



Institut Català
de Finances

Annual report 2014



Generalitat
de Catalunya

Table of contents

1. Letter from the CEO	3
2. This year's key figures	4
3. Mission and values	6
4. History	7
5. Legal framework	9
6. Corporate structure of the group	11
7. Corporate governance model and structure	13
8. Organisational structure	16
9. Economic context	18
10. Tenets of the business model	20
11. Risk management	22
12. Activity	27
13. Financial summary	37
14. Capital management	40
15. Ratings	41
16. Corporate social responsibility	42

Letter from the CEO



Once again, we are pleased to present the annual report of the ICF, the Institut Català de Finances.

2014 was a year marked by incipient signs of economic recovery — especially in the second half — which resulted in a growth of 1.5% in the GDP and the creation of 49,000 jobs in Catalonia. In the Eurozone, however, the signs of recovery that had been showing during the year 2013 have given way to a certain stagnation with lower than expected growth. This and low prices have affected the activity of the European Central Bank, which has opted for expansionary monetary policies to stimulate the economy, mostly by making cuts to historically low interest rates and implementing an asset purchase program (Quantitative Easing).

In this context and with regard to the ICF, 2014 was a year marked by the growth of our activity, particularly lending, which is in line with the strategic plan launched in 2011 focused on promoting and facilitating access to financing for the business community in Catalonia, especially SMEs.

The organisation has grown in terms of the volume of financing, the number of loans and guarantees and the number of companies being financed with respect to 2013.

The volume of financing rose by 18% to 733 million euros, above the 650 million initially planned. As for the number of transactions — loans and guarantees — there was a 49% increase over the same period of the previous year and the number of companies financed (1,642) there was a

40% increase. 96% of the financed companies are SMEs and self-employed people. And most importantly, through this financing, the Group has helped to create and / or maintain over 63,000 jobs.

All this has been possible thanks to a proactive commercial approach towards companies and financial institutions in order to provide solutions to the business community. To carry out this activity, the ICF has both its own financial resources and those resulting from the confidence of investors it has been able to attract in national and international markets.

Since 2011, coinciding with the reorientation of our business, the ICF has provided more than 11,000 companies with access to finance, mostly SMEs and the self-employed, through loans and guarantees for a total of over 3 billion euros, in addition to nearly 130 million committed by the organisation in the area of venture capital and participative loans.

This is because our aim is to be a tool for Catalonia that serves to reactivate the growth of the country's economy and to act as a complement to the private financial sector.

Overall, today the ICF has a loan portfolio of more than 3.3 billion euros and over 13,200 customers throughout Catalonia, representing nearly 270,000 jobs.

Regarding the main financial indicators, the ICF closed the year with positive results and high levels of capital adequacy ratios required for the

financial sector, thanks to profit reinvestment and its strict risk assessment policy, among other measures. Delinquency ratios were kept in line with the industry average, although the hedge fund was higher.

2014 was also an intense year with regard to adapting and standardising the organisation in order to carry out its activity under the framework of the recently created Bank Union, which came into force on 4 November. In this sense we have taken meaningful strides towards achieving the internal governance, procedures, structure and operations required by financial regulators on the national and European level. This is but one more step toward the standardisation and consolidation of a dynamic public financial institution that is transparent, regulated, supervised and at the service of the businesses of our country.

None of this would have been possible without the efforts and dedication of the institute's governing officers and the Group's staff as a whole, and I would like to take this opportunity to thank them for their daily work at the ICF, a key engine of economic growth and job creation.

There are many challenges before us, but we look forward to 2015 with the firm conviction that we are more than ready to set out together and achieve our goals.

Josep-Ramon Sanromà Celma
Chief Executive Officer

2 This year's key figures

“The ICF has
financed 1,642
companies for a
total of 733
million euros”

Group's Loan Activity*

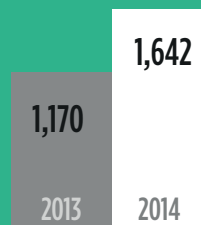
Financing
+18%



72% new financing

28% refinancing

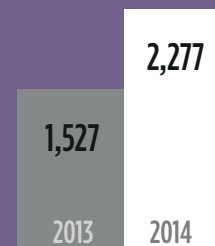
Businesses
+40%



96% SMEs and entrepreneurs

63,108 jobs

Operations
+49%



986 loans / 1,290 guarantees / 1 issue in MARF

€322,000 average per transaction

Key financial indicators

Total assets	3,670.1
Total investment and risk	3,367.1
Equity	810.2
Profit for the year	7.9

** Figures in millions of euros.*

ICF solvency ratio (BIII)	28.1%
Regulatory minimum	8%
ICF delinquency ratio	13.5%
Sector ratio	12.5%
ICF coverage ratio	63.8%
Sector ratio	58%
ICF liquidity ratio	550%
Sector ratio (06/2014)	156%

“Yet another year, the entity has obtained positive results that have allowed it to increase its Shareholder's Equity”

“ICF closed the year with a high level of solvency”



2 Mission and values

“**The mission of the ICF is to foster and provide the business community in Catalonia with access to financing**”

The Institut Català de Finances (ICF) is a public financial institution reporting to the Catalan Regional Government.

The mission of the ICF is **to foster and provide the business community in Catalonia with access to financing** in order to contribute to **the growth of the Catalan economy**.

As a public financial institution, it acts as a complement to the private financial sector, covering the needs of businesses under market conditions.

The company **accompanies Catalan companies and entrepreneurs in their growth and development, generating value that affects the entire society**. Always working alongside its customers, it is committed to their goals and provides them with flexible, effective solutions that suit their needs.

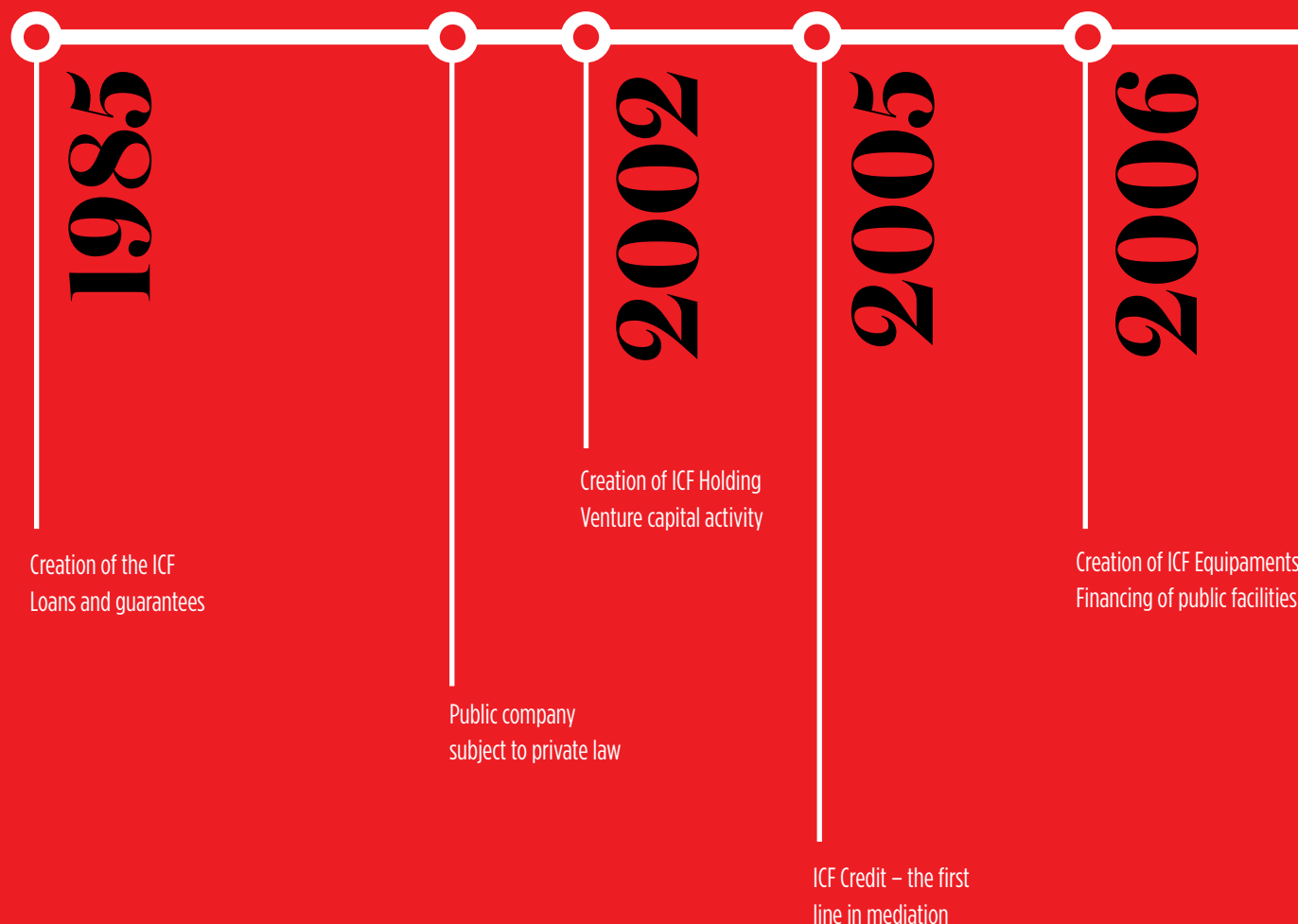
The ICF is a **local organisation that is proud to be open and supportive of companies** struggling to compete in the current economic climate, providing flexible, realistic and up-to-date solutions that meet their needs with strength and reliability.

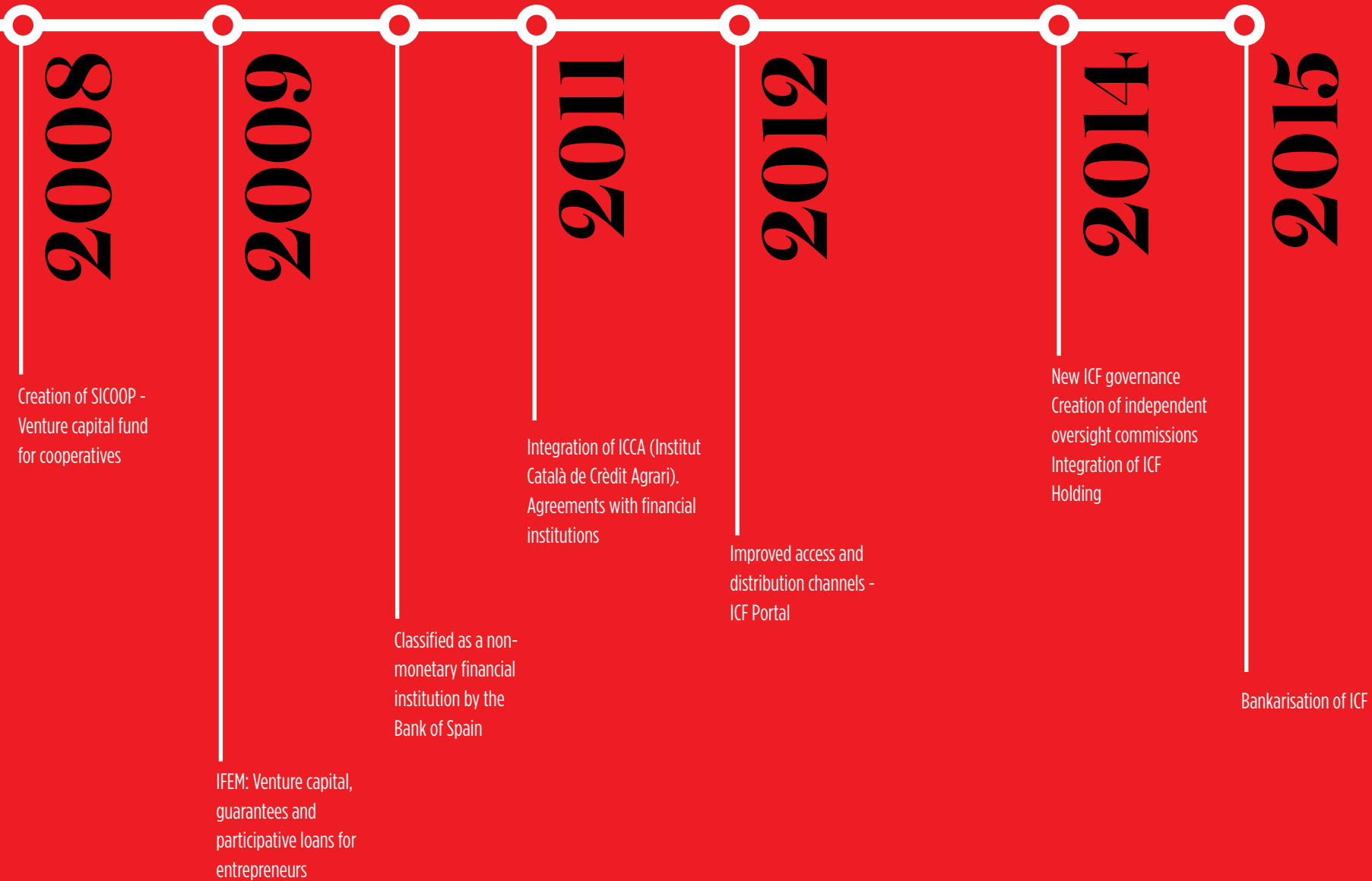
The Institut Català de Finances was **created by Law 2/1985**, out of a broad consensus of all the political forces represented in the Catalan Parliament. The organisation's early years coincided with a very dynamic phase of the Catalan economy and were in line with the development aims of the Catalan Regional Government. This meant their activities have always been closely linked to whatever sectoral policies were being carried out by the regional government at the time and the impact this had on companies in different economic cycles.

Throughout these 30 years, changes have been made to its configuration in order to adapt the structure and organisation to the financing needs of the business community, so as to complement the private financial sector. At first, only investments in long-term fixed assets were made, but this gradually changed to providing a response to a wide range of financial needs, including working capital, internationalisation, innovation, capitalisation, etc.

Coinciding with its 30th anniversary, the company is facing challenges that largely involve **the adjustment and standardisation of its legal status and operations**. These will allow it to adhere to regulatory **requirements and develop its activity within the framework** of the recently created European Banking Union.

4 History





Budgetary and management autonomy

Legal framework

The ICF is a **public entity** with its own legal personality that is **subject to private-sector law**.

The company has its own assets and treasury that allow it to carry out its activities, which are developed in accordance with the principles of financial stability, the management and control of credit risk, and the standards set by financial regulators.

Since 2010, it has been categorised by the Bank of Spain as a **non-monetary financial institution**.

Additionally, in 2011 Eurostat confirmed the ICF to be an entity outside the perimeter of ESA 2010, which means it does not contribute to the deficit or debt of the Catalan Regional Government.

The ICF has its own **assets and funds** and, in order to carry out its functions, it acts with organisational, financial, capital, operational and management autonomy, **fully independent of public entities** and subject to its own by-laws, the Statute on Catalan Public Companies and other applicable legislation, notwithstanding the fact that its activity is subject to the rules of private administrative law.

The Institute is governed by Legislative Decree 4/2002 of 24 December, which approved the revised text of the Law of the Institut Català de Finances of 14 January 1985, subsequently amended on several occasions, the most recent of which is Law 5/2012 on the fiscal, financial and administrative measures for 2012.

Also, in terms of the regulatory framework of reference, Article 217 of Law 2/2014 of 27 January, on the fiscal, administrative, financial and public sector measures for 2014, states that the **ICF is subject to specific regulations governing credit institutions** and, therefore, is subject only to the basic tenets dictated by the applicable regulatory agencies of the European Union, in light of the nature of its specific activity.

Where applicable, the Catalan Budgetary Acts for each year contain the contributions to the assets of the entity, the maximum annual debt limit commitment of the ICF and the areas of activity with regard to public loans.

In order to carry out its activities, the ICF is **primarily financed on national and international markets**, through bank loans and bond issues.

Banking regulations

During 2014, the ICF has continued to work to adapt and standardise its legal status, structure, procedures, operations and internal governance in order to carry out its activity in accordance with the regulatory requirements established by the European Banking Union.

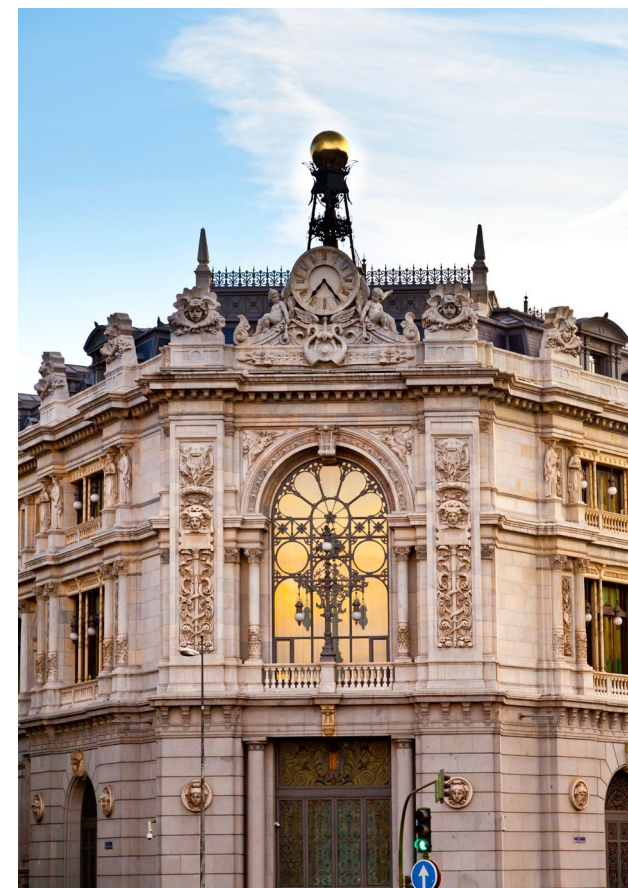
As part of this process, even though it is not currently qualified as a credit institution, the ICF has voluntarily adopted the processes required by European banking regulations (**Directive 2013/36 / EU, Regulation 575/2013, Basel III**) and state banking regulations (**Law 10/2014** of 26 June on the organisation, supervision and solvency of credit institutions) with the aim of staying in line with the rest of the financial sector.

The regulations at the European level, known as CRD-IV, entered into force on 1 January 2014 with gradual implementation until 2019. Among other things, they regulate the capital requirements for financial institutions in the European Union and introduce new requirements in relation to liquidity risk and leverage.

The ICF has incorporated these regulations in the calculation of its solvency ratio and risk management, monitoring the degree of compliance with the established regulatory limits.

Likewise, the ICF **records its financial activity and presents its financial statements in accordance with the regulations established by the Bank of Spain** for credit institutions.

“**The ICF has voluntarily adopted the processes required by banking regulations**”



6 Corporate structure of the group

“The ICF Group operates through a parent company, two subsidiaries and an investee company”

Institut Català de Finances

This is the **Group's parent company** and, since its inception, it has been responsible for granting loans and guarantees.

The Institute was created in 1985 by Law 2/1985 of 14 January, as the main transversal instrument in the Catalan Regional Government's public credit policy. It is currently assigned to the Ministry of Economy and Knowledge.

In 2011, following its merger with the Institut Català de Crèdit Agrari (ICCA), it also assumed the responsibilities of promoting credit to the primary sector and the agri-food industry.

In 2013, following the closure of the ICF Holding Corporation, it also started to integrate and assume the responsibilities, commitments and activities related to the company's venture capital investments.

IFEM (Instruments Financers per a Empreses Innovadores, SLU)

This is one of the Group's two subsidiaries.

Through IFEM, the ICF manages resources from **European Structural Funds**, which include funds of the JEREMIE program — *Joint European Resources for Micro to Medium Enterprises*, dedicated to the creation and growth of micro, small and medium-sized businesses through participative loans, venture capital, guarantees and micro-credits.

ICF Capital

The ICF's other wholly-owned subsidiary is ICF Capital, **Societat Gestora d'Entitats d'Inversió Col·lectiva de Tipus Tancat** (SGEIC), SAU, which has been registered in the administrative register for Management Companies of the National Securities and Exchange Commission since September 2010.

Its main objective is to foster, advise and manage venture capital funds and companies, both public and private, that provide capital to companies in Catalonia. Currently, ICF Capital directly manages four investment funds: **SICOOP**, an investment company in cooperatives; **BCN Emprèn**, a company specialising in innovation and technology-based companies; and two funds wholly owned by the ICF: **Capital MAB**, intended for financing companies listed on the Alternative Investment Market; and **Capital Expansió**, aimed at medium-sized companies with growth and internationalisation projects.

Avalis de Catalunya, SGR

The ICF, along with other financial institutions and business sectors, owns capital shares in Avalis de Catalunya, SGR.

Avalis is a mutual guarantee company with mixed capital (public-private). The Catalan Regional Government fostered the creation of this entity in 2003 to provide access to credit to SMEs and self-employed people operating in Catalonia and improve their financing conditions through the **provision of guarantees** against the banks. ICF and Avalis work together to grant guarantees and loans to the business community.

7 Corporate governance model and structure



** Committees created in 2014, following Law 10/2014 of 26 June on organisation, supervision and solvency of credit institutions.*

Collegiate Bodies

The **Governing Council** is the **maximum collegiate governing body** of the ICF and is responsible for strategic decisions regarding its activities. Among other functions, the law confers it with that of submitting the Institute's budgetary proposals, annual report, balance sheet, financial accounts and proposed allocation of profits for Government approval, as well as responsibility for decision-making on the Institute's organisation, operation and legal relations, and to be familiar with the activities of the other bodies.

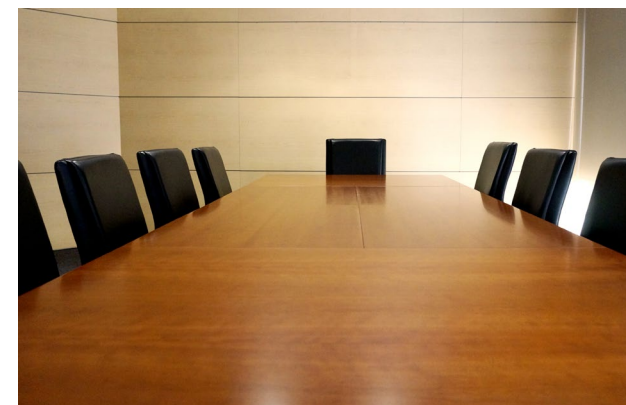
The Council, in accordance with the law regarding the Institute, may establish commissions and committees to which it may delegate powers to approve and modify the credit and investment operations specifically delegated to them. In this way, the **Executive Committee** is the competent body for approving and modifying credit operations delegated to it by the Governing Council. The **Capital Investment Committee** is delegated with investment decisions in the field of venture capital and financial holdings. Finally, the **Agri-Food Finance Committee** is delegated with the supervision of credit activity for the primary sector and agri-food industry.

New Committees

During 2014, the ICF has continued to work to **adapt and standardise** its legal status, structure, procedures, operations and internal governance in order to carry out its activity **in accordance with the regulatory requirements** established by the **European Banking Union**.

The ICF is addressing this process by taking different regulatory frameworks as a guide: firstly, the regulatory framework of European regulations contained in the 4th European Capital Requirements Directive (Directive 2013/36/EU) and its Regulations (Regulation 575/2013); secondly, the regulations issued by the Basel Committee on Banking Supervision, known as "Basel III"; and finally, the Spanish regulations on the application of European legislation contained in Law 10/2014 of 26 June, on the organisation, supervision and solvency of credit institutions. These regulatory areas form a complete set of reforms aimed at strengthening the governance, supervision and risk management of the banking sector within the framework of the European Banking Union and Single Supervisory Mechanism, which entered into force on 4 November 2014.

In the specific area of governance, in accordance with Law 10/2014 of 26 June, in 2014 the Governing Council approved the creation of **two new committees**: the Appointments and Remuneration Committee and the Joint Auditing and Control Committee.



The **Appointments and Remuneration Committee** has the power to analyse, validate and submit proposals to the Governing Council on issues relating to appointments (repute, fitness, etc.) and remunerations (fixed and variable) of the members of the organisation's governing bodies and key personnel.

The **Joint Auditing and Control Committee** is responsible for planning and monitoring internal and external audit processes, global risk control, regulatory compliance, internal control and the prevention of money laundering.

Currently, and on their own decision, both committees are **formed exclusively of independent** directors named by the Governing Council. These two committees report directly to the highest governing body of the institution.

The CEO

The CEO is freely appointed and dismissed by the Catalan Regional Government, on the proposal of the Minister for the Department of Economy and Finance, and is responsible for the ordinary and extraordinary representation of the Institute in all areas and situations.

Josep-Ramon Sanromà Celma has been the CEO of the ICF since 22 February 2011.

The Advisory Board

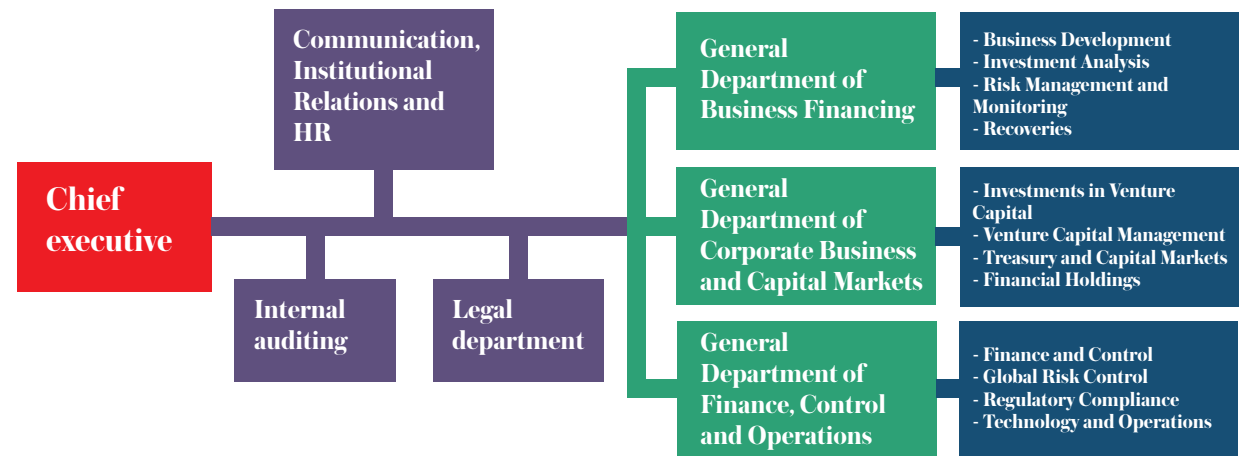
The Advisory Board of the Institute was created on 22 April 2002.

Articles 26 and 27 of Legislative Decree 4/2002 stipulate that the Advisory Board must be informed of the general policy and activities of the Institute. It is likewise charged with informing the Governing Council of the proposed budget, annual report, balance sheet, accounts and allocation of profits.

Governing bodies of the ICF's subsidiaries: ICF Capital and IFEM

The ICF's two subsidiaries (ICF Capital and IFEM), have a Board of Directors of their own, which is their senior governance body and is responsible for administration and management of the company.

8 Organisational structure



Distribution by age groups

The Group's human capital is made up of highly qualified staff.

On 31 December 2014, the ICF Group had a workforce of 93 employees, with an average age of 42.3.

Age	2014	2013
From 21 to 30	13	9
From 31 to 40	28	29
From 41 to 50	28	29
Over 51	24	26
TOTAL	93	93

As far as the breakdown by sex is concerned, 61% of the staff are women and the remaining 39% are men.

Distribution by level of education

With regard to the breakdown by professional categories, most of the Group's staff are graduates (2-year and 4-year degrees).

Training	2014	2013
University graduates	72%	69%
High school graduates	12%	13%
Administrative studies	16%	18%

Staff development

The ICF uses a performance assessment tool to detect the training needs of the professionals that make up the organisation's staff, and to draw up plans to develop, identify, manage and promote internal talent.

The organisation promotes both the in-house and external **training** of its professionals. For these purposes it has a specific mechanism to fund any type of training, which consists of three modes: training entirely funded by the company, training co-funded by the employee, and even training financed by employee him/herself, in which case the costs are channelled through their salary by way of a flexible compensation plan.

Within the 2014 Training Plan, 46 training programmes were carried out (22% more than in 2013), 58% of which were funded 100% by the company while the remaining 42% were co-funded.

On the whole, the training programmes involved a total of 293 people (29% more than the previous year). The level of satisfaction of those taking part was 7.5 out of 10.

During the year, training programmes were given on the entity's bankarisation process, team management and languages, among other areas.

9 Economic context

In the global context, the 2014 financial year was marked by the tendency toward a slowdown of the world's major economies. The most notable events in this regard were the downward trend in the growth forecasts for the United States and the entry of Brazil into recession in the first half of the year.

As for the **Eurozone**, the signs of recovery shown in the 2013 financial year gave way to a certain stagnation, from which its main economic engines, Germany and France, did not escape, both reporting lower growth than expected. The OECD, in its latest report, has already started sounding the alarm on the risk of deflation and the consequences this would have on the general economy and the repayment of debt.

It is precisely the alarm over low prices that has most affected the activity of the **European Central Bank** this year. The body chaired by Mario Draghi has committed to **expansionary monetary policies** to stimulate the economy, mostly by cutting interest rates to record lows and implementing an asset purchase program (Quantitative Easing). At the same time, there was an uptick in the cost of maintaining deposits in the ECB from 0.10% to 0.20%, which was intended as an incentive for financial institutions so that this increase in the money supply would lead to more credit opportunities for households and businesses.

As for Catalonia, it performed better than expected in terms of economic growth (+1.5%) and job creation, with 49,000 new jobs. Exports, which represent 38% of the Catalan GDP, remain the main engine of the economy.

“**Catalonia has performed better than expected in terms of economic growth (+1.5%) and job creation, with 49,000 new jobs**”

A firm and decisive step: The European Banking Union

As a result of the financial crisis that began in 2007, the world's leading economies agreed on the need to define a new regulatory framework for the financial sector, in particular to supervise the solvency and liquidity of financial institutions through common international regulations that would also bolster corporate governance structures focused on management and risk control, and expand public disclosure requirements. It was likewise agreed to deploy mechanisms to ensure that the public sector would not be primarily and almost solely responsible for the restructuring of bankrupt entities.

In the case of Europe, 2013 saw the approval for the implementation of Basel III in Europe with the approval of Regulation 575/2013 and Directive CRD-IV.

2014 was a busy year in terms of the policy development of this Regulation **and the culmination of a true Banking Union.** The Banking Union is composed of four pillars:

- Single Regulatory Code
- Single Supervisory Mechanism (SSM)
- Single Resolution Mechanism (SRM)
- Deposit Guarantee Fund (DGF)

The adaptation of this framework, the continual introduction of new regulations regarding solvency and liquidity, but also the application new accounting standards such as the IFRS9 are providing entities with a sharp focal point.

The industry, after having cleaned up their balance sheets and covered their capital needs, is defining the strategy for the recovery of its profitability. This challenge is by no means easy, since it comes with the added difficulties of shrinking balances, higher capital costs, a cost of risk that is still high, partly-adjusted structural expenses and a loss of image and reputation in the eyes of customers and society as a whole.

The ICF is no stranger to the framework the industry now finds itself in, and will continue adapting to the rules. Once a governance structure in line with the Basel III standards has been completed, it will focus its efforts towards obtaining a banking license.

Bankarisation within a single European framework will certainly be a key feature of the coming financial year, but financing the Catalan economy will continue being the core of the institution's efforts. The growth of the GDP is expected to encourage investment in Catalan companies and the ICF has sufficient resources and solvency to exert its leverage in helping to strengthen Catalonia's economic recovery.





10 Tenets of the business model

The main objective of the Institut Català de Finances is **to foster and provide the business company in Catalonia with access to financing** in order to contribute to the **growth of the Catalan economy**.

The organisation acts as a **complement to the private sector**, covering the needs of businesses under market conditions.

In this respect, the ICF provides businesses and entrepreneurs with several **products and services related to business financing** that address investment financing, working capital and capital through loans, guarantees and venture capital.

The range of products and services is divided into:

- **Loans to companies:** different kinds of products depending on the purpose of the funding (investment or working capital) and the industry they are targeted at.
- **Loans to shareholders:** to increase companies' capital in order to strengthen their financial structure and improve their solvency.
- **Guarantees:** provision of guarantees before financial institutions to provide businesses with access to credit.
- **Venture capital and participative loans:** promoting, managing and holding venture capital instruments as a means of strategic financing and support for business growth. This also includes managing loans by investing alongside private investors.

Cooperation agreements

In order to contribute to boosting and developing the Catalan economy, the ICF has collaboration agreements with companies involved in business financing.

- **Financial institutions:** through joint ventures and/or obtaining mediation loans with risk, giving companies easier access to lending through local branch networks.
- **European agencies:** important agreements have been signed with the European Investment Bank and the European Investment Fund for the anchoring of credit transactions that meet certain requirements.
- **Other financial institutions:** networks of private investors, the Alternative Investment Market (AIM) and advisors specialising in venture capital.
- **Departments of the Catalan Regional Government:** through financing products arranged for specific sectors.
- **Business organisations:** chambers of commerce, employers' associations, business associations, as well as consultants and advisors to act as promoters of ICF products among businesses and guide them through the process of applying for financing.



Priorities

Throughout 2014, the ICF has continued **prioritising funding to the private sector**, especially **SMEs and entrepreneurs**, with the creation of financial products and instruments adapted to their specific needs, in accordance with the Action Plan implemented in 2011 based on providing support to businesses in order to favour the **revival and growth of the Catalan economy**.

In 2014 the Institute **increased the volume of its financing by 18%**, to strengthen businesses through loans and guarantees.

During the year, the institute also continued **adapting and improving its channels of distribution** to facilitate access to its funding products and instruments to any business based in Catalonia (regardless of its size or sector), at any time and from any location, through its website (www.icf.cat). It has also raised the profile of the Institute and its activities through the campaign 'Crèdit al creixement' (Credit for growth) in the press, radio, television and digital media.

At the same time, the ICF **continued working** to adapt and certify its legal status, structure, procedures, operations and internal management **so as to develop its activity** in accordance with the regulatory requirements of the **European Banking Union**, which entered into force on 4 November 2014.

Global risk management

Risk management

The Risk Management System that the ICF applies to its consolidated group is based on several Risk Control Policies. Each type of risk has different levels of responsibilities, which are assigned to specific committees and decision-making bodies, meaning that these responsibilities and especially all the risks involved are explicitly allocated.

The ICF **risk management** system is based on the following **principles**:

- Ensuring that risks that may affect the strategies and goals of the organisation are properly **identified, analysed, evaluated, managed and monitored**.
- Achieving the **strategic goals determined by the entity in terms of profitability and risk**.
- Incorporating the view that **risk = opportunity** into risk management
- Guaranteeing **financial instruments** are used **properly** and in accordance with investment goals and risk hedging and within the requirements of applicable regulations.
- Ensuring **transparency** when reporting to the various committees and governing bodies about the risks of the organisation, depending on the powers with which they are entrusted.

During 2014, the ICF adopted a **management and risk control model** based on the lines of defence adopted from the “GL44”, the guide to internal governance issued by the **European Banking Authority** (hereinafter, the EBA).

The **main risks** that may affect the ICF Group are:

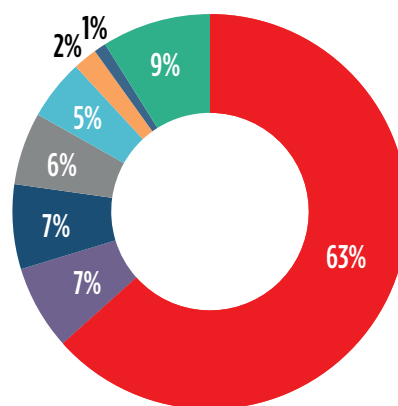
- **Credit Risk**
- **Counterparty Risk**
- **Market Risk**
- **Liquidity Risk**
- **Interest Rate Risk**
- **Operational Risk**

Managing credit risk

The Group's fundamental aim concerning credit risk is to achieve sustained, stable and moderate growth of credit risk, enabling a balance to be maintained between acceptable levels of risk concentration among creditors, sectors, activity and geographical areas on the one hand; and robust, prudent and moderate levels of solvency, liquidity and credit hedging on the other.

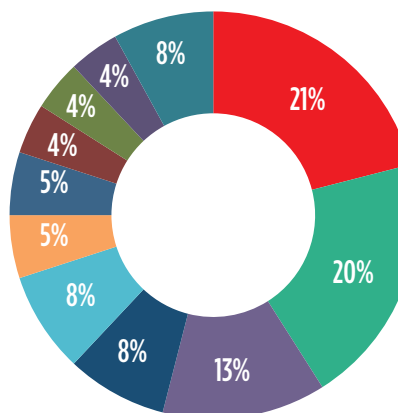
The Global Risk Control Department carries out regular monitoring of the levels of risk concentration, changes in bad debt rates, and various alerts that have been set up to monitor changes in credit risk. The Supervisory Committee also analyses specific operations that, for various reasons, have given rise to bad debt or irrecoverable loans.

Below is the credit risk at 31 December 2014, in terms of the area of investment and production sector:



Area of investment

- Barcelona
- Girona
- Central Catalonia
- Lleida
- Camp de Tarragona
- Terres de l'Ebre
- Alt Pirineu i Aran
- Other



Sector*

- Industry
- Public administration, education, health and social services
- Professional, scientific and administrative activities
- Trade, hotels and other services
- Real estate activities
- Artistic activities
- Finance and insurance
- Construction
- Information and communication
- Agriculture
- Unclassified

*IDESCAT

Managing counterparty risk

The ICF Group, in compliance with Article 286 “Management of CCR – Policies, processes and systems” of Regulation 575/2013 / EU, has defined a policy for managing counterparty risk, which is covered under the ICF Group’s Finance Risk Policy, as well as systems to control counterparty risk and its maximum exposure.

In December 2014, the ICF Group’s counterparty risk was a result of exposure that came from interest rate hedging derivatives, which the Group only uses as a financial risk management tool.

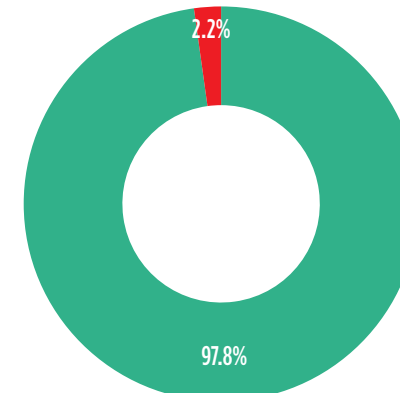
During the 2014 fiscal year, the ICF Group adopted EMIR regulations (Regulation 648/2012). This regulation came into force on 15 September 2013 with effect as of 12 February 2014 and establishes reporting procedure requirements, which affect companies that operate with derivatives.

Managing market risk

As of 31 December 2014, the Group’s entire fixed-income portfolio was listed in the category of “Investment Grade”. Furthermore, 97.8% of this portfolio is held in euros and the remaining 2.2% is fully covered by currency exchange insurance.



■ Investment rating (BBB- and AAA)

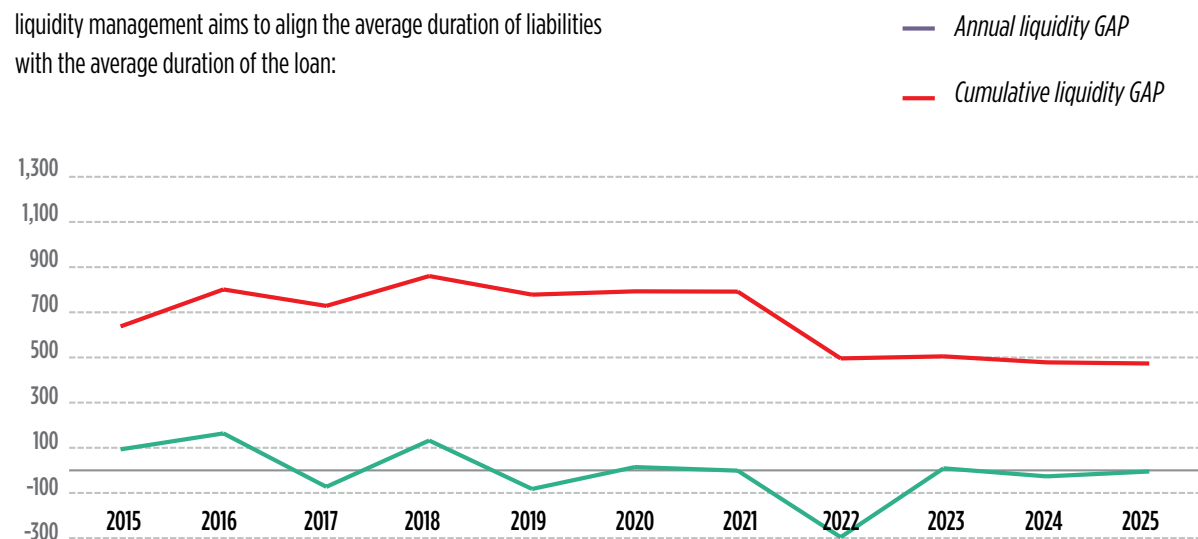


■ EUR ■ CHF

Managing liquidity risk

The Group's fundamental objective in relation to liquidity risk is to have the necessary instruments and processes in place at all times to enable the Group to keep sufficient levels of liquidity to meet its payment obligations without significantly affecting the Group's results, and to preserve the mechanisms that, in any eventuality, enable it to meet its payment obligations.

The Group has a positive cumulative liquidity gap in the period 2015 - 2025, due to its conservative management profile. Furthermore, its liquidity management aims to align the average duration of liabilities with the average duration of the loan:



Short-term liquidity ratio (SLR)

At 31 December 2014, the ICF easily met the minimum requirements of demanded of supervised credit institutions on 01/10/2015:

CRD-IV requirements for Supervised Entities*

	minimum SLR
01/10/2015	60%
01/01/2016	70%
01/01/2017	80%
01/01/2018	100%

* Delegated Regulation 2015/61 of the European Commission..

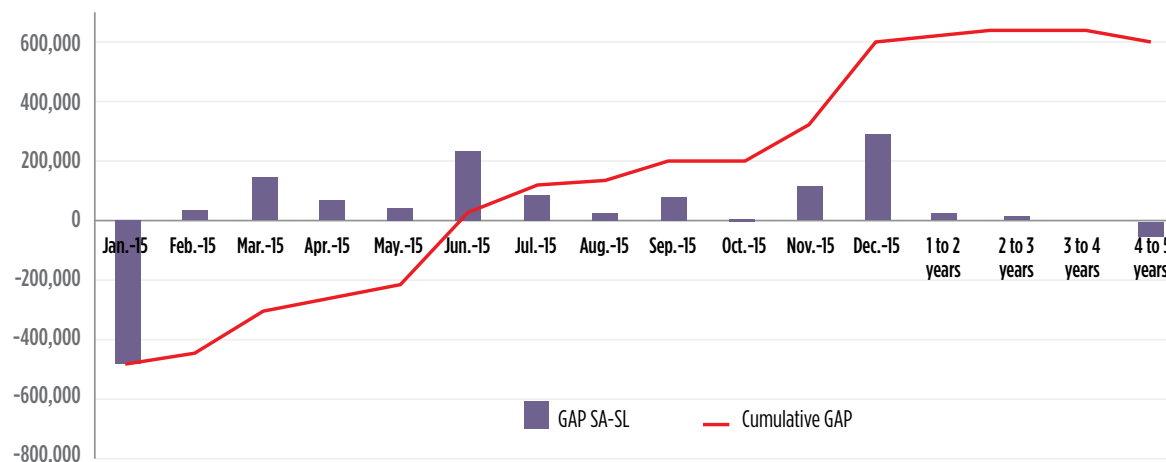
ICF

	ICF SLR
SLR Q2 2014	71%
SLR Q3 2014	99%
SLR Q4 2014	550%

Managing interest rate risk

Interest-rate risk directly affects the Group's activity, since interest rate fluctuations can have an impact on the income statement. The indexing of financial assets and liabilities to a market interest rate results in the accrual of income and costs indexed to the evolution of that market; consequently, any such fluctuations in these interest rates may affect the interest from other financial instruments in an asymmetrical manner (interest rate gap). In the case of variable interest rate arrangements, the risk to which the Group is exposed arises in the periods when interest rates are revised.

The first repricing gap is listed below:



Operational risk management

In 2014 improvements were begun to management and internal reporting systems, which should allow a significant reduction in the Group's operational risk.

Operational risk is covered in the Group's global risk management policy, and associated measures are distributed and implemented across the different areas of the organisation.

In addition, with the aim of emphasising its control functions, it is worth noting the creation of Internal Auditing Department and the Joint Auditing and Control Committee in the 2014 financial year.

The ICF Group currently calculates its operational risk according to the basic indicator method set by BIS III. It should be noted that during 2014 the ICF Group took several measures in order to adapt operational risk management to financial sector standards.



12

Activity

2014, the Institut Català de Finances (ICF) continued to promote and provide the **business community with access to finance, especially SMEs and entrepreneurs**, in accordance with the action plan established in 2011 to stimulate the recovery and growth of the Catalan economy.

The organisation has been doing just that in an environment where **the credit volume flowing from banks to private companies has continued to fall**, although in 2014 there has been a slight increase (less than one million euros) in regard to new funding for SMEs.

In terms of the 2014 budget, the Group made 650 million euros available to companies through loans and guarantees, a figure it managed to provide thanks to a proactive commercial stance towards companies and the availability of resources, both its own and those it was able to raise on national and international markets thanks to investor confidence in the Institute. It is worth noting that 150 million euros of this figure came from the European Investment Bank (EIB).

Since 2011, and coinciding with the reorientation of its activities, **the Group has provided more than 11,000 companies**, mostly SMEs and the self-employed, with access to finance through loans and guarantees **for a total of over 3,000 million euros**.

In parallel to lending, the ICF Group **also** provides the business community with access to finance through venture **capital investments and participative loans**.

In the case of venture capital, the Group manages several funds and/or participates in specialised funds managed by third parties, which it has often helped to promote and stimulate, acting as anchor investor.

“**Since 2011, the Group has provided more than 11,000 companies, with access to finance through loans and guarantees for a total of over 3,000 million euros**”

Lending

In terms of investment volume, lending activities focused on loans and guarantees are still the bulk of **the ICF Group's activity**.

On the receiving end of this activity are the companies who the organisation finances directly and through the Group's synergy with Avalis — especially in terms of loan guarantees — either through mediation and/or co-financing with the leading banks that businesses usually deal with.

The aim, especially in recent years, has been to provide these companies, above all SMEs, with access to different channels of finance in order to deal with an economic situation that has greatly hampered their access to credit, among other things.

In this sense the ICF, which specialises above all in **financing long-term investments**, has come up with new products and broadened its goals to include, for example, the financing of working capital in order to cover and adapt to the needs of companies in this economic climate.

Growth of operations

2014 was a year marked by the growth of lending by the ICF.

The organisation increased its investment volume in terms of both the number of transactions and the number of companies financed, in large part thanks to a proactive sales approach, the creation of new products and stronger efforts in co-financing with banks — especially in regard to mediation with the assumption of risk by the ICF. The resulting growth experienced by companies within an incipient economic recovery was in turn reflected in the 1.4% growth of the Catalan GDP.

In 2014 the ICF Group provided 1,642 companies with access to finance through loans and guarantees, 37% more than in 2013, amounting to 733 million euros, 18% higher than the previous year.

The volume of activity is highlighted by the 49% increase in the number of loans granted by the Institute (2,277), predominantly new financing, as compared with 2013 (1,527). The average amount per transaction was 320,000 euros.

Through this funding, the ICF group has helped create and/or maintain over 63,000 jobs.

Activity formalised by product

	T. operations	Amount (€M)
Working capital and investment guarantees	1,290	142.3
ICF guarantees	32	10.9
Avalis guarantees	1,258	131.4
Direct loans	337	356.3
• Investment / Working Capital	86	291.7
• Business Capitalisation	49	7.3
• Internationalisation	108	34.1
• Social Economy	9	1.2
• Culture	37	5.5
• Other purposes	48	16.5
Corporate Bonds	1	2.1
Mediation loans (joint venture)	514	27.0
• Entrepreneurs, the self-employed and small businesses	488	26.8
• Micro-credits	26	0.3
Refinancing	135	204.9
TOTAL	2,277	732.6

Lending

Volume of activity

Direct loans stand out in terms of **volume**. The company granted 337 loans totalling **356.3 million euros**, compared to 184.5 million in 2013 — a 93% increase.

Since 2011, and coinciding with the reorientation of its activities, the ICF has promoted this means of directly financing companies, especially SMEs, in order to cover business needs and respond to the economic situation and the constraints of accessing private bank credit.

In this regard, the group has continued to create **new financial products and instruments** to provide the business community with access to finance and adapt to their needs at all times. The most notable include the line of **loan-plus-guarantee products** intended for **SMEs** whose turnover is under 10 million euros, which are created for investment purposes or to provide working capital, or even for creating industry-specific products. Another financing line that was jointly created with the Catalan Regional Government's Department of Culture is specifically aimed at promoting entrepreneurs in **cultural** areas. In the **primary and agri-food** sectors, the Department of Agriculture, Livestock, Fisheries, Food and Environment

and the Institute are working together to deal with adverse weather conditions and, in particular, to face the Russian Federation's veto on the import of European Union food products, among others. Finally, there is a specific product line for financing hotel refurbishment and renovation, in conjunction with Directorate General of **Tourism** of the Department of Commerce and Labour.

Along these same lines, the Institute has been strengthening and enhancing all its investment and/or working capital products created after 2011, especially those addressing **innovation, internationalisation and industrialisation**.

In reference to business **capitalisation** products, the Institute was actually a pioneer in the creation of a specific credit line designed for the partners and shareholders of companies, one which would provide companies with sufficient funding and capital to strengthen their financial structure and, consequently, their solvency. This has become a key factor for businesses in accessing better financing conditions. In this area, 2014 has seen the ICF grant 49 capitalisation loans amounting to more than 7 million euros, which has allowed companies to bolster their own resources.

“**The Group has continued to create new financial products and instruments to provide the business community**”

Lending

Number of transactions

In terms of the number of transactions, **guarantees** stand out, especially financial ones, which have allowed companies to access investment and/or working capital financing to the amount of 142.3 million euros. The group's activity in terms of guarantees (1,290 transactions) grew by 85% compared to 2013, while the total increased by 41% (142.3 million).

The ICF jointly conducts this activity **with Avalis**, taking advantage of the synergies at the Group level. Avalis de Catalunya is a reciprocal guarantee company (SGR) specialising in the provision of financial, technical and economic guarantees. It is responsible for processing and studying companies applying for these types of guarantees. Approved guarantees are processed either by Avalis, the ICF or jointly between the two, depending on the amount of the transaction and the company profile, with the aim of providing it with the best solution to its financial needs.

Throughout the year, both organisations have jointly signed several agreements with leading financial institutions operating in Catalonia to provide businesses with access to financing by granting them guarantees and co-guarantees.

The number of operations also stands out in terms of **mediation loans with shared risk** (514 transactions). The resources for these loans are provided by the ICF, but the loans are then sold through private banks' distribution networks. In such operations, the ICF also has the merit of taking on part of the credit risk for the transaction, which helps companies gain access to financing.

In 2014, the ICF bolstered its activity in mediation, especially for entrepreneurs, freelancers and small businesses. A line of credit established in conjunction with the Department of Commerce and Labour, Banco Sabadell and CaixaBank funded 488 projects for the value of 27 million euros.

“**The ICF took part in the first bond issue of a Catalan SME in the Alternative Fixed-Income Market (MARF)**”

Product diversification

In addition to the aforementioned products, the ICF diversified its range of financial products for SMEs in 2014, which had traditionally focused on loans and guarantees.

The Institut Català de Finances took part in the first bond issue of a Catalan SME in the Alternative Fixed-Income Market (MARF), taking advantage of the creation of this new alternative financial instrument designed specifically for SMEs.

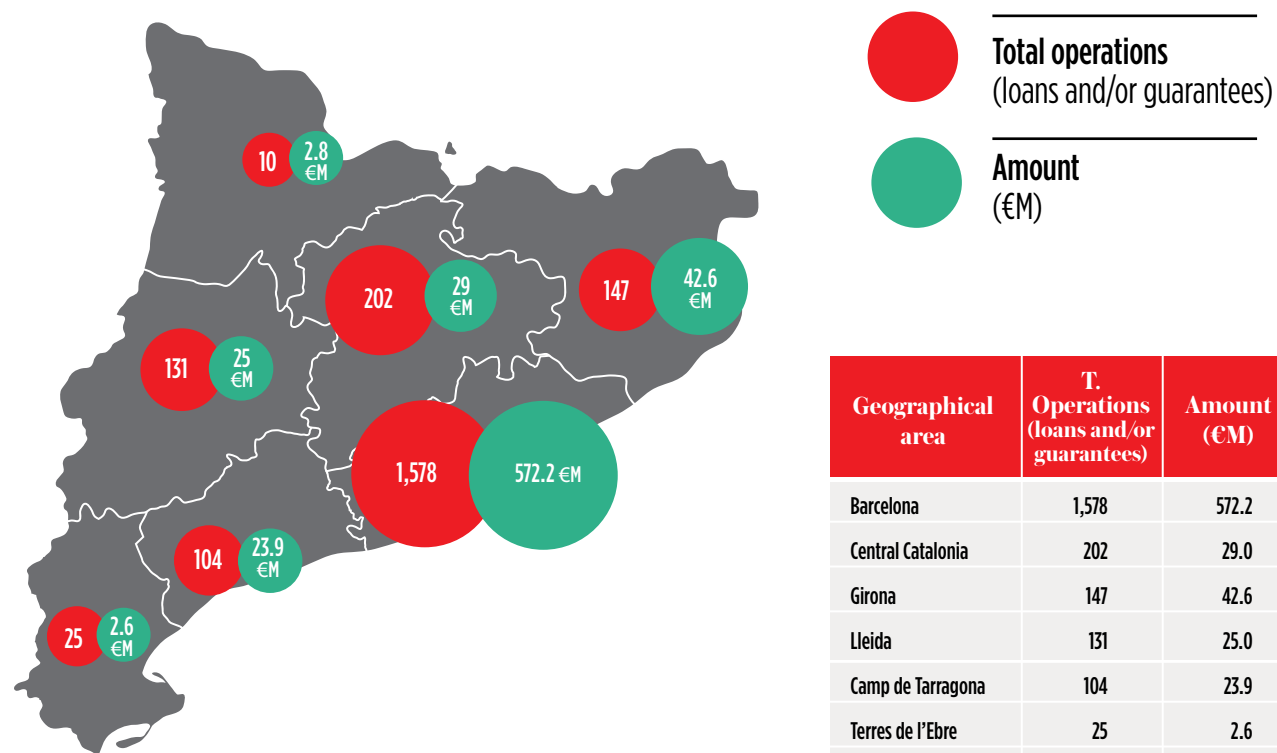
The ICF invested 2.1 million euros in the issue of 5-year senior bonds of the Audax Energy Company. The aim was twofold: to finance company growth projects and act as a driving force for more investment in the project. The ICF subscribed 10% of the total issue. The remaining 90%, up to 21 million euros, was subscribed by other qualified private investors.

Lending

Geographical distribution

Regarding the geographical distribution of the Institute's credit activity, the bulk of the activity was concentrated in Barcelona and its surrounding areas, both in terms of investment volume and the number of loans, comprising nearly 70%, in line with the economic weight of the area in the Catalan GDP and the concentration of business activity in Catalonia. In investment volume, this area is followed by Girona, Central Catalonia, Camp de Tarragona and Lleida, and in the number of operations, by Central Catalonia, Girona and Lleida.

Consequently, the ICF has launched a plan to increase its influence in these regions with the aim of reaching out to their business communities and making its financing capabilities known, both through financial promoters and its own network of sales agents.



Geographical area	T. Operations (loans and/or guarantees)	Amount (€M)
Barcelona	1,578	572.2
Central Catalonia	202	29.0
Girona	147	42.6
Lleida	131	25.0
Camp de Tarragona	104	23.9
Terres de l'Ebre	25	2.6
Alt Pirineu i Aran	10	2.8
Other	80	34.4
TOTAL	2,277	732.6

Lending

Sector distribution

Industry, education, health, social services, trade, tourism and services were the main recipients of funding from the ICF in 2014.

The Institute financed 200 million euros to the industrial sector, or 27% of the total, while education, health and social services received more than 160 million euros, and trade, tourism and services more than 100 million.

In addition, the ICF is actively working to support a wide range of sectors under the premise that the organisation can facilitate financing to any company operating in Catalonia, regardless of its sector or size. In this sense it is making a major effort in terms of communication and publicity to increase awareness and recognition of the organisation across the country by means of various campaigns in the Catalan media.

“The Institute financed 200 million euros to the industrial sector, or 27% of the total”





Lending

Segmentation by type of business

For the fourth consecutive year, in accordance with the action plan launched in 2011, the **main recipient of the Institute's financing** has been the private sector, **especially SMEs, micro-enterprises and the self-employed**, a segment seriously affected by the credit restraints caused by the economic and financial situation.

96% of the companies that received funding from the ICF in 2014 were SMEs and self-employed people. This segment also made up the bulk of the financing volume granted to the private sector.

Overall, the volume of loans granted by the ICF in 2014, both in the private and the public sectors, has enabled the creation and/or maintenance of more than 63,000 jobs.

 SMEs and entrepreneurs (€50M)	 Companies (€50M)	Total private sector	Total public sector	Total ACTIVITY
CUSTOMERS		CUSTOMERS		1,642 Clients
1,577	56	1,633	9	
96.1%	3.4%	99.50%	0.50%	
€M		€M		€732,6 M
€330,3M	€259,3M	€589M	€143M	
45.1%	35.4%	80.5%	19.5%	
EMPLOYEES		EMPLOYEES		63,108 Employees
37,014	25,077	62,091	1,017	
58.5%	39.7%	98.4%	1.6%	

Venture capital

Providing venture capital is **another avenue through which the ICF Group facilitates the Catalan business community with access to finance.**

The organisation fosters, participates and manages equity instruments as a strategic means of financing and supporting the growth of companies. Today, the ICF **has venture capital investment commitments and a line of participative loans totalling nearly 117 million euros through 28 different equity instruments**, four of which it manages directly.

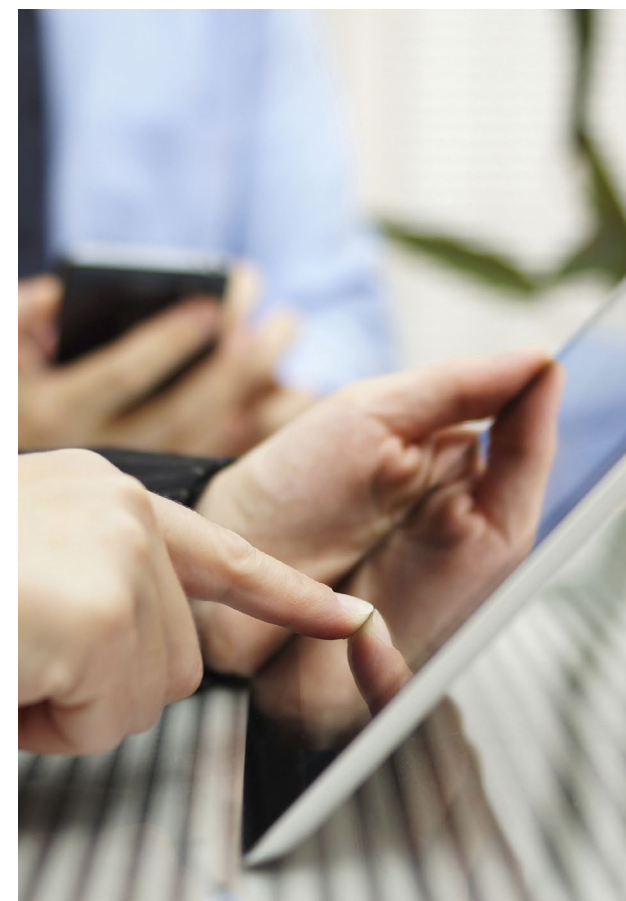
In this area, **the ICF acts as a fund of funds.** The participation of the Institute is based on cooperation and complementarity with the specialised private sector, identifying gaps in the market and acting as a driving force for multiplying the resources of other investors which are allocated to each project.

The objective of the ICF in terms of venture capital is to encourage growth and the creation of companies, and in general is aimed at innovation, internationalisation and/or industry consolidation projects with good prospects of profitability.

The three market segments the ICF has identified as having a lack of capital and in which it operates are:

- **Seed/Start-up Phase:** projects that have not yet reached the mass production stage, with the existence of technology or business model risk.
- **Development/Venture:** projects, generally of a technological nature, which are ending their development and/or are in the early stages of growth.
- **Growth:** consolidated and profitable small and medium-sized companies which want to grow, internationalise and/or develop new products, among other things.

“**The ICF acts as a fund of funds**”



Venture capital

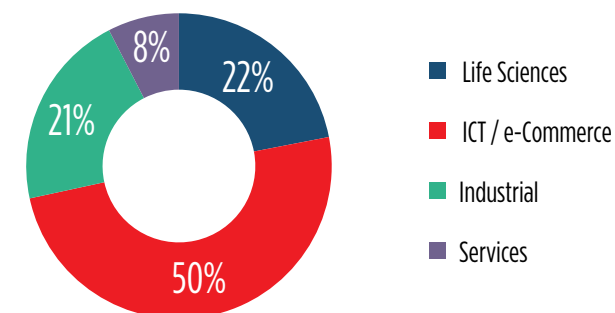
Investment volume

The ICF currently has venture capital investment commitments totalling 117 million euros — nearly 10% more than in 2013 — along with nearly 570 million committed by other investors, with a combined investment capacity of over 685 million euros. At 31 December 2014, 60% of these resources were invested in 233 newly created companies and/or ones with a high growth potential in life sciences, ICT/e-Commerce, industry and services.

Equity instruments	T. Instruments	Accumulated commitments (€M)			Multiplier ICF/Total
		ICF	Other investors	Total	
Seed Capital	6	9.4	32.7	42.1	4.5
Venture	16	59.9	447.4	507.3	8.5
Middle market	6	47.6	88.4	136.0	2.9
Total venture capital	28	116.9	568.4	685.3	5.9

Amount invested by the fund at 31/12/2014

“60% were invested in 233 companies”



Venture capital

Actions in venture capital during the year 2014

In 2014 the Institute's new venture capital commitments were as follows:

Segment	Fund	ICF Group's new commitments in 2014*
Seed	Healthequity SCR SA	0.8
Venture	Caixa Innvierte Industria	1.0
Venture	Caixa Innvierte Biomed II	2.0
Middle market	Suma Capital Growth Fund I	5.5
Total commitments		9.3

The most significant investments made by ICF-managing funds were as follows:

Fund	Company	Amount*
Capital MAB FCR	Medcomtech	1.0
BCN Emprèn, SCR SA	Genmedica Therapeutics	0.5
Capital Expansió FCR	Aïta	1.0
SICOOP SCR	Encis	0.2

* Figures in millions of euros.

Business Angels and participative loans

In addition to this venture capital investment potential, we must add the volume forecast for a specific line of participative loans under joint venture with *Business Angels*, for innovative start-ups. The ICF pledged 12 million euros.

This line has already provided financing to 32 start-ups — 10 in 2014 alone — for a total of 13 million euros, 4.1 million of which were contributed by the ICF and the remainder by private investors, mostly *Business Angels*.

13

Financial summary

The Group closed 2014 with a total asset volume of 3.671 billion euros, of which 3.284 correspond to the loan investment portfolio.

The bad debt ratio at 31 December represented 13.5%, similar to the industry as a whole. Moreover, the coverage ratio of doubtful transactions stood at 63.8%, which represents an increase compared to the figures of the previous year.

In relation to liabilities, throughout 2014 the ICF maintained a solid cash position that has allowed it to manage the cost of borrowing with different counterparties. In the 2014 financial year, activities have been financed thanks to the generation of business resources, equity funds and bilateral operations with private and public institutions.

In relation to the income statement:

- The reorganisation of financial activities between the Catalan Regional Government and the ICF in order to adapt them to the banking operations implied a reduction in the volume and yield of the Public Sector portfolio, with the consequent impact on gross margin, in line with the ICF's forecasts.
- The Institute's high historic level of provisions, added to the benefits of the change in strategy since 2011 regarding balance sheet management (more diversified lower-value transactions) and the good performance of certain venture capital instruments, have meant that the Group has required a lower volume of provisions in 2014. This effect more than offset the drop in gross margin, resulting in pre-tax earnings of 11.3 million euros, 12% higher than in 2013.

Balance sheet

(Figures in millions of euros)	2014	2013	Variation	Var %
Cash and balances with central banks	0.8	0.3	0.5	148.9%
Available-for-sale financial assets	75.5	93.3	-17.8	-19.1%
Loans and receivables	3,284.4	3,634.6	-350.2	-9.6%
Held-to-maturity investments	93.9	89.4	4.4	4.9%
Hedging derivatives	5.3	6.4	-1.1	-16.6%
Investments	15.9	13.2	2.7	20.6%
Tangible assets	60.4	61.1	-0.7	-1.1%
Other assets	133.9	79.8	54.1	67.8%
Total assets	3,670.1	3,978.2	-308.1	-7.7%
Contingent exposures and commitments	189.7	184.9	4.8	2.6%
Financial liabilities at amortised cost	2,805.4	3,112.7	-307.3	-9.9%
Hedging derivatives	20.2	11.6	8.6	73.9%
Other liabilities	32.6	53.8	-21.3	-39.5%
Total liabilities	2,858.2	3,178.1	-320.0	-10.1%
Own Funds	810.2	801.8	8.4	1.0%
Valuation adjustments	1.7	-1.8	3.5	-197.9%
Total equity	811.9	800.0	11.9	1.5%
Total liabilities and equity	3,670.1	3,978.2	-308.1	-7.7%

Results

(Figures in millions of euros)	2014	2013	Variation	Var (%)
Interest and similar earnings	96.0	120.3	-24.3	-20%
Interest and similar charges	-45.0	-58.8	13.8	-23%
Interest margin	51.0	61.5	-10.5	-17%
Fees received and paid	7.2	10.1	-2.9	-29%
Financial earnings	1.1	1.3	-0.2	-15%
Other products and operating charges	1.8	2.2	-0.4	-18%
Gross margin	61.1	75.1	-14.0	-19%
Administrative expenses	-8.2	-7.9	-0.3	4%
Amortisation and depreciation	-1.2	-1.4	0.2	-14%
Impairment losses on financial assets	-39.9	-53.6	13.7	-26%
Earnings from operating activities	11.8	12.2	-0.4	-3%
Impairment losses on other assets	-0.6	-4.0	3.4	-85%
Profit on non-current assets held for sale	0.1	1.9	-1.8	-95%
Pre-tax earnings	11.3	10.1	1.2	12%
Income tax	-3.4	-3.1	-0.3	10%
Profit for the year	7.9	7.0	0.9	13%

14

Capital management

The historic generation of results, the effort made by the Catalan Regional Government — principal and sole shareholder — in capital contributions in the past, and the profile of its investments have all allowed the Institute to close 2014 with consolidated equity of 810 million euros (806 million for the ICF on an individual basis) and a capital adequacy ratio of 28.1%, higher than 2013 and well above the regulatory minimums:

Capital adequacy ratio (CRD-IV Directive)

2014	2013	Minimum required by the regulator*
28.1%	27.1%	8%

* Source: Basel III and Law 10/2014 on the organisation, supervision and solvency of credit institutions.

15 Ratings

A 31 de desembre de 2014, el ràting de l'ICF se situava en BBB- segons l'agència Fitch Rating i en BB segons S&P.

Qualification

Agency	Last Review	Long Term	Short Term	Overview
Fitch	23/01/2015	BBB-	F3	Negative
S&P	26/06/2014	BB	B	Stable

16

Corporate social responsibility

The main aim of the Institut Català de Finances is to contribute to the growth of the Catalan economy, generating value that has a positive impact on society.

In parallel to this vocation, and beyond the relationship with its customers, the Institute promotes and participates in various initiatives in the field of social responsibility targeted at various groups and Catalan society in general.

In 2014, it is well worth mentioning its promotion and participation as a founding member of the **Fundació Catalunya Cultura**. The aim of this foundation, created together with various public and private companies and organisations, is to increase collaboration between the business and cultural communities in their broadest sense, reviving the former's social commitment and highlighting the prestige of patronage. The organisation is a member of the Foundation's Board. It also forms part of the Executive Committee with the aim of supporting and actively participating in the promotion of new initiatives to transform the business-culture relationship in all areas and encourage the cultural development of our country.

The Institute is also active in teaching and is involved in various initiatives. In 2014, along with other financial institutions, it took part in the third **Financial Education Programme in Catalan Schools (EFEC)** promoted by the Catalan Regional Government in collaboration with the Institute

of Financial Studies (IEF). The programme provides knowledge of finance to different groups and different levels, especially schools and teenagers, in order to provide ordinary people with better skills and knowledge on money management and how to best save or borrow, etc. and prevent circumstances of financial exclusion like those experienced in the last few years as a result of the economic situation. The program saw the participation of several of the Institute's professionals who volunteered as "teachers" to share their knowledge with students at schools around the country.

Also with regard to education, the ICF has signed agreements with **Pompeu Fabra University**, the **University of Barcelona** and **BarcelonaTech**. Thanks to these agreements, university students can apply and round out their academic knowledge, thus fostering the acquisition of skills to prepare them professionally and facilitate their access to the job market.

The ICF has also collaborated with various initiatives in 2014 undertaken by **non-profit organisations**. These include various projects with foundations for **the homeless (Arrels Fundació)**, the local **food bank (Fundació Banc dels Aliments)**, **Sant Joan de Deu Hospital** and the **Friends of the Elderly**.

In this regard, in addition to the participation of the Institute itself, several of its professionals are actively involved as volunteers in social projects led by these and other non-profit organisations.



**Institut Català
de Finances**

Fem creixement

Institut Català de Finances
Gran Via de les Corts Catalanes 635
08010 Barcelona
93 342 84 10
www.icf.cat
consultes@icf.cat