Information of Prudential Relevance

”la Caixa” Group

at December 31, 2012

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, 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, 2012. 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 (June 20, 2013) following approval by the Board of Directors (May 16, 2013). 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 financial 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”), which, at December 31, 2012, held a 72.76% stake in CaixaBank, SA (listed company), through which “la Caixa” indirectly carries out its financial activity, develops its banking and insurance businesses and holds stakes in international banks, Repsol and Telefónica, among others. 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 Catalonian 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.

Merger with Banca Cívica

On March 26, 2012, the Boards of Directors of Caja de Ahorros y Pensiones Barcelona (”la Caixa”), CaixaBank, Caja de Ahorros y Monte de Piedad de Navarra (“Caja Navarra”), Caja General de Ahorros de Canarias (“Caja Canarias”), Caja de Ahorros Municipal de Burgos y Monte de Piedad (“Caja de Burgos”), Caja de Ahorros San Fernando de Guadalajara, Huelva, Jerez y Sevilla (“Cajasol”) and Banca Cívica, SA (“Banca Cívica”) (jointly ”the Parties”) agreed to enter into a merger agreement in order to lay down the essential terms and actions by the Parties regarding the integration of Banca Cívica[1] into CaixaBank.

[1] For further information on the ”Integration of Banca Cívica into CaixaBank” see the management report and Note 6 to the ”la Caixa” Group's 2012 annual financial statements.

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 with respect to the 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 consolidated using the equity method, with the exception of shareholders, where the proportionate consolidation method is used.
- 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. Jointly controlled entities which are financial entities are consolidated using the proportionate consolidation method, regardless of the method applied in the financial statements[2].

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

[2] See Regulation 2, Section 4 of Circular 3/2008.

- 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[3], 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.

[3] 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

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Fully consolidable entities for capital adequacy purposes						**(1 / 2)**
Al´Andalus foreign investments, SL	Holding/Portfolio	0,00	100,00	✓		
Arquitrabe activos, SL	Holder of property assets	100,00	100,00	✓		
Banca Cívica Gestión de Activos	Investment fund management	0,00	100,00	✓		
Banca Cívica servicios 2011, SL	Investment holding and business consultancy	100,00	100,00	✓		
BuildingCenter	Real Estate 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 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 Capital TIC , SCR de Régimen Simplificado, SA	Venture capital management	80,65	80,65	✓		
Caixa Card 1 EFC, SAU	Finance	100,00	100,00	✓		
Caixa Corp, SA	Holding company	100,00	100,00	✓		
Caixa Emprendedor XXI, SA	Development of business and entrepreneurial initiatives	100,00	100,00	✓		
Caixa Innvierte Industria SCR de Regimen Simplificado, SA	Venture capital management	52,17	52,17	✓		
Caixa Preference,SAU	Finance	100,00	100,00	✓		
Caixabank Electronic Money, EDE, S.L.	Payment entity	100,00	100,00	✓		
CaixaRenting, SA	Vehicle and machinery rentals	100,00	100,00	✓		
Caja Guadalajara Participaciones Preferentes, SA	Finance	100,00	100,00	✓		
Caja San Fernando Finance, SA	Finance	100,00	100,00	✓		
Cajasol Inversiones de Capital, SAU	Venture capital	100,00	100,00	✓		
Cajasol Inversiones Inmobiliarias	Ownership and purchase/sale of movable and immovable property	0,00	100,00	✓		
Cajasol Participaciones Preferentes, SAU	Finance	100,00	100,00	✓		
CAN Mediación, Operador de Banca-Seguros Vinculado, SLU	Insurance consultancy	100,00	100,00	✓		
Ccan 2005 Inversiones Societarias , SCR	Holding company	0,00	100,00	✓		
Ccan 2007 Inversiones Internacionales, ETVE, SL	Holding/Portfolio	0,00	100,00	✓		
Corporación Empresarial CajaSol, SAU	Holding company. Consulting and administration service	100,00	100,00	✓		
Corporación Hipotecaria Mutual, EFC SA	Mortgage credit	100,00	100,00	✓		
Corporación Urbanística y de Bienes Inmuebles de CAN	Real estate development	0,00	100,00	✓		
Credifimo	Mortgage credit	100,00	100,00	✓		
El Monte Capital, SA	Finance	100,00	100,00	✓		
El Monte Finance, SA	Finance	100,00	100,00	✓		
El Monte Participaciones Preferentes, SA	Finance	100,00	100,00	✓		
e-la Caixa 1, SA	Electronic channel management	100,00	100,00	✓		
Eurecan Alto Rendimiento, SL	Promotion and development of businesses with tax residence in Navarre	0,00	100,00	✓		
Finconsum, EFC, SA	Consumer finance	100,00	100,00	✓		
GDS-CUSA, SA	Services	100,00	100,00	✓		
GestiCaixa, SGFT, SA	Securitization fund management	91,00	100,00	✓		
Grupo Corporativo Empresarial de Caja Navarra	Holding company	0,00	100,00	✓		
HipoteCaixa 2,S.L.	Mortgage loan management company	100,00	100,00	✓		
Hiscan Patrimonio II, SL	Holding company for industrial stakes	0,00	100,00	✓		
Hiscan Patrimonio, SL	Holding company for industrial stakes	100,00	100,00	✓		
Hodefi, SAS	Holding company	0,00	100,00	✓		
Holret, SAU	Real estate services	100,00	100,00	✓		

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Fully consolidable entities for capital adequacy purposes						**(2 / 2)**
Iniciativas Turísticas de Cajas, SA	Retail travel agency	0,00	60,00	✓		
InverCaixa Gestión, SGIIC, SA	Management of collective investment institutions	100,00	100,00	✓		
Negocio de Finanzas e Inversiones II, SL	Finance	100,00	100,00	✓		
Nuevo Micro Bank de la Caixa, SA	Financing of micro-credits	100,00	100,00	✓		
Recouvrements Dulud, SA	Finance	0,00	100,00	✓		
SegurCajasol Operador de Banca-Seguros Vinculado, SLU	Insurance agency	0,00	100,00	✓		
Sercapgu, SL	Real estate holding company	100,00	100,00	✓		
Servicio de Prevención Mancomunado del Grupo la Caixa, CB	Consultancy and labor risk prevention	83,33	91,67	✓		
Silc Immobles, SA	Real estate operation, administration and management	0,00	100,00	✓		
Silk Aplicaciones	IT services	100,00	100,00	✓		
Sociedad Andaluza de Asesoramiento e Información, SA	Business advisory and consultancy	0,00	100,00	✓		
Suministros Urbanos y Mantenimientos, SA	Project management, maintenance, logistics and procurement	100,00	100,00	✓		
Tenedora de Vehículos, SA	Renting	0,00	65,00	✓		
Trade Caixa I, SA	Administrative and advisory services	100,00	100,00	✓		
Vida Caixa Grupo, SA	Holding company	100,00	100,00	✓		

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities consolidated proportionately for capital adequacy purposes						**(1 / 1)**
Anira Inversiones, SL	Equity investments in other companies	30,00	60,00		✓	
Banco Europeo de Finanzas, SA	Wholesale/investment bank	39,52	39,52		✓	
Cartera Perseidas, SL	Holding company	40,54	40,54		✓	
Compañía Andaluza de Rentas e Inversiones, SA	Investment administration and ownership	46,61	66,61		✓	
Liquidambar Inversiones Financieras, SL	Investment administration and ownership	26,70	26,70		✓	
Madrigal Participaciones, SA	Short-term investment in profitable financial instruments	14,30	14,30		✓	
Sagane Inversiones, SL	Holding company	0,00	25,32		✓	

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities deductible from capital for capital adequacy purposes						**(1 / 1)**
Agencaixa, SA	Insurance agency	0,00	100,00	✓		
Banca Cívica Vida y Pensiones Sociedad de Seguros, SA	Insurance, reinsurance and pensions funds	56,69	100,00	✓		
Banco BPI, SA	Banking	46,22	46,22			✓
Boursorama, SA	Direct Banking	1,33	20,70			✓
Cajacanarias Aseguradora de Vida y Pensiones, SA	Insurance	50,00	50,00			✓
Cajasol Seguros Generales, SA	Insurance	50,00	50,00			✓
Cajasol Vida y Pensiones de Seguros y Reaseguros, SA	Life insurance	50,00	50,00			✓
CAN Seguros de Salud, SA	Direct insurance, except life, and reinsurance	100,00	100,00	✓		
CAN Seguros Generales, SA	Direct insurance (except life) and reinsurance	50,00	50,00			✓
Clave Mayor, SA, SGECR	Administration and management of private equity funds	0,00	20,00			✓
GDS-Correduría de Seguros, SL	Insurance brokerage	20,00	20,00			✓
Grupo Financiero Inbursa, SAB de CV	Banking	20,00	20,00			✓
Inpsa, SGPS, SA	Holding company	0,00	40,00			✓
Inversiones Alaris, SA	Holding company	33,33	66,67			✓
Monty & Group, SL	Transfer reception	27,63	27,63			✓
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	16,38	16,38			✓
VidaCaixa Mediació, Sdad. Agencia de Seguros Vinculada, SAU	Insurance	0,00	100,00	✓		
VidaCaixa, SA de Seguros y Reaseguros	Insurance	0,00	100,00	✓		

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(1 / 5)**
Abaco Iniciativas Iinmobiliarias, SL	Real estate acquisition, construction and development	0,00	40,00			✓
Acciona Solar, SA	Energy production, distribution, supply and installation	0,00	25,00			✓
Aceitunas de Mesa, SL	Production and sale of table olives	0,00	30,00			✓
Ag Inmuebles	Real estate development	0,00	28,85			✓
Agrurban, SL	Real estate development	0,00	51,00	✓		
Agua y Gestión de Servicios Ambientales, SA	End-to-end water management	0,00	24,26			✓
Alimentos Naturales Cocinados, SL	Manufacture, development and sale of ready-made and/or deep frozen dishes	0,00	35,00			✓
Apia Real Estate ,SARL	Real estate development	0,00	25,00			✓
Arena Comunicación Audiovisual, SL	Performing arts. Film and video production activities	0,00	50,00			✓
Aris Rosen, SAU	Services	100,00	100,00	✓		
Arte, Informacion y Gestión, SAU	Antiques, jewelry and art work	0,00	100,00	✓		
Asoma TV Multimedia, SL	Management and operation of any media for advertisers	0,00	25,12			✓
AT4 Wireless, SA	Wireless telecommunications services	0,00	24,52			✓
Avenida Principal, SL	Real estate	0,00	35,00			✓

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(2 / 5)**
Best TV Labs	Technical project for granting licenses	0,00	32,30			✓
Biodiesel Procesing, SL	Research, creation, development and sale of biofuel manufacturing projects	85,99	85,99	✓		
Bodega Sarría, SA	Production and sale of wine	0,00	100,00	✓		
Canaliza 2007, SL	Business advisory and consultancy services	100,00	100,00	✓		
Canaliza Energía, SL	Development, management and operation of power production plants and other	0,00	50,00			✓
Casco Antiguo Logroño, SL	Real estate development	0,00	50,00			✓
Ceder Sierra De Cádiz, SA	Business development in the Sierra de Cádiz	50,00	50,00			✓
Celeris, Servicios Financieros, SA EFC	Financial services	26,99	26,99			✓
Celogal-Uno, SL	Real estate	0,00	20,00			✓
Cementiri de Girona, SA	Funeral services	30,00	30,00			✓
Central Mayorista de Cajas, SA	Wholesale-retail travel agency	0,00	16,00			✓
Centro de Diagnóstico Radiológico de Navarra, SL	Radiological exploration consulting for medical diagnostics	0,00	33,33			✓
Centro de Transportes Aduana de Burgos, SA	Merchandise storage and handling. Operation of customs warehousing authorizations from a free zone	22,96	22,96			✓
Centro Médico Zamora, SAU	Medical services	100,00	100,00	✓		
Cestainmob, SL	Operation of movable and immovable property	0,00	100,00	✓		
Chival Promociones Inmobiliarias, SL	Real estate development	0,00	40,00			✓
Clave Viajes, SA	Retail travel agency	0,00	50,00			✓
Club Baloncesto Sevilla, SAD	Promotion and developing of sports activities	99,99	99,99	✓		
Cobros y Gestiones Canarias, SA	Collection management	20,00	20,00			✓
Comercia Global Payments, Entidad de Pago, SL	Payment entity	49,00	49,00			✓
Consulting in civic banking, SL	Consultancy and advisory services	0,00	100,00	✓		
Creación de Suelo e Infraestructuras, SL	Real estate development	0,00	25,00			✓
Cubican ACR, SL	Real estate development	0,00	50,00			✓
Cubican Avanco, SL	Real estate development	0,00	50,00			✓
Cubican Garocec, SA	Real estate development	0,00	33,33			✓
Cubican Infema, SL	Real estate development	0,00	50,00			✓
Cubican Larcovi, SL	Real estate development	0,00	50,00			✓
Cubican Rio Vena	Real estate development	0,00	50,00			✓
Cubican XXI, SL	Real estate development	0,00	50,00			✓
Cuesta Veguilla, SA	Real estate development	0,00	23,00			✓
Cultivos in Vitro de Tenerife, SA	Farming	49,00	49,00			✓
CYP Puerto Onubense, SL	Real estate development	0,00	40,00			✓
Delta R-Tecnologías de decisión, SL	Construction and development of predictive risk models	0,00	30,37			✓
Desarrollos Albero, SA	Real estate	0,00	50,00			✓
Desarrollos Empresariales El Plantío, SL	Real estate	0,00	20,00			✓
Desarrollos industriales Prado Marina, SL	Real estate	0,00	30,00			✓
Desarrollos Inmobiliarios de Guadalajara, SL	Real estate development	0,00	40,00			✓
Desarrollos Urbanísticos Veneciola, SA	Real estate development	0,00	20,00			✓
Drembul, SL	Real estate development	0,00	25,00			✓
Ediciones 62, SA	Book publishing	30,13	30,13			✓
Entradas See Tickets, SA	Indirect intermediation in the purchase and sale of tickets	0,00	35,44			✓
Erste Group Bank AG	Banking	9,93	9,93			✓

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(3 / 5)**
Escuela superior de hostelería de Sevilla, SA	Training for the hotel/restaurant industry	0,00	62,83	✓		
Estudios Informes Navarra, SL	Technical engineering services and other activities related to technical advisory	0,00	40,00			✓
Eurocel, Centro Europeo de Empresas e Innovación, SA	Creation, attraction and development of business projects	0,00	45,95			✓
Europea de Desarrollos Urbanos, SA	Real estate development	0,00	20,00			✓
General de Inversiones Tormes, SA	Real estate investment	100,00	100,00	✓		
Geotexan, SA	Production, sale, transport, storage, distribution, handling and supply of all type of geotextiles and geocompounds	0,00	20,00			✓
Gestión de Aguas de Alcolea, SA	Engineering and concessions	49,00	49,00			✓
Gestión de Cobros y Asesoramiento, SA	Collection of unpaid loans	20,00	20,00			✓
Gestión Informática en Turismo, SL	Provision of IT solutions related to tourism to third parties	0,00	45,00	✓		
Gestur CajaCanarias Inversiones y Desarrollo, SA	Real estate	49,00	49,00			✓
Girona, SA	Water collection, treatment and distribution	34,22	34,22			✓
Global Uninca, SA	Real estate development	50,00	50,00			✓
Grupo Hoteles Playa, SA	Development and operation of facilities for hotels and, in general, all types of buildings	0,00	20,00			✓
Grupo Informatico Almira Labs, SL	Development of IT solutions for telephone operators	0,00	22,82			✓
Grupo Luxonia, SL	Manufacture, assembly, processing, purchase, sale and distribution of lighting and decorative appliances and equipment	0,00	20,00			✓
Guadapelayo, SL	Real estate development	0,00	40,00			✓
Hacienda La Cartuja	Real estate development	0,00	40,00			✓
Hermenpo Eólica, SL	Real estate promotion, management, construction and sale	100,00	100,00	✓		
Hispanergy del Cerrato	Production of vegetable oil and biodiesel	0,00	28,48			✓
Infocaja, AIE	IT project development	20,00	20,00			✓
Inmojasan, SA	Real estate development	0,00	35,00			✓
Inversiones Corporativas Digitales, SL	Holding company	0,00	100,00	✓		
Inversiones Corsan 99 Simcav, SA	Investment company	67,53	67,53	✓		
Inversiones Cubican RTV, SA	Real estate development	0,00	50,00			✓
Inversiones Generales Agroalimentarias 2006, SL	Food industry	0,00	25,00			✓
Inversiones Inmobiliarias Oasis Resort, SL	Services	60,00	60,00	✓		
Inversiones Inmobiliarias Teguise Resort, SL	Services	60,00	60,00	✓		
Inversiones Vitivinícolas, SL	Production and sale of wine	0,00	100,00	✓		
Investbya Holding, SL	Food industry	0,00	24,99			✓
Investigaciones 2001 Corp. CAN, SA	Promotion and funding of R&D and innovation	0,00	100,00	✓		
Ircio inversiones, SL	Development of industrial buildings	35,00	35,00			✓
IT Now, SA	IT services	49,00	49,00			✓
J Apia Polska Sp Zoo	Real estate development	0,00	25,00			✓
Justinmid, SL	Development of IT systems	0,00	16,98			✓
Kantega Desarrollos Inmobiliarios, SA	Real estate development	0,00	50,00			✓
Laxmi Nivaria, SL	Securities holding company	50,03	50,03			✓
Limpieza y Mantenimiento Hospitalarios, SL	Cleaning services for offices, businesses and hospitals	100,00	100,00	✓		
Lince Servicios Sanitarios, SA	Health care services	100,00	100,00	✓		

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(4 / 5)**
Lokku Limited	Real estate portal	0,00	20,93			✓
Magnet Hungarian Community Bank	Financial institution	0,00	30,00			✓
Mcc Navarra, SPE, SA	Holding company	0,00	25,00			✓
Mebunik, SA	Production, design, supply and assembly of products to cover functional needs	0,00	47,42			✓
Menacha Dos, SAU	Real estate development	0,00	51,01	✓		
Meta Print, SL	Design, edition, typesetting and printing of advertising brochures and stationery in general	0,00	48,00	✓		
Montealcobendas, SL	Real estate	0,00	50,00			✓
Motive Televisión, SL	Import, export and marketing of electronic and computer products	0,00	32,30			✓
Nucli, SA	Real estate	0,00	49,51			✓
Nueva Guadalajara XXI, SL	Real estate development	0,00	40,00			✓
Numzaan, SL	Real estate	0,00	21,47			✓
Obenque, SA	Real estate development	0,00	21,25			✓
Octoginta	Construction	0,00	33,33			✓
Oesia Networks, SL	IT and defence electronics consulting	6,29	44,48			✓
Ondemand Facilities, SL	Technical engineering services and other activities related to technical advisory	0,00	48,00			✓
Oquendo (sca) Sicar	Investment in Spanish mezzanine debt	0,00	26,16			✓
Organización de la Patata en el Pirineo Occidental (Opposa)	Agri-food	0,00	33,33			✓
Palacio de la Merced, SA	Industrial hotel/restaurant operation	0,00	47,00			✓
Parque Científico Tecnológico de Córdoba, SL	Science park operation and management	15,49	35,49			✓
Parque Isla Mágica, SA	Operation of theme park	82,78	82,78	✓		
Petizar Atibel, S.L	Real estate development	0,00	50,00			✓
Polígono Alto Milagros, SL	Real estate	0,00	35,00			✓
Polígono Industrial Girona, SA	Real estate development	39,18	39,18			✓
PromoCaixa, SA	Product marketing	99,99	100,00	✓		
Promociones al Desarrollo Bumari, SL	Holding company	48,00	48,00			✓
Promociones Eurosevilla 2000	Real estate development	0,00	40,00			✓
Promociones Guadavila, SL	Real estate development	0,00	30,00			✓
Promociones Naferpro, SA	Real estate development	0,00	50,00			✓
Promociones Naferval, SA	Real estate development	0,00	50,00			✓
Promociones Navarra Madrid, SA	Real estate development	0,00	47,50			✓
Promotora Damas Ocho	Real estate development	0,00	40,00			✓
Puerto Triana, SA	Real estate developer specialized in shopping centers	100,00	100,00	✓		
Repsol YPF	Oil and gas market operation	12,46	12,46			✓
Residencial Alameda	Real estate development	0,00	41,00			✓
Residencial Aprocan, SL	Real estate development	0,00	33,33			✓
Residencial Benacan, SL	Real estate development	0,00	50,00			✓
Residencial Cuarte, SL	Real estate development	0,00	50,00			✓
Residencial Cubican GM, SL	Real estate development	0,00	50,00			✓
Río Sevilla 98 Promociones Inmobiliarias, SL	Real estate development	0,00	51,01	✓		
Rio-Pardo Promociones, SA	Real estate development	0,00	40,00			✓
Rural Solar Energía, SL	Production, transmission and distribution of all types of energy	0,00	34,99			✓
Saldañuela Residencial, SL	Real estate	67,00	67,00	✓		
Seryrec	Tax collection services	0,00	20,00			✓

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct	Total	Full	Proportionate	Equity
Entities not consolidated fully or proportionately for capital adequacy purposes						**(5 / 5)**
Smart Solutions Technologies	Production and marketing of biometric solutions	0,00	22,01			✓
Sociedad Concesionaria de la Zona Regable del Canal de Navarra, SA	Construction and operation of general interest infrastructure of the Navarra canal irrigation area	0,00	35,00			✓
Sofiland, SA	Real estate development	0,00	35,00			✓
Solaiemes, SL	Engineering services	0,00	33,00			✓
Synergic Partners, SL	High-tech product consulting	0,00	25,00			✓
Tasaciones y Consultoría, SA	Real estate appraisal	0,00	50,00			✓
Tenerife Desarrollo Exterior	Promotion of economic activities	100,00	100,00	✓		
Uncro, SL	Real estate development	0,00	25,00			✓
Unión para el Desarrollo Inmobiliario, SA	Real estate development	0,00	50,00			✓
U-Play Studios, SL	Development of videogames	0,00	34,12			✓
Vanios Consulting, SL	Information and communication technology	0,00	29,92			✓
Vereda del Valle, SA	Real estate	0,00	20,00			✓
Vía 10, Sociedad Mixta de Viviendas de Alquiler, SL	Real estate	0,00	49,00			✓
Viajes Cajasol	Retail travel agency	0,00	80,00	✓		
Viajes Hidalgo, SA	Retail travel agency	0,00	15,01			✓
Vialeste, SL	Investment criteria planning and development	0,00	100,00	✓		
Vialogos Consultoría Corporativa, SL	Corporate, financial and strategic planning	0,00	100,00	✓		
Visuarios, SL	Innovation and consulting	0,00	24,99			✓
Vitalia Sur, SL	Holding through equity investments in resident and non-resident companies	0,00	50,00			✓
Vivienda Protegida y Suelo de Andalucía, SA	Real estate development	0,00	50,00			✓
Xial Domotecnología, SL	Energy efficiency	0,00	33,33			✓
Zimentia Desarrollos urbanísticos, SL	Real estate development	0,00	40,00			✓

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

Corporate name	Description of activity	% interest		Accounting treatment for consolidated financial statements		
		Direct (1)	Total	Full	Proportionate	Equity
Fully consolidable entities for capital adequacy purposes						
CaixaBank, SA	Banking	72,76	72,76	✓		
Criteria CaixaHolding, SAU	Equity holding company. Consultancy and management services	100,00	100,00	✓		
Inversiones Autopistas, S.L.	Holding company	50,10	50,10	✓		
Servihabitat Alquiler II, SLU	Real estate management and administration	0,00	100,00	✓		
Servihabitat Alquiler IV, SLU	Real estate management and administration	0,00	100,00	✓		
Servihabitat Alquiler, SL	Real estate management and administration	0,03	100,00	✓		
Servihabitat XXI, SAU	Real estate services	100,00	100,00	✓		
Entities not consolidated fully or proportionately for capital adequacy purposes						
Abertis Infraestructuras, SA	Transport and communications infrastructure management	18,67	22,55			✓
Arrendament Immobiliari Assequible II, SLU	Home management	0,00	100,00	✓		
Foment Immobiliari Assequible, SAU	Home development, including state-sponsored housing	100,00	100,00	✓		
Gas Natural SDG, S.A.	Gas and electricity business	34,96	34,96			✓
Hisusa-Holding de Infraestructuras de Serv.Urbanos, SA	Holding company	24,26	24,26			✓
Mediterranea Beach & Golf Resort, SA	Operation of theme park and urban management	100,00	100,00	✓		
Palau-Migdia, SL	Real estate development	0,00	50,00			✓
Saba Infraestructuras	Management of car parks and logistics parks	50,10	50,10	✓		

(1) Includes stakes held through "la Caixa", CaixaBank and Criteria CaixaHolding.

1.1.2. Other general information

At December 31, 2012, both "la Caixa" and CaixaBank, SA comply fully with the minimum individual capital requirements.

The remaining banking subsidiaries of the consolidable group (Finconsum, EFC, SA, Corporación Hipotecaria Mutual, EFC, SA, CaixaCard[4], EFC, SA, Nuevo MicroBank, SA and Credifimo[5], EFC, SA) are exempt from compliance with the minimum individual capital requirements.

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

[4] To December 2012, FinanciaCaixa 2, EFC, SA

[5] Following the integration of Banca Cívica into CaixaBank, the exemption of Credifimo is being requested.

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.

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 can be summarized as follows:

- Risk is inherent to the Group’s business.
- The Board of Directors is the highest risk management body, a function in which the management is involved.
- The Group's target risk profile is medium-low.
- Risk management corresponds to the entire organization and embraces the full cycle of transactions: from preliminary analysis until approval, monitoring of solvency and profitability, to repayment or recovery of impaired assets.
- The risk function is independent from the business and operating units. This allows decision-making to be decentralized and undertaken jointly.

- Approvals are based on the borrower's repayment capacity and factors in an appropriate return.
- Standard criteria and tools are employed across the whole institution.

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 for 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 national 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 Territorial 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 governing 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 in 2011.

1.2.1.4 Internal Audit

After the "la Caixa" Group's reorganization in 2011, which culminated with the creation of CaixaBank (listed company), and in the wake of the recent integration of financial institutions, the Group has become far more complex.

In the current environment of economic volatility and changes in the financial system and the regulatory framework, the demands on and duties of senior management and governing bodies are increasing, as is stakeholder sensitivity to corporate governance and internal control.

Against this backdrop, the Audit department is in charge of ensuring the correct performance of and supervising the Group's internal control framework.

It reports systematically to the senior management of "la Caixa," as well as to the Control Committee, which oversees the internal audit function and the integrity of the Group's internal control framework.

The Audit department has three specialist functions:

1. **Internal Control**

   The mission of Internal Control is to assure management and the governing bodies that the necessary controls are in place, designed correctly and operating efficiently to manage the "la Caixa" Group's risks, thereby generating confidence among stakeholders in relation to the Group's control environment.

2. Compliance

The mission of Compliance at the "la Caixa" Group focuses on management of the risk of legal or regulatory penalties, financial, material or reputational loss that may be incurred by the "la Caixa" Group as a result of failure to comply with laws, regulations, regulatory standards or codes of conduct.

3. Internal Audit

The mission of Internal Audit is to guarantee effective supervision, evaluating the internal control systems and management of the organization's risks on an on-going basis. It performs an independent corporate function.

Internal audit is strategically focused on detecting, supervising and monitoring the Group's main risks, contributing to good corporate governance and the achievement of the Organization's strategic objectives.

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), Pillar 3 (information of prudential relevance) and the appropriate adaption of the control environment to manage and mitigate risks.

In relation to Pillar I risk, Internal Audit supervises the control environment for managing risks, providing an objective assessment of the efficacy and efficiency of the control framework applied by the different management areas.

- In relation to credit risk, it ensures that advanced credit risk models are used, verifying the main processes implemented and compliance with established regulatory requirements, particularly:
    - 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 used: of construction of credit models, calibration of risk parameters and current exposures.
    - The accuracy of data entering the entity's systems and that the existence and sufficiency 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.
- Reviewing the main default management, borrower monitoring and recovery processes.
- Supervision of the risk management control environment, with annual verification of internal validation processes for the models.

- In relation to operational risk, it verifies the use of standard methodology to calculate capital requirements, in addition to the integration within the management and technological environment, particularly:
  - Supervision of the Operational Risk Management Framework in the "la Caixa" Group, ensuring compliance with regulatory guidelines and integration within management.
  - 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 of information, in addition to system availability and business continuity, through planned reviews and continuous audit proceedings through the follow-up of defined risk indicators.
- In relation to 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 [6] 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.

[6] CaixaBank is the listed banking group, which 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.

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 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:

- **Risk Policies and Procedures Area**, responsible for adopting the policies applicable to the 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 and Recoveries 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[7].

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[8] 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 the 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.

[7] See the paragraph on "Single risk circuit" in section 1.2.1.3 of part A of this document.
[8] See Note 3.1. "Credit risk" in the 2012 annual financial statements for more information on this content.

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.

In view of the current situation of the property 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 resulting 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[9].

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

[9] See 1.2.4 “Credit risk reduction techniques” in Part B of this document for further details.

operates continuous monitoring of market signals through analysis of the values of Credit Default Swaps (hereinafter CDS) and the shares of each counterparty.

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 **Financial Sector and Country 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 the parties undertake 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. 111 contracts have been signed with financial contracts, with collateralization of over 99%.

  - **GMRA agreements**. These are agreements whereby the parties undertake 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 subsidiaries.

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[10] 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.

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

Firstly, 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-á-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 divisions 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 of 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 supporting for the various Management Control and Investment Analysis areas to roll out and execute derivative transactions. Arrangement (in coordination with CaixaBank's Treasury and Markets Area), Monitoring and Assessment.
- Monitoring the portfolio’s risk measurement (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).

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: 1) the integration on a daily basis of derivatives and currency risk in relation to the investee portfolio to its global market risk process; and 2) 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 assignation 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 assignation 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.

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. Subsequently, during 2012, the Bank of Spain authorized internal models to calculate regulatory capital for incremental default and migration risk and stressed VaR.

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 and on positions included in the internal model 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 “la Caixa” Group's new organizational structure.

- **Limit on trading derivatives linked to CaixaHolding permanent investees.** In January 2012, the CaixaBank Global Risks Committee completed the framework of maximum risks authorized by defining the specific limits for this activity, managed according to market risk management criteria and incorporated into the internal market risk model.

In relation to the new charges for regulatory capital in the calculation of market risk using internal models introduced by Bank of Spain Circular 4/2011, risk relating to incremental default and migration of ratings on fixed-income portfolios and stressed VaR, the CaixaBank Global Risks Committee defined specific limits in July 2011 and March 2012, respectively.

1.2.4.2 Currency risk

Specifically, the Treasury and Capital Markets Area is responsible for managing the foreign currency risk arising from balance sheet positions denominated in foreign currency, a task performed through the market risk hedging activity undertaken by the Treasury Area. This risk is managed by applying the principle of 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, 2012, the "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 is part of the Credit Risk Models, Optimization and Capital Analysis department, which reports to Corporate Risk Models.

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 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 capital (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 its continuity, thereby providing assurance to the institution as a whole and to customers, markets, regulators and other stakeholders engaging with the CaixaBank Group.

As an example of management's commitment to business continuity, in 2010 the Business Continuity Committee was set up, chaired by the General Manager for Resources and attended by representatives of all the institution'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 the BSI (British Standards Institution) and raises confidence among stakeholders of the Entity's capacity to respond to incidents that may affect business operations. In 2012, this certification was successfully renewed.

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 Treasury and Capital Markets Area 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 Treasury and Capital Markets Area 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 cancellation 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 balance sheet items sensitive to interest rates (present value of the future flows).

- **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, which is obtained using the implicit market rates, is compared against other scenarios of rising or falling interest rates and parallel and non-parallel movements 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[11] 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.

[11] 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.

Tier 1 comprises:

- *Core Capital,* formed at December 31, 2012, mainly by the aggregation of:
  - Own funds (capital or endowment fund, share premium, reserves[12], profit/(loss) for the year and convertible instruments recognized in equity[13])
  - The remaining convertible instruments are recognized under liabilities for accounting purposes.[14].
  - Non-controlling interests and[15]valuation adjustments[16].
  - Contribution to the Welfare Fund and expected dividends pending payment against profit and loss for the year.
  - Deduction of goodwill and other intangible assets.

[12]At December 31, 2012, all CaixaBank and "la Caixa" Group reserves can be fully accounted for in the Tier 1 capital under Bank of Spain Circular 3/2008.
[13]At December 31, 2012, the outstanding balance of convertible instruments recognized by the CaixaBank Group in equity totalled €2,188 million. The balance relates to series I/2011 instruments (June 2011 issue) and series I/2012 (February 2012 issue). These issues are recognized by "la Caixa" Group as non-controlling interests.
[14]At December 31, 2012, series B/2012 and C/2012 were recognized in consolidated liabilities at CaixaBank and "la Caixa".
[15]Non-controlling interests as shares corresponding to ordinary shares of consolidable group companies, in the part effectively settled, excluding the part attributable to revaluation reserves and valuation adjustments included in consolidable group equity.
[16]At December 31, 2012, valuation adjustments arising from exchange differences, attributable to the Group, non-controlling interests and to consolidation under the equity method.

- Remaining deductions of basic capital not covered by additional Tier 1 capital (preference shares).

- *Additional Tier 1* at December 31, 2012, mainly by the aggregation:
  - Preference shares[17] and, as far as possible, 50% deduction of:
    - Significant investments in financial entities and insurance companies[18].
    - Expected losses on securities portfolios assessed under the IRB approach[19].
    - Exposures to securitizations with a risk weighting of 1.250% (“first loss tranche”).
  - Excess deductions for additional Tier 1 in relation to preference shares are included in Core Capital.

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.

At December 31, 2012, Tier 2 components included subordinated debt and [20] part of the excess loan loss provisions for portfolios assessed under the IRB approach. It also includes the deduction of the remaining 50% of significant investments in financial entities and insurance companies, as well as expected losses on securities portfolios assessed under the IRB approach and first loss tranches on securitizations. Also included are deductions for excess qualified investment in entities which are not financial institutions or insurance companies.

[17] See Note 21.4 “Subordinated liabilities” to the 2012 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).
[18] At December 31, 2012, the most significant investments in financial entities (>10%) were: Grupo Financiero Inbursa, The Bank of East Asia, Banco BPI and Boursorama. Significant investments (>20%) in the insurance sector, mainly VidaCaixa, SegurCaixa Adeslas and companies deriving from the integration of Banca Cívica, are deducted according to their respective capital requirements.
[19] At December 31, 2012, there was no shortfall of provisions in relation to expected losses on loan portfolios assessed under the IRB approach.
[20] See Note 21.4 “Subordinated liabilities” to the 2012 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).

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, which will also become ineligible when Basel III comes into force.

Under current regulations, there are a number of restrictions on the calculation of the various components of 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 and "la Caixa" Group at December 31, 2012 is shown below:

Table 3. Eligible capital

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Total capital base[(1)]	20.604.367	16.600.206
Capital or endowment fund	4.295.725	3.006
Share premium and reserves	16.078.942	16.462.243
Profit attributable to the Group	229.700	134.957
Dividends and contribution to Welfare Fund [(2)]	(48.399)	(350.000)
Non-controlling interests and valuation adjustments [(3)]	(35.116)	5.690.400
Eligible instruments subscribed by the FROB	977.000	977.000
Instruments mandatorily convertible into shares[(4)]	2.762.888	2.762.888
Core capital deductions[(5)]	(6.627.484)	(7.936.137)
Core Capital	**17.633.256**	**17.744.357**
Core Capital Ratio	**11,0%**	**10,4%**
Preference shares	89.698	89.698
Deductions of basic capital[(6)]	(89.698)	(89.698)
Subtotal basic capital (Tier 1)	**17.633.256**	**17.744.357**
Tier 1 ratio	**11,0%**	**10,4%**
Subordinated debt [(7)]	3.569.385	10.026.617
General and specific allowance (IRB)	450.677	431.948
Deductions from Tier 2 capital[(8)]	(3.051.137)	(3.273.988)
Subtotal Tier 2 capital	**968.925**	**7.184.577**
Total capital base (Tier Total)	**18.602.181**	**24.928.934**
Tier Total ratio	**11,6%**	**14,6%**
Risk-weighted assets (RWA)	160.722.975	170.939.325
Minimum capital (8% ratio)	**12.857.838**	**13.675.146**
Credit risk	10.818.899	10.860.680
Equity portfolio risk	961.251	1.773.215
Risk relating to the trading portfolio and currency risk	131.130	131.130
Operational risk	933.173	896.736
Additional capital requirements[(9)]	13.385	13.385
Capital surplus	**5.744.343**	**11.253.788**

(1) Total equity excluding convertible instruments.
(2) Pending application on 2012 profit and loss.
(3) The "la Caixa" Group excludes non-controlling interests corresponding to convertible instruments recognized under equity at CaixaBank.
(4) Of which €2,188 million are classified under equity at CaixaBank and as non-controlling interests by "la Caixa" Group.
(5) Includes deductions for goodwill and other intangible assets, as deductions of core capital that cannot be covered by preference shares.
(6) 50% of expected losses relating to investments in financial entities or insurance companies and to first loss tranches on securitizations to the amount of preference shares. Remaining deductions are included under Core Capital.
(7) Includes only the eligible amount, considering the maturity dates of the issues and treasury shares, among others.
(8) 50% of deductions for expected losses relating to investments in financial entities and insurance companies and to first loss tranches on securitizations and 100% of the deduction for excess over the regulatory limit of qualified investments.
(9) Capital relating to consolidable entities subject to specific regulations in accordance with Rule Six of Circular 3/2008.

In accordance with Transitory 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 has extended the 80% minimum for capital requirements under the IRB approach. However, at December 31, 2012 no additional requirements had arisen in this regard for the "la Caixa" Group.

2.3. Definition of Royal Decree-Law 2/2011 (in force until 12/31/2012)

Royal Decree-Law 2/2011, reinforcing the financial system, introduced an additional ratio on which to measure banks solvency, Principal Capital. The components of Principal Capital, according to the definition of Royal Decree-Law 2/2011, are: capital, reserves[21], share premiums, revaluations[22], 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[23]. Negative results and losses, negative valuation adjustments and intangible assets must be subtracted from these components.

At December 31, 2012, 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 Royal Decree-law 2/2011

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Capital, reserves and results	20.519.470	16.253.465
Non-controlling interests	7.413	5.693.172
Eligible instruments subscribed by the FROB	977.000	977.000
Instruments mandatorily convertible into shares	2.762.888	2.762.888
Positive AFS valuation adjustments (1)	20.543	200.517
Negative AFS valuation adjustments (2)	(47.068)	(47.068)
Capital deductions	(4.241.529)	(5.539.181)
Principal capital	**19.998.717**	**20.300.793**
Risk-weighted assets (RWA)	160.722.975	170.939.325
Principal Capital ratio	**12,4%**	**11,9%**

(1) (2) Includes valuation adjustments for non-controlling interests and companies accounted for using the equity method

[21] Effective and express reserves classified as reserves in accordance with the regulations governing the capital of credit institutions (Circular 3/2008).
[22] Valuation adjustments of available-for-sale financial instruments, net of the tax effect.
[23] Royal Decree-Law 2/2012, reinforcing the financial system, extended the conversion date to December 31, 2018 and established new conditions for measuring convertible instruments:

2.4. Definition of Circular 7/2012 (in force since 1/1/2013)

The definition and minimum principal capital requirements established by Royal Decree-law 2/2011 were modified by Royal Decree-law 24/2012, of August 31, on the restructuring and resolution of credit institutions, with effect from January 1, 2013. RDL 24/2012 was subsequently repealed by Law 9/2012, of November 14, although the stipulations of Law 24/2012 relating to Principal Capital were maintained.

The precise provisions for the execution of minimum principal capital requirements were established in Bank of Spain Circular 7/2012, of November 30.

Principal Capital as defined by Circular 7/2012 is in line with the definition used by the European Banking Authority (EBA) in its recent recapitalization exercise (Core Tier 1). Additionally, the minimum Principal Capital requirements is set at 9% of risk-weighted assets, the same level as the EBA minimum requirement at June 30, 2012, stipulated in EBA recommendation EBA/REC/2011/1.

According to the provisions of Circular 7/2012 (in force from January 1, 2013) Principal Capital comprises: capital, reserves, share premiums,[24] , non-controlling interests, profit and loss, instruments subscribed by the Fund of Orderly Bank Restructuring (FROB) and instruments mandatorily convertible into shares[25].

The following deductions must also be applied: intangible assets, 50% of significant investments in financial entities and insurance companies, 50% of first loss tranches in securitizations, and 50% of the shortfall of provisions for expected losses on the IRB loan portfolio and 50% of expected losses on equity positions assessed using the PD/LGD method.

[24] Effective and express reserves classified as reserves in accordance with the regulations governing the capital of credit institutions (Circular 3/2008), including, *inter alia,* valuation adjustments for exchange differences and hedges of net investments in foreign operations, among others.

[25] To be eligible for Principal Capital, convertible instruments must meet the conditions established by the EBA in its recommendation EBA/REC/2011/1, and be qualified under Bank of Spain regulations as basic capital.

Table 5. Principal Capital Circular 7/2012

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Capital, reserves and results	20.519.470	16.253.465
Non-controlling interests	7.413	5.693.172
Eligible instruments subscribed by the FROB	977.000	977.000
Instruments mandatorily convertible into shares (1)	2.762.888	2.762.888
Capital deductions	(6.723.213)	(8.031.866)
Principal capital	**17.543.558**	**17.654.659**
Risk-weighted assets (RWA)	160.722.975	170.939.325
Principal Capital Ratio (2)	**10,9%**	**10,3%**

(1) (2) Includes valuation adjustments for non-controlling interests and companies accounted for using the equity method

(1) Includes €750 million from series I/2011, whose clauses were modified in the first quarter of 2013 to ensure eligibility under the requirements of Bank of Spain Circular 7/2012.

(2) Excluding series I/2011 mandatorily convertible bonds, the Principal Capital ratio would stand at 10.4% for the CaixaBank Group and 9.9% for "la Caixa" Group at December 31, 2012.

3. Information concerning eligible capital requirements

This section sets out the minimum capital requirements for the "la Caixa" and CaixaBank Groups at December 31, 2012 for each type of risk considered.

Table 6. Capital requirements

(Thousands of euros)

Type of risk	CaixaBank Group	"la Caixa" Group
Credit risk	10.818.899	10.860.680
Standardized approach	4.708.523	5.000.032
IRB approach	6.009.033	5.759.305
Securitizations	101.343	101.343
Equity portfolio risk	961.251	1.773.215
Risk relating to the trading portfolio and currency risk	131.130	131.130
Operational risk	933.173	896.736
Additional capital requirements (1)	13.385	13.385
Total capital requirements	**12.857.838**	**13.675.146**

(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 the CaixaBank Group 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 CaixaBank Group and "la Caixa" Group at December 31, 2012, 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 7. Exposure by risk category (standardized approach)

(Thousands of euros)

Risk category - standardized approach	CaixaBank Group	"la Caixa" Group
Central administrations and central banks	45.211.564	45.211.564
Regional administrations and local authorities	15.312.591	15.312.591
Public sector entites and non-profit institutions	4.467.138	4.467.138
Credit institutions and investment service companies	8.591.736	8.559.646
Companies	27.734.680	27.577.928
Retail	11.952.338	11.952.347
Exposures secured by property	26.595.983	26.595.983
Exposures at default	15.590.337	17.675.486
High risk regulatory category	1.020.180	1.020.180
Other exposures	5.769.388	7.322.296
Total Exposure	**162.245.935**	**165.695.159**

Table 8. Capital requirements by exposure category (standardized approach)

(Thousands of euros)

Risk category - standardized approach	CaixaBank Group	"la Caixa" Group
Central administrations and central banks	0	0
Regional administrations and local authorities	154.973	154.973
Public sector entites and non-profit institutions	70.310	70.310
Credit institutions and investment service companies	169.579	169.066
Companies	1.651.463	1.638.613
Retail	443.217	443.218
Exposures secured by property	791.941	791.941
Exposures at default	973.009	1.153.648
High risk regulatory category	122.422	122.422
Other exposures	331.609	455.841
Total capital requirements	**4.708.523**	**5.000.032**

The sum of "la Caixa" and CaixaBank Group exposures and capital requirements for credit risk at December 31, 2012, with respect to each exposure category to which the IRB approach was applied, was as follows:

Table 9. Exposure by risk category (IRB approach)

(Thousands of euros)

Risk category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	62.804.449	60.078.634
Retail	129.372.218	129.372.218
- Covered by property mortgages	112.860.576	112.860.576
- Qualifying revolving retail exposures	5.374.256	5.374.256
- Other retail exposures	11.137.386	11.137.386
Total Exposure	**192.176.667**	**189.450.852**

Table 10. Capital requirements by exposure category (IRB approach)

(Thousands of euros)

Risk category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	3.597.657	3.347.929
Retail	2.411.376	2.411.376
- Covered by property mortgages	1.948.023	1.948.023
- Qualifying revolving retail exposures	54.274	54.274
- Other retail exposures	409.079	409.079
Total capital requirements	**6.009.033**	**5.759.305**

Additionally, to calculate the capital requirements for credit risk on securitizations using the standardized approach, at December 31, 2012, "la Caixa" Group had original exposure of €2,763,533 thousand, implying a total capital requirement of [26] €101,343 thousand, after deducting the value of the exposure to securitization positions with a risk weighting of 1.250% (50% deduction for Tier 1 and Tier2).

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

Tables 11 and 12 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 [27].

[26] Calculated according to the provisions of section four of chapter four of Bank of Spain Circular 3/2008.
[27] See section 2 "Information concerning risk associated with the shareholding portfolio" in part B of this document.

Table 11. Shareholding portfolio exposures

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	447.174	434.691
PD/LGD method	6.546.173	12.916.660
Internal methods	24	12.972
Total	**6.993.372**	**13.364.322**
By category		
Listed instruments	6.561.244	11.849.051
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	432.128	1.515.271
Total	**6.993.372**	**13.364.322**

Table 12. Capital requirements for the shareholding portfolio

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	123.931	121.294
PD/LGD method	837.310	1.643.203
Internal methods	10	8.718
Total	**961.251**	**1.773.215**
By category		
Listed instruments	843.256	1.478.770
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	117.995	294.445
Total	**961.251**	**1.773.215**

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

Table 13 sets out the minimum capital requirements for counterparty risk for "la Caixa" Group and CaixaBank Group at December 31, 2012, already included in the total sum of minimum capital requirements for credit risk[28].

Table 13. Capital requirements for counterparty risk

(Thousands of euros)

Method applied	Capital requirements of the trading portfolio	Total capital requirements
Standardized approach	129.062	140.609
Internal ratings based (IRB) approach	55.868	64.312
Total capital requirements for counterparty risk - "la Caixa" Group	**184.930**	**204.921**

The table below shows the breakdown of the capital requirements for trading portfolio risk and currency and gold risk for the CaixaBank Group and "la Caixa" Groups at December 31, 2012, by the methods applied for calculation.

Table 14. Capital requirements for trading portfolio risk and currency risk

(Thousands of euros)

	Standardized approach(1)	Internal model	Total
Fixed-income trading portfolio position risk	0	80.753	80.753
Share and investment position risk	124	18.246	18.370
Commodity position risk	0	0	0
Currency and gold position risk	0	22.652	22.652
Adjustment for correlation between factors(2)	0	-20.606	-20.606
Incremental Risk	0	29.961	29.961
Total Capital Requirements	**124**	**131.006**	**131.130**

(1) Capital requirements calculated in accordance w ith the general treatment of specific risk (standardized approach).
(2) Applicable only if internal methods are used.

At December 31, 2012, capital requirements for the trading portfolio position and settlement risk were nil.

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

3.4. Minimum capital requirements for operational risk

Table 15 shows the capital requirements for operational risk of the "la Caixa" and CaixaBank Groups at December 31, 2012.

Table 15. Capital requirements for operational risk

(Thousands of euros)

	Average relevant income	Capital requirement
Retail banking	3.666.607	439.993
Retail intermediation	420.333	50.440
Asset management	58.287	6.994
Commercial banking	1.888.162	283.224
Agency services	16.380	2.457
Trading and sale	378.807	68.185
Business financing	454.887	81.880
Payment and settlement	0	0
Total business lines - CaixaBank Group	**6.883.462**	**933.173**
Retail banking	3.478.516	417.422
Retail intermediation	424.054	50.886
Asset management	58.829	7.059
Commercial banking	1.715.663	257.349
Agency services	16.518	2.478
Trading and sale	438.559	78.941
Business financing	458.889	82.600
Payment and settlement	0	0
Total business lines - "la Caixa" Group	**6.591.027**	**896.736**

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 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, in accordance with ICAAP provisions, 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.

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 as 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 doubtful due to customer arrears when any part of the principal, interest or contractually agreed expenses is past-due more than three months old, unless such debt is classified as write-off. When balances classified as doubtful due to customer arrears exceed 25% of the outstanding, the amounts of all transactions with this customer will also be considered as doubtful due to arrears, with the exception of non-financial guarantees.

An asset is considered as doubtful for reasons other than customer arrears when there are reasonable doubts about their full repayment (principal and interest) under the contractual terms, which are not classifiable as write-off or as doubtful due to customer arrears.

Substandard risk includes all debt instruments and contingent exposures which, without qualifying individually for classification as doubtful or write-off, show weaknesses that may entail losses by the Entity assuming losses higher than the allowances and provisions for impairment of exposures under special monitoring[29].

A risk write-off includes debt instruments, whether due or not, for which the entity, after analyzing them individually, considers the possibility of recovery to be remote and proceeds to derecognize them. Negotiation and legal action to recover these assets are not curtailed, however.

[29]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.

The country risk of a transaction is risk associated with customers resident in a specific country due to circumstances other than normal commercial risk. Country risk includes sovereign risk, transfer risk and other risks arising from international financial activity.

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 its 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[30].

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 interest received, provided that it is 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 collateral relates:

Table 16. Percentages applied to the value of the guarantee according to asset type

Weightings	
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 17. 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.

[30] 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" and, therefore, not specifically identified. This loss is the inherent loss incurred at the reporting date. It is quantified by applying the statistical parameters established by the Bank of Spain based on experience and on the information available concerning the Spanish banking system, which are modified when circumstances warrant. The Group affirms that the provision calculated in this manner does not differ from that obtained using internal models.

Moreover, the amount of coverage required for the impairment of assets is estimated based on economic circumstances and on the estimates of inherent losses made by the Company for specific segments, particularly assets related to the real estate sector.

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, 2012.

1. Total value of exposures

Table 18 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 18. 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)
Standardized approach	162.245.935	(5.714.210)	156.531.725
IRB approach(4)	192.176.667		192.176.667
Total value - CaixaBank Group	**354.422.602**	**(5.714.210)**	**348.708.392**

(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 foreclosed assets and tangible assets.

(3) Exposures after adjustments and impairment losses, without taking into consideration the effects of the reduction in

(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]
Standardized approach	165.695.159	(5.720.555)	159.974.604
IRB approach[4]	189.450.852		189.450.852
Total value - "la Caixa" Group	**355.146.011**	**(5.720.555)**	**349.425.456**

(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 foreclosed assets and tangible assets.

(3) Exposures after adjustments and 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 2012, 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 19. Average exposure by risk category

(Thousands of euros)

Risk category[1]	CaixaBank Group	"la Caixa" Group
Standardized approach		
Central administrations and central banks	35.470.493	35.511.607
Regional administrations and local authorities	14.329.104	14.329.104
Public sector entites and non-profit institutions	4.431.102	4.431.102
Credit institutions and investment service companies	8.145.413	7.983.381
Companies	23.578.403	23.465.477
Retail	8.678.635	8.690.095
Exposures secured by property	14.982.378	14.982.378
Exposures at default	9.053.983	12.130.047
High risk regulatory category	510.090	510.090
Other exposures	5.845.097	6.960.611
Total (standardized approach)	**125.024.695**	**128.993.889**
IRB approach		
Companies	69.877.674	66.892.413
Retail	126.370.420	126.373.033
Total (IRB approach)	**196.248.094**	**193.265.445**
TOTAL	**321.272.789**	**322.259.334**

(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, 2012, the exposure of the "la Caixa" and CaixaBank Groups, excluding value corrections due to impairment, and broken down into the main geographical areas, was as follows:

Table 20. Distribution of exposures by geographical area

(Thousands of euros)

Geographical area	CaixaBank Group	"la Caixa" Group
Spain	345.627.812	346.582.184
European Union	5.526.648	5.526.648
Rest of the world	3.268.142	3.037.179
Total[(1)]	**354.422.602**	**355.146.011**

(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 21 shows the distribution of exposures for the "la Caixa" Group by sector at December 31, 2012, 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 (€2,034,657 thousand) and loans granted to the real estate holding subsidiaries belonging to Criteria CaixaHolding, SAU, recognized under "Real estate and construction" of IRB companies (€2,992,905 thousand).

Table 21. 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
Standardized approach								
Central administrations and central banks	0	0	0	0	45.211.564	0	0	45.211.564
Regional administrations and local authorities	0	0	0	0	15.312.591	0	0	15.312.591
Public sector entites and non-profit institutions	0	0	0	4.467.138	0	0	0	4.467.138
Credit institutions and investment service companies	0	0	0	4.299.432	37	61	4.260.116	8.559.646
Companies	469.255	4.014.272	8.413.851	9.366.650	0	0	5.313.900	27.577.928
Retail	433.021	627.162	690.727	1.551.176	0	8.650.260	1	11.952.347
Exposures secured by property	386.357	736.856	2.511.310	3.516.759	1.434.565	8.423.342	9.586.794	26.595.983
Exposures at default[2]	134.983	428.508	4.715.068	1.677.979	410.970	1.050.284	9.257.695	17.675.486
High risk regulatory category	0	9.138	10.814	55.668	4.565	2.636	937.358	1.020.180
Other exposures	4.601	33.971	77.908	44.864	7.274	0	7.153.678	7.322.296
Total (standardized approach)	**1.428.218**	**5.849.908**	**16.419.677**	**24.979.666**	**62.381.565**	**18.126.583**	**36.509.542**	**165.695.159**
IRB approach								
Companies	614.820	16.463.504	22.881.915	18.224.293	1.845.764	5.969	42.368	60.078.634
Retail	1.360.846	3.665.175	9.547.315	18.937.021	4.146.707	90.201.221	1.513.933	129.372.218
Total (IRB approach)	**1.975.667**	**20.128.679**	**32.429.230**	**37.161.314**	**5.992.471**	**90.207.190**	**1.556.301**	**189.450.852**
Total value of exposure	**3.403.884**	**25.978.586**	**48.848.907**	**62.140.980**	**68.374.036**	**108.333.773**	**38.065.843**	**355.146.011**

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

(2) Includes net exposure to foreclosed property assets.

1.1.1.5 Distribution of exposures by residual maturity

Table 22 shows the "la Caixa" Group's exposure, excluding the deduction of impairment losses, at December 31, 2012, 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.

Table 22. Distribution of exposures by residual maturity

(Thousands of euros)

Risk category	Value of exposure by residual maturity (1) (2)				
	< 3 months	3 months - 1 year	1-5 years	> 5 years	Total
Standardized approach					
Central administrations and central banks	22.000.526	2.880.107	17.889.534	2.441.397	45.211.564
Regional administrations and local authorities	2.475.069	2.231.287	6.017.489	4.588.746	15.312.591
Public sector entites and non-profit institutions	445.564	434.029	1.136.981	2.450.564	4.467.138
Credit institutions and investment service companies	5.690.487	436.626	2.097.117	335.416	8.559.646
Companies	6.499.998	1.940.950	7.125.820	12.011.159	27.577.928
Retail	6.331.915	790.627	1.629.879	3.199.926	11.952.347
Exposures secured by property	887.278	59.900	621.886	25.026.920	26.595.983
Exposures at default(3)					17.675.486
High risk regulatory category	1.020.180	0	0	0	1.020.180
Other exposures	7.322.296	0	0	0	7.322.296
Total (standardized approach)	**52.673.313**	**8.773.527**	**36.518.706**	**50.054.128**	**165.695.159**
IRB approach					0
Companies	11.292.440	7.490.608	19.589.319	21.706.267	60.078.634
Retail	7.823.945	2.212.166	7.543.154	111.792.953	129.372.218
Total (IRB approach)	**19.116.385**	**9.702.773**	**27.132.473**	**133.499.221**	**189.450.852**
Total value of exposure	**71.789.698**	**18.476.300**	**63.651.178**	**183.553.348**	**355.146.011**

(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.

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

1. Distribution of impaired positions by economic sector

Table 23 shows exposure at default, excluding the property assets arising from management of the lending portfolio, broken down by counterparty, at December 31, 2012, and impairment losses and provisions for contingent commitments and liabilities constituted and recognized.

Table 23. Distribution of impaired exposures and exposures at default by economic sector

(Thousands of euros)

Counterparty[1]	CaixaBank Group	"la Caixa" Group	% Exposure
Agriculture and fisheries	209.673	209.673	1,04%
Industry	804.397	804.397	3,99%
Property and construction	11.408.502	11.408.502	56,62%
Commercial and financial	3.484.574	3.484.574	17,29%
Public sector	603.328	603.328	2,99%
Private entities	2.510.706	2.510.706	12,46%
Other	1.129.052	1.133.370	5,60%
Total value	**20.150.233**	**20.154.551**	**100%**
Fund for impairment losses and provisions for contingent commitments and liabilities	**12.071.162**	**12.081.474**	**60%**

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

BuildingCenter, SAU and Servihabitat XXI, SAU are the subsidiaries that manage the real estate assets acquired in lieu of debts or foreclosed.

At December 31, 2012, the net foreclosed assets portfolio stood at €7,145 million, with a coverage ratio of 48.5%. Land accounts for 33% of foreclosed assets, with a coverage of 61%. In the third quarter of 2012, assets belonging to Banca Cívica were included for €3,364 million, gross (€1,713 million, net).

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, 2012, is as follows:

Table 24. Distribution of impaired exposures and exposures at default by geographical area

(Thousands of euros)

Geographical area[1]	CaixaBank Group	"la Caixa" Group	% Exposure
Spain	20.043.182	20.047.500	99,47%
European Union	81.954	81.954	0,41%
Rest of the world	25.096	25.096	0,12%
Total value	**20.150.233**	**20.154.551**	**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

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 2012 is shown below:

Table 25. Changes in provisions

(Thousands of euros)

CaixaBank Group	Impairment losses	Provisions for contingent liabilities and commitments	Total provisions
Beginning balance	5.685.325	119.806	**5.805.131**
Addition due to integration of Banca Cívica	6.105.387	54.031	**6.159.418**
Net impairment charge	3.307.338	(30.263)	**3.277.075**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(2.220.280)	-	**(2.220.280)**
Transfers and other	(882.108)	(17.160)	**(899.268)**
Ending balance	**11.995.662**	**126.414**	**12.122.076**

(Thousands of euros)

"la Caixa" Group	Impairment losses	Provisions for contingent liabilities and commitments	Total provisions
Beginning balance	5.691.899	119.806	**5.811.705**
Addition due to integration of Banca Cívica	6.105.387	54.031	**6.159.418**
Net impairment charge	3.308.620	(30.263)	**3.278.357**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(2.220.280)	-	**(2.220.280)**
Transfers and other	(880.606)	(17.160)	**(897.766)**
Ending balance	**12.005.020**	**126.414**	**12.131.434**

2. Impairment losses and reversals of losses previously recognized

Table 26 contains a detail of the impairment losses and reversals of losses previously recognized on asset write-offs, recognized directly in the income statement for the "la Caixa" and CaixaBank Groups in 2012.[31].

Table 26. Impairment losses and reversals of losses

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Write-downs	**(822.347)**	**(944.543)**
Loans and receivables	(679.554)	(679.554)
Available-for-sale financial assets	(123.892)	(242.665)
Intangible assets	(8.911)	(8.816)
Property and equipment for own use	(9.990)	(13.508)
Other assets		
Net allowances	**(5.282.486)**	**(5.913.372)**
Loans and receivables	(5.057.276)	(5.058.630)
Inventories	(176.248)	(761.404)
Investments - associates		
Property and equipment - Investment property	(49.392)	(93.332)
Other assets	430	(6)
General allowance	**1.731.966**	**1.732.038**
Recovery of assets	**170.194**	**170.194**
Total value	**(4.202.673)**	**(4.955.683)**

[31] See Notes 37 "Impairment losses on financial assets" and 38 "Impairment losses on other assets" in the 2012 Financial Statements.

1.1.2 Counterparty risk

1.1.2.1. Counterparty risk management

1. Methodology for internal assignation 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) receive automatic pre-approval. 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) 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 collateral cash agreement 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.

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 [32]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.

[32] 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 27 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 27. Exposure to counterparty risk (derivatives)

(Thousands of euros)

	Amount
Gross positive fair value of the contracts (1)	14.758.800
Positive effects of netting arrangements	8.487.257
Net positive fair value of the contracts (1)	6.271.543
Credit exposure to derivatives after netting arrangements and guarantees (2)	3.770.982

(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, 2012 the "la Caixa" Group's exposure to counterparty risk was €3,770,982 thousand. The standardized approach is applied to calculate minimum capital on €3,080,743 thousand of this amount and the IRB approach is applied for the remaining €690,239 thousand.

Credit exposure in derivatives is calculated for all counterparties as the sum of positive individual exposures at customer level (with application of netting arrangements and guarantees received).

At December 31, 2012, the positive effects of netting arrangements amounted to €8,487,257 thousand.

2. Transactions with credit derivatives

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

Table 28 shows the breakdown of the notional values of the credit derivatives used.

Table 28. 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	-	-
Credit derivatives used in the Entity's trading activities	-	31.250

1.2. Additional disclosure requirements

1.2.1. Credit risk requirements under the standardized approach

1.2.1.1. Assignation 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, Fitch and DBRS.

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 29. 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	After applying risk
Central administrations and central banks		**45.211.564**	**45.500.381**
	0%	45.211.564	45.500.381
Regional administrations and local authorities		**15.312.585**	**15.388.460**
	0%	5.371.508	5.371.508
	20%	9.908.563	9.984.438
	100%	32.513	32.513
Public sector entites and non-profit institutions		**4.465.594**	**4.614.107**
	20%	4.365.395	4.516.985
	100%	100.199	97.122
Institutions		**8.591.734**	**8.495.052**
	0%	1.927.392	1.927.392
	20%	5.381.589	5.383.817
	50%	14.428	15.350
	100%	1.268.326	1.168.494
Companies		**26.658.826**	**25.269.052**
	0%	233	233
	20%	1.533.203	1.533.203
	50%	1.326.701	1.326.701
	75%	5	5
	100%	23.798.684	22.408.910
Retail		**11.584.712**	**11.288.753**
	0%	1.259.000	1.259.000
	20%	8.842	8.842
	75%	10.316.865	10.020.906
	100%	5	5
Exposures secured by property		**26.192.590**	**26.140.048**
	35%	22.709.481	22.673.841
	50%	2.930.751	2.914.501
	100%	368.968	368.365
	150%	183.390	183.340
Exposures at default		**11.724.552**	**11.702.455**
	50%	848.793	848.793
	100%	8.800.465	8.782.065
	150%	2.075.293	2.071.597
High risk regulatory category		**1.020.180**	**1.020.180**
	150%	1.020.180	1.020.180
Other exposures		**5.769.388**	**5.769.388**
	0%	1.625.049	1.625.049
	100%	4.142.804	4.142.804
	150%	1.536	1.536
	Otras	0	0
Total		**156.531.725**	**155.187.876**

(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		**45.211.564**	**45.500.381**
	0%	45.211.564	45.500.381
Regional administrations and local authorities		**15.312.585**	**15.388.460**
	0%	5.371.508	5.371.508
	20%	9.908.563	9.984.438
	100%	32.513	32.513
Public sector entites and non-profit institutions		**4.465.594**	**4.614.107**
	20%	4.365.395	4.516.985
	100%	100.199	97.122
Institutions		**8.559.644**	**8.462.962**
	0%	1.927.392	1.927.392
	20%	5.349.616	5.351.844
	50%	14.428	15.350
	100%	1.268.208	1.168.376
Companies		**26.502.074**	**25.112.300**
	0%	233	233
	20%	1.533.203	1.533.203
	50%	1.326.701	1.326.701
	75%	5	5
	100%	23.641.932	22.252.158
Retail		**11.584.721**	**11.288.762**
	0%	1.259.000	1.259.000
	20%	8.842	8.842
	75%	10.316.874	10.020.915
	100%	5	5
Exposures secured by property		**26.192.590**	**26.140.048**
	35%	22.709.481	22.673.841
	50%	2.930.751	2.914.501
	100%	368.968	368.365
	150%	183.390	183.340
Exposures at default		**13.803.356**	**13.781.259**
	50%	848.793	848.793
	100%	10.520.915	10.502.515
	150%	2.433.648	2.429.951
High risk regulatory category		**1.020.180**	**1.020.180**
	150%	1.020.180	1.020.180
Other exposures		**7.322.296**	**7.322.296**
	0%	1.625.050	1.625.050
	100%	5.695.710	5.695.710
	150%	1.536	1.536
Total		**159.974.604**	**158.630.755**

(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[33] are significant ownership interests in financial institutions and insurance companies, and excess qualified investment in entities that are not financial institutions or insurance companies[34].

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 25 June 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.

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

- Exposures evaluated by the developer SME model, with no application of internal estimates of losses in the event of non-payment or credit conversion factors.
- Exposures evaluated by the corporate model, applying internal estimates of losses in the event of non-payment or credit conversion factors.
- Equity exposures evaluated using the IRB approach, with internal models (VaR), PD/LGD and simple risk weighting.

The Bank of Spain authorized the use of the IRB approach for the calculation of capital requirements for credit exposures arising from operations by Microbank de la Caixa, S.A., following the reorganization of Grupo Nuevo Micro Bank, S.A., 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-physical channels.
- Optimization of internal processes.
- Price recommendations for transactions.
- Returns by customer.

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, assignation 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 characteristic 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.[35].

- **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 made between tasks relating to regulatory compliance and the specific reviews planned.

  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.

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

- Exhaustive reviews of relevant modifications to IRB models that require a prior 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.

The scope of Internal Validation initially focused on credit risk. It was extended to include market risk in 2010 and this portfolio was added to recurring reviews (validation cycles) from 2011.

Especially noteworthy in 2012 were the reviews carried out due to the implementation of the new IRB models.

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

1. Structure of the internal rating systems

The ”la Caixa” Group has internal credit rating models which, using assignemtn 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 much 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". In other words, the scores assigned by the rating models are associated with the average PDs for a full economic cycle. The estimate is performed by anchoring the PD curve to the long-term trend (central trend) estimated for the portfolio. When a probability of default has been assigned to each contract/customer, it is then transferred to the Master Scale, a categorization to which the results of all scoring and rating tools are linked for easier interpretation. Table 30 provides a summary of the relationship between the Master Scale and the probability of default.

Table 30. Master scale for credit ratings

Internal Master Scale	Minimum PD (%)	Maximum PD (%)
0	0,00000	0,02450
1	0,02450	0,07550
2	0,07550	0,18050
3	0,18050	0,42050
4	0,42050	0,99950
5	0,99950	2,33850
6	2,33850	5,36550
7	5,36550	11,83650
8	11,83650	24,15150
9	24,15150	100,00000

- **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 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 with 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 multi-variant 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) that are operating 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.

- **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 multi-variant 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.

- **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 multi-variant 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 multi-variant 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.).

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

  A multi-variant 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 multi-variant 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 and 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 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 31 shows information concerning the “la Caixa” Group’s exposures at December 31, 2012 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 31. 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	**60.078.634**	**38,22**	**83,08**	**17.785.653**	**40,62**
Risks not at default	51.554.519	37,81	91,16	16.626.487	47,16
0,056	681.068	23,62	7,64	301.392	30,95
0,121	2.247.682	37,54	26,37	1.303.606	55,01
0,277	13.001.702	42,04	45,35	6.495.645	49,93
0,666	10.633.178	39,52	66,44	3.637.637	47,40
1,444	6.330.039	36,13	83,59	1.332.704	47,20
3,295	7.031.981	37,58	112,81	1.335.972	49,51
7,811	5.116.924	35,32	148,70	1.057.982	46,51
17,823	2.213.972	31,08	161,66	486.572	29,90
38,989	4.297.973	32,50	176,25	674.977	42,38
Risks at default	8.524.115	41,54	36,66	1.159.166	1,09
Retail	**129.372.218**	**22,65**	**28,15**	**27.207.367**	**23,11**
Exposures covered by property mortgages	**112.860.576**	**17,75**	**25,98**	**21.205.093**	**20,21**
Risks not at default	108.902.081	17,19	26,35	21.064.285	20,95
0,0481	43.163.767	15,52	2,24	12.235.717	18,66
0,1217	246.948	20,50	5,96	4.834	37,92
0,2112	19.378.891	17,61	7,81	3.538.802	21,78
0,5232	12.466.449	17,77	15,15	2.094.774	20,01
1,1690	10.851.732	18,33	26,90	1.313.612	23,35
3,2794	9.746.271	18,40	51,25	1.013.310	26,64
7,0614	5.189.042	19,15	79,30	445.991	21,05
16,3498	711.362	21,00	118,38	70.087	34,75
26,6997	7.147.619	19,81	121,99	347.158	20,66
Risks at default	3.958.495	27,87	17,30	140.808	0,00

Risk category by average PD	Exposure[1] (Thousands of euros)	Loss given default (LGD)[2] (%)	Average risk weighting[3] (%)	Conversion factors	
				Commitments not drawn down[4]	Average CCF[5] (%)
Qualifying revolving retail exposures	**5.374.256**	**75,97**	**24,07**	**3.885.170**	31,52
Risks not at default	5.368.420	76,00	24,12	3.885.170	31,55
0,037	2.489.034	76,00	2,09	2.014.214	31,35
0,124	862.073	76,00	5,76	648.212	30,16
0,224	630.095	76,00	9,44	501.014	31,86
0,753	607.988	76,00	24,64	385.439	27,21
1,795	405.405	76,00	47,63	214.454	28,80
4,380	184.660	76,00	89,31	74.066	36,82
8,175	123.380	76,00	133,34	37.311	45,44
16,268	2.488	76,00	192,36	1.430	49,95
26,811	63.297	76,00	233,14	9.030	71,57
Risks at default	5.836	63,27	0,36	0	0,00
Other retail exposures	**11.137.386**	**51,87**	**48,50**	**2.117.104**	**48,46**
Risks not at default	10.585.591	50,69	50,43	2.057.915	50,84
0,0389	1.052.060	45,47	5,81	139.028	51,34
0,117	1.019.621	44,44	12,63	96.349	58,82
0,260	1.792.206	50,99	25,72	562.244	54,40
0,593	2.247.932	52,58	43,87	366.292	54,57
1,378	1.613.209	52,63	63,55	339.067	48,58
3,666	1.785.681	50,92	76,57	431.858	43,68
7,011	508.617	56,17	91,98	57.225	42,58
16,068	269.652	50,50	108,72	39.000	45,82
35,505	296.613	53,51	148,46	26.852	46,16
Risks at default	551.795	74,28	11,33	59.189	2,74
Total value	**189.450.852**	**27,59**	**45,73**	**44.993.020**	**28,66**

(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 weighted average exposure of the LGD. In default of weighted average exposure of best-estimate LGD.
(3) Percentage estimated as weighted average exposure. A 100% weighting represents 8% capital use.
(4) Prior to the application of credit conversion factors (CCF).
(5) Percentage estimated as weighted average exposure.

1.2.2.4 Trend in impairment losses posted during the previous year

Table 32 shows information on the "la Caixa" and CaixaBank Groups' impairment losses and provisions for risks and contingent commitments in 2011 and 2012, for each of the risk categories where the Entity applies the IRB approach.

Table 32. Impairment trends

(Thousands of euros)

CaixaBank Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2011	December 2012
Non-IRB exposures	596.572	5.542.419
Companies	3.544.473	4.815.863
Retail. *Of which* :	1.664.086	1.763.794
Exposures covered by property mortgages	1.179.761	1.325.853
Qualifying revolving retail exposures	44.283	3.355
Other retail exposures	440.042	434.586
Other	0	0
Total	**5.805.131**	**12.122.076**

(Thousands of euros)

"la Caixa" Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2011	December 2012
Non-IRB exposures	603.146	5.551.777
Companies	3.544.473	4.815.863
Retail. *Of which* :	1.664.086	1.763.794
Exposures covered by property mortgages	1.179.761	1.325.853
Qualifying revolving retail exposures	44.283	3.355
Other retail exposures	440.042	434.586
Other	0	0
Total	**5.101.526**	**12.131.434**

Asset impairment losses at the "la Caixa" group increased in 2012, from a net charge of €2,195,639 thousand in 2011 to €3,326,592 thousand in 2011[36].

In 2012, impairment losses on financial and other assets amounted to €4,056 million, up 51.5% on the 2011 figure. Therefore, the sustained capacity to generate revenue, coupled with the use

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

of the general loan-loss provision of €1,807 million, allowed the bank to set aside allowances of €5,607 million. Of this figure, €3,636 million related to greater provisions required in respect of the real-estate assets portfolio at December 31, 2011.

At December 2012, taking into account all the provisions available to cover the expected losses under IRB, the surplus in provisions was €709 million. In 2011, there was a deficit in provisions of €525 million. At December 31, 2012, the CaixaBank Group had a surplus in provisions of €689 million. In 2011, there was a deficit in provisions of €545 million.

1.2.25. 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.[37]

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 2012, used for the calculation of capital requirements and the observed frequencies, since the analysis horizons are already closed.

2. Historic ODFs

Table 33. ODFs

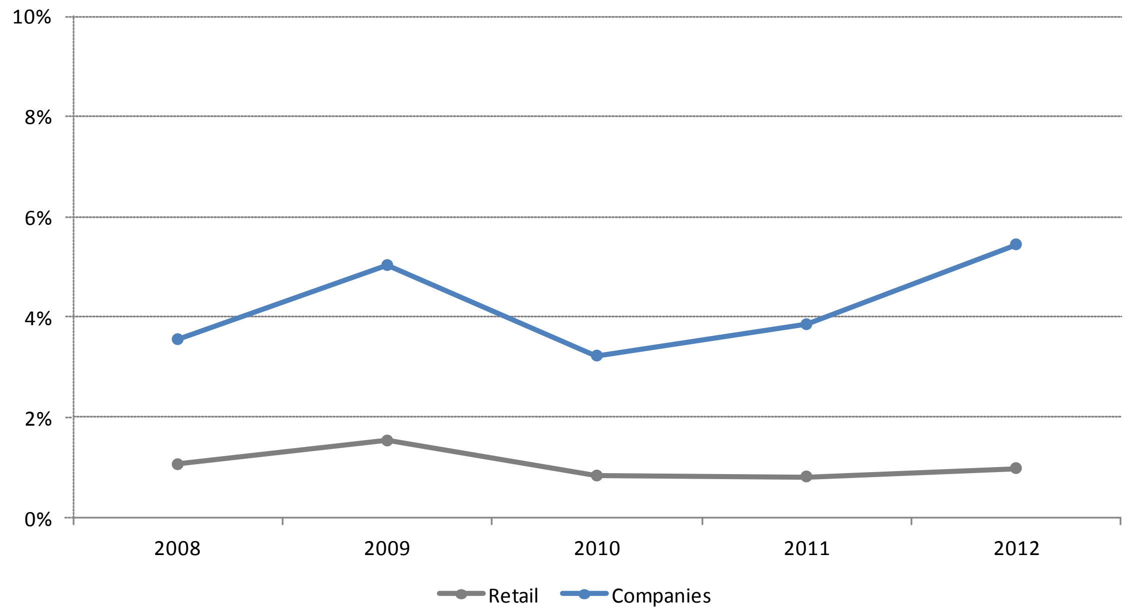
Historic ODF					
	2008	**2009**	**2010**	**2011**	**2012**
Retail	1,06%	1,54%	0,84%	0,82%	0,99%
Companies	3,56%	5,04%	3,23%	3,86%	5,45%

The weakened macroeconomic scenario keeps ODFs at high levels, consistent with the current stage of the cycle. In light of this situation, in 2012 macro economic variables weakened, such

[37] 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.

as GDP which was negative throughout the year. Nonetheless, ODFs remain lower than the sector average.

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 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.

Despite the differences in the cycle, the comparison between the two variables reflects the scope of the adjustment to the cycle applied to estimated PDs, and, as shown the in tables below, ODF levels mostly remain close to the estimated PDs at the current stage of the economic cycle, evidencing the conservative nature of this adjustment.

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:

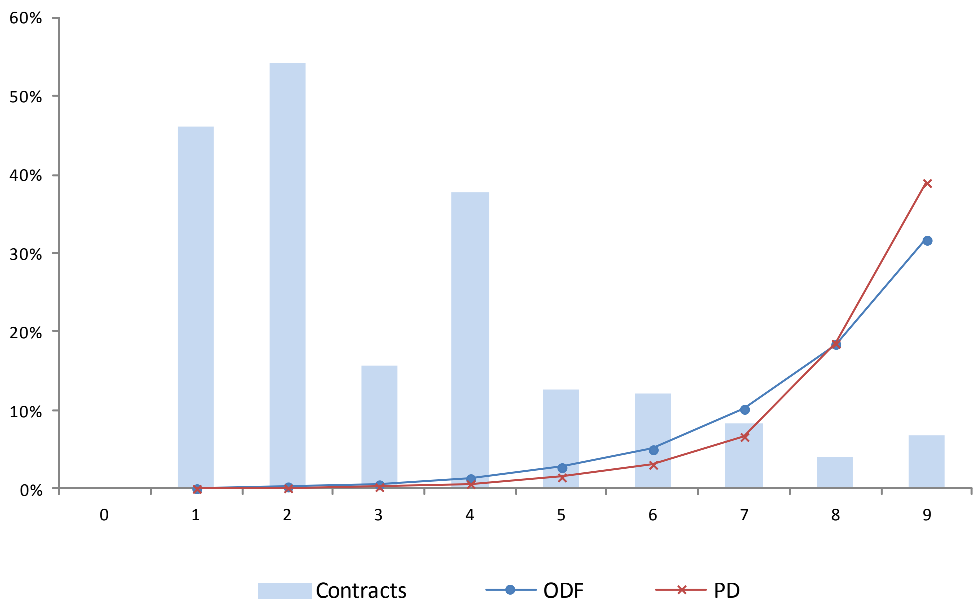
- Confirm that the relationship between the ODF and the master scale is a monotonous rising function.
- Compare the levels for analyzing the cyclical nature of the estimate and actual data.

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

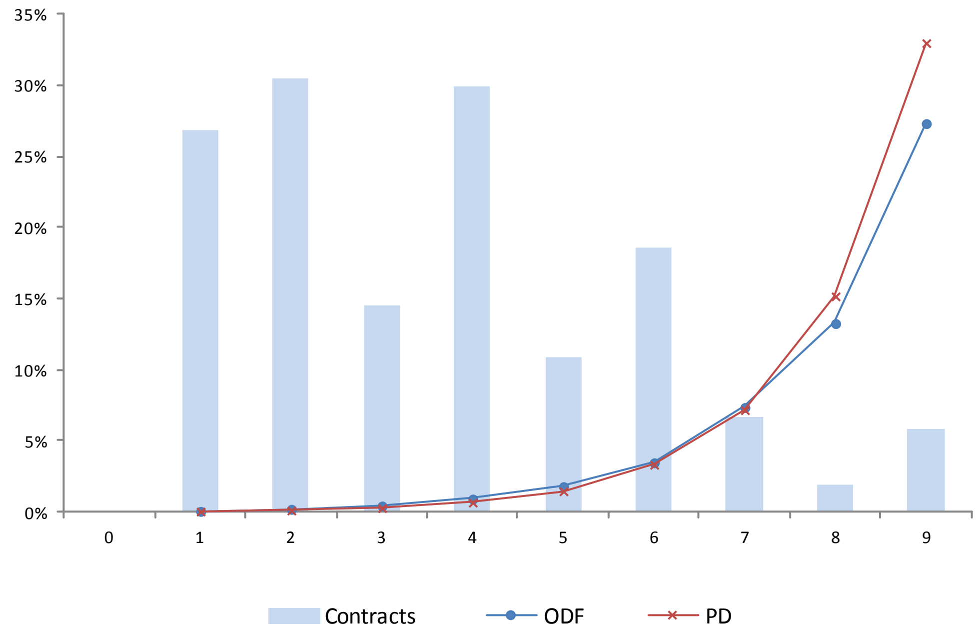
- 2012 ODFs
- PDs for 2012 estimated at year-end 2011

Collectively, to provide a better understanding of the data, a distribution is shown of the number of retail contracts and the number of legal entity customers at year-end 2012.

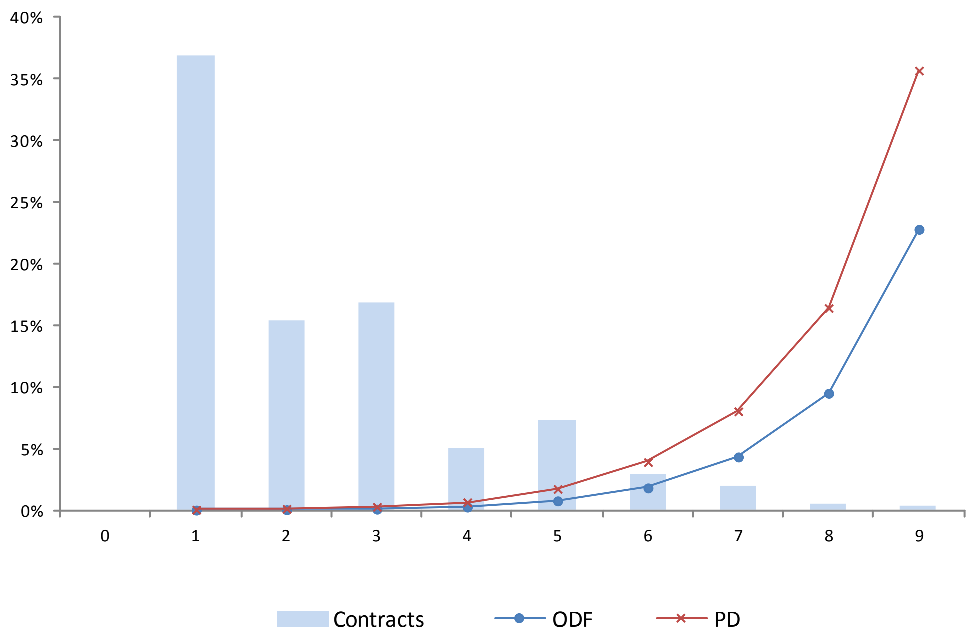
Graph 2. Mortgage



Graph 3. Consumer



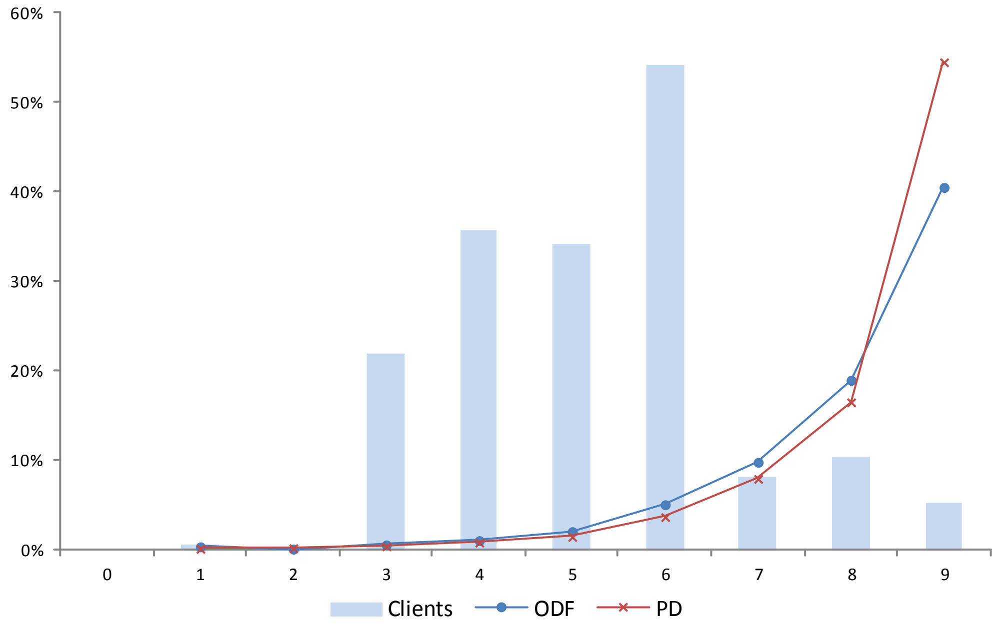
Graph 4. Cards



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 in the cards segment, despite the adverse stage of the cycle.

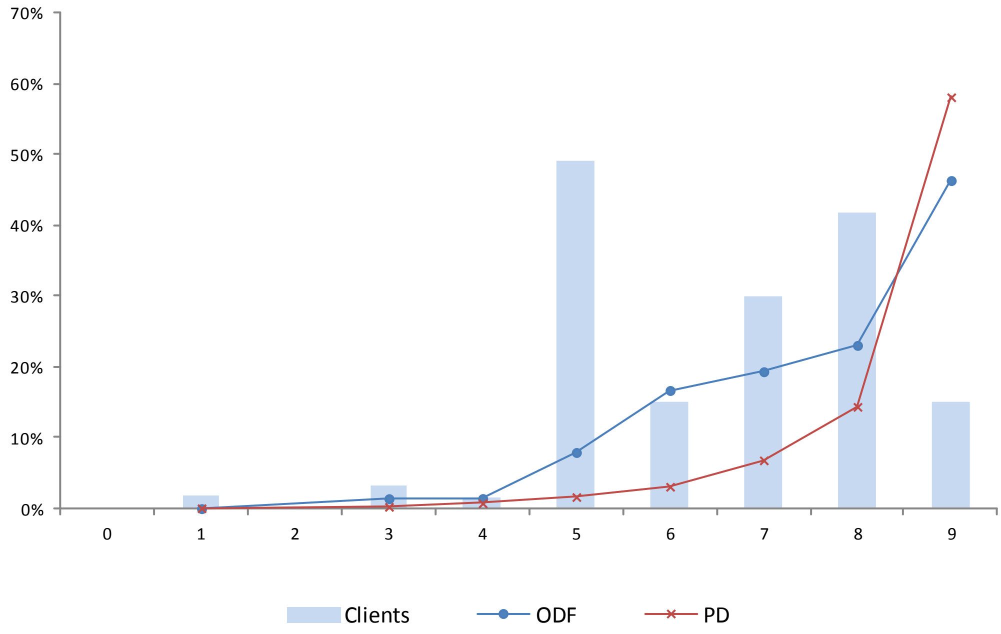
Graph 5. Non-developer SMEs



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.

The portfolio shows a PD which, due to the conservative adjustments to the cycle applied, is in line with the non-compliance frequencies observed in 2012 even though we are in the trough of the economic cycle.

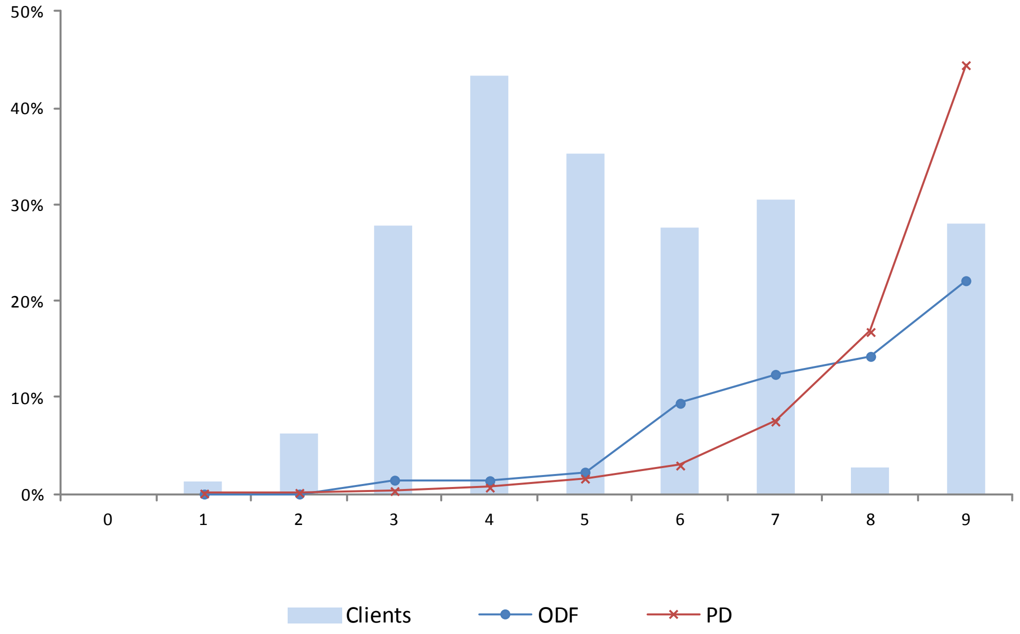
Graph 6. Developer SMEs



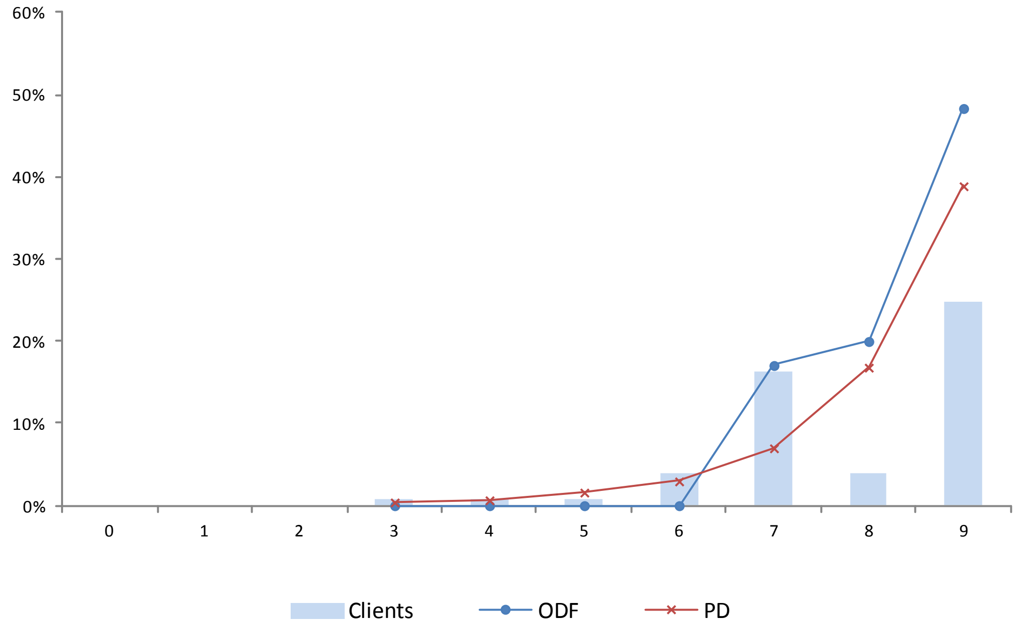
In the developer SME segment, the ODF is a monotonous rising function with respect to the master scale, and thus with respect to the frequency estimated by means of PD for the segment. This means that for these segments the internal models employed by “la Caixa” properly classify customers by levels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



Graph 8. Large developer companies



In the segment of large developer companies, the low customer numbers means that the ODF on the master scale is not statistically representative, and cannot require the function to be monotonous even though this is true of almost all tranches.

1.2.3. Securitization transactions

1.2.3.1. General information on securitizations

1. Group objectives and functions

The ”la Caixa” Group focused on two objectives in its securitization transactions up until the integration of Banca Cívica:

- 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 financing at a more competitive price by placing tranches of bonds guaranteed by programs sponsored by the State (FTPYME) or the Catalonian Autonomous Government (FTGENCAT), and other public bodies, 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 unit holders 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 as counterparty to the assets transferred to them.

Following the integration of Banca Cívica, various securitization operations relating to this entity, aimed mainly at obtaining liquidity and transferring risk by mobilizing part of its asset portfolio, were included in the “la Caixa” Group.

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, S.G.F.T., S.A. 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.

Management of the securitization funds deriving from Banca Cívica, for which the Entity acted as originator, was carried out by Titulización de Activos, S.G.F.T., S.A. and Ahorro y Titulización, S.G.F.T., S.A..

2. Accounting policies

In accordance with Regulation Twenty-Three of Bank of Spain Circular 4/2004, there must be substantial transfer of risk for the underlying assets in a securitization fund to be derecognized 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 derecognize assets that have been involved in a securitization process. However, Transitory Provision One of the Circular states it will not be necessary to change the recognition of transactions occurring prior to January 1, 2004 that were derecognized from the balance sheet as a consequence of the previous rules. Therefore, as reported in the "la Caixa" Group 2012 Financial Statements, only assets that were securitized prior to January 1, 2004 will be derecognized from the Entity's balance sheet, while the remainder will remain as "la Caixa" Group assets[38].

[38] See Table 35.

For funds that do not comply with the provisions of 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 been securitized. For funds that do comply with these provision, the standard calculation method was used.

To date, the “la Caixa” Group has not carried out synthetic securitization transactions. Neither did Banca Cívica in 2012 or in previous years.

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 in each transaction, regardless of the type of asset securitized.

1.2.3.2 Exposures in securitization transactions and amount of the assets securitized

1. Aggregated amount of securitization positions

Table 34 shows the positions held in securitization bonds by the "la Caixa" Group, all through CaixaBank, at December 12, 2012, by type of exposure.

Table 34. Securitization positions by type of exposure

(Thousands of euros)

Type of exposure	Exposure (1)
Securitization bonds - preferred tranche	5.316.782
Securitization bonds - subordinated tranche	3.016.937
Subscription reserve bonds	56.843
Total value	**8.390.562**

(1) Original exposure value.

Table 35 shows the total securitized loan exposures pending repayment at December 31, 2012.

Table 35. Securitization of customer credits

(Thousands of euros)

Type of exposure	Exposure
Derecognised transactions	94.934
Transactions remaining on the balance sheet	9.428.796
Total value	**9.523.730**

2. Other quantitative information on securitization positions

At December 31, 2012 the detail of assets securitized by the "la Caixa" Group via CaixaBank, by type of securitized asset, was as follows:

Table 36. 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	635.609	23.853	4.574
Finance lease	968.428	0	0
Consumer financing	2.451.002	32.471	32.539
Loans to Companies and SMEs	5.385.786	171.788	44.566
Other assets	82.905	0	0
Total	**9.523.730**	**228.112**	**81.679**

At this date, the Group held no securitized positions in renewable structures, understood to be securitization operations in which outstanding customer balances are permitted to fluctuate, within a previously defined range, in accordance with their availability and repayment decisions.

Securitization activities in 2012 corresponded mainly to the issue of a new securitization agreement managed by GestiCaixa, S.G.F.T., S.A. (FONCAIXA PYMES 3, F.T.A.) in addition to the inclusion of securitization funds from Banca Cívica, all of which had an origination date prior to 2012. The breakdown of the FONCAIXA PYMES 3, F.T.A. fund is as follows:

- FONCAIXA PYMES 3, F.T.A. The initial amount securitized was €2,400,000 thousand. At the date of creation, 8.43% of the underlying assets securitized corresponded to loans with mortgage guarantee and the remaining 91.57% to loans with personal guarantee.

Table 37 shows a breakdown of positions, net of impairment losses, held in securitization operations by "la Caixa" Group at December 31, 2012, calculated for the capital requirements for credit risk on securitizations using the standardized approach according to the provisions of section four of chapter four of the Capital Adequacy Circular.

Table 37. Exposure to securitization operations

(Thousands of euros)

	Exposure (1)
A) Positions held in securitization transactions in which the Group acts as originator	252.393
Positions in multi-seller securitization funds	252.393
Other securitization positions	0
B) Positions held in securitization transactions in which the Group does not act as originator	2.180.091
Positions in multi-seller securitization funds	2.174.352
Other securitization positions	5.739
Total	**2.432.484**

(1) Net exposure to impairment losses.

Table 38 shows a breakdown by weighting band, of the positions, net of impairment losses, on securitization operations held by "la Caixa" Group at December 31, 2012.

Table 38. Securitizations by risk weighting assigned

(Thousands of euros)

	Exposure (1)
A) Subject to risk weighting	2.300.648
20%	71.305
40%	2.140
50%	1.891.821
100%	59.805
225%	2.270
350%	24.499
650%	6.432
1250%	0
Methods for risk weighting of securitized exposures	242.376
B) Deducted from capital	131.836
Total	**2.432.484**

(1) Net exposure to impairment losses.

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

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

However, long term operations must have more solid guarantees, as the capacity for repayment is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects.

These guarantees should never be used to substitute a lack of repayment ability or an uncertain outcome for the project.

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 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 derecognized. 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 value between 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 in to secure further borrowings.
  - *Rights and securities*: The pledge is applied to fixed income or equities deposited with "la Caixa" in a securities account, provided that they are quoted on official markets. ”la Caixa”' applications show the daily trends in the values of the securities pledged. In

general, the applicable pledging percentage is 50% of the effective value in the case of equities and 85% for fixed income securities, although in certain cases the system applies lower percentages or even prevents the pledge. During the guarantee registration process, the system ensures that a pledge can be applied on the security in question and determines the percentage applicable.

- **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 credit 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 collateral contract.

1.2.4.2 Quantitative information

Table 39 shows the information on exposures by type of guarantee applied to mitigate credit risk for the CaixaBank and "la Caixa" Groups at December 31, 2012.

Table 39. Exposure by application of mitigation techniques

CaixaBank Group

(Thousands of euros)

Type of guarantee applied in credit risk mitigation	Value of the exposure		
	Standardized approach	IRB approach	Total
Mortgage guarantees	26.595.983	134.967.896	161.563.879
Real guarantees	1.611.835	3.951.397	5.563.232
Personal guarantees [1]	134.038.117	53.257.375	187.295.492
Total	**162.245.935**	**192.176.667**	**354.422.602**

(1) Includes contracts guaranteed by the public sector.

"la Caixa" Group

(Thousands of euros)

Type of guarantee applied in credit risk mitigation	Value of the exposure		
	Standardized approach	IRB approach	Total
Mortgage guarantees	26.595.983	134.888.050	161.484.033
Real guarantees	1.611.835	3.951.397	5.563.232
Personal guarantees [1]	137.487.341	50.611.406	188.098.747
Total	**165.695.159**	**189.450.852**	**355.146.011**

(1) Includes contracts guaranteed by the 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 2012 Financial Statements show a breakdown of the companies in its investment portfolio, stating their area of business and scope of activity[39].

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

- **Investments[40]**. Investments in the share capital of jointly controlled entities[41] 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 company's share prices throughout the period and the target prices published by renowned independent analysts. The "la Caixa" Group uses these data to determine the fair 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.

[39] 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 2012 Financial Statements.

[40] 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.

[41] 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 2012 Financial Statements.

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 verify the impairment loss recognized. 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 nominal 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 investment 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 with a charge to the income statement when there is objective evidence that an impairment loss has occurred. This is assumed to have emerged following a 40% reduction in fair value, and when a situation of continued losses has been observed over a period of more than 18 months.

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 40 table shows the fair value and carrying amount of the 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, 2012:

Table 40. Carrying amount of stakes and equity instruments not held for trading

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**4.111.280**	**4.144.426**
Shares in listed companies [1]	2.652.143	2.652.143
Shares in unlisted companies	1.283.906	1.287.945
Ownership interests in investment funds and other	175.231	204.338
Investments	**9.938.171**	**17.424.026**
Listed	8.481.686	15.282.264
Unlisted	1.456.485	2.141.762
Total carrying amount	**14.049.451**	**21.568.452**

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

Table 41. Fair value of stakes and equity instruments not held for trading

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**4.111.280**	**4.144.426**
Shares in listed companies [1]	2.652.143	2.652.143
Shares in unlisted companies	1.283.906	1.287.945
Ownership interests in investment funds and other	175.231	204.338
Investments	**9.594.950**	**17.312.955**
Listed	8.138.465	15.171.193
Unlisted	1.456.485	2.141.762
Total fair value	**13.706.230**	**21.457.381**

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

At December 31, 2012, the market value of the "la Caixa" and CaixaBank Groups' listed portfolio, which includes "Investments" and "Available-for-sale financial assets - Equity instruments," was €17,823 million and €10,791 million respectively.

2.2.2. Exposure value for the investee portfolio

1. Exposure value

At December 31, 2012, risk exposure associated with the investee portfolio was €6,993,372 thousand and €13,364,322 thousand at CaixaBank and "la Caixa" respectively [42]. 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 42 shows a breakdown of the amounts of these exposures[43] by listed and unlisted instruments.

Table 42. Exposures in equity investments not held for trading

(Thousands of euros)

Exposure	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**3.035.473**	**2.823.571**
Shares in listed companies	2.728.101	2.512.159
Total simple method	131.757	115.235
Total internal models method	24	12.972
Total PD/LGD method	2.596.319	2.383.952
Shares of unlisted companies in portfolios not sufficiently diversified portfolios (simple method)	307.373	311.412
Investments (subsidiaries, jointly controlled entities and associates)	**3.957.898**	**10.540.751**
Listed investments	3.833.143	9.336.893
Unlisted investments	124.755	1.203.859
Total value	**6.993.372**	**13.364.322**

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:

[42] See section 3.2, "Minimum capital requirements for risks associated with the investee portfolio" in Part A of this document.
[43] 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 counterparty in Equity.

Table 43. 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 organized markets (weighted at 290%)	131.757	115.235
Other equity exposures (weighted at 370%)	315.416	319.456
Total exposure simple method	**447.174**	**434.691**

Table 44 shows exposure to risk associated with the investee portfolio, LGD and average risk weighting[44].

Table 44. Exposure by category of exposure and debtor level

PD tranche	Weighted average[2]		Exposure	
	CaixaBank Group	"la Caixa" Group	CaixaBank Group	"la Caixa" Group
0% - 0.15%	113,89%	107,89%	991.316	1.511.438
0.15% - 0.30%	137,18%	137,18%	2.596.319	6.212.455
0.30% - 0.60%	192,41%	185,75%	2.843.746	4.518.993
0.60% - 1%	248,14%	247,60%	82.684	288.128
1% - 2.5%	308,58%	294,89%	1.829	37.250
2.5% - 4%	349,01%	337,46%	26.758	341.008
>4%		497,08%	0	3.867
In default	0,00%	0,00%	3.521	3.521
Total PD/LGD method[1]			**6.546.173**	**12.916.660**

(1) LGD of 90% applied.

(2) Weighted average by exposure. A 100% weighting represents 8% capital use.

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 2012, with the amounts taken to the income statement[45].

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

Table 45. 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)
539.172	52.386	(844.527)	244.507	(8.462)

(1) After tax.
(2) Before tax.
(3) Includes valuation adjustments on non-controlling interests

"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)
573.006	119.655	(804.678)	233.735	121.718

(1) After tax.
(2) Before tax.
(3) Includes valuation adjustments on non-controlling interests

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 greater 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, 2012, the sum of minimum capital requirements for risks relating to positions on the trading portfolio and the exchange rate was €79,252 thousand, and minimum capital requirements for counterparty risks on the trading portfolio were €259,908 thousand (total requirements for counterparty risks were €319,749 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. Subsequently, in 2011, "la Caixa" Group asked the Bank of Spain for authorization to calculate regulatory capital according to incremental default and migration risk and stressed VaR using internal models. In 2012, following the appropriate validation process, the Bank of Spain authorized the use of this internal model, which was first applied for the calculation of capital requirements on December 31, 2011.

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 share 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 or 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 changes in volatilities listed.

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 extremely 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 shares and commodities, higher and lower volatility of shares and commodities and, lastly, the increase in volatility of shares 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 and 2012.

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[46]

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

[46] 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.

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 and CaixaHolding 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.

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 2012, 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.
- Allocation 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 consolidated 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 allocate 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 Statements, mainly including sums from dividends on available-for-sale equity instruments, are assigned to Trading and Sales.

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 assignation 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.

4. Criteria for weighting CaixaBank's lines of business

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[47], 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 Treasury and Capital Markets area, 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 Treasury and Capital Markets Area.

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

[47]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[48].

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, 2012, the parallel movement in the interest rate applied to estimate the impact on economic value showed an increase of 79 basis points and a decrease of 220 basis points for net interest income.

Table 46. Impact of interest rate risk

(Thousands of euros)

Currency	Impact on economic value	Impact on net interest income
Euro	-96.858	-70.799

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.

[48] 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 for financial intermediaries.

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 analyses in collaboration with external advisors (Garrigues Abogados y Asesores Tributarios) in order to update and adapt the Group's remuneration policy to the new legal requirements.

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 Remunerations Committees of both CaixaBank and “la Caixa.”

On November 29, 2012, the Appointments and Remunerations Committee submitted the Remuneration Policy for Professionals of the Identified Group to the Board of Directors for approval, thereby complying with the Bank of Spain's regulation.

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
- delivery of shares or other equity instruments.

It should also be noted that at December 31, 2012, "la Caixa”'s Appointments and Remuneration Committee was made up of the following members:

- Isidro Fainé Casas (Chairman)
- Salvador Gabarró Serra (member)
- Javier Godó Muntañola (member).

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

- Isabel Estapé Tous (Chairwoman)
- Javier Godó Muntañola (member)
- Susana Gallardo Torrededia (member)

The Appointments and Remuneration Committee of CaixaBank held ten meetings in 2012.

During the same period, the Appointments and Remuneration Committee of “la Caixa” met on five 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 771/201)

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. Other employees

Any other "la Caixa" or CaixaBank employees who, while not included in the Identified Group, received a bonus of €200,000 or higher.

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 overall remuneration policy is designed to encourage the generation of value and sustainability of results on a long-term horizon. Consequently, the variable remuneration takes into account not only the achievement of targets but also the way in which these targets are met.
- The individual targets set for each employee are determined on the basis of the commitments employees assume and established jointly with their managers.
- The strategy behind the remuneration policy focuses 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 competitive remuneration conditions.
- As part of these overall compensation conditions, the remuneration policy seeks to ensure that fixed remuneration and social benefits are highly competitive, chiefly basing the group's ability to attract and retain talent on these two components of remuneration.
- The fixed component and the social benefits offered constitute the bulk of the remuneration packages offered. In general, variable remuneration tends to be more moderate, as it could potentially generate risk for the entity.

- The promotions system is based on an assessment of the skills, performance, commitment, and professional merits of employees over time.
- Remuneration for Senior Executives is approved by the pertinent governing bodies at “la Caixa” and CaixaBank.

As part of the general remuneration policy, the criteria for deferral of bonus payments, and, where applicable, the issue of Entity shares 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 delivery 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 delivery 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 shall be 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 47. Percentages deferred for each group

Groups	Ex-post risk adjustment (deferral)	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 (pursuant to RD 771/201)	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 or more than 30% of fixed remuneration: 40% of the accrued bonus is deferred for 3 years.	If the received is more than €100,000 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: 40% of the accrued bonus is deferred for 3 years.	If the bonus received is equal to or more than €200,000: 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).

The ratio used to calculate this is to divide the eligible capital used by each business unit, portfolio or segment by the corresponding EAD ("Exposure at default"), according to CEBS Guidelines, which include the cost and capital required to cover the risks of its activities among the financial ratios that should be used as a basis to adjust variable remuneration to risk, using the following 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 entity 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 "Bonus program" corresponds.

The indicator functions as specified below:

Table 48. 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 markets 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 markets 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 = CRA x Bonus target x (% individual targets achieved + % of corporate targets achieved) x entity adjustment factor

3. Control and Finance Managers

Ex-ante risk adjustments for control and finance functions carried out by the corresponding professionals of the Identified Group 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 entity adjustment factor

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 to the results achieved by the business areas they supervise or control.

Specifically, the Target program for 2012 was drawn up on the basis of the following measurement criteria:

- 70% individual/team targets
- 10% quality target for the Entity
- 10% of the changes in “la Caixa” Group operating costs
- 10% of CaixaBank Group net profit / Regulatory capital.

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).

In accordance with the Royal Decree, the ex-post adjustments to variable remuneration accrued by the Identified Group should not allow deferred variable remuneration to be paid unless it is sustainable in accordance with the Entity's overall situation, and unless the payment is justified in view of the results of the entity, the business unit, and the employee in question.

Accordingly, where proposed by the Human Resources Department, employees classified as the Identified Group must forfeit the right to collect deferred variable remuneration amounts, either in cash or through delivery of shares, in the following situations:

- In general, as established in Royal Decree 216/2008, where payment of these amounts is not sustainable in light of the entity's overall situation, or where payment is not justified in view of the results of the entity, the business unit, or the employee in question.
- For credit risk-takers, use of capital for credit risk in excess of pre-established risk tolerance (i.e., 25% excess in the case of credit risk-takers)
- 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.

6.4 Quantitative information concerning remuneration of the identified group

In 2012, 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 49. Remuneration paid to the identified group

(Thousands of euros)

Areas of activity	Description of the type of the businesses	Fixed remuneration 2012	Variable remuneration 2012 (Bonus 2011)	Total 2012
Investment banking	Capital markets, Corporate banking and Structured finance	3.136	2.325	5.461
Commercial banking	Individual banking, Private and personal banking, Business banking and Transactional banking.	8.233	2.220	10.453
Asset management	Does not apply	0	0	0
Other	Central services	16.092	2.871	18.963

(Thousands of euros)

Type of employee, within Identified Group	Number of people included in Identified Group	Fixed remuneration 2012	Variable remuneration 2012 (Bonus 2011)	Total
Senior Management	29	17.300	3.186	20.486
Rest of employees	59	10.161	4.230	14.391

(Thousands of euros)

Type of employee, within Identified Group	Number of people included in Identified Group	Variable remuneration 2012 (Bonus 2011)	2011 Bonus received in cash in 2012	2011 Bonus received in shares in 2012	2011 Bonus in cash deferred (not consolidated)	2011 Bonus in shares deferred (not consolidated)
Senior Management	29	3.186	1.001	723	731	731
Rest of employees	59	4.230	2.118	900	606	606

In 2012:

- In 2012 no deferred payments relating to previous bonus programs were received.
- No new hires were made within the identified group.
- No terminations benefits were paid within the identified group.