CaixaBank

Pillar 3 disclosure

CaixaBank Group

Corresponding
to 31 December 2019

Translation of Pillar 3 Report originally issued and prepared in Spanish. This English version is a translation of the original in Spanish for information purposes only. In the event of a discrepancy, the original Spanish-language version prevails.

Data in this report refer to December 2019. Since that date, a series of **significant events have occurred as listed below.**

On 26 March 2020 the Board of Directors agreed a series of measures to accommodate the position of the bank to the new scenario impacted by the spread of COVID-19 and the measures taken by the authorities (see inside information dated 26 March 2020).

The following is a summary of the main measures taken by the Board of Directors of CaixaBank that are relevant for Pillar 3 disclosures:

- Reduce the proposed cash dividend for the 2019 fiscal year to 0.07€ per share, which represents a 24.6 % pay-out, from 0.15€ per share; taking into account considerations of prudence and social responsibility; which means reducing the pay-out from 52.6% to 24.6%.
- That the aforementioned dividend be paid on an interim basis against 2019 profits, on 15 April 2020, this being the only dividend paid against 2019 fiscal year profits.
- Reduction of the CET1 target to 11.5 % , after considering new regulatory and supervisory aspects, including the impact of the standards established in the Capital Requirements Directive 5 (CRD5) regarding the composition of Pillar 2 Requirements (P2R). The 2019-21 Strategic Plan for year-end 2021 established a target of 12 % plus a 100bps buffer to absorb regulatory requirements including Basel 4, whose implementation is expected to be delayed.
- With regard to the current dividend policy of a cash pay-out of greater than 50 % of consolidated earnings, to change it, exclusively for the 2020 fiscal year, to a cash pay-out not higher than 30 % of reported consolidated earnings.

Taking into account the aforementioned decisions, the regulatory solvency ratios at 31 December 2019 would now stand as follows:

	As reported at 31/12/19	Ratios post dividend reduction
CET1	12.0 %	12.4 %
Tier 1	13.5 %	13.9 %
Total Capital	15.7 %	16.0 %
Subordinated MREL	19.6 %	19.9 %
Total MREL	21.8 %	22.2 %
Total MREL PF[1]	22.5 %	22.8 %
MDA Gap	325pbs	378pbs

[1] Proforma for the €1bn senior preferred issuance in January 2020.

This report presents **data at December 2019**, previous to the listed events.

Therefore, chapter 4.-Capital presents the situation reported at year-end 2019 in accordance with the data reported to the regulator and in line with the annual accounts and the year-end financial statements.

Table 4.1. (included in page 52 of this report with year-end data at December 2019) is shown below with adjusted data according to the measures adopted by the Board of Directors and the regulatory changes mentioned before.

Table 4.1. CaixaBank Solvency

Amounts in millions of euros

	As reported at 31/12/19	Ratios post dividend reduction
CET1	17,787	18,266
Adittional Tier 1	2,236	2,236
Tier 1	20,023	20,502
Tier 2	3,224	3,224
TOTAL CAPITAL	23,247	23,726
RWA	147,880	147,880
Credit	113,947	113,947
Equity	18,310	18,310
Market	2,224	2,224
Operational	13,400	13,400
CET1 ratio	12.0 %	12.4 %
Tier 1 ratio	13.5 %	13.9 %
Total Cap. ratio	15.7 %	16.0 %
Subordinated MREL ratio	19.6 %	19.9 %
MREL ratio	21.8 %	22.2 %
Buffer MDA[1]	4,805	5,596
Expos. Leverage	341,681	341,681
Leverage ratio	5.9 %	6.0 %
Ratio CET1 Ind.	13.8 %	14.1 %
Buffer MDA Ind.	9,139	9,646

[1] The MDA Buffer that applies is the minor between the individual and the consolidated one.

Declaration of the Board of Directors

Declaration of the Board of Directors

On 23 May 2019, the Board of Directors of CaixaBank approved the review of the **Corporate Policy on Disclosure and Verification of Financial Information,** which sets out the governance of information that CaixaBank Group **discloses to the market**.

On 23 May 2019, the Board of Directors of CaixaBank approved the review of the **Corporate Policy on Disclosure and Verification of Financial Information,** which sets out the governance of information that CaixaBank Group discloses to the market. This policy stipulates that this document on Pillar 3 Disclosures shall be subject to the same degree of verification as the management report. This is in accordance with the EBA guidelines of 4 August 2017 on disclosure requirements, pursuant to part eight of the CRR[1], articles 431(3) and 434(1).

At its meeting on **16 April 2020,** the Board of Directors approved this Pillar 3 Disclosures document for the 2019 financial year (hereinafter, 2019 P3D), having been previously verified by the Audit and Control Committee and the Risk Committee, in response to the provisions of article 435(1)(e)(f) of the CRR. The Board, in its supervisory duty[2] with regard to the Group's disclosure process and its risk profile, **states that:**

- This Pillar 3 Disclosures document has been prepared in accordance with the **Corporate Policy** on Disclosure and Verification of Financial Information, approved by the Board on 23 May 2019.
- The risk management systems implemented **the disclosures published are truthful** and accurately reflect the Group's risk profile.
- By the Group are deemed appropriate in relation to the approved risk appetite.

The departments comprising the second line of defence[3] have participated in the review and verification of the information presented in this report, as well as in ensuring that this information complies with the control and/or verification procedures established in the Corporate Policy on Disclosure and Verification of Financial Information.

Prior to the approval of this Concise Statement by the Governing Bodies, Internal Audit, as a third line of defence, has reviewed the content of the 2019 P3D and its compliance with the regulatory requirements, as well as the control structures that have been implemented.

The information reported in this document shows the data at December 2019. Afterwards, a series of significant events have taken place due to the new scenario impacted by the spread of COVID-19 and, as a consequence, the necessary prudential measures were taken in order to accommodate the situation of the Group. Such measures are listed on the first page of this document as well as at the end of the Declaration of the Board of Directors.

CaixaBank Group has prepared the Pillar 3 Disclosures for 2019 and, in this regard, **the Board of Directors states that the Group:**

Maintains a medium-low risk profile, with **solvency, leverage and liquidity** levels in line with the business model and risk appetite defined by the Board.

For this, CaixaBank Group has a risk management framework, comprising an efficient risk governance, management and control system, aligned with its business model and its stakeholders' expectations.

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[1] *Section 3.Governance, organisation and risk management and the successive risk sections provide more details on risk management policies and objectives.*

[2] *For further details of the functions and responsibilities of the Board of Directors, see the Regulations of the Board of Directors of CaixaBank, https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/reglamentodelconsejodeadministracion_en.html, especially articles 4 and 36.*

[3] *Generally speaking, the second line of defence includes the Risk Management Function and the Compliance function, as established in the EBA's Internal Governance guide of 26 September 2017.*

Risk management framework

Conservative risk profile

The Group aims at maintaining a medium-low risk profile and a comfortable level of capital adequacy.

Credit risk is the most significant risk and it mainly derives from the banking activity. This activity is primarily carried out in the retail segment, and ensuring the confidence of its stakeholders is one of its core values.

The Group aspires to maintain its leadership position in the Iberian retail banking market and to generate income and capital in a balanced and diversified manner.

Counterparty risk is prudently managed by assigning internal limits and using mitigation techniques.

The Group's activity in the financial markets is focused on serving its customers, while minimising exposure to risk.

CaixaBank's metrics for interest rate risk in the banking book are at comfortable levels, with moderate positioning to increases in interest rates.

In line with best practices, Operational risk and other non-financial risks use a common risk management infrastructure and framework, which are reinforced with specialists in the control and mitigation of risks that are considered material (e.g. IT risk), with the shared goal of minimising financial, reputational or strategic impacts.

As demonstrated by the contents of this Declaration and of the 2019 P3D, the Group has coherent financial ratios that are consistent with its Management Policy and are considered to be aligned with the Risk Appetite Framework (RAF) established by the Board of Directors.

1. Robust solvency

Capital is managed so as to ensure compliance with both regulatory requirements and CaixaBank Group's internal capital targets.

One of CaixaBank's strategic goals is to strengthen its capital position, thereby maintaining sufficient headroom to deal with stress scenarios.

In 2019, the Group's capital ratios are above the SREP minimum requirements and in line with its management targets, as well as being aligned with the Risk Appetite established by the Board of Directors, thus providing support to its dividend policy.

In January 2020, the Group has the MREL ratio already at the required level for 2021.

2. Comfortable liquidity metrics

CaixaBank's goal is to always be able to meet its obligations and funding needs in a timely manner, even under adverse market conditions. Thus, its goal is to always have a stable and diversified funding base to protect and safeguard its depositors' interests.

The liquidity metrics are comfortable vis-à-vis payment commitments, with a stable funding structure and comfortable maturity profile over the coming years.

With regards to the contents of this Declaration and the attached P3D, the Group has coherent liquidity metrics that are consistent with its Management Policy, and which are considered to be aligned with the Risk Appetite Framework established by the Board of Directors.

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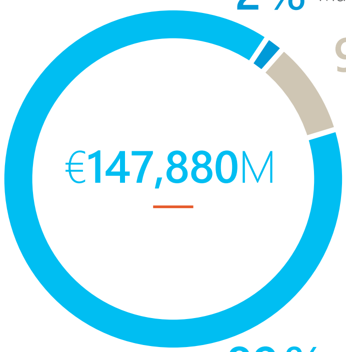
Risk profile

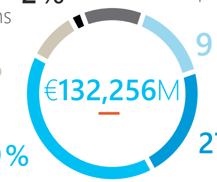
Total Credit Risk RWA[1]

Breakdown by type of risk,%



Total[2] Risk RWA[1]

Breakdown by type of risk or sector,%



Total[2] Credit Risk EAD[1]

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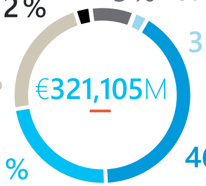

[1] RWA: Risk-weighted assets (regulatory). EAD: Exposure at default.

[2] Includes risks of credit, equity, counterparty and titulitzacions.

[3] The Equity Portfolio includes the business of participated in addition to participation in other listed companies and unlisted as well as in subsidiaries that are not globally integrate for prudential purposes (mainly VidaCaixa).

	2017	2018	2019
NPL (%)	6.0 %	4.7 %	3.6 %
Coverage ratio (%)	50 %	54 %	55 %
Cost of risk (bps)[1]	34	4	15
12-month cumulative ROTE[2]	8.3 %	9.5 %	7.7 %
Efficiency ratio[3]	54.3 %	52.9 %	55.4 %

[1] The 30-bp reduction in 2018 includes the reversal of provisions amounting to around 275 million euros, associated with updating the recoverable value of a large credit exposure (the ratio would be 16 bps without taking this reversal into consideration).

[2] 10.8 % 12-month ROTE excluding extraordinary expenses. The calculations for ROTE include the valuation adjustments in the denominator, resulting in a restatement of the figure reported in 2018. As the result of an amendment to the accounting policy associated with the recording of certain defined benefit commitments, the assets, customer funds, equity and profit and share ratios from previous periods have been restated. See details in "Activity–Balance Sheet".

[3] Excluding extraordinary expenses.

Solvency

	2017[1]	2018[1]	2019	Mín reg. 2019
CET 1 (%)	11.7 %	11.5 %	**12.0 %**	8.78 %
Tier 1 (%)	12.3 %	13.0 %	**13.5 %**	10.28 %
Total capital (%)	15.7 %	15.3 %	**15.7 %**	12.28 %
MREL		18.9 %	**21.8 %**	
Leverage ratio (%)	5.3 %	5.5 %	**5.9 %**	
Coverage ratio of the conglomerate (%)[2]	143.4 %	131.4 %	**128.3 %**	

[1] Fully-loaded data.
[2] The ratio is calculated according to the minimum regulatory requirements that apply each year.

Liquidity

In millions of euros	2017	2018	2019
NFSR[1]	112 %	117 %	**129 %**
LCR (%)	202 %	200 %	**179 %[2]**
LTD ratio (%)	107.7 %	104.6 %	**99.9 %**
High-quality liquid assets	53,610	57,093	**55,017**

[1] Calculations at 31-12-2019 applying the regulatory criteria established as per Regulation (EU) 2019/876 of the European Parliament and of the Council, of 20 May 2019, which enters into force as of June 2021. Calculations for 2017 and 2018 follow the criteria established by Basel.
[2] Spot LCR at 31 December 2019. Average 12-month LCR 186%

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CaixaBank Group **Pillar 3**

1.

1. CaixaBank Group **Pillar 3**

The Basel regulatory framework for banking is based on three pillars:

Pillar 1
Determining minimum regulatory capital.

Pillar 2
Supervisory review.

Pillar 3
Market discipline.

This report complies with the requirements of Part Eight of EU Regulation 575/2013 of the European Parliament and of the Council (hereinafter, the CRR), which constitutes Pillar 3 of the Basel regulations, with regard to public disclosure of the Group's risk profile, risk monitoring and management system, capital and solvency levels. In preparing this report, we have also taken into consideration: the guidelines on disclosure requirements under Part Eight of the CRR published by the EBA (European Banking Authority), the recommendations published by the Basel Committee on Banking Supervision (BCBS), as well as CaixaBank's Policy on Disclosure and Verification of Financial Information. As a new feature in 2019, and following the EBA / GL/2018/1 guidelines published in December 2018, four new tables of nonperforming and forborne exposures have been included in this report[1].

The information in this report has been prepared at the consolidated level, under a prudential scope, in compliance with CRR requirements. Additionally, CaixaBank is considered to be the entity of the financial conglomerate it forms mainly with VidaCaixa that is subject to these requirements. In this regard, and in order to cover the additional monitoring requirements that apply, the document also contains information regarding capital adequacy and risk management in the conglomerate as a whole. CaixaBank Group declares that it has not omitted any of the items of information required because it regarded them as confidential or proprietary.

This report has been published on the CaixaBank website[2].

As a supplement to the information set out in this annual document, the entity deems it appropriate to publish some of the quantitative information included in this report more frequently, pursuant to Article 433 of the CRR and the disclosure requirements set by the EBA.

Specifically, an Excel file with the main tables from this report have been published on a quarterly basis. This information is available on the CaixaBank website, in the same location as this document.

On the basis of all these modifications, and as part of CaixaBank's Policy on Disclosure and Verification of Financial Information, the Disclosure Regulation was updated and approved by its Board of Directors at its meeting on 23 May 2019.

As established in the Policy on Disclosure and Verification of Financial Information, this report has been prepared on the basis of the various verification and control processes established in each of the three lines of defence defined in CaixaBank's Internal Control Framework, as well as in compliance with the Bank's internal governance procedures.

In accordance with the Disclosure Policy of CaixaBank Group, this document, which contains data taken at 31 December 2019, has been approved by CaixaBank's Board of Directors at its meeting on 16 April 2020, after having been verified by the Audit and Control Committee.

The figures in most of the tables in this report are in millions of euros. However, some tables are detailed in thousands of euros, to provide the reader with more detailed information. This is clearly indicated in title of the table.

[1] *Refer to tables 5.27, 5.28, 5.29 and 5.30 of the present report.*
[2] *https://www.caixabank.com/informacionparaaccionistaseinversores/informacioneconomicofinanciera/informacionconrelevanciaprudencial_en.html*

2. CaixaBank Group

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CaixaBank Group

2.1. Regulatory environment

In 2010, the Basel Committee On Banking Supervision (BCBS) approved the reform of the Global Regulatory Framework on bank capital adequacy, known as Basel 3, in response to the international financial crisis. On 1 January 2014, the package of legislation transposing this framework came into force in the European Union, comprising Regulation 575/2013 (CRR) and Directive 2013/36 (CRD IV). These modifications sought to improve the banking sector's ability to absorb the impact of economic and financial crises, whilst enhancing risk management and governance, transparency and information disclosure. In particular, these improvements called for stricter requirements for the quantity and quality of capital, and the introduction of liquidity and leverage measures. The CRR is applied directly in Spain, while CRD IV was implemented through Royal Decree-Act 14/2013, Act 10/2014 and Royal Decree 84/2015, in addition to other lower level provisions such as Bank of Spain (BoS) Circular 2/2016. This legislative package has been developed through other lower level regulations and EBA guidelines.

In addition, as the parent company of the financial conglomerate it forms mainly with VidaCaixa, CaixaBank is subject to an additional supervisory framework pursuant to Directive 2002/87 of the European Parliament and of the Council of 16 December 2002. This framework relates to supplementary supervision of credit institutions, insurance companies and investment firms within a financial conglomerate.

CaixaBank closely monitors - and actively participates in - the groups in which the various regulatory frameworks are discussed and approved.

Under the first pillar of the European Banking Union, the Single Supervisory Mechanism (SSM), the ECB takes direct responsibility for supervision of the largest financial institutions, including CaixaBank, as well as indirect responsibility for other entities, which are supervised directly by the corresponding national authorities.

The ECB follows an annual cycle, known as the Supervisory Review and Evaluation Process (SREP), in implementation of Pillar 2 of the Basel Regulatory Framework.

The SREP was designed by the EBA as a supervisory process to evaluate the adequacy of capital, liquidity, corporate governance, and risk management and control. This is achieved through a Europe-wide standardised process and through the EBA's "Guidelines on common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing" (SREP guide), last updated in June 2018. The SREP process may require additional capital or liquidity, or other qualitative measures in response to any risks and weaknesses detected by the supervisor in an entity. The SREP seeks to assess financial institutions' viability on an individual basis (microprudential supervision), also considering comparisons against their peers. Any additional capital requirements under the SREP process (Pillar 2R requirements) may also be supplemented by combined capital buffer requirements (CBR) comprising potential capital conservation, countercyclical capital and systemic risk buffers. Furthermore, the supervisor may also establish a capital guide known as Pillar 2G. Failure to comply with its requirements would not automatically result in actions being taken by the supervisor in relation to the distribution of profits, also known as the MDA. However, it could lead to stricter individual supervisory measures. Pillar 2G is not generally public information.

In addition to the prudential supervision framework, in 2014, Directive 2014/59/EU - otherwise known as the Bank Recovery and Resolution Directive (BRRD) - was approved, establishing a framework for the restructuring and resolution of credit institutions. In 2015, the BRRD was transposed into the Spanish regulatory framework through Act 11/2015 and other lower level regulations. The BRRD, together with Directive 2014/49, on the Deposit Guarantee Scheme, enhances the capacity of the banking sector to absorb the impact of economic and financial crises, and the capacity of financial institutions to wind up their business in an orderly fashion, while maintaining financial stability, protecting depositors and avoiding the need for public bailouts.

The Directive requires Member States to ensure that institutions prepare and regularly update a Recovery Plan setting out the measures that may be taken to restore their financial position following a significant deterioration thereof. In addition to the BRRD and national legislation, the EBA has issued several guidelines on the definition of a recovery plan.

The BRRD also introduced the framework to create a Single Resolution Mechanism (SRM), the second pillar of the European Banking Union, which was subsequently developed through Regulation EU 806/2014. Under the SRM, decisions are taken by the Single Resolution Board and are implemented by the National Resolution Authority (in Spain, the FROB as the executive authority and the BoS as the preventative authority). These authorities also draw up the Resolution Plan for each financial institution, which cooperate by providing the necessary information. The BRRD also introduces a Minimum Requirement for own funds and Eligible Liabilities (MREL). The SRM came into force on 1 January 2016. The Commission's Delegated Regulation (EU) 2016/1450 of 23 May 2016, which supplemented Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, was approved to provide resolution authorities with detailed guidance on establishing MREL requirements for banks. In particular, this Regulation grants resolution authorities discretionary powers to set the appropriate minimum level and composition of MREL for each bank.

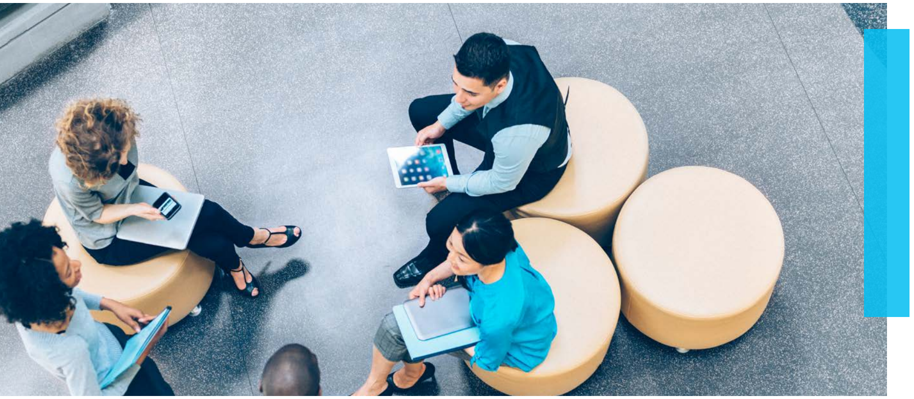
On 23 November 2016, the European Commission presented a package of reforms to a number of banking regulations. The objective of these reforms was to supplement the prudential and resolution framework for the banking sector in force at the time through a series of measures to reduce the risks to entities in the event of shocks, taking into account the size, complexity and business profile of the banks. Measures were also included to support SME funding and boost infrastructure investments. This package of banking regulation reforms was formally approved on 20 May 2019, and published in the Official Journal of the European Union on 7 June. Following its publication, the text entered into force on 27 June 2019. The amendments, known as directives CRD V and BRRD 2 will apply from no later than 28 December 2020 (after their transposition), and CRR 2, in general, 24 months after its entry into force. The EBA has published its roadmap outlining its approach and timelines for delivering the mandates stemming from the regulatory reforms package, particularly in relation to Pillar 2, governance and remuneration, large exposures, resolution, as well as reporting and disclosure.

- With regard to non-performing exposures (NPEs), several different initiatives have been published recently with the aim of implementing the "Action Plan to tackle non-performing loans in Europe," published by the European Council in July 2017, the most relevant being:

  - Amendment of the CRR through Regulation 2019/630 as regards minimum loss coverage for non-performing exposures or prudential backstop, which entered into force in April 2019: this Regulation includes timetables for quantitative requirements for minimum provision of NPEs. It applies to NPEs originated after 26 April 2019. The potential deficit in accounting provisions that may exist compared to the regulatory provisions would cause a deduction in the banks' CET1.

  - European Central Bank guide on non-performing loans for credit institutions, published in March 2017: the addendum to this Guide, published in March 2018, establishes timetables with supervisory expectations for prudential provisioning for this type of exposures. Applicable to exposures originated before 26 April 2019 and in a situation of NPE from 1 April 2018. The timetable is aligned with the prudential backstop. The potential deficit in accounting provisions that may exist compared to the provisions established in the addendum to the Guide would be subject to dialogue between the bank and the supervisor, and could result in a Pillar 2 capital measure.

  - ECB supervisory requirement to address the NPEs prior to 1 April 2018, which would materialize for each bank through the SREP process (Pillar 2 capital measures).



2.2. Scope

CaixaBank, S.A. (referred to herein by its commercial name, CaixaBank, or the Bank), is a Spanish public limited company registered in the Mercantile Register of Valencia, Volume 10370, Sheet 1, Page V-178351, and the Special Administrative Register of the Bank of Spain under number 2100. The Legal Entity Identifier (LEI) of CaixaBank and its tax identification number (NIF) are 7CUNS533WID6K7DGFI87 and A08663619, respectively.

CaixaBank shares are admitted to trading on the **Madrid, Barcelona, Valencia and Bilbao** stock exchanges and the continuous trading market. CaixaBank's company and fiscal domicile is Calle Pintor Sorolla, 2-4, Valencia.

The corporate object of CaixaBank mainly entails:

- 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;

- 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

- 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.

CaixaBank and its subsidiaries compose CaixaBank Group (CaixaBank Group, or the Group).

CaixaBank is the parent company of the financial conglomerate formed by the Group's entities that are considered to be regulated, recognising CaixaBank as a significant supervised entity, whereby CaixaBank comprises, together with the credit institutions of its Group, a significant supervised group of which CaixaBank is the entity at the highest level of prudential consolidation.

As a listed bank, it is subject to oversight by the European Central Bank and the Spanish national securities market regulator (the Comisión Nacional del Mercado de Valores, CNMV). However, the entities of the Group are subject to oversight by supplementary and industry-based bodies.

As a Spanish corporate entity, legally constituted as a public limited company, CaixaBank is governed by the Consolidated Text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July, and implementing regulations. Additionally, as a listed company, it is also governed by the Consolidated Text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and implementing regulations.

2.3. Other general information

As at 31 December 2019, the following credit institutions or credit financial establishments of CaixaBank Group meet the minimum capital requirements that apply to them at the individual level: CaixaBank, Banco BPI and Telefónica Consumer Finance. Additionally, as at the date of reference, CaixaBank and BPI meet the capital requirements at the consolidated and sub-consolidated level, respectively.

The following credit institutions or credit financial establishments of the CaixaBank Group are exempt from capital requirements: Nuevo MicroBank, CaixaBank Payments & Consumer, Corporación Hipotecaria Mutual and Credifimo.

Furthermore, all the other regulated entities of the Group (the Group's asset management companies CaixaBank Asset Management, BPI Suisse, as well as the insurance companies of VidaCaixa Group) meet the capital requirements established in the various sectorial regulations that apply to them.

Considering the applicable regulations, it should be noted that there are no significant current or foreseeable practical or legal obstacles preventing CaixaBank from immediately transferring capital to CaixaBank Group subsidiaries or from paying off its liabilities with third parties. With regard to the capacity of CaixaBank Group subsidiaries to distribute dividends or, in any form, transfer capital to the parent company, those companies that must meet the minimum capital requirements at the individual level (Banco BPI and Telefónica Consumer Finance), in order to meet those requirements, may find their capacity to distribute or transfer capital limited. With regard to the other subsidiaries, including those that are exempt from capital requirements, there are no significant current or foreseeable practical or legal obstacles for the distribution of dividends nor, in any form, the transfer of capital beyond those deriving from the company's regulations or, as the case may be, applicable agreements between partners.

2.4. Description of the consolidated group for regulatory purposes

Pursuant to prevailing accounting regulations, which follow the criteria laid down in International Financial Reporting Standards (particularly IFRS 10), a consolidated group is considered to exist when a dominant entity exercises direct or indirect control over the other entities (subsidiaries).

This relationship basically exists when a dominant entity is exposed to - or has the right to variable returns from - its involvement therein, and also has the ability to influence these returns, as a result of having power over the dependent entity.

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

- 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. However, associates (over which the parent exercises significant influence) and joint ventures (joint management by the parent and other shareholders) are consolidated using the equity method.
- For prudential purposes, subsidiary undertakings with a different activity to that of a credit, investment or financial institution, 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-owned business that are financial institutions are consolidated using the proportionate consolidation method, regardless of the method applied in the annual financial statements.

Appendix IV presents details of holdings subject to regulatory limits for deduction purposes. **Appendix V** discloses the companies with differing prudential and accounting consolidation treatment.

2.5. Accounting reconciliation between the financial statements and regulatory statements

As set out in Appendix I of Commission Implementing Regulation (EU) 1423/2013, the following table presents the confidential or prudential balance sheet used in calculating eligible own funds and minimum capital requirements, compared to the accounting information published in the financial statements.

Table 2.1. Reconciliation between the public and prudential balance sheets

Amounts in millions of euros

Assets	Public	Group entities accounted for the equity method[1]	Intragroup operative and consolidat. adj.[2]	Regulatory Scope	Ref[3]
Cash and cash balances at central banks and other demand deposits	15,110	(9)	-	15,100	
Financial assets held for trading	7,370	0	7,056	14,427	
Financial assets not designated for trading compulsory measured at fair value through profit or loss	427	-	10	437	
Financial Asset designated at fair value through profit or loss	1	-	-	1	
Financial assets at fair value with changes in other incomprehensive income	18,371	0	-	18,372	
Financial assets at amortised cost	244,702	(278)	902	245,326	
Derivatives - Hedge accounting	2,133	-	-	2,133	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	106	-	-	106	
Investments in joint ventures and associates	3,941	2,564	1	6,506	
Associates	3,776	(1,011)	-	2,764	
of which: Net badwill	355	(300)	-	56	8
Joint ventures	166	-	1	167	
of which: Net badwill[4]	-	-	53	53	8
Group Entities	-	3,575	-	3,575	
of which: Badwill	-	973	-	973	8
Insurance and reinsurance assets	72,683	(72,683)	-	-	
Tangible assets	7,282	(229)	-	7,052	
Intangible assets	3,839	(688)	-	3,150	8
Tax assets	11,113	(244)	19	10,888	
Other assets	2,981	(1,000)	1,622	3,602	
Non-current assets and disposal groups classified as held for sale	1,354	(99)	-	1,255	
Total Assets	**391,414**	**(72,668)**	**9,611**	**328,357**	

Liabilities	Public	Group entities accounted for the equity method[1]	Intragroup operative and consolidat. adj.[2]	Regulatory Scope	Ref[3]
Financial liabilities held for trading	2,338	-	7,045	9,382	
Financial liabilities designated at fair value through profit or loss	1	-	-	1	
Financial liabilities measured at amortised cost	283,975	(730)	2,458	285,704	
Derivatives - hedge accounting	515	-	-	515	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,474	-	-	1,474	
Insurance and reinsurance liabilities	70,807	(70,807)	-	-	
Provisions	3,624	(2)	3	3,625	
Tax liabilities	1,296	(509)	85	872	
Other liabilities	2,163	(542)	20	1,641	
Liabilities included in disposal groups classified as held for sale	71	(70)	-	1	
Total Assets	**366,263**	**(72,660)**	**9,611**	**303,214**	

Equity	Public	Group entities accounted for the equity method[1]	Intragroup operative and consolidat. adj.[2]	Regulatory Scope	Ref[3]
Shareholders' equity	26,247	-	-	26,247	
Accumulated other comprehensive income	(1,125)	-	-	(1,125)	3
Minority interests (non-controlling interests)	29	(8)	-	21	
Total Equity	**25,151**	**(8)**	**-**	**25,143**	
Total Equity and Liabilities	**391,414**	**(72,668)**	**9,611**	**328,357**	

[1] Entities of the Group which do not fully consolidate on the grounds of their activity, mainly VidaCaixa. Their contribution to the public balance is eliminated and their book value is accounted as an equity stake.

[2] Mainly transactions between VidaCaixa an other investments being part of the non-fully consolidated economic group, which are not eliminated in the prudential balance sheet.

[3] As referred in Annex I. Information of transitional own funds.

[4] For the purpose of shareholders' equity deduction, per prudential decision, 53 millions which are not segregated from the balance sheet are included.

Table 2.2. EU LI1 - Differences betweeen accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

Amounts in millions of euros

			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to the capital requirements or subject to deduction from capital[3]
Cash and cash balances at central banks and other demand deposits	15,110	15,100	15,100	-	-	-	-
Financial assets held for trading[1]	7,370	14,427	-	13,252	-	14,427	-
Financial assets not designated for trading compulsory measured at fair value through profit or loss	427	437	437	-	-	-	-
Financial Asset designated at fair value through profit or loss	1	1	1	-	-	-	-
Financial assets at fair value with changes in other incomprehensive income[2]	18,371	18,372	18,371	-	-	415	-
Financial assets at amortised cost	244,702	245,326	240,565	4,378	64	-	319
Derivatives - Hedge accounting	2,133	2,133	-	2,133	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	106	106	-	-	-	-	106
Investments in joint ventures and associates	3,941	6,506	5,471	-	-	157	1,035
Insurance and reinsurance assets	72,683	-	-	-	-	-	-
Tangible assets	7,282	7,052	7,052	-	-	-	-
Intangible assets	3,839	3,150	-	-	-	-	3,150
Tax assets	11,113	10,888	7,231	-	-	-	3,657
Other assets	2,981	3,602	2,555	-	-	-	1,047
Non-current assets and disposal groups classified as held for sale	1,354	1,255	1,255	-	-	-	-
Total Assets	**391,414**	**328,357**	**298,040**	**19,764**	**64**	**14,999**	**9,315**
Financial liabilities held for trading[1]	2,338	9,382	-	8,911	-	9,382	471
Financial liabilities designated at fair value through profit or loss	1	1	-	-	-	-	1
Financial liabilities measured at amortised cost	283,975	285,704	-	3,705	-	-	281,999
Derivatives - hedge accounting	515	515	-	515	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,474	1,474	-	-	-	-	1,474
Insurance and reinsurance liabilities	70,807	-	-	-	-	-	-
Provisions	3,624	3,625	255	-	-	-	3,370
Tax liabilities	1,296	872	269	-	-	-	603
Other liabilities	2,163	1,641	-	-	-	-	1,640
Liabilities included in disposal groups classified as held for sale	71	1	-	-	-	-	1
Total Liabilities	**366,263**	**303,214**	**524**	**13,131**	**-**	**9,382**	**289,558**
Total Equity	**25,151**	**25,143**	**-**	**-**	**-**	**-**	**-**
Total Equity + Total Liabilities	**391,414**	**328,357**	**524**	**13,131**	**-**	**9,382**	**289,558**

[1] In the held-for-trading financial assets, exposure of derivates is duplicated, for counterparty credit risk as well as market risk.

[2] The exposure of shareholder´s equity instruments in foreign currency is duplicated, for credit risk as well as market risk.

[3] Of which €6,063M subject to deductions.

Table 2.3 (LI2) shows how to get to the exposure amounts used for regulatory purposes starting from the carrying values in the consolidated financial statements following the requirements in Part One, Title II, Section 2 and Section 3 of the CRR, which are defined as follows:

- **Total net amount under regulatory scope of consolidation:** The amount after on-balance-sheet netting between assets and liabilities under the regulatory scope of consolidation, regardless of the eligibility of those assets and liabilities of the specific netting rules in the application of Part Three, Title II, Chapters 4 and 5, as well as of Title IV in the CRR.

- **Exposure amounts considered for regulatory purposes:** The expression designates the aggregate amount considered as a starting point of the RWA (risk weighted assets) calculation before the application of CRM methods other than netting in Part Three, Title II, Chapter 4 of the CRR but after the application of netting requirements in Part Three, Title II, Chapters 4 and 5 and Title IV of the same Regulation for each of the risk categories. Under the credit risk framework, this should correspond either to the exposure amount applied in the credit risk standardised approach (see Article 111 in Part Three, Title II, Chapter 2 of the CRR) or to the EADs in the credit risk – IRB approach.

The breakdown of the columns according to the risk category of each exposure of the regulatory balance sheet is explained below:

- The credit risk framework corresponds to the exposures in Part Three, Title II of the CRR, for which the disclosure requirements in Part Eight of the same Regulation are specified in section 4.9 and section 4.10 of the EBA Guidelines.

- The counterparty credit risk framework corresponds to the exposures in Part Three, Title II, Chapter 6 of the CRR, for which the disclosure requirements in Part Eight of the same Regulation are specified in section 4.11 of the EBA Guidelines.

- The securitisation framework corresponds to exposures from the non-trading book given in Part Three, Title II, and Chapter 5 of the CRR.

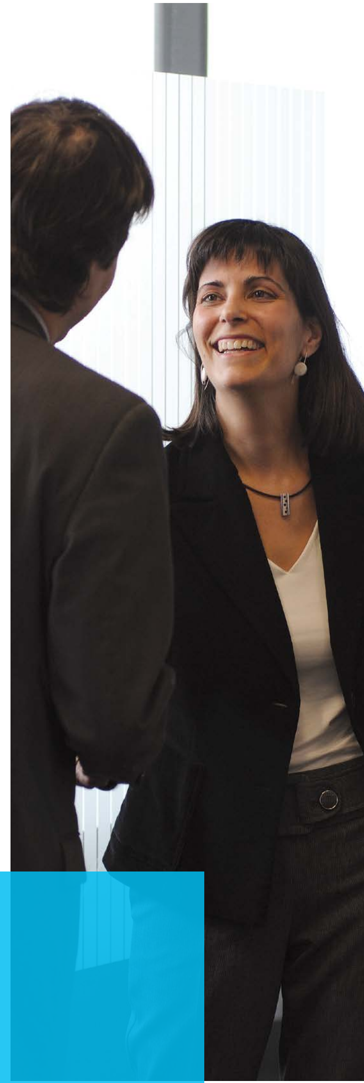
- The market risk framework corresponds to exposures in Part Three, Title IV of the CRR, for which the disclosure requirements in Part Eight of the same Regulation are specified in section 4.13 of the EBA Guidelines.

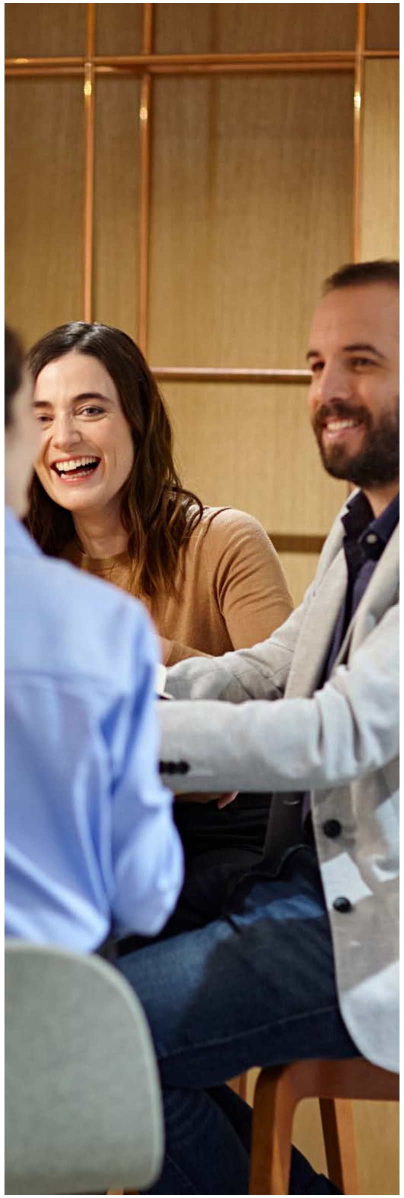
The main sources of reconciliation between the carrying value and exposure, which are reflected in the different rows of the LI2, are:

- **Off-balance-sheet amounts:** These include original off-balance-sheet exposures after the application of the corresponding conversion factors of the columns. The conversion factor for off-balance-sheet items to be risk-weighted in the application of Part Three, Title II of the CRR is defined in Articles 111, 166, 167 and 182 (as applicable for credit risk), Article 246 (as applicable for securitisation risk), Articles 274 and 276 and Article 283 of the same Regulation (as applicable for counterparty credit risk).

- **Differences in valuation:** They include impact of the carrying amount of value adjustments, in accordance with Part Two, Title I, Chapter 2, Article 34 and Part Three, Title I, Chapter 3, Article 105, of the CRR on the trading book and non-trading book exposures measured at fair value in accordance with the applicable accounting framework.

- **Differences due to different netting rules, other than those already included in row 2 of table LI2:** These refer to the net on-balance-sheet and off-balance-sheet exposure amounts after the application of the specific netting rules in Part Three, Title II, Chapters 4 and 5 as well as of Title IV in the CRR. The impact of the application of the netting rules can be negative (in case more exposures have to be netted than the on-balance sheet netting in row 2), or positive (in the case of the application of netting rules in the CRR leading to a lower amount being netted out than on-balance-sheet netting in row 2).





- **Differences due to the consideration of provisions:** Discloses the re-integration in the exposure value of specific and general credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) that have been deducted in accordance with the applicable accounting framework from the carrying amount of exposures under Part Three, Part II, Chapter 3 of the CRR for risk-weighting purposes. Regarding exposures risk-weighted in accordance with Part Three, Part II, Chapter 2 of the CRR, when the carrying amount in the financial statements under the regulatory scope of consolidation has been reduced by elements qualifying as general credit risk adjustments under the aforementioned delegated regulation, these elements have to be re-integrated in the exposure value.

- **Differences due to prudential filters:** These include the impact on the carrying amount under the regulatory scope of consolidation of the prudential filters listed in Articles 32, 33 and 35 in Part Two, Title I, Chapter 2 of the CRR and applied in accordance with the requirements in Part Ten, Title I, Chapter 1, Articles 467 and 468 in the CRR and CEBS 04/91 Guidelines on prudential filters for regulatory capital.

Table 2.3. EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Amounts in millions of euros

		Items subject to:			
	Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**332,866**	**298,040**	**19,764**	**64**	**14,999**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	23,038	524	13,131	-	9,382
Total net amount under the regulatory scope of consolidation	**309,828**	**297,515**	**6,632**	**64**	**5,616**
Off-balance-sheet amounts	**88,672**	**88,672**	**-**	**-**	**-**
Add-on	**5,443**	**-**	**5,443**	**-**	**-**
Securitisations with risk transfer	(1,344)	(3,540)	-	2,196	-
Differences due to different netting rules (netting, long/short positions, diversification)	(11,536)	-	(5,920)	-	(5,616)
Differences due to consideration of provisions	3,657	3,657	-	-	-
Differences due to CRMs (Guarantees)	(4,186)	(2,980)	(1,206)	-	-
Differences due to CCFs	(71,597)	(71,597)	-	-	-
Other	(111)	(111)	-	-	-
Exposure amounts considered for regulatory purposes	**318,825**	**311,615**	**4,950**	**2,260**	**-**

3. Risk governance, organisation and management

3. Risk governance, organisation and management

> The **Board of Directors** states that the risk management framework implemented is appropriate in relation to the Group's profile and strategy.

The Board of Directors, the Senior Management and the Group as a whole are firmly committed to risk management.

CaixaBank Group's risk management framework consists of the following elements:

- **Strategic risk management processes** to identify, measure, monitor, control and report risks: Risk Assessment, Risk Taxonomy, Risk Appetite Framework (RAF) and Risk Planning.

- **Risk culture** is a differentiating factor in the Group's decision-making and business management. This culture, together with the **Governance and organisation,** risk infrastructures and the skills of its workforce, has allowed the Group to maintain a moderate risk profile.

- The **internal control framework** provides reasonable assurance that the Group will achieve its objectives and it is based on the three lines of defence model.

This Group risk management framework is subject to ongoing review, and no significant amendments were made during 2019. However, the strategic risk event identification, resulting from the Risk Assessment process, is noteworthy:

- Uncertainties regarding the geopolitical and macroeconomic environment.
- Continued environment of low interest rates.
- New competitors with the possibility to disrupt.
- Cybersecurity.
- Risks related to climate change.
- Pressure from the legal, regulatory or supervisory environment.

Key elements of the risk management framework

Strategic risk management system

Identifying and assessing risks: Risk Assessment	Risk definition and classification: Risk Taxonomy	Monitoring of Risks: Risk planning Risk Appetite Framework (RAF)	Risk planning
A six-monthly risk self assessment, covering all the risks in the Risk Taxonomy. Includes a process for identifying strategic events affecting one or more risks that are advisable to specifically monitor, due to their mid-term impact potential.	An annually-reviewed list and description of the material risks identified in the Risk Assessment. Facilitates monitoring and reporting of risks, both internally and externally.	A comprehensive and forward-looking tool used by the Board of Directors to determine the types and thresholds it is willing to assume in achieving the Group's strategic objectives as regards all risks included in the Catalogue.	Assessment, from a risk viewpoint, of the current, future and hypothetical balance sheet in the event of stress.

Governance and organization	Risk culture	Internal control framework
Undertaken through policies, standards and internal procedures that ensure appropriate risk control is exercised by the Governing Bodies and management committees, and the specialisation of employees.	The Risk Culture is based, among other things, on general risk management principles, employee training and evaluation of variable remuneration for employee performance.	A structure based on the Three Lines of Defence model that provides a reasonable degree of assurance that the Group will achieve its objectives.

3.1. Governance and organisation

3.1.1. Corporate Governance

Robust Corporate Governance enables companies to **maintain an efficient and methodical decision making process.** It provides clarity in the allocation of responsibility while avoiding conflicts of interest and promoting transparency.

As part of our commitment to our mission and vision, we implement good corporate governance practice. This enables us to be a well-governed and coordinated company that is recognised for its good practices.

The information included in this Consolidated Management Report concerning corporate governance is complemented by the following publicly-available documents that are made available on the CaixaBank website (www.caixabank.com).

- The 2019 Annual Corporate Governance Report (ACGR), which forms part of this Consolidated Management Report and has been drawn up by the Board of Directors.
- The Annual Report on the Remuneration of Directors which must be prepared and submitted to a non-binding vote at the General Shareholders' Meeting and does not form part of this Consolidated Management Report.
- The selection, diversity and suitability assessment policy for directors, senior management members and other key function holders of CaixaBank and its Group; and
- CaixaBank's Registration Document (which includes all the positions held by the directors in other boards of directors reported to the Register of Top Executives of the Bank of Spain, within the last 5 years, with the exception of asset-holding companies, issuer subsidiaries where the directors also held a director position or in subsidiaries of the CaixaBank Group).

The **CaixaBank Corporate Governance Policy** is based on the Company's corporate values as well as on best governance practices, particularly the recommendations of the Code of Good Governance for listed companies approved by the CNMV in 2015. This policy establishes the action principles that will regulate the Company's corporate governance.

Corporate Governance principles and practices

1. Competencies and efficient self-governance of the CaixaBank Board of Directors
2. Diversity and balance in the composition of the Board of Directors
3. Professionalism and duties of members of the Board of Directors
4. Balanced remuneration aimed at attracting and retaining the appropriate profile of members of the Board of Directors
5. Commitment to ethical and sustainable action of the Company
6. Protection and promotion of shareholders' rights
7. Compliance with current regulations as the guiding principle for all people who form part of CaixaBank
8. Internal control framework
9. Acceptance and update of good governance practices
10. Transparency

Milestones in 2019

Changes in the composition of the Board of Directors and its committees

At the 2019 General Ordinary Meeting of Shareholders, it was agreed to reduce the number of members of the Board of Directors from 18 to 16, converging with the recommendations of the Good Governance Code and within the limits established in the By-laws. This action came alongside a renewal of the members of the Board of Directors. The main changes are:

Departure following end of mandate:

Alain Minc	Independent
Juan Rosell	Independent
Antonio Sáinz de Vicuña	Independent
Javier Ibarz	Proprietary

Appointments:

Cristina Garmendia	Independent
Marcelino Armenter	Proprietary

In addition to changes in the composition of members of the Board of Directors, the reorganisation of the composition of the Board committees has been agreed:

Appointment	Board Position and Committee	Substitutes
Verónica Fisas	Remuneration Committee Member	Juan Rosell
Xavier Vives	Appointments Committee Member	Alain Minc
Eduardo Javier Sanchiz	Chair of the Risks Committee	Antonio Sáinz de Vicuña
Koro Usarraga	Chair of the Audit and Control Committee	Alain Minc

With the aim of assisting the Board in all matters regarding technological innovation and digital transformation, as well as in the monitoring and analysis of the trends and innovations which may affect CaixaBank's strategy and business model in this field, on 23 May 2019, **the constitution of the Innovation, Technology and Digital Transformation Committee was approved.**

Corporate Governance Structure

At CaixaBank, the management and control functions in the Bank are distributed among the General Shareholders' Meeting, the Board of Directors, and its committees.

GENERAL SHAREHOLDERS' MEETING

EXTERNAL AUDIT

BOARD OF DIRECTORS

- Executive Committee
- Appointments Committee
- Risks Committee
- Remuneration Committee
- Innovation, technology and digital transformation Committee
- Audit and Control Committee

Designate to/

Report to/

MANAGEMENT BODIES

CEO and Management Committee[1]

Gonzalo Gortázar Rotaeche	CEO	30/06/2011
Juan Antonio Alcaraz García	Chief Business Officer	30/06/2011
Xavier Coll Escursell	Chief Human Resources and Organization Officer	30/06/2011
Jordi Mondéjar López	Chief Risks Officer	10/07/2014
Iñaki Badiola Gómez	Head of CIB and International Banking	22/11/2018
Javier Blas Agüeros	Head of Resources	01/02/2020
Matthias Bulach	Head of Financial Accounting, Control and Capital	28/11/2016
María Luisa Martínez Gistau	Head of Communication, Institutional Relations, Brand and CSR	27/05/2016
Javier Pano Riera	Chief Financial Officer	24/10/2013
Marisa Retamosa Fernández	Head of Internal Audit	22/11/2018
Javier Valle T-Figueras	Head of Insurance	22/11/2018
Óscar Calderón de Oya	General Secretary and Secretary to the Board of Directors	29/05/2014

Within the internal control framework, Marisa Retamosa Fernández was appointed Head of Internal Audit and member of the Management Committee in 2019[5].

[1] *See further details in:* *https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/comitededireccion_en.html*

Board of Directors

The Board of Directors is the Bank's most senior representative, management and administrative body with powers to adopt agreements on all matters except those that fall within the remit of the GSM. It approves and oversees the strategic and management directives established in the interest of all Group companies and it ensures regulatory compliance and the implementation of good practices in the performance of its activity, as well as adherence to the additional principles of social responsibility that it has voluntarily assumed.

At CaixaBank, the Chairman and CEO have different yet complementary roles. There is a clear division of responsibilities between each position. The Chairman is the senior representative of the Bank. The Board of Directors has appointed a CEO, the sole executive director of the Bank who is responsible for the day-to-day management under the supervision of the Board. There is also a delegated committee, the Executive Committee, which has executive functions (excluding those that cannot be delegated). It reports to the Board of Directors and meets on a more regular basis.

There is also a Lead Director appointed from among the independent directors, who is responsible for handling, coordinating and expressing the concerns of the other Independent Directors, as well as directing the periodic assessment of the Chairman, chairing the Board of Directors in the absence of the Chairman and Deputy Chairman, in addition to other assigned duties.

The directors meet the requirements of honourability, experience and good governance in accordance with the applicable law at all times, considering, furthermore, recommendations and proposals for the composition of administrative bodies and profile of directors issued by authorities and national or community experts.

The directors meet the requirements of honourability, experience and good governance in accordance with the applicable law at all times, considering, furthermore, recommendations and proposals for the composition of administrative bodies and profile of directors issued by authorities and national or community experts.

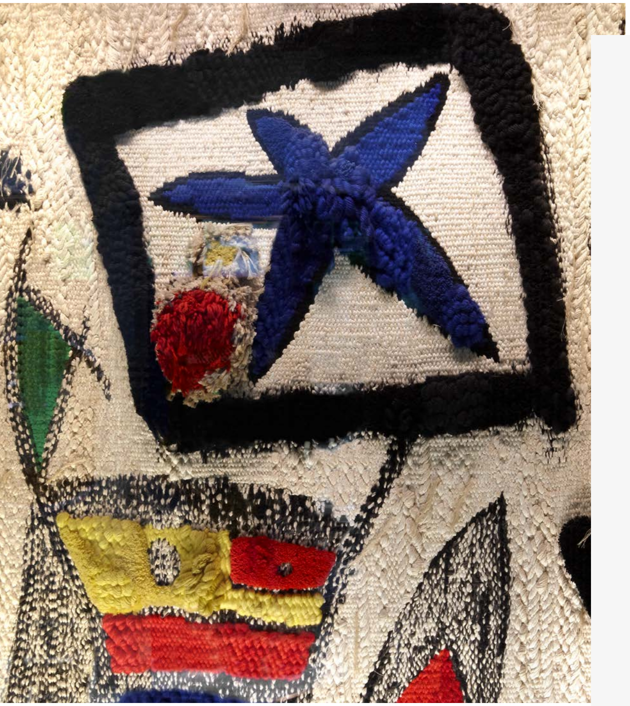
43.8 % Independent Directors

37.5 % Of women on the Board

1 Executive Director

1 Lead Director

61 Average age of Directors



Profile of the members of the Board of Directors

1 Executives

7 Independent

8 Proprietary

Duration in the position

69 % 0-4 years

19 4-8 years

12 % +8 years

Duration in the position of the independent directors

57 % 0-4 years

14 % 4-8 years

29 % +8 years

Committees of the Board of Directors

As part of its self-governance activities, the Board of Directors of CaixaBank has a number of specialised committees, with supervisory and advisory powers, as well as an Executive Committee:

EXECUTIVE COMMITTEE

6
No. of members

3
Independent Directors

95.2 %
Average attendance at sessions

19
Number of meetings in 2019

Composition

The composition of the Executive Committee, which is made up of the Chairman and CEO, will reflect the composition of the Board.

Functions

The Executive Committee will be delegated all the responsibilities and powers available to it both legally and under the Bank's By-laws, and it will report back to the Board on the matters dealt with and the decisions made.

APPOINTMENTS COMMITTEE

3
No. of members

2
Independent Directors

100 %
Average attendance at sessions

8
Number of meetings in 2019

Composition

The Appointments Committee comprises a number of Non-executive directors determined by the Board of Directors, with a minimum of 3 and a maximum of 5 members. A majority of its directors must be independent.

Members of the Appointments Committee are appointed by the Board of Directors at the proposal of the Audit and Control Committee, and the Chair of the Committee will be appointed from among the independent Directors that form part thereof.

Functions

Its duties include:

- Evaluate and propose to the Board of Directors the assessment of skills, knowledge and experience required of Board members and key personnel at the Company.
- Submit to the Board of Directors suggested candidates for the positions of Independent Directors to be appointed by co-option or for submission to the decision of the General Shareholders' Meeting, as well as the proposals for the reappointment or removal of such Directors by the General Shareholders' Meeting.
- Report on the appointment and, as the case may be, dismissal of the Lead Director, the Secretary and the Deputy Secretaries for approval by the Board of Directors.
- Report on proposals for the appointment or removal of senior executives, with the capacity to carry out such proposals directly when the Committee deems this necessary in the case of senior executives as a result of to their control or support duties concerning the Board or its committees. Propose, if deemed appropriate, the basic terms, other than the remuneration conditions, of the contracts of senior executives, and report those terms once established.
- Examine and organise, with support from the Lead Director and with the collaboration of the Chairman of the Board of Directors, the succession of the latter and of the Company's chief executive and, as the case may be, send proposals to the Board of Directors to ensure the succession process is suitably planned and takes place in orderly fashion.
- Report to the Board on gender diversity issues, ensuring that the procedures for selecting its members favour a diversity of experience and knowledge, and facilitate the selection of female directors, whilst establishing a representation target for the less represented sex on the Board of Directors. It will also prepare guidelines on how this should be achieved. In any case, it shall ensure compliance with the diversity policy applied in relation to the Board of Directors, which will be specified in the Annual Corporate Governance Report.
- Periodically evaluate, at least once a year, the structure, size, composition and actions of the Board of Directors and of its committees, its Chair, CEO and Secretary, making recommendations regarding possible changes to these. Here, the Committee shall act under the direction of the Lead Director when assessing the performance of the Chair. Evaluate the composition of the Management Committee, as well as its replacement lists, to ensure adequate transition planning.
- Periodically review the Board of Directors' selection and appointment policy in relation to senior executives, and make recommendations in this regard.
- Supervise the Company's activities in relation to corporate social responsibility and submit to the Board any proposals it deems appropriate in this regard.

RISKS COMMITTEE

3
No. of members

2
Independent Directors

100 %
Average attendance at sessions

15
Number of meetings in 2019

Composition

The Risk Committee is exclusively formed of Non-Executive Directors, with the relevant knowledge, skills and experience to fully understand and manage the Company's risk strategy and appetite, in the number determined by the Board of Directors, between a minimum of 3 and a maximum of 6 members, the majority of which being Independent Directors.

Functions

Its duties include:

- Advise the Board of Directors on the overall susceptibility to risk (current and future) of the bank and its strategy in this regard, reporting on the Risk Appetite Framework, helping to monitor the implementation of this strategy, ensuring that the Group's actions are consistent with the level of risk tolerance previously decided and monitoring the suitability of the risks assumed and the profile established.
- Propose the Group's risk policy to the Board.
- Determine with the Board of Directors, the nature, quantity, format and frequency of the information concerning risks that the Board of Directors should receive and establish what the Committee should receive.
- Regularly review exposures with the main customers and business sectors, and by geographic region and type of risk.
- Examine the Group's risk reporting and control processes, as well as its information systems and indicators.
- Evaluate the regulatory compliance risk in its scope of its remit and decision-making authority. This is understood to be the risk management of legal or regulatory sanctions, financial loss, or material or reputational loss that the Bank may suffer as a result of non-compliance with laws, rules, regulation standards and codes of conduct. The Committee must detect any risk of non-compliance and carry out monitoring and examine possible deficiencies in the principles of professional conduct.
- Report on new products and services or significant changes to existing ones.

REMUNERATION COMMITTEE

3
No. of members

2
Independent Directors

100 %
Average attendance at sessions

9
Number of meetings in 2019

Composition

The Remuneration Committee is formed by Non-executive Directors, in the number determined by the Board of Directors, with a minimum of 3 and a maximum of 5 members, the majority of which being Independent Directors. The Chair of the Committee will be appointed from among the Independent Directors sitting on the Committee.

Functions

Its duties include:

- Draft the resolutions related to remuneration and, particularly, report and propose to the Board of Directors the remuneration policy, the system and amount of annual remuneration payable to Directors and Senior Managers, as well as the individual remuneration payable to Executive Directors and Senior Managers, and the other conditions of their contracts, particularly financial conditions, and without prejudice to the competencies of the Appointments Committee in relation to any conditions it may have proposed not related to remuneration.
- Ensure compliance with the remuneration policy for Directors and Senior Managers, and reporting on the basic conditions established in the contracts entered into and compliance with these contracts.
- Report on and prepare the Company's General remuneration policy, particularly the policies relating to the categories of staff whose activities have a significant impact on the Company's risk profile and those that are intended to prevent or manage conflicts of interest with the Company's customers.
- Analyse, formulate and periodically review the remuneration programmes, assessing their adequacy and performance and ensuring compliance.

The Appointments, Remuneration and Audit and Control committees prepare an annual report on their operations with regard to their respective duties. Furthermore, when considered appropriate, the committees will include improvement proposals in this report. These reports are made public on the website: www.caixabank.com.

AUDIT AND CONTROL COMMITTEE

3
No. of members

2
Independent Directors

100 %
Average attendance at sessions

18
Number of meetings in 2019

Composition

The Audit and Control Committee will be exclusively formed of Non-Executive Directors, in the number determined by the Board of Directors, between a minimum of 3 and a maximum of 7. Most of the members of the Audit and Control Committee shall be independent and 1 of them shall be appointed on the basis of their knowledge and experience of accounting or auditing, or both.

Furthermore, the Board of Directors will ensure that members of the Audit and Control Committee, particularly its Chair, have sufficient knowledge and experience in accounting, auditing or risk management, and in any other areas required for the Audit and Control Committee to fulfil all its duties. Overall, and notwithstanding the principle to foster diversity, the members of the Audit and Control Committee, who will be appointed in consideration of their capacity for dedication required to fulfil the duties assigned to them, shall have the required technical knowledge regarding the Bank's activities.

Functions

Its duties include:

- Report to the General Shareholders' Meeting on any matters put forward that are within the Committee's remit, particularly on the result of the audit, explaining how this has contributed to the integrity of the financial information and the Committee's role in this process.
- Oversee the process of preparing and presenting mandatory financial information regarding the Company and, where relevant, the Group, reviewing the Company accounts, compliance with regulatory requirements in this regard, the adequate definition of the consolidation perimeter, and the proper implementation of generally accepted accounting criteria.
- Ensure that the Board of Directors presents the annual Financial Statements to the General Shareholders' Meeting, without limitations or qualifications in the audit report. In the exceptional case of there being qualifications in the report, ensure that both the Chair of the Committee and the auditors clearly explain the content and scope of these limitations or qualifications.
- Report to the Board of Directors, in advance, on the financial information and related non-financial information that the Bank must periodically disclose to the markets and its supervisory bodies.
- Oversee the effectiveness of internal control systems, and discuss with the auditor any significant weaknesses identified in the internal control system during the audit, all without compromising its independence. For such purposes, and if appropriate, it may submit recommendations or proposals to the Board of Directors and the corresponding deadline for their follow-up.
- Supervise the efficiency of the internal audit, establish and oversee a mechanism which allows the employees of the Bank or of the Group to report, confidentially and, if appropriate, anonymously, irregularities of potential significance, especially financial and accounting irregularities, which they may observe within the Company. The Committee will also receive periodic information how the system is operating and it may propose any actions it deems suitable to improve and reduce the risk of irregularities in the future.

INNOVATION, TECHNOLOGY AND DIGITAL TRANSFORMATION COMMITTEE

5
No. of members

2
Independent Directors

100 %
Average attendance at sessions

1
Number of meetings in 2019

Composition

The Innovation, Technology and Digital Transformation Committee will be formed of a minimum of 3 and a maximum of 5 members. In all cases, the Chairman of the Board of Directors and the CEO shall sit on the Committee. The other members will be appointed by the Board of Directors, on the proposal of the Appointments Committee, taking into account in particular knowledge and experience of candidates on the subjects that fall within the Committee's remit, namely technology and innovation, information systems and cybersecurity.

Functions

Its duties include:

- Assist the Board of Directors in identifying, monitoring and analysing new competitors, new business models and the advances and main trends and initiatives relating to technological innovation, while studying the factors that make certain innovations more likely to succeed and increase their transformation capacity.
- Advise the Board of Directors on the implementation of the strategic plan in aspects relating to digital transformation and technological innovation (the digital strategy) and, in particular, reporting on plans and projects designed by CaixaBank in this field, as well as any new business models, products, customer relationships, etc, that may be developed.
- Foster a climate of debate and reflection to allow the Board of Directors to spot new business opportunities emerging from technological developments, as well as possible threats.
- Support the Board of Directors in analysing the impact of technological innovations on market structure, the provision of financial services and customer habits. Among other aspects, the committee shall analyse the potential disruption of new technologies, the possible regulatory implications of their development, the impact in terms of cybersecurity and matters relating to the protection of privacy and data usage.
- Stimulate discussion and debate on the ethical and social implications deriving from the use of new technologies in the banking and insurance businesses.
- Support the Risk Committee, when required, in monitoring technological risks and matters relating to cybersecurity.

3.1.2. Relevant committees in risk management and control

Below is the organisational diagram in relation to the governance of the Group's risk management:

Organisational diagram

General Shareholders' Meeting

Directors

Board of Directors (BoD)

The Board of Directors is the highest decision making body, except for matters reserved for the annual General Meeting. The Board of Directors sets and monitors the business model and strategy, monitors the result of the Risk Assessment process, establishes the Corporate Risk Taxonomy and the Risk Appetite Framework, and is in charge of internal governance policies and risk management and control, supervising the organisation of the Group to implement and monitor these.

Executive Committee

Board steering committee meeting with greater frequency than the Board itself. All the competencies of the Board that can be delegated are delegated thereto.

Risk Committee

Advises the BoD on the strategy and overall risk appetite, informs on the RAF and proposes to the Board risk policies.

Audit and Control Committee (ACC)

Monitor the internal control, the internal audit and risk management systems. Monitor the process of preparing and presenting financial information.

Appointments Committee

Informs the BoD of the appointment, assessment of competences, knowledge and experience of the members of the BoD and of key management personnel. It monitors the actions of the Group with regard to CSR.

Remuneration Committee

Establishes the general principles and governance framework of the BoD remuneration policy and for senior executives, and reports on the general remuneration policy.

Innovation, Technology and Digital Transformation Committee

Assists the BoD on all matters related to technological innovation and digital transformation, and in monitoring and analysing trends and innovations when they may affect the strategy and business model.

Senior Management*

Management Committee

Within the Management Committee, the Chief Risk is ultimately responsible for the Group's risks, with full access to the Governing Bodies.

- Planning Committee
- ALCO Committee
- Regulation Committee
- Business Committee
- Group Internal Control Body
- Recovery and Resolution Plan Committee
- Information Governance and Data Quality Committee
- Efficiency Committee
- Transparency Committee
- Corporate Responsibility and Reputation Committee
- Environmental Risk Committee

Permanent Lending Committee

Has powers to approve asset operations, in compliance with the powers granted by the BoD.

Global Risk Committee

Under the presidency of the Corporate Risk Management Function (CRMF), the Global Risk Committee comprehensively manages, controls and monitors the risks included in the Group's Corporate Risks Catalogue, together with their implications for capital adequacy management and capital consumption.

- Risk Policies Committee
- Global Default and Recovery Committee
- Operational Risk Committee
- Models Committee
- Impairment Committee
- Corporate Criminal Management Committee

** Acting within the framework of the assigned duties it comprises several committees for risk governance, management and control.*
N.B. Not all the committees are shown.

The Chief Risk Officer (CRO) is a member of the Management Committee, and is ultimately responsible for coordinating the management, monitoring and control of the Group's risks. The CRO operates independently of the business areas and has full access to the Group's Governing Bodies.

One of the most important missions of the General Risks Division, in collaboration with other areas of the Group, is the implementation of instruments across the entire branch network to ensure integral risk management with the ultimate aim of achieving a balance between the risks assumed and the expected returns.

The Executive Directorate of Corporate Risk Management Function & Planning, part of the General Risks Division, is responsible for developing and implementing the risk management and control framework in the second line of defence[2].

A brief description is provided below for level 1 committees, followed by the main committees and commissions that play a key role in the Group's risk area.

[2] See section 3.4. which describes the Group's internal control framework.

1. Committees connected with the risk function:

Management Committee

It makes decisions related to the Strategic Plan, Annual Operating Plan, and other areas that affect organisational life at the Group. It also approves structural changes, appointments, expense lines and business strategies.

Permanent Credit Committee (PCC)

A committee which, by express delegation of the Board of Directors, is responsible for officially approving loan, credit and guarantee operations, as well as investment operations in general that are specific to the Bank's corporate objective, and its approval level is defined in the Bank's internal regulations. Its current functions, as set out in a notarised contract, are: "To officially approve loan, credit and guarantee operations, as well as investments operations in general that are specific to the Bank's corporate objectives", based on delegated powers of the Board.

Global Risk Committee (GRC)

Responsible for the overall management, control and monitoring of risks affecting the Group's Corporate Risk Taxonomy, together with their implications for solvency management and capital consumption.

The Committee therefore analyses the Group's global risk position and establishes policies to optimise their management, monitoring and control within the framework of its strategic objectives.

The GRC has the specific goal of adapting the Group's risk strategy to the RAF set out by the Board of Directors, coordinating measures to mitigate any breaches and reactions to early warnings of the RAF, as well as keeping CaixaBank's Board of Directors informed (through its Risk Committee) of the main actions being carried out by the Group and the status of its risks.

The GRC is not responsible for the approval or rejection of new operations, renewals, renegotiations, refinancing or restructuring, reserved for the Permanent Credit Committee, by express delegation of the Board of Directors.

2. Committees reporting to the Management Committee:

Planning Committee

This committee is responsible for coordinating, monitoring and integrating the different planning processes (challenges of the sales network, budget, ICAAP, Funding Plan, coordination with subsidiaries, etc.). Its functions include: conveying the planning culture to all areas involved; establishing a common language for planning; approving and seeking consensus in both the intermediate and final stages of the process; raising proposals to the Management Committee; monitoring compliance with the plan during the year; and ensuring predefined milestones are met.

ALCO Committee

This committee is responsible for the management, monitoring and control of structural liquidity, interest rate and exchange rate risks relating to CaixaBank's balance sheet.

It is responsible for optimising the financial structure of CaixaBank Group's balance sheet and making it more profitable, including the net interest income and the windfall profits in the Profit from Financing Operations; determining transfer rates with the various lines of business (IGC/MIS); monitoring prices, terms and volumes of the activities that generate assets and liabilities; and managing wholesale financing.

All of this, under of the Risk Appetite Framework and the risk limits approved by the Board of Directors.

As a result, it will take the appropriate decisions and may make recommendations to the various operating areas.

Regulation Committee

It is the body responsible for defining the Group's position on issues related to financial regulation.

Its functions include spearheading the activity to represent the Bank's interests, as well as the systematisation of regulatory activities, periodically assessing the initiatives carried out in this field.

In addition, this Committee approves and reviews the Interest Representation Map in order to coordinate the participation of the executives in associations and forums at national and international level[3].

Business Committee

This committee defines and validates the business strategies, specifying the guidelines for their execution in order to take advantage of opportunities based on monitoring the business, the environment and based on analysing best practices. In addition, it

[3] *For further details on Public Policy, see: https://www.caixabank.com/responsabilidad-corporativa/gobernanza/public-policy_en.html*

communicates relevant business developments. The Business Committees for each region also report to this committee.

Group Internal Control Body

This is a collegiate body at the Group level, responsible for deliberating on and making decisions as set out in Act 10/2010 of 28 April on Anti-money laundering and prevention of terrorism financing. It is therefore responsible for promoting the development and implementation of AML/TF policies and procedures for the Group.

Recovery and Resolution Plan Committee (RRPC)

This committee is responsible for preparing, approving, reviewing and updating plans to minimise the impact of future financial crises on contributors.

In the preparation process of the Recovery Plan, the RRPC determines the scope of the plan and the areas that are implicated, it proposes updates at least annually in accordance with the applicable regulations, and it leads the project, supervising and monitoring the drafting process, which is performed by the Project Office. This Office comprises a specialised team from the Solvency and Results Department and it is responsible for the operational coordination of most aspects relating to the Recovery and Resolution Plan, as well as for ordinary communications with the supervisor and monitoring regulations in this sphere.

Before approving the Recovery Plan, the RRPC validates the Report proposed by the Project Office and submits it to the Management Committee which, in turn, submits it to the Board of Directors for its approval.

Regarding the recovery indicators, the RRPC reviews the Report drawn up by the Project Office every quarter and, depending on the findings, can submit a proposal to activate/deactivate a Recovery Plan.

The RRPC also coordinates all information requests sent by both Spanish and European resolution authorities such as the Bank of Spain, FROB or the Single Resolution Board.

Information and Data Quality Governance Committee (IDQGC)

This committee's function is to oversee the coherence, consistency and quality of the information reported to the regulator and to the Group's management, providing a comprehensive view at all times.

Among its main functions, the Committee defines the data management strategy, promoting the value of information and data as a corporate asset, and critical and differentiating factor; promotes the definition of the policy regulating the information and data quality governance framework; and approves data quality targets (criticality, indicators, tolerance thresholds, quality plans), monitoring these and reporting to the various Governing Bodies.

This Committee also reviews and approves changes to critical reports (management and regulatory), data or data structures affecting various levels, and addresses any discrepancies. Lastly, it reports to the Management Committee on the overall progress of the Information and Data Quality Governance Plan, as well as on the data quality level and the level of compliance with regulatory requirements regarding information and data.

Efficiency Committee

Its mission is to improve the organisation's efficiency, and it is responsible for proposing and agreeing with the Divisions and Subsidiaries the proposed annual cost and investment budgets, before they are presented to the Management Committee for approval.

Transparency Committee

This committee determines all transparency-related aspects of the design and marketing of financial instruments, banking products and investment and savings insurance plans.

It is tasked with ensuring the transparent marketing of the Bank's products by defining and approving policies covering marketing, the prevention of conflicts of interest, the safeguarding of customer assets and enhanced execution of transactions.

It also validates the classification of new financial instruments, banking products and savings and investment plans on the basis of their risk and complexity, in accordance with the provisions of MiFID and banking and insurance transparency regulations.

Reporting to the Transparency Committee, the Product Committee is the body responsible for approving any new product or service that is designed and/or marketed, after analysing its characteristics and associated risks as well as its suitability for the customer group for which it is intended. All of this is performed taking into account customer protection and transparency regulations.

The purpose of the Product Governance Policy is to establish a procedure that allows the marketing of new products to be designed and approved, as well as the procedure for monitoring their life cycle. This Policy has been designed in order to quickly respond to clients' needs, thus providing them better protection and minimising legal and reputational risks arising from financial products being designed and marketed inappropriately.

Corporate Responsibility and Reputation Committee (CRRC)

It is responsible for overseeing the corporate responsibility strategy and practices and proposing and presenting (for their approval by the corresponding Governing Bodies) general policies for managing corporate responsibility and reputation.

Its mission is to help CaixaBank to be recognised for its excellent reputation, strengthening the Bank's reputation through its socially responsible banking model.

Another goal of the CRRC is to monitor CaixaBank's reputational risk strategy in accordance with the provisions of the Board of Directors in the RAF, as well as to coordinate responsible policies and positions and monitor corporate responsibility strategies and practices within the Group.

Environmental Risk Management Committee

This committee, set up by the Board of Directors in February 2019, is responsible for monitoring and controlling the Environmental Strategy: analysing and, where appropriate, approving proposals made by the Bank’s functional areas with regard to its strategy and strategic position, in addition to the front-line identification, management and control of the risks associated with this area.

3. Committees that report to the GRC:

Risk Policies Committee

It is responsible for defining policies that are aligned with and support the Group's established Risk Appetite Framework. Its remit, delegated by the Global Risk Committee, includes defining and approving risk granting policies and monitoring risks, default and recoveries approved in the various committees set up for this purpose, with the exception of any that the GRC has decided or decides to deal with itself due to their importance, their critical nature in terms of the Group's structural or economic management, their urgency or for any other reason.

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

Global Recovery and Default Committee

This committee analyses the default objectives established by Senior Management transfers them to the managed portfolios and to the stakeholders of the process. It oversees and monitors the level of compliance with the targets set, and liaises with the various areas to take the steps needed to redress any deviations.

It defines and monitors recovery policies and procedures, which are presented to the Policies Committee for approval before roll-out.

Operational Risk Committee

It analyses the Group's operational risk profile and, as a result, defines management actions. Thus, 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 Committee

Responsible for establishing and monitoring the governance framework for approving internal assumed risk assessment models (scoring, rating, early or similar alerts), expected loss and consumption of regulatory and economic capital, and ratifying the relevant amendments to models or the parameters that have been categorised as a "relevant change".

Impairment Committee

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

Corporate Criminal Management Committee

This committee is responsible for organising and managing crime-prevention activities, including all procedures, measures and controls that exist in the Group. Its main purpose is to devise a system for preventing and responding to any criminal conduct applicable to legal entities in Spain. It achieves all this through taking action and implementing controls to reduce the risk of any such crimes being perpetrated. It is a high-level body with powers of initiative and control, which the CaixaBank Board of Directors bestowed upon it.

3.1.3. Organisational structure

General Risks Division

As part of the senior management team, CaixaBank's Chief Risk Officer (CRO) is responsible for coordinating the management, monitoring and control of the Group's risks. The CRO operates independently of the business area and has full access to the Group's Governing Bodies.

With the aim of boosting profitable and controlled growth of the Business, the General Risks Division aligns itself with the priorities of the Group's new 2019-2021 Strategic Plan:

- Gaining greater knowledge of the customer and the particularities of each portfolio, making it possible to maintain a proactive and pre-emptive approach.
- Improving the function's efficiency and agility by a fresh impetus in automating processes and decision-making.
- Strengthening the control environment and the corporate risk function.

The foregoing is completed by ensuring that the group remains within its Risk Appetite Framework: accompanying the business, relying on a solid risk control and planning framework.

Thus, the Chief Risk Officer has structured the team as follows:

- **Retail Lending Office (Executive Directorate)**, responsible for the comprehensive management of the retail portfolio, the risk management models, infrastructure, transformational projects and innovation, as well as unified data management (RDA).
- **Enterprise Lending Office (Executive Directorate)**, responsible for the comprehensive management of the portfolio of all other business segments and specialised sectors (Businesses and SMEs, Corporate, Public Sector, Sovereign, Financial Institutions, Real Estate, Project Finance, the Tourism Sector and Agri-food).
- **Default and Restructurings**, responsible for analysing and approving operations to manage impaired credit exposures, e.g. through refinancing or restructuring, for all segments.

- **BuildingCenter Real Estate (Executive Directorate)**, which controls and monitors real estate investments and divestments, and is responsible for the policies associated with property management.

- **Corporate Risk Management Function & Planning (CRMF, Executive Directorate)**, responsible for risk management and overseeing asset performance, as well as solvency and guarantee mechanisms. To this end, it is responsible for identifying, measuring, monitoring, validating, controlling and reporting risks. It deals with the validation and integration of the various exposures, as well as the risk-adjusted return in each activity from the overall Group perspective and in accordance with its business strategy. It is also responsible for determining limits and defining policies for granting, managing and mitigating risks.

  As part of the second line of defence in the risk management process, it acts independently of the risk-taking areas and has direct access to the Group's Governing Bodies, especially the Risk Committee, reporting regularly to its members on the status of the Group's risk profile and any expected changes thereof.

- **Environmental Risk Management (Corporate Management)**, takes responsibility for coordinating the execution of an Environmental Risk Management Plan with a 3-year time horizon, specifically including aspects relating to climate change. Its functions notably include:
  - Defining the Environmental Risk Appetite Framework, including Climate Change Risk.
  - Elaborating, developing and implementing control mechanisms for the correct identification and monitoring of the portfolio according to its contribution to environmental sustainability.
  - Monitoring the overall portfolio, as well as overseeing its control and reporting.
  - Active management of the portfolio: ensuring correct application of policies, management mechanisms, cost-benefit analyses of the decisions taken, etc.

One of the General Risks Division's most important missions, in collaboration with other areas, is to head up and oversee the process of implementing instruments across the entire branch network to ensure integral risk management under Basel guidelines, with the ultimate aim of achieving a balance between the risks assumed and the expected returns.

Deputy General Management of Compliance

The Deputy General Management of Compliance, reporting directly to the Chief Executive Officer, together with the Corporate Risk Management Function & Planning Executive Directorate form the second line of defence, acting independently of the business units, and thereby following the three lines of defence model on which CaixaBank's internal control framework is structured[4].

Internal Audit Executive Directorate

To guarantee the independence and powers of the audit function, the Internal Audit Directorate reports to the Audit and Control Committee – a specialist board committee – and also reports to the Chairman of the Board of Directors. This ensures the independence and authority of the Internal Audit function, which performs independent and objective advisory and consulting activities.

Executive Directorate of Recovery and Default

Reporting directly to the CEO, the role of the Executive Directorate is to manage non-performing and foreclosed assets, acting in coordination with the Branch network and with an overall vision of the associated life cycle. Its main responsibilities and lines of work include: **(i)** proposing and implementing recovery strategies; **(ii)** defining the recovery function's objectives; and **(iii)** managing the flow and stock of non-performing assets.

[4] For further information on this position's activity and functions, see the internal control framework section in this section.

3.1.4. Structure and organisation of the Executive Directorate of Corporate Risk Management Function & Planning

The Executive Directorate of Corporate Risk Management Function & Planning carries out the corporative functions (coordinates within the Group) of planning and risk monitoring. The following directorates report to it;

Validation and Model Risk assumes the responsibility for the independent checking of internal models in its scope (for credit risk, market risk, economic capital, macroeconomic model and actuarial risk). Likewise, it is responsible for the deployment of the model risk management framework with a transversal vision, considering, as basic pillars, the identification of the models, their governance and the monitoring of model risk.

Structural Risk and Regulated Models, which includes two areas of action:

- Market and Structural Risk Management Division, which is responsible for quantifying and monitoring market risk, valuing financial instruments, ALM, liquidity and assumed actuarial risk. This area also strives to ensure compliance with general policies and authorised management models in order for them to be accepted, which includes monitoring compliance with approved limits.
- The Credit Risk Regulated Models Management Division, which is responsible for building regulated models and parameters (PD, LGD, EAD, etc.), as well as its governance and monitoring model.

Planning, Impairment and Regulatory Capital

This area is responsible for the Risk Planning coordination function, together with Financial Planning and CLOs.

It takes part in the budgeting and budget monitoring role in relation to the performance of assets, the forecast of non-performing loans and the recognition of provisions. It also performs an analysis of possible deviations, coordinates and integrates classifications and provisions with the Network, and handles the integration and governance of the recognition of impairment in the accounting records.

In addition, it is responsible for the management, calculation, and regulatory reporting functions of the regulatory capital requirements for credit risk portfolio.

Risk Strategy, Governance and Regulation, a cross-disciplinary unit responsible for coordinating, controlling and executing the processes for the identification, measurement, monitoring, control and reporting of Strategic Risk Processes: Risk Assessment, Risk Taxonomy and Risk Appetite Framework. It must maintain an overall vision of the risk governance framework and of its Governing Bodies, as well as of the regulatory environment that affects the field of risks.

Credit Risk Policies, Monitoring and Control, responsible for the monitoring, staging and providing against Large Exposures; credit risk policies; the policies, management control and the governance of non-performing loans and their recovery; the management of securitisations; credit risk control, and information and regulatory reporting, and it is also responsible for managing the profile of the portfolio (monitoring and control panels).

Non-Financial Risk

The department's functions consist of identifying, measuring, assessing, managing, mitigating and reporting all the risks that are considered non-financial. These include operational, IT, real estate, risk information reliability and environmental risks.

In addition to these departments, the Internal Financial Control department, which falls within the Executive Directorate of Financial Accounting, Control and Capital Financial Accounting, Control and Capital, is also functionally dependent on the Executive Directorate of Corporate Risk Management Function & Planning. This department performs the second line of defence functions for certain risks in the taxonomy (see section 3.4 Internal control framework).

3.2. Strategic risk management processes

The Group has the following strategic risk management processes in place to identify, measure, monitor, control and report risks:

3.2.1. Risk Assessment

The Group conducts a risk self-assessment process every six months, seeking to:

- Identify, assess, classify and internally report significant changes in inherent risks assumed in its environment and business model.
- Make a self-assessment of its risk management, control and governance capacity, as a tool to help detect best practices and weaknesses in relation to risks.

The result of this self-assessment is reported at least annually, first to the Global Risk Committee and then to the Risk Committee, before finally being submitted to the Board of Directors for approval.

The Risk Assessment is one of the main sources for identifying strategic events[5], i.e. the most significant adverse events that may threaten CaixaBank Group in the medium term. It solely considers events to which the company is exposed due to causes outside its strategy, although the severity of the impact of these events can be mitigated through management.

In order to be able to anticipate and manage their effects, the following most relevant strategic events identified in this financial year are listed below:

- Uncertainties regarding the geopolitical and macroeconomic environment.
- Persistent environment of low interest rates.
- Potentially disruptive new competitors.
- Cybersecurity.
- Risks related to climate change.
- Pressure from the legal, regulatory or supervisory environment.

[5] *See note 3.1. Risk factors and environment" in the Group's annual financial statements.*

3.2.2. Corporate Risk Taxonomy

The Group has a Corporate Risk Taxonomy that facilitates the internal and external monitoring and reporting of risks. The Corporate Risk Taxonomy is subject to ongoing review. It is reported at least annually, first to the Global Risk Committee and then to the Risk Committee, before finally being submitted to the Board of Directors for approval.

Each of the risks is listed below, together with their definition and a mapping to the structure of this document.

	Corporate Risk Taxonomy		Pillar 3 Disclosure	
Business model risks	Business profitability	Obtaining results below market expectations or Group targets that, ultimately, prevent the company from reaching a level of sustainable returns that exceeds the cost of equity.	10. Other risks	10.4. Business profitability risk
	Own funds / solvency	Risk resulting from constraints on CaixaBank Group's ability to adapt its level of own funds to regulatory requirements or change in its risk profile.	4. Capital	
	Liquidity and funding	Risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements, or the investment needs of the Group.	9. Liquidity risk	
Risks affecting financial activity	Credit	Loss of value of the assets of CaixaBank Group through a customer or a counterparty, due to the impairment of the capacity of this customer or counterparty to meet their commitments to the Group.	5. Total credit risk	5.1. Credit risk Except for the risk corresponding to 10.3 Impairment of other assets 5.2. Counterparty and CVA risk 5.3. Securitisations
	Impairment of other assets	Reduction in the carrying amount of the equity portfolio and non-financial assets (tangible, intangible, taxed and other assets) of CaixaBank Group.	10. Other risks 5. Total credit risk	10.3. Risk of impairment of other assets 5.1. Credit risk With regard to the content of Tangible Assets and Tax Assets included under Credit Risk. 5.4. Equity portfolio
	Market	Risk of decreased value of assets or increased value of liabilities held in the trading book, due to fluctuations in interest rates, exchange rates, credit spreads, external factors, or market prices related to the traded assets and liabilities.	6. Market risk	
	Structural rates	Negative impact on the economic value of the balance sheet's items or on the financial margin due to changes in the temporary structure of interest rates and its impact on asset and liability instruments and those off the Group's balance sheet not recorded in financial assets held for trading.	8. Structural rates risks	
	Actuarial	The risk of loss or adverse change in the value of liabilities undertaken through insurance or pension contracts with customers or employees resulting from a divergence between actuarial variables used for pricing and reserves, and their developments.	10. Other risks 5.4. Equity portfolio	10.2. Actuarial risk and risk relating to the insurance business For prudential purposes, the capital requirements associated with the balance sheet of the VidaCaixa Group are reflected through CaixaBank's equity portfolio.
Operational and reputational risks	Legal / Regulatory risk	The potential loss or decrease in the profitability of CaixaBank Group as a result of changes in the legislation, the improper implementation or interpretation of said legislation in CaixaBank Group processes and its various operations, improper management of legal and administrative requirements or claims or complaints received.	7. Operational risk	7.4.1. Legal and regulatory risk
	Conduct	Application of criteria for action contrary to the interests of its customers and stakeholders, or actions or omissions by the Group that are not aligned with the legal or regulatory framework, or with internal policies, regulations or procedures, or with the codes of conduct, ethical standards and good practice.		7.4.2. Conduct risk
	IT	Losses due to the inadequacy or failure of hardware or software of the technological infrastructure, due to cyberattacks or other circumstances, which could compromise the availability, integrity, accessibility and security of the infrastructure and data.		7.4.3. IT risk
	Other operational risks	Risk of loss or damage caused by errors or shortcomings in processes, due to external events or due the accidental or intentional actions of third parties outside the Group. This includes, among others, risk factors related to outsourcing, the use of quantitative models, the custody of securities or external fraud.		7.4.4. Other operational risks
	Reliability of financial information	Deficiencies in the accuracy, integrity and criteria of the process used when preparing the data necessary to evaluate the financial and equity position of CaixaBank Group.		7.4.5. Financial information reliability risk
	Reputational	The possibility that CaixaBank Group's competitive edge could be blunted by loss of trust by some of its stakeholders, based on their assessment of real or purported actions or omissions carried out by the Group, its Senior Management or Governing Bodies, or due to the bankruptcy of related unconsolidated entities (step-in risk).	10. Other risks	10.1. Reputational risk

3.2.3. Risk Appetite Framework (RAF)

The Risk Appetite Framework (RAF) is a comprehensive and forward-looking tool used by the Board of Directors to determine the types and thresholds of risk it is willing to assume in achieving the Group's strategic objectives. These objectives are not only reflected through risk tolerance levels, but the RAF also includes minimum risk appetite declarations, such as monitoring tax risk as part of the legal risk set out in the Corporate Risk Taxonomy. The RAF therefore sets the risk appetite for the activity.

Body in charge / Priority dimensions	Equivalence in Risk Taxonomy	Board of Directors (advised by the Risk Committee) Statements and primary metrics LEVEL 1	Global Risk Committee Metrics developing and supplementing metrics LEVEL 1 LEVEL 2	Risk management / control areas Management mechanisms LEVEL 3
Loss buffer The objective is to maintain a medium-low risk profile and a comfortable capital adequacy, to strengthen customers' trust through financial solidity	• Business profitability • Eligible own funds / Capital adequacy • Credit • Impairment of other assets • Market • Structural rates • Actuarial	• Profitability Ratios • Regulatory solvency ratios • Calculations using advanced models and methodologies • Accounting figures (cost of risk and NPL ratio)	• Detailed metrics deriving from the factorial decomposition of Level I metrics or from a greater breakdown. They also include more complex and specialised risk measurement parameters.	• Training and communication • Methodologies used to measure risk and assess assets and liabilities (monitoring the RAF) • Limits, policies and powers • Incentives and appointments • Tools and processes
Funding and liquidity Certainty of its capability to comply with its financing obligations and needs, under adverse market conditions, through stable and diversified financing	• Liquidity and funding	• Regulatory and internal liquidity metrics that oversee the upholding of comfortable liquidity levels		
Business composition Leader in retail banking and generation of revenue and capital in balanced and diversified manner	• Credit	• Indicators that encourage diversification (e.g. by borrower, sector) and minimise exposure to non-strategic assets		
Franchise Activity with high standards of ethics and governance, fostering sustainability, action and operational excellence	• Legal and regulatory • Conduct • IT • Other operational risks • Reliability of financial information • Reputational	• Quantitative metrics on nonfinancial risks (i.e. reputational, operational) • Metrics of number of complying incidents		

Alert System Reports

Monthly to the Global Risk Committee				Quarterly to the Risk Committee	Half-yearly to the Board of Directors
● Green	● Tolerance • The Global Risk Committee fosters an action plan and draws up a schedule	● Non-compliance • If a previous plan existed, explanation of why the corrective measures have not worked and definition of a proposal of action taken for the approval of the Risk Committee.	● Recovery Plan • Governance process of the **Recovery Plan** to reduce the possibility of bankruptcy	• Trend of metrics and **LEVEL 1** projection. • Status of non-compliance and action plans.	• Trend of metrics and **LEVEL 1** projection. • Status of non-compliance and action plans.

LEVEL 1
LEVEL 2

Through threshold benchmarks

3.2.4. Risk planning

The Group has institutional processes and mechanisms in place for assessing changes in the balance sheet in terms of risk (current, future and hypothetical in stress scenarios). The Group plans the expected performance of the different factors and ratios that define the future risk profile, as part of the current Strategic Plan, with regular monitoring of compliance.

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

3.3. Risk Culture

General risk management principles

The general principles guiding risk management in the Group can be summarised as follows:

- Risk is inherent to the Group's business.
- The Board of Directors is the most senior risk management body.
- The entire organisation is involved in aligning the risk assumed to the desired profile.
- Risk management throughout the full cycle of transactions: from preliminary analysis and approval, to monitoring the customer's solvency and profitability, to repayment or recovery of impaired assets.
- The risk function is independent of the business and operating units.
- Joint decision-making, with an authority system always requiring the minimal approval by two employees, each with different organisational lines of reporting.
- Inclusion of the table of powers in the systems facilitates the decentralisation of decision-making so that decisions are made as close as possible to customers, while ensuring risks are approved at a suitable level.
- Approval based on the borrower's repayment ability and an appropriate return.
- The use of standard criteria and tools.
- Use of advanced techniques: 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.
- Ongoing training and skills development.

Training

Training is a key mechanism in the Group through which the risk culture is instilled. The Bank's main training programmes and initiatives are set out below.

With the aim of enabling the Group's branch managers, premier bank managers and private banking advisors to offer customers the best service and build their trust in the Group, since 2015 a group of branch managers and premier banking managers have obtained a diploma in Financial Advisory services from the UPF School of Management (Pompeu Fabra University), and a similar number have obtained a Certificate in Wealth Management from the Chartered Institute for Securities & Investment (CISI). A total of 16,650 people has been accredited in these two programmes. This makes the Group the first Spanish financial institution to certify employees' training with a post-graduate university diploma in Financial Advisory and with a prestigious international qualification in the financial sector.

Turning to risks specifically, the Senior Management define the content of any 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. This is carried out to ensure: communication of the RAF throughout the whole organisation; the decentralisation of decision-making; the updating of risk analysis competencies; and optimisation of risk quality.

The Group structures its training programme through the Risk School. It sees training as a strategic tool to provide support to business areas, whilst providing a conduit for disseminating the Group's risk policies, providing training, information and tools for all the staff. The proposal comprises a training calendar for specialising in risk management, which will be linked to the professional development of all employees, from Retail Banking staff to specialists in any field.

The aim is for employees to have an adequate knowledge of:

- The financial system and the risks in the economic environment and banking business.
- The organisation and operation of risk management in the Group.
- The processes and tools associated with lending transactions, covering the acceptance and monitoring, through to renegotiation and recovery, where necessary.
- Different lending products and the risks inherent to each one, together with legislation applicable to credit agreements.

In September 2015 the Risk School launched its first Risk Analysis Certificate course (aimed at sales managers) and the first postgraduate diploma in Risk Analysis, specialising in retail banking and awarded by the Pompeu Fabra University - Barcelona School of Management (UPF-BSM) (aimed at branch managers and deputy mana-

gers). Since then, more than 9,500 staff have either obtained or are in the process of obtaining risk qualifications. The first Master's Certificate in Banking Branch Management was awarded in May 2018, also by the UPF-BSM. This Master's degree is awarded to employees who have obtained the following three postgraduate qualifications: Financial Advice, Banking Risk Analysis, and Expert in Saving/Forecast.

The following training on risk has been provided by the Risk School:

- **Basic Banking Risk course.** Basic level university qualification designed for generalist managers and staff from the branch network and other stakeholders who may need a basic knowledge of the organisation's risk management criteria to carry out their work.

  Since 2015, a total of 2,259 employees have taken part in the five editions of this course. 2019 saw the fifth edition held, with 272 employees enrolled.

- **Postgraduate diploma in Banking Risk Analysis.** University diploma for commercial branch deputy managers and managers and other stakeholders who, given their role, may be involved in approving lending transactions or may require in-depth knowledge of risk.

  This postgraduate course began with its first edition in 2015 and has reached its 8th edition in 2019. With the 318 members of staff enrolled in this latest edition, the total number of employees who have undertaken the diploma course will reach 4,014.

  In 2018, the second half of the postgraduate course for the Business speciality began. Its first two editions saw a total of 400 employees complete the course, primarily from the Risk Area. This postgraduate course is currently being taken by a further 160 employees.

- **Specialist training in risks for AgroBank branches.** Intended for employees of the AgroBank branch network. Since 2018, 1,957 employees have completed their training.

- **Specialist training in risks for BusinessBank branches.** Intended for employees of the BusinessBank branch network. Since 2018, 277 employees have completed this course.

- **Specialist training for Private Banking branches.** Intended for employees of the Bank's Private Banking network. Since this initiative was launched in 2018, a total of 552 employees have completed it.

Specific training courses were also run on the following topics:

- **Training in the new Real Estate Credit Act.** The need for training that has resulted from the application of the new Real Estate Credit Contracts Act 5/2019 (LCCI) has involved a significant effort by the organisation as a whole. To do this, the Pompeu Fabra University has been assisted in designing content and certifying courses, which feature academic credits at postgraduate level. Thanks to this effort, 9,842 employees were certified during 2019.

- **Documentary Compliance and Data Quality training.** This training was taken by more than 22,900 professionals, seeking to strengthen the institutional awareness of risk aspects such as documentary integrity and the quality of data entered into the systems.

Communication

Promoting the corporate culture of risks is a key element for maintaining a robust and coherent framework in line with the Group's risk profile. The corporate risk intranet is a particularly relevant tool in this regard, providing a dynamic environment for directly communicating key updates in the risk environment. The news content, corporate and sector information and training resources stand out.

Performance assessment and remuneration

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

Along these lines, there are compensation schemes directly linked to the annual progress of the RAF metrics and which are specified in the Annual Remunerations Report.

3.4. Internal control framework

The internal control framework is a set of rules and controls that govern CaixaBank Group's organisational and operating structure, including reporting processes and functions of risk management, compliance and internal audit.

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

The Group has an internal control framework in line with: **(i)** the EBA Directives on Internal Governance of 21 March 2018, implementing internal governance requirements established in Directive 2013/36/EU of the European Parliament, and **(ii)** with other regulatory guidelines on control functions applicable to financial institutions and to the recommendations of the CNMV[6]; providing a reasonable degree of assurance that the Group will achieve its objectives.

Furthermore, CaixaBank has established – in the interest of the Group – general principles and criteria for action in virtually all its areas of activity, through the approval of the corresponding corporate policies. These policies have been transferred to subsidiaries that – in the remit of their autonomy and competences – have adapted, applied and developed them, taking into account the specific regulatory scope that is applicable to them.

The governance model is based on three principles:

- **The Group's strategy:** the Board of Directors is responsible for both defining the Group's structure and approving and supervising the guidelines on strategic and management matters, established in the interests of each of the Group's companies.
- Adequate and efficient **coordination** between CaixaBank and the other Group companies.
- The establishment of **governance models** in certain fields that allow the management of the Group to be improved, as well as its internal governance and the parent company's compliance with its obligations.

Internal control functions at CaixaBank

The guidelines for the Group's internal control framework are set out in the Corporate Internal Control Policy, which is based on the "three lines of defence" model, in line with regulatory guidance and best practices in the sector:

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[6] Other regulatory guidance on financial institutions' control functions include:

- *Regulation (EU) 575/2013 and Directive 2013/36/EU on the solvency requirements of credit institutions (under the terms established in Basel 3), regulating the internal model's validation function.*
- *Act 10/2014 of 26 June, on the arrangement, supervision and solvency of credit institutions; Royal Decree 84/2015 of 13 February, implementing Act 10/2014 of 26 June; and Bank of Spain Circular 2/2016 of 2 February, on the supervision and solvency of credit institutions.*
- *CNMV Circular 1/2014, of 26 February, on internal organisation requirements and control functions for investment firms.*
- *"Corporate Governance Principles for Banks" issued by the Basel Committee on Banking Supervision in July 2015.*
- *"Compliance and the Compliance Function in Banks" issued by the Basel Committee on Banking Supervision in April 2005.*
- *"The Internal Audit Function in Banks" issued by the Basel Committee on Banking Supervision in June 2012.*
- *"International Professional Practices Framework for Internal Audit" issued by the Institute of Internal Auditors".*
- *Recommendations of the CNMV on the establishment of a system of Internal Control over Financial Reporting (ICFR) for listed companies.*

3.4.1. First line of defence

It comprises the business lines (risk-taking areas) and supporting functions that give rise to the Group's exposure to risks in the performance of their operations. They assume risks and are responsible for their ongoing management. They are responsible for developing and maintaining effective controls over their businesses, and for identifying, managing and measuring, controlling, mitigating and reporting the main risks that arise in their activity. Among other activities, their tasks include the identification, assessment and notification of exposures, considering the bank's existing risk appetite, authorised risk limits and policies, procedures and controls.

The manner in which the business line carries out its responsibilities must reflect the bank's current risk culture, as defined by the Board of Directors.

These functions may be embedded in the business units and support areas. However, when a situation's complexity, intensity or need for focus require it, specific control units with greater specialism are set up to ensure that the risks are properly controlled.

Corporate risks	First line of defence	Second line of defence			Third line of defence
			RMF[1]		
		C	CRMF	IFC	
Business	Accounting, Management Control and Capital EM			●	
Eligible own funds / Capital adequacy	Accounting, Management Control and Capital EM			●	
Funding and liquidity	Finance EM		●		
Credit	Business GM, Risk GM, CIB and International Banking EM, NPL and Recoveries EM		●		
Impairment of other assets	Intervention, Management Control and Capital EM, Legal Advice EM and Foreclosed Assets EM		●	●	
Market	Finance EM		●		
Structural rate	Finance EM		●		Internal audit
Actuarial	Insurance EM		●		
Legal and regulatory	Legal Advice EM	●			
Conduct	Business GM, Legal Advice EM, Finance EM and CIB and International Banking EM	●			
Technological	Resources EM		●		
Other operational risks	Resources EM, Business GM and CIB and International Banking EM		●		
Reliability of financial information	Accounting, Management Control and Capital EM		●	●	
Reputational	EM of Communication, Institutional Relationships, Brand and CSR and GM of Business	●			

[1] *Risk Management Function (RMF), comprising the Corporate Risk Management Function & Planning and Internal Financial Control (IFC).*

C - Compliance

GM - General Management

EM - Executive Management

3.4.2. Second line of defence

Comprising the Risk Management Function (RMF) and Compliance, which act independently of the business units to ensure the existence of risk management and control policies, monitor their application, assess the control environment and report all the Group's material risks.

The functions of the second line of defence are distributed between:

- The RMF has a global vision of all risks included in the Corporate Risk Taxonomy at a Group level and covers the management, monitoring and control of most of the risks in the Taxonomy, with the exception of those which correspond to the Compliance function.

  The RMF is headed by the Executive Directorate of Corporate Risk Management Function & Planning (CRMF). The CRMF undertakes the Validation function, responsible for the independent checking of internal models, under prudential perimeter (for credit risk, market risk, economic capital, macroeconomic model and actuarial risk).

  The Internal Financial Control department, hierarchically reporting to the Executive Directorate of Accounting, Control and Capital and functionally to the CRMF, completes the RMF, takes on the functions of the second line of defence for specific risks in the Taxonomy, such as those relating to Business profitability or Own Funds/Solvency.

- Compliance, which is responsible for the management, monitoring and control of Legal and Regulatory risk, Conduct and Reputational risk.

Its responsibilities include:

Policies, standards and procedures:

- The establishment of risk management and control policies in coordination with the first line of defence, assessing their subsequent compliance.

Risks and controls:

- The identification, measurement and monitoring of the risks (including emerging risks), contributing to the definition and implementation of risk indicators aligned with the RAF.

- It coordinates the compliance and monitoring of the strategic risk management processes: Risk Assessment, the Corporate Risk Taxonomy and the RAF.

Monitoring of indicators:

- Periodically monitoring the effectiveness of indicators of both the first and second lines of defence, in relation to the established risk profiles.

Control weaknesses and action plans:

- Following up control weaknesses that are identified, as well as establishing and implementing Action Plans.

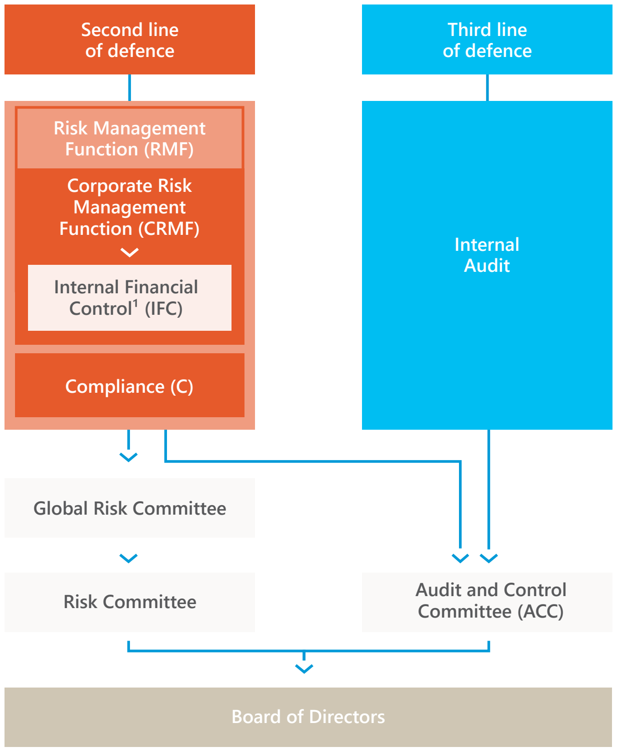
Internal Validation

- Performing independent checks on the internal models.

The activities of the second line of defence, as well as **(i)** the identified weaknesses, **(ii)** the monitoring of action plans and **(iii)** the opinion on the adequacy of the control environment in the Group, are regularly reported to the bodies responsible for the control environment, following the established hierarchy, as well as to supervisory bodies.

With regard to the Pillar 3 Disclosure document, the second line of defence, which is responsible for providing reasonable assurance over the reliability of its financial information, has validated the existence of the necessary controls. These controls are in place to ensure the information's quality and integrity, thus guaranteeing that the information presented is accurate.

The second line of defence includes the following functions:



[1] *Reports to the Financial Accounting, Control and Capital Executive Body.*

The second line of defence is spread between the Risk Management Function (RMF) and Compliance.

Risk Management Function (RMF)

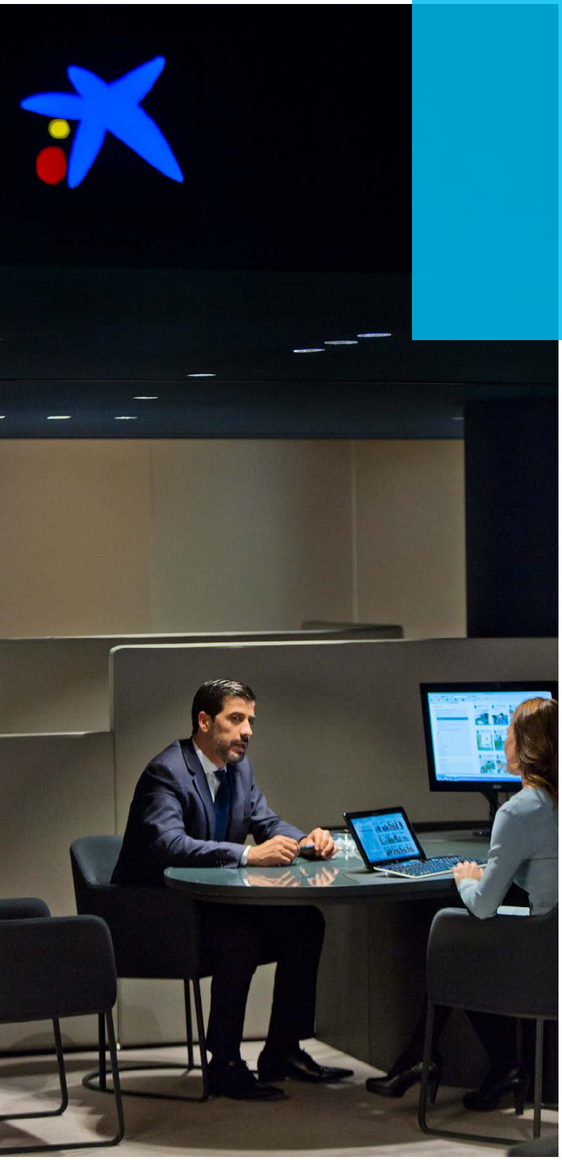
The RMF, coordinated by the Executive Directorate of Corporate Risk Management Function & Planning (CRMF), is responsible for identifying, measuring, assessing, managing and reporting risks under its remit, with a comprehensive view of all the Group's risks. To this end, all aspects that are considered relevant for it to perform its responsibilities – which are implemented by second line of defence functions without hierarchical dependency – will be reported to the CRMF.

In addition, on matters that fall within its remit, the CRMF: **(i)** monitors the internal organisation of the second line of defence, general plans and activities, and evaluates their effectiveness; **(ii)** oversees the appropriate scaling of the second line of defence in order to ensure effective management of its responsibilities, perform monitoring of the objectives of the second line of defence and the areas within it, and of improvement projects relating to risk management and monitoring processes and systems; and **(iii)** provides assurance to Management and Governing Bodies that risk control policies and procedures are in place in the organisation, and that they are designed correctly and applied effectively, evaluating the risk control environment. In addition, the CRMF must strengthen the coordination mechanisms of Risk Control Units of the first, second and third lines of defence, as necessary.

The CRMF includes the internal validation function which is aim to issue an independent technical report on the suitability of internal models used for internal management purposes, and/or of a regulatory nature, within the Group. Its remit includes activities such as reviewing methodological aspects, integration into management (e.g. adaptation of the use of management models, among others), verifying the existence of an IT environment with sufficient data quality, and other cross-cutting aspects (such as model governance or other documentary aspects).

The Validation Function's activities are aligned with the regulatory requirements of the various oversight mechanisms.

The findings of any Validation Function review activity are used as the basis for an overall opinion and to issue recommendations, where applicable.



Internal Financial Control (IFC)

The Internal Financial Control department, within the Executive Directorate of Financial Accounting, Control and Capital (FACC) is integrated functionally into the CRMF and performs functions as the second line of defence with regard to the following risks: **(i)** business profitability; **(ii)** own funds/ solvency; **(iii)** depreciation of other assets and **(iv)** reliability of financial information.

CaixaBank has a system of Internal Control over Financial Reporting (ICFR), coordinated by Internal Financial Control, which strives to ensure reliability of the financial information that is reported. ICFR is defined as the set of processes that are carried out to provide reasonable assurance on the reliability of financial information published by the bank in the markets. It is designed in accordance with the guidance established by the Spanish National Securities Market Regulator (CNMV) in its document "Guidelines on Internal Control over Financial Reporting in Listed Companies" (companies issuing securities admitted to trading).

Details of this function are presented in the Annual Corporate Governance Report for 2019, **available on the CaixaBank website** (www.caixabank.com) along with the activities carried out during the period.

Compliance (C)

As regards Compliance (C), the Deputy General Management of Compliance it is a function that is dependent upon the CEO, and reports directly, within the scope of its activities, to Senior Management, to the Governing Bodies, as well as to the supervisory bodies (Bank of Spain, ECB, SEPBLAC, Treasury, CNMV and other bodies).

The Compliance supervision model is based on four main management mechanisms: **(i)** the definition and maintenance of a detailed risk taxonomy in each field of activity; **(ii)** Annual compliance plan, where the activities for monitoring and reviewing internal procedures are determined according to their criticality; **(iii)** monitoring gaps (control deficiencies or regulatory breaches) identified, either by the first line of defence, via the activities integrated in the Compliance Plan, or by reports from external experts, reports on the inspections of the supervisory bodies, and customer complaints, etc. and improvement Action Plans, which are subject to regular monitoring; **(iv)** reporting and scaling of the relevant information, monitoring inspections or deficiencies in Compliance.

Furthermore, the Compliance function carries out advisory activities on the matters that fall under its responsibility and carries out actions to develop and transform the Compliance "culture". This is done by redesigning technology-based processes, through awareness-raising and communication plans conducted throughout the organisation, and through training activities, establishing a compulsory regulatory training plan which is linked to the annual bonus.

Another activity that is undertaken involves ensuring that best practices in the field of integrity and codes of conduct are followed. One of the measures implemented to this end is a confidential enquiry and whistle-blowing channel.

3.4.3. Third line of defence

Internal Audit is the third line of defence in CaixaBank Group's "three lines of defence" control model. It oversees the activities of the first and second lines of defence.

In order to set up and preserve the independence of the function, Internal Audit Executive Directorate functionally reports to the Chairman of the Audit and Control Committee of the Board of Directors, without prejudice to its reporting obligations to the Chairman of the Board of Directors for the due compliance of the Chairman's duties.

Internal Audit has a rule book governing how it operates, which has been approved by the Board of Directors. It establishes that it is an independent and objective assurance and consultation function, established to add value and improve operations. Its objective is to provide reasonable assurance to Senior Management and the Governing Bodies with regard to:

- The effectiveness and efficiency of internal control systems in offsetting the risks associated with the Group's activities.
- Compliance with prevailing legislation, especially the requirements of Supervisors and the appropriate application of the defined RAF.
- Compliance with internal policies and regulations, and alignment with best practices and uses in the sector, for adequate internal governance of the Group.
- The reliability and integrity of financial and operational information, including the effectiveness of Internal Control over Financial Reporting (ICFR).

Its main supervisory functions include:

- The adequacy, effectiveness and implementation of policies, regulations and procedures.
- The effectiveness of controls.
- Adequate measurement and monitoring of first line of defence and second line of defence indicators.
- The existence and correct implementation of action plans to remedy weaknesses of controls.
- The validation, monitoring and assessment of the control environment by the second line of defence.

Its functions also include: **(i)** preparing the pluriannual Annual Audit Plan based on risk assessments, which includes regulatory requirements and tasks and projects requested by Senior Management/the Management Committee and the Audit and Control Committee; **(ii)** reporting regularly on the conclusions of the work carried out and weaknesses identified to the Governing Bodies, Senior Management, external auditors, supervisors and other applicable control and management areas; and **(iii)** adding value by proposing recommendations to address weaknesses detected in reviews and monitoring their implementation by the appropriate centres.

To this end, in relation to the risks defined in the Corporate Risk Taxonomy, and particularly the risks included in this document (credit, market, operational, structural rates, liquidity, reputational, actuarial, impairment of other assets and business profitability), Internal Audit assesses:

The control environment and the functions assigned to the various units responsible for risks in the first and second line of defence.

- The procedures implemented for measuring, assessing and managing risks, and considering the relevant risk factors.
- Compliance with the internal regulations and the regulatory requirements in force.
- Economic regulatory capital calculation procedures.
- The adequacy of the reporting to Management and Governing Bodies for decision-making and regulatory reporting.
- The technology environment and applications used, both as regards information integrity and confidentiality, as well as system availability and business continuity and the coherence

With regard to Legal/Regulatory Risks, it reviews the control environment put in place to offset risks deriving from changes in legislation and the regulatory framework, and management of court proceedings. In terms of Compliance Risk, it checks that policies and procedures established in the Group are in line with the legal and regulatory framework, and with internal codes and regulations.

In addition, Internal Audit reviews the internal capital and liquidity adequacy processes (ICAAP and ILAAP) , the Recovery Plan, the Resolution Plan, as well as this document, providing an objective and independent assessment of the compliance with governance established for each process and of the efficacy and efficiency of the control framework applied by the various areas involved.

Capital 4.

CaixaBank

4. Capital

12.0 % (€17,787M) CET1

13.5 % (€20,023M) Tier 1

15.7 % (€23,247M) TOTAL CAPITAL

21.8 % (€32,289M) MREL

The goal of capital management in CaixaBank Group is not only to ensure compliance with regulatory requirements but also to ensure that the internal capital objectives are met, taking into account the market environment and the risk profile assumed.

One of CaixaBank's strategic objectives is to strengthen its capital position, thereby maintaining sufficient headroom to deal with standardised and stressed financial planning scenarios. In this regard, the Group has a financial and capital planning process in place that includes budgeting in the short term and over three years through the central ICAAP scenario, complemented by internal stress scenarios over a three-year horizon.

The Board of Directors determines the Group's general risk management policies, risk appetite and capital objectives. The Management Committee manages capital at the highest level, in accordance with the strategies established by the Board.

In 2019, the capital management within the Group was bolstered with the approval of the Corporate Policy for Capital and Solvency Risk Management.

In turn, the strong solvency position allows the objective of distributing a cash dividend of at least 50 % of the net profit to be met, as stipulated in the dividend policy (the 2019 figure is expected to be 53 %).

Annual evolution

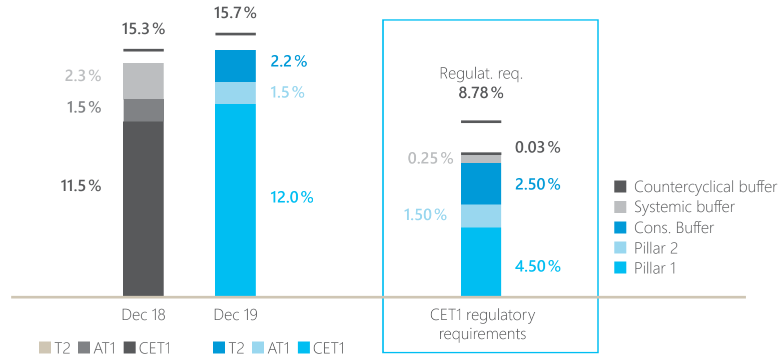
Throughout 2019, CaixaBank Group has maintained a solid solvency position, with ratios of 12.0% for CET1, 13.5% for Tier 1 Capital and 15.7 % for Total Capital.

Organic growth for the year was +37 basis points, regulatory and accounting changes had an impact of +2 basis points and market and other impacts made up +13 basis points.

Taking into account all the liabilities eligible according to the Single Resolution Board (SRB), the MREL ratio is 21.8 %, following the 5 issues in 2019 of senior non-preferred debt (SNP) of EUR 3,385 million, and one issue of senior preferred debt of EUR 1,000 million. In January 2020, a new issue of senior debt was carried out, increasing the pro-forma MREL ratio to 22.5 %, thereby complying with the requirement established by the SRB for January 2021.

Capital ratios

In %



Computable capital

Table 4.1. CaixaBank Solvency

Amounts in millions of euros

	31.12.18[1]	31.12.19
CET1	16,800	17,787
Aditional Tier 1	2,233	2,236
TIER 1	19,033	20,023
TIER 2	3,295	3,224
TOTAL CAPITAL	22,328	23,247
RWA	145,942	147,880
Credit	111,740	113,947
Equity	19,178	18,310
Market	1,916	2,224
Operational	13,109	13,400
CET1 ratio	11.5 %	12.0 %
Tier 1 ratio	13.0 %	13.5 %
Total Cap. ratio	15.3 %	15.7 %
Subordinated MREL ratio	16.9 %	19.6 %
MREL ratio	18.9 %	21.8 %
Buffer MDA[2]	4,030	4,805
Expos. Leverage	344,485	341,681
Leverage ratio	5.5 %	5.9 %
Ratio CET1 Ind.	13.1 %	13.8 %
Buffer MDA Ind.[2]	7,793	9,139

[1] *In 2018 data fully loaded.*

[2] *The MDA Buffer that applies is the minor between the individual and the consolidated one.*

4.1. Capital Management

Capital objectives and policy

One of CaixaBank's strategic objectives is to strengthen its capital position, thereby maintaining sufficient headroom to deal with standardised and stressed financial planning scenarios. In this regard, the Group has a financial and capital planning process in place that includes budgeting in the short term and over three years through the central ICAAP scenario, complemented by internal stress scenarios over a three-year horizon.

The Board of Directors determines the Group's risk and capital policies and objectives. The Management Committee oversees management of these policies and objectives at the highest level, in accordance with the strategies established by the Board. The planning process, in line with the Strategic Plan, is organised by the Planning Committee, which reports to the Management Committee, with assistance from members of the different lines of defence in the control environment.

The Executive Directorate of Financial Accounting, Control and Capital is responsible for monitoring and controlling the Group's own funds and solvency, as the first line of defence, and it heads the Planning Committee. The Internal Financial Control department, which reports to the Corporate Risk Management Function & Planning department, is the second line of defence in the control framework for this risk.

The main processes involved in the management and control of solvency and capital risk are as follows: **(i)** continuous measurement and internal and external reporting of regulatory capital and economic capital through relevant metrics; **(ii)** capital planning in different scenarios (standardised and stress scenarios, including ICAAP, EBA Stress Test and Recovery Plan), integrated in the corporate financial planning process, which includes the balance sheet projection, the income statement, capital requirements and the Group's own funds and solvency. This is in addition to monitoring the capital regulations in force at present and in the years to come.

The capital management described above lays the foundations for achieving the objective set for the end of the period covered by the 2019-2021 Strategic Plan, on the basis of which the CET1 ratio would stand at around 12% from the end of 2019. Furthermore, the Group aims at building up an additional 1 percentage point buffer during the Plan's horizon to face future regulatory changes, including the finalisation of the Basel 3 framework on 1 January 2022.

The total remuneration planned for distribution to shareholders for the 2019 financial year is EUR 0.15 gross per share, equating to 53% of the consolidated net profit. For 2020, CaixaBank expects to distribute between 50% and 60% of its consolidated net profit, according to the dividend policy that was approved by the Board of Directors on 30 January 2020.

4.2 SREP and capital buffers

4.2.1. Minimum requirements (Pillar 1 and Pillar 2R)

In the context of Basel Pillar 2, CaixaBank Group carries out an annual Internal Capital Adequacy Assessment Process (ICAAP), with a financial conglomerate approach. This process covers the Group's banking-insurance activities, thus capturing the specific characteristics of CaixaBank Group's business model. This process consists of the following: **(i)** financial planning over a three-year horizon, in a range of stress scenarios; **(ii)** a risk assessment to identify risks to which the Group may be exposed; and **(iii)** a capital adequacy analysis, in terms of both own funds and capital requirements, from a purely internal (economic) perspective. In particular, an assessment is made of potential requirements for risks other than credit, operational and market risk, such as interest rate and business risk, among others.

The ICAAP process is thoroughly integrated into the Group's management, and it is carried out in accordance with guidance from the supervisor and the European Banking Authority (EBA). The results of the process are reported each year to the supervisor.

The ICAAP is a core input into the ECB's Supervisory Review and Evaluation Process (SREP).

Based on the SREP, every year the ECB sets minimum capital requirements for each entity. These requirements comprise the sum of the minimum level that is common to all financial institutions (Pillar 1, pursuant to Article 92 of the CRR) and a specific minimum requirement also known as Pillar 2R (pursuant to Article 104 of CRD IV). In 2019, Pillar 2R had to be complied with in full through CET1. Pillar 2R is not taken into consideration at the individual level for the calculation of the minimum requirements.

4.2.2. Capital buffers

In addition to the Pillar 1 and Pillar 2R minimum requirements, each financial institution must comply with the combined specific capital requirements assigned to them, which comprise: **(i)** the capital conservation buffers for unexpected losses; **(ii)** the countercyclical buffers; and **(iii)** the systemic risk buffers. This combined buffer requirement (CBR) must be met using the highest quality capital (CET 1).

The capital conservation buffer is established to ensure that banks accumulate capital reserves outside stress periods that can be used in the event of hypothetical losses during stress situations. Since January 2019, a buffer of 2.5% of RWAs is required.

The specific countercyclical buffer is the capital buffer that must be accumulated during expansive periods to strengthen solvency and neutralise the capital requirements' procyclical impact on credit. In general, this varies between 0% and 2.5%, with the competent authorities determining the buffer to be applied to RWAs for exposure in their territory each quarter. Therefore, each entity has its own specific requirements, based on the geographic composition of its portfolio (the weighted average of the percentages of the countercyclical buffers applied in the territories in which it operates). It applies both at a consolidated level and at an individual level, and it may differ between one entity and another. As of 31 December 2019, this buffer is 0.03% for both perimeters.

The systemic buffers are set according to whether a financial institution is considered:

- A Globally Systematically Important Bank (G-SIB) or an Other Systemically Important Institution (O-SII).
- A bank representing a systemic risk.

Since 2016, CaixaBank has been identified each year as an O-SII. The capital surcharge has remained at 0.25%. This buffer applies only at a consolidated level.

1. Systemically important institutions

Each year, the Bank of Spain identifies financial institutions that classify as the following, in accordance with the EBA's methodology:

- Globally Systematically Important Banks (G-SIBs).
- Other Systemically Important Institutions (O-SIIs).

The EBA's key criteria for calculating an institution's systemic importance score are: its size, its importance for the Spanish or EU economy, its complexity (including that derived from its cross-border activities), and its interconnections with the financial system.

The buffer for classification as a G-SIB varies between 1% and 3.5%, while for an O-SII it can reach up to 2% of the total exposure to risk.

The CaixaBank Group's main indicators at 31 December 2018 can be found on the CaixaBank website[1].

The indicators at 31 December 2019 will be published on the Bank's corporate website by no later than 30 April 2020.

[1] https://www.caixabank.com/informacionparaaccionistaseinversores/informacioneconomicofinanciera/indicadoresderelevanciasistemicaglobal_en.html

Systemic risks

Systemic risk buffers exist to prevent long-term systemic or non-cyclical macro-prudential risks that are not covered by the CRR. These risks may disturb the financial system, with potentially serious consequences, as well as disturbing the real economy. The competent authorities may require a buffer of between 1% and 3% for some or all exposures in Spain or in the Member State setting the buffer, as well as for exposures in other countries and other European Union member states. This buffer may either apply to all financial institutions, whether part of a consolidated group or not, or to one or more subsectors of such institutions.

Table 4.2. Capital buffer requirements

In %

Capital buffer	2019
Capital conservation	2.50%
Specific anticyclical[1]	0.03%
Systemic[2]	0.25%

[1] As discretion of competent authorities where exposures are located.
[2] As discretion of competent authorities. Not applicable at individual basis.

4.2.3 Total SREP requirements

For 2019, the European Central Bank (ECB) required CaixaBank to maintain a regulatory CET1 ratio of 8.78% at the consolidated level. This comprised the general minimum requirement for Pillar 1 of 4.5%, a specific Pillar 2R requirement of 1.5%, a capital conservation buffer of 2.5%, an O-SII buffer of 0.25% and a specific countercyclical buffer of 0.03%.

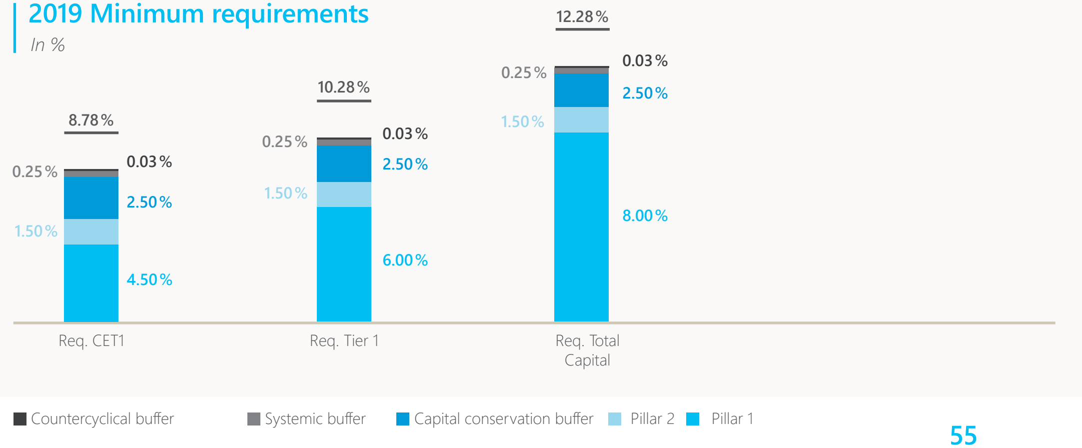
Similarly, based on the 8% Pillar 1 requirement, the minimum Total Capital requirements would reach 12.28%. From 1 January 2019, after the transitional period comes to an end, the phase-in and fully loaded requirements are the same.

Pillar 2R and the O-SII buffer do not apply on an individual level, which means that the individual CET1 minimum requirement would be 7.03%.

The ECB's decision indicates the regulatory CET1 level below which CaixaBank Group would be required to limit dividend payments, as well as variable pay and interest to holders of additional Tier 1 capital instruments. This threshold, known as the maximum distributable amount trigger (MDA trigger), is set at 8.78% in 2019. This threshold would need to be increased by any potential additional Tier 1 or Tier 2 capital deficits arising at any given time relative to the minimum implicit Pillar 1 levels of 1.5% and 2%, respectively. As of December 2019, CaixaBank does not have any such deficits. Compared to current CET1 ratio levels, this requirement means that the requirements applicable to CaixaBank Group would not entail any limitation whatsoever of the types referred to in the solvency regulations.

2019 Minimum requirements

In %



The following table provides a geographical breakdown of exposure by country of origin. The exposures are greater in Spain, where a 0% surcharge applies.

Table 4.3. EU CCyB1 - Geographical distribution of credit exposures used in the countercyclical buffer

Amounts in millions of euros and %

	Credit risk exposures[1]		Trading book exposures		Securitisation exposures		Own funds requirements					
Country	STD approach[2]	IRB approach	Sum of short and long positions	Exposure for internal models	STD approach	IRB approach	Of which: Credit Risk exposure	Of wich: Trading book exposures	Of which: Securitisation exposures	Total	**Own funds requirement weights**	**Countercyclical capital buffer rate**
Spain	37,899	168,175	0	689	4	3,389	7,145	56	47	7,248	75.8%	0.00%
Portugal	23,444	379	-	-	134	-	1,158	-	7	1,164	12.2%	0.00%
United Kingdom	1,563	1,677	-	-	-	-	136	-	-	136	1.4%	1.00%
France	856	1,093	-	-	19	-	134	-	1	135	1.4%	0.25%
Mexico	1,412	236	-	-	-	-	130	-	-	130	1.4%	0.00%
Austria	5	1,585	-	-	-	-	120	-	-	120	1.3%	0.00%
Luxembourg	907	475	5	-	-	-	93	0	-	93	1.0%	0.00%
USA	621	730	-	-	-	-	83	-	-	83	0.9%	0.00%
Netherlands	255	1,244	7	-	-	-	64	0	-	65	0.7%	0.00%
Germany	346	1,443	-	-	-	-	64	-	-	64	0.7%	0.00%
Poland	381	388	-	-	-	-	41	-	-	41	0.4%	0.00%
Canada	416	39	-	-	-	-	36	-	-	36	0.4%	0.00%
Ireland	259	130	-	-	-	-	27	-	-	27	0.3%	1.00%
Norway	303	18	-	-	-	-	25	-	-	25	0.3%	2.50%
Chile	221	65	-	-	-	-	23	-	-	23	0.2%	0.00%
Others	1,305	1,764	-	-	-	-	174	-	-	174	1.8%	0.00%
Total	**70,194**	**179,441**	**12**	**689**	**157**	**3,389**	**9,453**	**57**	**55**	**9,565**	**100.0%**	**0.03%**

[1] Does not include EAD for Credit Value Adjustment Risk (CVA).

[2] For the purposes of calculating the anti-cyclical capital buffer, and as specified in Delegated Regulation 2015/1555, the relevant credit exposures will include all those categories of exposures other than those referred to in article 112, letters a) to f) of the Regulation (EU) No 575/2013.

Table 4.4. Amount of institution-specific countercyclical capital buffer

Amounts in millions of euros and %

	Value
Total risk exposure amount	147,880
Institution specific countercyclical buffer rate	0.03 %
Institution specific countercyclical buffer requirement	43

4.3 Regulatory capital

4.3.1. Eligible own funds

CaixaBank undertakes a comprehensive capital management to ensure the Bank's solvency and to comply with the minimum requirements at all levels: CET1, AT1 and Tier 2.

In January 2021, it will also cover the MREL requirements. This includes Total Capital and other eligible subordinated instruments, mostly senior non-preferred (SNP) debt and senior preferred debt, in accordance with the BRRD.

Details of CaixaBank's eligible own funds at 31 December 2019, as set out in Appendix IV of the Commission's Implementing Regulation (EU) 1423/2013, are set out in Appendix I of this document. MREL subordinated liabilities (SNP) and other eligible liabilities (SP) are included in the table, despite not being eligible as own funds under the CRR. This does not affect the eligibility of other non-subordinated liabilities as MREL, such as senior preferred debt.

Common Tier 1 (CET1) capital consists of the highest-quality elements of own funds (mostly accounting own funds).

Table 4.5. Eligible own funds

Amounts in millions of euros

	31.12.18	31.12.19
CET1 Instruments	**23,257**	**24,114**
Shareholders' equity	24,836	26,247
Capital	5,981	5,981
Profit	1,985	1,705
Reserves and others	16,870	18,560
Minority interests and OCIs	(786)	(1,103)
Adjustments of comput. of minority int. and OCIs	(36)	13
Other adjustments[1]	(758)	(1,043)
Deductions from CET1	**(6,458)**	**(6,326)**
Intangible assets	(4,250)	(4,232)
Financial investments	(10)	-
Deferred tax assets	(1,991)	(1,875)
Other CET1 deductions	(206)	(220)
CET1	**16,800**	**17,787**
AT1 instruments	**2,233**	**2,236**
AT1 deductions	-	-
TIER 1	**19,033**	**20,023**
T2 instruments	**3,295**	**3,224**
Financing of subordinated issues	3,147	3,150
Excess of IRB provisions	148	74
T2 deductions	-	-
TIER 2	**3,295**	**3,224**
TOTAL CAPITAL	**22,328**	**23,247**
Senior non-preferred issues	2,250	5,632
Other computable subordinate MREL items[2]	53	48
SUBORDINATED MREL	**24,631**	**28,927**
Other computable MREL items	2,943	3,362
MREL	**27,574**	**32,289**

[1] *Mainly the forecast for outstanding dividends and prudential valuation adjustments (AVAs).*
[2] *Mainly subordinated issues not computable as Tier 2.*

As of December 2019, CaixaBank's own funds amount to EUR 26,247 million (EUR 1,411 million more than in 2018). The OCI (accumulated other comprehensive income) is added to the own funds. Instruments eligible as CET1 are further reduced by other elements. These primarily include the expected amount of any outstanding dividends, which is charged to the current year, and any additional valuation adjustments (AVAs).

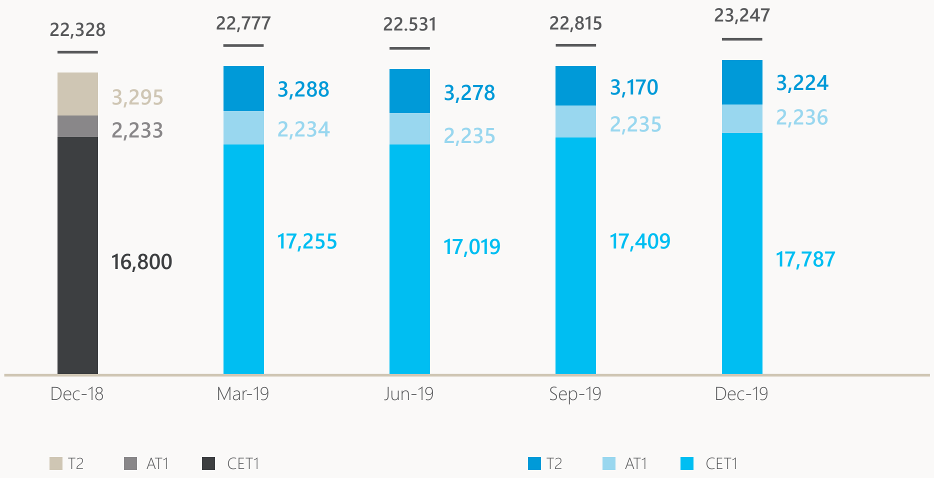
Instruments eligible as CET1 stand at EUR 24,114 million (EUR 857 million more than in 2018).

Deductions applicable to regulatory CET1 include EUR 4,232 million for intangible assets. Other deductions are mostly for deferred tax assets arising from tax losses and other tax credits, as well as for irrevocable commitments to the national Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF).

As a result, regulatory CET1 stood at EUR 17,787 million (EUR 987 million more than in 2018), and the CET1 ratio stood at 12.0%.

Eligible funds evolution

Amounts in millions of euros



Additional Tier 1 (AT1) capital is composed of issuances of eligible hybrid instruments. CaixaBank currently has two senior debt issues for a nominal amount of EUR 2,250 million (the characteristics of the issue are detailed in Appendix II). Tier 1 capital amounted to EUR 20,023 million (EUR 990 million more than in 2018), and the Tier 1 ratio stood at 13.5%.

The components of Tier 2 capital include subordinated funding and the surplus of provisions under the IRB approach.

In December 2019, CaixaBank had 6 own subordinated debt issues with an eligible amount of EUR 3,150 million, taking into consideration the loss of eligibility according to the regulatory schedule. The details of these issues is provided in Appendix II of this document, as set out in Appendix III of the Commission's Implementing Regulation (EU) 1423/2013.

Total Capital amounted to EUR 23,247 million (EUR 919 million more than in 2018), placing the regulatory Total Capital ratio at 15.7%.

To comply with MREL requirements, this year CaixaBank carried out 5 issuances of senior non-preferred debt (SNP), amounting to EUR 3,385 million, and one issuance of senior preferred debt of EUR 1,000 million. As a result, the ratio of subordinated instruments (subordinated MREL) over RWAs, including mostly Total Capital and SNP debt, was 19.6%, and the MREL ration including all eligible liabilities according to the Single Resolution Board was 21.8%.

In January 2020, a new issue of senior debt was carried out, increasing the pro-forma MREL ratio to 22.5%, thereby complying with the requirement established by the SRB for January 2021.

Table 4.6. Variation in regulatory capital

Amounts in millions of euros and %

	2018-2019
CET1 at the beginning of the period	**16,800**
CET1 instrum. movements	**856**
Profit	1,705
Dividend	(897)
Reserves	303
OCIs & others	(255)
CET1 deduc. movements	**132**
Intangible assets	18
Deferred tax assets	102
Other CET1 deductions	11
CET1 at the end of the period	**17,787**
Additional Tier 1 at the begining of the period	**2,233**
TIER 1 instrum. movements	**2**
Eligible Tier 1 instruments	2
Tier 1 deduc. movements	**-**
Additional Tier 1 at the end of the period	**2,236**
Tier 2 at the begining of the period	**3,295**
Tier 2 instrum. movements	**(71)**
Subordinated debt	-
Redemption of issuances	-
Other Tier 2 instruments	(71)
Tier 2 deduc. movements	**-**
Tier 2 at the end of the period	**3,224**

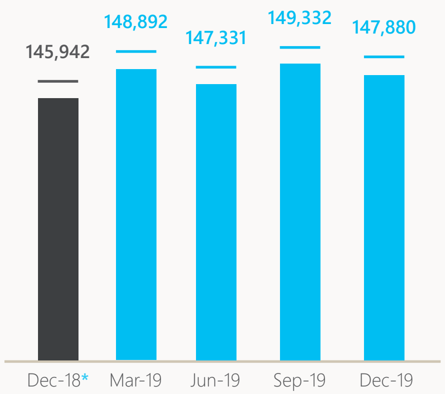
4.3.2. Capital requirements

The quantitative information in this document meets the revised Pillar 3 disclosure requirements of the Basel Committee on Banking Supervision (BCBS).

A number of the most significant tables requested by the BCBS are published on the CaixaBank website every quarter.

RWA evolution

In millions of euros



** For 2018 fully loaded data.*

The risk-weighted assets of the equity portfolio include the RWAs of holdings in insurance companies that are not deducted from eligible own funds (mainly VidaCaixa).

The total volume of RWAs at 31 December 2019 stood at EUR 147,880 million, which is EUR 1,938 million more than in 2018. The following movements occurred during the year: the organic rise in credit risk mainly in the IRB business portfolio, the increase due to the implementation of IFRS 16 on leases and, on the other hand, the decrease in risk of the equity portfolio, due to the end of the divestment in Repsol announced in September 2018 and concluded in 2019.

Table 4.7. EU INS1 - Non-deducted participations in insurance undertakings

Amounts in millions of euros

	Amount (*)
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	2,400
Total RWA	**8,879**

** Corresponds to the equity position in VidaCaixa Group, on which is applied the provision provided in the art. 49.1 of the CRR ("Danish commitment").*
The exposure does not include the goodwill of 973 million that is deducted from CET1.

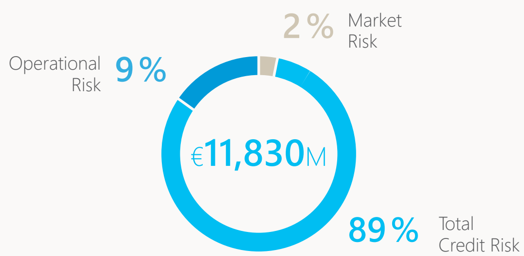
Table 4.8. Capital consumption by segments

In millions of euros and %

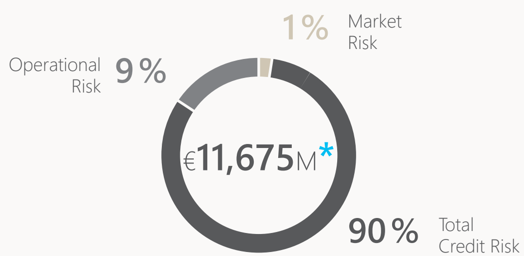
	2018		2019	
	Capital	%	Capital	%
Credit*	10,473	90%	10,581	89%
Market	153	1%	178	2%
Operational	1,049	9%	1,072	9%
Total	**11,675**	**100%**	**11,830**	**100%**

** Includes equity, counterparties and securitizations.*

2019 Capital requirements



2018 Capital requirements



** For 2018 fully loaded data.*

CaixaBank

Table 4.9 provides details of CaixaBank Group's risk-weighted assets and capital requirements for each type of risk at 31 December 2019. The requirements for eligible own funds are equivalent to 8 % of the RWAs.

Table 4.9. EU OV1 - Overview of RWAs

Amounts in millions of euros

			RWA		Capital	
			2018[1]	2019	2018	2019
	1	**Credit risk (excluding counterparty credit risk)**	**125,568**	**126,198**	**10,045**	**10,096**
Article 438 c) d)	2	Of which the standardised approach	58,046	58,838	4,644	4,707
Article 438 c) d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438 c) d)	4	Of which the advanced IRB (AIRB) approach	57,729	57,239	4,618	4,579
Article 438 d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	9,793	10,121	783	810
Article 107, Article 438 c) d)	**6**	**Counterparty credit risk**	**2,939**	**2,867**	**235**	**229**
Article 438 c) d)	7	Of which mark to market	1,781	1,853	142	148
Article 438 c) d)	8	Of which original exposure	-	-	-	-
	9	Of which, Credit Value Adjustment risk (CVA)	-	-	-	-
	10	Of which internal model method (IMM)	-	-	-	-
	11	Of which financial collateral comprehensive method	289	230	23	18
Article 438 c) d)	12	Of which risk exposure amount for contributions to the default fund of a CCP	3	1	0	0
Article 438 c) d)	13	Of which CVA	866	783	69	63
Article 438 e)	**14**	**Settlement risk**	**-**	**-**	**-**	**-**
Article 449 o) i)	**15**	**Securitisation exposures in the banking book (after the cap)**	**267**	**687**	**21**	**55**
	16	Of which IRB - based on External Ratings Approach (RBA)	28	4	2	0
	17	Of which IRB - based on supervisory formula Approach (SFA)	187	146	15	12
	18	Of which internal model method (IMM)	-	-	-	-
	19	Of which standardised approach	52	40	4	3
	20	Of which Internal Ratings Based Approach (SEC-IRBA)	-	436	-	35
	21	Of which External Ratings Based Approach (SEC-ERBA)	-	61	-	5
Article 438 e)	**22**	**Market risk**	**1,922**	**2,224**	**154**	**178**
	23	Of which the standardised approach	1,183	1,232	95	99
	24	Of which IMA	739	992	59	79
Article 438 e)	**25**	**Large exposures**	**-**	**-**	**-**	**-**
Article 438 f)	**26**	**Operational risk**	**13,109**	**13,400**	**1,049**	**1,072**
	27	Of which basic indicator approach	-	-	-	-
	28	Of which standardised approach	13,109	13,400	1,049	1,072
	29	Of which advanced measurement approach	-	-	-	-
Article 437 2), Article 48 and Article 60	**30**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2,350**	**2,504**	**188**	**200**
Article 500	**31**	**Floor adjustment**	**-**	**-**	**-**	**-**
	32	**Total**	**146,155**	**147,880**	**11,692**	**11,830**

[1] *December 2018 data are regulatory*

4.3.3. Trends in solvency

The CET1 ratio stood at 12.0% as of December 2019, up 52 basis points on December 2018. The trend of CaixaBank's solvency level is 2019 reflects a rise of 37 basis points for organic growth, +2 basis points due to regulatory and accounting changes and +13 basis points due to evolution of the markets and other impacts. The main regulatory and accounting changes that have taken place this year are as follows: The first adoption of the IFRS 16 regulation and the new accounting criteria for the defined benefit pension scheme with employees.

The Tier 1 ratio stood at 13.5%, up 50 basis points on the previous year. Since the last year, the Group has maintained 1.5% of AT1 instruments, in accordance with the provisions of Pillar 1 of the capital regulations.

The Total Capital ratio stood at 15.7%, up 42 basis points on December 2018.

To strengthen the MREL ratio, this year CaixaBank carried out 5 issuances of SNP debt, amounting to EUR 3,385 million, and one issuance of senior preferred debt of EUR 1,000 million, resulting in a ratio of 21.8%, up 294 basis points compared with the end of the previous year.

4.3.4. Leverage ratio

The Basel 3 framework introduces the leverage ratio as a non-risk sensitive measure, to be used to limit excessive balance sheet growth relative to available capital. The CRR does not currently include a minimum leverage ratio, but with the approval of CRR 2, a minimum requirement of 3% is established and will come into effect from December 2020.

This ratio is calculated by dividing Tier 1 capital by a measure of exposure based on total assets, less Tier 1 deductions and including, among others, contingent risk and commitments weighted in accordance with the applicable regulations, the net value of derivatives (plus a surcharge for potential future exposure) and other related adjustments. CaixaBank publishes the calculation of the leverage ratio in the quantitative component of the P3D on a quarterly basis, and estimates of the leverage ratio are also calculated in the three-year scenarios for the ICAAP.

At 31 December 2019, CaixaBank Group's leverage ratio stood at 5.9% (+34 basis points more than the previous year), well above the regulatory minimum. In 2019, the ratio was affected by the increase in Tier 1 due mainly to retained profits generated throughout the year (+29 basis points), and by the drop in assets (+5 basis points), mainly due to the management of excess liquidity.

This metric is within the Risk Appetite Framework and is analysed on a quarterly basis. It is currently comfortably above the internal tolerance level (5%).

Appendix III includes the mandatory disclosures established in the Basel Committee on Banking Supervision document and in the EBA's document on leverage ratio disclosure, pursuant to Article 451 (2) of the CRR.

CET1 ratio evolution

In %

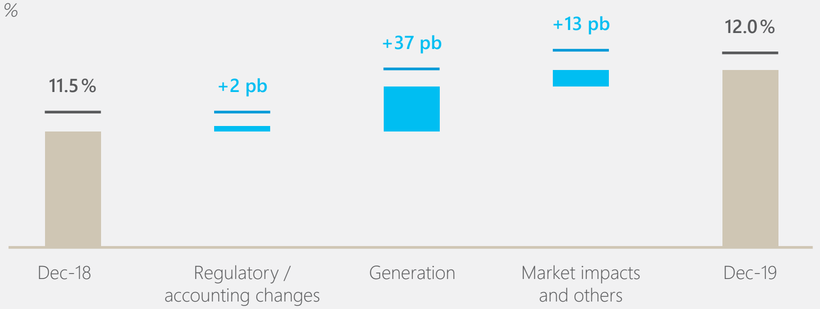


Table 4.10. Leverage ratio

Amounts in millions of euros and %

	Amount
Tier 1	**20,023**
Total regulatory assets	328,357
Tier 1 deductions	(6,326)
Other adjustments*	19,650
Leverage exposure	**341,681**
Leverage ratio	**5.9 %**

** Includes off-balance exposures, derivatives and SFTs.*

4.3.5. Financial Conglomerate

CaixaBank Group has been a financial conglomerate subject to additional supervision since 2014. This supervision entails a heightened degree of monitoring by the supervisor in relation to the Group's financial and insurance operations.

With the application of Basel 3, for solvency purposes, the Bank of Spain authorises CaixaBank to not deduct its investment in insurance companies, pursuant to Article 49.1 of the CRR. The investment is weighted at the rate of 370 %.

In December 2019, the financial conglomerate's coverage ratio (i.e. the conglomerate's own funds compared to the minimum requirements under Solvency 2) stood at 128.3 %, 311 basis points less than the previous year. This is explained, in the main, by the increase in the minimum regulatory requirements following the finalisation of the transition period for implementing capital buffers. This metric is within the Risk Appetite Framework and is analysed on a quarterly basis.

Table 4.11. Conglomerate coverage ratio

Amount in millions euros and %

	Importe
Eligible own funds of the entity	23,247
Addicional items	1,475
Own funds at conglomerate level	**24,723**
Total requirements of the credit institution	18,159
Other requirements	1,107
Total requirements at conglomerate level	**19,265**
Conglomerate coverage ratio	**128.3 %**

4.4. Stress Test

In 2019, the EBA announced that it would conduct a new stress test on the banking sector in 2020, taking data as at 31 December 2019 and spanning the period from 2020 to 2022. However, on 12 March, it announced the suspension of this stress test until 2021, as one of the measures to mitigate the impact of COVID-19 on the European banking sector.

4.5. Economic capital

CaixaBank Group has developed a model for economic capital that measures its available own funds and the capital requirements for all of the risks associated with its activity. This measure complements the regulatory view of solvency and enables better alignment with the Group's risk profile, since it incorporates risks that are not considered, or are only partially considered, in the regulatory requirements. This approach is used **(i)** for the capital adequacy assessment, subject to presentation and periodic review in the Group's corresponding bodies; **(ii)** as a control and monitoring tool; **(iii)** for risk planning, and **(iv)** to calculate the Risk-Adjusted Return (RAR) and the pricing.

The available own funds for economic purposes are determined on the basis of adjusted regulatory own funds, which basically consists of the gains or losses of the fixed-income and equity portfolios that are not registered at their fair value in the accounts, as well as for the market valuation of certain assets and liabilities of VidaCaixa.

The own fund requirements for economic purposes are determined by an internal estimate which the entity adjusts according to its level of tolerance to risk, volume, and type of activity undertaken by the Group. In addition to the risks referred to in Pillar 1 (credit, market and operational risk), it includes others also included in the Corporate Risk Taxonomy (for example, structure of interest rates, liquidity, business, etc.). When managing it, the same confidence level as in the Pillar 1 calculations is applied, i.e. 99.9% of Basel 3.

Two of the most significant differences for credit risk with regard to the regulatory approach are the following:

1. Single large exposures (in excess of EUR 100 million) have a significant impact on economic capital estimates, particularly in the equity portfolio and in the corporate and banking segments. The regulatory formula, which considers infinitely granular portfolios, is not particularly appropriate for covering the level of concentration of the Group portfolio. Accordingly, the internal model reflects the possibility of having single large exposures and it simulates potential default on these specific positions. This means the simulated loss distribution includes the individual concentration risk for large exposures. The opposite effect of this concentration is that it leads to additional diversification among portfolios.

2. Estimation of sensitivities and diversification: 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 estimates introduce additional diversification among portfolios and industrial sectors, as a result of the various sensitivities produced. It also considers specific sensitivities for international financial stakes in the equity portfolio, which provide additional diversification with the rest of the portfolio. 4.6. Recovery and Resolution Plans

4.6 Recovery and Resolution Plans

Following the transposition of Directive 2014/59/EU into Spanish law by Act 11/2015 in 2015, which establishes a framework for the restructuring and resolution of credit institutions, CaixaBank prepares a Recovery Plan each year and provides the information required by the resolution authorities, the Single Resolution Board and the Bank of Spain as the national resolution authority.

In this regard, in 2019, CaixaBank Group updated its Recovery Plan (with data as at the 2018 year-end). This Plan was approved by the Board of Directors and passed on to the Single Supervisor in September 2019.

With regards to the Plan's scope, it covers the entire Group, including BPI and the branches and representative offices abroad.

The Recovery Plan makes it possible to check the feasibility, complexity and effectiveness of a series of recovery measures that could be applied if the company were to suffer a severe crisis situation, thus avoiding a public bailout. The Recovery Plan also poses scenarios that simulate hypothetical situations involving severe financial stress, with the aim of assessing the viability of the measures available in these situations and their ability to ensure the Bank's recovery.

CaixaBank Group's Recovery Plan is fully integrated into the Group's internal management. In this regard, the Plan is aligned with the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP), as well as the Risk Appetite Framework (RAF) through recovery indicators, and it is included in regular monitoring reports. These recovery indicators facilitate the monitoring and control of the financial situation, and a breach of the associated thresholds could result in escalating the decision as to whether to activate the Recovery Plan.

With regards to the Group's resolution plan, this is drawn up and approved by the resolution authorities. CaixaBank collaborates with the resolution authorities and is developing the necessary projects to ensure the availability and supply of the relevant information in the event of resolution, as well as to improve or enhance the Bank's ability to continue operating in a resolution scenario. These include the automation process for the liability data report (LDR) templates, a contract repository with information on significant suppliers and FMI contingency plans.

In the field of resolution, the BRRD requires financial institutions to have a buffer to absorb losses (MREL) to ensure the possible application of the bail-in resolution tool. In this regard, CaixaBank has developed an initial guide for the implementation of this tool. Furthermore, CaixaBank has defined a plan to establish a buffer of instruments that are eligible for the MREL and, additionally, a culture of ensuring the Bank's ability to continue operating in a resolution scenario is instilled throughout the Group, which involves the Governing Bodies.

With regards to the Group's resolution plan, this is drawn up and **approved by the resolution authorities.**

5. Total credit risk

5. Total credit risk

Credit risk arises from the banking and insurance business, treasury operations, securitisation and long-term equity investments (equity portfolio).

Due to the specific treatment provided by prudential regulation for certain exposures subject to credit risk, explicit details are provided of exposures to counterparty risk (derivatives), securitisations and the equity portfolio. Due to CaixaBank´s business model, the first two account for just 3% of total credit risk requirements, while the equity portfolio accounts for 14%. Thus, the remaining 83% of credit risk requirements come from credit investment portfolios, the fixed-income portfolio and other non-debt financial and non-financial assets.

57% of the total assets subject to credit risk are assessed using the IRB approach. If we exclude the risk held with the public sector and financial institutions, as well as assets other than debt (real estate and others) – for which authorisation exists for the permanent application of the standardised approach – IRB coverage is 75%.

Annual evolution

The total RWA increased by 1,132 million euros compared to the previous year. The following movements are of particular note: the organic increase by volume of credit risk mainly in the IRB company portfolio; the increase in credit risk due to the implementation of IFRS 16 on leases and, the decrease in risk of the equity portfolio, due to the end in 2019 of the divestment in Repsol announced in September 2018.

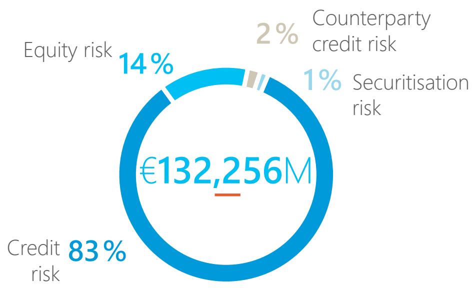
Total credit risk **RWA**
€132,256 M

Total credit risk **EAD**
€321,105 M

EAD under internal models
57% (75% vs. the private sector)

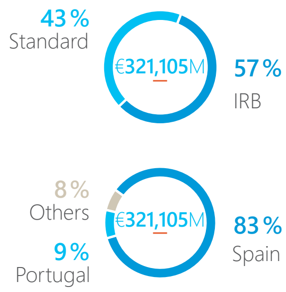
Total RWA for the credit risk

Breakdown by risk %



Total EAD for the credit risk

Breakdown by approach and country %



Total capital requirements for credit risk

Table 5.1. Credit risk dashboard

Amounts in millions of euros

	EAD			RWA			Density	Capital requirements[5]		
	STD	IRB	Total	STD	IRB	Total		STD	IRB	Total
Credit risk[1]	132,730	170,828	303,558	58,838	51,554	110,393	36.4%	4,707	4,124	8,831
Counterparty credit risk[2]	5,388	557	5,945	2,543	324	2,867	48.2%	203	26	229
Securitisation risk[3]	157	3,389	3,546	100	587	687	19.4%	8	47	55
Equity risk[4]	-	8,057	8,057	-	18,310	18,310	227.3%	-	1,465	1,465
Total credit risk	**138,275**	**182,830**	**321,105**	**61,482**	**70,774**	**132,256**	**41,2%**	**4,919**	**5,662**	**10,580**

[1] *Credit risk exposures included. Counterparty, securitsation and equity exposures not included.*
[2] *Counterparty credit risk includes CVA risk and default fund risk.*
[3] *The EAD shown for securitisation risk corresponds to the exposure subject to risk weights before deductions.*
[4] *Equity portfolio includes the investee business in addition to the participation in other listed companies and subsidiaries that are not globally integrated for prudential purposes (mainly VidaCaixa).*
[5] *Capital requirements as 8% on RWA.*

5.1. Credit risk

Credit risk **RWA**	Credit risk **EAD**	**EAD** under internal models
€110,393M	€303,558M	56 % (76% vs. the private sector)

Credit risk is the most significant risk item on the balance sheet and it includes: the impairment and default of credit investment counterparties, the fixed-income portfolio and other assets, mainly real estate assets.

As regards ordinary activity, the group focuses its lending activity towards meeting the funding needs of households and companies while targeting a medium-low credit risk profile, in line with the RAF. The purpose of this is to uphold its high market shares in loans to individuals and SMEs, while also providing more value-added services to the large corporates segment.

Approval of lending transactions follows the basic criterion of evaluation of the borrower's repayment capacity, and it is not the Group's policy to approve transactions merely because guarantees exist. If repayment capacity is deemed to exist, it then becomes important for the Bank to obtain additional guarantees as a risk mitigation factor, particularly in respect of long-term transactions, and to fix a price in accordance with the above two requirements.

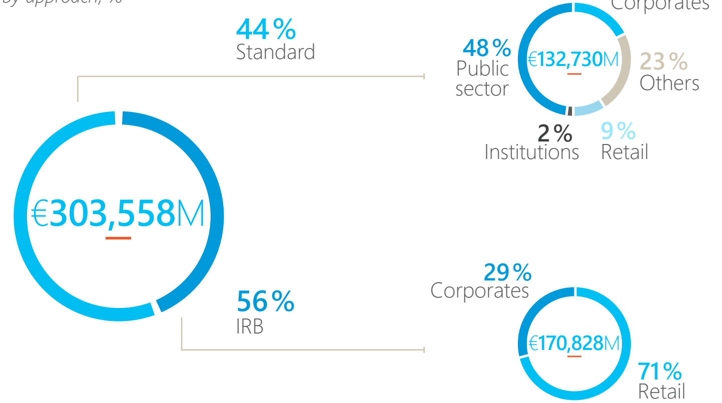
With regard to the geographic distribution of credit risk, 83% is granted to customers in Spain, 9% in Portugal, 5% in the rest of Europe and 3% elsewhere in the world. In terms of distribution by sector, exposure is to individual clients accounts for 41% of the total, followed by non-financial corporations with 37%. By residual maturity, 75% of the exposure has a maturity of more than 1 year, and 51% a maturity of more than 5 years.

Annual evolution

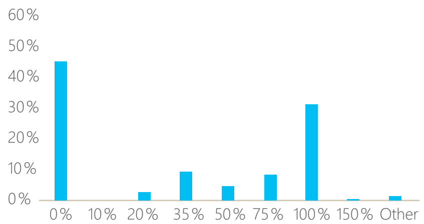
Credit risk RWA have increased by EUR 1,822 million compared to the previous year, mainly due to the volume increase in the IRB company portfolio and the implementation of IFRS 16[1] on leases.

[1] *For further information, see note 1.4 of the CaixaBank Consolidated Annual Financial Statements of December 2019*

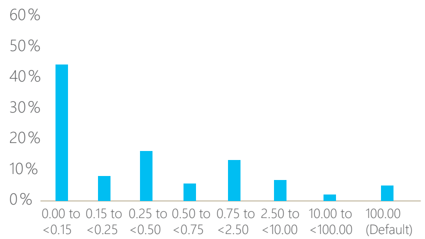
EAD for the credit risk
Breakdown by approach, %



EAD under standardised approach
Breakdown by risk-weighting, %



EAD under IRB approach
Breakdown by PD, %



5.1.1. Credit risk management

Description and general policy

Credit risk corresponds to the loss of value of the assets of CaixaBank Group through a customer or a counterparty, due to the impairment of the capacity of this customer or counterparty to meet their commitments to the Group. It is the most significant risk item from the Group's financial activity, based on marketing banking and insurance, treasury operations and long-term equity investments (equity portfolio).

The main credit risk management goals are:

- To increase funding to the economy whilst ensuring sustainable levels of future defaults. To this end, policies, models and limits are set, intended to control the credit quality of new lending.
- Increasing competitiveness and maximising efficiency through remote channels, through automation and digitalisation of the granting of credit.
- Managing the portfolio of non-performing assets (mainly foreclosed assets) in order to minimise their impact on profitability. The goal is to curb new real-estate entries and maintain high levels of marketing, obtaining positive returns on sales.
- To be prepared for regulatory changes and supervisory standards. For example, in the consumption of regulatory capital deriving from the post-crisis reforms of the Basel 3 Agreement.
- Employing mitigation and risk-transfer strategies for the optimisation of capital requirements, such as synthetic securitisation.

To ensure appropriate protection is given to customers, individuals and credit institutions, the current legal framework (the 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 financial institutions to establish policies, methods and procedures to ensure that process of assessing and granting loan applications is appropriate. Therefore, as a mechanism to protect users of financial services, the new concept of a "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 Appendix 6 of Bank of Spain Circular 5/2012 of 27 June, addressed to credit institutions and payment service providers regarding transparency in banking services and responsible lending.

Similarly, this customer protection was strengthened during 2019 with the implementation of specific policies in the granting of mortgage loans, and also covered under Act 5/2019, of 15 March, regulating real estate credit contracts.

The Corporate Credit Risk Policy, which is approved each year by the Board of Directors, not only fulfils the requirements established in the aforementioned Circular but it also establishes the general framework and basic principles that serve as a reference and minimum standard for the approval, management, measurement and control of all activities related to credit risk; extending to specific policies, standards and procedures.

The key principles and policies that underpin credit risk management in the Group are as follows:

- 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 transaction.
- An appropriate independent assessment of real estate collateral.

  Bearing in mind the current economic and social climate, CaixaBank has devised an Aid Plan for individual customers with mortgages on their main residence who are facing circumstantial financial difficulties. This Aid Plan is designed to achieve three objectives:

  - Pro-actively prevent default.
  - Offer assistance to households with a history as good customers who are at risk of default due to unemployment of one of the mortgage holders, illness, a temporary drop in income, or other circumstantial factors.
  - Reduce the NPL ratio.

CaixaBank has also adhered to the Code of Good Practices for the viable restructuring of mortgage debts on primary residences included in Royal Decree-Act 6/2012 of 9 March, on urgent measures to protect mortgagors without funds, as amended by Act 1/2013 of 14 May, on measures to strengthen the protection of mort-

gage borrowers, debt restructuring and subsidised housing rentals, and Royal Decree-Act 1/2015 of 27 February, regarding second chance mechanisms and the reduction in the financial burden, and Royal Decree-Act 5/2017 of 17 March, amending Royal Decree-Act 6/2012 of 9 March and Act 1/2013 of 14 May.

Structure and organisation of the credit risk control and management function

First line of defence

As stated above, given the business profile and relevance of this risk for the Group, there are several originating areas that also serve the function of a first layer of control: The Business General Management, General Risks Division, the Executive Directorate of CIB and International Banking and the Executive Directorate of Recoveries and Non-Performing Assets.

Second line of defence

Under the scope of Corporate Risk Management Function & Planning, the second line of defence comprises the following divisions linked to credit risk control and management:

The **Credit Risk Policies, Monitoring and Control** department, which is responsible for, inter alia, the framework of governance, review and coordination of granting policies and the management of recoveries and defaults; monitoring, classifying and providing against credit exposures identified as Large Exposures; controlling processes linked to credit risk; and information and regulatory reporting, and it is also responsible for managing the risk profile of the portfolio.

Additionally, the **Regulated Credit Risk Model and Model Validation and Risk** directorates are responsible for, respectively, the credit risk regulated models and for issuing an independent technical opinion on the appropriateness of these models as regards their goals, their implementation and integration in management.

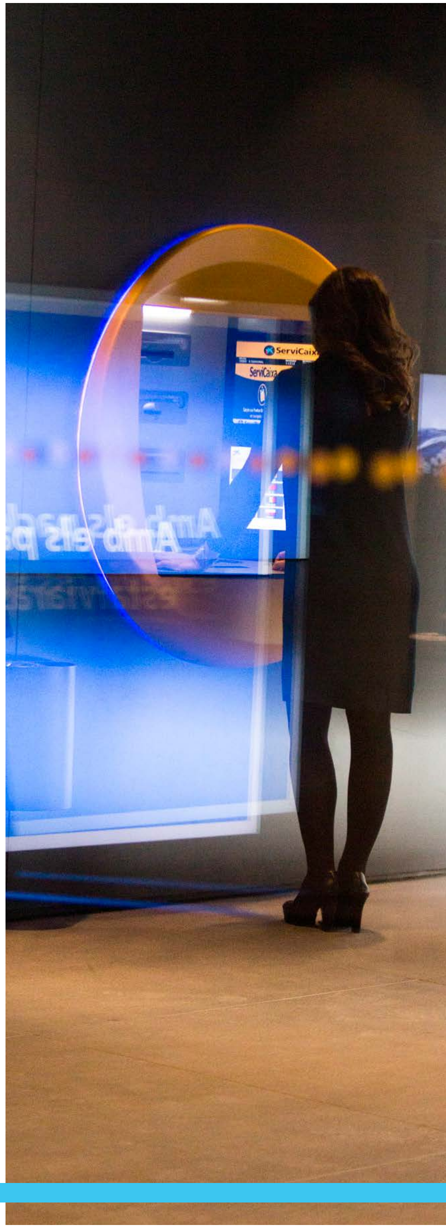
Lastly, among other activities, the **Planning, Impairment and Regulatory Capital** directorate participates in the budgeting and budgetary monitoring of the performance of credit assets, non-performing loans (NPLs) and provisions, the integration and governance of the accounting recognition of impairment and for calculating regulatory capital for credit risk consumption.

Third line of defence

Refer to section 3.4.3 for further details.

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 borrower solvency and returns; and, ultimately, to recovering impaired assets. Diligent management of each of these stages is essential to successful recovery.



1. Admission and approval

The process for underwriting and approving newloans 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.

The decision on the approval of a risk must always be based on documented and verified information on the applicants and on the purpose of the loan. To this end, the authority system is based on an **electronic dossier** that includes all the relevant information needed to analyse and resolve the transaction at the corresponding approval level, capturing basic information –in general automatically– from the computer systems.

In particular one major component in this process of the assessment of a borrower's ability to repay a debt is the probability of default, measured by the scoring and rating systems. These tools were developed using statistical techniques in due consideration of the past experience of default, and include measures to adjust the results to the economic environment.

Except those that can be approved at branch level or by the Business Area Manager, the risk of transactions can only be approved when countersigned by a business manager and risk manager.

This way, branches will deal with applications that require approval levels that fall within their authority. The pillars of the authority system are set out in the following sections. Transactions that exceed a branch's authority will be passed on to the appropriate Risk Admission Centres (RAC), based on the type of customer in question (individuals, self-employed workers and legal persons).

The RACs for individuals and self-employed workers commit to providing a response within 48 hours, with applications pre-approved in certain cases through specific channels, in order to strengthen the Entity's leading position in retail banking in Spain.

In the case of applications by legal persons, the RACs manage the applications within their power levels, and transfer them to specialised headquarter centres in the event the application exceeds their powers. The internal organisation of Business Risk Approvals (Business Lending Office) in the headquarters is based on the following specialised structure, according to the type of risk and customer segment:

The internal organisation of Business Risk Approvals (Company Lending Office) at **Central Services is based on the following specialised structure,** according to the type of risk and customer segment:

Corporate risks	Centralises business groups with annual turnover above EUR 200 million in Corporate centres.
Company risk	Legal entities or business groups with turnover up to EUR 200 million and those with turnover over EUR 200 million not managed by Corporate centres.
Real estate risk	Covers developers in any segment, regardless of turnover, and real estate investment companies.
Tourism and Agri-Food risk	Covers all companies and business groups that operate in the tourism and food and agriculture sectors. It also includes the self-employed segment in the agricultural sector.
Project Finance	Includes all transactions presented under the project finance scheme.
Institutional Banking	It comprises autonomous or central institutions, town councils and local public institutions in provincial capitals or in towns with more than 30,000 inhabitants and members of economic groups or management groups whose interlocutor/parent meets the above criteria.
Sovereign, Country and Financial Institution risk	Responsible for the approval and management of country risk and banking risk inherent in funding transactions for the various segments.

Finally, the following superior risk authorisation levels also exist:

- Permanent Credit Committee (PCC), which has the authority to approve individual transactions up to EUR 100 million, provided that the accumulated risk with the customer is up to EUR 150 million inclusive. It also has general authority to approve transactions that involve exceptions in their characteristics relative to those that can be approved in branches and in the RACs.

- Executive Committee, approves operations that exceed the authority of the PCC.

Authority system

The authority system, based on the **electronic dossier,** assigns an approval level to employees holding a position of responsibility according to the delegation established by Management as the standards associated with their position. The authority system is based on the study of **four key parameters:**

1. Amount

The amount applied for, together with any risk already granted; this is the first key element and it involves calculating the accumulated risk for each of the title holders of the application and their economic group, where applicable. The amount of the transaction is defined using two alternative methods according to the sector to which the transactions belong:

- **Loss weighted by product:** based on the expected loss calculation formula, it takes into account the risk appetite according to the nature of each product. It is applied to applications whose primary holder is a legal person.

- **Nominal:** taking into account the nominal amount and guarantees of risk transactions. It is applied to individuals.

2. Guarantee

The group of assets and/or funds pledged to secure fulfilment of a repayment obligation. The guarantee may either be **personal,** consisting of the solvency of the borrower and their guarantors, or **collateral,** involving a specific asset secured as collateral for a loan.

It is advisable for long-term transactions to have more robust guarantees, such as a mortgage or guarantee from partners or a parent company, as repayment capacity is always subject to the passage of time and the difficulties involved in assessing and controlling investment projects.

However, decisions on whether or not to approve finance must be based on an assessment of the borrower's repayment ability. In any event, the guarantees must be used when there is no repayment capacity or if there is an uncertain purpose to the transaction.

Mortgage guarantees are the main guarantees the Group uses to determine the degree of risk involved in a transaction.

They take into account the type, purpose and other aspects of guarantees, as well as the loan-to-value ratio. This assessment determines which risk approval authority level is able to sign off on the finance application being considered.

3. General Risk Policy

This is the set of policies identifying and evaluating the relevant variables of each type of transaction. These policies include a general study to assess certain characteristics of applications and/or customers, and they can be used to assign a risk approval level, or increase or decrease the approval risk level to the immediately higher or lower level. They play a particularly important role in the field of individuals and self-employed workers, where there are more adjustment criteria. Below are some examples of these policies:

- **Relative small amounts:** determines the level for requests that are of little significance in terms of the cumulative risk of the borrower or its group.

- **Person alerts:** assesses applications where the holder has default alerts in internal or external databases.

- **Risk monitoring:** this policy amends the approval levels depending on the outcome of the monitoring activities.

- **Debt ratio:** measures the repayment capacity of self-employed workers and individuals. For legal entities, the debt ratio is incorporated into the rating calculation on the basis of financial statements.

- **Credit score diagnosis penalty:** using the **scoring** calculation for applications from individuals and the self-employed, a diagnosis is obtained on the approval, review or rejection of the transaction.

4. Term

This refers to the duration of the transactions requested, which must always be coherent with the purpose of the loan. For instance, loans to be used for investment require longer repayment periods. By contrast, it is advisable that the term for funding working capital are no longer than one year.

The term of the loan is a variable that is significant in calculating the consumption of own funds for a transaction given that, in the long term, there is greater uncertainty regarding the borrower's financial future, the value of guarantees and changes to the legal framework and to the socio-economic environment. Therefore, a longer period should be offset with a greater return.

There are specific policies according to the type of transaction and its term, which set out different levels of authority for their approval.

CaixaBank has an authority system for approving risks which, along with analysing the four key parameters, guarantees finance applications are evaluated correctly.

Risk-adjusted pricing

The purpose of calculating the risk-adjusted pricing is to determine the price that covers the total cost of the transaction and allows the asset's return to be better managed.

For pricing purposes, all the factors associated with the transaction will be considered. In other words, costs involving structure, financing, customer historical profitability and expected loss of the transaction. Furthermore, transactions must provide a minimum contribution to financial capital requirements, which will be calculated net of tax.

Tools related to pricing and RAR (Risk-Adjusted Return) allow the highest standards to be reached in controlling the balance between risk and return, making it possible to identify the factors determining the returns of each customer more easily and, thus, to analyse customers and portfolios in accordance with their adjusted returns.

The Business General Management is responsible for approving the prices of the transactions. Following on from this, the determination of the prices is subject to an authority system focused on obtaining minimum compensation and, additionally, on establishing margins according to different businesses.

Risk concentration

Various studies indicate that risk concentration is one of the main causes of significant losses and has the potential to ruin a financial institution's solvency, as was seen in 2008 and 2009.

In the Corporate Risk Taxonomy, concentration risk is included within credit risk, since it is the main source of risk, although it covers all types of assets, as recommended by sector supervisors and as reflected in the best practices.

The Group has developed methodologies, processes and tools to systematically identify its overall exposure. Wherever it is considered necessary, limits on relative exposures to each of these areas have been defined under the RAF.

Specifically, exposures are identified[2] **(i)** in relation to the customer concentration, whereby the Group monitors and controls compliance with the regulatory limits (25% on eligible own funds) and the risk appetite concentration thresholds; **(ii)** in relation to the type of product, where the Group monitors a full perspective of all accounting positions, segregated by product and issuer/counterparty, classified under loans and advances, debt securities, equity instruments, derivatives and guarantees given, complementing the other positions of the Group and of the secured investment and pension funds; **(iii)** by geographical location; and **(iv)** by economic sector, differentiating the position held with different activity segments of the private business sector and lending to the public sector.

> The Group has included –in the RAF– **specific limits to single large exposures, sector concentration, as well as for certain portfolios.** Particularly, for the private business sector, a maximum concentration limit in any economic sector is established by aggregating the accounting positions recognised, excluding treasury repo/depo transactions and those of the held-for-trading portfolio.

[2] *See section 3.3.3. Concentration risk of CaixaBank Group's Financial Statements for more quantitative details of this risk.*

2. Mitigation of the risk

The Group's credit risk management profile is characterised by a prudent granting policy, at a price in keeping with the conditions of the borrower and suitable hedges/guarantees. In any case, long-term operations must have more robust guarantees due to the uncertainty deriving from the passing of time. These guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the operation.

Main techniques for reducing credit risk

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

Transaction offsetting agreements included in clauses of framework offsetting agreements provide an offsetting facility between contracts of the same type. In this respect, when managing risk and calculating own funds, the reciprocal positions between the Group and the counterparty are offset.

Counterparty risk mitigation measures are specified in section 5.2.1. Counterparty risk management.

2. Types of guarantees, and management and valuation policies and procedures

The approval of transactions and their maximum value must be related to the borrower's repayment capacity, such that they can meet their financial obligations in due time and form. If this criterion is met, the provision of additional guarantees is also assessed.

Guarantees are understood as the assets and/or funds pledged to secure fulfilment of a repayment obligation. Guarantees can be personal guarantees, backed by the assets of the borrowers or guarantors, or take the form of a security interest over a specific asset pledged to secure the finance.

All transactions involving a risk are secured by the personal guarantee of the borrowers, irrespective of whether they are an individual or legal entity, given that they pledge all of their existing and future assets to secure fulfilment of the obligations concerned. Furthermore, additional security may be required, representing a risk factor reducer, since it allows unforeseen contingencies to be covered. Thus, the greater the probability of these contingencies occurring, the greater the guarantees demanded must be. Additionally, these guarantees should never be used to substitute a lack of repayment capacity or an uncertain outcome for the transaction.

Effective guarantees

For accounting purposes, effective guarantees are collateral and personal guarantees that can be demonstrated as valid as risk mitigators, according to: **(i)** the amount of time required to be enforced; **(ii)** the ability to realise the guarantees; and **(iii)** the experience in realising them.

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

Personal guarantees or guarantees constituted through the solvency of holders and guarantors

Most of these relate to risk transactions with companies in which the collateral provided by the shareholders, irrespective of whether they are individuals or legal entities, is considered relevant. 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 or guarantees that affect a specific asset

The main types of collateral accepted are as follows:

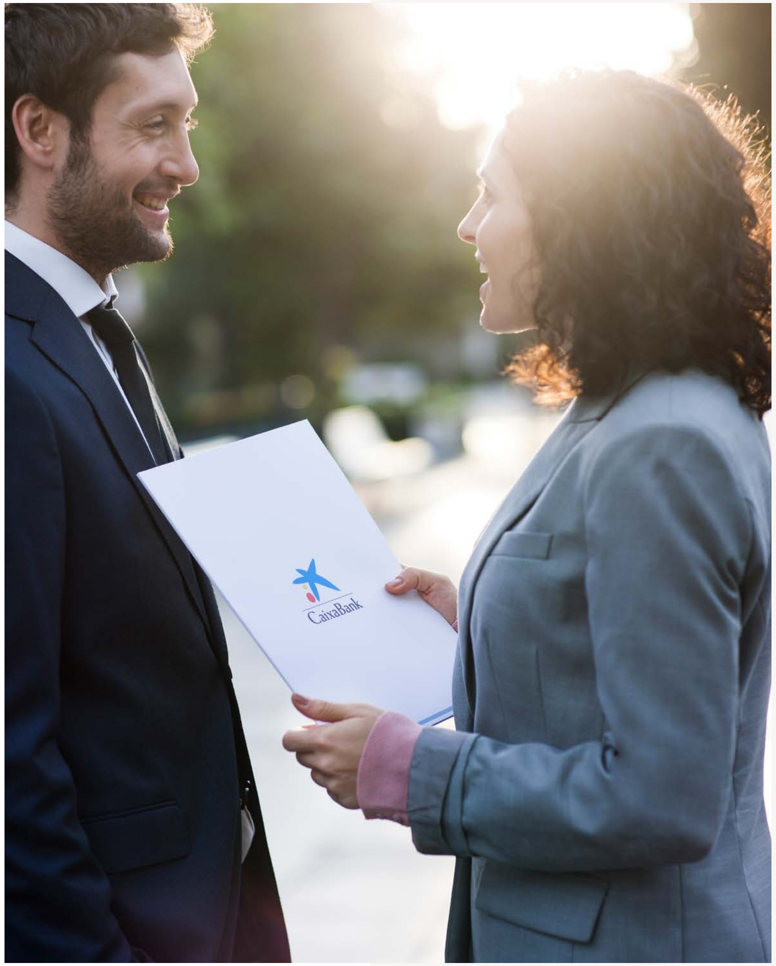
- **Pledged guarantees:** they notably include the pledge of funding transactions or the intermediated balances.

To be admitted as collateral, financial instruments must, among other requirements: **(i)** be free of liens and charges; **(ii)** their contractual definition must not restrict their pledge; and **(iii)** their credit quality or change in value must not be related to the borrower. The pledge remains until the loan matures or is repaid early, or it is derecognised.

During the guarantee registration process, the system verifies that a pledge can be applied on the security in question and determines the applicable pledge percentage. This varies depending on the type of financial instrument involved, between 100% for cash and 50% for equities.

The main financial instruments that can be pledged are:

- **Sight savings books:** on which a pledge is drawn up for a specific sum. The rest may be freely drawn, and may even be used as security for another transaction.
- **Term deposits and savings facilities:** the total sum of the deposit is effectively withheld.
- **Investments in mutual funds:** these must be Spanish mutual funds, or funds of international managers registered with the CNMV and marketed by CaixaBank through Allfunds Bank. The guarantee withholding is applied to the number of holdings that make up the amount of the transaction, depending on the valuation at the time of pledging. Other holdings may be pledged to secure lending transactions.



- **Life-savings insurance policies:** the pledge is made on the associated policy and for the lowest value between the surrender value and the sum of the capital, pensions and contributions. The pledged policy is fully affected.
- **Fixed income securities:** these must be senior or mortgage bond issues, and they may not be subordinated, convertible or preference issues. The securities must be admitted for trading in a regulated market of the European Union or similar, and have a rating of at least BBB.
- **Equity securities:** they may be pledged, provided they are quoted on a regulated market of the European Union or similar.

- **Mortgage guarantee or guarantees that affect a specific asset:** it is a real right on immovable property to secure an obligation.

Internal policies establish the following:

- The **procedure for approval of guarantees** and the requirements for drawing up operations, e.g. the documentation that must be supplied and the mandatory legal certainty of this documentation.
- The **review processes for the appraisals** registered, in order to ensure proper monitoring and control of the guarantees. Regular processes are also carried out to check and confirm the appraisal values, in order to detect any anomalies in the procedures used by the valuation companies supplying the Group.
- The **outlay policy,** mainly concerning property development and self-development transactions.
- **Loan-to-value (LTV)** of the transaction. The capital to be granted in mortgage transactions is limited to percentages of the value of the guarantee, which is defined as the lowest amount out of the appraisal value 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.
- **Credit derivatives:** guarantors and counterparty. The Group occasionally uses credit derivatives, contracted with entities with a high credit level and protected by collateral contracts, to hedge against credit risk.

The following tables show information on **credit risk exposures** by type of guarantee applied to mitigate credit risk as at 31 December 2019 (not including the equity portfolio, counterparty, or securitisations).

Table 5.2. Exposure by application of mitigation techniques

Amounts in millions of euros

	EAD			
Type of guaranty	STD approach	IRB approach	Total	%
Mortgages	15,836	109,321	125,157	41.23 %
Collateral	233	1,730	1,963	0.65 %
Personal	116,661	59,777	176,438	58.12 %
Total	**132,730**	**170,828**	**303,558**	**100.00 %**

Table 5.3. Standardised approach: exposure by application of mitigation techniques

Amounts in millions of euros

	EAD			
Type of guaranty applied in the credit risk mitigation - SA portfolio	Mortgages guarantees	Collateral	Personal guarantees	Total
Central governments or central banks	8	0	48,242	48,250
Regional governments or local authorities	235	12	10,371	10,618
Public sector entities	291	13	4,197	4,500
Multilateral development banks	-	2	755	757
International organisations	-	-	-	-
Institutions	0	1	2,275	2,276
Corporates	196	164	23,507	23,867
Regulatory retail exposures	31	41	11,654	11,726
Exposures secured by mortgages on immovable property	14,859	-	57	14,916
Exposures in default	48	1	895	944
Exposures associated with particularly high risks	167	-	132	299
Covered bonds	-	-	7	7
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-
Equity exposures	-	-	-	-
Other assets	-	-	14,569	14,569
Total	**15,836**	**233**	**116,661**	**132,730**

Table 5.4. IRB approach: exposure by application of mitigation techniques

Amounts in millions of euros

	EAD			
Type of guaranty applied in the credit risk mitigation - IRB portfolio	Mortgages guarantees	Collateral	Personal guarantees	Total
Corporates	5,523	387	32,508	38,418
SME	6,096	334	5,180	11,610
Retail - Residential Mortgage	88,135	-	-	88,135
SME - Mortgage	9,567	-	-	9,567
Retail - Qualifying Revolving	-	-	6,840	6,840
Retail - SME	-	585	9,082	9,668
Other Retail	-	424	6,166	6,590
Total	**109,321**	**1,730**	**59,777**	**170,828**

3. Monitoring and measurement of credit risk

The Group has a monitoring and measurement system that guarantees the coverage of any borrower and/or transaction through methodological procedures adapted to the nature of each holder and risk:

1 BORROWER MONITORING PROCESSES

SCOPE

INDIVIDUALISED MONITORING

Large Exposures:
By economic group of borrowers
- EUR 20 million, in general.
- EUR 10 million if they have operation with "Watch-list performing" risk.
- EUR 5 million, if portfolio has sig. expected loss (>EUR 200 thou.).
- EUR 1.2 million if it corresponds to Corporate Banking.
- Other individually significant assets.

Market and balance sheet risk: *Per borrower*
- When there is market information.

COLLECTIVE MONITORING

Rest of operations/ borrowers

2 QUANTIFICATION AND ASSESSMENT OF THE CREDIT RISK

RATING METHODOLOGY

Manual:
- Monitoring reports with ratings for each borrower.

Automatic
- Model based on statistical patterns, (Early Alert Model, EAM), the PD calibrated with a forward-looking view and other relevant alerts.

3 DEFINING THE ACCOUNTING CLASSIFICATION

STAGING: ASSESSMENT OF THE EXISTENCE OF SICR AND DEFAULT

***Single Names* (SN)**
- Borrowers that, due to their exposure volume or associated risk, require customised and expert treatment.
- File on SN and ongoing and proactive management via triggers.

Rest (NON-SN)
- Classification through automatic precesses.
- There is alignment between the monitoring rating and accounting classification.

4 DEFINING THE HEDGE ACCOUNTING

BASED ON THE EXPECTED LOSS

Stage 2 and 3:
- Calculation of the manual provision based on expert opinion.

Rest (Stage 1 and Stage 2/3 NON-SN)
- Monitoring
- Hedging determined through statistical models based on the Group's experience and forecasts of relevant variables.

1. Borrower monitoring processes

The purpose of the monitoring action is to determine the quality of the risk assumed with the borrower ("Monitoring Rating") and any actions to be taken depending on its result, including the estimation of impairment. The targets of risk monitoring are the accredited holders of the debt instruments and off-balance-sheet exposures that bear credit risk, and the profit or loss is a reference for the future granting policy.

The Credit Risk Monitoring Policy is based on the type and specific nature of the exposure, which is segregated into differentiated areas, in accordance with the various credit risk measurement methods.

The Monitoring Rating is an assessment of the situation of each customer and their risks. The different ratings are, from best to worse: imperceptible, low, medium, medium-high and non-performing; and they can be generated **manually** (in the case of the scope of borrowers under individualised monitoring) or **automatically** (for the rest).

- **Individualised:** applied to exposures of a significant amount and/or that have specific characteristics. The monitoring of Large Exposures leads to the issuance of group monitoring reports, concluding in a monitoring rating for the borrowers in the group.
- **Group:** the ratings are obtained by combining a statistical model, referred to as the Early Alert Model (EAM), the Probability of Default (PD) calibrated with a forward-looking view[3] (consistent with the PD used to calculate the credit risk hedges) and other relevant alerts. Both the EAM and the PD are obtained at least on a monthly basis, and daily in the case of the alerts.
- Additionally, the EAM and PD models are subject to the Credit Risk Model Corporate Policy.

2. Quantification and assessment of credit risk

Credit risk quantifies losses that might derive from failure by borrowers to comply with their financial obligations, based on two concepts: expected loss and unexpected loss.

- **Expected Loss (EL):** the average or mathematical expectation of potential losses foreseen, 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 losses with respect to the estimated expected loss. This can occur due to sudden changes in cycles, alterations in risk factors, and the dependence between the credit risk for the various debtors. Unexpected losses have a low probability and large amount, and should be absorbed by the Group's own funds. The calculation of unexpected loss is also mainly based on the transaction's PD, EAD and LGD.

Credit risk parameters are estimated based on the historical default experience. To do so, the Group has a set of tools and techniques for the specific needs of each type of risk, described below based on how they affect the three factors for calculating the expected loss:

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

  This estimate is obtained based on the internal default experience, relating the drawdown levels upon default with drawdown levels over the 12 preceding months. Several variables are considered to build the model, such as product type, term to maturity and customer characteristics.

- **PD:** the Group uses management tools covering virtually all of its lending business to help predict the probability of default associated with each borrower.

  These tools, implemented in the branch network and the risk monitoring and granting channels, were developed on the basis of NPL experience and include the measurements required to fine-tune the results both to the business cycle, with a view to securing relatively stable measures in the long term, and to recent experience and future projections.

[3] *For further details on the incorporation of forward-looking information into the expected loss models, see section 3.3.2.3. Monitoring and measurement of credit risk in the CaixaBank Group Report.*

The models can be classified according to their orientation toward the product or customer:

- **Product-oriented tools** are used mainly within the scope of authorisation of new retail banking transactions (approval scorings) and take account of the debtor's characteristics, information derived from the customer relationship, internal and external alerts, as well as the specific characteristics of the transaction to determine its probability of default.

- **Customer-oriented tools** assess the debtor's probability of default. They comprise behavioural 'scoring' models for the monitoring of risk of individuals and ratings or companies.

  - Rating tools for **corporates** are specific according to the customer segment. The rating process for micro-enterprises and SMEs, in particular, is based on a modular algorithm, in which four different areas of data are rated: the financial statements, the information drawn from dealings with customers, internal and external alerts and certain qualitative factors.

  - As regards **large corporates,** the Group has models that require the expert criteria of analysts, and their goal is to seek to replicate and be coherent with the ratings of rating agencies. In view of the lack of sufficient frequency of internal default rates for drawing up purely statistical models, the models were built in line with the Standard & Poor's methodology, enabling the global public default rates to be used, making the methodology much more reliable.

  The customers are scored and rated on a monthly basis in order to keep the credit rating up-to-date, except for the rating of large corporates, which is updated at least annually, and whenever significant events occur that can alter credit quality. For legal entities, the financial statements and qualitative information is updated periodically to achieve the maximum level of coverage of the internal rating.

- **LGD:** quantifies the percentage of debt that cannot be recovered in the event of borrower default.

The historic loss given default is calculated using internal information, taking into account the cash flows associated with contracts from the moment of default. The models enable loss given defaults to be obtained based on the guarantee, the Loan to Value ratio, the product type, the borrower's credit quality and, for uses in which it is required by regulation, the recessional conditions of the economic cycle. This calculation also makes an estimate of the indirect expenses (office staff, infrastructure costs and similar) associated with the recovery process. In the case of large corporates, loss given default also includes elements of expert judgement, coherent with the rating model.

In addition to regulatory use to determine the Group's minimum own funds and the calculation of hedges, the credit risk parameters (PD, LGD and EAD) are used in a number of management tools, e.g. the Risk-Adjusted Return (RAR) calculation tool, pricing tools, customer pre-qualification tools, monitoring tools and alert systems.

In addition to regulatory use to determine the Group's minimum own funds and the calculation of hedges, the credit risk parameters (PD, LGD and EAD) are used in a number of **number of management tools,** e.g. the Risk-Adjusted Return (RAR) calculation tool, pricing tools, customer pre-qualification tools, monitoring tools and alert systems.

3. Defining the accounting classification

Accounting definitions of default and impaired positions [4]

A financial asset is considered to be impaired when there is objective evidence of an adverse impact on the future cash flows as regards those that were estimated at the time the transaction was granted, where the borrower is unable or will be unable to meet its obligations in time or form, or when the asset's carrying amount may not be fully recovered. However, a decline in fair value to below the cost of acquisition is not in itself evidence of impairment.

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

OBSERVED IMPAIRMENT OF CREDIT RISK SINCE ITS INITIAL RECOGNITION

CREDIT RISK CATEGORY	PERFORMING STAGE 1	WATCH-LIPERFORMING STAGE 2	NON-PERFORMING STAGE 3	WRITE-OFF
Classification and transfer criteria	Operations whose credit risk has not significantly increased since their initial recognition.	Operations whose credit risk has significantly increased (SICR), but they do not have any default events.	Operations with credit impairment. Default event: with amounts past due of over 90.	Operations without reasonable expectations of recovery.
Calculation of the impairment hedge	Expected credit losses at twelve months.	Expected credit losses during life of the operation.		The recognition in results of losses for the carrying amount of the operation and the total derecognition of the asset.
Interest calculation and recognition	It is calculated by applying the effective interest rate to the gross carrying amount of the operation.		It is calculated bt applying the effective interest rate at amortised cost (adjusted to reflect any impairment value correction).	It is not recognised in the income statement.
Included operations	Initial recognition of the financial instruments.	Operations included in sustainability agreements that have not completed the trial period. Operations made by insolvent borrowers that should not be classified as non-performing or write-off. Refinanced or restructures operations that should not be reclassified as non-performing and that are still in the trial period. Operation with amounts past due of over **30 days**. Operations for which, through market indicators/triggers, it is possible to determine that a significant increase of risk has occured.	**Doubtful due to borrowe arrears:** operations with amounts past due of over **90 días.** Transactions where all holders are classified as non-performing (personal risk criteria). **Doubtful for reasons other than borrower arrears:** • Operations that pose reasonable doubts regarding full repayment. • Operations with legally demanded balances. • Operations in which the collateral execution process has been initiated. • Operations and guarantees of the holders in insolvency proceedings with no loquidation petition. • Refinanced operations classifiable as non-performing. • Operations bought/originating with credit impairment.	Operations with remote recovery possibility. Partial write-offs without the extinction of the rights (partial write-off). Operations that are non-performing due to borrower arrears in excess of 4 years when the amount not secured by effective guarantees is fully covered for more than 2 years (except when it has effective collaterals that cover at least 10% os the gross amount). Operations with all the holders in insolvency proceedings in the liquidation phase (unless they have affective collaterals that cover at least 10% of the gross amount).

[4] *For further details on the Group's accounting criteria, see note "2. Accounting principles and policies and valuation criteria" in the Notes to the Group Financial Statements.*

Performing, or **Stage 1,** comprises instruments that do not meet the requirements for classification in other categories.

The next tranche, known as **Stage 2** or watch-list performing, encompasses all transactions which, without qualifying individually for classification as non-performing or write-off risk, show impairment in their credit quality from the time they are granted. It is assumed that any transactions with amounts that are more than 30 days overdue show weaknesses, unless proven otherwise.

With regard to **Stage 3,** considered non-performing, due to the customer's arrears, the amount to be classified in this category includes the total amount of any debt instruments with a portion of principal, interest or contractually agreed expenses that is past-due more than 90 days, regardless of who the obligor is and whatever the guarantee or collateral, unless such instruments should be classified as write-offs. This category also includes guarantees given where the guaranteed transaction is non-performing. Cluster-effect criteria for personal risk are also applied to a borrower when transactions with amounts that are more than 90 days overdue represent more than 20% of the outstanding amounts.

In the case of off-balance-sheet exposures not classified as non-performing due to customer arrears which are likely to be paid, and where their recovery is considered unlikely, they will be classified as **Stage 3** for reasons other than the arrears.

The Group classifies debt instruments for which – after an individual analysis – recovery is considered remote, as write-offs, regardless of whether they have matured. It proceeds to derecognise the asset, without prejudice to any actions that may be initiated to seek collection until their contractual rights are extinguished definitively by expiry of the statute-of-limitations period, forgiveness or any other cause.

In order to reclassify transactions to this category before these terms expire, it is necessary to demonstrate the remote likelihood of recovering the corresponding balances.

According to the Group's experience of recoveries, it deems the recovery of the remaining balance of mortgage transactions remote when there is no additional collateral once the good has been recovered, and therefore, the aforementioned remainder is classified as a write-off.

Prudential definition of default

The definition of default used for regulatory purposes is provided for in Article 178 of the Capital Requirements Regulation (CRR) (EU) 575/2013 implemented in the guidelines EBA/GL/2016/07; hereinafter NDoD (New Definition of Default).

The most differential aspects of the NDoD with respect to the accounting definition are as follows:

- **Materiality thresholds:** the materiality criterion incorporates a relative component in addition to the absolute component for individuals (€100 and 1 %) and legal entities (€500 and 1 %).
- **Default period counting:** a default is identified after 90 consecutive days due taking into account the abovementioned materiality thresholds.
- **Cure period:** once the asset is no longer in a default situation, if -during the following 3 months- there are amounts due exceeding materiality thresholds for more than 30 consecutive days, the transaction would be considered in arrears again.
- **Drag effect:** contracts in which the best holder, or all holders, are non-performing, are transferred to default.

Accounting classification process

The accounting classification of transactions with credit risk among the different Stages of IFRS 9[5] is defined according to whether a default event has occurred and/or whether there has been a significant increase in credit risk (SICR) since the transaction's initial recognition.

It will be considered that there has been SICR and, therefore, the transactions will be classified as **Stage 2,** when there are weaknesses that may involve significantly higher losses than expected at the time the credit is granted. To identify weaknesses in transactions and borrowers, the Group has the monitoring and rating processes described in the previous point **2.** Quantification and qualification of credit risk. The following will be considered as a weakness: a significant deterioration in the monitoring rating or a relative increase in relevant PD with respect to the origin of the transaction.

Additionally, the following transactions will be classified as **Stage 2:**

[5] *See Note 2 of the CaixaBank Group Report.*

i) transactions included in a sustainability agreement that have not reached the end of their trial period;

ii) refinancing, refinanced or restructured transactions that should not be reclassified as non-performing and that are still in the trial period;

iii) transactions made by insolvent borrowers that should not be classified as **Stage 3** or write-offs; and

iv) transactions with amounts past due of over 30 days, unless proven otherwise.

v) Unless they are identified as refinancing, refinanced or restructured transactions, those that no longer meet the conditions to qualify for **Stage 2** will be classified as **Stage 1.**

With respect to **refinancing,** refinanced or restructured transactions that classify as **Stage 2** due to failing to proceed to classify them as **Stage 3** on the date of refinancing or restructuring or due to having been reclassified from the **Stage 3** category, they will remain identified as **Stage 2** for a probationary period until they meet all the following requirements:

i) it is concluded that they are unlikely to have financial difficulties and therefore it is highly probable that they will meet their obligations vis-a-vis the entity in both time and form;

ii) a minimum period of two years has elapsed from the date of authorisation of the restructuring or refinancing transaction, or, if later, from the date of its reclassification from Stage 3;

iii) one of the borrowers must have no other transactions with past due amounts for more than 30 days at the end of the trial period; and

iv) the borrower has covered all the principal and interest payments from the date of authorisation of the restructuring or refinancing transaction, or, if later, from the date of its reclassification from Stage 3.

Furthermore, the borrower must have made regular payments of an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing transaction, or that were derecognised as a result of it, or when it is deemed more appropriate given the nature of the transactions that the borrower complies with other objective criteria that demonstrate their payment capacity. This implies that there are no contractual clauses that may delay repayments, such as grace periods for the principal.

It will be considered that there has been a **default** and, therefore, a transaction will be classified at **Stage 3** when –regardless of the holder and the guarantee– there is an amount overdue (capital, interests or contractually agreed costs) by more than 90 days, as well as the transactions of all other holders when transactions with past due amounts of over 90 days account for more than 20% of the amounts pending collection.

Transactions classified as **Stage 3 due to the customer being non-performing** will be reclassified to **Stage 1** or **Stage 2** when, as a result of collecting part of the overdue amounts, the reasons that caused their classification as **Stage 3** disappear and there remain no reasonable doubts regarding their full repayment by the holder for other reasons.

Additionally, the following transactions will be classified as **Stage 3**:

i) transactions with legally claimed balances;

ii) transactions in which the collateral execution process has been initiated;

iii) transactions made by insolvent borrowers that should not be classified as write-offs;

iv) refinancing, refinanced or restructured transactions classifiable as non-performing including those that, having been classified as non-performing before the trial period, are refinanced or restructured or that have amounts that are more than 30 days past-due; and

v) transactions with holders who, after an individualised review, pose reasonable doubts regarding full repayment (principal and interest) in the contractually agreed terms.

Unless they are identified as refinancing, refinanced or restructured transactions, those classified as **Stage 3 for reasons other than the customer being non-performing** can be reclassified to **Stage 1** or **Stage 2** if, as a result of an individualised study, the reasonable doubts regarding their full repayment by the holder in the contractually agreed terms disappear and there are no amounts overdue by more than ninety days on the date of reclassification to **Stage 1** or **Stage 2.**

In the case of refinanced, restructured or refinancing transactions, in order to consider the credit quality of the transaction to have improved and, therefore, to proceed to reclassify it to **Stage 2,** all the following criteria must be verified in general:

i) a period of one year has elapsed from the refinancing or restructuring date;

ii) the borrower has covered all the principal and interest payments (i.e. the transaction has no overdue amounts) thereby reducing the renegotiated principal, from the date of authorisation of the restructuring or refinancing transaction, or, if later, from the date of its reclassification to the non-performing category;

iii) the borrower has made regular payments of an amount equivalent to the whole amount (principal and interest) falling due at the date of the restructuring or refinancing transaction, or that were derecognised as a result of it, or, when it is deemed more appropriate given the nature of the transactions, the borrower complies with other objective criteria that demonstrate their payment capacity; and

iv) one of the borrowers must have no other transactions with past due amounts for more than 90 days.

The exposures of borrowers declared **subject to bankruptcy proceedings without an application for liquidation** shall be reclassified to **Stage 2** if the borrower has paid at least 25% of the credit from the entity that is affected by the bankruptcy proceedings (once the agreed debt reduction, if any, has been deducted), or if two years have elapsed since the order approving the creditors' agreement was registered with the Commercial Register, provided that this agreement is being faithfully performed and the equity and financial situation of the corporation dispels any doubts regarding full repayment of its debts, all unless interest has been agreed that is noticeably lower than the market rate.

The process for determining the borrower's accounting classification is specified below:

- **Single Name:** these borrowers are constantly assessed as regards the existence or indications of impairment, as well as a potential significant increase in credit risk (SICR) from the initial recognition, and losses associated with the assets of this portfolio are assessed.

  In order to help with the proactive management of evidence and indications of impairment and a significant increase in risk, the Group has developed triggers, for borrowers and for the transaction, that are grouped according to the sector to which they belong, since the latter conditions the type of information required to analyse the credit risk and the sensitivity to the evolution of variables indicative of the impairment. The triggers are an indication of impairment of the asset affecting the customer or the transactions. These triggers are assessed by the analyst to determine the classification of the customer's transactions in **Stage 2** or **Stage 3:**

  1. **Global triggers:**

  Financial difficulties of the issuer or debtor: subjective doubtful triggers (i.e. unfavourable financial information on the debtor, measured via various ratios on the available financial statements) and triggers of a minimum of **Stage 2** (due to deterioration of the monitoring rating).

  A breach of contract, such as a default or delinquency in interest or principal payments: **Stage 3** triggers (i.e. non-payments exceeding 90 days) and triggers of a minimum of **Stage 2** (non-payments exceeding 30 days).

  In the event of financial difficulties, the borrowers are given concessions or advantages that would otherwise not be considered. Trigger of a minimum of **Stage 2** (refinancing).

  Probability of the borrower declaring bankruptcy or restructuring. **Stage 3** trigger (declared insolvent).

  - Market triggers. There are triggers referring to identifying financial difficulties of the debtor or issuer, referring to breaches of contractual clauses or to the disappearance of an active market for the financial security.

  1. **Specific triggers:** for sectors such as property developers, project finance and public administrations.

  In cases in which, in the opinion of the analyst, contracts are classified as **Stage 2** or **Stage 3**, the Group proceeds to the expert calculation of the specific provision.

- **Other contracts (not Single Name):** as previously stated, when the borrower's rating has significantly deteriorated or when there is a relative increase of relevant PD with respect to the start of the transaction, the Group proceeds to classify the contract at accounting Stage 2. For these purposes, the classification is revised on a monthly basis, using the most recent monitoring classification and PD classification, which are updated at least monthly.

  All other classification criteria in **Stage 2** or **Stage 3** are also revised monthly.

4. Determining the accounting hedge

The aim of the IFRS 9 requirements as regards impairment is to ensure recognition of the expected credit losses of transactions, assessed collectively or individually, considering all the reasonable and substantiated information available, including information of a prospective nature (forward looking).

Principles for measuring expected credit losses for the purpose of defining the credit risk loss hedges

The calculated accounting hedge or provision is defined as the difference between the gross carrying amount of the transaction and the estimated value of future expected cash flows, discounted at the original effective interest rate of the transaction, **considering the effective guarantees received.**

The Group estimates the expected credit losses of a transaction so that these losses reflect:

i) a weighted and non-biased amount, determined through the assessment of a series of possible results;

ii) the time value of the money, and

iii) the reasonable and substantial information that is available at the reference date, at no disproportionate cost or effort, on past events, current conditions and forecasts of future economic conditions.

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

If, in addition to being **individually significant,** the customer has transactions that are non-performing (whether for reasons of delinquency or for other reasons) or in **Stage 2,** the specific allowances for the non-performing transactions are estimated through a detailed analysis of the holder's status and the expected flows, which are assessed using future flow models projections that estimate the borrower's capacity to generate future flows from their activities.

- In all other cases, **hedging** is estimated **collectively** using internal methodologies, subject to the **Policy of Models and Parameters** in force, based on past experience of portfolio defaults and recoveries and factoring in the updated and adjusted value of the effective guarantees. Additionally, future economic condition predictions will be considered under various scenarios.

- To determine hedging for credit losses of portfolios under collective analysis, the Group uses models to estimate the PD; probability of correcting defaulting cycles (specifically its complementary measurement, PNC); loss given loss (LGL) in the event of no correction; recoverable value models for mortgage guarantees (haircuts); and adjustments to include lifetime or forward-looking effects, according to the agreement's accounting classification.

The models used are re-estimated or re-trained every six months, and they are executed monthly in order to properly reflect the current economic environment at any given time. This makes it possible to reduce the differences between estimated loss and recent observations. The models will include an unbiased view of the potential forward-looking evolution to determine the expected loss, taking into account further relevant macroeconomic factors: **(i)** GDP growth, **(ii)** the unemployment rate, **(iii)** 12-month Euribor and **(iv)** evolution of property prices. Following on from this, the Group generates a baseline scenario, as well as a range of potential scenarios that make it possible to adjust the estimated expected loss, weighted by its probability.

The calculation process is structured in two steps:

- Establishing **the basis for calculation of allowances:**
  - **a.** Calculation of the **exposure amount,** which is the sum of the gross carrying amount at the time of calculation plus off-balance-sheet amounts (available or exposure) expected to be disbursed when the borrower fulfils the conditions to be considered non-performing.
  - **b.** Calculation of the **recoverable value of the effective guarantees** linked to the exposure. In order to establish the recoverable value of these guarantees, for real estate collateral the models estimate the amount of the future sale of the collateral which is discounted from the total expenses incurred until the moment of the sale.
- Establishing the **hedging** to be applied on this basis for calculation of allowances:

This calculation factors in the probability of the borrower defaulting on the transaction obligations, the probability of the situation being remedied or resolved and the losses that would occur if this did not happen.

For insignificant portfolios where it is considered that the internal model approach is not suitable due to the processes involved or a lack of past experience, the Group may use the default coverage rates established in the current national regulations.

Both transactions classified as not bearing appreciable risk and those that, due to their type of collateral, are classified as not bearing appreciable risk, could have 0% accounting hedging. In the case of the latter, this percentage will only be applied to the guaranteed part of the risk.

The hedges estimated individually or collectively must be coherent in terms of the way in which the different categories into which the transactions can be classified are processed. Thus, the hedging level for a transaction must be higher than the level that would correspond to it, if it were classified in another category of a lower credit risk.

The necessary improvements detected in the backtesting and benchmarking exercises are also incorporated into the review cycles. Similarly, the models developed are documented so they can be replicated by a third party. The documentation contains key definitions, information regarding the process of acquiring samples and data processing, methodological principles and results obtained, as well as the comparison of said results with those of previous years.

CaixaBank has a total of 81 models, in order to obtain the parameters necessary to calculate the hedges using a collective analysis. For each of the risk parameters, different models can be used to adapt to each type of exposure. Specifically, the models include those indicated below:

- **18** Scoring and Rating parameter models
- **21 PD** parameter models
- **10 EAD** parameter models
- **19 PNC** parameter models
- **9 LGL** parameter models
- **3** Haircut parameter models
- **1 LT/FL** transformation parameter model

Other subsidiaries also have their own additional internal models. In the case of BPI, it has a total of 56, and in the case of CaixaBank Payments & Consumer, it has a total of 52.

Prudential coverage

Recently, several regulatory and supervisory institutions have carried out actions the ultimate goal of which is to encourage the reduction of non-performing exposures. The common goal of these initiatives is to set a provisioning calendar based on the time past since the exposure is non-performing.

The prudential treatment of the non-performing stock, subject to supervisory dialogue, is defined as follows:

- **Addendum to the ECB Guidance to Banks on Non-Performing Loans:** applicable to exposures originated before 26 April 2019 and that turned NPE from 1 April 2018.
- **2019 ECB SREP** (Supervisory Review and Evaluation Process) letter: applicable to exposures that turned NPE on or before 31 March 2018.

Furthermore, the regulatory treatment of new NPEs is subject to the **CRR**, according to the latest amendment published in April 2019: applicable to exposures originated from 26 April 2019 that turn non-performing.

According to these prudential initiatives, when the accounting stock of provisions is lower than expected as set out in the aforementioned supervisory schedules or expectations, the shortfall shall be covered by own funds.

4. NPL management

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

Given the Group's credit risk cycle mechanisms, the quality of the approval and monitoring processes ensures fulfilment of the conditions established in the granting of transactions generating exposure to this risk. Thus, although there are few positions that require alternative circuits for management to be activated, recovery activity is the utmost priority in the Group's risk management. This is especially true in recent years, given its goal of minimising both the present volume of non-performing positions and the future generation of these. In this sense, it has strengthened the governance model and the operational framework on the management of problematic assets, and has a comprehensive view of the whole life cycle associated with the default recoveries process and management of foreclosed assets.

The proper implementation of the ECB's Guidance to Banks on Non-Performing Loans has meant that the entry into force on 30 June 2019 of the EBA's Guidelines on management of non-performing and forborne exposures, has not represented any significant change in the Group's credit risk management cycle.

The management of default and recovery is the responsibility of the branch network, although the Executive Directorate Recovery and Default – which reports to the CEO – oversees the management of non-performing flow and stock, centralised monitoring and management of teams of specialists in the recovery function located in the regional network and selecting and controlling the work of external agencies.

This begins as a preventive activity before default occurs or before a liability falls due, and ends with either its recovery or its definitive write-off. The disaggregated nature and specialisation of the branch network make it possible to gain knowledge of customers' situations and to detect the first indications of impairment in solvency, thus allowing appropriate measures to be adopted more diligently. Along these lines, the transactions and their associated guarantees are monitored and, where applicable, claims are brought to recover the debt based on the following principles: **(i)** prevention with the early detection of default risk; **(ii)** activities intended to help to the customer find solutions to situations of payment irregularities, considering its relationship, and **(iii)** the utmost anticipation to reach a better stance to deal with the debtor and other creditors.

Knowledge of and proximity to the customer enable especially vulnerable social situations to be managed in a differentiated way, frequently caused by an unfavourable macroeconomic environment experienced years ago. Along these lines, as previously mentioned, CaixaBank adheres to the Code of Good Practices, and it has developed an Aid Plan and customised solutions for customers who are undergoing current economic hardships. All these actions contribute to better progress in the default rate and strengthen the Group's connection and commitment to its customers.

Foreclosure assets

BuildingCenter is the Group's company responsible for the ownership of real estate assets in Spain, which basically originate from streamlining of the Group's credit activity through any of the following ways: **(i)** acquisition at auctions held after assets have been foreclosed, mainly in relation to mortgage loans; **(ii)** acquisition of mortgaged real estate assets of individuals, with the subsequent subrogation and cancellation of the debts; and **(iii)** acquisition of real estate assets of companies, mainly property developers, to cancel their debts.

The acquisition process includes conducting full legal and technical reviews of the properties using the committees appointed for such purpose.

In all cases, purchase prices are based on appraisals performed by appraisal firms approved by the Bank of Spain and in accordance with the parameters set forth in the internal rules approved.

The strategies undertaken for the sale of these assets are as follows:

- **Individual sale:** through Servihabitat Servicios Inmobiliarios, with which there is a servicing contract until 31 December 2023, for multi-channel marketing activities through its own branches, the external collaboration of the network of real-estate agents and an active presence on the internet. This marketing activity comes in addition to a key factor: support in prescribing properties generated by the branch network.

- **Institutional sales:** the Group features institutional transactions of sales of asset portfolios to other specialised companies.

- **Completion of housing developments:** a number of minor measures to improve some of these developments are made to ensure they can be sold. These measures are performed using the synergies of the Group.

- **In-house property development:** restricted to very specific transactions where the asset's quality and characteristics mean that developing the asset is the clearest and most secure means to recovering the investment.

- **Rental:** it is a means of benefiting from rising demand and generating recurring income, as well as creating added value on the property in the event of its future institutional sale.

Refinancing policies

The Group has a detailed customer debt Corporate Refinancing and Recovery Policy that covers the same general principles issued by the EBA for this type of transaction.

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

These transactions may derive from:

1. A new transaction (refinancing transaction) granted that fully or partially cancels other transaction (refinanced transactions) previously granted by any Group company to the same borrower or other companies forming part of its economic group that become up-to-date on its payments for previously past-due loans.

2. The amendment of the contract terms of an existing transaction (restructured transactions) that changes its repayment schedule (grace periods, extension of loan maturities, reduction in interest rates, changes in the repayment schedule, extension of all or part of the capital on maturity, etc.).

3. The activation of contract clauses agreed at source that extend the debt repayment terms (flexible grace period).

4. The partial cancellation of the debt without the contribution of funds by the customer (foreclosure, purchase or dation of the collateral, or forgiveness of capital, interest, fees and commissions or any other cost relating to the loan extended to the borrower).

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

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

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

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

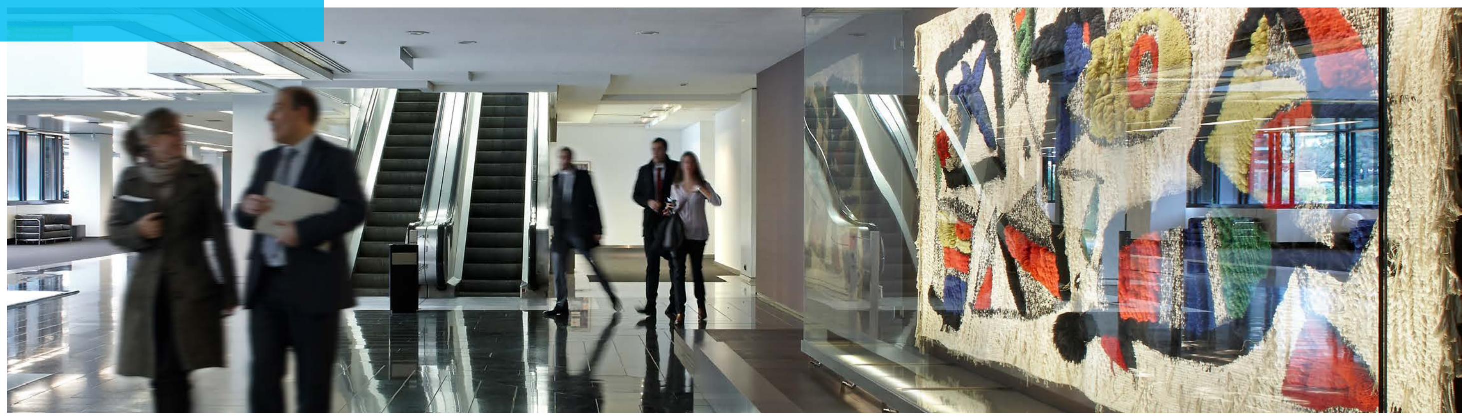
For further details on the classification and risk transition criteria, see point 3 "Determining the accounting classification" in the Credit Risk Monitoring and Measurement section.

The risk management procedures and policies applied allow for detailed monitoring of credit transactions. In this regard, any transaction uncovered whose terms may need to be changed due to evidence of impairment of the borrower's solvency is marked appropriately so the associated provision for impairment at the date of the change is made. Therefore, as these transactions are correctly classified and valued according to the Group's best judgement, no additional provisions emerge in relation to the impairment of refinanced loans.

5.1.2. Minimum capital requirements for credit risk

The tables in this section, both under the standardised and advanced approach, present:

- The original exposure ("Exposure prior to the application of the credit conversion factor and credit risk mitigation provisions", which includes exposures to credit risk both on and off the balance sheet).
- EAD ("Exposures post CCF and CRM").
- Risk-weighted assets (RWA).
- The ratio of EAD to RWA gives the RWA density ratio. This calculation equates to the average weighting applied to each category of exposure.



Minimum capital requirements for credit risk under the standardised approach

Using the standardised approach, risk is weighted in accordance with the exposure's credit quality. CaixaBank Group uses the external rating agencies designated as being eligible by the Bank of Spain, namely Standard & Poor's, Moody's, Fitch and DBRS.

Table 5.5. Credit quality level correspondence between rating agencies

Credit quality step	S&P's	Moody's	Fitch	DBRS
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
2	A+ to A-	A1 to A3	A+ to A-	AH to AL
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
5	B+ to B-	B1 to B3	B+ to B-	BH to BL
6	Lower to B-	Lower to B3	Lower to B-	CCCH and lower

Table 5.6. Correspondence of credit quality level by weighting between exposure categories[1]

Credit quality step	Central goverment administrations and central banks	Public sector entities	Rated institutions ≤ 3 months	Rated institutions > 3 months	Unrated institutions[2]	Corporates
1	0%	20%	20%	20%	20%	20%
2	20%	50%	20%	50%	50%	50%
3	50%	100%	20%	50%	100%	100%
4	100%	100%	50%	100%	100%	100%
5	100%	100%	50%	100%	100%	150%
6	150%	150%	150%	150%	150%	150%

[1] *General treatment of exposures, leaving out the scope of the Table the particular cases provided in the CCR.*

[2] *For the category "Unrated entities", the one corresponding to the central goverment of the country to which the exhibition belongs is used as a rating.*

CaixaBank Group applies the standardised approach permanently to the following exposures:

- Central government administrations and central banks.
- Regional administrations and local authorities.
- Institutions.
- Public sector entities.
- Within companies, the project finance portfolio.
- All the exposure of CaixaBank Payments Consumer Finance and CaixaBank Equipment Finance,except for exposures of cards that do have approved models advanced.

In addition, all exposures outside the scope of the internal ratings-based (IRB) models are assessed under the standardised approach, as are the exposures incorporated from Banco BPI.

According to the application of the measurement approaches set out in the regulations in force, 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 or comparable assets not included in the trading portfolio.

The following tables provide details of original exposure, EAD and RWA at December 2019 by category, under the standardised approach. This does not include counterparty risk, securitisations or equity portfolio exposure:

Table 5.7. EU CR4 - Standardised approach - Credit risk exposure and CRM effects

2019

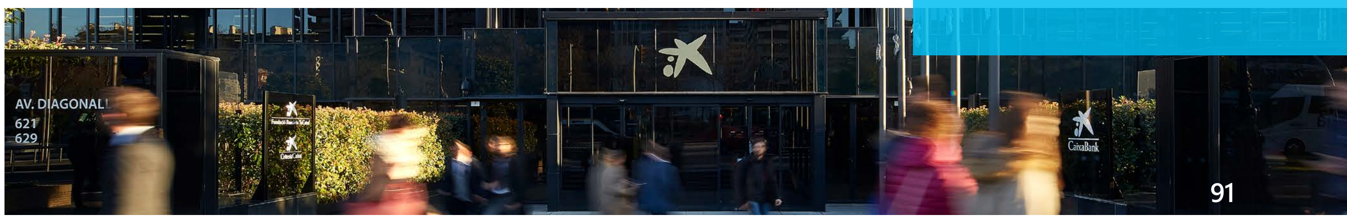
Amounts in millions of euros

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central governments or central banks	46,654	574	48,239	11	8,826	18.29%
Regional governments or local authorities	10,283	3,159	9,935	683	268	2.53%
Public sector entities	3,998	1,241	4,086	415	2,175	48.32%
Multilateral development banks	36	19	756	0	-	0.00%
International organisations	-	-	-	-	-	0.00%
Institutions	2,556	1,451	2,026	250	818	35.93%
Corporates	26,046	6,638	22,620	1,248	22,886	95.89%
Regulatory retail exposures	12,560	3,438	11,558	168	6,899	58.83%
Exposures secured by mortgages on immovable property	14,701	1,240	14,592	324	5,808	38.94%
Exposures in default	1,714	182	922	22	1,077	114.04%
Exposures associated with particularly high risks	240	191	233	66	448	150.00%
Covered bonds	7	-	7	-	1	20.00%
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	0.00%
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	0.00%
Equity exposures	-	-	-	-	-	0.00%
Other assets	14,580	-	14,569	-	9,633	66.12%
Total	**133,375**	**18,133**	**129,544**	**3,187**	**58,838**	**44.33%**

2018

Amounts in millions of euros

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWA	RWA density
Central governments or central banks	54,469	4	56,000	12	9,401	16.78 %
Regional governments or local authorities	10,549	2,011	10,299	475	409	3.79 %
Public sector entities	3,877	1,046	4,005	381	2,038	46.45 %
Multilateral development banks	25	36	164	-	-	-
International organisations	-	-	-	-	-	-
Institutions	2,475	1,271	2,404	356	872	31.59 %
Corporates	26,524	7,250	23,232	2,292	24,202	94.82 %
Regulatory retail exposures	10,363	3,235	9,563	248	5,590	56.97 %
Exposures secured by mortgages on immovable property	13,871	1,432	13,798	430	5,471	38.45 %
Exposures in default	2,510	168	1,359	17	1,582	114.96 %
Exposures associated with particularly high risks	-	-	-	-	-	-
Covered bonds	8	-	8	-	2	20.00 %
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-
Other assets	11,991	-	11,972	-	8,480	70.83 %
Total	**136,661**	**16,453**	**132,804**	**4,211**	**58,046**	**42.36 %**



The following table shows the distribution of exposure and risk-weighted assets based on CRR regulatory categories, and the risk weights applied, not including counterparty risk, securitisation risk or equity portfolio exposure:

Table. 5.8. EU CR5 - Standardised approach (EAD)

2019

Amounts in millions of euros

Exposure classes	Risk weight																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Otras	Deducidas		
Central governments or central banks	41,331	-	-	-	0	-	-	-	-	5,647	-	1,272	-	-	-	-	48,250	48,244
Regional governments or local authorities	9,695	-	-	-	818	-	-	-	-	105	-	-	-	-	-	-	10,618	10,618
Public sector entities	381	-	-	-	353	-	3,324	-	-	442	-	-	-	-	-	-	4,500	4,500
Multilateral development banks	757	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	757	757
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	0	-	-	-	1,601	-	360	-	-	310	5	-	-	-	-	-	2,276	961
Corporates	756	-	-	-	-	-	145	-	-	22,963	4	-	-	-	-	-	23,867	23,578
Regulatory retail exposures	1,767	-	-	-	-	-	-	-	9,959	-	-	-	-	-	-	-	11,726	11,726
Exposures secured by mortgages on immovable property	-	-	-	-	-	11,620	2,713	-	110	473	-	-	-	-	-	-	14,916	14,916
Exposures in default	-	-	-	-	-	-	-	-	-	679	265	-	-	-	-	-	944	944
Exposures associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	299	-	-	-	-	-	299	299
Covered bonds	-	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	7	7
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	4,780	-	-	-	196	-	-	-	-	9,593	-	-	-	-	-	-	14,569	14,569
Total	**59,467**	**-**	**-**	**-**	**2,976**	**11,620**	**6,542**	**-**	**10,068**	**40,212**	**573**	**1,272**	**-**	**-**	**-**	**-**	**132,730**	**131,119**

2018

Amounts in millions of euros

Exposure classes	EAD 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Otras	Deducidas	Total	Of which unrated
Central governments or central banks	48,838	-	-	-	1	-	-	-	-	5,687	-	1,485	-	-	-	-	56,012	56,005
Regional governments or local authorities	9,725	-	-	-	800	-	-	-	-	249	-	-	-	-	-	-	10,774	10,774
Public sector entities	574	-	-	-	265	-	3,126	-	-	422	-	-	-	-	-	-	4,387	4,386
Multilateral development banks	164	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	164	164
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	1	13	-	-	2,088	-	408	-	-	250	0	-	-	-	-	-	2,760	1,305
Corporates	926	-	-	-	1	-	145	-	-	24,448	3	-	-	-	-	-	25,524	25,356
Regulatory retail exposures	1,695	-	-	-	-	-	3	-	8,113	-	-	-	-	-	-	-	9,811	9,811
Exposures secured by mortgages on immovable property	-	-	-	-	1	11,107	2,646	-	136	337	-	-	-	-	-	-	14,228	14,228
Exposures in default	-	-	-	-	-	-	0	-	-	964	412	-	-	-	-	-	1,376	1,375
Exposures associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	8	8
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	3,451	-	-	-	51	-	-	-	-	8,470	-	-	-	-	-	-	11,972	11,972
Total	**65,375**	**13**	**-**	**-**	**3,216**	**11,107**	**6,328**	**-**	**8,249**	**40,828**	**414**	**1,485**	**-**	**-**	**-**	**-**	**137,015**	**135,384**

Table 5.9. EU CR5 - Standardised approach (RWA)

2019

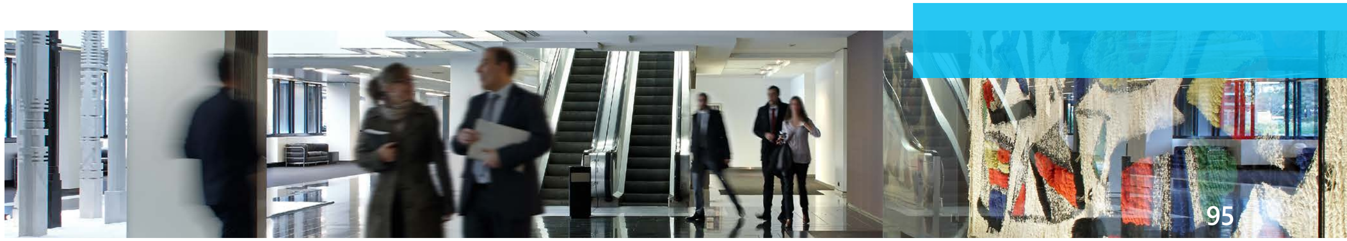
Amounts in millions of euros

Exposure classes	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
Central governments or central banks	-	-	-	-	0	-	-	-	-	5,647	-	3,179	-	-	-	-	8,826	8,820
Regional governments or local authorities	-	-	-	-	164	-	-	-	-	105	-	-	-	-	-	-	268	268
Public sector entities	-	-	-	-	71	-	1,662	-	-	442	-	-	-	-	-	-	2,175	2,174
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	320	-	180	-	-	310	8	-	-	-	-	-	818	370
Corporates	-	-	-	-	-	-	73	-	-	22,807	6	-	-	-	-	-	22,886	22,596
Regulatory retail exposures	-	-	-	-	-	-	-	-	6,899	-	-	-	-	-	-	-	6,899	6,899
Exposures secured by mortgages on immovable property	-	-	-	-	-	4,048	1,261	-	78	421	-	-	-	-	-	-	5,808	5,808
Exposures in default	-	-	-	-	-	-	-	-	-	679	398	-	-	-	-	-	1,077	1,077
Exposures associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	448	-	-	-	-	-	448	448
Covered bonds	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	1	1
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	39	-	-	-	-	9,593	-	-	-	-	-	-	9,633	9,633
Total	**-**	**-**	**-**	**-**	**595**	**4,048**	**3,175**	**-**	**6,977**	**40,004**	**859**	**3,179**	**-**	**-**	**-**	**-**	**58,838**	**58,094**

2018

Amounts in millions of euros

Exposure classes	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
Central governments or central banks	-	-	-	-	0	-	-	-	-	5,687	-	3,714	-	-	-	-	9,401	9,394
Regional governments or local authorities	-	-	-	-	160	-	-	-	-	249	-	-	-	-	-	-	409	409
Public sector entities	-	-	-	-	53	-	1,563	-	-	422	-	-	-	-	-	-	2,038	2,037
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	0	-	-	418	-	204	-	-	250	0	-	-	-	-	-	872	373
Corporates	-	-	-	-	0	-	73	-	-	24,126	4	-	-	-	-	-	24,202	24,035
Regulatory retail exposures	-	-	-	-	-	-	1	-	5,588	-	-	-	-	-	-	-	5,590	5,590
Exposures secured by mortgages on immovable property	-	-	-	-	0	3,861	1,206	-	97	306	-	-	-	-	-	-	5,471	5,471
Exposures in default	-	-	-	-	-	-	0	-	-	964	618	-	-	-	-	-	1,582	1,580
Exposures associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	2	2
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	10	-	-	-	-	8,470	-	-	-	-	-	-	8,480	8,480
Total	**-**	**0**	**-**	**-**	**643**	**3,861**	**3,047**	**-**	**5,686**	**40,474**	**622**	**3,714**	**-**	**-**	**-**	**-**	**58,046**	**57,370**



The following table shows exposure guaranteed by real estate assets, broken down into commercial and residential.

Table 5.10. Standardised approach: exposure guaranteed by real estate assets, by type of collateral

Amounts in millions of euros

2019

	Original exposure	Exposures after CRM and before CCF	EAD	RWA	RWA density	Capital (8 %)
Commercial immovable property	3,628	3,577	3,198	1,688	52.79 %	135
Residential immovable property	12,313	12,254	11,718	4,120	35.16 %	330
Total	**15,941**	**15,831**	**14,916**	**5,808**	**38.94 %**	**465**

Amounts in millions of euros

2018

	Original exposure	Exposures after CRM and before CCF	EAD	RWA	RWA density	Capital (8 %)
Commercial immovable property	3,074	3,043	2,693	1,367	50.75 %	109
Residential immovable property	12,229	12,185	11,534	4,104	35.58 %	328
Total	**15,303**	**15,228**	**14,228**	**5,471**	**38.45 %**	**438**

Minimum capital requirements for credit risk under the advanced approach (IRB)

The Group has advanced models for calculating capital requirements for the retail portfolio (consumer loans, mortgages, etc.), as well as for the company portfolio (corporates, SMEs, etc.) and for equities. In the sub-section "Use of the internal ratings-based approach" in 5.1.3. Quantitative aspects are related to the IRB models authorised to date.

Exposures under IRB according to the regulatory categories of the current regulation are set out below.

In 2019, and compared to 2018, the maturity has been restricted half to 5 years, to align to the maturity that used in calculating capital requirement.

Table 5.11. IRB: Credit risk exposures by portfolio

2019

Amounts in millions of euros	Average PD[1]	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total EAD	Number of debtors[2]	Average LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisions	Capital (8%)
Corporate	**5.45%**	**42,218**	**27,671**	**69,889**	**42,218**	**7,810**	**50,028**	**34**	**35.18%**	**3**	**29,211**	**58,39%**	**1,027**	**(1,059)**	**2,337**
Corporates	4.61%	31,846	24,497	56,343	31,846	6,572	38,418	8	37.11%	3	23,229	60.46%	740	(721)	1,858
SME	8.23%	10,372	3,174	13,546	10,372	1,238	11,610	27	28.77%	3	5,982	51.53%	287	(339)	479
Retail	**5.93%**	**114,375**	**42,747**	**157,122**	**114,375**	**6,424**	**120,800**	**9,705**	**27.05%**	**4**	**22,343**	**18.50%**	**2,552**	**(2,597)**	**1,787**
Retail - Residential Mortgage	5.35%	87,667	24,049	111,716	87,667	467	88,135	1,469	18.53%	5	11,519	13.07%	1,377	(1,452)	922
SME - Mortgage	11.85%	9,314	2,513	11,826	9,314	253	9,567	109	17.97%	5	2,535	26.50%	291	(232)	203
Retail - Qualifying Revolving	3.36%	3,732	9,969	13,700	3,732	3,108	6,840	5,547	76.77%	1	1,778	26.00%	166	(159)	142
Retail - SME	6.57%	7,750	4,188	11,937	7,750	1,918	9,668	514	52.75%	2	3,502	36.22%	378	(392)	280
Other Retail	6.78%	5,913	2,029	7,942	5,913	677	6,590	2,065	64.71%	2	3,009	45.66%	341	(362)	241
Total credit risk - IRB portfolio[3]	**5.79%**	**156,594**	**70,417**	**227,011**	**156,594**	**14,234**	**170,828**	**9,739**	**29.43%**	**4**	**51,554**	**30.18%**	**3,579**	**(3,656)**	**4,124**

2018

Amounts in millions of euros	Average PD[1]	Original exposure: On-balance sheet amount	Original exposure: Off-balance sheet amount	Original exposure: Total	EAD: On-balance sheet amount	EAD: Off-balance sheet amount	EAD: Total EAD	Number of debtors[2]	Average LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisions	Capital (8%)
Corporate	**6.45%**	**39,346**	**23,791**	**63,137**	**39,346**	**9,842**	**49,188**	**61**	**36.06%**	**5**	**28,171**	**57.27%**	**1,326**	**(1,491)**	**2,254**
Corporates	5.11%	26,693	19,165	45,858	26,693	7,766	34,459	7	38.18%	4	21,886	63.51%	843	(907)	1,751
SME	9.59%	12,653	4,626	17,279	12,653	2,075	14,728	54	31.12%	8	6,286	42.68%	483	(585)	503
Retail	**6.14%**	**116,762**	**39,382**	**156,144**	**116,762**	**5,598**	**122,360**	**9,277**	**25.99%**	**15**	**22,354**	**18.27%**	**2,700**	**(2,685)**	**1,788**
Retail - Residential Mortgage	5.71%	91,764	23,643	115,407	91,764	464	92,228	1,506	18.33%	18	12,503	13.56%	1,641	(1,686)	1,000
SME - Mortgage	12.51%	9,437	2,225	11,662	9,437	174	9,611	113	18.36%	13	2,398	24.95%	339	(267)	192
Retail - Qualifying Revolving	2.90%	3,288	8,853	12,141	3,288	2,733	6,020	5,104	76.79%	3	1,599	26.56%	127	(117)	128
Retail - SME	5.61%	6,172	2,711	8,883	6,172	1,524	7,696	465	53.26%	3	2,739	35.59%	263	(260)	219
Other Retail	6.40%	6,101	1,949	8,051	6,101	703	6,804	2,088	64.82%	4	3,115	45.78%	329	(356)	249
Total credit risk - IRB portfolio[3]	**6.23%**	**156,108**	**63,173**	**219,281**	**156,108**	**15,440**	**171,547**	**9,338**	**28.88%**	**12**	**50,525**	**29.45%**	**4,026**	**(4,176)**	**4,042**

[1] Includes portfolio in default.
[2] Number of debtors in thousands.
[3] Only credit risk is included. No counterparty, or securitization, or shareholder risk is included.

Table 5.12. EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range

Amounts in millions of euros

2019

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	69,634	34,725	14.70%	74,737	0.07%	3,808	23.81%	4	4,434	5.93%	13	(225)
0.15 to <0.25	11,958	6,239	27.04%	13,645	0.18%	648	33.56%	4	3,305	24.22%	8	(38)
0.25 to <0.50	24,667	11,120	22.59%	27,179	0.33%	749	31.46%	4	7,927	29.17%	27	(98)
0.50 to <0.75	9,573	4,512	27.59%	10,818	0.61%	657	37.01%	3	5,803	53.64%	24	(36)
0.75 to <2.50	18,694	7,824	29.67%	21,016	1.48%	2,319	35.61%	3	12,525	59.60%	111	(150)
2.50 to <10.00	10,907	4,219	24.30%	11,932	5.07%	1,008	31.87%	4	10,102	84.66%	193	(202)
10.00 to <100.00	3,469	836	18.69%	3,625	23.87%	332	31.25%	4	4,604	127.02%	279	(242)
Performing Portfolio	**148,902**	**69,474**	**20.22%**	**162,952**	**1.23%**	**9,521**	**29.06%**	**4**	**48,700**	**29.89%**	**655**	**(991)**
100.00 (Default)	7,692	943	19.49%	7,876	100.00%	218	37.12%	4	2,854	36.24%	2,924	(2,665)
Total	**156,594**	**70,417**	**20.21%**	**170,828**	**5.79%**	**9,739**	**29.43%**	**4**	**51,554**	**30.18%**	**3,579**	**(3,656)**

2018

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	69,605	31,571	17.38%	75,091	0.07%	3,627	22.90%	15	4,137	5.51%	12	(236)
0.15 to <0.25	10,837	4,532	32.94%	12,330	0.18%	578	33.17%	12	2,404	19.49%	7	(36)
0.25 to <0.50	23,918	10,350	28.12%	26,828	0.33%	729	31.47%	11	7,672	28.60%	27	(99)
0.50 to <0.75	9,138	4,130	37.21%	10,675	0.62%	581	35.99%	7	5,482	51.36%	23	(34)
0.75 to <2.50	19,061	7,357	34.54%	21,603	1.48%	2,318	34.85%	9	12,669	58.64%	112	(159)
2.50 to <10.00	11,501	3,812	29.83%	12,638	4.98%	993	31.24%	12	10,178	80.53%	200	(223)
10.00 to <100.00	3,738	721	18.79%	3,874	25.77%	360	29.72%	13	4,881	126.00%	299	(262)
Performing Portfolio	**147,799**	**62,474**	**24.39%**	**163,040**	**1.33%**	**9,185**	**28.33%**	**12**	**47,422**	**29.09%**	**681**	**(1,048)**
100.00 (Default)	8,308	700	28.49%	8,508	100.00%	153	39.31%	14	3,103	36.48%	3,344	(3,129)
Total	**156,108**	**63,173**	**24.44%**	**171,547**	**6.23%**	**9,338**	**28.88%**	**12**	**50,525**	**29.45%**	**4,026**	**(4,176)**

Number of debtors in thousands. Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.

Table 5.13. EU CR8 - RWA flow statements of credit risk exposures under the IRB approach

Amounts in millions of euros

	RWA amounts	Capital requirements*
RWA as at the end of the previous reporting period	**50,525**	**4,042**
Asset size	1,146	92
Asset quality	2,806	224
Model updates	(866)	(69)
Methodology and policy	(218)	(17)
Acquisitions and disposals	(244)	(19)
Foreign exchange movements	-	-
Other	(1,595)	(128)
RWA as at the end of the reporting period	**51,554**	**4,124**

** Capital requirements 8%.*

During 2019, the Risk-Weighted Assets in the credit risk portfolio assessed using IRB models increased by EUR 1,029 million (EUR 82 million in regulatory capital at 8%). This is mainly a result to the volume increase in the number of IRB companies.

Impairment losses

Below are the Group's funds for asset impairment losses and provisions for contingent liabilities and commitments corresponding to the last four financial years and for each of the risk categories.

The following aspects were largely behind the movement in the provisions during 2019:

- The decrease of the provision fund in the category of companies mainly due to the intense management of NPLs carried out and closed portfolio sales during the exercise.
- The decrease of the provision fund in the retail category due to the improvement in the macroeconomic enviroment particulary relating to the improvement in the real estate market in Spain and Portugal (increase in the average price of housing).
- The decrease of the provision fund due to a lower exposures in default.

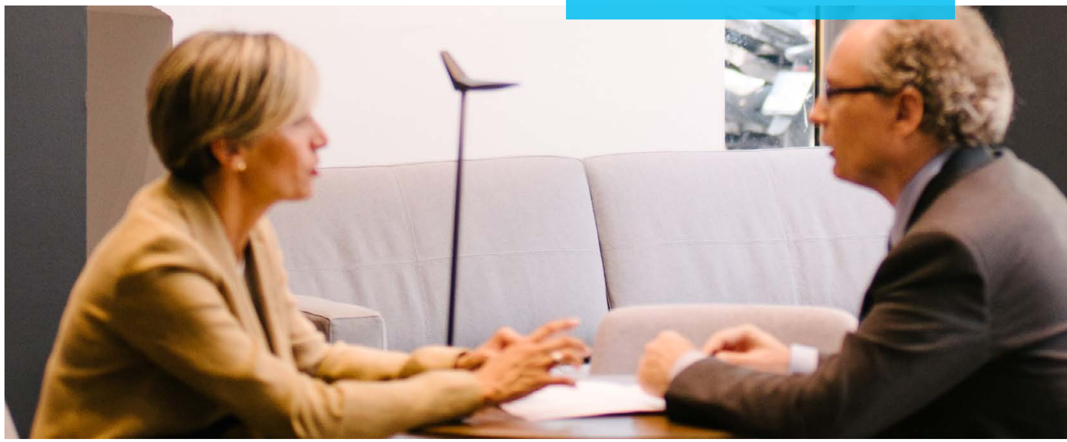


Table 5.14. Provisions evolution

Amounts in millions of euros

Regulatory exposure class	2016 Provisions	2016 %	2017 Provisions	2017 %	2018 Provisions	2018 %	2019 Provisions	2019 %
Central governments or central banks	(11)	0.16%	(11)	0.15%	(5)	0.08%	(0)	0.01%
Regional governments or local authorities	(5)	0.07%	(3)	0.05%	(1)	0.02%	(1)	0.02%
Public sector entities	(106)	1.50%	(79)	1.15%	(63)	1.01%	(51)	0.99%
Multilateral development banks	-	-	-	-	-	-	(0)	0.00%
International organisations	-	-	-	-	-	-	-	-
Institutions	(5)	0.07%	(0)	0.00%	(3)	0.04%	(2)	0.04%
Corporates	(286)	4.04%	(212)	3.06%	(601)	9.60%	(169)	3.29%
Regulatory retail exposures	(63)	0.89%	(136)	1.97%	(166)	2.65%	(358)	6.98%
Exposures secured by mortgages on immovable property	(24)	0.34%	(38)	0.55%	(47)	0.75%	(50)	0.97%
Exposures in default	(1,063)	14.99%	(1,462)	21.09%	(1,180)	18.84%	(824)	16.07%
Exposures associated with particularly high risks	-	-	-	-	-	-	(6)	0.12%
Covered bonds	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-
Other assets	-	-	(16)	0.24%	(19)	0.31%	(11)	0.21%
Total Credit Risk - SA portfolio	**(1,564)**	**22.06%**	**(1,958)**	**28.25%**	**(2,086)**	**33.31%**	**(1,472)**	**28.70%**
Corporate	**(2,747)**	**38.75%**	**(2,409)**	**34.75%**	**(1,491)**	**23.81%**	**(1,059)**	**20.66%**
Corporates	(1,695)	23.91%	(1,626)	23.46%	(907)	14.48%	(721)	14.05%
SME	(1,052)	14.84%	(782)	11.29%	(585)	9.34%	(339)	6.61%
Retail	**(2,778)**	**39.19%**	**(2,565)**	**37.00%**	**(2,685)**	**42.88%**	**(2,597)**	**50.64%**
Retail - Residential Mortgage	(1,973)	27.83%	(1,632)	23.55%	(1,686)	26.92%	(1,452)	28.32%
SME - Mortgage	(427)	6.03%	(295)	4.26%	(267)	4.26%	(232)	4.52%
Retail - Qualifying Revolving	(39)	0.55%	(74)	1.07%	(117)	1.87%	(159)	3.10%
Retail - SME	(178)	2.52%	(245)	3.53%	(260)	4.15%	(392)	7.65%
Other Retail	(161)	2.26%	(319)	4.60%	(356)	5.68%	(362)	7.06%
Total Credit Risk - IRB portfolio	**(5,525)**	**77.94%**	**(4,974)**	**71.75%**	**(4,176)**	**66.69%**	**(3,656)**	**71.30%**
Total*	**(7,089)**	**100.00%**	**(6,932)**	**100.00%**	**(6,262)**	**100.00%**	**(5,128)**	**100.00%**

** Credit risk exposures included. Counterparty, securisitation and equity exposures not included.*

5.1.3. Quantitative aspects

Distribution of exposures

This section provides information on the Group's credit risk exposures, according to the calculation method used for calculating regulatory capital requirements for the following disclosures, by regulatory category:

- Average exposures.
- Geographical area.
- Business sector.
- Residual maturity period.
- Information on the exposures in default and asset impairment adjustments.

The amounts shown in the tables in this section do not include counterparty, securitisation or equity portfolio exposures.

Average value of exposures

These amounts are presented in relation to each regulatory category in accordance with the calculation method applied.

Table 5.15. EU CRB-B - Total and average net amount of exposures

Amounts in millions of euros	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	47,228	50,847
Regional governments or local authorities	13,441	12,999
Public sector entities	5,188	5,024
Multilateral development banks	55	58
International organisations	-	-
Institutions	4,005	3,874
Corporates	32,515	32,844
Regulatory retail exposures	15,640	14,536
Exposures secured by mortgages on immovable property	15,891	15,574
Exposures in default	1,072	1,285
Exposures associated with particularly high risks	424	212
Covered bonds	7	8
Exposures to institutions and corporates with a short-term credit assesment	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-
Equity exposures	-	-
Other assets	14,569	13,271
Total Credit Risk - SA portfolio	**150,036**	**150,532**
Corporate	**68,830**	**65,238**
Corporates	55,622	50,287
SME	13,207	14,951
Retail	**154,526**	**153,992**
Retail - Residential Mortgage	110,264	111,993
SME - Mortgage	11,595	11,495
Retail - Qualifying Revolving	13,541	12,783
Retail - SME	11,545	10,084
Other Retail	7,581	7,638
Total Credit Risk - IRB portfolio	**223,355**	**219,230**
Total*	**373,392**	**369,762**

** Credit risk exposures included. Counterparty, securitisation and equity exposures not included.*

Geographical distribution of exposures

Below is the distribution, at 31 December 2019, of the net exposure of value adjustments and provisions, broken down by geographical area –for regions that are significant for CaixaBank Group– and by regulatory exposure category according to the approach used to calculate capital requirements.

The value of exposure includes total credit risk, not considering exposure corresponding to counterparty risk, securitisations or equity portfolio exposures.

At year-end 2019, 83% of CaixaBank Group's exposure was concentrated in Spain, 9% was in Portugal, 5% in other European Union countries and 3% elsewhere in the world.

Table 5.16. EU CRB-C - Geographical breakdown of exposures

Amount in miillions of euros

	Net Value				
	Spain	Portugal	European Union	Other countries	Total
Central governments or central banks	41,280	1,812	3,030	1,105	47,228
Regional governments or local authorities	12,006	1,202	0	234	13,441
Public Sector entities	3,314	359	1,062	453	5,188
Multilateral development banks	-	-	55	-	55
International organisations	-	-	-	-	-
Institutions	995	382	974	1,654	4,005
Corporates	13,375	9,399	5,092	4,650	32,515
Regulatory retail exposures	10,517	4,839	138	147	15,640
Exposures secured by mortgages on immovable property	3,921	11,863	87	21	15,891
Exposures in default	450	565	26	31	1,072
Exposures associated with particularly high risks	237	187	0	-	424
Covered bonds	7	-	-	-	7
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-
Equity exposures	-	-	-	-	-
Other assets	13,913	656	0	0	14,569
Total Credit Risk - SA portfolio	**100,015**	**31,263**	**10,465**	**8,293**	**150,036**
Corporate	**57,123**	**778**	**8,235**	**2,692**	**68,830**
Corporates	43,916	778	8,235	2,692	55,622
SME	13,207	-	-	-	13,207
Retail	**152,940**	**10**	**992**	**584**	**154,526**
Retail - Residential Mortgage	108,832	8	919	505	110,264
SME - Mortgage	11,559	0	15	21	11,595
Retail - Qualifying Revolving	13,447	2	48	46	13,541
Retail - SME	11,540	0	3	2	11,545
Other Retail	7,562	0	8	10	7,581
Total Credit Risk - IRB portfolio	**210,064**	**788**	**9,227**	**3,276**	**223,355**
Total*	**310,078**	**32,051**	**19,692**	**11,570**	**373,392**

** Credit risk exposures included. Counterparty, securitisation and equity exposures not included.*

Distribution of exposures by business sector

The following tables show the distribution of exposures for CaixaBank Group at 31 December 2019, in terms of the net value of valuation adjustments and provisions, split by activity sector according to each of the regulatory exposure categories and by approach used to calculate regulatory capital.

The details by business sector include total credit risk, not considering exposure corresponding to counterparty risk, securitisations or equity portfolio exposures.

Table 5.17. EU CRB-D - Concentration of exposures by industry or counterparty types (Net Value)

Amounts in millions of euros

							Business non financial activities																
Regulatory exposure class	Total	Central Banks	Public administration	Credit entities	Other business financial activities	Households	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services[1]
Central governments or central banks	47,228	31,288	15,940	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional governments or local authorities	13,441	-	13,441	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	5,188	-	5,188	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	55	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	53
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	4,005	-	-	3,574	-	-	-	-	4	425	-	-	0	-	-	1	0	0	-	-	-	-	-
Corporates	32,515	-	1	-	6,485	436	505	74	2,607	5,187	407	3,297	1,907	3,677	660	398	1,275	2,505	1,101	162	475	169	1,188
Regulatory retail exposures	15,640	-	0	-	27	11,212	390	15	788	27	26	383	1,027	222	296	135	205	226	116	76	164	102	204
Exposures secured by mortgages on immovable property	15,891	-	-	-	293	11,751	92	6	147	1	7	1,362	106	6	310	54	1,083	278	12	71	130	66	115
Exposures in default	1,072	-	15	-	6	369	22	1	71	36	8	121	60	34	16	37	16	31	4	29	5	8	182
Exposures associated with particularly high risks	424	-	-	-	0	6	-	-	0	-	-	260	0	-	24	-	134	0	0	-	-	-	0
Covered bonds	7	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets[2]	14,569	-	0	-	0	-	0	0	3	0	0	1	2	14	0	0	0	0	2	0	1	0	14,545
Total Credit Risk - SA portfolio	**150,036**	**31,288**	**34,585**	**3,574**	**6,820**	**23,773**	**1,010**	**96**	**3,620**	**5,675**	**448**	**5,424**	**3,103**	**3,954**	**1,306**	**624**	**2,714**	**3,041**	**1,235**	**338**	**775**	**345**	**16,287**
Corporate	**68,830**	**-**	**-**	**-**	**6,170**	**0**	**839**	**417**	**10,922**	**5,321**	**642**	**10,073**	**6,840**	**4,826**	**3,709**	**2,594**	**5,665**	**3,448**	**1,405**	**148**	**853**	**410**	**4,548**
Corporates	55,622	-	-	-	5,934	0	351	394	9,232	5,167	576	6,512	5,109	4,349	2,498	2,401	3,913	2,906	1,228	83	591	209	4,170
SME	13,207	-	-	-	236	-	488	23	1,690	154	66	3,561	1,731	477	1,210	193	1,752	542	177	65	263	201	377
Retail	**154,526**	**-**	**-**	**-**	**102**	**128,132**	**1,582**	**72**	**2,655**	**176**	**78**	**4,382**	**5,576**	**1,414**	**2,011**	**744**	**2,325**	**2,302**	**650**	**419**	**801**	**356**	**748**
Retail - Residential Mortgage	110,264	-	-	-	-	105,907	301	10	341	23	11	510	848	263	457	128	104	509	110	199	308	52	183
SME - Mortgage	11,595	-	-	-	32	3,101	398	9	420	29	15	2,411	1,109	208	611	262	1,813	547	130	70	191	89	149
Retail - Qualifying Revolving	13,541	-	-	-	-	11,550	87	3	118	4	2	140	438	123	197	43	43	442	50	40	87	43	132
Retail - SME	11,545	-	-	-	69	335	728	50	1,757	118	49	1,304	3,113	808	696	307	360	759	353	104	204	167	264
Other Retail	7,581	-	-	-	-	7,239	68	0	19	2	0	17	69	13	50	5	5	44	7	6	11	5	20
Total Credit Risk - IRB portfolio	**223,355**	**-**	**-**	**-**	**6,271**	**128,132**	**2,421**	**489**	**13,577**	**5,496**	**720**	**14,455**	**12,416**	**6,239**	**5,720**	**3,338**	**7,990**	**5,750**	**2,055**	**567**	**1,654**	**766**	**5,296**
Total	**373,392**	**31,288**	**34,585**	**3,574**	**13,092**	**151,906**	**3,431**	**585**	**17,197**	**11,172**	**1,168**	**19,879**	**15,519**	**10,193**	**7,026**	**3,963**	**10,704**	**8,792**	**3,290**	**905**	**2,429**	**1,112**	**21,584**

[1] *Activities of households, of extraterritorial organisations and bodies, other services.*
[2] *Mainly real state restorations in foreclosures, real state investments in buildings, furniture and facilities, etc.*

Table 5.18. EU CRB-D - Concentration of exposures by industry or counterparty types (RWA)

Amounts in millions of euros

							Business non financial activities																
Regulatory exposure class	**Total**	Central Banks	Public administration	Credit entities	Other business financial activities	Households	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services[1]
Central governments or central banks	**8,826**	8,393	433	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional governments or local authorities	**268**	-	265	-	-	-	1	-	-	-	-	-	-	2	-	-	-	-	-	-	-	0	-
Public sector entities	**2,175**	-	2,175	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	**818**	-	-	753	-	1	-	-	5	15	5	1	6	25	0	0	3	1	-	-	1	0	1
Corporates	**22,886**	-	0	73	3,576	209	417	61	1,716	4,497	311	1,819	1,388	2,969	473	290	1,046	1,436	617	137	363	104	1,384
Regulatory retail exposures	**6,899**	-	0	-	7	5,211	175	5	288	6	8	116	380	103	119	69	78	79	47	30	67	41	71
Exposures secured by mortgages on immovable property	**5,808**	-	-	-	135	3,978	36	3	76	0	6	549	43	2	144	21	508	130	4	35	68	21	48
Exposures in default	**1,077**	-	5	-	3	385	21	1	72	36	8	75	59	34	18	37	16	31	4	30	4	9	230
Exposures associated with particularly high risks	**448**	-	-	-	0	8	-	-	0	-	-	263	0	-	30	-	145	0	0	-	-	-	0
Covered bonds	**1**	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assesment	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets[2]	**9,633**	-	0	-	0	-	0	0	3	0	0	1	2	14	0	0	0	0	2	0	1	0	9,609
Total Credit Risk - SA portfolio	**58,838**	**8,393**	**2,879**	**825**	**3,722**	**9,792**	**651**	**70**	**2,161**	**4,555**	**338**	**2,823**	**1,878**	**3,148**	**784**	**418**	**1,796**	**1,677**	**674**	**233**	**503**	**176**	**11,343**
Corporate	**29,211**	**-**	**-**	**-**	**2,436**	**0**	**339**	**189**	**4,463**	**683**	**171**	**5,383**	**2,601**	**1,871**	**1,712**	**998**	**3,099**	**1,435**	**690**	**81**	**696**	**180**	**2,184**
Corporates	**23,229**	-	-	-	2,341	0	158	184	3,823	605	147	3,484	1,944	1,704	1,246	920	2,305	1,193	614	58	583	86	1,835
SME	**5,982**	-	-	-	96	-	182	5	640	78	25	1,899	657	168	465	78	794	242	76	22	113	94	350
Retail	**22,343**	**-**	**-**	**-**	**22**	**15,779**	**382**	**13**	**711**	**45**	**16**	**1,277**	**1,451**	**368**	**498**	**175**	**570**	**435**	**162**	**63**	**116**	**83**	**176**
Retail - Residential Mortgage	**11,519**	-	-	-	-	10,917	47	2	48	2	1	91	123	39	79	15	13	54	20	11	22	8	25
SME - Mortgage	**2,535**	-	-	-	6	349	78	2	90	10	2	790	249	36	135	63	472	127	33	13	30	21	30
Retail - Qualifying Revolving	**1,778**	-	-	-	-	1,526	8	0	14	0	0	19	57	18	41	5	5	38	7	5	7	6	22
Retail - SME	**3,502**	-	-	-	16	83	228	9	553	32	12	371	1,003	272	224	90	79	206	99	32	53	47	93
Other Retail	**3,009**	-	-	-	-	2,905	21	0	6	0	0	5	21	4	19	1	1	11	2	2	3	1	7
Total Credit Risk - IRB portfolio	**51,554**	**-**	**-**	**-**	**2,459**	**15,779**	**721**	**202**	**5,175**	**727**	**188**	**6,659**	**4,052**	**2,240**	**2,210**	**1,173**	**3,669**	**1,870**	**852**	**144**	**812**	**263**	**2,361**
Total	**110,393**	**8,393**	**2,879**	**825**	**6,181**	**25,571**	**1,372**	**272**	**7,335**	**5,282**	**526**	**9,482**	**5,929**	**5,388**	**2,994**	**1,590**	**5,465**	**3,547**	**1,526**	**377**	**1,315**	**439**	**13,704**

[1] *Activities of households, of extraterritorial organisations and bodies, other services.*
[2] *Mainly real state restorations in foreclosures, real state investments in buildings, furniture and facilities, etc.*

Distribution of exposures by residual maturity

The following tables show the distribution of exposures for CaixaBank Group at 31 December 2019, in terms of the net value of valuation adjustments and provisions, split according to the residual maturity term and the exposure categories, for each of the approaches used to calculate minimum capital requirements.

The breakdown by maturity includes the total credit risk, excluding exposures relating to counterparty risk, securitisations or equity portfolio exposures.

By residual maturity, 75% of the exposures have a maturity greater than 1 year, and 51%, greater than 5 years. This is primarily due to the weight of the mortgage portfolio in the overall exposure.

Table 5.19. EU CRB-E - Maturity of exposures

Amounts in millions of euros	Exposure amount breakdown by maturity[1 2]						
	On demand	< 3 months	3 months - 1 year	1-5 years	> 5 years	No stated maturity	Total
Central governments or central banks	11,210	1,130	4,205	19,301	4,405	6,976	47,228
Regional governments or local authorities	-	1,101	4,901	3,646	3,647	147	13,441
Public sector entities	2	507	563	1,763	1,929	423	5,188
Multilateral development banks	8	-	33	-	-	14	55
International organisations	-	-	-	-	-	-	-
Institutions	334	1,209	676	873	163	749	4,005
Corporates	757	3,018	3,356	7,884	15,874	1,626	32,515
Regulatory retail exposures	3,937	741	996	3,373	2,633	3,960	15,640
Exposures secured by mortgages on immovable property	13	10	27	1,079	14,519	244	15,891
Exposures in default							1,072
Exposures associated with particularly high risks	-	4	10	81	274	55	424
Covered bonds	-	-	-	7	-	-	7
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other assets[3]	2,375	-	-	-	7,649	4,545	14,569
Total Credit Risk - SA portfolio	**18,636**	**7,719**	**14,766**	**38,009**	**51,094**	**18,740**	**150,036**
Corporate	**1**	**4,135**	**11,985**	**26,250**	**19,973**	**6,486**	**68,830**
Corporates	-	3,139	9,816	24,123	12,720	5,824	55,622
SME	1	995	2,169	2,127	7,253	663	13,207
Retail	**1,909**	**2,010**	**5,994**	**23,502**	**120,162**	**948**	**154,526**
Retail - Residential Mortgage	-	59	138	3,744	106,323	-	110,264
SME - Mortgage	-	70	71	1,226	10,220	9	11,595
Retail - Qualifying Revolving	34	26	1,574	11,300	608	-	13,541
Retail - SME	13	1,783	3,927	3,474	1,419	929	11,545
Other Retail	1,862	74	284	3,759	1,592	9	7,581
Total Credit Risk - IRB portfolio	**1,910**	**6,145**	**17,979**	**49,752**	**140,135**	**7,434**	**223,355**
Total	**20,547**	**13,864**	**32,745**	**87,761**	**191,229**	**26,174**	**373,392**

[1] *Exposures post-CCF and CRM.*

[2] *Maturity is calculated as the number of years between the maturity date and December 31th. (years of 360 days).*

[3] *Real State foreclosures, other fixed assets and cash are included.*

Table 5.20. Distribution of RWA by residual maturity

Amounts in millions of euros

	Exposure amount breakdown by maturity[1 2]						
	On demand	< 3 months	3 monts - 1 year	1-5 years	years	No stated maturity	Total
Central governments or central banks	-	-	1	1	3	8,820	8,826
Regional governments or local authorities	-	94	2	29	142	-	268
Public sector entities	-	207	238	736	910	84	2,175
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-
Institutions	65	222	142	164	64	161	818
Corporates	201	2,709	2,536	4,735	12,765	(60)	22,886
Regulatory retail exposures	556	395	425	1,543	1,645	2,335	6,899
Exposures secured by mortgages on immovable property	-	4	10	476	5,306	12	5,808
Exposures in default							1,077
Exposures associated with particularly high risks	-	6	14	121	305	1	448
Covered bonds	-	-	-	1	-	-	1
Exposures to institutions and corporates with a short-term credit assesment	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIU's)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other assets	-	-	-	-	6,742	2,890	9,633
Total Credit Risk - SA portfolio	**823**	**3,638**	**3,369**	**7,806**	**27,883**	**14,243**	**58,838**
Corporate	**-**	**1,554**	**4,092**	**10,364**	**12,323**	**878**	**29,211**
Corporates	-	1,153	3,065	9,549	8,715	746	23,229
SME	-	401	1,027	815	3,607	131	5,982
Retail	**397**	**764**	**1,693**	**4,729**	**14,695**	**65**	**22,343**
Retail - Residential Mortgage	-	37	10	166	11,307	-	11,519
SME - Mortgage	-	17	14	181	2,324	1	2,535
Retail - Qualifying Revolving	19	6	177	1,520	56	-	1,778
Retail - SME	3	667	1,351	966	450	64	3,502
Other Retail	374	38	141	1,896	560	-	3,009
Total Credit Risk - IRB portfolio	**397**	**2,318**	**5,785**	**15,093**	**27,018**	**943**	**51,554**
Total	**1,220**	**5,956**	**9,153**	**22,900**	**54,901**	**15,186**	**110,393**

[1] *Maturity is calculated as the number of years between the maturity date and December 31th. (years of 360 days).*
[2] *Real State foreclosures, other fixed assets and cash are included.*

Exposures in default amounted to EUR 9,116 million at the close of December 2019, including EUR 615 million in off-balance-sheet exposures. The default rate among exposures stood at 2.42% of the total exposures (3.46% for loans) and the coverage ratio of the provisions recognised on the exposures in default is 54.12% of the total exposures (55.46% for loans).

The following table shows information on changes in the stock of non-performing loans between the previous and current year-ends.

Table 5.21. EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities

Amounts in millions of euros	Gross carrying amount of defaulted exposures
Opening balance (dec-18)	**10,816**
Loans and representative debt securities that have gone into a default situation or whose value has deteriorated since the last reference period	1,973
Reclassification to non-default situation	(826)
Amounts recognized as failed	(3,068)
Other changes	(395)
Closing balance (dec-19)	**8,500**

In general terms, the gross carrying amount of non-performing loans and debt securities fell by EUR 2,315 million in 2019, going from EUR 10,816 million at year-end 2018 to EUR 8,500 million at year-end 2019.

In total terms, the gross carrying amount of CaixaBank's exposures stood at EUR 377,045 million at 31 December 2019, with 65 % relating to the loan portfolio, 26 % relating to off-balance sheet exposures, and the remaining 9 % rela-ting to debt securities.

Table 5.22. EU CR1-A - Credit quality of exposures by sector FINREP

The following table shows CaixaBank's exposures by FINREP sector, i.e. by the different sec-tors or segments of CaixaBank Group financial statements at 31 December 2019.

	Gross carrying amount of						
Amounts in millions of euros	Defaulted exposures (a)	Non-defaulted exposures (b)	Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated failures (e)	Credit risk adjustment charges	Net value (a+b-c-d)
Central Banks	-	11,868	-	-	-	-	11,868
General governments	41	43,439	7	-	39	(6)	43,473
Credit institutions	-	6,430	2	-	3	2	6,428
Other financial corporations	4	6,654	14	-	126	(15)	6,644
Non-financial corporations	3,209	137,635	2,300	-	10,329	(675)	138,545
Households	5,861	161,902	2,611	-	4,210	(459)	165,152
Total	**9,116**	**367,929**	**4,934**	**-**	**14,707**	**(1,153)**	**372,111**
Of which: Loans	8,487	236,734	4,707	-	14,707	(1,021)	240,513
Of which: Representative debt values	14	33,409	6	-	-	2	33,416
Of which: Off-balance exposures	615	97,786	220	-	-	(134)	98,181

As the table shows, a substantial portion of the portfolio relates to funding for households (44 % of the gross carrying amount), which also accounts for 64 % of non-performing exposures and 53 % of all provisions.

On the other hand, 35 % of non-performing exposures relate to non-financial corporations, accounting for 47 % of provisions. The following table provides information on loans to non-financial corporations, by economic sector.

A substantial portion of the portfolio is concentrated in the manufacturing industry (13.7 % of the gross carrying amount), in wholesale and retail trade (13.6 %), in real estate activities (11.7 %) and in construction (11.0 %), whilst non-performing exposure is primarily concentrated in the construction sector (21.7 % of the gross carrying amount), in real estate activities (18.6 %) and in the manufacturing industry (11.0 %).

Table 5.23. EU CR1-B - Credit quality of loans for non-financial companies by economic sector

Amounts in millions of euros

	Gross carrying amount of						
	Defaulted exposures (a)	Non-defaulted exposures (b)	Specific credit risk adjustment (c)	General credit risk adjustment (d)	Accumulated failures (e)	Credit risk adjustment charges	Net value (a+b-c-d)
Agriculture, forestry and fishing	119	1,740	49	-	195	7	1,810
Mining and quarrying	6	583	5	-	27	(2)	585
Manufacturing	300	11,498	237	-	1,027	-	11,562
Electricity, gas, steam and air conditioning supply	84	6,762	95	-	25	(47)	6,751
Water supply; sewerage; waste management and remediation activities	7	913	13	-	25	(15)	907
Construction	592	8,837	608	-	5,560	(171)	8,821
Wholesale and retail trade; repair of motor vehicles and motorcycles	508	11,172	399	-	739	27	11,280
Transporting and storage	148	7,045	104	-	121	(5)	7,089
Accommodation and food service activities	91	5,054	47	-	252	(116)	5,098
Information and communication	84	1,706	56	-	265	(22)	1,734
Real estate activities	252	9,795	113	-	667	(93)	9,935
Professional, scientific and technical activities	155	3,574	106	-	660	(56)	3,622
Administrative and support service activities	35	2,700	28	-	221	(21)	2,707
Public administration and defense; compulsory social security	-	782	-	-	1	-	781
Education	53	300	43	-	18	(6)	310
Human health and social work activities	27	1,195	14	-	19	(3)	1,209
Arts, entertainment and recreation	47	477	33	-	41	(4)	491
Other services activities	214	9,024	159	-	465	(22)	9,079
Total	**2,723**	**83,158**	**2,109**	**-**	**10,329**	**(549)**	**83,772**

The following table shows CaixaBank's exposures broken down by geographical area, split between Spain, Portugal, the rest of the European Union, and the rest of the world.

Table 5.24. EU CR1-C - Credit quality of exposures by geography

Amounts in millions of euros

	Gross carrying values of						
	Defaulted exposures (a)	Non-defaulted exposures (b)	Specific (c)	General (d)	Accumulated write-offs (e)	Credit risk adjustment charges	Net Value
Spain	8,167	297,131	4,446	-	14,493	(655)	300,852
Portugal	848	30,939	402	-	20	(145)	31,385
Rest European Union	7	20,055	16	-	55	(37)	20,047
Rest of the world	93	19,804	70	-	140	(316)	19,827
Total	**9,116**	**367,929**	**4,934**	**-**	**14,707**	**(1,153)**	**372,111**

At year-end 2019, 81% of the gross carrying amount of the exposures was concentrated in Spain, 8.4% in Portugal, 5.3% in the rest of the European Union and 5.3% in the rest of the world.

The following table shows the gross carrying amount of exposures that are overdue, broken down by maturity tranche and product.

Table 5.25. EU CR1D - Ageing of past-due exposures

Amounts in millions of euros

	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	1,633	631	192	577	706	2,822
Debt securities	-	-	-	-	2	-
Total exposures	**1,633**	**631**	**192**	**577**	**708**	**2,822**

Of the total of all overdue exposures, 46% are more than a year overdue, while 39% are less than 90 days overdue.

Table 5.26. EU CR1E - Non-performing and forborne exposures

Amounts in millions of euros

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
Debt securities	33,423	0	1	14	14	14	12	2	-	5	4	2	2
Loans and advances	245,221	612	3,631	8,499	8,487	8,473	4,875	1,314	167	3,393	1,689	4,739	5,487
Off-balance exposures	98,401	-	21	615	615	-	28	98	0	122	7	316	12
Total exposures	**373,886**	**612**	**3,654**	**9,128**	**9,116**	**8,487**	**4,915**	**1,414**	**168**	**3,520**	**1,700**	**5,056**	**5,501**

Further details are provided below on non-performing and refinanced exposures, in accordance with EBA/GL/2018/10.

Table 5.27. Template 1. Credit quality of supported exhibitions

Amounts in millions of euros	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forbone	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measure
			Of which defaulted	Of which impaired				
Loans and advances	**3,631**	**4,875**	**4,845**	**4,845**	**(167)**	**(1,689)**	**5,487**	**3,014**
Central banks	-	-	-	-	-	-	-	-
General governments	232	15	15	15	(0)	(5)	49	7
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	2	1	1	1	(0)	(0)	2	0
Non-financial corporations	1,501	1,625	1,621	1,621	(87)	(880)	1,406	620
Households	1,896	3,233	3,208	3,208	(80)	(804)	4,029	2,387
Debt securities	**1**	**12**	**12**	**12**	**(0)**	**(4)**	**2**	**2**
Loan commitments given	**21**	**28**	**27**	**1**	**0**	**7**	**-**	**-**
Total	**3,654**	**4,915**	**4,884**	**4,859**	**(167)**	**(1,686)**	**5,488**	**3,016**

Table 5.28. Template 3: Credit quality of performing and non-performing exposures by past due days

Amounts in millions of euros	Gross carryig amount/nominal amount											
	Performing exposures			Non-performing exposures								
		No past due or past due < 30 days	Past due > 30 days < 90 days		Unlikely to pay that are not past due or are past due < 90 days	Past due > 90 days <180 days	Past due >180 days ≤1 year	Past due > 1 year ≤2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤7 years	Past due > 7 years	Of which defaulted
Loans and advances	**236,722**	**236,110**	**612**	**8,499**	**4,076**	**664**	**768**	**706**	**1,170**	**616**	**498**	**8,487**
Central banks	11,842	11,842	-	-	-	-	-	-	-	-	-	-
General governments	11,121	11,110	12	40	29	1	0	0	1	5	4	40
Credit institutions	5,711	5,711	0	0	0	-	-	**0**	0	-	-	0
Other financial corporations	3,791	3,775	17	2	0	0	0	0	1	0	0	2
Non-financial corporations	83,311	83,065	246	2,728	1,724	155	212	229	194	114	100	2,719
Of which SMEs	33,031	32,883	148	1,671	901	143	173	138	161	72	81	1,666
Households	120,945	120,607	338	5,728	2,323	508	556	476	973	497	395	5,725
Debt securities	**33,409**	**33,409**	**0**	**14**	**12**	**-**	**2**	**-**	**-**	**-**	**-**	**14**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	28,266	28,266	0	-	-	-	-	-	-	-	-	-
Credit institutions	212	212	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,546	1,546	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	3,384	3,384	-	14	12	-	2	-	-	-	-	14
Off-balance-sheet exposures	**97,786**			**615**								**615**
Central banks	27			-								-
General governments	4,051			1								1
Credit institutions	508			-								-
Other financial corporations	1,316			2								2
Non-financial corporations	50,931			476								476
Households	40,954			136								136
Total	**367,917**	**269,518**	**612**	**9,128**	**4,089**	**664**	**770**	**706**	**1,170**	**616**	**498**	**9,116**

Table 5.29.Template 4: Performing and non-performing exposures and related provisions

Amounts in millions of euros	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to redit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures - accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**236,722**	**221,248**	**15,474**	**8,499**	**8**	**8,491**	**(1,314)**	**(663)**	**(651)**	**(3,393)**	**-**	**(3,393)**	**-**	**150,407**	**4,739**
Central banks	11,842	11,842	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	11,121	10,709	413	40	-	40	(0)	(0)	(0)	(6)	-	(6)	-	997	25
Credit institutions	5,711	5,706	5	0	-	0	(2)	(2)	-	-	-	-	-	1,588	-
Other financial corporations	3,791	3,732	60	2	-	2	(12)	(12)	(0)	(1)	-	(1)	-	878	1
Non-financial corporations	83,311	78,084	5,227	2,728	4	2,724	(510)	(272)	(238)	(1,606)	-	(1,606)	-	36,322	989
Of which SMEs	33,031	29,792	3,048	1,671	4	1,667	(406)	(282)	(120)	(802)	-	(802)	-	19,662	816
Households	120,945	111,175	9,770	5,728	3	5,725	(791)	(378)	(413)	(1,779)	-	(1,779)	-	110,623	3,725
Debt securities	**33,409**	**33,403**	**6**	**14**	**-**	**14**	**(2)**	**(2)**	**-**	**(5)**	**-**	**(5)**	**-**	**583**	**2**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	28,266	28,266	-	-	-	-	-	-	-	-	-	-	-	578	-
Credit institutions	212	212	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1,546	1,546	-	-	-	-	(0)	(0)	-	-	-	-	-	-	-
Non-financial corporations	3,384	3,379	6	14	-	14	(1)	(1)	-	(5)	-	(5)	-	5	2
Off-balance-sheet exposures	**97,786**	**94,914**	**2,872**	**615**	**0**	**615**	**98**	**82**	**16**	**122**	**-**	**122**	**-**	**35,887**	**316**
Central banks	27	27	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	4,051	4,025	26	1	-	1	-	-	-	0	-	0	-	57	0
Credit institutions	508	507	1	-	-	-	1	1	0	-	-	-	-	66	-
Other financial corporations	1,316	1,314	2	2	-	2	1	1	0	0	-	0	-	152	2
Non-financial corporations	50,931	49,662	1,269	476	0	476	82	71	12	96	-	96	-	10,631	198
Households	40,954	39,379	1,575	136	-	136	15	10	4	26	-	26	-	24,981	116
Total	**367,917**	**349,565**	**18,352**	**9,128**	**8**	**9,120**	**(1,218)**	**(583)**	**(635)**	**(3,275)**	**-**	**(3,275)**	**-**	**186,877**	**5,056**

CaixaBank

Table 5.30.Template 9: Collateral obtained by taking possession and execution processes

Of CaixaBank's total exposures at year-end 2019, EUR 9,128 million are non-performing, while EUR 9,116 million are exposures in default.

The restructured and refinanced loan portfolio, meanwhile, totalled EUR 8,569 million at 31 December 2019, including EUR 3,654 million considered to be performing and EUR 4,915 million of non-performing loans.

The following table splits the total of CaixaBank's exposures as at December 2019 between those that are guaranteed and those that are not.

Amounts in millions of euros

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	**3,676**	**(482)**
Residential immovable property	3,201	(387)
Commercial Immovable property	340	(64)
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	135	(31)
Total	**3,676**	**(482)**

Table 5.31. EU CR3 - Credit risk mitigation techniques – overview

Amounts in millions of euros

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	114,621	130,600	126,320	1,097	-
Total debt securities	33,121	302	299	3	-
Total exposures	**147,742**	**130,901**	**126,619**	**1,099**	**-**
Of which defaulted	2,765	5,736	4,312	8	-

Of the total of all exposures at year-end 2019, the exposures secured with collateral represented 47 % of the total, and 53 % in the case of loans. As for the exposures in default, those guaranteed with collateral represent 67 % of the total.

Variations in impairment losses and provisions

1. Variations in provisions

A breakdown of the changes in value corrections applied to the various headings of CaixaBank Group's consolidated balance sheet and to its provisions and contingent liabilities in 2019 is shown below[6].

Table 5.32. EU CR2A - Changes in stock of general and specific credit risk adjustments

Amounts in millions of euros

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	6,073	-
Increases by origination and acquisition	731	-
Decreases due to derecognition	(1,704)	-
Changes by credit risk variation (net)	670	-
Changes by modifications without derecognition (net)	26	-
Changes by updating the entity estimation method (net)	-	-
Decrease in the corrective account of value due written off failed	(870)	-
Other adjustments	(1)	-
Closing balance	**4,926**	**-**
Recoveries on failed amounts which have been written off in the income statement	1,931	-
Written off failed amounts in the income results	(586)	-

2. Impairment losses and reversals of previously recognised losses

The following table contains details of the impairment losses and reversals of previously recognised losses on assets written off, recognised directly in the income statement for CaixaBank Group in 2019[7].

Table 5.33. Impairment losses and reversals of losses

Amounts in millions of euros

	Total
Provisions	**(860)**
Loans and receivables	(799)
Shareholder´s equity instruments	-
Debt Securities	-
Tangible Assets - Own use	(39)
Intangible Assets	(22)
Other assets	-
Net loan-loss provisions	**(455)**
Loans and receivables	(410)
Debt Securities	-
Otros assets	(1)
Tangible Assets - Investment properties	(45)
Tangible Assets - Own use	4
Intangible Assets	(3)
Assets recoveries	**784**
Valor total	**(531)**

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 2. 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 a 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 capital requirements for the following credit exposure classes:

- **Mortgage loans to individuals** (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.
- **Personal loans to individuals** (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.
- **Cards to individuals** (behaviour and approval models), applying internal estimates of losses in the event of non-payment and credit conversion factors.

[6] *See Notes 12.3 "Impairment fund" and 21 "Provisions" to CaixaBank Group's 2017 financial statements.*

[7] *Refer to Notes 34 "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" and 35 "Impairment or reversal of impairment on non-financial assets" to CaixaBank Group's 2017 financial statements.*

- **SMEs, for the range of medium-sized enterprises, small enterprises and micro-enterprises,** applying internal estimates of losses in the event of non-payment and credit conversion factors.

- **Developer SMEs,** with no application of internal estimates of losses in the event of non-payment or credit conversion factors.

- **Corporate,** applying internal estimates of losses in the event of non-payment or credit conversion factors.

- **Equity,** 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 capital 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.

1. **Implementation of internal estimates in the management process**

Los resultados de las herramientas mencionadas anteriormente se utilizan para desarrollar las actuaciones siguientes[8]**:**

- Back-up for the decision-making process.
- Authority system 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.
- Calculation of provisions and accounting classification using internal models under IFRS9 or Bank of Spain Circular 4/2017.

2. **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. To this end, the type of guarantee is observed for each transaction: financial, real estate or other collateral. Moreover, in the case of real estate used as collateral, the nature of the property is checked to determine whether it is residential or commercial.

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

1. **Structure of the internal rating systems**

The Group has internal credit rating models which, by assigning solvency or internal ratings to customers, provide predictions of the probability of each borrower defaulting, covering practically all lending activity.

These internal models, used at both a product and customer level, have been developed on the basis of historical experience of defaults and incorporate the necessary measurements to adjust the results to the business cycle.

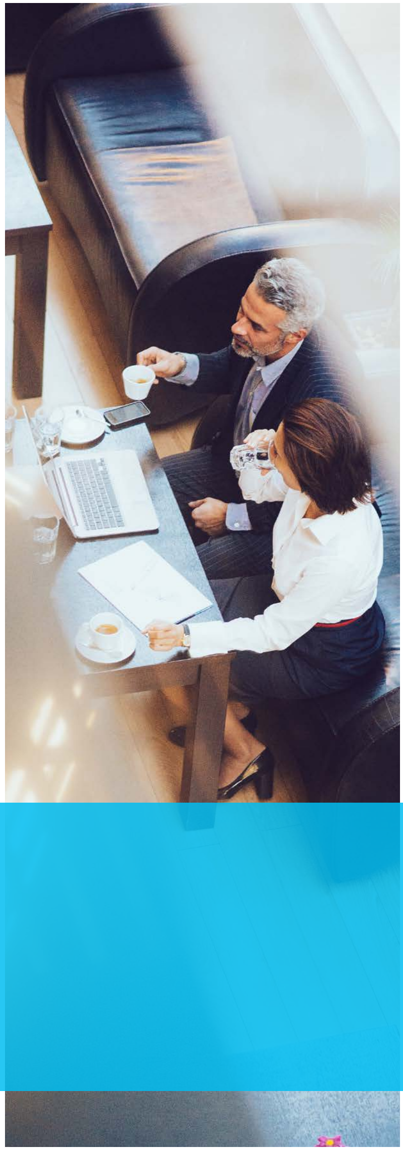
Product-oriented tools take into consideration the specific characteristics of the debtor relating to the product concerned, and are mainly used for approval of new retail banking transactions.

Customer-orientated tools assess the debtor's probability of default on a general basis, though the results for individuals may differ according to the product. They comprise behaviour scores for individuals and credit ratings for companies. They are implemented across the entire branch network and integrated within the normal asset product approval tools.

The rating tools for companies 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 Group has a Corporate Rating function in place to provide specialised ratings for the large corporates segment, for which it has developed internal rating models. These are expert models that require the participation of analysts. These models have been built in line with Standard & Poor's methodology, meaning that the global default rates published by this rating agency can be used, making the methodology more reliable.

[8] *See the end of this section for more details on the integration of internal estimates in management.*



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

There are 26 internal probability of default (PD) estimation models in place, covering most of the Group's portfolios. In segments not yet covered, relevant information is captured in order to develop tools for making estimates in the future.

The type of probability of default (PD) that the Group uses in its estimates is "through the cycle": the scores assigned by the rating models are associated with the average PDs for a full economic cycle. The estimate is performed by anchoring the PD curve to the long-term trend (central trend) estimated for each 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.

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

CaixaBank has 10 internal exposure at default (EAD) estimation models.

Exposure at default (EAD) is defined as the amount a customer is expected to owe to the credit institution at the time, in the event of hypothetically going into default at some point over the next 12 months.

EAD is calculated as the current balance (amount included as assets on the Group's balance sheet) plus a percentage of the unused (available) credit facility that has been granted, i.e. an equivalence factor known as Credit Conversion Factor (CCF), which represents a quantitative estimate of the percentage available to the customer that is expected to be drawn down on at the time default occurs.

The method used to estimate EAD is the variable-horizon approach (setting a one-year horizon for the calculation of realised CCFs). On the one hand, the models for available balance commitments have been developed according to the holder segment and product.

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

CaixaBank has 38 internal loss given default (LGD) estimation models.

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

2. Rating models

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

Individuals and the self-employed

- **Asset behaviour model:** provides a monthly evaluation of all customers who have been with the Bank for at least 6 months (both private individuals and self-employed workers) and who hold a loan with either a personal guarantee or a mortgage.

  This is mainly used to monitor the risk outstanding on all transactions that were arranged at least 6 months ago.

  The methodology of construction of the model is based on a multivariate analysis (logistic regression), according to the customer's financial behaviour.

- **Non-asset-related behaviour model:** provides a monthly evaluation of all customers (private customers and self-employed workers) who hold no asset-related contracts other than credit cards.

  This is mainly used to monitor the risk outstanding on cards that were issued at least 6 months ago, as well as overdrafts.

  The method used to build the model is logistic regression, primarily based on data regarding 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 six months of the transaction.

  The estimate model is based on a multivariate analysis (logistic regression), using information concerning the transaction, socio-demographic information and information relating to 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 six months of the transaction.

  The method used by this model is different to that of the Mortgage Customer model, as it only uses information relating to the transaction, the collateral and socio-demographic information about the holder.

- **Self-employed Customer model:** used for evaluation in the approval of transactions with a non-mortgage guarantee for customers to be used for business purposes. The rating at the time of approval is maintained over the first six 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.

- **Customer Cards model:** used for evaluation in the approval of credit cards for customers. The rating at the time of approval is maintained over the first six months of the transaction.

  A Gradient Boosting Machine (GBM) methodology was used to build the model. It is based on information concerning the transaction, socio-demographic information and information concerning the customer's financial behaviour.

- **Non-Customer Cards model:** used for evaluation in the approval of credit cards for non-customers. The rating at the time of approval is maintained over the first six months of the transaction.

  A multivariate analysis methodology was used to build the model (logistic regression). It is based on information about the holder (socio-demographic, work-related, economic, etc.) and internal and external alerts.

Corporates

- **Ratings of SMEs and Property Developer SMEs:** the aim of the SME and property developer SME rating model is to assign an internal rating to private companies classified as micro-enterprises, small enterprises, medium-sized enterprises or property developer SMEs in accordance with the internal risk segmentation system. The entire SME and property developer SME portfolio is evaluated monthly, as well as whenever a new transaction is approved for an SME or property developer SME, if no calculated rating is available.

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

  - **Financial information:** information available from balance sheets and income statements. For example: total assets, equity and net profit.

  - **Operating information:** bank and credit information on the customer company, in connection with CaixaBank or other banks in the Spanish financial system (Bank of Spain's Risk Information Facility - CIRBE). For example: average balance of liabilities or average CIRBE utilisation.

  - **Qualitative information:** based on the company's characteristics and position within its sector. For example: the company manager's experience, real estate asset status, etc.

- **Corporate rating:** the aim of the Corporate rating model is to assign an internal rating to private companies and property developers classified as large corporates, in accordance with CaixaBank's 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.

Exposure values and RWA for IRB loan portfolios

The following tables show information on CaixaBank Group's exposures at 31 December 2019 by IRB segment, for the various debtor levels.

Table 5.34. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (Corporates)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	5,254	7,668	26.73%	7,304	0.12%	1	36.05%	3	2,002	27.42%	3	(11)
0.15 to <0.25	4,014	3,704	32.28%	5,210	0.18%	0	39.93%	3	2,407	46.20%	4	(6)
0.25 to <0.50	8,269	5,876	24.24%	9,693	0.28%	2	36.67%	3	4,662	48.09%	10	(18)
0.50 to <0.75	4,836	2,403	25.01%	5,437	0.59%	1	37.38%	3	4,036	74.23%	12	(10)
0.75 to <2.50	5,573	2,325	27.52%	6,213	1.39%	3	36.58%	3	5,674	91.32%	31	(25)
2.50 to <10.00	2,298	1,647	27.33%	2,748	5.63%	1	34.53%	3	3,571	129.94%	52	(12)
10.00 to <100.00	368	326	27.09%	456	21.50%	0	30.36%	3	742	162.66%	30	(21)
Perfoming Portfolio	**30,613**	**23,948**	**26.93%**	**37,062**	**1.12%**	**7**	**36.86%**	**3**	**23,095**	**62.31%**	**141**	**(103)**
100.00 (Default)	1,233	548	22.51%	1,357	100.00%	1	44.09%	3	134	9.88%	598	(618)
Total	**31,846**	**24,497**	**26.83%**	**38,418**	**4.61%**	**8**	**37.11%**	**3**	**23,229**	**60.46%**	**740**	**(721)**

Table 5.35. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (SMEs)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	1,472	378	41.18%	1,628	0.12%	3	30.13%	3	347	21.33%	1	(3)
0.15 to <0.25	464	109	34.26%	501	0.15%	2	27.36%	4	113	22.45%	0	(2)
0.25 to <0.50	2,153	753	45.06%	2,492	0.30%	6	29.03%	3	865	34.69%	2	(8)
0.50 to <0.75	1,364	373	42.27%	1,522	0.61%	3	29.52%	3	712	46.76%	3	(5)
0.75 to <2.50	2,587	873	37.64%	2,916	1.53%	8	26.96%	4	1,806	61.93%	12	(19)
2.50 to <10.00	1,141	511	34.71%	1,318	5.00%	3	28.55%	4	1,272	96.52%	19	(21)
10.00 to <100.00	508	112	26.29%	537	24.31%	1	31.24%	3	806	150.17%	41	(20)
Perfoming Portfolio	**9,689**	**3,110**	**39.42%**	**10,914**	**2.39%**	**26**	**28.68%**	**3**	**5,921**	**54.25%**	**77**	**(80)**
100.00 (Default)	684	64	18.33%	695	100.00%	1	30.18%	4	62	8.86%	210	(259)
Total	**10,372**	**3,174**	**38.99%**	**11,610**	**8.23%**	**27**	**28.77%**	**3**	**5,982**	**51.53%**	**287**	**(339)**

* *Number of debtors in thousands. Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

Table 5.36. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (Retail - Covered by Residential Mortgage)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	56,278	18,330	2.02%	56,647	0.06%	999	16.95%	5	1,555	2.75%	6	(180)
0.15 to <0.25	5,670	1,214	1.96%	5,694	0.19%	85	19.96%	5	442	7.77%	2	(19)
0.25 to <0.50	10,273	2,574	1.49%	10,311	0.38%	160	19.68%	5	1,306	12.67%	8	(40)
0.50 to <0.75	1,752	323	1.83%	1,758	0.72%	26	21.41%	5	381	21.68%	3	(7)
0.75 to <2.50	4,424	729	1.97%	4,439	1.54%	71	20.83%	5	1,518	34.20%	14	(27)
2.50 to <10.00	3,658	584	1.87%	3,669	4.94%	63	19.30%	5	2,253	61.40%	35	(55)
10.00 to <100.00	1,609	227	2.02%	1,613	22.66%	25	19.91%	5	1,721	106.69%	73	(84)
Perfoming Portfolio	**83,664**	**23,982**	**1.95%**	**84,131**	**0.84%**	**1,430**	**17.95%**	**5**	**9,177**	**10.91%**	**140**	**(412)**
100.00 (Default)	4,004	67	0.00%	4,004	100.00%	40	30.88%	5	2,342	58.49%	1,236	(1,040)
Total	**87,667**	**24,049**	**1.94%**	**88,135**	**5.35%**	**1,469**	**18.53%**	**5**	**11,519**	**13.07%**	**1,377**	**(1,452)**

Table 5.37. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (SMEs - Covered by Residential Mortgage)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	2,068	730	4.92%	2,104	0.07%	35	13.72%	5	42	2.00%	0	(7)
0.15 to <0.25	455	111	6.64%	462	0.17%	5	16.41%	5	23	5.05%	0	(1)
0.25 to <0.50	1,250	440	17.19%	1,325	0.36%	13	18.03%	5	130	9.78%	1	(5)
0.50 to <0.75	329	86	18.43%	345	0.64%	3	18.44%	4	54	15.80%	0	(1)
0.75 to <2.50	2,120	488	13.85%	2,188	1.47%	18	18.52%	5	597	27.30%	6	(12)
2.50 to <10.00	1,830	539	9.11%	1,879	4.70%	22	17.81%	5	1,140	60.64%	16	(22)
10.00 to <100.00	346	61	2.21%	347	25.23%	4	17.49%	5	291	84.00%	15	(12)
Perfoming Portfolio	**8,398**	**2,455**	**10.30%**	**8,650**	**2.51%**	**101**	**16.96%**	**5**	**2,278**	**26.33%**	**39**	**(60)**
100.00 (Default)	916	58	0.96%	917	100.00%	8	27.50%	4	257	28.08%	252	(172)
Total	**9,314**	**2,513**	**10.08%**	**9,567**	**11.85%**	**109**	**17.97%**	**5**	**2,535**	**26.50%**	**291**	**(232)**

** Number of debtors in thousands. Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.*

Table 5.38. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (Eligible Revolving Retail)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	1,341	6,860	30.98 %	3,466	0.06 %	2,557	77.00 %	1	108	3.13 %	2	(7)
0.15 to <0.25	214	767	33.33 %	470	0.20 %	447	77.00 %	1	39	8.37 %	1	(2)
0.25 to <0.50	208	545	33.86 %	393	0.33 %	333	77.00 %	1	50	12.62 %	1	(2)
0.50 to <0.75	297	663	30.99 %	502	0.55 %	469	76.99 %	1	93	18.54 %	2	(3)
0.75 to <2.50	741	790	30.04 %	978	1.48 %	820	76.90 %	1	387	39.51 %	11	(10)
2.50 to <10.00	579	295	30.53 %	669	5.03 %	582	76.73 %	1	615	91.85 %	26	(26)
10.00 to <100.00	240	35	27.95 %	250	25.40 %	240	75.70 %	1	486	194.60 %	48	(38)
Perfoming Portfolio	**3,621**	**9,955**	**31.22 %**	**6,729**	**1.76 %**	**5,449**	**76.91 %**	**1**	**1,778**	**26.42 %**	**90**	**(88)**
100.00 (Default)	111	13	0.00 %	111	100.00 %	98	68.11 %	1	0	0.23 %	76	(71)
Total	**3,732**	**9,969**	**31.18 %**	**6,840**	**3.36 %**	**5,547**	**76.77 %**	**1**	**1,778**	**26.00 %**	**166**	**(159)**

Table 5.39. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (Retail SME)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	1,185	683	49.67 %	1,524	0.08 %	46	54.35 %	2	149	9.77 %	1	(6)
0.15 to <0.25	562	319	50.78 %	724	0.17 %	29	54.37 %	2	123	16.96 %	1	(4)
0.25 to <0.50	1,475	912	48.66 %	1,918	0.33 %	99	52.54 %	2	490	25.52 %	3	(13)
0.50 to <0.75	715	368	46.78 %	888	0.61 %	18	52.42 %	1	329	37.07 %	3	(5)
0.75 to <2.50	2,280	1,137	47.80 %	2,824	1.50 %	150	51.00 %	1	1,429	50.58 %	22	(35)
2.50 to <10.00	921	508	37.20 %	1,110	4.71 %	124	50.60 %	2	700	63.10 %	26	(33)
10.00 to <100.00	197	69	30.01 %	218	29.91 %	13	52.60 %	2	233	106.98 %	34	(24)
Perfoming Portfolio	**7,337**	**3,996**	**46.81 %**	**9,207**	**1.89 %**	**481**	**52.27 %**	**2**	**3,452**	**37.50 %**	**90**	**(118)**
100.00 (Default)	413	192	25.01 %	461	100.00 %	34	62.47 %	2	50	10.75 %	288	(274)
Total	**7,750**	**4,188**	**45.81 %**	**9,668**	**6.57 %**	**514**	**52.75 %**	**2**	**3,502**	**36.22 %**	**378**	**(392)**

[*] Number of debtors in thousands. Credit Risk exposures included. Counterparty, securisitation and equity exposures not included.

CaixaBank

Table 5.40. EU CR6 - IRB - Credit risk exposures by portfolio and probability of default (PD) range (Other Retail Exposures)

Amounts in millions of euros

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of debtors*	Average LGD	Average maturity (years)	RWA	RWA density	EL	Value adjustments and provisions
0.00 to <0.15	2,036	75	37.08%	2,064	0.06%	166	62.07%	3	230	11.15%	1	(11)
0.15 to <0.25	579	15	32.99%	584	0.19%	79	67.46%	2	158	27.12%	1	(5)
0.25 to <0.50	1,039	20	30.99%	1,045	0.37%	136	66.39%	2	425	40.68%	3	(11)
0.50 to <0.75	280	295	29.25%	366	0.65%	137	62.84%	2	197	53.91%	2	(4)
0.75 to <2.50	967	1,482	33.09%	1,458	1.64%	1,249	61.86%	2	1,114	76.45%	15	(23)
2.50 to <10.00	479	134	43.58%	538	5.28%	212	66.76%	2	551	102.31%	19	(33)
10.00 to <100.00	202	5	37.20%	204	26.83%	48	69.22%	2	324	158.95%	38	(44)
Perfoming Portfolio	**5,582**	**2,027**	**33.37%**	**6,258**	**1.85%**	**2,028**	**63.93%**	**2**	**2,999**	**47.93%**	**77**	**(130)**
100.00 (Default)	331	2	13.60%	332	100.00%	37	79.54%	3	9	2.85%	264	(232)
Total	**5,913**	**2,029**	**33.35%**	**6,590**	**6.78 %**	**2,065**	**64.71%**	**2**	**3,009**	**45.66%**	**341**	**(362)**

Number of debtors in thousands. Credit Risk exposures included. Counterparty, securitisation and equity exposures not included.

Comparative analysis of estimates and results obtained

1. Introduction

Regulatory expected loss includes estimated annual average loss for a complete economic cycle. It is calculated taking the following items into consideration:

- **Probability of Default - Through the Cycle (PD):** Indicates the ratio of defaults to average total risk on non-distressed assets expected during one year of the economic cycle for a given credit rating.
- **Downturn Loss Given Default (DT LGD):** indicates the proportion of debt expected to not 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. It can be broken down into the following concepts:

- **Observed Default Frequency (ODF):** 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 the economic situation during that period.

According to 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 2019 with the PD calculated at 31 December 2018 and used to calculate the capital requirements at the same date.
- **EAD vs realised exposure:** for contracts that entered into default in 2019, the estimated EAD at 31 December 2018 is compared to the actual realised exposure when the default was identified.
- **DT LGD vs realised LGD:** compares downturn LGD at 31 December 2016 with realised LGD of defaults identified in a one-year period 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.
- **Observed loss vs. expected loss:** the estimated expected loss at 31 December is compared to the realised loss on the portfolio during the following year. The analysis covers the period 2015-2019.

The large corporates portfolio is not included in the analysis of LGD, since the low number of defaults in this portfolio are not considered representative.

2. Historical ODFs

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

Table 5.41. ODF series

Historical ODF					
	2015	2016	2017	2018	2019
Retail	1.18%	1.27%	1.41%	1.56%	1.87%
Companies	3.70%	3.57%	3.44%	3.33%	4.48%

3. Comparison of ODFs and PD

The regulatory estimate of own fund 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.

Pursuant to the prudential requirement regulations, and to maintain stability in the estimates, a portfolio's Through-the-Cycle PD (hereinafter "PD" for simplicity) 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, ODFs during weak points in the economic cycle should be naturally higher than the respective estimated PDs, whilst in boom times ODFs should be lower than PDs.

Despite their different roles in reflecting the impact of business cycles, a comparison of the two variables indicates the size of the adjustment to the cycle made in PD estimates. As can be seen from the following charts, in most tranches, ODFs are close to estimated PD levels.

New criteria for default set down in Circular 4/2016 were adopted in October 2016. This resulted in an increase in the observed default frequency (ODF), due to a wider range of reasons for refinancing being considered as doubtful and a larger drag effect. Nevertheless, the entry into force of Circular 4/2017 did not have any additional impact on default rates.

CaixaBank has implemented the EBA's new definition of default (EBA/GL/2016/07)[9] in December 2019. . Therefore, the amounts of the portfolio in default with a reference date at year-end 2019 result from the new definition. However, the ODF calculations shown in this comparative analysis section have been obtained by applying the previous definition, in order to avoid breaking the series at the last month of realisation, and to uphold the consistency of the data.

Depending on the score for contracts as compared to that of individuals, or on the ratings of legal entities, 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 seeks to:

- Confirm that the relationship between ODF and the master scale is a monotone increase, which is what is expected of models with significant discriminatory power, as are those of the Group.
- 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:

- 2019 ODFs. Figures for default between January and December 2019 are used.
- The PDs for 2019 estimated at year-end 2018.

The data shows a distribution of the number of retail contracts along with the number of legal entity customers at year-end 2018, in order to facilitate its understanding.

[9] *The approach adopted was the two-step approach, which distinguishes a first phase including implementation of the new definition recognising defaults and a second phase including the recalibration of risk parameters and internal models, taking into account the new definition.*

Retail

Chart 1. Mortgages

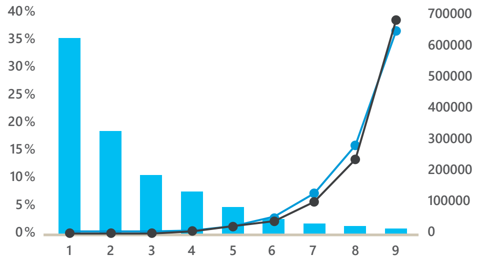


Chart 2. Consumer

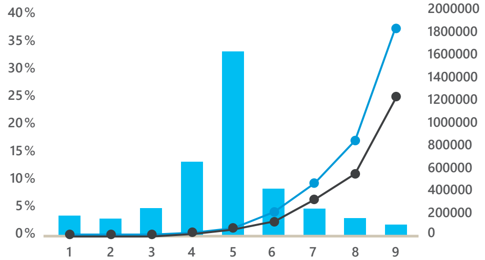
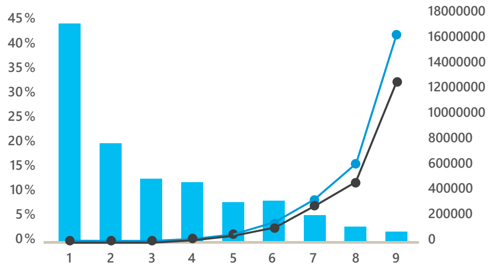


Chart 3. Cards



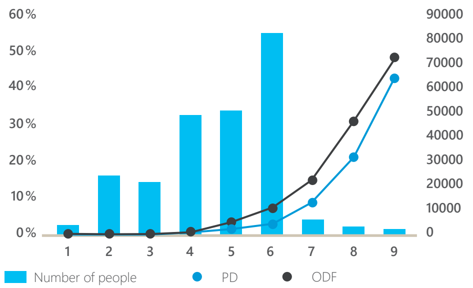
Number of Contracts
PD
ODF

The retail portfolio confirms that the ODF series is a rising monotone function of the master scale. In other words, as indicated previously, it reflects the fact that the internal retail models discriminate customers correctly by level of risk.

The PD for the mortgage portfolio is in line with the default frequency observed in 2019 for the lower tranches of the master scale, which is where the majority of this portfolio's exposure is focused; while in all other products, PD is generally above the ODF.

SME

Chart 4. Non-property developer SMEs

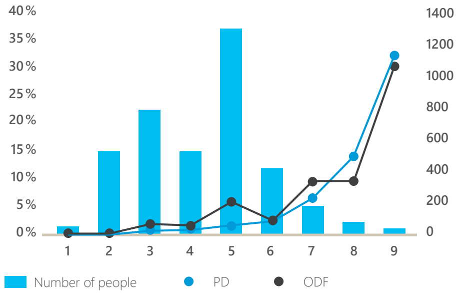


In the non-property developer SME portfolio, the ODF is a monotonous rising function with respect to the master scale. Thus, the internal models are correctly classifying customers by risk level.

This portfolio has a PD that lies slightly below the ODF, demonstrating that in the case of this portfolio we are still at a point in the cycle above the central trend, as is explained in greater detail further below.

Corporates

Chart 5. Large corporates



The small numbers of customers in the large corporates portfolio means that the ODF on the master scale does not provide statistically conclusive inferences. However, the ODF series is generally a rising monotonous functions with respect to the master scale, except the last two tranches, where the volume of observations is particularly reduced.

Average PD and ODF for IRB loan portfolios

The following tables show information on the average PD of the Group's exposure at 31 December 2019, and the average annual default frequency for the last five years, for each IRB segment, based on the PD scales defined by the master scale.

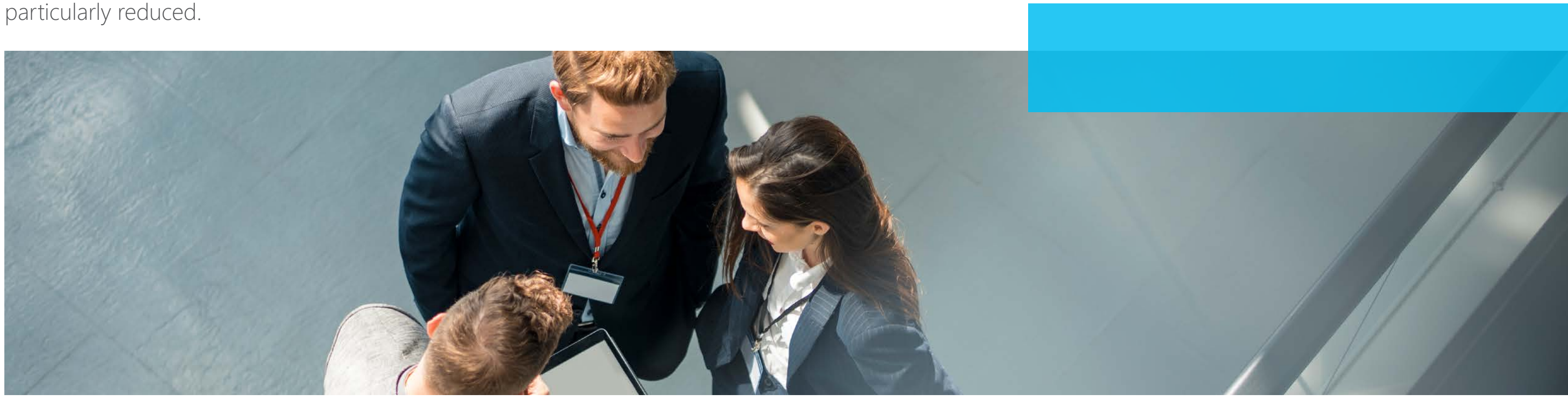


Table 5.42. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporates non-SME portfolio

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.12%	0.14%	735	762	5	0	0.33%
0.15 to <0.25	BBB	BBB	Baa2	0.18%	0.18%	193	229	3	0	1.44%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.28%	0.28%	1,418	1,541	25	3	1.24%
0.50 to <0.75	BB	BB	Ba2	0.59%	0.59%	896	1,012	16	0	2.07%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.39%	1.35%	2,636	2,610	122	6	3.43%
2.50 to <10.00	B / B-	B / B-	B2 / B3	5.63%	5.07%	701	642	56	2	4.93%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	21.50%	22.74%	156	192	17	0	13.10%
100.00 (Default)	D	D	D	100.00%	100.00%	547	755	-	-	-

Table 5.43. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporate SME portfolio

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.12%	0.11%	8,032	3,474	22	0	0.26%
0.15 to <0.25	BBB	BBB	Baa2	0.15%	0.16%	3,267	1,575	19	0	0.45%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.30%	0.32%	9,466	6,103	54	0	0.63%
0.50 to <0.75	BB	BB	Ba2	0.61%	0.60%	5,902	2,669	64	0	0.92%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.53%	1.46%	16,528	7,904	743	12	3.06%
2.50 to <10.00	B / B-	B / B-	B2 / B3	5.00%	4.58%	6,262	3,102	459	2	7.43%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	24.31%	27.71%	1,290	792	417	2	23.83%
100.00 (Default)	D	D	D	100.00%	100.00%	3,236	969	-	-	-

Table 5.44. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – residential mortgage

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.06%	0.06%	1,004,861	998,883	580	1	0.12%
0.15 to <0.25	BBB	BBB	Baa2	0.19%	0.19%	90,565	84,849	207	1	0.41%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.38%	0.38%	175,366	160,303	591	2	0.63%
0.50 to <0.75	BB	BB	Ba2	0.72%	0.72%	29,819	26,422	209	2	0.94%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.54%	1.54%	73,057	71,116	886	8	1.83%
2.50 to <10.00	B / B-	B / B-	B2 / B3	4.94%	4.83%	61,657	63,063	2,568	16	5.77%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	22.66%	22.80%	29,454	25,193	8,119	44	24.62%
100.00 (Default)	D	D	D	100.00%	100.00%	41,386	39,538	-	-	-

Table 5.45. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME mortgage

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.07%	0.06%	36,061	35,415	46	0	0.23%
0.15 to <0.25	BBB	BBB	Baa2	0.17%	0.18%	5,596	5,109	26	0	0.33%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.36%	0.37%	13,215	12,971	64	1	0.53%
0.50 to <0.75	BB	BB	Ba2	0.64%	0.68%	2,472	2,568	23	0	1.09%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.47%	1.50%	18,027	18,035	229	3	1.46%
2.50 to <10.00	B / B-	B / B-	B2 / B3	4.70%	4.52%	24,580	22,453	1,137	2	5.30%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	25.23%	25.12%	4,982	4,010	1,571	2	24.11%
100.00 (Default)	D	D	D	100.00%	100.00%	8,146	8,463	-	-	-

Table 5.46. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Eligible Revolving Retail)

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.06%	0.07%	2,374,978	2,557,075	2,786	62	0.04%
0.15 to <0.25	BBB	BBB	Baa2	0.20%	0.19%	377,003	447,487	975	54	0.11%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.33%	0.32%	297,177	333,424	1,901	110	0.29%
0.50 to <0.75	BB	BB	Ba2	0.55%	0.56%	396,434	468,611	2,467	54	0.27%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.48%	1.54%	789,316	820,250	10,709	696	0.72%
2.50 to <10.00	B / B-	B / B-	B2 / B3	5.03%	5.32%	567,154	582,440	26,332	3,654	2.43%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	25.40%	22.71%	254,081	240,118	48,178	7,279	10.69%
100.00 (Default)	D	D	D	100.00%	100.00%	48,038	98,018	-	-	-

Table 5.47. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other SME)

Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.08%	0.08%	39,642	45,886	121	10	0.20%
0.15 to <0.25	BBB	BBB	Baa2	0.17%	0.17%	25,664	29,487	120	15	0.45%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.33%	0.36%	86,161	98,972	738	77	0.87%
0.50 to <0.75	BB	BB	Ba2	0.61%	0.63%	14,113	18,268	238	16	1.18%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.50%	1.42%	135,400	150,236	4,294	394	3.03%
2.50 to <10.00	B / B-	B / B-	B2 / B3	4.71%	4.22%	133,055	124,247	11,933	680	6.92%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	29.91%	28.69%	14,092	13,429	5,690	67	28.32%
100.00 (Default)	D	D	D	100.00%	100.00%	17,141	33,528	-	-	-

Table 5.48. EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other Retail)

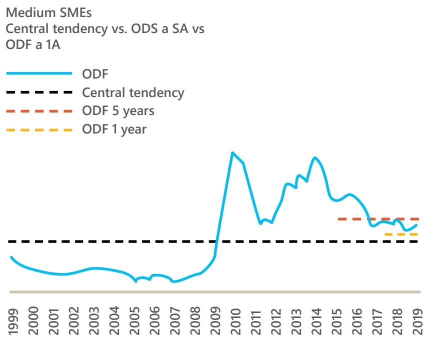
Number of debtors in units

	External rating equivalent					Number of debtors				
PD Range	S&P's	Fitch	Moody's	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historial annual default rate
0.00 to <0.15	AAA / AA+ / AA / AA-	AAA / AA+ / AA / AA-	Aaa / Aa1 / Aa2 / Aa	0.06%	0.07%	162,263	166,296	248	6	0.19%
0.15 to <0.25	BBB	BBB	Baa2	0.19%	0.19%	75,384	79,101	335	10	0.58%
0.25 to <0.50	BBB- / BB+	BBB- / BB+	Baa3 / Ba1	0.37%	0.37%	146,082	136,031	1,508	22	1.21%
0.50 to <0.75	BB	BB	Ba2	0.65%	0.58%	131,605	137,305	776	19	0.93%
0.75 to <2.50	BB- / B+	BB- / B+	Ba3 / B1	1.64%	1.75%	1,282,935	1,248,865	4,756	81	1.26%
2.50 to <10.00	B / B-	B / B-	B2 / B3	5.28%	4.89%	199,174	212,292	8,077	271	4.24%
10.00 to <100.00	CCC+ / CCC / CCC-	CCC+ / CCC / CCC-	Caa1 / Caa2 / Caa3	26.83%	23.89%	56,405	48,376	14,514	398	19.66%
100.00 (Default)	D	D	D	100.00%	100.00%	34,303	36,786	-	-	-

It is noted that the average annual default frequency for the last five years is, in some cases, above the average PD of the current portfolio (at 31 December 2019). This difference is due to the fact that, on the one hand, the PD is a through-the-cycle metric, the purpose of which is to assess the probability of default of the cycle average, while on the other hand, the ODF reflects the default frequency at the present time.

The effect described in the previous paragraph is highlighted in the following chart for medium SMEs, although the analysis would be similar for all other portfolios. It is worth noting that through-the-cycle PDs are obtained from a central trend equal to the average ODF between 1991 and December 2019.

Chart 6. Comparison of default frequencies with the central trend



4. Comparison of EAD and realised exposure

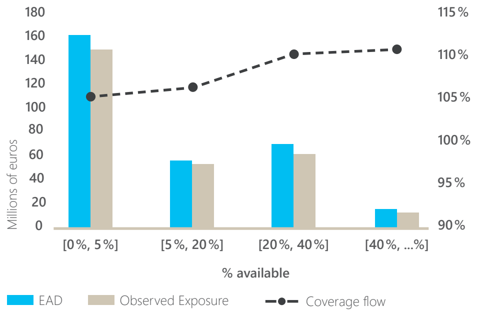
EAD (exposure at default) is defined as the estimated amount that will be drawn by the customer at the time of default. This value is obtained as the amount drawn when the estimation is made plus a percentage of the amount that could be drawn, determined by the Credit Conversion Factor (CCF).

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 (open-end credit, cards and credit accounts), estimated EAD at 31 December 2018 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 divided 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.

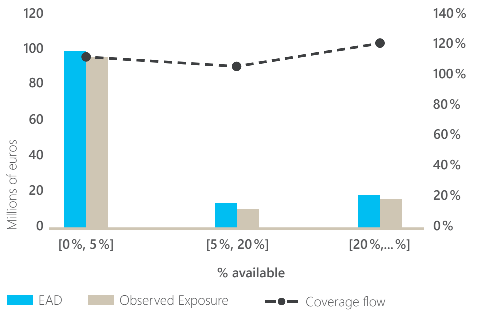
Retail

Chart 7. Open-end credit



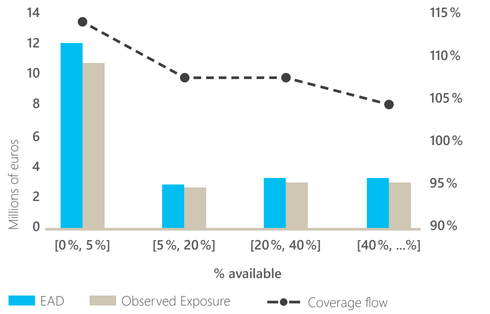
Open-end credit is one of the main products with available balances in CaixaBank, especially in its retail portfolio. In this portfolio, most of the exposure is concentrated in lower undrawn tranches, with an average coverage ratio of 105 %, indicating that the CCF of this product provides an accurate prediction of the exposure at the time of default.

Chart 8. Credit cards



In the portfolio of cards for individuals, most of the exposure is also concentrated in lower undrawn tranches, with an average coverage ratio of **108 %**.

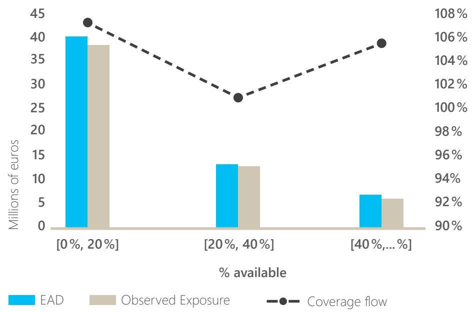
Chart 9. Credit accounts



In the credit accounts portfolio, where exposure is significantly lower than in the open credit portfolio, estimated EAD at the beginning of the year was also higher than realised EAD when the default occurs, with an average coverage ratio of **110 %**.

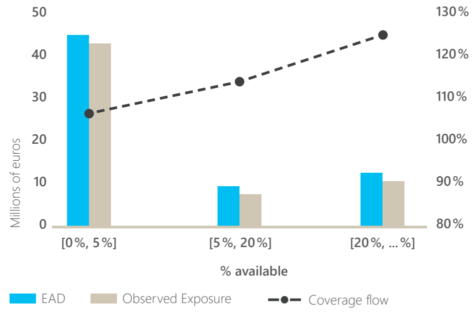
SME

Chart 10. Open-end credit



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

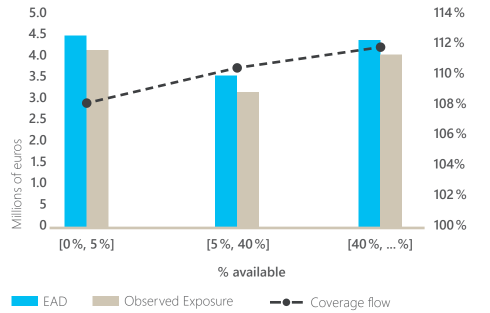
Chart 11. Credit accounts



The fact that there is a significant concentration in the most used tranche is a good indicator that the credit limits are aligned correctly with the needs of SMEs, not offering drawdowns that could pose a higher risk to the Group.

The coverage ratio of this portfolio is **111 %.** Therefore, a relatively conservative CCF has been estimated, for instance in the case of retail customers for this product, resulting in an EAD that comfortably covers the realised exposure at the time of default.

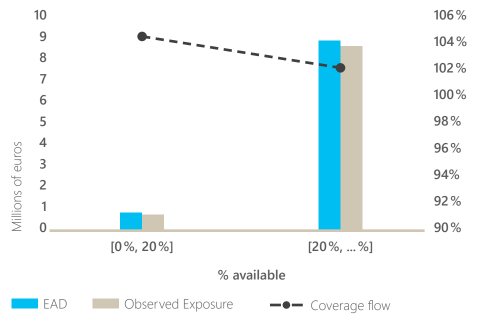
Chart 12. Cards



In all undrawn tranches, total estimated EAD for SME cards is slightly higher than realised exposure at the time of default, with a coverage ratio of **113 %**.

Corporates

Chart 13. Open-End Credit



In all undrawn tranches, total estimated EAD for open-end credit to companies is higher than realised exposure at the time of default, especially in the highest undrawn tranche, although the low volume of defaults in this portfolio makes the results statistically unrepresentative.

Similarly, although not shown in the charts, the card and open-end credit portfolios for large corporates also have high coverage ratios and are unrepresentative.

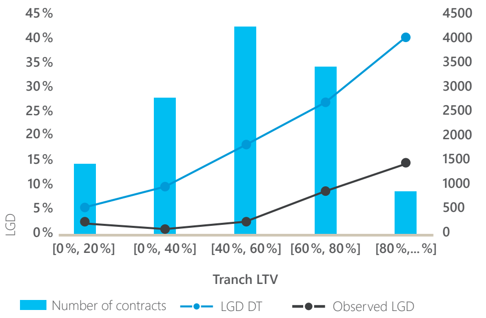
5. Comparison of DT LGD and realised LGD

LGD (loss given default) measures the proportion of EAD that it has not been possible 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, i.e. completed cycles. 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 2016 that went into default in 2017 and for which the recovery process was completed by 31 December 2019 were selected.

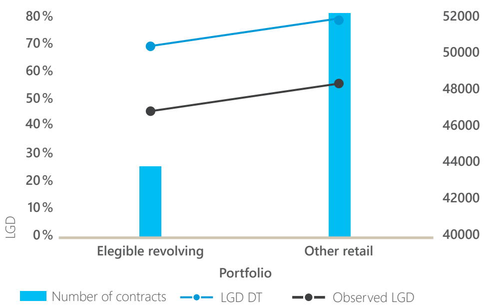
Retail

Chart 14. Mortgage guarantee



Generally speaking, realised LGD for individuals with mortgage collateral (4 %) is much lower than estimated DT LGD (18.17 %): this is to be expected, since the observation period corresponds to a time of economic recovery (2017 – 2019).

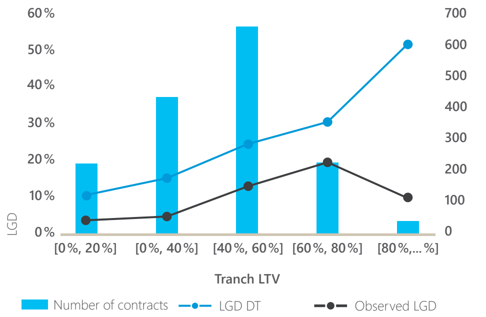
Chart 15. Personal guarantee



In the retail portfolio without guarantees, realised LGD (47.30 %) is much lower than estimated LGD (69.71 %). CaixaBank's estimate therefore includes a substantial prudential margin.

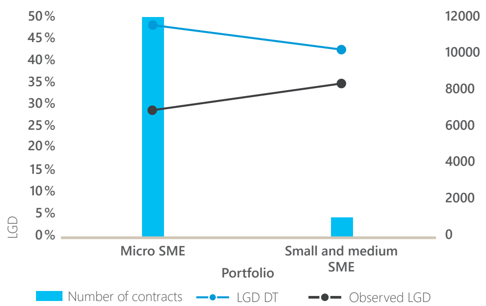
SME

Chart 16. Mortgage guarantee



In the SME portfolio with mortgage guarantee, realised LGD (9.09 %) is also below estimated LGD (17.81 %).

Chart 17. Personal guarantee



Realised LGD (26.14 %) for the SME-without-guarantees portfolio is below estimated LGD (46.25 %), indicating that the estimate was based on extremely prudent criteria, and that recovery processes and policies are effective.

6. Comparison between effective loss and regulatory expected loss

The objectives for this exercise are:

- Verifying how regulatory expected loss remains stable over the cycle, while realised loss directly depends on the economic situation at any given time.
- 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 internal recovery policies.

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 into default, whereby the exposure value is taken as the realised exposure at the time of default. Therefore, those that have not defaulted during the following year will have an effective loss of EUR 0.
- For contracts in default for which the default cycle has not been completed, and for which there is, therefore, no realised loss, expected loss at 31 December 2019 is used as the best estimate of effective loss. This means that, for the most recent year (2019), where the majority of the uncompleted cycles are concentrated, effective loss for such contracts cannot be estimated with adequate certainty. Previous years are not exempt from this problem, although it affects them to a lesser extent. For this reason, the effective loss for 2019 has been excluded from the comparison.
- Effective loss could vary from one year to another for the same period due to the completion of recovery processes.
- The percentage values of expected loss and effective loss have been calculated using the performing EAD at the end of the previous year.

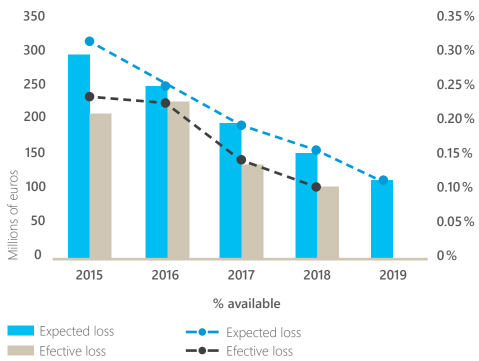
Finally, CaixaBank carries out an adjustment process in which it calibrates the parameters for calculating expected loss through the use of an additional year of internal information on defaults and the associated losses. This adjustment process improves the quality of the estimated parameters in two 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 the systems, which makes it possible to identify new patterns and explicative variables and/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

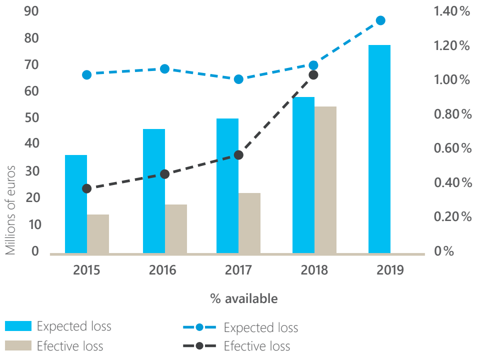
Chart 18. Expected and effective loss in the retail mortgage portfolio



Whilst the effective loss on the retail portfolio with mortgage guarantee fluctuates slightly, in general expected loss and effective loss behave similarly.

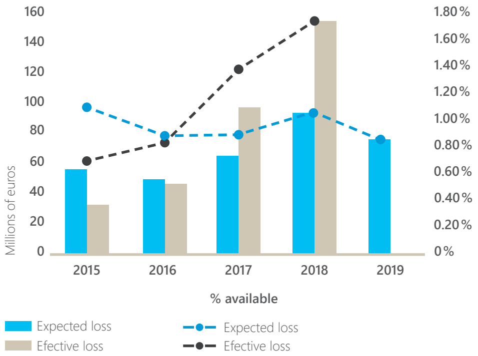
Moreover, the relative indicators show that the reduction in loss totals are chiefly due to improved credit quality, despite the fact that there is also a reduction in the portfolio's exposure.

Chart 19. Expected and effective loss in the cards portfolio



After several year in which expected loss has been relatively stable, and well above the effective loss in 2018, both figures have aligned. The volume of the portfolio in EAD has gradually increased, associated with growth strategy in this sector. Similarly, this has entailed assuming higher default frequencies, a situation that is fully reflected in the estimated expected loss.

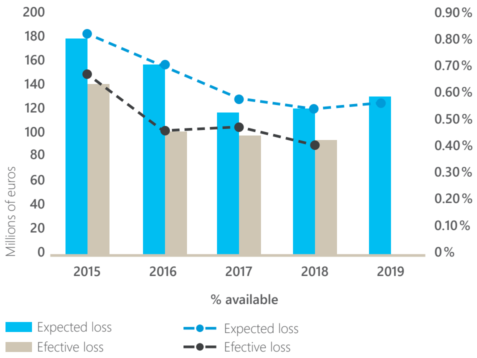
Chart 20. Expected and effective loss in the other retail portfolio



At the start of the historical series, efective losses from consumer transactions stood below the expected loss, after which the trend is reversed. This is due to the efforts made in 2018 and 2019 to reduce NPLs.

SMEs

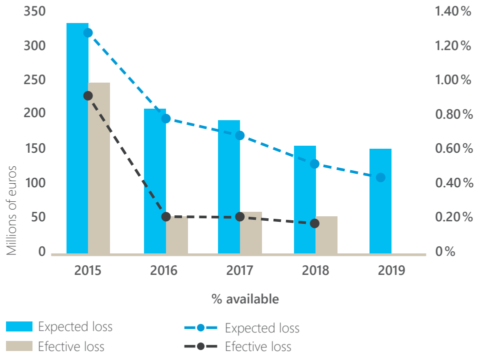
Chart 21. Expected and effective loss in the SME portfolio



The trend of the SME portfolio in recent years is upheld, with the expected loss always above the effective loss.

Corporates

Chart 22. Expected and effective loss in the large corporates portfolio



In the large corporates portfolio, expected loss was higher than effective loss over the period observed. Notably, although expected loss in percentage terms fell in recent years, portfolio exposure increased, indicating that the growth in the portfolio involves higher quality transactions.

Integration of internal risk estimates in management

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

The main risk-measurement parameters are taken into account in decision-making, from approval through to the monitoring of exposure, as well as in managing incentives and monitoring the profitability of business segments.

The main tools and policies are listed below:

- **Authority system 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 calculation of an application's level of risk combines the expected loss and the maximum loss (exposure x severity) of all of a customer's applications and contracts and those of its business group across the Bank, including new lending 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.

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

- **Risk approval pricing system**

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

  - The expected loss.
  - The cost of capital.
  - An estimate of internal operating costs.
  - Liquidity premium.

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

  Automatic action-recommendation system for the approval of transactions with individuals according to the Risk Premium (expected loss + return on capital).

  Establishing a transaction acceptance/denial boundary point, with a penalisation in the approval authorisations when they involve an especially high-risk level.

- **Risk-Adjusted Return (RAR) system**

  Calculation of the return on capital consumption, after deducting expected loss, operating costs and the cost of the funds:

$$RAR = \frac{\text{Operating Results - Expected loss}}{\text{Capital required}}$$

  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 Bank's profit, 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 Bank's customer portfolio.

- **Calculation of provisions using internal models under IFRS9 or Bank of Spain Circular 4/2017:**

  This Circular establishes that – with the exception of the non-performing portfolio corresponding to assets classified as Single Names – expected loss shall be calculated using internal models sharing a significant basis with IRB models: such internal models differ from IRB models in the nature of their estimates, which are forward-looking rather than through-the-cycle, since they have to reflect the economic conditions of the present and those expected in the future.

In addition, internal models are also used in classifying risk in terms of their accounting stage.

5.2. Counterparty risk

RWA for counterparty, default fund and CVA risk
€2,867M

EAD for counterparty, default fund and CVA risk
€5,945M

Counterparty risk **EAD** under internal models
9 %

Counterparty risk, including CVA risk and Default Fund risk, quantifies losses arising from potential default by a counterparty prior to eventual settlement of the cash flows of transactions involving derivative instruments, repo agreements, securities lending and deferred settlement.

CaixaBank Group manages counterparty risk prudently by assigning internal limits and using risk-mitigation policies and techniques in order to reduce exposure to counterparty risk. An integrated system is used which provides real-time data on the available exposure threshold of any counterparty, product and maturity bucket.

Through this counterparty risk management approach, the assumption of this risk is aligned with the Group's business objectives, according to the principles set out in the RAF.

Counterparty risk represents 2% of RWA of total credit risk. 91% of total counterparty risk is subject to the standardised approach, of which 49% corresponds to institutions, while 46% corresponds to corporates. The rest is assessed using the IRB approach and corresponds mainly to corporates.

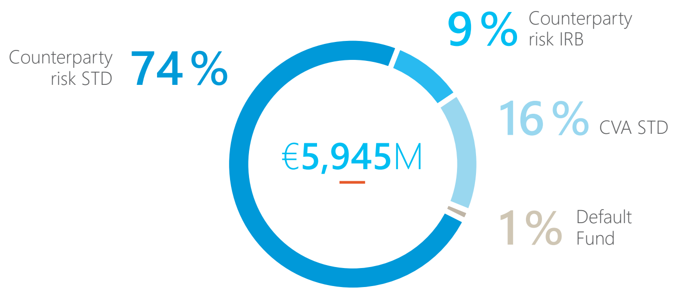
Annual evolution

The EAD of counterparty risk was reduced by EUR 310 million compared to the previous year, mainly due to the change in position and the effect of the variation in market prices on derivatives exposure, as well as a lower positioning in repo agreements and securities lending. The RWA of counterparty risk increased by EUR 13 million in the year.

The EAD for CVA (Credit Valuation Adjustment) risk decreased by EUR 143 million compared to the close of the previous year, mainly due to the decrease in exposure for derivatives with banking counterparties. The corresponding RWA have been reduced by EUR 84 million.

EAD for counterparty, default fund and CVA risk

Breakdown by approach, %



Counterparty risk EAD (standardised approach)

Breakdown by type of exposure, %

5.2.1. Counterparty risk management

Description and general policy

As defined in article 272 of the CRR, counterparty risk is "the risk that the counterparty in a transaction could enter into default before the eventual settlement of the cash flows of the transaction". Counterparty risk arises in transactions involving: derivative instruments, repo agreements, securities lending and deferred settlement.

The Group controls and monitors counterparty risk for two purposes: on the one hand, it does so to ensure that the risk generated by transactions of this nature are correctly treated in the general control and monitoring system for credit risk. On the other hand, it is to control the specific aspects that affect counterparty risk in order to optimise it and elaborate specific monitoring reports, both for management and Governing Bodies and for the supervisor.

The approval of new transactions involving counterparty risk in CaixaBank is subject to an internal framework that has been approved by the Global Risk Committee and that enables rapid decision-making on assuming such risk, for both financial and other counterparties.

In the case of transactions with financial institutions, the Group has a credit approval system in place that has been approved by the Global Risk Committee and in which the maximum authorised exposure to credit risk with an institution (including counterparty risk) is determined by a calculation, mainly based on the institution's ratings and an analysis of its financial statements.

In transactions with other counterparties, including retail customers, derivative transactions related to loan applications (loan interest rate risk hedging) are approved jointly. 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.

The granting of pre-approved risk limits for counterparties means the amount available for contracting new transactions is always known.

CaixaBank has put in place a specific internal framework for managing risk with central counterparties (CCPs). This framework has been approved by the Global Risk Committee and specifies how the limits for such entities are determined, as well as how exposure is calculated to determine the available balance on this limit.

The definition of limits for counterparty risk is complemented by internal concentration limits, mainly for country risk and large exposures.

The granting of pre-approved risk limits for counterparties means the amount available for contracting new transactions is always known.

Structure and organisation of the risk management function

The areas of CaixaBank with direct responsibilities for the quantification, monitoring and control of counterparty risk are:

First line of defence

- The **Country, Bank and Institutions Risk Department,** is responsible for risks undertaken by CaixaBank with financial entities, regardless of the type of transaction and the business activity that generates them. Its main counterparty risk functions are:

- Analysing and monitoring counterparties and risks.
- Controlling the use of limits, and authorising breaches and exceptions to the internal framework.

- **Other centres reporting to the Business Lending Office and centres reporting to the Lending Office,** which are responsible for approving risks with non-financial entities (companies and individuals, respectively) on behalf of CaixaBank, irrespective of the type of transaction and the business activity that generates them. This, therefore, also includes transactions that generate counterparty risk.

- The **Operational Treasury Services Department,** which is part of the Banking Services Subdivision and is under the Resources Executive Directorate. This unit is responsible for the day-to-day operational management of bilateral collateral contracts for derivative instruments, repos and securities lending, as well as collateral contracts with central counterparties (for both OTC and organised market trades). Its main functions include:
  - Generating margin calls for counterparties.
  - Reconciling encumbered positions and managing disputes.
  - Monitoring settlements and the accounting entries associated with the management of such contracts.

- **Legal Advisory** is the division responsible for preparing framework agreements between CaixaBank and counterparties.

Second line of defence

The **Structural Risk and Regulated Models Department** forms part of the Executive Directorate of Corporate Risk Management Function & Planning and its main functions, relating to counterparty risk, are:

- Defining and implementing calculation methodologies for estimating the equivalent credit exposure.
- Daily valuation of transactions under OTC derivative collateral agreements, repos and securities lending.
- Calculating the minimum capital requirements for counterparty risk and preparing regular reports for the supervisor.
- Preparing regular information on counterparty risk for internal bodies.

Third line of defence

Refer to section 3.4.3 for further details.

Measurement and information systems for management of counterparty risk

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 and their related potential value (possible changes in their future value under extreme market price conditions, based on known historical patterns of market prices).

The equivalent credit exposure for derivatives is understood as the maximum potential loss over the life of a transaction that the bank might incur should the counterparty default at any time in the future. This is calculated using Montecarlo simulation with portfolio effect and offsetting of positions, if applicable, at a 95% confidence interval, based on stochastic models incorporating the volatility of the underlying and all the characteristics of the transactions.

Counterparty risk exposure for repos and securities lending is calculated in CaixaBank as the difference between the market value of the securities/cash granted to the counterparty and the market value of the securities/cash received from the counterparty as collateral, considering the applicable volatility adjustments in each case.

It also considers the mitigating effect of collateral received under Framework Collateral Agreements (see the section "Hedging policies and mitigation techniques for counterparty risk"). In

general, the methodology for calculating counterparty risk exposure described above is applied during the approval of new transactions and in recurrent calculations on subsequent days.

Counterparty risk in the Group for financial counterparties is controlled through an integrated system that provides real-time data on the available exposure limit for any counterparty, product and maturity. For the remaining counterparties, counterparty risk is controlled through corporate applications, which contain both the limits of the lines of derivatives risk (if any) and credit exposure of derivatives and repos.

Hedging policies and mitigation techniques for counterparty risk

The main risk mitigation policies and techniques employed for counterparty risk with financial institutions involve the use of:

1. **ISDA/CMOF agreements.** Standardised master agreements for global derivative transactions with a counterparty. These 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.

2. **CSA agreements / CMOF appendix III.** Agreements whereby each of the parties undertake to provide collateral (usually a cash deposit) as guarantee for the net counterparty risk position arising from the derivatives traded between them, on the basis of a prior close-out netting agreement included in the clauses of the ISDA/CMOF contracts.

3. **GMRA/ CME/ GMSLA agreements (repo agreements and securities lending).** Agreements whereby the parties undertake to deliver collateral to each other for the net counterparty 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.

4. **Break-up clauses.** Such clauses provide for early termination of the agreement by one of the parties of its own free will, at a certain point in a contract. This mitigates counterparty risk by reducing the effective duration of the transactions subject to the clause, or reducing the counterparty's counterparty risk exposure.

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

6. **Central Counterparties (CCPs).** The use of CCPs in derivatives and repo transactions can mitigate the associated counterparty risk, as these entities act as intermediaries on their own account between the two parties to the transaction, thus absorbing the counterparty risk. The EMIR regulations set forth an obligation to clear certain OTC derivatives contracts through these Central Counterparties, as well as to give notification of all transactions conducted.

For non-financial counterparties, the mitigation techniques for counterparty risk involve: ISDA/CMOF agreements, CSA agreement/CMOF Appendix III and break-up clauses, pledges of financial guarantees and guarantees issued by counterparties with higher credit quality than the original counterparty in the transaction.

Methodology for internal allocation of capital

The internal allocation of capital for counterparty risk is carried out in tandem with credit risk.

Analysis and policies regarding exposure to wrong way risk

The approval and monitoring processes for counterparty risk enable the identification of cases in which CaixaBank is exposed to wrong way risk. This situation is addressed adequately in both processes. The Group has identified the very specific cases in which it is exposed to this risk. In these cases, it applies sufficiently conservative metrics for estimating credit exposure, both at the time of contracting and throughout the life of the transaction.

Effectiveness of collateral

As mentioned previously, the Group applies collateral agreements, mainly with financial institutions, in order to guarantee operations that are subject to counterparty risk. Risk is often quantified by marking to market all outstanding transactions (normally on a daily basis). This entails revision and modification, as necessary, of the collateral delivered 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 surcharges related to its rating. Bearing in mind that most contracts with financial institutions have a zero threshold,[10] and that in contracts with a rating-linked clause 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. The CSA agreements signed by the subsidiary, BPI, include such surcharges which, in the event of a rating downgrade of two notches, would require an increase in collateral of EUR 1.8 million.

5.2.2. Minimum capital requirements for counterparty risk, default fund and CVA

This section provides details on exposures and RWA for counterparty, default fund and CVA risk exposure. This enables the alignment of this information with that disclosed to the EBA in the CRD IV reports (commonly known as COREP statements).

The EAD of counterparty risk was reduced by EUR 310 million compared to the previous year, mainly due to the change in position and the effect of the variation in market prices on derivatives exposure, as well as a lower positioning in repo agreements and securities lending. The RWA of counterparty risk increased by EUR 13 million in the year.

The EAD for CVA (Credit Valuation Adjustment) risk decreased by EUR 143 million compared to the close of the previous year, mainly due to the decrease in exposure for derivatives with banking counterparties. The corresponding RWA have been reduced by EUR 84 million.

Table 5.49. RWA for counterparty risk, default fund and CVA

Amounts in millions of euros

Method	RWA
Standarised Approach	**2,543**
of which Counterparty	1,759
of which Credit Value Adjustement (CVA)	783
of which Default Fund	1
IRB Approach	**324**
Total	**2,867**

[10] *The amount from which collateral has to be delivered to the counterparty.*

Table 5.50. EU CCR1 - Analysis of CCR exposure by approach

Amounts in millions of euros

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
Mark to market		7,473	2,913			3,854	1,853
Original exposure	-				-	-	-
Standardised approach		-		-	-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions						-	-
Of which from contractual cross-product netting						-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						1,096	230
VaR for SFTs							-
Total	**-**	**7,473**	**2,913**	**-**	**-**	**4,950**	**2,083**

CaixaBank Group calculates EAD for counterparty risk using the mark-to-market method, rather than the internal model method. Therefore, table EU CRR7, which relates to counterparty risk internal models, is not shown.

5.2.3. Quantitative aspects

The following table displays EAD for counterparty risk, under the standardised approach, for different degrees of risk weighting according to the agency rating mapping dictated by the EBA:

2019

Table 5.51. Exposures to counterparty risk and effects of techniques for mitigation

Amounts in millions of euros

	Original exposure	EAD	RWA	RWA density	Capital (8%)
Central governments or central banks	9	9	-	0.00%	-
Regional governments or local authorities	39	39	0	0.10%	-
Public sector entities	158	158	79	49.94%	6
Multilateral development banks	-	-	-	0.00%	-
International organisations	-	-	-	0.00%	-
Institutions	2,167	2,166	457	21.09%	37
Corporates	3,239	2,010	1,209	60.13%	97
Retail	1	1	1	59.94%	-
Secured by mortgages on immovable property	-	-	-	0.00%	-
Exposures in default	15	11	14	134.37%	1
Items associated with particularly high risks	-	-	-	0.00%	-
Covered bonds	-	-	-	0.00%	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	0.00%	-
Collective investments undertakings	-	-	-	0.00%	-
Equity exposures	-	-	-	0.00%	-
Other exposures	-	-	-	0.00%	-
Total standardised approach	**5,628**	**4,394**	**1,759**	**40.05%**	**141**

2018

Amounts in millions of euros

	Original exposure	EAD	RWA	RWA density	Capital (8%)
Central governments or central banks	6	6	-	0.00%	-
Regional governments or local authorities	35	35	-	0.11%	-
Public sector entities	151	151	76	50.00%	6
Multilateral development banks	-	-	-	0.00%	-
International organisations	-	-	-	0.00%	-
Institutions	2,507	2,494	531	21.31%	43
Corporates	4,106	1,943	1,071	55.12%	86
Retail	1	1	-	62.74%	-
Secured by mortgages on immovable property	-	-	-	0.00%	-
Exposures in default	8	4	4	100.00%	-
Items associated with particularly high risks	-	-	-	0.00%	-
Covered bonds	-	-	-	0.00%	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	0.00%	-
Collective investments undertakings	-	-	-	0.00%	-
Equity exposures	-	-	-	0.00%	-
Other exposures	-	-	-	0.00%	-
Total standardised approach	**6,814**	**4,633**	**1,682**	**36.30%**	**135**

Table 5.52. EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (EAD)

Amounts in millions of euros

	EAD												
Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**Of which unrated**
Central governments or central banks	9	-	-	-	-	-	-	-	-	-	-	9	9
Regional government or local authorities	39	-	-	-	0	-	-	-	-	-	-	39	39
Public sector entities	-	-	-	-	0	158	-	-	-	-	-	158	158
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	55	138	-	1,870	55	-	-	49	-	-	2,166	100
Corporates	263	-	-	-	673	-	-	-	1,074	-	-	2,010	1,346
Retail	-	-	-	-	-	-	-	1	-	-	-	1	1
Exposures in place of default	-	-	-	-	-	-	-	-	3	7	-	11	11
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**310**	**55**	**138**	**-**	**2,543**	**213**	**-**	**1**	**1,126**	**7**	**-**	**4,394**	**1,665**

Counterparty Risk is included. Credit risk, Securitisation and Equity exposures are not included.

Table 5.53. EU CCR3 - Standardised approach - Exposures to Counterpart Risk (RWA)

Amounts in millions of euros

	RWA												
Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**Of which unrated**
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional government or local authorities	-	-	-	-	0	-	-	-	-	-	-	0	0
Public sector entities	-	-	-	-	0	79	-	-	-	-	-	79	79
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	1	6	-	374	27	-	-	49	-	-	457	58
Corporates	-	-	-	-	135	-	-	-	1,074	-	-	1,209	1,075
Retail	-	-	-	-	-	-	-	1	-	-	-	1	1
Exposures in place of default	-	-	-	-	-	-	-	-	3	11	-	14	14
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**1**	**6**	**-**	**509**	**106**	**-**	**1**	**1,126**	**11**	**-**	**1,759**	**1,227**

Counterparty Risk is included. Credit risk, Securitisation and Equity exposures are not included.

Table 5.54. IRB: counterparty risk exposure by portfolio

2019

Amounts in millions of euros

	Average PD	Original exposure	EAD	Number of debtors*	LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisons	Capital (8%)
Corporate	**1.95%**	**536**	**536**	**2**	**34.26%**	**4**	**317**	**59.11%**	**2**	**-**	**25**
Corporates	1.81%	460	460	1	34.72%	3	268	58,32%	2	-	21
SME	2.81%	76	76	1	31.47%	4	48	63.89%	1	-	4
Retail	**3.97%**	**21**	**21**	**2**	**48.07%**	**3**	**7**	**32.82%**	**-**	**-**	**1**
Retail - Residential Mortgage	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
SME - Mortgage	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
Retail - Qualifying Revolving	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
Retail - SME	4.06%	20	20	2	47.44%	3	7	33.17%	-	-	1
Other Retail	0.08%	-	-	-	75.65%	5	-	17.43%	-	-	-
Total Credit Risk - IRB portfolio	**2.02%**	**557**	**557**	**4**	**34.87%**	**4**	**324**	**58.13%**	**3**	**-**	**26**

** Number of debtors in thousands.*
Counterparty Risk is included. Credit risk, Securisitation and Equity exposures are not included.

2018

Amounts in millions of euros

	Average PD	Original exposure	EAD	Number of debtors*	LGD	Average maturity (years)	RWA	RWA density	EL	Valuation adjustments and provisons	Capital (8%)
Corporate	**1.37%**	**618**	**618**	**2**	**35.53%**	**-**	**385**	**62.28%**	**3**	**-**	**31**
Corporates	1.11%	536	536	1	35.90%	-	337	62.85%	1	-	27
SME	3.09%	82	82	2	33.10%	1	48	58.58%	1	-	4
Retail	**3.40%**	**9**	**9**	**2**	**48.01%**	**3**	**3**	**33.33%**	**-**	**-**	**-**
Retail - Residential Mortgage	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
SME - Mortgage	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
Retail - Qualifying Revolving	0.00%	-	-	-	0.00%	-	-	0.00%	-	-	-
Retail - SME	3.53%	8	8	2	46.98%	3	3	33.84%	-	-	-
Other Retail	0.12%	-	-	-	73.17%	-	-	21.00%	-	-	-
Total Credit Risk - IRB portfolio	**1.40%**	**627**	**627**	**4**	**35.71%**	**-**	**388**	**61.87%**	**3**	**-**	**31**

** Number of debtors in thousands.*
Counterparty Risk is included. Credit risk, Securisitation and Equity exposures are not included.

Table 5.55. EU CCR4 - IRB approach - CCR exposures by portfolio and PD scale

2019

Amounts in millions of euros

PD scale	EAD post CRM	Average PD	Number of debtors*	Average LGD	Average maturity	RWA	RWA density
0.00 to <0.15	100	0.13 %	0	24.94 %	4	23	23.29 %
0.15 to <0.25	98	0.18 %	0	38.62 %	4	45	45.95 %
0.25 to <0.50	121	0.28 %	1	37.64 %	3	61	50.89 %
0.50 to <0.75	110	0.59 %	0	37.67 %	3	74	67.41 %
0.75 to <2.50	91	1.51 %	1	35.90 %	4	81	89.65 %
2.50 to <10.00	28	4.80 %	0	34.90 %	3	33	118.89 %
10.00 to <100.00	3	26.72 %	0	35.34 %	3	5	149.42 %
Perfoming Portfolio	**550**	**0.88 %**	**3**	**35.07 %**	**4**	**323**	**58.65 %**
100.00 (default)	6	100.00 %	0	18.18 %	4	1	13.58 %
Total	**557**	**2.02 %**	**4**	**34.87 %**	**4**	**324**	**58.13 %**

** Number of debtors in thousands*

Counterparty Risk is included. Credit risk, Securisitation and Equity exposures are not included.

Amounts in millions of euros

2018

PD scale	EAD post CRM	Average PD	Number of debtors*	Average LGD	Average maturity	RWA	RWA density
0.00 to <0.15	132	0.12 %	1	27.11 %	-	29	21.96 %
0.15 to <0.25	92	0.18 %	-	37.53 %	-	43	46.99 %
0.25 to <0.50	117	0.27 %	1	43.92 %	-	77	65.79 %
0.50 to <0.75	126	0.59 %	1	32.75 %	-	80	63.61 %
0.75 to <2.50	127	1.49 %	1	39.52 %	-	126	99.25 %
2.50 to <10.00	28	4.66 %	-	34.12 %	2	30	108.29 %
10.00 to <100.00	2	20.43 %	-	28.44 %	1	2	125.57 %
Perfoming Portfolio	**623**	**0.79 %**	**4**	**35.78 %**	**-**	**387**	**62.18 %**
100.00 (default)	4	100.00 %	-	24.19 %	1	-	11.94 %
Total	**627**	**1.40 %**	**4**	**35.71 %**	**-**	**388**	**61.87 %**

** Number of debtors in thousands*

Counterparty Risk is included. Credit risk, Securisitation and Equity exposures are not included.

The following table shows the effect of netting agreements and guarantees on counterparty risk exposure in derivative contracts at 31 December 2019.

Table 5.56. EU CCR5-A - Impact of netting and collateral held on exposure values

Amounts in millions of euros

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	19,930	12,457	7,473	5,822	1,650
SFTs	7,261	6,165	1,096	-	1,096
Cross-product netting	-	-	-	-	-
Total	**27,191**	**18,622**	**8,569**	**5,822**	**2,747**

The following table provides details of all collateral provided or received in relation to transactions with derivatives and securities financing transactions (SFTs). It also includes transactions cleared through a central counterparty. In the case of SFTs, both parts of each trade are considered collateral (i.e. the cash and securities received and delivered).

Table 5.57. EU CCR5-B - Composition of collateral for exposures to CCR

Amounts in millions of euros

	Collateral used in derivative transactions				Collateral used in SFTs			
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
Cash - domestic currency	-	1,207	-	4,866	-	2,551	-	1,349
Cash - other currencies	-	-	-	269	-	-	-	398
Domestic sovereign debt	-	4,349	268	16	-	7,304	38	2,617
Other sovereign debt	-	940	386	-	-	1,092	253	1,100
Government agency debt	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	1,665	-	1,719
Securitizations	-	-	-	-	-	501	5,807	1,878
Equity securities	-	-	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-	-	-
Total	**-**	**6,497**	**654**	**5,151**	**-**	**13,112**	**6,098**	**9,062**

The following table shows CaixaBank Group's exposure with Central Counterparties (CCPs), detailing the types of exposure and the corresponding minimum capital requirements.

Table 5.58. EU CCR8 – Exposures to CCPs

Amounts in millions of euros

	EAD post CRM	RWA
Exposures to QCCPs (total)	**1,037**	**168**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	976	163
(i) OTC derivatives	877	153
(ii) Exchange-traded derivatives	45	9
(iii) SFTs	55	1
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	17	3
Prefunded default fund contributions	43	1
Alternative calculation of own funds requirements for exposures	-	-
Exposures to non-QCCPs (total)	**-**	**-**
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

The regulatory EAD of exposure to Central Counterparties (CCPs) is calculated in accordance with section 9 (Own funds requirements for exposure to Central Counterparties) of chapter 6 (Counterparty Credit Risk) of part 3 of the CRR.

Pursuant to article 306 "Own funds requirements for trade exposures" of the CRR, assets furnished as guarantees to a CCP, and that are immune to bankruptcy in the event that the CCP is declared insolvent, represent zero EAD. Therefore, EAD on the segregated initial margin category is zero. The following table details the value of RWA for credit valuation adjustment (CVA) risk. CaixaBank calculates this amount for all OTC derivatives subject to this requirement under the standardised approach.

Table 5.59. EU CCR2 - CVA capital charge

Amounts in millions of euros

	Exposure value	RWA
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)		-
(ii) SVaR component (including the 3× multiplier)		-
All portfolios subject to the standardised method	951	783
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**951**	**783**

The following table shows the outstanding exposure to credit derivatives at year-end 2019, all of which are in the held-for-trading portfolio.

Table 5.60. EU CCR6 - Credit derivatives exposures

Amounts in millions of euros

	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
Notionals			
Single-name credit default swaps (CDS)	-	-	-
Index credit default swaps	765	5	-
Total return swaps	-	-	-
Credit options	-	-	-
Other credit derivatives	-	-	-
Total notionals	**765**	**5**	**-**
Fair values	**-**	**-**	**-**
Positive fair value (asset)	-	-	-
Negative fair value (liability)	(49)	-	-

Exposure to credit derivatives includes the hedging derivatives bought in 2019 to hedge credit risk for CVA.

As of 31 December 2019, CaixaBank Group had not contracted any internal hedging for credit risk in the banking book through the purchase of protection involving credit derivatives, and it was also not involved in any intermediation activity for credit derivatives.

5.3. Securitisations

Securitisation risk **RWA**
€687M

Securitisation risk **EAD** (before deductions)
€3.546M

EAD under internal models
96 %

Credit risk for securitisations quantifies losses of principal and interest on issuances deriving from potential failure by borrowers of securitised assets to comply with their financial obligations.

CaixaBank Group is not an active investor in the securitisations market and is mainly involved in securitisation transactions as the originator entity, in order to obtain liquidity. Investments in other entities' securitisations represent a residual risk. Securitisation risk represents 0.5 % of RWA of total credit risk.

CaixaBank transforms pools of homogeneous loans and credits from its portfolio into fixed-income securities through the transfer of such assets to various traditional securitisation funds. It generally retains all of these securities.

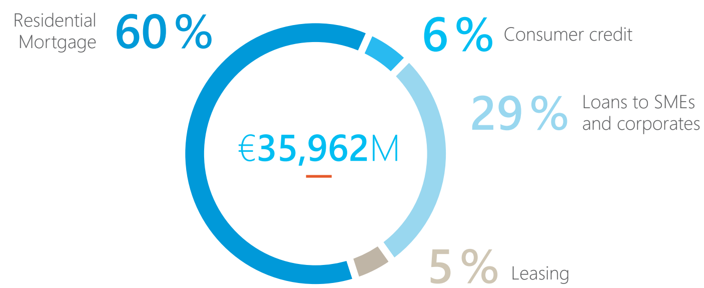
In addition, in relation to capital management, CaixaBank Group has three synthetic securitisations of its own with a significant transfer of risk, with a total outstanding securitised balance of EUR 3,619 million.

Annual evolution

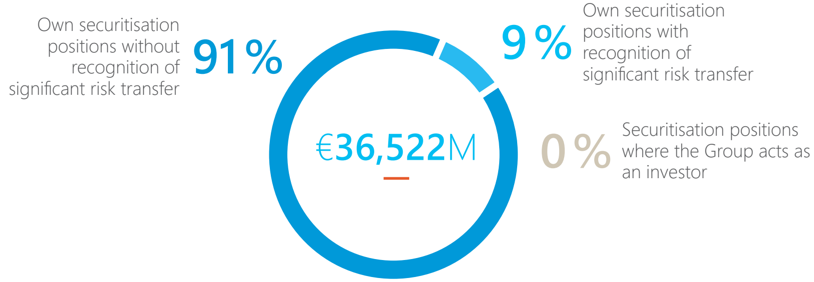
During 2019, CaixaBank Group has generated two traditional securitisations, with an initial total securitised balance of EUR 4,280 million, and one synthetic securitisation with an initial securitised balance of EUR 1,282 million.

EAD subject to RWA, corresponding to positions held in own securitisations with a significant transfer of risk and to positions in third-party securitisations, increased by EUR 676 million. This increase chiefly reflects the new synthetic securitisation issued in 2019, partly offset by the reduced exposure of outstanding synthetic securitisation at the 2018 year-end, as well as a slight rise in investor positions in third-party securitisations. RWA from credit risk in securitisations increased by EUR 420 million during the year, mainly due to the new synthetic securitisation.

Securitised loan portfolio
Breakdown by type of exposure, %



Securitisation Exposures
Breakdown by recognition of significant risk transfer and origin of risk, %



5.3.1. Qualitative aspects

Description and general policy

CaixaBank Group treats securitisation transactions as set forth in Chapter 5, Heading II, Part Three of the CRR, which sets out the following definitions:

1. **Securitisation:** a transaction or scheme through which the credit risk associated with an exposure or pool of exposures is split into different tranches. It features the following two characteristics:
    - Payments are dependent upon the performance of the exposure or pool of exposures.
    - The subordination of tranches determines the distribution of losses during the ongoing life.
2. **Securitisation position:** an exposure to a securitisation.
3. **Tranche:** a contractually established segment of the credit risk associated with an exposure or a number of exposures, where a position in the segment entails a risk of credit loss either greater or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.
4. **First loss or equity tranche:** the most subordinated tranche in a securitisation, being the first to bear losses incurred on the securitised exposures. It therefore provides protection to the second loss tranche and, where applicable, higher ranking tranches.
5. **Intermediate risk or mezzanine tranche:** a tranche, other than a first loss tranche, with lower ranking for payment than the position with the highest ranking for payment in the securitisation, and lower ranking than any tranche within the securitisation assigned a credit quality of 1 under the standardised approach, or a credit quality of 1 or 2 under the IRB approach.
6. **Senior tranche:** any tranche other than first loss and mezzanine tranches. Within the "senior tranches", the 'maximum preference tranche' is that in first position in the ranking for payment of the securitisation, not considering amounts due under derivative contracts for interest or exchange rates, brokerage fees or other charges.
7. **Traditional securitisation:** a securitisation involving the economic transfer of the exposures being securitised. This is accomplished through the transfer of ownership of the securitised exposures from the originator institution to an SSPE (securitisation special purpose entity) or through sub-participation by an SSPE. The securities issued do not represent payment obligations of the originator institution.
8. **Synthetic securitisation:** a securitisation where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originator institution.
9. **Resecuritisation:** a securitisation in which the risk associated with a group of underlying exposures is divided into tranches, and at least one of the underlying exposures is a securitisation position.
10. **Originator,** an institution that:
    a. Itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or
    b. Purchases a third party's exposures itself and then securitises them.
11. **Sponsor,** an institution other than an originator institution that establishes and manages an asset-backed commercial paper programme or other securitisation scheme that purchases exposures from third-party entities.

On 1 January 2019, Regulation (EU) 2017/2401, amending Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms in the field of securitisations, entered into force. The new Regulation establishes a transitional provision for securitisation positions issued before 1 January 2019, whereby companies can continue to apply Regulation No. 575/2013 (Chapter 5 of Title II of Part Three and Article 337 of the Regulation) until 31 December 2019. Under this new Regulation, the following new definitions apply:

12. **Senior tranche:** a position backed or secured by a first priority claim on all underlying exposures, omitting amounts due under interest rate or currency derivative contracts, fees due, or other similar payments, as well as any difference in the maturity as regards one or various senior tranches with which this position enables the allocation of losses on a pro-rata basis.

13. **Intermediate risk or mezzanine tranche:** a tranche that is subordinated to the senior tranche and which has a higher rank than the first-loss tranche and is subject to a risk weight of less than 1250% and above 25%, according to the weighting obtained by one of the methods for calculating securitization APRs in Regulation (EU) 2017/2401.

The objectives of securitisation

Asset securitisation facilitates effective balance sheet management, as it fosters:

- **Acquisition of liquidity:** securitisations mobilise the balance sheet, transforming non-liquid assets and attracting finance in the wholesale markets through their sale and use as collateral. Retained securitisation positions can be used as collateral to be discounted by the ECB.
- **Diversification of sources of funding:** another objective related to obtaining liquidity is to diversity the Group's sources of finance, in terms of both maturities and product types.
- **Management and diversification of credit risk:** selling securitised bonds to the market can reduce exposure to the credit risk that arises in the normal course of business activity.
- **Optimisation of capital structure:** securitisation transactions that transfer a significant portion of their risk also allow the management of capital structure to be optimised.

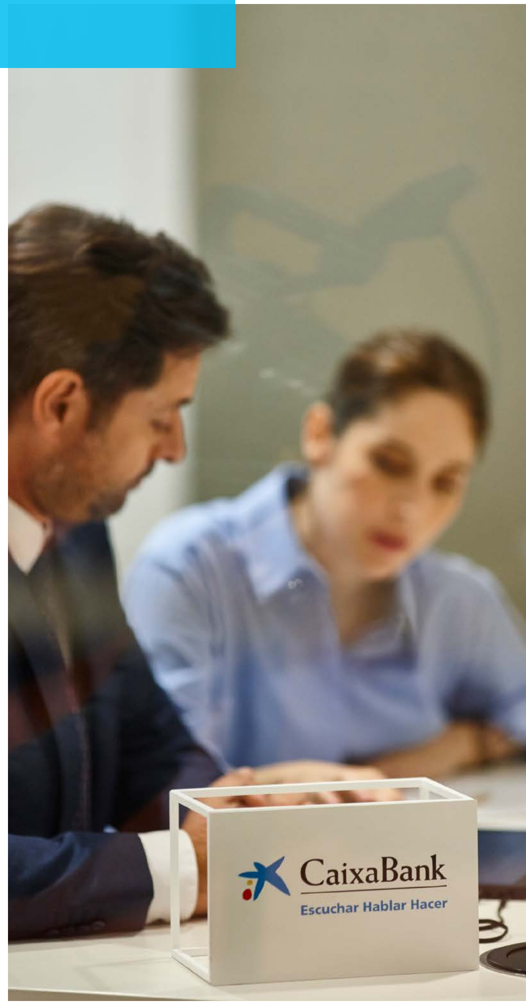
The nature of the risks inherent to the securitisation business

Securitisations offer a number of advantages for liquidity and risk management. However, securitisations also entail risks, which are basically assumed by the originator entity and/or the investor entities.

- **Credit risk:** the risk that the borrower will fail to meet their contractual obligations in due time or form, resulting in impairment to the asset underlying the securitisation positions established. This is the main risk transferred to investors through the instruments issued in the securitisation.
- **Pre-payment risk:** the risk of early redemption, in part or in full, of the underlying assets for the securitisation, meaning that the actual maturity of the securitisation positions will be shorter than the contractual maturity of the underlying assets.
- **Basis risk:** risk of the interest rates or maturities of securitised assets not matching those of the securitisation positions. This risk is usually covered through interest rate swaps.
- **Liquidity risk:** there are a number of ways of understanding this risk.

  From the originator's perspective: this is reduced by the securitisation process, which transforms assets that are intrinsically illiquid into debt securities that can be traded in organised financial markets.

  From the investor's perspective: there is no guarantee that there will be sufficient trading volumes or frequency for the bonds in the market to enable it to unwind its position at a particular time.



Risk in the ranking of securitisation positions

Securitisation bonds are issued with a defined payment ranking for the underlying securitisation positions. The funds in which CaixaBank Group is involved are usually structured into a number of tranches, each of which has their own credit rating.

The first set of tranches is described as preferred or "senior". This comprises the bonds of the highest credit quality and, therefore, with the highest credit rating. These are followed by mezzanine tranches, which are subordinate to the senior tranches. At the base of the structure we find the tranches of the lowest credit quality, which are known as "first loss" or equity tranches: in some cases, these are subordinated loans that CaixaBank Group has granted to the fund, whilst in others they is a series of bonds. The first loss tranches meet the first percentage of losses on the securitised portfolio.

Functions performed by CaixaBank Group in the securitisation process

The main functions performed by the Group in the securitisations carried out are as follows:

- **Originator:** CaixaBank Group participates in various securitisation funds to which, either individually or, occasionally, jointly with other entities, it assigns some of its residential mortgage loans, loans to small and medium-sized enterprises (SMEs), credit rights under financial leasing agreements, consumer finance contracts, and loans granted to real-estate developers for the purchase of land and for the construction and refurbishment of homes and commercial premises, for subsequent subrogation to the purchasers of these homes or commercial premises.

- **Administrator of securitised portfolios:** CaixaBank Group acts as the administrator of the securitised assets, managing collections of repayments and interest, carrying out monitoring and undertaking recovery actions for impaired assets.

- **Funding provider:** CaixaBank also acts as the supplier of finance for securitisation funds in relation to subordinated loans for the purposes of establishing reserve funds, as well as supplying loans to finance the initial costs these vehicles incur.

- **Provider of treasury account:** CaixaBank operates the treasury account for some securitisation funds.

- **Payment agent:** CaixaBank acts as the payment agent for some securitisation funds, while in the majority of the BPI securitisation funds the payment agent is a third party.

- **Underwriter for bond issues:** CaixaBank Group acts as the underwriter for some securitisation funds. The underwriter role is usually undertaken in transactions originated to create collateral that is retained. To a lesser extent, this role is also undertaken in transactions placed in the market, in which case CaixaBank Group has sometimes underwritten the lowest-ranking tranches of the fund.

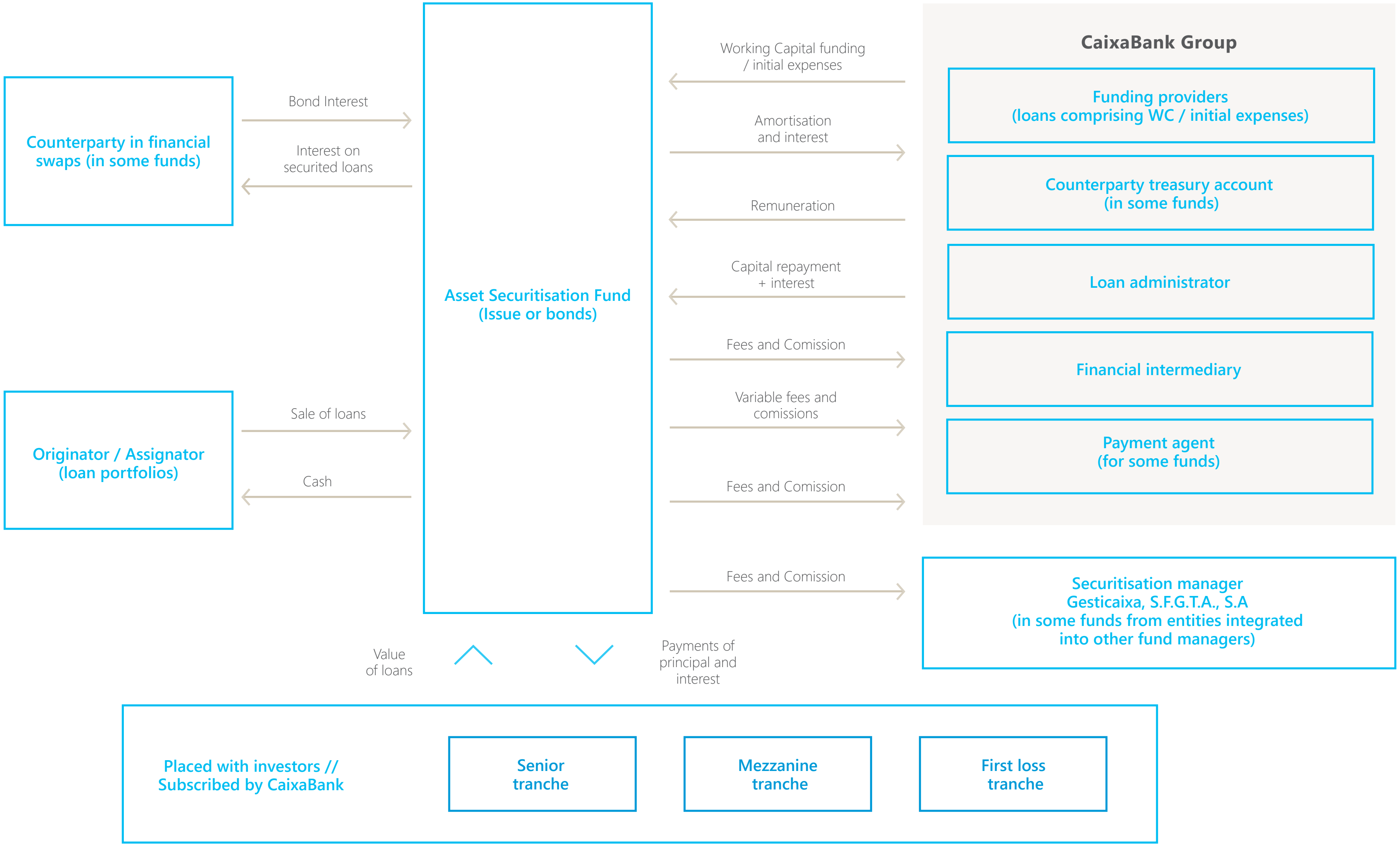
- **Counterparty in financial swaps:** CaixaBank Group acts as a counterparty in financial swaps set up in securitisation funds to reduce the interest rate risk in such structures.

- **Securitisation fund management:** CaixaBank Titulización S.G.F.T.A., a CaixaBank Group company, acts as CaixaBank's securitisation fund manager. For securitisations where BPI is the originator, and which are outstanding at the close of 2019, the manager is "GTI Asset Management".

It also acts as an investor of securitisation transactions that have been originated by other institutions.

The following chart summarises the functions performed in the securitisation process and the degree of involvement of CaixaBank Group:

Functions in the securitization process and involvement of the Group



For the purpose of quantifying its degree of involvement in these tasks, the following table shows the securitisation exposures in which the Group acts as originator, sponsor or investor.

Table 5.61. Securitisation exposures by type of intervention of the Group

Amounts in millions of euros

Type of exposure	2019	2018
Securitisation positions where the Group acts as originator	36,388	41,056
Securitisation positions where the Group acts as investor	134	50

Functions performed by CaixaBank in synthetic securitisations

The main differential functions performed in the field of synthetic securitisation have been as follows:

- **Protection purchaser:** CaixaBank Group acts as a purchaser of protection against the credit risk passed on to investors.
- **Monitoring agent and credit event controller:** CaixaBank Group acts as the holder of the securitised assets, managing collections of repayments and interest, and monitoring and undertaking recovery actions for assets in a credit event.
- **Calculation agent:** CaixaBank Titulización S.G.F.T.A., a CaixaBank Group company, performs functions as a calculation agent.

Other considerations

As already mentioned, CaixaBank Group's main activity with regard to securitisations is as an originator. This involves transforming homogenous parts of its loan and credit portfolio into fixed income securities by transferring assets to traditional securitisation funds. It generally retains all such instruments. In addition, this year CaixaBank originated its third synthetic securitisation, enabling it – among other things – to optimise its capital structure. CaixaBank also retains residual positions in traditional securitisations, in which CaixaBank Group was not the originator (third-party securitisations). While the positions remain in the portfolio, they are marked-to-market daily and creditworthiness is reviewed regularly.

In terms of processes for monitoring variations in credit risk on securitisation exposure, in securitisations where there is no transfer of risk (most of CaixaBank's exposure to securitisations), changes in the credit risk of the securitisation exposure mirror those of the underlying assets (depending on the proportion retained). In securitisations where a significant part of the risk is transferred, changes in the credit risk of the securitisation exposure are measured and reviewed regularly, through the relevant external credit rating. For synthetic securitisations, the securitised assets are subject to specific monitoring on a monthly basis, together with monitoring of changes in risk weightings for calculating RWA for these securitisations.

All of CaixaBank's securitisation positions belong to the held-to-maturity portfolio: there are no securitisation positions in the held-for-trading portfolio. Therefore, all securitisation positions are excluded from the capital requirements for market risk.

CaixaBank Group does not act as the sponsor in any securitisation schemes or as the originator in any resecuritisations.

CaixaBank Group does not use personal guarantees or specific hedging to offset the risks of exposure to retained securitisations.

CaixaBank Group does not provide implicit support in synthetic securitisations that involve a significant transfer of risk at a regulatory level.

The traditional securitisation funds that are originated use the following external ratings agencies, irrespective of the underlying assets securitised: Standard & Poor's, DBRS, Moody's, Fitch and SCOPE. No external rating has been requested for the synthetic securitisation issued to date.

CaixaBank Group had no assets pending securitisation at 31 December 2019.

Securitisation activity in 2019

CaixaBank originated two traditional securitisation funds in 2019. These are managed by CaixaBank Titulización, and all of the securities issued have been retained. In addition, throughout the year CaixaBank has issued a synthetic securitisation involving a significant transfer of the risk. The details were as follows:

- **GAUDI-III** (March 2019): A synthetic securitisation of loans to SMEs and self-employed workers, with an initial securitised value of EUR 1,282 million, in which the mezzanine tranche risk (EUR 100 million) is fully transferred to third parties.
- **CAIXABANK LEASINGS 3, F.T.** (June 2019): A traditional securitisation of financial leasing contracts, with an initial securitised value of EUR 1,830 million.
- **CAIXABANK PYMES 11, F.T.A.** (November 2019): A traditional securitisation of SME loans, with an initial securitised value of EUR 2,450 million.

Risk management. Accounting policies

Criteria for derecognising securitised assets or maintaining them on the balance sheet

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

The accounting treatment applied to transfers of assets depends on the extent to which the risks and rewards associated with ownership of the transferred assets are transferred to third parties:

- If, substantially, all the risks and rewards of ownership of the transferred asset are transferred (such as in the case of, among others: unconditional sales, a sale with an option to repurchase the financial asset at its fair value at the time of repurchase, a sale of a financial asset together with a put or call option that is deep out of the money, or asset securitisations in which the transferor does not retain any subordinated loans and does not provide any type of credit enhancement to the new owners), it is derecognised, and any rights or obligations retained or arising as a result of the transfer are simultaneously recognised.
- If the risks and rewards of ownership of the transferred financial asset are substantially retained (such as in the case of, among others: sale and repurchase transactions where the repurchase price is a fixed price or the sale price plus a lender's return, a securities lending agreement under which the borrower has the obligation to return the securities or similar), it is not derecognised and continues to be measured by the same criteria used before the transfer and the following are recognised:
  1. A financial liability equal to the consideration received, which is subsequently measured at amortised cost, unless it meets the requirements to be classified under other liabilities at fair value through profit or loss.
  2. The income generated on the transferred (but not derecognised) financial asset and the expenses of the new financial liability, without offset.
- If, substantially, all the risks and rewards of ownership of the transferred financial asset are neither transferred nor retained (such as in the case of: a sale of a financial asset together with a put or call option that is neither deep in the money nor deep out of the money, securitisations in which the transferor assumes a subordinated loan or some other type of credit enhancement for part of the transferred asset), the following distinction is made:
  1. If the transferor does not retain control over the financial asset transferred, then it is derecognised and any right or obligation retained or arising from the transfer is recognised; or
  2. If the transferor retains control over the financial asset transferred, then it continues to recognise the asset for an amount equal to its exposure to changes in the asset's value, recognising a liability associated with the financial asset transferred. The net amount of the transferred asset and the associated liability shall be the amortised cost of the rights and obligations retained, if the asset is measured at amortised cost, or at fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

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

To determine whether there is control over a structured entity and, therefore whether it should be consolidated, the Group analyses the contractual rights other than voting rights. For this, it considers the purpose and design of each entity and, inter alia, evidence of the ability to direct the relevant activities, potential indications of special relationships or the ability to affect the returns from its involvement. With regard to securitisation funds, the Group is highly exposed to variable returns and has decision-making power over the entity, either directly or through an agent, so they are consolidated.

Criteria for the recognition of gains or losses in cases where assets are derecognised from the balance sheet

In order for the Group to recognise the gain or loss generated in a sale of financial instruments, it must derecognise them from its accounts. To do this, the requirements regarding substantial transfer of risks and rewards described in the previous point must be met.

The gain or loss should be recognised in the income statement and will be calculated as the difference between the net book value and the total consideration received, including any new asset obtained less any liabilities that are assumed.

When the amount of the financial asset being transferred matches the total amount of the original financial asset, any new financial assets, financial liabilities and liabilities from the provision of services that arise as a result of the transfer will be recognised at fair value.

In the case of the issuances of securitisations that CaixaBank Group carries out, it retains the underlying assets on its balance sheet. Therefore, at present, when a securitisation is generated in CaixaBank Group, no gain or loss is produced in the accounting records.

Assumptions for assessing the retention of risks and rewards on securitised assets

The Group considers that the risks and rewards of securitisations are substantially retained when the subordinated bonds of issuances are kept and/or subordinated loans are granted to the securitisation funds in question which involve substantially retaining the expected credit losses of the loans that are transferred.

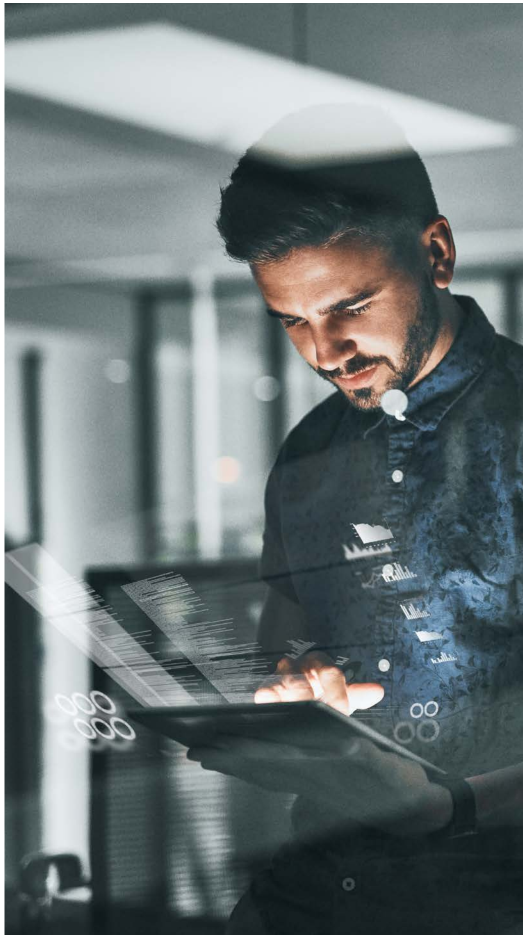
Synthetic securitisations

With regard to synthetic securitisations, the transfer of credit risk takes the form of a financial guarantee and it is not considered a substantial transfer of risks and rewards. Therefore, the underlying exposure is retained on the balance sheet.

5.3.2. Minimum capital requirements for securitisation risk

As previously stated, on 1 January 2019, Regulation (EU) 2017/2401, amending Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms in the field of securitisations, entered into force. The new regulation establishes a transitional provision for securitisation positions issued before 1 January 2019, whereby companies can continue to apply Regulation No. 575/2013 (Chapter 5 of Title II of Part Three and Article 337 of the Regulation) until 31 December 2019. Therefore, in 2019, CaixaBank Group's minimum capital requirements for securitisation risk were calculated in accordance with Regulation 2017/2401 for securitisations issued after 1 January 2019 and, for all other securitisations, according to Regulation (EU) No. 575/2013.

Pursuant to these Regulations, for funds that do not comply with the provisions for determining whether a significant portion of the risk has been transferred (Articles 243 and 244 of Regulation No. 575/2013 and 244 and 245 of Regulation 2017/2401), the method used to calculate capital requirements for securitisation transactions is the same as that applied to assets that have not been securitised. Funds that do comply with the provisions will be calculated using a securitisation method, depending on the approach (standardised or IRB) that would be applied to the underlying portfolio for the issue (if it were not securitised).



Exposures in which CaixaBank Group acts as originator

The following table displays the exposure of securitisations in which the transfer of a significant portion of the risk is recognised, and shows investor tranches of multi-seller securitisations where CaixaBank Group acts as the originator, and for which the calculation of capital requirements is independent of whether or not the risk on the originator tranches has been transferred.

At year-end 2019, CaixaBank Group chiefly applied the IRB-RBA (IRB – Ratings-Based Approach) method in its traditional securitisation exposures, while it applied the IRB-SF (IRB – Supervisory Formula Method) and SEC-IRBA (Internal Ratings Based Approach) methods in the case of synthetic securitisations. The Group does not apply the IRB-IAA (IRB – Internal Assessment Approach) method in any cases. The table also shows that most of the securitisation exposure subject to capital charge receives the lowest level of risk weighting (less than 20%), or the following level (less than 50%).

Compared to the previous year, regulatory exposure has increased by EUR 591 million, chiefly due to the new synthetic securitisation (GAUDI-III) that CaixaBank originated in 2019, which was partly offset by the partial write-off of the synthetic securitisation underlyings in force at year-end 2018. The RWA increased by EUR 363 million compared to year-end 2018.

Table 5.62 EU SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor

Amounts in millions of euros

	Exposure values[4] (by RW bands)					Exposure values[4] (by regulatory approach)				RWA before cap (by regulatory approach)[7]				RWA (by regulatory approach)				Capital charge after cap				
	≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to 1250% RW	1250% RW	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	Capital deductions
Total exposures	**2,142**	**1,168**	**21**	**-**	**76**	**1,218**	**2,092**	**20**	**76**	**441**	**146**	**18**	**24**	**437**	**146**	**18**	**3**	**35**	**12**	**1**	**0**	**5**
Traditional securitisation	**50**	**0**	**21**	**-**	**2**	**50**	**-**	**20**	**2**	**5**	**-**	**18**	**24**	**1**	**-**	**18**	**3**	**0**	**-**	**1**	**0**	**5**
Of which securitisation	50	0	21	-	2	50	-	20	2	5	-	18	24	1	-	18	3	0	-	1	0	5
Of which retail underlying	50	0	21	-	2	50	-	20	2	5	-	18	24	1	-	18	3	0	-	1	0	5
Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Synthetic securitisation	**2,092**	**1,167**	**-**	**-**	**74**	**1,167**	**2,092**	**-**	**74**	**436**	**146**	**-**	**-**	**436**	**146**	**-**	**-**	**35**	**12**	**-**	**-**	**-**
Of which securitisation	2,092	1,167	-	-	74	1,167	2,092	-	74	436	146	-	-	436	146	-	-	35	12	-	-	-
Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which wholesale	2,092	1,167	-	-	74	1,167	2,092	-	74	436	146	-	-	436	146	-	-	35	12	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In the table above, only the regulatory exposure of the securitizations with significant and effective risk transfer is reported. It also includes the exposure of the investment tranches of the multi-source securitisations in which the CaixaBank Group participates as originator, whose calculation of capital requirements is independent of having risk transfer in the originating tranches.

[1] IRB - RBA (IRB - Rating Based Method): IRB method based on ratings.
[2] IRB - SF (IRB - Supervisory Formula Method): IRB method based on supervisory formula.
[3] IRB - IAA (IRB-Internal Assessment Approach): IRB method based on internal evaluation.
[4] Exposure (EAD) after deductions. It is the net exposure of value adjustment for asset impairment, calculated according with the securitisations COREP standards.
[5] SEC-IRBA (Internal Ratings Based Approach): IRB method based on internal evaluation.
[6] SEC- ERBA (External Ratings Based Approach): Method based on ratings.
[7] In cases where the risk – weight is 1250% and the method applied for the calculation of risk weighted exposure amounts for securitisation positions is IRB, this amount contains the reduction of 12.5 times the amount of adjustments for specific credit risk of the securitised exposures.

Exposures in which CaixaBank Group acts as investor

Table SEC4 reports that the SEC-ERBA method (External Ratings Based Approach) is chiefly applied to securitization positions acquired during the year.

Table 5.63 EU SEC4 - Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as investor

Amounts in millions of euros	Exposure values[4] (by RW bands)					Exposure values[4] (by regulatory approach)				RWA before cap (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap				
	≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to 1250% RW	1250% RW	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	IRB - RBA[1] (including IAA[3]) and SEC-IRBA[5]	IRB - SF[2] and SEC-ERBA[6]	Standard	1250%	Capital deductions
Total exposures	-	42	92	-	0	-	92	42	-	-	61	22	-	-	61	22	-	-	5	2	-	-
Traditional securitisation	-	42	92	-	0	-	92	42	-	-	61	22	-	-	61	22	-	-	5	2	-	-
Of which securitisation	-	42	92	-	0	-	92	42	-	-	61	22	-	-	61	22	-	-	5	2	-	-
Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which wholesale	-	42	92	-	0	-	92	42	-	-	61	22	-	-	61	22	-	-	5	2	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

[1] *IRB - RBA (IRB - Rating Based Method): IRB method based on ratings.*
[2] *IRB - SF (IRB - Supervisory Formula Method): IRB method based on supervisory formula.*
[3] *IRB - IAA (IRB-Internal Assessment Approach): IRB method based on internal evaluation.*
[4] *Exposure (EAD) after deductions. It is the net exposure of value adjustment for asset impairment, calculated according with the securitisations COREP standards.*
[5] *SEC-IRBA (Internal Ratings Based Approach): IRB method based on internal evaluation.*
[6] *SEC- ERBA (External Ratings Based Approach): Method based on ratings.*

5.3.3. Quantitative aspects

Exposures in securitisation transactions and amount of assets securitised

Set out below are the on- and off-balance-sheet positions in securitisations by CaixaBank Group, all through CaixaBank, at 31 December 2019, by type of exposure and role in the action, regardless of whether there is material risk transfer at regulatory level.

Table 5.64. Securitisation positions by type of exposure

Amounts in million of euros

	2019		2018
Type of exposure	Exposure	% weight	Exposure
1) Securitisation positions where the Group acts as originator	**36,388**	**100%**	**41,056**
A) On-balance securitisation positions	**36,371**	**100%**	**41,040**
Securitisation bonds - senior tranche	29,682	81%	32,985
Securitisation bonds - mezzanine tranche	1,238	3%	2,271
Securitisation bonds - equity tranche	3,567	10%	3,802
Subordinated loans	1,884	5%	1,981
B) Off-balance securitisation positions	**17**	**0%**	**16**
Liquidity facilities	7	0%	-
Interest rate derivatives	10	0%	16
2) Securitisation positions where the Group acts as investor	**134**	**0%**	**50**
A) On-balance securitisation positions	134	0%	50
Securitisation bonds - senior tranche	134	0%	50
Securitisation bonds - mezzanine tranche	-	0%	0
Securitisation bonds - equity tranche	0	0%	0
Subordinated loans	-	0%	-
B) Off-balance securitisation positions	-	**0%**	-
Liquidity facilities	-	0%	-
Interest rate derivatives	-	0%	-
Total	**36,522**	**100%**	**41,106**

Compared to 2018, CaixaBank's regulatory exposure in securitization tranches has comprehensively decreased by EUR 4,583 million, mainly due to:

- A EUR 4,273 million reduction in exposure, due to the early repayment of 4 securitisations in which Banco BPI acted as originator and in which the transfer of a significant part of the risk was not recognised.
- A EUR 5,428 million increase in exposure due to the synthetic securitisation (GAUDI-III) that CaixaBank originated in 2019, as well as the retention of the two new own traditional securitisations (CAIXABANK LEASINGS 3, F.T. and CAIXABANK PYMES 11, F.T.).
- A reduction of EUR 355 million due to the settlement of the securitisation FONCAIXA LEASINGS 2, F.T.A.
- A reduction in exposure of EUR 5,475 milion due to the periodic write-off of securitisation positions in force at year-end 2019 and 2018.
- An increase of EUR 84 million in securitisations where CaixaBank Group acts as an investor.

The table SEC1 shows further details of CaixaBank Group's positions in securitisation transactions at the close of 2019, broken down by type of exposure, type of securitisation and type of securitisation action. Unlike the previous table, the exposure does not include value corrections for asset impairment.

Thus, this the change compared to the previous year is due to the same reasons.

In the upper table, regulatory exposure is reported regardless of the recognition (or not) of significant risk transfer. The exposure of the investor tranches of multiseller secutisations where CaixaBank Group acts as originator, whose capital requirements do not depend on the risk transfer in the corresponding originator tranches, is also reported (in the section "Securitisation positions where the Group acts as originator").

Table 5.65 EU SEC1 - Securitisation exposures in the banking book

Amounts in million of euros	Group CaixaBank acts as originator			Group CaixaBank acts as sponsor			Group CaixaBanks acts as investor		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail (total) – of which	**23,872**	**-**	**23,872**	**-**	**-**	**-**	**-**	**-**	**-**
residential mortgage	21,506	-	21,506	-	-	-	-	-	-
credit card	-	-	-	-	-	-	-	-	-
other retail exposures	2,366	-	2,366	-	-	-	-	-	-
re-securitisation	-	-	-	-	-	-	-	-	-
Wholesale – of which	**9,197**	**3,334**	**12,531**	**-**	**-**	**-**	**134**	**-**	**134**
loans to corporates	7,526	3,334	10,859	-	-	-	-	-	-
commercial mortgage	-	-	-	-	-	-	-	-	-
lease and receivables	1,672	-	1,672	-	-	-	42	-	42
other wholesale	-	-	-	-	-	-	92	-	92
re-securitisation	-	-	-	-	-	-	-	-	-
Total	**33,069**	**3,334**	**36,403**	**-**	**-**	**-**	**134**	**-**	**134**

In the upper table, original exposure, without considering value adjustments for asset impairment, is reported, regardless of the recognition (or not) of significant risk transfer. The exposure of the investor tranches of multiseller secutisations where Group CaixaBank Group acts as originator, whose capital requirements do not depend on the risk transfer in the corresponding originator tranches, is also reported (in the section "CaixaBank acts as originator").

As previously mentioned, all of CaixaBank Group's securitisation positions belong to the held-to-maturity portfolio: there are no securitisation positions in the held-for-trading portfolio. Therefore, the "Exposure to securitisation in the held-for-trading portfolio" (SEC2) table has not been included in this document.

Below are details of the regulatory exposure of the securitisations originated and retained, broken down by type of exposure, and the outstanding balance of the securitised contracts together with the volume of impaired transactions or those in default, as well as the losses recorded by the Group.

Table 5.66. Securitisation positions and current amount of securitised exposures by exposure type

Amounts in million of euros

	Securitisation positions retained	Total current amount* of securitised exposures	Current amount* of exposures securitised in traditional securitisations	Current amount* of exposures securitised in synthetic securitisations	Of which: current amount of transactions impaired or in default	Effective impairment losses
Residential mortgage	21,491	21,607	21,607	-	570	213
Commercial mortgage	-	-	-	-	-	-
Credit card	-	-	-	-	-	-
Leasing	1,672	1,675	1,675	-	16	13
Loan to corporate or SME treated as corporate	10,859	10,599	6,979	3,619	250	163
Consumer credit	2,366	2,082	2,082	-	115	99
Commercial debtor	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	**36,388**	**35,962**	**32,343**	**3,619**	**952**	**487**

* *Current amount: Consistent with the data reported in COREP c14.00, it is the drawn securitised amount at the reporting date.*

As regards securitisations, the Group retains the instruments issued after its activity as originator, and the portfolio of securitisations originated chiefly concerns **residential mortgages.**

Finally, at the date of this report, the Group held no securitised positions in revolving structures, understood to be securitisation transactions in which outstanding customer balances are permitted to fluctuate within a previously defined range, in accordance with their availability and repayment decisions.

5.4. Equity portfolio

Equity portfolio risk **RWA**
€18,310M

Equity portfolio risk **EAD**
€8,057M

EAD under internal models
100 %

The risk associated with equity holdings (or “investees”) entails the possible loss or reduction in the Group’s solvency through equity instruments caused by adverse movements in market prices, potential losses in sales or investee insolvency.

This category comprises the minority equity holdings not included in Financial assets at fair value through profit or loss, as well as holdings in subsidiaries that are not fully consolidated in the prudential balance sheet due to the nature of their business activity, primarily VidaCaixa, the parent company of CaixaBank’s insurance group.

As part of the necessary monitoring and control of the risks associated with the portfolio, there is a Corporate Policy on Investee Risk Management. This policy defines the approval levels in the portfolio management processes, and within the Risk Appetite Framework there is a structure of alerts regarding metrics based on VaR, stop-loss and regulatory capital requirements of the investee companies.

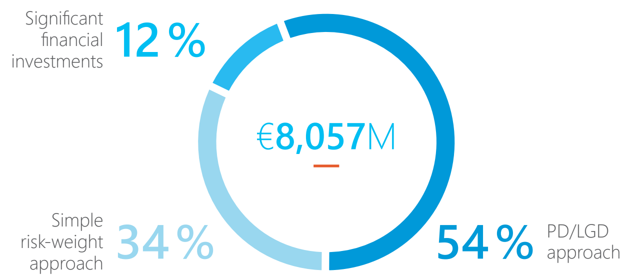
CaixaBank Group uses the PD/LGD method to measure capital requirements in the equity portfolio, supplemented by the simple method, except for significant positions (i.e. above 10%) in financial institutions, where a fixed weighting of 250% is applied for the part not deducted from own funds.

Annual evolution

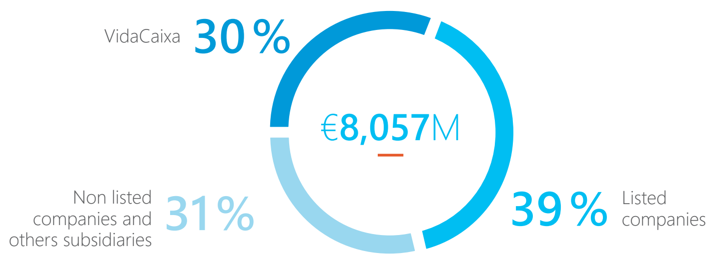
During 2019, equity portfolio RWA were reduced by EUR 1,038 million, representing a 6% decrease compared to the previous year. This decrease is mainly due to the divestment in Repsol that began the previous year[11], and was completed at the beginning of 2019.

[11] *See Significant event of 20 September 2018 in CaixaBank Significant Events.*

EAD for the equity portfolio
Distribution by approach, %



EAD for the equity portfolio
Breakdown by listed/unlisted instruments, %



5.4.1. Equity portfolio risk-management

Definition and general policy

The risk associated with equity holdings (or "investees") – which are often part of the credit risk for investments that are not classified in the held-for-trading portfolio, rather in the Corporate Risk Taxonomy they have their own status as a component of the Risk of Impairment of Other Assets – entails the possible loss or reduction in the Group's solvency through equity instruments with a medium to long-term time horizon, caused by adverse movements in market prices, potential sales or investee insolvency.

Structure and organisation of the risk management function

In the Group, equity holdings are subject to monitoring and specialist analysis. This monitoring and analysis is carried out at a deeper level in the case of permanent shareholdings, or those involving a more material investment amount and impact on capital.

Along these lines, in some investees there is a **presence in the Governing Bodies,** depending on the stake percentage and the strategic alliance with the majority shareholders. Members of the CaixaBank Board or Senior Management are usually appointed as members of the investees' boards of directors and, occasionally, also members of specialised committees, such as the Risk and Audit Committees. This allows these directors proposed by CaixaBank to influence the most important decisions of these investee companies.

The Group's organisational structure has various levels of risk management and control.

First line of defence

- **Financial control and analysis:** through specialists focusing exclusively on 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. These analysts are in the Executive Directorate of Financial Accounting, Control and Capital.
- They are also responsible for liaising with listed investees' investor relations departments and gathering the information – including reports by third parties (e.g. investment banks, rating agencies) – needed to gain an overview of possible risks to the value of the stakes.
- In general, with the most significant shareholdings, both the estimates of and actual data on investees' contributions to income and equity (where applicable) are updated regularly by the analysts. 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.
- The conclusions on the 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 Governing Bodies, generally each quarter.
- **Accounting recognition:** the Financial Accounting division, also located within the Executive Directorate of Financial Accounting, Control and Capital, ensures that all necessary information meets the relevant quality requirements, is entered into the Group's IT systems by the required deadlines, and that the subsequent external reporting is carried out. In this process, the controls established in the Internal Control over Financial Reporting (ICFR) system are applied, and the regulations set out therein are fulfilled. In matters of finance, changes in shareholders' equity in companies accounted for using the equity method are also recognised, as well as comparing the investees ratings.

Second line of defence

The Internal Financial Control department, within the Executive Directorate of Corporate Risk Management, Function & Planning, and reporting to the Executive Directorate of Financial Accounting, Control and Capital, performs investee impairment risk management functions, by analysing their impairment tests, as well as those necessary to ensure the integrity and accuracy of all the financial information, through the ICFR.

The Structural Risk and Regulated Models Department, integrated into the aforementioned Executive Directorate of Corporate Risk Management Function & Planning monitors and reports on the exposure and regulatory capital consumption associated with the investee companies, according to their classification.

It also performs functions related to risk quantification and monitoring, such as **(i)** the incorporation, on a daily basis, of the market risk of derivatives and the exchange risk associated with the investee portfolio into the Group's market risk monitoring procedures; and **(ii)** the ongoing monitoring of risks in relation to financial market operations in connection with financial investee companies.

Third line of defence

Refer to section 3.4.3 for further details.

Management of equity risk at CaixaBank

As part of the necessary monitoring and control of the risks associated with the portfolio, there is a Corporate Policy on Investee Risk Management. This policy defines the approval levels in the management processes, and within the Risk Appetite Framework there is a structure of alerts regarding metrics based on VaR, stop-loss and regulatory capital requirements of the investee companies.

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 3 framework and subsequent revisions thereof which, bearing in mind developments in the sector, are as follow:

- 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 simple risk-weight model if neither of the above can be applied.

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

Criteria for assignment of the various risk measurement approaches

Within the margins set by the supervisor and in accordance with the incentive for adoption of the most risk-sensitive advanced methods, the criterion for assigning the various risk measurement approaches to the equity holdings not included in the trading book is as follows.

Firstly, holdings that may be subject to deductions from own funds under Article 36 of the CRR are identified. The part not deducted from these holdings is assessed on the basis of its accounting classification, strategic nature and internal rating availability.

To do this, the Group takes into account the provisions of Article 143.3 of the CRR, which establish that all components of the equity portfolio must receive the same methodological treatment in entities with authorisation to use internal models. This way, the methodological classification for capital consumption will generally depend on the following:

1. The **accounting classification of the holding:** for investments classified in the portfolio at fair value with changes in other comprehensive income, the calculation is carried out a priori using the internal VaR model (see section 6. Market Risk).

2. The **permanence strategy:** for those investments where there is a long-term permanence strategy and, in some cases, there is a long-term relation in their management, the PD / LGD approach is applied whenever possible.

   The internal models on which this approach is based are those described in previous sections (see subsection “Use of the internal ratings-based method” in 5,1,3.), and they are assigned according to the relevant segmentation criteria.

In application of Article 155.3 of the CRR, the Group adopts a conservative approach to the standard, assigning an LGD of 90% in any case.

If the requirements for applying the aforementioned methods are not met, and/or there is insufficient information on the equity position in order to asses an internal rating and assign a reliable and duly justified PD, the simple risk-weighting method is applied in accordance with current regulations.

In the case of exposure not deducted from own funds in significant financial holdings, Article 48 of the CRR states that its weighting will be fixed at 250%. Except for VidaCaixa, given that it is a subsidiary of the insurance sector that belongs to the same financial conglomerate with authorisation to apply the "Danish Compromise" (Article 49.1 of the CRR), thus, the tangible exposure of the holding is exempt from deductions from own funds and the general regime must be applied to it, which – in this case – is the simple method with a risk weighting of 370%.

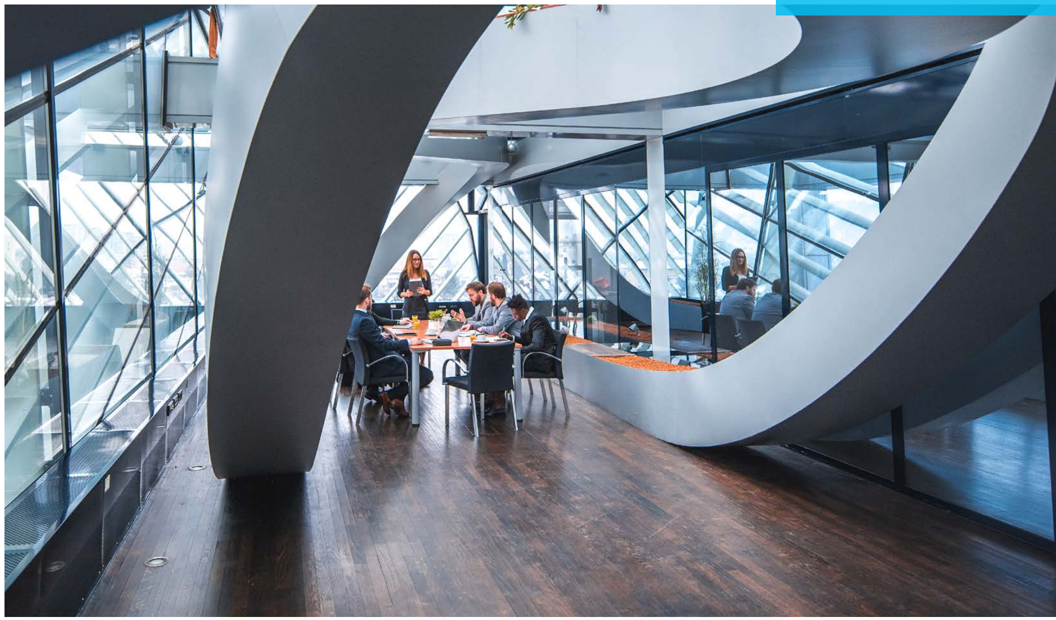
The result obtained from using internal models to measure capital charges (VaR, PD/LGD) is a key element for calculating the quantity and quality of the risk assumed, without prejudice to the analysis of other types of measurements that supplement those required by regulations and are designed to determine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

To illustrate this point, below are some of the reports which the Executive Directorate of Corporate Risk Management Function & Planning generates and distributes to the pertinent Committees:

- Market risk report, monitoring the risk (VaR) of the Group's trading derivatives in connection with its strategic holdings.
- The report on Currency Risk in Investee Companies, which includes monitoring of risk (VaR) for the exchange rate associated with these holdings.
- The Group's Positioning Report for financial instruments, which is part of the global monitoring of the positions that comprise market transactions, and covers both the fixed-income and equity positions held by the Group, including those in VidaCaixa, and guaranteed mutual and pension funds.

5.4.2. Minimum capital requirements for risk associated with the equity portfolio

The following table contains a breakdown of exposure and RWA for the equity portfolio. This information is presented in accordance with the calculation methods set out in the European capital requirements regulation (CRD IV and CRR), and also in accordance with the equity instrument category[12].



[12] *Described in section 5.4.1. of this same document.*

Table 5.67 Equity Portfolio exposures

2019

Amounts in million of euros

Method	% over total exposure	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
Simple risk-weight approach	34 %	2,748	2,748	90 %	10,121	368 %	65	810
PD/LGD approach*	53 %	4,307	4,307	90 %	5,684	132 %	10	455
Internal Model approach	-	-	-	-	-	-	-	-
Significant financial stakes	12 %	995	1,002	90 %	2,504	250 %	-	200
Total	**100 %**	**8,050**	**8,057**	**90 %**	**18,310**	**227 %**	**76**	**1,465**

** Based on LGD of 90 %.*

2018

Amounts in million of euros

Method	% over total exposure	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
Simple risk-weight approach	29 %	2,652	2,652	90 %	9,761	368 %	63	781
PD/LGD approach*	60 %	5,394	5,394	90 %	7,204	134 %	10	576
Internal Model approach	0 %	5	5	90 %	32	695 %	0	3
Significant financial stakes	10 %	933	940	90 %	2,350	250 %	0	188
Total	**100 %**	**8,984**	**8,991**	**90 %**	**19,347**	**215 %**	**73**	**1,548**

** Based on LGD of 90 %.*

5.4.3. Quantitative aspects

Description, accounting recognition and measurement

The Group's equity investment portfolio features major companies that hold a prominent position in their respective markets and have the capacity to generate recurring value and profits. In general, these are strategic investments, and the Group is involved in their Governing Bodies and in defining their future policies and strategies. The financial statements for 2019 of CaixaBank Group show a breakdown of the companies in its equity investment portfolio, with information on their area of business and scope of activity.

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

- **Investments[13]:** Investments in the capital of entities classified as Group companies, jointly controlled entities or associates. It is classified under the asset in "Investments in joint ventures and associates".

- Other shareholdings in equity instruments: In general, the Group irrevocably exercises the option in the initial recognition by including – in the portfolio of **Financial assets at fair value with changes in other comprehensive income** – investments in equity instruments that are not classified as held for trading and that, in the event of not exercising this option, would be classified as **Financial assets compulsorily measured at fair value through profit or loss.**

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

Investments

Investments are measured using the equity method, with the best estimate of their underlying carrying amount when the financial statements are drawn up. Generally accepted valuation methods are employed – for example, discounted cash flow (DCF) models, dividend discount (DDM) models, and others. No potential control premiums are considered for the purposes of valuation. Balance sheet and income statement projections are made for five years, as these are long-term investments. They are updated and adjusted on a half-yearly basis. Moderate hypotheses are used, obtained from reliable sources of information in addition to individual discount rates for each business activity and country. 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 GDP growth of the country or countries in which the investees operate. In addition, sensitivity analyses are performed for the assumptions using reasonable changes in the key hypotheses on which the recoverable amount is based, to confirm whether this continues to exceed the amount to be recovered.

Financial assets at fair value with changes in other comprehensive income

Financial assets at fair value with changes in other comprehensive income are always measured at fair value, with any changes in value, less the related tax effect, recognised with a balancing entry in equity. For holdings in listed companies, fair value is determined on the basis of the price that would be paid in an organised, transparent and deep market. At the time of sale, the corresponding loss or gain previously recognised in other comprehensive income is taken to reserves.

Fair value and carrying amount of equity holdings

The following table shows the fair value and carrying amount of the 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 2019.

Table 5.68. Carrying amount of stakes and equity instruments not held for trading

Amounts in millions of euros

Financial assets at fair value with changes in other comprehensive income*	**2,407**
Shares in listed companies	1,618
Shares in unlisted companies	789
Investments	**6,506**
Listed	1,470
Unlisted	5,036
Total carrying amount	**8,913**

[13] For prudential purposes, subsidiaries that cannot be consolidated in view of their business activity are including in this heading, since they are accounted for using the equity method.

** The carrying amount of these assets is equal to their fair value.*

Table 5.69. Fair value of stakes and equity instruments not held for trading

Amounts in millions of euros

Financial assets at fair value with changes in other comprehensive income*	**2,407**
Shares in listed companies	1,618
Shares in unlisted companies	789
Investments	**6,467**
Listed	1,431
Unlisted	5,036
Total carrying amount	**8,874**

** The carrying amount of these assets is equal to their fair value.*

At 31 December 2019, the market value of the Group's portfolio of listed investee companies, which includes those classified as "Investments in joint ventures and associates" and as "Financial assets at fair value with changes in other comprehensive income - equity instruments", amounted to **EUR 3,049 million.**

At 31 December 2019, the market value of the portfolio of "Financial assets compulsorily measured at fair value through profit or loss - equity instruments" amounted to **EUR 197 million.**

Value of equity investment exposures

At 31 December 2019, the EAD for the risk associated with the equity portfolio amounted to EUR 8,057 million. This amount includes the value of the portfolio of Financial assets at fair value with changes in other comprehensive income, stakes in associates and those in subsidiaries that are not consolidated due to their business activity.

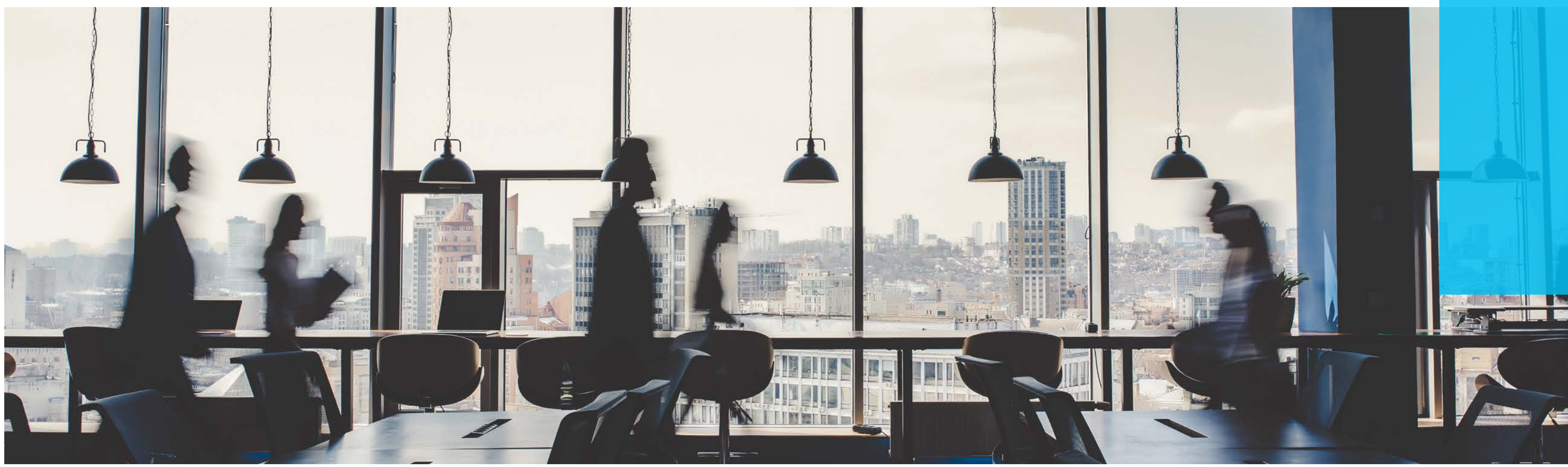


Table 5.70. Exposures in equity investments not held for trading

Amounts in millions of euros

Exposures	Original Exposure	EAD	LGD	RWA	RWA density	EL
Financial assets at fair value in other comprehensive income*	**2,631**	**2,631**	**90%**	**5,077**	**193%**	**11**
Shares of listed companies	1,698	1,698		2,382	140%	3
Simple risk-weight approach	56	56		163	290%	0
Internal Model approach	-	-		-	-	-
PD/LGD approach	1,642	1,642		2,219	135%	3
Shares of non listed companies	933	933		2,695	289%	7
Simple risk-weight approach	291	291		1,075	370%	7
PD/LGD approach	45	45		125	279%	1
Risk weighted equity exposures	598	598		1,494	250%	-
Stakes (subsidiaries, multigroup and associated)	**5,419**	**5,425**	**90%**	**13,232**	**244%**	**65**
Listed company	1,471	1,471		1,419	96%	1
PD/LGD approach	1,471	1,471		1,419	96%	1
Significant financial investments	-	-		-	-	-
Non listed	3,948	3,954		11,814	299%	64
Simple risk-weight approach	2,401	2,401		8,882	370%	58
PD/LGD approach	1,150	1,150		1,921	167%	6
Significant financial investments	397	404		1,010	250%	-
Total	**8,050**	**8,057**	**90%**	**18,310**	**227%**	**76**

** Including the exposure in "Mandatory financial assets at fair value with changes in P&L".*

Other information

The table below reports details on the value of the equity portfolio exposure in accordance with the simple risk-weight approach, broken down into risk-weight categories.

Table 5.71. EU CR10 - IRB (specialised lending and equities)

Amounts in millions of euros

Equities under the simple risk-weighted approach						
Method	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWA	Capital requirements
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	56	-	290%	56	163	13
Other equity exposures	2,691	-	370%	2,691	9,958	797
Total	**2,748**	**-**		**2,748**	**10,121**	**810**

CaixaBank has no a specialized financing portfolio by IRB methodology

The following table reports details on the risk associated to the equity portfolio, LGD and average risk-weight. This shows that most shareholdings are concentrated in PD tranches of a good credit quality (with a PD below 0.50%).

Table 5.72. Exposure by category and debtor grade

Amounts in millions of euros

PD Range	Average PD	Original exposure	EAD	LGD	RWA	RWA density	EL	Capital (8%)
0.00 to <0.15	0.09%	1,508	1,508	90%	1,464	97%	1	117
0.15 to <0.25	0.18%	1,642	1,642	90%	2,219	135%	3	178
0.25 to <0.50	0.29%	1,097	1,097	90%	1,843	168%	3	147
0.50 to <0.75	0.00%	-	-	-	-	-	-	-
0.75 to <2.50	1.24%	55	55	90%	153	276%	1	12
2.50 to <10.00	3.64%	2	2	90%	5	270%	0	0
10.00 to <100.00	0.00%	-	-	-	-	-	-	-
Perfoming Portfolio	**0.19%**	**4,304**	**4,304**	**90%**	**5,684**	**132%**	**7**	**455**
100.00 (default)	100.00%	3	3	90%	-	-	3	-
Total	**0.27%**	**4,307**	**4,307**	**90%**	**5,684**	**132%**	**10**	**455**

Other cumulative comprehensive income in equity instruments measured at fair value

The table below shows changes in other cumulative comprehensive income in equity instruments measured at fair value for CaixaBank Group in 2019, with the amounts taken to the income statement.[14]

Table 5.73. Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income

Amounts in millions of euros

Balance global to 31.12.2018	Amounts transfered to Reserves	Liabilities and assets deferred taxes	Capital gains and losses due to valuation[1]	Balance global valuation adjustments to 31.12.2019[2]
(864,872)	100,925	(1,291)	(245,584)	(1,010,822)

[1] *Before taxes.*
[2] *Includes the adjustments attributed to the Group.*

[14] *Refer to Note 22.2 "Other comprehensive income" of CaixaBank Group's 2018 financial statement.*

6. Market risk

6. Market risk

Market risk **RWA**
€2,224M

Annual average VaR 10d - 2019
€3,9M

RWA under internal models
45 %

The market risk of CaixaBank Group's trading book quantifies possible losses that might arise due to changes in: interest rates, exchange rates, share prices, commodity prices, volatility, inflation rates and credit spreads on private fixed-income positions.

The Group's activity in the financial markets focuses on providing a service to customers, minimising exposure to risk.

CaixaBank uses internal models to estimate capital requirements for market risk. CaixaBank's CVA hedges and BPI's held-for-trading and foreign exchange positions are assessed under the standardised approach.

CaixaBank carries out three types of stress testing on the value of positions (under extreme crisis scenarios) in order to estimate potential losses on the portfolio in the event of extraordinary changes in the risk factors to which they are exposed.

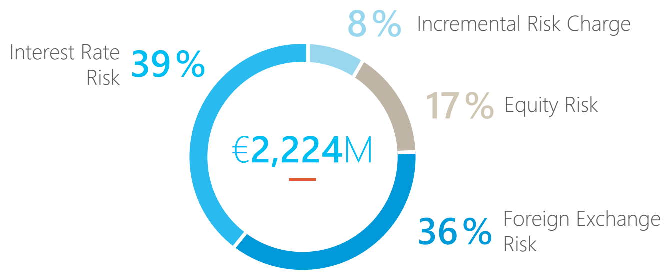
A backtesting process takes place in order to verify that the risk estimates provided by the internal model are appropriate, actual daily results are compared with the estimated loss calculated using VaR (Value at Risk). The results of these comparisons in 2019 were satisfactory, implying no additional capital requirements for this risk.

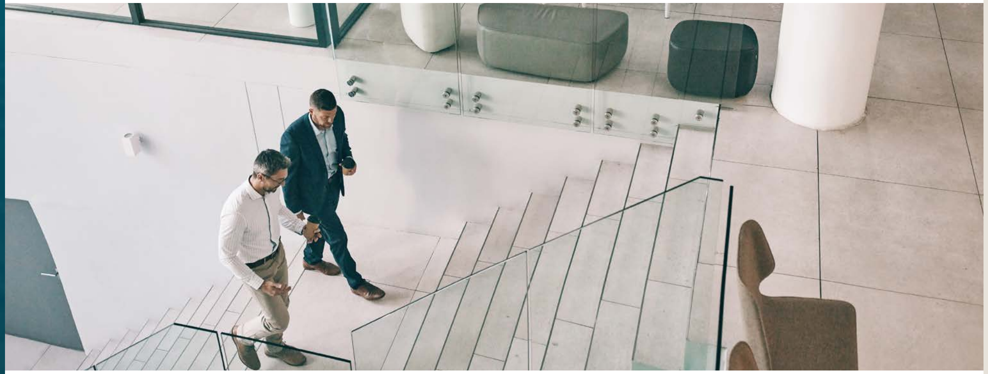
The capital requirements for exchange rate risk are concentrated in BPI's shareholding in Banco de Fomento de Angola (BFA).

Annual evolution

RWA increased by 301 million, 16% more than the previous year. The increase reflects the variation in the risk profile of the portfolio, with greater exposure to equities and inflation, particularly affecting the stressed VaR component.

Market risk RWA
Breakdown by type of risk, %





6.1 Market risk management

Definition and general policy

The Group identifies market risk as the decrease of value of assets or the increase in the value of liabilities included in the trading book, due to fluctuations in interest rates, exchange rates, credit spreads, external factors, or market prices related to the traded assets and liabilities.

The market risk includes almost all the Group's trading portfolio, as well as the deposits and repos arranged by trading desks for management.

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

To manage this risk, CaixaBank has been using internal models to calculate capital requirements for market risk associated with the trading book, foreign exchange and gold risk, and for commodity price risk, ever since the Bank of Spain authorised the Group to apply these methods on 13 December 2007. In 2012, the Bank of Spain extended this authorisation to the calculation of regulatory capital for incremental default and migration risk (IRC) and stressed VaR.

Structure and organisation of the risk management function

Market risk governance follows three lines of defence that guarantee the strict segregation of functions and the existence of several layers of independent control:

First line of defence

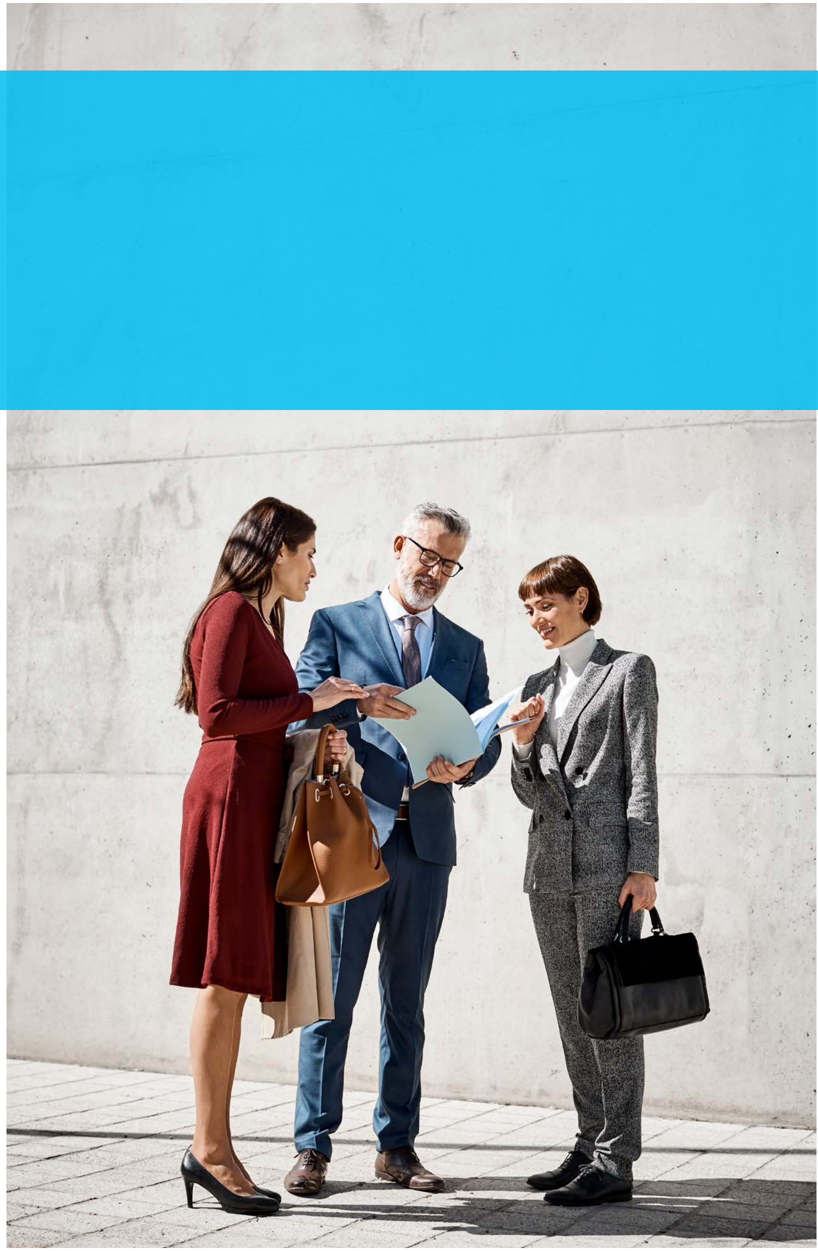
Risk owner/controller and manager, responsible for identifying, managing and monitoring the associated risks of its area.

Second line of defence

CaixaBank's Structural Risk and Regulated Models Department, part of CaixaBank's Executive Directorate of Corporate Risk Management Function & Planning is responsible for the valuation of financial instruments, as well as for the measurement, control and monitoring of the related risks, for the estimation of counterparty risk and for the operational risk associated with activities in financial markets. Furthermore, the Model Validation and Risk Department performs internal validation of the models and methodologies used to quantify and monitor market risk.

Third line of defence

Refer to section 3.4.3 for further details.



Risk management. Measurement and information systems

The benchmark market risk measure is VaR at 99% with a one-day time horizon for which the RAF defines a limit for the Group's trading activities of EUR 20 million (excluding the economic hedging CDS for the CVA, recognised for accounting purposes in the held-for-trading portfolio). CaixaBank's daily VaR is defined as the highest of the following three calculations:

- *The parametric VaR* technique with a covariance matrix based on a 75-day lookback period, giving more weight to recent observations. The parametric VaR is based on volatility and matching fluctuations in the prices and interest and exchange rates of the assets comprising the portfolio.
- *Parametric VaR* with a covariance matrix arising from historical performance over one year and equal weightings.
- *The historical VaR* technique, based on calculating the impact on the value of the current portfolio of historical changes in risk factors. Daily changes observed over the last year are taken into account, with a confidence level of 99%.

Moreover, since a downgrade in the credit rating of asset issuers can also give rise to adverse changes in 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 method while taking into account the potentially lower liquidity of these assets, with a confidence interval of 99%, and assuming absolute weekly variations in the simulation of credit spreads.

To verify the suitability of the risk estimates, two backtests (actual, i.e. actual; and net, i.e. hypothetical) are conducted to compare the daily results to the VaR. Stress tests are also performed on the value of the Market Area positions and on positions included in the internal model in order to calculate the potential losses on the portfolio in situations of extreme crisis.

In BPI, the standard measurement for market risk is parametric VaR at 99% with a 10-day time horizon.

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 CaixaBank Group are commensurate with the established risk tolerance levels. The Risk Appetite Framework (RAF) approved by the Board of Directors sets a limit for VaR with a one-day time horizon and confidence level of 99% for CaixaBank's trading activities, excluding hedging derivatives for the Credit Valuation Adjustment (CVA), which are considered within the CVA management framework. Moreover, positions in both the trading book and in the banking book are restricted to the concentration limits set out in the Risk Appetite Framework (RAF) (e.g. concentration in large exposures, in the public sector or in the economic sector).

As part of the required monitoring and control of the market risks undertaken, the Board of Directors and, by delegation 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 in CaixaBank. 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 assumed in the Group's Markets and Trading management activities.
- **Limit on operations of CaixaBank's Markets division.** 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

> As part of the **required monitoring and control of the market risks undertaken,** the Board of Directors and, by delegation 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 in CaixaBank.

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 equity holdings.** In accordance with the general framework determined by the Board of Directors, the Global Risk Committee approves specific limits (VaR, stop loss and stress test) for this activity, which is managed with market risk management criteria and included in the internal model for market risk.

In addition, CaixaBank's Global Risk Committee supplements the limit structuring by defining specific limits on incremental default and migration risk (IRC) of the fixed-income portfolios, as well as on stressed VaR.

Furthermore, BPI's General Risks Division determines the overall limit structure of VaR and sensitivities for the market risk acceptance activity in the Portuguese subsidiary within the thresholds and levels set by the Group's Risk Appetite Framework (RAF).

6.2 Minimum capital requirements for market risk

CaixaBank Group's capital requirements for market risk, at 31 December 2019, were EUR 178 million.

The table below shows the breakdown of RWA separated into position risk of the trading book and foreign exchange risk and risk for the position in gold under the standardised approach.

Table 6.1. EU MR1 - Market risk under standardised approach

Amounts in millions of euros

	RWA	Capital requirements
Outright products		
Interest rate risk (general and specific)	540	43
Equity risk (general and specific)	0	0
Foreign exchange risk	692	55
Commodity risk	-	-
Options*		
Simplified approach	0	0
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
Total	**1,232**	**99**

* *Only when IRB approach is used.*

Market risk capital requirements for hedging derivatives of CVA credit risk (in this case, credit default swaps, also included in the held-for-trading portfolio in the accounts) are calculated under the standardised approach (specific interest rate risk), as are the requirements for balance sheet foreign exchange risk in the banking book and in equity holdings.

Similarly, capital requirements for market risk attributable to BPI are calculated under the standardised approach. These include requirements for foreign exchange risk, which is concentrated in BPI's equity investment in Banco de Fomento de Angola (BFA).

Capital requirements for market risk under internal models amount to EUR 79 million, which represents 45% of the total requirements for market risk.

There were no **requirements for settlement risk** on the reporting date.

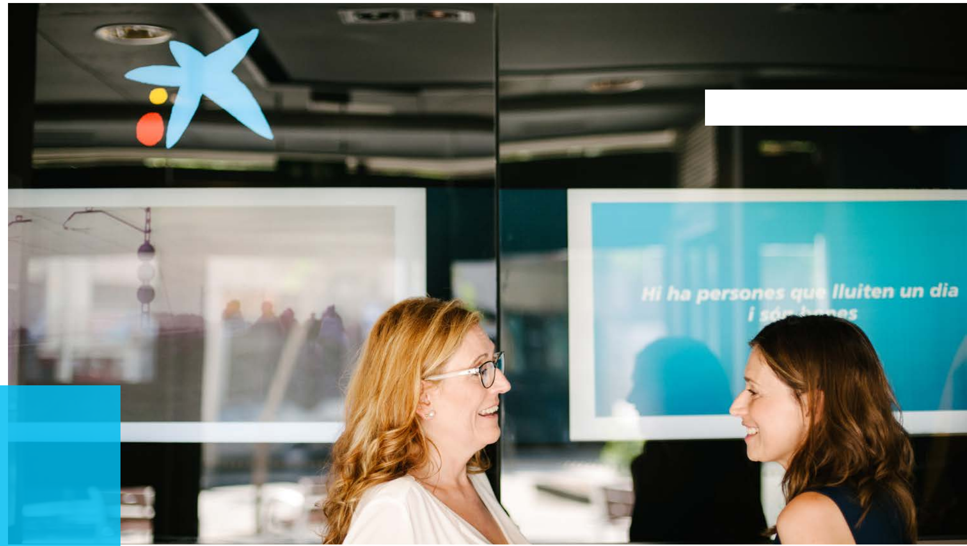
6.3. Quantitative aspects

General requirements

The Group has policies and procedures in place for managing the trading books, bearing in mind its own ability to manage risks and best market practices, and for determining which positions are to be calculated based on the internal model for regulatory capital.

The specific policy for determining, identifying, managing, monitoring and controlling this scope for inclusion in the internal model is checked on a daily basis: a specific unit of the Risk area, which operates independently of the business areas, measures and calculates the performance and risks of the trading book and ensures compliance with the policy.

In prudential terms, the trading book consists of financial assets and liabilities that are held for trading or form part of a portfolio of financial instruments (jointly identified and managed) for which there is specific evidence of a trading intention. According to points (85) and (86) of Article 4(1) of Regulation EU 575/2013, "trading intent" exists when positions are intended to be either resold in the short term or held to benefit from actual or expected short term price difference between buying and selling prices or from other price or interest rate variations.



Therefore, trading activity includes:

- transactions related to the management of market risk arising from commercial or distribution efforts involving typical operations in financial markets with the Group's customers;
- transactions carried out to obtain returns through trading and positioning in, mainly, money, fixed-income, equity and foreign exchange markets; and
- CVA hedging derivatives for credit and market risk, which are recognised from an accounting perspective in the trading book.

Furthermore, the Group has sufficient systems and controls providing prudent and reliable estimates of the fair value of financial instruments. It also has 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 areas), the data sources used, the eligible models and the timing of closing prices.

Although appropriate measurement models and inputs are used, 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 spreads , alternative models to those used and their unobservable inputs, concentration or scarce liquidity of the underlying asset. The measurement of this uncertainty in fair value is carried out through Additional Valuation Adjustments (AVA).

Adjustments for this uncertainty are applied and calculated mainly for assets with limited 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. It should be noted that the volume of Level 3 assets in the trading book is marginal (EUR 12 million in fixed income), and null for the internal market risk model perimeter, thereby significantly reducing the potential model risk.

Internal models

The Group is subject to market risk as the result of adverse movements in the following risk factors: interest rate, foreign exchange rates, equity prices, inflation, volatility and changes in the credit spread of private fixed-income positions and credit derivatives. All material risk factors are captured in the metrics of the internal model for VaR, stressed VaR and incremental default and migration risk. Estimates are drawn up daily, on the basis of sensitivity and VaR, aggregated and also segmented by risk factor and business unit.

The scope of application of the internal model encompasses the aforementioned risk factors for the trading book, except for those arising from CVA credit default swaps. Deposits and repos arranged by trading desks are also included in the scope of the model. The risk management function is performed through three business units, which report to the Executive Finance Division: Markets (divided into Rates and Equity Derivatives, Fixed Income and Foreign Exchange), CVA and FVA Management and Pricing, and Investee Derivatives:

- **Markets'** main function is the trading and execution of transactions in the market, so as to meet the funding needs of CaixaBank customers and generation of income by taking proprietary positions.

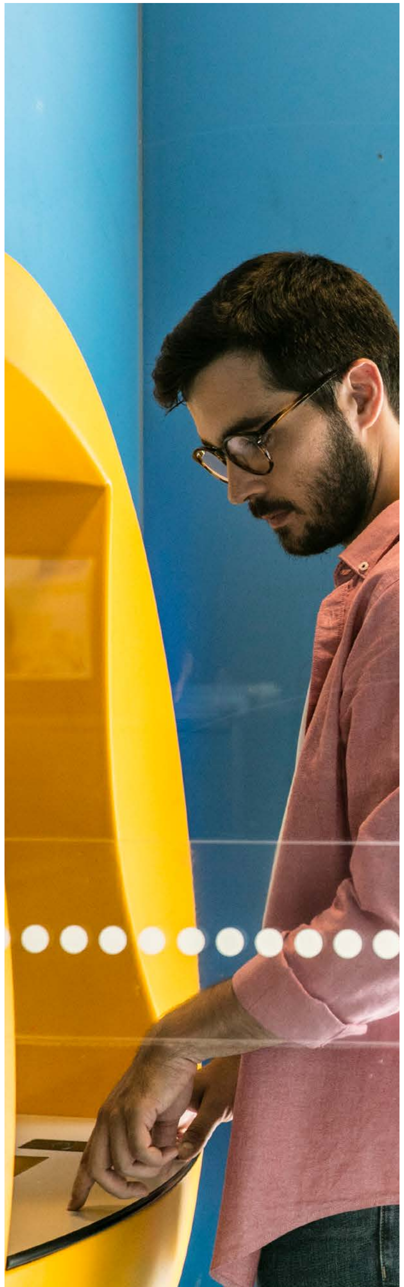
- **CVA and FVA Management and Pricing** is responsible for hedging the CVA risk, as well as for determining the marginal CVA and FVA of new derivatives that are acquired.

- **Derivatives on CaixaBank's shareholdings** manages and ensures the profitability of the equity portfolio by trading derivatives.

In July 2006, CaixaBank requested authorisation from the Bank of Spain to use an internal VaR model for the calculation of minimum capital requirements for market risk in the trading book, foreign exchange risk, gold risk and commodity price risk. In 2007, following the appropriate validation process, the Bank of Spain authorised use of this internal model, which was first applied for the calculation of capital requirements at 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 capital requirements for incremental default and migration risk (IRC) and stressed VaR. In 2012, following the appropriate validation process, the Bank of

[1] *Difference between bid and offer prices.*

[2] *Assets for which valuation techniques are used where some of the significant assumptions are not supported by directly observable market inputs. For more information, see note 38.1. Fair value of financial assets CABK annual accounts.*



Spain authorised the use of this internal model, which was first applied for the calculation at 31 December 2011. Within the Group, only CaixaBank uses internal models to determine capital requirements for market risk. Since that time, the internal model has been updated to date through successive non-material changes.

Characteristics of the models used

The methodologies used to comply with the requirements of Part 3, Title IV, Chapter V, Sections 1-4 of Regulation EU 575/2013 for calculating own fund requirements according to the 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 represents risk as the impact of a slight change in risk factors has on the value of positions, without providing any assumptions about the probability of such 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 level of 99% (i.e. 99 times out of 100, actual losses will be less than the losses estimated in the VaR model). Two methodologies are used to obtain this measurement, parametric VaR and historical VaR.

  - **Parametric VaR** is based on the assumption that the returns of risk factors follow a normal distribution. Distribution parameters (volatility and correlations) are statistically determined on the basis of the fluctuations of prices, interest rates and exchange rates of portfolio assets, using two time horizons updated on a daily basis: 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 portfolio's present value of historical daily changes in risk factors over the past year, with daily updating of the observation window. Historical VaR is a useful system for completing the estimates obtained by the parametric VaR technique, since it does not include any assumptions on the statistical behaviour of risk factors. The parametric VaR technique, however, assumes normal statistical distribution. Historical VaR also includes the consideration of non-linear relationships between the risk factors. Risk factors are modelled using relative changes, except for interest rate variations, for which absolute changes are used. A large majority of the changes are calculated with a full revaluation, verifying that the estimated VaR is immaterial where delta-vega approximations are used.

Total VaR is the aggregate VaR arising from fluctuations in interest rates, exchange rates (and the volatility of both) and from the spread VaR - which are aggregated on a conservative basis, assuming zero correlation between the two groups of risk factors - and the addition of VaR of the equities portfolio and VaR of the commodities portfolio (currently with no position), assuming in both cases a correlation of one with the other risk factor groups.

A single model is used that diversifies the general and specific risk of equities, whilst the specific risk of corporate fixed income and credit derivatives is estimated in a separate calculation (spread VaR), and added to the VaR of the interest rate and exchange rate portfolios with zero correlation. Interest rate VaR diversifies the general and specific risk of sovereign debt in a single model.

Daily VaR is defined as the highest of the three quantifications (historical VaR, 1-year parametric VaR and 75-day parametric VaR).

Additional measures to VaR

As an analysis measurement, the Group completes the VaR measurements with the following risk metrics, updated weekly:

- **Stressed VaR** indicates the maximum loss on adverse movements in market prices based on a stressed historical period of one year, with a 99 % confidence level and a daily time horizon (subsequently extrapolated to the regulatory horizon of 10 market days, multiplying by the root of 10). The stressed VaR calculation is leveraged by the same methodology and infrastructure as the historical VaR, with the only significant difference being the historical window selected.

- The **incremental default and migration risk** reflects the risk related to changes in credit ratings or default in fixed-income positions and credit derivatives in the trading book, with a confidence level of 99.9 %, a one-year time horizon, and a quarterly liquidity horizon. The latter is justified by the high liquidity of portfolio issuances and is due to the existence of strict inclusion criteria that limit the concentration by country, rating, issuance and issuer. It is estimated using the Monte Carlo simulation of possible future states for external issuer and issue ratings, based on transition matrices published by the main rating agencies, where dependence among credit quality variations between the different issuers is modelled using Student's t-distributions calibrated using historical CDS data series. This allows for higher correlations of default in the simulation. Similar to the IRB models, this sets a minimum probability of default of 0.03 % a year. Incremental default and migration risk is mainly concentrated in the fixed-income desk, which is responsible for market making of sovereign debt and brokerage of private fixed-income securities. It covers all products with specific fixed-income risk: bonds, bond futures and credit derivatives.

The models used for regulatory and management purposes are the same, except in the calculation horizon: both regulatory VaR and regulatory stressed VaR are calculated with a 10-market-day time horizon, scaling the values obtained with the one-day horizon by multiplying them by the square root of 10. The maximum, minimum and average values of these measurements during 2019, as well as their value at the close of the reference period, are shown in the following table.

Table 6.2. EU MR3 - IMA values for trading portfolios

Amounts in millions of euros

VaR (10 day, 99 %)		
1	Maximum value	7
2	Average value	4
3	Minimum value	2
4	Period end	4
SVaR (10 day, 99 %)		
5	Maximum value	33
6	Average value	17
7	Minimum value	8
8	Period end	16
IRC (99,9 %)		
9	Maximum value	28
10	Average value	15
11	Minimum value	6
12	Period end	13
Comprehensive risk capital charge (99,9 %)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

The different elements determining final regulatory charges using the internal market risk model and RWA flows of the previous year for each of the aforementioned measurements are shown below. Charges for VaR and stressed VaR are identical and correspond to the maximum of the most recent available value and the arithmetic mean of the last 60 values, multiplied by a factor depending on the number of times the daily result was less than the estimated daily VaR. Similarly, requirements for incremental default and migration Risk is the maximum of the last value and the arithmetic mean of the preceding 12 weeks. "Model updates/changes" in the RWA flows table mainly reflects the impact on RWA of changes to the calibration and current time frame: weekly for IRC and stressed VaR, and daily for VaR.

Daily VaR is defined as **the highest of the three quantifications** (historical VaR, 1-year parametric VaR and 75-day parametric VaR).

Table 6.3. EU MR2-A - Market risk under internal models approach requirements – bank acting as investor

Amounts in millions of euros

	RWA	Capital requirements
VaR (higher of values a and b)	**183**	**15**
Previous day's VaR		4
Average 60d x multiplication factor		15
Stressed VaR (higher of values a and b)	**623**	**50**
Latest SVaR		16
Average 60d x multiplication factor		50
IRC	**185**	**15**
Most Recent		13
Average over 12 weeks		15
Comprehensive risk	**-**	**-**
Most recent risk number		-
Average over 12 weeks		-
Other		-
Total	**992**	**79**

Table 6.4. EU MR2-B - RWA flow statements of market risk exposures under the IMA

Amounts in millions of euros

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWA	Total capital requirements
1	**RWA at previous year end**	**120**	**367**	**251**	**-**	**-**	**739**	**59**
1a	Regulatory adjustment	72	192	(41)	-	-	223	18
1b	**RWA at the previous year-end (end of the day)**	**48**	**175**	**210**	**-**	**-**	**434**	**35**
2	Movement in risk levels	1	(83)	41	-	-	(41)	(3)
3	Model updates/changes	(1)	112	(93)	-	-	18	1
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	**RWA at the end of the reporting period (end of the day)**	**48**	**204**	**159**	**-**	**-**	**412**	**33**
8b	Regulatory adjustment	135	419	26	-	-	580	46
8	**RWA at the end of the reporting period**	**183**	**623**	**185**	**-**	**-**	**992**	**79**

The increase in RWA is explained by the variation in the risk profile of the portfolio, with greater exposure to equities and inflation, particularly affecting the stressed VaR component.

Verification of the reliability and consistency of the internal models

To confirm the suitability of the estimates of the internal model, daily results are compared against the losses estimated under the VaR technique, which is what is referred to as backtesting. The risk estimate model is checked in two ways:

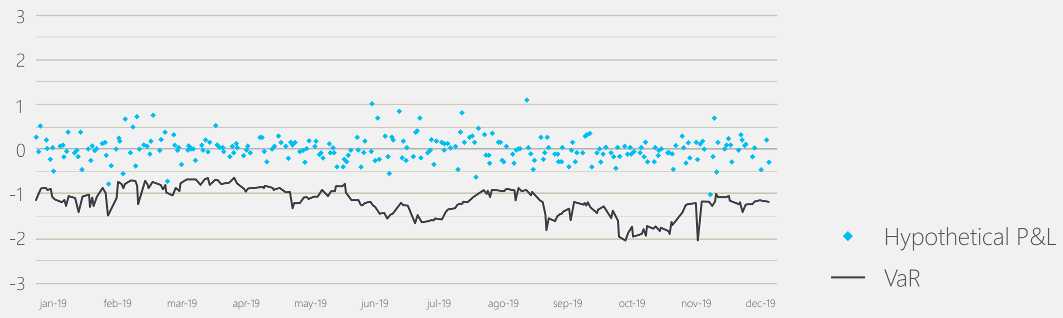
- **Net (or hypothetical) backtesting,** which relates the portion of the daily marked-to-market P&L of open positions at the close of the previous session to the estimated VaR over a one-day time horizon, calculated on the basis of the open positions at the close of the previous session. This backtesting is the most appropriate means of performing a self-assessment of the methodology.

- **Gross (or actual) backtesting** which compares the actual P&L obtained during the day (including intraday transactions) to VaR for a one-day time horizon, 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 estimating the risk.

The daily result used in both backtesting exercises does not include mark-ups, reserves, fees or commissions.

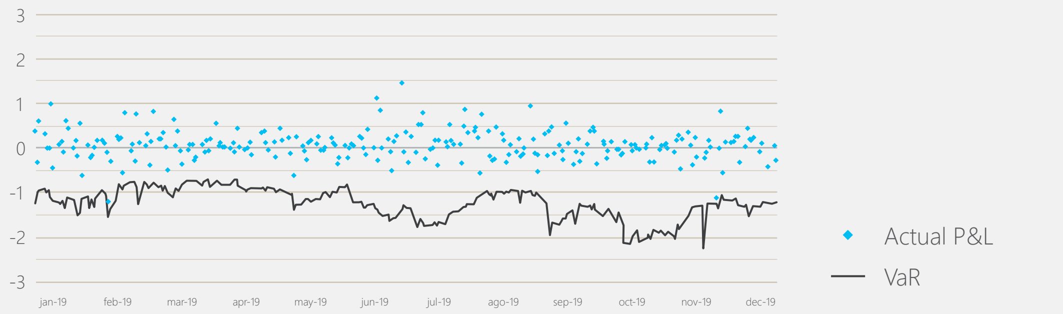
EU MR4 - Chart. Comparison of VaR estimates with profit/loss - Net backtesting

Distribution of daily net results vs. daily VaR
Millions of euros



EU MR4 - Chart. Comparison of VaR estimates with profit/loss - Gross backtesting

Distribution of daily gross results vs. daily VaR
Millions of euros



During 2019, there were no overshootings in the internal model backtest.

No backtesting is performed on the incremental default and migration risk (IRC) model. Simulations, with an annual liquidity horizon and gaussian distribution, run with different draws to verify stability, are used to validate the internal consistency and accuracy of the results of the model. In its annual review, the Model Validation and Risk Department analyses the methodology used to calculate the IRC and describes any changes made since the last review. In addition, the IRC of the portfolio at a reference date is checked with the use of an internal tool developed independently of the one used to calculate capital requirements. Lastly, an assessment is made of the IRC's sensitivity to changes in the matrix of correlations, recovery rates and the probabilities of default.

Stress test

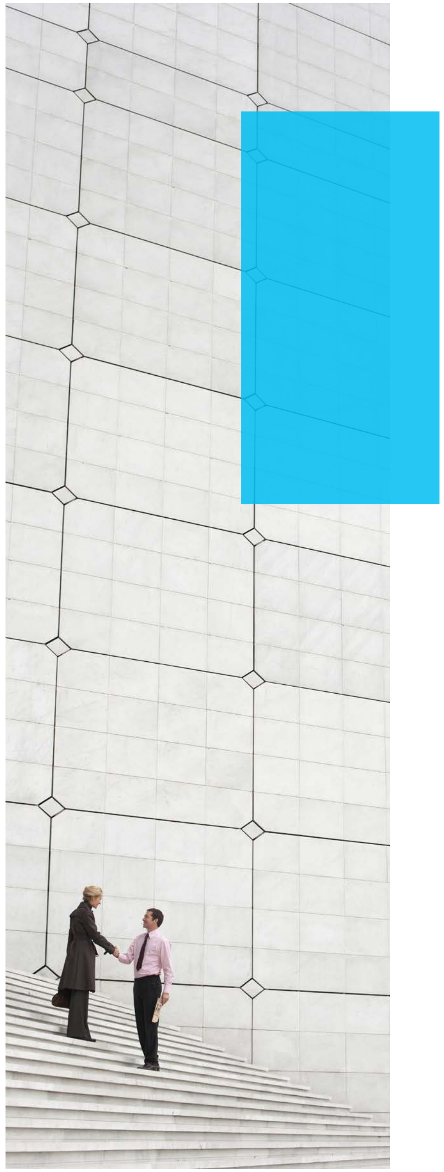
Two stress testing techniques are used on the value of the trading positions to calculate the possible losses on the portfolio in situations of extreme stress:

- **Systematic stress:** this technique calculates the change in value of the portfolio in the event of a specific series of extreme changes in the main risk factors. It considers parallel interest rate shifts; changes at various points of the slope of the interest rate curve; variation of the spread between the instruments subject to credit risk and public debt securities (bond-swap spread); parallel shifts in the EUR/USD curves; higher and lower volatility of interest rates; variation of the euro with respect to the USD, JPY and GBP; variation in exchange rate volatility, share prices; and higher and lower volatility of shares and commodities.
- **Historical scenarios:** 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 caused 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.
- **Reverse stress test:** a technique that assumes a high-vulnerability scenario given the portfolio's composition and determines what variations in the risk factors lead to this situation.

The analysis of historical scenarios and of systematic stress is based on all business units, except for credit spread stress, which is only performed on the private fixed-income portfolio.

In IRC, stress testing is carried out in different types of scenarios, such as: default scenarios of significant exposures, a rating downgrade of one notch of different exposures, and so on. Depending on the characteristics of the portfolio, alternative scenarios are defined. These may include a rating downgrade for long positions and an upgrade for short positions, if there are significant offsetting positions. Lastly, an assessment is made of the IRC's sensitivity to changes in the matrix of correlations, recovery rates and the probabilities of default.

The analysis of historical scenarios and of systematic stress **is based on all business units,** except for credit spread stress, which is only performed on the private fixed-income portfolio.



CaixaBank´s General Risks Division develops a supervisory function with the aim of **protecting the proper risk management and preserving the mechanisms of solvency and guarantee,** ensuring the comprehensive management of different risks.

Monitoring and control

As part of the monitoring and control of the market risks assumed, there is a structure of overall VaR limits complemented by the definition sub-limits, stressed VaR and incremental default and migration risk, stress test and stop loss results and sensitivities for the various management units that could assume market risk.

The risk factors are managed using economic hedges on the basis of the risk-return ratio determined by market conditions and expectations, always within the assigned limits.

Beyond the trading book, fair-value hedge accounting is used, which eliminate potential accounting mismatches between the balance sheet and the profit and loss statement caused by the different treatment of hedged instruments and their hedges at market values. In terms of market risk, levels for each hedge are established and monitored, expressed as ratios between total risk and the risk of the hedged items.

The Market Risk and Structural Management Division, which is part of the Structural Risk and Regulated Models Department, is responsible for monitoring these risks. To perform its functions, it monitors the contracts traded, calculates how changes in the market will affect the positions held (daily marked-to-market results), quantifies the market risk assumed, monitors compliance with global limits and analyses the ratio of actual return to the risk assumed. With the results obtained from these activities, it produces a daily report on positions, risk quantification and the utilisation of risk thresholds, which is distributed to Senior Management, the officers in charge of managing these risks, the Model Validation and Risk Department and the Internal Audit Department.

The Market Risk and Structural Management Division has sufficient human resources, with considerable technical capacity, to apply the internal market risks model.

As noted previously, this division is responsible for daily monitoring of compliance with market risk limits and for reporting 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 comparison between actual consumption and the authorised limits. Daily estimates on sensitivity and VaR, aggregated and segmented by risk factors and business units, are also provided.

On a daily basis, the department draws up and distributes the following market risk monitoring reports for Management, supervisors and Internal Audit:

- All the activity of the Markets division.
- The position constituted by the internal market risk model for the calculation of capital requirements, including equity derivatives on investees.

- The foreign exchange position in the banking book.

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

In addition, CaixaBank's treasury and market activities and the risk measurement and control mechanisms used for these activities are subject to ongoing internal audit.

Based on the set of measures described above, the management of market risk on trading positions in markets is in accordance with current methodological and monitoring guidelines.

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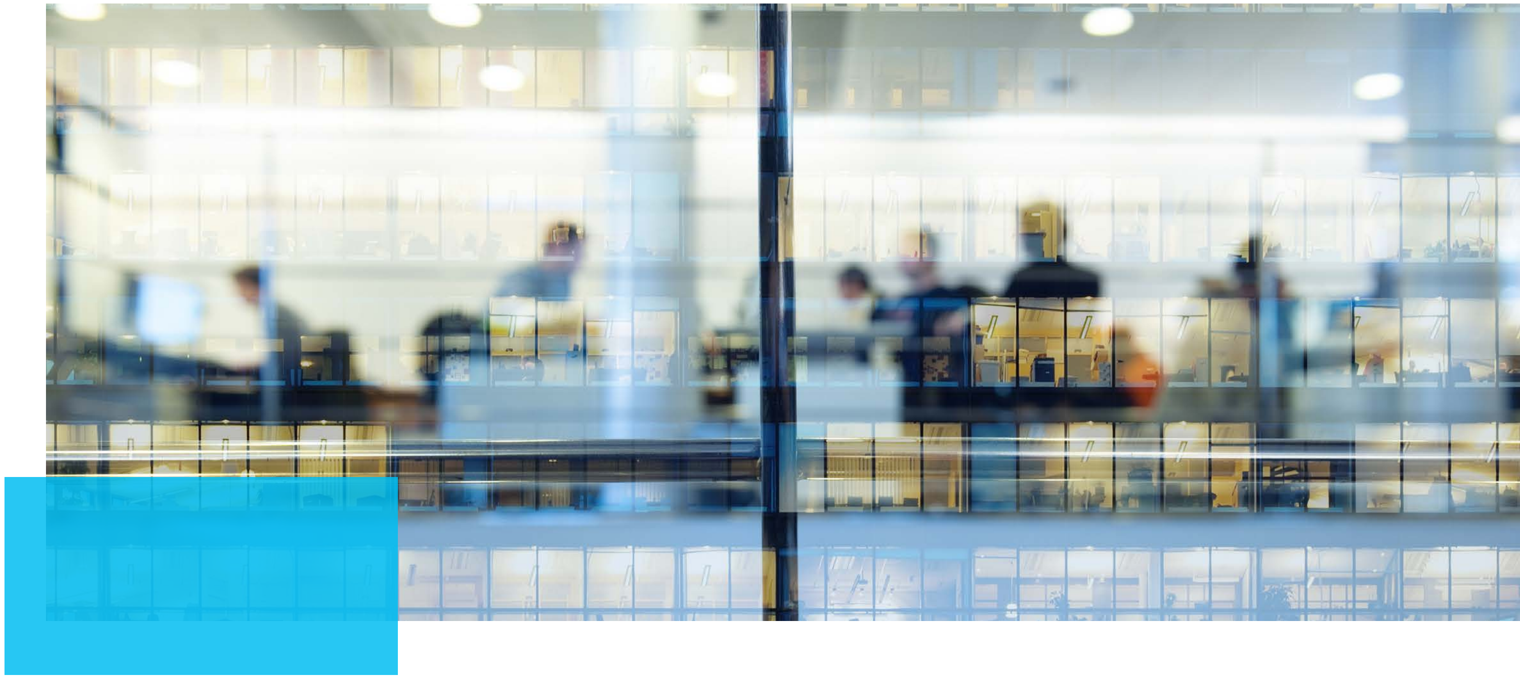


7. Operational risk

7. Operational risk

Operational risk **RWA**
€13,400M

Operational Losses
commercial practices (73%) and processes (15%)
88 %

RWA
under standardised approach
100 %

In the regulatory context, operational risk is defined as the possibility of incurring financial losses due to failure or lack of adequacy of processes, human intervention and systems or to external events.

Given the varying nature of the operational events, CaixaBank has included the following operational risks in the Corporate Risk Taxonomy: Legal / Regulatory, Conduct, IT, Financial Information Reliability and Other Operational Risks. For each of these risks in the Taxonomy, the Group maintains specialized risk management frameworks, without prejudice to the existence of an additional global operational risk management framework.

CaixaBank integrates operational risk into its management processes in order to deal with the financial sector's complex regulatory and legal environment. The objective of managing this risk is to improve the quality of business management, providing the appropriate information to allow decisions to be made that ensure the organisation's long-term continuity, improvements to its processes and the quality of both internal and external customer service.

Although the standardised method is used to calculate regulatory capital, the Group's operational risk measurement and management is based on policies, processes, tools and methodologies that are risk-sensitive, in line with market best practices.

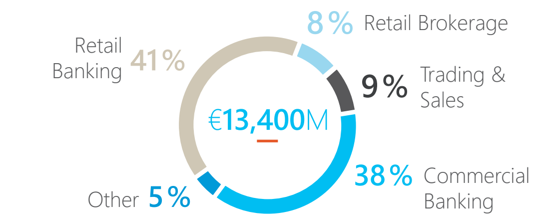
Annual evolution

The consolidation of operational risk management continued during 2019, with a strong drive to integrate the Operational Risk Management Policy to extend best practices throughout the Group, enabling better loss prevention and mitigation.

The capital requirements for operational risk have remained practically stable relative to 2018, registering just a 2% increase versus 2018, in line with the evolution of business.

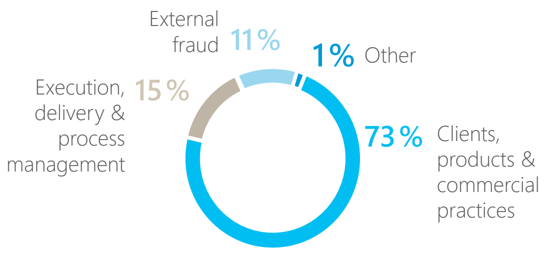
RWA for operational risk

Breakdown by business line, %



Operational losses

Breakdown by operational risk category, %



7.1 Operational risk management

Definition

In the regulatory context, operational risk is defined as the possibility of incurring financial losses due to due to failure or lack of adequacy of processes, human intervention and systems or to external events. Given the varying nature of the operational events, CaixaBank does not list operational risk as a single item in the Corporate Risk Taxonomy. Instead, it has included the following operational risks: Legal / Regulatory, Conduct, IT, Financial Information Reliability and Other Operational Risks. For each of these risks in the Taxonomy, the Group maintains specialized risk management frameworks, without prejudice to the existence of an additional global operational risk management framework.

General policy

The Group seeks to manage operational risk consistently across all companies within its scope as a financial conglomerate. It achieves this by promoting consistency in the tools, measurements and reporting used, 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 business sector (banking vs insurance); these are implemented consistently with the degree of development and maturity in each sector.

The Group manages operational risk within its scope of financial solvency in accordance with best market practices, for which it has put in place the necessary tools, policies and structures.

Structure and organisation of the management of operational risk

The Group's business areas and companies are 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 CaixaBank's Operational Risk Division to implement the management model.

This management division forms part of the Non-Financial Risk Management Division, which falls under the remit of the Executive Directorate of Corporate Risk Management Function & Planning. Overall control and oversight of operational risk is carried out by this Executive Division, which materialises the independence functions required by the Basel Committee on Banking Supervision. Its responsibilities include the control and oversight of operational risk.

The Operational Risk Division is responsible for defining, standardising, and implementing the model for the management, measurement and control of operational risk. It also provides support to the various divisions and consolidates information on operational risk throughout the Group for the purposes of reporting to Senior Management and to the risk management committees involved (Operational Risk Committee, part of the Global Risk Committee).

First line of defence

Each category of operational risk is associated with a first line of defence. For example, the Business Control Division is the specific control unit of the General Business Division and oversees monitoring of the control environment in the first line of defence.

Second line of defence

The Compliance and CRMF departments are the second line of defence. They ensure the proper identification, measurement and monitoring of the different risk categories linked to the operational risk (see section 3.4. Internal Control Framework).

Notwithstanding the above, given the diversity of operational risks, the Operational Risk Division acts as a transversal coordinator of the second line of defence function.

IT Services is responsible for the technological infrastructure on which operational risk management is based.

Third line of defence

Refer to section 3.4.3 for further details.

Operational risk categories

Operational risks are structured into four categories or hierarchical levels, from the most generic to the most specific and detailed.

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

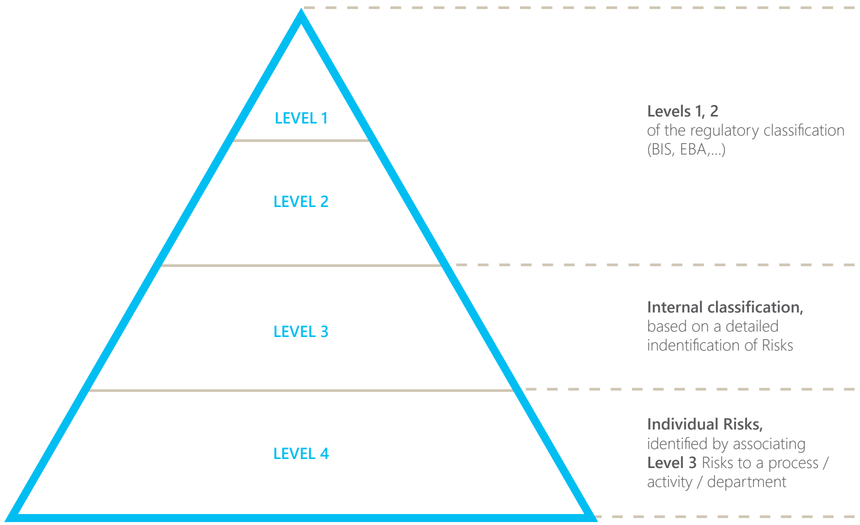
Level 1 comprises 7 sub-categories (Internal Fraud; External Fraud; Employment Practices & Workplace Safety; Clients, Products & Commercial Practices; Damage to Physical Assets; Business Disruption and System Failures; and Execution, Delivery & Process Management) and Level 2 comprises 20 sub-categories.

The Group has defined its own main risk categorisation based on an analysis of operational risk in the various divisions and companies of the Group. 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.

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

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

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



Risk management. Measurement and information systems

The Group's overall goal with regard to the management of operational risk comprises a number of specific objectives that establish the basis for the organisation and working methodology applicable to managing operational risk. These objectives are:

- To identify and anticipate existing and/or emerging operational risks.
- To adopt measures to mitigate and sustainably reduce operational losses.
- To ensure the organisation's long-term continuity.
- To promote the establishment of systems for continuous improvement of the operating process and of the control structure.
- To exploit operational risk management synergies.
- 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.

The main milestones in 2019 were:

- Progress achieved in the implementation of the Three Lines of Defence scheme for managing the risks associated with the Corporate Risk Taxonomy, and in the integration of the Operational Risk Management Policy throughout the company as a whole (formal adherence from Group companies).
- Risk Appetite Framework (RAF): recalibration of the model risk metric.
- Annual updating of operational risk self-assessments and related controls.
- Update of the extreme operational loss scenarios.
- Specific projects to reduce the main recurrent operational losses.
- Monthly budgetary monitoring of operational losses.
- Participation in the Losses Committee.
- Optimisation of the pool of operational risk indicators, KRIs.
- Monitoring of PSD 2 implementation project.

7.2 Minimum capital requirements

The following table reports the Group's RWA for operational risk at 31 December 2019.

Table 7.1. RWA by Business Line

Amounts in millions euros	Gross Income Average	RWA	RWA Density	Capital Requirements
Retail Banking	3,678	5,516	150 %	441
Retail Brokerage	691	1,036	150 %	83
Asset Management	173	260	150 %	21
Commercial Banking	2,680	5,025	188 %	402
Agency Services	32	60	188 %	5
Trading and Sales	522	1,174	225 %	94
Corporate Finance	146	328	225 %	26
Payment and Settlements	-	-	-	-
Total	**7,921**	**13,400**	**169 %**	**1,072**

Calculation of eligible own fund requirements

The Group applies the standardised approach for calculating regulatory capital for operational risk.

The standardised approach involves multiplying a relevant indicator of exposure to operational risk by a coefficient.

This indicator is practically equivalent to the three-year average of gross income taken from the income statement.

The regulation establishes that the indicator should be broken down into eight regulatory business lines, with the part assigned to each of these being multiplied by a specific coefficient, as shown in the following table:

Table 7.2. Operational risk: beta factors by business line and coefficients of weighing

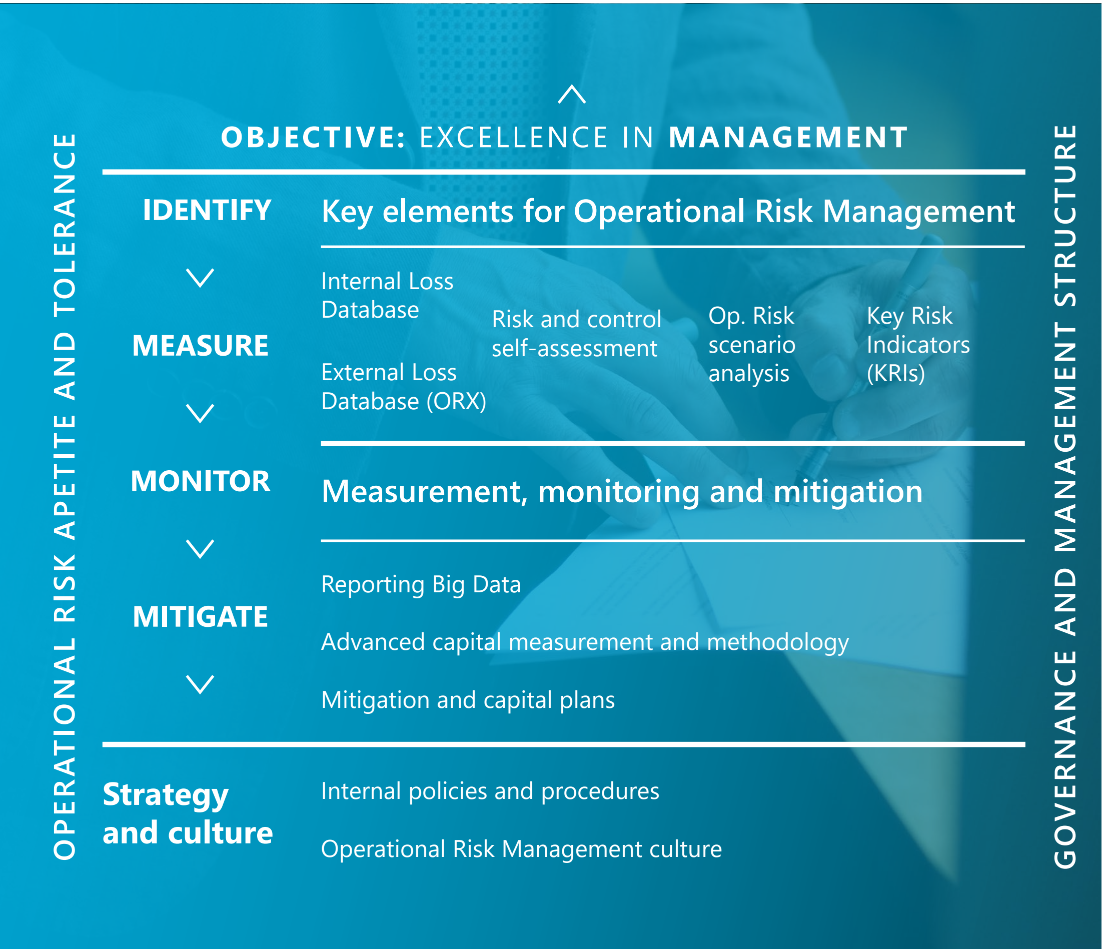
	Beta Factors
Corporate Finance	18 %
Trading and Sales	18 %
Retail Brokerage	12 %
Commercial Banking	15 %
Retail Banking	12 %
Payment and Setlements	18 %
Agency Services	15 %
Assets Management	12 %

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

The regulation establishes that financial institutions using the standardised approach must comply with certain strict requirements for operational risk management and measurement.

7.3 Operational risk management mechanisms

The management model is structured as follows:



The different methodologies implemented through operational risk management mechanisms and the measurement, monitoring and mitigation tools and procedures are included in the set of basic operational risk identification, measurement and evaluation tools, and are best practices in the sector.

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.

The main system is supported by an integrated tool, which has been customised to the Bank's needs. This component provides most of the functionality required for day-to-day operational risk management.

The tool is fed by multiple data sources from the transactional systems (of the Bank itself and some Group companies) on a daily basis to capture key events, losses and key risk indicators (KRIs) for operational risk. It also offers interfaces for updating the organisational structure and other companies included in the data model.

All risk self-assessment processes, loss enrichment, KRI management, establishment of weak points and action plans, etc, are carried out through workflows that manage and control the product, advising at all times the people responsible for a pending task.

The system also generates automatic interfaces to report losses to the international Operational Riskdata eXchange (ORX).

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 system and uploading it into the Big Data environment to provide an analytical environment.

Quantitative measurement

Internal Database

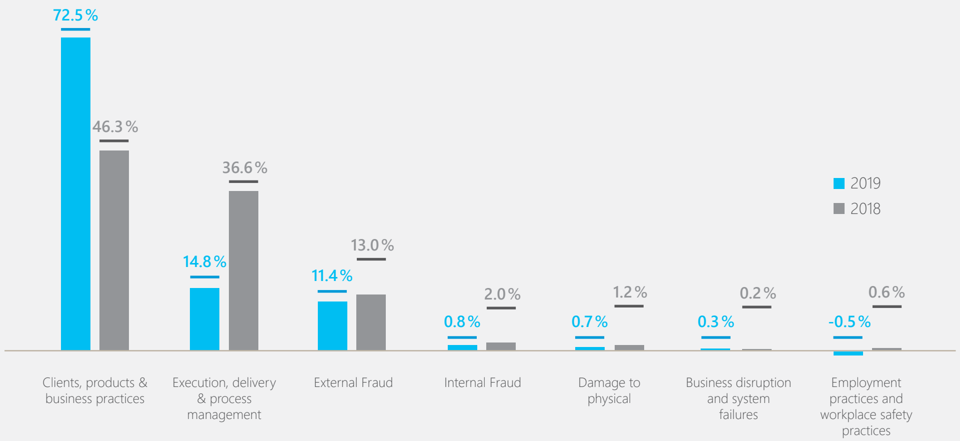
The internal operational loss database is one of the foundations for managing operational risk (and the future calculation of capital for operational risk).

An **operational event** is the implementation of an identified operational risk, an event that causes an operational loss. It is the central concept in the Internal Database model. Loss events are defined as each individual economic impact related to an operational loss or recovery.

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 following chart reports the distribution of the Group's gross operational losses by type of risk in 2018 and 2019:

Chart.
Distribution of the Group's gross operational losses



External database (ORX)

The internal historical data on operational losses is supplemented by external data. For this reason, the Group is registered with the ORX (Operational Riskdata eXchange) consortium, which anonymously exchanges operational loss information from banks on a worldwide level, and allows geographical subgrouping, among other functions, to manage risks (news service, working groups, methodological initiatives on operational risk). ORX requires its members to classify operational loss data using a series of parameters, both regulatory and proprietary. As a result, all events in the database include the parameters required by the ORX.

Qualitative measurement

One of the foundations of the Group's management of operational risk is identification through qualitative techniques.

Self-assessments

Operational risks are subjected to self-assessments on an annual basis, which make it possible to: (i) obtain knowledge about the operational risk profile and new critical risks; and (ii) maintain a standardised update process for the taxonomy of operational risks, which is the foundation upon which this risk's management is defined.

The self-assessments process involves the following stages:

- The centres update and confirm the operational risk map.
- Assessment of the risk by the area. The input parameters requested are estimates of data relating to the potential frequency and impact of possible loss events, the allocation of the risk to the appropriate Business Line, and assessment of the associated control.
- Validation of the assessment by the area manager.
- Final validation by the Operational Risk Division.

During 2019, the annual update of the self-assessment of operational risks has been completed. This process was accompanied by a specific programme to train those involved, in order to improve the results of the backtest carried out following the end of the 2018 campaign, and to use it as the starting point for the 2020 budget.

Operational risk scenarios

A series of expert workshops and meetings are also held to generate hypothetical extreme operational loss scenarios. The objective is to use these scenarios to detect areas of improvement in management and to supplement the available external and internal historical data on operational losses.

Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) relating to operational risk are a tool used to measure quantitative or qualitative aspects that make it possible to: **(i)** anticipate changes in operational risks, enabling a forward-looking approach to their management; and **(ii)** provide information on changes to the operational risk profile and the reasons for such changes. A KRI is a metric that allows changes in the levels of this risk to be detected and anticipated; its monitoring and management is integrated in the operational risk corporate management tool. KRIs are not by nature a direct result of risk exposure. They are metrics that can be used to identify and actively manage operational risk.

The main concepts in the definition and structure of KRIs for operational risk are: the definition of each KRI (including any sub-KRIs), thresholds, alerts (and related actions), frequency, the updating method and criticality.

A comprehensive analysis and optimisation project has been developed during 2019 with regard to KRIs. The goals of this project were to maximise the coverage of risks and/or centres, as well as to review the suitability of the set of pre-existing indicators.

Action and mitigation plans

With the aim of mitigating the operational risk, action plans that entail appointing a centre to be in charge, setting out the actions to be undertaken to mitigate the risk, the percentage or degree of progress, which is updated regularly, and the plan's final commitment date have been defined. This allows for mitigation of the risk by **(i)** decreasing the frequency at which the events occur, as well as their impact; **(ii)** having a solid control structure in place, based on policies, methodologies and systems; **(iii)** integrating information generated by the operational risk management mechanisms into the Group's day-to-day management processes.

The action and mitigation plans may originate from any of the operational risk management tools or other sources: self-assessments, scenarios, external sources (ORX, specialist press), KRIs, losses due to operational events, and internal audit and internal validation reports.

The definition and monitoring process for action and mitigation plans **involves the following three stages:**

1 Identification > 2 Definition > 3 Deployment

Risk transfer (insurance)

The corporate insurance programme for mitigating operational risk is designed to cover certain risks.

The corporate insurance programme for mitigating operational risk is designed to cover certain risks, and it is updated annually. Risk transfer depends on risk exposure, tolerance and risk appetite at any given time.

Each year, an action plan is drawn up for the risk and insurance management system. The plan is predicated on the identification and assessment of operational and fortuitous risks, the analysis of risk tolerance, and the reduction of the total cost of risk (retention + transfer). This enables risk management and coverage to be integrated and streamlined as efficiently as possible, at the lowest cost possible, and with optimal security in accordance with the defined standards.

Operational risk management 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.

There is a grouping of 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 at different levels of the hierarchy.

The following diagram illustrates the different levels of operational risk reporting:

Operational risk training framework

One of the fundamental goals 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 promotion of the operational risk 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 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:** 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 its importance among Group employees at all levels.
- **Supporting documentation:** a full set of supporting documentation covering the entire operational risk framework is available to all employees in order to promote day-to-day risk management.
- **Specific initiatives:** specific ad-hoc training is carried out according to the needs of the model. 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.

7.4 Connection with the Corporate Risk Taxonomy

The **risk categories in the Corporate Risk Taxonomy** that are identified as operational risk are as follows:

Legal / Regulatory risk

The potential loss or decrease in the profitability of CaixaBank Group as a result of changes in the legislation, the improper implementation or interpretation of said legislation in CaixaBank Group processes and its various operations, improper management of legal and administrative requirements or claims or complaints received.

Conduct and compliance risk

Application of criteria for action contrary to the interests of its customers and stakeholders, or actions or omissions by the Group that are not aligned with the legal or regulatory framework, or with internal policies, regulations or procedures, or with the codes of conduct, ethical standards and good practice.

IT risk

Losses due to the inadequacy or failure of hardware or software of the technological infrastructure, due to cyberattacks or other circumstances, which could compromise the availability, integrity, accessibility and security of the infrastructure and data.

Other operational risks

Risk of loss or damage caused by errors or shortcomings in processes, due to external events or due the accidental or intentional actions of third parties outside the Group. These include, among others, risk factors related to outsourcing, the use of quantitative models, the custody of securities or external fraud.

Reliability of financial information

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

7.4.1. Legal and regulatory risk

Legal and regulatory risk is understood as the potential loss or decrease in the profitability of CaixaBank Group as a result of changes in the legislation in force, the improper implementation or interpretation of said legislation in the Group's processes and its various operations, improper management of legal and administrative requirements or claims or complaints received.

This risk is managed by following certain activity principles in order to ensure that the risk appetite and tolerance limits defined in CaixaBank's Risk Appetite Framework are respected.

Accordingly, the Group undertakes a **constant monitoring and control of regulatory changes** with a view to ensuring greater legal protection and in defence of its legitimate interests. Below, we set out the main regulatory initiatives and consultation processes in which, given their relevance, the Bank has been inolved:

- **Review by the European Commission of various Directives,** in particular: **(i)** the Consumer Credit Directive (CCD); **(ii)** the Distance Marketing of Financial Services Directive; **(iii)** the Capital Requirements Directive and Resolution (DRC V and CRR 2); **(iv)** the Bank Recovery and Resolution Directive (BRRD 2); **(v)** the Benchmark Regulation (BMR); **(vi)** the Markets in Financial Instruments Directive (MiFID 2); and the Insurance Distribution Directive (IDD) on the integration of sustainability risks and factors. The Bank has also monitored the finalisation of the Basel 3 accord and the development of a legislative framework intended to promote sustainable finances within the European Union.
- **At the national level,** public consultations have been addressed concerning the amendment of the guidelines for the advertising of banking products and services, and the amendment of the Banking Transparency Order concerning open-ended credit information associated with payment instruments, as well as the transposition of the long-term shareholder engagement Directive.
- With regard to **information technology risks,** the EBA Guidelines on ICT and security risk management is significant
- With regard to **tax,** consultations were held on tax measures in the General State Budget and the amendment of the General Taxation Law to transpose the Capital Adequacy Directive (CAD 6) into Spanish law.

These actions are coordinated through the Regulation Committee, the body responsible for establishing the strategic positioning of the Group in matters concerning financial regulation, promoting the representation of the Bank's interests and coordinating the regular assessment and the regulatory initiatives and proposals that may affect the Group.

It also ensures the proper implementation of the regulations. In this respect, we highlight:

- Act 5/2019 of 15 March regulating **real estate loan contracts** (LCI).
- Royal Decree-Act 19/2018 of 23 November on **payment services** and other urgent financial measures (PSD 2).
- Royal Decree-Act 19/2017 of 24 November on **payment accounts,** payment account switching and comparability of fees (PAD).

Furthermore, Legal Advisory coordinates a number of committees (Transparency Committee, Privacy Committee), the purpose of which is to constantly monitor, with regard to all the Bank's activities, compliance with consumer protection and privacy regulations, both of which are of the utmost importance for the Bank.

To ensure the correct interpretation of the rules, as well as an ongoing study of precedent and the rulings from the competence authorities, Legal Advisory also consults the competent administrative authorities when necessary, in order to adjust its actions to these criteria.

For example:

- In **tax matters,** the company has submitted several binding tax consultations to ratify interpretative criteria on Personal Income Tax deductions on administration fees and custody of shares in investment funds that meet certain requirements; the determination of the taxable base for VAT on non-independent advice and basic advice on funds; and the treatment of VAT for certain financial intermediation services.
- With **regard to data protection,** it has submitted various consultations to the Spanish Data Protection Agency regarding the status of data controller in the provision of financial services and the need to consult the Robinson list in the event of processing based on legitimate interest.

Furthermore, **Legal Advisory coordinates a number of committees** (Transparency Committee, Privacy Committee), **the purpose of which is to constanly monitor, for all the Bank initiatives,** their compliance with consumer protection and privacy regulations, both of which are of the utmost importance for the Bank.

In relation to legal proceedings, and taking into account existing litigation, **the Group has policies, criteria and procedures for analysing and monitoring these disputes.** These allow for both an individualised management of the defence in each dispute and the identification and update of the necessary provisions to cover the potential outflow of economic resources whenever this is considered a probable result of unfavourable rulings, both in and out of court (i.e. customer claims), and administrative sanctions brought against the Group, whether of a civil, criminal, fiscal or administrative nature or in relation to employment law.

7.4.2. Conduct risk

Definition and general policy

Insofar as operational risk is concerned in accordance with the regulatory definition, the Corporate Risk Taxonomy defines conduct risk as the Group's risk arising from the application of conduct criteria that run contrary to the interests of its customers and stakeholders, or from failure to comply or improper compliance with laws, regulations, legal or administrative requirements, codes of conduct, ethical standards and good practices, which could result in administrative sanctions or reputational damage. The Group's objective is to: **(i)** minimise the probability of occurrence of this risk, and **(ii)** if it occurs, detect, report and address the weaknesses promptly.

The management of conduct risk is not limited to any specific area, but rather the entire Group. All employees must ensure compliance with prevailing regulations, applying procedures that translate such regulations into their activities.

In order to manage conduct risk, the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics are encouraged, and its members, other employees and Senior Management must ensure that they are compliant as a core criterion guiding their day-to-day activities. Therefore, as the first line of defence, the divisions whose business is exposed to conduct risk implement and manage first-level indicators and controls to detect potential sources of risk and act effectively to mitigate them.

7.4.3. IT risk

Also with regard to regulatory operational risk, the Corporate Risk Taxonomy defines information technology risk as the risk of losses due to hardware or software inadequacies or failures in technical infrastructure, due to cyberattacks or other circumstances, that could compromise the availability, integrity, accessibility and security of the infrastructures and data. The risk is broken down into 5 categories that affect ICT (Information and Communications Technology) **(i) Availability; (ii) Information Security; (iii) Operation and Change Management; (iv) Data Integrity; and (v) Governance and Strategy.**

The current measurement of this risk is included in a monthly-monitored RAF indicator, calculated using individual indicators linked to the governance of information technologies, information security and technological contingencies. Regular spot checks are carried out to verify the quality of the information and to validate the methodology used in creating the indicators reviewed.

The governance frameworks reflect this measurement, and they have been designed according to leading international standards, applied in the areas of:

1. IT governance, designed and developed under the ISO 38500 standard.
2. Information security, designed and developed under the ISO 27001 standard.
3. Technological contingency, designed and developed under the ISO 27031 standard

In particular, business continuity refers to an organisation's ability to continue to deliver products or services at acceptable predefined levels following a disruptive incident. Its management consists of identifying potential threats to the organisation and their impact on operations. It provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand, and value-creating activities.

Within this scope, CaixaBank has adopted and maintained a Business Continuity Management System (BCMS) based on the international ISO 22301 standard and certified by the British Standards Institution (BSI), with number BCMS 570347. Similarly, CaixaBank has been designated a critical infrastructure operator by virtue of the provisions of Act 8/2011 and is under the supervision of the National Centre for the Protection of Critical Infrastructures dependent on the State Secretariat of the Ministry of the Interior.

Furthermore, CaixaBank has a general emergency plan and various internal regulations on security measures, which include priority aspects such as: **(i)** cybersecurity strategy; **(ii)** the fight against customer and internal fraud; **(iii)** data protection; **(iv)** security governance and disclosure; and **(v)** supplier security.

7.4.4. Other operational risks

Definition and general policy

Within the Risk Taxonomy, this is defined as the losses or damage caused by errors or shortcomings in processes, due to external events or due the accidental or intentional actions of third parties outside the Group. This includes, among others, risk factors related to outsourcing, the use of quantitative models (model risk), the custody of securities or external fraud.

All of CaixaBank Group's divisions and companies are responsible for the operational risks within their respective remits. This means identifying, assessing, managing, controlling and reporting on the operational risks of their activity and helping CaixaBank Group's Operational Risk Division to implement the management model.

During 2019, the Corporate Policy on outsourcing management and associated risks was approved. This Policy includes the latest regulatory requirements with regard to this activity and it represents a significant step forward towards strengthening the corporate governance of the risks in the outsourcing processes.

7.4.5. Financial information reliability risk

In the Corporate Risk Taxonomy, financial information reliability risk is defined as the potential damage, whether financial or otherwise, stemming from possible deficiencies in the accuracy, integrity and criteria of the processes used in preparing the data necessary to evaluate the financial and equity situation of the Group. It is one of the regulatory operational risks.

The Group has Corporate Policies approved by the Board of Directors that establish the risk control and management framework, including:

1. the Corporate Policy on Disclosure and Verification of Financial Information, which sets out the control framework for relevant financial information concerning the Group that is disclosed to the market.
2. the Corporate Policy on the System of Internal Control over Financial Reporting, which establishes the framework for the governance, design, implementation and proper functioning of the ICFR.
3. Corporate Policy on Information and Data Quality Governance, which regulates the governance of data and the presentation of reports.

This risk is managed, in the main, by assessing whether the financial information of the Group complies with the following principles:

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

To manage and monitor risk, the Group has implemented an internal control structure based on the 3 lines of defence model, as described above:

- The **1st line of defence activities** concerning the accounts closing process, a fundamental pillar for the preparation of financial information, include, among others, **(i)** defining accounting criteria to apply in the Group, as well as the processing of unique corporate operations and transactions; **(ii)** reviewing the reasonableness of the judgements and estimates as well as of the rest of the changes in accounting figures; **(iii)** monitoring the implementation of new accounting circuits and standards as well as analysing the differences between estimated and actual impacts; **(iv)** working on and controlling the applications and other accounting processes; and **(v)** coordinating the Group's companies to prepare the consolidated accounting closings.
- The **2nd line of defence activities** include, among others, **(i)** monitoring and managing the System of Internal Control over Financial Reporting (ICFR); **(ii)** advising and/or setting criteria for the identification, monitoring, implementation and assessment of the controls over financial reporting; **(iii)** reviewing compliance with policies; and **(iv)** identifying and monitoring the detected weaknesses in internal control.
- The **3rd line of defence activities** include, among others, reviewing the reliability and integrity of financial reporting, including the effectiveness of the ICFR.

8. Structural risk

8. Structural risk

Sensitivity of the 1-year net interest income of sensitive balance sheet items in an interest rate scenario of +/- 100 bps

7.24 % / -3.40 %

Sensitivity of the economic value of the balance sheet in an interest rate scenario of +/- 100 bps. divided by the Tier 1 figure

6.09 % / -5.32 %

Interest rate risk is inherent to the banking activity. It arises from the impact that changes in market interest rates might have on the net interest income and economic value of a financial institution's balance sheet.

The Group's management of this risk seeks:

- To optimise the net interest income and
- to preserve the economic value of the balance sheet.

To carry out these management procedures, measurements are taken of net interest income and of the economic value in an interest rate baseline scenario (implicit market rates) and in other stressed scenarios. The results of the stressed scenarios are compared with those of the baseline scenario to obtain risk measurements, which are then compared with the risk thresholds established in the Risk Appetite Framework (RAF).

Projection models are updated monthly and assumptions are periodically reviewed to ensure that measurements are appropriate to the current market situation and characteristics of the balance sheet.

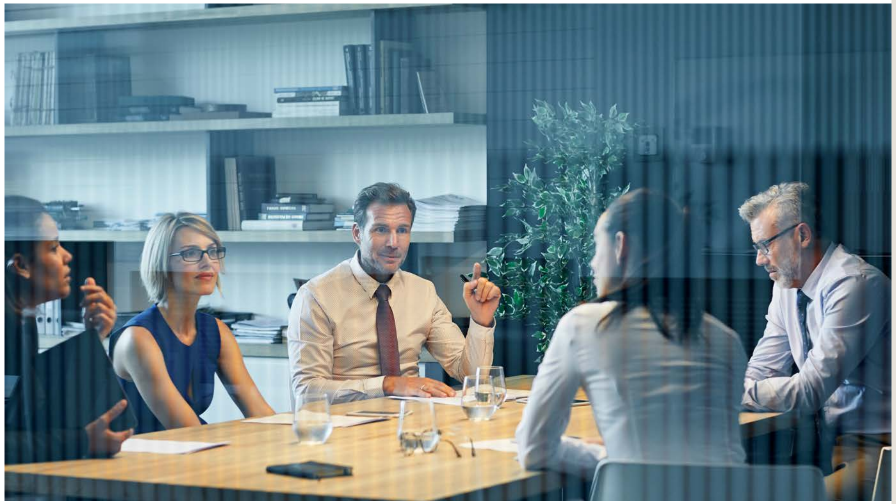
The Group is comfortably within the risk limits defined at the regulatory and management levels within the RAF.

At 31 December 2019, the Group uses fair value macro-hedges as a strategy to mitigate its exposure to interest rate risk and to preserve the economic value of its balance sheet.

Annual evolution

In 2019, CaixaBank keeps its balance sheet position in front of interest rate increases. The reasons for this balance sheet positioning are structural and management-related. Specifically, from a structural point of view, exceptionally low interest rates have continued to drive the shift from term deposits to non-maturity deposits.

From a management point of view, the balance sheet structure has continued to be adapted to the expected environment.



8.1. Management of interest rate risk in the banking book

Definition and general policy

Risk considered to be the negative impact on the economic value of the balance sheet's items or on the net interest income due to changes in the temporary structure of interest rates and its impact on asset and liability instruments and those off the Group's balance sheet not recorded in the trading book.

As balance sheet assets and liabilities are linked to different reference rates and have differing maturities, they may be contracted (in the case of new production) or renewed at interest rates different to those currently prevailing. This can affect their fair value and the margin they generate.

The management of this risk by the Group seeks to **(i)** optimise the net interest income and **(ii)** maintain the economic value of the balance sheet, while at all times taking into account the metrics and thresholds of the Risk Appetite Framework in terms of volatility of the financial margin and value sensitivity.

Measurements are made of net interest income and of the economic value in an interest rate baseline scenario (implicit market rates) and in other stressed scenarios. The results of the stressed scenarios are compared with those of the baseline scenario to obtain risk measurements, which are then compared with the risk thresholds set out in the RAF.

Different stress scenarios are considered:

- Scenarios for parallel increases and decreases in interest rates and of different magnitudes (+ /-100 bp, + /-200 bp).
- In addition to the parallel rate shift scenarios, six shock scenarios are used with non-parallel shifts of the interest rate curve.
- In the case of the scenarios applied to interest rate metrics, the spreading of the stresses is applied both instantaneously and gradually.

Given the normalised negative interest rate situation, it is important to consider how to limit the shock impacts applied so that these scenarios are realistic. To this end, the Group uses two complementary approaches:

- Management Floor: A dynamic limit on the magnitude of the shock applied in each scenario is set. Its value changes depending on the type of scenario and the current level of interest rates, fluctuating between -1% and the shock being considered in each scenario (-200 bp in the case of parallel scenarios, and -250 bp and -100 bp in the case of the scenarios with a change at the short and long end of the curve, as well as a change in the slope). The size of the shock to be applied at any given time is calculated according to the spread between the minimum historical rate observed for the Euribor reference rate and the current rate.
- Regulatory floor: The limit applied is defined in the regulatory guides and it is used in the definition of the supervisory test (SOT). This limit establishes that the negative rates cannot be less than -1% and this limit will increase until reaching the 0% level within 20 years. Therefore, the floor is set at the level of rates and not the applied shock, unlike the management floor.

The stress scenarios and the two criteria in applying a floor to negative rates are combined to set up a complete framework of scenarios in the RAF that takes into account management and regulatory criteria, as follows:

For economic value, the following scenarios, which include the supervisory outlier test (SOT), are applied:

- Up +200 bp: Immediate and parallel increase of 200 bp.
- Down -200 bp with a minimum rate of -1%: Immediate and parallel drop of 200 bp for all currencies and with a minimum rate of -1%.
- Parallel Up: Immediate and parallel rise in interest rates of 200 bp for the EUR currency and of different amounts for other currencies.
- Parallel Down: Immediate and parallel drop in interest rates of 200 bp for the EUR currency and of different amounts for other currencies. In this scenario, the Group applies a floor, or minimum rate, which can be below 0% as set out in previous sections.
- Parallel Down SOT: Impact of -200 bp for the EUR currency but applying the floor defined by the SOT (for other less significant currencies, the impact is slightly different).
- Steepening: General increase of the slope of the curve.
- Flattening: General flattening of the slope of the curve.
- Short Up: Rate increase at the short end of the curve.

- Short Down: Rate reduction at the short end of the curve.
- Long Up: Rate increase at the long end of the curve.
- Long Down: Rate reduction at the long end of the curve.
- Steepening SOT: Steepening with the floor defined in the SOT.
- Short Down SOT: Rate reduction at the short end of the curve with the floor defined in the SOT.

Additionally, for net interest income, the following scenarios are used:

- Up +200 bp: Progressive increase of 200 bp.
- Down -200 bp with a minimum rate of -1%: Progressive reduction of 200 bps with a minimum rate of -1%.
- Up +100 bp: Instantaneous rise of 100 bp.
- Down -100 bp with a minimum rate of -1%: Instantaneous reduction of 100 bp with a minimum rate of -1%.

Projection models are updated monthly and assumptions are periodically reviewed to ensure that measurements are appropriate to the current market situation and characteristics of the Group's balance sheet.

Structure and organisation of the risk management function

The Board of Directors has assigned functions related to the ongoing monitoring of risk management to the Risk Committee and to the Global Risk Committee. The ALCO is in charge of managing, monitoring and controlling interest rate risk in the banking book. To this end, it monitors compliance with the RAF on a monthly basis, focusing both on the net interest income and on economic value.

First line of defence

The ALM department, dependent on CaixaBank's Executive Finance Division, is responsible for management of interest rate risk in the banking book, within the constraints imposed by management and regulatory thresholds.

The Balance Sheet Analysis and Monitoring Division, which reports to the Executive Finance Division, is responsible for modelling, analysis and monitoring of interest rate risk, and maintenance of the databases and forecasting tools needed to carry out such measurements. It also proposes and implements the methodologies and improvements required for its function.

As part of its functions, the Balance Sheet Analysis and Monitoring Division reports on changes arising in the risk, and the factors affected by such changes, not only to the ALCO but also to those responsible for internal monitoring and the second and third lines of defence.

Second line of defence

The Market Risk and Balance Sheet Risk Division, within the Corporate Risk Management Function & Planning department, is responsible for interest rate risk in the banking book.

Third line of defence

Refer to section 3.4.3 for further details.

Risk management. Measurement and information systems

This risk is analysed considering a broad set of market rate scenarios, including the potential impact of all possible sources of structural interest rate risk, i.e. Gap risk (with its components of repricing risk and yield-curve risk), basis risk and optionality risk. Optionality risk considers automatic optionality related to the behaviour of interest rates and the optionality of customer behaviour, which is not only dependent on interest rates.

The Group applies best market practices and the recommendations of regulators in measuring interest rate risk. It sets risk thresholds based on these metrics related to net interest income and the economic value of its balance sheet and considering the complexity of the balance sheet.

It uses both static and dynamic measurements:

Static measurements: Static measurements are those that are not designed based on assumptions of new business and refer to a specific point in time.

- **Static gap:** this shows the contractual distribution of maturities and interest rate revisions for applicable balance sheet and/or off-balance-sheet aggregates at a particular date. GAP analysis is based on comparison of the values of the assets and liabilities revisions or that mature in a particular period.
- **Balance-sheet economic value:** this is calculated as the sum of: **(i)** the fair values of net interest rate-sensitive assets and liabilities on the balance sheet; **(ii)** the fair value of off-balance-sheet (derivatives); and **(iii)** the net carrying amounts of non-interest rate-sensitive asset and liability items.

- **Economic value sensitivity:** the economic value of sensitive items on and off the balance sheet is reassessed under the various stress scenarios considered by the Group. The difference between this value and the economic value calculated at current market rates gives us a numeric representation of the sensitivity of economic value to the various scenarios applied.

  The Group then uses this sensitivity measurement to define management risk tresholds for economic value in particular interest rate scenarios.

- **Balance sheet VaR:** defined as the maximum economic value that could be lost from the balance sheet in a certain period of time, applying market prices and volatilities as well as correlation effects using a specific confidence level and time horizon.

  A 1-month horizon and a 99.9% confidence interval is used when measuring balance sheet VaR. Accordingly, the VaR figure should be interpreted as an estimate that, with a 99.9% probability, the one-month loss should not exceed the calculated VaR.

  The treasury methodology is used to calculate balance sheet VaR. This involves performing 3 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.

  Applying the principle of prudence, the highest of these three values is then used as the balance sheet VaR.

  In addition, a VaR is calculated with a 1-month horizon and a 99% confidence level on positions in the Fair Value OCI fixed-income portfolio, including for interest rate risk and credit spread risk.

  Risk thresholds are also set for this VaR measure.

Dynamic measurements: These are based on the balance sheet position at a given date and also take into account new business. Therefore, in addition to considering the current on- and off-balance-sheet positions, growth forecasts for the Group's budget are included.

- **Net interest income projections:**

  The Group projects future net interest income (1, 2 and 3 years ahead) under various interest rate scenarios. The goal is to project net interest income according to current market curves, the outlook for the business and wholesale issuances and portfolio purchases and sales, and to predict how it will vary under stressed interest rates scenarios.

  Net interest income projection depends on assumptions and events other than just the future interest rate curve; customer behaviour (early cancellation of loans and early redemption of fixed-term deposits), of non-maturity deposits and the future performance of the Group's business are other factors also taken into account.

- **Net interest income volatility:**

  The difference between these net interest income figures (the differences resulting from an increase or decrease compared to the baseline scenario) compared to the baseline scenario gives us a measure of the sensitivity, or volatility, of net interest income.

  The Group then uses this sensitivity measurement to define operating risk thresholds for net interest income for particular interest rate scenarios.

With regard to measurement tools and systems, information is obtained at the transaction level of the Group's sensitive balance sheet transactions from each Information Technology (IT) application used to manage the various products. From this information, databases with a certain degree of aggregation are prepared to speed up the calculations without losing 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 customer behaviour models based on historical data (pre-payment models). Growth data budgeted in the financial planning (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 Group's static gaps, net interest income and economic value.

Hedging policies and mitigation techniques

To mitigate the interest rate risk in the banking book, the Group actively manages risk by arranging additional hedging transactions on financial markets to supplement the natural hedges generated on its own balance sheet as a result of the complementarity between the sensitivity to fluctuations in interest rates on deposits and on lending transactions with customers or other counterparties. At 31 December 2019, CaixaBank uses fair value macro-hedges as a strategy to mitigate its exposure to interest rate risk and to preserve the economic value of its balance sheet.

8.1.1. Quantitative aspects

Interest rate risk in the banking book is subject to specific control and includes various risk measures, such as analysis the sensitivity of interest rates over the net interest income and the present value of future cash flows in different interest rate scenarios, including scenarios of negative interest rates, and Value at Risk (VaR) measurements.

The sensitivity of net interest income shows the impact on the review of balance sheet transactions caused by changes in the interest rate curve. This sensitivity is determined by comparing a net interest income simulation, at one or two years, on the basis of various interest rate scenarios (immediate parallel and progressive shifts of varying intensities, as well as 6 scenarios of changes in slope).

The most likely scenario, which is obtained using implicit market rates, is compared with other scenarios of rising or falling interest rates and parallel and non-parallel shifts in the slope of the curve. The one-year sensitivity of net interest income of the sensitive balance sheet assets and liabilities, taking into account scenarios of immediate rising and falling interest rates of 100 bp in each case, is approximately 7.24% in the rising scenario and -3.40% in a lower scenario.

The economic value sensitivity of equity to interest rates measures the effect of interest rate fluctuations on economic value. The sensitivity of economic value of equity, taking into account scenarios of immediate rising and falling interest rates of 100 bp in each case, is approximately 6.09% in the rising scenario and -5.32% in the falling scenario, compared to the Tier 1 figure.

The following table reports measurements of this risk for the current year and the previous year in the different scenarios used for management of the Group's balance sheet for both economic value and for net interest income. The table follows the document structure of the Basel (BIS) standard and compliants to principle 8 in the document on the obligation of banks to disclose relevant IRRBB measurements.

Given that the design of the interest rate floor in the event of negative rates has already been defined by the supervisory guidelines, the 2019 measurements incorporate this aspect in the reported result. This affects the Parallel Down, the Steepener and the Short Rate Down scenarios.

The sensitivities of net interest income and equity are measurements that complement each other and provide an overview of risk in the banking book, 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.

The main changes in risk levels are due to the application of a new model of non-maturity deposits and, in the case of SOT scenarios, also to the application of the new regulatory design of the scenario floor in the event of negative rates.

As a supplement to these measurements of sensitivity, VaR measures are applied in accordance with treasury-specific methodology.

The interest rate risk in the banking book assumed by CaixaBank Group is 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 balance sheet interest rate risk.

Table 8.1. Table B

Amounts in millions euros

	ΔEVE		ΔNII	
	Economic Value Sensitivity		Net Interest Income (12 months) Sensitivity	
Period	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Parallel Up	6.38%	19.76%	15.30%	23.21%
Parallel down (SOT)	-7.03%	-3.98%	-4.09%	-9.35%
Steepener (SOT)	7.86%	7.12%		
Flattener	-4.41%	-2.23%		
Short rate up	0.29%	3.51%		
Short rate down (SOT)	-0.18%	0.52%		
Maximum*	-7.03%	-3.98%	-4.09%	-9.35%
Period	**31.12.2019**		**31.12.2018**	
Capital Tier 1	20,023		19,451	

** The "Maximum" concept expresses maximum loss.*

8.1.2. Modelling

There are a number of key assumptions related to measurement and monitoring of interest rate risk in the banking book. Both the models used and the updates and changes made to them are included within the scope of control of the three lines of defence model.

Early cancellation

The assumptions of early cancellation of asset and liability products are obtained using internal models based on past experience, employing the customer behaviour variables, variables concerning the products themselves and seasonality variables.

CaixaBank is currently using multi-variant regression models to model the risk of early contract termination of both loans and term deposits.

The dependent variable in these models is the monthly rate of early termination.

With this model, the probability of early termination is accounted for by aggregation of an independent or constant term of the model (β_0) which is interpreted, in this case, as the observed historical average rate of early termination. At the same time, other ratios determine the proportion in which each explanatory variable partially impacts the rate of early termination. This explains the deviations in the termination rate from its historical average.

The selected explanatory variables are grouped into the following categories:

1. Variables related to the passage of time:

- Remaining life of the contract (in months), to capture the effect of the passage of time on the probability of early amortisation of the contract.
- Ratio of remaining life of contract and life from start date, with the same purpose as in the previous variable in the case of loans.
- Seasonality, to capture the acceleration in the termination rate caused by factors such as tax incentives, among others.

2. Variables relating to refinancing opportunity:

- Fees and commissions, if any, to capture the cost to which the customer is exposed in the event of early cancellation (the higher the fees and commissions, the lower the incentive to repay loans early).
- Current loan interest rate (rate + spread), as a benchmark of the cost/remuneration paid/received by the customer at present. For loans, the loan spread is individually added to the regression as an explanatory variable.
- Current market reference rate.

3. Variables relating to contract characteristics:

Qualitative variables that take the value 1 if a certain condition is met, and zero if not. Such variables represent 70% of the explanatory variables used for regression models used to estimate the probability of early amortisation of loans. They also refer to aspects such as the contract's indexation type (fixed or variable), whether the party involved is an individual or a corporate entity, whether they offer some form of guarantee, whether they are resident or not, etc.

Non-maturity deposits

The treatment of non-maturity deposits is based on CaixaBank's customer assessments and its past experience, and it aims to adapt the indefinite maturity of the 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), and the behaviour is segmented according to the type of customer and the product characteristics, with constant consideration of the principle of prudence for the purposes of modelling.

The average duration resulting from the modelling of CaixaBank non-maturity deposits depends on the interest rate scenario used for its projection. Considering the baseline scenarios for the last quarter of 2019, the duration of non-maturity deposits is around 4 years. If, from these baselines scenarios, an immediate stress of +2% is applied to the rate curve, this duration could drop to 2.5 years. The maximum maturity resulting from the modeling the most relevant non-maturity deposits can reach 15 years.

Therefore, the modelling reflects the fact that, when rates rise, the balances of the non-maturity deposits move towards deposits with higher remuneration.

Non-Performing Exposures, NPEs

With the entry into force from June 2019 of the EBA guidelines[1] the general criterion is established that, for the purposes of IRRBB, financial institutions should consider non-performing exposures (net of provisions) as interest rate sensitive instruments, and expected cash flows and their timings must be reflected in the projection model.

Based on the parameters of the credit risk models (probability of default and loss given default) for each operation, the interest rate and amortization flows of this portfolio are projected individually on the basis of two probable states: cure and non-cure.

[1] *EBA/GL/2018/02: Guidelines on the management of interest rate risk arising from non-trading book activities.*

Commercial margins in metrics of economic value

The calculation of economic value includes commercial margins, and cash flows are discounted with the risk-free curve.

Positions in non-euro currencies

Positions in non-euro currencies are not material and interest rate correlations between different currencies are not taken into account for modelling purposes.

8.2. Management of exchange rate risk in the banking book

Exchange rate risk in the banking book relates to the potential risk to the value of balance sheet items due to fluctuations in the exchange rate.

The Group has foreign currency assets and liabilities in its balance sheet as a result of its commercial activity and its positions in foreign currencies, in addition to the foreign currency assets and liabilities deriving from the Group's measures to mitigate exchange rate risk.

The Executive Finance Division is responsible for managing the exchange risk arising from balance sheet positions denominated in foreign currency, a task performed through the market risk hedging activity undertaken by the Markets Division.

The Group hedges its foreign exchange risk by arranging cash transactions or using financial derivatives to mitigate the risk of asset and liability positions on the balance sheet. However, the nominal amount of these instruments is not reflected directly in the balance sheet but rather as memorandum items for financial derivatives. This risk is managed by seeking to minimise the level of foreign exchange risk assumed in commercial operations, which explains why the Group's exposure to the market risk is low.

As a result of the active management of currency risk by the Markets Department, the remaining minor foreign currency positions of the commercial balance sheet and of the treasury activity are primarily held with credit institutions in major currencies (such as the US dollar, pound sterling or Swiss franc). The methods for quantifying these positions are the same and are applied alongside the risk measurements used for the treasury activity as a whole.

Market risk capital requirements for exchange rate risk in the banking book are calculated using the standard method and detailed for the purposes of RWAs within market risk.

As of 31 December 2019, the Group's foreign currency positions are mostly concentrated in the equity investments of BPI, specifically in Banco de Fomento de Angola, denominated in kwanza, and Banco Comercial de Investimento, denominated in metical.

9. Liquidity and funding risk

9. Liquidity and funding risk

€89,427M
Total liquid assets (HQLAs + collateral available in ECB credit facility)

179 %
LCR at 31 December 2019 (end of period)

85 %
Retail funding over total funding

Liquidity risk measures the Group's capacity to meet the acquired payment obligations and to finance its investment activity.

CaixaBank Group manages its liquidity risk to ensure that payment obligations can be met comfortably on time, without harming investment activity owing to a lack of borrowable funds, whilst remaining compliant with the Risk Appetite Framework (RAF) at all times.

This goal allows a stable and balanced funding structure to be maintained, with a predominant contribution from customer deposits and limited use of wholesale markets, in line with the Group's funding strategy.

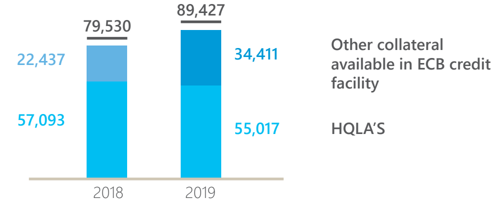
Annual evolution

Liquidity metrics remained at comfortable levels throughout 2019. At 31 December 2019, total liquid assets stood at EUR 89,427 million, up EUR 9,897 million in the year; the Liquidity Coverage Ratio (LCR) stood at 179 %[1] , well above the minimum requirement of 100 %; the Net Stable Funding Ratio (NSFR) stood at 129 %[2] at year-end 2019, with its requirement entering into force in June 2021, with a regulatory limit of 100 % set from that date onwards.

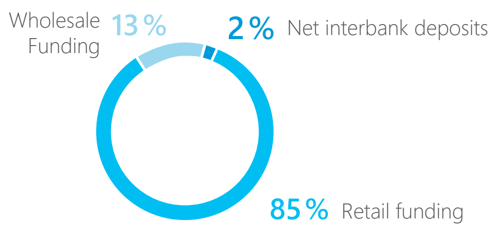
The funding strategy is built on two key aspects: (i) a funding structure based mainly on customer deposits, as reflected in an LTD ratio of 100 % at 31 December 2019; (ii) supplemented with funding in capital markets.

The structure of wholesale issuances is diversified and the maturity profile is comfortable, with relatively low amounts maturing over the coming financial years.

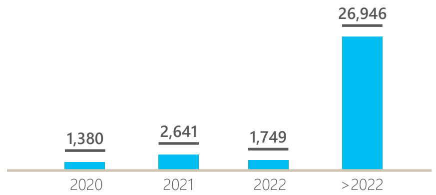
Total liquid assets
€ million



Funding structure
Breakdown by source of funding, %



Maturities
Breakdown by wholesale issuances by year of maturity, in millions of euros



[1] *12-month average LCR at 186 %.*

[2] *Calculated according to the best understanding of the application of the regulatory criteria established by the regulation (EU) 2019/876 of the European Parliament and of the Council, from 20 may 2019.*

9.1. Liquidity and funding risk management

Definition and general policy

Liquidity and funding risk is the risk of insufficient liquid assets or limited access to market financing to meet contractual maturities of liabilities, regulatory requirements, or the investment needs of the Group.

The Group manages this risk in order to maintain liquidity at levels that ensure payment obligations can be met comfortably on time, without harming investment activity owing to a lack of lendable funds, whilst remaining complaint with the Risk Appetite Framework (RAF) at all times.

Management of liquidity risk is decentralised across two units: on the one hand, in the CaixaBank sub-group (formed by CaixaBank and its subsidiaries in the regulatory consolidation except Banco BPI); and on the other, in the BPI sub-group.

Drafting and updating the RAF presented to the Governing Bodies delimits the liquidity risk metrics defined for CaixaBank Group and for the two management units, validating that they are commensurate with the established risk tolerance levels.

The risk strategy and risk appetite for liquidity and funding are set out through:

- **a.** The identification of relevant liquidity risks for the Group and its liquidity management units.
- **b.** The formulation of the strategic principles the Group must follow in managing each of these risks.
- **c.** The definition of relevant metrics for each of these risks.
- **d.** The establishment of appetite, tolerance and, where applicable, recovery thresholds within the RAF.
- **e.** The development of management and control procedures for each of these risks, including systematic internal and external monitoring mechanisms.
- **f.** The definition of a stress-testing framework and a Liquidity Contingency Plan to ensure that liquidity risk is managed accordingly in moderate and serious crisis situations.
- **g.** And a Recovery Planning framework, in which scenarios and measures are devised for an extreme crisis situation.

The liquidity strategy can be summarised as the maintenance of liquidity levels within the RAF thresholds in order to ensure payment obligations can be met comfortably on time, without harming the investment activity owing to a lack of lendable funds.

In particular, the Group holds specific strategies with regard to: **(i)** management of intraday liquidity; **(ii)** management of short-term liquidity; **(iii)** management of the funding sources/concentrations; **(iv)** management of liquid assets; and **(v)** management of encumbered assets.

Furthermore, the Group has procedures to minimise liquidity risks in stress conditions through **(i)** the early detection of the circumstances that could cause it; **(ii)** minimisation of the negative impacts; and **(iii)** active management to overcome a potential crisis situation.

Risk appetite indicators have been established for the Group and the management units. Of these indicators, it is worth underscoring the most relevant in:

- **Level 1**[3] where 5 indicators are established in the areas of: **(i** and **ii)** short-term liquidity (position and LCR- Liquidity Coverage Ratio), **(iii** and **iv)** long-term funding structure (NSFR and retail) and **(v)** cost of wholesale funding;
- **Level 2**[4] where 9 secondary indicators are established in the areas of: **(i)** short-term liquidity (position), **(ii)** balance sheet structure (wholesale), **(iii)** concentration of wholesale funding maturities, **(iv)** concentration of funding from large counterparties, **(v** and **vi)** concentration of ECB funding, **(vii)** intraday liquidity, **(viii)** encumbered assets and **(ix)** stress metric.

Additionally, in order to ensure the integration of stress exercises in management and Risk Appetite, there is a metric of stress. This metric is based on an internal stress model that was developed to comply with best practices (EBA "Guidelines on institutions' stress testing EBA/GL/2018/04" and the EBA ILAAP guidelines called "Guidelines ICAAP and ILAAP: information collected for purposes").

CaixaBank Group uses liquidity stress tests (internal model, survival period based on LCR assumptions, liquidity stress for ICAAP and liquidity stress for recovery plan) as a key element for decision-making in the field of liquidity risk. Among other things, these tests can verify RAF liquidity targets and project metrics to anticipate breaches of liquidity targets and limits set in the Risk Appetite Framework (RAF). The internal liquidity model and the recovery plan use as an assumption all risk sources identified in the process of liquidity risk identification. Among other assumptions, it takes into account the behaviour of depositors (outflows), the maturity of issues, or stress in asset valuation and ratings. CaixaBank Group uses tests at a consolidated level (in accordance with the EBA guidelines on stress) but also for each of its liquidity risk management units.

[3] *Established by the Board of Directors and reported to it regularly.*

[4] *Limits delegated by the Board of Directors to Management for monitoring, management and control.*

The strategic principles used to achieve the liquidity management goal are the following:

- Decentralised liquidity management system in two units (the CaixaBank sub-group and the BPI sub-group), in which a segregation of functions exists to ensure optimal management, control and monitoring of risks.
- Maintenance of an efficient level of liquid funds to meet obligations assumed, fund business plans and comply with regulatory requirements.
- Active liquidity management through continuous monitoring of liquid assets and balance sheet structure.
- Sustainability and stability as core principles of its funding sources strategy, based on:
  - A funding structure mainly consisting of customer deposits.
  - Funding in capital markets to complement the funding needs

Structure and organisation of the risk management function

The Board of Directors has assigned functions related to the ongoing monitoring of risk management to the Risk Committee and to the Global Risk Committee. The ALCO is responsible for managing, monitoring and controlling liquidity risk. To do so, it monitors, on a monthly basis, compliance with the Risk Appetite Framework (RAF), the Bank'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.

First line of defence

The ALM (Asset and Liability Management) 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 in accordance with the guidelines established by the ALCO. The Balance Sheet Analysis and Monitoring Division, which also reports to the Executive Finance Division of CaixaBank, is responsible for analysing and monitoring liquidity risk. The analysis is performed under both normal and business-as-usual market situations and under stress situations.

Second line of defence

Independently of the divisions that make up the first line of defence, the Market Risk and Balance Sheet Risk Division, which reports to the Executive Directorate of Corporate Risk Management Function & Planning, is responsible, as a second line of defence, for risk control, monitoring and assessment of the risk control environment and for the identification of potential areas of improvement.

Third line of defence

Refer to section 3.4.3. for further details.

Risk management. Measurement and information systems

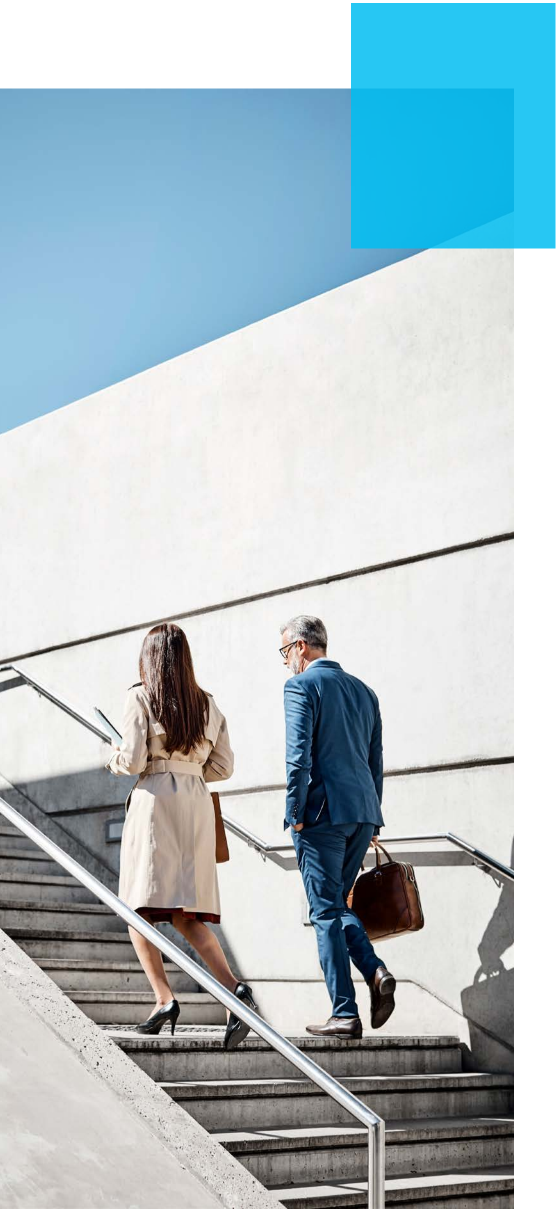
Liquidity risk is measured, monitored and controlled through static measurement of the liquidity position, dynamic measurement of liquidity projections and stress test exercises for liquidity under different scenarios. In addition, static and dynamic comparisons of the funding structure are performed and regulatory ratios are calculated (LCR, NSFR and Asset Encumbrance).

Static measurements of liquidity are calculated on a daily basis, including certain Risk Appetite Framework (RAF) metrics. Monthly liquidity projections are performed, including the most relevant RAF metrics, together with two stress test exercises (quarterly internal model and survival period based on monthly LCR assumption). Annual liquidity stress tests are carried out for the Recovery Plan and the Internal Capital Adequacy Assessment Process (ICAAP).

An Internal Liquidity Adequacy Assessment Process (ILAAP) is carried out every year. This includes a review of the Management Framework for Liquidity and Funding Risk, in accordance with the requirement received from the supervisor. In addition, the CaixaBank Board of Directors makes a declaration about the adequacy of liquidity buffers for existing liquidity and funding risks and approves the key elements of the ILAAP.

With regard to the Declaration by the Board of Directors on the adequacy of the liquidity buffers for existing liquidity and funding risk in the 2018 ILAAP:

CaixaBank Board of Directors declares that liquidity risk management and levels at the consolidated group of credit institutions headed by CaixaBank are adequate.



The content of such Declaration by the Board of Directors is as follows:

- **Scope of application:** The scope of application of the ILAAP corresponds to the Consolidated CaixaBank Group, including CaixaBank S.A. as the parent company, and its subsidiary companies integrated into the regulatory consolidation. Liquidity risk management is decentralised across two units (CaixaBank sub-group and BPI sub-group).

- **Identification of liquidity risks and formulation of liquidity risk strategies:** CaixaBank Group regularly carries out a comprehensive identification process for all material liquidity risks, which allows dynamic management and anticipation of these risks. All material risks have a corresponding liquidity risk strategy. The goal of the general liquidity risk strategy is to maintain liquidity levels at all times within the Risk Appetite Framework (RAF) thresholds to ensure payment obligations can be met comfortably on time, without harming investment activity owing to a lack of lendable funds.

With a view to meeting regulatory expectations, thresholds have been established for non-material risks. Thresholds are not set for material risks because they have a corresponding specific strategy, and they are linked to RAF indicators that allow them to be monitored and controlled.

- **Liquidity risk governance:** CaixaBank Group has sound liquidity risk and funding risk governance processes that comply with best practices in the field of governance. This enables the Group to exchange information among its different companies, manage the risks in its various subsidiaries or entities, as well as in the Group as a whole, thereby ensuring effective supervision of the Group.

- **Funding strategy and plan:** CaixaBank Group has an appropriate funding structure, which adheres to the funding risk management strategy in place and is in line with the established Risk Appetite Framework. Funding through deposits opened through the branch network plays a predominant role, underpinned by wholesale funding that is diversified through the use of a variety of instruments, investors and maturities.

- **Management of liquidity buffers:** CaixaBank Group also has robust procedures in place to identify, manage, monitor and control its liquid asset base. The Group has a satisfactory level of liquid assets, considering the regulatory restrictions, risk appetite, and liquidity and funding risks identified.

- **Management of collateralised assets (asset encumbrance):** CaixaBank Group has classified asset encumbrance risk as a material risk, and has therefore drawn up a specific strategy to manage this risk, and a metric for measuring it and setting a threshold in the RAF. CaixaBank Group has solid monitoring procedures for asset encumbrance, maintaining a reasonable level and within the levels established in RAF.

- **Transfer pricing system:** CaixaBank Group has a transfer pricing system that is fully integrated into its management processes, through which funding transactions are remunerated, while funding costs are passed on to lending transactions. The system is an essential part of segment accounting.

- **Intraday liquidity:** CaixaBank Group has sufficient procedures in place in each management and control unit for intraday liquidity risk, maintaining very comfortable levels with respect to the risk appetite level.

- **Liquidity stress tests:** CaixaBank Group carries out various liquidity stress tests: two specific internal liquidity tests (internal stress model and LCR-based survival period), and two other tests carried out annually, corresponding to the Recovery Plan and the ICAAP. In all cases, the results are satisfactory. Even in the more severe scenarios, the liquidity targets established in the Risk Appetite Framework (RAF) are met.

- **Liquidity Contingency Plan:** The Group's liquidity management units have a robust Liquidity Contingency Plan that includes: **(i)** an early-detection framework; **(ii)** a governance and activation model; **(iii)** a broad range of measures intended to generate liquidity, which is quantified regularly; and **(iv)** an internal and external Communications Plan.

- **ILAAP self-assessment:** CaixaBank Group has carried out an ILAAP self-assessment.

Hedging policies and mitigation techniques

The measures in place for liquidity risk management and anticipatory measures feature:

a. Authority from the General Shareholders' Meeting to issue securities.

- Availability of several facilities open with: **(i)** the ICO, under credit facilities – mediation; **(ii)** the EIB; and **(iii)** the Council of Europe Development Bank (CEB). In addition, there are funding instruments with the ECB for which a number of guarantees have been pledged to ensure that liquidity can be obtained immediately.

b. Maintaining issuance programmes aimed at expediting formalisation of securities issuances in the market:

c. In order to ease access to short-term markets, CaixaBank currently maintains the following:

1. Interbank facilities with a significant number of financial institutions (national and international), as well as with central banks.

2. Repo facilities with a number of domestic and foreign counterparties.

3. Access to central counterparty clearing houses for repo business (LCH SA – Paris, Meffclear – Madrid and EUREX – Frankfurt).

e. The Contingency Plan and Recovery Plan contain a wide range of measures to generate liquidity in diverse crisis situations. These include potential issuances of secured and unsecured debt, use of the repo market, and so on. For all these, viability is assessed under different crisis scenarios and descriptions are provided of the steps necessary for their execution, as well as the expected period of execution.

Strategy for the management of funding sources/ concentrations:

CaixaBank Group has developed a decentralised funding model based on autonomous entities that are responsible for meeting their own liquidity needs and based on the following principles:

a. Maintaining a stable funding base of customer deposits, pursuing maximum customer loyalty, leading to greater stability in their balances. Knowledge of the different stability levels of retail deposits according to customers' loyalty and operating level.

b. Active management of wholesale funding with continuous monitoring of wholesale funding markets, availability of a broad range of instrument types for the execution of transactions, ratings by different agencies (credit rating of institution and of instruments issued), close relationship with investors in order to optimise funding costs and market access. The execution of these transactions seeks to diversify instruments, investors and maturities.

Several metrics are used to monitor and control the funding structure (loan-to-deposits ratio, NSFR, wholesale funding ratio) and concentration metrics (concentration of counterparties, wholesale funding maturities and ECB funding).

9.2. Quantitative aspects

The table below provides a breakdown of CaixaBank Group's high-quality liquid assets (HQLAs):

Table 9.1. Liquid Assets (HQLAs)

Amounts in millions euros

	2018		2019	
	Market value	Applicable weighted amount	Market value	Applicable weighted amount
Level 1 Assets	54,841	54,771	53,098	53,021
Level 2A Assets	51	43	42	36
Level 2B Assets	4,308	2,279	3,670	1,960
Total*	**59,200**	**57,093**	**56,809**	**55,017**

** Criteria established to determine the LCR.*

Banking liquidity, measured by the high-quality liquid assets (HQLAs) used to calculate the LCR, in addition to the balance that can be drawn on the credit facility with the European Central Bank that does not comprise the aforementioned assets, amounted to EUR 89,427 million and EUR 79,530 million at December 2019 and December 2018, respectively. Compliance with the Liquidity Coverage Ratio became mandatory on 1 October 2015. This entails maintaining an adequate level of high-quality liquid assets (HQLAs) available to meet liquidity needs for a 30-calendar-day stress scenario which considers a combined financial sector-wide and idiosyncratic crisis. The regulatory limit established is 100%. CaixaBank has included thresholds for this metric within the Risk Appetite Framework (RAF).

The table below presents the LCR ratio at 31 December (end-of-period data):

Table 9.2. LCR Ratio (liquidity coverage ratio)

Amounts in millions euros

	2018	2019
High quality liquid assets (numerator)	57,093	55,017
Total net cash outflows (denominator) (a-b)	28,602	30,700
Cash outflows (a)	33,819	36,630
Cash inflows (b)	5,217	5,931
Liquidity Coverage Ratio (LCR) (%)*	**200%**	**179%**

** According to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions.*

CaixaBank

The following table presents the average monthly LCR figures for the last four quarters.

Table 9.3. EU LIQ1 - Liquidity Coverage Ratio (LCR)

Consolidated CaixaBank		Total unweighted value (average)				Total weighted value (average)			
EUR million		31.03.2019	30.06.2019	30.09.2019	31.12.2019	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)	-	-	-	-	58,452	59,262	58,707	58,410
CASH OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	128,353	131,452	134,486	137,665	7,710	7,877	8,059	8,266
3	Stable deposits	103,421	106,261	108,691	110,899	5,171	5,313	5,435	5,545
4	Less stable deposits	24,932	25,190	25,795	26,766	2,539	2,564	2,624	2,721
5	Unsecured wholesale funding	55,703	56,801	58,268	58,956	22,368	22,779	23,179	23,369
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	17,651	17,756	18,358	18,495	4,353	4,378	4,528	4,560
7	Non-operational deposits (all counterparties)	37,337	38,289	39,086	39,664	17,300	17,645	17,827	18,011
8	Unsecured debt	715	756	824	797	715	756	824	797
9	Secured wholesale funding	-	-	-	-	1,642	1,641	1,371	1,350
10	Additional requirements	46,666	47,641	48,807	51,066	4,623	4,850	4,937	5,157
11	Outflows related to derivative exposures and other collateral requirements	1,128	1,154	1,165	1,172	1,128	1,154	1,165	1,172
12	Outflows related to loss of funding on debt products	137	263	235	242	137	263	235	242
13	Credit and liquidity facilities	45,401	46,224	47,407	49,652	3,358	3,433	3,537	3,743
14	Other contractual funding obligations	660	729	779	791	128	134	140	107
15	Other contingent funding obligations	2,980	8,012	16,035	23,141	-	23	91	127
16	TOTAL CASH OUTFLOWS	-	-	-	-	36,471	37,305	37,777	38,376
CASH INFLOWS									
17	Secured lending (eg reverse repos)	4,355	4,405	3,515	3,669	782	758	8	13
18	Inflows from fully performing exposures	9,627	9,626	9,842	9,876	5,423	5,385	5,538	5,551
19	Other cash inflows	705	742	1,337	1,304	705	742	1,337	1,304
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20	TOTAL CASH INFLOWS	14,687	14,773	14,694	14,849	6,910	6,885	6,882	6,869
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	12,238	12,326	13,161	13,334	6,910	6,885	6,882	6,869
21	LIQUIDITY BUFFER	-	-	-	-	58,452	59,262	58,707	58,410
22	TOTAL NET CASH OUTFLOWS	-	-	-	-	29,561	30,419	30,895	31,507
23	LIQUIDITY COVERAGE RATIO (%)	-	-	-	-	198%	195%	190%	186%

NSFR (Net Stable Funding Ratio)

The NSFR is currently calculated according to the regulatory criteria[5] established in Regulation (EU) 2019/876 of the European Parliament and of the Council, of 20 May 2019, which enters into force in June 2021, with a regulatory limit of 100% set from that date onwards. The ratio has a large weighting in (more stable) customer deposits in the Group's funding structure and limited use of wholesale markets for short-term funding. This provides a balanced funding structure, which results in an NSFR of 129% at the end of 2019.

[5] *On the basis of the best understanding of the application of these criteria.*

Asset encumbrance

The table below reports encumbered and unencumbered assets based on median values of quarterly data for 2019.

Table 9.4. Assets securing financing transactions and unencumbered assets

Amounts in millions of euros

	2019 median calculated on quarterly data							
	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Equity instruments	-	-			3,333	2,199		
Debt securities	7,982	7,819	8,099	7,937	28,567	25,923	28,647	26,235
of which: covered bonds	3	-	3	-	6	-	6	-
of which: asset-backed securities	-	-	-	-	46	-	45	-
of which: issued by general governments	7,160	7,160	7,277	7,277	23,827	23,827	24,140	24,140
of which: issued by financial corporations	496	447	497	448	1,432	946	1,393	981
of which: issued by non-financial corporation	326	212	326	212	3,208	1,030	3,091	1,016
Loans and discounts	51,476	-			194,904	13,150		
Other assets	5,778	-			49,526	2,213		
Total	**65,812**	**7,819**			**275,090**	**42,996**		

These assets relate mainly to loans securing issuances of mortgage-covered bonds, public sector loan-covered bonds and securitisation bonds, debt securities delivered in repo transactions, securitisation bonds pledged for securities-lending transactions and assets pledged as collateral (loans or debt securities) with the aim of gaining access to ECB funding operations. They also include the balance of cash delivered to secure derivatives transactions. All the encumbered assets are held by CaixaBank, S.A. and Banco BPI.

The following table includes information on collateral received due to reverse repos, securities-lending, cash and debt securities received to secure trading in derivatives and own senior debt securities issued, as well as covered bonds and securities issued and not pledged. The table below reports encumbered and unencumbered assets based on median values of quarterly data for 2019:

Table 9.5. Assets received to secure financing operations and unencumbered assets

Amounts in millions of euros

	2019 median values calculated on quarterly data			
	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**2,114**	**2,079**	**14,544**	**13,024**
Loans on demand	10	-	-	-
Equity instruments	-	-	-	-
Debt securities	2,103	2,079	13,028	13,024
of which: covered bonds	125	125	405	405
of which: asset-backed securities	150	150	350	350
of which: issued by general governments	1,678	1,678	12,173	12,173
of which: issued by financial corporations	314	293	848	847
of which: issued by non-financial corporations	42	31	1	1
Other collateral received	-	-	1,483	-
Own debt securities issued other than own covered bonds or asset-backed securities	**-**	**-**	**251**	**-**
Own covered bonds and asset-backed securities issued and not yet pledged			**52,918**	**-**
Total Assets, collateral received and own debt securities issued	**68,244**	**10,210**		

The following table reports the asset encumbrance ratio, based on median values of quarterly data for 2019.

Table 9.6. Asset encumbrance ratio median values

Amounts in millions of euros

	Median*
Encumbered assets and collateral received	**68,244**
Equity instruments	-
Debt securities	10,403
Credit portfolio	51,486
Other assets	5,778
Total assets + total assets received	**364,397**
Equity instruments	3,333
Debt securities	51,438
Credit portfolio	250,618
Other assets	56,787
Asset encumbrance ratio	**18.62%**

** Median calculated on quarterly data.*

The table below presents the asset encumbrance ratio at 31 December 2019 and 2018:

Table 9.7. Asset encumbrance ratio

Amounts in millions of euros

	2018	2019
Encumbered assets and collateral received	**84,534**	**61,255**
Equity instruments	-	-
Debt securities	10,399	7,027
Credit portfolio	69,555	49,156
Other assets	4,580	5,071
Total assets + total assets received	**351,072**	**345,988**
Equity instruments	4,144	3,063
Debt securities	50,345	50,652
Credit portfolio	243,364	240,524
Other assets	53,218	51,748
Asset encumbrance ratio	**24.08%**	**17.70%**

The ratio has decreased by 6.37 percentage points, from 24.08% at 31/12/2018 to 17.70% at 31/12/2019. This decrease was due to reduced use of TLTRO, the repo market and lower balance of secured issuances placed on the market.

The following table reports the relationship between the liabilities guaranteed and the assets by which they are guaranteed, using median values of quarterly data for 2019:

Table 9.8. Guaranteed liabilities, median quarterly values

Amounts in millions of euros

	Median values*	
	Matching liabilities, contigent libilities or security lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**57,570**	**65,585**
Derivatives	6,267	6,577
Deposits	33,246	37,480
Debt securities issued	17,603	20,973
Other sources of encumbrance	**2,464**	**2,847**

** Median calculated on quarterly data of 2019. The median is calculated on all components of the table.*

The table above reports the liabilities guaranteed and the assets by which they are guaranteed. This table shows the charges resulting from activities with derivatives, deposits (including asset transfer transactions, central bank funding and securities loans with VidaCaixa) and issuances (covered bonds and securitisation bonds).

As shown in the previous table, the value of the encumbered assets exceeds the liabilities they cover. These excess guarantees are mainly due to:

- Funding with mortgage-covered bonds: where a balance of 125% of the assets covered must be held for each mortgage-covered bond issued.
- ECB funding, guaranteed mainly using mortgage-covered bonds, public sector covered bonds and retained securitisations. There are two reasons for these excess guarantees: firstly, the valuation adjustments applied by the central bank and the excess guarantees established for the various issuances: 125% for mortgage-covered bonds; and 142% for public sector-covered bonds.

The data of the asset encumbrance ratio in relation to the business model and the differences between the reporting scope of the ratio and other information are explained below:

- CaixaBank Group is a predominantly retail bank that carries out a strategy and maintains a funding structure that is mainly based on maintaining a stable base of customer deposits, supplemented by active and conservative management of wholesale funding. Customer deposits make up 85% of the funding structure.
- This business model facilitates a collateral management strategy oriented towards maintaining a prudent level of encumbered assets that can mitigate the uncertainty of unsecured credits. This facilitates access to funding sources (secured and unsecured), and also contributes to the availability of a sufficient collateral reserve, which is of particular importance in stress situations. CaixaBank Group has an asset encumbrance ratio of 17.70% at 31 December 2019, which illustrates the foregoing.
- With regard to the segmentation and use of collateral, the main source of collateral is the loan portfolio used for covered bond issues and securitisations (market and own portfolio), as well as the pledging of the facility in the European Central Bank. This is followed by the securities portfolio and the securities received for short-term transactions (repos) and the encumbrance of derivatives.

Data within the consolidation scope is used for disclosure of the HQLA and asset encumbrance data for regulatory or prudential purposes in the Pillar 3 Disclosures. This scope differs from the scope used for disclosure of public information owing to the non-consolidation of the insurance company.

Other risks 10.

10. Other risks

10.1. Reputational risk

Definition and general policy

Reputational risk is the possibility of impairment of the Group's competitive capacity due to a loss of trust by some of its stakeholders, based on their assessment of actions or omissions, whether real or purported, by the Group, its Senior Management or Governing Bodies, or because of related unconsolidated companies going bankrupt (step-in risk).

Structure and organisation of the risk management function

The Executive Directorate of Communication, Institutional Relations, Brand and Corporate Social Responsibility is responsible for measuring and monitoring changes in CaixaBank's overall reputation and any risks that could have a potentially detrimental effect on it. This body also leads the Corporate Responsibility and Reputation Committee (CRRC), which reports to the Management Committee. The CRRC's functions include analysing the state of CaixaBank's reputation and periodically monitoring identified risks that could affect the Group's reputation, as well as proposing actions and contingency plans to minimise the detected risks. The CRRC also reports on the status of reputation risks to the company's Global Risk Committee, which then reports to the Risk Committee, and this Committee, in turn, reports to the CaixaBank Board of Directors.

Additionally, in accordance with the management model of the three lines of defence implemented in the Group, Internal Audit, supervises the actions of the first and second lines of defence, supporting senior management and the Governing Bodies. For further detail see section 3.4.3.

All CaixaBank's divisions and subsidiaries also have joint responsibility for the reputation of CaixaBank Group. They are involved in identifying and managing the reputational risks to which they are exposed, and in establishing mitigation plans and measures.

Assessing reputation: monitoring tools

The risk is monitored using selected internal and external reputational indicators from various sources of stakeholder expectations and perception analysis. The measurement indicators are weighted according to their strategic importance and are grouped in a reputation scorecard that enables a Global Reputation Index (GRI) to be obtained. This metric enables the positioning to be monitored quarterly by sector and time, and the tolerated ranges and metrics to be set in the RAF.

Reputational risk monitoring and management: main mechanisms

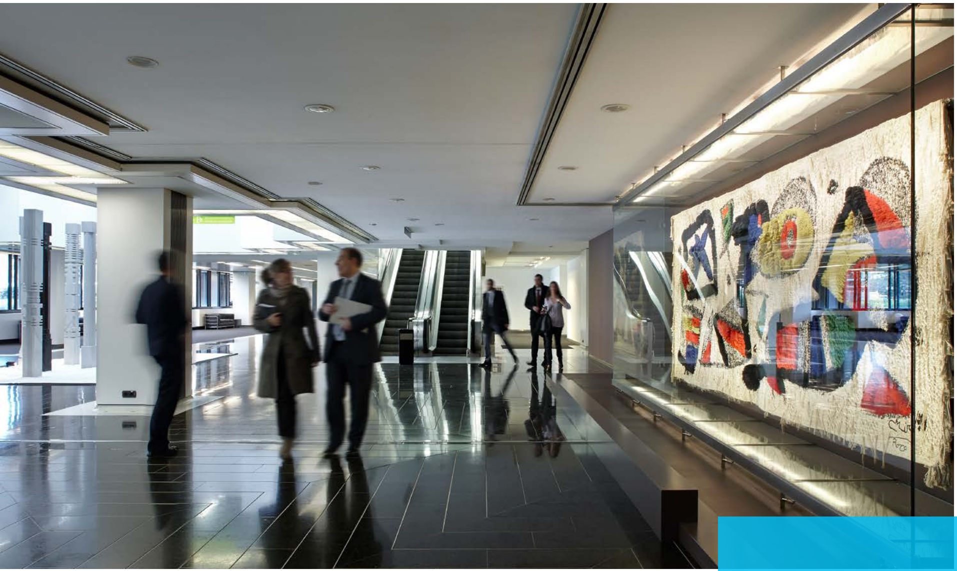
The main instrument for formal monitoring of reputational risk management is the reputational risk taxonomy. This allows the Group to:

- Identify and classify the risks that could affect its reputation.
- Rank risks by criticality according to the damage to the entity's reputation and the coverage of preventative policies.
- Establish key risk indicators (KRIs) for each risk.
- Establish hedging and mitigation policies for the areas responsible for the different risks.

Hedging policies and mitigation techniques

A number of policies, covering different scopes, are used to control and mitigate reputational risk across the Group. In addition, there are specific procedures and activities implemented by the divisions most directly implicated in managing the main reputational risks, ensuring that the possibility of the risk materialising is prevented and/or mitigated.

The Internal Reputational Risk Management Polices also include developing in-house training to mitigate the appearance and effects of reputational risks, establishing protocols to deal with those affected by the Bank's actions, or defining crisis and/or contingency plans to be activated if the various risks materialise.



10.2. Actuarial risk

The main risks in the insurance business are managed by CaixaBank's insurance subsidiaries, mainly VidaCaixa S.A.U. de Seguros y Reaseguros. The main risks of the investee company SegurCaixa Adeslas, S.A. de Seguros y Reaseguros are also monitored.

Within the prudential scope, VidaCaixa Group's actuarial risk is included in within CaixaBank Group's actuarial risk, in accordance with the provisions of applicable legislation.

The European regulatory framework of reference for insurance companies, known as Solvency II, is transposed into to the Spanish legal system through Act 20/2015 and Royal Decree 1060/2015, which are known, respectively, as LOSSEAR and ROSSEAR. This framework is supplemented by the technical standards approved by the European Commission (ITS), which are directly applicable, and guidelines published by EIOPA, which have been adopted by the Directorate General for Insurance and Pension Funds (DGSFP) as their own.

In accordance with the European Solvency II Directive, actuarial risk is defined in the Corporate Risk Taxonomy as the risk of loss or adverse change in the value of commitments taken on via insurance contracts or pensions with customers or employees, derived from the divergence between the estimate for actuarial variables employed in pricing and reserves and their real evolution.

Through the VidaCaixa Group, the Group is exposed to actuarial risks as a result of adverse change in the following risk factors: mortality, longevity, disability, lapse and expense in life insurance and claims; lapse and expense in non-life insurance[1].

Actuarial risk is managed on the basis of compliance with regulations established by Solvency II (European Union - EIOPA) and the Directorate General of Insurance and Pension Funds (DGSFP). These regulations are the basis for the policies and procedures for monitoring technical trends in products, which are affected by the risk factors indicated. **Policies for managing actuarial risk are as follows:**

- **Underwriting and Provision of Reserves Policy:** annual policy that identifies various parameters for risk approval, measurement, rate-setting and, lastly, to calculate and set aside reserves covering underwritten policies. General operating procedures are also in place for underwriting and the provision of reserves.
- **Reinsurance Policy:** annual policy that identifies the extent to which risk is passed on is determined taking into account the risk profile of direct insurance contracts, and the type, suitability and effectiveness of the reinsurance agreements in place.

Structure and organisation of the risk management function

The Board of Directors of VidaCaixa has the ultimate responsibility for the design and execution of the Risk Management Policy. Through this policy, the Board delegates risk management tasks to VidaCaixa Group's Global Risk Committee. This Committee includes the fundamental Risk Management, Actuarial, Regulatory Compliance and Internal Audit functions.

The Risk Management function in VidaCaixa is responsible for identifying measuring, establishing, monitoring and disclosing risk for each company, in a segregated manner. The Actuarial function develops the tasks that allow for the control and management of liabilities and reinsurance, in consideration of the company's governance system. These functions are supervised by the Actuarial and Risk Functions Division of VidaCaixa Group.

Within the consolidated scope of CaixaBank Group, at the corporate level, the Executive Directorate of Corporate Risk Management Function & Planning is responsible for functions relating to identifying, measuring and monitoring

[1] By allocation of the proportional part of the capital requirements applicable to the stake in SegurCaixa Adeslas.

risks, drawing up management policies and control procedures.

In accordance with the management model of the three lines of defence implemented in the Group, Internal Audit, supervises the actions of the first and second lines of defence, supporting senior management and the Governing Bodies. For further detail see section 3.4.3.

Coordination with the Actuarial and Risk Function Division of VidaCaixa Group ensures an adequate system of control and monitoring of the insurance business at the corporate level. There is also a centralised control system for all the Group's risks, channelled through the CaixaBank Global Risk Committee and, ultimately, the Board of Directors of the parent company.

Risk management. Measurement and information systems

Actuarial risk management in the Group through VidaCaixa Group stems from the European regulatory framework of reference for the insurance sector, Solvency II, as mentioned in previous sections. This risk is managed alongside the other risks inherent in the insurance business (credit and interest rate risks, among others), based on the established management frameworks.

Reporting

The position and control of the risks of the insurance company VidaCaixa is monitored regularly by VidaCaixa's Management, Investment and Global Risk committees and CaixaBank's Global Risk Committee and ALCO. This involves calculation and analysis of the sufficiency of technical provisions, analysis of the sufficiency of expenses, and analysis of products and operations. **The reports prepared include:**

- The Expense Surcharges Sufficiency Report.
- The SME Business Monitoring Report.
- The Collective Risk Policies Results Monitoring Report.
- The Internal Longevity and Mortality Calibration Report.
- The Actuarial Function Report.

With respect to the application of Solvency II, in 2019 the annual QRTs report (European reporting for supervision, statistics and accounting) was presented to the insurance supervisor (DGSFP). In addition, the VidaCaixa Group Solvency and Financial Condition Report was published in May 2019.

Hedging policies and mitigation techniques

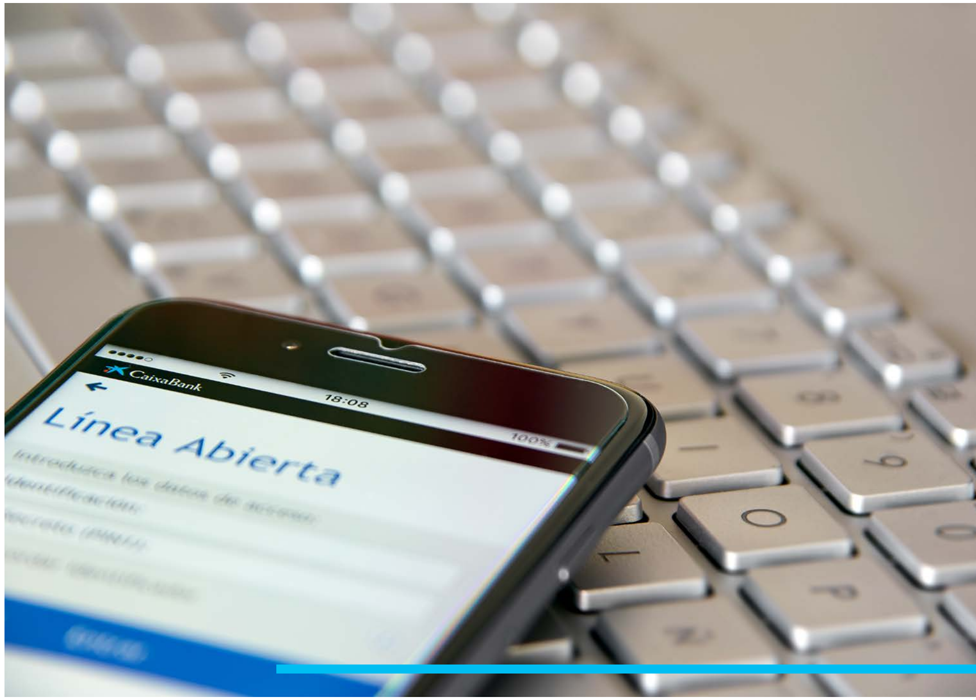
One of the elements available to the Group to mitigate the actuarial risk assumed is to pass on part of the risk to other entities, through reinsurance contracts. To do so, the Group, and specifically its insurance company, has a Reinsurance Policy that identifies the extent to which risk is passed on, taking into account the risk profile of direct insurance contracts, and the type, suitability and effectiveness of the different reinsurance agreements.

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.

With this Reinsurance Policy through VidaCaixa Group, the Group establishes:

- The specification of the types of reinsurance.
- The risk management and information process.
- The criteria for selecting reinsurance companies.

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



10.3. Risk of impairment of other assets

Risk of impairment of other asserts is defined as the risk of a reduction in the carrying amount of shareholdings and in non-financial assets of the Group, specifically:

- **Shareholdings:** positions that form the Group's equity portfolio, excluding those over which it exercises control. These positions may originate in explicit management decisions to take a position or from the integration of other entities, or they may result from the restructuring or execution of guarantees within what was initially a credit transaction (see section 5.4. Equity portfolio).

- **Tangible assets:** the greatest contribution is from real estate assets, both for own use and foreclosed assets for sale and rental. Most of the foreclosed assets are owned by the Group's real estate subsidiary BuildingCenter, S.A.U. In terms of appraisal of the foreclosed assets, prevailing regulations are complied with.

- **Intangible assets:** mainly goodwill generated in business combination processes, allocated to a cash-generating unit of the Group, software and other intangible assets with a defined useful life.

- **Tax assets:** mostly deferred tax assets generated by the temporary differences between accounting and fiscal criteria for profit allocation, as well as tax credits for deductions and tax loss carryforwards generated both in CaixaBank Group itself and in integration processes (both those from the integrated company and those generated in Purchase Price Allocation).

To manage the risk, a review of compliance with the policies and ongoing monitoring of the different metrics, risk thresholds and effectiveness of the established controls is carried out. An analysis and review of impairment and recoverability tests based on generally accepted methodologies is also carried out.

For the purposes of capital consumption and RWAs, the risk components are distributed in accordance with the indications of mapping in section 3.2.2. Corporate Risk Taxonomy, in sections 5.1. Credit risk and 5.4. Equity portfolio.

10.4. Business return risk

Business return risk refers to obtaining results lower than market expectations or the Group's targets which prevent the Group from reaching a profitability level that is higher than the cost of capital.

The Group's return targets, **backed by a process of financial planning and monitoring,** are defined in the Group's 3-year Strategic Plan, and they are set each year in the Group's Budget and in the Commercial Network Challenges.

CaixaBank's business return risk management system is based on **4 management visions:**

- **Group Vision:** the overall aggregated return at CaixaBank Group level.

- **Business/Territory Vision:** the return of businesses/territories

  - **Financial and Accounting Vision:** the return of the different corporate businesses (MIS).

  - **Commercial and Management Vision:** the return of the management of CaixaBank's commercial network (IGC).

- **Pricing Vision:** the return based on the pricing of CaixaBank products and services.

- **Project Vision:** the return of the Group's significant projects.

11. Remuneration

11. Remuneration

Article 85 of Act 10/2014 of 26 June, on the arrangement, supervision and solvency of credit institutions (hereinafter, the Credit Institution Act), and article 93 of Royal Decree 84/2015 of 13 February, which expanded on it, laid down the contents of the reporting required on remuneration policies and practices in the Pillar 3 Disclosures pursuant to Article 450 of EU Regulation no. 575/2013, of the European Parliament and of the Council, for those categories of staff whose professional activities have a significant impact on the risk profile (Identified Staff).

This information is set out in this chapter of the "Pillar 3 Disclosures".

11.1. Remuneration policy: composition and mandate of the remuneration committee

Introduction

The following information relates to employees of CaixaBank and the entities that form part of its consolidation group for prudential purposes (hereinafter, CaixaBank Group) who are classified as being members of Identified Staff pursuant to applicable regulations relating to 2019.

Banco BPI has its own Remuneration Policies aligned with those of CaixaBank Group, which define its own Identified Staff following the same process as that carried out at CaixaBank.

The quantitative information includes details of the remuneration of the professionals who form the Identified Staff of the entire CaixaBank Group which, in turn, includes the professionals within the Identified Staff of BPI.

Duties of CaixaBank's Remuneration Committee

The Spanish Corporations Act (Corporations Act) states that the duties of a listed company's Remuneration Committee (RC) include putting forward a proposal to the Board of Directors regarding the remuneration policy for the Directors and Managing Directors or the persons performing its senior management functions and answering directly to the Board of Directors, Executive Committees or CEOs. Moreover, according to the Credit Institution Act, the RC is responsible for the direct oversight of remuneration of senior executives in charge of risk management and compliance functions.

CaixaBank's Articles of Association and the Regulations of the Board of Directors are consistent with these precepts.

Finally, pursuant to EBA guidance on appropriate remuneration policies, the RC shall: **(i)** be responsible for the preparation of recommendations to the Board of Directors, on the definition of the entity's remuneration policy; **(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 supervisory function; **(iv)** ensure that the current remuneration policy is up-to-date and propose any changes required; **(v)** devote specific attention to assessment of the mechanisms adopted, to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels, ensuring that the overall remuneration policy is consistent with the long-term, sound and prudent management of the institution.

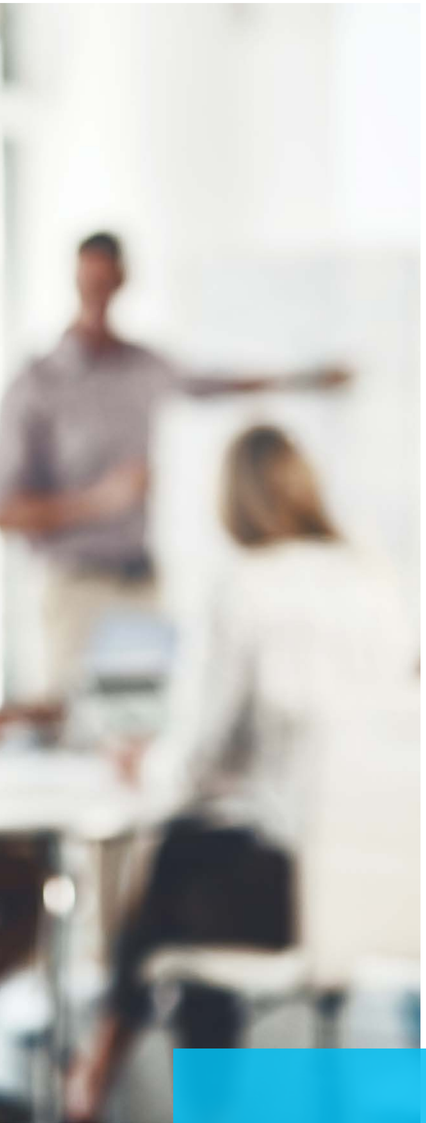
Proposals by the RC shall be studied by the Chairman, for consultation with the CEO and the members of the Management Committee, in the scenarios stipulated in the Remuneration Policy, before they are submitted to be examined and, where applicable, approved by the Board of Directors. Should these decisions fall within the remit of the CaixaBank General Shareholders' 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 Credit Institution Act, at 31 December 2019, the Remuneration Committee comprised the following directors:

- **María Amparo Moraleda Martínez (independent director), Chairwoman.**
- **Alejandro García Bragado Dalmau (proprietary director), Member.**
- **María Verónica Fisas Vergés (independent director), Member.**

In 2019, CaixaBank's Remuneration Committee met 9 times, and its members received remuneration of EUR 96,000.



Functions of CaixaBank's Control Areas and Management Committee

EBA and ESMA guidelines establish that the control functions (internal audit, risk control and management, and regulatory compliance), other competent corporate bodies (human resources, legal, strategic planning, budget, etc.) and the business units shall provide the necessary information for the definition, implementation and supervision of the institution's remuneration policies. The EBA's guidelines also place specific responsibilities on the human resources, risk management and internal audit functions, which are undertaken by the corresponding CaixaBank departments.

CaixaBank's Management Committee comprises representatives from the risks, finance, internal audit, internal control and regulatory compliance, human resources and general secretariat (legal services) areas, among others. The Management Committee is responsible for ensuring that the necessary information is obtained and prepared for the RC to perform its responsibilities efficiently.

CaixaBank's Human Resources and Organisation Management Division (hereinafter, HR) is in charge of promoting 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.

CaixaBank Group's Management Committee has delegated to the Human Resources Division the task of carrying out various studies and research in collaboration with external advisors (Garrigues Abogados y Asesores Tributarios), in order to update and adapt the Group's remuneration policy to the new legal requirements.

Approval of the Remuneration Policy applicable to the Identified Staff in force in 2019

On 26 February 2015, the Remuneration Committee submitted its proposed Remuneration Policy for CaixaBank Group's Identified Staff to the Board of Directors for approval, pursuant to the requirements of Article 29.1d) of Act 10/2014, of 26 June, on the arrangement, supervision and solvency of credit institutions.

The Board of Directors approved the new Remuneration Policy for CaixaBank Group's Identified Staff, at the proposal of the Remuneration Committee, on 15 December 2016. This came into effect on 1 January 2017, with the exception of the adjustment system and proportionality criteria applied to deferred payments, which was already applied in 2016.

As a result of an ongoing review, and with the aim of ensuring correct adaptation to regulations relating to remuneration, on 25 October 2018 the Board of Directors of CaixaBank approved a change to the Remuneration Policy applicable to the Identified Staff, which remains in force.

In the General Shareholders' Meeting of 5 April 2019, a motion was put forward for the amendment of the Remuneration Policy of the Board of Directors, due to the change of Executive Directors, the renewal of long-term incentives for Executive Directors, and an update to the amounts for 2019, to be upheld for 2017-2020. It was approved with 97.19% of the votes in favour.

On 20 February 2020, CaixaBank's Board of Directors approved the motion for its new Remuneration Policy for the years 2020-2022, which is presented for approval by the General Shareholders' Meeting called for 3 April 2020.

The principles and characteristics of the Remuneration Policy are the same as those that were applicable to the previous one, but with the following changes included:

- The inclusion of the remuneration of the Board members of the newly created committees;
- The setting of the new weighting of corporate challenges in order to calculate the variable remuneration in the form of the CEO's bonus.

The aforementioned amendments are published on the CaixaBank website, in the section Shareholder Documentation 2020.

The Remuneration Policy for CaixaBank directors is available on the Company's website[1].

11.2. Description of the Identified Staff

During 2019, the professionals who should form part of CaixaBank Group's Identified Staff, at the individual or consolidated level, were determined in accordance with Commission Delegated Regulation (EU) 604/2014 of 4 March 2014, supplementing the CRD IV with regard to regulatory technical standards with respect to appropriate qualitative and quantitative criteria to identify categories of staff whose professional activities have a material impact on a Bank's risk profile.

In accordance with the delegated regulation, members of Identified Staff should be identified using a combination of the qualitative and quantitative criteria set out therein.

Following this evaluation, which is documented in accordance with the delegated regulation and other applicable regulations, CaixaBank's Governing Bodies approved the list of positions classified as Identified Staff. In 2019, this list consisted of a total of **150** positions that have been occupied by **164** professionals during the year, including CaixaBank Group's executive directors, non-executive directors, members of the Management Committee, senior executives and key employees. For MicroBank, the list includes **2** professionals, and for BPI it includes **88** professionals.

11.3. Qualitative information concerning remuneration of the Identified Staff

General aspects

The remuneration policy for Identified Staff is structured taking into account both the prevailing circumstances and the Entity's results, and comprises:

1. Fixed remuneration based on the level of responsibility and the career path of each employee, which constitutes a relevant part of total compensation. tal.
2. Variable remuneration in the form of a bonus or incentives linked to the achievement of pre-established targets and prudent risk management.
3. Benefits.
4. A long-term, share-based variable remuneration plan for executive directors, members of the Management Committee and the remaining members of the Company's executive team and key employees, some of whom are classified as Identified Staff.

Fixed remuneration is of a sufficient amount, while variable remuneration generally accounts for a relatively small percentage of fixed annual compensation. It cannot in any case exceed 100% of the total fixed remuneration unless the CaixaBank General Shareholders' Meeting approves a higher amount, which shall be no more than 200% of the fixed components.

The Credit Institution Act and the EBA guidelines set out that the fixed and variable components of total remuneration must be duly balanced, and that the fixed component must constitute a sufficiently large proportion of total remuneration, and that the policy applied to variable components can be fully flexible up to the limits for paying such components.

In this regard, the EBA Guidelines establish that staff should not be dependent on the awarding of variable remuneration, as this would incentivise the taking of excessive short-term risk when the results of the entity or persons involved would not permit the awarding of the variable remuneration without the taking of such risks.

In line with this, CaixaBank considers that the higher the possible variable remuneration compared to the fixed remuneration, the stronger the incentive will be to deliver the performance needed, 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.

Thus, implicitly, variable remuneration may become a potential incentive to assume risk, and therefore, a low level of variable remuneration is a simple protection method against such incentives.

Furthermore, the risk appetite must 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 undertaking operates.

Therefore, and attending to the objective of a reasonable and prudential balance between fixed and variable components, in CaixaBank Group the amount of fixed components are sufficient, and the percentage representing the variable remuneration over the fixed annual remuneration is, generally, relatively reduced.

Specifically, group companies have pre-established amounts for variable remuneration in the form of a bonus applicable to the salary bands of each function.

[1] *https://www.caixabank.com/informacionparaaccionistaseinversores/gobiernocorporativo/remuneracionesdelosconsejeros_en.html*

In 2019, CaixaBank's General Shareholders' Meeting approved the following, with 99.37% of the votes in favour; that the variable remuneration level of the professionals included in the Identified Staff could reach 200% of the fixed component of total remuneration with the following considerations:

- For 35 positions, it is requested that the annual variable remuneration may be greater than 100% of the fixed components of total remuneration, due to the need to adapt the remuneration of these positions to the usual market practices. These positions are set out in Appendix I of the detailed recommendation for the proposal to approve the highest level of variable remuneration for employees whose professional activities have a significant impact on the Company's risk profile.
- For the rest of the positions included in the Identified Staff, it is requested that this higher percentage is reached with the sole purpose of expanding the Company's capacity to meet the individual and collective commitments acquired as regards termination payments on equal terms for all members of the Identified Staff and all other staff that have recognised variable remuneration components, without implying the general alteration of remuneration practices and policies in force in the Company.

Regarding the calculation of the maximum ratio that the variable remuneration could reach with respect to the fixed component of the total remuneration of the professionals of the CaixaBank Group, no differences are established by geographical allocation.

The text of the detailed recommendation for the proposal to approve the highest level of variable remuneration for employees whose professional activities have a significant impact on the Company's risk profile, is provided at the following link on the CaixaBank website [2].

Lastly, the ABE Guidelines establish that the remuneration of professionals who are responsible for independent control functions must be predominantly fixed and that, when these professionals receive variable remuneration, it should be determined independently from the business units they control and should include the results derived from the business decisions in which they participate (e.g. the approval of new products).

Non-variable remuneration

As a general rule, Identified Staff are subject to the professional classification system and salary tables set out in applicable collective bargaining agreements and the specific employment agreements reached with workers' representatives.

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 and the employment agreements currently in force, mainly reflecting the employee's professional experience and responsibility in the organisation through their role.

Posts in Central and Regional Services and other non-regulated positions fall into a classification based on contribution levels, with salary bands established to foster internal fairness. Moreover, to ensure that the Bank remains competitive with its peers, these salary bands are quantified on the basis of the Bank's competitive position. This requires it to monitor market trends in salaries and take part in several annual salary surveys.

Fixed remuneration and the supplements applied to the positions of members of CaixaBank's Management Committee are mainly based on market criteria, through salary surveys and specific ad hoc research. The salary surveys and specific ad hoc research used by CaixaBank are performed by specialist companies, based on comparable samples of the financial sector in the market where CaixaBank operates, and, for posts not specific to the financial sector, leading companies in the IBEX and other companies with comparable business volumes.

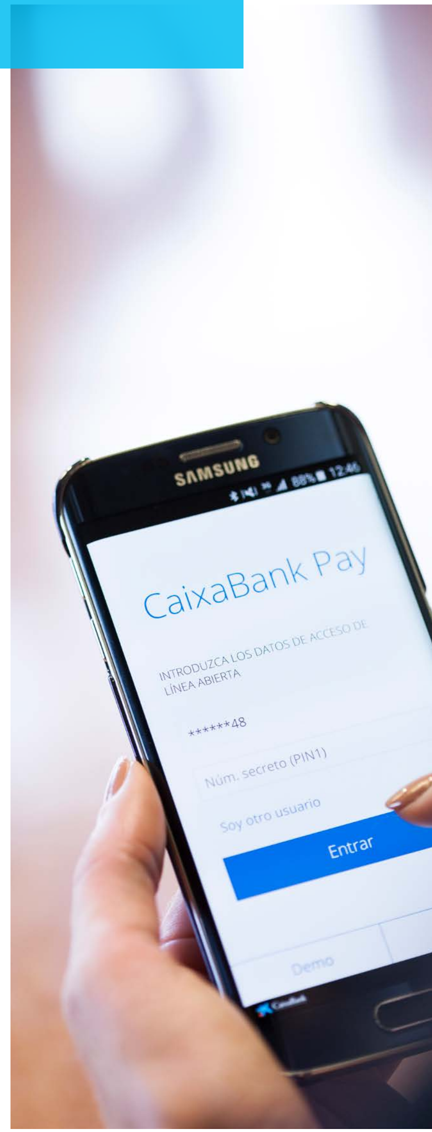
Variable remuneration

Variable remuneration in the form of an annual bonus

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 are taken into account when assessing performance and evaluating individual results. The appropriate mix of quantitative and



[2] https://www.caixabank.com/deployedfiles/caixabank/Estaticos/PDFs/Informacion_accionistas_inversores/Gobierno_corporativo/Junta_General_Accionistas/2019/Informe_Variable_en.pdf

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, for each level and category, must be specified and clearly documented.

For the purposes of the ex-ante adjustment of variable remuneration, all Identified Staff are assigned to one of the categories described below, with the exception of members of the Board of Directors in their supervisory role and any other positions determined based on their characteristics that have no variable remuneration. This assignment is carried out based on each person's functions and the staff in question are notified individually.

a) Executive directors and members of the CaixaBank Management Board

The variable remuneration applicable to the executive directors and to the members of the Management Committee will be determined on the basis of an objective bonus that is established for each individual by the Board of Directors, at the proposal of the RC, and a maximum attainment of 120%; The level of attainment is established in accordance with the following parameters, which are measured:

- 50% based on individual targets
- 50% based on corporate targets

The 50% corresponding to corporate targets is set each year by CaixaBank's Board of Directors, at the proposal of the RC. This is weighted across various concepts for which targets can be set, based on the Bank's main objectives. For the CEO, in 2019 these were:

- ROTE, with a weight of 10%
- Core cost-to-income ratio, with a weight of 10%
- Variation in problematic assets, with a weight of 10%
- Risk Appetite Framework, with a weight of 10%
- Conduct and compliance, with a weight of 5%
- Quality, with a weight of 5%

The proposed composition and weighting of these corporate targets is established in accordance with the Credit Institution Act and its implementing regulations, and may vary between Executive Directors and members of the Management Committee.

The corporate challenges of the members of the Management Committee are calculated in line with the CEO. However, the weighting of the RAF and the variation in problematic assets is 15% and 5%, respectively.

The part of variable remuneration based on individual targets (50%) has a minimum attainment level for collection of 60%, and a maximum of 120%. It is distributed across various targets related to CaixaBank's strategy. The final valuation carried out by the RC, following consultation with the Chairman, may vary by +/-25% in relation to the objective assessment of the individual targets, providing that it remains below the limit of 120%. This flexibility allows for the qualitative assessment of the performance of the Executive Director or Management Committee member, and consideration of any exceptional targets that may have arisen during the year that were not considered at the outset.

In 2019, for the CEO, the part of individual challenges was chiefly focused on aspects related to integrating and developing BPI, managing solvency and liquidity, strengthening the functions of compliance with regulatory requirements, promoting cultural change, diversity and sustainability, as well as managing the bank's digital transformation and its distribution network.

b) All other categories

For professionals in other categories of Identified Staff, the variable remuneration system depends on their role, with a risk adjustment reflecting the area to which they belong or position they hold.

Therefore, all members of the Identified Staff are assigned a variable remuneration programme or specific bonuses.

Each of the Entity's business areas has a specific bonus programme with its own structure and measurement criteria, based on the targets and terms and conditions that determine the variable remuneration assigned to Identified Staff in that area. The main areas in which these programmes are applied are: Retail and Commercial Banking, Private Banking, Business Banking, Transactional Banking, Finance, International Banking and Corporate & Institutional Banking.

The remuneration model applied in Central and Regional Services is known as the "Targets Programme" and encompasses all members of the Identified Staff who work in business control and support areas. The targets in these areas are set through an agreement between each employee and the employee's supervisor, and are consistent with the targets set for the area.

The maximum percentage of attainment varies between 100% and 150%, depending on the bonus scheme applicable to each professional. The payment level is determined based on achievement of individual and corporate targets, in the proportions set out in the corresponding bonus schemes approved by the Management Committee, after review by the Regulatory Compliance function to ensure its alignment with the remuneration policy and to avoid potential conflicts of interest.

The weighting for corporate targets is set for each year, and distributed across measurable concepts, based on the main targets for the area. These concepts may, by way of example, include some or all of the following:

- ROTE
- Cost-to-income ratio
- Recurring expenses
- The ordinary income of the regional business
- Accounting NPL in the regional business
- Quality
- Conduct and compliance

The proposed composition and weighting of the corporate targets is established in accordance with the Credit Institution Act and its implementing regulations.

Pursuant to the Credit Institution Act and the ABE Guidelines, the targets set for employees who perform control functions, 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.

Risk adjustment indicator

The ratios used to adjust for ex-ante risk in the calculation of variable remuneration, as established in the "Target programme", may vary according to the different categories of Identified Staff, pursuant to the following model.

The indicators in the RAF approved for CaixaBank are used as metrics for the risk adjustment. A set of metrics is established for each professional, based on their group, area of responsibility and position, which in combination determine the value of the Risk Adjustment Indicator (hereinafter, the RAI).

The RAF comprises a set of quantitative and qualitative metrics that evaluate all of CaixaBank's risks, in the following areas:

- **Protection against losses:** mainly metrics for solvency and profitability, credit risk, market risk and interest rate risk.
- **Liquidity and Funding:** exclusively comprising metrics related to the Markets activity.
- **Business composition:** comprising metrics for sector exposure.
- **Franchise:** including common, global metrics.

Each professional involved must be notified individually of the dimensions as a whole, or the specific indicators for a particular dimension, that constitute their RAI, together with the remuneration policy.

Although the evaluation of the quantitative indicators comprising the RAF may return a numeric result, in order to calculate overall compliance with the qualitative metrics, the result of each of the metrics in the 4 dimensions is summarised using a colour: green, amber or red.

The resulting RAI for the set of metrics for each professional must have a value of between 0 and 1, based on:

- Based on the sum of the variations in the RAF indicators between the previous year-end and the end of the current year in which the variable remuneration is accrued: the value of the indicator will fluctuate within the interval of 0.85–1, according to the following attainment scale of:

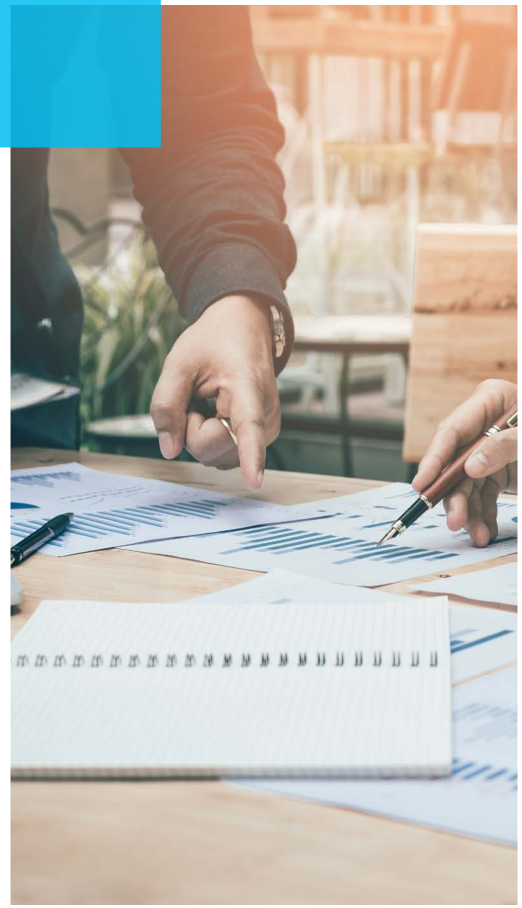
Initial colour	Assessment	Final colour
Green	-3%	Amber
Amber	+3%	Green
Amber	-6%	Red
Red	+6%	Amber

- If one of the metrics included in the risk adjustment for a group enters Recovery, the value of the RAI indicator will be 0.

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

Risk-adjusted bonus =
RAI x Bonus target x (% individual targets achieved + % of corporate targets reached) x entity adjustment factor

The amount of the bonus received by each employee in each specific programme is based on performance and the results of the bu-



siness and the Bank. The initial amount is adjusted according to a "bonus-adjustment factor" determined each year by the Entity's management, pursuant to applicable regulations. The correction factor basically includes the Entity's overall results, and other aspects of a more qualitative type.

As a general rule, this correction factor is applied equally to all the employees, and may be between 0.85 and 1.15.

Special incentives

Members of the Identified Staff can occasionally be given incentives to reach certain targets, usually linked to the marketing and sale of third-party products or other products. The amount of the incentives they are given in a particular financial year, plus any variable remuneration they accrue in the same year in the form of a bonus, shall be together considered part of the non-deferred cash portion of their remuneration for the purposes of deferment to be settled starting in the following financial year. The amount of the incentive will be set based on the conditions and parameters established in each particular case.

Special cases of restrictions

Variable remuneration shall be reduced if, at the time of the performance assessment, CaixaBank is subject to any requirement or recommendation from competent authorities to restrict its dividend distribution policy, or if this is required by the competent authority under its regulatory powers, pursuant to Royal Decree 84/2015 and Circular 2/2016.

Variable remuneration payment cycle

Professionals subject to deferred payment

In application of the principle of proportionality set down in the Credit Institution Act, this deferral applies only when the total amount of the variable remuneration accrued by Identified Staff professionals exceeds EUR 50,000.

For the categories of CaixaBank's executive directors, general managers, deputy general managers, executive managers and regional directors included in Identified Staff, the deferral is applied independently of the total amount of variable remuneration accrued.

Deferment process

On the payment date scheduled in the targets programme for each employee, the percentage of variable remuneration accrued for the professional category in question is paid outright (hereinafter, upfront payment date).

The percentage of variable remuneration retained is as follows:

- Executive Directors: **60%**
- Management Committee, Executive Managers and Regional Managers: **50%**
- Other Identified Staff: **40%**

A 60% deferral will be applied to all the variable remuneration granted that, in total, exceeds 50% of the minimum total remuneration amount that the EBA considers to qualify as a high earner for any particular financial year. For the purposes of calculating this figure, the portion of the early termination payments that has to be considered variable remuneration will be divided by the number of years the professional in question was with the company.

50% of the amount of the initial payment is paid in cash, and the remaining 50% in CaixaBank shares.

Provided that none of the situations giving rise to a reduction emerge, the retained portion of risk-adjusted variable remuneration for executive directors and members of the Management Committee of CaixaBank included in the Identified Staff is to be paid in five instalments, in the amounts and on the dates as follows:

- 1/5: 12 months after the Initial Payment Date.
- 1/5: 24 months after the Initial Payment Date.
- 1/5: 36 months after the Initial Payment Date.
- 1/5: 48 months after the Initial Payment Date.
- 1/5: 60 months after the Initial Payment Date.

Provided that none of the situations giving rise to a reduction emerge, the retained portion of risk-adjusted variable remuneration for other Identified Staff is to be paid in three instalments, in the amounts and on the dates as follows:

- 1/3: 12 months after the Initial Payment Date.
- 1/3: 24 months after the Initial Payment Date.
- 1/3: 36 months after the Initial Payment Date.

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 (withholdings and payments on account) have been settled.

Shares delivered as remuneration may not be sold for one year from the date delivered.

During the period of deferral, the entity obliged to pay the remuneration shall own both the instruments and cash whose delivery is deferred.

Pursuant to the principles of labour and contractual law applicable in Spain, and particularly the bilateral nature of contracts and equity in the accrual of reciprocal considerations, the deferred cash accrues interest in favour of the recipient, calculated by applying the corresponding interest rate to the first tranche of the account payable to the employee. Interest will only be paid at the end of each payment date, and will apply to the cash amount of the effectively receivable variable remuneration, net of any due reduction.

In compliance with EBA guidelines with regard to instruments' returns, the Bank will pay no interest or dividends on deferred instruments either during or after the deferral period from 1 January 2017.

Plan of conditioned annual incentives linked to the 2019-2021 Strategic Plan

The implementation of an annual conditioned Incentives Plan related to the 2019-2021 Strategic Plan was approved In the General Shareholders' Meeting of 5 April 2019. This plan, after a certain time period has elapsed, will allow for a certain number of ordinary CaixaBank shares to be received, provided that the Company's strategic objectives are met, along with the requirements described herein.

The Plan comprises the free assignment, in 2019, 2020 and 2021, of a number of units to each beneficiary (the 'Units', which are used as a base to establish the number of CaixaBank shares to deliver, where relevant, to each beneficiary of the Plan.

The assignment of Units in itself does not attribute the condition of shareholders in the Company to beneficiaries, given that the Units do not entail the attribution of economic or political rights, or any other kind of right related to the condition of shareholder. By virtue of this Plan, the condition of shareholder will be acquired, where relevant, upon the delivery of shares in the Company.

The rights conferred by the assignment of Units are not transferable, with the exception of any special circumstances established in the Regulations of the Plan.

Duration, objective measurement periods and liquidation dates of the Plan:

The Plan has three cycles, each of three years, with three Unit assignments, each of which will take place in 2019, 2020 and 2021.

The first cycle dates from 1 January 2019 to 31 December 2021; the second cycle spans the period from 1 January 2020 to 31 December 2022; and the third cycle dates from 1 January 2021 to 31 December 2023.

Each cycle will have two periods for measuring objectives. The "First Measurement Period" corresponds to the first year of each cycle of the Plan, in which certain objectives linked to metrics described herein must be met. The "Second Measurement Period" corresponds to the 3-year duration of each cycle of the Plan, in which certain objectives linked to the metrics described herein must also be met.

According to the degree to which the objectives of the First Measurement Period are attained, and on the basis of the Units assigned at the start of each cycle, in the second year of each cycle ("Grant Date") the Beneficiaries will be granted a "Provisional Incentive" equivalent to a certain number of shares in the Company ("Granting of the Provisional Incentive"). The Granting of the Provisional Incentive does not entail CaixaBank shares being delivered at that time.

The final number of shares to be delivered (the 'Final Incentive') is determined after each of the Plan's cycles ends, and is subject to and dependent on the objectives corresponding to the Second Measurement Period of each of the Plan's cycles being met ("Determination of the Final Incentive"). Under no circumstances can the number of shares to be delivered corresponding with the Final Incentive exceed the number of shares in the Provisional Incentive on the Grant Date.

The shares corresponding to the Final Incentive of each cycle will be delivered by third parties on the third, fourth and fifth anniversary of the Grant Date for members of the Board of Directors who have executive functions and for members of the Management Committee (the "Settlement dates", each one individually the "Settlement date"). For all other Beneficiaries belonging to the Identified Staff, shares will be delivered in full on a single Settlement Date, on the third anniversary of the Grant Date.

Notwithstanding the above, the Plan was formally launched on 5 April 2019 (the "Commencement Date"), except for those Beneficiaries subsequently incorporated into the Plan, for whom a different Commencement Date may be set in the Invitation Letter.

The Plan ends on the last Settlement Date of shares corresponding to the third cycle of the Plan, i.e. in 2027 for members of the Board of Directors with executive functions and members of the Management Committee, and in 2025 for all other Beneficiaries belonging to the Identified Staff (the "End Date").

Reference share value:

The share value used as a reference for assigning the Units in each of the cycles of the Plan, and which in turn is used to determine the number of shares to be delivered, corresponds to the arithmetic average price of the closing CaixaBank share price, rounded to three decimal places, during the trading sessions in January of each year in which a Plan cycle begins (i.e. January 2019, January 2020 and January 2021).

The value of shares corresponding to the Final Incentive that, where relevant, are finally delivered under the scope of the Plan, will correspond with the listed closing CaixaBank share price on the Settlement Dates of each of the Plan's cycles.

Determination of the number of Units to assign:

The number of Units to be assigned to each Beneficiary in each of the Plan's cycles is determined by the Board of Directors, at the suggestion of the Remuneration Committee according to the following formula:

NU = TA / AAP

Where:

NU = the Number of Units to be assigned to each beneficiary, rounded up to the nearest whole number.

TA = the Target Amount for the beneficiary, based on their position.

AAP = Arithmetic average price, rounded to three decimal places, of CaixaBank share closing prices in stock market trading sessions in January of each year in which a Plan cycle begins (i.e. January 2019, January 2020 and January 2021).

Determination of the number of shares corresponding to the granting of the Provisional Incentive and of the number of shares corresponding to the Final Incentive

The total number of shares corresponding to the Granting of the Provisional Incentive on the Grant Dates is determined according to the following formula:

NCS = NU x DIA

Where:

NCS = Number of Company Shares corresponding with the Granting of the Provisional Incentive of each Beneficiary, rounded up to the nearest whole number.

NU = Number of Units assigned to the Beneficiary at the start of each cycle of the Plan.

DIA = Degree of Provisional Incentive Attainment, according to the degree to which the objectives linked to the metrics linked to the Plan during the first year of each cycle are achieved.

The total number of shares corresponding to the Final Incentive to be delivered to each Beneficiary on the Settlement Dates will be determined according to the following formula:

NS = NCS x Ex-post adj.

Where:

NS = Number of Shares in the Company corresponding to the Final Incentive to be delivered to each Beneficiary, rounded up to the nearest full number.

Adj. Ex-post adj. = Ex-post adjustment on the Provisional Incentive of each cycle, according to the fulfilment of objectives corresponding to each cycle of the Plan.

Plan Metrics:

The Degree of Fulfilment of the Provisional Incentive and, therefore, the specific number of CaixaBank shares corresponding to the Granting of the Provisional Incentive for each Beneficiary, on each of the Grant Dates in each cycle of the Plan, depends on the degree of fulfilment of a series of objectives during the First Measurement Period of each of the Plan's cycles, related to the following Company metrics: **(i)** the evolution of the Core Cost-to-Income Ratio (CCIR), **(ii)** the evolution of the Return on Tangible Equity (ROTE), and **(iii)** the evolution of the Customer Experience Index (CEI).

The Degree of Fulfilment of the Provisional Incentive is determined according to the following formula, with the weightings included therein:

DIA = CCIRC x 40% + CROTE x 40% + CCEI x 20%

Where:

DIA = Degree of Provisional Incentive Attainment expressed as a percentage rounded to one decimal place.

CCIRC = Coefficient achieved in relation to the CCIR objective, according to the scale established for the CCIR objective in this section.

CROTE = Coefficient achieved in relation to the ROTE objective, according to the scale established for the ROTE objective under this Section.

CCEI = Coefficient achieved in relation to the CEI objective, according to the scale established for the CEI objective under this section.

For the three metrics, CCIR, ROTE and CEI, a coefficient of between 0% and 120% is established according to the scale of fulfilment of the objectives related to each of said measures. The objectives reached in relation to the three metrics will be determined by the Company itself.

A condition of the Granting of the Provisional Incentive will be that, in each of the Plan's cycles, on the end of the First Measurement Period of each, the ROTE metric exceeds a specific minimum value, which the Board of Directors will establish for each of the Plan's cycles.

The metrics for calculating the Ex-post Adjustment will be: **(i)** the CaixaBank Risk Appetite Framework (RAF), **(ii)** the Total Shareholder Return (TSR) of the Company's shares, and **(iii)** the Global Reputation Index of CaixaBank Group ('GRI').

The Ex-post Adjustment is calculated according to the objectives reached in relation to each of said metrics upon the end of each cycle of the Plan, in accordance with the formula indicated below, with the weightings included therein:

Adj. Ex-post = CRAF x 60% + CTSR x 30% + CGRI x 10%

Where:

Adj. Ex-Post = Ex-post adjustment to apply to the Provisional Incentive granted during each of the Plan's cycles, expressed as a percentage, with a maximum potential of 100%.

CRAF = Coefficient achieved in relation to the RAF objective, according to the scale established for the RAF objective in this section.

CTSR = Coefficient of the TSR target, according to the scale established for this target in this chapter.

CIGR = Coefficient achieved in relation to the GRI objective, according to the scale established for the GRI objective in this section.

To calculate the fulfilment of the objective related to the RAF metric, an aggregate level of the scorecard of the Company's Risk Appetite Framework is used. This scorecard is formed of quantitative metrics that measure the different types of risk, and the Board of Directors establishes areas of appetite (green), tolerance (amber) or non-compliance (red), and determines the scale of fulfilment that establishes penalisation or bonus percentages according to the variation on each metric, between the situation of the RAF item at the start and end of the period.

In relation to the Company's TSR evolution in each of the Plan's cycles, this will be calculated by comparing the same indicator for another nineteen (19) calculable reference banks (twenty (20) banks in total including CaixaBank). A coefficient between 0 and 1 will be established according to CaixaBank's ranking among the twenty (20) comparable banks. For anything beneath the median of the comparison group, the coefficient will be 0.

To determine the TSR, and with a view to avoid atypical movements in the indicator, the reference values will take into consideration the average mean price rounded to three decimal places of the shares' closing prices over 31 calendar days, both on the start and end date of the Second Measurement Period on each cycle. As well as 31 December, these 31 days will include the 15 days preceding and following the date in question.

The TSR metric will be calculated at the end of each of the Plan's cycles by a renowned independent expert, at the request of the Company.

The fulfilment of the GRI as an Ex-post Adjustment will be calculated on the basis of the variation of this metric in each of the Plan's cycles. For the first cycle of the Plan, the evolution between the value calculated at the end of 31 December 2018 and that of 31 December 2021 will be measured; for the second cycle, the evolution between 31 December 2019 and 31 December 2022 will be calculated; and for the third cycle, the evolution between 31 December 2020 and 31 December 2023 will be measured. If the variation is negative, i.e. if the reputation indicator goes down, the degree of fulfilment will be 0%. Otherwise, it will be 100%. The GRI indicator includes indicators related to CaixaBank's reputation risk, which, among other things, measures social, environmental and climate-change-related aspects, whereby any negative impact related to any of these issues would entail an adjustment to the total number of shares of the Final Incentive.

The Ex-post Adjustment could make the number of final shares to deliver lower, but never higher, than the number of shares corresponding to the Provisional Incentive on each of the Grant Dates.

As well as the foregoing, if, on the end date of each of the Plan's cycles, the CaixaBank TSR ranks between sixteen (16) and twenty (20) (both inclusive) out of the twenty (20) banks comparable to the Company, the Final Incentive that may have resulted from the application of Ex-post Adjustments referred to in this section would be reduced by 50%.

Exceptionally, and only to determine the shares corresponding to the Granting of the Provisional Incentive on the Grant Date of the third cycle of the Plan, an additional multiplying coefficient will be included, which can be up to 1.6, and which will be applied to the DIA, and which will depend on the evolution of the CaixaBank TSR indicator in comparison to the same indicator for the twenty (20) comparable banks during the first cycle of the Plan. Nevertheless, if CaixaBank ranks below the median among the aforementioned twenty (20) banks at the end of the first cycle of the Plan, no additional multiplying factor on the DIA will be applied.

Requirements for obtaining the shares:

The requirements for the beneficiary to receive shares derived from each of the Plan's cycles are:

- They must comply with the objectives set for them under the Plan, subject to the terms and conditions set out in this agreement and in the Plan regulations.

- The beneficiary must remain part of the Company until the Settlement Dates corresponding to each of the Plan's cycles, except in special circumstances, such as death, permanent disability, retirement, and others as set out in the Plan regulations. In the event of voluntary resignation or lawful dismissal, the Beneficiary will forfeit their entitlement to shares under the Plan, notwithstanding the provisions of the Plan regulations. The shares will be delivered in all cases on the dates established for Beneficiaries of the Plan, in accordance with the requirements and procedures laid out in the Plan.

The Plan will only be settled and the shares delivered if this is sustainable and justified given CaixaBank's situation and results. The shares under this Plan established for each of the Settlement Dates will not be delivered to the beneficiaries – who will lose any right to receive them – in the event that CaixaBank makes a loss, does not distribute dividends or does not pass the stress tests required by the European Banking Authority at the end of the 2019-2021 Strategic Plan, i.e. at the end of the 2021 fiscal year.

Determination of the Provisional Incentive of the First Cycle of the 2019-2021 Annual Conditioned Incentives Plan

Item	%	Objective	Result	DIA
Core Cost-to-Income Ratio (CCIR)	40%	57.7%	57.4%	105.1%
Return on Tangible Equity (ROTE)	40%	7.3%	7.7%	107.3%
Customer Experience Index (CEI) [1]	20%	86.3%	86.3%	100%
Total				105%

The degree of attainment of the provisional incentive for the first cycle is related to the performance of the following indicators:

[1] *The CEI challenge was re-scaled during 2019, in accordance with the provisions at the time of its approval. This re-scaling was not applied to Senior Management, so in this case the Degree of Attainment of the Provisional Incentive is 85%. As detailed above, the Provisional Incentive does not imply the awarding of CaixaBank shares, as the ex-post adjustment remains pending, which will depend on the evolution of the RAF, the TSR and the GRI over the next 3 years.*

Cases resulting in a reduction or recovery of the variable remuneration (ex-post adjustment of the annual bonus and long-term incentive)

Cases of reduction:

Pursuant to the Credit Institution Act, the right of persons classified as Identified Staff to receive variable remuneration, including that pending payment, whether in cash or shares, shall be reduced, in part or in full, in the following situations:

- Significant failures in risk management by CaixaBank, or one of its business units, or in risk control, including the existence of qualifications in the external auditor's report or other circumstances that undermine the financial parameters used in the calculation of variable remuneration.

- An increase in capital requirements for CaixaBank or one of its business units that was not envisaged at the time the exposure was generated.

- Regulatory sanctions or legal rulings relating to issues that may be attributed to the unit or the professional responsible for them.

- Failure to comply with the Bank's internal regulations or codes of conduct, including, in particular:

  - Any serious or very serious regulatory breaches attributable to them.

  - Any serious or very serious breaches of internal regulations.

  - Failure to comply with applicable suitability and behavioural requirements.

  - Regulatory breaches for which they are responsible, irrespective of whether they cause losses that jeopardise the solvency of a business line, and, in general, any involvement in, or responsibility for, behaviour that causes significant losses.

- Any irregular behaviour, whether individual or collective, particularly negative effects resulting from the misselling of products and the responsibilities of the persons or bodies that make such decisions.

- Justified disciplinary dismissal or, in the case of commercial contracts, due to just cause at the instigation of the Entity (in which case the reduction will be total).

- Where payment or consolidation of these amounts is not sustainable in light of CaixaBank's overall situation, or where payment is not justified in view of the results of CaixaBank as a whole, the business unit, or the employee in question.

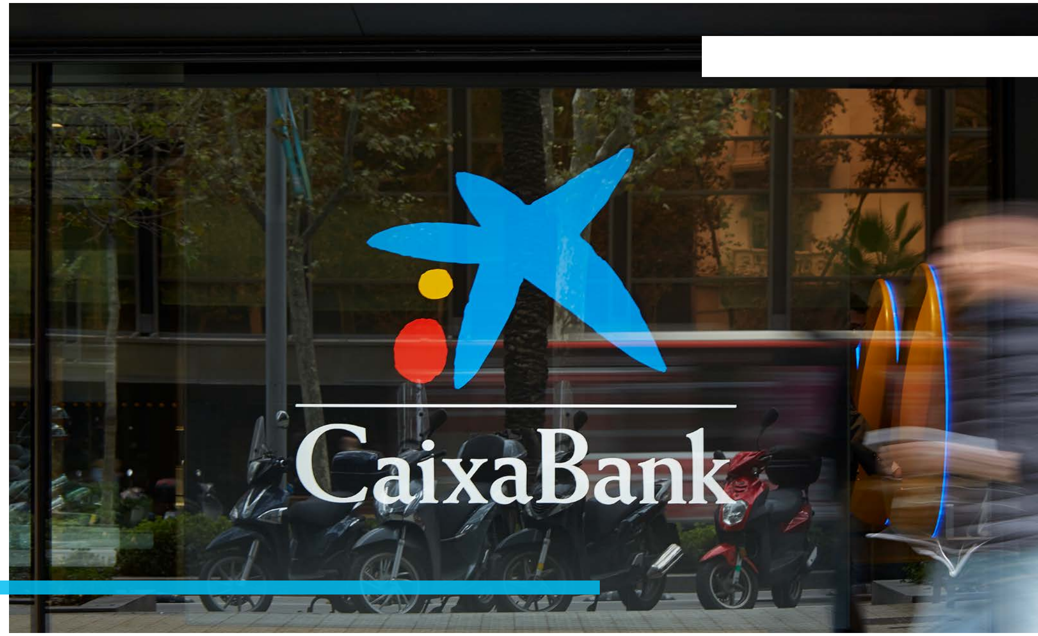
- Any others that might be provided for in the corresponding contracts.

- Any others laid down in applicable legislation or by regulatory authorities in exercise of their powers to issue or interpret regulations, or their executive powers.

Cases resulting in recovery:

In the event that causes leading to the above-mentioned situations occur before payment of a variable remuneration amount, such that the payment would not have been made, either in part or in full, if the situation had been known about, the person involved must return the part of variable remuneration unduly paid, to the corresponding CaixaBank Group entity. This reimbursement must be made in cash or shares, as applicable.

Scenarios in which the professional concerned has made a major contribution to poor or negative financial results shall be considered particularly serious breaches, as shall cases of fraud or other instances of fraudulent behaviour or gross negligence leading to significant losses.



Employee benefits

Mandatory contributions for variable remuneration

In compliance with the provisions of Circular 2/2016, 15 % of agreed contributions to complementary social welfare plans for members of CaixaBank's Management Committee are considered the target amount (the remaining 85 % being considered a fixed remuneration component).

This amount is determined following the same principles and procedures established for variable remuneration through bonus payments, based only on individual parameters, and shall involve contributions to a discretionary pension benefit scheme.

The contribution shall be considered deferred variable remuneration for the purposes of Circular 2/2016. Therefore, the discretionary pension benefit scheme shall contain the necessary clauses for it to be explicitly subject to the causes of reductions set down for variable remuneration in the form of bonuses. It shall also be included in the sum of variable remuneration for the purposes of limits and other factors that might be established.

If a professional leaves the entity as a result of retirement or before planned for any other reasons, the discretionary pension benefits shall be subject to a five-year withholding period, from the date on which the professional ceases to provide their services to the Entity for whatever reason.

During this withholding period, CaixaBank shall apply the same requirements as set forth in the reduction and recovery clauses for variable remuneration already paid.

Payments for early termination

Amount and limit of severance compensation

As a general rule, and unless prevailing legislation imposes a higher amount, the amount of compensation for severance or separation of professionals with Senior Management roles in Identified Staff shall not exceed the annual value of their fixed remuneration components, without prejudice to any compensation for post-contractual non-competition that might be established.

For professionals with an ordinary employment relationship, the amount of compensation for severance or separation calculated for the purposes of the maximum ratio of variable remuneration shall not exceed legal limits.

Post-contractual non-competition agreements

Exceptionally, post-contractual non-competition agreements may be included in contracts for Identified Staff in CaixaBank Group. Such agreements shall consist of an amount that in general shall not exceed the sum of the fixed components of remuneration that the professional would have received had they remained with the Entity. The amount of the compensation shall be divided into equal instalments, payable at regular intervals over the non-competition period.

Any breach of the post-contractual non-competition agreement shall give the Entity the right to seek compensation from the professional proportionate to the compensation paid.

Deferral and payment

Payment of amounts for early severance considered to be variable remuneration shall be subject to deferral and payment in the manner set down for variable remuneration in the form of bonuses.

Reduction and recovery

Payments for early termination must be based on the results secured over time, and must not compensate poor results or undue conduct. The amount of payments for termination considered to represent variable remuneration under prevailing regulations shall be subject to the cases of reduction and recovery set down for variable remuneration.

Disassociation payment processing as part of a collective plan

Members of the Identified Staff with an employment relationship may join any of the disassociation plans covered in a collective plan, regardless of the legal nature of the contract termination and provided they are generally applicable to all CaixaBank employees who meet the requirements established therein. Joining such plans will be subjected to the following rules:

- In the case of members of the Identified Staff who are members of the Company's Management Committee or directly report to the Board of Directors or to one of its members, the specific disassociation conditions must be ratified by the Board of Directors, on the basis of a report drawn up beforehand by the RC. Furthermore, the RC may establish the actions necessary to ensure a smooth transition in their functions.
- The benefits applicable under the disassociation plan shall be considered a form of variable remuneration and shall be generally subject to the requirements regarding variable remuneration in the form of a bonus, as set out in the Remuneration Policy. However, these benefits will not count for the purpose of the calculation of the maximum ratio between fixed and variable remuneration, nor may they be deferred or paid in instruments insofar as the current value of the benefits to be received under the disassociation plan does not exceed the sum of:

Members of the Identified Staff with an employment relationship may join any of the disassociation plans covered in a collective plan

- The minimum legal and obligatory redundancy payment, as established under the labour laws, that the employee would have received if they had been dismissed for improper conduct on the disassociation date; plus

- The amount of any remuneration for non-competition commitments that the employee had received after the termination of the contract, in the conditions laid down in section 154.b) of the EBA Guidelines.

- The amount of the collective plan benefits that exceeds the sum referred to above shall be subject to deferral and payment in instruments, in a manner compatible with the characteristics of the benefits of the deferral scheme and the rules established in the Remuneration Policy.

With regard to the provisions of the EBA Guidelines, the parameters for calculating the profits applicable to the corresponding disassociation plans will be based on a generic formula, to be defined in advance in CaixaBank's remuneration policy. In any case, the implementation of the above rules is subject to the competent authorities' interpretation of the applicable standards and guidelines. Therefore, they may require adapting in order to comply with such interpretations.

11.4. Quantitative information concerning remuneration of the Identified Staff

In 2019, remuneration paid to the Identified Staff, pursuant to the applicable regulatory provisions concerning remuneration, and according to the Bank's different areas of activity, was as follows.

The information on the fixed remuneration for 2019 set out in this report includes all the fixed remuneration components received by each member of the Identified Staff. Therefore, this concept includes both fixed monetary remuneration and remuneration in-kind (contributions to pension plans, health insurance, etc.).

The following tables include details of the cumulative remuneration of CaixaBank Group, MicroBank and BPI.

Table 11.1. Remuneration paid to Identified Staff (I)

Amounts in thousands of euros

Activity areas	Description of the type of the businesses	Number of beneficiaries	Fixed Components of remuneration 2019	Variable Components of remuneration 2019	Total 2019
Non-executive Directors	Management body in its supervisory function	30	5,084	-	5,084
Executive Directors[1]	Management body in its management function	10	8,001	2,349	10,351
Investment Banking	*Capital Markets & Treasury, Markets, ALM and Corporate & Institutional Banking*	38	6,972	6,495	13,466
Retail Banking	Individual banking, Private banking & Wealth management, Business banking and Transactional banking	50	11,664	5,658	17,322
Asset management	Asset management				-
Corporate Functions	Steering committee and all other corporate functions	74	21,857	7,079	28,936
Internal control functions	Independent control areas	52	7,590	1,910	9,500
All other		-	-	-	-

[1] *The variable remuneration of BPI's Executive Directors corresponds to the variable remuneration accrued in 2018.*

Table 11.2. Remuneration paid to Identified Staff (II)

Amounts in thousands of euros

Identified staff 2019 remunerations	Non Executive Directors[1]	Executive Directors	Investment Banking	Retail Banking	Asset management	Corporate Functions	Internal control functions	All other	Total Identified Staff
Number of beneficiaries	**30**	**10**	**38**	**50**	**-**	**74**	**52**	**-**	**254**
of which Senior Executives	-	10	-	-	-	11	-	-	21
of which in Control Functions	-	-	-	-	-	2	52	-	54
Fixed remuneration 2019	**5,084**	**8,001**	**6,972**	**11,664**	**-**	**21,857**	**7,590**	**-**	**61,167**
Variable remuneration 2019 (annual bonus)	**-**	**2,265**	**6,495**	**5,658**	**-**	**6,835**	**1,910**	**-**	**23,164**
In cash	-	1,133	3,257	2,983	-	3,967	1,478	-	12,817
In shares or share-linked instruments	-	1,133	3,238	2,675	-	2,869	432	-	10,347
Other types instruments	-	-	-	-	-	-	-	-	-
Variable remuneration deferred (still not paid)[2]	**270**	**3,924**	**4,750**	**4,154**		**5,794**	**761**	**-**	**19,653**
Attributed	-	-	-	-	-	-	-	-	-
Not attributed	270	3,924	4,750	4,154	-	5,794	761	-	19,653
In cash	251	2,339	2,431	2,107	-	2,970	380	-	10,480
In shares or share-linked instruments	19	1,585	2,318	2,046	-	2,825	380	-	9,174
In other types instruments	-	-	-	-	-	-	-	-	-
Deferred remuneration paid in exercise 2019[3]	**356**	**1,551**	**1,750**	**1,278**	**-**	**1,929**	**299**	**-**	**7,162**
In cash	340	1,052	950	588	-	980	162	-	4,072
In shares or share-linked instruments	16	498	800	691	-	948	137	-	3,090
In other types instruments	-	-	-	-	-	-	-	-	-
Total amount of explicit expost performance adjustment applied in 2019 for previously awarded remuneration	-	-	-	-	-	-	-	-	-
Number of beneficiaries of severance payments	**-**	**-**	**-**	**3**	**-**	**2**	**2**	**-**	**7**
Total amount of severance payments	-	-	-	1,852	-	2,857	878	-	5,586
Average permanence period	-	-	-	22	-	26	27	-	25
Highest severance payment to a single person	-	-	-	656	-	1,957	523	-	3,135
Number of beneficiaries of Long Term Incentives sistems	**-**	**9**	**6**	**15**	**-**	**36**	**9**	**-**	**75**
Target LTI in euros prorated annually[4]	-	-	-	-	-	140	-		140
First cycle Conditional Annual Incentives Plan (CAIP) linked to the Strategic Plan 2019 - 2021 target (In shares)	-	197,990	45,690	156,113	-	491,175	87,575	-	978,543
Provisional incentive first cycle CAIP (Not attributed and in shares)[5]	-	181,867	47,976	160,853	-	440,720	91,190	-	922,606
Number of beneficiaries of discretionary pension benefits		**7**				**11**			**18**
Total amount of discretionary pension benefits in exercise 2019		151				243			394

[1] The variable remuneration contemplated in Non-Executive Directors was accrued in the development of previous executive functions.
[2] It includes the deferred variable remuneration pending payment at 31/12/2019 (1/3 or 3/5 bonus 2017, 2/3 or 4/5 bonus 2018 and the deferred part of bonus 2019).
[3] It includes the deferred variable remuneration awarded in previous years and paid in February 2020 (1/3 bonus 2016, 1/3 or 1/5 bonus 2017 and 1/3 or 1/5 bonus 2018).
[4] It includes the LTI in euros that members of the Identified Staff of CaixaBank receive for their participation in group companies outside of the prudential perimeter.
[5] It includes the variable remuneration resulting from its participation in the first cycle of the CAIP accrued in 2019, pending ex-post adjustments until 2021, to be paid foreseeably in 2022 for the beneficiaries of the Plan, and deferred to 3 years for Executive Directors and members of the Management Committee.

Table 11.3. Remuneration paid to Identified Staff (III))

Amounts in thousands of euros

Identified staff 2019 variable remunerations	Non Executive Directors	Executive Directors	Investment Banking	Retail Banking	Asset management	Corporate Functions	Internal control functions	All other	Total Identified Staff
Number of beneficiaries	-	10	38	50	-	74	51	-	223
Variable remuneration 2019 (annual bonus)		2,265	6,495	5,658	-	6,835	1,910	-	23,164
Bonus 2019 paid in 2020		906	3,904	3,251	-	4,051	1,515	-	13,628
In cash	-	453	1,962	1,779	-	2,542	1,281	-	8,016
In shares or share-linked instruments	-	453	1,943	1,472	-	1,510	235	-	5,612
In other types instruments					-				
Bonus 2019 deferred and not attributed		1,359	2,590	2,407	-	2,784	395	-	9,535
In cash	-	680	1,295	1,203	-	1,425	197	-	4,801
In shares or share-linked instruments	-	680	1,295	1,203	-	1,359	197	-	4,735
In other types instruments									

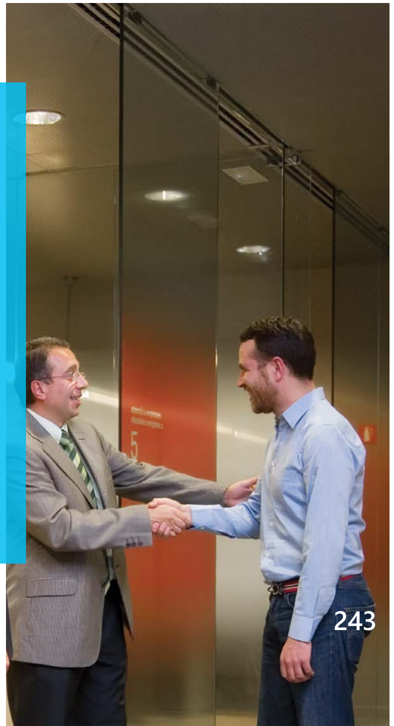
Table 11.4. Remuneration paid to Identified Staff (IV)

Total remuneration; payment band (in EUR)[1]	Number of beneficiaries
€ 1 million to bellow € 1,5 million	5
€ 1,5 million to bellow € 2 million	1
€ 2 million to bellow € 2,5 million	
€ 2,5 million to bellow € 3 million	1
€ 3 million to bellow € 3,5 million	
€ 3,5 million to bellow € 4 million	1

[1] *Does not include severance payments*

In 2019:

- No payments were made for new recruitment within the Identified Staff.
- No adjustments to deferred compensation awarded in 2019 were made as a result of performance.
- There are no professionals who receive remuneration above 4 million of euros.



Appendix A.

Appendix I. Information on own funds

Amounts in millions of euros

(A) Amount to information date; (B) CRR reference to article; (C) Amounts subject to treatment prior to RRC or residual amount prescribed by RRC		(A)	(B)	(C)
Common Equity Tier 1 capital : instruments and reserves				
1	Capital instruments and the related share premium accounts	18,038	26 (1), 27, 28, 29	
2	Retained earnings	7,358	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves)	(1,969)	26 (1)	
3a	Funds for general banking risks	(109)	26 (1) (f)	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	808	26 (2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**24,126**		
Common Equity Tier 1 capital : regulatory adjustments				
7	Additional value adjustments (negative amount)	(112)	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(4,232)	36 (1) (b), 37	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(1,875)	36 (1) (c), 38	
11	Fair value reserves related to gains or losses on cash flow hedgeso	34	33 (1) (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	(76)	36 (1) (d), 40, 159	
13	Any increase in equity that results from securitised assets (negative amount)	(5)	32 (1)	
14	Gains or losses on liabilities valued at fair valur resulting from changes in own credit standing	(19)	33 (1) (b)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(55)	36 (1) (f), 42	
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial secotr entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (a)	
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (i), 38, 48 (1) (a)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(6,339)**		
29	**Common Equity Tier 1 (CET1) capital**	**17,787**		
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	2,238	51, 52	
32	of which: classified as liabilities under applicable accounting standards	2,238		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**2,238**		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	(2.000)	52 (1) (b), 56 (a), 57	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**(2.000)**		
44	**Additional Tier 1 capital (AT1)**	**2,236**		
45	**Tier 1 capital (Tier 1 = CET1+AT1)**	**20,023**		

Amounts in millions of euros

	(A) Amount to information date; (B) CRR reference to article; (C) Amounts subject to treatment prior to RRC or residual amount prescribed by RRC	(A)	(B)	(C)
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	3,159	62, 63	
50	Credit risk adjustments	74	62 (c) y (d)	
51	**Tier 2 (T2) capital before regulatory adjustments**	**3,233**		
Capital ratios and buffers				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	(9.000)	63 (b) (i), 66 (a), 67	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(9.000)**		
58	**Tier 2 (T2) capital**	**3,224**		
59	**Total capital (TC=T1+T2)**	**23,247**		
60	**Total risk weighted assets**	**147,880**		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**12.0%**	92 (2) (a)	
62	**Tier 1 (as a percentage of risk exposure amount)**	**13.5%**	92 (2) (b)	
63	**Total capital (as a percentage of risk exposure amount)**	**15.7%**	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	8.78%	DRC 128, 129, 130, 131, 133	
65	of which: capital conservation buffer requirement	**2.50%**		
66	of which: countercyclical buffer requirement	**0.03%**		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**0.25%**		
Amounts below deduction thresholds (before risk weighing)				
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)	1,551	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70	
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)	1,002	36 (1) (i), 45, 48	
75	Deferred tax assets arising from temporary differences (amount below the threshold of 10%, net of liabilities for related taxes, provided that the conditions established in article 38, section 3)	1,272	36 (1) (c), 38, 48	

** Rows with no data are not disclosed*
[1] *Capital + share premium, net of treasury shares*
[2] *Reserves*
[3] *Includes unrealised gains and losses*
[5a] *Profit attributable to the Group (audited), net of dividends (interim and final)*
[8] *Goodwill and intangible assets*
[52] *ImTreasury stock and pledged amounts*

Appendix II. Main features of Capital Instruments

Amounts in millions of euros

		ES0140609019	ES0840609004	ES0840609012	AYTS491201	AYTS490629	XS1565131213	ES0240609133	XS1645495349	XS1808351214
1	Issuer	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CajaSol	CajaSol	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A
2	Unique identifier (ISIN)	ES0140609019	ES0840609004	ES0840609012	AYTS491201	AYTS490629	XS1565131213	ES0240609133	XS1645495349	XS1808351214
3	Governing law(s) of the instrument	Spanish Law	Spanish Law	Spanish Law	Spanish Law	Spanish Law	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant	Spanish Law	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR Rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type	Ordinary shares	Contingent Convertible Preferred Securities	Contingent Convertible Preferred Securities	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	5,981	994	1,242	18	1	995	150	995	991
9	Nominal amount of the instrument in euros (unless the issuing currency is specified)	5,981	1,000	1,250	18	15	1,000	150	1,000	1,000
9a	Issue price	n/a	100 %	100 %	100 %	100 %	99.97 %	100 %	99.97 %	99.53 %
9b	Redemption price	n/a	100 %	100 %	n/a	N/A	100 %	100 %	100 %	100 %
10	Accounting classification	Equity	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	n/a	13/06/2017	23/03/2018	31/12/1990	29/06/1994	15/02/2017	7/07/2017	14/07/2017	17/04/2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	n/a	Undated	Undated	Undated	24/06/2093	15/02/2027	07/07/2042	14/07/2028	17/04/2030

Amounts in millions of euros

		XS1679158094	XS1897489578	XS1936805776	XS2003432635	XS2013574038	XS2016212917	XS2055758804
1	Issuer	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A	CaixaBank, S.A
2	Unique identifier (ISIN)	XS1679158094	XS1897489578	XS1936805776	XS2003432635	XS2013574038	XS2016212917	XS2055758804
3	Governing law(s) of the instrument	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant corporate resolutions which are governed by Spanish law	English Law except the provisions relating to the status of the Notes, the capacity of the Issuer and the relevant corporate resolutions which are governed by Spanish law	Spanish Law	Spanish Law	Spanish Law	Spanish Law	Spanish Law
4	Transitional CRR rules	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability
5	Post-transitional CRR Rules	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability	MREL subordinated eligible liability
6	Eligible at solo/(sub-) consolidated/ solo&(sub-) consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type	Senior Non Preferred debt	Senior Non Preferred debt	Senior Non Preferred debt	Senior Non Preferred debt	Senior Non Preferred debt	Senior Non Preferred debt	Senior Non Preferred debt
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	1,250	1,000	1,000	50	1,250	82	1,000
9	Nominal amount of the instrument in euros (unless the issuing currency is specified)	1,250	1,000	1,000	50	1,250	JPY 10,000	1,000
9a	Issue price	99.85%	99.61%	99.58%	99.91%	99.18%	100.00%	99.31%
9b	Redemption price	100%	100%	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	12/09/2017	24/10/2018	18/01/2019	30/05/2019	19/06/2019	3/07/2019	26/09/2019
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	12/01/2023	24/10/2023	01/02/2024	30/05/2029	19/06/2026	03/07/2034	01/10/2024

Amounts in millions of euros

		ES0140609019	ES0840609004	ES0840609012	AYTS491201	AYTS490629	XS1565131213	ES0240609133	XS1645495349	XS1808351214
14	Issuer call subject to prior supervisory approval	No	Yes	Yes	No	n/a	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	13/6/2024 and quarterly afterwards at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 7.3 and 7.4). In each case for the full amount subject to the supervisor's approval	23/3/2026 and quarterly afterwards at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 7.3 and 7.4). In each case for the full amount subject to the supervisor's approval	n/a	n/a	15/2/2022 (one-time call) at the Issuer's option; in addition, for taxation reasons or due to a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval	7/7/2037 and yearly afterwards at the Issuer's option; in addition, for taxation reasons or due to a Capital Event. In each case for the full amount subject to the supervisor's approval	14/7/2023 (one-time call) at the Issuer's option; in addition, for taxation reasons or due to a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval	17/4/2025 (one-time call) at the Issuer's option; in addition, for taxation reasons or a Capital Event (conditions 6.2 and 6.4). In each case for the full amount subject to the supervisor's approval
16	Subsequent call dates, if applicable	n/a	Quarterly	Quarterly	n/a	n/a	n/p	Yearly	n/p	n/p
17	Fixed or floating dividend/coupon	Variable	Variable	Variable	Fixed	n/a	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	6.75% until 14/11/2024 ; if not called, resets at the prevailing mid-swap 5 years rate + 649.8 bps and 5 years afterwards from that date	5.25% until 23/3/2026; if not called, resets at the prevailing mid-swap 5 years rate + 450.4 bps and 5 years afterwards from that date	0		3.506% until 15/2/2022; if not called, resets at the then prevailing mid-swap 5 years rate + 335 bps	4.000% until 7/7/2037; if not called, resets at the then prevailing mid-swap 5 years rate + 272 bps	2.755% until 14/7/2023 ; if not called, resets at the then prevailing mid-swap 5 years rate + 235 bps	2.250% until 23/3/2025; if not called, resets at the then prevailing mid-swap 5 years rate + 168 pbs
19	Existence of a dividend stopper	n/a	No	No	No	n/a	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	n/a	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	n/a	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	No	n/a	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	n/a	Convertible	Convertible	Convertible	n/a	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Amounts in millions of euros

		XS1679158094	XS1897489578	XS1936805776	XS2003432635	XS2013574038	XS2016212917	XS2055758804
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	n/a	n/a	n/a	n/a	n/a	n/a
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	n/a	n/a
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	1.125 %	1.750 %	2.375 %	2.000 %	1.375 %	1.231 %	0.625 %
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Amounts in millions of euros

		ES0140609019	ES0840609004	ES0840609012	AYTS491201	AYTS490629	XS1565131213	ES0240609133	XS1645495349	XS1808351214
24	If convertible, conversion trigger(s)	n/a	This Contingent Convertibles convert into ordinary shares when the CET1 falls down below 5.125 % at the Bank or Group level Consolidated	This Contingent Convertibles convert into ordinary shares when the CET1 falls down below 5.125 % at the Bank or Group level Consolidated	n/p	n/p	n/p	n/p	n/p	n/p
25	If convertible, fully or partially	n/a	Always fully	Always fully	n/a	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	Greater of: i) market price of the shares at the time of conversion (with a floor of its nominal value); ii) a Floor Price of €2.803	Greater of: i) market price of the shares at the time of conversion (with a floor of its nominal value); ii) a Floor Price of €2.583	n/a	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	Mandatory	n/a	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	Common Equity Tier 1	Common Equity Tier 1	n/a	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	CaixaBank, S.A	CaixaBank, S.A	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down features	n/a	No	No	No	n/a	No	No	No	No
31	If write-down, write-down trigger(s)	n/a	n/a	n/p	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/p	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/p	n/a	n/a	n/a	n/a	n/a	n/a

Amounts in millions of euros

		XS1679158094	XS1897489578	XS1936805776	XS2003432635	XS2013574038	XS2016212917	XS2055758804	XS1645495349	XS1808351214
24	If convertible, conversion trigger(s)	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
25	If convertible, fully or partially	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
26	If convertible, conversion rate	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
27	If convertible, mandatory or optional conversion	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
28	If convertible, specify instrument type convertible into	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
30	Write-down features	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
31	If write-down, write-down trigger(s)	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
32	If write-down, full or partial	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a
33	If write-down, permanent or temporary	n/p	n/p	n/p	n/p	n/p	n/p	n/p	n/a	n/a

Amounts in millions of euros

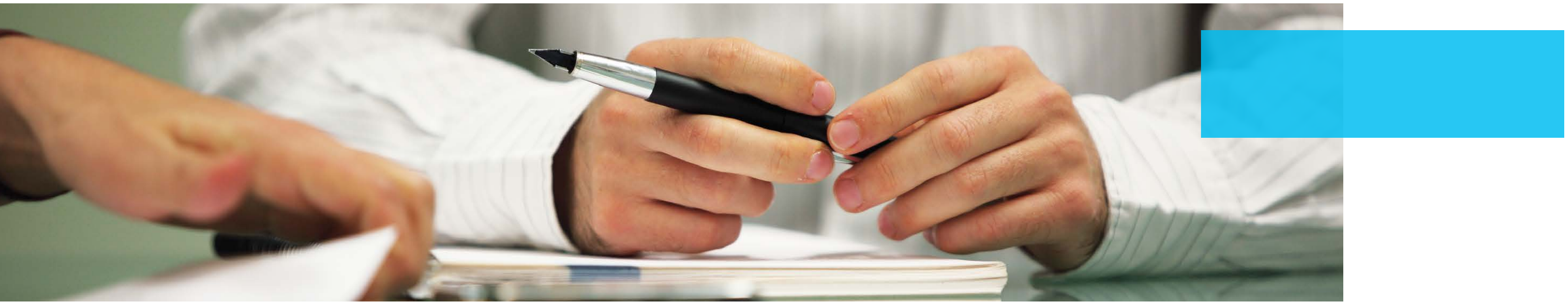
		ES0140609019	ES0840609004	ES0840609012	AYTS491201	AYTS490629	XS1565131213	ES0240609133	XS1645495349	XS1808351214
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/p	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	There are not subordinated instruments to this one	Tier 2 Capital Instruments	Tier 2 Capital Instruments	Senior creditors	n/a	Senior creditors	Senior creditors	Senior creditors	Ordinary
36	Non-compliant transitioned features	No	No	No	n/p	n/a	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
38	Prospectus	n/p	*http://cnmv.es/Portal/Consultas/Folletos/Folleto-sAdmision.aspx?i-sin=ES0840609004*	*https://www.cnmv.es/Portal/Consultas/Folletos/Folleto-sAdmision.aspx?i-sin=ES0840609012*	n/a	n/a	*http://www.ise.ie/debt_documents/Final%20Terms_4d-3676fe-d968-4977-a14b-4e107812d270.PDF*	*http://www.cnmv.es/Portal/Consultas/Folletos/Folleto-sAdmision.aspx?i-sin=ES0240609133*	*http://www.ise.ie/debt_documents/Final%20Terms_e17de6d1-419c-4367-ba57-302c9de7d9df.PDF*	*http://www.ise.ie/Market-Data-An-nouncements/Debt/Individual-Debt-Ins-trument-Data/ShowSecTran-che/?tranchel-D=139566&ref-No=4922*

As of December 2018, the subordinated liabilities eligible as MREL in the BRRD (Non-Preferred Senior Debt) are included in the table, although they cannot be computed for the purposes of own founds in the CRR. All this without prejudice to the computability as MREL of other non-subordinated liabilities.

Amounts in millions of euros

		XS1679158094	XS1897489578	XS1936805776	XS2003432635	XS2013574038	XS2016212917	XS2055758804
34	If temporary write-down, description of write-up mechanism	n/p	n/p	n/p	n/p	n/p	n/p	n/p
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Preferred Creditors	Senior Preferred Creditors	Senior Preferred Creditors	Senior Preferred Creditors	Senior Preferred Creditors	Senior Preferred Creditors	Senior Preferred Creditors
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a
38	Prospectus	*http://www.ise.ie/debt_documents/FinalSeriesProspectus2_f93532da-64cb-423e-bceb-b480e259f75d.PDF*	*http://www.ise.ie/debt_documents/Final%20Terms_86b469d7-03f0-43d6-a376-3cd5c-dfcf52d.PDF*	*https://www.ise.ie/debt_documents/Final%20Terms_cb61b613-5b3c-4247-8784-7687ab071dc6.PDF*	*https://www.ise.ie/debt_documents/Final%20Terms_8f42d310-9270-4d94-8fd6-41221a9afbc9.PDF*	*https://www.ise.ie/debt_documents/Final%20Terms_5fb22c39-1c92-42f5-9957-8fab-4b68a0d7.PDF*	*https://www.ise.ie/debt_documents/Final%20Terms_04a5bc4d-0cf8-44ab-8680-f720dfe-fb74d.PDF*	*https://www.ise.ie/debt_documents/Final%20Terms_d610ac4c-759c-4214-b391-9dd-b624fdf9f.PDF*

As of December 2018, the subordinated liabilities eligible as MREL in the BRRD (Non-Preferred Senior Debt) are included in the table, although they cannot be computed for the purposes of own founds in the CRR. All this without prejudice to the computability as MREL of other non-subordinated liabilities.



Appendix III. Information on leverage ratio

Amounts in millions of euros

	Summary reconciliation of accounting assets and leverage ratio exposures	
1	Total assets as per published financial statements	391,414
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(63,057)
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	(8,652)
5	Adjustments for securities financing transactions "SFTs"	938
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	27,364
6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(6,326)
8	**Leverage ratio exposure**	**341,681**

	Leverage ratio common disclosure	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	311,355
2	Asset amounts deducted in determining Tier 1 capital	(6,326)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**305,029**

	Leverage ratio common disclosure	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	6,396
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,913
5b	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2,372
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(4,949)
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures**	**6,732**

	Leverage ratio common disclosure	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,618
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	938
14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures**	**2,556**

Amounts in millions of euros

Leverage ratio common disclosure		
17	Off-balance sheet exposures at gross notional amount	97,823
18	(Adjustments for conversion to credit equivalent amounts)	(70,460)
19	**Other off-balance sheet exposures**	**27,364**
Excluded exposures		
19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Leverage ratio common disclosure		
20	**Tier 1 capital**	**20,023**
21	**Total leverage ratio exposures**	**341,681**
Leverage ratio common disclosure		
22	**Leverage ratio**	**5.9%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
23	Choice on transitional arrangements for the definition of the capital measure	End of transitional period measure
24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	-

Amounts in millions of euros

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**311,355**
EU-2	Trading book exposures	12
EU-3	Banking book exposures, of which:	311,343
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	56,336
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	4,928
EU-7	Institutions	4,640
EU-8	Secured by mortgages of immovable properties	99,053
EU-9	Retail exposures	34,392
EU-10	Corporate	67,899
EU-11	Exposures in default	7,461
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	36,634

Free format text boxes for disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	Leverage ratio is one of the metrics which are periodically monitored by Management and Government Bodies.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	Leverage ratio has improved mainly due to the group profits and the reduction of assets due to liquidity excess management.

Appendix IV. Holdings subject to regulatory limits for deduction purposes

Share	Company	Activity	% participation	
			Direct	Total
Significant shareholdings (>10%)	Banco Comercial de Investimento, S.A.R.L.	Banking	0.00	35.67
	BIP & DRIVE, S.A	Teletoll systems	0.00	25.00
	BPI, Incorporated	Banking	0.00	100.00
	Brilliance-Bea Auto Finance Co., L.T.D.	Vehicle financing	0.00	22.50
	Comercia Global Payments, Ent. Pago, S.L.	Payment entity	0.00	49.00
	Companhia de Seguros Allianz Portugal, S.A.	Insurances	0.00	35.00
	Cosec-Companhia de Seguros de Crédito, S.A.	Credit insurances	0.00	50.00
	Global Payments - Caixa Acquisition Corporation S.A.R.L.	Payment entity	49.00	49.00
	Global Payments South America, Brasil - Serviços de Pagamento, S.A.	Payment systems	33.33	33.33
	Inter-risco - Sociedade de Capital de Risco, SA	Venture capital	0.00	49.00
	Inversiones Alaris, S.L. en liquidación	Holding of Securities	33.33	66.67
	Redsys Servicios de Procesamiento, S.L.	Payment methods	0.00	20.00
	Servired, Sociedad Española de Medios de Pago, S.A.	Payment methods	0.00	22.01
	Sistema de Tarjetas y Medios de Pago, S.A.	Payment methods	0.00	18.11
	Sociedad de Procedimientos de Pago, S.L.	Payment entity	0.00	22.92
	Telefónica Factoring do Brasil, Ltda	Factoring	20.00	20.00
	Telefónica Factoring España, S.A.	Factoring	20.00	20.00
	Unicre - Instituição Financeira de Crédito, S.A.	Financial services	0.00	21.01
Not significant (<10%)	**Erste Group Ba+nk AG**	**Banking**	**9.92**	**9.92**

NOTE: VidaCaixa Group is not included in regulatory scope due to the statement in CRR article 49.1 ("Danish compromise") by which it consumes capital by RWAs instead of equity deduction.

Appendix V. EU LI3 - Companies with differing prudential and accounting consolidation treatment

Name of the entity	Accounting consolidation treatment	Prudencial consolidation treatment				Description of the entity
		Global integration	Proportional consolidated method	Equity method	Deducted	
Aris Rosen, S.A.U.	Full consolidable entities			●		Services
Cestainmob, S.L.	Full consolidable entities			●		Property management and real estate
Coia Financiera Naval, S.L.	Full consolidable entities			●		Financial services and intermediation in naval sector
El Abra Financiera Naval, S.L.	Full consolidable entities			●		Financial services and intermediation in naval sector
Estugest, S.A.	Full consolidable entities			●		Administrative activities and services
Grupo Aluminios de precisión, S.L.U.	Full consolidable entities			●		Smelting
Grupo Riberebro Integral, S.L.	Full consolidable entities			●		Production and marketing of agricultural products
Inter Caixa, S.A.	Full consolidable entities			●		Services
Inversiones Inmobiliarias Teguise Resort, S.L.	Full consolidable entities			●		Hotels and similars
PromoCaixa, S.A.	Full consolidable entities			●		Product marketing
Puerto Triana, S.A.U.	Full consolidable entities			●		Real state of shopping centers
Sociedad de gestión hotelera de Barcelona, S.L.	Full consolidable entities			●		Transactions with real estate
BPI Vida e Pensões - Companhia de Seguros, S.A.	Full consolidable entities			●		Life insurance and pension fund management
VidaCaixa Mediació, Sociedad de Agencia de Seguros Vinculada, S.A.U.	Full consolidable entities			●		Insurance agency
VidaCaixa, S.A. de Seguros y Reaseguros Sociedad Unipersonal	Full consolidable entities			●		Insurance and reinsurance

For the rest of the entities, the consolidation method for prudential purposes coincides with that applicable in the annual accounts. See financial report for the complete list of companies of the Group.

Appendix VI. Acronyms

Acronym	Description
ALCO	Assets and Liability Committee
AMA	Advanced Measurement Approach for calculating operational risk capital
AMLOU	The Anti-Money Laundering and Counter Terrorist Financing Unit
AT1	Additional Tier 1 Capital
AVA	Additional Valuation Adjustments
BCBS	Basel Committee on Banking Supervision
BEICF	Business environment and internal control factors
BIS	Bank for International Settlements
BoS	Bank of Spain
BPS	Basis Points
BRRD	The Bank Recovery and Resolution Directive, EU Directive 2014/59, establishing the framework for the restructuring and resolution of credit institutions.
CBR	Combined Buffer Requirement
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCPs	Central Counterparty Clearing Houses.
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CET1	Common Equity Tier 1
CIR	Cost-to-Income ratio
CIRBE	The Bank of Spain Risk Information Centre
CNMV	The Spanish Securities Market Regulator
COREP	The COmmon REPorting framework for prudential reporting by entities in the European Economic Area
CRD IV	The Capital Requirements Directive, EU Directive 2013/36 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
CRM	Credit Risk Mitigators
CRR	The Capital Requirements Regulation, Regulation 575/2013, of the Parliament and the Council, on prudential requirements for credit institutions and investment firms
CVA	Credit Valuation Adjustment
DGF	Deposit Guaranteed Fund
EAD	Exposure at Default, following deduction of CCFs and CRMs
EBA	European Banking Authority
ECB	European Central Bank
EMIR	European Market Infrastructure Regulation, EU Regulation Nº 648/2012, on OTC derivatives, central counterparties and trade repositories

Acronym	Description
FINREP	FINancial REPoting, the financial reporting framework for entities in the European Economic Area
FROB	Fund for Orderly Bank Restructuring
FSB	Financial Stability Board
FVA	Funding Value Adjustment.
G-SIBs	Global Systemically Important Banks
HQLA	High Quality Liquid Assets, as set down in the European Commission Delegated Regulation of 10 October 2014
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICFRS	Internal Control over Financial Reporting
IFRS	International Financial Reporting Standards
IGC	Corporate Management Information
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal Rating Based approach
IRC	Incremental default and migration risk
IRRBB	Interest rate risk for positions in the banking book
ISDA	International Swaps and Derivatives Association
KPI	Key Performance Indicators
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LGD DT	Loss Given Default in a Downturn
LT/FL	Life-time/Forward-looking
LTD	Loan-to-Deposits ratio
LTV	Loan-to-Value ratio
MDA	Maximum Distributable Amount
MIFID	Markets in Financial Instruments Directive
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ODF	Observed Default Frequency

Acronym	Description
ORMF	Operational Risk Management Framework
ORMS	Operational Risk Measurement System
ORX	Operational Riskdata eXchange
O-SII	Other Systemically Important Institution
OTC	Over-the-Counter trades
PD	Probability of default
PFE	Potential Future Exposure
RAF	Risk Appetite Framework
RAR	Risk Adjusted Return
RBA	Rating Based Approach
RDA	Risk Data Agregation
ROE	Return on Equity
ROTE	Return on Tangible Equity
RWA	Risk-weighted assets
SFT	Securities Financing Transactions
SICR	Significant Increase in Credit Risk
SN	Single Names.
SNP	Senior non preferred
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TIER2 (T2)	Tier 2 capital
TLTRO	Targeted Longer-term Refinancing Operation
TO	Takeover bid
TRIM	Targeted Review of Internal Models
TSR	Total Shareholder Return
VaR	Value at Risk

Appendix VII. Tables EBA Guide

Template	EBA/GL/2016/11, version 2	IRP Section	Table Nº
EU LI1	EU LI1 - Differences betweeen accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	2.5. Accounting reconciliation between the financial statements and regulatory statements	2.2
EU LI2	EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements	2.5. Accounting reconciliation between the financial statements and regulatory statements	2.3
EU INS1	EU INS1 - Non-deducted participations in insurance undertakings	4.3.2. Capital requirements	4.7
EU OV1	EU OV1 - Overview of RWAs	4.3.2. Capital requirements	4.9
EU CR4	EU CR4 - Standardised approach – Credit risk exposure and CRM effects	5.1.2. Minimum capital requirements for credit risk	5.7
EU CR5	EU CR5 - Standardised approach (EAD)	5.1.2. Minimum capital requirements for credit risk	5.8
EU CR5	EU CR5 - Standardised approach (APR)	5.1.2. Minimum capital requirements for credit risk	5.9
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range	5.1.2. Minimum capital requirements for credit risk	5.12
EU CR8	EU CR8 - RWA flow statements of credit risk exposures under the IRB approach	5.1.2. Minimum capital requirements for credit risk	5.13
EU CRB-B	EU CRB-B - Total and average net amount of exposures	5.1.3. Quantitative aspects	5.15
EU CRB-C	EU CRB-C - Geographical breakdown of exposures	5.1.3. Quantitative aspects	5.16
EU CRB-D	EU CRB-D - Concentration of exposures by industry or counterparty types (Net Value)	5.1.3. Quantitative aspects	5.17
EU CRB-D	EU CRB-D - Concentration of exposures by industry or counterparty types (APR)	5.1.3. Quantitative aspects	5.18
EU CRB-E	EU CRB-E - Maturity of exposures	5.1.3. Quantitative aspects	5.19
EU CR2-B	EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities	5.1.3. Quantitative aspects	5.21
EU CR1-A	EU CR1-A - Credit quality of exposures by sector FINREP	5.1.3. Quantitative aspects	5.22
EU CR1-B	EU CR1-B - Credit quality of exposures by industry or counterparty types	5.1.3. Quantitative aspects	5.23
EU CR1-C	EU CR1-C - Credit quality of exposures by geography	5.1.3. Quantitative aspects	5.24
EU CR1-D	EU CR1-D - Ageing of past-due exposures	5.1.3. Quantitative aspects	5.25
EU CR1-E	EU CR1-E - Non-performing and forborne exposures	5.1.3. Quantitative aspects	5.26
EU CR3	EU CR3 - CRM techniques – Overview	5.1.3. Quantitative aspects	5.27
EU CR2-A	EU CR2-A - Changes in the stock of general and specific credit risk adjustments	5.1.3. Quantitative aspects	5.28
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Corporates)	5.1.3. Quantitative aspects	5.30
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME)	5.1.3. Quantitative aspects	5.31
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail - Covered by Residential Mortgage)	5.1.3. Quantitative aspects	5.32

Template	EBA/GL/2016/11, version 2	IRP Section	Table Nº
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (SME - Covered by Residential Mortgage)	5.1.3. Quantitative aspects	5.33
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Eligible Revolving Retail)	5.1.3. Quantitative aspects	5.34
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Retail SME)	5.1.3. Quantitative aspects	5.35
EU CR6	EU CR6 - IRB - credit risk exposures by portfolio and probability of default (PD) range (Other Retail Exposures)	5.1.3. Quantitative aspects	5.36
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporates non-SME portfolio	5.1.3. Quantitative aspects	5.38
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Corporate SME portfolio	5.1.3. Quantitative aspects	5.39
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – residential mortgage	5.1.3. Quantitative aspects	5.40
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - Retail – SME mortgage	5.1.3. Quantitative aspects	5.41
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio - (Eligible Revolving Retail)	5.1.3. Quantitative aspects	5.42
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other SME)	5.1.3. Quantitative aspects	5.43
EU CR9	EU CR9 - IRB - Backtesting of probability of default (PD) per portfolio (Other Retail)	5.1.3. Quantitative aspects	5.44
EU CCR1	EU CCR1 - Analysis of CCR exposure by approach	5.2.2. Minimum capital requirements for counterparty risk, default fund and CVA	5.46
EU CCR3	EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (EAD)	5.2.3. Quantitative aspects	5.48
EU CCR3	EU CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk (RWA)	5.2.3. Quantitative aspects	5.49
EU CCR4	EU CCR4 - IRB approach - CCR exposures by portfolio and PD scale	5.2.3. Quantitative aspects	5.51
EU CCR7	EU CCR7 - RWA flow statements of CCR exposures under the IMM	5.2.3. Quantitative aspects	N/A
EU CCR5-A	EU CCR5-A - Impact of netting and collateral held on exposure values	5.2.3. Quantitative aspects	5.52
EU CCR5-B	EU CCR5-B - Composition of collateral for exposures to CCR	5.2.3. Quantitative aspects	5.53
EU CCR8	EU CCR8 – Exposures to CCPs	5.2.3. Quantitative aspects	5.54
EU CCR2	EU CCR2 - CVA capital charge	5.2.3. Quantitative aspects	5.55
EU CCR6	EU CCR6 - Credit derivatives exposures	5.2.3. Quantitative aspects	5.56
EU CR10	EU CR10 - IRB (specialised lending and equities)	5.4.3. Quantitative aspects	5.66
EU MR1	EU MR1 - Market risk under the standardised approach	6.2. Minimum capital requirements for market risk	6.1
EU MR3	EU MR3 - IMA values for trading portfolios	6.3. Quantitative aspects	6.2
EU MR2-A	EU MR2-A - Market risk under the Internal Model Approach	6.3. Quantitative aspects	6.3
EU MR2-B	EU MR2-B - RWA flow statements of market risk exposures under the IMA	6.3. Quantitative aspects	6.4
EU MR4	EU MR4 - Comparison of VaR estimates with gains/losses	6.3. Quantitative aspects	
EU LIQ1	EU LIQ1 - LCR detail (monthly average values)	9.2. Quantitative aspects	9.3
EU LI3	EU LI3 - Companies with differing prudential and accounting consolidation treatment	Appendix V	

Template	EBA/GL/2018/10, version 2	IRP Section	Table Nº
Template 1	Credit quality of forborne exposures	5.1.3. Quantitative aspects	5.27
Template 3	Credit quality of performing and non-performing exposures by past due days	5.1.3. Quantitative aspects	5.28
Template 4	Performing and non-performing exposures and related provisions	5.1.3. Quantitative aspects	5.29
Template 9	Collateral obtained by taking ownership and execution processes.	5.1.3. Quantitative aspects	5.30

BCBS Template	Pillar 3 - Disclosure requirements	IRP Section	Table Nº
EU CCyB1	EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer	4.2.3. Total SREP requirements	4.3
SEC1	EU SEC1 - Securitisation exposures in the banking book	5.3.3. Quantitative aspects	5.60
SEC3	EU SEC3 -Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator	5.3.2. Minimum capital requirements for securitisation risk	5.58
SEC 4	EU SEC 4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	5.3.2. Minimum capital requirements for securitisation risk	5.63

Appendix VIII. Map Part Eight Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013

CRR Article	IRP 2019	Table
Article 431. Scope of disclosure requirements		
431.1	Pilar 3 Disclosure. It is published on: *https://www.caixabank.com/informacionparaaccionistaseinversores/informacioneconomicofinanciera/informacionconrelevanciaprudencial_en.html*	
431.2	Section 7.2	
431.3	Declaration of the Board of Directors, Section 1	
431.4	Section 5.1.3	
Article 432. Non-material, proprietary or confidential information		
432.1	N/A ; Section 1	
432.2	N/A; Section 1	
432.3	N/A	
432.4	N/A	
Article 433. Frequency of disclosure		
433	Section 1	
Article 434. Means of disclosures		
434.1	Section 1	
434.2	Section 1	
Article 435. Risk management objectives and policies		
435.1		
435.1.a	Sections 5.1.1, 5.2.1, 5.3.1 , 5.4.1, 6.1, 7.1, 8.1, 9.1, 10	
435.1.b	Sections 3.1.3, 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10	
435.1.c	Sections 3.1.3 y 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10	
435.1.d	Sections 5.1.1, 5.2.1, 5.3.1 ,5.4.1, 6.1, 7.1, 8.1, 9.1, 10	
435.1.e	Section 3	
435.1.f	Declaration of the Board of Directors	
435.2		
435.2.a	Section 3.1.1	
435.2.b	Section 3.1.1	
435.2.c	Section 3.1.1	
435.2.d	Section 3.1.1	
435.2.e	Section 3.1.1, 3.1.2, 3.1.3, 3.4.2	

CRR Article	IRP 2019	Table
Article 436. Scope of application		
436.a	Section 2.2	
436.b	Appendix IV,V	
436.b.i	Appendix IV,V	
436.b.ii	Appendix IV,V	
436.b.iii	Appendix IV,V	
436.b.iv	Appendix IV,V	
436.c	Section 2.3	
436.d	N/A;Section 2.3	
436.e	N/A;Section 2.3	
Article 437. Own funds		
437.1		
437.1.a	Section 4.3.1, Appendix I	
437.1.b	Section, Appendix II	
437.1.c	Section 4.3.1, Appendix II	
437.1.d		
437.1.d.i	Appendix I	
437.1.d.ii	Appendix I	
437.1.d.iii	Appendix I	
437.1.e	Section 4.3.1, Appendix I	
437.1.f	Appendix I	
Article 438. Capital requirements		
438.a	Section 4.1, 4.2.1, 4.5	
438.b	Section 4.2.1, 4.2.2	
438.c	Section 5.1.2	
438.d	Section 5.1.2, 5.2.2	
438.d.i	Section 5.1.2, 5.2.2, 5.4.2	
438.d.ii	Section 5.4.2	
438.d.iii	Section 5.4.2	
438.d.iv		
438.e	Section 6.2	
438.f	Section 7.2	
438	Section 5.4.3	

CRR Article	IRP 2019	Table
Article 439. Exposure to counterparty credit riske		
439.a	Section 5.2.1	
439.b	Section 5.2.1	
439.c	Section 5.2.1	
439.d	Section 5.2.1	
439.e	Section 5.2.3	
439.f	Section 5.2.2	
439.g	Section 5.2.3	
439.h	Section 5.2.3	
439.i	N/A	
Article 440. Capital buffers		
440.1		
440.1.a	Section 4.3.2	
440.1.b	Section 4.3.2	
Article 441. Indicators of global systemic importance		
441.1	Section 4.2.2	
Article 442. Credit risk adjustments		
442.a	Section 5.1.3	
442.b	Section 5.1.3	
442.c	Section 5.1.3	
442.d	Section 5.1.3	
442.e	Section 5.1.3	
442.f	Section 5.1.3	
442.g	Section 5.1.3	
442.g.i	Section 5.1.3	
442.g.ii	Section 5.1.3	
442.g.iii	Section 5.1.3	
442.h	Section 5.1.3	
442.i	Section 5.1.3	
442.i.i	Section 5.1.3	
442.i.ii	Section 5.1.3	
442.i.iii	Section 5.1.3	
442.i.iv	Section 5.1.3	
442.i.v	Section 5.1.3	

CRR Article	IRP 2019	Table
Article 443. Unencumbered assets		
433	Section 9.2	
Articulo 444. Utilización de las ECAI		
444.a	Section 5.1.2	
444.b	Section 5.1.2	
444.c	N/A	
444.d	Section 5.1.2	
444.e	Section 5.1.3	
Article 445. Exposure to market risk		
445	Section 6.2	
Article 446. Operational risk		
446	Section 7.3	
Article 447. Exposures in equities not included in the trading book		
447.a	Section 5.4.3	
447.b	Section 5.4.3	
447.c	Section 5.4.3	
447.d	Section 5.4.3	
447.e	Section 5.4.3	
Article 448. Exposure to interest rate risk on positions not included in the trading book		
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448.b	Section 8.1	
Article 449. Exposure to securitisation positions		
449.a	Section 5.3.1	
449.b	Section 5.3.1	
449.c	Section 5.3.1,5.3.3	
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449.e	Section 5.3.1	
449.f	Section 5.3.1	
449.g	Section 5.3.1	

CRR Article	IRP 2019	Table
449.h	Section 5.3.2	
449.i	Section 5.3.1	
449.j	Section 5.3.1	
449.j.i	Section 5.3.1	
449.j.ii	Section 5.3.1	
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449.j..iv	Section 5.3.1	
449.j.v	Section 5.3.1	
449.j.vi	Section 5.3.1	
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449.l	Section 5.3.2	
449.m	Section 5.3.2, 5.3.3	
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449.n.ii	Section 5.3.3	Table 5.59,5.61
449.n.iii	Section 5.3.1	
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449.n.v	Section 5.3.2	
449.n.vi	Section 5.3.1	
449.o	Section 5.3.1, 5.3.3	
449.o.i	Section 5.3.2	Table 5.58
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Article 450. Remuneration policy		
450		
450.1.a	Section 11.1	
450.1.b	Section 11.3, 11.4	
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450.1.g	Section 11.4	

CRR Article	IRP 2019	Table
450.1.h	Section 11.4	
450.1.h.i	Section 11.4	
450.1.h.ii	Section 11.4	
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450.1.h.iv	Section 11.4	
450.1.h.v	Section 11.4	
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450.1.i	Section 11.4	
450.1.j	N/A	
450.2	Section 11	
Article 451. Leverage		
451.1	Section 4.3.4, Appendix III	
451.1.a	Section 4.3.4, Appendix III	
451.1.b	Section 4.2.4, Appendix III	
451.1.c	N/A	
451.1.d	Section 4.3.4, Appendix III	
451.1.e	Section 4.3.4, Appendix III	
Article 452. Use of the IRB Approach to credit risk		
452.a	Section 5.1.3	
452.b		
452.b.i	Section 5.1.3	
452.b.ii	Section 5.1.3	
452.b.iii	Section 5.1.3	
452.b.iv	Section 5.1.3	
452.c	Section 5.1.3	
452.c.i	Section 5.1.3	
452.c.ii	Section 5.1.3	
452.c.iii	Section 5.1.3	
452.c.iv	Section 5.1.3	
452.c.v	Section 5.1.3	
452.d	Section 5.1.3	
452.e	Section 5.1.3	
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CRR Article	IRP 2019	Table
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452.g	Section 5.1.3	
452.h	Section 5.1.3	
452.i	Section 5.1.3	
452.j	Section 5.1.3	
452.j.i	Section 5.1.3	
452.j.ii	Section 5.1.3	
Article 453. Use of credit risk mitigation techniques		
453.a	Section 5.1.1	
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