Information of Prudential Relevance

”la Caixa” Group

at December 31, 2011

Contents

Introduction

This report constitutes the ‘Information of Prudential Relevance’ document in compulsory compliance with a number of obligations for information to be disclosed to the market established by the Bank of Spain in Chapter Eleven of Circular 3/2008 of May 22, 2008 on the determination and control of minimum capital.

The information in this report meets the requirements of Circular 3/2008. It has been drawn up in consideration of the indications of its Regulation One Hundred and Nine section 3 concerning the confidential nature of the information. The “la Caixa” Group states it has not omitted any of the required data for reasons relating to confidentiality or their reserved nature.

The purpose of this report is to provide market players with a capital sufficiency assessment of the “la Caixa” Group at December 31, 2011. Specifically, it contains information concerning capital, risk exposure and risk assessment processes at the “la Caixa” Group.

In compliance with the disclosure policies approved by the “la Caixa” Board of Directors during its meeting on December 18, 2008, this report was verified by the Control Committee (April 24, 2012) following approval by the Board of Directors (April 12, 2012). In accordance with current regulations, the ‘Information of Prudential Relevance’ document must be produced at least on an annual basis.

A. General aspects

1. General information requirements

1.1. Scope of application

The information set out in this report concerns the Caja de Ahorros y Pensiones de Barcelona Group (hereinafter the "la Caixa" Group), the parent company of which is Caja de Ahorros y Pensiones de Barcelona (hereinafter "la Caixa"). Information concerning the CaixaBank group separately is also provided.

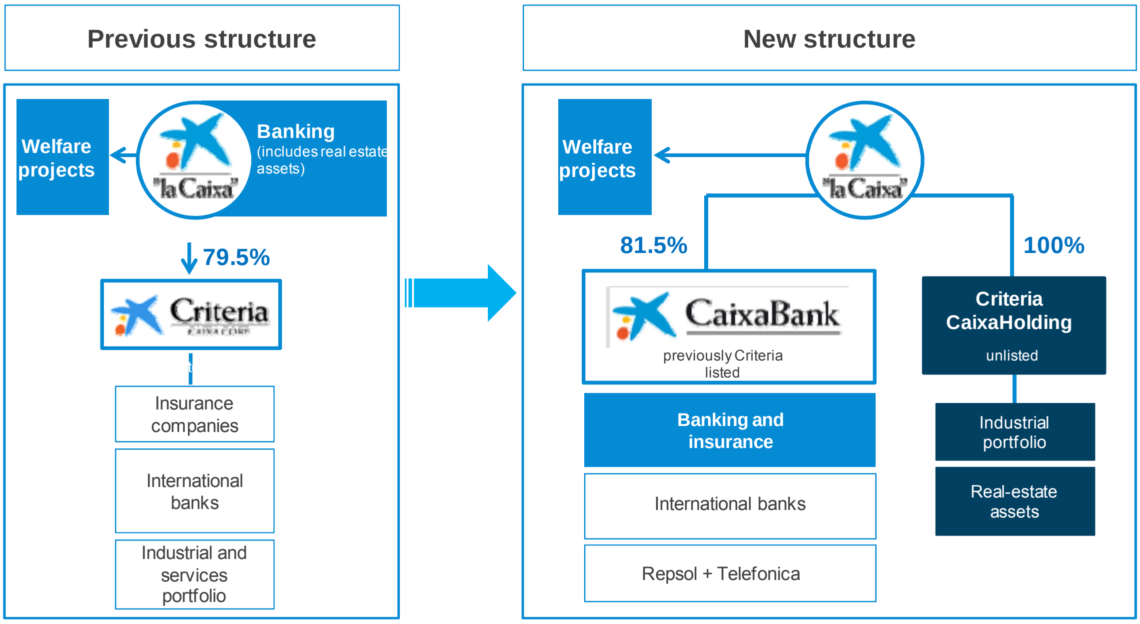
"la Caixa", as a savings bank and in accordance with its bylaws, is a private-law nonprofitmaking social and beneficial financial institution independent of any other company or entity. Its business purpose is to encourage savings in authorized formats, carry out social and beneficial projects, and invest its funds in secure profitable assets in the general interest.

The enactment of Royal Decree-Law 11/2010, of July 9, on the governing bodies and other matters relating to the legal framework for savings banks, in addition to the approval of the consolidated text of the Catalan Savings Banks Law, through Royal Decree-Law 5/2010, introduced the possibility for a savings bank to conduct its financial activities indirectly through a bank.

Within this legal framework, on January 27, 2011, the Boards of Directors of "la Caixa," Criteria CaixaCorp, SA and MicroBank de "la Caixa",SA entered into a framework agreement entailing the reorganization of the "la Caixa" Group in order to adapt to the new demands of national and international regulations and, specifically, to the new requirements of the Basel Committee on Banking Supervision (Basel III). The structure thus designed enables "la Caixa" to indirectly carry out its financial activity while continuing to fulfill its social welfare purposes.

The following chart illustrates the reorganization[1] of the "la Caixa" group that took place on July 1, 2011:

[1] For more information see Note 1, "Reorganization of the Group", of the "la Caixa" Group's 2011 financial statements.



Under this new organization structure, "la Caixa" holds the following direct stakes:

a) 81.52% of CaixaBank, SA (listed company), through which "la Caixa" indirectly carries out its financial activity, pursues its banking and insurance businesses and holds stakes in international banks, Repsol and Telefónica.

b) 100% of Criteria CaixaHolding, SAU (unlisted company), encompassing its industrial stakes and real estate assets.

1.1.1. Description of the consolidable group

For the purposes of current regulations, a 'Group' of companies exists where a parent company exercises direct or indirect control over other entities (subsidiaries). This control relationship is mainly exercised if the parent company holds, directly or indirectly, a majority of the voting rights in the dependent entity, or is entitled to appoint or remove a majority of members of the Board of Directors.

Moreover, a 'consolidable group of credit institutions' exists if the group is composed of two or more entities that are consolidable due to their business activity (the same type of activity or an extension of this activity), and if there is compliance with the requirements of Regulation Two section 2 of Circular 3/2008. Entities determined in accordance with Regulation Two section 1 of Circular 3/2008 will be considered as 'financial entities consolidable due to their business activity'. The following provides a summary of the main differences in relation to the consolidation requirements and methods applied to draw up information on the "la Caixa" and CaixaBank Groups in this report and to draw up the consolidated financial statements of both Groups:

- For the purposes of the consolidated financial statements of the "la Caixa" Group, all subsidiaries are consolidated using the full consolidation method, regardless of whether they are considered as entities consolidable due to their business activity. Jointly-controlled entities are accounted for using the equity method.
- For the purposes of capital adequacy, subsidiaries carrying out business activities other than those set out in Regulation Two section 1 of Circular 3/2008 are considered as not consolidable due to their business activity, and in this case the equity method is used.

In accordance with the provisions of Regulation Nine of Circular 3/2008, shareholdings must be deducted from capital in the following circumstances:

- A shareholding in a financial entity that is consolidable due to its business activity, but does not form part of the consolidable group, exceeds 10% of the share capital or voting rights of the entity in which the shares are held.
- A shareholding in an insurance company or reinsurance company, or in an entity the main business purpose of which consists of investment holdings in insurance companies,[2] exceeds 20% of the share capital or voting rights of the entity in which the shares are held.
- There must also be a deduction of any excess represented by qualified investment with respect to 15% of the Group's eligible capital.

Tables 1 and 2 show the treatment applied to each of the entities comprising both areas for the purposes of determining capital adequacy and for the purposes of drawing up the consolidated financial statements.

[2] The concept of 'shareholding' is that set out in article 47, section 3 of the Code of Commerce.

Table 1 CaixaBank Group consolidation scope for capital adequacy and accounting purposes

Name of entity	Description of activity	% holding		Accounting treatment for consolidated financial statements		
		Direct (1)	Total	Full	Proportionate	Equity
Fully consolidable entities for capital adequacy purposes						
BANKPYME, S.A., S.G.I.I.C.	Venture capital management	0,00	100,00	✓		
BuildingCenter	Property services	100,00	100,00	✓		
Caixa Capital Biomed S.C.R. S.A.	Venture capital management	90,91	90,91	✓		
Caixa Capital Micro, SCR de Régimen Simplificado, SAU	Venture capital management	100,00	100,00	✓		
Caixa Capital Pyme Innovación, SCR de Régimen Simplificado, SA	Venture capital management	80,65	80,65	✓		
Caixa Capital Risc, SGECR, SA	Venture capital management	99,99	100,00	✓		
Caixa Capital Semilla, SCR de Régimen Simplificado, SA	Venture capital management	100,00	100,00	✓		
Caixa Corp, SA	Holding of shares	100,00	100,00	✓		
Caixa Emprendedor XXI, SA	Pormotion of inicitiaves related to entrepreneurship and inovation	100,00	100,00	✓		
Caixa Girona Gestió, SGIIC, SAU	Investment fund management	100,00	100,00	✓		
Caixa Girona Pensions, EGFP, SA	Pension fund management	100,00	100,00	✓		
Caixa Preference,SAU	Finance	100,00	100,00	✓		
CaixaRenting, SA	Renting of vehicles and machinery	100,00	100,00	✓		
Corporación Hipotecaria Mutual, EFC SA	Morgatge loans	100,00	100,00	✓		
e-la Caixa 1, SA	Electronic channel management	100,00	100,00	✓		
FinanciaCaixa 2, EFC, SA	Finance	99,67	100,00	✓		
Finconsum, EFC, SA	Consumer finance	100,00	100,00	✓		
GDS-CUSA, SA	Services	100,00	100,00	✓		
GestiCaixa, SGFT, SA	Securitisation fund management	91,00	100,00	✓		
HipoteCaixa 2,S.L.	Morgatge fund management	100,00	100,00	✓		
Hodefi, SAS	Holding company	0,00	100,00	✓		
Holret, SAU	Property services	100,00	100,00	✓		
InverCaixa Gestión, SGIIC, SA	CIU management company	100,00	100,00	✓		
Nuevo Micro Bank de la Caixa, SA	Financing of micro-loans	100,00	100,00	✓		
Recouvrements Dulud, SA	Finance	0,00	100,00	✓		
Servicio de Prevención Mancomunado del Grupo la Caixa, CB	Consulting and prevention of labour risk	83,33	91,67	✓		
Silc Immobles, SA	Cosntruction and property development of estates	0,00	100,00	✓		
Silk Aplicaciones	Services	100,00	100,00	✓		
Sodemi, SAS	Property development and leasing	0,00	100,00	✓		
Suministros Urbanos y Mantenimientos, SA	Construction management, management and logistic	100,00	100,00	✓		
Tenedora de Vehículos, SA	Renting	0,00	65,00	✓		
Trade Caixa I, SA	Administrative and consulting services	100,00	100,00	✓		
Vida Caixa Grupo, SA	Holding company	100,00	100,00	✓		
Entities deductible from capital for capital adequacy purposes						
Agencaixa, SA	Insurance company	0,00	100,00	✓		
Banco BPI, SA	Banking	30,10	30,10			✓
Boursorama, SA	Direct Banking	1,33	20,73			✓
GDS-Correduría de Seguros, SL	insurance brokerage	20,00	20,00			✓
Grupo Financiero Inbursa, SAB de CV	Banking	20,00	20,00			✓
SegurCaixa Adeslas, SA Seguros Generales y Reaseguros	Insurance	0,00	49,92			✓
Self Trade Bank, SA	Banking	49,00	49,00			✓
Telefónica Factoring do Brasil, LTDA	Factoring	20,00	20,00			✓
Telefónica Factoring, EFC, SA	Factoring	20,00	20,00			✓
The Bank of East Asia, LTD	Banking	17,00	17,00			✓
VidaCaixa Mediació, Sdad. Agencia de Seguros Vinculada, SAU	Insurance	0,00	100,00	✓		
VidaCaixa, SA de Seguros y Reaseguros	Insurance	0,00	100,00	✓		

Name of entity	Description of activity	% holding		Accounting treatment for consolidated financial statements		
		Direct (1)	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						
Erste Group Bank AG	Banking	9,77	9,77			✓
Estugest, SA	Administrative activities	100,00	100,00	✓		
Aris Rosen, SAU	Services	100,00	100,00	✓		
Cegipro, SAS	Property	0,00	100,00	✓		
Centro Médico Zamora, SAU	Medical services	100,00	100,00	✓		
Cementiri de Girona, SA	Funeral services	30,00	30,00			✓
Comercia Global Payments, Entidad de Pago, SL	Payment entity	49,00	49,00			✓
Ediciones 62, SA	Book publishing	30,13	30,13			✓
Girona, SA	Water treatment and distribution	34,22	34,22			✓
Inversiones Inmobiliarias Oasis Resort, SL	Services	60,00	60,00	✓		
Inversiones Inmobiliarias Teguise Resort, SL	Services	60,00	60,00	✓		
Limpieza y Mantenimiento Hospitalarios, SL	Cleaning service for offices, businesses and hospitals	100,00	100,00	✓		
Polígono Industrial Girona, SA	Property development	38,98	38,98			✓
PromoCaixa, SA	Product marketing	99,00	100,00	✓		
Repsol YPF	Oil and gas market operation	12,82	12,82			✓
Serveis Informàtics la Caixa, SA	Provision of IT services	49,00	49,00			✓
Valoraciones y Tasaciones Hipotecarias, SA	Appraisal services	100,00	100,00	✓		

Table 2 "la Caixa" Group consolidation scope for capital adequacy and accounting purposes

Name of entity	Description of activity	% holding		Accounting treatment for consolidated financial statements		
		Direct (1)	Total	Full	Proportionate	Equity
Fully consolidable entities for capital adequacy purposes						
CaixaBank, SA	Banking	81,52	81,52	✓		
Criteria CaixaHolding, SAU	Equity holding company	100,00	100,00	✓		
Estuimmo, SAU	Holder of shares and property assets	100,00	100,00	✓		
Estuinvest, SL	Property development	0,00	100,00	✓		
Estullogimmo, SLU	Property rental	100,00	100,00	✓		
Estuvendimmo, SLU	Purchase and sale of properties	0,00	100,00	✓		
Inversiones Autopistas, SL	Holding company	50,10	50,10	✓		
Norton Center, SL	Const. property devel. of estates	0,00	100,00	✓		
Servihabitat Alquiler II, SLU	Property services	0,00	100,00	✓		
Servihabitat Alquiler III, SLU	Property services	0,01	100,00	✓		
Servihabitat Alquiler IV, SLU	Property services	0,00	100,00	✓		
Servihabitat Alquiler, SL	Property services	0,03	100,00	✓		
Servihabitat XXI, SAU	Real estate services	100,00	100,00	✓		
Entities not consolidated fully or proportionately for capital adequacy purposes						
Arrendament Immobiliari Assequible, SLU	Management of state-sponsored housing	0,00	100,00	✓		
Arrendament Immobiliari Assequible II, SLU	Housing management	0,00	100,00	✓		
Foment Immobiliari Assequible, SAU	Home development, incluiding state-sponsored housing	100,00	100,00	✓		
Abertis Infraestructuras, SA	transport and comunications infraestrucure management	19,65	23,54			✓
Gas Natural, SDG, SA	Electricity and gas business	35,27	35,27			✓
Mediterranea Beach & Golf Resort, SA	Operation and administration of urban areas associated with the theme park	100,00	100,00	✓		
Palau-Migdia, SL	Property development	0,00	50,00			✓
Port Aventura Entertainment	Operation of theme park	50,00	50,00			✓
Hisusa-Holding de Infraestructuras de Serv.Urbanos, SA	Holding company	24,26	24,26			✓
Saba Infraestructuras	Management of car parks and logistics parks	55,76	55,76	✓		

(1) Includes investments holdings though "la Caixa", CaixaBank and CriteriaCaixa Corp, SA

1.1.2. Other general information

In December 2008, the Bank of Spain ruled that the following entities of the consolidable group were no longer individually subject to compliance with capital adequacy requirements:

- Caja de Ahorros y Pensiones de Barcelona, "la Caixa"
- Finconsum, EFC, SA
- Corporación Hipotecaria Mutual, EFC, SA
- FinanciaCaixa 2, EFC, SA
- MicroBank de la Caixa, SA

Following the reorganization of the group, "la Caixa" no longer complies with the requirements that would allow this exemption, and duly informed the Bank of Spain in writing on July 7, 2011. Additionally, a request was filed with the Bank of Spain to maintain an individual exemption for the group's banking subsidiaries (Finconsum, EFC, SA, Corporación Hipotecaria Mutual, EFC, SA, FinanciaCaixa 2 and Nuevo Micro Bank, SA). Lastly, the Bank of Spain was also informed that CaixaBank, SA would remain subject to individual compliance with capital adequacy requirements. In turn, the Bank of Spain expressed its agreement with the suggested treatment.

At December 31, 2011, both "la Caixa" and CaixaBank, SA, comply fully with the minimum individual capital requirements.

Similarly, all subsidiaries subject to compliance with minimum capital requirements and not included in the consolidable group met the capital requirements prescribed by the various regulations applicable.

1.2. Risk management policies and objectives

1.2.1. Objectives, corporate culture and organization in relation to risk management

Reorganization of the Group in 2011 and current situation

Up to the first half of 2011, the Group's retail banking activity was carried out by Caja de Ahorros y Pensiones de Barcelona (CAPB, "la Caixa"), while Criteria CaixaCorp, SA managed the most important investees. On July 1, 2011 the reorganization of the Group was completed with the creation of CaixaBank, SA and its IPO.

The “la Caixa” Group is the framework in which risk management at the parent (CAPB) and its subsidiaries, CaixaBank, SA and Criteria CaixaHolding, SAU, is coordinated and carried out.

CaixaBank carries out retail banking and insurance activities and manages the international banking portfolio and the investments in Repsol YPF, SA and Telefónica, SA, while Criteria CaixaHolding manages the rest of the industrial holdings portfolio and the real estate assets acquired prior to the reorganization of the Group.

As an exception to this general framework, "la Caixa" continues to directly carry out *Monte de Piedad* (nonprofit secured lending) activity, given that, under current legislation, such activity is assigned solely to savings banks.

Organization of the risk function

The Board of Directors of “la Caixa” is the Entity's highest risk-policy setting body. A framework for reporting to the Board on risk matters has been put in place establishing the appropriate reporting content and frequency for each type of risk and thresholds which, if surpassed, require notification at the next Board meeting regardless of the established schedule.

The “la Caixa” Investment Committee must inform the Board of Directors or its Executive Committee of the viability and appropriateness of strategic investments and divestments made through CaixaBank or Criteria CaixaHolding with respect to the Group’s strategic plans.

The Management Committee manages risks at the highest level at “la Caixa” Group in accordance with the strategies adopted by the Board of Directors. The Management Committee reviews and handles key information on the main levels and trends in risks assumed as a credit institution, as well as those derived from indirectly carrying out its business through CaixaBank and Criteria CaixaHolding.

1.2.1.1 Risk management objectives

At the “la Caixa” Group, global risk management aims to ensure the company’s robust risk profile, preserve capital adequacy and optimize the return/risk ratio by identifying, measuring and assessing risks and ensuring that they are always taken into account in the “la Caixa” Group’s business decision-making process. In this way, a risk profile is set that is aligned with the Group’s strategic objectives. The basic focuses of the model of delegation are both the fundamental variables of risk and the amounts of transactions, and it enables the Group to quantify risks using scenarios based on capital use and expected loss.

The risks incurred as a result of "la Caixa" Group activities are classified as follows: credit risk (arising from the banking business and risk associated with the investee portfolio), market risk (which includes structural balance sheet interest rate risk, the price or rate risk associated with treasury positions, and foreign currency risk), liquidity risk, operational risk, reputational risk and regulatory compliance risk.

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

1.2.1.2 Corporate culture of risks: general principles of risk management

The Board of Directors of “la Caixa” is the Group’s highest risk-policy setting body. The Board-approved General Risk Management Principles provide risk management guidelines at the “la Caixa” Group. These can be summarized as follows:

- Risk is inherent to the financial business and risk management is a function that corresponds to the entire organization. In addition: independence of the risk management function, joint decision-making, approval of transactions based on the borrower’s repayment capacity, monitoring of transactions until final repayment, and receipt of an appropriate return for the risk assumed.
- Other, more specific principles underlying the risk management model of the "la Caixa" Group are as follows: advanced measurement and management approaches, decentralized processes for quicker decision-making as close to the customer as possible, standardization of the criteria and tools used, and the allocation of appropriate resources to carry out these tasks.

1.2.1.3 Organizational structure of the risk function

Risk management in the “la Caixa” Group

The Risk Department at “la Caixa” reports directly to the Senior Executive Vice-President, and to the Legal Advisory Services, Finance, Corporate Office and Human Resources Areas.

Group companies have a structure of control and oversight of their activities, while “la Caixa” has a complementary structure organized in keeping with the principle of efficiency that provides support to the responsibilities of its officers through control of the business as a credit institution and of the activities carried out by subsidiaries.

To comply with the efficiency principle, “la Caixa” carries out the necessary tasks internally that shape the complementary management, control and supervision inherent in its indirect operations. Meanwhile, it outsources to other Group companies tasks that could be performed by “la Caixa” but are not because it would not be efficient, and those requiring a high degree of experience centered in CaixaBank and other Group companies.

Risk management in the CaixaBank Group

- CaixaBank's Board of Directors is the Entity’s highest risk-policy setting body. Acting in line with the duties assigned by the Board, the senior executives are members of the following risk management committees: Global Risk, Loan Approval, Lending, Refinancing, ALCO (Asset-Liability management) and Real Estate Acquisition and Appraisal Committee.
- CaixaBank has a General Manager in charge of Group risks. The Global Risk Management Division, which reports to the General Manager of Risk, is the global oversight unit that implements the role of independence required under the Basel Committee for Banking Regulations, with the responsibility to supervise the healthy state of the asset and capital adequacy and security mechanisms.

  The General Treasury and Capital Markets Subdivision is in charge of managing the balance sheet and liquidity, under the independent supervision of the Corporate Risk Models Division, which reports to the Global Risk Management Division.

  Therefore, all financial risks fall under the responsibility of the General Manager in charge of CaixaBank Group financial risks. This responsibility does not include: reputational risk (managed by the Deputy General Manager of Communication, Institutional Relations, Brand and Corporate Responsibility) and regulatory compliance (which is managed by the Deputy General Manager of Audit, Internal Control and Regulatory Compliance).

These areas and functions are functionally and organizationally independent of the risk-taking areas in order to enhance the autonomy of management, monitoring and control functions, thus securing the comprehensive management of the various risks involved.

The risk function is adapted to the decentralized organization of CaixaBank's branch network, but it also guarantees maximum scope for application of risk criteria. The network is structured into Branches, Business Area Divisions, General Delegations and Territorial Divisions. When transactions exceed the level of authority of the Territorial Divisions they must be approved, as the case may be, by the Lending Committee, and ultimately by the Board of Directors.

CaixaBank has a structure of Business Centers specializing in companies with turnover of between €10 million and €200 million. These Business Centers report to the General Business Delegations, which form part of the abovementioned Regional Divisions. Furthermore, CaixaBank has two Corporate Banking offices, directed at groups with turnover of more than €200 million.

Single risk circuit***:*** Approval of risk operations beyond a certain level of authority (beyond Business Area Division level) must be signed jointly by an employee approved by the commercial network (Manager of the Business Area, Managing Director or the Territorial Director) and also by another employee with similar powers of approval, ultimately reporting to the Executive Risks Division for Analysis and Approvals. This single circuit is used to analyze and approve both company banking and retail banking operations.

Risk management at Criteria CaixaHolding

Criteria CaixaHolding's Board of Directors is the Entity's highest risk-policy setting body. Criteria CaixaHolding operates on a medium/long-term horizon to maximize value with a focus on corporate development and involvement in the strategies of investees, investing and divesting at the most opportune moments.

Criteria CaixaHolding participates actively on the corporate bodies of the main investees and is involved in defining their future strategies in coordination with the companies' management teams. It has in-depth knowledge of the industries in which it holds investments, in addition to a proven track record and experienced teams. Criteria CaixaHolding identifies, analyzes and assesses new business and investment opportunities each day.

It also oversees the management of the real estate assets acquired by the Group prior to its reorganization.

1.2.1.4 Internal Audit

The “la Caixa” Group’s internal audit function is the responsibility of the Senior Vice President of Audit, Internal Control and Compliance, which is part of the Entity’s Management Committee. This area regularly reports to General Management and to the Control Committee, which supervises all internal audit functions.

Its mission is to guarantee effective supervision, with ongoing assessment of the internal control system, and management of the organization’s risks. It performs an independent corporate function to foster good corporate governance. Audit teams are in place at "la Caixa", CaixaBank and investees.

The internal audit function of "la Caixa" and of CaixaBank is currently the responsibility of the same individual, without prejudice to each audit team’s responsibilities for reporting to the respective control committees, audit committees and other control and supervisory bodies in each company.

The strategic focus of “la Caixa”’s Internal Audit unit is to detect, supervise and control the main risks at the Group. Its purpose is to maintain at reasonable levels the possible impact of risks on the achievement of the Group’s goals and to provide added value through its actions. Its organization and working methodology are centered on attaining these goals.

The internal audit unit verifies compliance with internal guidelines and regulatory requirements, in addition to the efficiency and effectiveness of the controls in place, and issues recommendations in cases where weaknesses are detected. It is also responsible for internal supervision within the global risk management framework of Basel: Pillar 1 (credit risk, operational risk and market risk), Pillar 2 (internal capital adequacy assessment process and other risks) and Pillar 3 (information of prudential relevance).

In relation to Pillar I, the internal audit unit is responsible, among others, for the following areas:

- Credit risk, in respect of the requirements for applying the IRB approach:
  - The integration of the models in the Entity's day-to-day management, both in the approval and in the subsequent management and monitoring of transactions.
  - The integrity and consistency of the databases of exposures and construction and calibration of models.

  - The accuracy of data entering the Entity's systems and the existence and adequacy of controls.
  - Compliance with the Entity's internal regulations in connection with credit risk management.
  - Validating implementation of the models and procedures for the calculation of regulatory capital and measurement and risk management tools developed for information systems.
- For operational risk:
  - Supervision of the Operational Risk Management Framework in the "la Caixa" Group, ensuring compliance with regulatory guidelines.
  - Supervision of the calculation of capital requirements and the implementation of operational risk assessment, control and management procedures.
  - Revision of technological risks affecting the "la Caixa" Group systems, in terms of integrity and confidentiality, in addition to system availability and business continuity, through planned reviews and continuous audit proceedings through the follow-up of defined risk indicators.
- For market risk:
  - Verification of Capital Adequacy Circular requirements, in respect of market risk management systems which refer to the implementation of established procedures in management processes and methodology, ensuring the integrity of the data used and the correct structure of control systems and written instructions.
  - Checking the technological environment and processes for uploading the information applications used to measure market risk.

1.2.2. Credit and dilution risk

Credit risk, which is inherent to the business of credit institutions, arises if a counterparty is unable to meet payment commitments (default). This is the most significant risk on the "la Caixa" Group's balance sheet, and is broken down into lending activity, counterparty risk, which is generated by treasury operations, and risk arising from the investee portfolio.

1.2.2.1 Credit risk

1. Description and general policy

Approval of lending transactions at CaixaBank[3] follows the basic criterion of evaluation of the borrower's repayment ability, and it is not the Entity's policy to approve transactions merely because guarantees exist. If this condition is fulfilled, it is also important to secure further guarantees, particularly in the case of long-term transactions, and to establish a price in accordance with these two conditions.

CaixaBank's lending activity is basically geared towards meeting the financing needs of households and businesses, and its portfolio is highly diversified and fragmented, thereby reducing credit risk. In terms of geographic distribution, business is mainly based in Spain and there is no exposure in high-risk countries.

In accordance with the Entity's Strategic Plan, the "la Caixa" Group intends to retain its leadership in individual mortgage loans (mortgage guarantee loans account for approximately two-thirds of all credit investments), and further strengthen its position in the personal loans business. It is also working towards expanding in the business segment.

The economic juncture calls for policies to provide certain kinds of assistance to customers, within a framework approved by the Entity's management and ensuring that refinancing processes are compliant with prevailing standards.

The main focuses of the model of delegation of authority for approval of on-going operations at the Group are as follows: 1) the basic risk variables associated with each borrower and operation, 2) the amount and the expected loss, 3) mitigation represented by accessory guarantees in terms of repayment of the debt by the borrower, 4) development of a decentralized organizational model to enable approval at offices of a high percentage of operations, and 5) IT controls to guarantee effective application of the policies introduced.

One major component of the assessment of a borrower's ability to repay a debt is the probability of default (a risk parameter defined within the management framework proposed by Basel II) as allocated by the scoring and rating systems. These tools were developed in due

[3] CaixaBank is the listed banking group, which, as we have already seen, carries out the "la Caixa" Group's retail banking activities. Therefore, references to credit risk management carried out by the branch network referred to above are direct references to CaixaBank and indirect references to the "la Caixa" Group.

consideration of the Entity's past experience of default, and include measures to adjust the results to the economic situation.

The authorization system is automatic, and employees cannot approve operations for which they have no authorization.

2. Structure and organization of the credit risk management function

As discussed above, the main role of the CaixaBank Global Risk Committee, composed of Senior Executives, is to analyze and set the general credit approval strategies and policies across the network.

CaixaBank's Executive Global Risk Management Division is responsible for approval policies and procedures, and also for drawing up and monitoring credit risk models. The following areas report to this Division:

- **Approval Policies and Procedures Area**, responsible for adopting the policies applicable to new transactions: internal powers, prices and profitability, documentation for dossiers, mitigation of risk through acceptance of guarantees, and integration of measuring tools in decision-making systems.
- **Corporate Credit Risk Analysis and Monitoring Area**, responsible for monitoring borrowers and inputting the results of this monitoring into the approvals systems, the corporate rating function and default management and recovery.
- **Corporate Risk Models Area**, the construction, maintenance and monitoring of credit risk measurement systems and the optimization and analysis of capital required.

Approval of on-going operations at CaixaBank is based on a decentralized organizational model to enable approval at offices of a high percentage of operations. Risk limits are calculated on the basis of expected loss (companies with revenue of up to €200 million) or of the nominal amount (all other segments), taking into account the transactions being processed and those already approved for the borrower and its economic group. In cases where an employee's approval authorization is insufficient, the system requires approval from a higher level.

Any transaction must be approved by at least two properly authorized employees.[4]

[4] See the paragraph on "Single risk circuit" in section 1.2.1.3 of part A of this document.

3. Risk management. Measurement and information systems

On June 25, 2008 the Bank of Spain authorized the "la Caixa" Group to use Internal Rating-Based (IRB) approaches to calculate the capital requirements for credit risk.

The "la Caixa" Group has a set of tools and techniques for the specific needs of each type of risk; this means that rating and scoring tools are employed in calculations of the probability of default, calculations of Loss Given Default and Expected Loss are made for the various portfolios, and the Entity also has tools to calculate profitability in relation to risk and pricing[5] tools.

Measurement of risk is based on two concepts: expected loss and unexpected loss.

- **Expected loss**. This is defined as the product of three factors: probability of default, exposure and loss given default.
- **Unexpected loss**. This is potential unforeseen loss caused by the possible variability in calculation of expected loss, which may occur due to sudden changes in cycles, alterations in risk factors, and the natural credit risk correlation in relation to the various debtors.

The "la Caixa" Group has management tools in place to measure the probability of default for each borrower, covering virtually all of its lending portfolio. In segments not as yet covered, largely insignificant in terms of overall exposure, information is gathered with a view to creating future tools to predict the probability of default.

CaixaBank's monitoring function is structured around two main pillars: firstly, those included in the approval procedures and second, using teams dedicated exclusively to monitoring activities. The scope of the work of the latter teams, which report to the Corporate Credit Risk Monitoring and Recovery Area, is twofold: large risks and monitoring the control initially implemented in the approval process.

CaixaBank has a risk alert system in place and a borrower rating system based on the borrower's profile. The alert system is fully incorporated into the customer information systems and alerts concerning each customer are included in the total information filed.

The outcome of the monitoring process is the establishment of "Action Plans" for each of the borrowers analyzed. The aim of this is to complement the alert-based rating system and simultaneously act as a guide to the lending policy for new loans.

[5] See Note 3.1. "Credit risk" in the 2011 annual financial statements for more information on this content.

In view of the current situation of the real estate market, CaixaBank has established a specific plan to review the most problematic exposures, and a number of specific teams have been created to this end to manage the resultant risks.

4. Hedging policies and mitigation techniques

Mitigation is achieved by securing guarantees from the borrower. Thus it is common practice for long-term transactions to be covered by solid guarantees (mortgages, collateral provided by partners, collateral provided by the parent company, pledging of liabilities), since the ability to repay is constantly subject to the contingency of the passage of time and to the difficulties involved in evaluating and controlling investment projects.[6]

There are also a number of restrictions in connection with exposures (restrictions on circulation, restrictions on larger risks and certain other thresholds) and restrictions on authorizations for approval.

1.2.2.2 Counterparty risk

1. Description and general policy

The main aim of counterparty risk management at the "la Caixa" Group is to reconcile security with the Entity's business objectives. This establishes a risk profile that simultaneously secures expected profitability and value creation and also guarantees its capital adequacy in the medium and long term.

Since approval of transactions for finance entities is mainly associated with financial market operations, the Entity must have a predetermined framework to enable decisions to be taken immediately with respect to undertaking counterparty risks. Therefore, the "la Caixa" Group has a credit approval system in place approved by the Executive Committee where the maximum authorized exposure to credit risk with a counterparty is determined by a complex calculation based mainly on entities' ratings and an analysis of their financial statements. It also operates continuous monitoring of market signals through analysis of the values of Credit Default Swaps (hereinafter CDS) and the stock of each counterparty.

[6] See 1.2.4 "Credit risk reduction techniques" in Part B of this document for further details.

2. Structure and organization of the risk management function

The “la Caixa” Group has three areas with direct responsibility for the quantification, monitoring and control of counterparty risk, as follows:

- The **Counterparty Risk Area**, part of the Executive Division for Risk-Analysis and Approval, is responsible for all banking counterparty risks undertaken by the "la Caixa" Group, regardless of the type of operation and the sector of business that generates them. Its main functions are:
    - Determination of the risk thresholds per counterparty.
    - Analysis and monitoring of counterparties and risks.
    - Control of use of thresholds and violations.
    - Monitoring of legal risk.
    - Drawing up risk information for the internal bodies, the Bank of Spain, credit rating agencies etc.
- **The Corporate Risk Model Area**, reporting to the Global Risk Management Division, is responsible for estimating counterparty risk associated with “la Caixa” Group's financial market activities. Its main functions are as follows:
    - Definition and implementation of methodologies for estimated calculation of equivalent credit exposure.
    - Daily measurement of ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (security loans).
- The **Operational Market Services Area**, part of the Banking Services Subdivision, is the unit that is responsible for daily operational management (in particular, reconciliation of positions and monitoring the associated settlements and accounting entries) of the ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (security loans).

3. Risk management. Measurement and information systems

Quantification and management of credit risk from treasury operations show certain peculiarities, basically as a result of the type of financial instruments used and the expediency and flexibility required in treasury transactions.

Counterparty risk control at the "la Caixa" Group is carried out by means of an integrated system which provides real-time data on the available exposure threshold of any counterparty, product and timeline, for any Group entity.

The counterparty risk relating to derivative transactions is quantitatively associated with the related market risk, since the amount owed by the counterparty must be calculated by reference to the market value of the contracts, plus the related potential value (possible changes in their future value under extreme market price conditions, based on the known historical pattern of market rates and prices).

4. Hedging policies and mitigation techniques

The main risk mitigation policies and techniques employed as part of the daily management of bank exposures are as follows:

- **ISDA/CMOF contracts**. Standardized contracts for global derivative operations with a counterparty. They explicitly provide for the possibility of offsetting the flows of outstanding collections and payments between the parties for all transactions covered by the contracts.
- **CSA contracts**. These are agreements whereby each party undertakes to make a cash deposit with the other as security for the net credit risk position arising from the derivatives traded between them, on the basis of a prior close-out netting agreement included in the clauses of the ISDA/CMOF contracts. 145 contracts have been signed with financial institutions, with collateralization of over 99%.
- **GMRA agreements**. These are agreements whereby each party undertakes to make a cash deposit with the other as security for the net credit risk position arising from any discrepancies between the value of the sum accrued by simultaneous buying and selling of securities and the market value of the securities.

- **Break-up clauses.** At a certain point in a contract, these provide for early termination of the agreement by one of the parties of its own free will. This reduces counterparty risk by reducing the effective duration of the derivatives subject to the clause.
- **Delivery-versus-payment settlement systems**. These systems eliminate settlement risk with a counterparty, since clearing and settlement occur simultaneously and in an inseparable fashion. One major system is the CLS system for delivery against payment in the case of simultaneous collection and payment flows in different currencies.

1.2.3. Risk associated with the equity portfolio

1. Definition and general policy

The risk relating to the "la Caixa" Group's investment portfolio is the risk associated with the possibility of incurring losses as a result of fluctuations in market prices and/or default on the positions making up the equity portfolio in the medium to long term.

In general, the "la Caixa" Group makes strategic investments and actively manages its investment portfolio through involvement in the governing bodies of its investees.

2. Structure and organization of the risk management function

The risk policy of "la Caixa" investees must be considered jointly, in coordination with CaixaBank's risk policy. As "la Caixa" carries out its financial activities indirectly through CaixaBank, there must therefore be a single risk function, albeit at different organizational levels, to ensure full coordination among participants.

This activity is carried out indirectly through CaixaBank's[7] risk committees. And there are risk functions in place for investees at all organizational levels ("la Caixa", CaixaBank and Criteria CaixaHolding), as described below.

Risk management at "la Caixa" investees

The functions carried out by "la Caixa" as parent company can be divided into two groups.

[7] See section 1.2.1.3 "Organizational structure of the risk function" in Part A of this report.

First, those related to the monitoring and supervision of risk management at the Entity's investees, particularly through CaixaBank and Criteria CaixaHolding, and secondly, functions pertaining to the company itself given its role as a financial entity.

In addition to the responsibilities falling to the governing bodies, the risk function at “la Caixa” is carried out at the highest level by the Managing Director and the Management Committee, which includes the Senior Executive Vice-President. The latter is in charge of the Risks Division, where there is an area for risks and another area for investees and larger risks.

“la Caixa”'s Investment Committee plays a key role in all decisions regarding strategic investments and disposals made through CaixaBank or Criteria CaixaHolding. This committee has the task of informing the Board of Directors of “la Caixa” or its Executive Committee about these decisions and their viability and appropriateness vis-a-vis the Entity's strategy.

The Risk Area at “la Caixa” reports directly to the Senior Executive Vice-President, who is also CaixaBank's Managing Director and directly in charge of Risks. Therefore, risk management is standardized across the group and the coordination of all control processes is ensured.

The functions of “la Caixa”'s Risks division are as follows:

- Establishing policies and the limits structure for “la Caixa" Group, in coordination with CaixaBank and Criteria CaixaHolding.
- Awareness of and compliance with the policies and strategies of the “la Caixa” Group.
- Management, monitoring and supervision of individual and consolidated risks at “la Caixa”, and reporting to third parties.

Risk management at Criteria CaixaHolding

Criteria CaixaHolding plays an active role in the governing bodies of its main investees. The Group collaborates with the management teams of these investees in defining their future strategies and contributes to the medium-to-long-term development of their business activities.

It has an in-depth knowledge of the sectors in which it operates, a strong track record as an investment company and highly experienced management teams.

In line with sector best practices, the Finance and Risk Management Department is part of the General Subdivision of Criteria CaixaHolding, and reports to the General Division. Furthermore, each of Criteria CaixaHolding's areas report in turn to their respective General Subdivisions and directly monitor the performance of all the company's investees.

The main functions of the Finance and Risk Management Division are as follows:

- Definition the mechanisms for undertaking and controlling risk on the listed portfolio: reporting to the General Management team and Governing Bodies.
- Implementation of an approved risk hedging strategy: Designing derivatives strategies to manage the value of investments.
- Providing support for the various Management Control and Investment Analysis areas to roll out and execute derivative transactions. Arrangement, Monitoring and Valuation.
- Measuring the portfolio's risk (credit, market risks, etc) and drawing up follow-up reports.
- Coordination with CaixaBank's Global Risk Management Division.

Risk management at CaixaBank investees

CaixaBank's Corporate Credit Risk Monitoring and Recovery Division, reporting to the Global Risk Management Division, has a Risk Management Area for investees which is responsible for analyzing and monitoring shareholder position risk relating to investments and disposals, using, among others, some of the tools developed within the framework of Circular 3/2008.

This unit works with other Entity divisions and with Criteria CaixaHolding, directly carrying out the calculation and regulatory reporting on the solvency of the group's portfolio of investees, and other tasks related to risk management (analysis of investees' credit portfolios when transactions are underway, attending risk committee meetings at financial investees, intermediation between the investee and parent company to develop risk projects aimed at improving the group's corporate risk framework).

In addition to the management tasks performed by this unit, the Corporate Risk Model Division, specifically the Market Risk area, carries out specialized tasks linked to the quantification and monitoring of investee risk: these include: first, the integration on a daily basis of derivatives and currency risk in relation to the investee portfolio to its global market risk process; and, secondly, the recurrent monitoring of risks in relation financial markets operations in connection with financial investees.

3. Risk management. Measurement and information systems

The risk on positions that make up the investee portfolio is measured using the regulatory tools available in accordance with the Basel II framework and subsequent revisions thereto, bearing in mind the developments taking place in the sector, as follows:

- From the standpoint of the underlying risk in terms of market price volatility, using VaR models (a statistical estimate of the maximum potential losses through reference to historical data on changes in prices of listed assets).
- From the standpoint of the possibility of default, using models based on the PD/LGD approach.
- Applying the standard calculation model if neither of the above can be applied.

4. Criteria for assignment of the various risk measurement approaches

Within the margins set by the Supervisor and in accordance with the incentive for adoption of the most risk-sensitive advanced methods covered by Basel II, the criterion for assignment of the various risk measurement approaches to the equity holdings not included in the trading portfolio, as established by the “la Caixa” Group, is as follows:

The selection between a PD/LGD approach and a market approach (internal or simple model) will depend on the classification of the investment for accounting purposes.

- In the case of investments not classified as available for sale, the major risk is default, and thus the PD/LGD approach will be applied.
- Therefore, for investments classified as available for sale, the major risk is market risk, and so the market approach (internal or simple model) is applied.

However, in the case of strategic investments classified as available for sale with a long-term management link, the PD/LGD approach is applied.

The output obtained from the use of internal capital consumption measurement models (VaR, PD/LGD) is key for calculating the quantity and quality of the assumed risk, without prejudice to the analysis of other types of measures that supplement the purely regulatory measures, such as:

- CDS listings for portfolio assets, where implicit PDs and internal PDs are compared. Analysis of CDS trends for investees and for the main countries in which they operate. The analysis includes an alarm report to detect any credit deteriorations on the market that are not shown by Rating Agencies.
- Liquidity index of assets in the portfolio.
- The Herfindahl index to show the portfolio's industrial concentration.
- Comparison of volatilities between assets in the portfolio and the market.
- Simulations to detect tail risk in asset valuation.
- Correlation index between the assets in the portfolio and the market (at points of stress and in normal situations).
- Risk comparison (VaR) between portfolio assets and similar holdings to the ”la Caixa” Group's investments.
- Qualitative analysis of treatment of portfolios and the policies deployed to control financial investees.

These indicators are also monitored on an on-going basis to ensure that the most appropriate decisions are always adopted on the basis of the past and projected market performance and of "la Caixa" Group's strategy.

The Corporate Risk Model unit also carries out specialized functions linked to the quantification and monitoring of investee risk.

- Market Risk Report including risk monitoring (VaR) on trading derivatives held by the “la Caixa” Group related to strategic investments of CaixaBank and Criteria CaixaHolding, and the monitoring of exchange rate risk associated with these investments. Specifically:
    1. The positioning report issued by “la Caixa” includes all portfolio positions held by Group companies that create a direct risk for the Entity. Therefore, as a result of the global monitoring of the market positions held by financial investees, the report drawn up includes the fixed-income and equity positions held by VidaCaixa (insurance companies and guaranteed pension funds) and InverCaixa (guaranteed mutual funds), and derivatives positions held by these companies and CaixaBank and Criteria CaixaHolding.

2. Analysis of policies, procedures and methodologies for control, monitoring and mitigation of market risks associated with trading operations, with structural balance sheet interest rate risk and liquidity risk, and counterparty risk in connection with market operations.

These measures and their implementation are necessary to monitor the management of the investee portfolio and enable strategic decisions to be taken on the composition of the portfolio by Senior Management at the "la Caixa" Group.

5. Hedging policies and mitigation techniques

- **Currency risk**

  The Entity's policy is to hedge against any items that affect the income statement. Therefore, it hedges against cash flows but does not hedge against shareholding positions since it considers these as permanent investments.

- **Interest rate risk**

  Risk mainly stems from financial and insurance activity and from the Group's own debt. The risks associated with these financial assets are periodically assessed in accordance with market conditions to allow decisions to be taken with regard to arrangements for new cash flow hedging derivatives or modification of loan variability conditions - subscription of fixed-rate loans, for instance. In 2011 Criteria CaixaHolding did not draw down any loans with either “la Caixa” Group companies or third parties.

1.2.4. Market risk in the trading portfolio

1.2.4.1 Market risk

1. Definition and general policy

The "la Caixa" Group is subject to market risk in the trading portfolio as the result of unfavorable movements in the following risk factors: interest and currency rates, price of shares and commodities, inflation rates and changes in the credit spread of private fixed-income positions.

Risk factors are managed according to the return-risk ratio determined by market conditions and expectations, the limits structure and the authorized operating framework.

To manage this risk, the “la Caixa” Group has applied internal models to calculate regulatory capital for market risk associated with the trading portfolio, currency and gold risk, and commodity price risk since December 13, 2007 when the Bank of Spain authorized the Group to apply them. Additionally, in 2011 authorization was sought from the Bank of Spain to calculate regulatory capital according to incremental default and migration risk and stressed VaR using internal models. This request was still being processed at the date of preparation of this report.

2. Structure and organization of the risk management function

The Corporate Risk Models 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 the division monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market result), quantifies the market risk assumed, monitors compliance with quantitative limits, and analyzes the ratio of actual returns to the assumed risk. A daily control report is submitted to Senior Management, supervisors and the Internal Audit team.

The Global Risk Management Executive Division acts independently in organizational and functional terms of the risk-taking areas in order to boost the autonomy of its risk management, monitoring and control tasks, and in general seeks to facilitate the comprehensive management of the various risks. It focuses on configuring a risk profile in accordance with the Group's strategic objectives.

3. Risk management. Measurement and information systems

The standard measurement for market risk is VaR at 99% with a time horizon of one day. Daily VaR is defined as the highest of the following three calculations:

- Parametric VaR with a covariance matrix calculated over 75 market days.
- Parametric VaR with a covariance matrix arising from historical performance over one year and equal weightings.
- Historical VaR with a time frame of one year.

Moreover, since a drop in the credit rating of asset issuers can also give rise to adverse changes in quoted market prices, quantification of risk is completed with an estimate of the losses arising from changes in the volatility of the credit spread on private fixed-income positions (spread VaR), which constitutes an estimate of the specific risk attributable to the security issuers. This calculation is made taking into account potentially lower liquidity of these assets and a confidence level of 99%.

In order to ascertain the suitability of the risk estimates, two backtests (gross and net) are carried out to compare the daily results to the losses estimated using the VaR technique. Stress tests are also performed on the value of the treasury positions in order to calculate the potential losses on the portfolio in situations of extreme crisis.

4. Hedging policies and mitigation techniques

As part of the required follow-up and control of the market risks undertaken, the Board of Directors and, by delegation and on a more restricted basis, General Management, approve a structure of overall VaR and sensitivity limits for the undertaking of market risk. This structure establishes the following types of limits:

- **Global limit**. The ”la Caixa” Board of Directors is responsible for defining the maximum level of market risk that may be undertaken for the Entity’s treasury management operations.
- **Limit on treasury operations**. In accordance with the general framework determined by the Board of Directors, General Management or the Senior Executive Vice-President are authorized to implement the market risk limits structure, and also to determine lower levels of maximum risk if this is appropriate given the market circumstances and/or the approved management approach. This has been used to draw up specific limits for these operations, both on a global basis (VaR, stop loss, stress test) and by risk factors.
- **Limit on trading derivatives linked to CaixaBank permanent investees.** In June 2008 the Board of Directors of Criteria implemented the general framework approving a specific limit on market trading activities for the Entity, which was administered according to market risk management criteria and incorporated into the internal market risk model. The limit was lowered in January 2009 by the ”la Caixa” Global Risk Committee. On July 25, 2011, CaixaBank's Global Risks Committee adopted the same framework for the new “la Caixa” Group's new organizational structure.

1.2.4.2 Currency risk

The General Markets Subdivision is responsible for managing the currency risk arising from the consolidated balance sheet positions drawn up in foreign currency, a task performed through the market risk hedging activity undertaken by the Treasury Area. This risk is managed by applying the principle of minimizing the assumed currency risks, which explains why the "la Caixa" Group's exposure to this risk is low or virtually nil.

Also as a result of the active management of currency risk by the Treasury Area, the remaining minor foreign currency positions are primarily held with credit institutions in major currencies (e.g. US dollar, pound sterling or Swiss franc), quantified by employing common methodologies used in conjunction with the risk measures implemented for treasury activities as a whole.

Furthermore, at December 31, 2011 "la Caixa" Group had positions in Hong Kong dollars from its holding in The Bank of East Asia, Ltd. and in Mexican pesos from its investment in Grupo Financiero Inbursa.

1.2.5. Operational risk

1. Definition and general policy

Operational risk includes all events that could give rise to a loss caused by shortcomings in internal processes, human error, malfunctioning of information systems or external events. Operational risk is inherent to all business activities and, although it can never be wholly eliminated, it can be managed, mitigated and, in some cases, insured against.

The "la Caixa" Group's overall objective in terms of operational risk 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 organization, improvements to its processes and the quality of customer service both internal and external, in accordance with the regulatory framework established, and optimizing capital consumption.

The Group has an "Operational Risk Management Framework" in place approved by Senior Management which defines the objectives, policies, management model and the methodologies employed to assess Operational Risk within the Group, and establishes the adoption of the standardized approach for measuring regulatory capital for operational risk at the date of entry into force of Circular 3/2008.

2. Structure and organization of the risk management function

"la Caixa" relies on the support of CaixaBank in managing operational risk by adapting and applying CaixaBank's operational risk model to its own scope of influence. At CaixaBank, the Global Risk Committee is the management body that defines the strategic lines of action and monitors operational risk profiles, the main loss scenarios, and the steps to be taken to mitigate these.

CaixaBank's operational risk management model is based on three separate levels of responsibility, as follows:

- **Business and Support Areas**. These areas are responsible for identifying, assessing, managing, controlling and reporting operational risk.
- **Operational Risk Division**. This unit is responsible for defining, standardizing and implementing the model for the management, measurement and control of operational risk. It also provides back-up to the Business Areas and consolidates information on operational risks throughout the Entity for the purposes of reporting to Senior

Management, the Global Risk Management Committee, and to all appropriate levels within the Entity. It forms part of the Credit Risk Models and Methodologies Area.

Moreover, at the highest level, Senior Management and the Global Risk Management Committee are responsible for defining strategic lines and carrying out monitoring of the operational risk profile, of the main loss events, and action to be taken to mitigate these.

Finally, overall management and control of operational risks is carried out by the Global Risk Management Executive Division (reporting to the Assistant Executive Division responsible for Group risks), a global control unit performing the independent functions required by Circular 3/2008. Its objectives are to identify, appraise and integrate exposures arising from operational risk with other risk categories, from the global perspective of the "la Caixa" Group and in accordance with the management strategy established by Senior Management.

3. Risk management. Measurement and information systems

The operational risk management model defines an on-going process in three stages:

- **Identification and detection of all risks** (current and potential) using qualitative techniques (the opinion of experts in processes and risk indicators).
- **Assessment of Operational Risk**, using both qualitative techniques (self-assessment by experts on processes of the impact of loss in the event that the operational risks identified actually materialize) and quantitative techniques (actual data on losses recorded in databases for operational events), in order to assess potential risk scenarios and impacts, mitigation action to be taken, and calculation of capital consumption.
- **Active risk profile management**, which involves a decision-making process to mitigate risk (setting up new controls, implementing business continuity plans, reengineering processes, taking out new insurance etc.).

4. Hedging policies and mitigation techniques

Through the application of control and mitigation techniques, the “la Caixa” Group carries out active management of the Entity's risk profile, preventing risk and improving operational risk management on an on-going basis.

Therefore, when it deems it necessary to do so, ”la Caixa” transfers risk to third parties by taking out insurance to cover the “la Caixa” Group’s assets (premises, property, computer equipment, storage facilities etc.) and business activity (civil liability, disloyalty, fraud, etc.).

A Business Continuity Management Unit has been in place since 2004 and currently forms part of the Management Services and Information Security Department, whose mission is to introduce business continuity into the culture of the organization, through the design and implementation of a General Business Continuity Plan ("PGCN") and technological contingency plans. The purpose of the Plan is to provide guarantees for the Entity's key processes in the event of any incident that might jeopardize the organization's continuity, thereby providing assurance to the Entity as a whole and to customers, markets, regulators and other stakeholders related to "la Caixa".

As an example of management's commitment to business continuity, in 2010 the Business Continuity Committee was set up, chaired by the Assistant General Manager for Resources and attended by representatives of all the organization’s key areas.

In 2011 a management system was introduced and certified to ensure business continuity, based on international standard BS 25999, which is fully aligned with the business objectives set by the Senior Management. This certification was awarded following the audit carried out by BSI (British Standards Institution), and raises confidence among stakeholders in the Entity's capacity to respond to incidents that may affect business operations.

1.2.6. Interest rate risk for positions not included in the trading portfolio

1. Definition and general policy

Interest rate risk for positions not included in the trading portfolio is also known as structural balance sheet interest rate risk, and this risk is inherent to banking activity. It arises when changes in the structure of the market rate curve affect assets and liabilities and cause them to be renewed at rates other than those set previously, thereby affecting the Group’s economic value and net interest income.

The "la Caixa" Group manages this type of risk with two objectives: to reduce the sensitivity of net interest income to interest rate fluctuations, and to preserve the economic value of the "la Caixa" Group.

Risk limits have been established in accordance with these objectives in terms of both net interest income and economic value. A sensitivity limit has been set for net interest income at a maximum of 5% over one year and 10% over two years. This sensitivity is calculated as the difference between the net interest income obtained on the basis of implicit interest rates and that obtained from two rate increase/decrease scenarios (0.25% per quarter in the first year and 0.25% p.a. as from the second year). With regard to economic value, balance sheet VaR (measured in terms of economic capital, with a time horizon of 20 days, a level of confidence of 99% and applying a multiplier of 3) may not exceed 10% of economic value.

2. Structure and organization of the risk management function

In accordance with the Bank of Spain's recommendations and European guidelines and with those of the consultative bodies of the international banking industry (Basel Committee), the Board of Directors of "la Caixa" has been assigned the following functions with regard to on-balance-sheet interest rate risk:

- To approve the annual review of on-balance-sheet interest rate risk management policies.
- To review compliance with the established minimum limits in the on-balance-sheet interest rate risk management policies.
- To review the organizational and functional framework in which the management and control of this risk is implemented and establish the delegation of powers to management that it considers appropriate. In this case, the Board will receive information on the changes made in the use of the delegated powers and on the expected repercussions.
- To be aware of the essential aspects of the trend in the on-balance-sheet interest rate risk at "la Caixa" Group.
- To approve and review the system (content and frequency) whereby the Entity's management reports to the Board on the situation and trend in on-balance-sheet interest rate risk.

The Board has delegated the management and control of this risk to the management officers of "la Caixa", through the Global Risk Management Committee and the Asset-Liability Committee (ALCO).

The Global Risk Management Committee manages risk globally by analyzing the implications of all the risks on capital and capital adequacy management. It is responsible for approving the interest rate risk management framework and delegates its updates and the setting of operating management limits to the ALCO.

The Asset and Liability Management (ALM) and Liquidity Division, which reports to the General Treasury and Capital Markets Subdivision, is responsible for analyzing this risk and proposing hedging transactions to the Assets and Liabilities Committee in accordance with the objectives established to manage this risk.

The ALCO, which meets monthly, is in charge of the monitoring, analysis and proposals for management of structural interest rate risk, on the basis of the information provided by the ALM and Liquidity Division.

The functions performed by the ALCO in the area of on-balance-sheet interest rate risk are as follows:

- To monitor, manage and control structural interest rate risk.
- To approve proposals submitted by the General Markets Subdivision for entering into hedges on the financial markets.
- To propose hedges and issuances to manage risk.
- To report to the Global Risk Management Committee.
- To keep the structural interest rate risk management document up to date.
- To set and modify operating management limits.

Monthly reports are made on structural balance sheet risk in terms of both economic value (sensitivity to one basis point and VaR) and net interest income (income projections in various scenarios for periods of one and two years). Part of the information drawn up for the ALCO is submitted to the Global Risk Management Division for the purposes of monitoring and reporting.

3. Risk management. Measurement and information systems

The General Markets Subdivision uses the following methodologies for the purposes of measurement, monitoring and control of structural risk:

- **Static measurements:** The current position is taken as the starting point and new business is not taken into consideration. These measurements include the on-balance-sheet risk based on the flows at maturity and on the repricing of the various asset and liability transactions of the current balance sheet as well as off-balance-sheet positions.

- **Static gap.** This shows the breakdown of maturities and interest rate reviews, at a given date, of sensitive items on the balance sheet. For early termination hypotheses, internal models are used based on past experience, using the behavioral variables of customers, products, seasonality and macroeconomic variables. For items with no contract maturity, measurements are performed of their sensitivity to interest rates, along with the expected maturity date, considering the possibility that customers may terminate products early, based on past experience.
- **The Sensitivity Analysis of Equity** is carried out on the basis of the Static Gap calculation. Flows are obtained of assets, liabilities and off-balance-sheet items that mature or on which the interest rate is revised for a specific time bucket. These positions are measured using yield curves and their sensitivity to an increase of one basis point interest is calculated. The sensitivity of equity measures the impact on the current value of the balance sheet to changes in interest rates.
- **VaR of sensitive balance sheet items:** this is calculated using the same methodology as that applied for treasury positions, by determining the amount of VaR as the highest amount of the following three measures: 75 day parametric VaR, 250 day parametric VaR and 250 day historical VaR.
- **Economic Value of Equity (EVE)** is obtained on the basis of balance sheet equity plus the present value of the sensitive balance sheet items (present value of the future flows less their nominal amount).

o **Dynamic measurements:** These are based on the current position and also take new business into account. Therefore, as well as considering the current on- and off-balance-sheet positions, growth forecasts from the Entity's operating plan are also included.

- **Sensitivity of net interest income**. This shows the impact that the review of balance sheet transactions causes in the net interest income due to changes in the interest rate curve. Sensitivity is determined by comparing a net interest income simulation, on the basis of various interest rate scenarios. The most likely scenario, obtained using the implicit market rates, is compared to other scenarios of rising or falling interest rates and changes in the slope of the curve. 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.

- **Earnings at risk (EaR).**This consists of the simulation of the Entity's net interest income using stochastic interest rate scenarios to derive a probability distribution for this item. From an on-balance-sheet interest rate risk standpoint, we are less interested in obtaining a large number of simulations than in seeing how the distribution tail for net interest income behaves in the most adverse case for the Entity given a certain level of confidence.

The balance sheet interest rate risk undertaken by "la Caixa" Group is substantially below levels considered significant (outliers) under Basel II. However, "la Caixa" Group continues to proactively and regularly manage its balance sheet to maintain the Entity's risk profile within the limits approved by the Board and continues to take steps to intensify risk monitoring.

With regard to measurement tools and systems, information is obtained on the level of transaction of the Entity's sensitive balance sheet transactions from each computer application used to manage the various products. This information is used to produce databases with a certain amount of aggregation in order to speed up the calculations without impairing the quality or reliability of the information.

The assets and liabilities management application is parameterized in order to include the financial specifics of the products on the balance sheet, using behavioral customer models based on historical information (pre-payment models). The tool is also fed with growth data budgeted in the financial plan (volumes, products and margins) and information on the various market scenarios (interest and exchange rate curves), in order to perform a reasonable estimate of the risks involved. It measures the static gaps and net interest income and EaR projections.

For all matters concerning the sensitivity measurements of economic value and VaR, the same tools and methodology are used as those employed by the Market Risks Control Area for the monitoring, measurement and control of treasury risk.

4. Hedging policies and mitigation techniques

In order to meet the objectives established in relation to structural interest rate risk management, the Group actively manages risk by arranging additional hedging transactions[8] 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 deposit and lending transactions arranged with customers.

[8] See 3.2.2 in Note 3 "Risk Management" to the 2011 Financial Statements.

2. Information concerning eligible capital

2.1. Summary of the main characteristics and conditions of items recorded as basic capital, second-category and ancillary capital

Chapter Three of the Bank of Spain Circular 3/2008 lays down the regulations for determining the volume of capital that consolidable groups in financial institutions must maintain, and also defines the items on the consolidated balance sheet that make up the eligible capital. Eligible capital is divided into three categories, as follows:

1. Basic capital (Tier 1)

Basic capital is the highest quality capital and is known internationally as Tier 1. This type of capital is immediately available for use and has no restrictions whatsoever in covering losses when they arise. The nature and characteristics of its components give it a high degree of stability and permanence in time.

Core capital forms part of this category, primarily consisting of the sum of the endowment fund, reserves, profit for the year to be used to increase reserves, less contributions to the Welfare Fund, and non-controlling interests. Core capital also includes the deduction of goodwill and other intangible assets.

Tier 1 capital consists of the sum of core capital and preference shares,[9] net of the deduction of 50% of significant investment in financial institutions and insurance companies, and the excess expected loss on exposures assessed under the IRB approach with respect to loan loss provisions. The regulations permit determination of the deduction associated with holdings in insurance companies from the minimum capital adequacy margin required of the entities.

2. Second-category capital (Tier 2)

The nature and characteristics of second-category capital give it a lower degree of stability and permanence in time than basic capital. Second-category capital is known internationally as Tier 2.

[9] See Note 21.4 "Subordinated liabilities" to the 2011 Financial Statements for further details of issues of preference shares by the "la Caixa" Group and their prospectuses on the Spanish National Securities Market Commission's website (www.cnmv.es).

Tier 2 components include subordinated debt,[10] real estate revaluation reserves and general loan-loss reserves (partially). They also include a deduction of 50% of significant investment in financial institutions and insurance companies, and the excess expected loss on exposures measured under the IRB approach with respect to loan loss provisions. They also include deductions for excess qualified investment in entities which are not financial institutions or insurance companies.

3. Ancillary capital (Tier 3)

The lesser relative importance, with respect to the Group's risk profile structure, of the price risk associated with the trading portfolio and currency risk makes it unnecessary to use this type of capital.

There are a number of restrictions on the calculation of the various components of the eligible capital, and the major constraints are as follows:

- Core capital must account for at least 50% of Tier 1 capital.
- Total Tier 2 capital may not exceed the total amount of Tier 1 capital.
- Calculation of non-controlling interests, preference shares, subordinated debt and excessive loan-loss provision beyond the sum of expected losses is subject to certain quantitative and qualitative restrictions.

2.2. Total Capital

A breakdown of eligible capital of the CaixaBank Group and of the "la Caixa" Group at December 31, 2011 is shown below:

[10] See Note 21.4 “Subordinated liabilities” to the 2011 Financial Statements for further details of issues of subordinated debt by the "la Caixa" Group and their prospectuses on the Spanish National Securities Market Commission’s website (www.cnmv.es).

Table 3. Eligible capital

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Total capital base	20.750.791	17.619.108
Capital or endowment fund [1]	5.340.114	3.006
Reserves	14.814.415	16.641.309
Profit attributable to the Group	1.053.495	974.794
Dividends	(457.232)	
Contribution to Welfare Fund [2]	0	(455.000)
Non-controlling interests	4.451	5.224.774
Goodwill and intangible assets [3]	(3.419.009)	(4.799.373)
Others	(158.714)	(79.475)
Core Capital	**17.177.519**	**17.510.034**
Core Capital Ratio	**12,5%**	**11,6%**
Preferents Shares	4.897.586	4.897.586
Deductions from basic capital [4]	(4.489.235)	(2.113.530)
Subtotal basic capital (Tier 1)	**17.585.870**	**20.294.090**
Tier 1 Ratio	**12,8%**	**13,5%**
Subordinated debt [5]	120.000	7.305.693
General loan loss allowance (standardised approach)	162.084	162.084
Welfare fund (invested in property)	0	52.167
Deductions from Tier 2 capital [6]	(282.084)	(2.693.085)
Subtotal Tier 2 capital (Tier 2)	**0**	**4.826.859**
Total capital base (Tier Total)	**17.585.870**	**25.120.949**
Tier Total Ratio	**12,8%**	**16,7%**
Risk-weighted assets (RWA)	137.232.495	150.824.657
Minimum capital (8% ratio)	**10.978.600**	**12.065.973**
Credit risk	9.310.238	9.630.239
Equity portfolio risk	742.738	1.529.126
Risk relating to the trading portfolio and currency risk	161.279	161.279
Operational risk	737.667	718.650
Additional capital requirements(7)	26.678	26.678
Capital surplus	**6.607.271**	**13.054.977**

(1) CaixaBank Group capital includes the issue of €1,500 million of subordinated bonds mandatorily convertible into shares of CaixaBank, SA.
(2) On 2011 income.
(3) Includes intangible assets included in the carrying amount of investments in associates and jointly controlled entities, net of the related tax effect. Also includes the deduction for financing the acquisition of treasury shares (€87 million).
(4) 50% of the deductions for investments in financial institutions and insurance companies and for the deficit in provisions against expected losses under IRB.
(5) Gross value of the "la Caixa" Group: €7,873 million; eligible value: €7,305 million. Gross value of the CaixaBank Group: €150 million; eligible value: €120 million. The discrepancy between these two values, as laid down in Circular 3/2008, is due to an annual 20% reduction in the amount eligible as capital from the fifth year prior to maturity of a subordinated issue. Does not include accrued interest.
(6) 50% of the deductions for investments in financial institutions and insurance companies and for the deficit in provisions against expected losses under IRB; and deductions for qualifying investments.
(7) Capital relating to consolidable entities subject to specific regulations in accordance with Rule Six of Circular 3/2008.

In accordance with Transitional Provision Eight of Circular 3/2008, entities authorized to use the IRB approach will maintain capital requirements equal to or more than 90% in 2008, and 80% in 2009, of the total amount of minimum capital that would be required of the Entity if the regulation in force at December 31, 2007 were maintained. The Bank of Spain extended the 80% minimum for capital requirements under the IRB approach in 2010. However, at December 31, 2011 no additional requirements arose in this regard for the "la Caixa" Group.

2.3. Royal Decree Laws to Reinforce the Financial System

Royal Decree-Law 2/2011, reinforcing the financial system, introduces a new ratio - Principal Capital. Principal Capital comprises: the capital, reserves,[11] share premiums, revaluations,[12] non-controlling interests, in addition to the instruments subscribed by the Fund of Orderly Bank Restructuring (FROB) and, temporarily, the instruments mandatorily convertible into shares.[13] Negative results and losses, negative valuation adjustments and intangible assets must be subtracted from these components.

At December 31, 2011, the minimum Principal Capital required for the “la Caixa” Group stood at 8% of risk weighted assets at that date, in accordance with RDL 2/2011.

Table 4. Principal capital

(Thousands of euros)

	CaixaBank Group	”la Caixa” Group
Capital, reserves and results	20.579.481	17.072.036
Non-controlling interests	4.451	5.224.774
Positive AFS valuation adjustments	542.725	706.360
Negative AFS valuation adjustments	(429.834)	(429.203)
Intangible assets	(3.333.282)	(4.713.646)
Main capital	**17.363.541**	**17.860.321**
RWA	137.232.495	150.824.657
Principal capital ratio	**12,7%**	**11,8%**

(1) (2) Includes valoration adjustments of Non-controlling interests and companies accounted for using the equity method

[11] Effective and express reserves classified as reserves in accordance with the regulations governing the capital of credit institutions (Circular 3/2008).
[12] Valuation adjustments of available-for-sale financial instruments, net of the tax effect.
[13] Royal Decree-Law 2/2012, to reinforce the financial system, extended the conversion date from December 31, 2014, under RDL 2/2011, to December 31, 2018 and established new conditions for measuring convertible instruments: setting the maximum number of shares to be delivered at the date of issue, full discretion for the issuer over the coupon payment, mandatory conversion in the event of failure to comply with minimum capital requirements, marketing in accordance with CNMV criteria and admission for trading on the official secondary market if placed among retail investors.

Furthermore, Royal Decree-Law 2/2012, reinforcing the financial system, establishes a series of requirements relating to the write-down of real estate assets, which must generally be met before December 31, 2012.

Specifically, for “la Caixa” Group, based on data at December 31, 2011, it is estimated that total provisions of €3,166 million must be allocated, of which €2,436 million correspond to the CaixaBank Group's loan portfolio and €730 million to ServiHabitat Group real estate assets.

An excellent capacity to generate recurring operating income and the general provision of €1,835 million at December 31, 2011 will enable the “la Caixa” Group to comfortably absorb the impact of the new provisioning requirements.

RDL 2/2012 also requires a Principal Capital cushion to be set up, with a regulatory minimum of 8%, in accordance with real estate risk. The cushion established by the “la Caixa” Group totals €1,305 million, of which €745 million correspond to CaixaBank. As shown in the table above, “la Caixa” Group has a Principal Capital surplus of approximately €5,800 million, with a ratio of 11.8% compared to the minimum requirement of 8%.

3. Information concerning eligible capital requirements

This section sets out the minimum capital requirements for the “la Caixa” and CaixaBank Groups at December 31, 2011 for each type of risk considered.

Table 5. Capital requirements

(Thousands of euros)

Risk Tipology	CaixaBank Group	”la Caixa” Group
Credit risk	9.310.238	9.630.239
Standardised approach	2.577.745	3.070.260
IRB approach	6.732.493	6.559.979
Equity portfolio risk	742.738	1.529.126
Risk relating to the trading portfolio and currency risk	161.279	161.279
Operational risk	737.667	718.650
Additional capital requirements (1)	26.678	26.678
Total Capital requirements	**10.978.600**	**12.065.973**

(1) Capital relating to consolidable entities subject to specific regulations in accordance with Rule Six of Circular 3/2008.

The differences in capital requirements between CaixaBank and “la Caixa" Group are largely as follows:

- Standardized approach: ”la Caixa” Group capital requirements include requirements relating to exposure of subsidiaries not consolidated by the CaixaBank Group, most significantly property assets acquired prior to the reorganization of the Group.
- IRB approach: CaixaBank Group requirements include requirements relating to loans granted to subsidiaries that are consolidated only by the ”la Caixa” Group, mainly real-estate holding companies.
- Equity portfolio risk: “la Caixa" Group requirements include requirements relating to the equity portfolio of Criteria CaixaHolding, SAU.

3.1. Minimum capital requirements for credit risk

The table below shows exposures and capital requirements for credit risk at the “la Caixa” Group at December 31, 2011, relating to the application of the standardized approach. This information is shown in accordance with the exposure categories laid down in Circular 3/2008.

Table 6. Exposure by risk category (standardized approach)

(Thousands of euros)

Risk Category - standardised approach	CaixaBank Group	"la Caixa" Group
Central administrations and central banks	25.729.421	25.811.650
Regional administrations and local authorities	13.345.616	13.345.616
Public sector entites and non-profit institutions	4.395.065	4.395.065
Credit institutions and investment service companies	7.699.089	7.407.115
Companies	19.422.125	19.353.026
Retail	5.404.932	5.427.842
Exposures secured by property	3.368.772	3.368.772
Exposures at default	2.517.628	6.584.607
High risk regulatory category	0	0
Other exposures	5.920.806	6.598.925
Total Exposure	**87.803.454**	**92.292.618**

Table 7. Capital requirements by exposure category (standardized approach)

(Thousands of euros)

Risk Category - standardised approach	CaixaBank Group	"la Caixa" Group
Central administrations and central banks	75	75
Regional administrations and local authorities	168.269	168.261
Public sector entites and non-profit institutions	58.792	58.792
Credit institutions and investment service companies	97.408	92.740
Companies	1.318.164	1.311.526
Retail	189.135	190.509
Exposures secured by property	114.197	114.197
Exposures at default	246.388	694.594
High risk regulatory category	0	0
Other exposures	385.317	439.566
Total Capital Requirements	**2.577.745**	**3.070.260**

The sum of "la Caixa" and CaixaBank Group exposures and capital requirements for credit risk at December 31, 2011, with respect to each exposure category to which the IRB approach was applied, was as follows:

Table 8. Exposure by risk category (IRB approach)

(Thousands of euros)

Risk Category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	76.950.899	73.706.191
Retail	123.368.622	123.373.847
- Covered by property mortgages	108.304.563	108.304.563
- Qualifying revolving retail exposures	5.686.607	5.686.607
- Other retail exposures	9.377.452	9.382.677
Total Exposure	**200.319.521**	**197.080.038**

Table 9. Capital requirements by exposure category (IRB approach)

(Thousands of euros)

Risk Category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	4.584.805	4.411.769
Retail	2.147.688	2.148.210
- Covered by property mortgages	1.706.732	1.706.732
- Qualifying revolving retail exposures	56.643	56.643
- Other retail exposures	384.313	384.835
Total Capital Requirements	**6.732.493**	**6.559.979**

3.2. Minimum capital requirements for risk associated with the shareholding portfolio

Tables 10 and 11 show a breakdown of exposures and capital requirements for the equity portfolio. This information is presented in accordance with the calculation methods laid down in Circular 3/2008, and also in accordance with the equity instrument category.[14]

[14] See section 2 "Information concerning risk associated with the shareholding portfolio" in part B of this document.

Table 10. Shareholding portfolio exposures

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	305.801	415.441
PD/LGD method	6.110.675	12.409.827
Internal methods	73	10.620
Total	**6.416.549**	**12.835.888**
By category		
Listed instruments	6.198.332	11.538.871
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	218.216	1.297.017
Total	**6.416.549**	**12.835.888**

Table 11. Capital requirements for the shareholding portfolio

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	77.542	103.522
PD/LGD method	665.165	1.419.117
Internal methods	31	6.487
Total	**742.738**	**1.529.126**
By category		
Listed instruments	691.298	1.311.170
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	51.440	217.956
Total	**742.738**	**1.529.126**

3.3. Minimum capital requirements for counterparty risk, trading portfolio position and settlement risk, and currency and gold risk

Table 12 sets out the minimum capital requirements for counterparty risk for the "la Caixa" Group at December 31, 2011, already included in the total sum of minimum capital requirements for credit risk.[15] CaixaBank Group has an additional capital requirement for counterparty risk of €3,025 thousand relating to transactions with "la Caixa" Group subsidiaries not belonging to CaixaBank Group.

Table 12. Capital requirements for counterparty risk

(Thousands of euros)

Method applied	Capital requirements of the trading portfolio	Total capital requirement
Standardised approach	167.349	172.813
Internal ratings based (IRB) approach	44.112	59.112
Total capital requirements by counterparty risk	**211.461**	**231.925**

The table below shows the breakdown of the capital requirements for trading portfolio risk and currency and gold risk for the "la Caixa" and CaixaBank Groups at December 31, 2011, by the methods applied for calculation.

Table 13. Capital requirements for trading portfolio risk and currency risk

(Thousands of euros)

	Standardised approach(1)	Internal model	Total
Fixed-income trading portfolio position risk	0	115.505	115.505
Share and investment position risk	31	8.655	8.686
Commodity position risk	0	6	6
Currency and gold position risk	0	3.921	3.921
Adjustment for correlation between factors(2)	0	6.738	6.738
Incremental Risk	0	26.424	26.424
Total Capital Requirements	**31**	**161.248**	**161.279**

(1) Capital requirements calculated in accordance with the general treatment of specific risk (standardised approach).
(2) Applicable only if internal approaches are used.

[15] See section 3.1 "Minimum capital requirements for credit risk" in Part A of this document.

At December 31, 2011, capital requirements for the trading portfolio position and settlement risk were nil.

3.4. Minimum capital requirements for operational risk

Table 14 shows the capital requirements for operational risk of the "la Caixa" and CaixaBank Groups at December 31, 2011.

Table 14. Capital requirements for operational risk

(Thousands of euros)

	Average relevant income	Capital requiriment
Retail banking	3.081.306	369.757
Retail intermediation	329.206	39.505
Asset management	41.842	5.021
Commercial banking	1.838.719	275.808
Agency services	14.455	2.168
Trading and sale	-26.533	-4.776
Business financing	278.805	50.185
Payment and settlement	0	0
Total business lines CaixaBank Group	**5.557.799**	**737.667**
Retail banking	3.011.806	361.417
Retail intermediation	322.739	38.729
Asset management	41.842	5.021
Commercial banking	1.711.653	256.748
Agency services	14.210	2.132
Trading and sale	30.922	5.566
Business financing	272.436	49.038
Payment and settlement	0	0
Total business lines "la Caixa" Group	**5.405.608**	**718.650**

3.5. Procedure applied to assess the adequacy of internal capital

In December 2005, the Board of Directors of ”la Caixa” approved a master plan aimed at implementing an economic capital model, which establishes that the Entity must have an integrated model that uses internal criteria to measure all risks to which its business is exposed.

The economic capital model forms the basis of the internal estimate of capital requirements which acts as a supplement to the regulatory view of capital adequacy. These measures are part of the risk scoreboard used by Senior Management to periodically monitor trends in risk and capital adequacy.

The level of capitalization of an entity and its risk profile, measured in terms of capital requirements, define its capital adequacy and credit quality. Therefore, the "la Caixa" Group aims to have sufficient own funds or capital available to cover any unexpected losses.

The following capital categories can be distinguished:

- **Regulatory capital**. This is the mandatory capital to be maintained by the Entity as required by the supervisory body, in accordance with Pillar 1 of the Basel II Accord. Its objective is to prevent the bankruptcy of the Entity, while also protecting the interests of customers and holders of senior debt.
- **Economic capital**. This is the capital the Entity should have available to cover any unexpected losses that could jeopardize the continuity of the "la Caixa" Group's business. It is an internal estimate which the Entity adjusts according to its level of tolerance to risk, volume and type of business activity.

  Therefore, the Entity’s Board of Directors and Management are responsible for ensuring that it has sufficient capital at all times to deal with any incident with the highest possible level of confidence.

Economic capital, therefore, is not a substitute for regulatory capital, but a supplement which is used to better offset the actual risk assumed by “la Caixa” and includes risks that have not been factored in, or have only partly been factored in, by the regulatory measures. In addition to the risks referred to in Pillar 1 (credit, market and operational risk), it includes structural balance sheet interest rate risk, liquidity risk and other risks (business, reputational, concentration, insurance and pension obligation risk).

Pillar 2 of the Basel II Accord includes a supervisory review framework. Circular 3/2008 specifies this framework through an “Internal Capital Adequacy Assessment Process” (hereinafter ICAAP) to be followed by all Spanish credit institutions and all the consolidable groups of Spanish credit institutions. The aim of the process is to improve the internal management of risk by the entities in order to ensure an effective correlation between their capital and risk profiles. Spanish entities must submit an annual “Internal Capital Adequacy Assessment Report” (hereinafter ICAAR) to the Bank of Spain, listing all the qualitative and quantitative aspects relating to the process.

The ”la Caixa” Group has designed its ICAAP in accordance with the directives of the Guide issued by the Bank of Spain. The ICAAP drawn up by the ”la Caixa” Group focuses on the following courses of action:

- A systematic review of the organization of the risk function and of risk management procedures and methodologies.
- An exhaustive quantitative analysis of each risk considered in Pillar 1, and of other risks inherent to banking activity for which, for various reasons, Pillar 1 does not establish any measurement methodology. For instance, with regard to structural balance sheet risk or liquidity risk.
- Drawing up stress scenarios to assess the “la Caixa” Group’s capital sufficiency in extreme situations.
- Drawing up contingency plans for stress situations. In particular, a review is performed of the additional sources of capital available.
- Lastly, courses of action to improve processes in connection with risk management and organization of the risk function.

In order to assess capital adequacy, the internal estimate of the total capital necessary for the "la Caixa" Group is obtained by adding up the individual capital needs for each risk typology, obtained using the methods applicable in each case.

The assessment of capital adequacy includes an analysis of scenarios that could create solvency stress within the Entity, with a significant impact on the results of its transactions. The scenarios are analyzed by drawing up a central scenario that assumes a normal macroeconomic situation to provides a context for the stress scenarios, and two stress scenarios that are not likely to materialize, chosen because they represent a combination of impacts which would exert especially acute stress on business activity.

Furthermore, the Bank of Spain has established in the ICAAP Guidelines, amended in January 2011, the need to perform a macro stress test, predicated on a scenario general deterioration triggered by a sharp fall in economic activity (economic recession). This scenario will consider the joint impact of a sufficiently adverse trend in (at least) GDP, interest rates, employment and house prices. The recommendations of the European Banking Authority (EBA) and the macroeconomic forecasts provided by the European Central Bank will be followed in this exercise.

These scenarios produce a number of three-year projections showing the trend of exposure (EAD – Exposure at Default) and risk parameters (PD – Probability of Default and LGD - Loss Given Default), which may be used to estimate the “la Caixa” Group’s capital adequacy performance and its regulatory and economic capital needs. This will make it possible to draw up plans for capital, and assess the adequacy of internal capital.

B. Qualitative and quantitative information concerning risks

1. Information concerning credit and dilution risks

1.1. General requirements

1.1.1. Exposure to credit and dilution risk

1.1.1.1 Accounting definitions of default and impaired positions

A financial asset is considered to be impaired when there is objective evidence of an adverse effect on the future cash flows that were estimated at the transaction date, or when its carrying amount may not be fully recovered. The adverse effect may materialize for reasons associated with customer risk (due to default by the customer - objective default - or to other causes - subjective default), or with country risk, considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Specifically, for the purposes of Annex IX of Bank of Spain Circular 4/2004, an asset is considered as doubtful due to customer default when there is a debt outstanding as the principal amount, interest or fees agreed contractually which is more than three months old and has not been classified as a write-off. When balances classified as doubtful due to customer default are more than 25% of the amounts pending collection, the amounts of all transactions with this customer will also be considered as doubtful due to default, with the exception of non-financial guarantees.

An asset is considered as doubtful for reasons other than customer default when there is reasonable doubt as to repayment in full (the principal amount with interest) under the terms agreed in the contract, with no materialization of the circumstances to classify it as a write-off or as doubtful due to customer default.

Substandard risk includes all debt instruments and contingent risks that, even though they do not meet the criteria to be classified individually as doubtful items or write-offs, show weaknesses that could entail losses by the Entity over and above hedging for impairment of risks that are subject to special monitoring.[16]

[16]This category includes, inter alia, transactions presenting slight weaknesses that do not require higher coverage but require more monitoring by the Entity. See Annex IX, section 2, 7.a of Bank of Spain Circular 4/2004.

A risk write-off includes debt instruments, whether or not due, the recovery of which, following individual analysis, is considered to be remote and which are withdrawn as assets. Negotiation and legal action to recover these assets are not curtailed, however.

The country risk of a transaction is risk arising in customers residing in a certain country caused by circumstances other than normal commercial risk. Country risk includes sovereign risk, transfer risk and other risks inherent to international financial activities.

1.1.1.2 Description of the methods to determine impairment losses

As a general rule, an adjustment to the carrying amount of financial instruments due to their impairment is charged to the income statement for the period during which impairment took place, and any recoveries of impairment losses previously recorded are recognized in the income statement for the period during which impairment was eliminated or reduced.

When the recovery of any recognized amount is considered to be remote, the amount is removed from the balance sheet, without prejudice to any action that the consolidated entities may take to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or other causes.

With particular regard to impairment losses arising from the materialization of insolvency risk (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the debtor's ability to pay, which is evidenced by a default situation or other causes, or from the materialization of country risk.

These assets are assessed for impairment as follows:

- Individually, for all significant debt instruments and for instruments which, although not material individually, are not susceptible to being classified in homogeneous groups of instruments with similar characteristics: instrument type, debtor's industry and geographical location of activity, type of guarantee or collateral, age of past-due amounts, etc.
- Collectively, the Group classifies transactions on the basis of the time elapsed since the maturity of the first payment or age of the past-due payment, and sets impairment losses ("identified losses") for each of these risk groups, which it recognizes in the financial statements.

In June 2010 the Bank of Spain published Circular 3/2010, which offers entities best practice guidelines with regard to credit risk coverage and the minimum levels to be constituted in order to guarantee adequate coverage of all estimated losses associated with doubtful loans.[17]

As from September 30, 2010, the date on which this Circular entered into force, for the purposes of estimating the coverage for impairment of financial assets classified as doubtful, the value of the security interests received as collateral, provided that they are first lien and duly constituted in favor of "la Caixa", is deducted from the amount of the outstanding risk exposure of real estate-secured transactions, and the following percentages are applied to the value of the collateral depending on the type of asset to which the security interest relates:

Table 15. Percentages applied to the value of the guarantee according to asset type

Weighting	
Completed homes, main residence	80%
Rural property in use and offices, premises and completed multi-purpose industrial buildings	70%
Completed homes (other)	60%
Land parcels, building lots and other property assets	50%

Credit risk coverage is estimated on the outstanding risk exposure exceeding the value of the guarantee, weighted according to the percentages in the above table. The coverage percentages indicated below, based on the time elapsed from the maturity of the first unpaid payment, are applied to this value.

Table 16. Coverage ratio

Coverage ratio	
Less than 6 months	25%
More than 6 months and less than 9 months	50%
More than 9 months and less than 12 months	75%
More than 12 months	100%

Coverage for credit risk impairment may not, under any circumstances, be less than the amount resulting from the calculation of inherent losses associated with the debt, even if the amount of the guarantee, disregarding the application of the corresponding weighting, exceeds the outstanding risk exposure.

[17] For more details, see Annex IX of Bank of Spain Circular 4/2004, amended by Circular 3/2010 of June 29.

In addition to the identified losses, the Group recognizes an overall impairment loss on risks classified as standard that have not been specifically identified and relate to inherent losses incurred at the date of authorization for issue of the financial statements. This loss is quantified by application of the statistical parameters established by the Bank of Spain based on experience and the information available to the Spanish banking system, which are modified when circumstances so advise.

The method for estimating the overall impairment loss consists of, essentially, the sum of the various risks classified as standard by the statistical parameters established by the Bank of Spain, less the amount of the specifically identified losses (specific provisions). When the latter are higher, the rule allows, with certain restrictions, the corresponding use of the provision recognized for inherent losses (general loan loss allowance).

In 2012, the restructuring of the finance sector was bolstered with the approval of Royal Decree-Law 2/2012, of February 3, which establishes more stringent requirements in terms of provisions and additional capital, in order to restructure the balance sheets of credit entities affected by the impairment of real estate assets.

1.1.1.3 Total and average exposure to credit risk

This section presents the value of exposures to credit risk for the "la Caixa" and CaixaBank Groups at December 31, 2011.

1. Total value of exposures

Table 17 shows a breakdown of the total value of exposures after adjustments and impairment losses for both the "la Caixa" and CaixaBank Groups, in accordance with the method for calculation of capital requirements applied, excluding the effects of credit risk reduction.

Table 17. Total value of exposure to credit risk

(Thousands of euros)

Method applied	Value of the exposure(1)	Fund for impairment losses and provisions(2)	Net value of exposure(3)
Standardised approach	87.803.454	(405.176)	87.398.278
IRB approach(4)	200.319.521	-	200.319.521
Total value CaixaBank Group	**288.122.975**	**(405.176)**	**287.717.799**

(1) Original exposure prior to application of impairment losses, the effects of credit risk reduction, and credit conversion
(2) Does not include general allowance, which is included in capital. Includes the funds of foreclosed assets and tangible
(3) Exposures after impairment losses, without taking into consideration the effects of the reduction in credit risk and prior
(4) Under the IRB approach the funds do not reduce exposure.

(Thousands of euros)

Method applied	Value of the exposure(1)	Fund for impairment losses and provisions(2)	Net value of exposure(3)
Standardised approach	92.292.618	(409.868)	91.882.750
IRB approach(4)	197.080.038	-	197.080.038
Total value "la Caixa" Group	**289.372.656**	**(409.868)**	**288.962.788**

(1) Original exposure prior to application of impairment losses, the effects of credit risk reduction, and credit conversion factors (CCF).
(2) Does not include general allowance, which is included in capital. Includes the funds of foreclosed assets and tangible assets.
(3) Exposures after impairment losses, without taking into consideration the effects of the reduction in credit risk and prior to the application of credit conversion factors (CCF).
(4) Under the IRB approach the funds do not reduce exposure.

2. Average value of exposures

The table below shows information concerning the average value of exposures for the "la Caixa" Group in 2011, before adjustments and value corrections due to impairment, excluding the effects of credit risk reduction. These amounts are presented in relation to each exposure category in accordance with the calculation method applied.

Table 18. Average exposure by risk category

(Thousands of euros)

Risk category	CaixaBank Group	"la Caixa" Group
Standardised approach		
Central administrations and central banks	N/A	30.884.429
Regional administrations and local authorities	N/A	12.878.584
Public sector entites and non-profit institutions	N/A	4.617.423
Credit institutions and investment service companies	N/A	6.536.731
Companies	N/A	21.733.171
Retail	N/A	5.359.376
Exposures secured by property	N/A	3.865.964
Exposures at default	N/A	6.542.794
High risk regulatory category	N/A	58.039
Other exposures	N/A	5.727.506
Total (standardised approach)	**0**	**98.204.016**
IRB approach		
Companies	N/A	74.758.104
Retail	N/A	123.149.140
Total (IRB approach)	**0**	**197.907.244**
TOTAL	**0**	**296.111.259**

(1) Calculated as the average exposure to December 2010 and December 2011.

1.1.1.4 Geographical and sector distribution of exposures

1. Geographical distribution of exposures

At December 31, 2011, the exposure of "la Caixa" and CaixaBank Groups, excluding value corrections due to impairment, and broken down into the main geographical areas, was as follows:

Table 19. Distribution of exposures by geographical area

(Thousands of euros)

Geographical area	CaixaBank Group	"la Caixa" Group
Spain	278.734.376	279.984.057
European Union	6.485.562	6.485.562
Rest of the world	2.903.036	2.903.036
Total[1]	**288.122.975**	**289.372.656**

(1) Original exposure prior to application of impairment losses, without taking into consideration the the effects of credit risk reduction, and prior to the application of credit conversion factors (CCF).

2. Distribution of exposures by sector

Table 20 shows the distribution of exposures for the "la Caixa" Group by sector at December 31, 2011, for each exposure category.

The CaixaBank Group has the same distribution pattern of exposures by sector although there are some differences. These are mainly the property assets classified under “Exposures in default” in the “Others” section (€4,066,912 thousand) and loans granted to the real estate holding subsidiaries belonging to Criteria CaixaHolding, SAU, recognized under “Real estate and construction” of IRB companies (€3,129,930 thousand).

Table 20. Distribution of exposures by economic sector

(Thousands of euros)

Risk category	Value of the exposure by sector[1]							
	Agriculture and fisheries	Industry	Property and construction	Commercial and financial	Public sector	Private entities	Other	TOTAL
Standardised approach								
Central administrations and central banks	0	0	0	0	25.811.650	0	0	25.811.650
Regional administrations and local authorities	0	0	0	0	13.345.616	0	0	13.345.616
Public sector entites and non-profit institutions	792	503.312	1.250.700	1.246.047	1.392.213	0	2.000	4.395.065
Credit institutions and investment service companies	0	0	0	7.407.115	0	0	0	7.407.115
Companies	360.900	2.929.681	6.506.322	5.904.567	0	0	3.651.557	19.353.026
Retail	103.188	88.322	137.021	401.766	0	4.697.544	1	5.427.842
Exposures secured by property	55.886	56.272	546.882	493.158	346.348	1.136.405	733.822	3.368.772
Exposures at default[2]	108.161	8.334	232.310	25.964	38.768	13.067	6.158.003	6.584.607
High risk regulatory category	0	0	0	0	0	0	0	0
Other exposures	0	0	0	0	0	0	6.598.925	6.598.925
Total (standardised approach)	**628.926**	**3.585.921**	**8.673.234**	**15.478.617**	**40.934.596**	**5.847.017**	**17.144.308**	**92.292.618**
IRB approach								
Companies	823.844	16.794.939	31.549.706	22.238.703	0	0	2.298.999	73.706.191
Retail	1.199.000	2.845.889	7.210.180	16.230.081	0	95.888.696	2	123.373.847
Total (IRB approach)	**2.022.844**	**19.640.828**	**38.759.886**	**38.468.784**	**0**	**95.888.696**	**2.299.001**	**197.080.038**
Total value of exposures	**2.651.770**	**23.226.749**	**47.433.120**	**53.947.401**	**40.934.596**	**101.735.712**	**19.443.309**	**289.372.656**

(1) Original exposure before applying impairment losses and credit conversion factors (CCF).

(2) Includes exposure to foreclosed property assets.

1.1.1.5 Distribution of exposures by residual maturity

Table 21 shows the "la Caixa" Group's exposure, excluding the deduction of impairment losses, at December 31, 2011, by residual maturity and by exposure category, for each of the minimum capital requirement calculation methods applied.

The CaixaBank Group has the same pattern of exposures by residual maturity. Loans granted to real estate holding subsidiaries are distributed as follows: 64% maturing in less than one year and the remainder maturing in less than 5 years.

Table 21. Distribution of exposures by residual maturity

(Thousands of euros)

Risk category	Value of the exposure by residual maturity (1) (2)				
	< 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Standardised approach					
Central administrations and central banks	15.338.335	1.570.730	8.108.261	794.324	25.811.650
Regional administrations and local	919.456	1.206.165	7.542.518	3.677.478	13.345.616
Public sector entites and non-profit institutions	526.244	343.380	1.021.570	2.503.871	4.395.065
Credit institutions and investment service companies	4.431.582	691.094	2.119.234	165.205	7.407.115
Companies	3.696.152	1.005.783	4.472.738	10.178.354	19.353.026
Retail	4.572.498	157.397	385.964	311.982	5.427.842
Exposures secured by property	307.511	6.331	152.299	2.902.631	3.368.772
Exposures at default (2)					6.584.607
High risk regulatory category	0	0	0	0	0
Other exposures	6.598.925	0	0	0	6.598.925
Total (standardised approach)	**36.390.703**	**4.980.879**	**23.802.585**	**20.533.844**	**92.292.618**
IRB approach					
Companies	11.419.581	9.254.052	20.148.721	32.883.837	73.706.191
Retail	7.148.231	1.632.244	6.561.115	108.032.258	123.373.847
Total (IRB approach)	**18.567.812**	**10.886.296**	**26.709.835**	**140.916.095**	**197.080.038**
Total value of exposures	**54.958.515**	**15.867.174**	**50.512.421**	**161.449.939**	**289.372.656**

(1) Original exposure before applying impairment losses and credit conversion factors (CCF).
(2) The residual maturity was calculated as the difference between the process date and the final maturity date. It is expressed in years and calculated using Actual/360.
(3) Includes net exposure to foreclosed property assets.

1.1.1.6. Distribution of impaired positions by geographical location and by economic sector

1. Distribution of impaired positions by economic sector

Table 22 shows exposure at default, excluding the property assets arising from management of the lending portfolio, broken down by counterparty, at December 31, 2011, and impairment losses and provisions for contingent commitments and liabilities constituted and recognized.

Table 22. Distribution of impaired exposures and exposures at in default by economic sector

(Thousands of euros)

Counterparty[1]	CaixaBank Group	"la Caixa" Group	% Exposure
Agriculture and fisheries	164.076	164.076	2%
Industry	338.823	338.823	4%
Property and construction	6.149.721	6.149.721	64%
Commercial and financial	1.424.846	1.424.846	15%
Public sector	181.744	181.744	2%
Private entities	1.113.634	1.113.634	12%
Other	194.507	199.184	2%
Total value	**9.567.351**	**9.572.028**	**100%**
Fund for impairment losses and provisions for contingent commitments and liabilities	**5.805.131**	**5.811.705**	**61%**

(1) Original value of exposure prior to application of credit conversion factors (CCF).

BuildingCenter, SA and Servihabitat XXI, SAU are the subsidiaries responsible for managing the real estate assets acquired in lieu of debts when all reasonable methods of recovering the debts have been exhausted. At December 31, the net carrying amount of the assets awarded totaled €4,450 million, with coverage of 34.4%, of which, €1,140 million (coverage of 36%) correspond to BuildingCenter. The coverage ratio included initial write-downs of cancelled debt and the provisions recognized subsequent to the foreclosure of the properties.

2. Geographic distribution of impaired positions

The distribution by geographical area of exposures at default of the "la Caixa" and CaixaBank Groups in value terms, at December 31, 2011, is as follows:

Table 23. Distribution of impaired exposures and exposures at default by geographical area

(Thousands of euros)

Geographical area [1]	CaixaBank Group	"la Caixa" Group	% Exposure
Spain	9.491.900	9.496.577	99,21%
European Union	56.392	56.392	0,59%
Rest of the world	19.058	19.058	0,20%
Total value	**9.567.351**	**9.572.028**	**100%**

(1) Original value of exposure prior to application of credit conversion factors (CCF).

1.1.1.7 Variations in impairment losses and provisions

1. Variations in provisions

There follows a breakdown of modifications made to value corrections due to impairment of assets and provisions for contingent commitments and liabilities for the "la Caixa" and CaixaBank Groups in 2011.

Table 24. Changes in provisions

(Thousands of euros)

CaixaBank Group	Fund for impairment losses	Provisions for contingent liabilities and commitments	Total provisions funds
Beginning balance	4.975.174	122.876	**5.098.050**
Net impairment charge	2.223.057	(3.933)	**2.219.124**
Amounts used charged to provisions and reversals of impairment losses recognised in the period	(1.288.184)	(119)	**(1.288.303)**
Transfers and other	(224.722)	982	**(223.740)**
Ending balance	**5.685.325**	**119.806**	**5.805.131**

(Thousands of euros)

"la Caixa" Group	Fund for impairment losses	Provisions for contingent liabilities and commitments	Total provisions funds
Beginning balance	4.978.650	122.876	**5.101.526**
Net impairment charge	2.223.295	(3.933)	**2.219.362**
Amounts used charged to provisions and reversals of impairment losses recognised in the period	(1.289.549)	(119)	(1.289.668)
Transfers and other	(220.497)	982	(219.515)
Ending balance	**5.691.899**	**119.806**	**5.811.705**

2. Impairment losses and reversals of losses previously recognized

Table 25 contains a detail of the impairment losses and reversals of losses previously recognized on asset write-offs, recognized directly in the income statement.[18]

Table 25. Impairment losses and reversals of losses

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Write-downs	**(381.886)**	**(490.055)**
Loans and receivables	(125.098)	(125.095)
Available-for-sale financial assets	(242.804)	(348.036)
Intangible assets	(7.772)	(7.878)
Property, plant and equipment for own use	(6.054)	(8.888)
Other assets	(158)	(158)
Net allocations	**(2.505.108)**	**(2.789.216)**
Loans and receivables	(2.195.402)	(2.195.639)
Inventories	(148.386)	(421.074)
Investments - associates	(151.000)	(151.000)
Tangible assets	(10.320)	(21.503)
Other assets		
Recovery of assets	**90.490**	**90.490**
Total value	**(2.796.504)**	**(3.188.781)**

[18] See Notes 39 "Impairment losses on financial assets" and 40 "Impairment losses on other assets" in the 2011 Financial Statements.

1.1.2 Counterparty risk

1.1.2.1. Counterparty risk management

1. Methodology for internal assignment of capital

In terms of counterparty risk management, the profile of ”la Caixa”'s counterparty is usually a financial entity. Therefore, no specific capital is assigned for counterparty risk and the entire item is treated jointly with credit risk.

2. Limits system and management

With regard to authorization processes, the maximum authorized exposure to credit risk with a financial market counterparty is determined on the basis of a complex calculation approved by the Management, based primarily on ratings for the Entity and on the analysis of its financial statements. Hence, the approved risk lines are established by the Treasury Area with each of the financial market counterparties, and the use of these lines is defined by the calculated exposure to counterparty risk. Position traders have real-time access to this information, which they systematically consult before carrying out new transactions. This minimizes the risk of overstepping the limits.

There are also certain general restrictions on the calculation of risk limits, such as no concessions of risk lines to entities with certain ratings, or assigning a risk limit to a banking group.

An interbank risk alarm system has now been implemented to detect credit deteriorations of bank counterparties through daily comparisons of the official ratings issued by the rating agencies and the implied ratings listed on the market (CDS). If the Entity's implied rating has become seriously impaired, the required analysis is performed to allow a decision to be taken as to whether the limit on the risk line should be modified.

Entity policy is to assign a single limit, known as the Global Limit, used to discount all risks incurred with the counterparty for both balance sheet operations (deposits, fixed income, repos, etc.) and off-balance sheet operations (derivatives).

In transactions with customers, derivative operations relating to asset applications (loan interest rate risk hedging) are approved in conjunction with the underlying transaction. All other transactions are approved depending on whether the assigned risk limit is met, or depending on individual analysis. Approval of transactions corresponds to the risk areas responsible for analysis and concession.

Potential Future Exposure (PFE) or Add-On is considered for the approval of transactions or initial use of lines, at the outset and subsequently on a daily basis. Potential Future Exposure is an estimate of the maximum value that can be reached by a transaction during its lifetime. To quantify PFE, the "pure diffusion" criterion is used based on the volatility of the underlying asset, time to the transaction start date, period to maturity, transaction currency and the rate contracted.

3. Effectiveness of security interests

In order to guarantee transactions with financial institutions that are liable to counterparty risk, "la Caixa" Group applies cash collateral agreements as security interests. A collateral agreement is an agreement whereby two parties undertake to deliver an asset to each other as security for the net credit risk position arising from the derivatives traded between them, on the basis of a prior close-out netting agreement in the ISDA/CMOF contracts.

Risk is quantified frequently, normally on a weekly basis, by marking to market all outstanding transactions, which entails a modification of the deposit to be placed by the debtor.

Moreover, since the only security interest is collateral in cash, not in securities, no correlation can entail adverse effects.

In the hypothetical event of a lowering of the "la Caixa" Group credit rating, the impact on the additional security interests that “la Caixa” would be compelled to provide would be insignificant, since the vast majority of franchises on the collateral contracts operated by the Entity are not related to its rating.

Bearing in mind that most contracts with financial institutions have a zero threshold[19] and that in contracts with a rating-linked scale the value of the portfolio does not usually exceed the threshold amount, in a worst-case scenario a lower rating would entail an insignificant outlay of cash.

[19] Threshold over which the collateral is applied in the event of non-payment by the counterparty.

1.1.2.2 Exposure to counterparty risk

1. Exposure to counterparty risk

Table 26 shows the effect of netting agreements and guarantees on counterparty risk exposures in derivatives contracts exposed to counterparty risk for both the ”la Caixa” and CaixaBank Groups:

Table 26. Exposure to counterparty risk (derivatives)

(Thousands of euros)

	Amount
Gross positive fair value of the contracts (1)	11.093.126
Positive effects of netting arrangements	5.988.133
Net positive fair value of the contracts (1)	5.104.993
Credit exposure to derivatives after netting arrangements and guarantees (2)	3.841.174

(1) Includes the present value of the exposures with counterparty risk if above 0.

(2) Credit exposure of derivatives net of effects of legally enforceable contractual netting arrangements and of the guarantee agreements received. Includes entire exposure to counterparty risk.

At December 31, 2011 the “la Caixa” Group’s exposure to counterparty risk was €3,841,174 thousand. The standardized approach is applied to calculate minimum capital on €3,269,697 thousand of this amount and the IRB approach is applied for the remaining €571,477 thousand. Credit exposure in derivatives is calculated as follows:

- For banking counterparties, as the sum of positive individual exposures at customer level (application of netting arrangements and guarantees received).
- For other counterparties, as the sum of the positive individual exposures at contract level (without applying netting arrangements or guarantees received).

At December 31, 2011, the positive effects of netting arrangements for banking counterparties amounted to €5,988,133 thousand.

2. Transactions with credit derivatives

All the "la Caixa" and CaixaBank Groups' credit derivative transactions are drawn up with banking counterparties.

Table 27 shows the breakdown of the notional values of the credit derivatives used.

Table 27. Notional value of credit derivatives

(Thousands of euros)

Type of credit derivatives used	Notional value	
	Protection purchased	Protection sold
Credit derivatives used for the Entity's own credit portfolio	10.000	-
Credit derivatives used in the Entity's trading activities	-	25.000

1.2. Additional disclosure requirements

1.2.1. Credit risk requirements under the standardized approach

1.2.1.1 Assignment of export credit or external agency ratings

In order to calculate risk-weighted exposures using the standardized approach, risk weighting is established in accordance with the exposure's credit quality. "la Caixa" uses the external rating agencies designated eligible by the Bank of Spain. The eligible external rating agencies are Standard & Poor's, Moody's and Fitch.

Since the exposure types to which the standard method is applied are as follows:

- central administrations and central banks,
- regional administrations and local authorities,
- institutions,

the external ratings applied are those of the central administrations, since the weightings of regional administrations, local authorities and institutions depend on the former.

It should be pointed out that "la Caixa" Group does not assign credit ratings for publicly traded security issues to comparable assets not included in the trading portfolio.

1.2.1.2 Impact on exposures of the application of risk reduction techniques and exposures deducted directly from capital

This sections details the exposure values for the CaixaBank and "la Caixa" Groups before and after applying risk reduction techniques based on the category of exposure and the weighting percentage applied according to the level of credit quality of each exposure.

Table 28. Effect of the risk reduction techniques by exposure category (est. average)

(Thousands of euros)

CaixaBank Group	Weighting applied	Value of the exposure[1]	
		Before applying risk reduction techniques	After applying risk reduction techniques
Central administrations and central banks		**25.729.421**	**25.729.167**
	0%	25.728.232	25.727.978
	50%	501	501
	100%	687	687
Regional administrations and local authorities		**13.345.562**	**13.368.299**
	0%	2.347.778	2.347.778
	20%	10.997.012	11.019.749
	100%	773	773
Public sector entites and non-profit institutions		**4.393.907**	**4.427.299**
	20%	4.378.903	4.412.295
	100%	15.004	15.004
Institutions		**7.692.495**	**7.578.891**
	0%	1.999.948	1.999.948
	20%	5.323.485	5.328.047
	50%	126.176	126.220
	100%	242.886	124.677
Companies		**19.367.454**	**18.165.029**
	0%	3.808	3.808
	50%	187.241	187.241
	75%	9.110	9.110
	100%	19.167.295	17.964.870
Retail		**5.394.301**	**5.239.222**
	0%	939.339	939.339
	75%	4.433.644	4.278.565
	100%	21.318	21.318
Exposures secured by property		**3.355.686**	**3.337.634**
	35%	2.555.963	2.553.841
	50%	380.876	365.561
	100%	418.847	418.232
Exposures at default		**2.198.646**	**2.188.350**
	50%	4.242	4.242
	100%	340.357	336.016
	150%	1.854.047	1.848.091
Other exposures		**5.920.806**	**5.920.806**
	0%	1.105.704	1.105.704
	100%	4.815.102	4.815.102
Total		**87.398.278**	**85.954.697**

(1) Exposure net of impairment losses and provisions, prior to application of credit conversion factors (CCF).

(Thousands of euros)

"la Caixa" Group	Weighting applied	Value of the exposure[1]	
		Before applying risk reduction techniques	After applying risk reduction techniques
Central administrations and central banks		**25.811.650**	**25.811.396**
	0%	25.810.461	25.810.207
	50%	501	501
	100%	687	687
Regional administrations and local authorities		**13.345.562**	**13.368.299**
	0%	2.348.275	2.348.275
	20%	10.996.514	11.019.251
	100%	773	773
Public sector entites and non-profit institutions		**4.393.907**	**4.427.299**
	20%	4.378.903	4.412.295
	100%	15.004	15.004
Institutions		**7.400.521**	**7.286.917**
	0%	1.999.803	1.999.803
	20%	5.031.656	5.036.218
	50%	126.176	126.220
	100%	242.886	124.677
Companies		**19.297.847**	**18.095.422**
	0%	3.808	3.808
	20%	-5.659	-5.659
	50%	187.241	187.241
	75%	9.110	9.110
	100%	19.097.688	17.895.263
Retail		**5.417.211**	**5.262.132**
	0%	939.339	939.339
	75%	4.456.554	4.301.475
	100%	21.318	21.318
Exposures secured by property		**3.355.686**	**3.337.634**
	35%	2.555.963	2.553.841
	50%	380.876	365.561
	100%	418.847	418.232
Exposures at default		**6.261.441**	**6.251.145**
	50%	4.242	4.242
	100%	1.323.625	1.319.285
	150%	4.933.573	4.927.618
Other exposures		**6.598.925**	**6.598.925**
	0%	1.105.705	1.105.705
	20%	-1.723	-1.723
	100%	5.493.220	5.493.220
Total		**91.882.750**	**90.439.169**

(1) Exposure net of impairment losses and provisions, prior to application of credit conversion factors (CCF).

Sums of exposure to credit risk that are directly deducted from capital[20] are significant ownership interests in financial institutions and insurance companies, and excess qualified investment in entities that are not financial institutions or insurance companies.[21]

1.2.2. Credit risk requirements using the Internal Ratings-Based approach

1.2.2.1 General information

1. Utilization of the IRB approach

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

The Bank of Spain has authorized the "la Caixa" Group to use the Internal Ratings-Based approach (IRB) to calculate capital requirements for the following credit categories:

- Exposures evaluated by models for mortgage loans to individuals (behavior and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.
- Exposures evaluated by models for personal loans to individuals (behavior and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.
- Exposures evaluated by models for cards to individuals (behavior and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.
- Exposures evaluated by SME models for the range of medium-sized enterprises, small companies and micro-enterprises, applying internal estimates of losses in the event of non-payment and credit conversion factors.
- Exposures evaluated by the real estate developer SME model, applying internal estimates of losses in the event of non-payment or credit conversion factors.

[20] See section 1.1.1 “Description of the consolidable group” in Part A of this document.
[21] See section 2.2 “Total capital” in Part A of this document.

- Exposures evaluated by the corporate model, applying internal estimates of losses in the event of non-payment or credit conversion factors.
- Equity exposures evaluated using the IRB approach, with internal models (VaR), PD/LGD and simple risk weighting.

The Bank of Spain authorized the use of the IRB approach for the calculation of capital requirements for credit exposures arising from operations by Microbank de la Caixa, SA, following the reorganization of Grupo Nuevo Micro Bank, SA, applicable as of year-end 2009.

2. Implementation of internal estimates in the management process

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

- Back-up for the decision-making process.
- Improving control of recurring risks.
- Establishment of empowerment for approval.
- Approval of transactions through non-presence channels.
- Optimization of internal processes.
- Price recommendations for transactions.
- Customer profitability.

3. Management process and recognition of risk reduction

The result of the application of risk mitigating techniques on the IRB portfolio is reflected in the estimated LGD.

For credit investment, assignment of risk mitigation techniques to calculate regulatory capital is carried out in the risk database (Datamart), which stores the necessary information concerning the collateral and guarantors involved in each transaction for subsequent use as a risk mitigation technique. In the case of security interests or collateral, a consultation is made concerning the type of guarantee in order to determine the type of collateral: financial, real estate, or other collateral. Moreover, in the case of real estate used as collateral, a consultation is made concerning the characteristics of the mortgage guarantee in order to ascertain whether it is a residential or commercial asset.

4. Control of the internal rating systems

The Entity's control units are the Internal Validation Unit and the Internal Audit Unit.[22]

- **Internal validation**

  The Bank of Spain establishes internal validation as a mandatory pre-requisite for supervisory validation, and requires the process to be carried out by an independent specialized division within the Entity. It must also be carried out on a continuous basis at the entities, as a complementary feature to traditional control functions (internal audit and supervision).

  The validation function at the "la Caixa" Group is carried out indirectly though CaixaBank's Internal Validation unit as part of the General Technical and Validation Subdivision, which reports directly to the General Risk Division, guaranteeing the independence of the teams developing and implementing internal models.

  The main goals of the Internal Validation unit are to issue an opinion as to whether the internal models are suitable for management and regulatory purposes, identifying all their relevant uses, and to assess whether the risk management and control procedures are in line with the Entity's risk profile and strategy. The function must also support Senior Management (especially the Global Risk Management Committee) in their responsibilities regarding approval of the use of the internal models, and coordinate the supervisory validation process with the Bank of Spain.

  The Internal Validation unit's working methodology is based on the preparation of annual plans, with a distinction being made between tasks relating to regulatory compliance and the specific reviews planned.

  Regulatory compliance activities comprise:

  - Validation cycles, a set of regular reviews used to conduct an annual analysis of the performance of each internal model and its integration within the risk management processes. This guarantees an updated opinion on the status of the internal models and their uses.

[22] See section 1.2.1.4 "Internal Audit" in Part A of this document.

- Exhaustive reviews following major modifications to IRB models that require a preliminary opinion by Internal Validation.
- Regulatory reporting (IRB Monitoring Dossier, Internal Validation Report).

In addition, reviews may be conducted in order to further address aspects encountered in the validation cycles or as requested by the supervisor or the areas concerned.

In 2010 the scope of Internal Validation was broadened to include market risk. The validation framework for market risk was set up in the course of 2010, and the first validation report concerning a material modification to the internal market risk model was produced during the first quarter of 2011.

1.2.2.2 Description of the internal rating assignment process, for each exposure category

1. Structure of the internal rating systems

The ”la Caixa” Group has internal credit rating models which, using assignment of internal solvency scores or ratings to customers, provide forecasts of the probability of default by each borrower, covering practically all lending activity. In segments not yet covered, relevant information is collated for the future construction of tools to estimate the probability of non-compliance.

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

Customer-orientated tools at the ”la Caixa” Group consist of behavior scorings for individuals and ratings for companies, and are implemented at all branches as standard tools for approval of asset products.

In the case of companies, the rating tools operate at customer level, and vary considerably depending on the segment to which they belong. The ratings obtained are also subject to an economic cycle adjustment, with the same structure as for individuals.

The "la Caixa" Group, through CaixaBank, has a Corporate Rating function in place to provide specialized rating services for the large companies segment, and has also developed internal rating models. These are expert models that require the participation of analysts. These models were built in line with Standard & Poor's methodology, and allow the use of the global default rates published by this rating agency, making the methodology more reliable.

- **Estimating the probability of default (PD)**

  Default is defined as the inability of the counterparty to meet its payment obligations. The type of probability of default (PD) estimated at the Entity is "through the cycle:" the scores assigned by the rating models are associated with the average PDs for a full economic cycle. The estimate is performed by anchoring the PD curve to the long-term trend (central trend) estimated for the portfolio. When a probability of default has been assigned to each contract/customer, it is then transferred to the Master Scale, a categorization to which the results of all scoring and rating tools are linked for easier interpretation. Table 29 provides a summary of the relationship between the Master Scale and the probability of default.

Table 29. Master scale for credit ratings

Internal Master Scale	Minimum PD (%)	Maximum PD (%)
0	0,00000	0,02440
1	0,02450	0,07540
2	0,07550	0,18040
3	0,18050	0,42040
4	0,42050	0,99940
5	0,99950	2,33840
6	2,33850	5,36540
7	5,36550	11,83640
8	11,83650	24,15140
9	24,15150	99,99999

- **Estimating exposure at default (EAD)**

  Exposure at default (EAD) is defined as the amount the customer is expected to owe the credit institution at the time of a hypothetical commencement of default at some point over the next 12 months.

  EAD is defined as the current balance (amount included as assets on the Entity's balance sheet) plus a percentage of the unused (available) line granted, i.e. an equivalence factor termed CCF or Credit Conversion Factor representing a quantitative estimate of the percentage of the amount not used by the customer that will ultimately be used or outlaid at the time of commencement of the default.

  The method used by the Entity to estimate EAD is the variable-horizon approach (setting a one-year horizon for calculation of the CCFs observed).

  The Entity's present EAD models for available balance commitments have been developed in accordance with the holder segment and with the product.

- **Estimating loss given default (LGD)**

  LGD is the economic loss arising from a default.. The Entity currently estimates average long-term LGD and LGD in adverse cycle conditions (downturn) for all transactions that are not in default. For transactions that are in default, a "Best Estimate" of the loss is also being calculated.

  The Entity's LGD models have been developed in accordance with the holder segment and with the type of guarantee.

2. Rating models

A description of the rating models approved for use in the calculation of capital requirements through the IRB approach is shown below:

2.1 Private customers and self-employed

- **Asset-related Behavior Model**. This provides a monthly evaluation of all active customers (private customers and self-employed) carrying on a transaction secured by a personal or mortgage guarantee. It has two main functions:

- To monitor the risk outstanding on all transactions made by these customers of more than 12 months' standing.
- Approval of cards.

A multivariate analysis methodology was used to build the model (logistic regression). It is based exclusively on information concerning the customer's financial behavior.

- **Non-Asset-related Behavior Model**. This provides a monthly evaluation of all operating customers (private customers and self-employed) with no asset-related contracts other than credit cards. It has two main functions:

  - To monitor the risk outstanding on all cards of more than 12 months' standing.
  - Approval of cards.

  A discriminating-analysis methodology was used to build the model. It is based exclusively on information concerning the customer's financial behavior.

- **Existing Customer Mortgage Model**. This is used for the purposes of evaluation for the approval of mortgage guarantee transactions for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A discriminating-analysis methodology was used to build the model. It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behavior.

- **Non-Customer Mortgage Model**. This is used for purposes of evaluation in the approval of mortgage guarantee transactions for non-customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction and socio-demographic information on the customer.

- **Existing Customer Personal Guarantee Model.** This is used for purposes of evaluation in the approval of personal-guarantee transactions for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behavior.

- **Non-Customer Personal Guarantee Model**. This is used for purposes of evaluation in the approval of personal-guarantee transactions for non-customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, the risk characteristics of the borrower, and customer data (socio-demographic data, employment, economic information etc.).

2.2 Companies

- ***Ratings of SMEs and Developer SMEs.*** The aim of the SME and developer SME rating model is to assign an internal rating to private companies classified as Micro-enterprises, Small Companies, Medium-sized Companies or Developer SMES in accordance with the internal risk segmentation system. The entire SME and developer SME portfolio is evaluated monthly, and also whenever a new transaction is approved for an SME or developer SME, if no calculated rating is available.

  A multivariate analysis methodology was used to build the four models (logistic regression). It is based on:

  - *Financial information*: information available from balance sheets and income statements. For example: total assets, equity or net profit.
  - *Operating information*: bank and credit information on the customer company, in connection with "la Caixa" or other banks in the Spanish financial system (Bank of Spain's Risk Information Facility - CIRBE). For example: average balance of liabilities or average CIRBE utilization.
  - *Qualitative information*: based on the company's characteristics and position within its sector. For example: the company manager's experience, real estate asset status etc.

- **Corporate ratings**. The aim of the corporate rating model is to assign an internal rating to private companies and real estate developers classified as Large Companies, in accordance with the "la Caixa" internal risk segmentation system. The corporate rating is calculated by a centralized unit, and the frequency of recalculation of the rating will depend on the receipt of new information to be added to the appraisal, with a maximum validity of 12 months.

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

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

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

1.2.2.3 Exposure values

The exposure values considered in the internal rating approach use estimates of the loss parameters in the event of non-performance or conversion factors.

Table 30 shows information concerning the "la Caixa" Group's exposures at December 31, 2011 for the various debtor levels.

CaixaBank Group's exposures to credit facilities awarded to the real estate holding companies belonging to Criteria CaixaHolding, SAU, are recognized in the "companies" segment with an average PD of 0.729 and a LGD of 40.226%.

Table 30. Exposure by category of exposure and debtor level (IRB approach)

(Thousands of euros)

Risk category by average PD	Exposure[1]	Loss given default (LGD)[2] (%)	Average risk weighting[3] (%)	Conversion factors	
				Commitments not drawn down[4]	Average CCF[5] (%)
Companies	**73.706.191**	**35,40**	**86,37**	**20.453.709**	**62,52**
Risks not at default	64.907.192	35,14	89,57	19.253.309	62,70
0,053	1.584.306	44,09	21,28	920.863	59,77
0,120	4.900.573	37,50	29,91	2.579.857	49,54
0,289	11.162.256	41,95	46,58	4.668.848	58,18
0,790	11.793.869	39,04	70,65	3.899.546	68,92
1,668	7.052.279	32,26	75,77	1.583.471	68,01
3,334	9.634.803	32,53	95,12	1.834.829	69,88
7,103	5.911.238	31,31	124,61	1.246.232	60,80
14,890	6.077.888	26,05	128,09	1.194.242	61,10
40,149	6.789.980	31,58	175,29	1.325.421	56,91
Risks at default	8.798.999	38,88	63,29	1.200.400	61,16
Retail	**123.373.847**	**21,39**	**25,74**	**25.138.691**	**57,07**
Exposures covered by property mortgages	**108.304.563**	**15,88**	**23,16**	**19.573.425**	**54,96**
Risks not at default	106.243.558	15,20	23,18	19.517.675	54,28
0,0320	21.410.886	11,65	1,20	7.012.266	42,99
0,1080	27.293.163	15,60	4,18	5.474.245	53,83
0,2630	8.238.538	15,93	8,39	1.575.551	54,80
0,6450	20.044.973	16,23	15,96	2.943.200	56,25
1,4800	7.656.800	16,41	28,17	863.753	57,69
3,2020	7.293.496	16,16	43,85	692.691	59,25
6,5360	6.329.422	16,81	67,66	576.586	60,75
18,1640	2.626.107	15,98	91,84	178.573	62,66
39,7700	5.350.173	16,96	99,03	200.810	70,13
Risks at default	2.061.005	40,08	22,32	55.750	89,91

Risk category by average PD	Exposure[1]	Loss given default (LGD)[2] (%)	Average risk weighting[3] (%)	Conversion factors	
				Commitments not drawn down[4]	Average CCF[5] (%)
Qualifying revolving retail exposures	**5.686.607**	**75,00**	**22,62**	**4.093.920**	36,21
Risks not at default	5.679.084	75,00	22,65	4.093.920	36,13
0,040	2.498.506	75,00	2,21	2.021.085	35,91
0,117	857.193	75,00	5,44	639.184	35,28
0,280	899.477	75,00	11,05	674.051	35,41
0,656	413.954	75,00	21,93	262.629	32,32
1,733	598.838	75,00	45,63	339.408	33,40
3,880	213.152	75,00	81,50	98.614	41,35
8,043	151.145	75,00	130,35	49.717	50,32
16,355	27.533	75,00	187,00	7.245	69,73
35,970	19.286	75,00	236,62	1.987	85,39
Risks at default	7.523	74,47	8,39	0	100,00
Other retail exposures	**9.382.677**	**58,72**	**52,90**	**1.471.346**	**94,14**
Risks not at default	9.013.359	57,56	54,61	1.451.972	93,90
0,045	826.094	51,51	7,32	110.754	97,43
0,122	1.447.105	59,02	17,75	112.240	96,94
0,246	1.265.710	57,86	28,62	237.288	94,88
0,658	1.783.365	60,29	52,57	330.062	94,43
1,374	953.118	59,45	72,51	182.789	93,28
3,467	1.530.298	56,51	84,08	250.350	90,91
6,419	683.886	54,82	88,60	177.710	87,51
16,341	212.405	53,05	114,23	28.798	92,16
37,572	311.378	58,52	157,24	21.981	95,24
Risks at default	369.318	86,41	12,27	19.374	99,93
Total value	**197.080.038**	**26,63**	**48,76**	**45.592.400**	**59,11**

(1) Original exposure prior to application of credit conversion factors (CCF), determined by the sum of amounts drawn down and not drawn down.
(2) Percentage estimated as the weighted average mean per exposure of the LGD. In default weighted average mean per exposure of best-estimate LGD.
(3) Percentage estimated as the weighted average mean per exposure. A 100% weighting represents 8% capital consumption.
(4) Prior to the application of credit conversion factors (CCF).
(5) Percentage estimated as the weighted average mean per exposure.

1.2.2.4 Trend in impairment losses recognized during the previous year

Table 31 shows information on the "la Caixa" and CaixaBank Groups' impairment losses and provisions for risks and contingent commitments in 2010 and 2011, for each of the risk categories where the Entity applies the IRB approach.

Table 31. Impairment trends

(Thousands of euros)

CaixaBank Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2010	December 2011
Non-IRB exposures	742.562	596.572
Companies	2.628.114	3.544.473
Retail. *Of which* :	1.433.942	1.664.086
Exposures covered by property mortgages	889.245	1.179.761
Qualifying revolving retail exposures	48.211	44.283
Other retail exposures	496.486	440.042
Other	293.431	0
Total	**5.098.050**	**5.805.131**

(Thousands of euros)

"la Caixa" Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2010	December 2011
Non-IRB exposures	746.038	603.146
Companies	2.628.114	3.544.473
Retail. *Of which* :	1.433.942	1.664.086
Exposures covered by property mortgages	889.245	1.179.761
Qualifying revolving retail exposures	48.211	44.283
Other retail exposures	496.486	440.042
Other	293.431	0
Total	**5.101.526**	**5.811.705**

Asset impairment losses increased in 2011, from a net charge of €1,907,541 thousand in 2010 to €2,195,639 thousand in 2011.[23]

[23] See Note 37 "Impairment losses on financial assets (net)" to the "la Caixa" Group's 2011 Financial Statements.

At December 2011, taking into account all the provisions available to cover the expected losses under IRB, the deficit in provisions was €525 million. In 2010, this deficit was €1,031 million. At December 31, 2011, the CaixaBank Group had a deficit in provisions of €545 million.

1.2.2.5. Comparative analysis of estimates and results obtained

1. Introduction

The analysis below shows the historical trend in the Observed Default Frequency (ODF) for the main portfolios.[24]

The estimate of expected loss aims to include, for defaults to be incurred in the following year and current defaults, the present value of losses to be borne in future income statements. The first estimates accepted for regulatory purposes were at year-end 2008.

As mentioned above, until the default recovery cycles are closed and the impact on the various income statements is known, this type of comparison is not viable. As a result, this report compares and presents the current comparative information between the probabilities of default on the portfolio for 2011, used for the calculation of capital requirements and the observed frequencies, since the analysis horizons are already closed.

[24] The ODF at a given date relates to the percentage of contracts (or customers in the case of legal persons) whose position was sound at inception and subsequently entered default during the year.

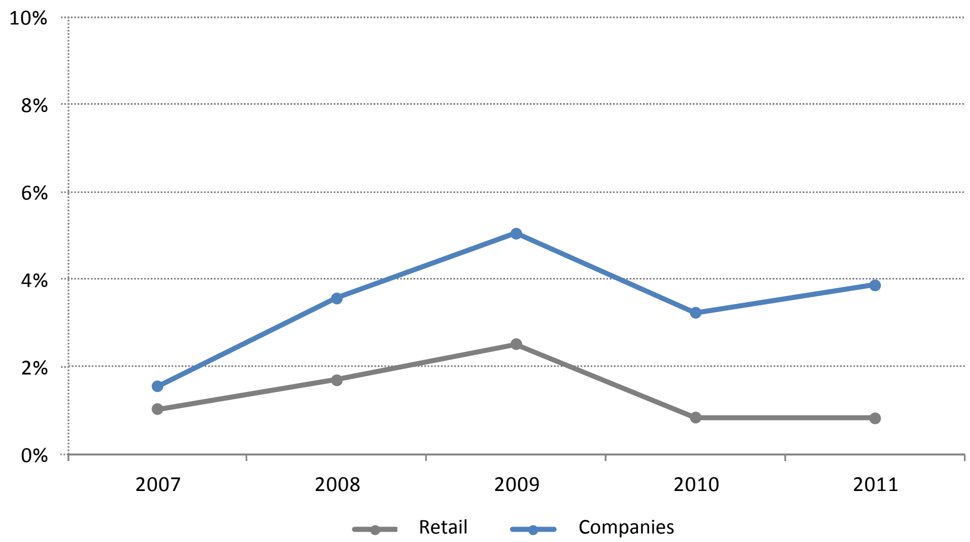
2. Historic ODFs

Table 32. ODFs

	Historic ODF				
	2007	2008	2009	2010	2011
Retail	1,03%	1,69%	2,52%	0,84%	0,82%
Companies	1,55%	3,56%	5,04%	3,23%	3,86%

The weakened macroeconomic scenario keeps ODFs at high levels, consistent with the current stage of the cycle. In light of this situation, in 2011 macro economic variables weakened, such as GDP, which has become negative in the past few quarters. However, ODFs remain in line with those observed in the previous period.

Chart 1. ODF performance



3. Comparison of ODF and PD - TtC

The regulatory estimate of capital requirements for covering expected and unexpected losses in a year is made on the basis of the measurement of the probability of default (PD) of each customer/contract using the information available at the previous year-end.

For the purposes of regulatory compliance and in order to maintain stability in the estimates, the Through the Cycle PD (hereinafter PD) of a portfolio at year-end does not aim to predict default for the following year but rather to measure the mean probability of default throughout the cycle.

Therefore, naturally, the ODF at moments of weakness in the economic cycle, such as the present, should be higher than the estimated PD for these years. However, as can be observed in the following tables, the PDs maintain or exceed the ODF levels in almost all the tranches of the master scale, thus indicating the conservative nature of the adjustment to the cycle included in the estimate.

Depending on the assessment of contracts compared to individuals, or on the ratings of legal persons, each portfolio is segmented in various levels of credit quality, as defined in the master scale, with various PD levels.

The accuracy of the models may be analyzed by comparing the ODF actually obtained in the year with the PD estimate made at the beginning of the year, for each tranche of credit quality of each portfolio. This analysis aims to:

- Confirm that the relationship between the ODF and the master scale is monotonous rising.
- Compare the levels for analyzing the cyclical nature of the estimate and actual data.

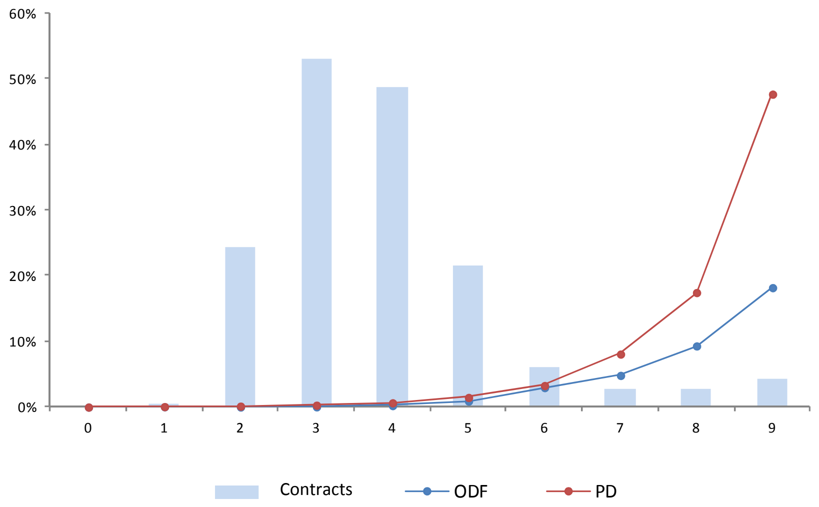
In this section, a comparison is made for each risk tranche in each portfolio:

- 2011 ODFs
- PDs for 2011 estimated at year-end 2010

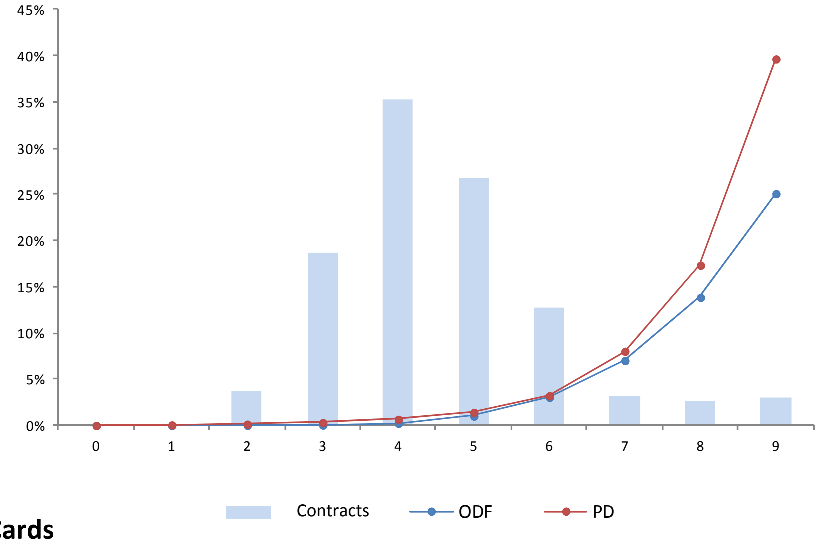
Collectively, to provide a better understanding of the data, a distribution is shown of the number of contracts in retail and the number of corporate customers at year-end 2011.

Furthermore, for illustrative purposes, information is included on 2009 ODFs, to demonstrate the reduction of the default frequency in each risk tranche, taking into account that the PD by risk tranche remained stable.

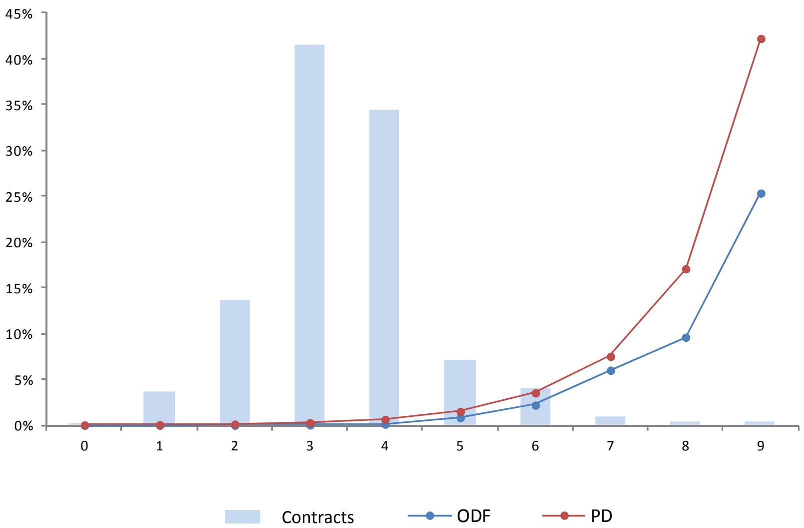
Graph 2. Mortgage



Graph 3. Consumer



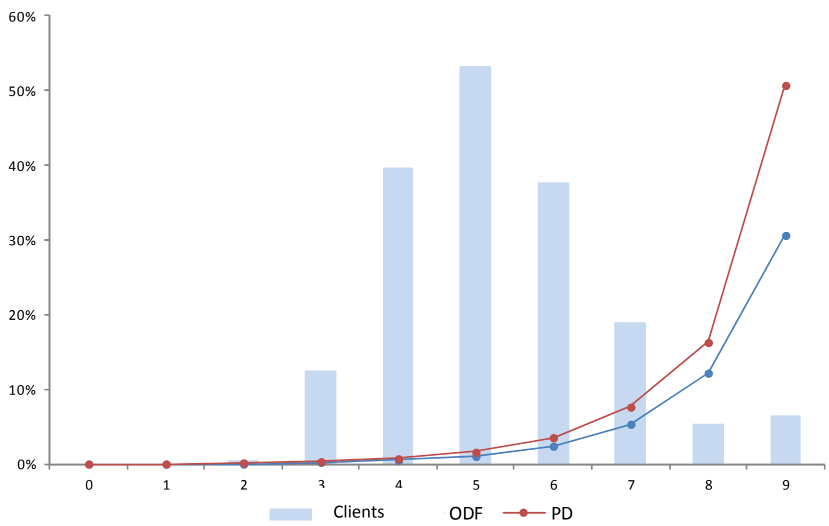
Graph 4. Cards



In the individuals segment, the ODF is a monotonous rising function with respect to the master scale, and thus with respect to the frequency estimated by PD for the segment. This means that for these segments the internal models employed by “la Caixa” properly classify customers by levels of risk.

With regard to the level, the portfolios of individual customers show PDs at the same levels as the ODFs, and even higher, despite the adverse stage of the cycle. We may note, therefore, the conservative nature of the cycle-adjustment procedure implemented in the PD estimate.

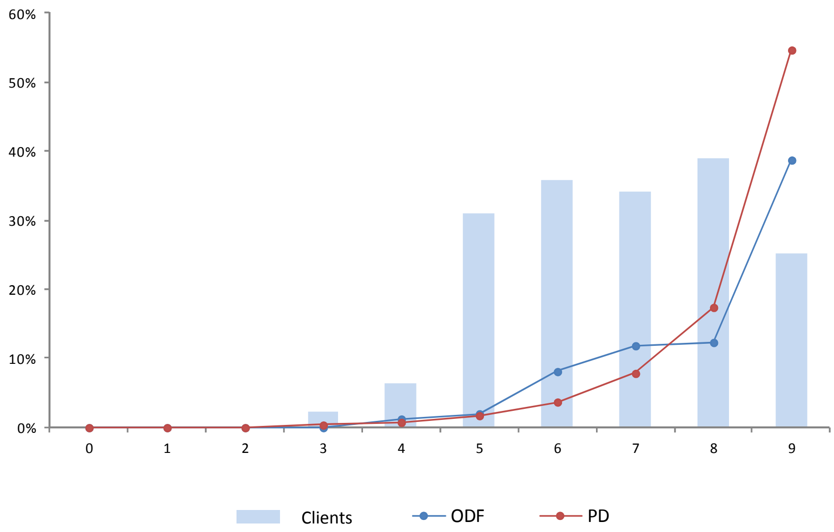
Graph 5. Non-developer SMEs



In the non -developer SME segment, the ODF is a monotonous rising function with respect to the master scale, and thus with respect to the frequency estimated by means of PD for the segment. This means that for these segments the internal models employed by “la Caixa” properly classify customers by levels of risk.

Due to the conservative adjustments made to the cycle, the PD is above the 2011 ODF.

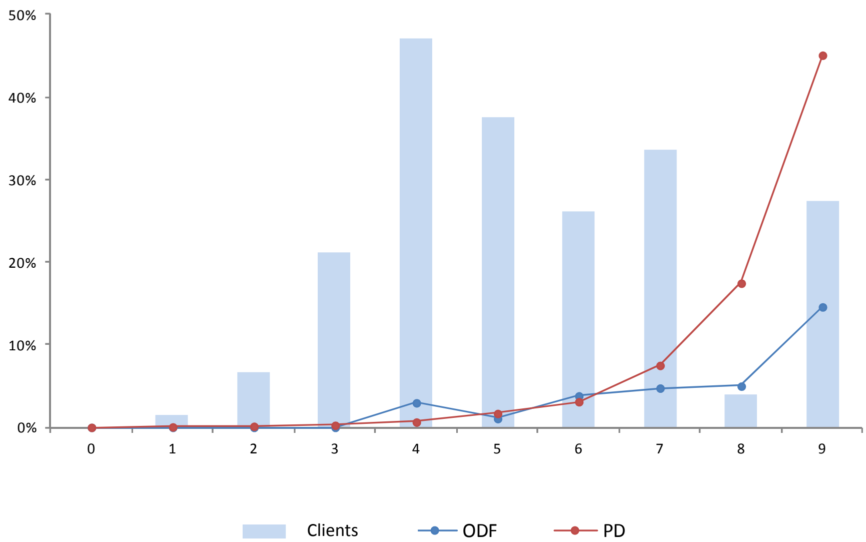
Graph 6. Developer SMEs



In the developer SME segment, the ODF is a monotonous rising function with respect to the master scale, and thus with respect to the frequency estimated by means of PD for the segment. This means that for these segments the internal models employed by “la Caixa” properly classify customers by levels of risk.

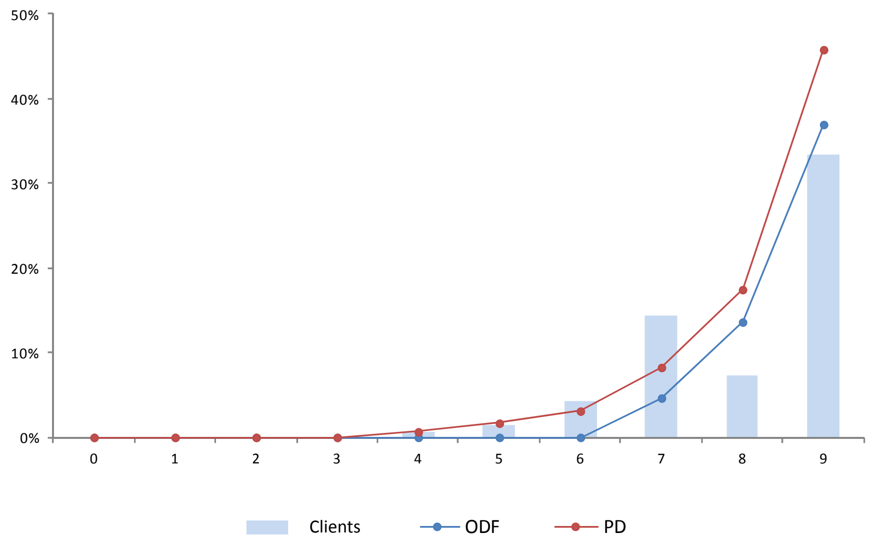
As to be expected in such an unfavorable economic environment for this segment, the ODF is higher than the PD in some tranches.

Graph 7. Large non-developer companies



In the segment of major companies, the low numbers of customers means that the ODF on the master scale is not statistically representative, and the function cannot be expected to be monotonous, even though this is true of almost all sections.

Graph 8. **Large developer companies**



For large developer companies, the 2011 ODF is lower than PD levels in all tranches.

1.2.3. Securitization transactions

1.2.3.1. General information on securitizations

1. Group objectives and functions

The ”la Caixa” Group has focused on two objectives in its securitization transactions to date:

- These chiefly consist of using bonds arising from the securitization process as eligible collateral vis-à-vis the European Central Bank. The ”la Caixa” Group repurchases these bonds, thereby diversifying the Entity’s possible sources of finance during adverse financial market situations.
- On a more sporadic basis it carries out asset securitization processes to obtain finance at a more competitive price by placing tranches of bonds guaranteed by programs sponsored by the State (FTPYME) or the Catalonian Autonomous Government (FTGENCAT), the Andalusia Autonomous Government and the ICO, market conditions permitting.

The ”la Caixa” Group primarily performs an originator function, i.e. it converts a portion of its homogenous loan and credit portfolios into fixed-income securities by transferring the assets to a number of securitization funds, whose participants assume the risks inherent to securitization operations. As mentioned above, in its securitization activities "la Caixa” does not aim to obtain liquidity or transfer risk, and thus it acquires practically all of the majority of bonds issued by the corresponding securitization funds in exchange for the assets transferred to them.

A description of the various areas involved in the securitization processes and their roles is shown below:

- **Markets**. This area is responsible for determining the purpose and scope of the operation, obtaining the approval of the internal management body, designing the financial framework for the operation, determining bond margins, and coordinating the management and placement of the bonds.
- **Approval Policies and Procedures**. This area determines the selection criteria for the portfolio and its analysis, provides the additional historical information required by external rating agencies, and is responsible for yearly asset audits.
- **Information Systems: Segments and Services**. This area is responsible for portfolio extraction (preliminary, provisional and final) and the respective repayment schedules.

- **Legal Advice**. This area is responsible for obtaining approval from the corresponding internal body at the Entity, and supervising the documentation generated.
- **Intervention and Accounts**. This area handles all accounting operations.

Mention must be made of the role played by GestiCaixa, SGFT, SA as the “la Caixa” securitization fund manager, the main functions of which are the creation, administration and representation for legal purposes of asset securitization funds and taking part in their structuring.

2. Accounting policies

In accordance with Regulation Twenty-Three of Bank of Spain Circular 4/2004, there must be a substantial transfer of risk for the underlying assets in a securitization fund to be removed from the balance sheet. Since the “la Caixa” Group repurchases the majority of bonds in the securitizations originated, risk transfer does not take place, and therefore it is not possible to remove assets that have been involved in a securitization process. However, Transitional Provision One of the Circular states it will not be necessary to modify records of the transactions occurring prior to January 1, 2004 that were removed from the balance sheet as a consequence of this regulation. Therefore, as reported in the “la Caixa” 2011 Financial Statements, only assets that were securitized prior to January 1, 2004 were removed from the Entity’s balance sheet, while the remainder remain as “la Caixa” assets.[25]

Since there is no compliance with Regulations Fifty-Five and Fifty-Six of Circular 3/2008 for the purposes of considering that effective significant transfer of risk exists, the method used to calculate capital requirements for securitization transactions is the same as that applied to assets that have not been securitized.

The “la Caixa” Group does not carry out synthetic securitization.

In its securitization activities, the “la Caixa” Group uses the four external rating agencies considered to be acceptable by the regulator (Moody´s, S&P, Fitch, and DBRS). Two of these are normally used for each transaction, regardless of the type of asset securitized.

[25] See Table 33.

1.2.3.2 Exposures in securitization transactions and amount of the assets securitized

1. Aggregated amount of securitization positions

Table 33 shows the positions held in securitization bonds by the "la Caixa" Group, all through CaixaBank, at December 31, 2011, by type of exposure. It should be noted that most of the bonds issued by the securitization funds in exchange for the transferred loan assets are acquired by the Group.

Table 33. Securitization positions by type of exposure

(Thousands of euros)

Type of exposure	Exposure (1)
Securitisation bonds - preferred tranche	18.414.695
Securitisation bonds - subordinated tranche	6.016.740
Subscription reserve bonds	780.443
Total value	**25.211.878**

(1) Original exposure value.

Table 34 shows the total securitized loan exposures pending repayment at December 31, 2011.

Table 34. Securitization of receivables from customers

(Thousands of euros)

Type of exposure	Exposure
Derecognised transactions	1.491.978
Transactions remaining on the balance sheet	22.981.649
Total value	**24.473.627**

2. Other quantitative information on securitization positions

At December 31, 2011 the detail of assets securitized by the "la Caixa" Group via CaixaBank, by type of securitized asset, was as follows:

Table 35. Distribution by type of securitized assets

(Thousands of euros)

	Outstanding balance	Of which: outstanding balance of transactions impaired or in default	Effective impairment losses
Residential mortgages	9.925.805	48.406	87.064
Finance lease	1.204.167	0	0
Consumer loans	3.021.373	551	62.254
Loans to Companies and SMEs	10.322.282	388.092	220.197
Total	**24.473.627**	**437.049**	**369.515**

Securitization activity in 2011 consisted of three new securitization agreements, as follows:

- FONCAIXA LEASINGS 1, F.T.A. The initial amount securitized was €1,420,000 thousand. At the date of creation, 45.56% of the underlying assets securitized corresponded to finance leases for movables and the remaining 54.44% to finance leases for real estate.
- FONCAIXA EMPRESAS 3, F.T.A. The initial amount securitized was €1,400,000 thousand. At the date of creation, 54.34% of the underlying assets securitized corresponded to loans with mortgage guarantee and the remaining 45.66% to loans with personal guarantee.
- FONCAIXA AUTONOMOS 1, F.T.A. The initial amount securitized was €1,130,000 thousand. At the date of creation, 70.26% of the underlying assets securitized corresponded to loans with mortgage guarantee and the remaining 29.74% to loans with personal guarantee.
- FONCAIXA CONSUMO 1, F.T.A. The initial amount securitized was €3,080,000 thousand. At the date of creation, 69.96% of the underlying assets securitized corresponded to loans with mortgage guarantee and the remaining 30.04% to loans with personal guarantee.

1.2.4. Credit risk reduction techniques

1.2.4.1 General information

The following is a summary of the main credit risk reduction techniques normally permitted in the “la Caixa” Group’s operations.

1. Offsetting processes and policies for on-balance sheet and off-balance sheet positions

Balance sheet offsetting agreements included in ISDA/CMOF contract clauses are used as credit risk mitigation techniques since they provide an offsetting facility between contracts of the same type. Therefore, existing reciprocal cash balances between the Entity and the counterparty are offset and recognized on the consolidated balance sheet at their net amount and cash-settled.

The "la Caixa" Group does not apply any offsetting processes between on-balance sheet positions and off-balance sheet positions. Only derivative transactions (off-balance sheet) are subject to netting arrangements.

2. Types of security interests, policies and procedures for management and valuation

Even when risk decisions taken at the Entity are based on the borrower's repayment capacity, it is essential to guard against any unforeseen contingencies through the acceptance of additional guarantees.

Personal guarantees

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

Security interests

The main types of security interests accepted for day-to-day business are as follows:

- **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. In the vast majority of cases, CaixaBank must be the depository entity for the pledged guarantee and the pledge remains active until the asset falls due or is redeemed early, or so long as the asset is not discharged. 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 used freely and may even be used as a guarantee in other on-going operations.
- *Time deposits and savings facilities*: The entire sum of the product is effectively withheld.
- *Units and shares of investment funds*: 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. The percentage pledged varies depending on the type of investment between 100% for FIM investment funds and FIAMM money market funds, and 50% for equity investments, mixed investments or currency deals.
- *Insurance policies*: Pledge in line with the policy and for the lowest of the surrender value and the sum of capital, pensions and contributions. The pledged policy is fully affected.
- *Mortgage covered bonds*: The pledge is applied to the number of securities that make up the amount pledged. Others may be used to secure further borrowings.
- *Rights and securities*: These are government debt securities, bonds, shares and promissory notes. Most fixed-income or equity securities accepted as guarantees have official stock market listings. CaixaBank applications show the daily trends in the values of the securities pledged. As a general rule, the applicable pledging percentage is 50% of the effective value in the case of equities (in the case of considerable loss of value, the borrower is required to provide additional guarantees), and 85% for fixed income, although in certain cases the system applies lower percentages or even prevents the pledge.

- **Public body invoices and certifications of works, supplies or services or subsidies from a public body**

  These are loan or credit facility operations where the Entity is given a charge over the borrower's collection right. In all cases a claim transfer contract must be drawn up, along with the loan contract or credit facility agreement.

- **Mortgage guarantees**

  Internal regulations expressly establish the following:

  - The procedure for approval of guarantees and the requirements for drawing up operations, e.g. the documentation that must be supplied to the Entity 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. Capital to be granted in mortgage operations is limited to percentages of the value of the guarantee, and this 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. Credit derivatives: guarantors and counterparty

Finally, the "la Caixa" Group occasionally uses credit derivatives to hedge against credit risk. No single counterparty accounts for a significant portion of outstanding credit derivative contracts. The "la Caixa" Group arranges these with credit institutions showing a high credit rating, and practically all are backed up by a collateralization contract.

1.2.4.2 Quantitative information

Table 36 shows the information on exposures by type of guarantee applied to mitigate credit risk for the CaixaBank and "la Caixa" Groups at December 31, 2011.

Table 36. Exposure by application of mitigation techniques

CaixaBank Group

(Thousands of euros)

Type of garantee to which a risk reduction technique is applied	Exposure Value		
	Standardised approach	IRB approach	Total
Collateral	3.368.772	140.936.760	144.305.532
Personal guarantees	1.425.727	3.628.352	5.054.079
Hedged using credit derivatives (1)	83.008.955	55.754.409	138.763.364
Total	**87.803.454**	**200.319.521**	**288.122.975**

(1) Incluyed contracts guaranteed by a estate public sector

"la Caixa" Group

(Thousands of euros)

Type of garantee to which a risk reduction technique is applied	Exposure Value		
	Standardised approach	IRB approach	Total
Collateral	3.368.772	140.856.533	144.225.305
Personal guarantees	1.425.727	3.628.352	5.054.079
Hedged using credit derivatives (1)	87.498.119	52.595.153	140.093.272
Total	**92.292.618**	**197.080.038**	**289.372.656**

(1) Incluyed contracts guaranteed by a estate public sector

It should also be mentioned that, as stated above, offsetting agreements exist in derivative products in the clauses of ISDA/CMOF contracts.

2. Information concerning risk associated with the shareholding portfolio

2.1 Description, accounting recognition and measurement

The "la Caixa" Group's investment portfolio features major companies holding large shares of their respective markets, and the capacity to generate value and recurring profitability levels. In general, these are strategic investments, where "la Caixa" is involved in their governing bodies and in the definition of their future policies and strategies. The "la Caixa" Group's 2011 Financial Statements show a breakdown of the companies in its investment portfolio, stating their area of business and scope of activity.[26]

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

- **Investments.**[27] Investments in the share capital of jointly controlled entities[28] or associates.
- **Available-for-sale financial assets**. Other holdings, excluding those in the trading portfolio or non-current assets held for sale.

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

1. Investments

These are valued using the equity method, with the best estimate of their theoretical book value when the Financial Statements are drawn up.

The "la Caixa" 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 the companies' stock prices throughout the period and the target prices published by reputable independent analysts. The "la Caixa" Group uses these data to determine the fair

[26] See Note 6 "Business combinations, acquisition and sale of ownership interests in subsidiaries", 11 "Available-for-sale financial assets", 16 "Investments", and Appendices 2, 3 and 4 to the "la Caixa" Group's 2011 Financial Statements.

[27] For the purposes of capital adequacy, subsidiaries that cannot be consolidated in view of their business activity are entered under this heading, since they are not accounted for using the equity method.

[28] Exceptions are jointly controlled entities acting as holders of ownership interests. See 1.1.1 in Part A of this document and Note 2.1 "Business combinations and consolidation principles" in the "la Caixa" Group's 2011 Financial Statements.

value associated with the investment and, if this is well above the value recorded for the companies, no indications of impairment are considered to exist.

When indications of impairment are considered to exist, the ”la Caixa” Group conducts additional tests in order to assess the fair value of the investments and the appropriateness of the carrying amount. Generally accepted valuation methods are employed - for example, DCF (discounted cash flow) models, DDM (dividend discount) models, and others. Balance sheet and income statement projections for banking investments are generally drawn up over 5 years, since these are stable long-term investments, whereas the projections for industrial investments are in line with the characteristics of each business, primarily the residual lifespan of business concessions. Moderate hypotheses are used, obtained from reliable sources of information in addition to individual discount rates for each business activity and country. No potential control premiums are considered for the purposes of valuation. The growth rates used to calculate the terminal value beyond the period covered by the forecasts drawn up are determined on the basis of the data for the last period projected, and never exceed the estimated rated GDP of the country or countries in which the investees operate.

2. Available-for-sale financial assets

These assets are always measured at fair value and any changes in value, less the related tax effect, are recognized with a balancing entry under Equity. In the case of investments in listed companies, their fair value will be the market value, and unlisted companies will be recognized at acquisition cost less any impairment loss incurred. At the time of sale, the loss or gain previously recognized in equity will be taken to the income statement.

As a general rule, they are written down to results when there is objective evidence of impairment. This is presumed to have emerged following a 40% reduction in fair value, and when a situation of continued losses has been observed over a period of more than 18 months.

2.2 Value, exposure and profit and loss arising from ownership interests and equity instruments in the investee portfolio

2.2.1. Fair value and carrying amount of the investee portfolio

Table 37 shows the fair value and carrying amount of CaixaBank and "la Caixa" Groups' stakes and equity instruments not held for trading or in the portfolio of financial assets at fair value through profit or loss, at December 31, 2011:

Table 37. Carrying amount of stakes and equity instruments not held for trading

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**3.632.673**	**3.769.382**
Shares in listed companies (1)	3.362.641	3.362.641
Shares in unlisted companies	113.443	121.937
Ownership interests in investment funds and other	156.589	284.804
Investments	**8.882.326**	**16.242.833**
Listed	7.720.429	14.355.718
Unlisted	1.161.897	1.887.115
Total carrying amount	**12.514.999**	**20.012.215**

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

Table 38. Fair value of stakes and equity instruments not held for trading

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**3.632.673**	**3.769.382**
Shares in listed companies (1)	3.362.641	3.362.641
Shares in unlisted companies	113.443	121.937
Ownership interests in investment funds and other	156.589	284.804
Investments	**8.567.517**	**16.186.667**
Listed	7.405.620	14.299.552
Unlisted	1.161.897	1.887.115
Total fair value	**12.200.190**	**19.956.049**

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

At December 31, 2011, the market value of the "la Caixa" and CaixaBank Groups' listed portfolio, which includes "Investments" and "Available-for-sale financial assets - Equity instruments," was €17,662 million and €10,768 million respectively, with an unrealized gain of €537 million for the former and an unrealized loss of €77 million for the CaixaBank Group.

2.2.2. Exposure value for the investee portfolio

1. Exposure value

At December 31, 2011, risk exposure associated with the investee portfolio was €6,416,549 thousand and €12,835,888 thousand at CaixaBank and "la Caixa" respectively.[29] These amounts include the value of the portfolio of available-for-sale financial assets, stakes in associates and in subsidiaries not consolidable due to their business activity.

Table 39 shows a breakdown of the amounts of these exposures[30] by listed and unlisted instruments.

Table 39. Exposures in equity investments not held for trading

(Thousands of euros)

Exposure	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**2.529.464**	**2.432.232**
Shares in unlisted companies	2.426.998	2.321.273
Total simple method	202.741	303.888
Total internal models method	73	10.620
Total PD/LGD method	2.224.184	2.006.765
Shares of unlisted companies in portfolios not sufficiently diversified portfolios (simple method)	102.466	110.960
Investments (subsidiaries, jointly controlled entities and associates)	**3.887.085**	**10.403.655**
Listed investments	3.771.334	9.217.598
Unlisted investments	115.751	1.186.058
Total value	**6.416.549**	**12.835.888**

2. Other information

The table below shows exposure in relation to the investee portfolio in accordance with the simple weighting method, broken down into risk-weighting categories:

[29] See section 3.2, "Minimum capital requirements for risks associated with the investee portfolio" in Part A of this document.
[30] The exposure value does not include deductions from capital represented by goodwill and intangibles, significant investment in credit institutions and insurance companies or qualified investments. Nor does it include unrealized capital gains on available-for-sale equity instruments recognized with a balancing entry in equity.

Table 40. Equity exposures (simple method)

(Thousands of euros)

Risk weighting	CaixaBank Group	"la Caixa" Group
Exposures to unlisted equities included in sufficiently diversified portfolio (weighted at 190%)	0	0
Exposures to equities tradeable in organised markets (weighted at 290%)	202.741	303.888
Other equity exposures (weighted at 370%)	103.060	111.554
Total exposure simple method	**305.801**	**415.441**

Table 41 shows exposure to risk associated with the investee portfolio, LGD and average risk weighting.[31]

Table 41. Exposure by category of exposure and debtor level

(Thousands of euros)

Risk category by average PD	Average risk weighting[2] (%)	CaixaBank Group	"la Caixa" Group
0,0900	96,45%	966.084	1.429.298
0,1283	114,99%	2.224.184	2.006.765
0,1873	137,79%	55.953	4.947.627
0,2701	162,67%	2.805.250	3.359.840
0,3846	188,91%	1.813	206.096
0,9408	258,36%	11.539	53.018
1,8314	305,15%	31.632	292.919
3,3741	346,60%	11.072	111.116
14,1571	520,31%	2.794	2.794
41,6476	535,21%	355	355
Total exposure method PD/LGD[1]		**6.110.676**	**12.409.828**

(1) In the case of equities, 90% is always applied.
(2) Weighted average by exposure. A 100% weighting represents 8% capital consumption.

2.2.3. Valuation adjustments to available-for-sale equity instruments

The table below shows valuation adjustments to available-for-sale equity instruments for the "la Caixa" and CaixaBank Groups in 2011, with the amounts taken to the income statement:[32]

[31] This information is only shown for equity exposures to which the PD/LGD method is applied.
[32] See Note 24.2 "Valuation adjustments" to the "la Caixa" Group's 2011 Financial Statements.

Table 42. Annual valuation adjustments to available-for-sale equity instruments

CaixaBank Group

(Thousands of euros)

Balance of valuation adjustments at 31/12/10	Amounts transferred to income statement[(1)]	Valuation gains and losses[(2)]	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/11 [(3)]
2.042.202	(38.169)	(1.873.806)	573.434	703.661

(1) After tax.
(2) Before tax.
(3) Value adjustments of Non-controlling interest are incluyed

"la Caixa" Group

(Thousands of euros)

Balance of valuation adjustments at 31/12/10	Amounts transferred to income statement[(1)]	Valuation gains and losses[(2)]	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/11 [(3)]
1.195.651	(96.068)	(850.471)	290.805	539.917

(1) After tax.
(2) Before tax.
(3) Value adjustments of Non-controlling interest are incluyed

3. Information concerning market risk in the trading portfolio

3.1. General requirements

For the purposes of capital adequacy, the trading portfolio consists of financial assets and liabilities that are held for trading by the Entity or form part of a portfolio of financial instruments (jointly identified and managed) with specific evidence of a trading intention.

According to Circular 3/2008, a "trading intention" exists when positions are maintained with the aim of realizing these in the short term or to benefit in the short term from differences between purchase price and selling price, or variations in other prices or the interest rate.

Unlike the trading portfolio as established in the Bank of Spain's Circular 4/2004, the trading portfolio for the purposes of calculation of capital requirements also consists of financial instruments used to hedge other items in the portfolio and, in compliance with certain requirements, of internal hedging (positions that significantly offset the risk of a position or positions not included in the trading portfolio). Therefore, the trading portfolio for the purposes of capital adequacy has a wider scope than the trading portfolio determined by the Bank of Spain's Circular 4/2004.

Circular 4/2011 establishes additional calculations for regulatory capital requirements according to incremental default and migration risk and stressed VaR (VaR associated with an annual historic period of stress).

At December 31, 2011, the sum of minimum capital requirements for risks relating to positions on the trading portfolio and the exchange rate was €161,279 thousand (risk relating to incremental default and migration, stressed VaR and specific risk pending approval by the Bank of Spain), and minimum capital requirements for counterparty risk on the trading portfolio were €211,461 thousand (total requirements for counterparty risk were €231,925 thousand).

3.2. Internal models

The "la Caixa" Group is subject to market risk in the trading portfolio as a result of unfavorable movements in the following risk factors: interest rate and currency rate, price of shares and commodities, inflation, volatility and changes in the credit spread of private fixed-income positions. Estimates are drawn up on a daily basis of sensitivity and VaR, aggregated and also segmented by risk factors and business units.

In July 2006 the "la Caixa" Group sought permission from the Bank of Spain to use an internal model for its regulatory capital consumption calculations of market risk on the trading portfolio, currency and gold risk, and commodity price risk. In 2007, following the appropriate validation process, the Bank of Spain, authorized the use of this internal model, which was first applied for the calculation of capital requirements on December 31, 2007. Additionally, in 2011 authorization was sought from the Bank of Spain to calculate regulatory capital according to incremental default and migration risk and stressed VaR using internal models. This request was still being processed at the date of preparation of this report.

Below we show a summary of the methodologies used to comply with the requirements of Regulation Ninety-Three of Circular 3/2008 and 4/2011 for the calculation of capital consumption in accordance with the internal model employed by "la Caixa" Group.

1. Characteristics of the models used

As a general rule, there are two types of measurements which constitute a common denominator and market standard for the measurement of market risk: sensitivity and VaR.

- Sensitivity calculates risk as the impact on the value of positions of a minor change in the risk factors, as follows:
  - For interest rate and inflation risk, a calculation is performed of the change in the present value of each of the future flows (actual or forecast) in the event of a one basis point (0.01%) change at all stages of the curve.
  - For currency risk, a calculation is performed of the change in the counter value of each of the foreign currency flows in the event of a one per cent (1%) change in the exchange rate.
  - For stock or equity price risk, a calculation is performed of the change in the present value of the position or portfolio in the event of a one per cent (1%) change in the price of its components.
  - For volatility risk (interest rate or price fluctuations), associated with options transactions (interest rate caps and floors and currency or equity options), a calculation is performed of the change in the present value of each of the future

flows in the event of volatility changes in listed exchange rates and/or asset prices at all stages of the curve.

- For share correlation risk (dependence between prices), a calculation is performed of the change in the present value of the portfolio position in the event of a change in the correlation of one per cent (1%) in the price of its components. This risk is only present in exotic equity options.

These sensitivity analyses provide information concerning the impact on the economic value of positions of a rise in interest rates, exchange rates, prices, correlations and volatility, but do not involve any assumptions regarding the likelihood of the aforementioned changes.

- In order to standardize risk measurement across the entire portfolio, and to provide certain assumptions regarding the extent of changes in market risk factors, VaR methodology is employed using a one-day time horizon and a statistical confidence level of 99%. In other words, 99 times out of 100 the actual losses sustained will be less than the losses estimated under the VaR method. There are two methodologies used to obtain this measurement, parametric VaR and historical VaR:
    - The parametric VaR technique is based on the statistical treatment of parameters such as volatility and matching fluctuations in the prices and interest and exchange rates of the assets composing the portfolio, and is applied, according to the recommendations of the Basel Committee on Banking Supervision, using two time horizons: 75 days, giving more weight to recent observations, and a full year, giving equal weight to all observations.
    - Historical VaR is calculated according to the impact on the value of the current portfolio of historical changes in risk factors. Daily changes observed over the last year are taken into account, with a confidence interval of 99%.

Daily VaR is defined as the highest of the three quantifications in the two methodologies used. Historical VaR is an appropriate system for completing the estimates obtained using the parametric VaR technique, since the latter does not provide any assumptions regarding the statistical behavior of the risk factors (the parametric technique assumes fluctuations that can be modeled through "normal" statistical distribution). Historical VaR is also an especially suitable technique since it includes non-linear relationships between the risk factors, which are particularly necessary for options transactions.

A drop in the credit rating of an asset issuer can also negatively affect quoted market prices. Accordingly, the Corporate Risk Models Management Division completes the quantification of market risk with an estimate of the losses arising from changes in the volatility of the credit spread on private fixed-income positions (spread VaR), which is an estimate of the specific risk attributable to issuers of securities. This calculation is made taking into account the potentially lower liquidity of these assets, and a confidence interval of 99%.

Market VaR (arising from fluctuations in interest rates, exchange rates and the volatility of both) and Spread VaR are aggregated on a conservative basis, assuming zero correlation between the two groups of risk factors.

The calculation of stressed VaR is made using the historic VaR with a confidence interval of 99% on the basis of daily fluctuations in market prices in a one-year period of stress relevant to the portfolio positioning.

Incremental default and mitigation risk are estimates with a confidence interval of 99.9% on a one-year horizon of the default losses and losses associated with changes in credit ratings in the portfolio to which the model is applied.

2. Validation of the reliability and coherence of the internal models

To confirm the suitability of risk estimates, daily results are compared to the losses estimated under the VaR technique, in a process known as backtesting. As required by bank regulators, the risk estimate model is checked in two ways:

- Net backtesting, which relates the portion of the daily marking-to-market (i.e. arising from the change in market value) 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.
- A valuation is also performed of the total result obtained in the day (therefore including any intraday transactions) by comparing the result against the VaR for a time horizon of one day calculated on the basis of the open positions at the close of the previous session (gross backtesting). This provides an assessment of the importance of intraday transactions in generating profit and calculating the total risk of the portfolio.

3. Stress testing

Lastly, two stress testing techniques are used on the value of treasury 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. Following the recommendations of the Basel Committee on Banking Supervision and best banking practices, the following risk factors are generally considered: parallel interest rate shifts (rising and falling), changes at various points on the slope of the interest rate curve (steepening and flattening), increased and decreased spread between the instruments subject to credit risk and government debt securities (bond-swap spread), parallel shifts in the US dollar interest rate curve (rising and falling), higher and lower volatility of interest rates, appreciation and depreciation of the euro in relation to the dollar, the yen and sterling, higher and lower volatility of exchange rates, increases and decreases in the price of stocks and commodities, higher and lower volatility of stocks and commodities and, lastly, the increase in volatility of stocks and raw materials.
- Analysis of historic scenarios: this addresses the potential impact of actual past situations on the value of the positions held, such as the collapse of the Nikkei in 1990, the US debt crisis and the Mexican peso crisis in 1994, the 1997 Asian crisis, the 1998 Russian debt crisis, the growth of the technology bubble in 1999 and its collapse in 2000, and the terrorist attacks that have caused the most severe effects on the financial markets in recent years, the credit crunch of the summer of 2007, or the liquidity and confidence crisis produced by the collapse of Lehman Brothers in September 2008, and the increase in credit spreads in peripheral countries of the euro zone due to the contagion effect of the crises in Greece and Ireland in 2010 and the Spanish debt crisis in 2011.

To complete these analyses of risk under extreme situations, the "worst-case scenario" is determined as the state of the risk factors in the last year that would cause the heaviest losses in the current portfolio. This is followed by an analysis of the “distribution tail”, i.e. the size of the losses that would ensue if the market movement causing the losses were calculated on the basis of a 99.9% confidence level using the Extreme Value Theory.

4. Monitoring and control[33]

As part of the required monitoring and control of the market risks taken, Management approves a structure of daily and monthly overall VaR, stress and loss limits, and sensitivity and risk factor-specific VaR limits, for Treasury activity. The risk factors are managed by the General Treasury and Capital Markets Subdivision on the basis of the return/risk ratio determined by market conditions and expectations. The Corporate Risk Models Division is responsible for monitoring these risks. On a daily basis, this unit monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market results), quantifies the market risk taken, monitors compliance with global limits and analyzes the ratio of actual return to the risk undertaken.

The Corporate Risk Models Division has sufficient human resources with a considerable technical capacity to use the internal market risks model.

As mentioned above, the Corporate Risk Models Division is responsible for daily monitoring of compliance with market risk limits, and notifying any breaches to Senior Management, and to the appropriate risk-taking unit to enable it to restructure or close the positions leading to this situation, or obtain explicit authorization from the appropriate body to maintain it. The risk report is distributed daily, and provides an explicit contrast between actual consumption and the authorized limits. Daily estimates are also provided of sensitivity and VaR, aggregated and segmented by risk factors and by business units.

On a daily basis, the Corporate Risk Models Division draws up and distributes the following market risk monitoring reports for Management, those responsible for the Treasury Area and Internal Audit:

- All treasury activity.
- The position that constitutes the internal market risk model for calculation of capital, including CaixaBank investees' equity derivatives.
- CaixaBank's structural position in foreign currency.

The monitoring process generally consists of three different sections: daily risk measurement, backtesting and stress testing.

[33] See section 1.2.4. "Market risk in the trading portfolio" in Part A of this document for further information on the structure and organization of the market risk management function.

On a monthly basis, the Corporate Risk Models Division draws up a number of reports known as the "Executive Summary" for presentation to the Management Committee by the Treasury and Capital Markets General subdivision, in addition to the section on "Market Risks," and a report entitled "Description of Group position in equities, fixed income assets and derivatives" of the "Risks Scoreboard," submitted to the Entity's Global Risk Committee.

The Global Risk Management Division, to which the Corporate Risk Models Division reports, carries out a supervisory function, the main objective of which is to protect risk status and preserve the solvency and guarantee mechanisms, thereby ensuring comprehensive management of the various risks by means of an overview of the situation.

Lastly, the "la Caixa" Group's treasury and markets activities and the risk measurement and control mechanisms used for these activities are subject to a permanent internal audit. In its last report in 2011, the Internal Audit unit concluded that the methodologies and procedures used for the purposes of management, measurement and control of market risk in association with trading on finance markets were adequate and complied with the Bank of Spain's requirements.

4. Information concerning operational risk

The "la Caixa" Group has been using the standardized approach for calculating capital for operational risk since 2008.The adoption of this approach was agreed by the Board of Directors on September 18, 2008 and notified to the Bank of Spain's General Supervisory Department on September 30, 2008.

Therefore, the "la Caixa" Group has defined a procedure for capital consumption calculations for operational risk in accordance with the Bank of Spain Circular 3/2008 and the guidelines for application of the standardized approach. This procedure has been approved by the Global Risk Management Executive Division.

The procedure for capital consumption calculations for operational risk using the standardized method includes the following:

- Determination of relevant revenues.
- Assignment of relevant revenues to lines of business.
- Weighting of “la Caixa” Group's lines of business.
- Capital consumption calculations for operational risk using the standardized method.

1. Determination of relevant revenues

Firstly, relevant revenues are determined as the sum of the amounts recognized under the headings established in Bank of Spain’s Circular 4/2004 for the consolidated Income Statement for the purposes of calculation of capital (reserved format) of the “la Caixa” Group.

Individual calculations of capital consumption for operational risk are also performed for the following entities, as required by the Bank of Spain:

- CaixaBank, SA
- ”la Caixa”
- Finconsum, EFC, SA
- Nuevo Micro Bank, SAU
- Corporación Hipotecaria Mutual, EFC, SA

For the individual calculations, relevant revenues are obtained from the same headings on the income statement for the purposes of calculation of capital (reserved format) of the "la Caixa" Group.

For a better overview of the "la Caixa" Group's operational risk profile, individual analyses are also performed on the following entities: Criteria CaixaHolding, SAU, ServiHabitat XXI, SA, and InverCaixa Gestión SGIIC, SA.

2. Criteria for allocation of relevant revenues to lines of business

The information from the accounting volumes under these headings for each entity is used to assign relevant revenues to lines of business. This is carried out for each Group Entity, in accordance with the following:

- The main activity leading to recognition of each.
- The type of target customers for each Entity.
- The regulatory requirements established.

For example, items under heading 3 'Returns on equity instruments' on the Income Statement, mainly including sums from dividends on available-for-sale equity instruments, are assigned to Commercial Banking.

3. Criteria for weighting CaixaBank's lines of business

The headings on the Income Statement by lines of business are distributed using the information provided by the Internal Management System (IGC) for the various activities, products and services supplied by CaixaBank to its customers.

Two criteria are used to calculate this weighting:

- **Customer type**. Classification by type of customer in relation to incomings/outgoings and classification by segment. As follows:
  - *Retail Banking*: Individuals, Self-Employed and Micro-Companies.
  - *Commercial Banking*: SMEs, Major Companies and the Public Sector.

- **Products / Services**. These are classified by lines of business as per the assignment criteria in Circular 3/2008 and the guidelines for application of the standardized approach. For example:
  - Commissions on marketing of investment funds to the retail broker line.
  - Syndicated loan commissions. Business financing.

When relevant revenues and their distribution into lines of business have been determined, the beta coefficient indicated in Circular 3/2008 is applied and the average is taken for the last three years to obtain the capital required for operational risk.

5. Information concerning interest rate risk for positions not included in the trading portfolio

5.1. Management of interest rate risk for positions not included in the trading portfolio

Interest rate risk for positions not included in the trading portfolio, as mentioned above,[34] arises when changes in the structure of the market rate curve affect assets and liabilities and cause them to be renewed at rates other than those set previously, thereby affecting the Group's economic value and net interest income.

The Board of "la Caixa" has delegated the management and control of this risk to the company's management, through the Global Risk Management Committee and the Asset-Liability Committee (ALCO).

The Global Risk Management Committee is responsible for approving the interest rate risk management framework and delegates its updates and the setting of operating management limits to the ALCO.

The Balance Sheet Risk Analysis Division, reporting to the General Markets Subdivision, is responsible for analyzing this risk and proposing hedging transactions to the ALCO in accordance with the abovementioned objectives.

The ALCO, which meets monthly, is in charge of the monitoring, analysis and proposals for management of structural interest rate risk to the Global Risk Management Committee, on the basis of the information provided by the General Markets Subdivision.

Information is reported monthly on the structural balance sheet risk situation in terms of economic value and net interest income.

There are a number of key hypotheses in relation to structural balance sheet interest rate risk.

The assumptions of early termination of asset and liability products are obtained using internal models based on past experience, employing the behavioral variables of customers, variables concerning the products themselves, seasonality and macroeconomic variables. In the case of items with no contract maturity, measurements are performed of their sensitivity to interest

[34]See 1.2.6 "Interest rate risk for positions not included in the trading portfolio" in Part A "General aspects" of this document.

rates, along with the expected maturity date, considering the possibility that the customer may terminate products early, based on past experience.

The treatment of demand accounts is based on the study of customers performed by the Entity and past experience to adapt the indefinite maturity of balances to a specific maturity. Two criteria are used to this end (modification of the interest rate and the level of permanence of the balances), with constant consideration of the principle of prudence for the purposes of modeling.

5.2. Impact of interest rate changes

Lastly, mention must be made of the impact changes in the interest rate on economic value and net interest income. The information below concerns only the Euro, since this is the sole currency that shows a major position sensitive to interest rates.[35]

With reference to the impact on economic value and net interest income of changes in interest rates, the same criteria were used as those established for Bank of Spain Return RP51.

At December 31, 2011, the parallel movement in the interest rate applied to estimate the impact on economic value and net interest income showed a decrease of 205 basis points.

Table 43. Impact of interest rate risk

(Thousands of euros)

Currency	Impact on economic value	Impact on net interest income
Euro	-17.651	-189.434

These data are included in the capital adequacy statements for information purposes, since they do not represent regulatory capital requirements. This consists of the estimate of the hypothetical impacts of an extraordinary shift in the yield curve.

[35] A major position sensitive to interest rates is defined as an asset or a liability in a given currency that exceeds, on average, 5% of the Entity's total assets or liabilities over the six months immediately preceding.

6. Information concerning remuneration.

The first phase of transposing into Spanish law Directives 2009/111/EC and 2010/76/EU was effected through Law 2/2011, of March 4, on Sustainable Economy, and, particularly, through Law 6/2011, of April 11, which amends Law 13/1985 on investment ratios, capital and reporting obligations.

Subsequently, Royal Decree 771/2011, of June 3, amending Royal Decree 216/2008, on the capital of financial institutions, developed the legal framework and led to a significant advance in the incorporation into Spanish law of the two EU directives mentioned above, with a specific regulation for the remuneration of credit entities.

Furthermore, Bank of Spain circular 4/2011, of November 30, completed the transposition of EU legislation, establishing the general criteria for drawing up remuneration policies for certain categories of employees who, during the course of their duties, could have an effect on the risk profile of credit entities.

Therefore, Bank of Spain circular 4/2011 requires transparent reporting of all remuneration policies for management and groups of employees whose decisions could affect a credit entity's risk profile.

Specifically, Rule one hundred and seventeen bis of this circular refers to “Information concerning remuneration,” listing the information that must be published and updated on a regular basis (at least once a year). Said information is contained in this “Information of Prudential Relevance” report.

6.1 Remuneration policy: composition and mandate of the remuneration committee

In 2010 and 2011, the "la Caixa" Group Management Committee delegated to the Human Resources Division the task of carrying out various studies and analyzes in collaboration with external advisors (Garrigues Abogados y Asesores Tributarios, and Towers Watson) in order to update and adapt the Group's remuneration policy to the new legal requirements.

On the basis of these studies, the Human Resources Division proposed a Remunerations policy for Senior Management, pursuant to the provisions of RD 771/2011, and the group of employees identified as carrying out functions that could potentially impact the Group's risk profile. This policy was subsequently approved by the Appointments and Remuneration Committees of both CaixaBank and “la Caixa”.

The main aspects of the remuneration policy designed and implemented to adapt to current legislation are as follows:

- identified group,
- ex ante adjustment methodology for each group,
- ex post adjustment methodology for each group,
- deferral policy, and
- basis of transfer of shares or other equity instruments.

It should also be noted that at December 31, 2011, "la Caixa”'s Appointments and Remuneration Committee was made up of the following members:

- Isidro Fainé Casas (Chairman)
- Salvador Gabarró Serra (member)
- Jorge Mercader Miró (member)

Caixabank's Appointments and Remuneration Committee, at the same date, comprised the following members:

- Juan Rosell Lastortras (Chairman)
- Isabel Estapé Tous (member)
- Javier Godó Muntañola (member)

The CaixaBank Appointments and Remuneration Committee held nine meetings in 2011.

During the same period, the Appointments and Remuneration Committee of “la Caixa” met on six occasions.

6.2 Description of the identified group

The various groups of employees making up the “identified group” are as follows:

1. Senior Management (pursuant to RD 771/2011)

In order to determine the identified group, in accordance with RD 771/2011, Senior Management is considered as the Executive Vice-Chairman and CEO of CaixaBank, the

Managing Directors and Assistant Managing Directors of CaixaBank, the Executive Regional Directors of CaixaBank, and Executive Directors of CaixaBank, and the Executive Directors of "la Caixa" with significant influence on credit or market risk.

2. Credit risk takers

These include professionals holding a management position who participate in the risk management process and who have powers and decision-making discretion in the credit risk area, with power of influence over a pre-determined risk level, according to the Entity's internal regulations.

3. Credit risk drivers

This group includes business segment or product managers who have no powers in the area of credit risk but are responsible for raising credit operations, and whose decisions therefore have a significant impact on the Entity's capital consumption for credit risk.

4. Market risk takers

Managers whose decisions have a significant impact on the Entity's capital consumption for market risk.

5. Control and Finance Managers

Identified as managers in the Control and Finance division who stand out for their functions and/or participation in committees relating to CaixaBank's risk management strategy. These include:

- Global Risk Committee
- Lending Committee
- Real Estate Acquisition and Appraisal Committee
- Risk Monitoring Committee
- Approval Policies Committee

6.3 Qualitative information concerning remuneration of the identified group

All company managers and employees forming part of the identified group receive variable remuneration or bonuses, in accordance with their function. Each of the Entity's functional areas has a specific bonus program with its own structure and measurement criteria, based on the objectives and terms and conditions that determine variable remuneration in each area. The main units in which these programs are applied are the following: Commercial Banking, Private Banking, Business Banking, Capital Markets, Investment Banking, Corporate Banking and Central and Regional Services.

The remuneration model applied in the Central and Regional Services is known as the "Targets program" and encompasses all managers in the identified group who work in business support areas. It mainly affects the different control and finance areas in Central Services, and includes different employees in the risk departments (due to their importance in relation to the Entity's risk policy). The targets in this area are usually established by each employee in agreement with his or her functional responsibilities and the objective of the unit as a whole.

The other bonus programs mentioned above correspond to other areas of the Entity's business. The "targets" established are related mainly to the commercial activities carried out by each business segment.

The amount of the bonus received by each employee on each specific program is performance-related. The initial amount is adjusted every year, according to an adjustment factor established by the Entity's management, pursuant to the requirements of applicable legislation in order to include specific adjustments for risk profiles defined by the Entity's management into the remuneration policies. This adjustment aims to reflect the Entity's global results and other, more qualitative, factors.

In general, the adjustment is applied to all employees uniformly and ranges between 0.85 and a maximum of 1.15.

The general remuneration policy applied by "la Caixa" and CaixaBank, developed by the entities for each of their employee and business groups, is described below.

- The Entity's strategy is based on attracting and retaining the talent of its employees, offering them the possibility of taking part in a distinctive social and business initiative, with the possibility of developing professionally and remuneration conditions that are higher than the average of the Spanish financial sector.

- The Entity's remuneration policy is designed to encourage the generation of value and sustainability of results on a long-term horizon, in accordance with the risk profile defined.
- Within this remuneration framework, the Entity offers a competitive fixed compensation package and social benefits, on the basis of its capacity to attract and retain talent in both spheres.
- Individual targets for employees are established jointly with their functional managers.
- The Entity's general remuneration policy determines that the variable component shall comprise a small part of total remuneration. However, for specific business areas, the variable component may have a higher than average weight.
- The Entity's promotion system is based on an assessment of employees' skills, performance, commitment and professional merit.

As part of the general remuneration policy, the criteria for deferral of bonus payments, and, where applicable, the issue of Entity stock exclusively for managers of the identified group, are described below:

1. **Deferred variable remuneration and the issue of shares (or equivalent equity instruments):**

- The payment of variable remuneration, in addition to shares issued to the Executive Vice-Chairman and CEO, and any other Senior Executive may be deferred (pursuant to RD 771/2011) regardless of the amount payable.
- For employees belonging to the following groups: (i) credit and market risk takers, (ii) credit risk drivers, or (iii) control and finance managers, this deferral and delayed transfer of shares shall be applied when the amount of variable remuneration is higher than €100,000 or 30% of the executive's fixed remuneration.
- For any Entity professional not included in the identified group receiving a bonus equal to or higher than €200,000.

2. Deferral of remuneration and transfer of shares:

At the established bonus date, the percentage of this amount corresponding to the non-deferred portion of the variable remuneration corresponding to each employee is paid in cash. This date is referred to below as the upfront payment date.

50% of the upfront payment is paid in cash. The remaining 50% is paid in company shares.

The percentages deferred for each group is shown in the table below:

Table 44. Percentages deferred for each group

Groups	Ex post risk adjustment (deferral)	The delivery of shares
Executive Vice-Chairman and CEO of CaixaBank	60% of the accrued bonus is deferred for 3 years.	50% is paid in company shares,
Senior Management (in accordance with RD 771/2011)	50% of the accrued bonus is deferred for 3 years.	50% is paid in company shares,
Rest of the Group	If the bonus received is more than 100,000 euros or more than 30% of fixed remuneration: 40% of the accrued bonus is deferred for 3 years.	If the bonus received is more than 100,000 euros or more than 30% of fixed remuneration: 50% is paid in company shares.
Rest of employees	If the bonus received is equal to or more than 200,000 euros : 40% of the accrued bonus is deferred for 3 years.	If the bonus received is equal to or more than 200,000 euros: 50% is paid in company shares.

50% of the amount payable at each of these three dates is paid in cash. The remaining 50% is paid in CaixaBank shares, after the corresponding taxes or withholdings have been satisfied.

Employees may not sell any of the shares they receive for a period of one year after the date of delivery.

The ratios used to adjust for ex-ante risk in the calculation of variable remuneration as established in the “Target program” may vary according to the different groups identified. A breakdown is shown below:

1. Credit risk takers and drivers

For functions carried out by credit risk takers and drivers, the main ratio used to adjust for ex-ante risk is the "Credit Risk Adjustment" (CRA).

This is calculated by dividing the eligible capital used by each business unit, portfolio or segment by the corresponding EAD ("Exposure at default"), according to the formula:

$$\frac{\sum_{n=1}^{T} CR_n}{\sum_{n=1}^{T} EAD_n}$$

The final bonus received by the employee is calculated as follows:

Bonus adjusted for risk = CRA x Bonus target x (% individual targets achieved + % of corporate targets achieved) x adjustment factor

2. Market risk takers

For functions carried out by market risk takers, the main ratio used to adjust for ex-ante risk is the "Market Risk Adjustment" (MRA) spanning the year to which the "Target program" corresponds.

The indicator functions as specified below:

Table 45. MRA indicator

Risk situations	MRA
Excess risk of up to 15% of the approved limits caused expressly by one unauthorized market position or a position of a size greater than authorized.	0,9
Excess risk of more than 15% of the approved limits, caused expressly by one unauthorized market position or a position of a size greater than authorized, or two positions of this type in which at least one of them does not exceed the authorized limits by 15%.	0,75
Excess risk of more than 15% of the approved limits, caused expressly by two unauthorized market positions or positions of a size greater than authorized, or three positions of this type in which at least one of them does not exceed the authorized limits by 15%.	0,5
Excess risk above the authorized limits caused expressly by unauthorized market positions or positions of a size greater than authorized which are larger in number or amount to those mentioned above.	0

The amount payable to members of this group is calculated using the following formula:

Bonus adjusted for risk = MRA x Bonus target x (% individual targets achieved + % of corporate targets achieved) x adjustment factor

3. Control and Finance Managers

Ex-ante risk adjustments for control functions are determined according to individual targets as listed in the specific corporate tools and linked to the control and finance activities for which each of the employees involved is responsible.

The amount payable to members of this group is calculated using the following formula:

Bonus adjusted for risk = Bonus target x (% individual targets achieved + % of corporate targets achieved) x adjustment factor

Therefore, remuneration in shares only applies to those employees entitled to receive a bonus and who meet the requirements for the deferral and delivery of shares in accordance with the criteria set out above (i.e. exceeding the thresholds for variable remuneration contained in the Entity's remuneration policy).

Additionally, employees and managers affected by this deferral will lose their right to receive deferred variable remuneration, in cash or shares, under the following circumstances:

- Lawful dismissal.
- Serious breach of regulations.
- Breach of regulations incurring losses, attributable to an employee, that could put the solvency of a business line at risk.
- Capital consumption for credit risk that exceeds established levels.

The targets set for employees in the control and finance areas, on which their bonus-related performance is predicated, are established in accordance with the performance indicators set jointly by the employee and his or her manager and are unrelated the results achieved by the business areas they supervise or control.

Specifically, the Target program for 2011 was drawn up on the basis of the following measurement criteria:

- 80% individual/team targets
- 10% quality target for the Entity
- 10% of the changes in "la Caixa" Group operating costs

6.4 Quantitative information concerning remuneration of the identified group

In 2011, remuneration paid to the identified group, in adherence to the applicable regulatory provisions concerning remuneration, and according to the Entity's different areas of activity, were as follows:

Table 46. Remuneration paid to the identified group

(Thousands of euros)

Areas of activity	Description of the type of the businesses	Fixed Remuneration 2011	Variable remuneration paid in 2011 (Bonus 2010)	Total 2011
Investment Banking	Capital Market, Corporate Banking, and Investment Banking.	3.469	2.546	6.015
Commercial Banking	Individual Banking, Private Banking , Business Banking and Transactional Banking	6.803	1.915	8.718
Asset Management	Does not apply	0	0	0
The rest	Central and Regional Services	16.560	2.005	18.565

(Thousands of euros)

Tipology of employees empleados, within the identified group	Number of people included in the identified group	Fixed Remuneration 2011	Variable remuneration paid in 2011 (Bonus 2010)	Total
Senior Management	22	15.150	1.296	16.446
Rest of employees	67	11.682	5.170	16.852

(Thousands of euros)

Tipology of employees within the identified group	Variable Remuneration 2011 in cash	Variable Remuneration 2011 in shares or other equivalentinstruments	Total Variable Remuneration 2011
Senior Management	1.296	0	1.296
Rest of employees	5.170	0	5.170

In 2011:

- There was no deferred remuneration pending payment.
- No deferred remuneration granted was paid.
- No new hires were made within the identified group.
- No terminations benefits were paid within the identified group.