Corporate Risk Catalogue

■ *Affecting financial activity*
■ *Affecting business continuity*

Risks of activities	Risk management	Situation and main activities in 2015
Lending Risk of a decrease in the value of the CaixaBank Group's assets due to uncertainty in a counterparty's ability to meet its obligations.	• This is the most significant risk for the Group's balance sheet and arises from its banking and insurance business, treasury operations and investee portfolio. • Its management is characterised by a prudent approvals policy and appropriate coverage. • The management lifecycle takes an end-to-end approach to transactions.	• Simplification and rationalisation of acceptance circuits and increasing delegation of functions to the branch network. • Development of control over the major risk concentration ratio. • Cost of risk at 0.7% (1.0% in 2014) and NPL ratio of 7.9% (9.7% in 2014).
Market Loss of value in the assets or increase in value of the liabilities in the Group's held-for-trading portfolio, as a result of fluctuations in rates or prices in the market where these assets and liabilities are traded.	• Management of these involves daily risk estimates, tests carried out on the quality of these measurements, calculation of hypothetical results in the event of sharp changes in market prices and monitoring and control of limits. • The Group has put in place daily VaR limits for all trading activities of €20 million.	• The average 1-day VaR at 99% for trading activities was €3.3 million. • Moderate consumption of market risk, at €166 million on average.
Interest rate risk in the banking book Risk of a negative impact on the economic value of the balance sheet or results, arising from changes in the structure of the interest rate curve or exchange rate fluctuations.	• This risk is managed by optimising the net interest margin and keeping the economic value of the balance sheet within the limits established in the Risk Appetite Framework. • CaixaBank actively manages risk by arranging additional hedging transactions on financial markets to supplement the natural hedges generated on its own balance sheet by its deposits and lending transactions with customers.	• The sensitivity of the net interest margin over one year to a 100 bp increase or decrease in interest rates is 2.40% and –2.00% respectively. • Average 1-day VaR at 99% for the CaixaBank Group's balance sheet was €114 million.
Liquidity Risk of insufficient liquid assets to meet contractual maturities of liabilities, regulatory requirements, or the needs of the business.	• Liquidity risk management is based on: a centralised liquidity management system with segregation of functions; holding an efficient level of liquid funds; active liquidity management; and stable and sustainable funding sources.	• A robust liquid asset position for the existing financing structure: — Immediately available bank liquidity of €54,090 million. — LCR ratio of 172%.
Operational Risk of losses arising from inadequate or failed internal processes, people and systems, or from external events.	• Operational risk management is based on: our expert workforce; and the procedures established and systems and controls put in place. • Operational risks are measured using associated Key Risk Indicators (KRI).	• The operational risk management evolution project has been completed. • Progressive roll out of management mechanisms and actions plans. • Approval of operational risk policies by governance bodies.

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Compliance Risk arising from a deficient procedure that generates actions or omissions that are not aligned with the legal or regulatory framework, or with the internal codes and rules, and which could result in administrative sanctions or reputational damage.	• Management model based on three lines of defence. • The first line of defence is the business areas; the second Regulatory Compliance; and the third the Internal Audit Area, which supervises the first two lines of defence, independently.	• Creation of the Control & Compliance area, combining the Internal Control and Regulatory Compliance areas. • Progress with implementation of the AML/CTF system transformation plan. • Development and implementation of the International Sanctions project.
Reputational The possibility that CaixaBank's competitive edge might be reduced due to the loss of trust in the bank by some of its stakeholders, based on their assessment of actions or omissions, real or purported, by the bank, its senior management or governing bodies.	• The reputational risk map identifies the risks with the highest potential impact on its image and the degree to which preventative measures are being applied. • Indicators have been put in place for the most significant risks to allow for periodic monitoring of the effectiveness of the preventive measures implemented. • CaixaBank has a range of tools for measuring its reputation with its stakeholders.	• Renewal of the Corporate Responsibility and Reputation Committee. • Approval of CaixaBank's Corporate Social Responsibility Policy. • Extension of measurement of reputational risk and automated collection of monitoring indicators.
Actuarial Risk of an increase in the value of commitments assumed through insurance contracts with customers and employee pension plans, due to differences between the estimated claims and actual outcomes.	• Policies are based on Directorate-General of Insurance and Pension Funds (DGIPF) guidelines and monitoring of product performance. • The Group establishes limits for the net risk retained by each business line, risk and/or event, based on the risk profile and reinsurance costs.	• Development of adaptations and improvements to comply with the European Solvency II Regulations, which came into effect on 1 January 2016. • Involvement in sector working groups.
Legal and regulatory A loss or decrease in the profitability of the CaixaBank Group as a result of changes to the regulatory framework or court rulings that are unfavourable to it.	• Management activity seeks to: anticipate regulatory changes by identifying the main risks and impacts; implement new regulatory requirements; and defend the bank in all legal actions.	• Involvement in consultations with domestic, European and international regulators. • Coordination of analysis of regulatory impact and implementation of new regulations by establishing criteria and procedures. • Formalisation of the Group's Tax Strategy and Tax Risk Management Policy.
Capital adequacy Risk resulting from constraints on the CaixaBank Group's ability to adapt its level of capital to regulatory requirements or to a change in its risk profile.	• Management activity focuses on maintaining a low-medium risk profile and comfortable capital adequacy to cover any unexpected losses. • Objectives: — 11% minimum capital, comfortably exceeding Basel III requirements. — Weight of investees < 10%.	• Regulatory CET1 capital of 12.9% (the minimum set by the ECB is 9.25%). • Sale of holdings in the investees Boursorama and Self Trade Bank in 2015, and planned sales of BEA and Inbursa to CriteriaCaixa in 2016 (pending regulatory authorisations).