Information of Prudential Relevance

"la Caixa" Group

at December 31, 2013

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. The report 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, 2013. 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 at its meeting on December 18, 2008, this report was verified by the Control Committee (April 29, 2014) following approval by the Board of Directors (April 10, 2014). 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 (the ”la Caixa” Group), the parent company of which is Caja de Ahorros y Pensiones de Barcelona (”la Caixa”). At December 31, 2013, ”la Caixa” held a 64.37% 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 not-for-profit social and beneficial financial institution independent of any other company or entity. Its business purpose is to encourage savings in authorized formats, carry out social and beneficial projects, and invest its funds in secure profitable assets in the general interest.

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

In accordance with Transition Provision One of Law 26/2013 of December 27, as a savings bank that carries on its business indirectly as a credit institution through a banking entity, and given its characteristics, “la Caixa” must become a banking foundation by December 30, 2014. Until that time, it shall be governed by Law 31/85, of August 2, regulating the basic rules on governing bodies of savings banks, and the implementing regulations thereto, and, where applicable, by the provisions of Royal-Decree Law 11/2010, of July 9, on the governing bodies and other matters relating to the legal framework for savings banks, including their taxation, and article 8.3.d) of Law 13/1985, of May 25, on investment ratios, capital and disclosure obligations for financial intermediaries.

Acquisition of Banco de Valencia[1]

On November 27, 2012, the Governing Committee of the Fund for Orderly Bank Restructuring selected CaixaBank's binding bid to acquire all of the shares it held in Banco de Valencia.

The integration of Banco de Valencia into the CaixaBank Group leaves scope to realize additional synergies and economies of scale in order to obtain an appropriate return on Banco de Valencia's banking business, which has suffered from the squeeze on margins and the erosion of its loan portfolio. The merger also results in a combined entity with a stronger geographic presence in Valencia.

The acquisition under the aforementioned terms was completed on February 28, 2013, after official approval and authorization by Spanish and EU authorities were given.

On April 4, 2013, the Boards of Directors of CaixaBank and Banco de Valencia approved the Joint Merger Project between CaixaBank (absorbing company) and Banco de Valencia (absorbed company). The merger was carried out on July 19, 2013.

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 exercised primarily 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 so determined in accordance with Regulation Two, section 1, of Circular 3/2008 will be considered "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

[1] For further information, see Note 3.6, "Audit, Internal Control and Regulatory Compliance," in the "la Caixa" Group's 2013 annual financial statements.

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 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 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:

- A shareholding in a financial entity that is consolidable due to its business activity, but does not form part of the consolidable group, and which 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] and which exceeds 20% of the share capital or voting rights of the entity in which the shares are held.
- In addition, any investment in a qualified holding that represents more than 15% of the Group's eligible capital must also be deducted.

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

[2] See Regulation 2, Section 4, of Circular 3/2008.
[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)**
Arquitrabe Activos, SL	Holder of property assets	100,00	100,00	✓		
Banca Cívica Servicios 2011, SL	Investment holding and business consultancy	100,00	100,00	✓		
Bavacun, SL	Holding company	0,00	100,00	✓		
BuildingCenter, SAU	Real estate services	100,00	100,00	✓		
Caixa Capital Biomed, SCR de Régimen Simplificado, SA		90,91	90,91	✓		
Caixa Capital Fondos, SCR de Régimen Simplificado, SA	Venture capital management	100,00	100,00	✓		
Caixa Capital Micro, SCR de Régimen Simplificado, SAU	Venture capital management	100,00	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	99,26	100,00	✓		
Caixa Innvierte Industria SCR de Régimen 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	✓		
CajaBurgos OBV, SA	Ancillary activities for financial and insurance services	100,00	100,00	✓		
Cajasol Inversiones Inmobiliarias , SA	Property, ownership, sales and purchases	0,00	100,00	✓		
Cajasol Participaciones Preferentes, SAU	Finance	100,00	100,00	✓		
CAN Mediación, Operador de Banca-Seguros Vinculado, SAU	Insurance consultancy	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 - Unión de crédito para la financiación mobiliaria e inmobiliaria, EFC, SA	Mortgage credit	100,00	100,00	✓		
El Monte Capital, 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	✓		
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	✓		
Habitat 2018, SL	Real estate	0,00	55,56	✓		
HipoteCaixa 2,S.L.	Mortgage loan management company	100,00	100,00	✓		
Hiscan Patrimonio, SAU	Holding company	100,00	100,00	✓		
Hodefi, SAS	Holding company	0,00	100,00	✓		
Holret, SAU	Real estate services	100,00	100,00	✓		
Iniciativas Turísticas de Cajas, SA	Activities of a retail travel agency	0,00	60,00	✓		
InverCaixa Gestión, SGIIC, SA	Management of collective investment institutions	100,00	100,00	✓		
Inverjico 2005, SL	Holding company	0,00	100,00	✓		
Inversiones Valencia Capital, SA	Holding company	100,00	100,00	✓		
MediCaixa, SA	Financial 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)**
Negocio de Finanzas e Inversiones II, SL	Finance	100,00	100,00	✓		
Nuevo MicroBank, SAU	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	Holding company	100,00	100,00	✓		
Servicio de Prevención Mancomunado del Grupo la Caixa, CB	Health and safety advisory and prevention service and development	96,00	100,00	✓		
Servihabitat Gestion Inmobiliaria, SLU	Real estate services	100,00	100,00	✓		
Silc Immobles, SA	Real estate management and administration	0,00	100,00	✓		
Silk Aplicaciones, SL	Provision of IT services	100,00	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	✓		
Valenciana de Inversiones Participadas, SLU	Holding company	100,00	100,00	✓		
VIP Gestión de Inmuebles, SLU	Real estate development	100,00	100,00	✓		
Vipcartera, SL	Property management	0,00	84,22	✓		

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	Activities of a wholesale or 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	26,67	26,67		✓	

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 Agencia de Seguros	Insurance agency	0,00	100,00	✓		
Banco BPI, SA	Banking	46,22	46,22			✓
Boursorama, SA	Direct Banking	1,33	20,68			✓
CAN Seguros Generales, SA	Direct insurance, except life, and reinsurance	50,00	50,00			✓
GDS-Risk Solutions, Correduría de Seguros, SL	Insurance brokerage	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	20,47	20,47			✓
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 España, EFC, SA	Factoring	20,00	20,00			✓
Tenedora de Acciones de ITV de Levante, SL	Holding company	12,00	40,00			✓
The Bank of East Asia, LTD	Banking	16,51	16,51			✓
VidaCaixa Mediació, Sdad. Agencia de Seguros Vinculada, SAU	Insurance	0,00	100,00	✓		
VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal	Direct life insurance, reinsurance and pension fund management	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						**(1 / 4)**
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			✓
Acuigroup Mare Mar, SL	Acuicultura	0,00	99,98	✓		
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			✓
Ape Software Components, SL	Desarrollo Business Intelligence	0,00	27,26			✓
Apia Real Estate ,SARL	Business Intelligence	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			✓
Best TV Labs	Technical project for granting licenses	0,00	32,30			✓
Biodiesel Procesing, SL	Research, creation, development and sale of biofuel manufacturing projects	0,00	100,00	✓		
BJ Inversiones Generales Agroalimentarias 2006, SL	Food Industry	0,00	25,00			✓
Bodega Sarría, SA	Production and sale of wine	0,00	100,00	✓		
Celeris, Servicios Financieros, SA EFC	Financial services	26,99	26,99			✓
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 Transportes Aduana de Burgos, SA	Merchandise storage and handling. Operation of customs warehousing authorization from a free zone	22,96	22,96			✓
Cestainmob, SL	Property management	0,00	100,00	✓		
Chival Promociones Inmobiliarias, SL	Real estate development	0,00	40,00			✓
Clave Viajes, SA	Activities of a retail travel agency	0,00	50,00			✓
Club Baloncesto Sevilla, SAD	Promotion and development of sports activities	99,99	99,99	✓		
Comercia Global Payments, Entidad de Pago, SL	Payment entity	49,00	49,00			✓
Creación de Suelo e Infraestructuras, SL	Real estate development	0,00	25,00			✓
Cubican Infema, SL	Real estate development	0,00	50,00			✓
Cubican XXI, SL	Real estate development	0,00	50,00			✓
Cultivos y tecnología agraria de Tenerife, SA	Farming	49,00	49,00			✓
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			✓

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 / 4)**
Ecosistema Virtual para la Promoción del Comercio, SL	Finance	0,00	33,33			✓
EITWO International Investment, SL	Real estate development	0,00	33,33			✓
Energía Solar Aplicada, SL	Producción y gestión de energía	0,00	43,35			✓
Ensanche Urbano, SA	Real estate development	0,00	49,30			✓
Erste Group Bank AG	Banking	9,12	9,12			✓
Estugest, SA	Administrative activities and services	100,00	100,00	✓		
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			✓
Extraice, SL	Design and manufacture of synthetic ice rinks	0,00	10,44			✓
Forest Chemical Group, SL	Chemicals	0,00	14,09			✓
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			✓
Gescap Urbana, SA	Real estate development	0,00	30,00			✓
Gestión de Aguas de Alcolea, SA	Engineering and concessions	49,00	49,00			✓
Gestión Informática en Turismo, SL	Provision of IT solutions related to tourism to third parties	0,00	45,00	✓		
Girona, SA	Integrated water distribution	34,22	34,22			✓
Global gestión de tasaciones. SA	Property appraisals and real estate services	0,00	90,00	✓		
Global Payments South America, Brasil - Serviços de Pagamentos, SA	Payment entity	50,00	50,00			✓
Grupo Financiero Inbursa, SAB de CV	Banking	9,01	9,01			✓
Grupo Luxonia, SL	Manufacture, assembly, processing, purchase, sale and distribution of lighting equipment and decorative appliances	0,00	20,00			✓
Guadalcorchos, SA	Wood and cork industry; except furniture, basketwork and plaited work	0,00	100,00	✓		
Guadapelayo, SL	Real estate development	0,00	40,00			✓
Hacienda La Cartuja	Real estate development	0,00	40,00			✓
Hispanergy del Cerrato , SL	Production of vegetable oil and biodiesel	0,00	33,12			✓
I-neumaticos Online Franquicias, SL	On-line tire sales	0,00	21,04			✓
Inmojasan, SA	Real estate development	0,00	35,00			✓
Integrated Microsystems for Quality of Life	Development, manufacture and sale of pathogen and toxin detection kits	0,00	20,75			✓
Inversiones Corporativas Digitales, SL	Holding company	0,00	100,00	✓		
Inversiones Inmobiliarias Oasis Resort, SL	Services	60,00	60,00	✓		
Inversiones Inmobiliarias Teguise Resort, SL	Services	60,00	60,00	✓		
Inversiones Patrimoniales La Marina, SL	Real estate development	0,00	25,00			✓
Inversiones Resorts Mediterráneos, SL	Real estate development	0,00	23,05			✓
Inversiones Vitivinícolas, SL	Elaboración y comercialización de vinos	0,00	100,00	✓		
Investbya Holding, SL	Food industry	0,00	24,99			✓
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			✓
Kalite Desarrollo, SA	Real estate development	0,00	40,00			✓
Kantega Desarrollos Inmobiliarios, SA	Real estate development	0,00	50,00			✓
Kider, SA	Production, design, supply and assembly of products to cover functional needs	0,00	48,85			✓

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 / 4)**
Laboratoris Sanifit, SL	Research and development of new compounds to regulated organic calcification processes	0,00	35,40			✓
Lexdir Global, SL	Consultants	0,00	24,66			✓
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	✓		
Mcc Navarra, SPE, SA	Holding company	0,00	25,00			✓
Med Wind Energy, SL	Renewable energy holding company	43,00	43,00			✓
Medlumics, SL	Manufacture of tomography systems	0,00	31,82			✓
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			✓
Muchavista Sur Inversiones, SL	Real estate development	0,00	33,33			✓
Nlife Therapeutics, SL	Development of therapeutic agents	0,00	44,33			✓
Nou Biourbanisme, SA	Real estate development	0,00	20,00			✓
Nou Litoral, SL	Real estate development	0,00	25,00			✓
Nucli, SA	Real estate development	0,00	49,51			✓
Numzaan, SL	Real estate	0,00	21,47			✓
Obenque, SA	Real estate development	0,00	21,25			✓
Oesia Networks, SL	IT and defense electronics consulting	6,29	45,94			✓
Oquendo (sca) Sicar	Investment in Spanish mezzanine debt	0,00	26,16			✓
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 Industrial el Pla, SA	Real estate development	0,00	25,00			✓
Peñíscola Green, SA	Real estate development	0,00	33,33			✓
Petizar Atibel, S.L	Real estate development	0,00	50,00			✓
Pevesa Biotech, SA	Obtaining of isolates, hydrolysates, peptides and aminoacids	0,00	11,58			✓
Picanya Sud, SL	Real estate development	0,00	20,00			✓
Porta de les Germanies, SA	Real estate development	0,00	33,33			✓
PromoCaixa, SA	Product marketing	99,99	100,00	✓		
Promociones al Desarrollo Bumari, SL	Holding company	48,00	48,00			✓
Promociones Eólicas del Oeste Valenciano, SL	Holding	26,00	26,00			✓
Promociones Eurosevilla 2000 , SA	Real estate development	0,00	40,00			✓
Promociones Guadavila, SL	Real estate development	0,00	30,00			✓
Promociones Navarra Madrid, SA	Real estate development	0,00	47,50			✓
Promotora Damas Ocho , SL	Real estate development	0,00	40,00			✓
Puerto Triana, SA	Real estate developer specialized in shopping centers	100,00	100,00	✓		
Repsol, SA	Oil and gas market operation	12,02	12,02			✓
Residencial Alameda	Real estate development	0,00	41,00			✓
Residencial Golf Mar, SL	Real estate development	0,00	21,53			✓
Río Sevilla 98 Promociones Inmobiliarias, SL	Real estate development	0,00	51,01	✓		
Sagetis Biotech, SL	Biotechnology	0,00	28,51			✓
Saldañuela Residencial, SL	Real estate	67,00	67,00	✓		
Sanifit Merdtech, SL	Desarrollo de implantes y otros productos sanitarios	0,00	35,40			✓
Servihabitat Servicios Inmobiliarios, SL	Real estate services	49,00	49,00			✓
Seryrec, SL	Tax collection services	0,00	20,00			✓
Sociedad de Gestión Hotelera de Barcelona	Property transactions	0,00	100,00	✓		
Sofiland, SA	Real estate development	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						**(4 / 4)**
Solaiemes, SL	Engineering services	0,00	32,23			✓
Suministros Integrales del Acero, SL (Stinser)	Integrated steel supply	0,00	17,06			✓
Technical & Racing Composites, SL	Design, manufacture and sale of engineering products	0,00	23,57			✓
Tenerife Desarrollo Exterior, SA	Promotion of economic activities on the island	100,00	100,00	✓		
Terminal Polivalente Portuaria Sagunto, SA	Development of two concessions	0,00	25,00			✓
Uncro, SL	Real estate development	0,00	25,00			✓
Urbanizadora Experiencia Inmobiliaria, SL	Real estate development	0,00	50,00			✓
Urbedesa, SL	Real estate development	0,00	50,00			✓
Valenciana de Viviendas 2010	Real estate development	0,00	45,44			✓
Vanios Consulting, SL	Information and communication	0,00	29,92			✓
Vía 10, Sociedad Mixta de Viviendas de Alquiler, SL	Real estate	0,00	49,00			✓
VIP Desarrollos, SLU	Real estate development	100,00	100,00	✓		
Vitalia Sur, SL	Equity investment in resident and non-	0,00	50,00			✓
Vivienda Protegida y Suelo de Andalucía, SA	Real estate development	0,00	50,00			✓

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	64,37	64,37	✓		
Caixa Capital Risc, SGECR, SA	Venture capital management	99,99	100,00	✓		
Criteria CaixaHolding, SAU	investee holding company consultancy and administrative services	100,00	100,00	✓		
Inversiones Autopistas, SL	Holding company	50,10	50,10	✓		
Servihabitat Alquiler II, SLU	Real estate management and administration	100,00	100,00	✓		
Servihabitat Alquiler IV, SLU	Real estate management and administration	100,00	100,00	✓		
Servihabitat Alquiler, SL	Real estate management and administration	100,00	100,00	✓		
Entities not consolidated fully or proportionately for capital adequacy purposes						
Abertis Infraestructuras, SA	Transport and communications infrastructure management	15,34	19,22			✓
Arrendament Immobiliari Assequible, SLU	Management of state-sponsored housing	0,00	100,00	✓		
Foment Immobiliari Assequible, SAU	Housing development, including state-sponsored housing	100,00	100,00	✓		
Gas Natural, SDG, SA	Gas and electricity business	34,52	34,52			✓
Hisusa-Holding de Infraestructuras de Serv.Urbanos, SA	Holding company	24,26	24,26			✓
Mediterranea Beach & Golf Community, SA	Urban management and administration of theenclosed areas of the theme park	100,00	100,00	✓		
Palau-Migdia, SL	Property development	50,00	50,00			✓
Saba Infraestructuras, SA	Management of car parks and logistics parks	50,10	50,10	✓		
Vithas Sanidad, SL	Insurance agency	20,00	20,00			✓

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

1.1.2. Other general information

At December 31, 2013, 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, EFC, SA, Nuevo MicroBank, SA and Credifimo, EFC, SA) are exempt from compliance with the minimum individual capital requirements.

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

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

In 2013, the distribution of activities that resulted from the reorganization of the Group in 2011 was maintained.

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 within which risk management at the parent (CAPB) and its subsidiaries, CaixaBank, SA and Criteria CaixaHolding, SAU, is coordinated and carried out.

The CaixaBank Group carries out retail banking and insurance activities and manages the international banking portfolio and the investments in Repsol, 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 is in place, which establishes the appropriate reporting content and frequency for each type of risk and above thresholds which notification is required to be given at the following 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. This way, its sets a risk profile 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's activities are classified as follows: credit risk (arising from the banking business, as the risk associated with the investee portfolio), market risk (which includes the structural balance sheet interest rate risk, the price or rate risk associated with treasury positions, and the 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 set forth in European directives and with 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[4] 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.

[4] For further information, see Types of risks and general risk management principles, in Note 3 to the financial statements of "la Caixa."

- 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

Under the supervision of the Management Committee, 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 to do so, along with 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. Senior Management acts within the framework of the duties assigned by the Board of Directors, through the following risk management committees: Global Risk, Loan Approval, Lending, Refinancing, ALCO (Asset-Liability Management) and the Real Estate Acquisition and Appraisal Committee.
- CaixaBank has a General Manager in charge of Group risks. The Corporate Directorate of Global Risk Management, which reports to the General Manager responsible for Group risks, 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.

Asset and Liability Management (ALM) and Liquidity Management, which reports to the Directorate-General of Risk, is responsible for the balance sheet and liquidity.

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 Sub-Directorate-General of Communication, Institutional Relations, Brand and Corporate Responsibility) and the Sub-Directorate of Regulatory Compliance (which is managed by the Sub-Directorate-General of Audit, Internal Control and Regulatory Compliance).

These areas and duties are functionally and organizationally independent of the risk-taking areas in order to enhance the autonomy of management, monitoring and control functions, thus ensuring 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 a 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 a turnover of more than €200 million.

Single risk circuit: Approval of risk operations beyond a certain level of authority (beyond the 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 Corporate Directorate of Analysis and Approval. 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.

Criteria CaixaHolding owns the Group's real estate assets, as a result the reverse-merger operation carried out this year with Servihabitat XXI, SAU,[5] which is the former owner of the properties acquired before the Group's reorganization in 2011.

1.2.1.4 Audit, Internal Control and Regulatory Compliance

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.

The Board of Directors of "la Caixa" is responsible for ensuring the correct performance and efficiency of the Group's internal control model, reporting to "la Caixa's" Executive Directorate of Audit and Regulatory Compliance and CaixaBank's Sub-Directorate-General of Audit, Internal Control and Regulatory Compliance.

CaixaBank's Sub-Directorate General of Control comprises three organizational units (Internal Control, Regulatory Compliance and Internal Audit), which operate independently from one other and from other "la Caixa" Group areas and companies, in accordance with the guidelines set out by the European Banking Authority (EBA) in its Guidelines on Internal Governance

[5] For further information, see Note 7, "Business combinations, acquisition and disposal of ownership interests in subsidiaries," to the 2013 financial statements of the "la Caixa" Group.

27/09/2011 (adopted by the Bank of Spain on 27/06/2012). They also report systematically to the Senior Management and governing bodies on issues relating to risk control.

1. Internal Control

The Internal Control Area was created in 2012, making significant progress towards strengthening the "la Caixa" Group's internal control model.

"la Caixa's" control environment is organized into three "lines of defense."

- The first line of defense involves the Entity's own areas, which constitute the first control level.
- The Internal Control Area is the second line of defense, together with Global Risk Management, Internal Control over Financial Reporting and Regulatory Compliance, among others, which oversee the proper operation of risk management and control carried out by the business areas.
- The Internal Audit Department is the third line of defense, as an element of supervision.

The mission of the Internal Control Area is to ensure 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 for stakeholders.

To fulfill this mission, a Corporate Risk Map Project is being carried out in 2013 and 2014. The Corporate Risk map will be the internal control model's basic management tool.[6]

2. **Regulatory Compliance**.

The objective of Regulatory Compliance is to oversee and control risk of the "la Caixa" Group incurring legal or regulatory penalties, or financial, material or reputational losses, as a result of failure to comply with the laws, regulations, rules, self-regulation standards or codes of conduct for which this function is responsible.

Supervision is performed by establishing second-tier controls to detect and analyze these risks. When these controls detect risks of noncompliance, the management units affected are mobilized to establish improvement actions to mitigate the risks. Regulatory Compliance subsequently follows up on the implementation of improvement actions through a periodic

[6] For further information, see Note 3.6, "Audit, Internal Control and Regulatory Compliance," in the "la Caixa" Group's 2013 annual financial statements.

integrated management system and a report to Senior Management and the Bank's governing bodies.

In addition, the Regulatory Compliance function[5] performs advise-related tasks, within its sphere of competence, for Senior Management and for relevant persons and areas. It also works to ensure that the Company adopt the best practices relative to integrity and codes of conduct.

3. Internal Audit

Internal Audit provides reasonable assurance to Senior Management and the Management Bodies that the "la Caixa" Group's objectives are being fulfilled, evaluating the efficacy and efficiency of risk management, internal control systems and corporate-governance processes.

Pursuant to the principles of independence and objectivity, and applying a systematic and disciplined approach, Internal Audit performs assurance and consulting services that add value to and improve the Entity's activities, acting as the third line of defense in CaixaBank's internal control framework.

Internal Audit's main responsibilities include:

- Evaluating the effectiveness of the controls established to mitigate the risks associated with the Entity's activity, including compliance with internal regulations and current legislation, and the reliability of financial and operations information;
- Contributing value by formulating recommendations and monitoring the degree of implementation of those regulations;
- Reporting relevant information to Senior Management and the Audit and Control Committee on the conclusion of tasks, weaknesses identified and recommendations made.

In relation to the risks covered by this document, "Information of Prudential Relevance," 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 and shareholdings, it verifies the main management processes implemented in this sphere, the use of advanced credit risk models, and compliance with established regulatory requirements, in particular by:

  - Reviewing the main admission and approval, default management, borrower monitoring and recovery processes;
  - Reviewing the proper integration of risk models into the Entity's day-to-day management, both in approval of transactions and in the subsequent management and monitoring thereof;
  - Verifying the integrity and consistency of the databases used: those relative to the construction of credit models, the calibration of risk parameters and current exposures;
  - Verifying the accuracy of the data fed into the entity's systems and the existence and adequacy of controls;
  - Verifying compliance with the entity's internal and external regulations in connection with credit risk management;
  - Validating the implementation of the risk models, the procedures for the calculation of regulatory capital, and the measurement and risk management tools developed for information systems;
  - Supervising the risk management control environment, with annual verification of internal validation processes for the models.
- For operational risk:
  - It verifies the use of the standard methodology to calculate capital consumption, in addition to its integration in management and in the technological environment, in particular by:
    - Supervising the Operational Risk Management Framework in the "la Caixa" Group, ensuring compliance with regulatory guidelines and their integration in management;
    - Supervising the calculation of capital consumption for operational risk and the implementation of operational risk assessment, control and management procedures;
    - Reviewing the technological risks affecting the "la Caixa" Group systems, as they related information integrity and confidentiality, as well as system availability and business continuity, both in planned reviews and continuous audit procedures, by monitoring defined risk indicators.
  - Participation in the advanced model adoption (AMA) project by conducting a pre-implementation audit, in order to be aware of risk situations ex ante and raise efficiency in the coverage of those situations.

- For market and interest rate risk relative to positions not included in the trading portfolio:
  - It verifies the issues required in Circular 3/2008 in respect of risk management systems, as they related to implementation for management processes and methodology, the integrity of the data used, the correct structure of control systems and the suitability of written instructions.
  - It checks the technological environment and processes for uploading the IT applications used to measure risk.

In addition to supervising the Pillar I risks within the global risk management framework defined by Basel, Internal Audit reviews the internal capital adequacy assessment process (Pillar II) and this document, "Information of Prudential Relevance" (Pillar III), before it is approved by the Board of Directors.

1.2.2. Credit and dilution risk

Credit risk, which is inherent to the business of credit institutions, stems from the possibility that a counterparty will be unable to meet payment commitments (will default). This is the most significant risk on the "la Caixa" Group's balance sheet, and it can be broken down into the 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[7] follows the basic criterion of evaluation of the borrower's repayment capacity, 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 to meeting the financing needs of households and businesses, and its portfolio is highly diversified and fragmented, thereby reducing credit risk. In

[7] CaixaBank is the listed banking group that carries out the "la Caixa" Group's retail banking activities. Therefore, references to credit risk management ultimately carried out by the branch network are direct references to CaixaBank and indirect references to the "la Caixa" Group.

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 on 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 ongoing 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 the effective application of the policies introduced.

One major component of the assessment of a borrower's capacity to repay a debt is the probability of default (a risk parameter defined within the management framework proposed by Basel II) 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 lack 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 Corporate Directorate of Global Risk Management is responsible for approval policies and procedures, and also for drawing up and monitoring credit risk models. The following areas report to this Directorate:

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

Approval of ongoing 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 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.[8]

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

3. Risk management: Measurement and information systems

On June 25, 2008, the Bank of Spain authorized the ”la Caixa” Group to use Internal Rating-Based (IRB) approaches to calculate 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 for the various portfolios, and the Entity also has tools to calculate profitability in relation to risk as well as[9] pricing tools.

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

- **Expected loss**: Defined as the product of three factors: probability of default, exposure and loss given default.
- **Unexpected loss**: Potential unforeseen loss caused by a 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 for 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 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 types of actions: the first, consisting of approval procedures, and the second, using teams dedicated exclusively to monitoring activities. The scope of the work of the latter teams, which report to the Directorate of Credit Risk Analysis and Monitoring and Recoveries, is twofold: large risks and monitoring the control initially implemented in the approval process.

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

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

[9] For greater detail, see Note 3.1, “Credit risk” of the ”la Caixa” Group's financial statements for 2013.

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.[10]

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 and thus establish 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 Management Committee, in which the maximum authorized exposure to credit risk with a counterparty is determined by a complex calculation based mainly on entities' ratings and an analysis of their financial statements. It also operates continuous monitoring of market signals through analysis of the values of credit default swaps (CDS) and the shares of each counterparty.

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

2. Structure and organization of the risk management function

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

- The **Financial Sector and Country Risk Area**, part of the Corporate Directorate of 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 to:
    - Determine the risk thresholds per counterparty;
    - Analyze and monitor counterparties and risks;
    - Control use of thresholds and violations;
    - Monitor legal risk;
    - Draw up risk information for the internal bodies, the Bank of Spain, credit rating agencies, etc.
- **The Risk in Market Operations Department**, which is part of the Corporate Directorate of Global Risk Management, 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 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

The 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.

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 agreements (collateral deposits)**: Agreements whereby each of the parties undertakes to make a cash deposit 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. One hundred and fifty contracts have been signed with financial contracts, with collateralization of over 99%.
- **GMRA agreements (collateral on repo operations)**: Agreements whereby each of the parties undertakes to make a cash deposit 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 clauses provide for early termination of the agreement by one of the parties of its own volition. This reduces counterparty risk by reducing the effective duration of the derivatives subject to the clause.
- **Delivery-versus-payment settlement systems**: Systems that eliminate settlement risk with a counterparty, since clearing and settlement occur simultaneously and in an

inseparable fashion. One major system is the CLS system for delivery against payment in the case of simultaneous collection and payment flows in different currencies.

- **Use of Central Counterparties (CCPs)**: Mitigates counterparty risk of OTC derivative contracts, that is, those not executed through a market regulated according to the MiFiD. EMIR regulations and the Regulations of the European Parliament on prudence requirements for credit institutions set forth the obligation to clear OTC derivatives contracts at these Central Counterparties, as well as to give notification of all transactions conducted.

1.2.3. Risk associated with the shareholding portfolio

1. Definition and general policy

"Risk owing to shareholdings or investees" refers the possibility of incurring losses in the mid to long term as a result of unfavorable changes in market prices, sales or losses on the positions that make up the investment portfolio.

The ”la Caixa” Group make strategic investments with and actively manages its shareholding portfolio.

As a rule of thumb, the investee international banks have investment agreements with the leading shareholders reference and strategic agreements, to undertake joint business (or joint-venture-type) opportunities, cooperate on customer service in the respective regions of influence and realize cost and knowledge synergies. The purpose of this is to create shareholder value and move forward with CaixaBank's international expansion, adopting the best practices of other markets. (The same is true in Risk Management).

2. Structure and organization of the risk management function

At the “la Caixa” Group, shareholdings are subject to monitoring and specialist analysis. This monitoring and analysis is carried out at a deeper level in the case of permanent shareholdings, and/or those involving a more material investment amount and impact on capital.

The Group's organizational structure has various levels and types of control:

- **Presence in the investee governing bodies**: Depending on the ownership interest and the strategic alliance with the majority shareholder (when the majority shareholder is not the "la Caixa" Group), members of the Senior Management of "la Caixa," CaixaBank or Criteria CaixaHolding are invariably appointed to serve as members of the investees' boards of directors. On occasion, this also includes board committees, such as is the case of Banco BPI's Audit Committee.

This allows these directors to remain abreast of, participate in, and influence the most important decisions of these companies, contributing their individual experience with and their knowledge of the financial sector.

- **Controlling and financial analysis,** through specialists solely responsible for monitoring changes in economic and financial data as well as understanding and issuing alerts in the event of changes in regulations and competition in the countries and sectors in which the investees do business. The International Banking area (responsible for strategic alliances with international banks), the Financial area (for industrial investees) and the Holding Companies area (for subsidiaries) gather and share information on these shareholdings. In general, with the most significant shareholdings, both the estimates of and actual data on investees' contribution to income and shareholders' equity (where applicable) are updated regularly. These processes include the outlook for stock values and analysts' target prices for companies of the "la Caixa" Group's portfolio that are listed, facilitating a regular comparison with the market. This outlook is shared with Senior Management.

  In keeping with accounting regulations, these teams conduct stress tests on the carrying amount of the shareholdings, to assess the value of the shareholdings and evaluate the appropriateness of their recognition on the balance sheet. Generally accepted valuation methods are employed - for example, DCF (discounted cash flow) models, DDM (dividend discount) models, and other, equivalent methods. This leads to a decision on the need to either increase or reduce the provisioning allocated to the shareholdings.

  These financial analysts also liaison with the listed investees' investor relations departments and gather information, including reports from third parties (e.g., investment banks, rating agencies) needed for an overall outlook of possible risks to the value of the shareholdings.

  The conclusions on the accounting profit and the most relevant alerts of changes in investee contributions are submitted to the Management Committee and shared with the "la Caixa" Group's governance bodies, generally each quarter.

- **Accounting recognition:** The Audit and Accounting ("Intervención y Contabilidad") area ensures that all information meets the relevant quality requirements, is submitted by the required deadlines to the Entity's IT systems, and that the subsequent external reporting is carried out. In this process, the controls set forth in Internal Control over Financial Reporting (ICFR) are applied, and the regulations set forth therein are complied with. In matters of finance, changes in shareholders' equity in companies accounted for using the equity method are also recognized.
- **Calculation of exposure and capital consumption**: The Corporate Directorate of Global Risk Management monitors the exposure and regulatory capital consumption associated with these risks, according to the classification of the investee.

Risk management at “la Caixa” investees

The monitoring and control of risk related to the “la Caixa” Group's shareholdings is coordinated by “la Caixa,” as the core shareholder, along with Criteria CaixaHolding and CaixaBank's governance bodies: In the three spheres of management, the growth and diversification strategy is shared and is internalized as part of the “la Caixa” Group's risk profile, with separate responsibilities and specialization in the execution of that strategy.

At “la Caixa,” the Investment Committee informs the Executive Committee and the Board of Directors of significant events and of impacts on the shareholding portfolio, based on information provided by CaixaBank's or Criteria CaixaHolding's units.

In monitoring investee risk, “la Caixa's” Risk Department reports directly to the Executive Sub-Directorate-General, headed by Marcelino Armenter. The Risk Department has two functions linked to risk monitoring and control: one related to functions pertaining to the company itself given its role as a financial entity, and the other related to the monitoring and supervision of risk management at the Entity's investees, which are handled through CaixaBank and Criteria CaixaHolding.

This structure was designed within the context of the search to raise efficiency, which in turn led to the corporate restructuring of the “la Caixa” Group; and CaixaBank's and Criteria CaixaHolding's know-how will be used to gradually adapt it to changes in the regulatory framework, for example, possible changes stemming from the proposed Law on Savings Banks and Banking Foundations.

The functions of "la Caixa's" Risk Department are as follows:

- Establishing policies and the limits structure for the "la Caixa" Group, in coordination with CaixaBank and Criteria CaixaHolding;
- Being aware of and overseeing compliance with the policies and strategies of the Group's companies;
- Managing, monitoring and supervising 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. It 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. Each of Criteria CaixaHolding's divisions reports in turn to its respective General Subdivisions and directly monitors the performance of all the company's investees.

The main functions of the Finance and Risk Management Department 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;
- Implementing an approved risk hedging strategy: Designing derivatives strategies to manage the value of investments;
- Providing support for the various Management Control and Investment Analysis areas to roll out and execute derivative transactions. Arrangement, Monitoring and Valuation;
- Assessing the portfolio's risk (credit, market risks…) and preparing follow-up reports.
- Coordinating with CaixaBank's Corporate Directorate of Global Risk Management.

Risk management at CaixaBank investees

The CaixaBank's Corporate Directorate of Global Risk Management, which reports to the Directorate-General of Risk, analyzes and monitors shareholder position risk using, *inter alia*, 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 of and regulatory reporting on the solvency of the Group's portfolio of investees, and other tasks related to risk management.

The same management division also carries out duties related to quantifying and monitoring shareholding risk: including: 1) the incorporation, on a daily basis, of the market risk of derivatives and the exchange risk associated with the investee portfolio into the Group's global market risk; and 2) the ongoing monitoring of risks in relation financial markets operations in connection with financial investees.

3. Risk management: Measurement and information systems

The risk of 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 developments in the sector, as follows:

- From the standpoint of the risk inherent to market price volatility, using VaR models (a statistical estimate of maximum potential losses based on historical data on changes in the prices of 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

All required information is fed into the corporate databases used by the Risks Department, with the consequent validations and measurements to ensure the reliability of the data.

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 assigning the various risk measurement approaches to the shareholdings 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 use of this approach also requires sufficient information on the shareholder position with which to evaluate the internal rating and assign a reliable, substantiated PD for that position. When the available information is insufficient, the simple risk-weighting model is used.

The output obtained from using internal capital consumption measurement models (VaR, PD/LGD) is a key element for calculating the quantity and quality of the assumed risk, without prejudice to the analysis of other types of measurements that supplement those mandated by regulations. The latter measurements are intended to determine the market value of the shareholdings, their liquidity, and there expected contribution to the Group's income and capital:

To illustrate this point, some of the reports generated by the Corporate Directorate of Global Risk Management and distributed to the relevant committees are listed below:

- The Market Risk Report, which includes 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.
- The “la Caixa” Group's Positioning Report, which is part of the global monitoring of the market positions held by financial investees and which details the fixed-income and equity positions held by the “la Caixa” Group as well as those held in VidaCaixa and in guaranteed mutual and pension funds.

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 the latter to be permanent investments.

- **Interest rate risk**

  This 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 the modification of loan variability conditions--for instance, the subscription of fixed-rate loans.

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 stemming from 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, including in 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 Risk in Market Operations Department is responsible for valuing financial instruments; measuring, monitoring and following up on associated risks; as well as estimating the counterparty risk and operational risk associated with activities on finance markets.

To perform its functions, on a daily basis the Department monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market results), quantifies the market risk assumed, monitors compliance with the thresholds, and analyzes the ratio of actual returns to the assumed risk. A daily control report is submitted to Senior Management, supervisors and Internal Audit.

The Corporate Directorate of Global Risk Management, which comprises the Risk in Market Operations Department, acts, organizationally and functionally, independently of the risk-taking areas in order to boost the autonomy of its risk management, monitoring and control tasks, and in general it 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 assuming the potentially lower liquidity of these assets and a confidence level of 99%.

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 of the latter and on a more restricted basis, CaixaBank's Global Risk Committee and the Executive Directorate of Treasury and Capital Markets approve a structure of overall VaR and sensitivity limits for the assumption of market risk. This structure establishes the following types of limits:

- **Global limit**: “la Caixa's” Board of Directors is responsible for defining the maximum level of market risk that may be assumed for the Entity’s treasury or trading management operations.
- **Limit on treasury operations**: In accordance with the general framework determined by the Board of Directors, CaixaBank's Global Risk Committee and/or the Executive Directorate of Treasury and Capital Markets are authorized to implement the market risk

limits structure and to determine lower levels of maximum risk if appropriate given the market circumstances and/or the approved management approach. This has been used to draw up specific limits for these operations, both on a global basis (VaR, stop loss, stress test--as determined by the Global Risk Committee) and by risk factors (as determined by the Executive Directorate of Treasury and Capital Markets).

- **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 ”la Caixa's” Global Risk Committee. On July 25, 2011, CaixaBank's Global Risk Committee adopted the same framework for the “la Caixa” Group's new organizational structure.

- **Limit on trading derivatives linked to Criteria CaixaHolding permanent investees.** In January 2012, the CaixaBank Global Risk Committee completed the framework of maximum authorized risks 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 Risk Committee defined specific limits in July 2011 and March 2012, respectively.

1.2.4.2 Currency risk

Specifically, the Executive Directorate of Treasury and Capital Markets 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 currency risks assumed, 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 in conjunction with the risk measurements implemented for treasury activities as a whole.

At December 31, 2013, “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 as a result of shortcomings in internal processes, human error, malfunctioning of information systems or external occurrences. 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 both internal and external customer service, in accordance with the regulatory framework established, and the optimization of 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. It establishes the adoption of the standardized approach for measuring regulatory capital for operational risk as the date of entry into force of Circular 3/2008.

In 2013, in the management and measurement of operational risk, the Group began to evolve toward the use of advanced calculation models (ACMs). In this process, actions were undertaken to reinforce corporate governance, integration in management, databases, and operational-risk management infrastructure. In addition, the capital calculation methodology through ACM is also being implemented. As part of this project, an internal regulation on operational risk has been published.

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 scenarios.

CaixaBank's operational risk management model is based on four separate levels of responsibility, as outlined below:

- **Operational Risk Committee**: Overseas the Group's operational risk and its implications for solvency and capital management. The committee analyzes the Group's tolerance to risk positions and sets policies to optimize risk management in line with the Group's strategic targets. The committee head reports to the Global Risk Committee.
- **Business and Support Areas**: Responsible for identifying, assessing, managing, controlling, and reporting operational risk.
- **Operational Risk Division**: 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 all appropriate levels within the Entity. It operates as part of the Department of Credit Risk Models, which reports to the Corporate Directorate of Risk Models and Policies (which in turn reports to the Corporate Directorate of Global Risk Management.

At the highest level, Senior Management and the Global Risk Committee are responsible for defining strategic lines and monitoring the operational risk profile, of the main loss events, and for action to mitigate such events.

Finally, overall management and control of operational risks is carried out by the Directorate of Global Risk Management (which reports to the Directorate-General of Risk), 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 ongoing, three-stage process:

- **Identification and detection of all operational risks** (whether current and potential), based on qualitative techniques (opinions of process experts, risk indicators, analysis of external events, and maintenance of the scope of loss capture).
- **Assessment of Operational Risk**, using both qualitative techniques (self-assessment by process experts of frequency and financial impact in the event that the identified

operational risks materialize) and quantitative techniques (actual data on internal or external losses recorded in the database of operational events), in order to assess potential risk scenarios and impacts, mitigation actions, and the 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.), along with integration-in-management measures.

4. Hedging policies and mitigation techniques

Through control and mitigation techniques, the “la Caixa” Group actively manages the Entity's risk profile, preventing risk and improving operational risk management on an ongoing 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.).

In 2011, a management system was introduced and certified to ensure business continuity, in compliance with the requirements of international standard ISO 22301:2012. The system is fully aligned with the business objectives set by the Senior Management. This certification provides assurance to stakeholders that the Entity is able to respond to events that could affect business operations.

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

1. Definition and general policy

Interest rate risk for positions not included in the trading portfolio, also known as structural balance sheet interest rate 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 99.95% 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 as well as 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 changes in the use of the delegated powers and on the expected repercussions

- To be familiar with 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 Committee manages risk globally by analyzing the implications of all risks in 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.

Asset and Liability Management (ALM) and Liquidity Management (which reports to the Directorate-General of Risk) is responsible for analyzing this risk and proposing hedging transactions to the ALCO in accordance with these objectives.

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

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

- Monitoring, managing and controlling structural interest rate risk
- Approving proposals submitted by the Sub-Directorate-General of Treasury and Capital Markets Division for entering into hedges on the financial markets
- Proposing hedges and issuances to manage risk
- Reporting to the Global Risk Committee
- Keeping the structural interest rate risk management document up to date
- Setting and modifying 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, two and three years). Part of the information drawn up for the ALCO is submitted to the Executive Directorate of Global Risk Management for monitoring and reporting purposes.

3. Risk management: Measurement and information systems

The Sub-Directorate-General of Treasury and Capital Markets Division uses the following methodologies to measure, monitor and control 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:** Shows the breakdown of maturities and interest rate reviews, at a given date, for 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 of Equity Analysis:** 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:** Calculated using the same methodology as that applied for treasury positions, and the amount of VaR is taken as the highest amount resulting from the following three measurements: 75-day parametric VaR, 250-day parametric VaR and 250-day historical VaR.

- **Economic Value of Equity (EVE):** 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, in addition to considering the current on- and off-balance-sheet positions, growth forecasts from the Entity's operating plan are included.

  - **Sensitivity of net interest income**: Shows the impact that the review of balance sheet transactions has on net interest income due to changes in the interest rate curve. This type of 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):** 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 assumed 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 it 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). Growth data budgeted in the financial plan (volumes, products and margins) and information on the various market scenarios (interest and exchange rate curves) is also fed into this tool, 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 Risk in Market Operations Department to monitor, measure and control treasury risk.

4. Hedging policies and mitigation techniques

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 2013 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 over time.

Tier 1 comprises:

- Core Capital, formed at December 31, 2013, 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])
  - noncontrolling interests[14] and valuation adjustments[15]
  - Contribution to the Welfare Fund and expected dividends pending payment against profit and loss for the year
  - Deduction of goodwill and other intangible assets
  - Remaining deductions of basic capital not covered by additional Tier 1 capital

[12] At December 31, 2013, all CaixaBank and "la Caixa" Group reserves can be fully accounted for in Tier 1 capital under Bank of Spain Circular 3/2008.

[13] At December 31, 2013, the outstanding balance of convertible instruments recognized by the CaixaBank Group in equity totaled €1,938 million. The balance relates to series I/2011 instruments (June 2011 issue; €744 million) and series I/2012 (February 2012 issue; €1,180 million), and an issue from Banco de Valencia (€15 million). These issues are recognized by "la Caixa" Group as noncontrolling interests.

[14] noncontrolling interests: 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.

[15] Valuation adjustments arising from exchange differences, attributable to the Group, to noncontrolling interests and to consolidation under the equity method.

- Additional Tier 1 capital, at December 31, 2013, is nonexistent, given that both CaixaBank and the "la Caixa" Group have no items of additional capital following the February 2012 conversion of the preference shares. Given that deductions of additional Tier 1 capital cannot be absorbed, they are taken to Core Capital. These deductions equal 50% of the significant investments in financial entities and insurance companies, of the expected losses on the IRB equity portfolio, and of the first loss tranches in securitizations.

2. Second-category capital (Tier 2)

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

At December 31, 2013, Tier 2 components included subordinated debt and[16] 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.

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. In addition, it is ineligible with the entry into force of Basel III in January 2014.

Under Basel II, there are a number of restrictions on the calculation of the various components of eligible capital. 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

[16] See Note, 23.4 "Subordinated liabilities," to the 2013 Financial Statements of the CaixaBank Group and Note 22.4 in the case of the "la Caixa" Group for further details of issues of subordinated debt by the "la Caixa" Group, as well as their prospectuses on the Spanish National Securities Market Commission's website (www.cnmv.es).

2.2. Total Capital

A breakdown of eligible capital of the CaixaBank and “la Caixa” Group at December 31, 2013, is shown below:

Table 3: Eligible capital

(Thousands of euros)

	CaixaBank Group	”la Caixa” Group
Total capital base	23.645.685	16.515.698
Capital or endowment fund	5.005.417	3.006
Share premium and reserves	16.232.325	15.767.783
Other equity instruments (1)	1.938.222	0
Profit attributable to the Group	469.721	744.909
Dividends and contribution to Welfare Fund (2)	(47.130)	(392.088)
Non-controlling interests and valuation	(201.489)	9.457.823
Core capital deductions (4)	(4.663.142)	(5.841.238)
Of which:		
Goodwill and intangible assets	(4.586.919)	(5.765.016)
Deficit Tier 1 and others (5)	(2.038.708)	(2.011.819)
Of which:		
Deduction for financial institutions and insurance companies (50%)	(1.919.452)	(1.919.452)
Core Capital	**16.695.216**	**17.728.376**
Core Capital Ratio	**13,0%**	**12,8%**
Subordinated debt (6)	4.246.926	9.863.958
IRB excess of credit risk adjustments to expected losses	133.543	138.147
Deductions of Tier 2 capital	(2.332.184)	(2.791.679)
Tier 2 capital	**2.048.285**	**7.210.426**
Total capital	**18.743.501**	**24.938.802**
Total capital ratio	**14,5%**	**17,9%**
Risk-weighted assets (RWA)	**128.855.610**	**138.995.550**
Minimum capital (8% ratio)	**10.308.449**	**11.119.644**
Credit risk	7.802.419	7.933.879
Equity portfolio risk	1.265.034	1.993.036
Operational risk	920.208	871.941
Risk relating to the trading portfolio and	320.788	320.788
Total Capital surplus	**8.435.052**	**13.819.158**
"Principal Capital "	**16.695.216**	**17.728.376**
"Principal Capital" Ratio	**13,0%**	**12,8%**

(1) Issue of mandatory convertible bonds.
(2) Pending application on 2013 profit and loss.
(3) Noncontrolling interests of “la Caixa” Group including convertible instruments deriving from CaixaBank.
(4) Includes deductions for goodwill and other intangible assets.
(5) Deductions that cannot be covered by in Tier 1 as a result of a lack items of additional capital.

(6) Includes only the eligible amount, considering the loss of eligibility in accordance with the maturity dates of the issues and the amount in treasury shares.

In accordance with Transition Provision Eight of Circular 3/2008, entities authorized to use the IRB approach were to 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 (Basel I). The Bank of Spain decided to extend the 80% minim um indefinitely. However, at December 31, 2013, no additional requirements had arisen in this regard for the "la Caixa" Group.

2.3. New regulatory framework

The reform to solvency regulations, which began after the international financial crisis exposed the need to amend the regulations of the banking system in order to make it stronger, is now complete. In December 2010, the Basel Committee on Banking Supervision (BCBS) agreed on a new regulatory framework, known collectively as Basel III. At the end of June 2013, the key points of the agreement become a harmonized set of regulations for the European Union through Regulation 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, both of which were passed on June 26, 2013. The Regulation, which is directly applicable, became effective on January 1, 2014. The Directive was required to be transposed into Spanish law. Consequently, on November 29, 2013, Royal Decree-Law 14/2013 was passed to carry out the most urgent adaptations.

Among other measures, this RDL repealed the Principal Capital requirement introduced by RDL 2/2011, establishing only, as a transition measure for 2014, the limit on the amount of Tier 1 capital recognized in the buffer of Principal Capital above the minimum requirement at December 31, 2013.

CaixaBank's Principal Capital ratio at December 31, 2013, stood at 12.9%, and that of the "la Caixa" Group at 12.7%, implying a buffer of €5,069 million and €5,198 million, respectively, above the minimum capital requirement. Accordingly, in no case would the limits of RDL 14/2013 be applicable.

Both CaixaBank and the "la Caixa" Group comply satisfactorily with the new, more demanding, minimum capital levels required under Basil III. At December 2013, CaixaBank's Common Equity Tier 1 (CET 1, Core Capital) ratio, on a "fully loaded" basis, that is, without applying the transition period, was 11.7%, and that of the "la Caixa" Group was 8%. The minimum requirement for this ratio at the end of the transition period in 2019 is 7%.

Given the transition period, CaixaBank's CET1 at December 31, 2013, under BIS III criteria applicable in 2014 according to the definitions set out in the new Bank of Spain Circular 2/2014 of January 31, would be 11.2%. In the transition period, convertible bonds are not included in CET 1. If they were included, the ratio would be 12.3%. At the "la Caixa" Group, the CET1 BIS III ratio using criteria applicable in 2014 is 10.5%, and 11.3% if the convertible bonds in the transition period are taken into account.

3. Information concerning eligible capital requirements

This section sets out the minimum capital requirements for the "la Caixa" and CaixaBank Groups at December 31, 2013, for each type of risk considered.

Table 4: Capital requirements

(Thousands of euros)

Type of risk	CaixaBank Group	"la Caixa" Group
Credit risk	7.802.419	7.933.879
Standardized approach	3.260.318	3.511.958
IRB approach	4.476.471	4.356.291
Securitizations	65.630	65.630
Equity portfolio risk	1.265.034	1.993.036
Risk relating to the trading portfolio and currency risk	320.788	320.788
Operational risk	920.208	871.941
Total capital requirements	**10.308.449**	**11.119.644**

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 those 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 those relating to loans granted to subsidiaries that are consolidated only by the "la Caixa" Group, mainly real-estate holding companies.
- Shareholding portfolio risk: "la Caixa" Group requirements include those 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, 2013, relating to the application of the standardized approach. This information is shown in accordance with the exposure categories laid down in Circular 3/2008.

The volume of the standard portfolio has decreased from December 2012, owing to the IRB roll-out of nearly all of the contracts originating in Banca Cívica.

Table 5: Exposure by risk category (standardized approach)

(Thousands of euros)

Risk category - standardized approach	CaixaBank Group	"la Caixa" Group
Central administrations and central banks	48.167.720	48.106.757
Regional administrations and local authorities	15.116.489	15.116.489
Public sector entites and non-profit institutions	4.952.111	4.952.111
International Organisations	3.282.425	3.282.425
Credit institutions and investment service companies	7.378.883	7.253.930
Companies	22.457.298	22.602.939
Retail	5.974.275	5.974.276
Exposures secured by property	11.867.898	11.867.898
Exposures at default	11.218.378	12.890.915
Other exposures	9.718.159	11.198.692
Total Exposure	**140.133.636**	**143.246.432**

Table 6: 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	147.591	147.591
Public sector entites and non-profit institutions	52.425	52.425
International Organisations	0	0
Credit institutions and investment service companies	101.221	94.730
Companies	1.119.342	1.128.740
Retail	161.244	158.744
Exposures secured by property	318.431	318.431
Exposures at default	755.805	889.346
Other exposures	604.260	721.952
Total capital requirements	**3.260.318**	**3.511.958**

The sum of "la Caixa" and CaixaBank Group exposures and capital requirements for credit risk at December 31, 2013, with respect to each exposure category to which the IRB approach was applied, was as follows:

Table 7: Exposure by risk category (IRB approach)

(Thousands of euros)

Risk category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	64.267.447	62.020.611
Retail	144.863.953	144.863.953
- Covered by property mortgages	127.623.966	127.623.966
- Qualifying revolving retail exposures	6.208.675	6.208.675
- Other retail exposures	11.031.312	11.031.312
Total Exposure	**209.131.400**	**206.884.564**

Table 8: Capital requirements by exposure category (IRB approach)

(Thousands of euros)

Risk category - IRB approach	CaixaBank Group	"la Caixa" Group
Companies	2.436.040	2.315.860
Retail	2.040.431	2.040.431
- Covered by property mortgages	1.682.753	1.682.753
- Qualifying revolving retail exposures	67.096	67.096
- Other retail exposures	290.582	290.582
Total capital requirements	**4.476.471**	**4.356.291**

Additionally, to calculate the capital requirements for credit risk on securitizations using the standardized approach, at December 31, 2013, "la Caixa" Group had original exposure of €1,851,056 thousand, implying a total capital requirement[17] of €65,630 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 9 and 10 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.[18]

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

Table 9: Shareholding portfolio exposures

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	1.179.205	1.163.312
PD/LGD method	7.109.860	13.106.507
Internal methods	28.725	38.962
Total	**8.317.790**	**14.308.782**
By category		
Listed instruments	7.011.213	11.927.465
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	1.306.577	2.381.316
Total	**8.317.790**	**14.308.782**

Table 10: Capital requirements for the shareholding portfolio

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
By calculation method		
Simple risk-weighting method	338.485	334.838
PD/LGD method	912.127	1.640.795
Internal methods	14.422	17.403
Total	**1.265.034**	**1.993.036**
By category		
Listed instruments	895.678	1.452.440
Unlisted instruments included in sufficiently diversified portfolios	-	-
Other unlisted instruments	369.356	540.596
Total	**1.265.034**	**1.993.036**

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

Table 11 sets out the minimum capital requirements for counterparty risk for "la Caixa" Group and the CaixaBank Group at December 31, 2013, which are already included in the total sum of minimum capital requirements for credit risk.[19]

Table 11: Capital requirements for counterparty risk

(Thousands of euros)

Method applied	Capital requirements of the trading portfolio	Total capital requirements
Standardized approach	103.895	113.990
Internal ratings based (IRB) approach	35.536	42.267
Total capital requirements for counterparty risk - "la Caixa" Group	**139.431**	**156.257**

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" Group at December 31, 2013, by the methods applied for calculation.

Table 12: Capital requirements for trading portfolio risk and currency risk

(Thousands of euros)

	Standardized approach(1)	Internal methods	Total
Fixed-income trading portfolio position risk	0	65.467	65.467
Share and investment position risk	112	180.267	180.379
Commodity position risk	0	0	0
Currency and gold position risk	40.244	6.881	47.125
Adjustment for correlation between factors (2)	0	-22.750	-22.750
Incremental Risk	0	50.566	50.566
Total Capital Requirements	**40.356**	**280.432**	**320.788**

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

At December 31, 2013, capital requirements for the trading portfolio position and settlement risk were nil.

[19] 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 13 shows the capital requirements for operational risk of the "la Caixa" and CaixaBank Groups at 31 December 2013.

Table 13: Capital requirements for operational risk
(Thousands of euros)

	Average relevant income	Capital requirement
Retail banking	3.780.496	453.660
Retail intermediation	409.015	49.082
Asset management	59.002	7.080
Commercial banking	1.986.001	297.900
Agency services	24.582	3.687
Trading and sale	379.401	68.292
Business financing	225.037	40.507
Payment and settlement	0	0
Total business lines - CaixaBank Group	**6.863.535**	**920.208**
Retail banking	3.501.578	420.189
Retail intermediation	409.015	49.082
Asset management	59.002	7.080
Commercial banking	1.788.939	268.341
Agency services	24.582	3.687
Trading and sale	461.416	83.055
Business financing	225.037	40.507
Payment and settlement	0	0
Total business lines - "la Caixa" Group	**6.469.569**	**871.941**

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 measurements 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**: 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**: The capital the Entity should have available to cover any unexpected losses that could jeopardize the continuity of the “la Caixa” Group's business. This 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.

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

In addition, in the framework of the oversight revision, the regulations set forth the need for an “Internal Adequacy Assessment Process” (ICAAP), through which an “Internal Capital Adequacy Assessment Report” (ICAAR) is to be prepared each year and submitted to the Bank of Spain. The aim of the process is to improve the internal management of risk by the Entity in order to ensure an effective correlation between its capital and the corresponding risk profiles.

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 CaixaBank Group and the "la Caixa" Group's capital adequacy 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

To assess capital adequacy, the internal estimate of the total capital necessary for the CaixaBank Group and the "la Caixa" Group is obtained by adding up the individual capital needs for each type of risk, 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 provide a context for the stress scenarios, and two stress unlikely scenarios that are 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 (Probability of Default, or PD, and Loss Given Default, or LGD), 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 dilution and credit 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, i.e., objective default, or to other causes, i.e., subjective default), or with country risk, considered to be the risk associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Specifically, for the purposes of Annex IX of Bank of Spain Circular 4/2004, an asset is considered doubtful due to customer arrears when any part of the principal, interest or contractually agreed expenses is past-due more than three months, unless such debt is classified as a write-off. When balances classified as doubtful due to customer arrears exceed 25% of the amounts pending collection, 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 doubtful for reasons other than customer arrears when there are reasonable doubts about its full repayment (principal and interest) under the contractual terms, and it is not classifiable as a 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 Group higher than the allowances and provisions for impairment of exposures under special monitoring.[20]

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.

[20] This category includes, inter alia, transactions presenting slight weaknesses that do not require higher coverage but do 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 their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or other causes.

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

These assets are assessed for impairment as follows:

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

In June 2010 the Bank of Spain published Circular 3/2010, which offers entities best practice guidelines with regard to credit risk coverage and the minimum levels to be constituted in order to guarantee adequate coverage of all estimated losses associated with doubtful loans.[21]

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 14: 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 15: 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

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

the guarantee, disregarding the application of the corresponding weighting, exceeds the outstanding risk exposure.

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 is 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 Group 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, 2013.

1. Total value of exposures

Table 16 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 16: Total value of exposure to credit risk

(Thousands of euros)

Method applied	Value of the exposure[1]	Fund for impairment losses and provisions	Net value of exposure[2]
Standardized approach	140.133.636	(5.207.981)	134.925.655
Métodos IRB[3]	209.131.400		209.131.400
Total value - Caixabank Group	**349.265.036**	**(5.207.981)**	**344.057.055**

(1) Original exposure prior to application of impairment losses, the effects of credit risk reduction and credit conversion factors (CCF).

(2) 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).

(3) 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	Net value of exposure[2]
Standardized approach	143.246.432	(5.210.172)	138.036.260
Métodos IRB[3]	206.884.564		206.884.564
Total value - "la Caixa" Group	**350.130.996**	**(5.210.172)**	**344.920.824**

(1) Original exposure prior to application of impairment losses, the effects of credit risk reduction and credit conversion factors (CCF).

(2) 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).

(3) 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 2013, 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 17: Average exposure by risk category

(Thousands of euros)

Risk category[1]	CaixaBank Group	"la Caixa" Group
Standardized approach		
Central administrations and central banks	46.689.642	46.659.161
Regional administrations and local authorities	15.214.540	15.214.540
Public sector entites and non-profit institutions	4.709.625	4.709.625
International Organisations	1.641.213	1.641.213
Credit institutions and investment service companies	7.985.310	7.906.788
Companies	25.095.989	25.090.434
Retail	8.963.307	8.963.312
Exposures secured by property	19.231.941	19.231.941
Exposures at default	13.404.358	15.283.201
High risk regulatory category	510.090	510.090
Other exposures	7.743.774	9.260.494
Total (standardized approach)	**151.189.786**	**154.470.796**
IRB approach		
Companies	63.535.948	61.049.623
Retail	137.118.086	137.118.086
Total (IRB approach)	**200.654.034**	**198.167.708**
TOTAL	**351.843.819**	**352.638.504**

(1) Calculated as the average exposure to December 2012 and December 2013.

1.1.1.4. Geographical and sector distribution of exposures

1. Geographical distribution of exposures

At December 31, 2013, 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 18: Distribution of exposures by geographical area

(Thousands of euros)

Geographical area	CaixaBank Group	"la Caixa" Group
Spain	337.396.163	338.262.123
European Union	9.153.879	9.153.879
Rest of the world	2.714.994	2.714.994
Total[(1)]	**349.265.036**	**350.130.996**

(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 19 shows the distribution of exposures for the "la Caixa" Group by sector at December 31, 2013, 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 (€1,681,926 thousand) and loans granted to the real estate holding subsidiaries belonging to Criteria CaixaHolding, SAU, recognized under "Real estate and construction" of IRB companies (€1,947,699 thousand).

Table 19: 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	Retail	Other	TOTAL
Standardized approach								
Central administrations and central banks	0	0	0	0	48.106.757	0	0	48.106.757
Regional administrations and local authorities	0	0	0	0	15.116.489	0	0	15.116.489
Public sector entites and non-profit institutions	0	0	0	4.952.111	0	0	0	4.952.111
International Organisations	0	0	0	0	3.282.425	0	0	3.282.425
Credit institutions and investment service companies	0	0	0	5.685.399	0	0	1.568.531	7.253.930
Companies	362.200	3.282.914	5.336.491	8.566.525	0	0	5.054.808	22.602.939
Retail	179.930	287.429	258.918	818.061	0	4.424.343	5.594	5.974.276
Exposures secured by property	148.787	179.988	966.325	2.097.448	691.269	775.647	7.008.434	11.867.898
Exposures at default(2)	69.014	246.340	1.835.332	893.300	462.312	116.815	9.267.802	12.890.915
High risk regulatory category	0	0	0	0	0	0	0	0
Other exposures	0	0	0	0	0	0	11.198.692	11.198.692
Total (standardized approach)	**759.931**	**3.996.671**	**8.397.066**	**23.012.845**	**67.659.252**	**5.316.806**	**34.103.861**	**143.246.432**
IRB approach								
Companies	719.092	16.298.842	24.273.763	19.024.613	1.688.183	2.645	13.473	62.020.611
Retail	1.739.663	4.325.068	10.031.086	34.681.664	5.089.088	12.513.023	76.484.360	144.863.953
Total (IRB approach)	**2.458.756**	**20.623.910**	**34.304.849**	**53.706.277**	**6.777.271**	**12.515.668**	**76.497.833**	**206.884.564**
Total value of exposure	**3.218.687**	**24.620.582**	**42.701.916**	**76.719.121**	**74.436.523**	**17.832.474**	**110.601.694**	**350.130.996**

(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 20 shows the "la Caixa" Group's exposure, excluding the deduction of impairment losses, at December 31, 2013, 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 20: 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	23.341.354	4.859.099	15.406.812	4.499.492	48.106.757
Regional administrations and local authorities	3.621.478	3.133.045	4.386.000	3.975.966	15.116.489
Public sector entites and non-profit institutions	1.761.078	282.521	870.304	2.038.208	4.952.111
International Organisations	0	2.500.340	782.085	0	3.282.425
Credit institutions and investment service companies	3.214.284	1.429.904	2.381.090	228.652	7.253.930
Companies	6.218.696	1.450.387	6.619.607	8.314.250	22.602.939
Retail	3.641.669	302.924	1.234.956	794.727	5.974.276
Exposures secured by property	627.699	26.645	511.485	10.702.069	11.867.898
Exposures at default[3]					12.890.915
High risk regulatory category	0	0	0	0	0
Other exposures	11.198.692	0	0	0	11.198.692
Total (standardized approach)	**53.624.951**	**13.984.865**	**32.192.338**	**30.553.363**	**143.246.432**
IRB approach					
Companies	11.461.948	6.176.288	20.127.512	24.254.863	62.020.611
Retail	1.905.207	2.871.011	13.569.617	126.518.118	144.863.953
Total (IRB approach)	**13.367.155**	**9.047.299**	**33.697.129**	**150.772.981**	**206.884.564**
Total value of exposure	**66.992.106**	**23.032.163**	**65.889.468**	**181.326.344**	**350.130.996**

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

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

1. Distribution of impaired positions by economic sector

Table 21 shows exposure at default, excluding the property assets arising from management of the lending portfolio, broken down by counterparty, at December 31, 2013, and impairment losses and provisions for contingent commitments and liabilities constituted and recognized.

Table 21: 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	369.459	369.459	1,46%
Industry	1.356.385	1.356.385	5,35%
Property and construction	12.524.685	12.524.685	49,38%
Commercial and financial	5.487.394	5.487.394	21,63%
Public sector	971.658	971.658	3,83%
Private entities	1.713.829	1.713.829	6,76%
Other	2.942.243	2.942.243	11,60%
Total value	**25.365.653**	**25.365.653**	**100%**
Fund for impairment losses and provisions for contingent commitments and liabilities	**15.478.039**	**15.486.302**	**61%**

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

The "la Caixa" Group has centralized the ownership of all real estate assets acquired or foreclosed in payment of debts in its holding company BuildingCenter, SAU, in VIP Gestión de Inmuebles and in Criteria CaixaHolding, SAU, so as to optimize management.

Assets received in payment of debts are recognized at the lower of the carrying amount of the financial assets foreclosed, understood as amortized cost net of estimated impairment, which will be at least 10%, and the market appraisal value of the asset received in its current condition less estimated costs to sell, which under no circumstance will be less than 10% of the appraisal value.

At December 31, 2013, net foreclosed assets totaled €7,842 million. In addition, the "la Caixa" Group's foreclosed real estate assets held for lease (classified as investment property for accounting purposes) amounted to €2,781 million, net of provisions, at December 31, 2013.

In 2013, sizeable provisions were made to cover the portfolio of foreclosed assets held for sale, bringing coverage to 55% (up 7 pp compared with December 2012).

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, 2013, is as follows:

Table 22: Distribution of impaired exposures and exposures at default by geographical area

(Thousands of euros)

Geographical area[1]	CaixaBank Group	"la Caixa" Group	% Exposición
Spain	25.133.147	25.133.147	99,08%
European Union	191.849	191.849	0,76%
Rest of the world	40.657	40.657	0,16%
Total value	**25.365.653**	**25.365.653**	**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 2013 is shown below:

Table 23: Changes in provisions

(Thousands of euros)

CaixaBank Group	Impairment losses	Provisions for contingent liabilities and commitments	Total provisions
Beginning balance	12.595.662	126.414	**12.722.076**
Addition due to integration of Banca Cívica	3.766.959	358.793	**4.125.752**
Net impairment charge	3.732.218	30.973	**3.763.191**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(3.865.197)		**(3.865.197)**
Transfers and other	(1.244.389)	12.810	**(1.231.579)**
Ending balance	**14.985.253**	**528.990**	**15.514.243**

(Thousands of euros)

"la Caixa" Group	Impairment losses	Provisions for contingent liabilities and commitments	Total provisions
Beginning balance	12.605.020	126.414	**12.731.434**
Addition due to integration of Banca Cívica	3.766.959	358.793	**4.125.752**
Net impairment charge	3.731.249	30.973	**3.762.222**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(3.865.197)	-	**(3.865.197)**
Transfers and other	(1.244.516)	12.810	**(1.231.706)**
Ending balance	**14.993.515**	**528.990**	**15.522.505**

Impairment losses and reversals of losses previously recognized

Table 24 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 2013.[22]

[22] See Notes 38, "Impairment losses on financial assets (net)," and 39, "Impairment losses on other assets (net)," in the 2013 Financial Statements of the "la Caixa" Group.

Table 24: Impairment losses and reversals of losses

(Thousands of euros)

	CaixaBank Group	”la Caixa” Group
Write-downs	**(831.170)**	**(835.524)**
Loans and receivables	(555.630)	(555.630)
Available-for-sale financial assets	(220.052)	(224.339)
Intangible assets	(41.184)	(41.184)
Property and equipment for own use	(14.304)	(14.368)
Other assets	0	(3)
Net allowances	**(3.989.331)**	**(4.096.691)**
Loans and receivables	(3.768.268)	(3.767.298)
Inventories	(226.991)	(226.006)
Investments - associates	90.508	90.810
Property and equipment - Investment property	(84.660)	(193.976)
Other assets	80	(221)
General allowance	**(13.275)**	**(13.276)**
Recovery of assets	**363.624**	**363.624**
Total value	**(4.470.152)**	**(4.581.867)**

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 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 approvals for risk lines to entities with certain ratings, or the assignment of 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.

The Entity's policy is to assign a single limit, known as the Global Limit, 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 approval.

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 exposed 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 often quantified by marking to market all outstanding transactions (normally on a daily basis), 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[23] 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.

1.1.2.2. Exposure to counterparty risk

1. Exposure to counterparty risk

Table 25 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 25: Exposure to counterparty risk (derivatives)

(Thousands of euros)

	Amount
Gross positive fair value of the contracts (1)	11.816.792
Positive effects of netting arrangements	7.541.674
Net positive fair value of the contracts (1)	4.275.118
Credit exposure to derivatives after netting arrangements and guarantees (2)	3.397.804

(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, 2013, the "la Caixa" Group's exposure to counterparty risk was €3,397,804 thousand. The standardized approach is applied to calculate minimum capital on €2,831,915 thousand of this amount and the IRB approach is applied on the remaining €565,889 thousand.

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

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, 2013, the positive effects of netting arrangements amounted to €7,541,674 thousand.

2. Transactions with credit derivatives

At December 31, 2013, neither the CaixaBank Group nor the “la Caixa” Group had credit derivatives that had been used.

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

To calculate risk-weighted exposures using the standardized approach, risk is weighted 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.

Given that the standard method is applied to the following types of exposure:

- 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.

"la Caixa" Group does not assign credit ratings, for publicly traded security issues, on 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 26: Effect of the risk reduction techniques by exposure category (est. average)

(Thousands of euros)

CaixaBank Group	Weighting applied	Value of the exposure[1] Before applying risk reduction techniques	Value of the exposure[1] After applying risk reduction techniques
Central administrations and central banks		**48.167.522**	**50.135.872**
	0%	48.167.522	50.135.872
Regional administrations and local authorities		**15.072.840**	**15.082.065**
	0%	4.810.595	4.810.595
	20%	10.234.491	10.269.953
	100%	27.754	1.517
Public sector entites and non-profit institutions		**3.881.759**	**3.911.921**
	0%	342.248	342.248
	20%	3.508.697	3.543.901
	50%	10.047	10.047
	100%	20.766	15.724
International Organisations		**3.282.425**	**3.282.425**
	0%	3.282.425	3.282.425
Institutions		**7.377.733**	**7.307.280**
	0%	3.488.994	3.488.994
	20%	3.055.670	3.074.794
	50%	815	11.270
	100%	832.254	732.222
Companies		**21.886.957**	**19.484.682**
	0%	790	790
	20%	1.335.958	1.335.958
	50%	1.351.744	1.477.054
	75%	5	5
	100%	19.195.572	16.667.987
	150%	2.888	2.888
Retail		**5.877.950**	**5.476.517**
	0%	1.436.872	1.436.872
	75%	4.441.072	4.039.639
	100%	6	6
Exposures secured by property		**11.135.861**	**10.844.909**
	35%	9.788.483	9.636.595
	50%	914.199	775.330
	75%	225.000	225.000
	100%	120.309	120.199
	150%	87.870	87.785
Exposures at default		**8.524.449**	**8.266.740**
	50%	251.604	229.177
	100%	5.268.291	5.091.120
	150%	3.004.553	2.946.442
Other exposures		**9.718.159**	**9.718.159**
	0%	2.166.086	2.166.086
	100%	7.549.714	7.549.714
	150%	2.359	2.359
Total		**134.925.655**	**133.510.570**

(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		**48.106.559**	**50.074.909**
	0%	48.106.559	50.074.909
Regional administrations and local authorities		**15.072.840**	**15.082.065**
	0%	4.810.595	4.810.595
	20%	10.234.491	10.269.953
	100%	27.754	1.517
Public sector entites and non-profit institutions		**3.881.759**	**3.911.921**
	0%	342.248	342.248
	20%	3.508.697	3.543.901
	50%	10.047	10.047
	100%	20.766	15.724
International Organisations		**3.282.425**	**3.282.425**
	0%	3.282.425	3.282.425
Institutions		**7.252.780**	**7.182.327**
	0%	3.488.994	3.488.994
	20%	3.001.192	3.020.316
	50%	815	11.270
	100%	761.779	661.747
Companies		**22.032.598**	**19.630.323**
	0%	790	790
	20%	1.363.673	1.363.673
	50%	1.351.744	1.477.054
	75%	5	5
	100%	19.313.498	16.785.912
	150%	2.888	2.888
Retail		**5.877.951**	**5.476.518**
	0%	1.436.872	1.436.872
	75%	4.441.079	4.039.646
Exposures secured by property		**11.135.861**	**10.844.909**
	35%	9.788.485	9.636.597
	50%	914.199	775.330
	75%	225.000	225.000
	100%	120.308	120.198
	150%	87.870	87.785
Exposures at default		**10.194.795**	**9.937.086**
	50%	251.604	229.177
	100%	6.940.827	6.763.656
	150%	3.002.363	2.944.252
Other exposures		**11.198.692**	**11.198.692**
	0%	2.175.478	2.175.478
	100%	9.020.855	9.020.855
	150%	2.359	2.359
Total		**138.036.260**	**136.621.175**

(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[24] are significant ownership interests in financial institutions and insurance companies, and excess qualified investment in entities that are not financial institutions or insurance companies.[25]

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 that time, "la Caixa" requested official permission from the Bank of Spain to use internal models for measuring credit risk. The Bank of Spain carried out 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 to calculate 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

[24] See section 1.1.1, "Description of the consolidable group," in Part A of this document.
[25] 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 lending, risk mitigation techniques are assigned to calculate regulatory capital 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.[26]

- **Internal validation**

  The Bank of Spain establishes internal validation as a mandatory prerequisite 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 CaixaBank is carried out by the Risk Models Validation unit, which is part of the Technical Secretariat and Validation Executive Directorate, which reports directly to CaixaBank's Directorate-General of Risk. The unit's location in the risk structure ensures its independence vis-à-vis the model-development teams and the Risk Policies and Procedures Area.

  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 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 Risk Models 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.

  Regulatory compliance activities comprise:

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

[26] 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 Risk Models Validation

- Regulatory reporting (IRB Monitoring Dossier, Risk Models Validation Report)

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

The scope of work undertaken by Risk Models Validation has been broadened since it was set up as an independent unit in 2006. In 2010, along with reviews in the area of credit risk, assessment of the internal market risk model was added.

In 2013, Risk Models Validation was added to the global project to achieve an advanced measurement approach (AMA) for operational risk.

In 2013, Risk Models Validation was adapted to internal demand and the reviews carried out due to the implementation of the new IRB models and the methodology assessments were especially noteworthy.

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 assignments 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 entered 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-oriented and customer-oriented. Product-oriented tools take into consideration the specific characteristics of the debtor relating to the product concerned, and are mainly used for approval of new retail banking operations. Customer-oriented 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-oriented 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 the 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 27 provides a summary of the relationship between the Master Scale and the probability of default.

Table 27: 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 Credit Conversion Factor (CCF) 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 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 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**: Provides a monthly evaluation of all active customers (private customers and self-employed) carrying on a transaction with a personal or mortgage guarantee. The model is mainly used to:

- Monitor the risk outstanding on all transactions made by these customers past-due more than 12 months

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

- **Non-Asset-related Behavior Model**: 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. The model is mainly used to:

  - Monitor the risk outstanding on all cards past-due more than 12 months.

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

- **Customer Mortgage Model**: Used to evaluate the approval of mortgage guarantee transactions for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

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

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

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

- **Customer Personal Guarantee Model:** Used for evaluation at the time of approval of transactions for non-"la Caixa" customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

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

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

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

- **Non-Customer cards:** Used for 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 multivariate analysis methodology was used to build the model (logistic regression). It is based on information concerning the transaction, the risk characteristics of the borrower, and customer data (sociodemographic 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 microenterprises, small enterprises, medium-sized enterprises or developer SMEs in accordance with the internal risk segmentation system. The entire SME and developer SME portfolio is evaluated monthly, and also whenever a new transaction is approved for an SME or developer SME, if no calculated rating is available.

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

  - *Financial information:* information available from balance sheets and income statements. For example: total assets, equity 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 28 shows information concerning the "la Caixa" Group's exposures at December 31, 2013, 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 0.61 and an LGD of 44.61%.

Table 28: 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	**62.020.611**	**38,00**	**57,41**	**17.999.417**	**32,75**
Risks not at default	46.457.809	34,42	73,52	16.397.020	43,42
0,053	319.144	20,31	5,61	208.507	20,00
0,154	6.144.292	39,50	29,68	3.386.208	49,22
0,351	11.394.005	37,15	46,13	5.806.067	46,47
0,730	7.146.068	34,57	56,56	2.117.320	38,69
1,511	5.833.393	33,56	74,18	1.650.307	43,92
3,812	7.531.483	32,68	104,18	1.786.507	44,21
8,685	3.217.717	29,31	113,43	629.613	37,70
17,683	1.581.559	28,22	136,39	324.963	38,91
39,779	3.290.148	30,04	153,13	487.528	39,64
Risks at default	15.562.802	47,72	9,33	1.602.397	0,91
Retail	**144.863.953**	**22,56**	**19,64**	**29.140.756**	**23,20**
Exposures covered by property mortgages	**127.623.966**	**18,05**	**18,09**	**22.473.416**	**21,01**
Risks not at default	119.442.498	17,07	18,75	22.184.738	22,45
0,0356	51.892.057	15,19	1,72	12.858.257	20,64
0,1169	19.876.391	18,06	5,07	3.710.798	23,52
0,2799	10.552.469	17,74	9,33	1.805.706	24,84
0,6771	12.423.412	18,51	18,11	1.708.686	24,05
1,6596	5.672.203	18,46	32,08	637.124	24,58
3,5519	6.889.288	18,52	49,59	678.163	23,16
7,8719	5.469.749	19,44	80,51	495.496	23,89
16,7953	3.548.242	20,04	111,41	173.730	20,73
38,6297	3.118.687	20,86	117,38	116.778	25,07
Risks at default	8.181.468	28,61	8,51	288.678	0,01

Risk category by average PD	Exposure[1]	Loss given default (LGD)[2] (%)	Average risk weighting[3] (%)	Conversion factors	
				Commitments not drawn down[4]	Average CCF[5] (%)
Qualifying revolving retail exposures	**6.208.675**	76,73	19,79	**4.512.081**	**32,89**
Risks not at default	6.194.647	76,83	19,84	4.512.081	32,97
0,037	2.654.161	77,00	2,11	2.191.666	33,64
0,118	1.204.794	77,00	5,64	944.532	32,61
0,284	728.016	77,00	11,53	527.717	31,40
0,690	376.545	76,81	23,28	273.081	30,32
1,478	650.422	76,76	41,41	375.447	27,93
3,494	311.310	76,12	76,40	132.727	32,29
7,415	171.856	76,00	124,46	56.299	42,36
22,828	32.712	73,84	215,58	5.883	66,90
26,074	64.831	72,85	218,80	4.729	56,92
Risks at default	14.028	73,38	0,16	-	0,00
Other retail exposures	**11.031.312**	**54,33**	**37,54**	**2.155.259**	**43,09**
Risks not at default	10.483.083	53,40	39,24	2.076.835	45,17
0,0428	1.850.797	52,44	6,81	202.167	49,85
0,123	883.812	55,08	14,92	192.479	48,53
0,293	2.148.175	55,26	25,78	534.540	46,99
0,706	1.772.020	53,33	39,75	419.151	40,98
1,517	1.571.626	52,47	53,79	313.369	43,21
3,777	1.336.554	51,51	64,60	297.081	43,39
7,067	377.482	51,54	69,90	67.520	37,56
15,171	262.171	58,10	108,32	19.320	45,42
36,094	280.446	53,15	121,28	31.208	45,70
Risks at default	548.229	71,07	5,14	78.424	3,31
Total value	**206.884.564**			**47.140.173**	

(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 29 shows information on the "la Caixa" and CaixaBank Groups' impairment losses and provisions for risks and contingent commitments in 2012 and 2013, for each of the risk categories where the Entity applies the IRB approach.

Table 29: Impairment trends

(Thousands of euros)

CaixaBank Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2012	**December 2013**
Non-IRB exposures	5.542.419	5.140.694
Companies	4.815.863	7.870.891
Retail. Of which:	1.763.794	2.502.658
Exposures covered by property mortgages	1.325.853	2.098.749
Qualifying revolving retail exposures	3.355	9.609
Other retail exposures	434.586	394.300
Other	0	0
Total	**12.122.076**	**15.514.243**

(Thousands of euros)

"la Caixa" Group	Fund for impairment losses and provisions for contingent commitments and liabilities	
	December 2012	**December 2013**
Non-IRB exposures	5.551.777	5.148.956
Companies	4.815.863	7.870.891
Retail. Of which:	1.763.794	2.502.658
Exposures covered by property mortgages	1.325.853	2.098.749
Qualifying revolving retail exposures	3.355	9.609
Other retail exposures	434.586	394.300
Other	0	0
Total	**12.131.434**	**15.522.505**

Asset impairment losses at the "la Caixa" Group increased from a net charge of €3,326,592 thousand in 2012 to €3,731,249 thousand in 2013.[27]

[27] See Note 38, "Impairment losses on financial assets (net)," to the "la Caixa" Group's 2013 Financial Statements.

Impairment losses on financial and other assets totaled €4,339 million (up 7.0%). This includes €375 million in additional provisioning due to the application of new criteria for refinanced transactions and €902 million to cover 100% of the provisioning requirements of RDL 18/2012.

In 2012, €3,636 million was included in relation to the partial provisioning requirements for the real-estate developer portfolio (RDL 2/2012 and RDL 18/2012) and the release of a €1,835 million general loan loss provision.

At December 2013, taking into account all the provisions available to cover the expected losses under IRB, the surplus in provisions was €138 million. In 2012, there was a deficit in provisions of €709 million. At December 31, 2013, the CaixaBank Group had a surplus in provisions of €134 million. In 2012, there was a deficit in provisions of €689 million.

1.2.2.5. Comparative analysis of estimates and results obtained

1. Introduction

Regulatory expected loss includes estimated annual average loss for a complete economic cycle. This loss is calculated according to the following concepts:

- Probability of Default - Through the Cycle ("PD"): Indicates ratio of defaults to average total risk on non-distressed assets expected during one year of the economic cycle. It is obtained based on existing defaults in the portfolio.
- Downturn Loss Given Default*(LGD DT)*: Indicates the proportion of debt expected to be recovered in a downturn of the cycle. Consequently, the loss given default that is initially estimated, based on flows from processes to recover contracts in default and in accordance with the portfolio, is stressed using an explicative variable or is estimated based on an estimate sample restricted to a downturn in the cycle.
- Exposure at Default *(EAD)*: Expected exposure when default occurs.

Given that expected loss is calculated using a probability of default anchored to the cycle and a representative loss given default in a downturn in the cycle, the value used for expected loss will vary only as a result of changes in the makeup or characteristics of the portfolio.

The first estimates accepted for regulatory purposes were those at year-end 2008.

In addition, actual loss is the value of the adjusted loss incurred in the portfolio during a specific period. Actual loss may be broken down into following concepts:

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

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

Based on the definitions set out above, the historical ODFs and two comparisons are given:

- ODF vs PD: A comparison is made of the ODF risk tranche for 2013 with the PD used to calculate capital requirements during the same period.
- Observed loss vs. expected loss: For the most significant portfolios having their own models, and for each calendar year, the observed loss is compared with the expected loss resulting from the most recent calibration used to calculate capital.

2. Historical ODFs

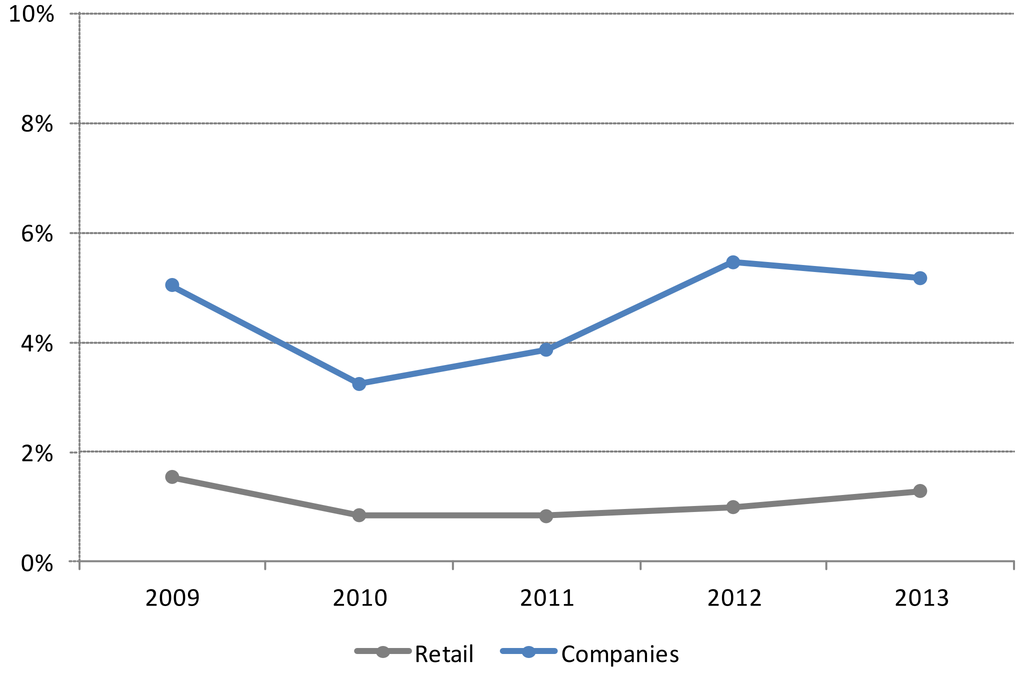
Historical ODFs show the level of default on exposures contracted with "la Caixa" over time.

Table 30: ODFs

Historic ODF					
	2009	**2010**	**2011**	**2012**	**2013**
Retail	1,54%	0,84%	0,82%	0,99%	1,28%
Companies	5,04%	3,23%	3,86%	5,45%	5,17%

A weakened macroeconomic scenario keeps ODFs at high levels, consistent with the current stage of the cycle.

Chart 1: ODF performance



3. Comparison of ODFs and PD

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

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 is not intended to predict default for the following year but rather to measure the mean probability of default throughout the cycle.

Therefore, the ODF at moments of weakness in the economic cycle, such as the present, should, naturally, be higher than the estimated PD for these years.

Despite their different relationship with economic cycles, a comparison of the two variables will indicate the size of the adjustment to the cycle made in PD estimates. As can be observed in the following tables, the PDs remain at levels close to the ODF levels by far most of the tranches of the Master Scale, thus indicating the conservative nature of the adjustment to the cycle included in the estimate.

Depending on the score for contracts as compared with that of individuals, or on the ratings of legal persons, each portfolio is segmented into various levels of credit quality, as defined in the Master Scale, with various PD levels.

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

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

- 2013 ODFs
- The PDs for 2013 estimated at year-end 2012

To provide a better understanding of the data, a distribution is shown of the number of retail contracts along with the number of legal entity customers at year-end 2012.

- **Retail**

Chart 2: Mortgage

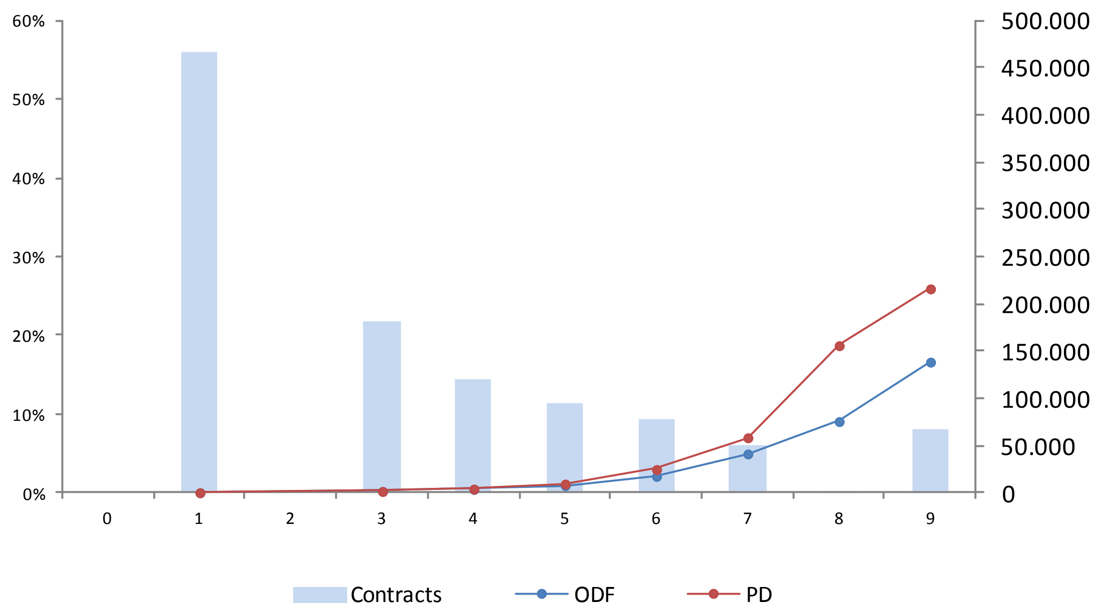


Chart 3: Consumption

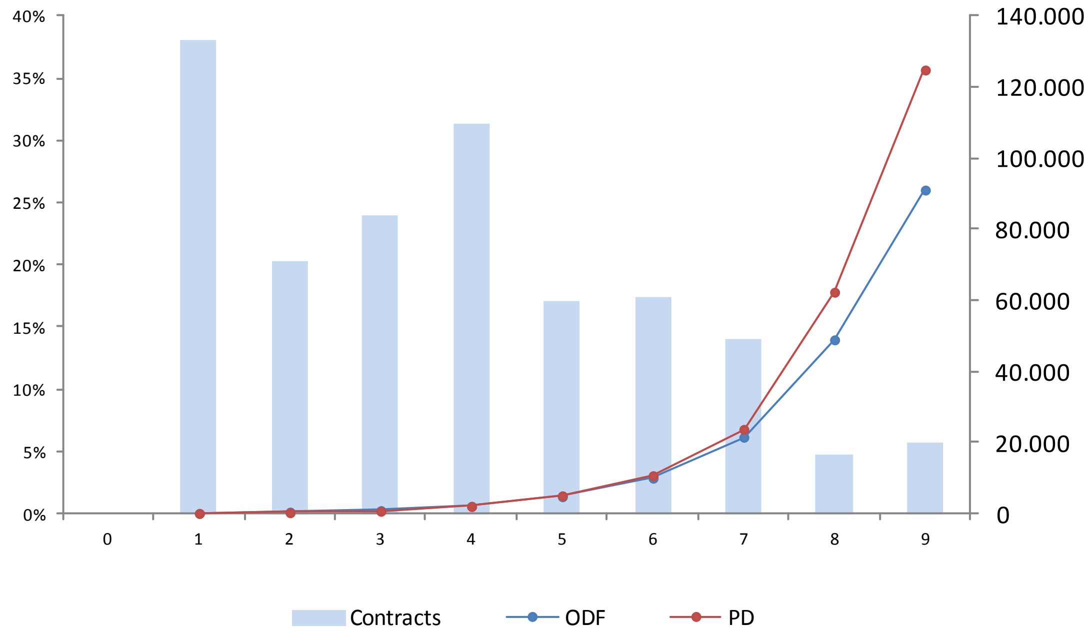
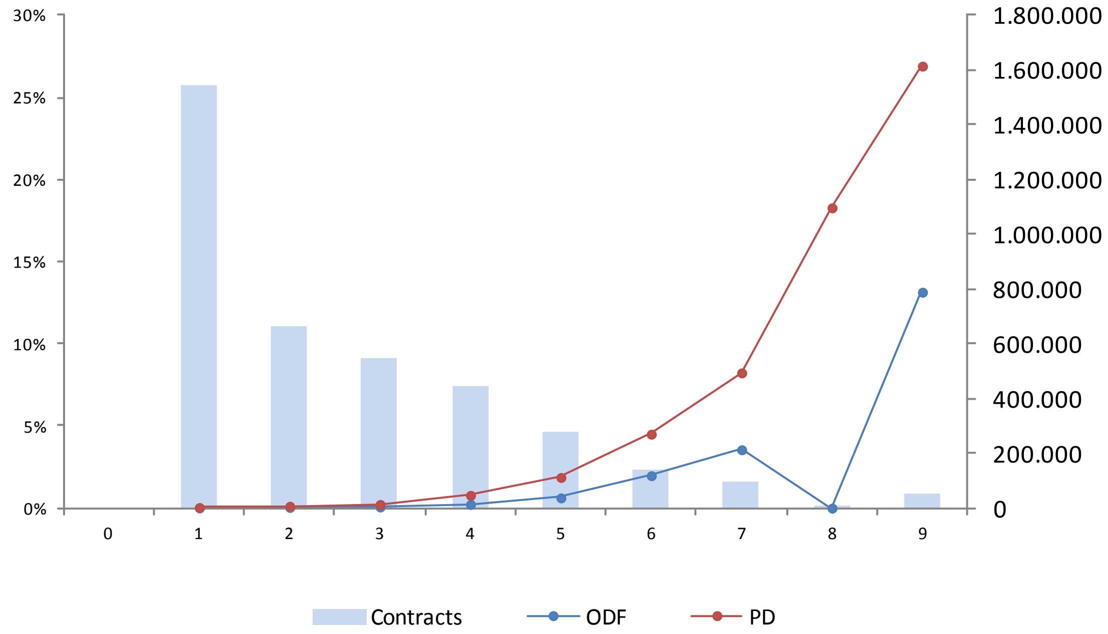


Chart 4: Cards

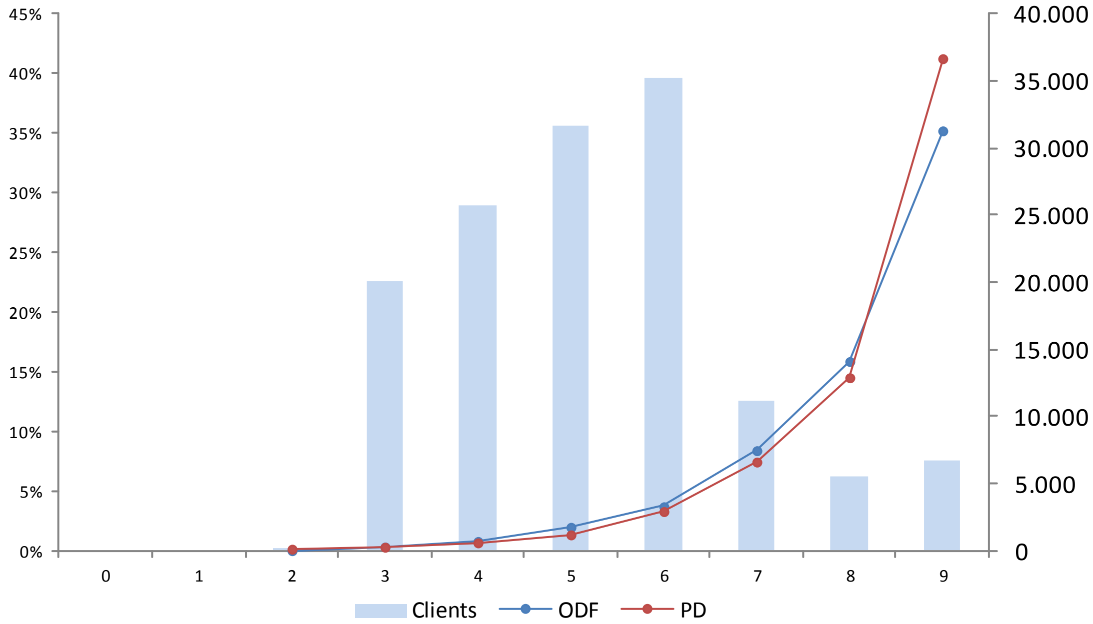


The portfolios of individuals confirm that ODF is a rising monotonous function with respect to the Master Scale tranches in which a significant population volume is not available. The PD function of the segment can also be seen to be rising and monotonous. This leads to the conclusion that for these segments the retail internal models employed by “la Caixa” properly classify customers by levels of risk.

We can also see that the PDs have values equal to or higher than the ODFs. Together with the current downturn in economic cycle, this is indicative that the estimated PD values are conservative.

- **Retail**

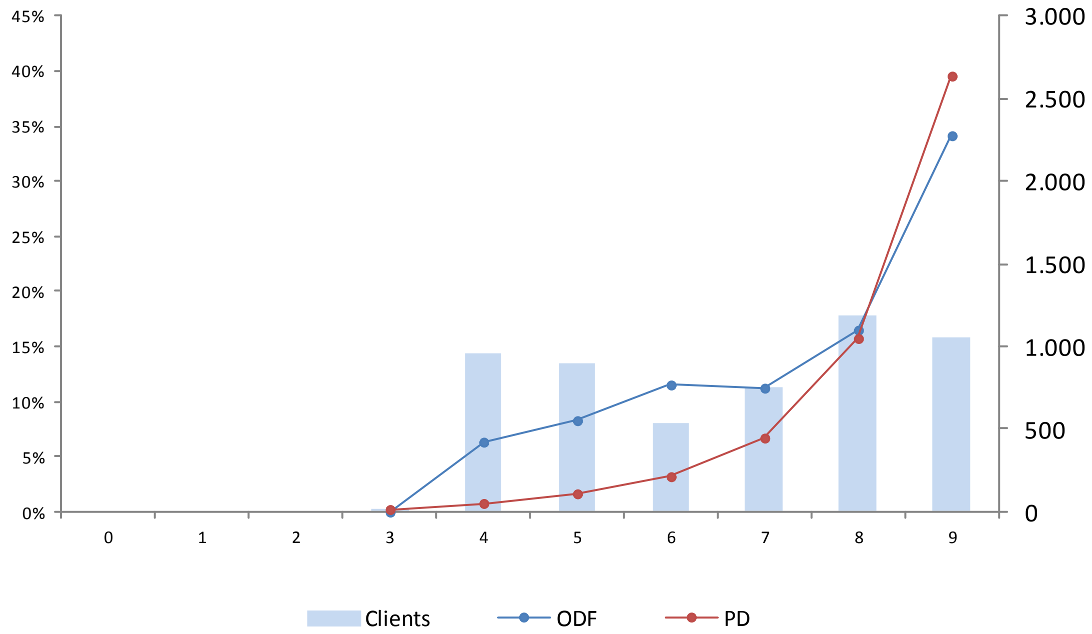
Chart 5: Non-developer SMEs



Both the ODF of the non-developer SME portfolio and the PD are rising monotonous functions with respect to the Master Scale. Thus, the internal models are correctly classifying customers by risk level.

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 2013 even though we are in the downside of the economic cycle.

Chart 6: Developer SMEs



Both the ODF and the PD in the developer portfolio are rising monotonous functions with respect to the Master Scale. This means that the internal models employed by "la Caixa" properly classify customers by levels of risk.

As is to be expected in such an unfavorable economic environment for this segment, except in the tranches with the largest Master Scale, ODF is higher than PD.

Chart 7: Large non-developer companies

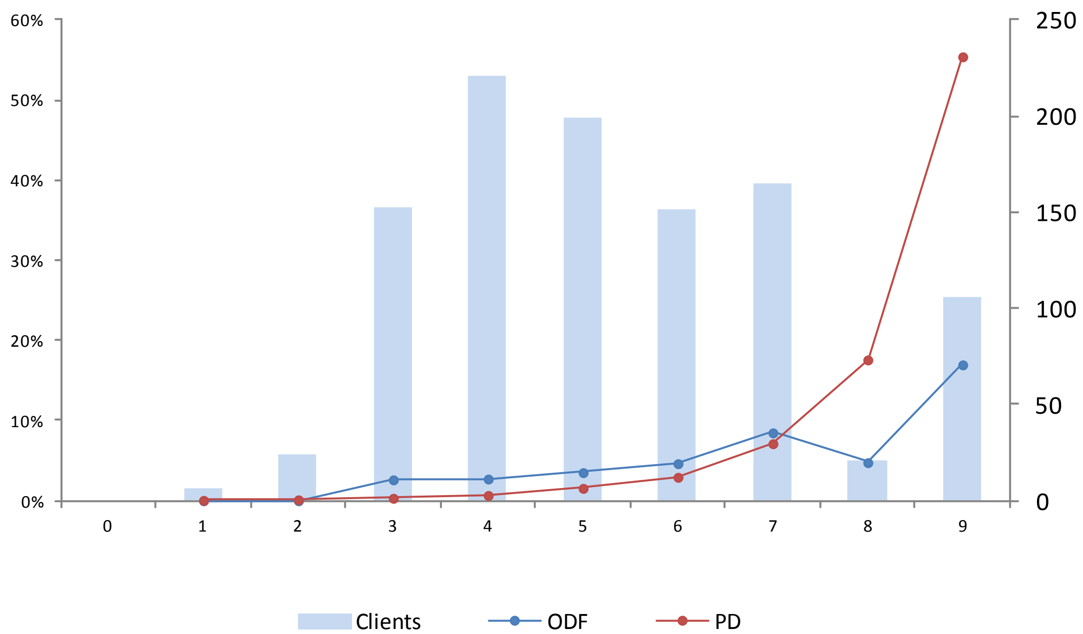
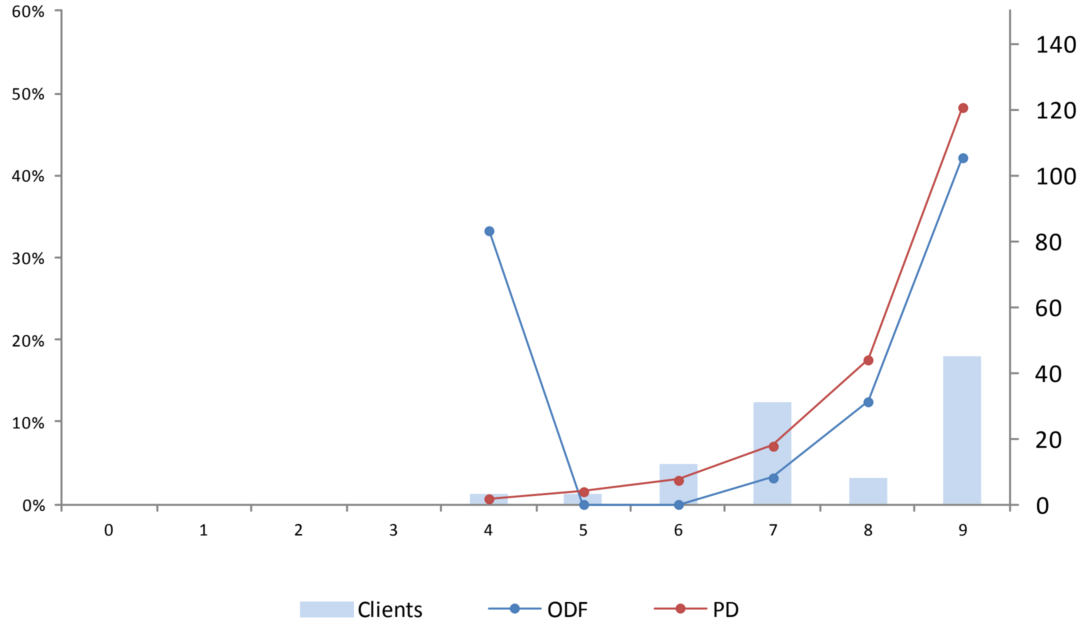


Chart 8: Large developer companies



(*) In master scale 4, a 33% ODF can be seen, owing to the fact that the sample is composed of only three borrowers (one of which is in default).

In the segment of large developer companies, the low customer numbers mean that the ODF on the Master Scale is not statistically representative, and the function cannot be required to be monotonous even though this condition holds for almost all tranches.

4. Comparison between actual loss and regulatory expected loss

The objectives for this exercise are as follows:

(i) Verifying how is that the values for regulatory expected loss remain stable over the cycle while actual loss depends directly on the economic situation at any given time

(ii) Evaluating the extent to which the size of the difference between the two figures is reasonable

Regarding the first objective, regulatory expected loss is estimated to be the annual average loss for the economic cycle and, therefore, cannot be considered an estimator in line with expected loss in a specific year or period. Consequently, whereas regulatory expected loss should show stable values over time, actual loss will fluctuate in accordance with the phase of the economic cycle.

To compare regulatory expected loss with actual loss, relative values for exposure to non-distressed assets have been used. Specifically, expected loss has been calculated as the downturn LGD multiplied by PD, and actual loss has been calculated on the basis of actual LGD and ODF.

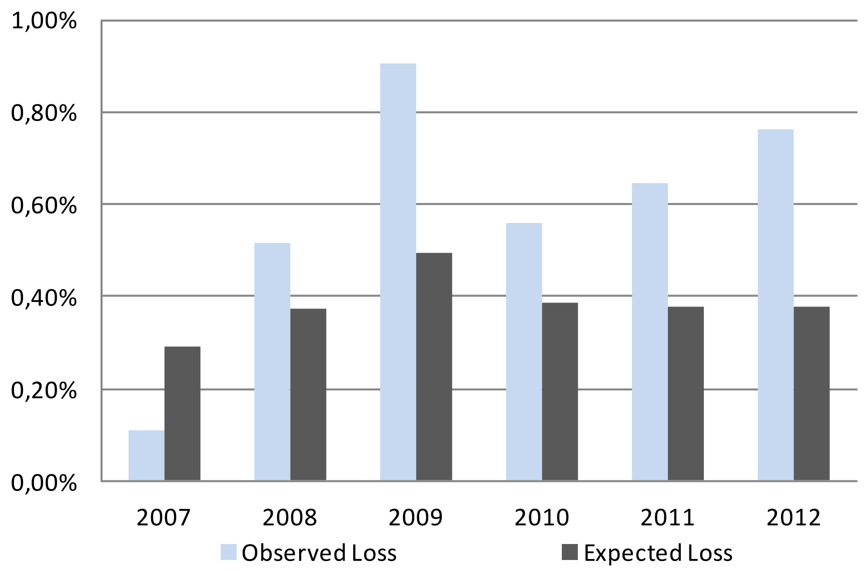
Finally, “la Caixa” carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two ways:

- First, having a sample with adjusted data, and a larger volume of data, improves the precision of the estimated parameters;
- Second, through the continuous process of analyzing and studying the information contained in “la Caixa's” systems, which makes it possible to identify new patterns and explicative variables or to renew the existing patterns and variables, thus improving the predictability of expected loss.

Changes in expected loss and actual loss in recent years in the most relevant portfolios modeled are shown below:

- **Retail**

Chart 9: Mortgage



Although expected loss in all of the years shown in the chart has similar values, in the first years of the economic recession it increased as a result of the deterioration of loan quality. As might be expected, actual loss is above expected loss in all of the recession years, and below this level in 2007, when there was a change in the economic cycle.

- **Companies**

Chart 10: SMEs without collateral

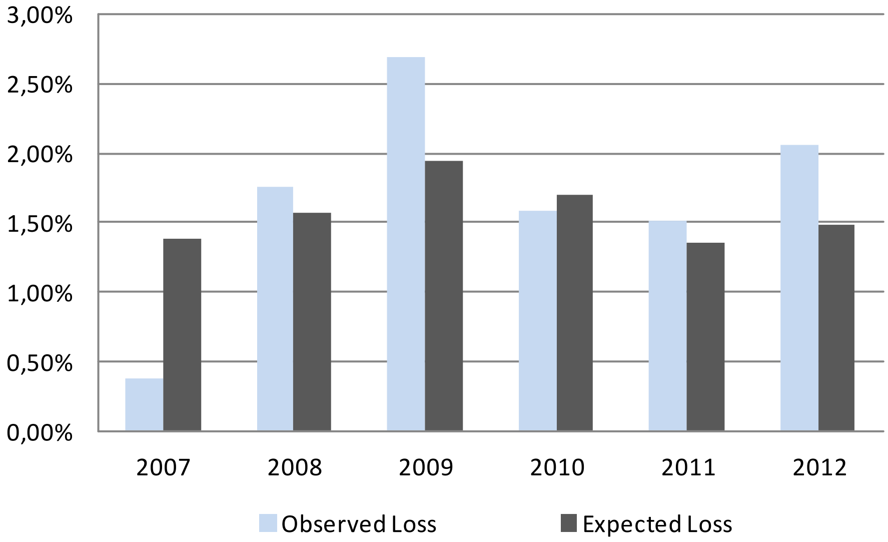
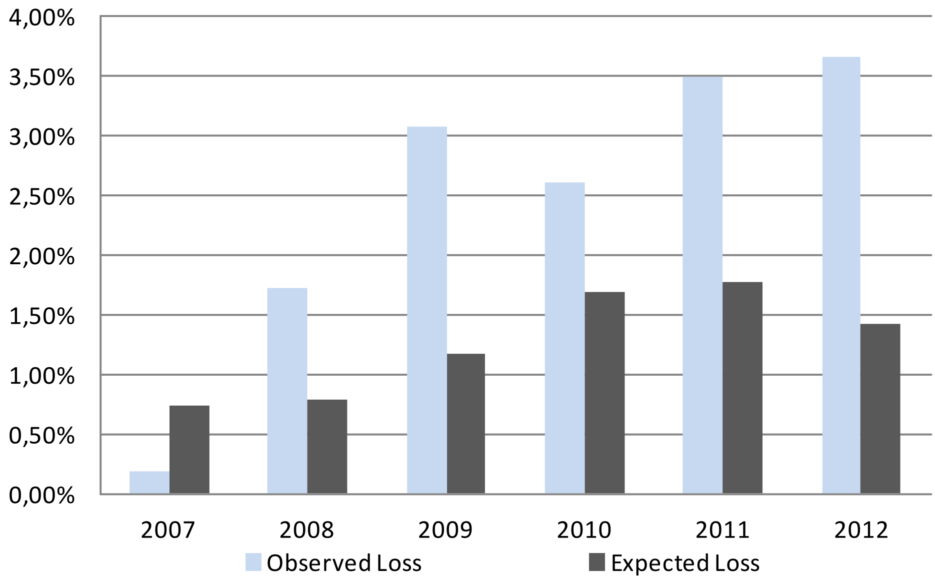


Chart 11: SME-Developer with development concluded



Both portfolios show actual loss higher than expected loss starting in 2008, owing to the onset of the recession. Nonetheless, the performance of expected loss is slightly different in the two portfolios shown. Whereas expected loss from the portfolio of SMEs without collateral peaked in 2009, the portfolio of developers, which was hit much harder by the current crisis, contains values that rise successively until 2011. Actual loss was similar in both cases: in the case of SMEs it also peaked in 2009, whereas in the case of developers there was an upward trend until the last year shown.

1.2.2.6. Implementation of internal estimates in the management process

At CaixaBank, the main risk-measurement parameters are taken into account in decision-making, from approval through the monitoring of exposure, as well as in managing incentives and monitoring the profitability of the business segments. The main tools and policies are listed below:

- **System of authorizations for expected loss in the approval of risk for companies:**

  Calculating the level of risk for expected loss improves risk control, bringing approval authorizations into line with the measured risk of the customer and, if applicable, that of the customer's economic group.

- **Pricing in the risk-approval system:**

  Ensures a proper relationship between return and risk, at the application level. Estimate of the price of the transaction as the sum of:

  - **Expected loss** (probability of default x exposure x loss given default)
  - The cost of **capital**
  - Estimated internal **operating costs**
  - Liquidity premium

- **Acceptance/denial boundary points in the approval system for individuals:**

  Automatic action-recommendation system in the approval of transactions with individuals based on **Risk Premium** (expected loss + return on capital).

  Establishment of a transaction acceptance/denial boundary point, with a penalization on the requested authorizations in the event of an especially serious risk level.

- **Risk-Adjusted Return (RAR) System:**

  System that allows for greater control over the balance between return and risk relative to the Entity's customer portfolio. RAR measures return on capital consumption, once expected loss, operating costs and the cost of funds have been deducted.

- **Bonus Adjusted for Risk (BAR) System:**

  System that applies to all groups considered credit-risk and market-risk takers and drivers as well as departments responsible for control and financial monitoring. It is linked to existing variable-remuneration programs at CaixaBank – the Central Services Targets Program and the Bonus Program for the different Business Areas – that apply to the employees of those groups.

Its main objectives are:

- To adjust the amount of variable remuneration to the risks assumed by these employees in order to meet the objectives set and the global results of the Entity;
- To adjust the amount of variable remuneration payable to each employee in the event that the risks assumed by the Entity materialize.

- **Drawdowns from contract provisions with available funds (open credit, cards, …)**
- **Consumption limits in the approval system for individuals** (based on behavioral scoring)
- Limits on **preapproved** credit and campaigns vis-à-vis individuals.
- Automatic authorization of **overdraft charges**
- **Blocking of the entry of remittances for** discount issuers with a poor risk and high levels of complaints or arrears

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 and Banco de Valencia:

- These objectives 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 financing 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 bonds issued by the corresponding securitization funds as counterparty to the assets transferred to them.

Following the integration of Banca Cívica and Banco Valencia, various securitization operations, 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 given below:

- **Markets**: 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**: Determines the selection and analysis criteria for the portfolio, provides the additional historical information required by external rating agencies, and is responsible for yearly asset audits.
- **Information Systems: Segments and Services**: Responsible for portfolio extraction (preliminary, provisional and final) and the respective repayment schedules.
- **Legal Advice**: Responsible for obtaining approval from the corresponding internal body at the Entity, and supervising the documentation generated.
- **Intervention and Accounts**: 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.

The securitization funds deriving from Banca Cívica, for which the Entity acted as originator, were managed by Titulización de Activos, S.G.F.T., S.A. and Ahorro y Titulización, S.G.F.T., S.A.

The securitization funds in which Banco de Valencia acted as the originator were managed by Europea de Titulización S.A., S.G.F.T.

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, Transition 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's 2013 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.[28]

[28] See Table 32.

For funds that do not comply with the provisions of Regulations Fifty-Five and Fifty-Six of Circular 3/2008 for the purposes of determining effective significant transfer of risk, 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. Nor did Banco de Valencia and Banca Cívica carry out such transactions in the years prior to their integration into the “la Caixa” Group.

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 31 shows the positions held in securitization bonds by the “la Caixa” Group, all through CaixaBank, at December 31, 2013, by type of exposure.

Table 31: Securitization positions by type of exposure

(Thousands of euros)

Type of exposure	Exposure (1)
Securitization bonds - preferred tranche	5.508.389
Securitization bonds - subordinated tranche	1.574.301
Subscription reserve bonds	92.443
Total value	**7.175.133**

(1) Original exposure value.

Table 32 shows the total securitized loan exposures pending repayment at December 31, 2013.

Table 32: Securitization of customer credits

(Thousands of euros)

Type of exposure	Exposure
Derecognised transactions	625.684
Transactions remaining on the balance sheet	8.856.092
Total value	**9.481.776**

2. Other quantitative information on securitization positions

At December 31, 2013, the detail of assets securitized by the "la Caixa" Group via CaixaBank, by type of securitized asset, was as follows:

Table 33: 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	2.347.694	87.771	196.430
Finance lease	1.040.943	0	0
Consumer financing	2.005.735	257	170
Loans to Companies and SMEs	4.087.404	55.184	36.802
Total Value	**9.481.776**	**143.212**	**233.402**

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 2013 corresponded mainly to the issue of two new securitization agreements managed by GestiCaixa, S.G.F.T., S.A. (FONCAIXA LEASINGS 2, F.T.A. and FONCAIXA PYMES 4, F.T.A.) in addition to the inclusion of securitization funds from Banco de Valencia. The breakdown of the FONCAIXA LEASINGS 2, F.T.A. and FONCAIXA PYMES 4, F.T.A. funds is as follows:

- FONCAIXA LEASINGS 2, F.T.A.. The initial amount securitized was €1,150,000 thousand. At the date of creation, 41.43% of the underlying securitized assets were backed by a securities-type guarantee and the remaining 58.57% were backed by a real-property guarantee.
- FONCAIXA PYMES 4, F.T.A.. The initial amount securitized was €645,000 thousand. At the date of creation, 32.80% of the underlying securitized assets corresponded to loans with mortgage guarantees and the remaining 67.20% to loans with personal guarantee.

Table 34 gives a breakdown of positions, net of impairment losses, held in securitization operations by "la Caixa" Group at December 31, 2013, calculated for the capital requirements for credit risk on securitizations according to the provisions of section four of chapter four of the Capital Adequacy Circular.

Table 34: Exposure to securitization operations

(Thousands of euros)

	Exposure[1]
A) Positions held in securitization transactions in which the Group acts as originator	163.577
Positions in multi-seller securitization funds	53.172
Other securitization positions	110.405
B) Positions held in securitization transactions in which the Group does not act as originator	1.400.060
Positions in multi-seller securitization funds	1.400.060
Other securitization positions	0
Total	**1.563.638**

(1) Net exposure to impairment losses.

Table 35 shows a breakdown by weighting band, of the positions, net of impairment losses, on securitization operations held by "la Caixa" Group at December 31, 2013**.**

Table 35: Securitizations by risk weighting assigned

(Thousands of euros)

	Exposure[1]
A) Subject to risk weighting	1.479.401
Standardized approach	**1.387.547**
20%	23.476
40%	0
50%	1.232.195
100%	74.502
225%	0
350%	10.654
650%	0
1250%	18.546
Methods for risk weighting of securitized exposures	28.174
IRB approach	**91.854**
20 - 35 %	7.700
250 %	543
Methods for risk weighting of securitized exposures	83.611
B) Deducted from capital	84.237
Total	**1.563.638**

(1) Net exposure to impairment losses.

1.2.4. Credit risk reduction techniques

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 an evaluation of the borrower’s repayment capacity. 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 repayment capacity is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects.

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

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 ongoing 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 other asset operations.
  - *Rights and securities*: The pledge is applied to fixed income or equities deposited with "la Caixa" in a securities account, provided 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 applicable percentage.

- **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: The capital to be granted in mortgage operations is limited to percentages of the value of the guarantee, which is defined as the lowest of three values: the appraisal value, the value as estimated by the applicant and, if the transaction is a purchase, the value shown on the official deed. IT systems calculate the level of approval required for each type of transaction.

3. Credit derivatives: guarantors and counterparty

Lastly, 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. A substantial portion of the contracts are being forwarded to the Central Counterparty (LCH/SwapClear).

1.2.4.2 Quantitative information

Table 36 shows the information on exposures by type of guarantee applied to mitigate credit risk for the CaixaBank and ”la Caixa” Groups at December 31, 2013.

Table 36: 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	11.867.898	153.335.881	165.203.779
Real guarantees	1.669.294	3.442.324	5.111.618
Personal guarantees (1)	126.596.444	52.353.195	178.949.639
Total	**140.133.636**	**209.131.400**	**349.265.036**

(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	11.867.898	153.256.036	165.123.934
Real guarantees	1.669.294	3.442.324	5.111.618
Personal guarantees (1)	129.709.240	50.186.204	179.895.444
Total	**143.246.432**	**206.884.564**	**350.130.996**

(1) Includes contracts guaranteed by the public sector.

In addition, as noted 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, with “la Caixa” is involved in their governing bodies and in defining their future policies and strategies. The ”la Caixa” Group’s 2013 Financial Statements show a breakdown of the companies in its shareholding portfolio, stating their area of business and scope of activity.[29]

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

- **Investments**[30]: Investments in the share capital of jointly controlled entities[31] 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

Investments 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

[29] See Note 7, “Business combinations, acquisition and sale of ownership interests in subsidiaries”; Note 12, “Available-for-sale financial assets”; Note 17 “Investments”; and Appendices 1, 2 and 3 to the “la Caixa” Group’s 2013 Financial Statements.
[30] 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.
[31] 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," to the “la Caixa” Group’s 2013 Financial Statements.

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

When indications of impairment are considered to exist, the ”la Caixa” Group conducts additional tests to assess the fair value of the investments and verify the impairment loss recognized. Generally accepted valuation methods are employed - for example, discounted cash flow (DCF) models, dividend discount (DDM) models, and others. Balance sheet and income statement projections for banking investments are generally drawn up over five 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 investments in listed companies, their fair value will be the market value, and unlisted companies will be recognized at acquisition cost less any impairment loss incurred. At the time of sale, the loss or gain previously recognized in equity will be taken to the income statement.

As a general rule, they are written down with a charge to the income statement when there is objective evidence that an impairment loss has occurred. This is assumed to have occurred following a 40% reduction in fair value, or 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 shareholding portfolio

2.2.1. Fair value and carrying amount of the shareholding 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, 2013:

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

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**4.332.865**	**4.347.183**
Shares in listed companies (1)	3.010.691	3.010.691
Shares in unlisted companies	1.168.829	1.169.458
Ownership interests in investment funds and other	153.345	167.034
Investments	**8.773.670**	**16.052.326**
Listed	7.434.817	14.021.453
Unlisted	1.338.853	2.030.873
Total carrying amount	**13.106.535**	**20.399.509**

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

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

(Thousands of euros)

	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**4.332.865**	**4.347.183**
Shares in listed companies (1)	3.010.691	3.010.691
Shares in unlisted companies	1.168.829	1.169.458
Ownership interests in investment funds and other	153.345	167.034
Investments	**8.517.414**	**18.323.218**
Listed	7.178.561	16.292.345
Unlisted	1.338.853	2.030.873
Total fair value	**12.850.279**	**22.670.401**

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

At December 31, 2013, the market value of the "la Caixa" and CaixaBank Groups' listed portfolio, which includes "Investments" and "Available-for-sale financial assets - Equity instruments," was €19,303 million and €10,189 million respectively.

2.2.2. Exposure value for the shareholding portfolio

1. Exposure value

At December 31, 2013, risk exposure associated with the shareholding portfolio was €8,317,790 thousand and €14,308,782 thousand at CaixaBank and "la Caixa," respectively.[32] These amounts include the value of the portfolio of available-for-sale financial assets, stakes in associates and in subsidiaries not consolidable due to their business activity.

Table 39 gives the amounts of these exposures[33] by listed and unlisted instruments.

Table 39: Exposures in equity investments not held for trading

(Thousands of euros)

Exposure	CaixaBank Group	"la Caixa" Group
Available-for-sale assets	**3.658.581**	**3.452.129**
Shares in listed companies	2.668.119	2.461.039
Total simple method	120.734	104.212
Total internal models method	28.725	38.962
Total PD/LGD method	2.518.661	2.317.865
Shares of unlisted companies in portfolios not sufficiently diversified portfolios (simple method)	990.461	991.090
Investments (subsidiaries, jointly controlled entities and associates)	**4.659.209**	**10.856.653**
Listed investments	4.343.094	9.466.427
Unlisted investments	316.115	1.390.227
Total value	**8.317.790**	**14.308.782**

2. Other information

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

[32] See section 3.2, "Minimum capital requirements for risks associated with the shareholding portfolio," in Part A of this document.
[33] 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 40: Equity exposures (simple method)

(Thousands of euros)

Risk weighting	CaixaBank Group	"la Caixa" Group
Exposures to unlisted equities included in sufficiently diversified portfolio (weighted at 190%)	0	0
Exposures to equities tradeable in organized markets (weighted at 290%)	165.000	148.478
Other equity exposures (weighted at 370%)	1.014.205	1.014.833
Total exposure simple method	**1.179.205**	**1.163.312**

The following table shows exposure to risk associated with the shareholding portfolio, LGD and average risk weighting.[34]

Table 41: Exposure by category of exposure and debtor level

PD tranche	Average risk weighting[2] (%)		Exposure	
	CaixaBank Group	"la Caixa" Group	CaixaBank Group	"la Caixa" Group
0% - 0,15%	110,09%	110,09%	951.914	1.476.035
0,15% - 0,30%	137,12%	137,74%	3.003.360	7.582.487
0,30% - 0,60%	187,63%	187,63%	2.870.719	3.214.128
0,60% - 1%	241,73%	241,65%	167.216	611.476
1% - 2,5%	299,45%	292,40%	1.097	4.474
2,5% - 4%	344,28%	344,28%	74.949	74.949
>4%	520,90%	480,75%	35.215	137.568
In default	0,00%	0,00%	5.389	5.389
Total PD/LGD[1] method			**7.109.859**	**13.106.506**

(1) LGD of 90% applied.
(2) Weighted average by exposure. A 100% weighting represents 8% capital use.

[34] This information is shown only for equity exposures to which the PD/LGD method is applied.

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 2013, with the amounts taken to the income statement.[35]

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

CaixaBank Group

(Thousands of euros)

Balance of valuation adjustments at 31/12/12	Amounts transferred to income (1)	Valuation gains and losses(2)	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/13(3)
(8.462)	79.012	344.076	(83.067)	331.559

(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 31/12/12	Amounts transferred to income	Valuation gains and losses(2)	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/13(3)
121.718	45.198	192.003	(45.146)	313.773

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

[35] See Note 25.2, "Valuation adjustments," to the "la Caixa" Group's 2013 Financial Statements.

3. Information concerning market risk in the trading portfolio

3.1. General requirements

For capital adequacy purposes, 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 those positions in the short term or to benefit in the short term from differences between purchase price and selling price, or from 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 historical period of stress).

At December 31, 2013, the sum of minimum capital requirements for risks relating to positions on the trading portfolio and the exchange rate was €320,788 thousand, and minimum capital requirements for counterparty risks on the trading portfolio were €139,431 thousand (total requirements for counterparty risks were €156,257 thousand).

3.2. Internal models

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 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, both in the aggregate and 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.

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 are summarized below.

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 a slight change in risk factors has on the value of positions, proceeding 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 percent (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 percent (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 from a rise in interest rates, exchange rates, prices, and volatility, but do not involve any assumptions regarding the likelihood of the aforementioned changes.

- To standardize risk measurement across the entire portfolio, and provide certain assumptions regarding the extent of changes in market risk factors, VaR methodology is employed using a one-day time horizon and a statistical confidence 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. Two methodologies are 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. Thus the Risk in Market Operations Department completes the quantification of 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 constitutes an estimate of the specific risk attributable to the security issuers. 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 stressed VaR is calculated 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 with 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:

- *Though 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 exercise 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 during 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 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, an increase in volatility of shares and raw materials.
- Analysis of historical 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 emergence of the technology bubble in 1999 and its collapse in 2000, the terrorist attacks that have caused the most severe effects on the financial markets in recent years, the credit crunch of the summer of 2007, the liquidity and confidence crisis produced by the collapse of Lehman Brothers in September 2008, the increase in credit spreads in peripheral countries of the euro zone due to the contagion effect of the crises in Greece and Ireland in 2010 and the Spanish debt crisis in 2011 and 2012.

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 interval using the Extreme Value Theory

4. Monitoring and control[36]

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

The Risk in Market Operations Department has sufficient human resources, with considerable technical capacity, to use the internal market risks model.

As noted, the Risk in Market Operations Department is responsible for daily monitoring of compliance with market risk limits and for notifying any breaches to Senior Management and to the appropriate risk-taking unit, with an instruction for the latter to restructure or close the positions leading to this situation or to obtain explicit authorization to maintain them from the appropriate body. 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, both in the aggregate and segmented by risk factors and business units.

On a daily basis, the Risk in Market Operations Department 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 Criteria CaixaHolding investees' equity derivatives
- CaixaBank's structural position in foreign currency

[36] 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.

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

On a monthly basis, the Risk in Market Operations Department draws up a number of reports known as the “Executive Summary” for presentation to the Management Committee by the Directorate-General of Risks, as well as the section on “Market Risks” and the "Description of the Group position in terms of equities, fixed income assets and derivatives" of the “Risk Control Scorecard,” which is submitted to the Entity’s Global Risk Committee.

The Directorate-General of Risk, which includes the Risk in Market Operations Department, carries out a supervisory function, the main objective of which is to protect risk status and preserve the solvency and guarantee mechanisms, thereby ensuring the 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 most recent report, in 2013, Internal Audit 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 defined a procedure for capital consumption calculations for operational risk in accordance with Bank of Spain Circular 3/2008 and the guidelines for application of the standardized approach. This procedure was 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 CaixaBank 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 Circular 4/2004 for the consolidated Income Statement for the purposes of calculating 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
- CaixaBank Electronic Money, EDE
- Corporación Hipotecaria Mutual, EFC, SA

- Caixa Card 1 EFC, SAU
- Unión de Créditos para la Financiación Mobiliaria e Inmobiliaria, EFC, SAU (Credifimo)

For individual calculations, relevant revenues are obtained from the same headings on the income statement consolidated for the purpose of calculating 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, InverCaixa Gestión SGIIC, SA, and BuildingCenter, 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 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 Management Information System (MIS), based on which the following classifications are made, according to customer and main line of business:

- Individuals, Self-Employed and Microenterprises
- Companies, Corporate, Institutions, Developer, Developer and SME Adjustments
- Direct adjustments to “Total Banking Business”
- International Banking Business
- Treasury and markets, Assets Liability Committee (ALCO), Other Corporate Activities and Consolidation adjustments

4. Capital consumption calculations for operational risk using the standardized method:

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. Projects underway

A project is being drawn up to move from the current standard approach to operational risk management to more advanced approaches with a dual objective of implementing best practices in operational risk management and at the same time calculating regulatory capital requirements with risk-sensitive approaches. Under this project, the following lines of action, among others, are being carried out:

- Integration in management is being strengthened; the corporate governance structure of operational risk has been updated and formalized; new reporting standards and management measurements are being developed; and an Operational Risk Committee has been created.

- The information systems infrastructure that supports Operational Risk has been improved; a tool has been implemented to support the Corporate Risk Map, which includes Operational Risk as well as other management functions of this Risk (risk indicators, loss capture and enhancement, mitigation plans, among others).

- The operational-loss databases have been purged, enhancing their degree of completeness, automation and accounting reconciliation; tools have been implemented to calculate capital requirements using advanced models; CaixaBank became a member of an international consortium for the exchange of losses, in order to incorporate external losses in its calculations; extreme scenarios of operational losses are under development.

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 arises, as mentioned above,[37] 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 Sub-Directorate-General of Treasury and Capital Markets Division, 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 Sub-Directorate-General of Treasury and Capital Markets Division.

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

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

items with no contract maturity, measurements are performed of their sensitivity to interest 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 these 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.[38]

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, 2010, the parallel movement in the interest rate applied to estimate the impact on economic value and on net interest income showed a decrease of 200 basis points.

Table 43: Impact of interest rate risk

(Thousands of euros)

Currency	Impact on economic value	Impact on net interest income
Euro	-2.091.818	-601.358

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.

[38] 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 disclosure 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 aforementioned EU directives, with a specific regulation on the remuneration of credit institutions.

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, in the performance 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's 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 for 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, in compliance 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, 2013, "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)
- Juan María Nin Génova (Managing Director)

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

- Susana Gallardo Torrededia (Chairwoman)
- Javier Godó Muntañola (member)
- María Teresa Bassons Boncompte (member)

In 2013, the CaixaBank's Appointments and Remuneration Committee met 16 times, and its members received €81,000 for belonging to the committee.

Also in 2013, "la Caixa's" Appointments and Remuneration Committee met seven times. The members of this committee do not receive attendance fees.

6.2 Description of the identified group

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

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

To determine the identified group, in accordance with RD 771/2011, Senior Management is considered to be 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

Credit-risk takers include professionals holding a management position, who participate in the risk management process and who have powers and decision-making discretion vis-à-vis credit risk, with power of influence over a predetermined 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 vis-à-vis credit risk but who 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 committees 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 targets and terms and conditions that determine variable remuneration in that area. The main units in which these programs are applied are the following: Commercial Banking, Private Banking, Business Banking, Transactional Banking, Institutional Banking, Treasury and Capital Markets, Structured Financing, 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 involves the different control and finance areas in Central Services, and includes different employees in the risk departments (due to their importance for the Entity's risk policy). The targets in this area are usually established by each employee in accordance with his or her functional responsibilities and the targets of the unit as a whole.

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

The amount of the bonus received by each employee in each specific program is performance-related. The initial amount is adjusted every year, according to an adjustment factor established by the Entity's management and 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 from a minimum of 0.85 to 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 employees, offering them the possibility of taking part in a distinctive social and business initiative, with the possibility of developing professionally and enjoying competitive total 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 by 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 payable to each employee shall be paid in cash. This date is referred to as the upfront payment date.

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

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

Table 44: 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.

Of the amount payable at each of these three dates, 50% 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).

To calculate this, the eligible capital used by each business unit, portfolio or segment is divided 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 are specified below:

Table 45: MRA indicator

Risk situations	MRA
Excess risk of up to 15% of the approved limits caused expressly by one unauthorized market position or a position of a size greater than authorized	0,9
Excess risk of more than 15% of the approved limits, caused expressly by one unauthorized markets position or a position of a size greater than authorized, or two positions of this type at least one of which 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 at least one of which 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 than 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 = CRA x 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 2013 was drawn up on the basis of the following measurement criteria:

- 70% of the individual/team targets
- 10% of the quality target for the Entity
- 10% of the changes in “la Caixa” Group's operating costs
- 10% of the CaixaBank Group's 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% above that level, 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 2013, 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, was as follows:

Table 46: Remuneration paid to the identified group

(thousands of euros)

Areas of activity	Description of the type of the businesses	Fixed remuneration 2013	Variable remuneration 2013	Total 2013
Investment banking	Capital markets, Corporate banking and Structured finance	3.100	2.086	5.186
Commercial banking	Individual banking, Private and personal banking, Business banking and Transactional banking.	9.115	2.165	11.280
Asset management	Does not apply	0	0	0
Other	Central services	16.607	2.730	19.337

(thousands of euros)

Type of employee, within Identified Group	Number of people included in Identified Group	Fixed remuneration 2013	Variable remuneration 2013 (Bonus 2012)	Deferred remuneration of 2013	Total
Senior Management	31	17.833	3.286	506	21.625
Rest of employees	63	10.989	3.695	342	15.026

(thousands of euros)

Type of employee, within Identified Group	Number of people included in Identified Group	Variable remuneration 2013 (Bonus 2012)	2012 Bonus received in cash in 2013	2012 Bonus received in shares in 2013	2012 Bonus in cash deferred (not consolidated)	2012 Bonus in shares deferred (not consolidated)
Senior Management	31	3.286	868	818	800	800
Rest of employees	63	3.695	2.175	652	434	434

(thousands of euros)

Type of employee, within Identified Group	Number of beneficiaries	Terminations benefits	The average time of permanence	The maximun amount paid
Senior Management	-	-	-	
Rest of employees	3	1.034	33 years	414

In 2013:

- No payments were made for new hires within the identified group.
- No adjustments were made as a result of the results of the performance of deferred compensation paid in 2013.