold Medal of Merit of the International Trade Fair of Barcelona and the Silver Medal of the Barcelona Chamber of Commerce; was named a Commander of the Order Merit of the Italian Republic; he was given the Keys to the City of Barcelona and the Tiepolo Prize.

Name or corporate name of Director:

MARÍA AMPARO MORALEDA MARTÍNEZ

Profile:

Born in Madrid in 1964, María Amparo Moraleda has been a member of the CaixaBank Board of Directors since 2014.

She graduated in Industrial Engineering from the ICAI and holds an MBA from the IESE Business School.

She is an independent Director at several companies: Solvay, S.A. (since 2013), Airbus Group, S.E. (since 2015) Vodafone Group (since 2017).

She is also a member of the Supervisory Board of the Spanish High Council for Scientific Research (since 2011) and a member of the advisory boards of SAP Ibérica (since 2017) and of Spencer Stuart (since 2017).

Between 2012 and 2017, she was a member of the board of directors of Faurecia, S.A. and member of the Advisory Board of KPMG España (since 2012).

Between January 2009 and February 2012 she was Chief Operating Officer of Iberdrola's International Division with responsibility for the United Kingdom and the United States. She also headed Iberdrola Engineering and Construction from January 2009 to January 2011.

She was General Manager at IBM Spain and Portugal between July 2001 and January 2009. The reach of her division was subsequently extended to encompass Greece, Israel and Turkey from July 2005 to January 2009. Between June 2000 and 2001 she was assistant executive to the President of IBM Corporation. From 1998 to 2000 she was General Manager at INSA (a subsidiary of IBM Global Services). From 1995 to 1997 she was Head of HR for EMEA at IBM Global Services and from 1988 to 1995 she held various offices and management positions at IBM España.

She is also a member of various boards and trusts of different institutions and bodies, including the Academy of Social Sciences and the Environment of Andalusia, the Board of Trustees of the MD Anderson Cancer Center in Madrid and the International Advisory Board of Instituto de Empresa.

In December 2015 she was named full academic member of Real Academia de Ciencias Económicas y Financieras.

In 2005 she was inducted into the Women in Technology International (WITI) organisation's Hall of Fame, which recognises, honours, and promotes the outstanding contributions women make to the scientific and technological communities that improve and evolve society. Her numerous accolades include: the Values Leadership Award (FIGEVA Foundation – 2008), the Javier Benjumea Prize (Engineering Association of the ICAI – 2003) and the Award for Excellence (Spanish Federation of Female Directors, Executives, Professionals and Entrepreneurs – Fedepe – 2002).

Name or corporate name of Director:

JOHN S. REED

Profile:

Born in Chicago in 1939, John Reed has been a member of the Board of Directors of CaixaBank since 2011.

He was raised in Argentina and Brazil and completed his university studies in the United States. In 1961, he earned a degree in Philosophy and Arts and Sciences from Washington and Jefferson College and the Massachusetts Institute of Technology under a double degree programme. He was a lieutenant in the US Army Corps of Engineers from 1962 to 1964 and again enrolled at MIT to study a Master in Science.

John Reed worked for Citibank/Citicorp and Citigroup for over 35 years, holding the position of President for the last 16 before retiring in April 2000.

From September 2003 to April 2005, he returned to work as the Chairman of the New York Stock Exchange and was Chairman of the MIT Corporation from May 2010 to October 2014.

He was appointed Chairman of the Board of American Cash Exchange in February 2016.

John Reed is trustee of the Boston Athenaeum and of the NBER, and of the Boston Symphony Orchestra. He is also a member of the board of the American Academy of Arts and Sciences and the American Philosophical Society.

Name or corporate name of Director:

FRANCESC XAVIER VIVES TORRENTS

Profile:

Xavier Vives Torrents was born in Barcelona in 1955. He has been a member of the CaixaBank Board of Directors since 2008 and the Lead Director from 2017.

He is a Professor of Economics and Finance at the IESE Business School. He also holds a PhD in Economics from the University of California, Berkeley.

He was Professor of European Studies at the INSEAD Business School in 2001-2005; Director of the Institute of Economic Analysis at the Spanish High Council for Scientific Research in 1991-2001; and a visiting lecturer at the universities of California (Berkeley), Harvard, Pennsylvania and New York (King Juan Carlos I Chair 1999-2000), as well as the Autonomous University of Barcelona and the Pompeu Fabra University.

He has also advised the World Bank, the Inter-American Development Bank, the New York Federal Reserve, the European Commission (where he was Special Advisor to the EU Vice President and Competition Commissioner, Joaquín Almunia). He is also a member of CARE (Advisory Council for Economic Recovery and Growth) of the Government of Catalonia and has advised many international companies. Mr Vives also served as Chairman of the Spanish Economic Association in 2008; and Deputy Chairman of the Spanish Energy Economics Association in 2006-2009 and was a Duisenberg Fellow at the European Central Bank in 2015.

He is currently a member of the board of the Aula Escola Europea, a member of the European Academy of Sciences and Arts and of the Academia Europaea, and a Research Fellow of the CESifo and the Centre for Economic Policy Research. He has been a Fellow of the European Economic Association since 2004 and a Fellow of the Econometric Society since 1992. He is the Chairman of EARIE (European Association for Research in Industrial Economics) for 2016-2018.

He has published numerous articles in international journals and directed the publication of various books. Mr. Vives Torrents has also received several awards including the King Juan Carlos I Prize for Research into Social Sciences in 1988; the Catalan Society for Economics prize in 1996; the Narcís Monturiol Medal from the Catalonian regional government in 2002; and the Catalonia Economics Prize in 2005, in addition to the IEF Award for academic excellence for his professional career in 2012. He is also the recipient of a European Research Council Advanced Grant in 2009-2013 and was awarded the King Jaime I Award for economics in 2013.

Name or corporate name of Director:

EDUARDO JAVIER SANCHIZ IRAZU

Profile:

Eduardo Javier Sanchiz Irazu was born in Vitoria in 1956. He has been a member of the CaixaBank Board of Directors since 2017.

He holds a degree in economics the University of Deusto, San Sebastián campus, and a Master's Degree in Business Administration from the Instituto Empresa in Madrid.

He was Chief Executive of Almirall since July 2011 until 30 September 2017. During this period, the company underwent a significant strategic transformation with the aim of becoming a global leader in skin treatment.

Previously, after jointing Almirall in May 2004, he was executive director of Corporate Development and Finance and Chief Financial Officer In both positions, Eduardo led the company's international expansion through a number of alliances with other companies, and through licensing of external products, in addition to five acquisitions of companies and product portfolios. He also coordinated the IPO process in 2007.

He was a member of the Almirall Board of Directors from January 2005 and member of the Dermatology Committee from its creation in 2015.

Prior to joining Almirall, he worked for 22 years (17 outside Spain) at Eli Lilly & Co, an American pharmaceutical company, in finance, marketing, sales and general management positions. He was able to live in six different countries and some of his significant positions include General Manager in Belgium, General Manager in Mexico and, in his last position in the company, Executive Officer for the business area that encompasses countries in the centre, north, east and south of Europe.

He was a member of the American Chamber of Commerce in Mexico and of the Association of Pharmaceutical Industries in a number of countries in Europe and Latin America.

Total number of independent Directors	9
% of the Board	50.00%

List any independent Directors who receive from the company or group any amount or payment other than standard Director remuneration or who maintain or have maintained during the last year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No director classified as independent receives from the company or group any amount or payment other than standard Director remuneration or maintains or has maintained during the last year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

If applicable, include a statement from the Board detailing the reasons why the said Director may carry out their duties as an independent Director.

OTHER EXTERNAL DIRECTORS

Identify all other external Directors and explain why these cannot be considered proprietary or independent Directors and detail their relationships with the company, its executives or shareholders.

List any changes in the category of each Director which have occurred during the year.

C.1.4 Complete the following table on the number of women Directors over the past four years and their category.

	Number of women Directors				% of total Directors of each type			
	Year 2017	**Year 2016**	**Year 2015**	**Year 2014**	**Year 2017**	**Year 2016**	**Year 2015**	**Year 2014**
Committee	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	2	1	3	3	28.57%	16.67%	33.33%	30.00%
Independent	3	3	1	1	33.33%	37.50%	16.66%	16.67%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	5	4	4	4	27.78%	25.00%	23.53%	21.05%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of women Directors on the Board to guarantee an even balance between men and women.

Explanation of measures

At 31 December 2017, the Board of Directors included 5 women out of 18 Directors.

This percentage of women on Caixabank's Board of Directors , though not equal, and which could be improved, increased in the past year and stands in the upper range of the companies on the IBEX 35.

When analysing and proposing candidates' profiles for appointment to the Board of Directors, the Appointments Committee not only takes into account matters of gender diversity but also criteria of repute, knowledge and professional experience to be appointed a Director of a credit institution as stipulated in prevailing legislation. However, it has yet to set a quota for female Directors.

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select women Directors, and whether the company makes a conscious effort to search for women candidates who have the required profile.

Explanation of measures

Women candidates are not discriminated against in the selection process of Directors. Likewise, article 15 of the Regulations of the Board of Directors states that one of the duties assigned to the Appointments Committee is to report to the Board on gender diversity issues, ensuring that the procedures for selection of its members favour the diversity of experience, knowledge, and facilitate the selection of women Directors, and establish a representation target for the less represented sex on the Board of Directors as well as preparing guidelines for how this should be achieved.

When, despite the measures taken, there are few or no women Directors, explain the reasons.

Explanation of the reasons

At year end 2017, women comprised 33.3% of the independent Directors and 28.6% of proprietary Directors, while 25% of the members of the Executive Committee are women and 67% of the members of the Appointments Committee and of the Remuneration Committee are women, and the latter committee is chaired by a woman.
The Risks Committee and the Audit and Control Committee each have one woman member, representing 25% and 33.3% of each committee, respectively. That is to say, women are represented on all the Committees of the Company. Therefore, even though the number of female Directors is not equal, it is not deemed to be few.

C.1.6 bis Explain the Nomination Committee's conclusions on its checks that the Director selection policy is being complied with. Particularly whether the policy pursues the goal of having at least 30% of total Board places occupied by women Directors before the year 2020.

Explanation of conclusions

The Appointments Committee, in compliance with the provisions of section 7 of the Directors' Selection Policy, approved by the Board on 19 November 2015, states that it has verified compliance with this Policy in the agreements adopted referring to the appointments of directors, which have been in keeping with the principles and guidelines contained therein, and that the percentage of the lesser represented sex is situated at 29.4% on the date of verifying compliance with the Policy. However, this will change to 27.8% when the appointment of Mr. Muniesa is verified by the European Central Bank and he accepts the post.

C.1.7 Explain how shareholders with significant holdings are represented on the Board.

As a significant shareholder of CaixaBank and in representation of this share holding, the “la Caixa” Banking Foundation proposed the appointment of six (6) Directors, namely:

JORDI GUAL SOLÉ - CHAIRMAN - PROPRIETARY
ANTONIO MASSANELL LAVILLA- DEPUTY CHAIRMAN/PROPRIETARY
MARÍA TERESA BASSONS BONCOMPTE - MEMBER-PROPRIETARY
ALEJANDRO GARCÍA-BRAGADO DALMAU - MEMBER - PROPRIETARY
JAVIER IBARZ ALEGRÍA - MEMBER - PROPRIETARY
JOSÉ SERNA MASIÁ - MEMBER - PROPRIETARY

Likewise, within the framework of the merger by absorption of Banca Cívica by CaixaBank, on 1 August 2012 Caja de Ahorros y Pensiones de Barcelona, ”la Caixa” (currently ”la Caixa” Banking Foundation) and Caja Navarra (currently Fundación Caja Navarra), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja Burgos, Banking Foundation) (hereinafter "the Foundations"), entered into a shareholders agreement which, inter alia, stated the pledge given by ”la Caixa” Banking Foundation to vote in favour of the appointment of two (2) Directors to the CaixaBank Board of Directors proposed by "the Foundations".
On 17 October 2016, the amendments to the Integration Agreement between CaixaBank and Banca Cívica and the CaixaBank Shareholders' Agreement were agreed, which means that the "Foundations", instead of proposing the appointment of two (2) directors at CaixaBank, one director at CaixaBank and one at VidaCaixa is proposed, and that the extension of the agreements that automatically occurred at the beginning of August, for three years, will have a duration of four years instead of the aforementioned three.
And, therefore, the current representative of "the Foundations" on the CaixaBank's Board is: FUNDACIÓN CAJA CANARIAS (represented by Natalia Aznárez Gómez) - MEMBER - PROPRIETARY

C.1.8 Explain, when applicable, the reasons why proprietary Directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Name or corporate name of shareholder:

FUNDACIÓN BANCARIA CAJA NAVARRA

Justification:

Following the merger by absorption of Banca Cívica by CaixaBank, the shareholders: Caja de Ahorros y Pensiones de Barcelona, ”la Caixa” (currently ”la Caixa” Banking Foundation) and Caja Navarra (currently Fundación Caja Navarra), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), (hereinafter "the Foundations") entered into an agreement on 1 August 2012 to regulate their relations as shareholders of CaixaBank, and their reciprocal relations of cooperation as well as with CaixaBank, with the aim of strengthening their respective actions in respect of the latter and supporting their control of ”la Caixa" Banking Foundation. They also agreed to appoint two members of the Board of Directors of CaixaBank proposed by "the Foundations" and, in order to give stability to their shareholding in CaixaBank, the "Foundations" agreed on a four-year lock up period, as well as a commitment to exercise their pre-emptive acquisition rights over two years in favour of the other foundations in the first place and subsidiarily ”la Caixa” Banking Foundation, should any of the Savings Banks wish to transfer all or part of their stake, once the lock-up period has expired. On 17 October 2016, the amendments to the Integration Agreement between CaixaBank and Banca Cívica and the CaixaBank Shareholders' Agreement were agreed, which means that the "Foundations", instead of proposing the appointment of two (2) directors at CaixaBank, one director at CaixaBank and one at VidaCaixa is proposed, and that the extension of the agreements that automatically occurred at the beginning of August, for three years, will have a duration of four years instead of the aforementioned three.

Name or corporate name of shareholder:

CAJASOL FOUNDATION

Justification:

Following the merger by absorption of Banca Cívica by CaixaBank, the shareholders: Caja de Ahorros y Pensiones de Barcelona, ”la Caixa” (currently ”la Caixa” Banking Foundation) and Caja Navarra (currently Fundación Caja Navarra), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), (hereinafter "the Foundations") entered into an agreement on 1 August 2012 to regulate their relations as shareholders of CaixaBank, and their reciprocal relations of cooperation as well as with CaixaBank, with the aim of strengthening their respective actions in respect of the latter and supporting their control of ”la Caixa" Banking Foundation. They also agreed to appoint two members of the Board of Directors of CaixaBank proposed by "the Foundations" and, in order to give stability to their shareholding in CaixaBank, the "Foundations" agreed on a four-year lock up period, as well as a commitment to exercise their pre-emptive acquisition rights over two years in favour of the other foundations in the first place and subsidiarily ”la Caixa” Banking Foundation, should any of the Savings Banks wish to transfer all or part of their stake, once the lock-up period has expired. On 17 October 2016, the amendments to the Integration Agreement between CaixaBank and Banca Cívica and the CaixaBank Shareholders' Agreement were agreed, which means that the "Foundations", instead of proposing the appointment of two (2) directors at CaixaBank, one director at CaixaBank and one at VidaCaixa is proposed, and that the extension of the agreements that automatically occurred at the beginning of August, for three years, will have a duration of four years instead of the aforementioned three.

Name or corporate name of shareholder:

CAJA CANARIAS FOUNDATION

Justification:

Following the merger by absorption of Banca Cívica by CaixaBank, on 1 August 2012, the shareholders: Caja de Ahorros y Pensiones de Barcelona, ”la Caixa” (currently ”la Caixa” Banking Foundation) and Caja Navarra (currently Fundación Caja Navarra), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), (hereinafter "the Foundations") entered into an agreement on 1 August 2012 to regulate their relations as shareholders of CaixaBank, and their reciprocal relations of cooperation as well as with CaixaBank, with the aim of strengthening their respective actions in respect of the latter and supporting their control of ”la Caixa" Banking Foundation. They also agreed to appoint two members of the Board of Directors of CaixaBank proposed by "the Foundations" and, in order to give stability to their shareholding in CaixaBank, the "Foundations" agreed on a four-year lock up period, as well as a commitment to exercise their pre-emptive acquisition rights over two years in favour of the other foundations in the first place and subsidiarily ”la Caixa” Banking Foundation, should any of the Savings Banks wish to transfer all or part of their stake, once the lock-up period has expired. On 17 October 2016, the amendments to the Integration Agreement between CaixaBank and Banca Cívica and the CaixaBank Shareholders' Agreement were agreed, which means that the "Foundations", instead of proposing the appointment of two (2) directors at CaixaBank, one director at CaixaBank and one at VidaCaixa is proposed, and that the extension of the agreements that automatically occurred at the beginning of August, for three years, will have a duration of four years instead of the aforementioned three.

Name or corporate name of shareholder:

CAJA DE BURGOS FOUNDATION, BANKING FOUNDATION

Justification:

Following the merger by absorption of Banca Cívica by CaixaBank, the shareholders: Caja de Ahorros y Pensiones de Barcelona, ”la Caixa” (currently ”la Caixa” Banking Foundation) and Caja Navarra (currently Fundación Caja Navarra), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias) and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), (hereinafter "the Foundations") entered into an agreement on 1 August 2012 to regulate their relations as shareholders of CaixaBank, and their reciprocal relations of cooperation as well as with CaixaBank, with the aim of strengthening their respective actions in respect of the latter and supporting their control of ”la Caixa" Banking Foundation. They also agreed to appoint two members of the Board of Directors of CaixaBank proposed by "the Foundations" and, in order to give stability to their shareholding in CaixaBank, the "Foundations" agreed on a four-year lock up period, as well as a commitment to exercise their pre-emptive acquisition rights over two years in favour of the other foundations in the first place and subsidiarily ”la Caixa” Banking Foundation, should any of the Savings Banks wish to transfer all or part of their stake, once the lock-up period has expired. On 17 October 2016, the amendments to the Integration Agreement between CaixaBank and Banca Cívica and the CaixaBank Shareholders' Agreement were agreed, which means that the "Foundations", instead of proposing the appointment of two (2) directors at

CaixaBank, one director at CaixaBank and one at VidaCaixa is proposed, and that the extension of the agreements that automatically occurred at the beginning of August, for three years, will have a duration of four years instead of the aforementioned three.

Name or corporate name of shareholder:

MUTUA MADRILEÑA AUTOMOVILISTA SOCIEDAD DE SEGUROS A PRIMA FIJA

Justification:

These are set out in the report of the Appointments Committee to the Board, which includes as an appendix, the Board Report on the proposed appointment of Ignacio Garralda Ruiz de Velasco as a proprietary director is submitted to and approved by the 2017 Annual General Meeting.
The aforementioned report states that the arrival of M. Garralda as board member will bring with it a number of significant benefits due to his extensive experience and expertise, while also facilitating the current strategic alliance between the CaixaBank Group and the Mutua Madrileña Group.

Provide details of any rejections of formal requests for Board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary Directors. If so, explain why these requests have not been entertained.

Yes ☐ No ☒

C.1.9 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that Director.

Name of Director

CAJASOL FOUNDATION

Reasons for resignation

On 23 February 2017, CaixaBank announced that Fundación Cajasol had tendered its resignation as member of the Board of Directors. In accordance with the amendment to the Integration Agreement between CaixaBank and Banca Cívica and the Shareholders' Agreement of CaixaBank was announced through the significant event on 17 October 2016, the Cajasol Foundation was replaced on the Board by the Caja Canarias Foundation, which was appointed by co-option on the same date and designated Ms. Natalia Aznárez Gómez as its representative.

Name of Director

SALVADOR GABARRÓ SERRA

Reasons for resignation

On 17 March 2017, CaixaBank announced with regret the cessation as Board member of Salvador Gabarró Serra, who passed away on that same date.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

Name or corporate name of Director:

GONZALO GORTÁZAR ROTAECHE

Brief description

All powers delegable under the law and the Bylaws are delegated, without prejudice to the limitations established in the Regulations of the Board of Directors for the delegation of powers that, in all events, apply for procedural purposes.

C.1.11 List the Directors, if any, who hold office as Directors or executives in other companies belonging to the listed company's group.

Name or corporate name of Director	Corporate name of the group entity	Position	Do they have executive duties?
JUAN ROSELL LASTORTRAS	VidaCaixa, S.A., de Seguros y Reaseguros	Director	NO
GONZALO GORTÁZAR ROTAECHE	VidaCaixa, S.A., de Seguros y Reaseguros.	Chairman	NO
JAVIER IBARZ ALEGRÍA	VidaCaixa, S.A., de Seguros y Reaseguros	Director	NO
GONZALO GORTÁZAR ROTAECHE	Banco BPI, S.A.	Director	NO

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of Director	Corporate name of the group entity	Position
MARÍA AMPARO MORALEDA MARTÍNEZ	SOLVAY, S.A.	DIRECTOR
MARÍA AMPARO MORALEDA MARTÍNEZ	AIRBUS GROUP, S.E.	DIRECTOR
GONZALO GORTÁZAR ROTAECHE	REPSOL, S.A.	FIRST DEPUTY CHAIRMAN
JORDI GUAL SOLÉ	REPSOL, S.A.	DIRECTOR
JORDI GUAL SOLÉ	ERSTE GROUP BANK, AG	DIRECTOR
ALEJANDRO GARCÍA-BRAGADO DALMAU	GAS NATURAL SDG, S.A.	DIRECTOR
IGNACIO GARRALDA RUIZ DE VELASCO	ENDESA, S.A.	DIRECTOR
IGNACIO GARRALDA RUIZ DE VELASCO	BME HOLDING, S.A.	FIRST DEPUTY CHAIRMAN
MARÍA AMPARO MORALEDA MARTÍNEZ	VODAFONE GROUP PLC	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of Boards on which its Directors may sit.

Yes [x] No [ ]

Explanation of rules
Article 32.4 of the Regulations of the Board of Directors' stipulates that Directors must abide by the limitations on belonging to Boards of Directors set forth in the current regulations of organisation, supervision and solvency of credit institutions.

C.1.14 Section revoked.

C.1.15 List the total remuneration paid to the Board of Directors in the year.

Board remuneration (thousands of euros)	7,135
Cumulative amount of rights of current Directors in pension scheme (thousands of euros)	17,169
Cumulative amount of rights of former Directors in pension scheme (thousands of euros)	236

C.1.16 List any members of senior management who are not executive Directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position
JORGE MONDÉJAR LÓPEZ	CHIEF RISKS OFFICER
MARIA VICTORIA MATIA AGELL	HEAD OF INTERNATIONAL BANKING
JOAQUIN VILAR BARRABEIG	CHIEF INTERNAL AUDIT OFFICER
JAVIER PANO RIERA	CHIEF FINANCIAL OFFICER
FRANCESC XAVIER COLL ESCURSELL	CHIEF HUMAN RESOURCES AND ORGANISATION OFFICER
JORGE FONTANALS CURIEL	HEAD OF RESOURCES
TOMÁS MUNIESA ARANTEGUI	CHIEF INSURANCE AND ASSET MANAGEMENT OFFICER
MARÍA LUISA MARTÍNEZ GISTAU	EXECUTIVE DIRECTOR FOR COMMUNICATION, INSTITUTIONAL RELATIONS, BRAND AND CSR
ÓSCAR CALDERÓN DE OYA	GENERAL AND BOARD SECRETARY
JUAN ANTONIO ALCARAZ GARCIA	CHIEF BUSINESS OFFICER
MATTHIAS BULLACH	HEAD OF FINANCIAL ACCOUNTING, CONTROL AND CAPITAL

Total remuneration received by senior management (thousands of euros)	11.267

C.1.17 List, if applicable, the identity of those Directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of Director	Corporate name of significant shareholder	Position
ALEJANDRO GARCÍA-BRAGADO DALMAU	CRITERIA CAIXA, SAU	FIRST DEPUTY CHAIRMAN

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

C.1.18 Indicate whether any changes have been made to the board regulations during the year.

Yes [x] No [ ]

Description of amendments
The Board of Directors of CaixaBank, at a meeting held on 23 February 2017, resolved to amend articles 1 ("Origin and purpose"), 4 ("Functions of the Board of Directors"), 5 ("Qualitative composition"), 7 ("The Chairman of the Board"), 8 ("The Deputy Chairman"), 12 ("Delegation of powers. Committees of the Board of Directors"), 14 ("The Audit and Control Committee and the Risk Committee"), 15 ("The Appointments Committee and the Remuneration Committee"), 16 ("Meetings of the Board of Directors"), 17 ("Course of the meetings") and 27 ("Duty of loyalty") of the current Regulations of the CaixaBank Board. It also incorporated a new article 9 ("The coordinating director") and a Final Provision. The aim was to adapt the regulations to the amendment of the by-laws, which was approved by the Annual General Meeting of 6 April 2017.

In line with the proposed amendment of the Bylaws approved by the 2017 Annual General Meeting, the amendments to the Regulations of the Board mainly aimed, in accordance with the policy defining the CaixaBank Group Structure, to add to the powers of the Board of Directors a specification of its scope of action with respect to CaixaBank companies and to incorporate certain enhancements to corporate governance in line with prudential deconsolidation requirements for Criteria Caixa, (notified by the European Central Bank on 3 March 2016). Lastly, also in connection with deconsolidation requirements, supplement good governance measures, first, by specifying the duties of the Chairman of the Board and, second, introducing specialisations for appointments of the Appointments Committee. Along with the aforementioned amendments directly related to the proposed amendments to the Bylaws, some technical improvements were made.

The amendments to the Board's Regulation and, therefore, the new restated text of the Regulations entered into force at the same time as the entry into force of the amendment to the Bylaws which was approved by the Annual General Meeting. This amendment to the Bylaws was authorised in accordance with the regime set forth in article 10 of Royal Decree 84/2015, of 13 February, which implements Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

In accordance with the provisions of article 529 of the Corporate Enterprises Act, the amended text of both was reported to the Comisión Nacional del Mercado de Valores ("CNMV), executed in a public document and filed in the Companies' Registry. Once filed, the full texts were published by the CNMV and by CaixaBank, S.A. on its corporate website (www.caixabank.com).

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing Directors. List the competent bodies, procedures and criteria used for each of these procedures.

Pursuant to article 529.10 of Royal Legislative Decree 1/2010 of 2 July, approving the restated text of the Corporate Enterprises Act, and articles 5 and 18-21 of the Regulations of the Board of Directors, proposed appointments of Directors submitted by the Board of Directors for the General Shareholders' Meeting and resolutions regarding appointments which said body adopts by virtue of the powers of co-option legally attributed to it must be preceded by the pertinent proposal of the Appointments Committee, in the case of independent Directors, and by a report, in the case of the remaining Directors. Proposals for the appointment and re-election of directors must be accompanied by a report from the Board of Directors setting out the competencies, experience and merits of the candidate.
In addition, when exercising its powers to propose appointments to the General Shareholders' Meeting and co-opt Directors to cover vacancies, the Board shall endeavour to ensure that external Directors or non-executive Directors represent a majority over executive Directors and that the latter should be the minimum necessary.
The Board shall also seek to ensure that the majority group of non-executive directors includes holders of stable significant shareholdings in the company or their representatives, or those shareholders that have been proposed as directors even though their holding is not significant (proprietary directors), and persons of recognised experience who can perform their functions without being influenced by the company or its group, its executive team or significant shareholders (independent directors).
Directors shall be classified using the definitions established in applicable regulations, as set out in article 18 of the Regulations of the Board of Directors.
The Board will also strive to ensure that its external directors include proprietary and independent directors who reflect the existing proportion of the Company's share capital represented by proprietary directors and the rest of its capital. At least one third of the Company's directors will be independent directors.

No shareholder may be represented in the Board of Directors by a number of proprietary Directors higher than 40% of the total members of the Board, without prejudice to shareholders' right of proportional representation under the provisions of the law.
Directors shall remain in their posts for the term of office stipulated in the Bylaws while the General Meeting does not agree their removal and they do not resign from the position, and may be re-elected one or more times for periods of equal length. Nevertheless, independent Directors will not remain as such for a continuous period of more than 12 years.
Directors designated by co-option shall hold their post until the date of the next General Meeting or until the legal deadline for holding the General Meeting that is to decide whether to approve the financial statements for the previous financial year has passed. In the event that the vacancy arises after the General Meeting is called but before it is held, the appointment of the director by co-option to cover the vacancy will take effect until the next General Meeting is held.
Pursuant to article 529.9 of Royal Legislative Decree 1/2010, of 2 July, and article 16.7 of the Regulations of the Board of Directors, at least once a year, the Board, as a plenary body, shall: evaluate the quality and efficiency of the functioning of the Board; the performance of their duties by the Chairman of the Board and the chief executive of the company; and the functioning of the Committees. The Board shall propose an action plan to correct any issues detected in this review.

CONTINUES IN SECTION H.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

Description of amendments
The Board of Directors evaluated its performance during the year. In a new development, the Board engaged an external consultant, whose independence was first verified by the Appointments Committee. In view of the regulatory environment for banks and taking account of the conclusions of the external advisor, changes have been implemented in the committees (see the significant event notice of 1 February 2018, with registration number 261,218).

C.1.20. bis Describe the evaluation process and the areas evaluated by the board, assisted, if

applicable, by an external advisor, concerning diversity in its composition and skills, the functioning and composition of its committees, the performance of the Chairman of the board and the Chief Executive Officer and the performance and contribution of each Director.

As stipulated in article 529.9 of the Corporate Enterprises Act and article 16 of the Regulations of the Board of Directors, the Board evaluates its performance annually. It is also compliant with Recommendation 36 of the current Code of Good Governance dated February 2015 which recommends that a regular self-assessment be carried out on the performance of the Board of Directors and its Committees.

In 2017, and with the aim of achieving full compliance with the aforementioned Recommendation 36 of the Code of Good Governance, the Board of Directors, subject to a report of the Appointments Committee, engaged an independent external consultant to facilitate the performance of the evaluation of the Board and its committees and, individually, the performance of the Chairman and Chief Executive, and of the contribution and performance of each Director.

To perform the assessment, a questionnaire was sent to each Director requesting his/her views on the functioning of the Board of Directors and its Committees, the performance of the Chairman and Chief Executive, in addition to the contribution and performance of each Director during the year.

The methodology used by the external consultant was mainly based on an analysis of the answers to questionnaires configured for CaixaBank and subsequent individual interviews with each Director. After tabulating and analysing all answers received, in-person interviews were conducted with all Directors, wherein further discussion focused on areas where there is greater room for improvement. In addition, information was gathered from all Directors on the challenges faced by the Bank and its Board, and the values that define the culture of the CaixaBank Board.

Directors answered questions in nine categories, namely:

– Preparation
– Dynamics and Culture
– General Aspects
– Evaluation of Board Chairman
– Evaluation of CEO
– Effectiveness of Committees (Members)
– Effectiveness of Committees (Non-Members)
– Evaluation of Secretary to the Board
– Individual Evaluation of Each Director by peers

C.1.20 ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

Except for the provision of services relating to the evaluation process of the Board, there were no business dealings outside the ordinary trade and business activities with the consultant or any company in the same group.

C.1.21 Indicate the cases in which Directors must resign.

Article 21.2 of the Regulations of the Board of Directors stipulates that the Directors must place their position at the disposal of the Board of Directors and formalise, if the latter deems appropriate, the pertinent resignation, in the following cases:

a) when they depart the executive positions, posts or functions with which their appointment as Director was associated;
(b) when they are subject to any of the cases of incompatibility or prohibition provided by law or no longer meet the suitability requirements according to the applicable regulations;
(c) when they are indicted for an allegedly criminal act or are subject to a disciplinary proceeding for serious or very serious fault instructed by the supervisory authorities;
(d) when their remaining on the Board, they may place at risk the Company's interest, or when the reasons for which they were appointed cease to exist. In particular, in the case of external proprietary Directors, when the shareholder they represent transfers its stake in its entirety. They must also do so when the said shareholder lowers its shareholding to a level which requires the reduction of the number of proprietary Directors;
(e) when significant changes in their professional status or in the conditions under which they were appointed Director take place; and
(f) when due to facts attributable to the Director, his remaining on the Board could cause serious damage to the corporate net worth or reputation in the judgement of the Board.

In the event that a natural person representative of a Director who is a legal person falls under any of the situations foreseen in the previous section, the natural person representative should offer their post to the legal person appointing them. If this latter decides to maintain the representative to exercise its position of Director, the Director who is a legal entity must offer its post of Director to the Board of Directors.

C.1.22 Section revoked.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes ☐ No ☒

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements other than those relating to the Directors, to be appointed Chairman.

Yes ☐ No ☒

C.1.25 Indicate whether the Chairman has the casting vote.

Yes ☒ No ☐

Matters where the Chairman has the casting vote
Articles 35. (v) and 17.4 of the Bylaws and of the Regulations of the Board stipulate that the Chairman shall have a casting vote in case of a tie in meetings of the Board of Directors over which he presides.

C.1.26 Indicate whether the Bylaws or the Board Regulations set any age limit for Directors.

Yes ☐ No ☒

C.1.27 Indicate whether the Bylaws or the Board Regulations set a limited term of office for independent Directors.

Yes ☐ No ☒

C.1.28 Indicate whether the Bylaws or Board Regulations stipulate specific rules on appointing a proxy to the Board, the procedures thereof and, in particular, the maximum number of proxy appointments a Director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

Article 17 of the Regulations of the Board of Directors states that Directors should attend Board meetings in person. However, when they are unable to do so in person, they shall endeavour to grant their proxy in writing, on a special basis for each meeting, to another Board member, including the appropriate instructions therein. Non-executive Directors can only grant their proxy to another non-executive Director, while independent Directors may only delegate to another independent Director.

Likewise, the internal regulations stipulate that the proxy shall be granted by any postal, electronic means or by fax, provided that the identity of the Director is assured.

Notwithstanding the above, so that the proxyholder can respond to the outcome of the debate by the Board, proxies, when they are granted, always in accordance with the legal conditions, are not usually granted with specific instructions. This is in keeping with the law on the powers of the Chairman of Board, who is given, among others, the responsibility of encouraging a good level of debate and the active involvement of all Directors during the meetings, safeguarding their rights to adopt positions.

C.1.29 Indicate the number of Board meetings held during the year and how many times the Board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of Board meetings	17
Number of Board meetings held without the Chairman's attendance	0

If the Chairman is an executive Director, indicate the number of meetings held without an executive Director present or represented and chaired by the lead Director

Number of meetings	0

Indicate the number of meetings of the various Board committees held during the year.

Committee	No. meetings
AUDIT AND CONTROL COMMITTEE	15
APPOINTMENTS COMMITTEE	14

Committee	No. meetings
REMUNERATION COMMITTEE	7
RISKS COMMITTEE	16
EXECUTIVE COMMITTEE	22

C.1.30 Indicate the number of Board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings with all members present	6
% of attendances of the total votes cast during the year	93.71%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board are certified previously.

Yes ☐ No ☒

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the Board.

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

The Audit and Control Committee is responsible for ensuring that the financial information is correctly drawn up in addition to other functions it has the following in order to avoid a qualified audit report:

* to serve as a channel of communication between the Board of Directors and the auditors, to evaluate the results of each audit and the responses of the management team to its recommendations and to mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable to the preparation of the financial statements, as well as to examine the circumstances which, as the case may be, motivated the resignation of the auditor;

* to establish appropriate relationships with the auditor in order to receive information, for examination by the Audit and Control Committee, on matters which may jeopardize the independence of said auditor and any other matters relating to the audit process and any other communications provided for in audit legislation and audit regulations.

* to supervise the compliance with the auditing contract, striving to ensure that the opinion of the Annual Financial Statements and the principal contents of the auditor's report are drafted clearly and precisely;

* to review the Company's accounts and previously report to the Board of Directors about the periodic financial information which the Company must periodically publish to the markets and their supervisory bodies and, in general, to monitor compliance with legal requisites on this subject matter and the correct application of generally accepted accounting principles, as well as to report on proposals for modification of accounting principles and criteria suggested by management, in order to guarantee the integrity of the accounting and financial systems, including the financial and operational control, and compliance with the applicable legislation;

C.1.33 Is the Secretary of the Board also a Director?

Yes ☐ No ☒

Complete if the Secretary is not also a Director:

Name or corporate name of Secretary	Representative
ÓSCAR CALDERÓN DE OYA	

C.1.34 Section revoked.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

As well as submitting to the Board of Directors, for submission to the Annual General Meeting, the proposals for selection, appointment, re-election and replacement of the external auditor, the Audit and Control Committee is responsible for maintaining the appropriate relations with the external auditor in order to receive information on those matters that could jeopardise their independence and any other matters related to the process of auditing the accounts. In all events, on an annual basis, the Audit and Control Committee must receive from the external auditors a declaration of their independence with regard to the Company or entities directly or indirectly related to it, in addition to information on the additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them as stipulated by auditing legislation. In addition, the Audit and Control Committee will issue annually, prior to the issuance of the audit report, a report containing an opinion on the independence of the auditor. This report must address, in all cases, the evaluation of the provision of any additional services referred to above, individually and collectively considered, different form the legal audit and related to the degree of independence or to the regulatory audit regulations.

An additional measure taken to ensure the independence of the auditor is explained in article 45.4 of the Bylaws which stipulates that the General Meeting may not dismiss the auditors until the period for which they were appointed ends, unless there is just cause. The Company has policies governing the relationship with the external auditor to guarantee compliance with applicable legislation and the independence of auditing work.

With regard to its relationship with market agents, the Company acts on the principles of transparency and non-discrimination set out in the applicable legislation and those stated in the Regulations of the Board of Directors which stipulate that the Board, through communications of material facts to the Spanish Securities Market Commission (CNMV) and the corporate website, shall inform the public immediately with regard to any material information. With regard to the Company's relationship with analysts and investment banks, the Investor Relations department shall coordinate the Company's relationship with analysts, shareholders and institutional investors and manage their requests for information in order to ensure they are treated fairly and objectively.

In this regard, and pursuant to Recommendation 4 of the Good Governance Code of Listed Companies, at its meeting on 30 July 2015 the Board of Directors, under its general powers to determine the Company's general policies and strategies, resolved to approve the Policy on information, communication and contact with shareholders, institutional investors and proxy shareholders which is available on the Company's website.

Within this Policy, and pursuant to the authority vested in the Coordinating Director appointed in 2017, he is must maintain contact, as appropriate, with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the Company's corporate governance.

Also, the powers delegated to the Board of Directors legally and through the internal regulations specifically include the duty of supervising the dissemination of information and communications relating to the Company. Therefore, the Board of Directors is responsible for managing and supervising at the highest level the information distributed to shareholders, institutional investors and the markets in general. Consequently, the Board of Directors, through the corresponding bodies and departments, works to ensure, protect and facilitate the exercising of the rights of the shareholders, institutional investors and the markets in general in the defence of the corporate interest, in compliance with the following principles:

Transparency, equality and non-discrimination, continuous information, affinity with public interest, being at the cutting edge in the use of new technologies and compliance with the Law and CaixaBank's internal regulations.

These principles are applicable to all information disclosed and the Company's communications with shareholders, institutional investors and relations with markets and other stakeholders such as, inter alia, intermediary financial institutions, management companies and depositories of the Company's shares, financial analysts, regulatory and supervisory bodies, proxy advisors, information agencies and credit rating agencies.

The Company pays particular heed to the rules governing the processing of insider information and relevant information contained in the applicable legislation and the Company's regulations on shareholder relations and communications with securities markets contained in CaixaBank's Code of Business Conduct and Ethics, and the Internal Code of Conduct on Matters Relating to the Stock Market of CaixaBank, S.A. and the Regulations of the Board of Directors (these are also available on the Company's website).

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes ☐ No ☒

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of the fees invoiced to the company and/or its group.

Yes ☒ No ☐

	Company	Group	Total
Amount of non-audit work (thousands of euros)	1,389	824	2,213
Amount of non-audit work as a % of the total amount billed by the audit firm	23.79%	15.87%	20.06%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes ☐ No ☒

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	18	18
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	100.00%	100.00%

C.1.40 Indicate and give details of any procedures through which Directors may receive external advice.

Yes ☒ No ☐

Procedures
Article 23 of the Regulations of the Board of Directors expressly states that to receive assistance in fulfilling their duties, non-executive Directors may request that legal, accounting or financial advisors or other experts be hired, at the expense of the Company. The decision to contract must be notified to the Chairman of the Company, if they hold executive status, and, otherwise, to the Chief Executive Officer, and may be vetoed by the Board of Directors, provided that it demonstrates that: * it is not necessary for the proper performance of the duties entrusted to the other non-executive Directors; * the cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company; * the technical assistance being obtained may be adequately dispensed by experts and technical staff of the Company; or * it may entail a risk to the confidentiality of the information that must be handled.

C.1.41 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies.

Yes [x] No [ ]

Procedures
Pursuant to article 22 of the Regulations of the Board of Directors, when carrying out their duties, Directors have the duty to demand and the right to obtain from the company any information they need to discharge their responsibilities. For such purpose, they may request information on any aspect of the Company and examine its books, records, documents and further documentation. The right to information extends to investee companies provided that this is possible. Requests for information must be directed to the Chairman of the Board of Directors, if they hold executive status, and otherwise to the Chief Executive Officer, who will forward the request to the appropriate party in the Company. If they deem that the information is confidential, they will notify the Director of this as well as their duty of confidentiality. Notwithstanding the above, documents must be approved by the Board. In particular, documents that cannot be fully analysed and discussed during the meeting due to their size are sent out to Board members prior to the Board meeting in question.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging Directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes [x] No [ ]

Details of rules
In addition to that set out in section C.1.21 above, article 21 of the Regulations of the Board stipulates that Directors must place their position at the disposal of the Board of Directors and formalise, if the latter deems appropriate, the pertinent resignation when due to facts attributable to the Director, their remaining on the Board could cause serious damage to the corporate net worth or reputation in the judgement of the Board.

C.1.43 Indicate whether any Director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.

Yes [ ] No [x]

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office or, if applicable, detail the actions taken or to be taken by the Board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Not applicable.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries: 30

Type of beneficiary:

Managing Director and 2 Management Committee members, 6 executives// 21 middle managers

Description of resolution:

Chief Executive Officer: One year of the fixed components of his remuneration.

2 members of the Management Committee: up to 0.8 annual payments of the fixed components of their remuneration above that provided for at law.

Further, the executive directors and members of the Management Committee are entitled to one annual payment of their fixed remuneration, paid in monthly instalments, as consideration for their non-compete undertaking. This payment would be discontinued if this covenant were to be breached.

27 executives and middle managers: between 0.1 and 2 annual payments of their fixed remuneration above that provided for at law.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	Yes	No

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		X

C.2 Board committees

C.2.1. Give details of all the board committees, their members and the proportion of proprietary and independent Directors.

AUDIT AND CONTROL COMMITTEE

Name	Position	Category
ALAIN MINC	CHAIRMAN	Independent
KORO USARRAGA UNSAÍN	MEMBER	Independent
JOSÉ SERNA MASIÁ	MEMBER	Proprietary

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

Identify the Director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been Chairman.

Name of Director with experience	ALAIN MINC
Number of years as Chairman	2

APPOINTMENTS COMMITTEE

Name	Position	Category
ANTONIO SÁINZ DE VICUÑA Y BARROSO	CHAIRMAN	Independent
MARÍA TERESA BASSONS BONCOMPTE	MEMBER	Proprietary
MARÍA AMPARO MORALEDA MARTÍNEZ	MEMBER	Independent

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

REMUNERATION COMMITTEE

Name	Position	Category
MARÍA AMPARO MORALEDA MARTÍNEZ	CHAIRMAN	Independent
ALAIN MINC	MEMBER	Independent
MARÍA TERESA BASSONS BONCOMPTE	MEMBER	Proprietary

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

RISKS COMMITTEE

Name	Position	Category
ANTONIO SÁINZ DE VICUÑA Y BARROSO	CHAIRMAN	Independent
JAVIER IBARZ ALEGRÍA	MEMBER	Proprietary
MARÍA AMPARO MORALEDA MARTÍNEZ	MEMBER	Independent
JUAN ROSELL LASTORTRAS	MEMBER	Independent

% of proprietary Directors	25.00%
% of independent Directors	75.00%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

EXECUTIVE COMMITTEE

Name	Position	Category
JORDI GUAL SOLÉ	CHAIRMAN	Proprietary
ANTONIO MASSANELL LAVILLA	MEMBER	Executive
GONZALO GORTÁZAR ROTAECHE	MEMBER	Executive
MARÍA VERÓNICA FISAS VERGÉS	MEMBER	Independent
JAVIER IBARZ ALEGRÍA	MEMBER	Proprietary
MARÍA AMPARO MORALEDA MARTÍNEZ	MEMBER	Independent
ANTONIO SÁINZ DE VICUÑA Y BARROSO	MEMBER	Independent
FRANCESC XAVIER VIVES TORRENTS	MEMBER	Independent

% of executive Directors	25.00%
% of proprietary Directors	25.00%
% of independent Directors	50.00%
% of other external Directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of Directors.

Yes [x] No [ ]

C.2.2 Complete the following table on the number of female Directors on the various board committees over the past four years.

	Number of women Directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND CONTROL COMMITTEE	1	33.33%	1	33.33%	0	0.00%	0	0.00%
APPOINTMENTS COMMITTEE	2	66.67%	2	66.67%	2	66.67%	2	66.67%
REMUNERATION COMMITTEE	2	66.67%	1	33.33%	1	33.33%	1	25.00%
RISKS COMMITTEE	1	25.00%	1	25.00%	1	20.00%	1	20.00%
EXECUTIVE COMMITTEE	2	25.00%	1	14.29%	2	25.00%	2	25.00%

C.2.3 Section revoked

C.2.4 Section revoked.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

EXECUTIVE COMMITTEE

Brief description

There are no specific regulations for the Board committees. The Executive Committee is governed by the applicable legislation, the company's Bylaws and the Regulations of the Board of Directors. Aspects not specifically defined for the Executive Committee are governed by the rules of procedure of the Board set forth in the Regulations of the Board of Directors which is available on CaixaBank's website (www.caixabank.com).
There is no express mention in the Company's Bylaws that the Committee must prepare an activities report. Nevertheless, at its meeting on 8 February 2018 the Committee approved its annual activities report which includes the main aspects of its regulation as described in the various corporate documents. It also evaluates the committee's performance during 2017.

AUDIT AND CONTROL COMMITTEE

Brief description
There are no specific regulations for the Board committees. The organisation and functions of the Audit and Control Committee are set out in the Regulations of the Board of Directors which is available on CaixaBank's corporate website (www.caixabank.com) together with its structure and composition.
In compliance with article 14.3 (v) of the Regulations of the Board of Directors, at its meeting on 8 February 2018, the Audit and Control Committee approved its annual activities report which includes the main aspects of its regulation as described in the various corporate documents. It also evaluates the committee's performance during 2017.

RISKS COMMITTEE

Brief description
There are no specific regulations for the Board committees. The organisation and functions of the Risks Committee are set out in the Regulations of the Board of Directors which is available on CaixaBank's corporate website (www.caixabank.com) together its structure and composition.

In compliance with article 14.3 (e) of the Regulations of the Board of Directors, at its meeting on 8 February 2018, the Risks Committee approved its annual activities report which includes the main aspects of its regulation as described in the various corporate documents. It also evaluates the committee's performance during 2017.

APPOINTMENTS COMMITTEE

Brief description
There are no specific regulations for the Board committees. The organisation and functions of the Appointments Committee are set out in the Regulations of the Board of Directors which is available on CaixaBank's corporate website (www.caixabank.com) together its structure and composition.

In compliance with prevailing legislation, at its meeting on 31 January 2018, the Appointments Committee approved its annual activities report detailing its performance during 2017.

REMUNERATION COMMITTEE

Brief description
There are no specific regulations for the Board committees. The organisation and functions of the Remuneration Committee are set out in the Regulations of the Board of Directors which is available on CaixaBank's corporate website (www.caixabank.com) together its structure and composition.

In compliance with prevailing legislation, at its meeting on 16 February 2018, the Appointments Committee approved its annual activities report detailing its performance during 2017.

C.2.6 Section revoked.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

Procedures for approving related party transactions

The Board of Directors, as a plenary body, shall approve, subject to a report from the Audit and Control Committee of the operations that the Company or companies of its group perform with Directors, in terms established by Law, or when the authorisation corresponds to the Board of Directors, with shareholders holding (individually or in concert with others) a significant stake, including shareholders represented in the Board of Directors of the Company or of other companies forming part of the same group or with persons related to them (Related Party Transactions). The operations that simultaneously meet the following three characteristics will be exempt from the need for this approval:
a. they are governed by standard-form agreements applied on an across-the-board basis a large amount of clients;
b. they go through at market prices, generally set by the person supplying the goods or services;
c. their amount is no more than 1% of the company's annual income.

Therefore, the Board of Directors or, in its absence other duly authorised bodies or persons (for reasons of urgency, duly justified and in the scope of the authorisation conferred. In these cases the decision must then be ratified at the first Board meeting held following its approval) shall approve related-party transactions subject to a favourable report from the Audit and Control Committee. Any Directors affected by the approval of these transactions shall abstain from the debate and voting on the transactions.

With regard to relations with significant shareholders with an interest of more than 30%, as explained in Note A.7 of section H.1 of this Report, Law 26/2013 on savings banks and banking foundations obligate banking foundations to approve basic criteria for managing the financial interest that must, inter alia, refer to general criteria for carrying out operations between the foundation and the investee credit institution, and mechanisms to avoid potential conflicts of interest. Accordingly, the "la Caixa" Banking Foundation approved its Protocol for managing its ownership interest in CaixaBank. On 19 December 2016, in accordance with the Protocol for Managing the Ownership Interest, "la Caixa", as the parent of "la Caixa" Group, CriteriaCaixa, as direct shareholder of CaixaBank, and Caixabank, as a listed company, signed a new Internal Relations Protocol (available on the corporate website). This sets, inter alia, the general criteria to carry out transactions or provide services under market conditions, as well as identifying the services that ”la Caixa” Banking Foundation Group companies provide and will provide to the CaixaBank Group companies and those which the CaixaBank Group companies provide or will provide in turn to the ”la Caixa” Banking Foundation Group companies. The Protocol establishes the circumstances and terms for approving transactions. In general the Board of Directors is the competent body for approving these transactions. In specific circumstances described in Clause 3.3 of the Protocol, certain intragroup operations shall be subject to prior approval of the CaixaBank Board of Directors, which must first have received a report from the Audit Committee and the same, with regard to the other signatories of the Protocol.

Intragroup transactions are regulated by the Internal Relations Protocol between the CaixBank and Banco BPI. This sets, inter alia, the general criteria to carry out transactions or provide intragroup services under market conditions, as well as identifying the services which CaixaBank Group companies provide and may provide to BPI Group companies and those which BPI Group companies provide or may provide, in turn, to CaixaBank Group companies. The Protocol establishes the circumstances and terms for approving intragroup transactions. In general the Board of Directors is the competent body for approving these operations.

It should be noted that certain intragroup operations described in Clause 3.3, given their importance, shall be subject to prior approval of the CaixaBank Board of Directors which must be in possession of a prior report from the Audit and Control Committee and also of the Banco BPI, in which case, the Board of Directors must be in possession of a report from its Tax Board.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)
CRITERIA CAIXA, S.A.U.	CAIXABANK, S.A.	Corporate	Dividends and other profit distributed	311,100
CRITERIA CAIXA, S.A.U.	CAIXABANK, S.A.	Commercial	Other instruments that could imply a transfer of resources of or obligations between the Company and the related party	1,100,000

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or Directors.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

D.5 Indicate the amount from other related party transactions.

0 (thousands of euros)

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, management or significant shareholders.

Directors and Executives

Article 29 of the Regulations of the Board of Directors regulates the duty not to compete of company Directors. This non-competition prohibition can only be lifted if the Company is not expected to incur damages or it is expected that it will be indemnified for an amount equal to the benefits expected to be obtained from the exemption. The obligation to abide by the conditions and guarantees provided by the dispensation agreement and, in any case, the obligation to abstain from participating in the deliberations and voting in which there is a conflict of interest shall be applicable to the Director who has obtained the dispensation, all of this in accordance with the provisions of current legislation.

Pursuant to article 30 of the Regulations, Directors shall avoid situations which may imply a conflict of interest between the Company and themselves or persons related thereto, taking for these purposes any measures that may be necessary. In all cases, Directors must inform the Board of Directors of the situations of direct or indirect conflict that they or persons related thereto may have with the interests of the Company and these shall be disclosed in the notes to the financial statements.

Further, article 3 of the Code of Conduct on Matters relating to the Securities Market of CaixaBank stipulates that Concerned Persons shall include members of the Board of Directors, and senior executives and members of the Company's Management Committee. Section VII of the Regulation establishes the Policy on Conflicts of Interest of the Company, and article 43 lists the duties regarding personal or family-related conflicts of interest of Concerned Persons. These include acting with loyalty to CaixaBank, its shareholders and customers, abstaining from participating in or influencing the decisions that may affect the persons or entities with whom such conflict exists and informing the Monitoring Committee of the same.

Significant shareholders

In order to strengthen the transparency and good governance of the Company, and in accordance with the provisions of the Protocol for Managing the Financial Investment, "la Caixa" Banking Foundation, as parent of the "la Caixa" Group and CriteriaCaixa, as direct shareholder in CaixaBank, and CaixaBank, as a listed company, signed an Internal Relations Protocol that is available on the Company's corporate website, as explained in Note A.7 of section H.1 of this Report.

The Protocol currently in force aims mainly: manage the related-party transactions deriving from carrying out transactions or providing services; establish mechanisms that try to avoid the emergence of conflicts of interest; anticipate the granting of a pre-emptive acquisition right in favour of "la Caixa" Banking Foundation in the event of a transfer by CaixaBank of Monte de Piedad, of which it is the owner; establish the basic principles of a possible collaboration between CaixaBank and "la Caixa" Banking Foundation in matters of CSR; regulate the suitable flow of information which allows "la Caixa" Banking Foundation, Criteria and CaixaBank to prepare their financial statements and to comply with periodic reporting and supervisory duties. The Protocol lays down the procedures to be followed by CaixaBank and "la Caixa" Banking Foundation with regard to, inter alia, conflicts of interest, their relationship with core shareholders, related party transactions and the use of privileged information, pursuant to prevailing legislation at all times.

D.7 Is more than one group company listed in Spain?

Yes [x] No [ ]

Identify the listed subsidiaries in Spain

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including for fiscal risks.

The Company hereby states that of the descriptions contained in CNMV Circular 7/2015, of 22 December, regarding the scope of entities' risk management systems, that which best describes the Company's is number 1, namely:
“The Risk Management System functions in an integrated and continuous manner, with each area, business unit, activity, subsidiary, geographical area and support area (for example human resources, marketing or management control) managing risk at a corporate level.”

In other words, risk control is fully integrated into the business and the organisation plays a proactive role in ensuring that it is implemented. The Board of Directors determines the risk control and management policies and strategies. To this end it is advised by the Risks Committee, which also regularly reviews the policy in depth.

Senior management participates directly in maintaining the internal control framework, ensuring that it is executed prudently, and in the ongoing management and planning of capital to guarantee that the level of capital available is in keeping with the Entity’s risk level. The Risk Management System is comprehensive and integrated, and is adapted and streamlined for application at subsidiaries and business units, while adhering to materiality and reasonableness criteria.

The Risk Management System itself comprises the following elements:

• Governance and organisation: The governing bodies are the Annual General Meeting and the Board of Directors, which have the powers that, respectively, are assigned to them under the Law and in the Bylaws, and in accordance with them, in those developments established in the Regulations of each body. As a result, the Company is managed and run by its Board of Directors: this is the representative and senior decision-making body, except in those matters that are the jurisdiction of the Annual General Meeting.

• Risk Assessment: CaixaBank Group conducts a six-monthly risk self-assessment, covering all risks included in the Risks Catalogue. This includes a process for identifying emerging risks that may be incorporated within the catalogue

• Risk catalogue: CaixaBank Group has a Corporate Risk Catalogue, updated in December 2017, to support internal and external monitoring and reporting of the Group’s risks, grouped into three main categories: Business Model Risks, Specific risks for the Bank's financial activity, and Operational and Reputational Risk, which includes risks of a fiscal nature. (further information is provided in section E.3).

• Risk Appetite Framework (RAF): A comprehensive and forward-looking tool used by the CaixaBank Group’s Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic objectives for all risks included in the Catalogue.

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

• Risk culture in organisation: It is constantly evolving. It is articulated around general risk management, as well as other drivers, such as:

(i) training, exemplified by the so-called Corporate Risk School, where training is identified as a strategic tool designed to provide support to business areas in matters pertaining to risk, while simultaneously being the channel to convey the Group's risk culture and policies, and allowing staff to act accordingly, while also providing training, information and tools to all personnel

(iii) information: publication of the main principles of risk management, standards, circulars and manuals, which are reported during monthly meetings held by the CEO and senior management with the directors of the branch network and Central Services. – and

(iii) incentives: at present this applies to the variable remuneration of certain managers annual linked to compliance with the Risk Appetite Framework.

CONTINUES IN SECTION H

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

The governing bodies are the Annual General Meeting, as the representative body and the Board of Directors, which is, except for matters within the powers of the Annual General Meeting, the bank's senior decision-making body. As part of its responsibilities, the Board of Directors sets and monitors the business model and strategy, monitors the result of the risk assessment process, establishes the Corporate Risk Map and the Risk Appetite Framework and is in charge of internal governance policies and risk management and control, supervising the organisation of the Entity to implement and monitor these.

The Board of Directors has created several committee, including the Risks Committee, whose functions are described below.

Risks Committee

The Risks Committee comprises exclusively non-executive Directors who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity, where a majority must be independent Directors.

The main functions of this committee are:

• Advise the Board of Directors on the Bank’s overall susceptibility to risk, current and future, and its strategy in this area, reporting on the Risk Appetite Framework.
• Propose the Group’s risk policy to the Board, including the different types of risk to which the Entity is exposed, the information and internal controls systems use to control and manage these risks and the measures in place to mitigate the impact of identified risks should these materialise.
• Determine with the Board of Directors, the nature, quantity, format and frequency of the information concerning risks that the Board of Directors should receive and establish what the Committee should receive.
• Regularly reviewing exposures with its main customers and business sectors, and by geographic region and type of risk.
• Examine the information and control processes of the Group’s risk as well as the information systems and indicators.
• Evaluate regulatory compliance risk in its scope of action and decision making, carrying out monitoring and examining possible deficiencies in the principles of professional conduct.
• Report on new products and services or significant changes to existing ones.

Organisational structure

General Risks Division

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

The CRO has organised his team as follows:

• Risk Validation Model, responsible for ensuring the internal models used for internal management and/or regulatory purposes are fit for purpose.
• Individual Loan Analysis and Approval division, responsible for analysing and granting loans to individuals (retail customers and self-employed professionals, the latter not including self-employed professionals in the farming sector).
• Business Loan Analysis and Approval division, responsible for analyses and risk approvals for other business segments and specialised sectors (Companies and SMEs, Corporate, Public Sector, Sovereign, Financial Entities, Real Estate, Project Finance, Tourism and Food & Agriculture).
• Global Risk Management Committee, responsible for risk management and overseeing asset performance, and solvency and capital adequacy mechanisms;
• Foreclosure assets division, which controls and monitors property investments and divestments, and is responsible for the policies associated with property management.
• Defaults and Recoveries.

The Risks Division’s duties include identifying, measuring and integrating the different risk exposures and risk-adjusted returns of each area of business, from the global perspective of the CaixaBank Group and in accordance with its management strategy;

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

CONTINUES IN SECTION H

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

• Business model risk

• Business returns: Obtaining results lower than market expectations or the Group's targets which prevent the Entity from reaching a profitability level that is higher than the cost of capital.

• Eligible own funds/Solvency: Risk caused by a restriction of the CaixaBank Group's ability to adapt its level of capital to regulatory requirements or to a change in its risk profile.

• 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: Risk of a decrease in the value of the CaixaBank Group’s assets due to uncertainty in a counterparty’s ability to meet its obligations.

• Impairment of other assets: Reduction in the carrying amount of the shareholdings and non-financial assets (tangible, intangible, deferred tax assets (DTAs) and other assets) of the CaixaBank Group.

• Market risk: Risk of a decrease in the value of the Group’s assets held for trading or an increase in the value of its liabilities held-for-trading and in the held-to-maturity portfolio, due to fluctuations in interest rates, credit spreads, external factors or prices in the market where the assets and liabilities are traded.

• Interest rate risk in the banking book: Risk of a negative impact on the economic value of the balance sheet or results, caused by the renewal of assets and liabilities at rates different to those previously established, arising from changes in the structure of the interest rate curve.

• Actuarial risk: Risk of an increase in the value of commitments assumed through insurance contracts with customers (insurance business) and employee pension plans (pension obligations), due to differences between claims estimates and actual performance.

• Operational and reputational risk

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

• Conduct and Compliance: Risk of CaixaBank applying criteria for action contrary to the interests of its clients and stakeholders and deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory framework, or with internal codes and rules, and which could result in administrative sanctions or reputational damage.

Fiscal risk, understood as the risk of negative effects on the financial statements and/or reputation of the CaixaBank Group arising from tax decisions taken either by the bank itself or by the tax and judicial authorities, would be covered by the management and control of the legal and compliance risk.

• Technological: Losses due to hardware or software inadequacies or failures in the technical infrastructures 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 Bank's activity, due to external events beyond the Bank's control, or due to third parties outside the Bank, both accidentally and fraudulently. 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 situation of the CaixaBank Group.

Reputational risk: The possibility that CaixaBank's competitive edge could be blunted by loss of trust by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or governing bodies, or because of related unconsolidated entities becoming bankrupt (step-in risk).

In order to bolster the confidence of its customers in the Group, the CaixaBank Group has focused on solvency and quality as strategic priorities. In this regard, CaixaBank has spent the last few years strengthening the necessary internal control and compliance structures.

E.4 State whether the company has a risk tolerance level, including tax risk.

CaixaBank has established risk tolerance levels in its Risk Appetite Framework (already detailed in point E.1, as part of its Risk Management System).

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

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

• Loss buffer: CaixaBank has set an objective of maintaining a medium-low risk profile and a comfortable level of capital adequacy to strengthen its position as one of the soundest entities in the European banking market.

• Funding and liquidity: CaixaBank seeks certainty in its ability to always honour its obligations and funding needs in a timely manner, even under adverse market conditions, and aims to have a stable and diversified funding base permanently in place to protect and safeguard its depositors' interests.

• Composition of the business: CaixaBank strives to maintain its leadership position in the retail banking market and to generate income and capital in a balanced and diversified manner.

• Franchise value: CaixaBank is committed to the highest ethical and governance standards in its business conduct, encouraging sustainability and social responsibility, and ensuring operating excellence.
Similarly, there are statements regarding minimum risk appetite, including the monitoring of fiscal risk as part of legal and compliance risk.

In line with best practices in the financial sector, the Framework structure complements said statements with management indicators and levers to ensure that these practices are reflected, in a consistent, clear and efficient manner, in business and risk management. The Framework constitutes a pyramid structure that culminates in Tier 1 principles and indicators, supplemented by more detailed metrics (Tier 2). All of this is included in the day-to-day activity and employee decision-making through management mechanisms (Tier 3).

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

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

o "Green traffic light": target risk
o "Amber traffic light": early warning
o "Red traffic light": breach

There is also a "Black traffic light" for certain metrics included in the Recovery Plan. Once this is activated, certain internal communication and governance processes are triggered based on the established severity of the situations.

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

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

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

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

1. Training and communication as key vehicles through which the risk culture is instilled.

2. The methodologies used to measure risk and assets-liabilities, which are crucial to monitoring the RAF properly.

3. The definition of risk approval, management and control policies, including limits and approval powers in the different levels of the organisation and in governance.

4. The incentives and appointments, used as key tools in HR policies, which help shape staff conduct.

5. The tools and processes used to properly construct and monitor the RAF and introduce the metrics and thresholds thereof in the relevant environments.

For more information (e.g. risk assessment process) see Note 3 of the Consolidated Financial Statements of the CaixaBank Group for 2017.

E.5 Identify any risks, including fiscal, which have occurred during the year.

The main figures characterising credit risk in 2017 are:

• NPLs. At 31 December 2017 the Group's non-performing loans totalled EUR 14,305 million (6.0%). At 31 December 2016 this was EUR 14,754 million (6.9%).

• CaixaBank's NPL ratio compares very favourably with that of the resident private sector in the system total, which has gone from 9.1% (December 2016) to 8.22% (October 2017).

Property development and foreclosed assets. At 31 December 2017, the Group's gross financing of real estate development stood at EUR 7,101 million (EUR 8,024 million at 31 December 2016) and the net carrying amount of foreclosed assets was EUR 5,900 million at 31 December 2017 (EUR 6,300 million at 31 December 2016).

For the NPL coverage ratio, in 2017 the Group recognised insolvency provisions of EUR 799 million (EUR 314 in 2016), stripping out recoveries. Including these provisions, total credit loss provisions were EUR 7,135 million at the end of 2017 (EUR 6,880 at the end of 2016).

• This gave a Cost of Risk of 0.34% in 2017, vs. 0.46% in 2016 Operation of management and control systems.

Despite operating in a complex environment, the Group's ability to generate value over the long term has not been affected.

The proper functioning of the risk management and control systems during 2017 has significantly contributes to this. The Group's Board of Directors has been informed of its performance.

For further information, see Note 3 to the Consolidated Financial Statements of the CaixaBank Group for 2017.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal

Due to space limitations, see our response in "Appendix to 2017 ACGR" attached to section H.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 Entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Board of Directors of CaixaBank has formally assumed responsibility for ensuring the existence of a suitable, effective ICFR and has delegated powers to Financial Accounting, Control and Capital (FACC) to design, implement and monitor the same.

Article 40.3 of CaixaBank's Bylaws, states that the Audit and Control Committee's responsibilities shall include at least the following:

• Overseeing the effectiveness of the Company's internal control environment, internal audit and risk management systems, and discussing with auditors of accounts any significant weaknesses in the internal control system identified during the course of the audit.

• Overseeing the process for preparing and submitting regular prescriptive financial information.
In this regard, the Audit and Control Committee is charged with overseeing ICFR. Its oversight activity seeks to ensure ICFR's continued effectiveness, gathering sufficient evidence of its correct design and operation.
This assigning of responsibilities has been disseminated to the organisation in the "Internal Control over Financial Reporting" policy and the equivalent Regulation.

The ICFR Policy was approved by the Board of Directors. It describes the most general aspects of ICFR such as the financial information to be covered, the applicable internal control model, policy supervision, custody and approval, etc.

For its part, the ICFR Regulation has been approved by the Management Committee. It outlines the Internal Control over Financial Reporting Function (hereinafter, ICFR), whose responsibilities are to:

• Assesses whether the practices and processes in place at the Institution ensure the reliability of the financial information and compliance with applicable regulations.

• To assess whether the financial information reported by the various companies comprising the CaixaBank Group comply with the following principles:

i. The transactions, facts and other events presented in the financial information in fact exist and were recorded at the right time (existence and occurrence).

ii. The information includes all transactions, facts and other events in which the bank is the affected party (completeness).

iii. The transactions, facts and other events are recorded and valued in accordance with applicable standards (valuation).

iv. Transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, disclosure and comparability).

v. The financial information shows, at the corresponding date, the bank's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards (rights and obligations).

Both regulations allow for disseminating a common methodology in the Group. All CaixaBank Group entities that have an ICFR model act in a coordinated manner. Following the takeover of BPI in 2017, a project has been undertaken to standardise the methodology applied.

The Policy and the Regulation both describe the internal control model of the 3 lines of defence applicable to ICFR:

- First line of defence: This comprises the Group's business units and support areas, which are responsible for identifying, measuring, controlling, mitigating and reporting the key risks affecting the Group as it carries out its business.

- Second line of defence: This acts independently from the business units, and has the function of covering the risks from the Group's Corporate Risk Map, ensuring the existence of risk management and control policies and procedures, monitoring their application, assessing the control environment and reporting all of the Group's material risks.
It includes the ICFR Function, which focuses its actions on the "Reliability of financial information" risk.

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

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- Departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.

CaixaBank's Board of Directors has entrusted its Management Committee and Appointments Committee with reviewing and approving the organisational structure and the lines of responsibility and authority at the Entity. The area of the Organisation designs the organisational structure of CaixaBank and proposes to the bank's governing bodies any suitable changes. Then, the General Human Resources and Organisation Division proposes the people to be appointed to carry out the duties defined.

The lines of responsibility and authority for drawing up the bank's financial information are clearly defined. It also has a comprehensive plan which includes, amongst other issues, the allocation of tasks, key dates and the various revisions to be carried out by each of the hierarchical levels. Both the above-mentioned lines of authority and responsibility and planning have been duly documented and all of those people taking part in the financial reporting process have been informed of the same.

In 2017, noteworthy was the creation of the "Policy on disclosure and verification of financial information". The objectives of this Policy are as follows:

- Define the scope of information to disclose, the general policy and criteria related to control and verification of financial information.

- Provide the bank with a reference framework that allows management of the reliability risk of the financial information to be disclosed, and standardising control activities.

- Define the governance framework to be followed both for information to disclose and for verification of documentation.

Under this Policy, verification of information to be disclosed is structured around three main points:

- Suitability and quality of information. That is, when information is disclosed, it meets the specifications in current regulations with respect to criteria, content and type of information to be disclosed, and it is also subject to a control environment that can provide a reasonable degree of assurance with regard to quality.

- Compliance with the internal governance prior to disclosure of information.

- Compliance with periodicity and disclosure deadlines.

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

The CaixaBank Code of Business Conduct and Ethics, which has been approved by the Board of Directors, sets out the core ethical values and principles that guide its conduct and govern the actions of all employees, executives and members of its management bodies. The Code is available to all employees on the Company's intranet. can also be accessed by shareholders, customers, suppliers and other stakeholders under the Corporate Responsibility section of the CaixaBank website.

The ethical values and principles outlined in the Code are as follows: compliance with the law, respect, integrity, transparency, excellence, professionalism, confidentiality and social responsibility.

The Code also states that the bank undertakes to provide its customers and shareholders with accurate, truthful and understandable information on its transactions and commissions and the procedures for handling claims and resolving incidents.

CaixaBank also makes all its relevant financial and corporate information available to its shareholders, in line with prevailing legislation.

All new employees must adhere to the Code.

The Queries and Complaints Committee, which includes Compliance, General Council, Legal and Human Resources, is responsible for analysing any breaches or proposing corrective measures and penalties.

Likewise, due to prevailing legislation and self-regulatory agreements proposed by Management and the Governing Bodies, there are other codes regulating the conduct of employees in specific areas. These are:

Internal Code of Conduct on Matters Relating to the Stock Market (IRC)
Approved by the Board of Directors, its objective is to adapt the procedures of CaixaBank and CaixaBank Group companies (and of its administrative and management bodies, employees and agents) that are applicable to them in the exercise of activities in relation to the securities market, in relation to which rules of conduct are set out in Regulation (EU) No 596/2014 of the European Parliament and Spain's Securities Market Law and implementation standards.

The overall purpose is to promote transparency in markets and to protect, at all times, the legitimate interests of investors.

The Code is available to all employees on the Control & Compliance portal of the corporate intranet, and all covered persons must declare that they are cognisant of it. Other stakeholders may also access it on the CaixaBank website.

The IRC Committee shall be responsible for analysis of any breaches and proposal of corrective measures or corresponding disciplinary action. Likewise, any queries regarding the content of the IRC can be forwarded to the IRC Committee Secretary or the Corporate Regulatory Compliance Division, depending on the issue.

II. Telematic Code of Conduct

It has been approved by the Management Committee and implements the conduct and best practices associated with access to the Entity's data and information systems.

It applies to all CaixaBank employees and is disseminated internally on the Control & Compliance portal on the intranet.

All new employees must adhere to the Telematic Code of Conduct and all new versions of the same are announced on the intranet.
The Consulting and Whistle-blowing Committee is charged with analysing any breaches and imposing corresponding corrective measures or sanctions.

Finally, we would note that there is an Internal Confidential Consulting Channel where employees can send any queries regarding the interpretation and application of the Code of Ethics and the Telematic Code of Conduct. The channel is available to all employees on the intranet. Queries are handled by management

Corporate Regulatory Compliance except for those regarding the Telematic Code of Conduct which are handled by the IT Security Area.

As we have already mentioned, all queries regarding the Code of Conduct can be sent to the IRC Committee or the Corporate Regulatory Compliance Division, depending on the subject.

All of these issues have been included in the bank's Training Regulations and courses must be taken by all employees. At the end of each course all participants must pass a test to receive formal validation.

The Entity currently offers the following courses:

- The Code of Ethics, which also addresses the Confidential Consulting and Whistle-blowing Channels. This is a 90-minute e-learning course.
Information Security training provides knowledge on the protection measures and criteria to be adopted concerning information. The course also included the guidelines of the Telematic Code of Conduct. This is a 120-minute e-learning course.
- The bank also has two e-learning courses available on the Internal Code of Conduct (IRC) of approximately two hours each:

o one for all covered persons; and
o Another for all employees which focuses on identifying and notifying any suspicious transactions, conflicts of interest and employees' general obligations regarding insider information.

In 2017 all new employees were required to take Courses on the Code of Ethics and on IRC. New employees are always required to take these courses of regulatory training.

• Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

All notifications about possible breaches of the Code of Ethics or the Code of Conduct, as well as reports of potential irregularities regarding financial and accounting information must be sent to the Corporate Regulatory Compliance Division via the Confidential Consulting and Whistle-blowing Channel set up by CaixaBank and available to all employees on the intranet. This corporate division is responsible for its management while the above-mentioned Whistle-blowing Channel Committee is responsible for resolving complaints. It is also responsible for notifying the Audit and Control Committee of any complaints regarding, among other, financial and accounting information pursuant to the ICFR guidelines.

This internal channel is exclusively for employees and can be accessed via various links on the intranet. All reports must be individual and confidential. The whistle-blower is only identified to the business areas involved in the investigation if it is absolutely necessary and only with the employee's consent. This also guarantees the employee's indemnity except in cases of malicious reporting or their participation in the reported events.

We would note that in 2017 the Entity offered training on this channel and its use (see previous section).

• Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Entity and its subsidiaries strive to offer an ongoing accounting and financial training plan which is adapted to the requirements inherent in the jobs and responsibilities of personnel involved in preparing and reviewing financial information.

In 2017, training courses focused on the following areas:

- Accounting
- Audit
- Internal Control
- Legal/Tax
- Risk management
- Regulatory Compliance
- Risks

The various courses were aimed mainly at personnel in Financial Accounting, Control and Capital (FACC), the Deputy General Audit and Control Division, Defaults and Recoveries and Risks, as well as members of the bank's Senior Management. An estimated 3,000 hours of this type of training were provided.

In the last quarter of 2017 the entity relaunched an online course on ICFR aimed at 66 employees from Accounts and audit inspection, Corporate Information and Control of Investees, Planning and Capital and Risks. This is in addition to the 51 employees who took the course in 2016, the 81 people in 2015, 64 in 2014 and 236 people in 2013.

This two-hour long course is intended to raise awareness amongst all employees either directly or indirectly involved in preparing financial information of the importance of establishing mechanisms which guarantee the reliability of the same, as well as their duty to ensure compliance with applicable regulations. The first section covers ICFR standards, with particular reference to the CNMV's guidelines issued in June 2010, while

the second covers the methodology established at the CaixaBank Group to ensure compliance with all prevailing ICFR regulatory requirements.

Financial Accounting, Control and Capital (FACC) also subscribes to various national and international accounting and financial publications, journals and websites. These are checked regularly to ensure that the entity takes into account any developments when preparing financial information.

One of the key features of CaixaBank's Strategic Plan for 2015-2018 is "to be leaders in service quality and have the best trained and dynamic team and develop the professional skills of all Branch and Central Services employees".

In 2015 the entity set up the Risks School in collaboration with the Instituto de Estudios Bursátiles (IEB), Pompeu Fabra University (UPF) and the Open University of Catalonia (UOC). The main purpose of this initiative is to support the training of critical professional skills and promote a decentralised management model so that employees increasingly have the necessary skills to approve lending transactions.

The Risks School has four different levels and training is adapted to the various profiles of CaixaBank employees according to their professional functions and requirements. It offers virtual content on the Virtaula corporate platform which is complemented with classroom-based sessions with internal training staff. The training is accredited by external experts from UPF.

In 2017, 925 employees from various levels were accredited and a further 2,614 are currently receiving training. Over the coming years it is expected that all CaixaBank employees will receive training in the four levels offered by the Risks School.

Another important initiative is CaixaBank's agreement with the UPF Barcelona School of Management and the CISI (Chartered Institute for Securities & Investment) whereby both institutions certify the training taken by the bank's employees with a single demanding exam, in accordance with European regulations on specialist training for bank employees. This training initiative is aimed at branch managers and Premier Banking managers as well as CaixaBank Private banking advisers, directors and centre managers and so that they are able to offer customers the best possible service. With this, CaixaBank is anticipating the prevailing EU regulations and is also the first Spanish financial institution to certify employee training with a post-graduate university diploma in Financial Advice and a prestigious international financial sector certificate. In 2017, 1,084 employees (branch managers, Premier banking managers and Private banking staff) took exams to be awarded the post-graduate Financial Advisory diploma and the international CISI certificate. They join the over 7,000 CaixaBank employees who already hold these qualifications. A further 1,400 employees are currently enrolled.

In 2016, the Group signed an agreement with the UPF Barcelona School of Management to accredit employees with the Post-graduate course in Financial Information and Advice. This is a shorter course but still meets the advisory requirements of MiFID II and will be offered to Assistant Commercial Managers, in addition to employees of the Business Banking segment. A total of 3,516 employees participated in the first three editions, which ended in October and November 2017. Currently, 1,400 employees are taking new editions that will end in 2018.

As in 2016, professional development programmes and courses for the various business areas were drawn up in accordance with the profiles and skills of potential participants and the objectives set.

In 2017, specific training was also provided to executives in the Rethink management development programme, with a general refocusing of these development programmes in three areas: C1 programme for junior executives and C2 programme for senior executives, with broader scope and greater dedication, and programmes focused on strengthening specific skills. Talent identification and management programmes were also available.

In 2017, there were 24 training sessions lasting 2 hours each, for Directors and members of the various governing bodies which provided specific training related to the main developments and subject areas necessary for the optimal performance of their duties. These sessions were arranged according to each Director's profile and the most suitable training recommended for each by their Supervisor. Particular emphasis was given to new appointments.

In addition, occasional joint training sessions have been held with members of the Audit and Control Committee and the Risks Committee on subjects of special interest to them. Notable, in this case, is the training provided on the content and impacts of the new IFRS 9, which was given subsequently to the other members of the Board of Directors.

The Entity gave classroom-based and online training to its staff. Among the subjects covered were accounting and auditing principles, as well as internal control and risk management. CaixaBank is strongly committed to transversal e-learning via its Virtaula platform where employees can share knowledge.

In addition, Financial Accounting, Control and Capital (FACC), the main area involved in the elaboration and preparation of financial information, during the year provided training and classroom workshops on different topics that are relevant to the performance of their duties, mainly related to developments in accounting standards (IFRS 9, IFRS 16, etc.) and internal training sessions for sharing knowledge between different management teams. The sessions, numbering more than ten, were prepared and given by CaixaBank specialists in this function, and there were a large number of participants.

F.2 Risk assessment in financial reporting.

Report, at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

The process exists and is documented.

CaixaBank's risk identification process is as follows:

1. Determining the scope, including the selection of the financial information, relevant headings and Entities of the Group generating it, using quantitative and qualitative criteria. In 2017, this exercise was carried out at the beginning of the year using data at 31 December 2016 and revised in the second half using data at 30 June 2017.

2. Identification of the Group's material processes which are involved, either directly or indirectly, in preparing financial information.

3. Updating the reliability risk map of the financial information, identifying those risks which mitigate each process.

4. Documentation of existing controls to mitigate critical risks identified.

5. Classification and assessment of risks and controls. Assesses the criticality of risks and controls in order to identify the coverage of ICFR.

6. Continual assessment of the efficiency of ICFR. Issuing of reports.

As indicated in the regulations which govern Internal Control over Financial Reporting, CaixaBank has a methodology to identify processes, relevant areas and risks associated with financial reporting, including risks of error or fraud.

The regulations provide the methodology to identify the key areas and significant processes associated with the financial information relating to the identification of risks, based on:

- establishing specific guidelines for responsibilities and implementation and updating; and

- establishing the criteria to be followed and information sources to be used in the identification process,

- establishing criteria to be followed to identify the relevant subsidiaries with regard to ICFR.

The ICFR Function periodically, at least once a year, reviews all the risks within the ICFR scope and all control activities designed to mitigate these. This process is carried out in conjunction with all the areas involved. However, if, during the course of the year, unidentified circumstances arise that could affect the preparation of financial information, the ICFR function must evaluate the existence of risks in addition to those already identified.

In any case, risks will refer to possible errors (intentional or otherwise) in relation to the financial information objectives: (i) existence and occurrence; (ii) completeness; (iii) valuation; (iv) presentation, disclosure and comparability; and (v) rights and obligations.

The risk identification process takes into account both routine transactions and less frequent transactions which are potentially more complex, as well as the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.).

The entity also has an analysis procedure in place implemented by the various business areas involved in corporate transactions and non-recurring or special transactions, with all accounting and financial impacts being studied and duly reported.

The consolidation perimeter is also assessed on a monthly basis by the Consolidation function which is part of Accounts and Audit Inspection.

The impact of risks on the reliability of the reporting of financial information is analysed in each of the processes entailed in its preparation. The governing and management bodies receive periodic information on the main risks inherent in the financial information, while the Audit and Control Committee monitors the generation, development and review of the financial information via the Internal Audit function and the opinion of both External Audit and Supervisory Bodies.

• The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

See the explanation in the first section.

• A specific process is in place to define the consolidation perimeter, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.

See the explanation in the first section.

• The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

See the explanation in the first section.

• Finally, which of the entity's governing bodies is responsible for overseeing the process.

See the explanation in the first section.

F.3. Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Financial Accounting, Control and Capital is responsible for preparing and reviewing all financial information. It demands that the various Business Areas and Group companies collaborate in ensuring that the financial information submitted is sufficiently detailed.

Financial information is the cornerstone of the control and decision-making process of the bank's senior governing bodies and Management.

The preparation and review of all financial information hinge on suitable human and technical resources which enable the bank to disclose accurate, truthful and understandable information on its transactions in compliance with applicable standards.

In particular, the professional experience of the personnel involved in reviewing and authorising the financial information is of a suitable standard and all are appointed in light of their knowledge and experience in accounting, audit and/or risk management. Likewise, by establishing control mechanisms, the technical measures and IT systems ensure that the financial information is reliable and complete. Also, the financial information is monitored by the various hierarchical levels within Financial Accounting, Control and Capital (FACC) and, where applicable, double checked with other business areas. Finally, the key financial information disclosed to the market is examined and, if applicable, approved by the highest-ranking governing bodies (the Board of Directors and the Audit and Control Committee) and the bank's management.

With regard to activities and control procedures directly related to transactions which may have a material impact on the financial statements, the Entity has in place a process whereby it constantly revises all documentation concerning the activities carried out, any risks inherent in reporting the financial information and the controls needed to mitigate critical risks. This ensures that all documentation is complete and up-to-date.

The documentation of the critical processes and control activities for financial reporting contains the following information:

- Processes and associated sub-processes.

- A description of the financial information risks along with the financial assertions and the possibility of the risk of fraud. In this regard, we would note that the risks are classified into risk category and risk models which comprise the bank's Corporate Risk Map which is managed by the Executive Global Risk Management Division.

- Control activities carried out to mitigate the risk along with their characteristics: or

o Classification - Key / Standard
o Purpose – Preventive / Detective / Corrective
o Automation – Manual / Automatic / Semiautomatic
o Frequency - How often the control is executed
o Evidence – Evidence/proof that the control is working correctly
o COSO Component – Type of control activity, according to COSO classification (Committee of Sponsoring Organizations of the Treadway Commission)
o System – IT applications or programmes used in the control activity
o Control executor – Person responsible for implementing the control
o Person responsible for the control – Person who ensures the control is executed correctly

All activities and controls are designed to guarantee that all transactions carried out are correctly recorded, valued, presented and itemised.

CaixaBank has an upward internal key control certification process to ensure the reliability of financial information disclosed to the markets. The persons responsible for each of the controls identified shall submit attestations guaranteeing their efficient execution during the period in question. The process is carried out quarterly although there are also ad-hoc attestations where controls of financial reporting are carried out during different periods.

The Head of Financial Accounting, Control and Capital informs the Management Committee and the Audit and Control Committee of the outcome of this attestation process as well as the Board of Directors.
In 2017, the bank carried out four quarterly attestation processes, plus the ad-hoc attestation of certain controls.
No significant incidences which may affect the accuracy of the financial information were identified.

Internal Audit carries out the monitoring functions described in F.5.1 and F.5.2 below.

The preparation of the financial statements requires senior executives to make certain judgements, estimates and assumptions in order quantify certain of the assets, liabilities, income, expenses and obligations shown in them. These estimates are based on the best information available at the date the financial statements are prepared, using generally-accepted methods and techniques and observable and tested data and assumptions.

The procedures for reviewing and approving the judgements and estimates are outlined in the Policy and the Internal ICFR Regulation under “Reviewing and Approving Judgements and Estimates”. This specifies that the Board of Directors and the Management Committee are responsible for approving this information.

This year the Entity has addressed the following:

- The fair value of certain financial assets and liabilities.
- The fair value of assets, liabilities and contingent liabilities in the context of the purchase price allocation in business combinations.
- Impairment losses on certain financial assets and the fair value of the related guarantees.
- The measurement of stakes in joint ventures and associates.
- Determination of share of profit (loss) of associates.
- Actuarial assumptions used to measure liabilities arising under insurance contracts
- The useful life of and impairment losses on other tangible assets and intangible assets
- The measurement of goodwill and intangible assets.
- Impairment losses on non-current assets and disposal groups classified as held for sale
- Actuarial assumptions used to measure post-employment liabilities and commitments
- The measurement of the provisions required to cover labour, legal and tax contingencies.
- The income tax expense based on the income tax rate expected for the full year and the capitalisation and recoverability of tax assets
- The criterion for timing of recognition in profit and loss of income from ancillary activities provided by CaixaBank

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes regarding the preparation and publication of financial information.

The IT systems which give support to processes regarding the preparation of financial information are subject to internal control policies and procedures which guarantee completeness when preparing and publishing financial information.

Specifically these are policies regarding:

I. Information Security Management System: CaixaBank has an Information Security Management System (ISMS) based on international best practices. This ISMS has obtained, and each year renews, ISO 27001:2013 certification by the British Standards Institution (BSI). This system defines, among other policies, those for accessing IT systems and the internal and external controls which ensure all of the policies defined are correctly applied.

II. Operating and business continuity: the bank has in place an IT Contingency Plan to deal with serious situations to guarantee its IT services are not interrupted. It also has strategies in place to enable it to recover information in the shortest time possible. This IT Contingency Plan has been designed and operates according to ISO 27031:2011. Ernst&Young has certified that the regulatory governance body for Technological Contingency at CaixaBank has been designed, developed and is operating in accordance with this regulation.

The British Standards Institution (BSI) has certified that CaixaBank's business continuity programme is ISO 22301:2012 compliant. These certifications attest:

- CaixaBank management's commitment to business continuity and technological contingency
- The existence of business continuity and technological contingency management best practices
- A cyclical process based on continuous improvement
- That CaixaBank has deployed and operates business continuity and technological contingency management systems which are compliant with international standards.

Which offer:

- Assurance to our customers, investors, employees and society in general that the Entity is able to respond to serious events that may affect business operations.
- Compliance with the recommendations of regulators, the Bank of Spain, MiFID and Basel III
- Advantages in terms of the Entity's image and reputation
- Annual audits, both internal and external, which ensure we keep our systems up-to-date

III. Information technology (IT) governance: CaixaBank's information and technology (IT) governance model ensures that its IT services are aligned with the Entity's business strategy and comply with all regulatory, operational and business requirements. IT governance is an essential part of overall governance and encompasses organisational structures and guidelines to ensure that the IT services support and facilitate the fulfilment of strategic objectives. The governance model has been designed and developed according to ISO 38500:2008 standard, and was certified by Deloitte Advisory, S.L. in July 2014.

CaixaBank's IT services have been designed to meet the business' needs, guaranteeing the following:

- Segregation of duties;
- Change management;
- Incident management;
- IT quality management;
- Risk management: operational, reliability of financial reporting, etc.;
- Identification, definition and monitoring of indicators (scorecard);
- Existence of governance, management and monitoring committees;
- Periodic reporting to management;
- Rigorous internal controls which include annual internal and external audits.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The CaixaBank Group has a Costs, Budget Management and Purchasing Policy which regulates the Management Model throughout the entire cycle (budgeting, demand management, negotiating with suppliers, supply and invoicing). This policy is detailed in the internal regulations which mainly regulate processes regarding:

- Drawing up, approving, managing and settling the budget
- Applying the budget: procurement and commissioning
- Paying supplier invoices

All of the processes carried out between Group entities and suppliers are managed and recorded by programmes which include all activities. The Efficiency Committee is responsible for ensuring that the budget is applied in accordance with internal regulations.

To ensure correct cost management, the CaixaBank Efficiency Committee has delegated duties to two committees:

- Expenses and Investments Committee (EIC): reviews and ratifies all expenses and investment proposed by the various areas and subsidiaries in projects. It queries the need and reasonableness for same by means of a profitability and/or efficiency analysis.

- Procurement Desk: oversees achieving maximum savings in contracting goods and services, encouraging equal opportunities among suppliers. The bank's Code of Business Conduct and Ethics stipulates that goods must be purchased and services engaged objectively and transparently, avoiding situations that could affect the objectiveness of the people involved. Auctions and budget requests are acceptable procurement methods according to the Procurement Department and a minimum of three tenders from suppliers must be submitted.

The CaixaBank Group has a Suppliers' Portal offering quick and easy communication between suppliers and Group companies. This channel allows third party companies to submit all the necessary documentation when bidding for contracts as well as all the necessary documentation once services have been contracted. This not only ensures compliance with internal procurement regulations but also makes management and control easier.

CaixaBank has an Outsourcing Policy which establishes the methodological framework and criteria to take into account when outsourcing services. The policy determines the roles and responsibilities of each activity and states that all outsourcings must be assessed according to their critical nature, as well as defining various control and supervision levels according to their classification.

Deloitte Consulting, S.L.U. has certified that the design and wording of the outsourcing governance complies with ISO standard 37500:2014, which attests:

- Senior management’s commitment to outsourcing governance.
- The existence of outsourcing management initiative best practices
- A cyclical process based on continuous improvement

The policy was shored up in 2017, as it was updated to the current rules and regulations of the Bank of Spain.

Formalisation of this Policy means:

- Our customers, investors, employees and other stakeholders trust in the decision-making and control process for outsourcing initiatives.
- Compliance with the recommendations of regulators, such as the Bank of Spain, MiFID and Basel III
- Advantages in terms of the Entity’s image and reputation

CaixaBank ensures that any future outsourcing does not entail a loss of supervisory capacity, analysis or demands of the service or activity under contract. The following procedure is followed when there is a new outsourcing initiative:

- Analysis of the applicability of the outsourcing model to the supplier
- Assessment of the outsourcing decision by measuring criticality, risks and the outsourcing model
- Engagement of the supplier
- Transfer of service to external supplier
- Oversight and monitoring of the activity or service rendered.

All outsourced activities have control activities largely based on performance indicators. Each person in charge of an outsourced activity shall request that the supplier report all indicators and keep these up-to-date. These are then reviewed internally on a periodical basis.

In 2017, valuation and calculation services commissioned from independent experts mainly concerned the following:

- Certain internal audit and technology services
- Certain financial consultancy and business intelligence services
- Certain marketing and various procurement services
- Certain IT and technology services
- Certain financial services
- Certain financial, fiscal and legal advisory services
- Certain processes related to Human Resources and various procurement services
- Certain processes related to Information Systems

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity’s operating units.

The Accounts and audit inspection Area – Accounting Policies and Regulation Department, which reports to Financial Accounting, Control and Capital (FACC), is responsible for defining the Entity's accounting criteria.

These criteria are based on and documented according to the characteristics of the product/transaction defined by the business areas involved and to the applicable accounting regulations, being formalised in the creation of amendment of an accounting circuit. The various documents comprising an accounting circuit explain in detail all the likely events which could affect the contract or transaction and describe the key features of the operating procedures, tax regulations and applicable accounting criteria and principles.

This department is charged with resolving any accounting queries not included in the circuit and any queries as to its interpretation. Additions and amendments to the accounting circuits are notified immediately to the Organisation and most can be consulted on the Entity’s intranet.

Accounting criteria are constantly updated in line with new contract or transaction types or any regulatory changes. In this process all new events reported to the department and which may have an accounting impact both for the bank and the consolidated Group are analysed. The various areas involved in these new events work together to review them. The conclusions of these reviews are transferred to and implemented in the various accounting circuits and, if necessary, the various documents comprising the general accounting documents. The affected business areas are informed via existing mechanisms, mainly the Intranet and the accounting policies manual.

In addition, this Department is responsible for analysing and studying the accounting impact of one-off transactions and for monitoring and developing ex ante and ex post regulations, of which the Regulation Committee is regularly informed. Once the regulatory implementation is definitive, the department is responsible for training and updating the affected areas.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

CaixaBank has internal IT tools which guarantee the completeness and consistency of the processes for capturing and preparing financial information. All of these applications have IT contingency mechanisms which guarantee that the data is held and can be accessed in any circumstances.

We would note that the Entity is currently upgrading its accounting information architecture to improve the quality, completeness, immediacy and access to the information provided by business applications. The various IT applications are gradually being including in the scope of the project which currently includes a very significant materiality of balances.

To prepare the consolidated information, both CaixaBank and other Group entities use specialist tools providing mechanisms to capture, analyse and prepare financial information in standard format.

The accounts plan, which is incorporated in the consolidation application, has been defined to comply with requirements of the various regulators.

The bank also has a SAP Governance, Risk and Compliance (SAP GRC) tool to guarantee the completeness of ICFR, reflecting existing risks and controls. The application also supports the Corporate Risk Map (CRM) and Operational Risk Indicators (KRIs), for which the Executive Global Risk Management Division is responsible.

F.5. Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the audit committee and an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

Notwithstanding the risk management and control functions of the Board of Directors, the Audit and Control Committee is entrusted with overseeing the process for preparing and submitting regulated financial information and the effectiveness of the bank's internal control and risk management systems and discussing with auditors of accounts any significant weaknesses in the internal control system identified during the course of the audit.

The duties of the Audit and Control Committee include those related to overseeing the process for preparing and submitting regular financial information as described in point F.1.1.

As part of its duty to oversee the process for preparing and submitting regular financial information, the Audit and Control Committee carries out, inter alia, the following activities:

- Review of the Annual Internal Audit Plan and assessing whether the Plan has sufficient scope to provide appropriate coverage for the main risks to which the bank is exposed. Then, the Annual plan is submitted to the Board of Directors.
- Assessment of the conclusions of the audits carried out and the impact on financial information, where applicable.
- Constant monitoring of corrective action, prioritising each one.

The Internal Audit function, which is part of the Deputy General Audit and Control Division, is governed by the principles contained in the Internal Audit Regulations approved by the CaixaBank Board of Directors. CaixaBank's Internal Audit function is an independent activity providing assurance and consultation services; it is designed to add value and improve activities.

It contributes to achieving the strategic objectives of the CaixaBank Group, providing a systematic and disciplined approach to evaluating and improving risk control and management processes and corporate governance. Its objective is to guarantee effective and efficient supervision of the internal control system through ongoing assessment of the organisation’s risks and provide support to the Audit and Control Committee by drafting reports and reporting regularly on the results of work carried out. Point E.6 provides a description of the Internal Audit function and all the functions of the Deputy General Audit Division.

Internal Audit has auditors working in various audit teams which specialise in reviewing the main risks to which the bank is exposed. One of these teams is the Financial Audit, Investees and Regulatory Compliance Division where specialists oversee processes at Financial Accounting, Control and Capital, which is responsible for preparing the bank’s financial and accounting information. The Internal Audit’s annual plan includes a multiyear review of the risks and controls in financial reporting for all auditing work where these risks are relevant.

In each review Internal Audit:

- Identifies the necessary controls to mitigate the risks associated with the process' activities.
- Analyses the effectiveness and efficiency of the existing controls on the basis of their design
- Verifies that these controls are applied.
- Reports its conclusions of the review and issues an opinion on the control environment.
- Recommends corrective actions.

Internal Audit has developed a specific working plan to review ICFR, focusing on the periodical review of the relevant processes (transversal and business) defined by the Internal Control over Financial Reporting team which is supplemented by a review of existing auditing controls in other processes.
This working programme is currently complemented by an ongoing review of evidence of the effective execution of all controls. Based on this, the Audit function publishes an annual global report which includes an assessment of the performance of ICFR during the year.

The annual assessment of ICFR at 31/12/2017 focused on:

- Revising the application of the framework defined in the document "Internal Control over Financial Reporting in Listed Companies" published by the CNMV which sets out the best practices for internal control over financial reporting.
- Verifying the application of the methodology established in the Internal Control over Financing Reporting System to guarantee that Group ICFR is adequate and effective.
- Assessing the hierarchical attestation of key controls identified process.
- Evaluating the descriptive documentation of the relevant processes, risks and controls in drafting financial information

In 2017, Internal Audit also carried out different reviews of the processes which affect the generation, preparation and presentation of financial information, focusing on, inter alia, financial-accounting, financial instruments, legal and compliance, information systems and the insurance and foreclosed assets businesses.

The Audit and Control Committee and executive team will be informed of the results of the ICFR evaluation. These reports also include an action plan detailing corrective measures, their urgency to mitigate risks in financial information and the timeframe for resolving these.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the bank's senior management and its audit committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Entity has in place a discussion procedure with its auditor. Senior management is kept permanently informed of the conclusions reached during the review of the financial statements. Also, the Audit and Control Committee receives information from the auditor on the audit plan, the preliminary conclusions reached concerning publication of the financial statements and the final conclusions as well as, if applicable, any weaknesses encountered in the internal control system, prior to preparing the financial statements. Also, when reviewing the interim financial information, the Audit and Control Committee shall be informed of the work carried out and the conclusions reached.

In addition, and within its areas of activity, Internal Audit's reviews conclude with the issue of a report evaluating the relevant risks and the effectiveness of internal control of the processes and the transactions analysed. It also evaluates the possible control weaknesses and shortcomings and formulates recommendations to correct them. Internal Audit reports are sent to senior management. The Audit and Control Committee also issues a monthly report on the activities carried out by Internal Audit, with specific information on all significant weaknesses identified during the reviews.

Internal Audit constantly oversees the fulfilment of recommendations, focusing particularly on critical and high-risk weaknesses, and reports to senior management on a regular basis. This monitoring information, as well as the relevant incidents identified in the Audit reviews, are reported to the Audit and Control Committee and senior management.

In December 2016, the Board of Directors of CaixaBank appointed the new auditor of the CaixaBank Group from 2018, on the proposal of the Audit and Control Committee. In 2017, this Committee monitored the transition process for the assumption of audit work by the new auditor.

F.6 Other relevant information

No other relevant information.

F.7 External auditor report

Report on:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

In accordance with the recommendation concerning the Auditor's Report included in the guidelines on the information relating to Internal Control over Financial Reporting in Listed Companies published by the National Securities Market Commission on its website, the annual accounts auditor of CaixaBank has reviewed the information on internal control over financial reporting system. The final report concludes that, as a result of the procedures applied regarding information on ICFR, there are no relevant inconsistencies or incidents.

This report is attached as an Appendix to the Annual Corporate Governance Report.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant [x] Explain [ ]

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant [ ] Partially compliant [ ] Explain [ ] Not applicable [x]

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant [x] Partially compliant [ ] Explain [ ]

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant [x] Partially compliant [ ] Explain [ ]

5. The Board of Directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant ☐ Partially compliant ☒ Explain ☐

The Board of Directors, in its meeting dated 10 March 2016, agreed to propose to the General Shareholders' Meeting on 28 April the approval of an agreement to delegate powers in favour of the Board of Directors in order to issue bonds, preference shares and any other fixed income securities or instruments of a similar nature which are convertible into CaixaBank shares, or which directly or indirectly give the right to the subscription or acquisition of the company's shares, including warrants. The proposed delegation expressly included the power to disapply the pre-emptive subscription right of shareholders. This proposal was approved at the Annual General Meeting held on 28 April 2016.
The capital increases that the Board of Directors may approve under this authorisation to carry out the conversion of shares in whose issuance the pre-emptive subscription right has been disapplied are not subject to the maximum limit of 20% of the share capital that the Annual General Meeting of 23 April 2015 unanimously agreed for any capital increases that the Board of Directors may approve (the legal limit of 50% of the capital at the time of the approval does apply).
Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies, and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, and Spanish Act 11/2015 of 18 June on the recovery and resolution of credit institutions and investment services companies, anticipate the need for credit entities to provide, in certain proportions, different instruments in the composition of their regulatory capital so that they can be considered suitably capitalised. Therefore, different capital categories are contemplated that must be covered by specific instruments. Despite the Company's adequate capital situation, it was deemed necessary to adopt an agreement that allows instruments to be issued that may be convertible in certain cases. To the extent that the issuance of these instruments implies the need to have an authorised capital that, at the time of its issuance, covers a possible convertibility and in order to provide the company with greater flexibility, it was deemed convenient for the capital increases that the Board approves to be carried out under the delegation agreement in this report in order to address the conversion of shares in whose issuance the pre-emptive subscription right has been excluded, not being subject to the maximum limit of 20% of the capital which is applicable to all other capital increases that the Board is authorised to approve.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.

   b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

   c) Audit committee report on third-party transactions.

   d) Report on corporate social responsibility policy.

Compliant ☒ Partially compliant ☐ Explain ☐

7. The company should broadcast its general meetings live on the corporate website.

Compliant ☒ Explain ☐

8. The audit committee should strive to ensure that the Board of Directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the Chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant ☒ Partially compliant ☐ Explain ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant [X] Partially compliant [ ] Explain [ ]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant [ ] Partially compliant [X] Explain [ ] Not applicable [ ]

With regard to section c), the Board agrees that there are different presumptions about the direction of the vote for proposals submitted by shareholders and those submitted by the Board (as established in the Regulations of the Company's General Meeting), opting for the presumption of a vote in favour of agreements proposed by the Board of Directors (because the shareholders absent for the vote have had the opportunity to record their absence so their vote is not counted and they can also vote early in another direction through the mechanisms established for that purpose) and for the presumption of a vote against agreements proposed by shareholders (since there is a probability that the new proposals will deal with agreements that are contradictory to the proposals submitted by the Board of Directors and it is impossible to attribute opposite directions for their votes to the same shareholder. Additionally, shareholders who were absent have not had the opportunity to assess and vote early on the proposal).
Although this practice does not reflect the wording of Recommendation 10, it does better achieve the final objective of Principle 7 of the Good Governance Code which makes express reference to the Corporate Governance Principles of the OECD, which outline that the procedures used in Shareholders' Meetings must ensure the transparency of the count and the adequate registration of votes, especially in situations of voting battles, new items on the agenda and alternative proposals, because it is a measure of transparency and a guarantee of consistency when exercising voting rights.

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company’s best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant [X] Partially compliant [ ] Explain [ ]

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant ☐ Explain ☒

At year-end 2017 the Board of Directors comprised 18 members. However, on 21 December CaixaBank announced that Antonio Massanell Lavilla had resigned as Deputy Chairman and member of the Board of Directors, effective as of 31 December 2017. To fill the vacancy, on the same date the Board of Directors resolved, subject to a favourable report from the Appointments Committee and subject to a suitability assessment by the European Central Bank, to appoint Tomás Muniesa Arantegui as a member of the Board of Directors. 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

The composition of the Board is deemed to be suitable to ensure maximum effectiveness and participation with a wide variety of opinions.

The size of the Board is also deemed to be suitable given the Bank's history, namely that it was previously a savings bank with a 21-member board.

The current size and composition of the Board of Directors is justified, as well, by the need to include a certain number of independent Directors and to comply with the shareholders agreement stemming from the merger with Banca Cívica. This agreement calls for the inclusion of two additional Board members representing the savings banks (currently banking foundations) acquired as a result of the merger. Notwithstanding this, it is recorded that, in the framework of the amendment to the Integration Agreement between CaixaBank and Banca Cívica (SE of 17 October 2016, which reported the amendment to Clause 5 of the Shareholders' Agreement between "la Caixa" Banking Foundation and the Foundations so that they could propose only one member of the CaixaBank Board of Directors), in 2016 Caja Navarra Banking Foundation submitted its resignation, with just one representative of said shareholders' agreement as a member of the CaixaBank Board of Directors.

Finally, and in compliance with legal requirements, as the Bank has five board committees it requires a sufficient number of directors to avoid, if relevant, duplications therein. Therefore, despite the Bank exceeding the recommended number of directors, it considers this number to be appropriate as it ensures maximum effectiveness and participation of both the Board and its committees.

14. The Board of Directors should approve a Director selection policy that:

a) Is concrete and verifiable;

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each Director.

The Director selection policy should pursue the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

The nomination committee should run an annual check on compliance with the Director selection policy and set out its findings in the annual corporate governance report.

Compliant ☒ Partially compliant ☐ Explain ☐

15. Proprietary and independent Directors should constitute an ample majority on the Board of Directors, while the number of executive Directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant ☒ Partially compliant ☐ Explain ☐

16. The percentage of proprietary Directors out of all non-executive Directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant [X] Explain [ ]

17. Independent Directors should be at least half of all Board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent Directors should occupy, at least, a third of Board places.

Compliant [X] Explain [ ]

18. Companies should post the following Director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant [X] Partially compliant [ ] Explain [ ]

19. Following verification by the nomination committee, the Annual Corporate Governance Report should disclose the reasons for the appointment of proprietary Directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

20. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary Directors, the latter's number should be reduced accordingly.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

21. The Board of Directors should not propose the removal of independent Directors before the expiry of their tenure as mandated by the Bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent Directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in Recommendation 16.

Compliant [X] Explain [ ]

22. Companies should establish rules obliging Directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a Director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The Board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant [X] Partially compliant [ ] Explain [ ]

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other Directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation also apply to the Secretary of the Board, even if he or she is not a Director.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

25. The Nomination Committee should ensure that non-executive Directors have sufficient time available to discharge their responsibilities effectively.

The Board of Directors regulations should lay down the maximum number of company boards on which Directors can serve.

Compliant [X] Partially compliant [ ] Explain [ ]

26. The Board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each Director may propose the addition of initially unscheduled items.

Compliant [X] Partially compliant [ ] Explain [ ]

27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, Directors should delegate their powers of representation with the appropriate instructions.

Compliant [ ] Partially compliant [X] Explain [ ]

In the event of unavoidable absences, in order to prevent de facto changes to the balance of the Board of Directors, legislation allows for delegation to another director (non-executives only to other non-executives) - this is established in Principle 14 of the Good Governance Code and also envisaged in bylaws (article 37), as well as the Board's Regulations (article 17), which determine that Directors must personally attend Board meetings. However, when they are unable to do so in person, they shall endeavour to grant their proxy in writing, on a special basis for each meeting, to another Board member, including the appropriate instructions therein. Non-executive Directors may only delegate a proxy who is another non-executive Director, while independent Directors may only delegate to another independent Director. This latter limitation was introduced in 2017, due to amendments to both texts in order to comply with certain corporate governance improvements coherent with conditions for the prudential deconsolidation of Criteria Caixa, as announced by the European Central Bank.

The Board of Directors considers, as good corporate governance practice, that when directors are unable to attend meetings, proxies are not generally delegated with specific instructions. This does not amend, de facto, the balance of the Board given that delegations may only be made by non-executive directors to other non-executive directors, and independent directors may only delegate to other independent directors, while directors are always required to defend the company's corporate interest regardless of their director status.
Moreover, and reflecting the freedom of each director who may also delegate with the appropriate instructions as suggested in the Board's Regulations, the decision to delegate without instructions represents each director's freedom to consider what provides most value to their proxy, and they may finally decide on the grounds that they want to give their proxy freedom to adapt to the result of the Board meeting debate. This, in addition, is line in line with the law on the powers of the Chairman of Board, who is given, among others, the responsibility of encouraging a good level of debate and the active involvement of all Directors, safeguarding their rights to adopt positions.
Therefore, the freedom to grant proxies with or without specific instructions, at the discretion of each director, is considered good practice and, specifically, the absence of instructions is seen as facilitating the proxy's ability to adapt to the content of the debate.

28. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

29. The company should provide suitable channels for Directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant [X] Partially compliant [ ] Explain [ ]

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant [X] Explain [ ] Not applicable [ ]

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of Directors present.

Compliant [ ] Partially compliant [X] Explain [ ]

In accordance with Article 26.g) of the Regulations of the Board of Directors, no additional requirement is established for Board members to include a new proposal on the agenda of their meetings as a result of their status as Chairman, Vice-Chairman or Chief Executive Officer. Equal treatment in terms of this prerogative is considered to be a measure that encourages the participation of all members and takes into account the importance of all Board members regardless of any category or condition they exercise when defending the company's best interest.

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant [X] Partially compliant [ ] Explain [ ]

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Bylaws, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's Chief Executive Officer; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each Director, when circumstances so advise.

Compliant [X] Partially compliant [ ] Explain [ ]

34. When a lead independent director has been appointed, the Bylaws or Regulations of the Board of Directors should grant him or her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Deputy Chairmen; give voice to the concerns of non-executive directors; maintain contact with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the Company's corporate governance; and coordinate the Chairman's succession plan.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant [X] Explain [ ]

36. The Board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the Chairman of the Board of Directors and the company's Chief Executive.

e) The performance and contribution of individual Directors, with particular attention to the Chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Compliant [X] Partially compliant [ ] Explain [ ]

37. When an executive committee exists, its membership mix by Director class should resemble that of the Board. The Secretary of the Board should also act as Secretary to the Executive Committee.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

38. The Board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all Board members should receive a copy of the committee's minutes.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

39. All members of the audit committee, particularly its Chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-Executive Chairman or the Chairman of the audit committee.

Compliant [X] Partially compliant [ ] Explain [ ]

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

   a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

   b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

   c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With respect to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant [X] Partially compliant [ ] Explain [ ]

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant [X] Partially compliant [ ] Explain [ ]

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

45. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The determination of the risk level the company sees as acceptable;

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant [X] Partially compliant [ ] Explain [ ]

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant [X] Partially compliant [ ] Explain [ ]

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent Directors.

Compliant [X] Partially compliant [ ] Explain [ ]

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Compliant [X] Explain [ ] Not applicable [ ]

49. The nomination committee should consult with the company's Chairman and Chief Executive, especially on matters relating to executive Directors.

When there are vacancies on the Board, any Director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant [X] Partially compliant [ ] Explain [ ]

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant [X] Partially compliant [ ] Explain [ ]

51. The Remuneration Committee should consult with the Chairman and Chief Executive, especially on matters relating to executive Directors and senior officers.

Compliant [X] Partially compliant [ ] Explain [ ]

52. The terms of reference of supervision and control committees should be set out in the Board of Directors regulations and aligned with those governing legally mandatory Board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Nomination Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant [X] Partially compliant [ ] Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters related to the following: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant [X] Partially compliant [ ] Explain [ ]

55. The company should report on corporate social responsibility developments in its Directors' report or in a separate document, using an internationally accepted methodology.

Compliant [X] Partially compliant [ ] Explain [ ]

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant [X] Explain [ ]

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive Directors.

The company may consider the share-based remuneration of non-executive Directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Compliant [X] Partially compliant [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor’s report.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

61. A major part of executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the Director must dispose of to defray costs related to their acquisition.

Compliant [ ] Partially compliant [ ] Explain [X] Not applicable [ ]

The shares delivered as settlement of the annual bonus, and which are deferred over 3 years, are subject to a 12-month lock-up period after delivery and no minimum amount must be held once this period has concluded.
At the Annual General Meeting held on 6 April 2017 the Board of Directors Remuneration policy was approved, extending the deferral period from three to five years applicable from 2018 onward. This change has been made to comply with the EBA Guidelines on Remuneration Policies.
With regard to the prohibition on transferring the ownership of a number of shares equivalent to twice the fixed annual remuneration, this is not applied as such at CaixaBank. The purpose established in Principle 25 whereby the directors' remuneration favours the achievement of the business objectives and the company's best interest is also achieved through the existence of malus and clawback clauses and through the remuneration structure of the executive directors, whose remuneration in shares (corresponding to half the variable remuneration) is deferred with a 12 month restriction period, and this variable remuneration also represents a limited part of the total remuneration, which is fully consistent with the prudential principles of not providing an incentive for risk taking and with the alignment of objectives and the sustainable evolution of the entity.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be misstated.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant [X] Partially compliant [ ] Explain [ ] Not applicable [ ]

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of adoption.

A.2 – With regard to the ownership situation of "la Caixa" Banking Foundation in CaixaBank, it must be noted that at the close of the 2017 financial year, Fundación Bancaria Caja de Ahorros y Pensiones de Barcelona ("la Caixa") directly holds 3,493 shares and through CriteriaCaixa (a company 100% controlled by the Banking Foundation) 2,392,575,212 CaixaBank shares.

It is also worth mentioning that on 26 May 2016, CriteriaCaixa reported that it had raised with the European Central Bank (hereinafter, ECB) its interest in knowing under what conditions the loss of control of CaixaBank would occur in such a way that this loss involves the deconsolidation of CaixaBank from CriteriaCaixa for prudential purposes, and that the ECB reported the conditions under which it would consider that CriteriaCaixa had ceased to hold control over CaixaBank, for prudential purposes. The relevant conditions established by the ECB included the voting and dividend rights of CriteriaCaixa in CaixaBank not exceeding 40% of all voting and dividend rights.
CriteriaCaixa also reported that the Board of Directors of both "la Caixa" Banking Foundation and CriteriaCaixa have agreed to place on the record their intent to comply, before the end of 2017, with the aforementioned conditions such that the prudential deconsolidation of CriteriaCaixa with respect to the CaixaBank Group may proceed.
On 13 December 2016, CriteriaCaixa also reported the accelerated placement of 100,000,000 CaixaBank shares among institutional investors, representing approximately 1.7% of the share capital of CaixaBank. On 6 February, CriteriaCaixa submitted a significant event notice on the accelerated bookbuild amongst institutional investors of a package of shares representing approximately 5,322% of the share capital of CaixaBank, and on 9 February 2017, "la Caixa" Banking Foundation and CriteriaCaixa (as the company controlled by the former) reported having reached a 40% stake in CaixaBank.
On 26 September 2017, the CaixaBank disclosed to the market via a significant event notice that the Board of the European Central Bank had ruled, given that these terms and conditions had been met, that CriteriaCaixa no longer has control or exercises a dominant influence over CaixaBank, and consequently is no longer its parent company.
Further, it should be noted that limitations in the electronic form do not allow for disclosing the total stake of the significant shareholder BlackRock, Inc. At year end it was 3,292%, and reflects the result of adding 3,264% of indirect voting rights through shares to 0,028% of indirect voting rights through financial instruments.
The most significant shareholder movements in 2017, in addition to the aforementioned notices of CaixaBank and CriteriaCaixa and those of BlackRock described in section A.2 of this Report, the latter significant shareholder made additional notices on a voluntary basis not due to crossing of a threshold, which is why they are not included in section A.2, although they may be seen on the website of the Spanish securities market regulator (CNMV).

A.5 – With regard to the corporate relationship that ”la Caixa” Banking Foundation and Criteria Caixa, S.A.U. (company controlled by "la Caixa" Banking Foundation through which it holds its stake in CaixaBank) had with CaixaBank, on 26 September 2017 it was disclosed that a decision of the Governing Council of the European Central Bank found, due to the meeting of the terms and conditions, that CriteriaCaixa no longer exercises control or dominant influence over CaixaBank and is therefore is no longer its parent company. For this reason, no mention is now made of a corporate relationship between "la Caixa" Banking Foundation Group and CaixaBank, which has become the parent company of the financial conglomerate comprising the group's entities that are considered to be regulated, with CaixaBank classified as a significant supervised entity, in accordance with article 6.4 of Regulation (EU) No 1024/2013, whereby CaixaBank comprises, together with the credit institutions of its group, a significant supervised group of which CaixaBank is the entity at the highest level of prudential consolidation.

A.6.1 - The share capital affected by the Shareholders' Agreement reported to the Company is 80,597%. This represents the CaixaBank shares held by: Caja Navarra (currently Caja Navarra Banking Foundation), Cajasol (currently Fundación Cajasol), Caja Canarias (currently Fundación Caja Canarias), and Caja de Burgos (currently Fundación Caja de Burgos, Banking Foundation), ("the Foundations") and the “la Caixa” Banking Foundation at 1 August 2012, the date the agreement was signed.
This percentage has not been updated as currently three of the signatories do not sit on the CaixaBank Board (i.e. Fundación Caja Navarra, Fundación Cajasol and Fundación Caja Burgos, Banking Foundation) and therefore are not legally bound to report their stake in CaixaBank in the same way as the Directors of the listed company (as well as the other two signatory foundations of the Agreement, whose updated stakes are available on the websites of the CNMV and CaixaBank). Therefore this percentage is the most recent made available by the Company.
"Brief description of agreement" continued:
They also agreed that the “la Caixa” Banking Foundation would vote in favour of the appointment of the two members to the Board of Directors of CaixaBank proposed by "the Foundations" and, in order to give stability to their shareholding in CaixaBank, the "Foundations" agreed a four-year lock up period, as well as a commitment to exercise their pre-emptive acquisition rights over two years in favour of the other Foundations in the first place and subsidiarily the “la Caixa” Banking Foundation, should any of "the Foundations" wish to transfer all or part of their stake, once the lock-up period has expired. On 17 October 2016, the amendments to the Integration Agreement between CaixaBank, S.A. and Banca Cívica, S.A.
as well as the Shareholders' Agreement of CaixaBank, S.A. were signed, the first of them on 26 March 2012 by the Caja de Ahorros y Pensiones de Barcelona ("la Caixa"), CaixaBank, S.A., Banca Cívica, S.A and the savings banks that once formed Banca Cívica, S.A., and the second on 1 August 2012 by "la Caixa" and the savings banks that formed Banca Cívica, S.A. The amendments to these agreements mean that the banks that formed Banca Cívica, S.A. will propose one director at CaixaBank, S.A. and one at VidaCaixa, S.A., subsidiary of CaixaBank, instead of proposing an appointment of two directors at CaixaBank. Also, the automatic three-year extension of the agreements, which became effective in early August 2016, will have a duration of four years instead of the aforementioned three.

A.7 – See Note A.5 above, which explains that, from 26 September 2017, there is no controlling shareholder in CaixaBank. Notwithstanding, the protocol for management of its financial stake in CaixaBank and the Internal Relations Protocol remain in effect, the origins and development of which is explained below.
Law 26/2013 on Savings Banks and Banking Foundations requires banking foundations to approve, within two months from their creation a Protocol for managing its ownership interest in the financial institution. This protocol must establish, at a minimum, the strategic criteria for managing the interest, the relations between the Board of Trustees and the governing bodies of the bank, specifying the criteria for proposing director appointments and the general criteria for carrying out operations between the banking foundation and the investee credit institution, and the mechanisms to avoid potential conflicts of interest. The “la Caixa” Banking Foundation signed its protocol for managing its ownership interest in CaixaBank on 24 July 2014. The CNMV was notified on 9 December 2014 following approval from Bank of Spain.
On 18 February 2016, the members of the Board of Trustees of "la Caixa" Banking Foundation signed a new Protocol for managing the financial ownership in CaixaBank, S.A., which resulted in the adaptation of the protocol approved by the Board of Trustees on 24 July 2014 to the content of Circular 6/2015. On 18 May 2017, the Board of Trustees approved a new protocol that replaces the previous one approved on 18 February 2016 (and amended on 31 March 2016), to adapt its content to the commitments to be undertaken by the "la Caixa" Banking Foundation in order to comply with the conditions approved on 3 March 2016 and notified on 16 March 2016 by the Supervisory Board of the European Central bank for prudential deconsolidation between Criteria and Caixabank.
On 19 December 2016, in accordance with the provisions of the Protocol for Managing the Financial Investment, "la Caixa" Banking Foundation, as parent of the "la Caixa" Group, CriteriaCaixa, as direct shareholder in CaixaBank, and CaixaBank, as a listed company, signed a new Internal Relations Protocol which replaced the previous Protocol and whose main objectives are to:

• manage the related-party transactions deriving from transactions or services rendered;
• establish mechanisms that attempt to avoid the emergence of conflicts of interest;
• make provision for the ”la Caixa” Banking Foundation to have a right of pre-emptive acquisition in the event of a transfer by CaixaBank of Monte de Piedad, which it owns;
• establish the basic principles for a possible collaboration between CaixaBank and the ”la Caixa” Banking Foundation in matters relating to CSR;
• regulate the flow of adequate information to allow ”la Caixa” Banking Foundation, Criteria and CaixaBank to prepare their financial statements and to comply with periodic reporting and supervisory duties;

On 26 September 2017, the CaixaBank disclosed to the market via a significant event notice that the Board of the European Central Bank had found, given that these terms and conditions had been met, that CriteriaCaixa no longer has control or exercises a dominant influence over CaixaBank, and consequently is no longer its parent company.

A.10 - There is no restriction on the transfer of shares and/or voting rights. Notwithstanding the above, it should be noted that Article 16 et seq. of Law 10/2014, of 26 June, on Discipline, Supervision and Solvency of Credit Institutions states that persons wishing to acquire ownership interest in the Entity (under the terms of article 16) or voting rights or to increase, directly or indirectly, their stake in said ownership interest, such that their voting rights or share capital is equal to or greater than 20%, 30% or 50% of the total or they obtain control of the credit institution, must give prior notice to the Bank of Spain.

Nor does CaixaBank have legal restrictions or restrictions set forth in the Bylaws on voting rights. Nevertheless, as explained in Note B.5 below, CaixaBank's Bylaws and General Shareholders' Meeting Regulations stipulate that all shareholders who individually, or in a group with other shareholders, own a minimum of one thousand (1,000) shares, and who have registered ownership of same in the relevant book-entry ledger at least five days in advance of the date the General Meeting is to be held, may attend in person.
Shareholders at the Annual General Meeting on 19 April 2012 voted to amend certain articles of the Bylaws. Amendments include, inter alia, specification that given that the Company allows shareholders to exercise their voting rights and proxies through means of remote communication, the restriction of owning a minimum of one thousand shares to be able to attend the General Meeting would only apply to those attending in person.
Therefore, following this amendment, shareholders do not have to hold a minimum number of shares in order to be eligible to attend the Annual General Meeting (either in person or by proxy) and exercise their voting rights through means of remote communication.

B. 1 and B.2 - The quorum required for constitution of the Annual General Meeting and the system of adopting corporate resolutions at CaixaBank do not differ from that established in the Corporate Enterprises Act.
In connection with the amendments to the Bylaws approved in the Annual General Meeting of 28 April 2016, and to adapt the text of the Regulations of the Annual General Meeting to the wording of the Bylaws, the same General Meeting resolved as follows: first, to amend article 12 of the Regulations of the Annual General Meeting relating to the constitution of the Annual General Meeting, in order to also specify in these Regulations that the strengthened quorum required to agree on the issuance of bonds will only apply to the issuances that are within the power of the General Meeting. And, on the other, to include an exception to the deadline in order to attend or be represented at the Meetings, and therefore it was agreed to amend articles 8 ("Right of attendance") and 10 ("Right of representation") of the Board's Regulations to expressly specify, in relation to the deadlines of five (5) days, that there is an exception for the specific cases where any law applicable to the Company establishes a regime that is incompatible.

B.5 - CaixaBank's Bylaws and General Shareholders' Meeting Regulations stipulate that all shareholders who individually, or in a group with other shareholders, own a minimum of one thousand (1,000) shares, and who have registered ownership of same in the relevant book-entry ledger at least five days in advance of the date the General Meeting is to be held, may attend.

C.1.2 - On 28 April 2016 the Annual General Meeting agreed, within the limits established in the Bylaws, to set the number of board members to eighteen (18).
Notwithstanding the fact that, at year end, the Board comprised 18 members, on 21 December 2017, CaixaBank disclosed to the market that Antonio Massanell Lavilla resigned as Deputy Chairman and member of the Board of Directors with effect from 31 December 2017. To fill the vacancy, on the same date the Board of Directors resolved, based on a favourable report from the Appointments Committee and subject to a suitability assessment by the European Central Bank, to appoint Tomás Muniesa Arantegui as a member of the Board of Directors. He will retain his current duties as CaixaBank's Chief Insurance and Asset Management Officer. 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

C. 1.3 - Given Antonio Massanell Lavilla's position as a company executive and pursuant to the Corporate Enterprises Act of 2 July 2010, he is considered to be an executive Director. However, since he was appointed to represent the holding of the "la Caixa" Banking Foundation at CaixaBank he was also considered to be a proprietary Director. Also see Note C.1.2. above on the resignation of Mr. Massanell, with effect from 31 December 2017.

C.1.11 - The information on Directors and directorships at other Group Companies refers to year-end. This section includes Group Companies and Joint Ventures at the end of the financial year.

C.1.12 - The information on Directors and directorships at other listed companies refers to year-end. With regard to the position held by Mr. Jordi Gual Solé in Erste Group Bank, AG, his precise title is Member of the Supervisory Board. However, due to space restrictions, he is listed as Director.

C.1.15 - The remuneration of Directors in 2017 as reported in this section takes the following aspects into consideration:

The Board of Directors, at 31 December 2017, was composed of 18 members.
The General Meeting held on 28 April 2016 agreed to set the number of Board members at eighteen (18) and the appointments of Cajasol Foundation (previously appointed by co-option on 19 November 2015) and Ms. María Victoria Fisas Vergés (previously appointed by co-option on 25 February 2016).
On 30 June 2016, the following people ceased to be members of the Board of Directors: Isidro Fainé Casas, who also tendered his resignation from his duties as Chairman and whose vacancy was occupied by Jordi Gual Solé, who was also appointed non-executive Chairman; Juan José López Burniol; and Maria Dolors Llobet María, whose vacancies were occupied by José Serna Masiá and Koro Usarraga Unsain.
In the context of the changes to the composition of the Board of Directors that occurred on 30 June 2016, and following the respective suitability notifications by the European Central Bank, Mr Serna Masiá accepted his appointment on 8 July 2016, Ms Usarraga Unsain on 4 August 2016 and Mr Gual Solé on 14 September 2016.
On 27 October, the Caja Navarra Banking Foundation tendered its resignation from its duties as director, following the amendments made to the Integration Agreement between CaixaBank and Banca Cívica, and the Shareholders' Agreement.
On 15 December 2016, Eva Aurín also tendered her resignation as a member of the Board of Directors and Alejandro García-Bragado Dalmau was appointed as a member of the Board of Directors, a position he accepted with effect from 1 January 2017.
The total remuneration for the Board of Directors does not include the amount of the contributions paid to the savings scheme during the year, which amounted to EUR 355 thousand, nor the life insurance premiums paid during the year, which totalled EUR 85 thousand.

C.1.16 - CaixaBank's Senior Management (without counting the Chief Executive Officer) at 31 December 2017, comprised 11 persons, holding the following positions at the Entity: General Managers (4), Deputy General Managers (1), Executive Directors (5) and the General Secretary and Secretary to the Board of Directors (1).
This amount includes the total fixed, in kind and variable remuneration paid to senior management in cash or shares receivable on a straight-line basis over the next five years.
The remuneration paid in 2017 to Senior Management at CaixaBank in connection with their activities as representatives of the Parent on the Boards of listed companies and other companies in which it has a significant presence or representation and that are CaixaBank consolidated companies was €796 thousand, recognised in the income statements of these companies.
There are agreements with members of the Management Committee regarding termination benefits for early termination or rescission of contracts.

C.1.19 - "Indicate the procedures for appointing, re-electing, evaluating and removing Directors" continued. List the competent bodies, procedures and criteria used for each of these procedures.
On 19 November 2015, the Board of Directors approved the Director Selection Policy of CaixaBank, S.A. (hereinafter, the "Policy"). This forms part of the company's corporate governance system, governing key commitments and aspects of the company and its Group in relation to the selection and appointment of directors.
The Policy sets out the criteria considered by the CaixaBank Board of Directors in selection processes for the appointment and re-election of its members, pursuant to applicable regulations and best corporate governance practices.
Principles of diversity of knowledge, gender and experience must be considered in selection processes for members of the Board of Directors. The selection process shall also uphold the principle of non-discrimination and equal treatment, ensuring that, when candidates are put forward for election or re-election to the Board, there are no impediments to selecting the gender which is under-represented and that discrimination is avoided.
All resolutions under the Policy shall at all times respect prevailing legislation, and the corporate governance system and regulations of CaixaBank, and the good governance principles and recommendations to which it has signed up. The members of the Board of Directors must have the competencies, knowledge and experience required for the exercise of their position, considering the needs of the Board of Directors and its overall composition. In particular, the overall composition of the Board of Directors must include the competencies, knowledge and experience required for the governance of credit institutions, including the main risks faced, ensuring the effective capacity of the Board of Directors to take autonomous and independent decisions in the interests of the company.
Along these lines, and in keeping with the Company's Corporate Governance Policy, candidates should i) have recognised business and professional integrity: ii) have the appropriate knowledge, skills and experience to perform their duties; and iii) be able to exercise good governance of the entity.
The procedure for selecting members of the Board of Directors set out in the Policy shall be complemented, as applicable, by the provisions of the Protocol on procedures for selecting and assessing the suitability of posts (hereinafter, the "Protocol"), or any other equivalent internal regulations prevailing at the time.
The Protocol establishes the Company's units and internal procedures involved in the selection and ongoing assessment of members of the Board of Directors, general managers and other senior executives, the heads of the internal control function and other key posts in CaixaBank, as defined under applicable legislation. Under the "Protocol", the Board of Directors, in plenary session, assesses the suitability of proposed candidates, based on a report from the Appointments Committee.
Also, with regard to the procedure to assess the suitability of candidates prior to their appointment as Director, the Suitability Protocol also establishes procedures to continually evaluate Directors and to assess any unforeseeable circumstances which may affect their suitability for the post.
Directors shall be removed from office when the period for which they were appointed has elapsed, when so decided by the General Meeting in use of the attributes granted thereto, legally or in the Bylaws, and when they resign.
In the event of the conditions described in C.1.21, Directors must place their position at the disposal of the Board of Directors and formalise, if the latter deems appropriate, the pertinent resignation.
When a director leaves office prior to the end of his term, he must explain the reasons in a letter which he shall send to all members of the Board of Directors.

C.1.30 – In 2017, the total number of non-attendances of Directors was just 18. Proxies appointed without specific instructions are deemed to be non-attendances. Director absences occur when Directors are unable to attend. Proxies, when appointed, do not generally include specific instructions for the proxyholder, so that the proxyholder can adhere to the outcome of the discussion by the Board.
Therefore, the percentage of non-attendances of the total votes cast in 2017 is 6.29%, taking into account that proxies appointed without specific instructions are deemed to be non-attendances.

C.1.31 - Notwithstanding the response given, we hereby note that as part of the ICFR System the financial statements for the year ended 31 December 2017, which form part of the annual financial statements, are subject to attestation by the Entity's Head of Financial Accounting, Control and Capital.

C.1.36 – On 15 December 2016, the Company disclosed that the Board of Directors had resolved to select PricewaterhouseCoopers Auditores, S.L. as financial auditor of the Company and its consolidated group for the years 2018, 2019 and 2020, based on the reasoned recommendation issued by the Audit and Control Committee, after completing the selection process carried out in accordance with the criteria set out in Regulation (EU) 537/2014 of 16 April on specific requirements regarding legal audit of public-interest entities.
On 6 April 2017, the Annual General Meeting, at the proposal of the Board of Directors resolved to select appoint PricewaterhouseCoopers Auditores, S.L. as financial auditor of the Company and its consolidated group for three years, namely 2018, 2019 and 2020, based on the reasoned recommendation and preference of the Audit and Control Committee, after completing the selection process carried out in accordance with the criteria set out in Regulation (EU) 537/2014 of 16 April on specific requirements regarding legal audit of public-interest entities.

C.1.39 - For the counting of consecutive years of an audit engage in public interest entities, the Spanish Accounting and Audit Institute (ICAC) made a statement on 30 March 2017 pointing to the need to include years audited by audit companies that the current auditor has merged or acquired. Accordingly, the calculation is updated with the inclusion of the years ended 31 December 2000 and 2001, which were audited by Arthur Andersen.

C.1.45 – The Board of Directors as a plenary body is responsible for approving, subject to a report of the Remuneration Committee, within the system called for in the Bylaws, the remuneration policies of the Board of Directors, of the Identified Staff and General Staff of the CaixaBank Group. It also approves Directors' remuneration and, in the case of executive Directors, the additional consideration for their management duties and other contract conditions, the appointment and removal of Senior Executives, as well as compensation clauses. Therefore, the Board of Directors only approves "golden parachute" clauses for the Entity's Chief Executive Officer and the 2 members of the Management Committee. It should be noted that the Board Remuneration Policy is approved by the Annual General Meeting.
For the other six executives that are not considered senior management and the 21 middle managers, in dismissals that give rise to a right of compensation, the impact is irrelevant as these clauses are absorbed by legal compensation.

C.2.1 – Due to the electronic form's limitations, it is further reported that Koro Usarraga Unsain was appointed member of the Audit and Control Committee given her profession of auditor and her experience in these matters.

C.2.2 - Regarding the information on the participation of women directors in the Appointments Committee, the Remuneration Committee and the Risks Committee, we would note that up until 25 September 2014 there were three Board Committees, namely: the Appointments and Remuneration Committee, the Audit and Control Committee and the Executive Committee. Thereafter, and pursuant to Law 10/2014 on the organisation, supervision and solvency of credit institutions, the CaixaBank Board of Directors resolved to change the Appointments and Remuneration Committee into an Appointments Committee, create a Remuneration Committee and a Risks Committee, and amend the Regulations of the Board of Directors accordingly to incorporate the provisions of the new Law and establish the duties of the new Board Committees. These changes resulted in the Entity having five Board Committees, namely: the Appointments Committee, the Remuneration Committee, the Risks Committee, the Audit and Control Committee and the Executive Committee.

D.3 - All transactions were carried out in the ordinary course of business and on an arm's length basis. Note 41 of the consolidated financial statements shows the balances with managers and Directors in aggregate form for 2017.

D.4- Note 41 of the consolidated financial statements shows the balances with CaixaBank Group associates and joint ventures in aggregate form as well as additional breakdowns 2017.

D.5 - All transactions were carried out in the ordinary course of business and on an arm's length basis.
Note 41 of the consolidated financial statements shows the balances with managers and Directors in aggregate form for 2017.

D.7 – In Spain, the Bank is the only listed company belonging to the CaixaBank Group. Nevertheless, for reasons of transparency, it should be noted that the CaixaBank Group contains another listed company, but its shares are listed in Portugal. This company is Banco BPI, S.A., with which CaixaBank has signed an Internal Protocol Governing Relations and whose main objectives are:
• managing related party transactions arising from the carrying out of transactions or the provision of services, respecting the corporate interest of both banks, and identifying in this regard the services that CaixaBank provides or may provide to BPI Group companies and those that BPI Group companies provide or may provide, in turn to CaixaBank Group companies, setting general criteria on these within a framework of autonomy, transparency, reciprocity and subjection to market conditions.
• establish, without prejudice to the foregoing, mechanisms to avoid the emergence of conflicts of interest caused by CaixaBank's status as the controlling shareholder of BPI.
• regulate the flow of adequate information that enables CaixaBank, as the parent of the group of which BPI is a part, fulfil its management requirements, legal obligations and the requests or orders of its supervisors, amongst others, the preparation of its financial statements and the fulfilment of its periodic reporting and supervisory requirements with the European Central Bank and the Bank of Spain and other supervisory and resolution bodies; all the foregoing, without prejudice to allowing the information flow that BPI may need from CaixaBank for its supervisory bodies.

E.1 - Continuation of Response:
• CaixaBank has an internal control framework which offers a reasonable degree of assurance that the Group will achieve its objectives. The Internal Control Framework is a set of rules and controls that govern CaixaBank's organisational and operating structure, including reporting processes and functions of risk management, compliance and internal audit. This is structured around the three lines of defence model, in line with regulatory guidance and best practices in the sector.
• The second line mainly comprises the Group's business and support units, which are risk taking areas responsible for developing and maintaining effective controls over their businesses, and for identifying, managing and measuring, controlling, mitigating and reporting the main risks that arise in their ongoing activity.
• The second line of defence acts independently from the business units and it performs risk identification, measurement, monitoring and reporting, establishes management policies and control procedures, and is responsible for reviewing application thereof by the first line.
• The internal audit function also carries out control activity as the third line of defence, and independently from the first and second lines. It provides an independent and objective review of the quality and effectiveness of the bank's internal control system.
More information on control units, see section E.6 and Note 3 of the Consolidated Financial Statements of the CaixaBank Group for 2017.

E.2. – Continuation of Response:

Collegiate bodies in the risk area
Senior Management acting within the framework of the duties assigned by the Board and its Committees, has established several committee for risk governance, management and control. It is not directly responsible for Reputational Risk, Legal and Regulatory Risk, including tax risk and Conduct and Compliance Risk that all fall under the Deputy General Manager of Compliance.
Level 1 committees are listed first, followed by level 2 committees that play a key role in the Group's risk area.
Committees related with the risk function:
• Permanent Lending Committee: has powers delegated by the Board of Directors to approve transactions.
• Global Risk Committee: body that reports to the Risks Committee in all matters related to the Group's risk management, assessment methodologies, approval, recovery and mitigation policies, monitoring, reporting and risk control of the banking group.

Committees reporting to the Global Risks Committee
• Risk Policies Committee and Investee Risk Policies Committee
• Operational Risk Committee
• Corporate Responsibility and Reputation Committee
• Crime Risk Committee
• Models and Parameters Committee
• Global Default and Recovery Committee
• Impairment Committee

For further information see Note 3 to the Consolidated Financial Statements of the CaixaBank Group for 2017.

G.2 – This recommendation is not deemed to be applicable to CaixaBank, given that the bank itself is the only listed company belonging to the CaixaBank Group in Spain. Nevertheless, for reasons of transparency, it should be noted that the CaixaBank Group contains another listed company, but its shares are listed in Portugal. This company is Banco BPI, S.A., with which CaixaBank has signed an Internal Protocol Governing Relations. See Note D.7 above for more details.

G.26 - Article 7.2 of the Regulations of the Board of Directors stipulates that the Chairman is vested with the ordinary powers to draw up the agenda for such meetings and lead the discussions and deliberations.
However, all Directors may request that additional items be included in the agenda.

G.29 - Pursuant to Article 33.2 of the CaixaBank Bylaws, Directors may resign from their posts, the posts may be revoked, and Directors may be re-elected on or more times for terms of equal length. No distinctions are made between types of Directors Nevertheless, article 20.1 of the Regulations of the Board of Directors stipulates that independent Directors will not stay on as such for a continuous period of more than 12 years.
Article 21 of the Regulations of the Board of Directors stipulates general and specific situations for each type of Director in which Directors must place their post at the disposal of the Board of Directors and tender their resignation, if the Board deems this appropriate.

G.56 - The required dedication, the limitations of other professional activities, the responsibilities inherent in this position and the demands of experience and knowledge must be duly rewarded through remuneration. However, if the Entity does not adequately compensate its Directors in return for limiting the activities they are able to carry out at other banking entities and demands a certain level of dedication and responsibility, this could become a barrier to selecting and incorporating new professionals to the Boards of Directors of highly complex banking entities.
Moreover, a level of remuneration that is in line with the qualification, dedication and responsibility required by the position of director could in some cases compromise their independence, due to this representing a significant part of their income.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on: 22/02/2018.

List whether any Directors voted against or abstained from voting on the approval of this Report.

Yes ☐ No ☒

CAIXABANK, SA

APPENDIX TO THE 2017 ACGR REPORT

C.2.1. Give details of all the board committees, their members and the proportion of proprietary and independent Directors. Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.*:..

AUDIT AND CONTROL COMMITTEE

Brief description

Articles 40 and 14 of the Bylaws and Regulations of the Board of Directors and applicable legislation describe the organisation and operation of the Audit and Control Committee.

1) Organisation and operation

The Audit and Control Committee shall be composed exclusively of non-executive Directors in the number that is determined by the Board of Directors, between a minimum of three (3) and a maximum of seven (7). Most of the members of the Audit and Control Committee shall be independent and one (1) of them shall be appointed on the basis of their knowledge and experience of accounting or auditing, or both. As a whole, the members of the Audit and Control Committee shall have the pertinent technical knowledge in relation to the entity's activity.

The Audit and Control Committee shall meet, ordinarily on a quarterly basis, in order to review the required financial information to be submitted to the stock market authorities as well as the information which the Board of Directors must approve and include within its annual public documentation.

The above notwithstanding, the Audit and Control Committee shall meet as often as necessary to fulfil its duties and shall be called by the committee's own Chairman, either on his/her own initiative or when instructed to do so by the Chairman of the Board of Directors or by two (2) members of the committee itself. The meeting notice shall be sent out by letter, telegram, fax, e-mail, or any other means which allows keeping a record of its receipt.

The Audit and Control Committee shall appoint a Chairman from among its members. The Chairman shall be an independent Director. The Chairman must be replaced every four (4) years and may be re-elected once a period of one (1) year from his departure has transpired. It shall also appoint a Secretary and may appoint a Deputy Secretary, neither of whom need be a committee member. In the event that such appointments are not made, the Secretary to the Board shall act as Secretary.

The members of the Company's management team or personnel shall be required to attend the meetings of the Audit and Control Committee and to lend their assistance and allow the committee to access any information they may have when the Committee so requests. The Committee may also require the Company's auditors to attend its meetings.

The Secretary will be responsible for convening the meeting and for filing the minutes and documents submitted to the committee;

It will shall be validly assembled when the majority of its members attend in person or by proxy. Resolutions shall be adopted by a majority of the members attending in person or by proxy and minutes of the resolutions adopted at each meeting shall be drawn up and such resolutions shall be reported to the Board as a plenary body, submitting or delivering a copy of the minutes to all Board members;

The committee's Chairman shall report to the Board on its activities and on the work performed at meetings specifically arranged for this purpose, or at the immediately following meeting when the Chairman deems this necessary.

It will prepare an annual report on its operation highlighting the main incidents occurring, if any, related to its duties, that will be the basis, amongst others, and if applicable, for the evaluation made by the Board of Directors. Furthermore, if the Committee deems it appropriate, it shall include in the report suggestions for improvement.

2) Responsibilities

Notwithstanding any other task which may be assigned thereto from time to time by the Board of Directors, the Audit and Control Committee shall perform the following basic duties:

(i) to report to the Annual General Meeting about matters posed by shareholders that are within the competence of the Committee and, in particular, 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;

(ii) to submit to the Board of Directors, for submission to the Annual General Meeting, the proposals for the selection, appointment, re-election and replacement of the auditor, being responsible for the selection process in accordance with the regulations applicable to the Company, as well as the contracting conditions thereof, the scope of their professional mandate and regularly obtaining from them information on the auditing plan and its execution, as well as preserving their independence in the exercise of their duties;

(iii) to supervise internal audit services, verifying the adequacy and integrity thereof and to propose the selection, appointment and substitution of their responsible persons; to propose the budget for such services and verify that senior management bears in mind the conclusions and recommendations of their reports. The internal audit will report functionally to the Chairman of the Audit and Control Committee, without prejudice of its reporting obligations to the Chairman of the Board of Directors for the due compliance of the Chairman's duties.

(iv) to serve as a channel of communication between the Board of Directors and the auditors, to evaluate the results of each audit and the responses of the management team to its recommendations and to mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable to the preparation of the financial statements, as well as to examine the circumstances which, as the case may be, motivated the resignation of the auditor;

(v) to oversee the process for preparing and submitting the required financial information, submit recommendations or proposals to the Board of Directors aimed at protecting its integrity, supervise the effectiveness of the Company’s internal control and risk management systems, and discuss with auditors any significant weaknesses in the internal control system identified during the course of the audit, all of that without infringing their 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;

(vi) to establish the appropriate relationships with the auditor in order to receive information on those issues which may result in a threat to their independence, for examination by the Audit and Control Committee, and any others relating to the audit process and, where relevant, the authorisation of the services other than those prohibited, under the terms established in the applicable legislation in relation to the need for independence, and any other communications provided for in audit legislation and audit regulations.

In all events, on an annual basis, the Audit and Control Committee must receive from the external auditors a declaration of their independence with regard to the Company or entities related to it, directly or indirectly, in addition to detailed and individualised information on additional services of any kind rendered to these entities and the corresponding fees received by the aforementioned auditors or persons or entities related to them as stipulated by auditing legislation.

In addition, the Audit and Control Committee shall issue annually, prior to the issuance of the audit report, a report containing an opinion on whether the independence of the auditor is compromised. This report must set out, in all cases, the justified evaluation of the provision of each and every one of the additional services referred to in the preceding paragraph, individually and collectively considered, different from the legal audit and related to the degree of independence or to the regulatory audit regulations;

(vii) to supervise compliance with the auditing contract, striving to ensure that the opinion about the Annual Financial Statements and the principal contents of the auditor's report are drafted clearly and precisely;

(viii) to review the Company's accounts and previously report to the Board of Directors about the periodic financial information which the Company must periodically publish to the markets and their supervisory bodies and, in general, to monitor compliance with legal requisites on this subject matter and the correct application of generally accepted accounting principles, as well as to report on proposals for modification of accounting principles and criteria suggested by management, in order to guarantee the integrity of the accounting and financial systems, including the financial and operational control, and compliance with the applicable legislation;

(ix) to supervise the compliance with regulations with respect to Related Party Transactions and, previously, inform the Board of Directors on such transactions. In particular, to ensure that the information on said transactions be reported to the market, in compliance with the provisions of the current legislation, and to report on transactions which imply or may imply conflicts of interest and, in general, on the subject matters contemplated in Chapter IX of this Regulation;

(x) to supervise the compliance with Internal Rules of Conduct on matters relating to the Stock Market and, in general, of the rules of corporate governance;

(xi) to, previously, report to the Board of Directors on the creation or acquisition of stakes in special purpose entities domiciled in countries or territories considered to be tax havens, as well as any other transactions or operations of an analogous nature which, due to their complexity, may deteriorate the transparency of the Company or of the group to which it belongs;

(xii) to consider the suggestions submitted to it by the Chairman of the Board of Directors, Board members, executives and shareholders of the Company, and to establish and supervise a mechanism which allows the employees of the Company or of the group to which it belongs confidentially and, if deemed, appropriate, anonymously, to report irregularities of potential significance, especially financial and accounting ones, which they observe within the Company;

(xiii) to receive information and, as the case may be, issue a report on the disciplinary measures intended to be imposed upon members of the Company's senior management team;

(xiv) to supervise compliance with the internal protocol governing the relationship between the majority shareholder and the Company and the companies of their respective groups, as well as the carrying out of any other actions established in the protocol itself for the best compliance with the aforementioned supervisory duty;

(xv) any others attributed thereto in the Law, the Bylaws, the Regulations of the Board of Directors and other regulations applicable to the Company.

(xvi) to propose the appointment of the members of the Appointments Committee

3) Activities during the year

There are recurring matters which are analysed by the Committee, such as those referring to the oversight of financial and non-financial information, the oversight of internal auditing, compliance with corporate governance rules and fulfilment of the Securities Held in Treasury Policy.

The Committee paid particular attention to overseeing the process for preparing and submitting the mandatory financial information and other information concerning 2017 disclosed to the market. The person responsible for financial reporting has appeared in several of the Committee's meetings held in 2017, and thus the Committee has learned, sufficiently in advance, about the process of compiling and consolidating interim financial information and the individual and consolidated financial statements. The Committee has been informed and approved of the valuation criteria and accounting practices applied by CaixaBank and, with the assistance of the external auditor, it has confirmed that it is aligned with accounting laws and the criteria established by competent regulators and supervisors. All with the object of guaranteeing the integrity of the accounting and financial information systems, including financial and operative control, and compliance with the applicable legislation.

The Annual General Meeting held on 6 April 2017 appointed PricewaterhouseCoopers Auditores, S.L. as the auditor of the accounts of CaixaBank and of its consolidated group for the years 2018, 2019 and 2020. The selection process was carried out in 2016 as per the criteria established in Regulation 537/2014 of 16 April on specific requirements regarding statutory audit of public-interest entities. The Committee was responsible for this selection process, and ensured that it was transparent, independent and objective. In 2017, the Committee also made that the auditor was changed smoothly and seamlessly, and in a way which had the smallest possible impact for CaixaBank.

In addition, and as part of their ordinary powers, the Committee discussed, examined, and took decisions or issued reports on the following matters:

- Independence of the external auditor, and follow-up on the reports issued by it;
- Approval of the Internal Audit Plan for 2017, monitoring its implementation and the main conclusions.
- Internal Audit reports issued at the Group and overseeing their recommendations.
- Monitoring trends in the main figures in the CaixaBank income statement and balance sheet, and the breakdown of the Group's liquidity position and solvency;
- Information about monitoring activities in the field of the Single Supervisory Mechanism; Overseeing the efficacy of the Internal Control Systems, including internal control over financial reporting (ICFR);
- Monitoring Control & Compliance activities.
- Overseeing the working of the Company's mechanisms which allow employees to confidentially report irregularities of potential significance which they observe within the Company (whistle-blowing channel).
- Information on transactions carried out with CaixaBank by directors or their related parties, and also those carried out with CaixaBank by senior management or their related parties.

APPOINTMENTS COMMITTEE AND REMUNERATION COMMITTEE

Brief description

Articles 40 and 15 of the Bylaws and Regulations of the Board of Directors and applicable legislation describe the organisation and operation of the Appointments Committee and the Remuneration Committee.

1) Organisation and operation

The Appointments Committee and the Remuneration Committee shall comprise exclusively non-executive members of the Board of Directors, in a number determined by the Board of Directors (minimum of three, maximum of five). A majority of each of these Committees must be independent directors, where members of the Remuneration Committee will be appointed by the Board of Directors at the proposal of the Audit and Control Committee. The Chairman of the Committee will be appointed from amongst the independent Directors forming part of such Committee.

Both the Appointments and the Remuneration Committees shall be self-governing, they shall elect their Chairman and appoint a Secretary. In the absence of this latter appointment, that of the Board shall act as Secretary or one of the Deputy Secretaries.

Both the Appointments and the Remuneration Committees shall:

(i) Meet whenever considered appropriate for the good performance of their duties and the meetings will be called by their Chairperson, either by his/her own initiative, or when required by two (2) members of the Committee itself, and must do so whenever the Board or its Chair requests the issuance of a report or the adoption of a proposal;

(ii) The meeting notice shall be sent out by letter, telegram, fax, e-mail, or any other means which allows keeping a record of its receipt.

(iii) The Secretary of each of the committees will be responsible for calling the meetings and for filing the minutes and documentation presented to the committee.

(iv) Minutes will be prepared of the resolutions adopted at each meeting, which shall be reported to the Board and the minutes will be available to all members of the Board in the Board Secretariat, but shall not be sent or delivered for reasons of discretion, unless the Chair of the Committee decides otherwise;

(v) The Committees shall be validly constituted with the attendance in person or represented by proxy of the majority of its members and resolutions shall be adopted by a majority of members who attend in person or by proxy.

They will prepare an annual report on about their operation highlighting the main incidents occurred, if any, related to their duties, that will be the base, amongst others, and if applicable, for the evaluation made by the Board of Directors. In addition, when the relevant Committee deems it appropriate, it will include in that report suggestions for improvement.

2) Responsibilities

Notwithstanding other duties which may be assigned thereto by the Board of Directors, the Appointments Committee shall have the following basic responsibilities:

(i) 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.

(ii) Submitting 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 Annual General Meeting, as well as the proposals for the reappointment or removal of such Directors by the Annual General Meeting;

(iii) Reporting on the proposed appointment of the remaining Directors to be appointed by co-option or for submission to the decision of the General Meeting, as well as the proposals for their reappointment or removal by the Annual General Meeting;

(iv) 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.

(v) Determining the most desirable profile for candidates of the various committees other than the Appointments Committee, based on their knowledge, aptitudes and experience, and presenting to the Board its proposed appointments to committees other than the Appointments Committee itself.

(vi) Reporting on proposals for appointment or removal of senior executives, being able to effect such proposals directly in the case of senior managers which due to their roles of either control or support of the Board or its Committees, it is considered by the Committee that it should take the initiative. Proposing, if deemed appropriate, the basic terms of the contracts of senior executives other than their pay and remuneration, and reporting those terms once established.

(vii) Examining and organising, in collaboration with the Lead 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, sending proposals to the Board of Directors so that the succession process is suitably planned and takes place in orderly fashion.

(viii)Reporting to the Board on gender diversity issues, ensuring that the procedures for selecting its members favour a diversity of experience, knowledge, and facilitate the selection of female directors, and establish a representation target for the less represented sex on the Board of Directors as well as preparing guidelines on how this should be achieved.

(ix) Periodically evaluating, 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. Evaluating the composition of the Management Committee as well as its replacement lists to ensure proper coverage as members come and go.

(x) Assessing, as often as required by applicable regulations, the suitability of the various members of the Board of Directors and of the Board as a whole, and reporting to the Board of Directors on its findings.

(xi) Periodically reviewing the Board of Directors selection and appointment policy in relation to senior executives and making recommendations.

(xii) Considering the suggestions it receives from the Company's Chairman, Board members, executives and shareholders.

(xiii) Supervising and controlling the smooth operation of the Company's corporate governance system, making any proposals it deems necessary for its improvement.

(xiv) Monitoring the independence of the independent Directors.

(xv) Proposing to the Board the Annual Corporate Governance Report.

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

(xvii) Verifying that the Board of Directors possesses a sufficient balance of knowledge, skills, diversity and experience and preparing a description of the duties and aptitudes that may be required for any specific appointment, while also evaluating the expected dedication of time for fulfilling the position.

Notwithstanding other duties which may be assigned thereto by the Board of Directors, the Remuneration Committee shall have the following basic responsibilities:

(i) Drafting the resolutions related to remuneration and, particularly, reporting and proposing 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.

(ii) 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.

(iii) Reporting and preparing the general remuneration policy of the Company and in 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.

(iv) Analysing, formulating and periodically reviewing the remuneration programmes, weighing their adequacy and performance and ensuring compliance.

(v) Proposing to the Board the approval of the remuneration reports or policies that it is required to submit to the Annual General Meeting as well as reporting to the Board on any remuneration-related proposals or motions the Board may intend to lay before the Annual General Meeting.

(vi) Considering the suggestions it receives from the Company's Chairman, Board members, executives and shareholders.

3) Activities during the year

3.1) Appointments Committee:

As part of its ordinary powers, the Committee discussed, examined, and took decisions or issued reports on the following matters: assessment of suitability; appointments to the Board, Committees and Advisory Committees; verification of the Directors' character; gender diversity; the policy for selecting Directors, senior management and other key posts; the CSR masterplan, corporate governance documentation to be submitted for 2016; in accordance with article 15 of the Regulations of the Board of Directors.

3.2) Remuneration Committee:

The Committee analyses recurring issues such as annual remuneration, salary policy and remuneration systems and corporate governance.

In addition, and as part of their ordinary powers, the Committee discussed, examined, and took decisions or issued reports on the following matters: the proposed evaluation of individual and group targets for 2016 and the 2017 Bonus Scheme, the ARDR, incidences due to regulatory changes, the 2015-2018 Long-term Incentive Plan and the Board Remuneration Policy.

RISKS COMMITTEE

Brief description

Articles 40 and 14 of the Bylaws and Regulations of the Board of Directors describe the organisation and operation of the Risks Committee.

1) Organisation and operation

The Risks Committee shall comprises exclusively non-executive Directors who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity of the entity, in the number determined by the Board of Directors, with a minimum of three (3) and a maximum of six (6), where the majority must be independent Directors.

The Risks Committee shall meet as often as necessary to fulfil its duties and shall be convened by the Chair, either on his/her own initiative or at the request of the Chair of the Board of Directors or of two (2) members of the Committee itself. The meeting notice shall be sent out by letter, telegram, fax, e-mail, or any other means which allows keeping a record of its receipt.

The Secretary will be responsible for convening the meeting and for filing the minutes and documents submitted to the committee.

It will shall be validly assembled when the majority of its members attend in person or by proxy. Resolutions shall be adopted by a majority of the members attending in person or by proxy and minutes of the resolutions adopted at each meeting shall be drawn up and such resolutions shall be reported to the Board as a plenary body, submitting or delivering a copy of the minutes to all Board members;

The Committee will inform the Board of its activities and work performed via its Chairperson in the meetings scheduled for this purpose, or immediately afterwards when the Chair deems necessary;

It will prepare an annual report on its operation highlighting the main incidents occurring, if any, related to its duties, that will be the basis, amongst others, and if applicable, for the evaluation made by the Board of Directors. Furthermore, if the Committee deems it appropriate, it shall include in the report suggestions for improvement.

For the proper performance of its duties, the Entity shall ensure that the delegated Risks Committee can access without difficulty the information concerning the risk situation of the Entity and, if necessary, specialist outside expertise, including external auditors and regulators.

The Risks Committee may request the attendance at meetings of the people that, within the organisation, have roles related to its duties, and shall have the advice that may be necessary to form criteria on matters within its competence, which shall be processed through the Council Secretariat.

2) Responsibilities

Notwithstanding any other task which may be assigned thereto from time to time by the Board of Directors, the Risks Committee shall perform the following basic duties:

(i) To advise the Board of Directors on the overall susceptibility to risk, current and future, of the Company and its strategy in this area, reporting on the risk appetite framework, assisting in the monitoring of the implementation of this strategy, ensuring that the Group's actions are consistent with the level of risk tolerance previously decided and implementing the monitoring of the appropriateness of the risks assumed and the profile established;

(ii) To propose to the Board the Group's risk policy, which shall identify in particular:

(a) The different types of risk (operational, technological, financial, legal, reputational, etc.) which the Company faces, including amongst the financial or economic risks the contingent liabilities and other off-balance-sheet risks.

(b) the internal reporting and control systems to be used to control and manage those risks.

(c) The determination of the risk level the Company sees as acceptable;

(d) the measures in place to mitigate the impact of identified risks should they materialise.

(iii) Ensure that the pricing policy of the assets and liabilities offered to the clients fully consider the business model and risk strategy of the entity. Otherwise, the Risks Committee will submit to the Board of Directors a plan to amend it.

(iv) Determine with the Board of Directors, the nature, quantity, format and frequency of the information concerning risks that the Board of Directors should receive and establish what the Committee should receive.

(v) Regularly review exposures with its main customers, economic business sectors and by geographic area and types of risk.

(vi) Examine the information and control processes of the Group's risk as well as the information systems and indicators, which should enable:

(a) a suitable and adequate structure and functionality of risk management across the entire Group;

(b) knowing the Group's risk exposure in order to assess whether it conforms to the profile determined by the Bank.

(c) having sufficient information available so as to be able to accurately gauge risk exposure for decision-making purposes.

(d) the proper functioning of policies and procedures in place to mitigate operational risks.

(vii) Evaluate the regulatory compliance risk in its scope of action and determination, understood as the risk management of legal or regulatory sanctions, financial loss, or material or reputational loss that the Company could suffer as a result of non-compliance with laws, rules, regulation standards and codes of conduct, detecting any risk of non-compliance and carrying out monitoring and examining possible deficiencies in the principles of professional conduct.

(viii) Report on new products and services or significant changes to existing ones, in order to determine:

(a) the risks facing the Company from their issue and their commercialisation on the market, as well as from significant changes in existing ones.

(b) the internal reporting and control systems used to control and manage those risks.

(c) corrective measures to limit the impact of the identified risks, should they materialise; and

(d) the means and the appropriate channels for their commercialisation in order to minimise any reputational risks and mis-marketing.

(ix) Cooperate with the Remuneration Committee in the establishment of rational remuneration policies and practices. For these purposes, the Risks Committee will examine, notwithstanding the duties of the Remuneration Committee, if the incentives policy anticipated in the remuneration systems take into account the risk, capital, liquidity and the probability and timing of the benefits.

(x) Assist the Board of Directors, particularly, regarding the (i) establishment of efficient channels of information to the Board about the risk management policies of the Company and all the important risks to which it is exposed, (ii) ensure that adequate resources will be assigned for managing risks, and, particularly, intervening in the evaluation of the assets, in the use of external credit classifications and the internal models related to these risks and (iii) the approval and periodical review of the strategies and policies for assuming, managing, supervising and reducing the risks to which the Company is or can be exposed, including those presented by the macro-economic situation in which it operates in relation to the economic cycle.

(xi) Any others attributed thereto in the Law, the Bylaws, the Regulations of the Board of Directors and other regulations applicable to the Company

3) Activities during the year

As part of its ordinary powers, the Committee discussed, examined and agreed on or issued reports on, inter alia, issues within its remit regarding the Risk Appetite Framework (RAF), the Recovery Plan, the Group's Risk Policy, the risk scorecard, the review of the types of risk, monitoring of internal control and regulatory compliance; and the Global Risk Committee.

EXECUTIVE COMMITTEE

Brief description

Article 39 of the Bylaws and articles 12 and 13 of the Regulations of the Board of Directors describe the organisation and operation of the Executive Committee.

1) Organisation and operation

The powers of the Executive Committee will be those that, in each case, are delegated by the Board, with the limitations set forth in the Law, in the Company's Bylaws and in these Regulations.

The Executive Committee will meet as often as it is called by its Chairman or whoever replaces him/her in his/her absence, as occurs in the event of vacancy, leave, or incapacity, and will be validly assembled when the majority of its members attend the meeting, either personally or by representation.

The appointment of members of the Executive Committee and the permanent delegation of powers from the Board on the same will require the favourable vote of at least two thirds of the members of the Board of Directors.

The Executive Committee will inform the Board of the main matters it addresses and the decisions it makes thereon at its meetings.

The Chairman and Secretary of the Board of Directors will also be the Chairman and Secretary of the Executive Committee.

The resolutions of the Committee will be adopted by the majority of the members attending the meeting in person or represented by proxy and will be validated and binding without the need for later ratification by the full Board of Directors, notwithstanding that spelled out in article 4.5 of the Regulations of the Board of Directors.

2) Responsibilities

The Executive Committee has been delegated all of the responsibilities and powers available to it both legally and as laid out in the Bylaws. In terms of procedure, the Executive Committee is subject to the limitations set forth under article 4.5 of the Regulations of the Board of Directors.

3) Activities during the year

The Committee analysed recurring issues such as:

- Information on the general economic situation and CaixaBank's key indicators, including monitoring the 2015-2018 Strategic Plan, results, the performance of its commercial and financial activities, the share price, the reactions of investors and analysts to the various decisions taken by the Company, the agreements taken regarding employees, appointments and other changes in the workforce and securities transactions entered into since the previous Committee meeting.
- Granting of loans and credits.
- Real estate sales.
- Resolutions relating to investees, inter alia: capital contributions, amendments to Bylaws, distribution of reserves, amendments to the composition of their governing bodies, granting of powers, sale and purchase of shares or stakes, the dissolution or liquidation of companies, and the appointment of proxies to attend meetings.
- Analysis of corporate investment or divestment transactions.

Some of the major issues addressed by the Committee in 2017 were as follows: monitoring the BPI takeover bid, various Company projects, and changing of the registered office, amongst others.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal

As we have mentioned before, the main risks the Entity is exposed to are outlined in the Corporate Risk Catalogue.

Clear monitoring responsibilities have been established and, where applicable, the response within the risk appetite framework.

The **Board of Directors** is the body responsible for defining and supervising the Group's risk profile, updating the framework's metrics and thresholds where necessary, and at least annually.

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

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

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

- **Monthly presentation** by the Corporate Global Risk Management Division to the **Global Risk Committee**, indicating the past and future trends of Tier 1 and Tier 2 metrics, according to the Strategic Plan/projection made as part of the ICAAP exercise. If first level risk levels breach the threshold for:
    - **Tolerance**: an amber traffic light or early alert is assigned to the indicator, and the party responsible or the Management Committee is entrusted by the Global Risk Committee with preparing an action plan to return to the "green" zone, and a timeline is drawn up.
    - **Non-compliance**: a "red traffic light" is assigned, including an explanation as to why the previous action plan did not work (if there was one). Corrective or mitigating measures are proposed to reduce exposure. This must be approved by the Risks Committee**. The Board must receive information with the content and frequency established by the Board Risks Committee.**
    - ***Recovery Plan***: this would trigger the Plan's governance process, which entails a set of measures to: minimise the possibility of insolvency of the bank, or of it entering an insolvency proceeding and minimising the impact in case of bankruptcy, seeking to prevent a public bail out.

      In this case, the regulator must be informed of serious breaches and the action plans expected to be adopted.
- **Quarterly presentation** to the **Risks Committee** on the situation, action plans and forecasts for Tier 1 metrics.
- **Half-yearly presentation to the Board of Directors** on the situation, action plans and forecasts for Tier 1 metrics.

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

If a risk breaches a non-compliance threshold which could threaten the Group's ability to continue as a going concern, the Board may initiate the measures set forth in the Recovery Plan**.**

With regard to fiscal risk, this forms part of the Fiscal Strategy (which includes strategic tax principles) and the Fiscal Risk Control and Management Policy, both approved by the Group's governing bodies.

Similarly, in compliance with CaixaBank's tax commitment, the Bank is maintaining its adherence to the Code of Best Tax Practices drawn up within the framework of the Large Companies Forum and is compliant with the content of the same.

The second and third lines of defence of CaixaBank are distributed, in accordance with the Internal Control Framework of the Group, as follows:

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

  The function is carried out by the Executive Management of Global Risk Management, which reports functionally to the Management of the Internal Control - Finance Department.

- **Regulatory Compliance:** it is also within the second line of defence and is responsible for safeguarding that the bank operates with integrity and in accordance with the legislations, regulations and internal policies which are applicable.

- **Risk Models Validation**: it is considered to be an integral part of the second line of defence even though it does not form part of its central functions, as it is responsible for the independent checking of internal models, as established in Regulation (EU) 575/2013 and Directive 2013/36/EU.

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

Risk Management Function

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

The RMF is responsible for identifying, monitoring, analysing, measuring, managing and reporting of risks, and for gaining a comprehensive view of the totality of the bank's risks. For these purposes, the department of Internal Control - Finance functionally reports to it all matters deemed relevant for the exercise of its function. In particular, Internal Control - Finance performs second line of defence duties for specific risks for which it is responsible, such as Reliability of financial reporting or Capital Adequacy, amongst others.

In addition, for these general duties that are performed or under development for different risks, Internal Control - Finance ensures that practices and processes in place at the bank for preparing financial information ensure their reliability and compliance with applicable regulations. For this purpose, the bank 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 bank in the markets.

Regulatory Compliance

The main objective of Regulatory Compliance is to monitor conduct and compliance risk in its role as a second line of defence. From 2017, this function also includes legal/regulatory and reputational risks. The Corporate Regulatory Compliance Division reports to the Assistant Deputy General Manager of Control and Compliance, who oversees conduct and compliance risk deriving from possible deficiencies in the procedures and controls implemented by the first line of defence, through monitoring activities, the review of internal procedures in the framework of Compliance Plan activities and the rectification of deficiencies detected through reports made by external experts, inspection reports by supervisory bodies, customer complaints, etc. If any deficiencies are detected, the Assistant Deputy General Manager of Control and Compliance will ask the management areas affected to draw up improvement plans which will be regularly monitored.

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

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

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

Internal Validation

CaixaBank's Internal Validation function is performed by the Risk Model Validation unit (RMV) that reports directly to the General Risks Division. This ensures its independence from the areas in charge of developing risk models and policies, and risk infrastructures. The RMV’s mission is to issue a technical opinion on the suitability of the internal models used for internal management and/or regulatory purposes in the CaixaBank Group.

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

The RMV's main activities are classified into two categories:

- **Validation cycles**: the group of regular reviews that guarantee an updated opinion on the status of the internal models.
- **Changes in internal models**: the activities that must been completed in order to reach an **informed opinion** of the suitability of the changes put forward by the areas in charge of the models.

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

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

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

Internal Audit

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

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

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

- The adequacy, effectiveness and implementation of policies, regulations and procedures.
- The adequacy, effectiveness and efficiency of internal control systems established to mitigate risks associated with the Group's activities, and the result of application of the same.
- The effectiveness of controls
- Adequate measurement and monitoring of 1LoD and 2LoD 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 2LoD.
- The effectiveness and efficiency of internal control systems in offsetting the risks of the Group's activities:
- Compliance with prevailing legislation, especially the requirements of supervisors.
- Compliance with internal policies and regulations, and alignment with the Risk Appetite Framework and best practices and uses in the sector, for adequate internal governance of the Group.
- The reliability and integrity of financial and operational information, including the effectiveness of Internal Control over Financial Reporting (ICFR).

Internal Audit's responsibilities also include:

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

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

For further information see Note 3 to the Consolidated Financial Statements of the CaixaBank Group for 2017.

H. Other Information of Interest

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of adoption.

CaixaBank participates in numerous alliances and initiatives, both at home and on the international stage, in order to achieve joint progress in questions of corporate responsibility and the exchange of best practices in this area.

UN Global Compact

Since 2012, CaixaBank has chaired the Spanish Network of the United Nations Global Compact and thereby fosters the advance and dissemination of the ten principles, which are based on human, labour and environment rights and the fight against anti-corruption.

Equator Principles

Signatories of the Equator Principles since 2007. It represents the bank's commitment to considering and managing social and environmental risks in assessing and financing project finance transactions of more than US $10 million and project-related corporate loans where the total aggregate loan amount is over US $100 million.

CDP

CaixaBank has been a signatory of CDP since 2012. This is an independent not-for-profit organisation working to drive greenhouse gas emissions reduction and sustainable water usage. As a signatory, and as a token of its commitment to respect and protect the environment, CaixaBank has committed to measure, disclose, manage and disseminate environmental information.

Women's Empowerment Principles

In 2013, CaixaBank adhered to the U.N. Women and the United Nations Global Compact's joint initiative: Women's Empowerment Principles By doing so, CaixaBank publicly assumed the commitment to ensure that its policies promote gender equality.

Global Reporting Initiative

CaixaBank produces an Integrated Corporate Report that includes the GRI's indicators on action taken with regard to social and environmental issues and corporate governance.

United Nations Principles for Responsible Investment (UNPRI)

VidaCaixa, a company in the business of marketing life insurance and managing pension plans, and CaixaBank Asset Management, CaixaBank's fund management company, both part of Caixabank, have been formally committed since 2009 and 2016, respectively, to these principles, which take into consideration social, environmental and corporate governance criteria in investment decisions.

OECD Guidelines for multinational enterprises

CaixaBank follows these guidelines which promote sustainable and responsible business behaviour.

Code of Good Practices for the viable restructuring of mortgage loans on primary residences

On 15 March 2012, CaixaBank adhered to the Spanish government's Code of Good Practices for the viable restructuring of mortgage loans on primary residences. CaixaBank's decision to join was based on the fact that the code mirrors one of its own core objectives: its long-standing fight against social and financial exclusion.

National Education Plan

Since 2010 CaixaBank has been a signatory to the Financial Education Plan promoted by the Bank of Spain and the Spanish Securities Market Regulator (CNMV) to improve society's knowledge of financial matters.

CSR –SMEs initiative

CaixaBank collaborates with the ICO and the Spanish Global Compact Network to promote corporate social responsibility amongst small and medium-sized enterprises.

Diversity Charter

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 for employment, employment, training and the promotion and adoption of non-discrimination programmes aimed at underprivileged groups. CaixaBank became a signatory in 2012.

More women, better companies

Signatory, along with the Ministry of Health, Social Services and Equality, of this pioneering initiative and one of the most important pledges of the Spanish government and industry to achieve a better balance of men and women in positions of company responsibility. Signatory since 2014.

Generation and Talent Observatory

Collaborating entity of the Generation and Talent Observatory, an organisation for research, analysis and training in generational diversity and the impact of the latter on socio-economic and labour issues in organisations. Signatory since 2016.

Green Bond Principles

CaixaBank signed up to these principles in 2015. These are a series of voluntary guidelines for all players in the green bond issuance process (underwriters, issuers and investors).

Voluntary agreements programme to reduce greenhouse gas emissions.

Under this programme, which is promoted by the Catalan Climate Change Office, in 2015, CaixaBank voluntarily pledged to monitor its emissions and introduce measures other than those legally established to help reduce these.

Green Growth Spanish Group

In 2016, CaixaBank was one of the founder members of this business association, which aims to help promote a low-carbon economy compatible with economic growth and job creation.

RE100

Since 2016, CaixaBank has formed part of this collaborative global corporate initiative committed to using 100% renewable electricity. It has established the public target of using 100% renewable electricity by the year 2018.

Code of Best Tax Practices
Since 2015, CaixaBank has been compliant with and committed to the Code of Good Tax Practices drawn up within the framework of the Large Companies Forum in collaboration with the Spanish tax authorities.

For more information, please visit the "Corporate Responsibility" section under "Corporate Information" on the CaixaBank website, or via this link:
http://www.caixabank.com/responsabilidadcorporativa/modelofinanzasresponsables/iniciativasyalianzas_es.html

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Translation of a report originally issued in Spanish based on our work performed in accordance with the regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails

AUDITOR'S REPORT FOR 2017 ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR) OF CAIXABANK, S.A.

To the Directors of CaixaBank, S.A.:

As requested by the Board of Directors of CaixaBank S.A. ("the Company") and in accordance with our proposal-letter dated 13 November 2017, we have applied certain procedures to the "Information relating to the system of ICFR" enclosed in the Section "Internal Systems of Control and Risk Management regarding to the Process of Issuance of Financial Information (ICFR)" to the Company's 2017 Annual Corporate Governance Report, which summarises the internal control procedures of the Company in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying Information relating to the system of ICFR.

It should be noted in this regard, irrespective of the quality of the design and operability of the internal control system adopted by the Company in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of the Company was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Company's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below, and, indicated in the *Action Guide on the auditor's report, based on the Information relative to the System of Internal Control over Financial Reporting of listed companies*, published by the National Securities Market Commission on its website, which states the work to be performed, its minimum scope as well as the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Company's annual financial reporting for 2017 described in the accompanying Information relating to the system of ICFR. Therefore, had procedures additional to those provided for in the aforementioned Guide been applied or an audit or a review of the system of internal control over the regulated annual financial reporting been performed, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current regulation of Account Audit activity in Spain, we do not express an audit opinion in the terms provided for in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Company in relation to the system of ICFR - disclosure information included in the directors' report- and assessment of whether this information addresses all the information required, which will be in line with the minimum content described in section F, relating to the description of the system of ICFR, of the Annual Corporate Governance Report model established in CNMV Circular 7/2015, of 22 December 2015.

2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Company.

3. Review of the explanatory supporting documentation for the information detailed in point 1 above, including the documentation furnished directly to the personnel in charge of preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit and Control Committee.

4. Comparison of the information detailed in point 1 above with the Company's knowledge of the system of ICFR obtained as a result of the application of the procedures carried out as part of the audit of its financial statements.

5. Perusal of minutes of meetings of the Board of Directors, the Audit and Control Committee and of other Company committees in order to assess the consistency between the ICFR issues addressed therein and the information detailed in point 1 above.

6. Obtainment of the representation letter concerning the work performed, duly signed by the personnel in charge of the preparation of the information detailed in point 1 above.

The procedures applied to the Information relating to the system of ICFR did not disclose any inconsistencies or incidents that might affect the Information.

This report was prepared exclusively under the framework of the requirements established by Article 540 of the Consolidated Spanish Limited Liability Companies Law and by Spanish National Securities Market Commission (CNMV) Circular 7/2015, of 22 December, for the purposes of the description of ICFR in Annual Corporate Governance Reports.

DELOITTE, S.L.

Francisco Ignacio Ambrós

23 February 2018

TIMBRE DEL ESTADO

0,03 EUROS

TRES CÉNTIMOS DE EURO

ON0548665

CLASE 8.ª

DECLARACIÓN DE RESPONSABILIDAD SOBRE EL CONTENIDO DEL INFORME FINANCIERO ANUAL DEL GRUPO CAIXABANK CORRESPONDIENTE AL EJERCICIO 2017

Los abajo firmantes declaran que, hasta donde alcanza su conocimiento, las cuentas anuales elaboradas con arreglo a los principios de contabilidad aplicables ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de CaixaBank, S.A. y de las empresas comprendidas en la consolidación tomados en su conjunto, y que el informe de gestión incluye un análisis fiel de la evolución y los resultados empresariales y de la posición de CaixaBank, S.A. y de las empresas comprendidas en la consolidación tomadas en su conjunto, junto con la descripción de los principales riesgos e incertidumbres a que se enfrentan.

Las Cuentas Anuales e Informe de Gestión de CAIXABANK, S.A. Y SOCIEDADES QUE COMPONEN EL GRUPO CAIXABANK, correspondientes al ejercicio 2017, formuladas por el Consejo de Administración en su reunión del día 22 de febrero de 2018, constan en el reverso de 471 hojas de papel timbrado de clase 8ª del nº ON2547501 al nº ON2547971 ambas inclusive y en el anverso y reverso de la hoja de papel timbrado de clase 8ª nº ON0548665 que contiene las firmas de los miembros del Consejo que los suscriben.

Valencia, 22 de febrero de 2018

Don Jordi Gual Solé
Presidente

Don Gonzalo Gortázar Rotaeche
Consejero Delegado

Don Francesc Xavier Vives Torrents
Consejero Coordinador
No firma por no haber asistido presencialmente, sino mediante videoconferencia. El Secretario,

Doña Maria Teresa Bassons Boncompte
Consejera

Doña María Verónica Fisas Vergés
Consejera

Don Alejandro García-Bragado Dalmau
Consejero

Fundación Bancaria Canaria Caja General de Ahorros de Canarias – Fundación CajaCanarias
Representada por:
Doña Natalia Aznárez Gómez
Consejera

Don Ignacio Garralda Ruíz de Velasco
Consejero

Don Javier Ibarz Alegría
Consejero

Don Alain Minc
Consejero
No firma por no haber asistido presencialmente, sino mediante videoconferencia. El Secretario,

Doña María Amparo Moraleda Martínez
Consejera

Don John Shepard Reed
Consejero
No firma por no haber asistido presencialmente, sino mediante videoconferencia. El Secretario,

Don Juan Rosell Lastortras
Consejero
No firma por no haber asistido a la reunión y haber delegado el voto. El Secretario,

Don Antonio Sáinz de Vicuña Barroso
Consejero

Don Eduardo Javier Sanchiz Irazu
Consejero

Don José Serna Masiá
Consejero

Doña Koro Usarraga Unsain
Consejera