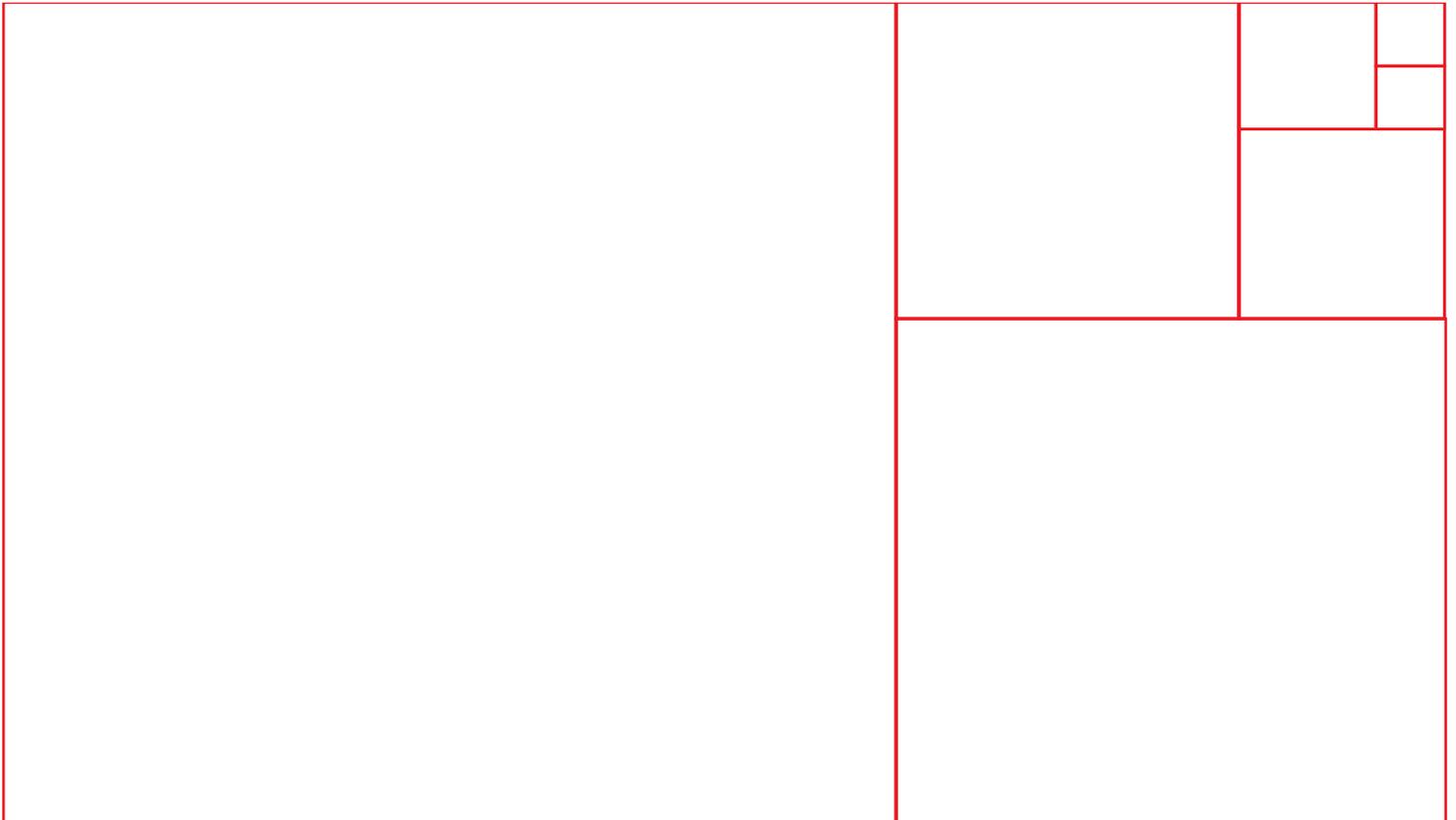




Institut Català  
de Finances

2018

# Corporate Governance Annual Report



**DETAILS OF ISSUER**

Date of year end: 31/12/2018

Tax ID code: Q5855055 I

Corporate name:

**INSTITUT CATALÀ DE FINANCES**

Corporate headquarters:

Gran Via de les Corts Catalanes, 6a. planta. Barcelona

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ANNEX: EXTERNAL AUDIT REPORT

## A. OWNERSHIP STRUCTURE

A.1 List the direct and indirect holders of significant ownership interests in your organisation at year-end

Tax ID	Name or corporate name of the owner	% of share capital
S0811011G	GENERALITAT DE CATALUNYA	100.0%

A.2 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities.

Not applicable

A.3 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company, unless they are insignificant or arise from ordinary trading or exchange activities.

Not applicable

A.4 Indicate, where applicable, any restrictions as to voting rights together with any restrictions on the acquisition or transfer of holdings in the share capital:

Yes  No

Description of the restrictions

## B. GENERAL MEETING OR EQUIVALENT BODY

B.1 List the quorum of the general meeting or equivalent body as established in the bylaws. Describe any differences from the quorum provisions in the Capital Companies Act (CCA) or applicable regulations.

The ICF, the parent company of the ICF Group, is a public company subject to private sector law wholly owned by the Catalan Regional Government, the Generalitat de Catalunya. In accordance with its specific legal status, since the entity is not a capital company, it does not have a General Meeting *stricto sensu*. The Generalitat is the sole holder of its share capital and acts in a manner similar to a General Meeting.

The Institute's highest decision-making body is the Supervisory Board, which can be likened to a board of directors.

B.2 Explain the system for adopting resolutions. Describe how it differs from the system envisaged in the CCA, or any applicable regulations.

The chief regulation governing the ICF is Legislative Decree 4/2002, dated 24 December, which approves the Consolidated Text of the Law on the Institut Català de Finances. This Legislative Decree has been subsequently

modified on a number of occasions, the most recent changes being made by Decrees Law 2/2015, of July 28, 4/2015, of December 29, and by Act 5/2017, of 28 March, on tax, administrative, financial and public sector measures.

B.3 Briefly describe the resolutions adopted in the general meetings or equivalent bodies held during the year referred to in this report and the percentage of votes with which said resolutions have been adopted.

As mentioned above, there is no General Meeting in the strict sense of the term and the Government of Catalonia carries out its duties *mutatis mutandi* as the sole owner of the share capital, and approves the annual accounts of the ICF as the only significant resolution of the year.

B.4 Indicate whether at general meetings or the equivalent held during the year there have been any items on the agenda that have not been approved by the shareholders.

All agreements have been taken unanimously, or without any votes against or abstentions.

B.5 Indicate the address and way to access information about corporate governance on the entity's website.

<http://www.icf.cat/ca/qui-som/organs-govern/>

<http://www.icf.cat/ca/informacio-corporativa/>

B.6 Indicate whether there have been meetings of syndicates, if there are any, of the holders of securities issued by the organisation, the purpose of the meetings held during the year referred to in this report and the main agreements adopted.

Not applicable.

## C. MANAGEMENT STRUCTURE

### C.1 Board of Directors or governing body

In accordance with Decree Law 2/2015, of July 28, which partially modifies the Consolidated Text of the Supervisory Board Act, it has the power to set up decentralised bodies, executive commissions and committees and investment committees, which can participate in the organisation's governance to the extent of the powers assigned to them.

Said Decree Law indicates that the Supervisory Board must create all the commissions and committees required by the regulations on credit entities, in particular the Joint Audit and Control Committee and the Appointments and Remuneration Committee. It may also freely create any others it deems fit, delegating whatever powers are agreed to be appropriate.

The Articles of Association of the ICF, which regulate its Governing Boards, were approved by the Board on 2 October 2014, with subsequent amendments on 15 October 2015, 28 April 2016, and 10 October 2017. As regards decision-making, they provide that:

- The Supervisory Board will be deemed validly constituted when over half of its members are in attendance, either present or by proxy, using one of the means of communication referred to in the previous article, and a majority of them are independent members, as specified in Article 13 of the Articles of Association.
- The resolutions of the Supervisory Board shall be adopted by a majority of those present or represented, each member having one (1) vote. In the event of a tie, the Chair has the casting vote. (Article 11.4)

The appointment of new members of the Supervisory Board is the responsibility of the Government of Catalonia, pursuant to the law on the ICF, and is subject to a favourable report by the Appointments and Remuneration Committee.

The main decisions taken by the Supervisory Board in 2018 were the following, all being approved unanimously:

- Supervisory Board meetings on 22/02/2018, 26/04/2018 and 20/12/2018: Annual review of policies and procedures and subsequent updates.
- Supervisory Board meeting on 22/03/2018: ICF Annual Accounts 2017. Agreement to submit to the Generalitat for approval the annual financial statement, notes thereto and management report for 2017, together with the proposed allocation of profits totalling €14,782,811.01, of which €984,716.04 is to be allocated to the Capitalisation Reserve and €13,798,094.87 to other reserves.
- Supervisory Board meeting on 26/04/2018: Approval of the Pillar III Disclosure Report. Approval of the Confidentiality and Privacy Policy and the Code of Conduct for members of the Group's governing bodies and staff.
- Supervisory Board meeting on 30/11/2018: Review of delegation of authority.
- Supervisory Board meeting on 20/12/2018: Approval of new policies: Corporate tax and credit investment prices.

C.1.1 List the maximum and minimum number of directors or other members of the governing body as specified in the bylaws:

<b>Maximum number of directors / members of the body</b>	11
<b>Minimum number of directors / members of the body</b>	7

C.1.2 Complete the table below on the members of the board or governing body and their positions at 31/12/2018

<b>Name or corporate name of the director / member of the governing body</b>	<b>Office</b>	<b>Last appointment date</b>
ALBERT CASTELLANOS MADUELL (proprietary)	Chair	09/10/2018
JOSEP RAMON SANROMÀ I CELMA (executive)	Chief Executive Officer	22/02/2011
RAFAEL ABELLA MARTIN (independent)	Member	13/12/2016
FRANCESC CASAS SELVAS (independent)	Member	04/08/2015
MERCEDES DOMINGO PIERA (independent)	Member	04/08/2015
ESTER OBACH MEDRANO (proprietary)	Member	24/07/2018
JOSÉ LUIS PEYDRÓ ALCALDE (independent)	Member	18/09/2018
VIRGÍNIA VERGER CASASNOVAS (independent)	Member	04/08/2015
MATILDE VILLARROYA MARTÍNEZ (proprietary)	Member	18/09/2018

C.1.3 Identify, where applicable, the members of the board or governing body who hold the post of director or executive in other entities that form part of the organisation's group:

<b>Name or corporate name of the director / member of the governing body</b>	<b>Name or corporate name of the group entity</b>	<b>Office</b>
JOSEP RAMON SANROMÀ CELMA	Instruments Financers per a Empreses Innovadores, SLU (IFEM)	Chair
JOSEP RAMON SANROMÀ CELMA	Institut Català de Finances Capital, SGEIC, SAU	Chair

C.1.4 Complete the following table with information relating to the number of female directors who sit on the Board of Directors and its committees and any changes over the last four years: (at the end of each year)

	2018		2017		2016		2015	
	No.	%	No.	%	No.	%	No.	%
<b>Supervisory Board</b>	4	44	4	44	3	33	3	27
<b>Executive Committee</b>	1	33	2	50	2	50	2	40
<b>Joint Audit and Control Committee</b>	1	33	1	50	1	50	1	33
<b>Appointments and Remuneration Committee</b>	2	100	2	100	2	100	1	33

C.1.5 Indicate whether the company has policies for diversity in relation to its administrative, management and supervisory bodies with regard to issues such as age, gender, disability, or training and professional experience.

yes  no  partial policies

If so, describe this policy for diversity, its objectives, the measures it involves and the way in which it has been applied and the results in the year. Also describe the specific measures adopted by the governing body and the appointments and remuneration committee to achieve a balanced and diverse presence of directors or administrators.

If the company does not apply a diversity policy, explain the reasons.

The Nominations and Remuneration Committee assesses the suitability of each person, individually, and of each governing body, collectively, in accordance with the Institution's Suitability Policy, as approved by the Supervisory Board on 1 December 2016 and with its own procedures, as approved by the Nominations and Remuneration Committee on 17 November 2016. This evaluation is based on the assessment of three factors: Honourable character, knowledge and experience, and the ability to implement good governance. With regard to diversity, the Procedure establishes that in the incorporation of new members: *their contribution to the diversity and balance of the membership will be taken into account, together with their ability to contribute value in decision making and plural points of view to discussions on matters within their competence and, overall, their having sufficient practical experience in the management of credit institutions.*

It is, therefore, normal practice, as far as possible, to ensure a balanced composition of each governing body, especially with regard to gender equality, without this implying previously established quotas in any case.

C.1.6 Complete the following table regarding the total remuneration of the directors or members of the administrative body accrued during the year:

Type of remuneration	Thousands of euros
Fixed remuneration (CEO)	120
Other remuneration (independent directors)	102
TOTAL:	222

There are also 30 thousand euros in provisions for variable remuneration, the settlement of which is subject to evaluation by the Appointments and Remunerations Committee.

C.1.7 Identify the senior management members who are not at the same time directors or members of the executive administrative body, and indicate the total remuneration paid to them during the year:

Below we list the members of ICF Management that the Nominations and Remuneration Committee considers key personnel, excluding those who are also members of the Supervisory Board:

General Management - Loans and Risk
General Management - Venture capital and capital market
General Management - Finance and Operations
Corporate Management - Audit and Compliance
Management - Purchases and General Services
Management - Credit
Management - Finance
Management - Financial Instruments
Management - Regulatory Compliance
Management - Risk Monitoring and Management
Management - Business Development
Management - Treasury and Capital Markets
Management - Human Resources

Total remuneration key personnel (thousands of euros)	1,023
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There is also a provision of 170 thousand euros for variable remuneration, payment of which is subject to assessment by the Appointments and Remuneration Committee.

C.1.8 Indicate whether the bylaws or the regulations of the Board establish a limited mandate for directors or members of the governing body:

Yes

No

Maximum number of years in office	4 + 4
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According to the bylaws appointment is for a maximum of four years with the possibility of reappointment for a further four years.

C.1.9 Indicate whether the individual and consolidated financial statements presented for approval to the board or administrative body are previously certified:

Yes

No

If so, specify which person/persons certified the individual and consolidated annual accounts of the company, for preparation by the board or governing body:

C.1.10 Explain, if any, the mechanisms established by the board or governing body to ensure that the individual and consolidated accounts prepared by it are not submitted to the general meeting or equivalent body with qualified opinions in the auditors' report.

The Joint Audit and Control Committee (hereinafter, JACC), pursuant to Article 24 of the Bylaws of the Governing Bodies of the ICF, oversees the effectiveness of the control systems of the entity and the role of its internal and external audit, regulatory compliance, global risk and internal control functions and gives its opinion to the Supervisory Board regarding any financial information to be published. In this regard, as part of its duties:

- It supervises the internal audit activities of the ICF and therefore approves its annual work plan, the budget and annual activity report, ensuring that the main risks are reviewed, together with the internal control systems and procedures.
- It evaluates the degree of development of audit plans and the implementation of their recommendations.

The JACC also supervises the preparation and presentation of regulatory financial information, ensuring its compliance with legal requirements and the proper application of accounting principles.

C.1.11 Is the secretary of the board or governing body also a director?

Yes  No

C.1.12. Indicate, if any, the mechanisms established to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies, including the way in which legal provisions have been implemented in practice.

The Joint Audit and Control Committee, in addition to proposing the appointment of the accounts auditor, is responsible for establishing appropriate relations with the auditors to receive information on matters which may jeopardise their independence and any other matter related to the auditing process. In any event, the Joint Audit and Control Committee must receive each year from the auditors written confirmation of their independence of the Institute or any entities directly or indirectly related to it, together with information on additional services of any nature rendered to these entities by the aforementioned auditors or related persons or entities in accordance with the provisions of the law on audits.

Regarding rating agencies, the contracting process specifically requires that these be:

- Considered eligible for Eurosystem operations with the European Central Bank.
- Agencies registered or certified in accordance with EC Regulation no. 1060/2009 of the European Parliament and the Council.
- On the list of rating agencies registered with the ESMA (European Securities and Markets Authority) and published on its website.

## C.2 Committees of the board or governing body

C.2.1 List the committees of the board or governing body:

Name of committee
Executive Committee
Joint Audit and Control Committee
Appointments and Remuneration Committee

C.2.2 List all the committees of the board or governing bodies, their members and proportion of executive directors, proprietary directors, independent and other external directors (entities lacking the legal status of a capital company must not enter the category of the director in the chart and in the text section they must specify the category of each director in accordance with their legal regime and the manner in which they meet the conditions for being members of the Audit Committee and Appointments and Remuneration Committee):

#### EXECUTIVE COMMITTEE (as of 31/12/2018)

Name	Office
<b>JOSEP RAMON SANROMA CELMA (executive)</b>	Chair
<b>MERCEDES DOMINGO PIERA (independent)</b>	Member
<b>FRANCESC CASAS SELVAS (independent)</b>	Member

<b>% of executive directors</b>	33%
<b>% of proprietary directors</b>	-
<b>% of independent directors</b>	67%
<b>% of other external directors</b>	-
<b>Number of meetings</b>	14

Explain the duties of this committee, describe its procedures and organisational and operational rules and summarise its most important actions during the year:

The powers delegated by the Supervisory Board (Article 22.7 of ICF Bylaws) to the Executive Committee are:

- a) To decide on all matters delegated by the Supervisory Board. Specifically and in accordance with the powers currently delegated, to decide on investment proposals, relating to credit risk, or investments in venture capital or financial holdings.
- b) To decide on changes or modifications to the guidelines relating to the definition and creation of the institute's credit products, determining the limits and capabilities of campaigns or the types of products, and, lastly, changes relating to different types of liability and products for attracting deposits.
- c) To propose to the Supervisory Board changes in the capital investment policy of the ICF.
- d) To ensure the actions of the ICF Group are consistent with the risk tolerance framework defined by the Supervisory Board in conjunction with the other governing and management bodies.

**JOINT AUDIT AND CONTROL COMMITTEE (as of 31/12/2018)**

Name	Office
<b>RAFAEL ABELLA MARTIN (independent)</b>	Chair
<b>JOSÉ LUÍS PEYDRÓ ALCALDE (independent)</b>	Member
<b>VIRGINIA VERGER CASASNOVAS (independent)</b>	Member

<b>% of executive directors</b>	-
<b>% of proprietary directors</b>	-
<b>% of independent directors</b>	100%
<b>% of other external directors</b>	-
<b>Number of meetings</b>	8

Explain the duties of this committee, describe its procedures and organisational and operational rules and summarise its most important actions during the year:

In accordance with regulatory provisions, the powers of the Joint Audit and Control Committee (a committee delegated by the Supervisory Board, as stipulated in Article 23.8 of the ICF bylaws) are as follows:

- To supervise the effectiveness of the control of the entity and the functions of internal audit, regulatory compliance and internal control, global risk control and risk management and information systems. To approve or amend the bylaws regarding these functions while at the same time guaranteeing their independence and comprehensive nature.
- To give its opinion to the Supervisory Board prior to decisions concerning any matter within its powers together with any financial information to be published, on the creation or acquisition of holdings in entities whose purpose or location is different from those approved in the ICF's policy on investment.
- To supervise the preparation and presentation of regulatory financial information, ensuring its compliance with legal requirements and the proper application of accounting principles.
- To be promptly advised of any monitoring or request for information by a supervisory body, irrespective of the department responsible for complying with such requests.
- To define the entity's tolerance to general risks, ensure that the risk profile remains within the objectives and keep the Supervisory Board informed of the measures adopted to correct any variance that may arise.
- To establish and supervise a mechanism that enables employees to confidentially report any potentially significant irregularities.

**APPOINTMENTS AND REMUNERATION COMMITTEE (as of 31/12/2018)**

Name	Office
<b>MERCEDES DOMINGO PIERA (independent)</b>	Chair
<b>FRANCESC CASAS SELVAS (independent)</b>	Member

<b>% of executive directors</b>	-
<b>% of proprietary directors</b>	-
<b>% of independents</b>	100%
<b>% of other external directors</b>	-
<b>Number of meetings</b>	7

Explain the duties of this committee, describe its procedures and organisational and operational rules and summarise its most important actions during the year:

The powers of the Appointments and Remuneration Committee (delegate committee of the Supervisory Board, Article 24.8 of the ICF bylaws) are as follows:

- a) To propose the criteria and policies to be applied for the composition of the Supervisory Board, taking into account the principles of honourability, suitability and good governance.
- b) To assess the proposed appointment of any member of the governing bodies. With regard to executive and key personnel, to carry out an evaluation when so requested by the Chief Executive Officer. "Key personnel" are those employees who can influence the risk profile of the entity as defined in banking regulations.
- c) To supervise the criteria applied for the identification and development of key ICF personnel.
- d) To propose to the Supervisory Board the remuneration policy and the system for awarding, and the amount of, any fixed and/or variable remuneration of the members, executive and key personnel, ensuring it is compatible with the long-term interests of the institution and with appropriate and effective risk management.
- e) To propose to the Supervisory Board programmes aimed at updating the expertise of acting members.
- f) To inform and give its opinion to the Supervisory Board regarding transactions that involve or may involve conflicts of interest in accordance with the Code of Good Practice.
- g) At the request of the Chair of the Supervisory Board, to issue an opinion for the Board to decide on the authorisation for any member of the governing bodies to take up a new office in a different entity or on the early dismissal of an independent member of any governing body of the institute.
- h) To make recommendations to the Supervisory Board for the appointment of a new chairperson or chief executive and, if necessary, make proposals to ensure that the process takes place in an orderly and well-planned manner.

## D. RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1 Describe any transactions between the institute or group entities and the shareholders, cooperative shareholders, proprietary rights holders or any others of an equivalent nature.

The ICF Group has engaged in the following transactions with the sole shareholder:

Group company	Nature of relationship	Type of transaction
<b>Institut Català de Finances</b>	Commercial	Loans, transactional credit account and accounts receivable
<b>Institut Català de Finances</b>	Commercial	Management of departmental funds
<b>Institut Català de Finances</b>	Commercial	ICF lease to shareholder of office space

D.2 Describe any transactions between the institute or group entities and the directors or members of the governing body or executives of the institute.

No loan or guarantee operation in favour of the directors or members of the governing body was granted during the year.

There have been no transactions with any member of the governing bodies other than those described in other sections of this document.

D.3 Describe intra-group transactions

Details of intra-group transactions are given in note 36 of the notes to the consolidated financial statements.

D.4 Specify the mechanisms established to detect, identify and resolve possible conflicts of interest arising between the institute or its group and its directors, members of the governing body or executives.

Article 19 of the bylaws of the governing bodies of the ICF make it obligatory for the members of the Supervisory Board to avoid situations that may lead to a conflict of interest between the Institute and the members, defined as a situation in which the decision of a member or members may be influenced by a rationale or justification different to the sole interests of the Institute in accordance with the Group's Code of Good Practice.

The functions of the Appointments and Remuneration Committee include the following:

- To propose the criteria and policies to be applied for the composition of the Supervisory Board taking into account the principles of honourability, suitability and good governance.
- To supervise the criteria applied for the identification and development of key ICF personnel.
- To propose to the Supervisory Board the remuneration policy and the system for awarding, and the amount of, any fixed and/or variable remuneration of the members, executive and key personnel, ensuring it is compatible with the long-term interests of the institution and with appropriate and effective risk management.
- To inform and give its opinion to the Supervisory Board regarding transactions that involve or may involve conflicts of interest in accordance with the Code of Good Practice.

## E. RISK MANAGEMENT AND CONTROL SYSTEMS

### E.1 Explain the scope of the organisation's Risk Management System

The ICF Group's Risk Management System is comprehensive and is based on *three lines of defence*, following European Banking Authority (hereinafter, EBA) guidelines GL44 on internal governance. The lines of defence are as follows:

- **First line:** This includes the chief executors and guarantors of the control environment of the ICF Group with regard to processes and matters in which a need for controls has been detected or defined.
- **Second line:** This encompasses the functions of Internal Control and Regulatory Compliance, as well as Global Risk Control. These are responsible for designing and upholding the Group's risk model and verifying that it is correctly applied in all areas.
- **Third line:** This is carried out by Internal Audit, which conducts an independent review to ensure compliance with and the effectiveness of corporate policies.

The ICF Group establishes the general lines of the Risk Management System applicable to the consolidable group in the various risk control policies it has defined. Furthermore, for each type of risk several levels of responsibility are established, these being assigned to decision-making bodies and specific committees such that the responsibility for all risk is explicitly assigned.

The ICF Group's risk management system is based on the following principles:

- Ensure that risks that may affect the Group's strategies and objectives are adequately identified, analysed, assessed, managed and controlled.
- Achieve the strategic objectives of the Group as to profitability and risk.
- Ensure that the management of risk takes risks and opportunities into account.
- Ensure the proper use of financial instruments in accordance with their investment objective and risk hedging and with the requisites of applicable regulations.
- Provide transparent information concerning Group risks to the various committees and governing bodies in accordance with the powers assigned to them.

### E.2 Identify the bodies in the organisation responsible for drawing up and executing the Risk Management System.

The **Supervisory Board** possesses the fullest powers for the administration of the institute and is its highest decision-making body. The decisions taken by this body relating to risk management and supervision are based on a comprehensive analysis of any element that may influence said risks and therefore they also take into account significant elements connected with risk considerations regarding other subsidiaries in the Institut Català de Finances Group, always respecting the organic structure and decision-making processes of the subsidiary in question. Moreover, the Supervisory Board is responsible for approving policies on risk.

The ICF Group has specific commissions and committees for risk management, which put in place general policies, approve operations and manage the Group's risks. These commissions and committees are:

- **Executive Committee:** Decides on credit risk investment proposals, in accordance with the powers expressly delegated by the Supervisory Board.
- **Joint Audit and Control Committee:** Responsible for defining the Institute's tolerance to general risks, it ensures that the risk profile remains within the objectives set and keeps the Supervisory Board informed of the measures adopted to correct any variance that may occur.  
Moreover, the Joint Audit and Control Committee ensures the validity and implementation of the processes to identify, measure and control financial risk, credit risk and structural risks in the balance sheet to which the ICF Group is exposed, in accordance with the "three lines of defence" model.
- **Global Risk Control Committee:** This committee is responsible for all action concerning the supervision of all the risks affecting the ICF Group and evaluates the suitability of the target risk profile.
- **Assets and Liabilities Committee:** Responsible for supervising the structural risks of interest rates and liquidity and defining procedures for mediation and control. It also checks that investment and financing

strategies are optimal and consistent with the profitability and risk levels which the institute is prepared to bear.

With respect to the concession of operations, the acceptance of the risk is organised with a system for delegating powers and responsibilities in the form of a pyramid with the Supervisory Board at the top. This system of delegation is proportional to the risk borne; it also provides the conditions to respond efficiently in due time and manner to client requests for financing. Thus, different levels of authority are fixed for the approval of credit risk, chiefly in accordance with the amount of the operation and the amount accumulated with the economic group.

### E.3 Indicate the main risks that may affect the achievement of business objectives

The ICF Group has processes to identify risks and analyse scenarios so as to manage them dynamically.

Risks are detected and measured consistently using the methodologies it deems fit on a case-by-case basis.

The main risks that may affect the ICF Group are:

- **Credit risk:** The possibility of incurring losses due to a breach of payment obligations on the part of borrowers or impairment of the loan quality of same.
- **Counterparty risk:** The possibility of incurring losses in value as a result of a breach of payment obligations by credit institutions, including operations using derivatives.
- **Market risk:** The possibility of incurring losses in the value of positions held in financial assets due to an adverse variation of the risk factors which affect their prices or the value of their shares.
- **Liquidity Risk:** The risk of incurring losses due to a lack of sufficient liquid funds or an increase in the cost of financing, which prevents compliance with commitments undertaken as they become due, together with the risk of being unable to unwind a position as a result of market imperfections.
- **Interest rate risk:** The possibility of incurring losses due to interest rate variations that affect a balance sheet sensitive to rate changes.
- **Operational risk:** The possibility of incurring losses when internal processes are inadequate or flawed due to staff performance or the result of external events. Includes legal risk, but excludes strategic and reputational risk.

### E.4 State whether the organisation has a risk tolerance level.

The ICF Group is involved in a process of defining risk tolerance and risk appetite levels, understood as the overall level of risk that the Group is willing to accept, considering the risk-profitability balance.

Nevertheless, the ICF Group seeks to maintain a balanced relationship in capital, have risk management policies in place and control its exposure to risk.

The ICF Group recognises that a certain degree of risk is inherent to its activity and its objective is, therefore, to reach a prudent risk level with a view to maintaining a significantly higher solvency coefficient than the minimum required by banking regulations.

### E.5 Identify any risks that have occurred during the year.

Risk is inherent to financial activity and therefore the Group's activities involve risk to a greater or lesser degree. The ICF Group provides detailed risk information in Note 3 to the consolidated annual accounts, which are available on the corporate website.

E.6 Explain the response and monitoring plans for all major risks of the company, as well as the procedures followed by the company in order to ensure that the Board of Directors responds to any new challenges that arise.

The ICF Group has established different monitoring mechanisms for significant risks associated with its activity. At the highest level, this monitoring is carried out by the Joint Audit and Control Committee. In addition, the chief risks affecting the Group are monitored by the Global Risk Control Committee.

## F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms entailed in the risk monitoring and management systems with regard to the financial reporting process (ICFR) of your company.

### F.1 The organisation's control environment

Report, pointing out the chief characteristics of, at least, the following:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of a suitable, effective ICFR system; (ii) the implementation of this system; and (iii) supervision of same.

The Supervisory Board of the ICF, as defined in article 9 of the Articles of Association of the ICF's governing bodies, is responsible for the existence of an adequate and effective ICFR system, and the General Finance and Operations Department is responsible for its design, implementation and operation. Moreover, the internal control policy for financial information and Article 24 of the Bylaws of the Governing Bodies of the ICF stipulate that the Joint Audit and Control Committee will be responsible for supervising the ICFR system, its chief duties being as follows:

- To supervise the production and integrity of financial information and to review compliance with legal requirements and the proper application of accounting principles.
- To periodically review internal risk control and management systems to ensure the chief risks are identified, managed and reported and to discuss with the auditor any significant weaknesses in the internal control system detected during the audit process.
- To ensure the independence and effectiveness of the Internal Audit function, which, under the annual action plan, allows evaluation of ICFR and periodic reporting to the Joint Audit and Control Committee of any weaknesses detected during this work and the corrective measures proposed.
- To establish mechanisms that allow employees to report confidentially, and anonymously if deemed appropriate, any potentially significant irregularities, especially those regarding financial and accounting matters.

The Joint Audit and Control Committee is responsible for the following:

- Approving the Audit Plan, which describes the audits to be made of the ICFR system.
- Determining who will be responsible for evaluating the ICFR system.
- Evaluating the adequacy of the work carried out with regard to ICFR and analysing the results obtained by the various parties involved in supervising ICFR and evaluating the impact on financial information.
- Prioritising monitoring of the corrective action proposed concerning ICFR.

Although the Joint Audit and Control Committee must be proactive in analysing the key areas of ICFR requiring control and supervision, it may entrust the supervision and evaluation of ICFR to other parties which provide support:

- Internal Audit
- External auditors
- Other experts

F.1.2 Whether the following elements exist, especially in relation to the financial reporting process:

- Departments and/or mechanisms charged with: (i) the design and review of the organisational structure; (ii) clearly defining lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that adequate procedures exist for proper communication within the organisation.

The review and approval of the organisational structure and the channels of responsibility and authority are carried out by the Chief Executive Officer of the ICF, based on the proposals made by the Appointments and Remuneration Committee to the Board regarding the members who are to form part of each of the Institute's commissions and committees. When defining the organisational structure, the setting of clear lines of responsibility and authority and the appropriate distribution of tasks and duties are taken into account.

When preparing financial information the lines of authority and responsibility defined are taken into account. There is a planning process of the tasks to be performed until the information is issued to the market, which, amongst other factors, considers the assignment of tasks and responsibilities, the setting of time frames for delivering information at different stages of preparation and the review processes to which the information is submitted before it is drawn up and subsequently released. This process is documented and adapted to each document issued in accordance with the situation, the initial description of the process and details of its monitoring being periodically reviewed by each of the parties involved.

The Institute's policy for the disclosure of financial information contains details of the financial information to be published in the markets and those responsible for approving it, including the following information:

- Individual and consolidated financial statements and management report.

These documents must be written clearly and be relevant, reliable and comparable, and include the quantitative and qualitative information necessary for better understanding of the other financial reports published. They must comply with applicable regulations and take materiality, relevance and relative importance into account.

Responsibility for preparing this falls to the Finance Department, which is responsible for coordinating the drafting process with the other areas involved. Supervision of the final drafting is the responsibility of the General Finance and Operations Department, and its preparation (or submission for approval to the Board, if applicable), is for the Institute's Supervisory Board, subject to a favourable pronouncement from the Joint Audit and Control Committee.

- Annual Corporate Governance Report

The responsibility for its preparation and content lies with the Supervisory Board which must expressly approve it. The responsibility in the prior drafting process lies with General Finance and Operations, by way of the Finance Department. The information in certain sections is obtained with the assistance of the Global Risk Control and Technical Secretariat departments, Internal Audit and Human Resources.

- Pillar III Disclosure Report

Report drawn up in accordance with Circular 3/2008, of 22 May, issued by the Bank of Spain to credit entities concerning the identification and control of minimum capital in accordance with the equity and reporting requirements contained in the resolution adopted by the Basel Committee on Banking Supervision, as incorporated in Spanish law.

Responsibility for its approval lies with the Supervisory Board, the Global Risk Control Area coordinating the preliminary drafting process and the General Finance and Operations Department carrying out the final review of the document in accordance with applicable standards.

It should also be noted that the Group has an updated organisational chart, published and duly approved.

- Code of conduct, body approving the same, degree of dissemination and instruction, principles and values included (indicating whether there is specific reference to record keeping and financial reporting), the body entrusted with analysing non-compliance and with proposing corrective measures and sanctions.

The ICF has a General Code of Conduct for Group professionals and a Code of Good Practice for the members of the Supervisory Board, which set out the ethical principles that inspire and govern the activities of all employees, executives and members of its governing bodies. The General Code of Conduct for Group professionals is available to all via the corporate intranet.

The values and principles contained in the Code of Conduct and Code of Good Practice are as follows: compliance with the law, professionalism, efficiency, honesty, discretion, equal opportunities and non-discrimination.

The Code of Conduct, which all Group employees are required to sign, provides for a system of sanctions in line with the provisions of the collective agreement in force at the time.

The latest version of the ICF Group Code of Conduct for Professionals was approved in 2018.

- A whistle-blowing channel that allows reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as possible non-compliance with the Code of Conduct and irregular activities in the organisation, reporting where applicable if this of a confidential nature.

This channel was implemented in 2015 under the supervision of the Joint Audit and Control Committee, to enable Group employees who are aware of a criminal act or infringement of the Code of Conduct to file the relevant report.

It is an internal channel (solely for employees) and visible (it is accessible via various links on the Institute's intranet). Reports must be personal and confidential, the identity of the reporter being safeguarded and only disclosed to the departments carrying out the investigation if essential and only with the person's prior authorisation.

The procedure established for resolving these issues is managed via the Joint Audit and Control Committee and the Internal Audit Department.

- Periodic training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR which address, at least, accounting rules, auditing, internal control and risk management.

The Human Resources Department provides training and periodic refresher programmes for personnel involved in ICFR. These programmes include ongoing training in the fields of accounting, consolidation, risk management and internal control of financial reporting and are intended for those directly or indirectly involved in preparing and issuing financial reports.

The documentation concerning the various sessions is available to all Group employees on the ICF's internal portal.

The main training sessions carried out in the year 2018 for personnel involved in the preparation and revision of financial information, given by external experts of recognised standing in the sector, are the following:

Session	Number attending	Duration of training (in hours)
Internal Capital and Liquidity Assessment and Internal Audit.	1	8
Regulation and developments in the banking sector	5	19.5
Compliance by financial entities	1	30
Remuneration policies	1	8
Annual training on prevention of money laundering and the financing of terrorism	25	2
Production of reports and control mechanisms with Business Intelligence and office applications	16	20
CFA Certification (level I and level II)	2	100
Certification in Control Self-Assessment (CCSA)	1	50

F.2 Evaluation of financial reporting risks. Provide information on, at least:

F.2.1. What are the chief characteristics of the risk identification process, including error or fraud, in relation to:

- Whether the procedure exists and has been documented.

On an annual basis and within the framework of the analysis of the scope of the Financial Reporting Control System, the ICF Group formalises the identification of relevant areas/processes and material risks, using the methodology found in the Internal Standards of the aforementioned system, including risks related to errors or fraud in the process of identification.

The determination of whether the potential impact of those risks is significant to the financial statements thus focuses on identifying the critical management processes used to generate financial data and identifying the areas or sections of the financial statements where the above risks occur.

The analysis considers both quantitative factors (balance, fragmentation, etc.) and qualitative factors (degree of process automation, standardisation of transactions, level of accounting complexity, changes with respect to the previous year, identification of control weaknesses, etc.).

- Whether the procedure covers all the financial reporting objectives (existence and occurrence; completeness; evaluation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.

The aforementioned procedure is defined to address all the financial reporting objectives for each department/process considered significant. The policy is updated on an annual basis and supervised by the Joint Audit and Control Committee.

- The existence of a process to define the consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, holding companies or special-purpose organisations.

As part of the accounting policies and principles of the ICF Group there is a process for analysing the consolidation perimeter at least once a year, which defines the criteria for considering investees as part of the Group or as Associates.

- Whether the process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

The process of identifying risks takes into consideration both the most common financial transactions and less common, extraordinary or highly complex transactions, as well as the effect of other types of risks (operational, technological, financial, legal, reputational, etc.).

- Which governing body in the company supervises the process.

The Joint Audit and Control Committee is the body entrusted with annually supervising the risk identification process.

### F.3 Control activities

Report, providing an outline of the main features, if you have at least the following:

F.3.1 Procedures for the review and authorisation of financial information and the description of the ICFR, to be published in the securities markets, indicating those responsible, as well as documentation describing activity flows and controls, (including those relating to the risk of fraud) for each type of transaction that may materially affect the financial statements, including the procedure for closing accounts and a specific review of relevant opinions, estimates, evaluations and forecasts.

As specified in section F.1.2 above, the financial information disclosure policy establishes the main documents subject to disclosure and their characteristics within the control environment and identifies those responsible for verifying data in documents subject to financial disclosure to external parties.

Likewise, the ICF Group has a description of its accounting policies and principles used as a basic guide so that the Group can apply consistent accounting and assessment principles when preparing its financial reports. This document includes accounting policies and other procedures that are generally applicable in the preparation of financial statements, including those related to estimates that may have a significant impact on financial information, as well as procedures critical to the closing of the financial year and the preparation of annual accounts.

Regarding activities and controls directly related to transactions that may have a material effect on the financial statements, the ICF Group has prepared a series of descriptive documents and risk and control matrices for processes that significantly affect the creation, processing and preparation of financial reports.

For each of the relevant processes the documents consider the areas involved and those responsible for control, the systems involved and the description of risks and controls. The risk and control matrices include the following fields, among others:

- Description of the risk
- Attribute with which the risk is identified
- Indication of whether or not the risk may involve fraud
- Control activity
- Classification of control: key / standard
- Control category: prevention / detection
- Method: manual / mixed / automatic
- System supporting the control

- Frequency of control
- Proof of control

Below is a description of the relevant processes together with the chief headings of the associated financial statements (distinguishing between business and transversal processes) defined within the scope of the ICFR system. This information is made available to the Joint Audit and Control Committee during the first half of each year, in accordance with the internal policy on financial reporting approved.

Business processes:

Process	Main sections related
Loans and guarantees	Customer loans Impairment of the value or (-) reversal of impairment of the value and gains or losses for changes in cash flows of financial assets not valued at fair value with changes in results. Deposits in credit institutions Interest income Non-current assets held for sale Gains (losses) on non-current assets for sale
Treasury	Deposits with credit institutions Debt securities Interest income Derivative hedging instruments Other cumulative global results Profit or (-) Losses on derecognition of unrealized financial assets and liabilities at fair value with changes to results, net Deposits by credit institutions Marketable debt securities Interest expenses
Venture capital	Investments Financial assets at fair value with changes to other global results - Capital instruments Other cumulative global results Impairment of the value or (-) reversal of impairment of the value and gains or losses for changes in cash flows of financial assets not valued at fair value with changes to results

Transversal processes:

- Accounting and tax management
- Human resources management
- Reporting and analysis

The documentation includes:

- Description of the activities related to the process from the onset, indicating the specifics that a particular product or operation may have.
- Identification of relevant risks with a material impact on the financial statements.
- Identification and description of controls and their association with previously identified risks.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control and implementation of changes, operational continuity and segregation of duties) giving support to key processes regarding the preparation and publication of financial information.

IT systems are a fundamental part of internal control as they are used directly when preparing and monitoring information. The Department of Regulatory Compliance, working jointly with the Human Resources Department, and with the support of the Technology Division, maintains control of access to applications and authorisation, ensuring a proper separation of functions.

In conjunction with the Technology Division, the Purchasing and Services Department has coordinated the development of a Business Continuity Plan to minimise the impact of the main contingency scenarios that may affect either the computer systems or processes considered critical. In practice, compliance with the measures described in the Plan would allow commercial, financial and operational activity to continue with very little impact on clients, associates and providers.

The ICF currently has a data processing infrastructure service which, among other benefits, ensures the continuity of its systems, since this service is delivered through two data processing centres in different locations which are connected with each other and makes it possible to manage technical activity in detail, meet the demand for technical resources quickly and store information with improved supports and more frequent backups.

Highly detailed procedures have been established for requesting new functions, changes to IT applications and changes to data. The traceability of these changes and the authorisations required are documented and supported by computer applications.

The security policy for IT access is gradually being modified from being associated with individual applications to being hosted in a centralised directory (LDAP). Once this process has been completed, it will be easier to audit reviewing and controlling the matrix separating the roles of different users.

We have established and implemented security policies to prevent information leaks, which currently include making it impossible to use unregistered devices via USB connections, burn CDs/DVDs or install applications which are not authorised or standardised.

The ICF has developed a Cybersecurity Master Plan, based on which all the action that the ICF requires in this respect is being taken to strengthen security and provide tools and measures to mitigate the risk of potential incidents or attacks.

Audits are regularly carried out on different aspects of IT systems, including technical issues, access and compliance with legislations (Data Protection, etc.).

The perimeter security of the information systems is guaranteed. Using different firewall segments, all incoming data requests are filtered and audited to certify that they are not malicious. Internally, the information systems are located in different areas depending on whether they are production systems, development environments or areas for connecting devices belonging to external partners.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The accounting policies and principles of the ICF Group include the responsibilities of the various departments with regard to the internal control of services commissioned from third parties that impact financial reporting.

The ICF Group has procurement procedure regulations to ensure transparency and rigorous compliance with the legal framework. These principles are the basis for the relationships between the Group companies and their partners, and are in line with the provisions of the Public Procurement Act, to which the Group is subject. The aforementioned Act contains, among other provisions, the requirement of a public procurement procedure for any service whose cost is equal to or greater than 15,000 euros (including recurring services). The competitive bidding process provides for the creation of a technical team that will assess the proposals based on the parameters set out previously in the tender specifications, submitting its conclusions to a procurement panel that will present its proposal to the Group's procurement bodies.

In addition, the internal procurement circuit is based on authorisation workflows at different levels, without which the information is not recorded.

In 2018 the Group does not have activities subcontracted to third parties that are critical to the preparation of the financial statements.

#### F.4 Information and reporting

Report, providing an outline of the main features, if you have at least the following:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

It is the responsibility of the General Finance and Operations Department to have formal descriptions of the processes and procedures for the generation of financial information. These processes must be designed with the aim of mitigating the risks associated with the different stages of preparing financial information.

In particular, the ICF Group's Accounting Policies and Principles, prepared by the Finance team under the General Finance and Operations Department, set forth the accounting practices to be followed by the Group in the course of its activity. They include, among other points, procedures and responsibilities with respect to estimates that could have a significant impact on financial reporting, as well as critical procedures associated with closing the accounts and the preparation of the annual accounts.

All group employees are made aware of the accounting principles and policies via the corporate intranet.

These accounting practices are determined and documented in line with policies and principles based on the features of a particular product/transaction, the business area involved, and the applicable accounting standards, and are specified via the creation or modification of an accounting circuit. The documents that make up the accounting circuit explain in detail all the possible events that may affect a contract or operation and describe the chief characteristics of administrative operations, fiscal regulations and the accounting criteria and standards applied. Accounting practices are updated on an ongoing basis for any new type of contract or operation or any regulatory change that may have an impact from the accounting viewpoint.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The accounting data, after validation via the controls defined, are transferred directly to the financial information, enabling full traceability between accounting and the financial statements, both individual and consolidated.

For the purpose of formulating the consolidated information, all the Group companies use mechanisms for gathering, analysing and preparing the information in standard format.

In connection with the preparation of annual reports:

- The Accounting Control and Management unit is responsible for preparing notes to the financial statements, based on the following areas:
  - Global Risk Control, responsible for providing information on capital and risk management
  - Human Resources, responsible for providing information on personnel.
- The notes are subject to review at different levels. In the case of the parent company of the Group, the notes are subject to revision by the Finance Department, the General Finance and Operations Department, the Steering Committee and the Joint Audit and Control Committee, before being sent to the Supervisory Board to be submitted to the Government of Catalonia for approval.

In connection with the preparation of this report:

- The General Finance and Operations Department's Finance Division is responsible for drafting the document, with the support of Global Risk Control, the Technical Secretariat, Internal Audit and Human Resources in connection with certain sections.
- This report is subject to review at various levels. Specifically, it is reviewed by the Steering Committee and the Joint Audit and Control Committee, before being brought to the Supervisory Board for approval.

## F.5 System operation supervision

Provide an outline of the main features of at least the following:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the Internal Control System, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The Joint Audit and Control Committee is responsible for supervising the preparation and presentation of regulatory financial information, ensuring its compliance with legal requirements and the proper application of accounting principles. To carry out this supervision, it can entrust the execution of ICFR supervisory and evaluation work to the following parties which provide support:

- Internal Audit
- External auditors
- Other experts

With regard to the supervisory activities entrusted to the Internal Audit Department, and based on the provisions of the bylaws for this area, the Joint Audit and Control Committee approved on 25 January 2017 the Annual Plan for 2018, which included a review of the ICFR system and envisaged specific tasks for supervising the ICFR system, including

separate evaluation of the key controls for significant processes in a maximum period of three years. It also considered the development of ongoing auditing.

In this respect, the 2018 ICFR review by Internal Audit included a review of the methodology and the risks and controls identified in the documentation associated with the ICF Group's ICFR system, and a review of credit investment processes related to the management of previous conditions. In 2018 the Internal Audit Department also applied a total of 29 ongoing audit indicators, in the fields of accounting, credit investments and the contracting of products and services, with a view to ensuring the efficiency and effectiveness of the main controls established in the Group's key processes and activities. Finally, within the framework of the 2014-2020 ERDF operational programme, according to which Internal Audit is responsible for control, it reviewed a total of 145 operations.

The conclusions of Internal Audit, together with those on internal control reached by the external auditor, have been reported to the Joint Audit and Control Committee to enable it to exercise supervision in accordance with the requirements of current regulations.

The recommendations arising from the review and update of the ICFR system form part of the recommendation follow-up process which the Internal Audit Department carries out each year. Information was also submitted to the Joint Audit and Control Committee on the follow-up and the result obtained.

F.5.2. Whether there is a discussion procedure via which the Auditor (in accordance with the provisions of auditing standards), the Internal Audit department and other experts can report to senior management and to the Audit Committee or company directors any significant internal control weaknesses identified during their review of annual accounts or any others for which they are responsible. Also report whether there is an action plan to remedy or mitigate the weaknesses identified.

The Group carries out regular monitoring of external audit activity and has a procedure for discussions with the Auditor concerning significant matters of accounting and auditing, especially the opportunities for improving internal control reported by the Auditor. Senior management is thus permanently informed of the conclusions of the annual accounts review processes and both the Joint Audit and Control Committee and the Supervisory Board receive, prior to the preparation of the accounts, the following information:

- Relevant aspects of accounting and auditing, especially those having an impact on the Annual Accounts.
- Preliminary and final conclusions.

The Auditor also transmits to the Group a list of the main weaknesses detected in internal control, based on which the Group designs an action plan to correct and mitigate these within a reasonable period.

## F.6 Other relevant information

There is no other relevant information to report.

## F.7 Report by the external auditor

Provide information on:

F.7.1. State whether the ICFR information sent to the markets has been reviewed by the external auditor, in which case the company must include the relevant report as an annex. Otherwise, it must justify this.

The ICF Group has submitted the review by the external auditor of the ICFR information sent to markets for the year 2018. The report of the external auditor, Ernst & Young SL, is included as an annex to this annual corporate governance report.

The scope of the auditor's review procedures is determined by Circular E01/2012 of 25 January 2012, of the Spanish Institute of Chartered Accountants.

## G. OTHER RELEVANT INFORMATION

If there is any significant aspect of corporate governance affecting the Institute or the Group companies not covered by the other sections of this report, but which should be included to provide more comprehensive and reasoned information on the organisation's or the group's governance structure and practices, detail them briefly.

This section may be used to provide further information, clarifications, or reservations in relation to previous sections of the report; these should be significant and repetition should be avoided.

Specifically, it should be indicated whether the company is subject to legislation other than Spanish legislation in corporate governance matters, and, if this is the case, any information that the company is obliged to provide and that is different from that required in this report should be included.

The Institute may also indicate whether it has adhered voluntarily to other codes of ethical principles or good practice, whether their scope is international, sectorial or of another type. Where applicable, the code in question will be identified along with the date of the company's adhesion.

The ICF, as a private sector public entity, is also subject to additional external supervision, chiefly that of the Court of Auditors of Catalonia and the General Comptroller of the Government of Catalonia.

The Court of Auditors reviews the financial statements of the ICF Group on an annual basis together with the Institute's main administrative processes.

The Group also sends its audited financial statements to the General Comptroller of the Government of Catalonia each year.

## ANNEX: EXTERNAL AUDIT REPORT

**Auditor's report on the "Information Relating to the Internal Control over Financial Reporting (ICFR)" of Institut Català de Finances for the year 2018**

*(Translation from the original report in Catalan)*



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*Translation of a report originally issued in Catalan.  
In the event of discrepancy, the Catalan-language version prevails.*

#### AUDITOR'S REPORT ON THE "INFORMATION RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)"

To the Governing Board of Institut Català de Finances:

As requested by the Governing Board of Institut Català de Finances (hereinafter, the Company) and in accordance with our proposal dated July 15, 2016, we have applied certain procedures to the "Information relating to the ICFR" contained in Section F of the Annual Corporate Governance Report of Institut Català de Finances and subsidiaries (hereinafter, the Group) for the year 2018, which summarises the internal control procedures of the Company in relation to its annual financial reporting.

The Governing Board is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control and for developing improvements to those, and for preparing and establishing the contents of the "Information relating to the ICFR" contained in Section F of the Annual Corporate Governance Report.

It should be noted in this regard, that irrespective of the quality of the design and operating capacity of the internal control adopted by the Company in relation to its annual financial reporting, the internal control can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the 2018 financial statements of the Group and pursuant to the Auditing Standards generally accepted in Spain, the sole purpose of our assessment of the internal control of the Company was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Company's extent financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not extensive enough to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.



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For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission (CNMV) on its website, which sets out the work to be performed, the minimum scope of this work, and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control, we do not express an opinion on the effectiveness thereof, not on its design or operating effectiveness, in relation to the Company's annual financial reporting for 2018 described in Section F of the Annual Corporate Governance Report. Therefore, had additional procedures been applied to those provided for in the abovementioned Guidelines or an audit or a review of the internal control over the regulated annual financial reporting been performed, other matters or aspects might have come to our attention that would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the Consolidated Spanish Audit Law, we do not express an audit opinion in the terms provided for in that Law.

The procedures applied were as follows:

1. Understanding of the information prepared by the Company in relation to the system of ICFR and assessment of whether this information addresses all the information required in section F, relating to the description of the system of ICFR, of the Annual Corporate Governance Report model established in CNMV Circular 7/2105, of 22 December 2015.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of: (i) understanding the process of preparing it; (ii) obtaining the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtaining the information on whether the aforementioned control procedures have been implemented and are in use at the Company.
3. Reviewing the explanatory supporting documentation for the information detailed in point 1 above, including the documentation furnished directly to the personnel in charge of preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparing the information detailed in point 1 above with the Company's knowledge of the system of ICFR obtained as a result of the procedures carried out as part of the audit of its financial statements.
5. Inspecting the minutes of meetings of the Governing Board, the Audit Committee and of other committees in order to assess the consistency between the ICFR matters addressed therein and the information detailed in point 1 above.
6. Obtaining the representation letter concerning the work performed, duly signed by the personnel in charge of the preparation of the information detailed in point 1 above.



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As a result of the procedures applied to the “Information relating to the ICFR” no inconsistencies or incidents have come to our attention that might affect it.

This report has been prepared exclusively under the framework of the requirements established by article 540 of the Consolidated Text of the Corporates Act (Ley de Sociedades de Capital) and by Circular No. 7/2015, of 22 December, of the Spanish National Securities Commission (Comisión Nacional del Mercado de Valores) for the purposes of describing the system of ICFR in Annual Corporate Governance Reports.

ERNST & YOUNG, S.L.

(signed in the original report in Catalan)

\_\_\_\_\_  
Roberto Diez Cerrato

April 23, 2019