CaixaBank

Pilar III disclosures

CaixaBank Group

at 31 December 2014

Contents

Introduction

This report constitutes the "Information of Prudential Relevance" in compliance with requirements concerning the disclosure of information to the market established in Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms.

The disclosures in this report comply with the requirements of Regulation (EU) 575/2013. The report was prepared taking into consideration Article 432.2 of this Regulation concerning information regarded as confidential. The CaixaBank Group states it has not omitted any of the items of information required because it regarded them as confidential or proprietary.

The purpose of this report is to provide market players with an assessment of the CaixaBank Group's capital adequacy at 31 December 2014. Specifically, it contains disclosures on own funds, exposures and risk assessment processes.

At its meeting of 22 April 2015, the Board of Directors of CaixaBank approved the adaptation of disclosure policies to Regulation (EU) 575/2013 and approved the "Information of Prudential Relevance" report before assurance by the Audit and Control Committee.

A. General aspects

1. General disclosure requirements

1.1. Scope of application

The financial information set out in this report concerns the CaixaBank Group. CaixaBank, SA and its subsidiaries compose the CaixaBank Group (hereinafter "the CaixaBank Group" or "the Group"). CaixaBank, SA (“CaixaBank”), with tax identification (NIF) number A08663619 and registered address at Avenida Diagonal 621, Barcelona, was created through the transformation of Criteria CaixaCorp, SA which culminated on 30 June 2011 with the entry of CaixaBank in the Bank of Spain’s Registry of Banks and Bankers (“Registro Especial de Bancos y Banqueros”) and its listing on the Spanish stock markets—as a credit institution—on 1 July 2011.

In addition, CaixaBank is the bank through which Caixa d'Estalvis i Pensions de Barcelona ”la Caixa” (”la Caixa”) carried on its business indirectly as a credit institution in accordance with its Bylaws. As a result of the entry into force of Law 26/2013, of 27 December, on savings banks and banking foundations, the ”la Caixa” Ordinary General Assembly held on 22 May 2014 approved a motion to transform ”la Caixa” into a banking foundation (the “la Caixa” Banking Foundation), which became effective 16 June 2014 following its registration in the Foundations Registry. As a result, ”la Caixa” has curtailed its indirect exercise of financial activity and lost its status as a credit institution. The General Assembly also approved the Group's restructuring with:

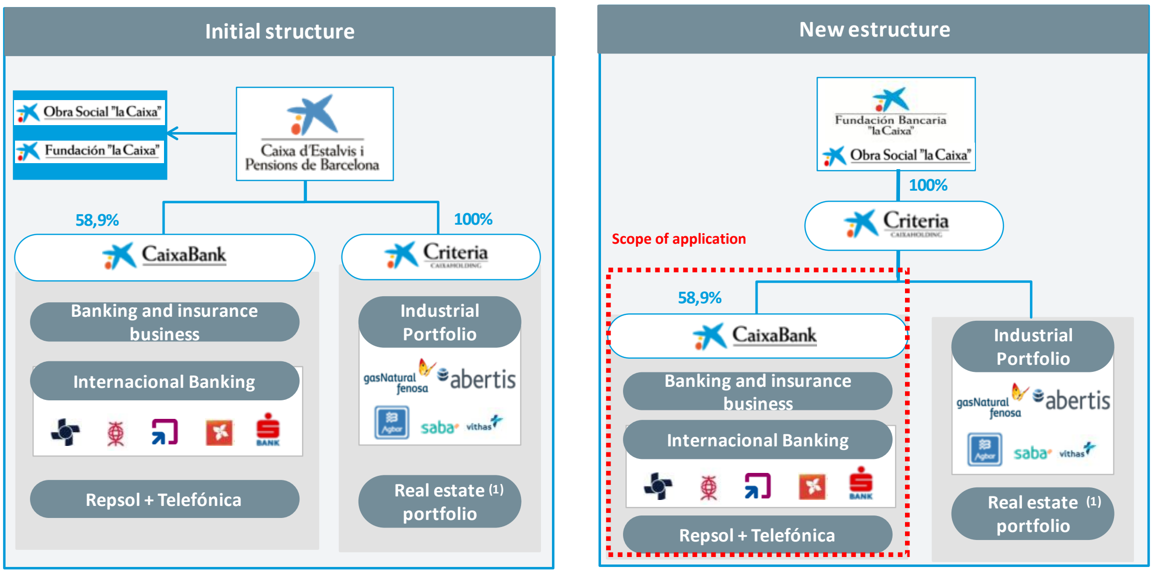
- The dissolution and liquidation of the former the ”la Caixa” Foundation (and the transfer of its assets and liabilities to the ”la Caixa” Banking Foundation); and
- The transfer, which took place in October 2014, to Criteria CaixaHolding, SAU ("Criteria") –wholly owned by the ”la Caixa” Banking Foundation– of the assets and liabilities not assigned to welfare projects (essentially the ”la Caixa” Banking Foundation's holding in CaixaBank, and the debt instruments of which it was the issuer). As a result, the ”la Caixa” Banking Foundation now holds its stake in CaixaBank indirectly through Criteria.

A resolution was therefore passed at CaixaBank’s Ordinary Annual General Meeting held on 24 April 2014 - subject to subsequent approval by the Ordinary General Assembly of ”la Caixa” - to amend the Bylaws, eliminating any reference to the indirect exercise of the banking activity. Accordingly, CaixaBank ceased to be the bank through which ”la Caixa” carried on its business indirectly as a credit institution.

The corporate object of CaixaBank mainly entails:

a) all manner of activities, operations, acts, contracts and services related to the banking sector in general, including the provision of investment services and ancillary services and performance of the activities of an insurance agency;
b) receiving public funds in the form of irregular deposits or in other similar formats, for the purposes of application on its own account to active credit and microcredit operations, and other investments, providing customers with services including dispatch, transfer, custody, mediation and others; and
c) acquisition, holding, enjoyment and disposal of all manner of securities and drawing up takeover bids and sales of securities, and of all manner of ownership interests in any entity or company.

Criteria is CaixaBank's majority shareholder, with a stake conferring profit-sharing rights of 58.96% and a stake conferring voting rights of 57.24% at 31 December 2014. Additionally, the "la Caixa" Banking Foundation held 6,119 shares of CaixaBank at that same date. At 31 December 2013, "la Caixa" held a 64.37% stake in CaixaBank.



(1) Real state assets from portfolio existing at the time of Group restructuring 2011

1.2.1 Description of the consolidated group

In accordance with prevailing community legislation, Articles 2 (Definitions) and 22 (The requirement to prepare consolidated financial statements" of Directive 2013/34/EU, of 26 June 2013, a 'Group' of companies exists when an undertaking has, direct or indirect, control over the other companies (subsidiaries), i.e. the undertaking (a parent undertaking):

a) has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking);

b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking;

c) has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions.

The following provides a summary of the main differences in relation to the consolidation scope and methods applied to prepare information on the CaixaBank Group in this report and to prepare its consolidated financial statements:

1. For the preparation of the CaixaBank Group's consolidated financial statements, all the subsidiary undertakings (companies controlled by the parent undertaking) were consolidated using the full consolidation method. Jointly controlled entities (undertakings managed jointly) were accounted for using the equity method, with the exception of financial holding undertakings, which were consolidated using proportionate consolidation.

2. For the purposes of solvency, subsidiary undertakings with a different activity to that of a credit institution or of investment undertakings as defined in Directive 2013/36/EU and Regulation (EU) 575/2013, both of 26 June 2013, are accounted for using the equity method. Jointly controlled entities that are financial institutions were consolidated using the proportionate consolidation method, regardless of the method applied in the financial statements.

Table 1 details the treatment applied to each of the undertakings comprising both consolidation scopes for the purposes of determining capital adequacy and preparing consolidated financial statements.

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

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades consolidables globalmente a efectos de solvencia						**(1 / 2)**
Arquitrabe Activos, SL	Holder of property assets	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	Venture capital management	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 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 compan	37,34	37,34	✓		
Caixa Preference,SAU	Finance	100,00	100,00	✓		
Caixabank Electronic Money, EDE, S.L.	Payment entity	0,00	80,00	✓		
CaixaRenting, SA	Vehicle and machinery rentals	100,00	100,00	✓		
Caja Guadalajara Participaciones Preferentes, SA	Finance	100,00	100,00	✓		
Caja San Fernando Finance, SA	Finance	100,00	100,00	✓		
Cajasol Inversiones Inmobiliarias , SA	Ownership, sales and purchases of property and moveable assets	0,00	100,00	✓		
Cajasol Participaciones Preferentes, SAU	Finance	100,00	100,00	✓		
Corporación Hipotecaria Mutual, EFC SA	Mortgage lending	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 lending	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	Securitisation fund management	91,00	100,00	✓		
Habitat 2018, SL	Real-estate agency	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	✓		
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	✓		
Mediburgos XXI, SAU	Property development and services	100,00	100,00	✓		
MediCaixa, SA	Financial services	100,00	100,00	✓		
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	Consultancy and labour risk prevention	70,00	83,33	✓		

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades consolidables globalmente a efectos de solvencia						**(2 / 2)**
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	✓		
Telefónica Consumer Finance EFC, SA	Consumer financing and financing for commercial transactions	0,00	50,00	✓		
Tenedora de Vehículos, SA	Operating leases	0,00	65,00	✓		
Valenciana de Inversiones Participadas, SLU	Holding company	100,00	100,00	✓		
Vipcartera, SL	Property management	0,00	84,22	✓		

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades consolidables proporcionalmente a efectos de solvencia						**(1 / 1)**
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		✓	

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades con Participación en Entidades Financieras y en Aseguradoras > 10%						**(1 / 1)**
AgenCaixa, SA Agencia de Seguros	Insurance agency	0,00	100,00	✓		
Banco BPI, SA	Banking	44,10	44,10			✓
Boursorama, SA	Direct Banking	1,31	20,49			✓
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 & Cogroup, 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, SA	Factoring	20,00	20,00			✓
Tenedora de Acciones de ITV de Levante, SL	Investment vehicle	12,00	40,00			✓
The Bank of East Asia, LTD	Banking	18,68	18,68			✓
VidaCaixa Mediació, Sdad. Agencia de Seguros Vinculada, SAU	Insurance agency	0,00	100,00	✓		
VidaCaixa, SA de Seguros y Reaseguros Sociedad Unipersonal	Direct life insurance, reinsurance and pension fund management	100,00	100,00	✓		

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades no consolidables ni globalmente ni proporcionalmente a efectos de solvencia						**(1 / 4)**
Acuigroup Mare Mar, SL	Aquiculture	0,00	99,98	✓		
Aris Rosen, SAU	Services	100,00	100,00	✓		
Biodiesel Procesing, SL	Research, creation, development and sale of biofuel manufacturing projects	0,00	100,00	✓		
Bodega Sarría, SA	Production and sale of wine	0,00	100,00	✓		

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades no consolidables ni globalmente ni proporcionalmente a efectos de solvencia						**(2 /4)**
Cestainmob, SL	Property management	0,00	100,00	✓		
Estugest, SA	Administrative activities and services	100,00	100,00	✓		
Grupo Aluminios de precisión, SL	Smelting	65,00	65,00	✓		
Guadalcorchos, SA	Wood and cork industry	0,00	100,00	✓		
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 Vitivinícolas, SL	Production and sale of wine	0,00	100,00	✓		
PromoCaixa, SA	Product marketing	99,99	100,00	✓		
Puerto Triana, SA	Real estate developer specialised in shopping centres	100,00	100,00	✓		
Río Sevilla 98 Promociones Inmobiliarias, SL	Real estate development	0,00	51,01	✓		
Saldañuela Residencial, SL	Real estate	68,60	68,60	✓		
Servicaican, SA (L)	Property development and services	100,00	100,00	✓		
Sociedad de Gestión Hotelera de Barcelona (antes Sihabe Inversiones	Property management	0,00	100,00	✓		
Tenerife Desarrollo Exterior, SA	Promotion of economic activities on the island	100,00	100,00	✓		
VIP Desarrollos, SLU	Real estate development	100,00	100,00	✓		
Abaco iniciativas inmobiliarias, SL	Real estate acquisition, construction and development	0,00	40,00			✓
Acciona Solar, SA	Energy production, distribution, supply and installation	0,00	25,00			✓
Aceitunas de mesa, SL	Production and sale of table olives	0,00	30,00			✓
Ag Inmuebles	Real estate development	0,00	28,85			✓
Agua y gestión de servicios ambientales, SA	End-to-end water management	0,00	24,26			✓
Ape Software Components, SL	Business Intelligence	0,00	21,99			✓
Apia Real Estate ,SARL	Real estate development	0,00	25,00			✓
Arena Comunicación audiovisual, SL	Performing arts. Film and video production activities	0,00	50,00			✓
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			✓
Celeris, servicios financieros, SA	Financial services	26,99	26,99			✓
Cementiri de Girona, SA	Funeral services	30,00	30,00			✓
Centro de transportes aduana de Burgos, SA	Merchandise storage and handling	22,96	22,96			✓
Chival promociones inmobiliarias, SL	Real estate development	0,00	40,00			✓
Creación de suelo e infraestructuras, SL (L)	Real estate development	0,00	25,00			✓
Delta R-Tecnologías de decisión, SL	Construction and development of predictive risk models	0,00	30,37			✓
Desarrollos industriales Prado Marina, SL	Real-estate agency	0,00	30,00			✓
Desarrollos urbanísticos Veneciola, SA (L)	Real estate development	0,00	20,00			✓
Drembul, SL	Real estate development	0,00	25,00			✓
EITWO International Investment, SL	Real estate development	0,00	33,33			✓
Ensanche Urbano, SA	Real estate development	0,00	49,30			✓
Erste Group Bank AG (C)	Banking	9,92	9,92			✓
Eurocel, Centro europeo de empresas e innovación, SA (L)	Creation, attraction and development of business projects	0,00	45,95			✓

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades no consolidables ni globalmente ni proporcionalmente a efectos de solvencia						**(3 /4)**
Europea de desarrollos urbanos, SA	Real estate development	0,00	20,00			✓
Extraice, SL	Design and manufacture of synthetic ice rinks	0,00	7,47			✓
Forest Chemical Group, SL	Chemicals	0,00	13,33			✓
Genmedica Therapeutics, SL	Pharmaceutical development	0,00	12,89			✓
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 (L)	Engineering and concessions	49,00	49,00			✓
Girona, SA	Integrated water distribution	34,22	34,22			✓
Groupalia Venta Online, SL	Sale of leisure products	0,00	30,77			✓
Grupo Financiero Inbursa, SAB de CV (C)	Banking	9,01	9,01			✓
Grupo Luxiona, SL	Manufacture, assembly, processing, purchase, sale distribution of lighting equipment	0,00	20,00			✓
Guadapelayo, SL	Real estate development	0,00	40,00			✓
Hispanergy del Cerrato (L)	Production of vegetable oil and biodiesel	0,00	33,12			✓
I-Neumáticos on line franquicias, SL	On-line tyre sales	0,00	20,88			✓
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	21,03			✓
Inversiones Patrimoniales La Marina, SL	Real estate development	0,00	25,00			✓
Inversiones Resorts Mediterráneos, SL	Real estate development	0,00	23,05			✓
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			✓
Kider, SA (L)	Production, design, supply and assembly of products to cover functional needs of all types of stores	0,00	48,45			✓
Laboratoris Sanifit, SL	Discovery and development of new compounds to regulate the calcification of the organism	0,00	26,49			✓
Lexdir Global, SL	Consultants	0,00	24,66			✓
Medlumics, SL	Manufacture of tomography systems	0,00	31,82			✓
Mimoryx Therapeutics, SL	Development of treatment for diseases	0,00	7,45			✓
Mondragón Navarra, SPE, SA	Holding company	0,00	25,00			✓
Motive Television, SL	Import, export and marketing of electronic and computer products	0,00	32,33			✓
Muchavista Sur Inversiones,SL	Real estate development	0,00	33,33			✓
Nlife Therapeutics, SL	Development of therapeutic agents	0,00	37,18			✓
Nou Biourbanisme, SA (L)	Real estate development	0,00	20,00			✓
Nucli, SA	Real-estate agency	0,00	49,51			✓
Obenque, SA	Real estate development	0,00	21,25			✓

Denominación social	Descripción de la actividad	% Participación		Tratamiento a efectos de elaboración de cuentas anuales consolidadas		
		Directa	Total	Global	Proporcional	Participación
Entidades no consolidables ni globalmente ni proporcionalmente a efectos de solvencia						**(4 /4)**
Oesia Networks, SL	IT and defence electronics consulting	6,29	47,16			✓
Omnia molecular	Discovery and development of new compounds	0,00	30,42			✓
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, SL	Real estate development	0,00	25,00			✓
Peñíscola Green, SA	Real estate development	0,00	33,33			✓
Pevesa Biotech, SA	Obtaining of isolates, hydrolysates, peptides and amino acids	0,00	8,30			✓
Picanya Sud, SL	Real estate development	0,00	20,00			✓
Porta de les Germanies, SA	Real estate development	0,00	33,33			✓
Promociones al desarrollo Bumari, SL	Investment vehicle	48,00	48,00			✓
Promociones Guadavila, SL	Real estate development	0,00	30,00			✓
Promociones Navarra Madrid, SA	Real estate development	0,00	47,50			✓
Promotora Damas Ocho (L)	Real estate development	0,00	40,00			✓
Proretina Therapeutics, SL	Pharmaceutical development	0,00	21,05			✓
Repsol, SA (C)	Oil and gas market operation	11,89	11,89			✓
Residencial Alameda	Real estate development	0,00	41,00			✓
Residencial Golf Mar, SL	Real estate development	0,00	21,53			✓
Sagetis Biotech, SL	Pharmaceutical development	0,00	28,51			✓
Sanifit Merdtech, SL	Development of implants and other healthcare products	0,00	35,40			✓
Servihabitat Servicios Inmobiliarios, SL	Real estate services	49,00	49,00			✓
Smart Solutions Technologies	Production and marketing of biometric solutions	0,00	10,51			✓
Societat Catalana per a la Mobilitat, SA	Implementation of new transport technologies	25,00	25,00			✓
Sofiland, SA	Real estate development	0,00	35,00			✓
Suministros Integrales del acero, SL	Integrated steel supply	0,00	12,21			✓
Tecalum, SL	Supply of parts and products	0,00	9,65			✓
Terminal polivalente portuaria Sagunto, SA	Operation 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			✓
Valenciana de Viviendas 2010, SL	Real estate development	0,00	45,44			✓
Vanios Consulting, SL	Information and communication technology	0,00	29,92			✓
Vía 10, Sociedad mixta de viviendas de alquiler, SL	Real-estate agency	0,00	49,00			✓
Yaap Digital Services, SL (antes Ecosistema Virtual)	Finance	0,00	33,33			✓
Comercia Global Payments, Entidad de Pago, SL	Payment entity	49,00	49,00			✓
Cubican Infema, SL	Real estate development	0,00	50,00			✓
Cubican XXI, SL	Real estate development	0,00	50,00			✓
Desarrollos Albero, SA	Real-estate agency	0,00	50,00			✓
Global Payments South America, Brasil – Serviços de Pagamentos, SA (1)	Payment methods	50,00	50,00			✓
Montealcobendas, SL	Real-estate agency	0,00	50,00			✓
Numzaan, SL	Real-estate agency	0,00	21,47			✓
Vitalia Sur, SL	Equity investment in resident and non-resident companies	0,00	50,00			✓
Vivienda protegida y suelo de Andalucía, SA	Real estate development	0,00	50,00			✓

1.2.2 Reconciliation between the public and confidential balance sheets

As set out in Annex I of Commission Implementing Regulation (EU) 1423/2013, the following table presents the reconciliation between balance sheet items used to calculate own funds and regulatory own funds, comparing the accounting information disclosed in the notes to the financial statements with the regulatory information included in this report.

Table 2. Reconciliation between the public and regulatory balance sheets

Assets	Public	Insurance Companies	Other Finantial Entities (*)	Adjustments and Eliminations	Regulatory scope
Cash and deposits at central banks	**4.156.781**	**0**	**-31**	**0**	**4.156.750**
Financial assets held for trading	**12.256.760**	**0**	**0**	**3.906.551**	**16.163.311**
Debt securities	2.049.774	0	0	0	2.049.774
Equity instruments	32.616	0	0	0	32.616
Trading derivatives	10.174.370	0	0	3.906.551	14.080.921
Other financial assets at fair value through profit or loss	**937.043**	**-1.360.686**	**0**	**423.643**	**0**
Loans and advances to credit institutions	0	-423.643	0	423.643	0
Debt securities	549.070	-549.070	0	0	0
Equity instruments	387.973	-387.973	0	0	0
Available-for-sale financial assets	**71.100.537**	**-43.348.451**	**-3.859**	**469.465**	**28.217.692**
Debt securities	67.205.087	-43.348.150	0	469.420	24.326.357
Equity instruments	3.895.450	-301	-3.859	45	3.891.335
Memorandum: Loans or advanced as collateral	*3.049.202*	*0*	*0*	*0*	*3.049.202*
Loans and receivables	**195.731.456**	**-12.206.011**	**-636.665**	**24.583.284**	**207.472.064**
Loans and advances to credit institutions	4.377.197	-11.754.539	-581.104	12.173.379	4.214.933
Loans and advances to customers	188.761.864	-451.472	-55.559	12.409.903	200.664.736
Debt securities	2.592.395	0	0	0	2.592.395
Memorandum: Loans or advanced as collateral	*59.642.121*	*0*	*0*	*11.897.494*	*71.539.615*
Held-to-maturity investments	**9.608.489**	**0**	**0**	**2.910**	**9.611.399**
Memorandum: Loans or advanced as collateral	*299.878*	*0*	*0*	*0*	*299.878*
Adjustments to financial assets - macro-hedges	**138.812**	**0**	**0**	**0**	**138.812**
Hedging derivatives	**5.155.973**	**0**	**0**	**0**	**5.155.973**
Nont-current assets held for sale	**7.247.941**	**0**	**0**	**1.026.268**	**8.274.209**
Investments	**9.266.397**	**-717.853**	**0**	**2.906.672**	**11.455.216**
Associates	8.110.608	-21.701	0	21.701	8.110.608
Jointly controles entities	1.155.789	-692.012	0	-346.839	116.938
Group Entities	0	-4.142	0	3.231.812	3.227.670
Insurance contracts linked to pensions	**0**	**0**	**0**	**2.172.543**	**2.172.543**
Reinsurance assets	**451.652**	**-451.652**	**0**	**0**	**0**
Tangible assets	**6.404.416**	**-19.908**	**-48.990**	**-29.754**	**6.305.764**
Property, plant and equipment	3.144.819	-19.908	-15.173	-29.753	3.079.985
For own use	*3.144.819*	*-19.908*	*-15.173*	*-29.753*	*3.079.985*
Investment property	3.259.597	0	-33.817	-1	3.225.779
Activo intangible	**3.634.566**	**-736.350**	**-2.223**	**12**	**2.896.005**
Goodwill	3.050.845	-583.870	0	0	2.466.975
Other intangible assets	583.721	-152.480	-2.223	12	429.030
Tax assets	**10.097.557**	**-303.521**	**-25.947**	**220.745**	**9.988.834**
Current	707.311	0	-12.813	9.144	703.642
Deferred	9.390.246	-303.521	-13.134	211.601	9.285.192
Other assets	**2.435.069**	**-91.892**	**-166.560**	**-966.947**	**1.209.670**
Inventories	1.197.035	0	-171.938	-989.652	35.445
Other	1.238.034	-91.892	5.378	22.705	1.174.225
Total assets	**338.623.449**	**-59.236.328**	**-884.275**	**34.715.396**	**313.218.242**
Memorandum					
Contingent liabilities	**10.241.836**	**0**	**0**	**65.463**	**10.307.299**
Contingent commitments	**50.706.226**	**0**	**0**	**15.851.597**	**66.557.823**

(*)retrocessions of these positions in the public balance sheet

Liabilities	Public	Insurance Companies	Other Finantial Entities (*)	Adjustments and Eliminations	Regulatory scope
Financial liabilities held for trading	**11.974.880**	**0**	**0**	**3.906.550**	**15.881.430**
Trading derivatives	10.105.414	0	0	3.906.550	14.011.964
Short positions	1.869.466	0	0	0	1.869.466
Other financial liabilities at fair value through profit or loss	**1.442.391**	**-1.442.391**	**0**	**0**	**0**
Financial liabilities at amortised cost	**247.538.656**	**-12.196.165**	**-645.525**	**25.500.590**	**260.197.556**
Deposits from central banks	12.156.872	0	0	0	12.156.872
Deposits from credit institutions	13.762.059	-11.899.919	-588.112	12.430.094	13.704.122
Customer deposits	180.200.450	0	-14.276	12.590.829	192.777.003
Marketable debt securities	32.920.219	0	0	462.282	33.382.501
Subordinated liabilities	4.396.075	0	0	1	4.396.076
Other financial liabilities	4.102.981	-296.246	-43.137	17.384	3.780.982
Adjustments to financial liabilities - macro-	**3.242.925**	**0**	**0**	**0**	**3.242.925**
Hedging derivatives	**876.116**	**0**	**0**	**3**	**876.119**
Liabilities under insurance contracts	**40.434.093**	**-42.296.926**	**0**	**1.862.833**	**0**
Provisions	**4.370.507**	**0**	**-1.645**	**11.291**	**4.380.153**
Provisions for pensions and similar	2.964.457	0	0	0	2.964.457
Provisions for taxes and other legal contingencies	396.589	0	0	0	396.589
Provisions for contingent liabilities and comitments	563.597	0	0	0	563.597
Other provisions	445.864	0	-1.645	11.291	455.510
Tax liabilities	**1.671.832**	**-560.530**	**-11.014**	**220.388**	**1.320.676**
Current	265	-218.464	-2.786	221.026	41
Deferred	1.671.567	-342.066	-8.228	-638	1.320.635
Other liabilities	**1.839.481**	**-40.620**	**-25.474**	**329.693**	**2.103.080**
Total liabilities	**313.390.881**	**-56.536.634**	**-683.656**	**31.831.348**	**288.001.939**

Equity	Public	Insurance Companies	Other Finantial Entities (*)	Adjustments and Eliminations	Regulatory scope
Shareholders' equity	**23.372.983**	**-2.695.112**	**-200.619**	**2.895.731**	**23.372.983**
Capital	5.714.956	-1.347.462	-114.189	1.461.651	5.714.956
Share premium	12.032.802	0	-182.601	182.601	12.032.802
Reserves	5.069.833	-1.205.240	85.498	1.119.742	5.069.833
Less: Treasury shares	-11.013	0	0	0	-11.013
Profit/(loss) attributable to the Group	620.020	-872.410	10.675	861.735	620.020
Less: Dividends and remuneration	-53.615	730.000	0	-730.000	-53.615
Valuation adjustments	**1.821.656**	**-4.584**	**0**	**4.584**	**1.821.656**
Avaible-for-sale financial assets	1.601.142	8.186	0	0	1.609.328
Cash flow hedges	-20.872	0	0	0	-20.872
Exchange differences	174.915	0	0	0	174.915
Entities accounted for using the equity method	66.471	-12.770	0	4.584	58.285
Non-Controlling Interest	**37.929**	**0**	**0**	**-16.265**	**21.664**
Valuation adjustments	560	0	0	0	560
Other	37.369	0	0	-16.265	21.104
Total Equity	**25.232.568**	**-2.699.696**	**-200.619**	**2.884.050**	**25.216.303**
Total Equity and liabilities	**338.623.449**	**-59.236.328**	**-884.275**	**34.715.396**	**313.218.242**

(*)retrocessions of these positions in the public balance sheet

1.2.3 Other general information

At 31 December 2014, CaixaBank, both individually and at consolidated level comfortably met the minimum own funds requirements.

The remaining banking subsidiaries of the consolidated 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 individual minimum own funds requirements.

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

1.2. Risk management policies and objectives

1.2.1 Risk management objectives, corporate culture and organisation

Reorganisation of the Group in 2014[1]

According to the provisions of Law 26/2013 on savings banks and banking foundations, and following its approval by the ”la Caixa” General Assembly held on 22 May 104, on 16 June 2014, the official deed for the transformation of Caixa d’Estalvis i Pensions de Barcelona, ”la Caixa”, into a Banking Foundation was filed with the Foundations Registry, giving rise to the transformation of this entity and therefore the termination of the indirect exercise of ”la Caixa” banking activities through CaixaBank, S.A. The new banking foundation is called Caixa d’Estalvis i Pensions de Barcelona Banking Foundation, ”la Caixa”, and is subject to the supervision of the Bank of Spain in relation to its stake in CaixaBank pursuant to the Law on savings banks and banking foundations.

The conversion of ”la Caixa” into a banking foundation was carried out as part of the restructuring of the ”la Caixa” Group, which involved two processes. Firstly, the transfer to Criteria – a wholly-owned subsidiary of ”la Caixa” – of the stake previously held by the current ”la Caixa” Banking Foundation in CaixaBank and of the debt instruments issued to date by ”la Caixa”. As of 14 October 2014, the Banking Foundation will therefore hold an interest in CaixaBank through Criteria CaixaHolding; and secondly, the dissolution and liquidation of the former ”la Caixa” Foundation and the transfer of its assets and liabilities to the current ”la Caixa” Banking Foundation (this liquidation was recorded in the Catalonian Registry of Foundations on 16 October 2014).

With the reorganisation process now completed, the “la Caixa” Banking Foundation performs the following main activities: the direct management of the welfare projects and, through Criteria, the management of its stake in CaixaBank and of investments in non-financial sectors (mainly Gas Natural and Abertis).

CaixaBank is the leading financial group in the Spanish market, in both the banking and insurance sectors, with a strategy of diversifying its stakes in international banks and benchmark service companies (Telefónica and Repsol). The Group stands alone among its peers for its involvement and unwavering commitment to society.

[1] See "Significant Events" in the CaixaBank 2014 Results Presentation.
[2] See Note 3 to the CaixaBank Group's 2014 consolidated financial statements for more information.

CaixaBank's approach to operating in the banking business is based on values of leadership, trust and social commitment.

Governance structure and organisation of the risk function

CaixaBank's Board of Directors is the entity's representative body and, except for matters reserved for the Annual General Meeting, its senior decision-making body. The Board of Directors has delegated certain matters to delegate or Board committees. Specifically, in September 2014 the Risks Committee was created for the ongoing monitoring of risk management.

At CaixaBank, the Risks Function is carried out by a general division responsible for financial risks and operating independently of the business areas from both a reporting and operational perspective.

1.2.1.1 Risk management objectives

This chapter describes the CaixaBank Group's main risk management principles.

Adequate risk management is essential for the business of any credit institution, especially one like CaixaBank, which mainly operates in retail banking and considers the confidence of its customers to be a core value.

Risk control is fully ingrained in the business and the Entity plays a proactive role in ensuring that it is implemented. Senior Management participates directly in maintaining the internal control framework, ensuring that it is executed prudently, and in the ongoing capital management and planning to guarantee the level of capital available is in keeping with the Entity's risk level. The risk management system is comprehensive and consolidated at corporate level. This way, its sets a risk profile that is aligned with the Group's strategic objectives. The system of authorisation levels is based on fundamental risk variables and transaction amounts, enabling risks to be quantified using scenarios based on capital use and expected loss.

The Risk Management System itself comprises the following elements:

- The Risk Culture which, *inter alia,* involves general risk management principles, employee training and the involvement of the General Risks Division in other HR processes related to the business areas
- The Governance Structure and the Organisation
- Corporate Risk Map
- The Risk Appetite Framework approved by the Board of Directors in 2014
- The Internal Control Framework

1.2.1.2 Risk Culture: General Risk Management Principles

The Board of Directors of CaixaBank is the Group's highest risk-policy setting body. The Board-approved General Risk Management Principles[2] can be summarised as follows:

- Risk is inherent to the Group's business
- The Board of Directors is the most senior risk management body, a function in which management is involved.
- The Group's target risk profile is medium-low
- The entire organisation should be, and is, involved in aligning the risk assumed to the desired profile.
- Risk management entails the full cycle of transactions: from preliminary analysis until approval, to monitoring of customer and counterparty solvency, and profitability, and to repayment or recovery of impaired assets
- The risk function is independent of the business and operating units.
- Business decisions are taken jointly between at least two employees with different organisational reporting lines.
- Inclusion of the table of powers in the systems facilitates the decentralisation of decision-making so that decisions are taken as close as possible to customers, while ensuring risks are approved at a suitable level.
- Approvals are based on the borrower's repayment capacity and factor in an appropriate return
- Standard criteria and tools are employed throughout the organisation.

[2] See Note 3 to the CaixaBank Group's 2014 consolidated financial statements for more information.

- Risks are measured and analysed using advanced methods and tools in accordance with sector best practices. All risk measurement, monitoring and management work is carried out in accordance with the recommendation of the Basel Committee on Banking Supervision, European directives and Spanish legislation.
- Appropriate resource allocation: The human and technical resources allocated to risk management are sufficient in terms of both quantity and quality to allow objectives to be achieved.

Training

The General Risks Division and the General Human Resources Division define the content of any risk-related training for functions supporting the Board of Directors/Senior Management covering specific matters that help high-level decision-making, as well as the rest of the organisation, especially branch network staff. The aim is to help decentralise decision-making, train staff on risk analysis, reinforce the Entity's risk culture, optimise risk cycle management and improve risk quality.

CaixaBank structures the provision of risk-related training through the Corporate Risk School, a strategic tool designed to provide support to business areas. The school also acts as a conduit for disseminating the Company's risk policies; providing training, information and tools for all the Entity's staff.

More than 7,000 hours of training divided up into various training programmes were given to employees of the branch network and central services of CaixaBank in 2014. The main programmes were:

- Training of risk analysts on risk management criteria and policies, and the analysis of the economic-financial and legal aspects of risk.
- Training on operational risk to raise awareness about the importance of this risk, explain the project to transition to advanced models and teach the different tools and management framework defined.

In addition, external training was funded on a variety of topics, such as risk appetite, operational risk and adaptation to new European regulations.

Lastly, several initiatives were carried out within the CaixaBank Group to extend the risk culture; a highlight of 2014 entailed training workshops on regulatory changes regarding risk and capital charge at the CaixaCard subsidiary, with an emphasis on the need to consider risk as another core management element throughout the Organisation. The intention is to extend this training to other Group companies in 2015.

Outlook for risk management in HR processes of the business areas

Analysis of regulators and other influential bodies in the banking sector, such as the Basel Committee and the Financial Stability Board, indicate that the 'internalisation' by management and business area heads of the long-term impact of commercial decisions has been a best industry practice until now, but has become a requirement and standard of good management.

At CaixaBank, a clear example of the importance and consolidation of the risk culture is that since 2011, the General Human Resources Division requests the opinion of the General Risks Division on the quality of credit risk management by specific employees of the branch network, the regional divisions and the business segments, all under a broader process for assessing all candidates up for promotion or to retain their positions of responsibility.

1.2.1.3 Organisational structure of the risk function

1. The Board of Directors of CaixaBank[3].

The Board of Directors is the Entity's representative and senior decision-making body, except in some matters reserved for the Annual General Meeting.

The Board's duties include approving the Company's strategy, overseeing the organisation of the Company to implement this strategy, and supervising and controlling the Company's management to ensure that it meets its stated targets and respects its corporate purpose and interest.

The Board of Directors is responsible for approving the general risk control and management policy, and for the periodic monitoring of internal information and control systems.

The Board has also established its own duties with regard to risk and is responsible for making decisions on certain issues in this regard. The following table shows the issues related with risk management on which the Board will take decisions, and its main duties:

[3] For more information see the Regulations of the Board of Directors of CaixaBank, S.A. of October 2014 on the website.

Table 3. Board of Directors: decisions on issues related with risk management and main duties.

Issues on risk management on which the Board of Directors will take decisions	General matters
• Adopting and monitoring compliance with risk measurement approaches, as well as calculating the related regulatory capital requirements; • Organising the highest tier control duties; • Establishing global risk limits; and • Ruling on general risk policies and progress made. • Defining, update and overseeing compliance with the Risk Appetite Framework	• Defining general risk management principles; • Establishing the distribution of functions within the organisation and the criteria for preventing conflicts of interest; • Approving and reviewing periodically the risk performance, management, control and reduction strategies and policies; • Approving the general internal control strategies and procedures; and • Monitoring the results of the risk management and control function and the status of internal control of credit and counterparty, market, liquidity, interest rate risk in the banking book, operational and investee risks.

Article 32.4 of the Board of Directors' Regulations stipulates that the CaixaBank Directors must observe the limitations on membership in Boards of Directors laid down in the prevailing law governing banking institutions. The current law contains certain conditions depending on the nature of the position and the combination with other positions held by the director[4].

In accordance with the obligations listed in article 2 of Royal Decree 1245/1995, of 14 July on the incorporation of banks, cross-border transactions and other matters relating to legislation governing credit entities, and the wording of Royal Decree 256/2013, of 12 April which incorporates into legislation on credit entities the European Banking Authority's guidelines on the assessment of the suitability of members of the management body and key function holders published on 22 November 2012, in 2013 CaixaBank approved a "Protocol on Procedures for Selecting and Assessing the Suitability of Posts" (the "Protocol") which establishes the units and internal procedures at the Entity to ensure the selection and ongoing assessment of, *inter alia*,

[4] For more information on directorships held by CaixaBank directors in other companies, see the curriculum vitaes of each member of the Board of Directors on the CaixaBank corporate website - www.caixabank.com/informacioncorporativa/consejoadministracion_es.html – and the statements on positions held in other Group companies and other listed companies in sections C.1.11 and C.1.12, respectively, of the 2014 Annual Corporate Governance Report (ACGR).

members of the Board of Directors, General Managers and similar, the people responsible for internal control and other key positions at CaixaBank, S.A., as defined in applicable legislation.

Under the “Protocol”, the Board of Directors, in plenary session, assesses the suitability of proposed candidates, based on a report from the Appointments Committee. When assessing the suitability of candidates, CaixaBank takes into account the three recommendations listed in Royal Decree 1245/1995, of 26 June, on the organisation, supervision and solvency of credit institutions, i.e. that they should be persons of good business and professional repute, they should possess the appropriate knowledge and experience to perform their duties, and the aptitude to exercise the Company’s good governance. These recommendations are currently implemented by Royal Decree 84/2014, of 13 February, which repealed RD 1245/1995, of 14 July, in force in 2014.

The Appointments Committee's duties and responsibilities including reporting to the Board of Directors the balance of knowledge, skills, diversity and experience of the Board of Directors and on gender diversity issues, and establishing a representation target for the less represented sex on the Board of Directors, as well as preparing guidelines for how this should be achieved.

When analysing and proposing candidates’ profiles for appointment to the Board of Directors, the Appointments Committee not only takes into account matters of gender diversity, but also criteria of repute, knowledge and professional experience to be appointed a Director of a credit institution as stipulated in prevailing legislation. However, it has yet to set a quota for female Directors.

Moreover, in 2012, CaixaBank signed up to the "Diversity Charter". This charter is signed voluntarily by a company or a public institution to promote its commitment to the principles of equality, its actions to foster the inclusion of all people in the workplace and society, the recognition of the benefits of cultural, demographic and social diversity within companies, the implementation of specific policies which encourage a working environment free from prejudice with regard to employment, training and the promotion and adoption of non-discrimination policies.

Up until 25 September 2014, there were three Board committees: the Appointments and Remuneration Committee, the Audit and Control Committee and the Executive Committee.

Thereafter, and pursuant to Law 10/2014 on the organisation, supervision and solvency of credit institutions, the CaixaBank Board of Directors resolved to change the Appointments and Remuneration Committee into an Appointments Committee, create a Remuneration Committee and a Risks Committee, and amend the Regulations of the Board of Directors accordingly to incorporate the provisions of the new Law and establish the duties of the new Board Committees. These changes resulted in the Entity having five Board Committees, namely: the Appointments Committee, the Remuneration Committee, the Risks Committee, the Audit and Control Committee and the Executive Committee.

2. Risks Committee:

The Board of Directors has delegated certain matters to delegate committees. Specifically, in September 2014 the Risks Committee[5] was created for the ongoing monitoring of risk management.

The Risks Committee reports to the Board of Directors the resolutions adopted at each meeting. In addition, at Board of Directors meetings, the Risks Committee Chairman reports, at the request of the Chairman of the Board of Directors, on the Committee's activities, as well as the work carried out and the opinion of the Committee regarding issues previously addressed at the meeting and which must be decided on by the Board.

To strengthen relations between the Risks Area and the governing bodies, the Global Risk Committee reports directly to the Risks Committee.

The Risks Committee comprises members of the Board of Directors who do not perform executive functions and who possess the appropriate knowledge, skills and experience to fully understand and manage the risk strategy and risk propensity of the entity, in the number determined by the Board of Directors, with a minimum of three (3) and a maximum of six (6). At least one third of these members, and in every case the Chairman, shall be independent Directors.

The Risks Committee shall meet as often as necessary to fulfil its duties and shall be convened by the Chairman, either on his/her own initiative or at the request of the Chairman of the Board of Directors or of two members of the Committee itself.

From its creation on 26 September until the end of 2014, the Risks Committee held eight meetings[6].

[5] See section C.2.1 of the 2014 Annual Corporate Governance Report for more information on the members of the Risks Committee.

Its main functions are[7]:

- Advise the Board of Directors on the overall susceptibility to risk, current and future, of the Entity and its strategy in this area, reporting on the risk appetite framework, assisting in the monitoring of the implementation of this strategy, ensuring that the Group's actions are consistent with the level of risk tolerance previously decided and monitoring the appropriateness of the risks assumed and the profile established.
- Propose to the Board the Group's risk policy.
- Propose to the Board of Directors, the nature, quantity, format and frequency of the information concerning risks that the Board of Directors should receive and establish what the Committee should receive.
- Regularly review exposures with its main customers, economic business sectors and by geographic area and type of risk.
- Examine the information and control processes of the Group's risk as well as the information systems and indicators.
- Evaluate the regulatory compliance risk in its scope of action and determination, understood as the risk management of legal or regulatory sanctions, financial loss, or material or reputational loss that the Company could suffer as a result of non-compliance with laws, rules, regulation standards and codes of conduct, detecting any risk of non-compliance and carrying out monitoring and examining possible deficiencies in the principles of professional conduct.
- Report on new products and services or significant changes to existing ones.
- Examine, without prejudice to the functions of the Remuneration Committee, if the incentives anticipated in the remuneration systems take into account the risk, capital, liquidity and the probability and timing of the benefits.

3. General Risk Division.

Under the supervision of the Board of Directors and the Risks Committee, the General Risk Division reports organisationally to the Chief Executive.

[6] For more information, see the 2014 ACGR on the CaixaBank and CNMV websites. For more information on CaixaBank's risk control and management systems, see Section E of the 2014 ACGR.
[7] For more information, see the functions established Article 13 of the Regulations of the Board of Directors of 23 October 2014 available on the CaixaBank website.

This General Division has the main responsibility for the Group's financial risks, operating independently of the business areas from both a reporting and operational perspective. Reporting to this division are:

- the Corporate Individual Loan Analysis and Approval Division, responsible for analysing and authorising retail lending;
- the Corporate Business Loan Analysis and Approval Division, responsible for analysing and authorising risk to the rest of the business segments and specialised sectors (companies and SMEs, public sector-sovereign, financial institutions, real estate, project finance, tourism, and food and agriculture). It also manages and liaises with the risks analysts in Risk Approval Centres located in the Regional Departments;
- the Executive Division, which oversees the Permanent Lending Committee, which has been delegated powers by the Board to approve transactions;
- the Corporate Global Risk Management Division, responsible for coordinating and implementing the Risk Appetite Framework and managing credit, market and operational risk at corporate level. In this respect, it defines the risk methodologies, policies, infrastructure and models and determines the regulatory and economic capital charge requirements;
- the Risk Models Validation Division, which ensures that advanced internal models are appropriate for determining regulatory capital requirements irrespective of the management units and their development.

The areas and functions that report to Divisions responsible for risk control operate organisationally and functionally independent of the risk-taking areas in order to enhance the autonomy of management, monitoring and control functions, thus ensuring the comprehensive management of risks.

The risks function adapts to the decentralised organisation of the CaixaBank branch network, but still pursues specialisation and efficiency, as underlined by the creation of the Risk Approval Centres (RAC). Meanwhile, the Regional Network is structured into hierarchical levels with different approval powers: Branches, Business Area Divisions, District Delegations and Regional General Divisions. In addition to the universal banking network, there is a specialist network for other segments: Business Centres, Real estate Developer Centres, Corporate Offices and Institutional Centres.

Transactions that exceed the level of authority of the Regional Divisions or the analysts specialised in each segment must be approved, as appropriate, by the Permanent Lending Committee and, ultimately, by the Board of Directors.

4. Management committees to monitor risks

CaixaBank's Senior Management, under the supervision of the Risks Committee and acting within the framework of the powers delegated by the Board, sit on the various risk management committees which establish general action policies, approve transactions at the highest level, and manage business risk across the Group.

- Global Risk Committee

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

  The Global Risk Committee is also charged with adapting CaixaBank's risk strategy to the Risk Appetite Framework, clarifying and resolving doubts about interpreting the Risk Appetite Framework and keeping CaixaBank's Board of Directors informed through its Risks Committee of the main areas of activity and the status of risks to which the CaixaBank Group is exposed.

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

  All Global Risk Committee members must notify the committee of any matters within their remit that could affect the global management of the Group's risks.

- Permanent Lending Committee

  This committee analyses and, where appropriate, approves the transactions that fall within its scope, and refers any transactions that exceed its level of authority to the Board of Directors. It is the final tier in the approvals hierarchy, above which lending and credit must be signed off by the Board of Directors.

- Risk Policies Committee

This committee approves CaixaBank's credit and market risk policies. Policies are any of the guidelines governing the Bank's activities and any procedures through which they are implemented.

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

The Transparency Committee has also appointed the Risk Policies Committee to analyse and approve loan and credit products, ensuring their design or modifications thereto comply with regulations on the commercialisation of such products.

- Subsidiaries' Risk Policies Committee

It is responsible for approving policies for credit and market risk associated with CaixaBank Group subsidiaries. The Subsidiaries' Risk Policies Committee has the same powers and responsibilities as the Risk Policies Committee but at subsidiaries.

During Subsidiaries' Risk Policies Committee meetings, subsidiaries will be updated on any fluctuations in the key risk indicators, legislative developments, and changes in the organisation and risk circuits that could affect them. Subsidiaries, meanwhile, will report on changes in the risks to which their businesses are exposed.

- Operational Risk Committee

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

- Models and Parameters Committee

The Models and Parameters Committee reviews and formally approves models and parameters for credit risk, market risk (including counterparty risk – credit in Treasury activity and operational risk), and any other methodologies used by the committee to perform its control duties.

- Risk Monitoring Committee

  The Risk Monitoring Committee defines the risk monitoring strategy, in line with the global risk management framework. It draws up and implements the risk monitoring policy. It also analyses the most relevant risk exposures.

- Default and Recovery Committee

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

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

- New Investment Products Committee

  This committee approves the commercialisation of new financial products and ensures advertising, communication and contractual information associated with the commercialisation of new investment products of both Treasury and those managed by third-party entities comply with prevailing legislation.

- Corporate Rating Committee

  It approves and/or amends internal corporate ratings, analysts' proposals, and the validity thereof, for both standard and pre-rating scores.

- Large Auctions Committee

  It analyses and authorises the foreclosure of real estate assets securing debts of over €600,000. It focuses especially on how these assets will be auctioned off and makes any decisions related with auctions (e.g. halting auctions).

- Large Client Monitoring Committee

  This committee is charged with transmitting, reflecting upon and exchanging ideas and opinions between Risk Monitoring and business areas. It establishes a framework for considering the conclusions set out in major customer monitoring reports, and disseminates information on the profound changes stemming from the change in supervisor.

- Dations Committee

  It sets out the necessary protocol for each case of dation in payment, i.e. receipt of real-estate assets pledged to secure loans to individuals, and the subrogation thereof to BuildingCenter.

- Real Estate Acquisition and Appraisal Committee

  This committee analyses and approves, where appropriate, any acquisitions proposed by branch network directors of real-estate accepted in lieu of payment of real-estate developer loans, taking into account the legal aspects of each arrangement, appraisal values, and expected recoveries.

  It also signs off acquisitions of real estate from insolvent companies and, exceptionally when this is the best option for recovering loans.

- ALCO

  The ALCO (Asset and Liability Committee) establishes the policy and management of liquidity, interest rate and foreign currency risk in the banking book.

1.2.1.4 Corporate Risk Map

The current development of the financial system and the rapid transformation of the regulatory framework highlight the growing importance of assessing the risk and control environment of entities.

CaixaBank's Internal Control Area is coordinating the Corporate Risk Map (CRM) Project to identify, measure, monitor, control and report risks. The Corporate Risk Map offers a comprehensive vision of the risks associated with corporate activities and the control environment.

CaixaBank's CRM project has included determining a Corporate Risk Catalogue, which helps the internal and external monitoring and reporting of the Group's risks, which are grouped into two main categories: Risks affecting the Entity's financial activity and risks affecting business continuity.

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

- Risks affecting the Entity's financial activity.

  - ✓ **Liquidity risk:** Risk of insufficient liquid assets due to outflows of funds and market closure to meet contractual maturities of liabilities, regulatory requirements, or the needs of the business.

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

  - ✓ **Market risk:** Risk of a decrease of the value in the CaixaBank Group's assets held for trading or increase in the value of its liabilities held for trading due to fluctuations in interest rates or prices in the market where the assets and liabilities are traded.

  - ✓ **Interest or exchange rate risk:** Risk of a negative impact on the economic value of the balance sheet or results, arising from changes in the structure of the interest rate curve or exchange rate fluctuations.

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

  - ✓ **Capital adequacy risk:** Risk caused by a restriction of the CaixaBank Group's ability to adapt its level of own funds to regulatory requirements or to a change in its risk profile.

- Risks affecting business continuity

  - ✓ **Legal/Regulatory risk**: Risk of a loss or decrease in profitability of the CaixaBank Group as a result of changes to the regulatory framework or court rulings that are unfavourable to the Entity.

  - ✓ **Compliance risk**: Risk arising from a deficient procedure that generates actions or omissions that are not aligned with the legal or regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.

  - ✓ **Operational risk:** Risk of losses arising from inadequate or failed internal processes, people and systems, or from external events. Includes the risk categories encompassed in the regulation.

  - ✓ **Reputational risk:** Risk associated with reduced competitiveness due to the loss of trust in CaixaBank by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or Governing Bodies.

In order to restore the confidence of its customers, the CaixaBank Group has focused on solvency and quality as strategic priorities. Moreover, it has spent the last few years strengthening its internal control, regulatory compliance and anti-money laundering structures to minimise the probability of occurrence of actions or omissions such as those seen in global financial institutions throughout 2014, which have had a greater media impact and affected the sector's image.

1.2.1.5 Risk Appetite Framework

1. Background

Regulators and other advisory bodies in the financial sector are increasingly advising on the need to define and implement a risk appetite framework that backs up the decision-making process and informed approval of risks.

In particular we would note the guiding principles published by the Financial Stability Board (November 2013), which considers them a standard prerequisite for good governance, and adequate management and oversight of financial groups. The European Banking Authority and the Bank of Spain adhere to these recommendations, which are still not statutory.

The risk culture has always been a distinguishing feature of the CaixaBank Group's business. This culture, together with the risk policies and systems in place and the skills of its workforce, have permitted the Group to maintain a moderate risk profile and noteworthy level of solvency in the Spanish market.

As a result of its pursuit of leadership and excellence, the CaixaBank Group has adopted this framework, considered among best practices in internal risk governance.

2. Description and structure

The Risk Appetite Framework (the "Framework") is a comprehensive and forward-looking tool used by the Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic and profitability objectives.

In designing the Framework, in November 2014 the Board established four key dimensions expressing the Group's aspiration regarding the main risks that could affect the Entity. These are:

- **Loss buffer**: CaixaBank has set an objective of maintaining a medium-low risk profile and a comfortable level of capital to strengthen its position as one of the soundest entities in the European banking market. This objective is expressed in the Entity's high Common Equity Tier 1 (CET1) ratios, with the CaixaBank Group ending 2014 with a CET1 of 13.1%.
- **Funding and liquidity**: CaixaBank wants to make sure that it is always able to meet its obligations and funding requirements on time, even under adverse market conditions, and one objective is to have a stable and diversified funding base as a means of preserving and protecting the interests of its depositors. An example is the Liquidity Coverage Ratio (LCR), which is well over 100% compared to the regulatory threshold of 60% from October 2015.
- **Business composition:** CaixaBank aspires to maintain its leading position in the retail banking market and be able to generate revenue and capital in a balanced and diversified manner. Accordingly, it monitors and mitigates different types of concentration; e.g. large exposures, which the Group strives to keep below the regulatory threshold of 25% of eligible own funds.

- **Franchise**: CaixaBank is committed to the highest ethical and governance standards in its business conduct, encouraging sustainability and social responsibility and ensuring operating excellence. To illustrate, in this respect the Board of Directors has established zero tolerance of non-compliance with regulations.

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

The Framework is represented graphically by a pyramid structure that ends with Tier 1 principles and indicators, supported by more detailed metrics (Tier 2) and impact on day-to-day activity through management levers.

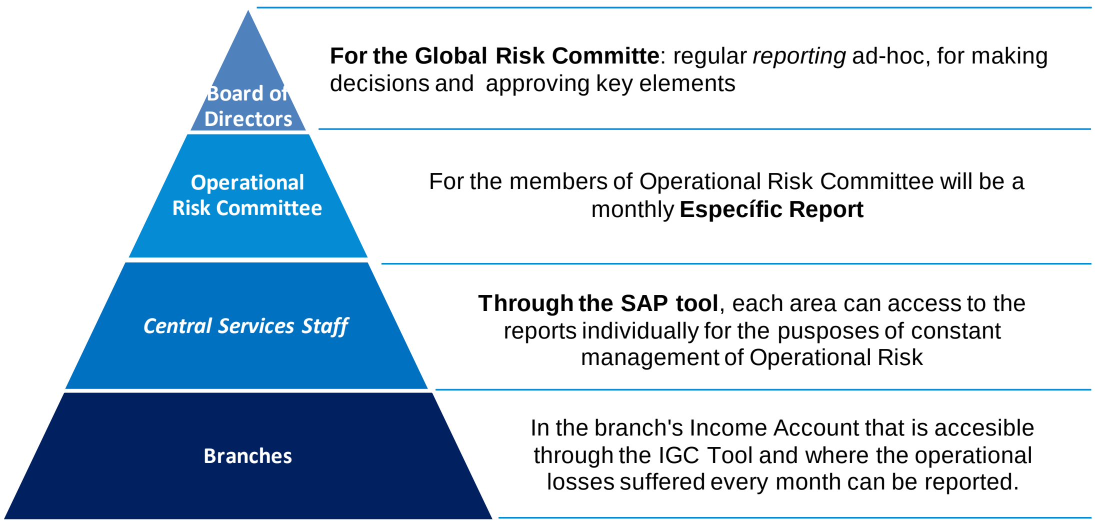


Diagram 1

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

There are various "**Appetite**" and "**Tolerance**" levels for each of the metrics which have a **system of alert traffic lights**:

- "Green traffic light": risk target
- "Amber traffic light": early alert

- “Red traffic light”: breach

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

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

To illustrate, some metrics considered for each dimension are:

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

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

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

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

These mechanisms include:

- Human resources policies, such as incentives or appointments in the business areas.
- Communication and training in risks which, similar to the preceding policies, are crucial to consolidate and disseminate an effective risk culture.
- Processes and risk to standardise, monitor and ensure that execution is carried out consistently throughout the Entity.
- The delegation of powers to ensure the convergence of decisions at various levels that pool the information, incentives and skills necessary without jeopardising efficiency and opportunities.
- The policies and methodologies in the broadest sense for aligning these competencies with the desired risk profile and maximising their consistency and scope of application, as well as the correct measurement and assessment of the risks of the Framework.
- The definition of aggregate concentration limits to ensure that the sum of the parts complies with the tier 1 thresholds.

3. Monitoring and governance of the Risk Appetite Framework in the CaixaBank Group

The **Board of Directors** is responsible for defining and supervising the Group's risk profile, updating the framework each year and monitoring the effective risk profile. Approving the Framework in 2014 enabled the risk to be structured in a single and comprehensive strategy, management and control platform used by the governing bodies and management of the CaixaBank Group, from the perspective of a financial conglomerate.

The **Risks Committee** advises the Board of Directors on the Entity's overall susceptibility to risk, current and future and its strategy in this area. It reports to the Board on the Risk Appetite Framework, assisting in the monitoring of the implementation of this strategy and ensuring that the Group's actions are consistent with the level of risk tolerance and risk profile established.

The **Global Risk Committee** is an executive body which reports directly to the Risks Committee. It monitors the effective compliance of the framework at least once a month. If the pre-established levels are exceeded, the necessary measures are taken to reshape the situation.

In order to meet the information, management and control needs of the above mentioned bodies, the following reporting system has been set up:

- **Monthly presentation** of tier 1 metrics to the **Global Risk Committee,** indicating the risk position for the previous month and the trend. If risk levels breach the threshold for:

  - ✓ **Appetite**: an "amber traffic light" or early alert is assigned to the indicator, and the party responsible or the Management Committee is entrusted with preparing an action plan to return to the "green" zone, and a timeline drawn up.
  - ✓ **Tolerance**: a "red traffic light" is assigned, including an explanation as to why the previous action plan did not work. Corrective or mitigating measures are proposed to reduce exposure. This must be approved by the Risks Committee.
  - ✓ **Recovery Plan**: would trigger the Plan's governance process, which entails a set of measures to:

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

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

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

- **Half-yearly presentation to the Board of Directors** on the situation, action plans and forecasts for tier 1 metrics. During these sessions, the Board may decide to amend or update the metrics and previously assigned thresholds as per the regulation governing the Risk Appetite Framework (at least annually). If a risk breaches a tolerance threshold which could threaten the Group's ability to continue as a going concern, the Board may initiate the measures set forth in the Recovery Plan.

Global risk management and control ensures that the Entity's risk profile is aligned with its strategic objectives, preserves the solvency and liquidity mechanisms, enables it to achieve an optimal risk-return ratio and strive for excellence in customer service with flexible and transparent processes.

1.2.1.6 Audit, Internal Control.

Developments in the financial system, macroeconomic trends and the transformation of the Regulatory Framework indicate the growing importance of assessing risk and the control environment of entities, imposing greater demands and responsibility on Senior Management and the governing bodies.

CaixaBank has an internal control framework which offers a reasonable degree of assurance that the Group will achieve its objectives. CaixaBank's internal control environment is aligned with guidelines issued by the regulator and industry best practices, and is structured in accordance with the Three Lines of Defence model:

- The first line of defence comprises the Group's business units and support areas, which are responsible for identifying, measuring, controlling, mitigating and reporting the key risks affecting the Group as it carries out its business.
- The second line of defence acts independently and is designed to identify, measure, monitor and report all of the Group's material risks, as well as to establish and develop management and control systems for these risks, and design compliance policies. The second line of defence includes, *inter alia,* the Risk Management, Regulatory Compliance and Internal Control areas.
- The third line of defence, which comprises Internal Audit, is responsible for assessing the effectiveness and efficiency of risk management and the internal control systems, applying principles of independence and objectivity.

The Deputy General Audit and Internal Control Division is in charge of ensuring the correct performance of and supervising the Group’s internal control model. This division reports systematically and regularly to CaixaBank’s Chief Executive, as well as to the Audit and Control Committee, which oversees the internal audit function and the integrity of the Group’s internal control framework.

The Internal Control and Internal Audit areas under this deputy general division operate independently from each other and from other CaixaBank Group areas and companies in accordance with guidelines issued by regulatory and supervisory authorities.

1. Internal Control.

The mission of the Internal Control Area is to analyse and provide reasonable assurance to management and the governing bodies that the necessary controls are in place, designed correctly and operate efficiently to manage the Group's risks.

Its main duties include:

- Coordinating the Corporate Risk Map (see section 1.2.1.4 Corporate Risk Map for more information)
- Advising Senior Management on the control protocols and action plans needed to resolve any control deficiencies
- Systematically and regularly reporting on the Group's control environment to Senior Management and governing bodies

In performing its duties, this area provides a transversal view of the main risks assumed by the Group and assesses the Group's control environment.

2. Internal Audit

Internal Audit provides reasonable assurance to Senior Management and the governing bodies that the CaixaBank Group's objectives are being fulfilled, assessing the effectiveness and efficiency of the risk management, internal, control 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 the Group, acting as the third line of defence in the Group's internal control framework.

Internal Audit's main responsibilities include:

- Assessing the effectiveness and efficiency of the internal control systems established to mitigate the risks associated with the Group's activities, with a special focus on:
  - ✓ compliance with prevailing external legislation, the requirements of supervisory bodies, and the appropriate application of the comprehensive risk management frameworks defined by European Directives on solvency for the banking and insurance sectors.
  - ✓ compliance with internal policies and regulations, and alignment with best industry practices and uses.

- ✓ the reliability and integrity of financial and operational information, including the effectiveness of Internal Control over Financial Reporting (ICFR).
- ✓ the economical and efficient use of resources by the Group.

- Adding value by proposing recommendations to address weakness detected in reviews conducted and monitoring their implementation by the appropriate centres.
- Reporting regularly relevant information to Senior Management and the Audit and Control Committee on the conclusion of tasks carried out, weaknesses identified and recommendations made.

Internal Audit in the CaixaBank Group has a specific strategic plan related to CaixaBank's 2011-2014 Strategic Plan, the key points of which are as follows:

- Annual audit plan focusing on the key risks identified in the Group, which is submitted to the Audit and Control Committee for examination and approval.
- Response to local/global supervisory requirements and to specific and one-off requests from governing bodies and Senior Management.
- Efficient use of resources through improvement in continuous auditing by operating advanced performance alerts, ongoing auditor training and a suitable policy for outsourcing specialised services.

In relation to the risks covered by this document, "Information of Prudential Relevance," Internal Audit supervises the risk management control environment, 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 equity exposures, it verifies the main management processes implemented in this respect, the use of advanced credit risk models, and compliance with established regulatory requirements, in particular by:
  - ✓ Reviewing the main admission and approval, arrears 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;
  - ✓ Monitoring the management of concentration risk;

- ✓ 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.

- o For operational risk:
  - ✓ Reviewing the aspects described in the AMA dossier for adopting advanced measurement approaches (AMA) for calculating minimum capital requirements, such as:
    - Integration in management: verifying the adaptation and development of the AMA model for daily management of operational risk.
    - Uses of the model: verifying the effective implementation of the model in the daily management of operational risk.
    - Management procedures and tools: verifying compliance with internal regulations.
    - Measurement system: verifying the accuracy and integrity of the data, mainly.
    - Technological environment and applications: relating to the integrity and confidentiality of the information, in addition to system availability and business continuity, through planned reviews and continuous auditing through monitoring of the defined risk indicators.
  - ✓ Reviewing adequate compliance and implementation of the Operational Risk Management Framework in the entire Group.

- o For market risk, liquidity risk and interest rate risk in the banking book:
  - ✓ Verifying regulatory requirements in respect of risk management systems, as they relate to implementation in management, methodology, integrity of data used, the correct structure of control systems and the suitability of written instructions.

- ✓ Reviewing the technological environment and processes for uploading the IT applications used to measure risk.
- For legal and regulatory risk:
  - ✓ Reviewing the main risks arising from the CaixaBank Group's legal environment, above all in relation to adaptation to amendments in the regulatory framework and the management of legal proceedings.
- For compliance risk:
  - ✓ Verifying that the policies and procedures in place in the CaixaBank Group adapt to the legal framework, the regulatory framework or the internal codes and regulations.

In addition to supervising the Pillar I risks within the comprehensive 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.

1.2.1.7 Regulatory Compliance.

Regulatory Compliance supervises compliance risk, which is defined as risk arising from deficient procedures that generate actions or omissions that are not aligned with the legal, regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.

The Regulatory Compliance Area is responsible for oversight of risk compliance by establishing second-tier controls, which allows for the detection of potential deficiencies in the procedures implemented in the Entity to ensure compliance with regulations in all its areas of activity. When deficiencies are detected, it prompts the areas affected to develop and apply proposed improvement actions to correct the deficiency and monitors these regularly until they are effectively implemented.

Given the scale of the potential regulatory risks arising from the CaixaBank Group's activities, the scope of the Regulatory Compliance Function must be clearly defined based on the application of a risk-based approach. Based on an initial ad hoc analysis, including a comparison with best practices in Spain's financial market, and without prejudice to future control areas, the Compliance programme focuses, *inter alia*, on the following operating areas: anti-money laundering and counter terrorist financing, the securities market act, transparency in banking services, products and services, including the launch of new products and services, integrity and the Entity's rules of conduct (Code of Ethics, Telematic Code, Internal Code of Conduct on Matters Relating to the Securities Market, Internal Code of Conduct relating to contributions to the Euribor panel, Anti-corruption policy), corporate governance, customer protection, personal data protection, solvency, risk of corporate criminal prosecution, advertising and commercial communications, and regulator requirements in related matters.

Work is under way preparing the Risk Map for regulatory compliance to better assess compliance risk and efficiently align resources to controlling and managing the most relative risks in this regard. This map is to be integrated in the Corporate Risk Map during 2015.

The Regulatory Compliance Area liaises with the main supervisory bodies (principally the CNMV and the Bank of Spain) and, handles any requirements issued by them. The areas involved and Legal Advisory prepare the responses.

The Compliance Area reports regularly on its control activities to Senior Management and the Audit and Control Committee. It has sufficient functional and professional independence to perform its oversight and reporting duties and in no case is involved in the management decisions or operations of the activities it supervises.

Within the Regulatory Compliance Area, there as an independent unit, the Anti-Money Laundering and Counter Terrorist Financing Operating Unit (AMLOU), whose sole mission is to enforce compliance with anti-money laundering and counter terrorist financing laws, helping the commercial areas raise customer awareness, and control and report suspicious transactions. The AMLOU is managed and supervised by the Anti-Money Laundering and Counter Terrorist Financing Committee, and its activities are reported to Senior Management and the Audit and Control Committee.

1.2.2 Credit risk

Credit risk is the most significant risk item on the CaixaBank Group's balance sheet and arises from the banking and insurance business, treasury operations and the equity portfolio.

As described in section A.1.2.1.5 above, with the design and periodic review of the Risk Appetite Framework, the governing bodies and management team monitor that the risk profile is still that which the Group is willing to assume, paying special attention to the potential impacts of the lending activity on solvency and profitability.

1.2.2.1 Credit risk

1. Description and general policy

Approval of lending transactions at CaixaBank 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.

Regarding its ordinary business, CaixaBank gears its lending activity towards meeting the finance needs of households and businesses. Credit risk management is characterised by a prudent approvals policy and appropriate coverage. Most loans are to private borrowers and consist primarily of mortgages to first-time homebuyers. Therefore, the loan structure has a significantly low level of risk given the high degree of diversification and fragmentation. In accordance with the CaixaBank Group's Strategic Plan, there is a commitment to retain leadership in retail lending and further strengthen the position in corporate lending. In terms of geographic distribution, business in mainly based in Spain.

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

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

The document was approved by the Board of Directors in February 2014, in compliance with Bank of Spain Circulars 5/2012 and 3/2014, and establishes, *inter alia*, the following policies:

- An appropriate relationship between income and the expenses borne by consumers
- Documentary proof of the information provided by the borrower and the borrower's solvency

- Pre-contractual information and information protocols that are appropriate to the personal circumstances and characteristics of each customer and operation
- An appropriate independent assessment of real estate collateral
- An Entity-wide policy of not granting foreign currency loans to individuals

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

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

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

2. Structure and organisation of the credit risk management function

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

To strengthen relations between the Risks Area and the governing bodies, the Global Risk Committee reports directly to the Risks Committee[8].

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

[8]See section A.1.2.1.3.

- **Risk Models and Policies**, which comprises:
  - **Risk Policies and Infrastructure**, responsible for adopting the policies applicable to new transactions: internal powers, prices and profitability, documentation for dossiers, mitigation of risk through acceptance of guarantees and collateral, and integration of measurement tools in decision-making systems.
  - **Credit Risk Models and Parameters**, responsible for the construction, maintenance and integration in management of internal rating-based (IRB) credit risk models, the calculation of the main parameters (e.g. PD, LGD), and the methodology, calculation and analysis of trends in the economic capital charge.
  - **Global Risk Management Information:** this transversal unit is responsible for aggregating, processing, validating and analysing internal and external data (e.g. from regulators, rating agencies), as well as the methodology, calculation and analysis of trends in the regulatory capital charge. Since 2014, it has also coordinated the design and implementation of the Risk Appetite Framework.
- **Credit Risk Monitoring and Recoveries**, responsible for monitoring borrowers and inputting the results of this monitoring into the approvals, arrears management and recoveries systems.

3. Credit risk cycle

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

4. Risk management: Measurement and information systems

CaixaBank has been using internal rating-based (IRB) models since 1998; it uses the scorings and ratings to measure the creditworthiness of customers and transactions.

On 25 June 2008, the Bank of Spain authorised CaixaBank to use IRB approaches to calculate own funds requirements for credit risk.

Credit risk measures loss due to failure by a borrower to meet its financial obligations based on two concepts: expected loss and unexpected loss.

- **Expected loss**. Expected loss is the average of possible losses calculated by multiplying three factors: probability of default (PD), exposure at default (EAD) and loss given default (LGD).
- **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. Unexpected losses have a low probability and large amount, and should be absorbed by the Entity's own funds. The calculation of unexpected loss is also based on the transaction's PD, EAD and LGD.

Credit risk parameters are estimated based on the Entity's historical default experience. CaixaBank has a set of tools and techniques for this in accordance with the specific needs of each type of risk; PD is estimated based on new defaults related to transaction ratings and scorings; LGD is estimated based on the present value of recoveries received net of direct and indirect costs associated with collection; and EAD is estimated based on the observation of the use of credit limits in the months prior to the default.

CaixaBank has management tools in place to measure the PD for each borrower and transaction, covering virtually its entire lending portfolio. In segments not yet covered, it gathers relevant information for overall exposure with a view to creating future PD calculation tools.

In addition to regulatory use to determine the Entity's minimum own funds, the credit risk parameters (PD, LGD and EAD) are presented in a number of management tools; e.g. the risk-adjusted return (RAR) calculation tool, the risk-adjusted bonus (RAB) system, pricing tools[9], customer pre-qualification, monitoring tools and alert system.

5. Admission and approval

Approval of lending transactions at CaixaBank is based on a decentralised organisation that allows branches to approve a high percentage of transactions. The system assigns officers automatically the tariff and risk levels delegated by Management as standards for their positions. In cases where an employee's approval authorisation is insufficient, the system requires approval from a higher level. Any transaction must be approved by at least two properly authorised employees.

There are two alternative systems for calculating the level of risk of a transaction:

1. Based on the accumulated expected loss of all the customer's transactions and those of its economic group. This system is used for applications where the principal borrower is a private company or real estate developer (in general, companies with annual revenue of up to €200 million).

2. Based on the nominal amount and collateral of all risks posed by the customer or its economic group. This system is used for the rest of the segments; e.g. natural persons, very large companies, public sector entities.

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

One major component of the assessment of a borrower's capacity to repay a debt is the PD (risk parameter defined within the management framework proposed by Basel Committee on Banking Supervision) assigned 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.

[9] See Note 3.1.3.2 “Admission and Approval” of the CaixaBank Group's 2014 financial statements for more details.

As indicated previously, approval powers are controlled automatically and employees cannot approve transactions for which they lack authorisation.

6. Concentration risk[10]

According to the guidelines published by the Committee of European Banking Supervisors (CEBS) in September 2010 before it was dissolved and its responsibilities assumed by the EBA, concentration risk is one of the main possible causes of major losses and potential destruction of solvency of financial institutions, with many examples seen in the 2008-2009 period

Moreover, in line with the CEBS Guideline 7, CaixaBank has developed methodologies, processes and tools to systematically identify its overall exposure with regard to a particular customer, product, industry or geographic location. Wherever it is considered necessary, limits on relative exposures to each of these have been defined under the Risk Appetite Framework, as well as on concentration by economic sector, differentiating between private business economic activities and public sector financing. In keeping with the internal communication policy of the Risk Appetite Framework, trends in these indicators are reported (at least) monthly to the Global Risk Committee, quarterly to the Risks Committee and every six months to the Board of Directors.

7. Hedging policies and mitigation techniques

Credit risk is mitigated by the collateral or guarantees provided by the borrower. In this respect, it is common practice for long-term transactions to be covered by solid guarantees for retail banking (e.g. mortgage, deposit, pledge of deposits, guarantee of partners), as well as business and corporate banking (e.g. deposit by the parent, coverage by credit insurers or government agencies), as 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.[11]

[10] See Notes 3.1.3.3 “Limits on large exposures” and 3.1.4 “Concentration risk” of the CaixaBank Group's 2014 financial statements for more details.
[11] See 1.2.4 “Credit risk reduction techniques” in Part B of this document for further details.

8. Credit risk monitoring[12]

To adequately manage credit risk, borrowers must be monitored continuously over the entire term of their loans. The objective is to reach a conclusion on the degree of satisfaction with the risk assume with the borrower and any actions that need to be taken. Risk Monitoring targets the overall lending portfolio.

The Entity's Risk Monitoring and Prevention Management Department reports to the Corporate Global Risk Management Division. Its function is two-fold: to prepare follow-up reports on individual borrowers or economic groups with higher risk levels, or large exposures, and to monitor risk holders whose creditworthiness shows signs of deteriorating, using a rating and monitoring scoring system based on risk alerts for each borrower.

Another feature of the alert system is that it is fully integrated with the customer information systems, including all loan applications related to the customer. Alerts are assigned individually to each borrower and a rating is established automatically on a monthly basis.

The outcome of the monitoring process is the establishment of Action Plans for each of the borrowers analysed. These plans are in addition to the rating generated by the Alerts and, at the same time, provide a reference for future approval policies.

Within the scope of the migration in Europe towards the single banking supervisor, and above all as a result of the Asset Quality Review (AQR), credit risk monitoring also enables the Entity to quantify the related impairment of assets of individually significant amounts.

9. Arrears management and recoveries[13]

The default and recoveries function is the last step in the credit risk management process and is aligned with CaixaBank's risk management guidelines.

Recovery is conceived as an integral management circuit that begins even before default or before an obligation falls due through a prevention system implemented by CaixaBank and ends with recovery or definitive write-off.

[12] See Note 3.1.3.5 “Credit risk monitoring” of the CaixaBank Group's 2014 financial statements for more details.
[13] See Notes 3.1.3.6 “Arrears management” and 3.1.3.7 "Recoveries" of the CaixaBank Group's 2014 financial statements for more details.

The branch network oversees the recovery activity. The Entity's extensive network allows for coverage of the entire national territory, ensuring proximity to and knowledge of the customer, which it leverages applying criteria of effectiveness and efficiency.

The aim is to act on the first signs of any deterioration in the creditworthiness of debtors and carefully implement measures to monitor operations and the related guarantees and, if necessary, instigate claims to recover debt quickly.

1.2.2.2 Counterparty risk

1. Description and general policy

The main aim of counterparty risk management at CaixaBank is to align security with the Entity’s business objectives. This involves configuring a risk profile that simultaneously helps profitability and value creation budgets to be achieved and guarantees the Entity’s 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. Accordingly, CaixaBank has a credit approval system in place approved by the Management Committee, in which the maximum authorised 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 performs continuous monitoring of market signals through analysis of the values of credit default swaps (CDS) and the shares of each counterparty.

2. Structure and organisation of the risk management function

CaixaBank has three areas with direct responsibility for the quantification, monitoring and control of counterparty risk, as follows:

- The **Financial Sector and Country Risk Department**, part of the Loan Analysis and Approval Division, is responsible for all banking counterparty risks undertaken by CaixaBank, irrespective of the type of transaction and activity that generates them. Its main functions include:
  - ✓ Determining the risk thresholds per counterparty;
  - ✓ Analysing and monitoring counterparties and risks;

- ✓ Controlling the use of limits and breaches;
- ✓ Monitoring legal risk; and
- ✓ Preparing risk information for internal bodies, the Bank of Spain, credit rating agencies, etc.

- o **The Risk in Market Operations Department**, which is part of the Corporate Global Risk Management Division, is responsible for estimating counterparty risk associated with CaixaBank's financial market activities. Its main functions include:
  - ✓ Defining and implementing calculation methodologies for the estimation of credit exposure equivalent;
  - ✓ Measuring (daily) ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (securities lending).
- o 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 related settlements and accounting entries) of the ISDA collateral agreements (OTC derivatives), GMRAs (repos) and GMSLAs (securities lending).

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 at the CaixaBank Group is controlled through an integrated system that provides real-time data on the available exposure limit for any counterparty, product and maturity, 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**. Standardised 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 derivatives trading hedged by the contracts. There are 152 contracts signed with financial institutions, with a degree of collateralisation of over 99%.

- **CSA agreements (collateral deposits)**: Agreements whereby the parties undertake to make a **cash deposit as collateral** for the net credit risk exposure 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.

- **GMRA agreements (collateral on repo transactions)**: Agreements whereby the parties undertake to deliver an asset to each other as collateral for the net credit risk exposure arising from differences 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 free will. This mitigates counterparty risk by reducing the effective duration of the derivatives subject to the clause.

- **Delivery-versus-payment in securities 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)**. The use of central counterparties (CCPs) mitigates the counterparty risk of OTC derivative contracts; i.e., trades not executed through a market regulated according to the MiFiD. EMIR regulations and the Regulations of the European Parliament on prudential 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 equity investments

1. Definition and general policy

The risk associated with equity investments entails the possible loss or reduction in the Group's solvency through equity instruments caused by adverse movements in market prices, potential sales or investee insolvency.

The equity portfolio includes strategic investments, with a medium-long term horizon which the CaixaBank Group manages actively, as well as stakes in subsidiaries which serve a specific or complementary financial purpose.

In line with the active management of equity investments, there are investment agreements with core shareholders of international banks in which CaixaBank holds stakes, as well as strategic agreements with the respective banks, to undertake joint venture opportunities, cooperate on customer service in the respective regions of influence and analyse cost and knowledge synergies. The purpose of this is to create shareholder value (not replicable through capital markets) and move forward with CaixaBank's international expansion, tapping emerging business opportunities and adopting the best practices of other markets.

2. Structure and organisation of the risk management function

At CaixaBank Group, stakes or equity investments are subject to monitoring and specialised analysis. This monitoring and analysis is carried out at a deeper level in the case of long-term investments and/or those involving a more material investment amount and impact on capital.

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

- **Representation on the governing bodies of investees**: depending on the percentage stake and the strategic alliance with the majority shareholder (when the majority shareholder is not the CaixaBank Group), members of the Board of Directors or Senior Management are appointed to serve as members of the investees' boards of directors. On occasion, this also includes board committees, such as the Risks or Audit Committees.

  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 operate. The International Banking area (responsible for banking stakes), the Financial area (for industrial stakes) and the Holding Companies area (for subsidiaries) gather and share information on these stakes.

  In general, with the most significant shareholdings, both the estimates of and actual data on investees' contributions to income and own funds (where applicable) are updated regularly. In these processes, the outlook for securities markets and analysts' views (e.g. recommendations, target prices, ratings) are shared with Senior Management for regular comparison with the market.

  In keeping with accounting regulations, these teams test the carrying amount of the equity investments for impairment every six months, to assess their value and appropriate recognition in 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 provisions allocated to investments.

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

  The conclusions on the accounting profit and loss and the most relevant alerts of changes in the contributions of equity investments are submitted to the Management Committee and shared with CaixaBank's governance bodies, generally each quarter.

- **Accounting recognition**: the Financial Accounting 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 established under Internal Control over Financial Reporting (ICFR) are applied, and the regulations set forth therein are complied with. In matters of finance, changes in own funds in companies accounted for using the equity method are also recognised.

3. Management of equity exposures at CaixaBank

Pursuant to banking regulations, the Corporate Global Risk Management Division monitors the exposure and regulatory capital charge associated with CaixaBank's stakes, according to the classification of the equity investment:

It uses, *inter alia*, tools arising under the framework of the new European regulation governing capital requirements: the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation [14].

This division works with other areas of the Entity, directly carrying out the calculation of and regulatory reporting on the solvency of the Group's equity portfolio, in addition to other tasks related to risk management.

The Corporate Global Risk Management Division also performs functions related to quantifying and monitoring equity exposure: 1) the incorporation, on a daily basis, of the market risk of derivatives and the currency risk associated with the equity portfolio into the Group's global market risk; and 2) the ongoing monitoring of risks of the portfolios arising from the dealings in financial markets in connection with financial stakes. This approach is explained in more detail below.

4. Measurement and information systems

The risk of positions that make up the equity 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 quoted assets)
- From the standpoint of the possibility of default, using models based on the PD/LGD approach.
- Applying the standardised approach if neither of the above can be applied

[14] Regulation No. 575/2013 of the European Parliament and of the Council, of 26 June 2013 (the "CRR")

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.

5. 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 III, the criterion for assigning the various risk measurement approaches to the equity investments not included in the trading portfolio is as follows.

The selection between a PD/LGD approach and a market approach (VaR model) will depend on the classification of the stake for accounting purposes.

- For stakes not classified as available-for-sale, the most significant risk is default risk and, therefore, the PD/LGD approach is applied. Where PD is not available, the simple risk weight method is used.
- For available-for-sale investments, the most significant risk is market risk and, therefore, the market-based approach (VaR model) is used. Where historical data of prices on organised markets for stakes in not available, which rules out measurement using the VaR model, the PD/LGD approach is used as far as possible. Where PD is not available, the simple risk weight method is used.

However, in the case of strategic investments classified as available for sale for which there is a long-term management relationship, the PD/LGD approach is used. The use of this approach depends on whether there is sufficient information on the equity exposure in order to assess the internal rating and assign a reliable, duly grounded PD for that equity holding. When the information available is insufficient, the simple risk weight method is used.

The result obtained from using internal models to measure capital charges (VaR, PD/LGD) is a key element for calculating the quantity and quality of the risk assumed, without prejudice to the analysis of other types of measurements that supplement those required by regulations designed to determine the market value of the stakes, their liquidity, and the estimated contribution to the Group's profit and loss, and capital.

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

- The Market Risk Report, which includes risk monitoring (VaR) on the CaixaBank Group's trading derivatives related to CaixaBank's strategic stakes, and the monitoring of the currency risk associated with these stakes.

- The CaixaBank Group's Positioning Report, which is part of the global monitoring of the positions that comprise market operations, covering both the fixed-income and equity positions held by the CaixaBank Group, including those in VidaCaixa and in guaranteed mutual and pension funds.

6. Hedging policies and mitigation techniques

- **Currency risk**[15].

  The Entity's policy is to hedge against any items that affect the income statement. Accordingly, it hedges against cash flows, but does not hedge equity exposures in foreign currency, since it considers these to be long-term investments.

[15] See section A.1.2.4.2 "Currency risk in the banking book".

1.2.4 Market risk

1. Definition and general policy

The CaixaBank Group is exposed to market risk in the trading portfolio from adverse movements in the following factors: interest rates, exchange rates, share prices, commodity prices, inflation risks, and changes in the credit spreads 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 authorised operating framework.

To manage this risk, the CaixaBank Group used internal models to calculate regulatory own funds for market risk associated with the trading portfolio, currency and gold risk, and commodity price risk since 31 December 2007, when the Bank of Spain authorised the Group to apply them. In 2012, this authorisation was extended to the calculation of regulatory own funds for internal incremental default and migration risk (IRC) and stressed VaR models.

2. Structure and organisation of the risk management function

CaixaBank's Risk in Market Operations Division is responsible for the valuation of financial instruments, as well as the measurement, control and monitoring of the related risks, the estimation of counterparty risk and of the operational risk associated with activities in financial markets.

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

The Corporate Global Risk Management Division, which comprises the Risk in Market Operations Department, acts, organisationally 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. Its task focuses on configuring a risk profile in accordance with the Group's strategic objectives.

3. Risk management: Measurement and information systems[16]

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 and exponential smoothing, giving more weight to recent observations.
- 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 downgrade 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 and credit derivative positions (spread VaR), which constitutes an estimate of the specific risk attributable to the security issuers. This calculation is made using a historical approach taking into account the potentially lower liquidity of these assets, and a confidence interval of 99%.

To verify the suitability of the risk estimates, two backtests (gross and net) are conducted 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.

[16] See Note 3.2 Market Risk to the CaixaBank Group's 2014 consolidated financial statements for more information.

4. Hedging policies and mitigation techniques

Formalising and updating the risk appetite presented to the governing bodies delimits and validates that the market risk metrics defined by the CaixaBank Group are commensurate with the established risk tolerance levels. The Risk Appetite Framework approved by the Board of Directors sets a limit for VaR with a one-day time horizon and confidence level of 99% for all trading activities of €20 million. Moreover, both positions in the trading portfolio and bank stakes are restricted to the concentration limits set out in the Risk Appetite Framework (e.g. concentration in large exposures, in the public sector or in an economic sector).

As part of the required monitoring 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 Finance Division 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**. The Board of Directors is responsible for defining the maximum level of market risk that may be undertaken in the Entity’s treasury and 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 Finance Division are authorised 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 Finance Division).
- **Limit on trading derivatives linked to CaixaBank's long-term stakes.** In June 2008, the ”la Caixa” Board of Directors developed the general framework, approving a specific limit on this activity, managed using 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 25 July 2011, CaixaBank's Global Risk Committee adapted the same framework to the “la Caixa” Group's new organisational structure.

In relation to the regulatory capital charges in the calculation of market risk using internal models, incremental default and migration risk of ratings on fixed-income portfolios and stressed VaR, the CaixaBank Global Risk Committee defined specific limits in July 2011 and March 2012, respectively.

1.2.5 Operational risk

1. Definition and general policy

The definition of operational risk adopted by the Group is that set out in the regulations[17]:

"The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Losses on lending operations resulting from operational risk are recorded for operational risk management purposes. Losses relating to market risk resulting from operational risk are recorded both for management purposes and for calculating regulatory capital for operational risk.

The CaixaBank Group is willing to manage operational risk homogeneously and consistently across all the companies within its scope as a financial conglomerate. It achieves this by promoting consistency in the tools, measurements and reporting they use, ensuring the existence of full and comparable information for operational risk decisions. It also promotes the use of advanced measurement and management models for each sector of activity; these are implemented consistently with the degree of development and maturity in each sector.

The CaixaBank Group manages the operational risk within its scope of consolidation in accordance with the standards applicable to advanced approaches, for which it has put in place the necessary tools, policies and structures.

[17] See CRR 575/2013 Title I, Article 4, definition 52.

2. Definition of the impact associated with an operational event

A key issue when quantifying risks is the definition of the impact or "severity" of an operational loss event. In general, the components of this impact in the Group may be equated to the extra direct costs resulting from the loss event, i.e. costs that would not have been incurred without the event. The operational impact includes reimbursement of amounts to customers and third parties, irrecoverable losses of funds, compensation, fines, legal contingencies, etc. However, it does not include the cost of preventive measures, improvements in controls and investment plans.

In any event, at least for regulatory calculations, the definition of the impact must comply with the regulatory requirements in force at any given time.

3. Types of operational risk

The types of operational risk in the CaixaBank Group are organised into four hierarchical tiers.

The main risk categorisation in the Group is based on tiers 1 and 2 as defined under the regulations[18]. These are extended and developed for risk circumstances up to tiers 3 and 4, which are specific to the Group and are obtained from detailed analysis of operational risk at divisional/Group company level, based on the regulatory levels (1 and 2).

The CaixaBank Group has defined its own main risk categorisation based on an analysis of operational risk in the various business areas and Group companies. The categories are the same for the entire Group and are shared by the qualitative approaches to identifying risks and the quantitative measurement approaches based on an operational loss database.

Tier 3 risk represents the combined individual risk of all the business areas and Group companies.

[18] CRR, Title III, Chapter 4, Article 324.

Tier 4 represents the materialisation of particular tier 3 risks in a specific process, activity and/or business area.

The diagram below illustrates the classification of operational risk types (tiers 1-4) in the Group.

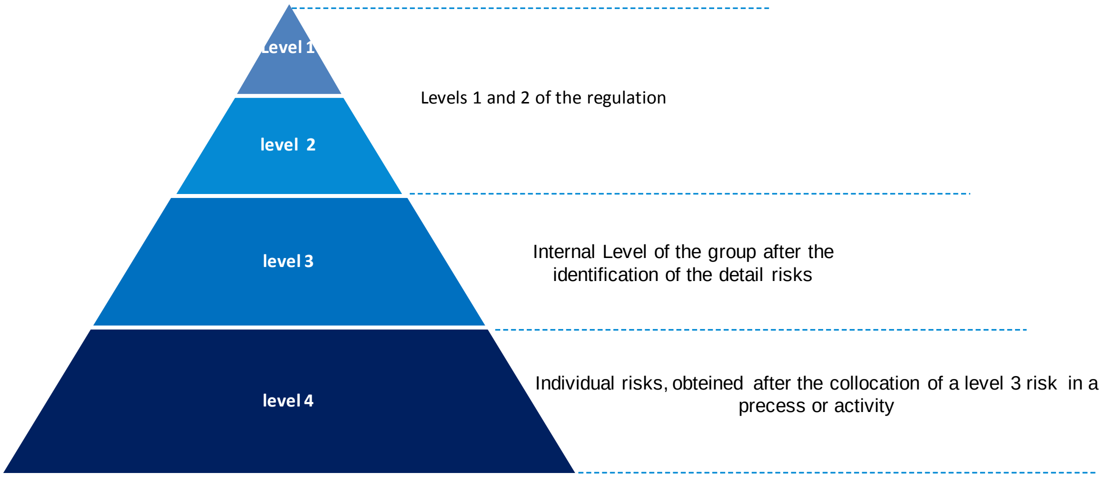


Diagram 2

4. Structure and organisation of the risk management function

At CaixaBank, the **Global Risk Committee** is the management body that defines the strategic lines of action and monitors the Entity's operational risk profiles.

The **Operational Risk Committee** is responsible for approving, communicating and monitoring operational risk management policies, criteria and procedures through the Operational Risk Division (e.g. establishing criteria for allocating and validating losses, and approving and reviewing the main characteristics of the methodology for calculating capital).

Overall control and oversight of operational risk is carried out by the **Corporate Global Risk Management Division**, which materialises the independence functions required by the Basel Committee on Banking Supervision. Its responsibilities include the control and oversight of operational risk.

Business Areas and Group Companies: responsible for the daily management of operational risk within their respective areas. This implies identifying, assessing, managing, controlling and reporting the operational risks of their activity and helping the Operational Risk Division to implement the management model.

The **Operational Risk Division** is part of the Corporate Risk Models and Policies Division, which reports to the Corporate Global Risk Management Division. It is responsible for defining, standardising and implementing the operational risk management, measurement and control model. It also provides back-up to the Areas and consolidates information on operational risks throughout the Entity for the purposes of reporting to Senior Management and to the risk management committees involved.

The **Internal Validation and Internal Audit** areas are responsible for validating the Group's internal risk management models.

Internal Control coordinates the Corporate Risk Map which supports the operational risk model.

Information Systems is responsible for the applications and technological infrastructure on which operational risk management is based.

3. Risk management: Measurement and information systems

The Group's overall objective in managing operational risk is:

"To improve the quality of business management, supplying information on operational risks to allow decisions to be made that ensure the organisation's long-term continuity and improving processes and the quality of both internal and external customer service, while complying with the established regulatory framework and the requirements for calculating the capital charge".

This overall objective comprises a number of specific objectives that form the basis for the organisation and working methodology applicable to managing operational risk. These objectives are:

- To identify and anticipate existing operational risks.
- To ensure the organisation's long-term continuity.
- To promote the establishment of continuous improvement systems for operating processes and the structure of existing controls.
- To exploit operational risk management synergies at the Group level.
- To promote an operational risk management culture.
- To comply with the current regulatory framework and requirements for the applicability of the management and calculation models chosen.

4. Calculation of eligible own funds requirements.

- **Standardised approach:** Pursuant to Circular 3/2008, at the effective date of the Basel II Capital Accord in 2008, the Group requested authorisation from the Bank of Spain to apply the standardised approach for calculating regulatory capital requirements for operational risk. As a consequence, it now applies that approach.

  The standardised approach uses the same approach for calculating own funds for operational risk as the basic indicator approach; i.e. it multiplies the Relevant Indicator by a fixed parameter. However, it breaks the Relevant Indicator down into eight regulatory business lines and multiplies these by a fixed factor, as shown in the table below:

Table 4. Operational risk: business lines and weights

Business lines	Weights
Business financing	18%
Trading and sale	18%
Retail intermediation	12%
Commercial banking	15%
Retail banking	12%
Payment and settlement	18%
Agency services	15%
Asset management	12%

This assumes that firms are able to map the corresponding part of the Relevant Indicator to each of these regulatory business lines.

Using the Standardised Approach, own funds for operational risk are calculated as the sum of the Relevant Indicator (broken down by business line) multiplied by the beta factor for that business line.

The regulations establish that firms using the Standardised Approach must comply with certain demanding requirements for operational risk management and measurement.

- ***Move to advanced measurement approaches (AMA):*** In 2014, a project was developed to move from the current standardised approach to operational risk management to more advanced measurement 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. This project entailed, *inter alia*, the following lines of action:
  - ✓ Strengthening of the integration in operational risk management:
    - Creation of the Operational Risk Committee
    - Publication of Operational Risk Regulations
    - Integration of operational risk in the Risk Appetite Framework
    - Specific operational risk training initiatives
    - Inclusion of operational risk and operational risk management levers in the Corporate Risk Map
  - ✓ Implementation and adaptation of a comprehensive risk management tool:
    - Capture, monitoring and management of internal losses
    - Performance of operational risk self-assessments
    - Monitoring of operational risk indicators (KRIs)
    - Inclusion and monitoring of weaknesses and correction plans
  - ✓ Measurement of capital for operational risk using advanced measurement approaches (2 iterations):
    - Start-up of the calculation engine
    - Workshops on constructing extreme-loss scenarios
    - Development of the AMA

In this context, the Group has developed an analysis for its coverage of regulatory requirements. The objective is to determine the state of the operational risk management model with respect to regulatory requirements when the request to use the AMA is submitted, tentatively in 2015.

5. Hedging policies and mitigation techniques

Through control and mitigation techniques, the CaixaBank 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, CaixaBank transfers risk to third parties by taking out insurance to cover the Group's assets (e.g. premises, property, computer equipment, storage facilities) and business activity (e.g. civil liability, disloyalty, fraud).

Based on the analysis of the exposure to each type of operational risk, the Group determines which risk levels are aligned with its risk appetite and loss absorbing capacity, ensuring that the Group's main risks (damage to assets, civil liability –general, professional and director – and internal fraud) are covered by non-Group companies in order to diversify risk.

As for risk transfer, the following are considered:

- Key business aspects
- Ability to manage and take on risks
- Frequency of review and re-estimations in changing market environments
- The compulsory approval by the Board of Directors

Moreover, based on the detailed analysis of risks, areas of improvement in the control environment are detected, to which the Group applies risk mitigation mechanisms entailing the establishment of action and mitigation plans.

Lastly, each year the adaptation of business continuity plans to international ISO 22301:2012 standards is reviewed through internal and external audits.

1.2.6 Interest rate risk in the banking book

1.2.6.1 Interest rate risk in the banking book

1. Definition and general policy

Interest rate risk in the banking book is inherent in any banking activity and arises when changes in the structure of market interest rates affect balance sheet assets and liabilities with different maturities and benchmark indices, prompting their rollover or arrangement at different interest rates than those set previously, thereby affecting their economic value and net interest income.

The CaixaBank Group manages interest rate risk with a two-fold objective:

- Optimise the Entity's net interest income within the volatility limits of the Risk Appetite Framework.

- Preserve the economic value of the balance sheet at all times within the limits detailed in the RAF.

Based on the management objectives, the Entity has set limits applicable to net interest income volatility and to sensitivity of the economic value of the balance sheet.

The limits applicable form part of the Risk Appetite Framework[19] designed by CaixaBank. At year-end 2014, within the scope of the framework, the Entity had defined management limits to net interest income for a variety of interest rate scenarios and time horizons, as well as for the economic value in terms of VaR and sensitivity.

For the limits on net interest income, based on stressed interest rate scenarios for increases and decreases in interest rates, net interest income is projected and compared to the net interest income obtain in the baseline scenario of implied market rates.

- The scenarios of increases and decreases in interest rates used establish different amounts (200bp and 100bp), as well as a gradual and an immediate impact.
- Net interest income subject to volatility limits refers to both 1-year and 2-year net interest income.

There are two metrics for limits on economic value:

1. A limit on the VaR of the sensitive balance sheet (measured in terms of economic capital), which should be below a specified % of economic value.
2. A limit on total balance sheet sensitivity to the stress of a 200bp increase and decrease in interest rates. The limit is also placed on a specific % positive and negative variation in value relative to the present value calculated from the Entity.

2. Structure and organisation of the risk management function

In accordance with Bank of Spain recommendations and guidelines issued by European regulators and international banking advisory bodies (Basel Committee), CaixaBank's Board of Directors has been allocated the following functions with regard to interest rate risk in the banking book:

- To approve the annual review of on-balance-sheet interest rate risk management policies

[19] See section A.1.2.1.5 Risk Appetite Framework in this document.

- To review compliance with the established minimum limits in the on-balance-sheet interest rate risk management policies.
- To review the organisational and functional framework in which the management and control of this risk is implemented and establish the delegation of powers to management that it considers appropriate. In this case, the Board will receive information on the changes made in the use of the delegated powers and on the expected repercussions.
- To be familiar with the essential aspects of the trend in interest rate risk in the banking book at the 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 of Directors has delegated management and control of this risk to CaixaBank Management through the Global Risk Committee and the Asset and Liability Committee (ALCO), and is advised by the Risks Committee, which oversees that decisions adopted by the Board are implemented correctly and that the risk assumed is appropriate for the Entity's risk profile.

The Global Risk Committee reports to the Risks Committee. It controls and monitors interest rate limits and indicators, but does not participate in their management.

The Executive Finance Divisions analyses this risk and proposes the necessary investment and hedging transactions to the ALCO in accordance with the management objectives and limits described above.

The ALCO, which meets monthly, is in charge of monitoring, analysing and taking decisions on the management of interest rate risk in the banking book based on information and proposals submitted by the ALM and Financing Division and the ALM Division.

The functions performed by the ALCO in the area of interest rate risk in the banking book are as follows:

- Proposing the policy and framework for managing interest rate, liquidity and foreign currency risk in the banking book for approval by the Board of Directors, along with the Risk Appetite Framework for these risks.

- Monitoring, as part of its risk monitoring and control, all relevant elements for interest rate risk measurement and management, and all management limits.
- Approving investment and hedging strategies in financial markets, within the area of interest rate risk management, through any type of instrument with a view to optimising the balance sheet financial structure and ensuring its profitability.

The ALCO reports regularly on the status of interest rate risk in the banking book in terms of both economic value (sensitivities and VaR) and interest income (net interest income projections in various interest rate scenarios).

Information for managing and monitoring interest rate risk is sent to the ALCO, the GRC (which forwards it to the Risks Committee, which reports to the Board) and Senior Management of the Entity. Information is distributed monthly or whenever necessary according to management needs.

3. Risk management: Measurement and information systems

The Executive Finance Divisions uses the following methodologies to measure, monitor and control risk in the banking bank:

- **Static measurements:** Static measurements are not designed based on assumptions of new business and refer to a specific point in time.
  - ✓ **Static gap:**

    The static gap shows the contractual maturities and interest rate resets at a specified date for sensitive on- and off-balance sheet items.
  - ✓ **Sensitivity of economic value**:

    From the static gap at a specified date, the cash flows are obtained of assets and liabilities that mature or reprice in each time bucket defined in the GAP. With tools and systems, the Entity measures these flows through market yield curves and calculates sensitivity of changes in value to an immediate and parallel increase of 1bp (+0.01%).

    Positions with positive GAPs will have negative sensitivities (decreases in value) and positions with negative GAPs will have positive sensitivities (increases in value). The sum of positive and negative sensitivities determine what is called balance sheet sensitivity.

- ✓ **VaR of sensitive balance sheet items:**

  Despite being a static measurement, this includes elements that better capture the complexity of the Entity's balance sheet, as the calculation includes volatility and correlation assumptions for the assets and liabilities considered.

  Balance sheet VaR is defined as the maximum amount that could be lost from the balance sheet in a particular period of time, applying market prices, at a given confidence interval. CaixaBank uses a 1-day horizon and 99% confidence interval in its measurement of balance sheet VaR. Therefore, VaR should be interpreted as the estimate of the maximum loss for each of every 100 days.

  At CaixaBank, the treasury-specific methodology is applied to calculate the balance sheet VaR. In practice, this entails three VaR calculations.

  1. Parametric VaR with a 75-day data window to estimate the parameters.
  2. Parametric VaR with a 250-day data window to estimate the parameters.
  3. Historical VaR over a 250 day period, assuming that what occurred to the value of the balance sheet over the last 250 days is a good guide for estimating what might happen between today and tomorrow.

  In keeping with principles of prudence, the metric considered is the highest of the three.

- ✓ **Economic value of the balance sheet:**

  The economic value (EV) of the balance sheet is calculated as the sum of the fair values of the net interest-rate sensitive assets and liabilities and the net carrying amounts of the non-interest-rate sensitive asset and liability items.

  The fair value of interest-rate sensitive items is obtained by discounting their future principal and interest flows at the interbank market rates at the reference date.

- o **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.

- **Net interest income projections:**

  The Entity makes projects to replicate future net interest income (1, 2 and 3 years ahead) under various scenarios that affect interest rates, so as to project net interest income based on current market curves and forecasts of economic activity and wholesale issues, and to predict how net interest income will vary under stressed interest rates scenarios.

  The interest rate scenarios used can be parallel (immediate or gradual) and immediate changes in slope (steepening or flattening).

  Net interest income projection depend on assumptions and events other than just the future interest rate curve: they also consider factors such as customer behaviour (early repayment of loans and early redemption of fixed-term deposits), the maturity of demand accounts and the future performance of the Entity's business.

- **Net interest income volatility**:

  Shows the impact that the review of on-balance sheet transactions has on net interest income due to changes in the interest rate curve. This sensitivity is determined by comparing a net interest income simulation, at one or two years, on the basis of various interest rate scenarios. 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.

- **EaR (Earnings at Risk)**

  The Entity makes projections to replicate future net interest income (at one and two years) under stochastic interest rate scenarios to produce a probability distribution of net interest income. The Hull-White model is used to generate stochastic interest rate scenarios.

  Calculation of EaR takes a baseline scenario for forecast asset and liability volumes of the business areas. The baseline scenario includes 2-year future projections under different interest rate scenarios to obtain a set of different net interest income levels.

The objective is to see how the net interest income distribution tail behaves in the most unfavourable situation for the Entity, at a particular confidence interval (99%).

The Entity's EaR is calculated as the difference between annual net interest income at the 99th percentile of the distribution compared to net interest income in the baseline scenario.

In accordance with current regulations, the CaixaBank Group does not use own funds for the interest rate risk in the banking book undertaken, in view of the low risk profile of its balance sheet. The interest rate risk in the banking book assumed by the CaixaBank Group is substantially below levels considered significant (outliers) under current regulations.

With regard to measurement tools and systems, information is obtained at transaction level 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 parameterised in order to include the financial specifics of the products on the balance sheet, using behavioural 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 management of interest rate risk in the banking book, risk is actively managed by arranging additional hedging transactions 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.[20]

1.2.6.2 Currency risk in the banking book

Specifically, the Executive Finance Division 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 minimising the assumed currency risks, which explains why the exposure of the CaixaBank Group 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 31 December 2014, the CaixaBank Group had positions in Hong Kong dollars from its stake in The Bank of East Asia, Ltd. and in Mexican pesos from its stake in Grupo Financiero Inbursa.

[20] See section 3.3 of Note 3 “Risk Management” to the CaixaBank Group's 2014 Financial Statements for more information.

1.2.7 Liquidity risk[21]

1. Definition and general policy

CaixaBank manages liquidity to maintain sufficient levels so that it can comfortably meet all its payment obligations on time and to prevent its investment activities from being affected by a lack of lendable funds, at all times within the Risk Appetite Framework (RAF).

As risk appetite indicators, two groups of indicators have been established, four tier 1[22] short-term liquidity (position and stress at 30 days) and a long-term funding structure (retail and wholesale) indicators, and five tier 2[23] short-term liquidity (position), balance sheet structure, concentration of wholesale maturities, concentration of liability counterparties and intraday liquidity indicators.

To achieve the liquidity management objectives it:

- Has a centralised liquidity management system that includes a segregation of duties to ensure optimum control and monitoring of risks.
- Maintains an efficient level of liquid funds to meet obligations assumed, fund business plans and comply with regulatory requirements.
- Actively manages liquidity; this entails continuous monitoring of liquid assets and the balance sheet structure.
- Considers sustainability and stability as core principles of its funding sources strategy, based on:
  - ✓ A fund structure that entails mainly customer deposits
  - ✓ Funding in capital markets to complement the funding structure

2. Structure and organisation of the risk management function

The Board of Directors is responsible for approving the general risk control and management policy, and for the periodic monitoring of internal information and control systems. The Board of Directors is the Bank’s highest risk policy-setting body.

The Board of Directors has allocated to the Risks Committee the functions related to the ongoing monitoring of risk management.

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[21] See Note 3.4.3 to the CaixaBank Group's 2014 financial statements for more information.
[22] Established by the Board of Directors and reported to it regularly.
[23] Limits delegated by the Board of Directors to Management for monitoring, management and control.

The ALCO is charge of managing, monitoring and controlling liquidity risk. To do so, it monitors, on a monthly basis, compliance with the Risk Appetite Framework (RAF), the Entity's long-term funding plan, trends in liquidity, expected gaps in the balance sheet structure, indicators and alerts to anticipate a liquidity crisis so that it can take corrective measures in accordance with the Liquidity Contingency Plan. It also analyses the potential liquidity levels under each of the hypothetical crisis scenarios.

The ALM (Asset and Liability Management) and Financing Division, which reports to CaixaBank's Executive Finance Division, is responsible for analysing and managing liquidity risk, ensuring that liquid assets are permanently available in the balance sheet, i.e. minimising the liquidity risk in the banking book under the guidelines established by the ALCO. The analysis is performed both under normal market conditions and under extraordinary situations, in which various specific, systemic and combined crisis scenarios are considered, involving different LGD assumptions in terms of reduced liquidity. Five types of scenarios are considered: three systemic crisis scenarios (macro-economic crises, malfunctions on capital markets and alterations in payment systems), a specific crisis scenario (reputation crisis), and a combined crisis scenario deemed to be the “worst-case scenario”. The scenarios address various time horizons and LGD levels based on the nature of the crisis analysed. For each crisis scenario, “survival” periods (defined as the ability to continue to meet its obligations) are calculated, with sufficient liquidity levels to cope successfully with the crisis situations considered.

On the basis of the analyses, a Contingency Plan has been drawn up and approved by the Board of Directors, defining an action plan for each of the crisis scenarios (systemic, specific and combined), with the measures to be taken on the commercial, institutional and disclosure level to deal with this kind of situation, including the possibility of using a number of stand-by reserves or extraordinary sources of finance.

The Liquidity Division, which reports to CaixaBank's Executive Finance Division, manages short-term liquidity. To assist with this management process, a daily breakdown of liquidity by due dates is made available by drawing up projections of future flows, providing information on the time structure of liquid assets at all times. This daily monitoring task is performed on the basis of the contractual maturity dates of the transactions.

3. Risk management: Measurement and information systems

To measure, monitor and control liquidity risk, static measurement of the liquidity position, dynamic measurement of liquidity projections and stress liquidity exercises in different scenarios are carried out. In addition, static and dynamic comparisons of the funding structure are performed and regulatory ratios are calculated (LCR and NSFR)

4. Hedging policies and mitigation techniques

Liquidity risk is mitigated with positions in liquid assets that can be used at the time of the contingency or liquidity risk and with available lines of finance.

1.2.8 Reputational risk

1. Definition and general policy

Reputational risk refers to the possibility that the competitive edge could be reduced due to the loss of trust in CaixaBank by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the Entity, its Senior Management or governing bodies.

2. Structure and organisation of the risk management function

All employees and areas share responsibility for reputational risk at CaixaBank and, therefore, they are involved in identifying the reputational risks that threaten the Entity. Different areas also have greater responsibility for managing and measuring reputational risk.

There is also a specific area and body whose functions include coordinating and monitoring reputational risks:

- The **Corporate Social Responsibility and Reputation Area** is in charge of monitoring and reporting to the Reputation Committee, which meets regularly, on risks that could negatively affect the Entity's reputation if they materialise.
- **Reputation Committee:** entrusted by the Management Committee to implement general reputation management policies and achieve maximum effectiveness by coordinating the various initiatives in the area of reputation and proposing the measures necessary for its management.

3. Risk management: Measurement and information systems

To establish reputational risk mitigation policies, reputational risk must first be measured, both in relation to the main sources of risk and to trends in the Entity's reputation levels over time.

The risk measurement process is decentralised and is responsibility of different areas: Quality, Communication, Human Resources, Corporate Social Responsibility, Legal Advisory, Audit, IT Security, etc.

Moreover, the minimisation of reputational risk implies ongoing reputation management. Trends in reputation are measured using different **(internal and external) control and measurement systems.** The **internal measurement** system is based on a **risk map**.

The map is a report on threats that could undermine the Entity's corporate reputation and allows the Entity to:

- Identify the risks that could affect its reputation and classify them.
- Rank risks by criticality according to the damage on reputation and the coverage of preventative policies.
- Identify key performance indicators (KPIs) to allow for proactive management with a view to establishing additional management, action and communication policies.

Other indicators developed internally to know CaixaBank's reputation among its stakeholders:

- Customers: Monthly surveys, follow-up of complaints, suggestions and claims through a number of two-way channels set up for this purpose.
- Employees: Biannual survey of the Entity's employees to assess their level of satisfaction and receive suggestions for improvement, which supplement the employee's regular satisfaction surveys.
- Shareholders: Annual survey to ascertain shareholders' level of satisfaction and expectations regarding the Entity's various services and actions. Other two-way communication channels: the Barcelona Shareholder Office, the Shareholder Service or the CaixaBank Shareholder Advisory Committee.

The **external measurement** system is defined as an observatory on reputation and includes regular reports on the Entity's reputation, both online and in the media, in addition to:

- Results published in various reputation monitors and rankings drafted by Spanish and international independent experts.
- Membership of sustainability indices or rankings on the performance of CaixaBank’s activities in various areas (economic, corporate governance, social, environmental, etc.).

4. Hedging policies and mitigation techniques

One of the Social Corporate Responsibility and Reputation Committee's main tools for mitigating reputational risk is the Reputational Risk Map, which considers the hedging policies established by the various risk areas.

1.2.9 Actuarial risk and risk relating to the insurance business

1. Definition and general policy

The main risks in the insurance business are managed by CaixaBank's insurance subsidiaries, basically VidaCaixa S.A., de Seguros y Reaseguros. The main risks of investee SegurCaixa Adeslas, S.A. are also monitored. The insurance business is exposed to subscription or actuarial risk.

Actuarial risk is defined as the risk of an increase in the value of commitments assumed through insurance contracts with customers and employee pension plans due to differences between the claims estimates and actual performance. According to the EC Solvency II Directive, it reflects the risk relating to underwriting life and non-life insurance contracts, attending to claims covered and the processes deployed in the exercise of this activity, with the following breakdown.

- Mortality risk: Risk of loss or adverse change in the value of liabilities under insurance contracts, due to variations in the level, trend or volatility of mortality rates, where an increase in the mortality rate generates a corresponding increase in the value of liabilities under insurance contracts.
- Longevity risk: Risk of loss or adverse change in the value of liabilities under insurance contracts, due to variations in the level, trend or volatility of mortality rates, where a decrease in the mortality rate generates a corresponding increase in the value of liabilities under insurance contracts.
- Disability or morbidity risk: Risk of loss or adverse change in the value of liabilities under insurance contracts, due to variations in the level, trend or volatility of disability, illness or morbidity rates.

Therefore, in the life insurance business, the main variables determining actuarial risk are mortality, survival and disability rates, while the key variable in the other business lines is the claims rate.

Management of actuarial risk is based on compliance with the regulations established by the DGIPF, from which policies are established, and monitoring of the technical trends of products, which depend mainly on actuarial factors (basically deaths). This stable, long-term management is reflected in the actuarial risk management policies:

- Subscription: acceptance of risk based on actuarial variables (age of the policyholder, insured sum and duration of the guarantee) and, in life insurance, additional variables such as the accumulation of risk per person and state of health.
- Rate-setting: Rates are established using the mortality tables permitted by prevailing legislation. Mortality tables are compared with the Entity's own experience.
- Claims: Stability in claims is managed by diversifying risk among several reinsurance companies with sufficient capacity to absorb unexpected losses,

2. Structure and organisation of the risk management function

Organisationally, the area of the Insurance Group directly involved is the Technical-Actuarial Area.

The Entity also has a Risk Control Department in the Economic-Finance Area whose responsibilities include developing the risks function and risk control (in addition to coordinating adaptation to the Solvency II Directive) in cooperation with the rest of the areas involved and described above.

3. Risk management: Measurement and information systems

In addition to monitoring of the technical performance of the aforementioned products, technical provisions are estimated using specific procedures and tools and are quantified and tested for adequacy on an individual policy basis.

4. Technological support

The Insurance Group operates in an environment of highly-mechanised processes and integrated systems. All production operations, irrespective of the channel, are recorded in the systems using the various contracting, benefits management and provision calculation applications (e.g. TAV for individual and ACO or Avanti for group insurance). Investment software (e.g. the GIF application) is used to manage and control the investments backing the company’s insurance activity. All of the applications are accounted for automatically in the accounting support software.

Under the framework of these integrated and automated systems, there are also a number of applications that perform management support duties, including the treatment and preparation of reporting and risk management information. In addition, a Solvency and Risk datamart is being developed as a support tool for compliance with all the requirements of the Solvency II Directive from the application date.

5. Reports drafted

As indicated previously, technical monitoring of products allows for monitoring and control of the Group’s actuarial risk.

The position and control of the Insurance Group's risks are monitored regularly by VidaCaixa's Management, Investment and Global Risk Committee and CaixaBank's Global Risk Committee and ALCO.

6. Solvency II

In 2013, the European authorities set 1 January 2016 as the application date of the Solvency II directive.

The Omnibus II Directive was approved in 2014, amending the Solvency II Directive and completing the new regulatory and supervisory framework for insurance in the EU, and granted powers to the EIOPA to conclude the Solvency II project.

Regulatory developments in Europe currently under debate (delegated acts, technical standards and guidelines) should be completed in 2015. In Spain, the whole set of rules of Solvency II must be transposed into national legislation.

In preparation for Solvency II until the 1 January 2016 effective date, in 2014 the EIOPA (the European insurance advisor) issued four preparatory guidelines to help insurers gradually incorporate certain aspects of Solvency II until 2016. These guidelines cover four areas:

- System of Governance
- Forward looking assessment of own risks (based on own risk and solvency assessment – ORSA- principles)
- Pre Application of Internal Models
- Submission of Information to National Competent Authorities

The Group, in addition to working to comply with the adaptation guidelines, has been working actively on implementing Solvency II since the project began, participating in insurance sector working groups and in quantitative and qualitative impact studies conducted by the supervisors, making the necessary adaptations and improvements to its systems and operation.

7. Hedging policies and mitigation techniques

Insurance companies assume risk towards policyholders and mitigate these risks by taking out insurance with reinsurance companies. By doing so, an insurance company can reduce risk, stabilise solvency levels, use available capital more efficiently and expand its underwriting capacity. However, regardless of the reinsurance taken out, the insurance company is contractually liable for the settlement of all claims with policyholders.

The Insurance Group's reinsurance programme lists the procedures that must be followed to implement the established reinsurance policy. These include:

- Disclosure of the types of reinsurance to be contracted, the terms and conditions of the policy, and aggregate exposure by type of business.
- Definition of the amount and type of insurance to be automatically covered by the reinsurance contract, e.g. mandatory reinsurance contracts.
- Procedures for acquiring facultative reinsurance.

In this respect, the Insurance Group has established limits on the net risk retained per business line, by risk or event (or a combination of both). These limits are set in accordance with the risk profile and reinsurance cost.

The internal control systems ensure that all underwriting is carried out pursuant to the reinsurance policy and that the planned reinsurance cover is appropriate, identifying and reporting any breach of the established limits by the underwriters, in addition to any failure to comply with the instructions provided or if risks are taken on that surpass the entity's capital levels or reinsurance coverage.

Handling claims and ensuring the adequacy of the provisions are basic principles of insurance management. The definition and follow-up of the aforementioned policies enables them to be changed, if required, to adapt risks to the Insurance Group's global strategy. Moreover, these policies were put before and approved by CaixaBank's Global Risk Committee.

1.2.10 Legal and regulatory risk

1. Definition and general policy

Legal and regulatory risk is defined as the potential loss or decrease in the CaixaBank Group's profitability as a result of changes to the regulatory framework due to court rulings that are unfavourable to the Entity.

2. Structure and organisation of the risk management function

To manage this risk from CaixaBank, S.A.'s Legal Advisory through the Regulation Division, the Corporate Legal Advisory and Business Legal Advisory Departments monitor and analyse regulations, as well as adaptation to regulations and risk identification.

The Regulation Division, belonging to the Legal Advisory Area, is tasked with continuously monitoring regulatory changes, handling regulatory alerts and establishing positions in coordination with the different areas. This coordination is carried out through the Regulation Committee, which reports to the Management Committee. This committee is chaired by the Executive Manager of Research and Strategic Planning and its members include the Chief Executive, the General Secretary of Risks, the Chief Risk Officer, the Chief Insurance and Asset Management Officer, the Chief Business Officer, the Head of Finance, the Head of Financial Accounting, Control and Capital, the Head of Legal Advisory and the Corporate Banking Stakes Manager.

The Regulation Committee is responsible for tracking the regulatory environment, analysing its impacts, establishing strategic positions in respect of impending or proposed law or regulations and determining the main features of the strategy to be followed in response to these changes, including overseeing the defence of the Entity's interests. The ultimate purpose is to stay one step ahead of regulatory changes and make the CaixaBank Group more flexible and ready to adapt to new regulatory requirements.

3. Risk management: Measurement and information systems

In conjunction with the areas affected, Legal Advisory prepares and coordinates regulatory impact analyses of new approved and applicable regulations by identifying and systematising new regulatory requirements and their impact on processes, documentation and internal rules.

Following the initial impact analysis, Corporate Legal Advisory and Business Legal Advisory participate in implementing the new regulations by determining interpretation criteria and establishing procedures to adequately manage regulatory risks in respect of securities markets (e.g. issuances of securities, rules of conduct, market abuse), transparency in banking and collective investment schemes, anti-money laundering and counter terrorist financing, and data protection, among others.

This system includes detailed analysis of rules and regulations and their impact. Based on the analysis carried out, controls are established with a specific frequency and organisation for execution and oversight by other areas in the Entity, in particular, Regulatory Compliance and/or Internal Control/Internal Audit.

They also promote and coordinate the process of drafting and reviewing contracts, standards, and internal procedures and policies that mainstream applicable regulations into internal documentation.

The processes for implementing and adapting to regulations regarding the marketing of financial instruments, and banking, savings insurance and investment products are submitted to the Transparency Committee, as the most senior and decision-making body on all transparency-related aspects of these products through the definition and approval of the applicable policies.

1.2.11 Compliance risk

Compliance risk is defined as risk arising from deficient procedures that generate actions or omissions that are not aligned with the legal or regulatory frameworks or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.

All employees and areas of CaixaBank manage compliance risk. The objective is to minimise the probability of occurrence and, if it occurs, to detect, report and address the weaknesses promptly.

The compliance risk management model is based on a governance structure with a clearly defined distribution of functions and responsibilities according to the three lines of defence model. This structure comprises the governing and management bodies, in charge of approving, reinforcing and promoting the Regulatory Compliance Policy, overseeing risk and receiving regular reports on the risks detected and the mitigation measures established; the business areas, which must comply with prevailing regulations and establish the first line of defence for detecting risks; advisory areas, which help interpret regulations, give advice on how to implement them and on the controls, and help the business areas with their compliance; the Regulatory Compliance area, which carries out second line of defence functions, as well as reporting and providing expert advice to the areas and Senior Management on matters under its remit; and the Internal Audit area, which carries out third line of defence controls.

2. Information on eligible own funds

2.1. 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, was completed in 2014.

Since 1 January 2014, the capital adequacy of financial institutions has been regulated by Regulation (EU) No. 575/2013 (the "CRR") and Directive 2013/36/EU (the "CRD") of the European Parliament and of the Council, both dated 26 June 2013, which implement the Basel III regulatory framework (BIS III) in the European Union. This new regulation has implied significant changes in the structure and calculation of eligible own funds.

In Spain, these changes in the international framework were transposed into national legislation in 2014. Law 10/2014, of 26 June, was enacted and subsequently implemented by Royal Decree Law 84/2015.

The CRR sets the timetable for the phase-in of new requirements in the European Union. Bank of Spain Circulars 2/2014 and 3/2014 implement the regulatory options in relation to requirements in effect during the period of transition to BIS III. Further, Circular 2/2014 repealed the Principal Capital requirement. However, Royal Decree-Law 14/2013 established, as a transitional measure for 2014, the limit on the distribution of the elements of Tier 1 capital to the buffer of Principal Capital above the minimum requirement at 31 December 2013. At 31 December 2014, CaixaBank had a buffer of €4,648 million above the minimum capital requirement. Accordingly, no limits are applicable.

The Basel regulatory framework is based on three pillars:

- Pillar 1: Minimum capital requirements
- Pillar 2: Supervisory review
- Pillar 3: Market discipline

In 2014, the European Central Bank (ECB) and the European Banking Authority (EBA) conducted a comprehensive assessment of the European banking sector. The process involved an asset quality review (AQR) and a raft of stress tests on the position of European banks at 31 December 2013. According to the official results published in October, the ”la Caixa” Group comfortably passed the assessment with a CET1 ratio of 9.3% projected in an adverse scenario for 2016. The AQR, which consisted of an exhaustive review of the quality of the bank's assets, concluded that practically no further provisioning is required, confirming that the bank comfortably meets its coverage requirements and applies a prudent policy of flagging and provisioning for impaired assets. The AQR conclusions also included a series of recommendations to reinforce and formalise the Group's collateral valuation policies, a process that is currently underway and nearing completion. An extension of the calculation perimeter for the *Credit Value Adjustment* was also recommended (which has already been completed) in addition to the reclassification of some exposures to different portfolios. The Group has followed and implemented all pertinent recommendations arising from this process.

An internal assessment of CaixaBank using the same methodology threw up a CET1 ratio of 10.3% in an adverse scenario for 2016.

2.2. Capital management

One of CaixaBank's objectives is to keep a comfortable level of capital in accordance with the risk profile assumed in order to strengthen its position as one of the soundest entities in the European banking market.

With that target in mind, the Board of Directors determines the Group's risk and capital policy. The Management Committee oversees management at the highest level, in accordance with the strategies set by the Board.

The Financial Accounting, Control and Capital Division is entrusted with monitoring and controlling the bank's own funds.

Capital is managed so as to ensure compliance with both regulatory requirements and the Entity's internal capital targets at all times.

Active capital management is one of the five strategic lines for the 2015-2018 period. The consistently high level of solvency, one of the pillars of a robust financial institution, must be underpinned and supplemented by active capital management, so that capital is put to the best possible use. Over the next few years, the proportion of capital allocated to the investments and real estate businesses is forecast to significantly decrease.

2.3. Eligible own funds

The second part of the CRR defines the items in the consolidated balance sheet that make up eligible own funds, distinguishing between three capital tiers.

1. Common Equity Tier 1 *(CET1)*

Common Equity Tier 1 (CET1-) comprises the higher quality items of own funds after applying the prudential filters established for the phase-in of Basel III. CET1 deductions, after applying the regulatory limits in place and considering the phase-in of the regulations, are then made.

Items eligible for inclusion as CET1 are:

- own funds (capital, share premium, reserves[24] and profit/(loss) for the year.
- Qualifying minority interests[25] and valuation adjustments[26].
- Net of foreseeable dividends to be deducted from profit for the year.

At 31 December 2014, the instruments eligible for inclusion in CET1 amounted to €23,267 million.

As set out in the CRR, the following deductions from these instruments were made:

- Goodwill and other intangible assets
- Deferred tax assets that rely on future profitability
- Defined benefit pension fund assets

[24]At 31.12.2014, all reserves were eligible for inclusion in CET1.
[25]Minority interests: the amount of capital corresponding to ordinary shares of consolidated group companies effectively paid in, excluding the part attributable to valuation adjustments included in consolidated group equity.
[26]Valuation adjustments for exchange differences, valuation adjustments to available-for-sale equity and fixed-income securities.

- Significant and insignificant investments in financial sector entities to the extent that they exceed the stipulated regulatory limits
- Expected loss on equities.
- First loss tranche in securitisations

The percentages to be applied gradually to CET1 deductions for 2014 are 20% for each, expect pension fund assets, which are deducted fully.

Deductions at 31 December 2014, applying the phase-in schedule set out during the transitional period, amounted to €1,107 million.

In addition, CET1 covers the rest of the Tier 1 deductions not covered by items of *Additional Tier 1.* This results in €4,066 million of additional CET1 deductions.

2. Additional Tier 1 capital *(AT1)*

Additional Tier 1 Capital (AT1) comprises eligible hybrid instruments less AT1 deductions. At 31 December 2014, CaixaBank's AT1 was nil, as it does not have any issues of this type.

Given that deductions of AT1 capital cannot be absorbed, they are taken to CET1. During the transitional period these are:

- Goodwill and other intangible assets
- Significant and insignificant investments in financial sector entities to the extent that they exceed the stipulated regulatory limits
- Expected loss on equities.
- First loss tranche in securitisations

The percentages to be applied gradually to AT1 deductions for 2014 are 80% for intangible assets and 40% to the other items.

3. Tier 2 capital

Ties 2 capital is characterised as being less permanent and stable than CET1.

Tier 2 components include subordinated loans [27]and the amount above the threshold of loan loss provisions for portfolios assessed using the IRB approach. Also deducted are the amount above the threshold of holdings in financial sector entities, as well as expected loss amounts from the equity portfolio and first tranche losses on securitisations, according to schedule for application during the transitional period.

CaixaBank has 13 subordinated debt issues at 31 December 2014 for an eligible amount of €4,197 million after considering the loss of eligibility according to the schedule. The detail of these issues is provided in Appendix I of this document, as set out in Annex III of Commission Implementing Regulation (EU) 1423/2013.

[27] See Note 22.4 "Subordinated liabilities" to the CaixaBank Group's 2014 financial statements for further details of issues of subordinated debt by the "la Caixa" Group and their prospectuses on the Spanish National Securities Market Commission's website (www.cnmv.es).

Table 5. Eligible own funds

(thousands of euros)

	Grupo CaixaBank		Grupo Criteria	
Shareholders' equity	23.372.983		16.468.857	
Capital	5.714.956		1.834.166	
Share premium and reserves	17.091.622		14.087.357	
Profit attributable to the Group after dividend payments	566.405		547.334	
- Expected dividends	(256.344)		(160.289)	
+ Non-controlling interests and valuation adjustments	202.906		9.811.670	
- Non-eligible items	(52.046)		(724.397)	
Equity instruments	**23.267.499**		**25.395.841**	
- Deductions from CET1	(1.106.633)		(1.288.336)	
- Tier 1 coverage	(4.065.931)		(4.856.053)	
CET1	**18.094.935**	**13,0%**	**19.251.452**	**11,9%**
+ Additional Tier 1 instruments	-		-	
- Deductions of basic own funds	(4.065.931)		(4.856.053)	
+ Tier 1 coverage	4.065.931		4.856.053	
Basic capital (Tier 1)	**18.094.935**	**13,0%**	**19.251.452**	**11,9%**
+ Subordinated financing	4.196.824		7.804.278	
+ Eligible general provisions	320.520		315.105	
- Deductions of Tier 2 capital	(162.208)		(98.897)	
Tier 2 capital	**4.355.136**		**7.926.196**	
Total own funds (Total capital)	**22.450.071**	**16,1%**	**27.177.648**	**16,8%**
Surplus of CET1 (1)	**11.807.127**		**11.959.088**	
Surplus of Own Funds (2)	**11.271.745**		**14.213.445**	
Risk Weighted Asstets	**139.729.074**		**162.052.538**	

(1) Over the minimun ordinary capital ratio level 1 of 4,5%, art. 92 of CRR.

(2) Over the minimun capital ratio of 8 %, art.92 of CRR.

The detail of CaixaBank's eligible own funds at 31 December 2014 is provided in Appendix II of this document, as set out in Annex IV of Commission Implementing Regulation (EU) 1423/2013.

2.4. Capital buffers

At 31 December 2014, the Entity was not subject to any capital buffer envisaged in the regulation (capital conservation, countercyclical capital and systemic risk buffers). According to the existing transposition of the CRD IV Directive into applicable legislation, these buffers will be applied gradually from 2016.

2.5. Indicators of global systemic importance

In the first half of 2014, the ”la Caixa” Group, included in the scope of prudential supervision at 31 December 2013, took part in the exercise organised by the Basel Committee on Banking Supervision's Macroprudential Supervision Group to assess the systemic importance of banks in a global context. The ”la Caixa’’ Group's main indicators at 31 December 2013 were as follows:

Table 6. Indicators of systemic importance

	dic-13
Indicator of size	
Exposure (including On and Off -Balance Sheet)	376.236
Indicators of Interconnectedness	-
Intra-financial system assets	18.551
Intra-financial system liabilities	21.010
Relevant /extraordinary Values	82.359
Indicators of financial estructure	-
Payments	2.376.029
Assets under custody	107.208
Values of underwritten in debt and eqity markets	140
Indicators of complexity	-
OTC derivates notional value	428.133
Held for trading and avaible for sale value	4.655
Level 3 assets	1.698
Indicators of Cross-juridictional activity	-
Cross-juridictional claims	17.367
Cross-juridictional liabilities	44

3. Information concerning eligible own fund requirements

This section sets out the minimum own fund requirements for the CaixaBank Group at 31 December 2014 for each type of risk considered.

Table 7. Capital requirements

(thousands of euros)

Type of risk	CaixaBank Group	*% weight*
Credit risk	**7.015.444**	***62,8%***
Standardized approach	*2.722.438*	*24,4%*
IRB approach	*4.273.599*	*38,2%*
Securitizations	*19.407*	*0,2%*
Equity portfolio risk	**2.353.930**	***21,1%***
DTA (Deferred Tax Asset)	**515.871**	***4,6%***
Monetizable	*377.697*	*3,4%*
Risk relating to the trading portfolio and currency risk	**307.744**	***2,8%***
Operational risk	**888.947**	***8,0%***
CVA (Capital charge for counterparty credit risk)	**96.389**	***0,9%***
Total capital requirements	**11.178.326**	***100,0%***

3.1 Minimum own funds requirements for credit and counterparty credit risk

The following table details the CaixaBank Group's exposure to and own funds requirements for credit risk by the approach used to calculating regulatory capital (standardised or IRB approach):

Table 8. Capital requirements for credit risk

(thousands of euros)

CaixaBank Group	Original Exposure	% weight	Requirements	% weight
Standardised approach	123.502.384	36,8%	2.722.438	38,9%
IRB approach	212.337.904	63,2%	4.273.599	61,1%
Total	**335.840.288**	*100,0%*	**6.996.037**	*100,0%*

The following table details the CaixaBank Group's exposure to and own funds requirements for credit risk under the standardised method. This information is presented in accordance with the list of exposure classes in the new European capital requirements regulations: The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR).

The volume of standard exposures decreased relative to December 2013. This is partly explained by the roll-out to the IRB approach for credit portfolios yet to be migrated from Banca Cívica in the first half of the year, specifically portfolios of contracts with legal persons and individuals not shared with Caja Canarias and Caja Burgos.

Table 9. Exposure by class (standardised approach)

(thousands of euros)

Risk category - standardised approach	CaixaBank Group	*% weight*
Central administrations and central banks	34.343.325	*27,8%*
Regional administrations and local authorities	16.880.179	*13,7%*
Public sector entites and non-profit institutions	3.161.426	*2,6%*
Multilateral development banks	-	-
International Organisations	781.773	*0,6%*
Credit institutions and investment service companies	4.178.803	*3,4%*
Companies	34.879.129	*28,2%*
Retail	5.200.011	*4,2%*
Exposures secured by property	2.156.968	*1,7%*
Exposures at default	9.802.894	*7,9%*
High-Risk Exposure	-	-
Covered bonds	1.605.453	*1,3%*
Exposures to institutions and corporates with short term credit ratings	-	-
Exposure to collective investment schemes	-	-
Other exposures	10.512.424	*8,5%*
Total Credit Risk Estandardised Approach (without securitization positions)	**123.502.384**	***99,9%***
Securitization positions	62.102	*0,1%*
Total Credit Risk Estandardised Approach	**123.564.486**	***100,0%***

Table 10. Capital requirements by exposure class (standardised approach)

(thousands of euros)

Risk category - standardised approach	Grupo CaixaBank	*% weight*
Central administrations and central banks	-	-
Regional administrations and local authorities	526	*0,0%*
Public sector entites and non-profit institutions	39.052	*1,4%*
Multilateral development banks	-	-
International Organisations	-	-
Credit institutions and investment service companies	58.133	*2,1%*
Companies	1.107.294	*40,7%*
Retail	127.260	*4,7%*
Exposures secured by property	54.624	*2,0%*
Exposures at default	671.240	*24,6%*
High-Risk Exposure	-	-
Covered bonds	19.383	*0,7%*
Exposures to institutions and corporates with short term credit ratings	-	-
Exposure to collective investment schemes	-	-
Other exposures	644.927	*23,7%*
Total Credit Risk Estandardised Approach (without securitization positions)	**2.722.438**	***99,9%***
Securitization positions	1.374	*0,1%*
Total Credit Risk Estandardised Approach	**2.723.812**	***100,0%***

The CaixaBank Group's exposure to and own funds requirements for credit risk at 31 December 2014 by exposure class calculated using the internal-rating based (IRB) approach are as follows:

Table 11. Exposure by class (IRB approach)

(thousands of euros)

Risk category - IRB approach	CaixaBank Group	*% weight*
Companies	**62.275.569**	*29,3%*
- Corporates	42.618.181	*20,1%*
- SMEs	19.657.387	*9,2%*
Retail	**150.062.335**	***70,6%***
- Covered by property mortgages	131.476.055	*61,9%*
which SMEs:	34.409.888	*16,2%*
- Qualifying revolving retail exposures	7.179.415	*3,4%*
- Other retail exposures	11.406.865	*5,4%*
which SMEs:	7.728.912	*3,6%*
Total Credit Risk IRB Approach (without securitization positions)	**212.337.904**	***99,9%***
Securitization positions	201.329	*0,1%*
Total Credit Risk IRB Approach	**212.539.233**	***100,0%***

Table 12. Capital requirements by exposure class (IRB approach)

(thousands of euros)

Risk category - IRB approach	Grupo CaixaBank	*% weight*
Companies	2.315.658	*54,0%*
- Corporates	1.829.592	*42,6%*
- SMEs	486.065	*11,3%*
Retail	1.957.942	*45,6%*
- Covered by property mortgages	1.585.419	*36,9%*
which SMEs:	520.102	*12,1%*
- Qualifying revolving retail exposures	69.639	*1,6%*
- Other retail exposures	302.883	*7,1%*
which SMEs:	195.251	*4,5%*
Total Credit Risk IRB Approach (without securitization positions)	**4.273.599**	***99,6%***
Securitization positions	18.034	*0,4%*
Total Credit Risk IRB Approach	**4.291.633**	***100,0%***

Table 13 sets out the minimum own funds requirements for counterparty risk for the CaixaBank Group at 31 December 2014 already included in the total minimum own funds requirements for credit risk[28]. In addition, table 14 shows the capital add-on for CVA (Credit Valuation adjustment) which became effective on 1 January 2014.

Table 13. Capital requirements for counterparty risk

(thousands of euros)

Method applied	Capital requirements for counterparty risk
Standardized approach	171.320
IRB approach	42.469
Total	**213.789**

Table 14. Capital add-on for CVA

(thousands of euros)

Method applied	Capital requirements for CVA
Standardised approach	96.389
Advanced Approach (ACVA)	0
Total	**96.389**

[28] See part A of section 3.1, "Minimum own funds requirements for credit risk" in this document.

3.2 Minimum own funds requirements for risk from the equity portfolio

Tables 15 and 16 show the breakdown of exposure and own funds requirements for the equity portfolio. This information is presented in accordance with the measurement approaches in the new European capital requirements regulations: The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), as well as the class of equity instruments[29].

Table 15. Exposure of the equity portfolio

(thousands of euros)

	CaixaBank Group	*% weight*
By calculation method		
Simple risk-weighting method	2.493.647	*19,7%*
PD/LGD method	7.887.913	*62,3%*
Internal methods	66.477	*0,5%*
Other Equities exposures with specific risk weight	2.220.463	*17,5%*
Total Exposure	**12.668.500**	***100,0%***
By category		
Listed instruments	9.367.981	*73,9%*
Other unlisted instruments	3.300.519	*26,1%*
Total Exposure	**12.668.500**	***100,0%***

[29] See part B of section 2 “Equity investment risk” in this document.

Table 16. Capital requirements for the equity portfolio

(thousands of euros)

	CaixaBank Group	*% weight*
By calculation method		
Simple risk-weighting method	734.754	*31,2%*
PD/LGD method	1.145.904	*48,7%*
Internal methods	29.180	*1,2%*
Other Equities exposures with specific risk weight	444.093	*18,9%*
Total Capital requirements	**2.353.930**	***100,0%***
By category		
Listed instruments	1.387.836	*59,0%*
Other unlisted instruments	966.094	*41,0%*
Total Capital requirements	**2.353.930**	***100,0%***

3.3 Minimum own funds requirements for market risk

The table below shows the breakdown of the own funds requirements for position risk in the trading portfolio, for foreign exchange risk and for position risk in gold at 31 December 2014 by measurement approach.

Table 17: Capital requirements for position risk in the trading portfolio and foreign exchange risk

(thousands of euros)

CaixaBank Group	Standardised Approach(1)	*% weight*	Internal Model	*% weight*	Total
Fixed-income trading portfolio position risk	0	*0,0%*	102.148	*62,3%*	102.148
Share and investment position risk	78	*0,1%*	19.057	*11,6%*	19.135
Commodity position risk	0	*0,0%*	0	*0,0%*	0
Currency and gold position risk	143.770	*99,9%*	38.465	*23,5%*	182.235
Adjustment for correlation between factors(2)	0	*0,0%*	-27.632	*-16,9%*	-27.632
Incremental Risk	0	*0,0%*	31.858	*19,4%*	31.858
Total capital requirements	**143.848**	***100,0%***	**163.896**	***100,0%***	**307.744**

(1) Capital requirements calculated in accordance w ith the general treatment of specific risk (standardised approach).

(2) Applicable only if internal methods are used.

At 31 December 2014, own funds requirements for settlement risk were nil.

3.4 Minimum own funds requirements for operational risk

Table 18 shows the CaixaBank Group's own funds requirements for operational risk at 31 December 2014.

Table 18: Capital requirements for operational risk

(thousands of euros)

	Average relevant income	Capital requirement
Retail banking	3.776.281	453.154
Retail intermediation	411.365	49.364
Asset management	64.495	7.739
Commercial banking	1.734.114	260.117
Agency services	26.507	3.976
Trading and sale	515.948	92.871
Business financing	120.703	21.726
Payment and settlement	0	0
Total business lines - CaixaBank Group	**6.649.413**	**888.947**

3.5 Internal capital adequacy assessment procedure

In order to comply with the regulations of Pillar II of Basel II, the CaixaBank Group developed an economic capital mode that measures, based on its own criteria, the group of risks which the Group's activity is subject to.

The economic capital model forms the basis of the internal estimate of own funds requirements which acts as a supplement to the regulatory view of capital adequacy.

An entity's capitalisation and its risk profile, measured in terms of capital requirements, define its capital adequacy and creditworthiness. Therefore, the CaixaBank Group aims to have sufficient own funds or capital available to cover any potential unexpected losses.

The following capital measures 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 jeopardise the continuity of the CaixaBank Group's business. This is an internal estimate which the Entity adjusts according to volume and type of business activity.

Economic capital is not a substitute for regulatory capital, but a supplement which is used to better offset the actual risk assumed by the CaixaBank Group and it includes risks that have 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 interest rate risk in the bank book, liquidity risk and other risks (business, reputational, concentration, insurance and pension obligation risk).

Two of the most important impacts or changes regarding the regulatory approach are:

- **Concentration in large exposures**: Large exposures or single large exposures (exposure above €100 million) have a significant impact on economic capital estimations, particularly in the equity portfolio and the corporate and banks segments. The regulatory formula, which considers infinitely granular portfolios, is not particularly appropriate for covering the level of concentration of the Group's portfolio. Accordingly, the internal model reflects the possibility of having single large exposures and simulates potential default of these specific positions. In this way, the simulated distribution of losses already contains the risk of individual concentration compared to large exposures. This same concentration induces diversification across portfolios.
- **Estimation of sensitivities and diversification**: The CaixaBank Group has developed its own scheme for determining sensitivities of probabilities of default to specific economic and financial variables, thereby implicitly estimating correlations of probabilities of default adjusted to the Group's scope of activity. In practice, these estimations incorporate additional diversification between portfolios and industrial sectors due to the sensitivities obtained. It also considers specific sensitivities for international financial stakes in the equity portfolio, providing additional diversification with the rest of the portfolio.

In addition, in the framework of the oversight revision, the regulations set forth the need for an "Internal Capital 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 CaixaBank Group has designed its ICAAP in accordance with the Bank of Spain's Guidelines on the Internal Capital Adequacy Assess Process. The CaixaBank Group's ICAAP focuses on the following courses of action:

- A systematic review of the organisation 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. This is the case, for instance, with regard to risk in the banking book or liquidity risk.

- Drawing up stress scenarios to assess the adequacy of the CaixaBank Group's own funds 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 organisation of the risk function

To assess capital adequacy, the internal estimate of the total capital necessary for the CaixaBank Group is obtained by adding up the individual capital requirements 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 analysed by drawing up a baseline scenario that assumes a normal macroeconomic situation to provide a context for the stress scenarios, and two stress scenarios with limited probability of occurrence 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 CaixaBank Group's capital adequacy performance and its regulatory and economic capital requirements. This will make it possible to draw up plans for capital, and assess the adequacy of internal capital.

B. Qualitative and quantitative disclosures of risks

1. Credit risk

1.1. General requirements

1.1.1. Exposure to credit 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 materialise 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.

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

- *Standard*: debt instruments that do not meet the requirements for classification in other categories.
- *Substandard*: debt instruments which, without qualifying individually for classification as doubtful or write-off, show weaknesses that may entail losses for the CaixaBank Group. This category includes, *inter alia*, the transactions of customers who form part of groups in difficulty (such as the residents in a specific geographical area or those belonging to a specific economic sector).
- *Doubtful*:
  - *Due to customer arrears*: includes the total amount of debt instruments, whoever the obligor and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is past-due more than three months, unless such instruments should be classified as write-off.

The refinancing or restructuring of transactions whose payment is not up to date does not interrupt their arrears or give rise to their reclassification to the standard risk category unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided (see Note 2.10).

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

- *For reasons other than customer arrears*: includes debt instruments, where due or not, which are not classifiable as write-off or doubtful due to customer arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms.

As a general rule, only costs that can be claimed back judicially such as lawyers' or attorneys' fees are capitalised and therefore increase the value of the debt.

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

  Unless there is evidence to the contrary, this category includes all the debits, except amounts covered by sufficient effective guarantees or collateral, of customers that are declared subject to bankruptcy proceedings for which there is notice that the liquidation phase has been or is to be declared, or whose solvency has undergone a notable and irreversible deterioration, and the balances of transactions classified as doubtful due to arrears that are more than four years old.

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 recognised in the income statement for the period during which impairment was eliminated or reduced.

When the recovery of any recognised 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 materialisation 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 materialisation of country risk.

To determine impairment losses, the lending portfolio is segmented based on internal credit risk management models. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due. This analysis is carried out:

- Individually: assets classified as doubtful due to customer arrears of significant amounts are assessed individually to estimate impairment losses, taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and the guarantors. Assets classified as doubtful due to reasons other than customer arrears are also assessed individually to estimate impairment losses.
- Collectively: impairment losses on other transactions classified as doubtful due to customer arrears are calculated collectively, grouping together instruments with similar credit risk characteristics indicative of the debtors' ability to pay the amounts due, the principal and interest, according to the contractual terms. The credit risk characteristics considered to group assets include: asset type, the debtor's sector of activity, the geographical area of the activity, collateral type, age of past due amounts and any other relevant factor for estimating future cash flows.

The amount of an impairment loss incurred on a debt security carried at amortised cost is generally equal to the difference between its carrying amount and the present value of its estimated future cash flows.

For the estimate of the allowance for impairment of instruments classified as doubtful due to customer arrears, determined collectively, the percentages applied, at least, to the outstanding exposure of the transactions based on the time elapsed since the first payment not paid are as follows:

Table 19: Allowance percentage

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%

For debt instruments with mortgage collateral, the value of the rights received as collateral is considered to be the best estimate of the recoverable amount of the instruments, provided these are first call and duly constituted in favour of the Group.

The value of rights received as collateral is determined using the lower of the cost in the public deed or the accredited cost of the asset, and the appraisal value in its current condition. If the deed is manifestly old, the amount may be adjusted by an indicator that adequately reflects the change in cost between the date of the deed and that estimation date.

A percentage is applied to the collateral determined in this manner in accordance with the type of asset.

Table 20: Percentages applied to the value of the guarantee or collateral according to asset type

Percentages	
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%

Coverage of credit risk is estimated on the outstanding risk above the weighted value of the guarantee with the above percentages. The coverage percentages indicated above, based on the time elapsed since the maturity of the first unpaid payment, are applied to these values.

To ensure appropriate coverage of losses incurred for impairment of financial assets measured at amortised cost, the provisions calculated as described above are compared with the losses obtained using internal models. Based on the information provided by its internal management models, CaixaBank has a methodology for calculating the loss incurred based on multiplying three factors: exposure at default (EAD), probability of default (PD) and loss given default (LGD)[30].

1.1.1.3 Total and average exposure to credit risk

This section presents the value of exposures to credit risk for the CaixaBank Group at 31 December 2014.

1. Total value of exposures

Table 21 shows a breakdown of the total value of exposures after adjustments and impairment losses on the CaixaBank Group's assets, in accordance with the method for calculating own funds requirements applied, with no consideration for the effects of credit risk reduction.

[30] See Note 2.9 to the CaixaBank Group's 2014 financial statements for more information.

Table 21. 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)
Standardised approach	123.502.384	-2.256.152	121.246.232
IRB approach (3)	212.337.904	-	212.337.904
Total CaixaBank Group	**335.840.288**	**-2.256.152**	**333.584.136**

(1) Original exposure prior to application of impairment losses, the effects of credit risk reduction and credit conversion
(2) Exposures after adjustments and impairment losses, without taking into consideration the effects of the reduction in
(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 CaixaBank Group in 2014, before adjustments and value corrections due to impairment, excluding the effects of credit risk reduction. These amounts are presented in relation to each exposure class in accordance with the calculation method applied. The table does not consider exposures to the securitisations portfolio.

Table 22. Average exposure by risk category
(thousands of euros)

Average exposure by risk category [1]	CaixaBank Group	*% weight*
Standardised Approach		
Central administrations and central banks	41.255.522	*12,0%*
Regional administrations and local authorities	15.998.334	*4,7%*
Public sector entites and non-profit institutions	4.056.768	*1,2%*
Multilateral development banks	-	*0,0%*
International Organisations	2.032.099	*0,6%*
Credit institutions and investment service companies	5.778.843	*1,7%*
Companies	28.668.214	*8,4%*
Retail	5.587.143	*1,6%*
Exposures secured by property	7.012.433	*2,0%*
Exposures at default	10.510.636	*3,1%*
High-Risk Exposure	-	*0,0%*
Covered bonds	802.727	*0,2%*
Exposures to institutions and corporates with short term credit ratings	-	*0,0%*
Exposure to collective investment schemes	-	*0,0%*
Other exposures	10.115.292	*3,0%*
Total (Standardised approach)	**131.818.010**	***38,5%***
IRB apprach		
Companies	63.271.508	*18,5%*
Retail	147.463.144	*43,0%*
Total (IRB approach)	**210.734.652**	***61,5%***
TOTAL	**342.552.662**	***100,0%***

(1) Calculated as the average exposure to December 2013 and December 2014

1.1.1.4 Geographical and sector distribution of exposures

1. Geographical distribution of exposures

At 31 December 2014, the exposure of the CaixaBank Group, excluding value adjustments due to impairment, and broken down into the main geographical areas, was as follows:

Table 23. Distribution of exposures by geographical area

(thousands of euros)

Geographical area	CaixaBank Group	% weight
Spain	324.609.803	*96,7%*
European Union	7.928.951	*2,4%*
Rest of the world	3.301.534	1,0%
Total[(1)]	**335.840.288**	**100,0%**

(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 24 shows the distribution of exposures for the CaixaBank Group by sector of activity at 31 December 2014, for each regulatory exposure class.

Table 24. Distribution of exposures by economic sector

(thousands of euros)

Risk category(1)	Exposures by economic sector [1]							
	TOTAL	Public Sector	Indivduals	Energy	Property and construction	Industry	Services	Others
Standardized approach								
Central administrations and central banks	34.343.325	95,7%	-	-	0,2%	0,0%	0,1%	3,9%
Regional administrations and local authorities	16.880.179	89,4%	-	0,9%	3,7%	0,0%	5,8%	0,2%
Public sector entites and non-profit institutions	3.161.426	37,7%	-	13,8%	11,5%	0,1%	35,8%	1,1%
Multilateral development banks	-	-	-	-	-	-	-	-
International Organisations	781.773	100,0%	-	-	-	-	-	-
Credit institutions and investment service companies	4.178.803	-	-	-	0,0%	0,0%	100,0%	-
Companies	34.879.129	0,2%	-	10,4%	12,3%	3,8%	64,3%	8,9%
Retail	5.200.011	-	100,0%	-	-	-	-	-
Exposures secured by property	2.156.968	-	100,0%	-	-	-	-	-
Exposures at default	9.802.894	1,5%	5,6%	3,0%	8,7%	0,3%	4,1%	76,9%
High-Risk Exposure	-	-	-	-	-	-	-	-
Covered bonds	1.605.453	-	-	-	-	-	100,0%	-
Exposures to institutions and corporates with short term credit	-	-	-	-	-	-	-	-
Exposure to collective investment schemes	-	-	-	-	-	-	-	-
Other exposures	10.512.424	-	-	-	-	-	-	100,0%
Total (standardized approach)	**123.502.384**	**40,6%**	**6,4%**	**3,7%**	**5,0%**	**1,1%**	**24,9%**	**18,3%**
IRB approach								
Companies	62.275.569	0,0%	-	14,0%	36,1%	9,2%	36,9%	3,7%
Retail	150.062.335	0,0%	77,1%	0,4%	5,3%	2,4%	14,7%	0,1%
Total (IRB approach)	**212.337.904**	**0,0%**	**54,5%**	**4,4%**	**14,3%**	**4,4%**	**21,3%**	**1,1%**
Total value of exposure	**335.840.288**	**15,0%**	**36,8%**	**4,1%**	**10,9%**	**3,2%**	**22,6%**	**7,5%**

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

(2) Includes net exposure to foreclosed property assets.

Noteworthy, under the standardised approach, is the weight of transactions with the public administration (nearly 40% of original exposure), and with banks and project finance (included in the services sector). As for the IRB approach, the economic sectors with a predominance in the distribution of companies assessed using this approach are construction and services. These percentages were relatively stable compared to the previous year

1.1.1.5 Distribution of exposures by residual maturity

Table 25 shows the CaixaBank Group's exposure, excluding the deduction of impairment losses, at 31 December 2014, by residual maturity and by exposure category, for each of the minimum own funds requirements calculation methods applied.

The distribution of original exposure by maturity shows that, using the standardised approach, nearly 50% is concentrated in the maturity bucket up to one year in transactions with the public administration. As for transactions with institutions, practically the entire exposure is concentrated in the maturity bucket up to three months. For exposures measured using the IRB approach, excluding exposures secured by immovable property (96.1% matures after five years), the CaixaBank Group has a balanced distribution of maturities for companies, concentrated in the medium-long term for retail exposures.

Table 25. Distribution of exposures by residual maturity

(thousands of euros)

Risk category	Distribution of exposures by residual maturity (1) (2)				
	Total	< 3 months	3 months- 1 año	1-5 years	> 5 years
Standardized approach					
Central administrations and central banks	34.343.325	24,0%	24,4%	30,9%	20,7%
Regional administrations and local authorities	16.880.179	12,0%	34,2%	20,8%	33,0%
Public sector entites and non-profit institutions	3.161.426	29,4%	7,6%	16,2%	46,8%
Multilateral development banks	-	-	-	-	-
International Organisations	781.773	0,0%	96,0%	4,0%	0,0%
Credit institutions and investment service companies	4.178.803	87,8%	7,8%	1,9%	2,5%
Companies	34.879.129	48,2%	6,4%	22,7%	22,8%
Retail	5.200.011	73,2%	6,4%	12,6%	7,8%
Exposures secured by property	2.156.968	24,6%	0,5%	11,0%	63,9%
Exposures at default	9.802.894				
High-Risk Exposure	-	-	-	-	-
Covered bonds	1.605.453	0,1%	61,3%	38,1%	0,5%
Exposures to institutions and corporates with short term credit ratings	-	-	-	-	-
Exposure to collective investment schemes	-	-	-	-	-
Other exposures	10.512.424	100,0%	0,0%	0,0%	0,0%
Total (standardized approach)	**123.502.384**	**44,5%**	**15,5%**	**19,7%**	**20,3%**
IRB approach					
Companies	62.275.569	16,5%	14,9%	31,7%	37,0%
Retail	150.062.335	1,4%	2,9%	9,7%	86,1%
Total (IRB approach)	**212.337.904**	**5,8%**	**6,4%**	**16,2%**	**71,7%**
Total value of exposure	**335.840.288**	**20,0%**	**9,7%**	**17,5%**	**52,8%**

(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 26 shows exposure at default, excluding the real estate assets arising from management of the lending portfolio, broken down by sector type, at 31 December 2014, and impairment losses and provisions for contingent commitments and liabilities constituted and recognised.

Table 26. Distribution of impaired exposures and exposures at default by economic sector

(thousands of euros)

Exposures at default by economic sector(1)	CaixaBank Group	*% weight*
Public sector	148.552	*1%*
Particulares	5.385.076	*27%*
Energy	430.298	*2%*
Property and construction	9.128.069	*45%*
Industry	1.103.388	*5%*
Services and distribution	3.821.399	*19%*
Other	93.896	*0%*
Total Value	**20.110.678**	***100%***
Fund for impairment losses and provisions for contingent commitments and liabilities	**11.120.427**	**55%**

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

Doubtful loans amounted to €20,110 million and €25,365 million at 31 December 2014 and 2013, respectively, including doubtful contingent liabilities. At 31 December 2014 and 2013, the non-performing loan ratio (including doubtful loans for contingent exposures) stood at 9.69% and 11.66%, respectively. At 31 December 2014 and 2013, provisions non-performing loans resulted in coverage ratios of 55.30% and 61.02%, respectively.

Assets received in payment of debts are recognised at the lower of the carrying amount of the financial assets foreclosed, understood as amortised 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 31 December 2014, net available-for-sale foreclosed assets totalled €6,719 million. In addition, CaixaBank foreclosed real estate assets held for lease (classified as investment property for accounting purposes) amounting to €2,770 million, net of provisions, at 31 December 2014.

The underlying criterion guiding CaixaBank's management of problem assets is to help borrowers meet their obligations. When the borrower no longer appears to be reasonably able to fulfil these obligations, the mortgaged asset is acquired.

The coverage ratio of available-for-sale foreclosed assets stood at 55%, including initial write-downs and the provisions reported after foreclosure of the properties.

BuildingCenter's intense activity in 2014 led to the sale or lease of properties totalling €2,512 million, up 15.3% on the 2013 figure. Noteworthy was the rental property portfolio occupancy ratio of 87%.

2. Geographic distribution of impaired positions

The distribution by geographical area of the exposures at default of the CaixaBank Group, in value terms, at 31 December 2014, is as follows:

Table 27. Distribution of impaired exposures and exposures at default by geographical area

(thousands of euros)

Exposures at default by geographical area(1)	CaixaBank Group	*% weight*
Spain	19.832.395	*98,62%*
European Union	236.324	*1,18%*
Rest of the world	41.959	*0,21%*
Total Value	**20.110.678**	***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 CaixaBank Group in 2014 is shown below:

Table 28. Changes in provisions

(thousands of euros)

CaixaBank Group	Impairment losses	Provisions for contingent liabilities and commitments	Total provisions
Beginning balance	14.985.253	528.990	**15.514.243**
Net impairment charge	1.338.952	34.265	**1.373.217**
Amounts used charged to provisions and reversals of impairment losses recognized in the period	(3.665.157)		**(3.665.157)**
Transfers and other	(2.064.476)	342	**(2.064.134)**
Ending balance	**10.594.572**	**563.597**	**11.158.169**

2. Impairment losses and reversals of previously recognised losses

Table 29 contains a detail of the impairment losses and reversals of previously recognised losses on assets written off, recognised directly in the income statement for the CaixaBank Group in 2014[31].

[31] See Note 37 “Impairment losses on financial assets (net)” and Note 38 “Impairment losses on other assets (net)” in the CaixaBank Group's 2014 financial statements.

Table 29. Impairment losses and reversals of losses

(thousands of euros)

	CaixaBank Group
Write-downs	**(1.300.626)**
Loans and receivables	(1.104.994)
Available-for-sale financial assets	
Intangible assets	(14.119)
Property and equipment for own use	(8.392)
Investment property	(33.554)
Other assets	(139.567)
Net allowances	**(1.308.328)**
Loans and receivables	(1.315.584)
Inventories	(23.242)
Investments - associates	(25.561)
Property and equipment - Investment property	57.187
Other assets	(1.128)
General allowance	**(23.368)**
Recovery of assets	**390.143**
Total value	**(2.242.179)**

1.1.2. Counterparty risk

1.1.2.1. Counterparty risk management

1. Methodology for internal allocation of capital

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

2. Limits system and management

With regard to authorisation processes, the maximum authorised 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 Desk 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 minimises 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 loan 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 Montecarlo simulation is applied using stochastic models that take into account the volatility of the underlying, time to the transaction start date, term to maturity, transaction currency and the rate contracted.

3. Effectiveness of collateral

In order to guarantee transactions with financial institutions that are exposed to counterparty risk, the CaixaBank Group applies collateral cash agreement as collateral. 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.

Meanwhile, the impact on collateral of a hypothetical downgrade to CaixaBank's rating would not be significant as most of the collateral agreements do not include franchises related to its rating.

Bearing in mind that most contracts with financial institutions have a zero threshold[32] and that in contracts with a rating-linked scale the value of the portfolio does not usually exceed the threshold amount, in a worst-case scenario a rating downgrade would entail an insignificant outlay of cash.

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

1.1.2.2 Exposure to counterparty risk

1. Exposure to counterparty risk

Table 30 shows the effect of netting agreements and guarantees on exposure to counterparty risk in derivatives contracts exposed to counterparty risk for the CaixaBank Group:

Table 30. Exposure to counterparty risk (derivatives)

(thousands of euros)

	Amount
Gross positive fair value of the contracts (1)	18.181.965
Positive effects of netting arrangements	6.892.892
Exposición crediticia potencial futura neto	2.239.056
Net positive fair value of the contracts (1)	9.131.948
Real guaranteees	4.396.824
Credit exposure to derivatives after netting arrangements and guarantees (2)	4.604.711

(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.

2. Transactions with credit derivatives

At 31 December 2014, the CaixaBank Group had the following position in credit derivatives used.

Table 31. Notional value of credit derivatives

(thousands of euros)

Type of credit derivatives used	Notional value	
	Protection purchased	Protection sold
Credit derivatives used for the Entity's own credit portfolio	0	0
Credit derivatives used in the Entity's trading activities	0	10.000

1.2. Additional disclosure requirements

1.2.1. Credit risk under the standardised approach

1.2.1.1. Assignation of export credit or external agency ratings

To calculate risk-weighted exposures using the standardised approach, risk is weighted in accordance with the exposure’s credit quality. The CaixaBank 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.

The CaixaBank Group applies permanent use of the standardised approach permanently for the following exposures:

- Central administrations and central banks
- Regional administrations and local authorities
- Institutions

According to the application of the measurement approaches set out in the new European regulations, the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), where external ratings are not available for exposures of regional or local administrations, the rating for the next higher level of public body available is used.

The 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

This sections details the net exposures for the CaixaBank Group after applying value adjustments for impairment of assets before and after applying mitigation techniques based on the exposure class and the weighting percentage applied according to the level of credit quality of each exposure.

Table 32. Exposure before applying risk reduction techniques by exposure class and weighting applied (standardised approach)

(thousands of euros)

CaixaBank Group Exposure Class	Value of the exposure (1)	%Risk weight 0%	2%	20%	35%	50%	75%	100%	150%	1250%
Central administrations and central banks	**34.343.235**	100,0%	-	-	-	-	-	-	-	-
Regional administrations and local authorities	**16.872.650**	99,5%	-	0,0%	-	-	-	0,5%	-	-
Public sector entites and non-profit institutions	**2.839.402**	13,7%	-	83,2%	-	0,4%	-	2,7%	-	-
Multilateral development banks	**0**	-	-	-	-	-	-	-	-	-
International Organisations	**781.773**	100,0%	-	-	-	-	-	-	-	-
Credit institutions and investment service companies	**4.178.635**	13,3%	3,2%	65,8%	-	9,6%	-	8,2%	-	0,0%
Companies	**34.743.939**	4,2%	-	-	-	0,1%	0,0%	95,7%	0,0%	-
Retail	**5.191.432**	28,4%	-	-	-	0,0%	71,6%	0,0%	-	-
Exposures secured by property	**2.138.582**	-	-	-	69,4%	29,1%	0,0%	1,4%	-	-
Exposures at default	**8.038.707**	-	-	-	-	0,0%	-	88,5%	11,5%	-
High-Risk Exposure	**0**	-	-	-	-	-	-	-	-	-
Covered bonds	**1.605.453**	24,5%	-	75,5%	-	-	-	-	-	-
Exposures to institutions and corporates with short term credit	**0**	-	-	-	-	-	-	-	-	-
Exposure to collective investment schemes	**0**	-	-	-	-	-	-	-	-	-
Other exposures	**10.512.424**	23,3%	-	-	-	-	-	76,7%	0,0%	-
Total	**121.246.232**	**48,4%**	**0,1%**	**5,2%**	**1,2%**	**0,9%**	**3,1%**	**40,4%**	**0,8%**	**0,0%**

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

Table 33. Exposure after applying risk reduction techniques by exposure class and weighting applied (standardised approach)

(thousands of euros)

CaixaBank Group Exposure Class	Value of the exposure (1)	%Risk weight 0%	2%	20%	35%	50%	75%	100%	150%	1250%
Central administrations and central banks	**36.718.281**	100,0%	-	-	-	-	-	-	-	-
Regional administrations and local authorities	**16.928.497**	99,5%	-	0,0%	-	-	-	0,5%	-	-
Public sector entites and non-profit institutions	**2.806.529**	13,9%	-	83,0%	-	0,4%	-	2,7%	-	-
Multilateral development banks	**0**	-	-	-	-	-	-	-	-	-
International Organisations	**781.773**	100,0%	-	-	-	-	-	-	-	-
Credit institutions and investment service companies	**3.877.960**	14,3%	3,4%	71,8%	-	4,9%	-	5,5%	-	0,0%
Companies	**32.865.058**	4,4%	-	-	-	0,4%	0,0%	95,1%	0,1%	-
Retail	**5.049.203**	29,2%	-	-	-	0,0%	70,8%	0,0%	-	-
Exposures secured by property	**2.108.571**	-	-	-	69,4%	29,1%	0,0%	1,4%	-	-
Exposures at default	**8.020.792**	-	-	-	-	0,0%	-	88,7%	11,3%	-
High-Risk Exposure	**0**	-	-	-	-	-	-	-	-	-
Covered bonds	**1.605.453**	24,5%	-	75,5%	-	-	-	-	-	-
Exposures to institutions and corporates with short term credit	**0**	-	-	-	-	-	-	-	-	-
Exposure to collective investment schemes	**0**	-	-	-	-	-	-	-	-	-
Other exposures	**10.512.424**	23,3%	-	-	-	-	-	76,7%	0,0%	-
Total	**121.274.542**	**50,3%**	**0,1%**	**5,2%**	**1,2%**	**0,8%**	**2,9%**	**38,6%**	**0,8%**	**0,0%**

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

1.2.2. Credit risk using the Internal Ratings Based Approach (IRB)

1.2.2.1 General information

1. Utilisation of the IRB approach

In July 2005, in accordance with the directives of the Bank of Spain, the Board of Directors of ”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 authorisation for the ”la Caixa” Group to apply the model to calculate its capital requirements as of that year.

The Bank of Spain has authorised the use of the Internal Ratings-Based Approach (IRB) to calculate own funds requirements for the following credit exposure classes:

- Exposures evaluated by models for mortgage loans to individuals (behaviour 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 (behaviour 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 (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by SME models for the range of medium-sized enterprises, small companies and micro-enterprises, applying internal estimates of losses in the event of non-payment and credit conversion factors
- Exposures evaluated by the 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 authorised the use of the IRB approach for the calculation of own funds requirements for credit exposures arising from operations by MicroBank de la Caixa, S.A., following the reorganisation 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[33]:

- Back-up for the decision-making process
- System of authorisations for expected loss in the approval of risk for companies:
- System of diagnostics by risk premium in the authorisation of retail lending
- Optimisation of internal processes and monitoring function
- Risk-Adjusted Return (RAR) System
- Risk approval pricing system
- Risk-Adjusted Bonus (RAB) System:

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 estimation and allocation of loss given default (LGD) parameters, which vary in accordance with the guarantees or collateral provided. For these, the type of guarantee is observed for each transaction to determine the type of collateral: financial, real estate or other collateral. Moreover, in the case of properties 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 item.

4. Control of the internal rating systems

The criticality and importance of the capital determination process requires proper control environments to ensure that reliable estimates are obtained. The control environment must also be sufficiently specialised and operate on a continuous basis in the entities. In this respect, internal validation must comply with regulatory requirements, as well as provide fundamental support to risk management in its responsibilities of issuing technical opinions and authorising the use of internal models.

[33] See Section 1.2.2.6 for more details on the integration of internal estimations in management.

Regulations state that internal validation is a compulsory prerequisite for supervisory validation, which must be carried out by a sufficiently independent and specialised unit of the institution, with clearly defined functions.

At CaixaBank, the internal validation function is performed by the Risk Models Validation (RMV) Division, which was created on approval by the Management Committee. The RMV function falls directly under the General Risks Division. This ensures its independence from the areas in charge of developing risk models and policies, and risk infrastructures.

RMV's mission is to ensure that the advanced risk measurement models are appropriate for the correct determination of the CaixaBank Group's regulatory capital needs.

In line with its mission, the scope of RMV's actions include credit, market and operational risk, reviewing methodological and management (e.g. use of management models and tools, risk policies, coverage levels, controls, governance, implementation of models in management processes) aspects, and verifying the existence of an IT environment with sufficient data quality to support the modelling process.

RMV's activities are aligned with regulatory requirements of the various oversight mechanisms and coordinated with Internal Audit in the development of its functions.

Within the framework of the project to migrate to the Single Supervisory Mechanism (SSM), the Internal Validation unit has identified a number of areas within internal governance to be strengthened. The Global Risk Model Validation framework has been defined and signed off. This document outlines the Internal Validation unit's mission, the general action framework, the reporting lines, etc. Relevant criteria for the recommendations issued have also been defined.

RMV's activities are classified into three categories:

1. Strategic planning: RMV has a plan that sets out the medium-term validation requirements and objectives covering a three-year period. The medium-term plan entails annual planning that reflects the analysis and review activities carried out each year to guarantee the validity of the opinions issued by RMV.
2. Review and monitoring:
   - Through validation cycles, RMV keep the opinions on the various models and their integration in management (for IRB models) up to date.
   - Complete validation in the event of the roll-out of models and material changes.

- Specific reviews in addition to ordinary validation processes designed to add value to the risk management areas.

3. Reporting:
   - The RMV annual report on activities carried out over the past year.
   - Coordination of the process for updating the follow-up dossiers of the models.
   - Regular monitoring of recommendations issued.

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

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

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

The following table provides a summary of RMV assessments as they currently stand:

Table 34. Existing RMV assessments

Valuation	Total	In progress
No presenting deficiencies or the number is no material o insignificant	52%	19%
There are some weaknesses and they has to be adressed by establishing a Action Plan adopted in the medium term	35%	44%
There are some rellevant aspects and they has to be adressed by establishing a Action Plan adopted with a timetable for action	13%	83%

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

1. Structure of the internal rating systems

The CaixaBank 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.

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-orientated tools assess the debtor's probability of default in a generic manner, although in the case of individuals they may provide different results depending on the product.

Customer-orientated tools at the CaixaBank Group consist of behaviour 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 rating results are also adjusted to the business cycle using the same structure as that employed for individuals.

The CaixaBank Group has a Corporate Rating function in place to provide specialised 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 thus the global default rates published by this rating agency can be used, making the methodology much more reliable.

- **Probability of default (PD) estimation models**

  CaixaBank has 27 internal probability of default (PD) estimation models, covering most of the Group's portfolios. In segments not yet covered, relevant information is entered for the future construction of tools to estimate the probability of default.

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 categorisation to which the results of all scoring and rating tools are linked for easier interpretation. Table 35 provides a summary of the relationship between the Master Scale and the probability of default.

Table 35. Master scale for credit ratings

Internal Master Scale	Minimum PD (%)	Maximum PD (%)
0	0,0000	0,0245
1	0,0245	0,0755
2	0,0755	0,1805
3	0,1805	0,4205
4	0,4205	0,9995
5	0,9995	2,3385
6	2,3385	5,3655
7	5,3655	11,8365
8	11,8365	24,1515
9	24,1515	100,0000

- **Exposure at default (EAD) estimation models**

  CaixaBank has 15 internal exposure at default (EAD) estimation models.

  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 calculated 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 realised CCFs).

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

- **Loss given default (LGD) estimation models**

  CaixaBank has 39 loss given default (LGD) estimation models.

  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 own funds requirements through the IRB approach is shown below:

2.1 Private customers and self-employed

- **Asset-related Behaviour 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 behaviour.

- **Non-Asset-related Behaviour 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 behaviour.

- **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, socio-demographic information and information concerning the customer's financial behaviour.

- **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 personal-guarantee transactions for customers and the approval of cards for customers. The rating at the time of approval is maintained over the first twelve months of the transaction.

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

- **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 (socio-demographic data, employment, economic information etc.).

- **Non-Customer cards:** Used for evaluation in the approval of 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 (socio-demographic data, employment, economic information etc.).

2.2 Companies

- ***Ratings of SMEs and Developer SMEs:*** The aim of the SME and developer SME rating model is to assign an internal rating to private companies classified as 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 instance: total assets, own funds or net profit.
  - *Operating information*: bank and credit information on the customer company, in connection with CaixaBank or other banks in the Spanish financial system (Bank of Spain's Risk Information Facility - CIRBE). For instance: average balance of liabilities or average CIRBE utilisation.
  - *Qualitative information*: based on the company's characteristics and position within its sector. For instance: 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 CaixaBank internal risk segmentation system. The corporate rating is calculated by a centralised 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 default or conversion factors.

1. IRB exposure classes - Corporates

The following tables provide information on the CaixaBank's exposures to corporates using the IRB approach at 31 December 2014 by debtor levels.

Table 36. Exposure and debtor level of Corporates (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] (%)
Corporates - Others	**42.618.181**	**29,74**	**90,36**	**16.309.171**	**36,45**
Risks not at default	38.045.045	33,22	88,95	15.857.405	38,41
0,0480	334.111	20,81	5,03	235.341	29,94
0,1409	7.631.213	29,07	25,62	4.259.002	43,02
0,3294	11.394.943	30,82	45,53	5.543.622	42,60
0,6917	5.045.710	38,44	75,84	1.880.391	31,28
1,5060	3.793.135	34,72	89,28	1.315.528	32,61
3,3982	3.365.822	33,51	107,66	901.684	30,20
7,0661	3.942.174	40,42	162,37	1.141.612	26,17
16,7604	1.118.458	33,09	171,82	371.519	41,02
42,7259	1.419.479	34,66	184,63	208.705	41,46
Risks at default	4.573.137	0,80	10,06	451.766	30,31

(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)] (%)
Corporates - SMEs	**19.657.387**	**18,70**	39,88	**3.312.694**	**24,20**
Risks not at default	13.029.423	28,50	37,35	2.668.272	34,29
0,0471	211.283	35,08	8,94	89.445	52,01
0,1338	2.082.680	30,14	18,34	604.072	45,95
0,2804	849.285	27,32	24,92	254.803	40,64
0,5825	3.200.093	30,39	39,84	666.669	38,97
1,6388	2.506.723	28,93	54,58	438.854	27,43
3,4959	2.074.449	26,93	66,49	331.262	21,68
7,9348	921.528	25,32	73,99	160.736	9,65
17,3398	458.108	25,66	98,87	31.447	17,60
35,3463	725.273	23,67	97,19	90.983	15,81
Risks at default	6.627.965	0,55	6,91	644.423	11,86

(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)] (%)
Corporates Total	**62.275.569**	**26,26**	**74,42**	**19.621.866**	**32,58**

(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.

For the total of the Corporate exposure classes assessed using the advanced IRB approach, for an original exposure of €62,275,569 thousand, loss in the event of default represents 26.26%, while the average risk weighting of the portfolio is 74.42%.

Loss in the event default of the Corporate - Others class is 29.74% for an original exposure of €42,218,181 thousand. The average risk weighting of this portfolio is 90.36%.

Loss in the event default of the Corporate - SMEs class is 18.70% for an original exposure of €19,657,387 thousand. The average risk weighting of this portfolio is 39.88%.

2. IRB exposure classes - Retail

The following tables provide information on the CaixaBank's retail exposures using the IRB approach at 31 December 2014 by debtor levels.

Table 37. Exposure and debtor level of Retail (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) (%)
Retail - Exposures covered by property mortgages	**97.066.166**	**17,45**	17,90	**17.551.843**	**3,33**
Risks not at default	92.507.183	18,31	17,90	17.472.952	3,31
0,0362	50.076.947	16,91	1,95	11.583.499	3,42
0,1206	15.232.709	19,83	5,71	2.770.257	2,74
0,2532	6.002.250	19,46	9,85	1.042.401	2,68
0,6129	7.912.766	19,86	18,77	1.064.634	3,04
1,5413	3.065.547	20,16	35,41	328.171	3,67
3,7199	4.460.266	19,91	58,39	413.964	3,72
9,7942	1.949.205	20,46	97,36	116.286	4,58
18,8727	1.511.810	20,91	122,56	66.408	7,26
33,8591	2.295.683	21,37	129,47	87.331	9,69
Risks at default	4.558.983	0,50	6,20	78.891	0,08

(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) (%)
Retail - Exposures covered by property mortgages SMEs	**34.409.888**	**15,67**	**24,48**	**5.833.849**	**4,47**
Risks not at default	31.347.059	17,20	24,48	5.689.519	4,55
0,0391	10.240.748	14,94	1,81	2.726.626	3,67
0,1219	5.536.253	17,47	5,01	1.012.716	4,59
0,2660	2.500.752	17,84	8,81	460.695	4,92
0,6456	3.681.908	18,56	16,67	494.007	6,36
1,5832	2.352.945	18,48	28,57	300.268	6,50
3,7553	3.438.322	18,05	48,25	404.283	5,81
8,4546	1.456.797	19,63	75,80	172.845	4,63
18,6449	793.357	19,20	103,51	48.994	5,11
34,9738	1.345.977	20,15	111,87	69.084	6,62
Risks at default	3.062.829	0,45	5,59	144.330	0,13

(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] (%)
Retail - Qualifying revolving retail exposures	**7.179.415**	**23,18**	35,42	**5.338.027**	**34,21**
Risks not at default	7.163.732	23,23	35,42	5.338.027	34,23
0,0366	3.026.817	0,00	2,09	2.490.408	33,34
0,1176	1.353.208	0,00	5,60	1.101.355	33,31
0,2172	609.141	0,00	9,30	473.502	37,37
0,5769	1.065.726	76,92	20,13	740.602	35,37
1,5250	442.440	76,47	42,46	272.302	37,02
3,3021	402.735	76,38	73,63	187.277	34,91
7,1354	148.281	76,32	123,11	54.909	36,00
15,4922	86.698	75,47	184,17	15.926	30,15
43,2435	28.687	68,96	217,84	1.747	25,59
Risks at default	15.683	0,02	0,20	-	-

(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] (%)
Retail - Others no SMEs	**3.677.953**	**57,61**	**40,19**	**255.564**	**39,15**
Risks not at default	3.551.258	59,67	40,19	251.020	38,65
0,0450	1.353.878	55,46	7,92	109.092	47,13
0,1289	481.075	63,04	19,75	21.149	54,08
0,2846	483.144	61,26	32,87	17.205	46,10
0,6491	380.776	65,30	56,25	26.789	34,23
1,4827	311.594	63,62	79,16	34.777	22,41
3,4205	279.678	59,90	89,43	26.297	24,37
7,8276	71.864	58,66	98,09	6.795	14,06
15,7339	100.341	58,34	123,89	4.747	17,99
38,8069	88.908	60,56	166,56	4.169	25,28
Risks at default	126.695	0,31	3,93	4.543	31,36

(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] (%)
Retail- Others SMEs	**7.728.912**	**49,15**	**42,39**	**2.158.063**	**44,95**
Risks not at default	7.387.258	51,43	42,39	2.095.013	48,26
0,0466	646.600	51,01	5,73	193.340	54,02
0,1210	906.239	53,71	12,25	362.768	54,00
0,3026	1.070.792	51,53	21,95	368.201	50,32
0,6843	1.558.427	53,46	36,13	464.921	50,20
1,5719	1.365.661	51,22	49,41	307.012	45,53
3,6437	1.213.602	48,36	56,48	300.775	39,20
7,6131	332.192	48,84	62,79	58.512	37,52
17,6505	143.131	50,37	85,13	16.940	31,89
38,9400	150.614	51,03	106,73	22.544	30,99
Risks at default	341.655	0,75	9,40	63.051	26,98

(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] (%)
Retail Total	**150.062.335**	**19,93**	**20,36**	**31.137.346**	**8,09**

(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.

Loss in the event default of the IRB class "Retail - Secured by immovable property not of SME" is 17.45% for an original exposure of €97,066,166 thousand. The average risk weighting of this portfolio is 17.90%.

Loss in the event default of the IRB class "Retail - Secured by immovable property of SMEs" is 15.67% for an original exposure of €34,409,888 thousand. The average risk weighting of this portfolio is 24.48%.

Loss in the event default of the IRB class "Retail - Eligible for renewal" is 23.18% for an original exposure of €7,179,415 thousand. The average risk weighting of this portfolio is 35.42%.

Loss in the event default of the IRB class "Retail - Other non-SME" is 57.61% for an original exposure of €3,677,953 thousand. The average risk weighting of this portfolio is 40.19%.

Loss in the event default of the IRB class "Retail - Other SMEs" is 49.15% for an original exposure of €7,728,912 thousand. The average risk weighting of this portfolio is 42.39%.

1.2.2.4 Trend in impairment losses recognised in the previous year

Table 38 shows information on the CaixaBank Group's allowances for impairment losses and provisions for risks and contingent commitments in 2013 and 2014, for each of the risk categories where the Entity applies the IRB approach.

Table 38. Impairment trends

(thousands of euros)

CaixaBank Group	Fund for impairment losses and provisions for contingent commitments and liabilities			
	dec-13	*% weight*	dec-14	*% weight*
Non-IRB exposures	5.140.694	*33,1%*	2.228.195	*20,0%*
Companies	7.870.891	*50,7%*	6.100.718	*54,7%*
Retail. Of which:	2.502.658	*16,1%*	2.829.256	*25,4%*
Exposures covered by property mortgages	2.098.749	*13,5%*	2.488.680	*22,3%*
Qualifying revolving retail exposures	9.609	*0,1%*	14.502	*0,1%*
Other retail exposures	394.300	*2,5%*	326.074	*2,9%*
Other	-	-	-	-
Total	**15.514.243**	***100,0%***	**11.158.169**	***100,0%***

Net impairment losses on the CaixaBank Group's loans and receivables decreased from €3,768,268 thousand in 2013 to €1,315,584 thousand in 2014[34].

At December 2014, taking into account all the provisions available to cover the expected losses under IRB, the CaixaBank Group showed a provision surplus of €660 million. In 2013, there was a surplus in provisions of €134 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 items:

[34] See Note 37 "Impairment losses on financial assets (net)," to the CaixaBank Group's 2014 financial statements.

- Probability of default through the cycle (PD TTC): Indicates the ratio of defaults to average total risk on non-distressed assets expected during one year of the economic cycle for a give credit rating (scoring/rating). The value is obtained based on existing defaults in the portfolio.
- Downturn loss given default (PD LGD): 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, given certain risk parameters, as a result of changes in the composition or characteristics of the portfolio.

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

- Observed default frequency (ODF): the proportion of non-distressed loans that default in a one-year time horizon.
- Realised loss given default (LGD): calculated based on recovery flows and losses on contracts in default. This LGD indicates the proportion of debt recovered during the recovery process.
- Realised exposure: risk assigned to a contract at the time of default.

Because effective 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 comparisons applied to the main IRB portfolios are given:

- ODF vs. PD: A comparison is made of the ODF risk tranche for 2014 with the PD calculated at 31 December 2013 and used to calculate the own funds requirements at the same date.
- EAD vs. realised exposure: for contracts entering into default in 2014, the estimated EAD at 31 December 2013 is compared to the actual realised exposure when the default was identified.

- PD LGD vs. realised LGD: compares downturn LGD at 31 December 2011 was realised LGD of defaults identified over the period of one year whose recovery process has been completed. A reference date prior to that used for the rest of the parameters is taken to allow the recovery cycles to mature so as to have a more representative sample for the analysis.
- Realised loss vs. effective loss: estimated expected loss at 31 December is compared to observed loss on the portfolio during the ensuing year. The analysis covers the 2011-2014 period.

2. Historical ODFs

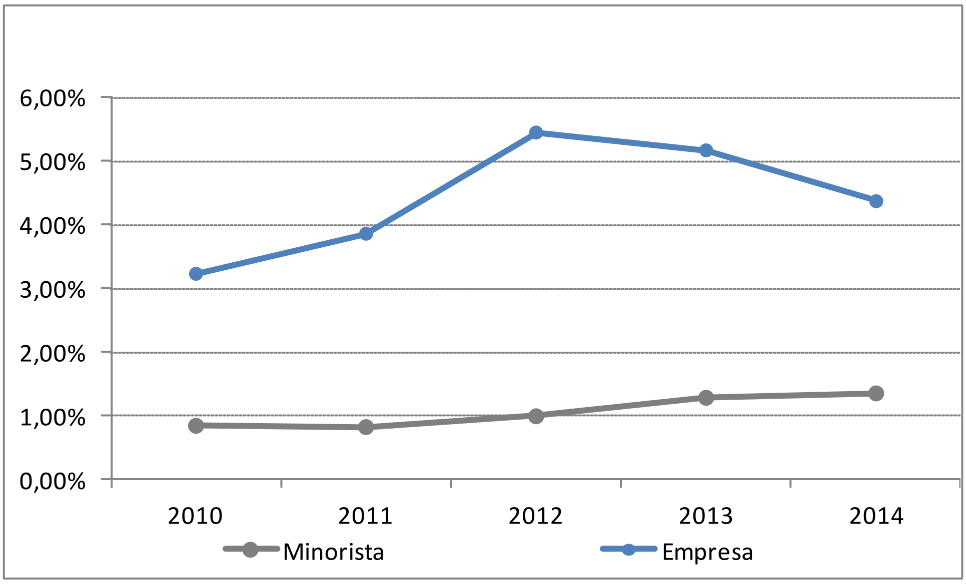
Historical ODFs show the level of default on exposures contracted with CaixaBank over time.

Table 39. ODFs

Historic ODF					
	2010	2011	2012	2013	2014
Retail	0,84%	0,82%	0,99%	1,28%	1,35%
Companies	3,23%	3,86%	5,45%	5,17%	4,37%

Although a weakened macroeconomic scenario keeps ODFs at high levels, the corporate segment shows a shift in trend as ODF is reduced in the last two years.

Chart 1: ODF performance



3. Comparison of ODFs and PD

The regulatory estimate of own funds 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" for simplicity) 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 attempts to reflect the impact of business 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, for the vast majority of tranches, the ODFs remain at levels close to or slightly below the estimated PDs for the current stage of the cycle, 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 analysed 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, which is what is expected for models with high discriminatory power, such as the Entity's; and
- Compare the levels for analysing the cyclical nature of the estimate with actual data.

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

- 2014 ODFs
- The PDs for 2014 estimated at year-end 2013

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 2013.

Retail

Chart 2: Mortgage

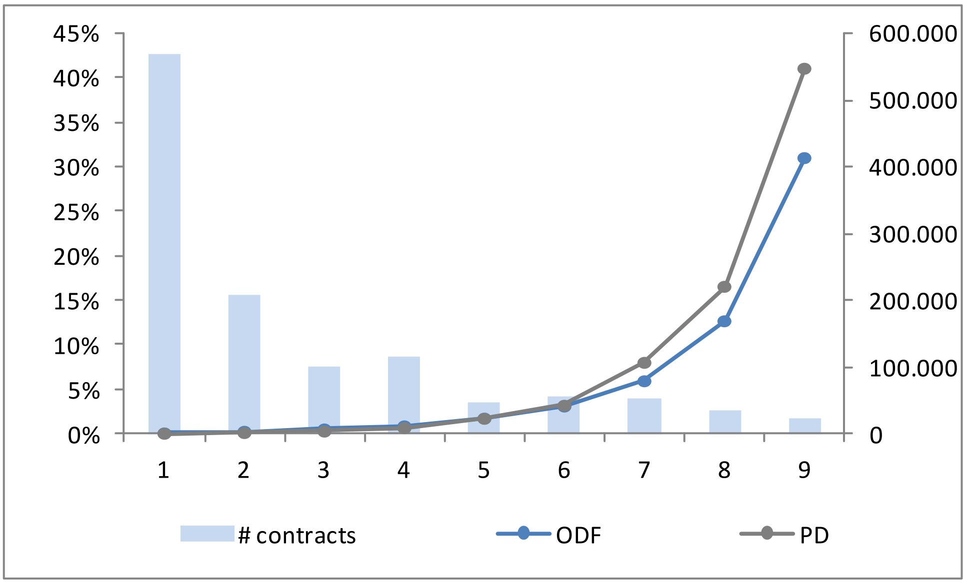


Chart 3: Consumer

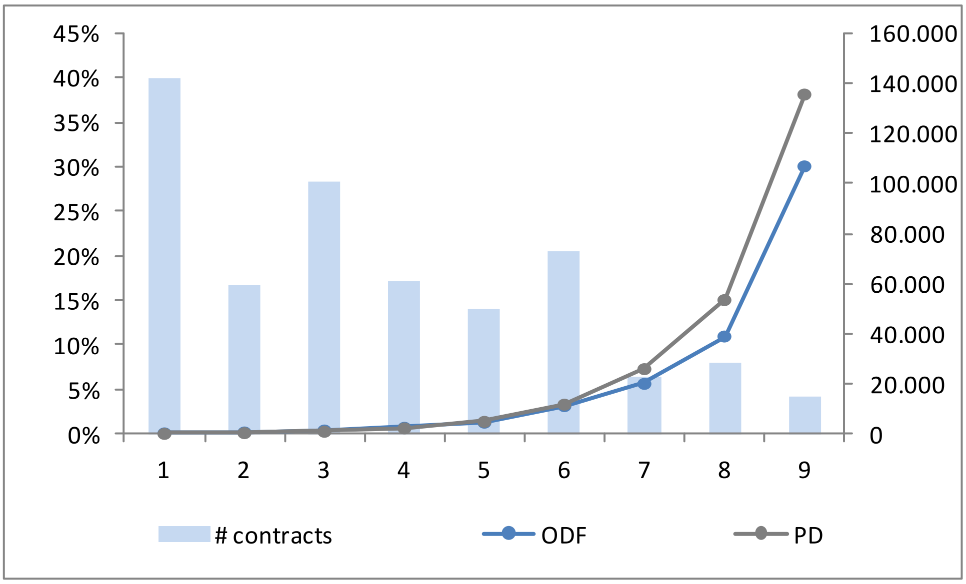
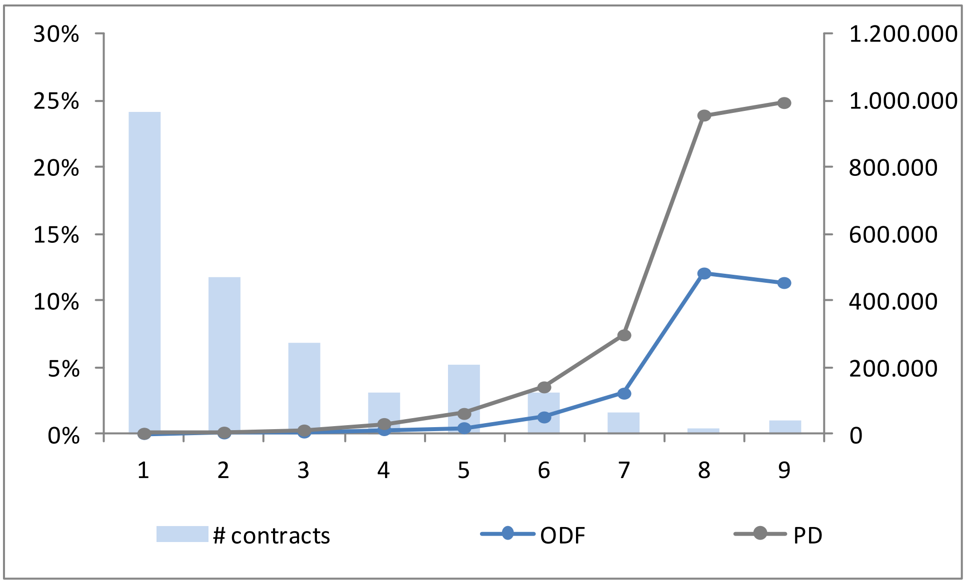


Chart 4: Cards

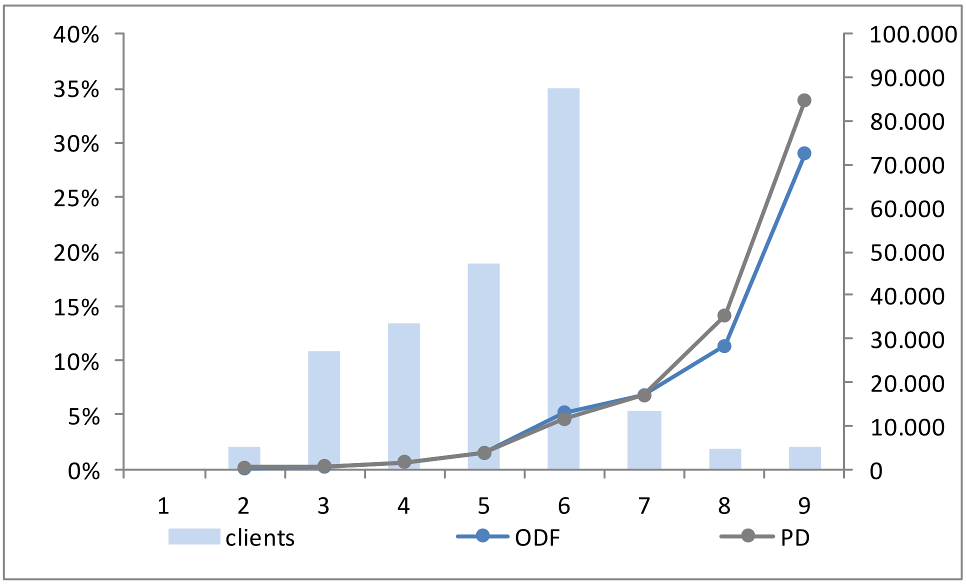


The portfolios of individuals confirm that ODF is a rising monotonous function with respect to the Master Scale of cards tranches, except in the last tranche, in which a significant population volume is not available. In other words, as indicated previously, the reflection that CaixaBank's internal retail models discriminate correctly customers by level of risk.

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

Companies

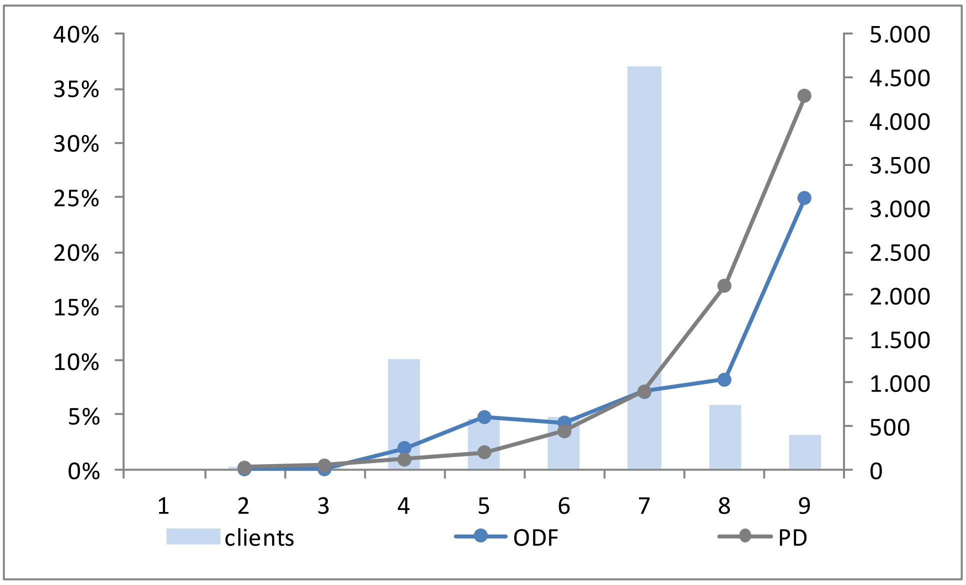
Chart 5: Non-developer SMEs



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.

Due to the conservative adjustments made to the cycle, the PD is in line with the 2014 ODF.

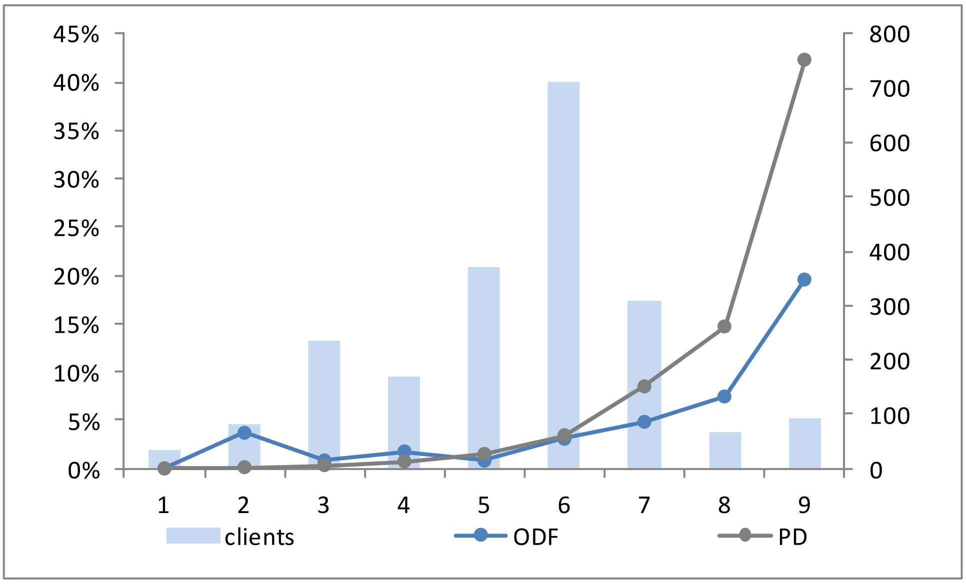
Chart 6: Developer SMEs



Both the ODF and the PD, barring some tranches, in the developer portfolio are rising monotonous functions with respect to the Master Scale. In this way, CaixaBank's internal models are considered to discriminate reasonably customers by risk level.

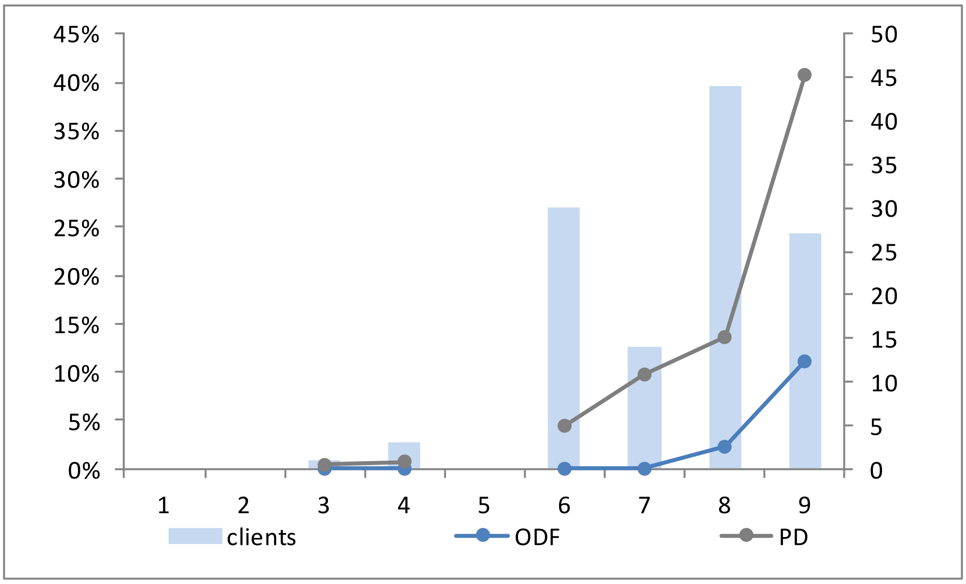
Unlike in previous years when ODF was clearly higher than PD, ODF values are now close to PD values. This is noteworthy, as the developer portfolios had deteriorated considerably in the latter years of the crisis, with a worse ODF than PD.

Chart 7: Large non-developer companies



The low numbers of customers means that the ODF on the master scale is not statistically representative, and cannot require the ODF to be monotonous. However, this is true in worse creditworthiness scales, whereas in the better tranches this fluctuates around values that are close to the PD values, except in Master Scale 2, where the difference is greater.

Chart 8: Large developer companies



Given the small number of large real estate developers and their greater concentration in the scale of worse credit quality, default is concentrated in the last two tranches of the scales. The absence of default gives 0% for the rest of the ODF tranches.

4. Comparison of EAD and realised exposure

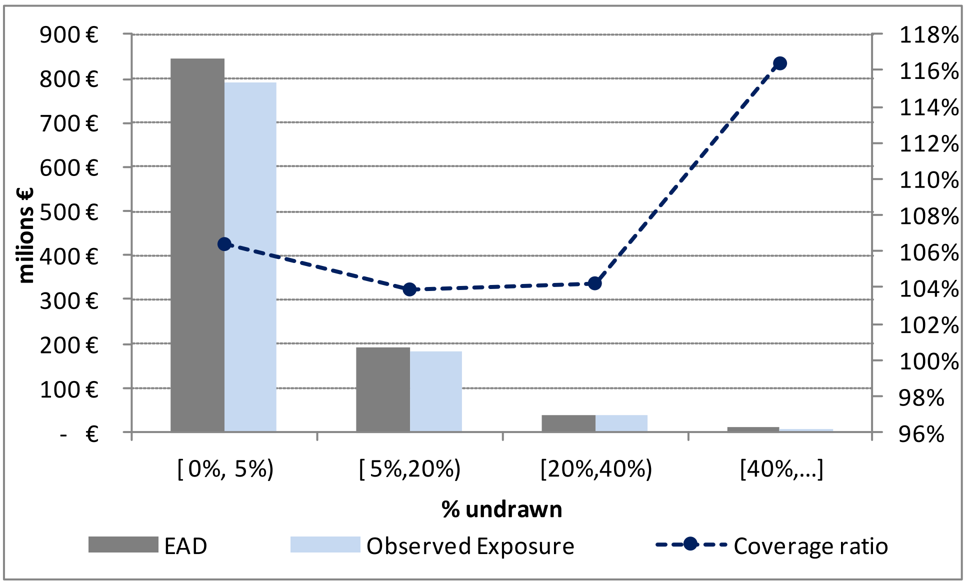
EAD (exposure at default) is defined as the estimated amount the customer will outlay in the event of default. The value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

To verify the usefulness of the estimated CCF, for the main portfolios in which the customer is permitted to draw up to the contractual limit, estimated EAD at 31 December 2013 is compared to realised exposure at the date the default was identified. This comparison is made by tranches of undrawn commitments, calculated as the amount available or undrawn by the limit or potential maximum amount drawn.

The coverage ratio is also defined as a measure to assess the accuracy of the estimates made. This ratio is defined as estimated EAD divided by realised exposure.

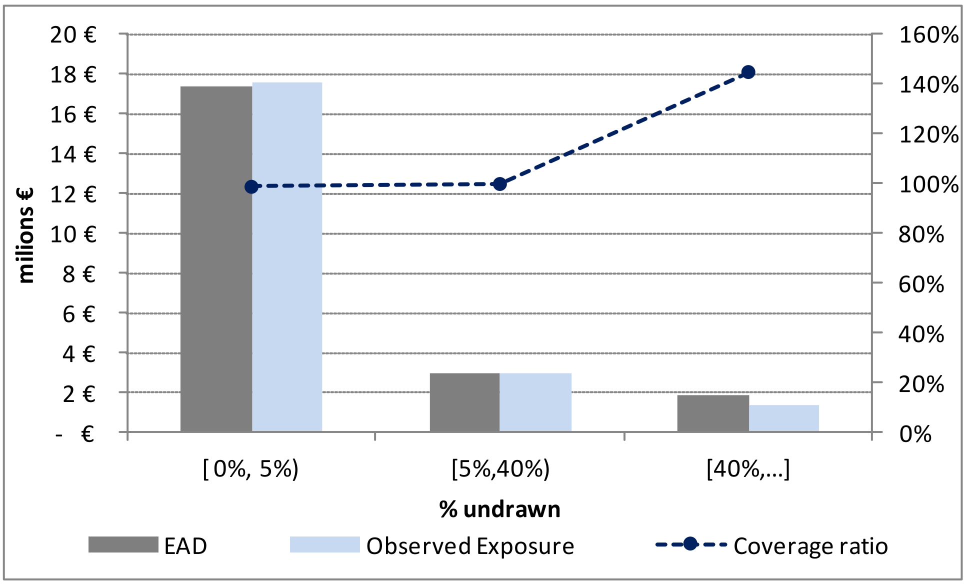
Retail

Chart 9: Open credit



Open credit is one of the main products in CaixaBank's entire portfolio and especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 106%, indicating that the CCF of this product provides an accurate, if not prudent, prediction of the exposure at the time of default.

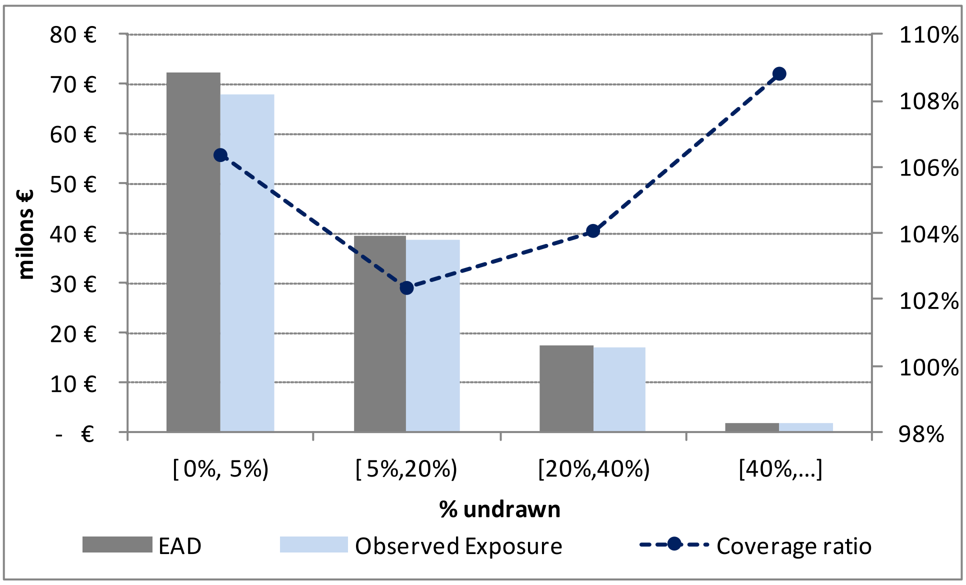
Chart 10: Credit cards



In retail credit cards, the estimated EAD at the beginning of the year is slightly higher than realised EAD when the default occurs, with a coverage ratio for the portfolio of 102%.

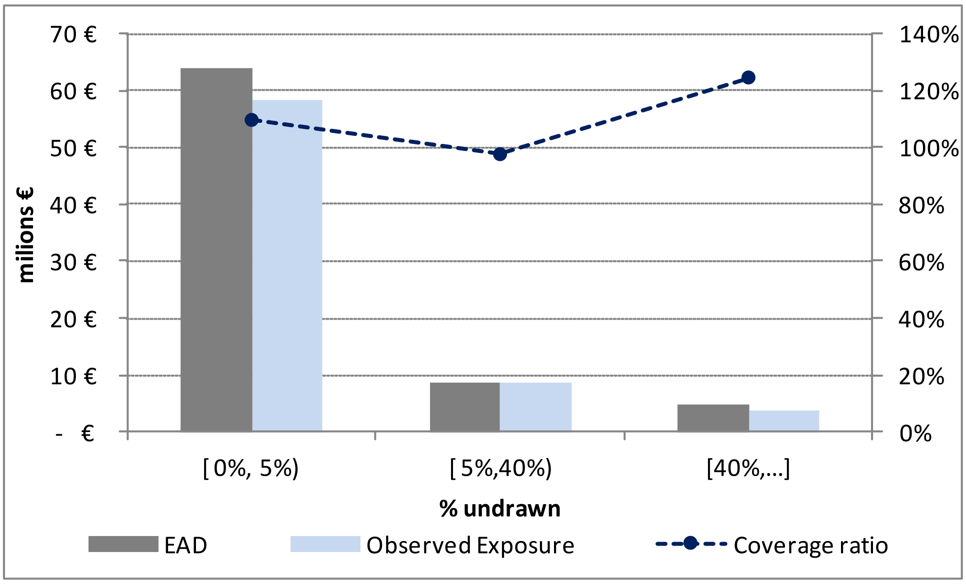
SMEs

Chart 11: Open credit



In all undrawn tranches, total estimated EAD is higher than realised exposure at the time of default. This situation gives rise to a coverage ratio for the portfolio of 105%.

Chart 12: Credit accounts

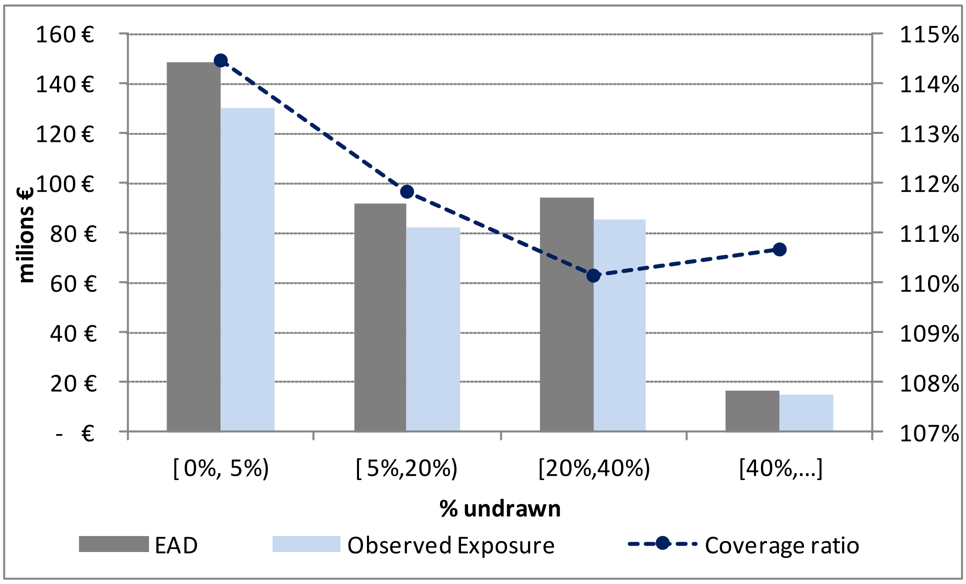


That there is a significant concentration in the highest undrawn tranche is a good indicator that the credit limits are aligned correctly with the needs of the SMEs, not allowing for drawdowns that could pose a higher risk to the Entity.

The coverage ratio of this portfolio is 100%, so an EAD has been estimated that easily covers realised exposure at the time of default.

Developer SMEs

Chart 13. Open credit



Drawdowns in open credit by developers are contingent on the stage of completion of the financed development. As a result, concentration in lower undrawn tranches is lower than that identified in other portfolios, showing significant volumes in undrawn tranches of up to 40%.

The coverage ratio of this portfolio stands at 112%; i.e. within the desirable levels, although the estimate shows a slightly conservative bias.

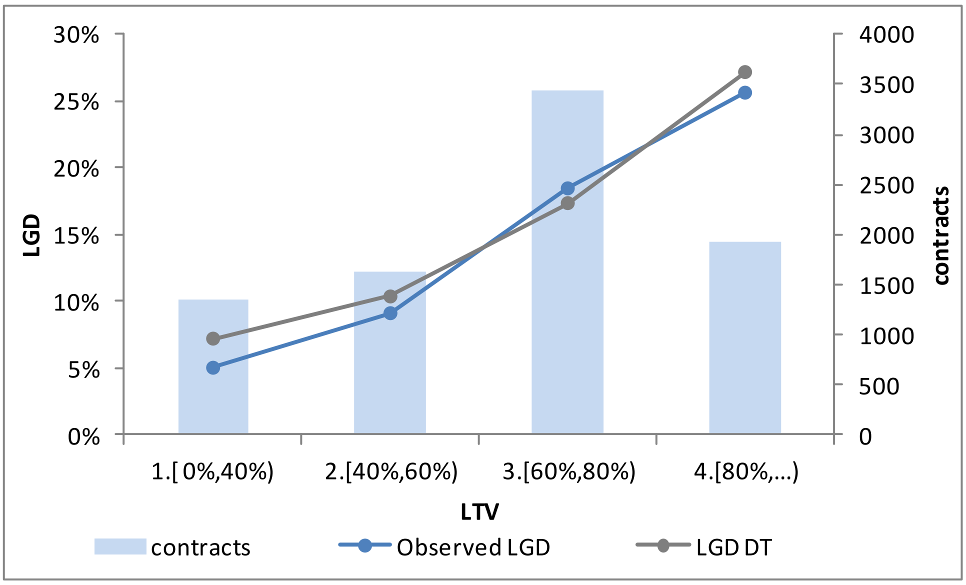
5. Comparison of PD LGD and realised LGD

LGD (loss given default) measures the proportion of EAD that the Entity has not been able to recover after completing the recovery process. Therefore, as the real loss on a default will only become certain upon conclusion of the recovery process, which can take anywhere from a few days up to several years, realised LGD can only be calculated for completed processes. This situation requires a longer observation period than for the ODF of exposure to obtain the realised LGD. Moreover, for the same portfolio in default, the average realised LGD can vary from one year to another due to the inclusion of new completed defaults.

To provide an observation period longer than one year, in the following analyses defaults of non-distressed loans at 31 December 2011 whose recovery process was completed by 30 September 2014 were selected.

Retail

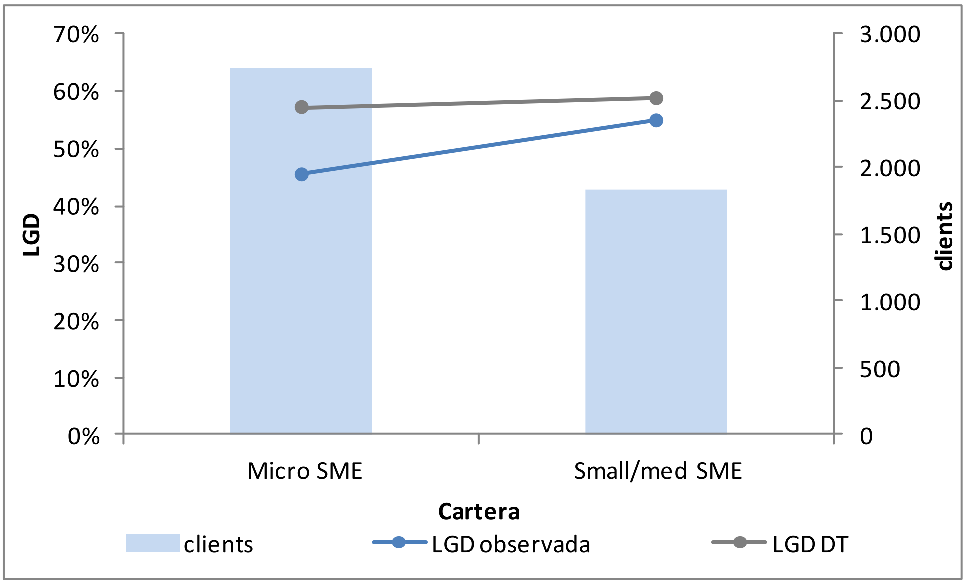
Chart 14: Mortgage guarantee (1st mortgage)



Generally speaking, realised LGD (16.13%) is closed to estimated LGD (16.62%). As the observation period corresponds to a recession, in which the decline in residential property values undermined the recovery of mortgage loans in default, it is not surprising that realised LGD is close to PD LGD. Accordingly, CaixaBank's estimate captures correctly the impact of the downturn scenario for the mortgage portfolio on LGD.

SMEs

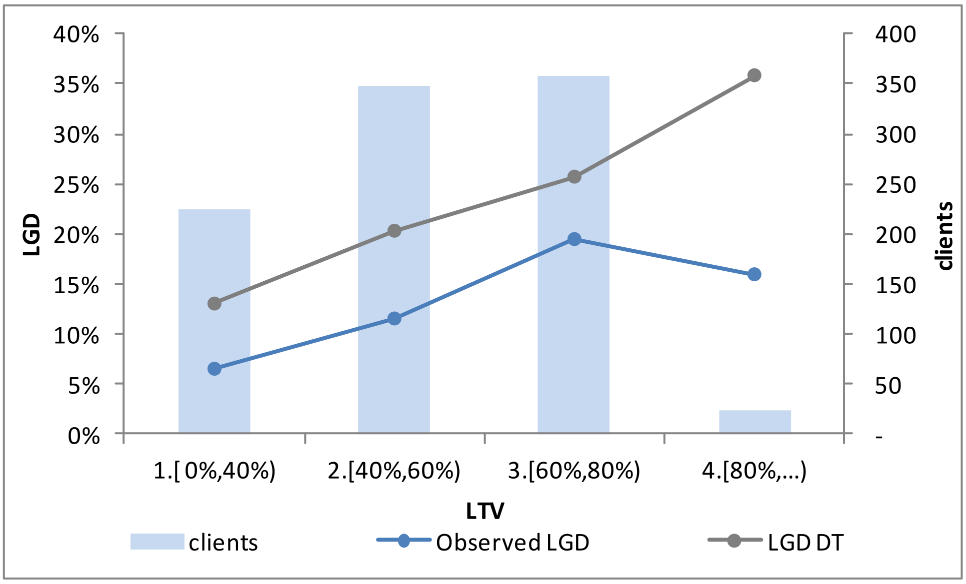
Chart 15: Personal guarantees



Despite selecting a period which falls in the recession years, realised LGD (49.22%) is below estimated LGD (57.83%), which indicates that the estimate was based on extremely prudent criteria.

Developer SMEs

Chart 16: Completed development guarantee (1st mortgage)



Realised LGD (13.46%) is below PD LGD (21.01%). Although the sample period relates to a downturn and realised LGD reflects an advanced period of price decline, as a result of the prudential assumptions used to estimate developer LGD, the difference observed is within expected levels.

6. Comparison between effective loss and regulatory expected loss

The objectives for this exercise are as follows:

(i) Verifying how regulatory expected loss remains stable over the cycle, while realised 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, realised loss will fluctuate in accordance with the phase of the economic cycle and the recovery policies applied by the Entity.

To compare expected loss and effective loss, non-distressed loans at 31 December of each year measured using an advanced IRB approach were used, with expected loss at that time compared to realised loss observed the following year. In light of existing restrictions, the following assumptions were used to calculate effective loss:

- Effective loss is only calculated for loan contracts that have entered in default, taking as exposure the realised exposure at the time of default. Therefore, those that have not defaulted during the following year will have an effective loss of €0.
- The LGD assigned to loans in default whose recovery process has yet to conclude will be the average realised LGD in the 2009-2013 period in the same segmentation and driver tranche.

- Loans whose default is considered completed but for which realised LGD is not available are assigned the average realised LGD for defaults in the same year as the default, type of completion (resolution, foreclosure, payments in lieu, write-off, etc.), segmentation and driver tranche. Given the lack of historical depth of data on defaults occurred in 2014, those cases where realised LGD is not available are assigned the average realised LGD for defaults in 2013 (rather than 2014) for the same type of completion, segmentation and driver tranche.
- Effective loss could vary from one year to another for the same period due to the completion of recovery processes. As a result, realised LGD of the portfolio could vary, making it more precise and adjusting effective loss accordingly.
- To make the values of all years comparable, loans from the integrated banks (Banca Cívica and Banco de Valencia) have been excluded from the analysis.

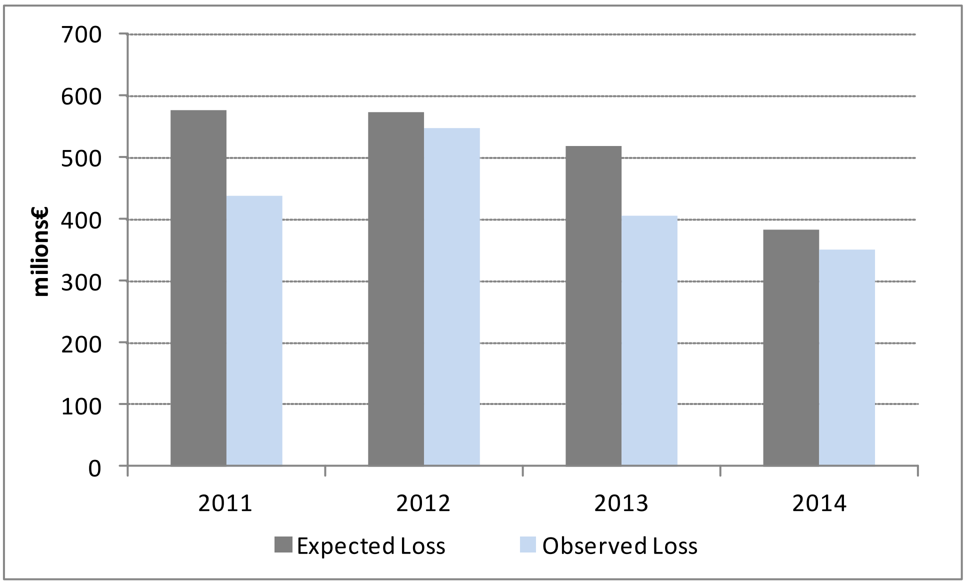
Finally, CaixaBank carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two 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 analysing and studying the information contained in CaixaBank'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 effective loss in recent years in different advanced IRB portfolios are shown below:

Retail

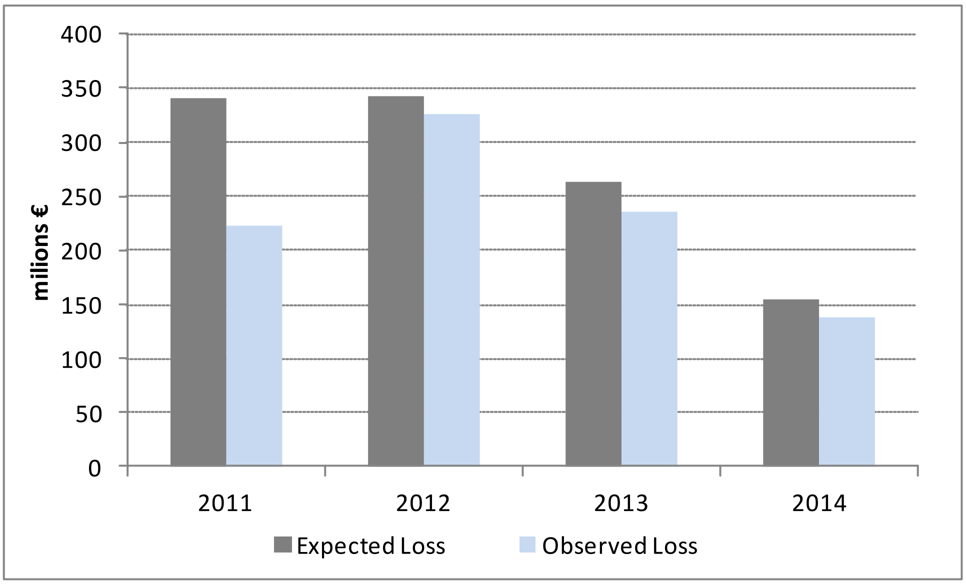
Chart 17: Expected and effective loss in the retail portfolio



Expected loss has declined in recent years, to a level similar to effective loss in 2014. Even so, although the parameters used to calculate expected loss have become more precise, the conservative adjustments to these parameters result in a higher expected loss than effective loss even though the years shown correspond to a period of recession.

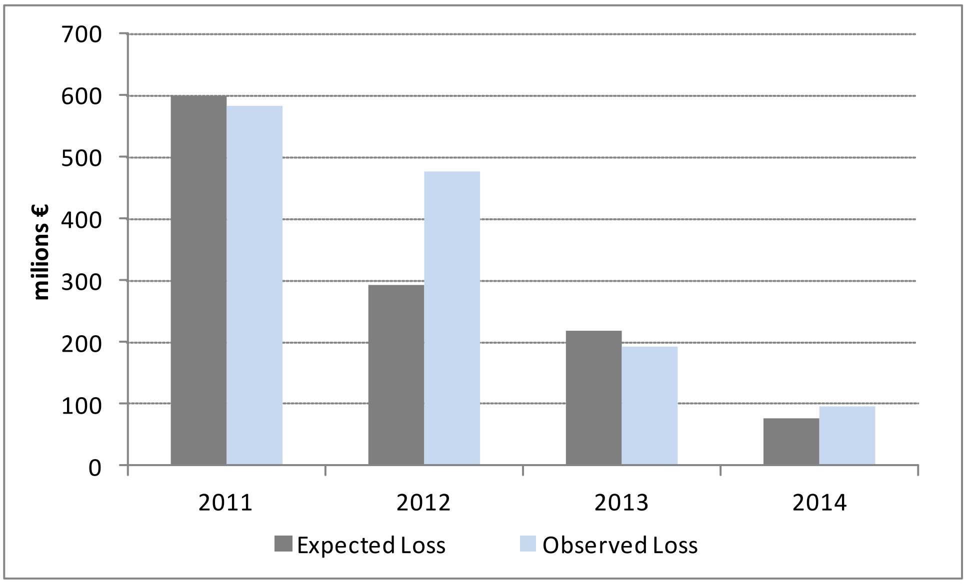
Corporate

Chart 18: Expected and effective loss in the SME portfolio



Despite covering a period of recession, expected loss is always higher than effective loss, indicating that the estimate of expected loss includes prudential assumptions. Particularly noteworthy is how between 2012 and 2014, expected loss and effective loss behaved similarly, thus indicating that the behaviour of the portfolio has been modelled correctly.

Chart 19: Expected and effective loss in the Developer SMEs portfolio



Both effective and expected loss have declined over the years thanks to continuous repair of the developer portfolio. As a result, effective loss and expected loss is significantly lower than the levels observed at the beginning of the series.

1.2.2.6. Integration of internal risk estimates in management

The use of risk parameters, PD, LGD and EAD is key to managing the Entity's credit risk and goes beyond regulatory use.

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 authorisations for expected loss in the approval of risk for companies:**

  Calculating the level of risk for expected loss (PD x EAD x LGD) improves risk control, bringing approval authorisations into line with the measured risk of the customer and, if applicable, that of the customer's economic group.

The level of risk of an application pending approval combines the expected loss and the maximum loss (EAD x LGD) of all a customer's applications and contracts and those of its economic group across the Entity, including new arrangements and excluding any transactions that are earmarked for cancellation.

The limit on maximum loss prevents excessively high nominal amounts from being authorised when the customer's PD is extremely low.

In accordance with expected loss amounts and maximum cumulative loss amounts of each borrower's transactions and those of its related economic group, as appropriate, the level of risk approval is determined.

- **Risk approval pricing 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**
  - Cost of **capital**
  - Estimated internal **operating costs**
  - Liquidity premium

- **System of diagnostics by risk premium in the authorisation of retail lending:**

  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 penalisation on the requested risk authorisations in the event of an especially high risk level.

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

  Risk-adjusted return measures return on capital consumption after deducting expected loss, operating costs and cost of funds.

$$RAR = \frac{Resultados\ de\ Explotación - Pérdida\ Esperada}{Capital\ Requerido}$$

  The minimum return on capital that a transaction should achieve is determined by the cost of capital, which is the minimum return required by shareholders.

When a transaction yields a positive risk-adjusted return, this means that it shares in the Entity's profits, but it will only create shareholder value when the return exceeds the cost of capital.

This system allows for greater control over the balance between return and risk relative to the Entity's customer portfolio.

- **Risk-adjusted bonus (RAB) System:**

This is a 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 materialise.

1.2.3. Securitisation transactions

1.2.3.1 General information on securitisations

1. Group objectives and functions

The CaixaBank Group focused on two objectives in its securitisation transactions up until the integration of Banca Cívica and Banco de Valencia:

- These objectives chiefly consist of using bonds arising from the securitisation process as eligible collateral vis-à-vis the European Central Bank. The CaixaBank Group repurchases these bonds, thereby diversifying the Entity's possible sources of finance during adverse situations on finance markets.
- On a more sporadic basis it carries out asset securitisation 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 CaixaBank Group primarily performs an originator function, i.e., it converts a portion of its homogeneous loan and credit portfolios into fixed-income securities by transferring the assets to a number of securitisation funds, whose unit holders assume the risks inherent to securitisation transactions. As mentioned above, in its securitisation activities the CaixaBank Group does not aim to obtain liquidity or transfer risk, and thus it acquires practically all of the bonds issued by the corresponding securitisation funds as counterparty to the assets transferred to them.

However, following the integration of Banca Cívica and Banco Valencia, various securitisation transactions, aimed mainly at obtaining liquidity and transferring both accounting and regulatory risk by mobilising part of its asset portfolio, were included in the CaixaBank Group.

Meanwhile, positions in securitisations in which the Group was not originator arise mainly from the investment portfolios of one or the other integrated entity. The objective in managing these positions has been to settle the position as soon as market positions allow. While the position remains in the portfolio, it is marked-to market daily and the creditworthiness is reviewed regularly.

A description of the various areas involved in the securitisation 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.
- **Capital and Planning**: For future issues aimed and transferring regulatory risk, this area is responsible for determining the size of the transaction, obtaining the approval of the internal management body, designing the financial framework for the transaction, 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 Advisory**: Responsible for obtaining approval from the corresponding internal body at the Entity, and supervising the documentation generated.
- **Accounts and Audit Inspection:** Handles all accounting operations.
- **Risk in Market Operations:** Responsible for calculating the capital charge for exposures to securitisation and reporting this in the capital adequacy statements.
- **Banking services:** Responsible for monitoring payments into securitisation funds, and resolving incidents and handling requests from the fund managers.

Mention must be made of the role played by GestiCaixa, S.G.F.T., S.A. as the CaixaBank Group's securitisation fund manager, the main functions of which are the creation, administration and representation for legal purposes of asset securitisation funds and taking part in their structuring.

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

To date, the CaixaBank Group has not carried out synthetic securitisation transactions. Nor did Banco de Valencia and Banca Cívica carry out such transactions in the years prior to their integration into the CaixaBank Group.

Lastly, worth noting is that In its securitisation activities, the CaixaBank Group uses the four external rating agencies considered to be acceptable by the regulator (Moody's, S&P, Fitch and DBRS).

2. Accounting policies

In accordance with accounting regulations, a financial asset is derecognised only when the Group has transferred substantially all the risks and rewards of the asset, thereby transferring all its contractual rights to receive cash flows from the asset.

Transfers of financial assets are assessed to determine the extent to which the risks and rewards have been transferred to a third party. This assessment is carried out by comparing the exposure of the transferor before and after the transfer. It gives rise to the following classification:

- Transfers of financial assets in which the risks and rewards of ownership of the asset have been transferred substantially to a third party. This category includes securitisations in which CaixaBank's exposure to the variability of the present value of the net future cash flows from the asset transferred is reduced considerably, such as securitisations in which CaixaBank does not provide subordinated financing or grant any type of credit enhancement. When the risks and rewards are transferred substantially, the Group derecognises the financial asset transferred from its balance sheet and recognises separately any right or obligation retained or created in the transfer.

- Transfers of financial assets in which the risks and rewards of ownership of the asset have been retained substantially. This category includes securitisations in which CaixaBank's exposure to the actual variability of present value of the net future cash flows from the financial asset transferred does not change substantially, such as securitisations in which CaixaBank assumed subordinated financing or another type of credit enhancement. As the securitisation does not result in the derecognition of the transferred asset, the associated financial liability is recognised for an amount equal to the consideration received. Financial instruments, such as bonds and loans that constitute financing for the Entity to which the transferred assets have been transferred, are deducted from the liability to the extent that these financial instruments specifically finance the transferred assets. The Group continues to measure the transferred financial asset using the same criteria as before the transfer.

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

Securitisation funds set up before 1 January 20014 relate to the securitisation funds of investee Unión de Crédito para la Financiación Inmobiliaria (Credifimo), acquired in the business combination with Banca Cívica. These funds were derecognised when they were opened, all prior to the business combination with Banca Cívica, and this did not have any impact on profit or loss. In accordance with regulations, the securitised loans were derecognised when the bonds were issued, given that circumstances arose that substantially allowed all risks and rewards relating to the underlying securitised financial asset to be transferred. All bonds issued by these securitisation funds were transferred to third parties, and the bondholder bore the majority of the losses arising from the securitised loans that were derecognised.

3. Calculation of regulatory capital charge

For funds that do not comply with the provisions of Articles 243 and 244 of the CRR (Capital Requirements Regulation), to consider whether risk has been effectively or significantly transferred, the method used to calculate capital requirements for securitisation transactions is the same as that applied to assets that have been securitised. For funds that meet the requirements, the standardised or IRB approaches have been used for securitisations depending on the method used to calculate the capital charge applied to the underlying asset of the issue if it were not securitised.

1.2.3.2 Exposures in securitisation transactions and amount of assets securitised

All of the CaixaBank Group's exposures in securitisation transactions are on securitisations (not resecuritisations) and belong to the investment portfolio.

The CaixaBank Group does not sponsor any securitisations scheme.

1. Aggregate amount of securitisation positions

Table 40 shows the on- and off-balance sheet positions held in securitisations by the CaixaBank Group, all through CaixaBank, at 31 December 2014, by type of exposure. The following table shows exposures to securitisations irrespective of whether regulatory risk is transferred or retained.

Table 40. Securitisation positions by type of exposure

(thousands of euros)

Tipos de exposición	Exposición(1)	*% sobre total*
1) Positions held in securitization transactions in which the Group acts as originator	**8.096.746**	
A)Positions held in securitization transactions on balance sheet	7.998.834	
Securitization Bonds senior tranche	5.075.176	*62,5%*
Securitization Bonds mezzanine tranche	1.423.942	*17,5%*
Securitization Bonds equity tranche	488.757	*6,0%*
Subordinated Loans	1.010.959	*12,5%*
B)Positions held in securitization transactions off balance sheet	97.912	
Liquidity facilities	-	-
Interest rate derivates	97.912	*1,2%*
2) Positions held in securitization transactions in which the Group does not act as originator	**20.073**	
A)Positions held in securitization transactions on balance sheet	20.073	
Securitization Bonds senior tranche	6.123	*0,1%*
Securitization Bonds mezzanine tranche	6.980	*0,1%*
Securitization Bonds equity tranche	6.970	*0,1%*
Subordinated Loans	-	-
B)Positions held in securitization transactions off balance sheet	-	
Liquidity facilities	-	-
Interest rate derivates	-	-
Total value	**8.116.818**	***100,0%***

Table 41 shows the total securitised loan exposures pending repayment at 31 December 2014.

Table 41. Securitisation of customer credits

(thousands of euros)

Type of exposure	Exposure
Derecognised transactions	97.554
Transactions remaining on the balance sheet	8.878.666
Not aplicable - Securitizations Liabilities	1.053.664
Total Value	**10.029.884**

In addition, table 42 provides the breakdown of assets securitised by CaixaBank by asset type.

Table 42. Breakdown by type of securitised assets

(thousands of euros)

	Outstanding amount	*% weight*	*Of which: outstanding balance of transactions impaired or in default*	*% weight*	Effective impairment losses	*% weight*
Residential mortgages	1.718.944	*17,1%*	*186.802*	*34,3%*	62.282	*22,0%*
Comercial mortgafes	0	*0,0%*	*0*	*0,0%*	0	*0,0%*
Credit cards	0	*0,0%*	*0*	*0,0%*	0	*0,0%*
Leasing	804.943	*8,0%*	*22.077*	*4,1%*	15.627	*5,5%*
Loans to Companies and SMEs	4.777.214	*47,6%*	*242.645*	*44,6%*	76.093	*26,9%*
Consumer loans	1.675.120	*16,7%*	*92.432*	*17,0%*	129.072	*45,6%*
Payments rights	0	*0,0%*	*0*	*0,0%*	0	*0,0%*
Others assets	0	*0,0%*	*0*	*0,0%*	0	*0,0%*
Mortgatge coverage bonds	993.664	*9,9%*	*0*	*0,0%*	0	*0,0%*
Others liabilities	60.000	*0,6%*	*0*	*0,0%*	0	*0,0%*
Total	**10.029.884**	***100,0%***	**543.954**	***100,0%***	**283.074**	***100,0%***

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

Securitisation activity in 2014 consisted of one new securitisation issue managed by GestiCaixa, S.G.F.T., S.A.: FONCAIXA PYMES 5, F.T.A. The initial amount of the securitisation was €1,936 million. At the date of creation, 98.29% of the underlying securitised assets were secured by securities and the remaining 1.719% by a mortgage on immovable property.

2. Quantitative disclosures of the calculation of the capital charge for positions in securitisations.

Table 43 gives a breakdown of positions, net of impairment losses, held in securitisation transactions by the CaixaBank Group at 31 December 2014, calculated for the own funds requirements for credit risk on securitisations according to Part Three, Title Two, Chapter Five of the CRR 575/2013.

Table 43. Exposure to securitisation transactions

(thousands of euros)

	Exposure	Annual variation
A) Positions held in securitization transactions in which the Group acts as originator	243.358	-83,09%
Positions in multi-seller securitization funds	124.710	-90,61%
Other securitization positions	118.648	7,47%
B) Positions held in securitization transactions in which the Group does not act as originator	20.073	-83,92%
Total	**263.431**	**-83,15%**

The main changes relative to the end of the previous year relate to redemptions of several securitisation in which the CaixaBank Group participated as originator, the reclassification of certain multi-issuer covered bonds (*cédulas multicidentes*) from securitisations to covered bonds, and adaptation to the CRR of the calculation of EAD of securitisation swaps, which no longer have potential future exposure (PFE) of zero.

In addition, table 44 shows a breakdown by risk-weight bands assigned according to Part Three, Title Two, Chapter 5 of the CRR, of the positions, net of impairment losses, on securitisation transactions held by the CaixaBank Group at 31 December 2014. To have a comprehensive view of the capital charge, the same table shows the own funds used and the deductions of each group of exposures to securitisations.

Table 44. Securitisations by risk-weight assigned

(thousands of euros)

	Exposure[1]	% weight	Capital requirements	% weight	Deductions
A) Subject to risk weighting					
Standardized approach	**62.102**	***23,6%***	**1.374**	***7,1%***	**36.020**
Risk weight 20%	6.123	*2,3%*	98	*0,5%*	0
Risk weight 50%	18.801	*7,1%*	752	*3,9%*	0
Risk weight 100%	0	*0,0%*	0	*0,0%*	0
Risk weight 350%	0	*0,0%*	0	*0,0%*	0
Risk weight 1250%	36.020	*13,7%*	0	*0,0%*	36.020
Methods for risk weighting of securitized exposures	1.158	*0,4%*	524	*2,7%*	0
Método IRB	**201.329**	***76,4%***	**18.034**	***92,9%***	**11.042**
Risk weight between 7% y 35%	101.871	*38,7%*	753	*3,9%*	0
Risk weight between 35% y 50%	1.102	*0,4%*	47	*0,2%*	0
Risk weight between 60% y 75%	1.221	*0,5%*	78	*0,4%*	0
Risk weight del 100%	33.656	*12,8%*	2.854	*14,7%*	0
Risk weight 250%	14.020	*5,3%*	963	*5,0%*	0
Risk weight 425%	0	*0,0%*	0	*0,0%*	0
Risk weight 650%	8.101	*3,1%*	4.465	*23,0%*	0
Risk weight 1250%	41.359	*15,7%*	8.874	*45,7%*	11.042
Methods for risk weighting of securitized exposures	0	*0,0%*	0	*0,0%*	0
Total	**263.431**	***100,0%***	**19.407**	***100,0%***	**47.062**

(1) Net exposure to impairment losses.

As a result of the roll-outs of the Banca Cívica and Banco de Valencia portfolios, unlike the year before, at year-end 2014, the CaixaBank Group had most of its exposures in securitisations to which it applied the IRB approach for securitisations. At present, all of the securitisations to which the IRB approach is applied are calculated using the RBA (rating based approach).

1.2.4. Credit risk reduction techniques

1.2.4.1 General information

The following is a summary of the main credit risk reduction techniques normally permitted in the CaixaBank Group's operations.

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

Transaction offsetting agreements included in clauses of framework offsetting agreements are used as credit risk mitigation techniques since they provide an offsetting facility between contracts of the same type. In this respect, in the management of risk and calculation of own funds, the reciprocal positions between the Entity and the counterparty are offset.

2. Types of collateral, management and measurement policies and procedures

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

Nevertheless, 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. In the case of individuals the collateral is estimated on the basis of declarations of assets, and where the backer is a legal entity, it is analysed as the holder for the purposes of the approval process.

Collateral

The main types of collateral accepted 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 derecognised. The main types of acceptable financial guarantees are as follows:

  - *Demand savings accounts:* A pledge is drawn up for a specific sum on the account. The rest may be freely used, and may even be used in other on-going operations.
  - *Time deposits and savings facilities*: The entire sum of the product is effectively withheld.
  - *Interests in mutual funds*: The collateral withheld 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 pledging percentages established vary depending on the type of investment between 100% for FIM investment funds and FIAMM money market funds, and 50% for equity investments, mixed packages 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 real estate 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 CaixaBank Group occasionally uses credit derivatives to hedge against credit risk. No single counterparty accounts for a significant portion of outstanding credit derivative contracts. The CaixaBank Group arranges these with credit institutions showing a high credit rating (practically all are backed up by a collateral contract).

4. Credit concentration risk

CaixaBank manages credit concentration risk by reporting regularly to the supervisor and monthly to the Global Risk Committee.

The maximum risk limit for large companies, which includes the credit risk of the loan portfolio and the equity portfolio, the insurance business portfolio and positions in mutual funds and guaranteed pension funds, is assigned based on a credit rating (given by the Corporate Rating unit) and total loss (regulatory capital and expected loss).

Additionally, at a senior level, there are concentration risk controls within the Risk Appetite Framework

1.2.4.2 Quantitative information

Table 45 shows the information on exposures by type of guarantee applied to mitigate credit risk for the CaixaBank Group at 31 December 2014.

Table 45. Exposure by application of mitigation techniques

(thousands of euros)

Type of guarantee applied in credit risk mitigation	Value of the exposure			
	Standardised approach	IRB approach	Total	% weight
Mortgage guarantees	4.323.954	152.891.193	157.215.147	*46,8%*
Real guarantees	16.777.362	2.579.020	19.356.382	*5,8%*
Personal guarantees (1)	102.401.068	56.867.692	159.268.759	*47,4%*
Total	**123.502.384**	**212.337.904**	**335.840.288**	***100,0%***

(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. Equity investment risk

2.1. Description, accounting recognition and measurement

The CaixaBank Group's equity portfolio features major companies holding large shares of their respective markets and the capacity to generate value and recurring profitability. In general, these are strategic investments, with Group involvement in their governing bodies and in defining their future policies and strategies. The CaixaBank Group's 2014 financial statements show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity.[35]

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

- **Investments[36]**. Equity investments in jointly controlled entities[37] or associates.
- **Available-for-sale financial assets**. Other stakes, excluding those in the trading portfolio or non-current assets held for sale.

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

1. Investments

Investments are measured using the equity method, with the best estimate of their underlying carrying amount when the financial statements are drawn up.

The CaixaBank Group has a methodology in place for performing a quarterly assessment of potential indicators of impairment in the carrying amount of these investments. Specifically, it assesses the company's share prices throughout the period and the target prices published by renowned independent analysts. The CaixaBank Group uses these data to determine the fair value associated with the investment and, if this is well above the carrying amount of the companies, it is considered that there are no indications of impairment.

[35] See Note 7 "Business combinations, acquisition and disposal of ownership interests in subsidiaries", Note 12 "Available-for-sale financial assets," Note 17 "Investments," and Appendices 1, 2 and 3 to the CaixaBank Group's 2014 financial statements.
[36] 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.
[37] Exceptions are jointly controlled entities acting as holders of ownership interests. See Part A of Section 1.1.1 of this document and Note 2.1 "Business combinations and basis of consolidation" to the CaixaBank Group's 2014 financial statements.

When indications of impairment are considered to exist, the CaixaBank Group conducts additional tests to assess the fair value of the investments and verify the impairment loss recognised. 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 stakes are generally drawn up over five years, since these are stable long-term investments, whereas the projections for industrial stakes are in line with the characteristics of each business, primarily the residual lifespan of business concessions. Moderate hypotheses are used, obtained from reliable sources of information in addition to individual discount rates for each business activity and country. No potential control premiums are considered for the purposes of valuation. The growth rates used to calculate the terminal value beyond the period covered by the forecasts drawn up are determined on the basis of the data for the last period projected, and never exceed the estimated rated GDP of the country or countries in which the investees operate.

2. Available-for-sale financial assets

Available-for-sale financial assets are always measured at fair value, with any changes in value, less the related tax effect, recognised with a balancing entry in equity. In the case of investments in quoted companies, their fair value will be the market value, and unquoted companies will be recognised at acquisition cost less any impairment loss incurred. At the time of sale, the loss or gain previously recognised in equity is taken to the income statement.

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

2.2. Value, exposure and gains and losses on investments in and equity instruments of equity investments

2.2.1. . Fair value and carrying amount of equity investments

Table 46 table shows the fair value and carrying amount of the CaixaBank Groups' stakes and equity instruments not held for trading or in the portfolio of financial assets at fair value through profit or loss at 31 December 2014:

Table 46. Carrying amount of stakes and equity instruments not held for trading

(thousands of euros)

	CaixaBank Group
Available-for-sale assets	**3.895.450**
Shares in listed companies (1)	2.912.160
Shares in unlisted companies	858.904
Ownership interests in investment funds and other	124.386
Investments	**9.266.397**
Listed	7.798.896
Unlisted	1.467.501
Total carrying amount	**13.161.847**

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

Table 47. Fair value of stakes and equity instruments not held for trading

(thousands of euros)

	CaixaBank Group
Available-for-sale assets	**3.895.450**
Shares in listed companies (1)	2.912.160
Shares in unlisted companies	858.904
Ownership interests in investment funds and other	124.386
Investments	**8.177.401**
Listed	6.709.900
Unlisted	1.467.501
Total carrying amount	**12.072.851**

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

At 31 December 2014, the market value of the CaixaBank Group's listed portfolio, which includes “Investments” and “Available-for-sale financial assets - Equity instruments”, was €9,622 million.

2.2.2. Value of equity exposures

1. Exposure value

At 31 December 2014, the CaixaBank Group's risk exposure associated with the equity investment portfolio was €12,668,500 thousand[38]. This includes the value of the portfolio of available-for-sale financial assets, investments in associates and in unconsolidated subsidiaries due to their business activity.

Table 48 gives the amounts of these exposures[39] by quoted and unquoted instruments.

[38] See section 3.2 “Minimum own fund requirements for risks associated with the equity investment portfolio” in Part A of this document.
[39] The amount of exposure does not include deductions from capital, represented by goodwill and intangible assets, and the excess of significant investments in financial sector entities above the established threshold. Nor does it include unrealised capital gains on available-for-sale equity instruments recognised with a balancing entry in "Equity" in accordance with rule 5 of Bank of Spain Circular 2/2014.

Table 48. Exposures in equity investments not held for trading

(thousands of euros)

Exposure	CaixaBank Group	*% weight*
Available-for-sale assets	**3.465.496**	***27,4%***
Shares in listed companies	**2.646.045**	***20,9%***
Total simple method	52.594	*0,4%*
Total VAR method	66.477	*0,5%*
Total PD/LGD method	2.526.974	*19,9%*
Acciones de sociedades no cotizadas	**819.450**	***6,5%***
Total simple method	421.896	*3,3%*
Total PD/LGD method	380.967	*3,0%*
Other Equities exposures with specific risk weight	16.588	*0,1%*
Investments (subsidiaries, jointly controlled entities and associates)	**9.203.004**	***72,6%***
Listed investments	**6.721.935**	***53,1%***
Total PD/LGD method	4.643.040	*36,7%*
Other Equities exposures with specific risk weight	2.078.895	*16,4%*
Unlisted investments	**2.481.069**	***19,6%***
Total simple method	2.019.157	*15,9%*
Total PD/LGD method	336.932	*2,7%*
Other Equities exposures with specific risk weight	124.980	*1,0%*
Total value	**12.668.500**	***100,0%***

2. Other information

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

Table 49. Equity exposures (simple method)

(thousands of euros)

Risk weighting	CaixaBank Group	% weight
Exposures to unlisted equities included in sufficiently diversified portfolio (weighted at 190%)	0	*0,0%*
Exposures to equities tradeable in organized markets (weighted at 290%)	52.594	*2,1%*
Other equity exposures (weighted at 370%)	2.441.053	*97,9%*
Total exposure simple method	**2.493.647**	***100,0%***

The following table shows exposure to risk associated with the equity portfolio, LGD and average risk weight[40].

Table 50. Exposure by category of exposure and debtor level

(thousands of euros)

Section PD until:	Average Risk Weight % (1)	Exposure	% weight
0,16	127,8%	853.937	*10,83%*
0,29	166,5%	6.345.309	*80,44%*
0,71	233,2%	111.179	*1,41%*
1,58	286,3%	90.290	*1,14%*
2,84	294,8%	36.934	*0,47%*
5,38	388,2%	284.335	*3,60%*
19,97	558,8%	14	*0,00%*
30,15	569,6%	164.007	*2,08%*
Default	0,0%	1.909	*0,02%*
Total PD/LGD method		**7.887.913**	***100,00%***

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

[40] 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 CaixaBank Group in 2014, with the amounts taken to the income statement[41].

Table 51. Annual variation in valuation adjustments to available-for-sale equity instruments

(thousands of euros)

Balance of valuation adjustments at 31/12/13	Amounts transferred to income statement(1)	Valuation gains and losses(2)	Deferred tax assets and liabilities	Balance of valuation adjustments at 31/12/14(3)
331.559	(20.705)	32.482	109.095	452.431

(1) After tax.

(2) Before tax.

(3) Includes valuation adjustments on non-controlling interests

[41] See Note 25.2 “Valuation adjustments” to the CaixaBank Group’s 2013 financial statements.

3. Market Risk

3.1. General requirements

The Entity has policies and procedures in place for managing the trading portfolios, bearing in mind its own ability to manage risks and best market practices, and for determining which positions are included in the internal model for calculating regulatory capital.

Trading activity includes operations related to management of market risk arising from commercial or distribution efforts involving typical operations in financial markets with CaixaBank customers, as well as transactions carried out to obtain returns through the purchase-sale and positioning, mainly, in money, fixed-income, equity and currency markets.

There is a specific policy approved for determining, identifying, potentially including, managing, monitoring and controlling this scope. Each day, a unit of the Risks area, which operates independently from the business areas, measures and calculates the performance and risks of the trading portfolio and ensures compliance with this policy.

The Entity has sufficient systems and controls providing prudent and reliable estimates of the fair value of financial instruments, in addition to policies and procedures setting out the responsibility of each area in the measurement process and reporting lines (ensuring the independence of this function from the business lines), the data sources used, the eligible models and the timing of closing prices.

Although the Entity uses appropriate measurement models and inputs, in line with standard market practice, the fair value of an asset may be exposed to a certain degree of uncertainty arising from the existence of alternative market data sources, the bid-offer spread, alternative models to those used and their unobservable inputs, or the scant liquidity of the underlying asset.

Adjustments for this uncertainty are applied and calculated mainly for assets with thin liquidity, where the most conservative bid-offer spread from comparable sources or conservative assumptions under the scope of the mark-to-model measurement are used. There are no Level 3 assets in the trading portfolio, which reduces potential model risk significantly.

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 (86) and (87) of Article 4(1) of Regulation EU 575/2013, 1/575, there is "trading intent" when positions are intended to be resold short term or held to benefit from actual or expected short term differences between buying and selling prices differences or from other price of interest rate variations.

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.

At 31 December 2014, the amount of minimum own funds requirements for exposure to positions in the trading portfolio and to foreign currency risk was €307,744 thousand.

3.2. Internal models

The CaixaBank Group is exposed to market risk for adverse movements in the following factors: interest rates, exchange rates, share prices, commodity prices, inflation, volatility and changes in the credit spread of private fixed-income and credit derivatives positions. Estimates are drawn up on a daily basis of sensitivity and VaR, aggregated and also segmented by risk factors and business units.

In July 2006, permission from the Bank of Spain was requested to use an internal VaR model for its regulatory own funds for market risk on the trading portfolio, foreign currency risk, gold risk and commodity price risk. In 2007, following the appropriate validation process, the Bank of Spain granted permission for the use of this internal model, which was first applied for the calculation of capital requirements on 31 December 2007. Subsequently, in 2011, a request was made for the Bank of Spain to permit the use of internal models to calculate the own funds requirements for incremental default and migration risk and stressed VaR. In 2012, following the appropriate validation process, the Bank of Spain granted permission for the use of this internal model, which was first applied for the calculation of the own funds requirements on 31 December 2011.

1. Characteristics of the models used

The methodologies used to comply with the requirements of Part 3, Title IV, Chapter 5, Sections 1-4 of Regulation EU 575/2013 for calculating own funds requirements according to the CaixaBank Group's internal model are as follows.

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, but does not provide any assumptions about the probability of such a change.
- To standardise 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 interval of 99% (i.e. 99 times out of 100, actual losses will be less than the losses estimated in the VaR model). There are two methodologies used to obtain this measurement, parametric VaR and historical VaR:
  - The parametric VaR technique is based on the statistical treatment of parameters such as volatility and matching fluctuations in the prices and interest and exchange rates of the assets composing the portfolio, using two time horizons: a 75-day data window (giving more weight to recent observations through exponential smoothing), and a one-year data window (giving equal weight to all observations).
  - Historical VaR is calculated according to the impact on the value of the current portfolio of historical daily changes in risk factors over the past year.

A downgrade in the credit rating of asset issuers can also give rise to adverse changes in quoted market prices. Accordingly, the quantification of market risk is completed with an estimate of the losses arising from changes in the credit spread on private fixed-income positions and credit derivatives (Spread VaR), which constitutes an estimate of the specific risk attributable to issuers of securities. This calculation is made using a historical simulation and taking into account the potentially lower liquidity of these assets, with a confidence interval of 99%.

VaR under the internal model results from the aggregation of the interest rate VaR and the exchange rate VaR (from fluctuations in interest rates, foreign exchange rates and the volatility of both) and the Spread VaR, which are aggregated on a conservative basis, assuming zero correlation between the two groups of risk factors, and the addition of Equities VaR and Commodities VaR, assuming in both cases a correlation of one with the other risk factor groups.

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 behaviour of the risk factors (the parametric technique assumes fluctuations that can be modelled 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.

In addition to the VaR metric, already explained, the own funds requirements under the internal model include another two variables: stressed VaR and incremental default and migration risks, included in Basel 2.5 and transposed into Circular 4/2011 and, subsequently, EU Regulation 575/2013.

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 significant stress for the portfolio positioning. The Stressed VaR calculation is leveraged by the same methodology and infrastructure as the calculation of historical VaR for VaR, with the only significant difference being the historical window selected.

Incremental default and migration risk is an estimate of losses related to default or changes in credit ratings of the portfolio included in the model scope, with a 99.9% confidence interval, a one-year time horizon and a quarterly liquidity horizon. The liquidity horizon is justified by the high liquidity of the portfolio due to the existence of strict criteria for inclusion, which limits concentration at country, rating, issue and issuer level. It is measured using Montecarlo simulation of possible future states of external issuer and issue ratings, based on transition matrices published by the main rating agencies, where dependence between credit quality variations between the different issuers is modelled using Student's t-distribution, which allows for higher correlations of default in the simulation. Similar to IRB models, it sets a minimum probability of default of 0.03% a year.

For regulatory purposes and in contrast to the foregoing, both regulatory VaR and regulatory Stressed VaR are calculated with a 10 market days time horizon, for which values obtained with the one-day horizon are scaled by multiplying them by the square root of 10. The maximum, minimum and average values of these measurements during 2014, as well as their value at the close of the period of reference, are shown in the following table.

Table 52. Maximum, minimum and average values of metrics related to own funds for market risk using the internal model

(thousands of euros)

	Last Value	Máximun	Mínimun	Average[1]
VaR 10d	8.844	26.373	8.844	14.621
Stressed VaR 10d	26.602	75.794	22.441	39.482
Incremental Default and migration Risk	16.799	213.140	13.932	42.066

(1) Average of year in progress

The different elements determining final regulatory charges using the internal market risk model for each of the aforementioned measurements are shown below. Charges for VaR and stressed VaR are identical and correspond to the maximum between the last value and the arithmetic mean of the last 60 values, multiplied by a factor depending on the number of times the net daily result was less than the estimated daily VaR. Similarly, capital for Incremental Default and Migration Risk is the maximum of the last value and the arithmetic mean of the preceding 12 weeks.

Table 53. Own funds requirements for market risk calculated using the internal model

(thousands of euros)

	Last Value	Average 60d	Increased Factor	Average 60d x Factor	Capital Requeriments
VaR 10d	8.844	11.929	3	35.786	35.786
Stressed VaR 10d	26.602	32.084	3	96.252	96.252
Incremental Default and migration Risk	16.799	31.858			31.858
Total					**163.896**

2. Verification of the reliability and consistency of the internal models

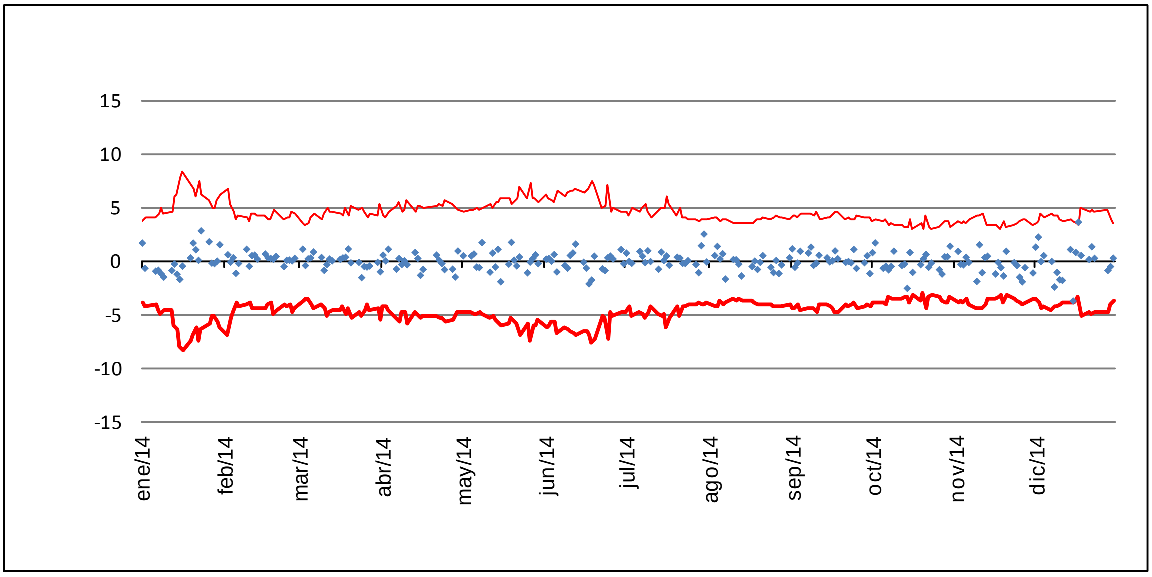
To confirm the suitability of the risk estimates, daily results are compared against the losses estimated under the VaR technique, in a process known as backtesting. As required by bank regulators, the risk estimate model is checked in two ways:

- Net backtesting, which relates the portion of the daily marked-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 one-day time horizon, calculated on the basis of the open positions at the close of the previous session. This backtesting is the most appropriate means of performing a self-assessment of the methodology used to quantify risk.

- Gross backtesting, which compares the total result obtained during the day (therefore including any intraday transactions) to VaR for a time horizon of one day, calculated on the basis of the open positions at the close of the previous session. This provides an assessment of the importance of intraday transactions in generating profit and calculating the total risk of the portfolio.

Chart 20: Net backtesting

(Milions of euros)



No excesses were observed for the reference period in the comparison of 1-day VaR with daily variations in the marked-to-market value of the model scope at the closing of the following business day.

3. Stress testing

Lastly, two stress testing techniques are used on the value of 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 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.
- Historical scenario analysis: this technique 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 arise if the market movement causing the losses were calculated on the basis of a 99.9% confidence internal using the Extreme Value Theory.

4. Monitoring and control[42]

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 delegates in the Executive Finance Division sensitivities and factor-specific VaR sublimits for activity of the Treasury Desk. The risk factors are managed by the Executive Finance Division 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 Risk Models Division (which, in turn, is part of the General Risks Division), 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 through daily marked-to-market results and use of generally accepted approaches in the market, quantifies the market risk taken, monitors compliance with limits and analyses 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 authorisation to maintain them from the appropriate body. The risk report is distributed daily, and provides an explicit contrast between actual consumption and the authorised 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 Desk and Internal Audit:

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

[42] See section 1.2.4., "Market risk in the trading portfolio" in Part A of this document for further information on the structure and organisation 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 General Risks Divisions, as well as the section on “Market Risks” and the "Risks Scorecard”, which is submitted to the Entity’s Global Risk Committee.

The General Risks Division, 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.

In addition, the Executive Technical Secretariat and Validation Division performs internal validation of the models and methodologies used to quantify and monitor market risk.

Lastly, the CaixaBank 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 2014, 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 financial markets were adequate and complied with the prevailing requirements in the areas analysed.

4. Operational risk

4.1 Operational risk management and measurement

Whereas in 2014 the standardised approach was used to calculate capital, the Group's operational risk management and measurement model is designed to support advanced measurement approaches (AMA).

In this way, according to current regulations, there are two overriding objectives behind the implementation of advanced measurement approaches (AMA) for calculating capital:

- Use of advanced measurement approaches based on internal operational loss data, external data, scenarios and business environment and internal control factors.
- Establishing an operational risk model based on policies, processes, tools and methodologies that improve operational risk management in the companies, helping ultimately to reduce operational risk.

The entities must achieve these objectives, subject to current regulations, by basing their operational risk model on two pillars:

- Operational Risk Management Framework (ORMF)
- Operational Risk Measurement System (ORMS)

Operational Risk Management Framework (ORMF)

This is the Governance Framework and Management Structure for the operational risk model set out in this Operational Risk Management Framework and the documents implementing it. This structure defines the Operational Risk Measurement System, based on the policies, procedures and processes the Group uses to manage operational risk, in line with the Group's general risk policies.

Operational Risk Measurement System (ORMS)

This is defined as the system, processes and data the Entity uses to measure its operational risk and determine its related regulatory capital requirements. It is a system that integrates operational risk management into the Group's day-to-day activities.

The Group's Operational Risk Measurement System is known as the **AMA Measurement Approach**.

Current regulations establish that advanced measurement approaches (AMA) must be based on a combination and interaction of qualitative and quantitative methodologies, grouped into four pillars[43]:

- Internal operational loss data
- External operational loss data
- Operational risk scenarios
- Business environment and internal control factors (BEICFs)[44]

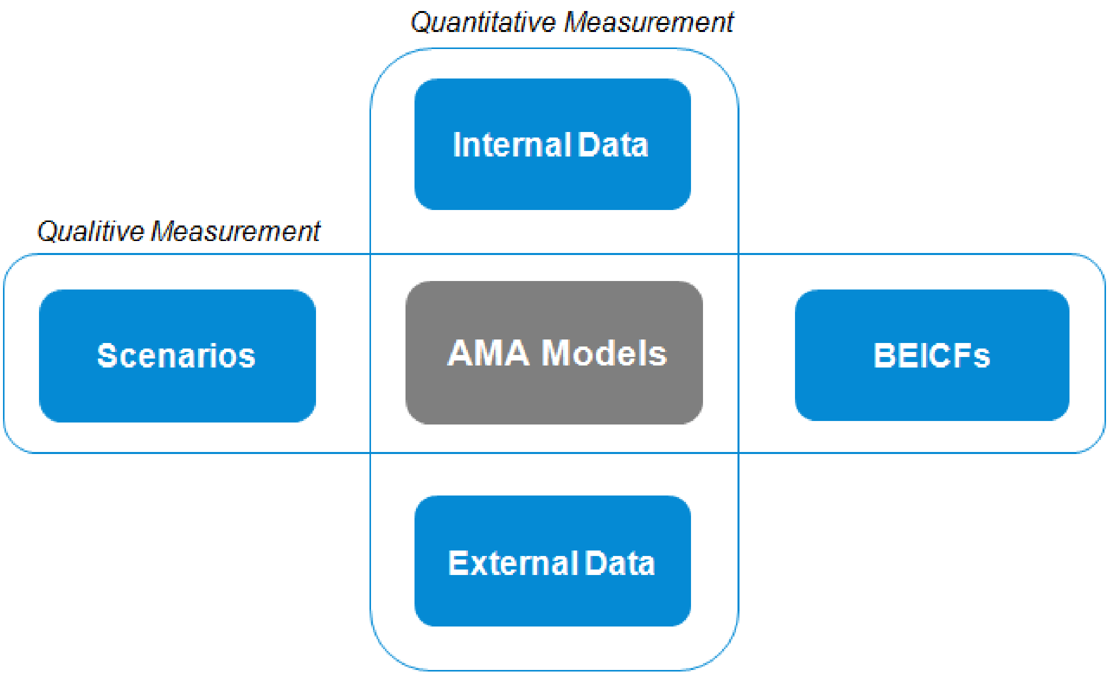


Diagram 3

[43] Four data elements of an AMA. Regulatory framework. Supervisory Guidelines for Advanced Measurement Approaches, Article 40

[44] *Business Environment and Internal Control Factors.*

Based on legislative and regulatory requirements and considering the two pillars supporting operational risk models under an advanced measurement approach (AMA), such as the model and the tools required, the Group's AMA operational risk model is structured as follows:

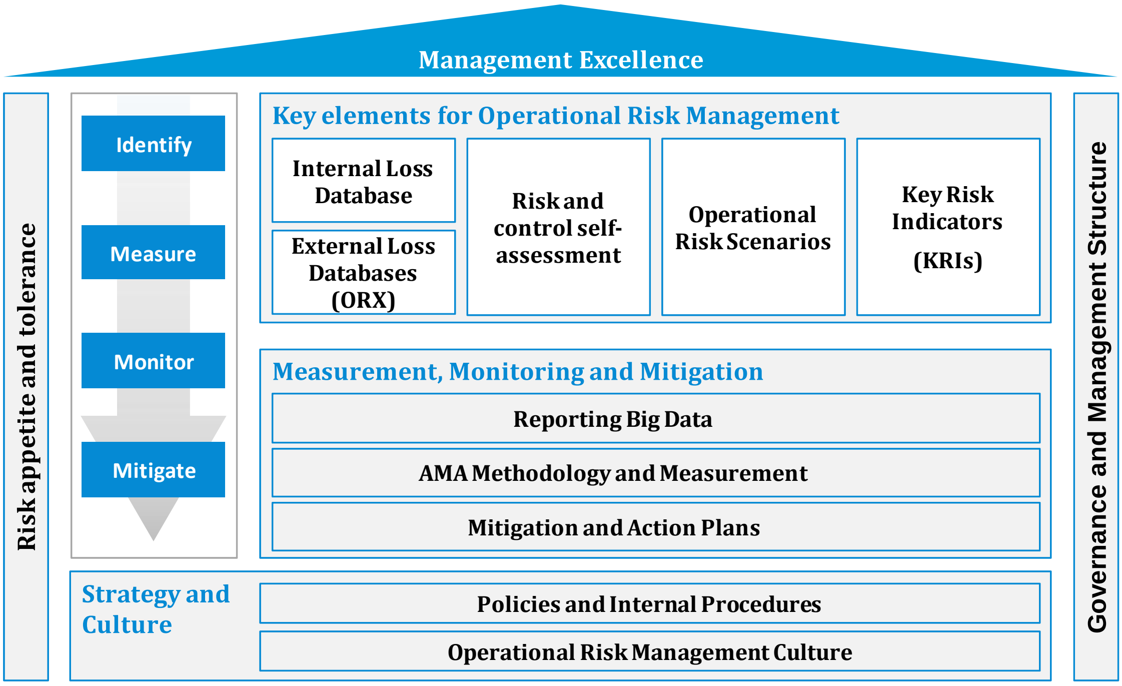


Diagram 4

The methodologies implemented through operational risk management mechanisms and the measurement, monitoring and mitigation tools and procedures form part of the **set of basic operational risk identification, measurement and evaluation tools**, representing best practice in the sector[45].

4.2 Operational Risk Mechanisms

The main operational risk management mechanisms illustrated in Diagram 3 are discussed below.

1. Qualitative measurement. Self-assessments of operational risks

The qualitative assessment of operational risk in the Group is based on the operational risk self-assessment methodology. The methodology allows, using expert criteria, the operational risks identified in the Operational Risk Map to be assessed.

Through its self-assessment process, the Group aims to:

[45] *Principles for the Sound Management of Operational Risk, Principle 6, Article 39.d*

- Have a standardised qualitative assessment process for operational risks and related controls.
- Ensure that the risk map and controls are updated correctly, covering the Group's operational risk profile.
- Identify critical risks in advance for prevention.
- Identify new operational risks and controls through thorough qualitative assessment of the Group's operational risk profile.

There are three main stages in the self-assessment process:

- Assessment of the risk by the area. The input parameters requested are estimated figures for: frequency and impact of potential loss events, allocation of risk to business lines, assessment of related controls.
- Validation of the assessment by the area manager.
- Final validation by the Operational Risk Division.

Results for the year:

- In 2014, this methodology was used to analyse and evaluate a total of 475 operational risks and 1,570 related controls.

2. Quantitative measurement. Internal Operational Risk Database

Quantitative techniques based on internal operational loss data provide one of the foundations for measuring operational risk in both the Group's operational risk management, when authorisation for the use of advanced measurement approaches is obtained, and the calculation of its own funds requirements for operational risk.

This quantitative methodology of measuring operational risk based on internal loss data is known as the Internal Operational Risk Database[46] in the Group. This is supported by the corporate management tool (SAP-GRC).

Through its internal database, the Group aims:

- To have a standardised process for operational loss capture.
- To identify the usual sources of significant operational risk in the Group.

[46] Also known as the Internal Database.

- To have a standardised process for the identification and evaluation of operational risk inherent to all activities, products, processes and systems, and their corresponding business lines.
- To define and update the management framework, the risk map and the control and evaluation procedures applicable to them.
- To implement advanced risk management to mitigate and reduce losses.
- To enable the identification of new operational risks based on information captured on operational events.
- To model future losses, based on historic loss data, for the purposes of both operational risk management and calculation of own funds.
- To support the technological infrastructure which facilitates effective management of the model and which allows for development towards automation of the entire loss management process.

The internal database is structured under a technological environment subject to a data model.

At its lowest level, the database structure contains an operational effect, directly related to an operational event, which is the next highest level.

An operational event is defined as an event in which an identified operational risk is materialised. The concept of the effect is derived from the concept of the event -both of which are intimately related. The effect is defined as the description used to classify an operational loss or recovery (economic impact) resulting from an operational event[47].

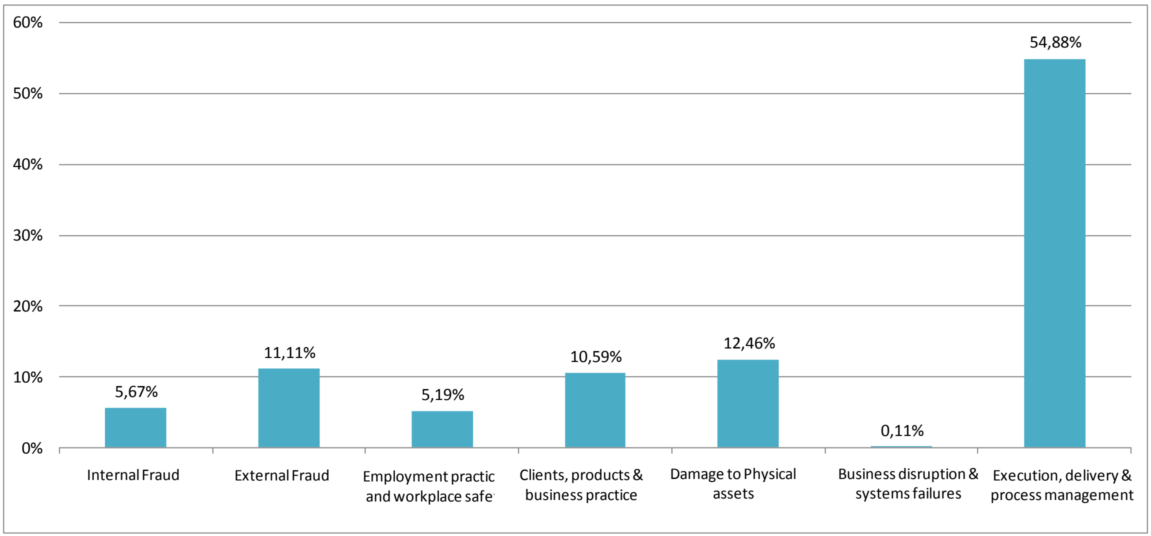
Therefore, an operational event may result in one, several or no operational effects, which may in turn be identified in one or several areas.

The operational event is the most important and central concept in the Internal Database model.

The distribution of the Group's net operational losses in 2014 is shown in the following chart:

Chart 21: Distribution of the Group's net operational losses.

[47] Effects linked to losses are termed operational loss effects. Effects linked to recoveries are termed operational recovery effects.



3. Quantitative measurement. External Database

The quantitative method based on data for losses external to the Group (losses in other entities in the sector) is known as the **External Database**.

Implementation of a quantitative method based on external operational loss data is a regulatory requirement[48] in the advanced measurement approach (AMA), as this complements historic data on operational losses in the entities. The regulatory obligation for external loss data is based on:

- Historic data on an entity's operational losses only enables us to calculate the expected loss within the overall distribution of losses. This is only useful for events that have occurred in the entity, ignoring all those to which it is potentially exposed but which have not occurred.
- This limitation is mitigated by using external data, as information on operational losses in the financial sector enables us to calculate the unexpected loss for the loss distribution.
- Combining internal and external data gives us an initial approximation of CaR (Capital at Risk) with a confidence interval comparable to 99.9%.

The Group's objective in using external data is:

- To offset the limitation of internal operational loss data and to calculate unexpected losses from the loss distribution, thus meeting regulatory requirements.

[48] CRR, Title III, Chapter 4, Article 322, Section 2.b.

- To understand the nature of events not registered in the Entity so as to put in place measures to prevent or mitigate these.
- To increase the volume of event information used as an input into the qualitative Scenarios methodology, thus complying with regulatory requirements[49].
- To identify new operational risks by using and analysing external data on operational risk.

The Group has signed up to the ORX (Operational Riskdata eXchange) association, which provides information on operational losses for banks worldwide, to implement a quantitative methodology.

The ORX association groups banks by geographic areas, dividing these into subgroups to provide more useful and realistic information.

The organisation requires its members to classify operational loss data using a series of parameters, both regulatory and proprietary. As a result, all of the parameters required by the ORX are reported in events in the Group's Internal Database.

4. Qualitative measurement. Operational risk scenarios

One of the foundations of the Group's management of operational risk is identification through qualitative techniques. To this end, it has implemented a methodology for generating operational risk scenarios that allows it to:

- Obtain greater knowledge of the Group's operational risk profile.
- Improve the level of interaction with areas involved in managing operational risk.
- Effectively integrate operational risk management.

Through its scenario generation process, the Group aims to:

- Develop a standardised process for generating operational risk scenarios.
- Complement the available internal and external historical data with operational risk scenarios that:
    - Have a forward-looking perspective.
    - Are sensitive to the Group's risk, given current conditions, including the business environment and the regulatory and internal control framework.
- Identify critical risks in advance for prevention.

[49] Use of external data in the Scenarios methodology is a regulatory requirement. CRR, Title III, Chapter 4, Article 322, Section 5.

- Identify new operational risks by generating extreme scenarios and analysing the results obtained.

A series of workshops and meetings with experts are held to generate operational risk scenarios for use in the own funds calculation methodology under the AMA advanced measurement approach.

The scenario generation process involves five recurrent stages: scope setting, scenario identification, scenario workshops, determination of scenarios, and monitoring and reporting.

The scenario generation process is carried out annually. This recurrent process enables the results from previous years to be used as the starting point for future years.

Results for the year:
In 2014, a total of 59 operational scenarios were assessed.

5. Operational risk indicators (KRIs)

Application of operational risk indicators (KRIs[50]) is one of the main qualitative/quantitative operational risk measurement methodologies in the Group. These:

- Enable us to anticipate the development of operational risks, taking a forward-looking approach to their management.
- Provide information on development of the Entity's operational risk profile and the reasons for this.

Through its KRIs methodology, the Group aims to:

- Have in place a standardised operational risk decision making/action process through indicators that are both measurable and observable.
- Identify critical risks in advance for prevention.
- Have in place a wide-ranging and transversal methodology, with metrics that can be used and replicated in other Group contexts and areas, enabling identification of new risks.

A KRI is a metric, index or measure that detects and anticipates changes in operational risk levels. KRIs are not by nature a direct result of risk exposure. They are metrics that can be used to identify and actively manage the Group's operational risk.

[50] Key Risk Indicators.

The KRI methodology is supported by the corporate SAP-GRC management tool.

The main concepts in the definition and structure of the Group's operational risk indicators (KRIs) are: definition of each KRI (including any sub-KRIs), thresholds, alerts (and related actions), frequency, updating method and criticality.

Most of the KRIs defined in the Group include all of these concepts. This model enables active monitoring of operational risk levels, allowing us to establish a decision making/action structure to mitigate operational risks by mitigating KRI values, according to the alerts and thresholds model.

Results for the year:
In 2014, a total of 421 KRIs were monitored.

6. Business environment and internal control factors (BEICFs)

The fourth pillar of operational risk measurement using advanced approaches is the business environment and internal control factors.

These are defined as the controls and measures needed to monitor the Group's operational risk profile, and anticipate and flag up any changes thereto.

With regard to BEICFs, we can classify the Group's operational risk profile as follows:

- The internal and external business environment in which it operates.
- The Group's internal controls for processes, policies, tools and methodologies to mitigate or eliminate operational risk.

The business environment consists of: training and availability of the Group's human capital, complexity and business risks (defined according to the Group's risk appetite), level of process automation and tools, regulatory environment and markets in which the Group operates.

Internal controls measure factors such as: number of new products adopted by the Group, the number of customer complaints, the findings of audits and the number of recommendations arising from these audits (internal and external), qualitative measurements of risk and employee turnover.

Through control of the business environment and its internal controls, the Group ensures it predicts and detects operational risks through the fourth pillar of the AMA set out in the regulations.

4.3 Operational Risk Management

1. Action and mitigation plans

The generation of action and mitigation plans is one of the links in the Group's operational risk management chain. To this end, it has implemented an action and mitigation plan methodology that allows it to:

- Effectively offset the Group's operational risks, reducing their frequency and their impact when they do arise.
- Have in place a solid control structure based on policies, methodologies, processes and systems.
- Effectively integrate operational risk management.

Through its action and mitigation plans, the Group aims to:

- Have in place a standardised decision making/action process based on operational risk identification, measurement and monitoring.
- Ensure that critical operational risks are mitigated, with continuous improvement in associated processes.
- Ensure that all persons affected are actively involved in the process, enhancing the Group's internal operational risk management culture.

The action and mitigation plans set out a series of processes and activities to offset operational risk.

The action and mitigation plans may originate from any of the operational risk management tools or other sources: self-evaluations, scenarios, external sources (ORX, specialist press), KRIs, losses on operational events, and internal validation and internal audit reports.

The definition and monitoring process for action and mitigation plans is supported by the corporate SAP-GRC management tool. This involves three stages:

Diagram 5

2. Risk transfer (insurance)

The operational risk insurance framework enables certain specific risks to be covered in order to transfer and, therefore, mitigate their impact.

The Group has contracted corporate insurance policy covering the main risks it might face in its activities.

From this starting point, it is developing a methodology for mitigating operational risk through insurance, which it plans to have completed in 2015. This will require compliance with the CRR, Title III, Chapter 4, Article 323.

3. Operational risk reporting

One of the foundations of the Group's management of operational risk is the generation of operational risk management information. To this end, it has implemented a methodology for generating management reports that allows it to:

- Report on the Group's operational risk profile and exposure.
- Improve the interaction of Senior Management and areas actively managing operational risk.
- Prepare management reports at different levels of aggregation depending on their purpose and the levels for which they are intended.

Through its management reporting methodology, the Group aims to:

- Have in place a standardised reporting procedure for: reporting operational risk levels and the status of control methodologies and tools –subject to the Operational Risk Management Framework– promoting active management of operational risk.
- Have in place a dynamic reporting system that can adapt the reports and their frequency to changing needs and the levels covered by the methodology.
- Effectively integrate operational risk management into Senior Management and all our areas.

There is a grouping our independent (qualitative and quantitative) management reports for monitoring operational risk. Grouping the reports gives a comprehensive view of the operational risk profile with different aggregation criteria for presentation to different hierarchical levels.

Our operational risk management reporting is based on the SAP-GRC and BigData tools (the latter through MicroStrategy).

The following Diagram illustrates the different levels of operational risk reporting:

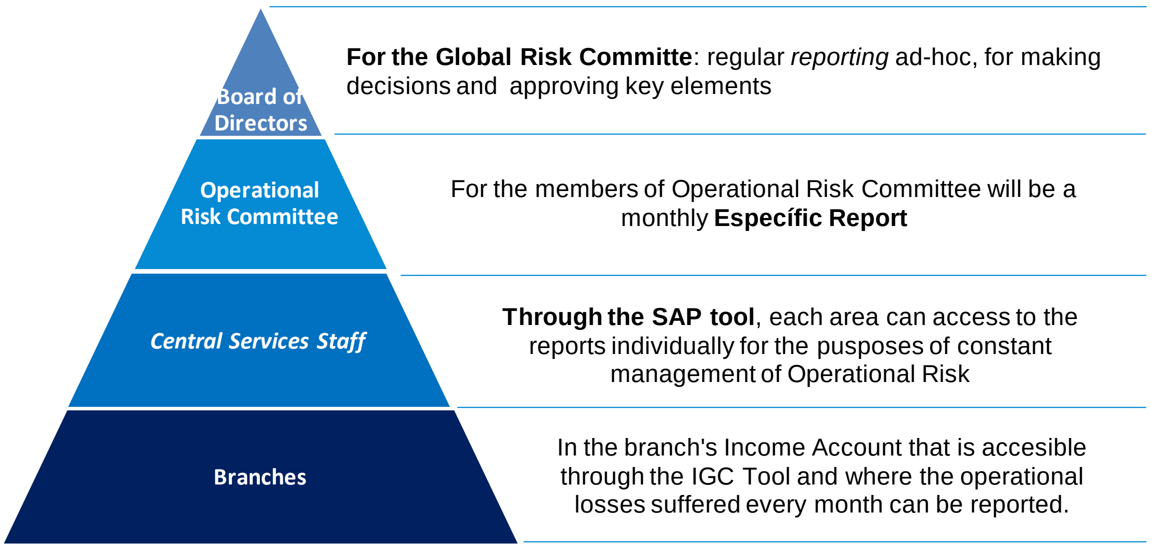


Diagram 6

4. Business Continuity Plan

Business continuity is defined as an organisation's ability to recover from a disaster and/or unexpected event and resume or continue its operations; i.e. plan how it must act in response to an event or the possibility that an event will occur.

The objective of business continuity is to protect the business and therefore the company.

Business continuity affects the whole organisation. All employees must be involved and committed to achieving its objectives.

Business continuity is a further aspect to be considered in our day-to-day activities and when designing and modifying business processes.

Incorporating business continuity into its culture enables continuous improvement in a company, ensuring it can recover from present and future incidents.

This is all covered by the Business Continuity Management System, which is ISO 22301:22012 certified.[51]

This methodology is a management system involving a cyclical planning, implementation, review and improvement process for the Group's Business Continuity procedures and activities, ensuring that it can meet the objectives set by management.

The Group's Business Continuity Plan has four main elements:

- A specific plan for Central Services (CS)
- A specific plan for the regional network
- A specific plan for International Banking
- A specific plan for subsidiaries

5. Technology contingency plan, emergency plans and security measures

- Technological contingency plan

  This plan is based on two lines:

  - Identification of key business services
  - General technological contingency plan

[51] International Organisation for Standardisation. ISO 22301:2012 Societal Security – Business Continuity Management Systems – Requirements.

- Emergency plans and security measures
  - *Security in central offices*
  - *Information security*
  - *Personal data processing and confidentiality*

6. Operational risk training framework

One of the fundamental objectives of the operational risk management model is to ensure it is applied correctly on a day-to-day basis. To this end, the model is supported by operational risk training and promotion of an operational risk culture throughout the Group.

The purpose of this training and promoting this culture is to:

- Raise awareness of operational risk throughout the Group, in areas and companies where it might arise and that might be able to anticipate or detect it.
- Internalise operational risk as inherent to all the company's processes, ensuring that it is considered by all Group areas and companies when defining and developing processes, activities and methodologies.

Operational risk training processes take place at three levels: online courses, supporting documentation and specific initiatives:

- **Online courses**: an interactive course on operational risk was given to all bank employees through the online training platform. This course aims to promote continuous training in the operational risk management model, raising the awareness of Group employees at all levels of its importance.
- **Supporting documentation**: A full set of supporting documentation covering the entire operational risk framework is available to all employees to promote day-to-day risk management.
- **Specific training**: specific ad hoc training is carried out according to the needs of the model[52]. The operational risk management model regards training as a continuous process throughout the year. It makes training courses and material available to all areas through a range of platforms explaining progress and changes in the Group's model and applicable legislation and regulations.

7. Technological structure of the operational risk management approach

The technological environment of the operational risk system provides all the functionality required and is fully integrated into the Bank's transactional and information systems.

[52] For example, in 2014 area managers were given training in the Group's intention to start using the advanced measurement approach (AMA) and the implications of this.

The main system is supported by the SAP-GRC product, which has been customised to the Bank's needs. This component provides most of the functionality required for day-to-day operational risk management. More than 400 users have access to it.

SAP-GRC is fed by multiple data sources from the transactional systems (of the Bank itself and some its subsidiaries) on a daily basis to capture key events, losses and KRIs; it also offers interfaces for updating the organisational structure and the other firms in the data model.

All risk assessment processes, loss enrichments, KRI management, action plans, etc. are carried out through work flows managed and controlled by the product itself, keeping the persons responsible for pending tasks up-to-date with what is happening.

The system also generates automatic interfaces to report losses to the ORX association and the OpVision calculation engine.

Finally, it is also important to note the integration with the Bank's information system: multiple interfaces have been designed for downloading all information from the SAP-GRC system and uploading into the Big Data environment to provide an analytical environment.

5. Interest rate risk in the banking book

5.1. Management of interest rate in the banking book

Interest rate risk in the banking book, as mentioned above,[53] arises when changes in the structure of the market rate curve affect assets and liabilities and cause them to be renewed at rates other than those set previously, thereby affecting the Group's economic value and net interest income.

The Board has delegated the management and control of this risk to CaixaBank Management through the Global Risk Management Committee ("GRC") and the Asset and Liability Committee (ALCO), with advisory of the Risks Committee.

The GRC reports to the Risks Committee. It controls and monitors interest rate limits and indicators, but does not participate in their management.

The Executive Finance Divisions analyses this risk and proposes the necessary investment and hedging transactions to the Asset and Liability Committee (ALCO) in accordance with the objectives and limits described in the section and policies and objectives.

The ALCO, which meets monthly, is in charge of monitoring, analysing and taking decisions on the management of interest rate risk in the banking book based on information and proposals submitted by the ALM and Financing Division and the ALM Management Division.

The ALCO reports regularly on the status of interest rate risk in the banking book in terms of both economic value (sensitivities and VaR) and net interest income (net interest income projections) in various interest rate scenarios.

There are a number of key assumptions related to management of interest rate risk in the banking book.

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

[53] See Section A. 1.2.6 "Interest rate risk for positions not included in the trading portfolio" of this document.

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

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

5.2. Impact of interest rate changes

Interest rate risk in the banking book is subject to specific control and includes various risk measures, such as analysis of the sensitivity of net interest income and the present value of future cash flows (impact of 1 basis point), VaR (Value at risk) measures and stochastic measures, such as EaR (Earnings at risk), to changes in interest rates.

The sensitivity of net interest income shows the impact on the review of balance sheet transactions caused by changes in the interest rate curve. This sensitivity is determined by comparing a net interest income simulation, at one or two years, on the basis of various interest rate scenarios (immediate parallel and progressive movements of different intensities, as well as changes in slope). The most likely scenario, which is obtained using the implicit market rates, is compared with other scenarios of rising or falling interest rates and parallel and non-parallel movements in the slope of the curve. The one-year sensitivity of net interest income to sensitive balance sheet assets and liabilities, taking account of scenarios of rising and falling interest rates of 100 basis points each, is approximately +0.27% on the rising scenario and -0.60% on the falling scenario. Given the current level of interest rates, it should be pointed out that the scenario of a 100bp fall does not imply the application of negative interest rates.

The sensitivity of equity to interest rates measures the effect of interest rate fluctuations on economic value.

Table 54. Impact of a 1bp increase in the curve

(thousands of euros)	31.12.2014	31.12.2013
On the present value of the future flows	-1.501	-8.619

The sensitivities of net interest income and equity are measurements that complement each other and provide an overview of structural risk, which focuses more on the short and medium term, in the case of net interest income, and on the medium and long term in the case of equity.

As a supplement to these measurements of sensitivity, VaR measures are applied in accordance with treasury-specific methodology.

Table 55. 1-day VaR of balance with a 99% confidence interval

(thousands of euros)

	End Period	Average	Maximun	Minimun
2014	**89.916**	**80.662**	**115.285**	**67.920**
2013	**88.928**	**163.015**	**215.975**	**88.928**

Finally, earnings at risk (EaR) measurements are also taken in order to establish with a certain level of confidence (99%) the maximum loss of net interest income over the next two years, considering a certain amount of balance sheet growth. This analysis also identifies the potential worst and best scenarios of all the simulated scenarios, thereby showing maximum levels of risk.

In accordance with current regulations, the CaixaBank Group does not avail itself of its own funds for the interest rate risk in the banking book undertaken, in view of the low risk profile of its balance sheet. The interest rate risk in the banking book assumed by the CaixaBank Group is substantially below levels considered significant (outliers) under current regulations.

CaixaBank continues to carry out a series of actions designed to strengthen the monitoring and management of interest rate risk in the banking book.

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 to fill out the Bank of Spain RP51 form.

6. Asset Encumbrance

Assets at 31 December 2014 securing certain financing transactions and unencumbered assets are as follows.

Table 56. Assets securing financing operations and unencumbered assets

(thousands of euros)

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Equity Instruments				
Debt securities	8.096.122	8.024.850	30.418.126	30.360.618
Credit portfolio	49.444.784		152.481.741	
Other assets	2.130.503		59.686.403	
Total	**59.671.409**		**253.546.830**	

These assets relate mainly to loans securing issues of mortgage covered bonds, public sector covered bonds and securitisation bonds; debt securities provided in repos and assets pledged as collateral (loans or debt securities) for access to European Central Bank financing operations. Also included as encumbered assets is the balance of cash given to secure trading in derivatives.

As for guarantees or collateral received, mainly in reverse repos, cash and debt securities received to secure trading in derivatives and own guaranteed debt and senior debt instruments issued. Assets securing certain financing operations and unencumbered assets for the CaixaBank Group are as follows:

Table 57. Encumbered assets

(thousands of euros)

	Fair value of encumbered assets	Fair value of unencumbered assets
Collateral received	**6.028.307**	**12.250.006**
Equity instruments	0	0
Debt securities	6.028.307	8.080.546
Other collateral received	0	4.169.460
Treasury shares issued(*)	**56.678**	**2.047.508**
Total	**6.084.985**	**14.297.514**

(*)It is the Treasure Shares issued which is different to mortgage covered bonds or securitization bonds

Assets used as collateral for financing amount to €65,699,716 thousand for the items presented in the preceding table out of total assets (including collateral received) of €331,496,552 thousand. The collateralisation -use of assets as collateral for financing transactions- is 19.82%.

The following table shows the relationship between secured liabilities and the assets that secure them. Assets securing financing transactions with a carrying amount of €65,756,394 thousand are matched with liabilities of €56,258,318 thousand.

Table 58. Secured liabilities

(thousands of euros)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**53.552.548**	**63.050.625**
Derivatives	2.521.162	2.130.503
Deposits	17.379.605	18.868.931
Debt securities issued	33.651.782	42.051.191
Other sources of encumbrance	**2.705.769**	**2.705.769**
Total	**56.258.318**	**65.756.394**

7. Information concerning remuneration

Rule 117 bis of Bank of Spain Circular 3/2008 of May 22, introduced by Circular 4/2011 of November 30, establishes the content of information concerning remuneration to be included in Information of Prudential Relevance; as do the current regulation implementing Article 85 of Spanish Law 10/2014 of June 26 on the planning, supervision and solvency of credit institutions (hereinafter, "LOSS"), and Article 93 of Royal Decree 84/2015 of February 13 implementing the LOSS Law.

A key feature of Bank of Spain Circular 4/2011 is the requirement of transparent reporting of all remuneration policies for managers and groups of employees whose decisions could affect a credit entity's risk profile.

Specifically, Rule 117 bis of this circular refers to “Disclosures on remuneration” that must be published and updated regularly, at least once a year. This information is contained in this “Information of Prudential Relevance” report.

7.1 Remuneration policy: composition and mandate of the remuneration committee

Introduction

The following information refers to the ”la Caixa” Group up to its transformation into a banking foundation and to the CaixaBank Group thereafter for 2014.

Duties of CaixaBank's Remuneration Committee

Pursuant to the LSC, the Remuneration Committee (the "RC") of a listed company shall have, *inter alia*, the following functions: to propose to the Board of Directors the remuneration policy for directors or general managers of whoever performs senior management functions and reports directly to the board, the executive committees or the chief executive officers. Moreover, according to the LOSS, the RC is responsible for the direct oversight of remuneration of senior executives in charge of risk management and compliance functions.

CaixaBank's Bylaws and Regulations of the Board of Directors are consistent with these precepts.

Lastly, CEBS guidelines indicate that, *inter alia*, the RC should: (i) be responsible for the preparation of recommendations to the board of directors regarding the remuneration of the members of the management body, as well as of the highest paid staff members in the institution; (ii) provide its support and advice to the board of directors on the design of the institution's overall remuneration policy, (iii) support the board of directors in overseeing the remuneration system's design and operation on behalf of the board of directors; and (iv) devote specific attention to the assessment of the mechanisms adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels, as well as ensuring that the overall remuneration policy is consistent with the long-term sound and prudent management of the institution.

All decisions regarding remuneration outlined in the Remuneration Policy and proposed by the RC shall be studied by the Chairman before being laid before the Board of Directors for its deliberation and, if applicable, approval. Should these decisions fall within the remit of the CaixaBank Annual General Meeting, the Board of Directors shall include these on the agenda as proposed resolutions along with the corresponding reports.

Composition of CaixaBank's Remuneration Committee

Under the provisions of the LSC and the LOSS, on 31 December 2014, the Remuneration Committee comprised the following directors:

- María Amparo Moraleda Martínez (independent Director), Chairman
- Salvador Gabarró Serra (proprietary Director), Member
- Alain Minc (independent Director), Member
- Leopoldo Rodés Castañé (proprietary Director), Member

In 2014, there were various changes in the composition of the Remuneration Committee which, along with the current Appointments Committee, was one single committee, the Appointments and Remuneration Committee.

On 27 February, following the resolution to appoint Antonio Sainz de Vicuña y Barroso to the Board of Directors of CaixaBank, the Board, based on a proposal from the Appointments and Remuneration Committee, resolved to appoint Mr. Sainz de Vicuña y Barroso to said committee to replace Javier Godó Muntañola who had tendered his resignation.

On 24 April 2014, shareholders at the Ordinary Annual General Meeting approved the appointment to the Board of Directors of María Amparo Moraleda Martínez as an independent Director to cover the vacancy left by the departure of Susana Gallardo Torrededia following the completion of her tenure.

Following the Ordinary Annual General Meeting, the Board of Directors, and based on a proposal from the Appointments and Remuneration Committee, resolved to reappoint Mr. Sainz de Vicuña and appoint Mrs. Moraleda as members of the Appointments and Remuneration Committee, which in turn resolved to appoint Mr. Sainz de Vicuña as Chairman.

On 25 September 2014, in compliance with the LOSS, the CaixaBank Board of Directors resolved to divide the Appointments and Remuneration Committee into a Appointments Committee, with the same composition as the previous Appointments and Remuneration Committee, and to create a Remuneration Committee and appoint the following members: Salvador Gabarró Serra, Leopoldo Rodés Castañé and María Amparo Moraleda Martínez, who was appointed Chair of the new committee.

The last modification occurred on 18 December 2014 when the Board of Directors, based on a proposal from the Appointments Committee, resolved to appoint Alain Minc (independent Director) to the Remuneration Committee.

Meetings of the CaixaBank Remuneration Committee in 2014

CaixaBank's Appointments and Remuneration Committee met 15 times before it was split. Its members received €60,750 for belonging to the committee. The Remuneration Committee met six times, with its members receiving €20,250.

Management Committee functions

The CEBS Guidelines instruct institutions to provide for an active participation of control functions in the design of remuneration policies. In that regard, CaixaBank's Management Committee comprises representatives, *inter alia*, from the following areas::

- Risks
- Finance
- Audit and Internal Control
- Regulatory Compliance
- Human Resources
- General Secretariat

In particular, CaixaBank's Management Committee is responsible for ensuring that the necessary information is obtained and prepared so that the RC can efficiently carry out its duties.

CaixaBank's Human Resources Department (hereinafter, HR) promotes these actions within the Management Committee.

To prevent conflicts of interest, the RC is directly responsible for obtaining, preparing and reviewing information on (i) the members of the CaixaBank Board of Directors, whether for their oversight or executive duties, and (ii) the members of the Management Committee.

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 and tax advisors) in order to update and adapt the Group's remuneration policy to the new legal requirements.

Approval of the Remuneration Policy of the Identified Staff in force in 2014

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

7.2 Description of the Identified Staff

In 2014, the Identified Staff was defined in accordance with Royal Decree 216/2008, which stated that credit institutions should apply risk-adjustment requirements to variable remuneration of categories of employees whose professional activities have a significant impact on the risk profile at Group, parent and subsidiary level, provided in the case of subsidiaries that the activity is relevant for the level of risk of the parent.

Following the entry into force of the LOSS and Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 (hereinafter, the Delegated Regulation), CaixaBank has reviewed and adapted its Remuneration Policy for the Identified Staff and included both non-executive Directors and executive Directors of CaixaBank. However, the impact of the new definition of Identified Staff will be applicable from 1 January 2015.

To identify “la Caixa” Group persons for inclusion in the Identified Staff in 2014 under RD 216/2008, the companies comprising the group must first be analysed to determine if (i) by their legal nature that are subject to the remuneration rules contained in this RD or (ii) whether they can have a material impact on the risk profile of the Group; then, within each, the specific individuals who meet the requirements for included in this group. As a result of this analysis, the companies to be included in the scope of application are:

- “la Caixa” (up to its information into a banking foundation)
- CaixaBank
- MicroBank, S.A. (hereinafter "MicroBank")
- FinConsum EFC, S.A. (hereinafter "FinConsum")
- CaixaRenting, S.A. (hereinafter "CaixaRenting")

The various groups of employees making up the “Identified Staff” are as follows:

1. Management Group:

To determine the Identified Staff, in accordance with RD 771/2011, Senior Management is considered to be:

- The Chief Executive Officer of ”la Caixa”
- Executive Managers of ”la Caixa” with a material impact on credit or market risk
- Executive Directors of CaixaBank
- General Managers and Deputy General Managers of CaixaBank
- Executive Managers of CaixaBank
- Regional General Managers of CaixaBank

2. Other group executives

- Head of MicroBank
- Head of Finconsum and CaixaRenting

3. 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.

4. 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.

5. Market-risk takers

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

6. Control and Finance Managers

Identified as managers in the Control and Finance areas 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

7. Other employees

Any other “la Caixa” or CaixaBank employees who, while not included in the Identified Staff, receives a bonus of €200,000 or higher.

7.3 Qualitative information concerning remuneration of the Identified Staff

1. General aspects

The remuneration policy for the Identified Staff is structured taking into account both the prevailing circumstances and the Entity's results, and comprises:

- Fixed remuneration based on the level of responsibility and the career path of each employee, which constitutes a relevant part of total compensation
- Variable remuneration linked to the achievement of pre-established targets and prudent risk management
- Social benefits

Fixed remuneration is of a sufficient amount, while variable remuneration generally accounts for a relatively reduced percentage of the fixed annual compensation.

In this regard, the CEBS Guidelines note that the higher the possible variable remuneration compared to the fixed remuneration, the stronger the incentive will be to deliver the needed performance, and the bigger the associated risks may become. In contrast, if the fixed component is too low compared to the variable component, an institution may find it difficult to reduce or eliminate variable remuneration in a poor financial year.

Therefore, the CEBS Guidelines implicitly equate variable remuneration with an incentive to assume risk, and conclude that a low level of variable remuneration is a simple protection method preferable to incentives based on an inappropriate risk appetite.

Furthermore, the CEBS Guidelines set out that the risk appetite should take into account the category of employees included in Identified Staff, applying the principle of internal proportionality. As a result, the appropriate balance between the fixed and variable remuneration components may vary across the staff, depending on market conditions and the specific context in which the financial undertaking operates. Consequently, the remuneration policy must seek a reasonable and prudent balance between the fixed and variable components of remuneration.

2. Fixed remuneration

As a general rule, the system of professional classification, the salary tables set out in the collective bargaining agreement for savings banks and the particular employment agreements reached with workers' representatives are applied to “la Caixa” and CaixaBank employees.

Each employee's fixed remuneration is based on the position held, applying the salary table set out in the aforementioned collective bargaining agreement and taking into account the professional level of the employee, the employment agreement and the classification of the work centre.

Central Services posts fall in a classification based on contribution levels, with salary bands established to allow internal equilibrium. Moreover, to ensure that the Entity remains competitive vis-à-vis its peers, the salary bands are quantified on the basis of the entity's competitive position. This entails closely monitoring market trends in salaries and participating in several annual salary polls.

The remuneration policy applicable to senior executives is primarily based on a market approach taking into account specific salary polls.

3. Variable remuneration

Risk-adjusted variable remuneration for Identified Staff is based on the remuneration mix (a proportional balance between fixed and variable remuneration, as mentioned above) and on performance measurements.

Ex-ante and ex-post remuneration adjustments are applied in view of the performance measurements, as a risk alignment mechanism.

Both quantitative (financial) and qualitative (non-financial) criteria should be taken into account when assessing performance and evaluating individual results. In general, quantitative criteria are more frequently available at an institution-wide level, while qualitative factors are usually assessed at the individual level, where they are more relevant. However, qualitative criteria can also be relevant at an institution-wide level or business-unit level.

The appropriate mix of quantitative and qualitative criteria also depends on the tasks and responsibilities of each staff member. In all cases, the quantitative and qualitative criteria and the balance between them should be specified and clearly documented for each level and category of staff.

The indicators used for the ex-ante risk adjustment of variable remuneration accrued through the bonus programs or targets programs vary across the different categories of Identified Staff.

All company managers and employees forming part of the Identified Staff 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 Staff 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 efforts made out by each business segment.

The amount of the bonus received by each employee in each specific program is performance-related. Both quantitative (financial) and qualitative (non-financial) criteria should be taken into account when assessing performance and evaluating individual results. The appropriate mix of quantitative and qualitative criteria must depend on the tasks and responsibilities of each staff member.

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 from a minimum of 0.85 to a maximum of 1.15.

The LOSS states that when credit institutions set the variable components of senior executives' remuneration, employees who are risk takers, staff engaged in control functions and any employee whose total remuneration takes them into the same remuneration bracket are senior management and risk takers, whose professional activities have a material impact on their risk profile (hereinafter the "Identified Staff"), should determine the appropriate ratio between fixed and variable remuneration components, applying the following principles:

- The variable component shall not exceed 100% of the fixed component of total remuneration of each employees.
- However, shareholders may approve a higher percentage, provided that it does not exceed 200% of the fixed component of total remuneration.

In this respect, the Board of Directors of CaixaBank issued a report justifying the proposal to approve the maximum level of variable remuneration for the Identified Staff, which was submitted shareholders at the Annual General Meeting of 24 April 2014 so that the variable remuneration of eight employees referred to therein could reach 200% of the fixed component of total remuneration.

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 Staff, are described below:

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

The payment of variable remuneration and the delivery of shares to Executive Directors and any other member of Senior Management may be deferred 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 Staff receiving a bonus equal to or higher than €200,000.

5. 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.

50% 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 59. Percentages deferred for each group

Groups	Expost risk adjustment (deferral)	Delivery of shares
Executive Directors of CaixaBank	60% of the accrued bonus is deferred for 3 years.	50% is paid in company shares.
Management group (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 of Identified Staff. 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:

Risk-adjusted bonus = 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 60. MRA indicator

Risk situations	MRA
Excess risk of up to 15% of the approved limits caused expressly by one unauthorised 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 unauthorised market position or a position of a size greater than authorised, or two positions of this type of which at least one does not exceed the authorised limits by 15%	0.75
Excess risk of more than 15% of the approved limits, caused expressly by two unauthorised markets positions or positions of a size greater than authorised, or three positions of this type of at which at least one does not exceed the authorised limits by 15%	0.5
Excess risk above the authorised limits caused expressly by unauthorised market positions or positions of a size greater than authorised 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:

Risk-adjusted bonus = 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 Staff 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:

Risk-adjusted bonus = 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 2014 for these employees 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 recurring operating expenses
- 10% of RoE

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 Staff 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 Staff must forfeit the right to collect deferred variable remuneration amounts, either in cash or through delivery of shares, in the following situations:

- In general, where payment of these amounts is not sustainable in accordance with the Entity's overall situation or justified by the results of the Entity, of the business unit, or of the employee in question.
- For credit-risk takers, use of capital for credit risk in excess of pre-established risk tolerance (increase in capital charge of production in the year of accrual of the bonus above 25%).
- 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

7.4 Quantitative information concerning remuneration of the Identified Staff

In 2014, remuneration paid to the Identified Staff, in adherence to the applicable regulatory provisions concerning remuneration, and according to the Entity's different areas of activity, was as follows:

For 2014, disclosures on fixed remuneration for 2014 in this report includes the fixed remuneration components received by each member of the Identified Staff not included in previous reports as they related to payments of additional benefits that are part of the generation policy, not discretionary, of the institution as a whole and do not encourage risk-taking. Therefore, this concept includes both monetary fixed remuneration and in-kind (constructions to pension plans, health insurance, etc.).

Table 61. Remuneration paid to the Identified Staff

Areas of activity	Description of the type of the businesses	Fixed remuneration 2014	Variable remuneration 2014	Total 2014
Investment banking	Capital markets, Corporate banking and Structured	2.607	1.887	4.494
Commercial banking	Individual banking, Private and personal banking,	11.835	3.286	15.121
Asset management	Does not apply			
Other	Central services	21.721	3.222	24.943

(thousands of euros)

Types of employees of Identified Staff	Numbers of people included in the Indentified Staff	Variable remuneration 2014	Bonus 2014 in cash received in 2015	Bonus 2014 in shares received in 2015	Deferred Bonus 2014 (not attributed)	Deferred Bonus 2014 in shares (not attributed)
Executive Directors	3	584	117	117	175	175
Executives	32	3.418	854,6	854,6	854,6	854,6
Other Identified Staff	66	4.392	2.056	996	670	670

Numbers of people that recived more than 1 million EUR	Number of beneficiaries
de 1.000.000 a 1.500.000	3
de 1.500.000 a 2.000.000	3
de 2.000.000 a 2.500.000	1
de 3.000.000 a 3.500.000	1

In 2014:

- No payments were made for new hires within the Identified Staff.
- No adjustments were made as a result of the results of the performance of deferred compensation paid in 2014.

C. APPENDICES

Appendix I. Main features of capital instruments

		ES0213249008	ES0312284005	ES0240609000	ES0240609018
1	Issuer	Caixa Girona	Caixa Girona	CaixaBank	CaixaBank
2	Unique identifier	ES0213249008	ES0312284005	ES0240609000	ES0240609018
3	Governing law(s) of the instrument	Spanish regulation: - Law 24/1988 - RD 1310/2005 of Law 24/1988. - Regulation (CE) 809/2004. - Law 211/1964. - Law 13/1985. - RD-Ley 1564/89.	Spanish regulation: - Law 24/1988. - Law 211/1964. - RD 1310/2005 and Order EHA/3537/2005. - Law 13/1985. - Law13/1992 and RD 216/2008.	Spanish regulation - Law 24/1999. - third transitional provision RD-Ley 2/2011. - Regulation CE 809/2004 and Directive 2003/71/CE	Spanish regulation: - Law 24/1999. - third transitional provision RD-Law 2/2011. - Regulation CE 809/2004 and Directive 2003/71/CE
4	Regulatory treatment	Capital level 2	Capital level 2	Capital level 2	Capital level 2
5	Transitional Basel III rules	Capital level 2	Capital level 2	Capital level 2	Capital level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions, as of most recent	14	19	2.042	1.292
9	Par value of instrument	100	50	2.072	1.302
9a	Par value of instrument	100%	100%	100%	100%
9b	Accounting classification	100%	100%	100%	100%
10	Accounting classification	liability	liability	liability	liability
11	Original date of issuance	21-09-2006	17-11-2006	09-02-2012	09-02-2012
12	Perpetual or dated	Specific maturity	Specific maturity	Specific maturity	Specific maturity
13	Original maturity date	21-09-2016	08-11-2016	09-02-2022	09-02-2022
14	Issuer call subject to prior supervisory approval	Si	yes	yes	yes
15	Optional call date, contingent call dates and redemption amount	At any time from 21/9/2011. Purchase price 100%. Partial o total purchase	From five years from the date of disbursement, from 17/11/2011, every coupon pay date (feb/may/aug/nov)	At any time from 9/2/2017. Purchase price 100%.	At any time from 9/2/2017. Purchase price 100%.
16	Subsequent call dates, if applicable	At any time from 21/9/2011	At every coupon pay time (feb/may/aug/nov)	At any time from 9/2/2017	At any time from 9/2/2017
17	Coupon rate and any related index	Variable	Variable	Fixed	Fixed
18	Coupon rate and any related index	Eur 3m +0,4932%	Eur 3m +0,4572%	0	0,05
19	Existence of a dividend stopper	No	No	No	No
20a	Existence of a step up or other incentive to redeem	Mandatory	Mandatory	Mandatory	Mandatory
20b	Noncumulative or cumulative	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of a step up or other incentive to redeem	No	yes	No	No
22	Noncumulative or cumulative	n/p	n/p	n/p	n/p
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger (s)	n/p	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p	n/p
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p	n/p
30	Write-down feature	No	No	No	No
31	If write-down, write-down trigger (s)	n/p	n/p	n/p	n/p
32	If write-down, full or partial	n/p	n/p	n/p	n/p
33	If write-down, permanent or temporary	n/p	n/p	n/p	n/p
34	If temporary write-down, description of write-down mechanism	n/p	n/p	n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After preferred and ordinary creditors	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors	After Ordinary common creditors	After ordinary creditors
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	n/p	n/p	n/p	n/p

		ES0217156092	AYTS491201	AYTS490629
1	Issuer	CajaSol	CajaSol	CajaSol
2	Unique identifier	ES0217156092	AYTS491201	AYTS490629
3	Governing law(s) of the instrument	Spanish regulation: -Law 13/1985 and Law 24/1988. -Law 13/1992, and RD 116/1992, RD 1343/1992 and RD 538/1994. - Law 44/2002 and Law 26/2003. - RD 2590/1998. - Law 211/1964. - Circular 2/1999 of CNMV. - Regulation (CE) 809/2004 and Directive 2003/71/CE. - Order EHA/3537/2005 and Law 24/1988	Spanish regulation	Spanish regulation
4	Regulatory treatment	Capital level 2	Capital level 2	Capital level 2
5	Transitional Basel III rules	Capital level 2	Capital level 2	Capital level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in millions, as of most recent	30	18	1
9	Par value of instrument	200	18	15
9a	Par value of instrument	50%. Issued at 100%, although it is at cost of 50%.	100%	100%
9b	Accounting classification	100%	Without documents	Without documents
10	Accounting classification	Liability	Liability	Liability
11	Original date of issuance	01-12-2005	21-12-1990	24-06-1994
12	Perpetual or dated	Perpetual	Without documents	Without documents
13	Original maturity date	Without especifuc maturity	Perpetual	Perpetual
14	Issuer call subject to prior supervisory approval	yes	Without documents	Without documents
15	Optional call date, contingent call dates and redemption amount	From 01/12/2015.In coincidence with the payment coupon (Mar, Jun, Sep, Dec). Repurchase price 100%	Without documents	Without documents
16	Subsequent call dates, if applicable	From 01/12/2015.In coincidence with the payment coupon (Mar, Jun, Sep, Dec)	Without documents	Without documents
17	Coupon rate and any related index	Variable	Without documents	Without documents
18	Coupon rate and any related index	Eur 3m + 1,10% until 1/12/2015. From this date Eur 3m + 2,60%		
19	Existence of a dividend stopper	Si	Without documents	Without documents
20a	Existence of a step up or other incentive to redeem	Parcialmente discrecional (no reparto dividendos si presenta pérdidas)	Without documents	Without documents
20b	Noncumulative or cumulative	Obligatory	Without documents	Without documents
21	Existence of a step up or other incentive to redeem	Si	Without documents	Without documents
22	Noncumulative or cumulative	Acumulative	Without documents	Without documents
23	Convertible or non-convertible	Non convertible	Without documents	Without documents
24	If convertible, conversion trigger (s)	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p
30	Write-down feature	Si	Without documents	Without documents
31	If write-down, write-down trigger (s)	Once reserves and other equity instruments (equity and preference shares) have been totally used.	Without documents	Without documents
32	If write-down, full or partial	Total or partial	Without documents	Without documents
33	If write-down, permanent or temporary	Permanent	Without documents	Without documents
34	If temporary write-down, description of write-down mechanism		Without documents	Without documents
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After Non especial subordinated obligations	Without documents	Without documents
36	Non-compliant transitioned features	No	Without documents	Without documents
37	If yes, specify non-compliant features	n/p	Without documents	Without documents

		AYTS161108 (ES0312284005)	ES0214979181	ES0214981070
1	Issuer	CajaSol	CajaSol	Caja Canarias
2	Unique identifier	AYTS161108 (ES0312284005)	ES0214979181	ES0214981070
3	Governing law(s) of the instrument	Spanish regulation: - Art. 270.10 Reglament of Mercantil Register - Ley 13/1992.	Spanish regulation: - Law 24/1988 and law 211/1964. - RD 1310/2005 and orderEHA/3537/2005. - Law 13/1985. - Law 13/1992. - RD 216/2008.	Spanish Regulation: - Law 24/1988. - Reglament (CE) 809/2004 and Directive 2003/71/CE. - Law 211/1964. - Law 13/1992.
4	Regulatory treatment	Capital level 2	Capital level 2	Capital level 2
5	Transitional Basel III rules	Capital level 2	Capital level 2	Capital level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	4	8	8
9	Par value of instrument	10	9	150
9a	Par value of instrument	100%	100%	73%. Issued at 100%, although in CaixaBank's Balance Sheet is at 75% of cost.
9b	Accounting classification	100%	100%	100%
10	Accounting classification	liability	liability	liability
11	Original date of issuance	17-11-2006	30-12-2009	04-11-2005
12	Perpetual or dated		Specific maturity	Specific maturity
13	Original maturity date	08-11-2016	30-12-2019	04-11-2015
14	Issuer call subject to prior supervisory approval	SI	SI	SI
15	Optional call date, contingent call dates and redemption amount	From 17/11/2011, at every coupon pay time (feb/may/aug/nov)	From 30/12/2014, at every coupon pay time (30/06 and 30/12). Price 100%	From 4/11/2010, at every coupon pay time (Nov, Feb, May, Aug) Purchase price 100%.
16	Subsequent call dates, if applicable	At every coupon pay time (feb/may/ago/nov)	At every coupon pay time (30/06 y 30/12)	At any time from 4/11/2010, in coincidence with every coupon pay time (Nov, Feb, May, Aug) Purchase price 100%.
17	Coupon rate and any related index	Variable	Variable	Variable
18	Coupon rate and any related index	Eur 3m +0,4572%	Eur 6m +5% until 12/14 Eur 6m +5,5% util maturity	Eur 3m + 0,34% until 4/11/2010. From that date Eur3m+0,84%
19	Existence of a dividend stopper	No	No	No
20a	Existence of a step up or other incentive to redeem	Obligatory	Obligatory	Obligatory
20b	Noncumulative or cumulative	Obligatory	Obligatory	Obligatory
21	Existence of a step up or other incentive to redeem	SI	Si	Si
22	Noncumulative or cumulative	n/p	n/p	n/p
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger (s)	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p
30	Write-down feature	No	No	No
31	If write-down, write-down trigger (s)	n/p	n/p	n/p
32	If write-down, full or partial	n/p	n/p	n/p
33	If write-down, permanent or temporary	n/p	n/p	n/p
34	If temporary write-down, description of write-down mechanism	n/p	n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors	After ordinary creditors and in the same level of subordinated creditors: 1.Preferred creditors. 2. Ordinary creditors and depositors	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	n/p	n/p	n/p

		XS0989061345	ES0214979157	ES0214965008
1	Issuer	CaixaBank	CajaSol	Caja Navarra
2	Unique identifier	XS0989061345	ES0214979157	ES0214965008
3	Governing law(s) of the instrument	In accordance with English law, except the provisions relating to the status of the Notes (and any non-contractual obligations arising out of or in connection with it), the capacity of the Issuer, the relevant corporate resolutions, the syndicate of the Noteholders and the Commissioner which are governed by Spanish law.	Spanish regulation: - Law 24/1988. - RD 1310/2005 and law 24/1988. - Regulation (CE) 809/2004 and Directive 2003/71/CE. - Law 211/1964. - Law 13/1992.	Spanish regulation: - Law 24/1988. - Regulation (CE) 809/2004 and Directive 2003/71/CE. - Law 211/1964.
4	Regulatory treatment	Capital level 2	Capital level 2	Capital level 2
5	Transitional Basel III rules	Capital level 2	Capital level 2	Capital level 2
6	Eligible at solo/group/group&solo	Sub-consolidated	Sub-consolidated	Sub-consolidated
7	Instrument type	Subordinated Obligations	Subordinated Obligations	Subordinated Obligations
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	746	1	15
9	Par value of instrument	750	4	150
9a	Par value of instrument	99%	100%	67%. Issued at 100%, although in CaixaBank's Balance Sheet is at 67% of cost.
9b	Accounting classification	100%	100%	100%
10	Accounting classification	liability	liability	liability
11	Original date of issuance	14-11-2013	28-11-2005	16-06-2006
12	Perpetual or dated	Specific maturity	Specific maturity	Specific maturity
13	Original maturity date	14-11-2023	28-11-2015	16-06-2016
14	Issuer call subject to prior supervisory approval	SI	SI	SI
15	Optional call date, contingent call dates and redemption amount	14/11/2018 at any time for taxes reasons or for a capital event and with previous consent of Bank of Spain. Purchase price 100%	At any time from 28/11/2010, in coincidence with coupon pay time (Feb, May, Aug, Nov) . Reimbursement price 100%	At any time from 16/06/2011. Reimbursement price 100%
16	Subsequent call dates, if applicable	n/p	At any time from 28/11/2010, cin coincidence with coupon pay time (Feb, May, Aug, Nov)	At any time from 16/06/2011.
17	Coupon rate and any related index	From fixed to variable	Variable	Variable
18	Coupon rate and any related index	5% until 14/11/18. From this time M/S 5 años + 395 pbs	3,50% until 28/5/2006. Rest time Eur 6m + [0,10%-0,50%].	Eur 3m + 0,39% until 16/6/2011. From this dateEur3m+0,89%
19	Existence of a dividend stopper	No	No	No
20a	Existence of a step up or other incentive to redeem	Obligatory	Obligatory	Obligatory
20b	Noncumulative or cumulative	Obligatory	Obligatory	Obligatory
21	Existence of a step up or other incentive to redeem	No	no	si
22	Noncumulative or cumulative	n/p	n/p	n/p
23	Convertible or non-convertible	non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger (s)	n/p	n/p	n/p
25	If convertible, fully or partially	n/p	n/p	n/p
26	If convertible, conversion rate	n/p	n/p	n/p
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p
30	Write-down feature	No	No	No
31	If write-down, write-down trigger (s)	n/p	n/p	n/p
32	If write-down, full or partial	n/p	n/p	n/p
33	If write-down, permanent or temporary	n/p	n/p	n/p
34	If temporary write-down, description of write-down mechanism	n/p	n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After ordinary creditors	After these creditors: 1. Depositors 2. Preferred Creditors 3. Ordinary creditors	After ordinary creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	n/p	n/p	n/p

Appendix II. Transitional own funds

(thousands of euros)

(A) *Amount at disclosure date;* ***(B)*** *regulation (EU) No 575/2013CRR article reference;* ***(C) Amount*** *subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) Nº 575/2013*		***(A)***	***(B)***	***(C)***
Common Equity Tier 1 capital : instruments and reserves				
1	Capital instruments and the related share premium accounts	17.736.745	*26 (1), 27, 28, 29 llista de la ABE 26 (3)*	
2	Retained earnings	5.069.833	*26 (1) (c)*	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	181.802	*26 (1)*	
5	Minority interests (amount allowed in consolidated CET1)	16.883	*84, 479, 480*	16.883
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	310.061	*26 (2)*	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**23.315.324**		
Common Equity Tier 1 capital : regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	(975.931)	*36 (1) (b), 37, 472 (4)*	
12	Negative amounts resulting from the calculation of expected loss amounts	(27.932)	*36 (1) (d), 40, 159, 472 (6)*	
13	Any increase in equity that results from securitised assets (negative amount)	(9.412)	*32 (1)*	
14	Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing	(47.825)	*33 (b)*	
15	Defined-benefit pension fund assets (negative amount)	(1.018)	*36 (1) (e), 41, 472 (7)*	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(48.581)	*36 (1) (f), 42, 472 (8)*	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(43.760)	*36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79, 470, 472 (11)*	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(4.065.931)	*36 (1) (j)*	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(5.220.389)**		
29	**Common Equity Tier 1 (CET1) capital**	**18.094.935**		
Additional Tier 1 (AT1) capital: instruments				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**			
Additional Tier 1 (AT1) capital: regulatory adjustments				
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(87.519)	*56 (d), 59, 79, 475 (3)*	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(3.978.412)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: Intangible assets	(3.903.723)		
	Of which: expected losses in equity	(55.864)		
	Of which: securitised assets	(18.825)		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(4.065.931)**		
45	**Tier 1 capital (T1=CET1+AT1)**	**18.094.935**		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	4.196.824	*62, 63*	
50	Credit risk adjustments	320.520	*62 (c) y (d)*	
51	**Tier 2 (T2) capital before regulatory adjustments**	**4.517.344**		

	(A)** Amount at discloure date;* ***(B) *regulation (EU) No 575/2013CRR article reference;* ***(C) Amount*** *subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) Nº 575/2013*	***(A)***	***(B)***	***(C)***
	Tier 2 (T2) capital: regulatory adjustments			
55	Direct and indirect synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(87.519)	*66 (d), 69, 70, 79, 477 (4)*	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(74.688)	*472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)*	
	Of which: expected losses in equity	(55.864)		
	Of which: securitised assets	(18.825)		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(162.208)**		
58	**Tier 2 (T2) capital**	**4.355.136**		
59	**Total capital (TC=T1+T2)**	**22.450.071**		
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	139.729.074		
	Of which: CET1 instruments of financial sector entities not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts)	1.727.176	*472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)*	
	Of which: AT1 instrument of financial sector entities not deducted from AT1 (Regulation (EU) No 575/2013 residual amounts)	5.551.156	*475, 475 (2) (b), 475 (2) (c), 475 (4) (b)*	
60	**Total risk weighted assets**	**139.729.074**		
	Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of risk exposure amount)**	**13,0%**	***92 (2) (a), 465***	
62	**Tier 1 (as a percentage of risk exposure amount)**	**13,0%**	***92 (2) (a), 465***	
63	**Total capital (as a percentage of risk exposure amount)**	**16,1%**	***92 (2) (c)***	
	Ratios y colchones de capital			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1.495.664	*36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 70, 477 (4)*	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2.439.260	*36 (1) (i), 45, 48, 470, 472 (11)*	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	690.871	*36 (1) (c), 38, 48, 470, 472 (5)*	
	Límites aplicables en relación con la inclusión de provisiones en el capital de nivel 2			
78	Credit risk adjustments included in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	320.520	*62*	
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	320.520	*62*	

*	*The rows without information were ommitted*
3	*Valuation Adjustments exchance differences (Group and Non-controlling interests)*
5	*Profits and Non-Controlling Interest Reserves*
5a	*Audited finantial results atributable to the Group, net of dividends (paid on the account and complementary prevision on the account of the exercise)*
8	*GoodWill and Intangible Assets, net of corrections of Banco BPI i The Bank of East Asia (20%)*
41a	*Intangibles Assets: Goodwill and intangible assets, net of corrections adjustments of Banco BPI and The Bank of East Asia (80%)*
46	*Subordinated debt elegible (net of treassury shares, pledges and loss of elegible capital depening on the maturity)*
50	*Provisions surplus versus Expected Losses IRB (regulatory limit)*