



Institut Català
de Finances

2018

Financial Report

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AUDITORS REPORT

(Free translation from the original in Catalan. In the event of discrepancy, the Catalan-language version prevails)



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Translation of a report and consolidated financial statements originally issued in Catalan. In the event of discrepancy, the Catalan-language version prevails (see note 36).

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Governing Board of Institut Català de Finances:

Opinion

We have audited the consolidated financial statements of Institut Català de Finances (the Institute) and subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2018, the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated statement of total changes in equity, the consolidated cash flow statement, and the consolidated notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 1.b to the accompanying consolidated financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Most relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.



Estimation of credit risk impairment losses for loans and advances at amortised cost

Description Estimating credit risk impairment losses is one of the most significant and complex areas of judgement in preparing the financial information of the Group. In addition, the adoption of Circular 4/2017 of Bank of Spain as of 1 January 2018 has led to a significant change in criteria for estimating credit risk impairment losses, moving from an incurred loss model to an expected loss approach. In note 2.h to the accompanying consolidated financial statements management details de main criteria and principles applied by the Group in estimating credit risk impairment losses and the respective amounts. In note 1.b to accompanying consolidated financial statements management details the impact from adopting the aforementioned Circular 4/2017 as of 1 January 2018.

The process of estimating credit risk impairment losses is carried out both individually and collectively.

- ▶ Individually: the estimation of impairment losses for individual loans takes into account, among other factors, the identification and classification of impaired exposures, the estimation of the debtors cash-flows and, if applicable, the estimation of the collateral realization value.
- ▶ Collectively: the main factors considered in the collective estimation of credit risk impairment losses are the identification and classification of exposures either in the watch-list or impaired, and the portfolio stratification into homogenous groups, on which the Group applies loss parameters considering those included in Circular 4/2017.

For all this, we have considered the estimation of credit risk impairment losses for loans and advances a most relevant issue in our audit.

Our response

Among the audit procedures that we have performed in this area, we have evaluated the effectiveness of the internal controls and performed substantive testing on credit risk impairment losses both calculated individually and collectively.

With regards to the internal controls, our procedures have been focused on:

- ▶ Evaluating the policies and procedures established by the Group based on the applicable legal requirements, as well as its application;
- ▶ Reviewing the procedures established by the Group within the process of granting loans and advances to evaluate the debtors' financial situation based on cash-flow projections and other financial information;
- ▶ Evaluating the process of reviewing credit exposures to determine its classification and, if necessary, identification of impairment;
- ▶ Evaluating the classification criteria based on amounts past due, and the situation of the debtor and the transactions, including whether these are refinanced or restructured;



- ▶ Assessing the accounting policies and criteria established by the Group to refinance or restructure risk exposures, as well as the controls established to monitor them, and
- ▶ Evaluating the design of relevant controls established by the Group to manage and value collaterals and other guarantees linked to risk exposures.

Additionally, we have performed substantive procedures, consisting of, mainly:

- ▶ In relation to the impairment losses determined individually, evaluating the hypothesis used by management to identify and quantify impairment losses, based on a sample of loans with objective evidence of impairment, to evaluate the impairment recorded, and
- ▶ In relation to the impairment losses determined collectively:
 - ▶ evaluating, for a sample of transactions, the stratification and classification of loans and advances, considering, among others, debtors' financial information and the existence of forbearance measures;
 - ▶ comparing the realization value of collaterals (if considered by management) to the appraisals made by specialists;
 - ▶ re-calculating the collective impairment loss allowance, and
 - ▶ evaluating the adequacy of collective impairment losses recorded in addition to the minimum loss percentages included in the aforementioned Circular 4/2017.

In addition, we have evaluated the implementation of the new criteria for estimating credit risk impairment losses as of 1 January 2018, date of the adoption of the new standard.

Finally, we have evaluated whether the accompanying consolidated financial statements include the information required by the regulatory framework for financial information applicable to the Group, including the Impacts from adopting Circular 4/2017 of Bank of Spain.

Valuation of venture capital investments

Description As included in note 7 to the accompanying consolidated financial statements, the Institute maintains investments in venture capital entities for a total amount of Euro 94,671 thousand as of 31 December 2018, which are measured, as disclosed in note 2.b of the consolidated notes, at fair value. Determining the fair value of the investments is an estimation based on the information accounted for in the equity value of these entities. For all this, we have considered that the valuation of venture capital investments is a most relevant issue in our audit.



Our

response

Among the procedures that we have performed in this area, we have evaluated and tested the design of internal controls implemented within the processes of managing investments in venture capital entities, evaluating the information provided on them and measuring its fair value.

Additionally, we have performed the following substantive procedures:

- ▶ Tests of details directed to evaluate the quality and completeness of technical and project management information on the projects developed by the venture capital entities which the Group is investing in, as well as the use given to this information by management.
- ▶ Tests of details on the reliability of this information, as well as of the arithmetic calculation performed by management to measure the fair value of the venture capital entities.
- ▶ Analytical procedures to test the consistency of the valuation of these investments with the profitability of the entities and the general trends of the markets in which they operate.

Finally, we have evaluated whether the accompanying consolidated financial statements include the information required by the regulatory framework for financial information applicable to the Group.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the Institute's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated management report is to assess and report on the consistency of the consolidated management report with the consolidated financial statements based on the knowledge of the entity we obtained while auditing the consolidated financial statements, and not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is to assess and report on whether the content and presentation of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the consolidated management report is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.



Directors' responsibilities for the consolidated financial statements

The directors are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with the regulatory framework for financial information applicable to the company in Spain, identified in Note 1.b to the accompanying consolidated financial statements, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors of the Institute regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Institute's directors, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

ERNST & YOUNG, S.L.

(Signature in the original report in Catalan)

Roberto Diez Cerrato

April 23, 2019

CONSOLIDATED FINANCIAL STATEMENTS ICF GROUP

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

INSTITUT CATALÀ DE FINANCES GROUP

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017 (in thousands of Euros)

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

ASSETS	Note	31/12/2018	31/12/2017*	LIABILITIES AND EQUITY	Note	31/12/2018	31/12/2017*
Cash, cash balances with central banks and other demand deposits	5	88,795	82,765	LIABILITIES			
Financial assets held for trading	6	-	842	Financial liabilities held for trading	6	-	396
Derivatives		-	842	Derivatives		-	396
Financial assets at fair value through other comprehensive income	7	559,133	510,171	Financial liabilities at amortized cost	15	1,462,325	1,638,737
Equity instruments		94,671	78,875	Deposits		966,881	1,112,814
Debt securities		464,462	431,296	Credit institutions		837,662	972,189
Financial assets at amortized cost	8	1,550,123	1,786,943	Client funds		129,219	140,625
Loans and advances		1,550,123	1,785,843	Debt securities issued		491,336	521,601
Credit institutions		78,905	132,450	Other financial liabilities		4,108	4,322
Customers		1,471,218	1,653,393	Derivatives – hedge accounting	9	13,878	14,151
Debt securities		-	1,100	Provisions	16	4,346	3,632
Derivatives – hedge accounting	9	5,677	5,287	Commitments and guarantees given		3,464	2,750
Investments in joint ventures and associates	11	9,096	10,148	Other provisions		882	882
Associates		9,096	10,148	Tax liabilities	21	3,263	4,478
Tangible assets	12	63,126	63,836	Current tax liabilities		3,253	3,932
Property, plant and equipment		9,680	9,691	Deferred tax liabilities		10	546
Investment property		53,446	54,145	Other liabilities	17	6,617	5,742
Intangible assets	13	817	813	TOTAL LIABILITIES		1,490,429	1,667,136
Other intangible assets		817	813	EQUITY			
Tax assets	21	60,625	51,085	Own funds	20	844,831	840,475
Current tax assets		141	178	Capital		693,149	693,149
Deferred tax assets		60,484	50,907	Paid-in capital		693,149	693,149
Other assets	14	4,604	7,890	Retained earnings		135,535	128,908
Rest of other assets		4,604	7,890	Other reserves		3,016	3,372
Non-current assets and disposal groups classified as held for sale	10	10,001	6,728	Reserves from joint ventures and associates		3,016	3,372
				Profit/(loss) attributable to equity holders of the parent		13,131	15,046
				Accumulated other comprehensive income	19	16,737	18,897
				Items that will not be reclassified to profit or loss		29,569	25,783
				Changes in fair value of equity instruments through profits/(loss)		29,569	25,783
				Items that can be reclassified to profit or loss		(12,832)	(6,886)
				Hedging derivatives.		(8,973)	(8,522)
				Cash flow hedge.		(3,859)	1,636
				Changes in fair value of debt instruments			
TOTAL ASSETS		2,351,997	2,526,508	TOTAL EQUITY		861,568	859,372
				TOTAL LIABILITIES AND EQUITY		2,351,997	2,526,508
MEMORANDUM ACCOUNTS: OFF-BALANCE SHEET ITEMS							
Financial guarantees granted	22	108,058	110,725				
Contingent commitments granted	22	150,080	117,716				

* Presented solely and exclusively for comparative purposes. The figures have been adapted in accordance with Note 1.b. Notes 1 to 35 in these financial statements and the annexes I and II form an integral part of the consolidated balance sheet at December 31, 2018.

INSTITUT CATALÀ DE FINANCES GROUP

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (in thousands of Euros)

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

	Note	Year 2018	Year 2017*
Interest income	23	48,796	58,154
Financial assets at fair value through other comprehensive income		2,844	3,172
Financial assets at amortized cost		45,952	54,982
(Interest expenses)	24	(16,338)	(18,523)
A) INTEREST MARGIN		32,458	39,631
Dividend income	7	-	1,175
Commission income	25	2,932	3,177
(Commission expenses)	26	(752)	(703)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	27	90	1,288
Gains or (-) losses from assets and liabilities held for trading, net	6	-	446
Gains or (-) losses from hedge accounting, net	9	-	(968)
Other operating income	28	4,285	3,859
(Other operating expenses)	29	(1,648)	(1,356)
B) GROSS MARGIN		37,365	46,549
(Administrative expenses)		(9,376)	(8,903)
(Personnel expenses)	30	(5,709)	(5,388)
(Other administrative expenses)	31	(3,667)	(3,515)
(Depreciation and amortisation)	32	(1,220)	(1,172)
(Provisions or (-) reversal of provisions)	16	(581)	(538)
(Impairment losses or (-) reversal of impairment losses on financial assets not at fair value through profit or loss)		(14,519)	(25,919)
(Financial assets at fair value through other comprehensive income)	33	-	(322)
(Financial assets at amortized cost)	33	(14,519)	(25,597)
C) OPERATING MARGIN		11,669	10,017
(Impairment of value or (-) reversal of impairment of non-financial assets)	12	-	5,481
(Tangible assets)		-	5,481
Gains or (-) losses on non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	34	4,282	3,692
D) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		15,951	19,190
(Gains or (-) losses on income tax from continuing operations)	21	(2,820)	(4,144)
E) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		13,131	15,046
F) PROFIT OR (-) LOSS FOR THE YEAR		13,131	15,046

* Presented solely and exclusively for comparative purposes. The figures have been adapted in accordance with Note 1.b. Notes 1 to 35 in these financial statements and the annexes I and II form an integral part of the consolidated income statement at December 31, 2018.

INSTITUT CATALÀ DE FINANCES GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (in thousands of Euros)

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

A) Consolidated statements of recognized income and expense for the years ended December 31, 2018 and 2017:

	Year 2018	Year 2017*
Profit or (-) loss for the year	13,131	15,046
Other comprehensive income	(1,531)	9,426
Items that will not be reclassified to profit or loss	4,415	6,122
Actuarial gains or (-) losses on defined benefit plans	-	-
Non-current assets and disposal groups held for sale	-	-
Share in other recognized income and expenses of investments in joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	4,570	6,128
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in the credit risk	-	-
Income tax related to items that will not be reclassified	(155)	(6)
Items that can be reclassified to profit or loss	(5,946)	3,304
Hedge of net investments in foreign operations [effective portion]	-	-
Revaluation gains/(losses) recognized in equity	-	-
Amount transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Gains or (-) losses on foreign currency translation recognized in equity	-	-
Amount transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	(601)	3,729
Revaluation gains/(losses) recognized in equity	(601)	3,729
Amount transferred to profit or loss	-	-
Amounts transferred to the initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments	-	-
Revaluation Gains or (-) losses recognized in equity	-	-
Amount transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	(7,327)	676
Revaluation Gains or (-) losses recognized in equity	(7,327)	676
Amount transferred to profit or loss	-	-
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Revaluation gains/(losses) recognized in equity	-	-
Amount transferred to profit or loss	-	-
Other reclassifications	-	-
Income tax related to items that can be reclassified to profit or loss	1,982	(1,101)
Total comprehensive income for the year	11,600	24,472

* Presented solely and exclusively for comparative purposes. The figures have been adapted in accordance with Note 1.b.

Notes 1 to 35 in these financial statements in equity and the annexes I and II form an integral part of the consolidated statements of changes in equity at December 31, 2018.

B) Consolidated statements of total changes in equity for the years ended December 31, 2018 and 2017:

Statement for the year ended December 31, 2018	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Voluntary Reserves	Capitaliz ation Reserves	Joint Business Reserves	(-) Treasury shares	Profit/(loss) attributable to equity holders of the parent	(-) Interim dividend	Other accumula ted compre nsive income	Total
Sources of changes in equity												
Opening Balance [December 31, 2017]	693,149	-	-	-	122,145	6,763	3,372	-	15,046	-	18,897	859,372
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (note 1.b)	-	-	-	-	(9,048)	-	-	-	-	-	-	(9,048)
Adjusted opening Balance [December 31, 2017]	693,149	-	-	-	113,097	6,763	3,372	-	15,046	-	18,897	850,324
Total comprehensive income for the year	-	-	-	-	-	-	-	-	13,131	-	(1,531)	11,600
Other changes in equity	-	-	-	-	14,690	985	(356)	-	(15,046)	-	(629)	(356)
Issue of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of shareholders)	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	14,061	985	-	-	(15,046)	-	-	-
Derecognition of financial assets at fair value through other comprehensive income (note 7)	-	-	-	-	629	-	-	-	-	-	(629)	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	(356)	-	-	-	-	(356)
Of which: discretionary allowances to foundations and social funds (only savings Banks and cooperative credit institutions)	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance [December 31, 2018]	693,149	-	-	-	127,787	7,748	3,016	-	13,131	-	16,737	861,568

Notes 1 to 35 in these financial statements and the annexes I and II form an integral part of the consolidated statement of changes in equity at December 31, 2018.

Statement for the year ended December 31, 2017*	Capital	Share premium	Equity instruments issued other than capital	Other equity items	Voluntary Reserves	Capitalization Reserves	Joint Business Reserves	(-) Treasury shares	Profit/(loss) attributable to equity holders of the parent	(-) Interim dividend	Other accumulated comprehensive income	Total
Sources of changes in equity												
Opening Balance [December 31, 2016]	693,149	-	-	-	119,119	-	3,597	-	9,762	-	9,651	835,278
Effects of correction of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening Balance [December 31, 2016]	693,149	-	-	-	119,119	-	3,597	-	9,762	-	9,651	835,278
Total comprehensive income for the year	-	-	-	-	-	-	-	-	15,046	-	9,246	24,292
Other changes in equity	-	-	-	-	3,026	6,763	(225)	-	(9,762)	-	-	(198)
Issue of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of shareholders)	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	2,999	6,763	-	-	(9,762)	-	-	-
Increase or (-) decrease in equity as a result of business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	27	-	(225)	-	-	-	-	(198)
Of which: discretionary allowances to foundations and social funds (only savings Banks and cooperative credit institutions)	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance [December 31, 2017]	693,149	-	-	-	122,145	6,763	3,372	-	15,046	-	18,897	859,372

* Presented solely and exclusively for comparative purposes. The figures have been adapted in accordance with Note 1.b.

Notes 1 to 35 in these financial statements and the annexes I and II form an integral part of the consolidated statement of changes in equity at December 31, 2018.

INSTITUT CATALÀ DE FINANCES GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEARS ENDED AT DECEMBER 31, 2018 and 2017

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

	Year 2018	Year 2017*
A) CASH FLOWS USED IN OPERATING ACTIVITIES	30,025	63,840
Profit or (-) loss for the year	13,131	15,046
Adjustments to obtain cash flows from operating activities	(16,247)	45,596
Depreciation and amortisation	1,220	1,172
Other adjustments	(17,467)	44,424
Net increase/decrease in operating assets	193,351	348,093
Financial assets held for trading	842	(842)
Financial assets designated at fair value through profit or loss	-	1,457
Financial assets at fair value through other comprehensive income	(46,497)	(66,844)
Financial assets at amortized cost	235,720	408,214
Other operating assets	3,286	6,108
Net increase/decrease in operating liabilities	(149,633)	(343,454)
Financial liabilities held for trading	(396)	396
Financial liabilities designated at fair value through profit or loss	-	(4,729)
Financial liabilities at fair value through other comprehensive income	(150,112)	(352,092)
Financial liabilities at amortized cost	875	12,971
Income tax receivable/payable	(10,577)	(1,441)
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	2,305	(5,720)
Payments	(532)	(7,345)
Tangible assets	(160)	(4,777)
Intangible assets	(372)	(193)
Investments in subsidiaries, joint ventures and associates	-	-
Other business units	-	-
Non-current assets and associated liabilities held for sale	-	(2,372)
Held-to-maturity investments	-	(3)
Other payments related to investment activities	-	-
Amounts received	2,837	1,625
Tangible assets	20	-
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	-	1,088
Other business units	-	-
Non-current assets and associated liabilities held for sale	2,817	-
Held-to-maturity investments	-	-
Other payments related to investment activities	-	537
C) CASH FLOWS FROM FINANCING ACTIVITIES	(26,300)	(71,691)
Payments	(26,300)	(90,500)
Dividends	-	-
Subordinated liabilities	-	-
Repayment of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	(26,300)	(90,500)
Amounts received	-	18,809
Subordinated liabilities	-	-
Issue of own equity instruments	-	-
Sale of own equity instruments	-	-
Other amounts received related to financing activities	-	18,809
D) EFFECT OF EXCHANGE RATE CHANGES	-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	6,030	13,571
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	82,765	69,194
G) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	88,795	82,765
CASH AND CASH EQUIVALENTS ITEMS AT THE END OF THE PERIOD		
Cash	5	2,020
Cash equivalents in central banks	-	-
Other financial assets	88,790	80,745
Less: bank overdrafts repayable on demand	-	-

* Presented solely and exclusively for comparative purposes. The figures have been adapted in accordance with Note 1.b.

Notes 1 to 35 in these financial statements and the annexes I and II form an integral part of the consolidated statement of cash flows at December 31, 2018.

Institut Català de Finances and companies comprising the Institut Català de Finances Group

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

Notes to the Consolidated Financial Statements for the year ended December 31, 2018

1. Introduction, basis of presentation of the financial statements and other disclosures

a) Nature of the Entity

Institut Català de Finances (hereinafter the Entity or ICF) is an entity with its own legal identity and is subject to the private law, wholly owned by la Generalitat de Catalunya. The standards regulating the Institut are set forth in Legislative Decree 4/2002 of December 24, 2002, approving the consolidated text of Law on Institut Català de Finances, subsequently modified several times, the most recent of which through Decree Law 5/2017 of March 28, of fiscal, administrative, financial and public sector measures.

The Institut Català de Finances has its own assets and funds and, in order to carry out its functions, acts with organizational, financial, capital, operational and management autonomy, fully independent of public entities.

The Institut Català de Finances adheres to the specific legislation of credit institutions and, therefore, is only subject to public basic legislation and that stipulated by applicable regulating bodies of the European Union, taking into account its special activity and the nature of its activities. The Institut has to prepare its annual financial statements and recognise its transactions in accordance with the accounting criteria and standards for credit institutions.

On August 1, 2011, pursuant to Law 7/2011, of July 27, 2011 on fiscal and financial measures, the ICF carried out the merger by absorption of the Institut Català de Crèdit Agrari (hereinafter the ICCA). Its corporate purpose, which was integrated as of the effective date of merger in the ICF's activity, was the financing of investments in productive assets of holders of farms or companies in the agricultural, fishery and agri-food sector. Also, on December 20, 2013, the global transfer of the assets and liabilities of Institut Català de Finances Holding SAU was signed in favor of its sole shareholder, the Institut Català de Finances.

Institut Català de Finances is the parent company of Institut Català de Finances Group (hereinafter the Group or ICF Group). At December 31, 2018 and 2017 the following subsidiaries form part of the ICF Group and are directly or indirectly 100% owned by it:

- Instruments Financers per a Empreses Innovadores, S.L. Societat Unipersonal (hereinafter IFEM) was incorporated by public deed on December, 12 2008. Its statutory activity is to hold and manage financial investments in funds of any type, in guaranteed investment companies or funds, in venture capital companies and funds and in other public and private companies. The company manages the funds provided by the Generalitat de Catalunya to roll out the JEREMIE Programme in Catalonia.

- Institut Català de Finances Capital, S.G.E.I.C., S.A. Societat Unipersonal (hereinafter ICF Capital) was incorporated for an indefinite period on February 26, 2011 and is subject to Circular 7/2008, of November 26, 2008, of the Spanish Securities Market Commission, which regulates Venture Capital Companies, in addition to the current legislation in relation to such companies, such as Law 22/2015, of November 12, 2005, and in its absence, Royal Decree 1/2011, of July 2, 2011, which approves the revised text of the Spanish Companies Act. Its statutory and principal activity is the administration and management of the funds and assets of venture capital companies. It is a solely-owned company, its sole shareholder being Institut Català de Finances.

- Capital MAB, F.C.R. (hereinafter Capital MAB) is a venture capital fund set up on February 27, 2012, subsequent to authorisation from the Spanish Securities Market Commission on February 17, 2012. On March 2, 2012 the Spanish Securities Market Commission registered the Fund in its Venture Capital Fund Register under number 134. The Fund's duration is 10 years, extendable to a maximum of 12 years.

- Capital Expansió, F.C.R. (hereinafter Capital Expansió) is a venture capital fund set up on July 20, 2012, subsequent to authorisation from the Spanish National Securities Market Commission dated July 6, 2012. On July 26, 2012 the Spanish National Securities Market Commission registered the Fund in its Venture Capital Fund Register under number 136. The Fund's duration is 10 years, extendable to a maximum of 12 years.

The registered office of the ICF Group is located at Gran Via de les Corts Catalanes 635, in Barcelona.

b) Basis of presentation for the consolidated financial statements

In accordance with applicable regulations, the ICF Group presents its financial statements primarily in accordance with the measurement and recognition criteria established in Bank of Spain Circular 4/2017, on accounting principles and financial statement models, in order to present a true and fair view of the equity and financial position of the Group at 31 December 2018, and the consolidated results of operations and changes in equity and cash flows for the year then ended, since these are considered to be the most appropriate Spanish accounting principles and standards.

The consolidated financial statements have been prepared on the basis of the accounting records kept by Institut Català de Finances and the other Group companies. Nonetheless, and since the accounting principles and measurement criteria applied in the preparation of the Group's 2018 consolidated financial statements may differ from those used by some of the entities comprising the Group, certain adjustments and reclassifications have been made in the consolidation process in order to standardise these principles and criteria and bring them into line with the accounting standards adopted by the Group.

Most significant regulatory changes during the period comprised between January 1, 2018 and December 31, 2018

Entry into force of Circular 4/2017, of November 27, of the Bank of Spain, to credit institutions, on public and reserved financial information standards, and models of financial statements.

On December 6, 2017, Circular 4/2017, of November 27, of the Bank of Spain, was published replacing Circular 4/2004, of December 22, on credit institutions, on public and reserved financial information statements. The purpose of this circular is to adapt the accounting standards applicable to Spanish credit institutions to changes in the European accounting standards derived from the adoption of two new International Financial Reporting Standards (IFRS) - IFRS 15 *Revenue recognition* and the IFRS 9 *Financial instruments*- which, as of January 1, 2018, modify the accounting criteria for ordinary income and financial instruments, respectively.

Regarding the modifications derived from the adoption to IFRS 15, it is worth mentioning the new model for recognising ordinary income, different from those derived from financial instruments and income dealt with in other standards, which will be based on the identification of the obligations of each contract, the determination of its price, the allocation to the obligations identified, and, finally, the recognition of the income either through the identified period or when the control of the assets is transferred. The ICF Group estimates that the impact of these modifications is not significant.

With regard to the changes related to the classification, valuation and impairment of financial instruments, the most relevant matters are the following:

- **Classification and valuation of financial assets.** The standard requires that all financial assets, except equity instruments and derivatives, be evaluated based on the business model of the entity and the contractual characteristics of the cash flows of the instruments at the time they originate, determining whether the instruments are systematically measured at amortized cost or at fair value. The three classifications for financial assets according to Circular 4/2017 are the following:

- Financial assets at amortized cost must be classified in this category when they are managed with a business model whose purpose is to keep financial assets to receive contractual cash flows and their contractual conditions give rise to cash flows at specified dates which are solely payments of principal and interest on the principal amount.

These assets will be grouped into 3 categories, considering the increase in credit risk since its origination:

- Phase 1 - Standard risk: In the initial recognition the Bank estimates a provision based on expected credit losses over the next 12 months.

- Phase 2 - Standard risk under special monitoring: when an instrument undergoes a significant increase in its credit risk, a provision must be registered to cover the expected credit loss throughout the estimated life of the financial instrument.
- Phase 3 - Doubtful risk: the expected loss of credit over the expected life of these risks must be recognized. In this case, interest income must be recognized on the amortized cost of the loan net of impairment losses.
- Financial assets at fair value through other comprehensive income. Financial assets will have to be classified in this category when they are managed with a business model whose purpose combines receiving the contractual cash flows of financial assets and the sale, and their contractual conditions give rise to cash flows at specified dates which are solely payments of principal and interest on the principal amount.
- Financial assets at fair value through profit or loss. Financial assets must be classified mandatorily in this category provided that the business model of the entity for its management or the characteristics of its contractual cash flows does not need to be classified in any of the two previous categories.

In any case, the standard allows entities to classify financial assets at fair value through profit or loss if this eliminates or significantly reduces any incongruity of valuation or recognition.

Equity instruments that are not held for trading can be irrevocably presented at fair value through other comprehensive income, without subsequent recycling of the gains or losses on the sale of the asset in the income statement.

Regarding this process of classification and valuation, the Group contemplates the following business models:

- Keep assets in order to obtain contractual cash flows.
- Keep assets in order to collect contractual flows and sell.

Additionally, in relation to the evaluation of the contractual characteristics of the financial instruments in order to guarantee their correct classification according to these, the Group has included in its corporate accounting policies the need to test compliance with the test SPPI (Solely Payments of Principal and Interests)

In this sense, the Group reviewed its portfolio of financial assets at the end of the year 2018 to verify compliance with the SPPI test, considering that only test the instruments that contain contractual cash flows that are solely payments of principal and interest on the principal outstanding amount comply with the test and, therefore, are consistent with a basic loan agreement. These will be those financial assets for which the interest rate includes mainly the consideration for the temporary value of money and credit risk, as well as other basic risks of a loan (for example, liquidity risk), costs (for example, administrative) and a margin.

The accounting policies for the classification and valuation of financial assets included in note 2.b of these financial statements replace those included in the financial statements for the year 2017, which apply to the comparative figures presented in these financial statements.

- **Classification and valuation of financial liabilities.** The classification and valuation of financial liabilities is, to a large extent, similar to the requirements of the previous applicable accounting standards, Circular 4/2004. There is a change in the treatment of changes in the fair value attributable to the issuer's own credit risk of the financial liabilities designated at fair value through profit or loss, which will be classified in other comprehensive income, with no significant impact on the Group.

The accounting policies for the classification and valuation of financial liabilities included in note 2.b of these financial statements substitute those included in the financial statements for the year 2017, which apply to the comparative figures presented in these financial statements.

- **Impairment of financial assets.** The standard represents a substantial change in the credit risk coverage model, replacing the incurred loss approach by an expected loss (EL) model, which will include forecasts on future economic conditions (*forward looking information*).

The EL will be based on the expected credit losses associated with the probability of default over the subsequent twelve months, except when there has been a significant increase in credit risk since the initial recognition. In this case, the estimate will have to consider the probability of default during the estimated life of the financial instrument. The assessment of whether there has been a significant increase in credit risk must be based on reasonable and supported information that is available without cost or disproportionate effort, indicative of increases in credit risk from the initial recognition and that reflects historical supported, current and prospective information.

The change in model has brought a negative impact on the first application of 9,048 thousands of euros, which, according to Circular 4/2017, has been recorded under the heading "Retained earnings" within the Own Funds, with effect on January 1, 2018.

The accounting policies for impairment of financial assets included in note 2.g. of these consolidated financial statements replace those included in note 2.h. to the financial statements for the year 2017.

- **Hedge accounting.** Circular 4/2017 allows entities to continue applying the hedge accounting criteria of Circular 4/2004 even when other elements of the regulations are mandatory as of January 1, 2018.

The new standard aligns the risk management and accounting criteria, maintaining the three types of hedge accounting existing in the Circular 4/2004, while expanding the possibilities of designating hedged items and hedging instruments, simplifying the requirements in relation to the efficiency of the hedge. As a result of regulatory change, as of January 1, 2018 the Group has reclassified derivatives in the trading portfolio as hedging derivatives (notes 6 and 9).

Presentation of the comparative information for application of Circular 4/2017

The ICF Group has opted for the prospective application of the impacts of classification and valuation and impairment of financial instruments of Circular 4/2017, not restarting the information from prior periods. However, in order to facilitate the comparison of the current period with the comparative information of the previous period due to regulatory change, the comparative models of the balance sheet, the income statement, the statement of recognized income and expense, the statement of changes in equity and the statement of cash flows have been modified. Thus, it is necessary to consider that these states differ from those included in the consolidated financial statements for the year 2017.

The most relevant changes are summarized below:

- Replacement of the category of available-for-sale financial assets for financial assets at fair value through other comprehensive income.
- Replacement of the category of loans and receivables and investments held to maturity for financial assets at amortized cost.
- Introduction of a higher level of breakdown in the following items of the statement of income: "Interest income", "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or (-) losses from assets and liabilities held for trading, net" and "Gains or (-) losses from financial assets not intended for trading mandatorily measured at fair value through profit or loss, net".

Below are the items on the balance sheet as of December 31, 2017, which, solely for the purposes of presentation, have been restated in the comparative financial statements, for the purposes of the adoption of the new criteria for financial instruments established by Circular 4/2017 and other modifications.

Assets (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Transfers	Other movements (Note 1.d)	31/12/2017 Comparative financial statements
Available-for-sale financial assets		556,185	(556,185)	-	-
Financial assets at fair value through other comprehensive income	(a) and (c)	-	556,185	(46,015)	510,170
Loans and receivables		1,785,843	(1,785,843)	-	-
Investments held to maturity	(b)	1,100	(1,100)	-	-
Financial assets at amortized cost	(b)	-	1,786,943	-	1,786,943
Total		2,343,128	-	(46,015)	2,297,113

Liabilities (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Transfers	Other movements (Note 1.d)	31/12/2017 Comparative financial statements
Deposits – Client Funds	(c)	132,971	7,653	-	140,625
Other liabilities	(c)	59,410	(7,653)	(46,015)	5,742
Total		192,381	-	(46,015)	146,367

Off-balance sheet items (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Transfers	Other movements (Note 1.d)	31/12/2017 Comparative financial statements
Guarantees granted	(d)	110,725	(110,725)	-	-
Contingent commitments granted	(d)	117,716	(117,716)	-	-
Loan commitments granted	(d)	-	117,716	-	117,716
Financial guarantees granted	(d)	-	110,725	-	110,725
Total		228,441	-	-	228,441

Explanatory notes to the comparative financial statements

- (a) All debt securities and equity instruments classified in the portfolio previously called "Available-for-sale financial assets" (556,185 thousands of euros) have been transferred to the portfolio currently called "Financial assets at fair value through other comprehensive income".

- (b) All debt instruments classified in the portfolios previously denominated "Loans and receivables" (1,785,843 thousands of euros) and "Investments held to maturity" (1,100 thousands of euros) have been transferred to the portfolio currently called "Financial assets at amortized cost".
- (c) According to note 1.d, the ICF Group presents the value of investments in venture capital entities by its net, considering the capital not yet disbursed, previously classified as "Other liabilities." Additionally, 7,653 thousands of euros have been transferred to "Financial liabilities at amortized cost - Client funds".
- (d) The "Guarantees granted" (110,725 thousands of euros) and the "Contingent commitments granted" (117,716 thousands of euros) were transferred to "Loan commitments granted" (117,716 thousands of euros) and "Financial guarantees granted" (110,725 thousands of euros).

Impacts derived from the first application of Circular 4/2017

Below are the impacts of the first application of Circular 4/2017 on the basis of the balance sheet at December 31, 2017, modified for presentation purposes, as shown above, until reaching the balance sheet at January 1, 2018.

Assets (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Impacts C.4/2017	01/01/2018
Financial assets at amortized cost	(a)	1,786,943	(11,519)	1,775,424
Tax assets – Deferred tax assets	(a)	50,907	2,604	53,511
Total		1,837,850	(8,915)	1,828,935

Liabilities (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Impacts C.4/2017	01/01/2018
Provisions	(a)	(3,632)	(133)	(3,765)
Total		(3,632)	(133)	(3,765)

Equity (Thousands of euros)	Note	31/12/2017 (Circular 4/2004)	Impacts C.4/2017	31/12/2017 Comparative financial statements
Retained earnings	(a)	(128,908)	9,048	(119,860)
Total		(128,908)	9,048	(119,860)

Explanatory notes to the comparative financial statements

- (a) Adjustments for impairment losses and provisions associated to the first application of Circular 4/2017.

Main regulatory changes with entry into force in January 1, 2019

On December 28, 2018, Circular 2/2018, of December 21, of the Bank of Spain, was passed modifying Circular 4/2017, of November 27, to credit institutions, on public and reserved financial information standards, and models of financial statements, and Circular 1/2013, of May 24, on the Risk Information Center.

The main change in this circular comes from the adoption in accounting standards applicable to credit institutions in Spain of the changes in the European accounting standards derived from the adoption of IFRS 16 which, since January 1, 2019, modifies the leases accounting standards criteria for lessees.

The objective is to establish the criteria of recognition, measurement, presentation and disclosure of leases. The standard maintains, in essence, the treatment for the lessors included in the previous norm through a dual model distinguishing between financial leasing and operating leasing.

For lessees, Circular 2/2018 eliminates the dual accounting model and develops a single model for which most of the leases must be registered in a similar way as the financial leases under the previous standard.

At the origination moment, the lessee will register a liability for the payments committed and an asset for the right of use the underlying asset during the term of the rent. Likewise, it will be necessary to record separately an interest expense for the associated liabilities and an amortization expense for the right of use the underlying asset. The standard includes two exemptions for lessees: short-term leases and leases in which the underlying asset is of little value.

Circular 2/2018 will require an evaluation to measure the new liabilities by lease in order to reflect the changes in payments after the start date as a result of certain events, such as the change of term, index of payments or the index of update payments, among others. As a general rule, the changes in the measurement of the liability will be recognized as an adjustment of the right of use of the underlying asset.

The ICF Group estimates that the adoption of the new standard will not have a significant impact on the financial statements

c) Responsibility for information and estimates

During the preparation of the ICF Group's 2018 consolidated financial statements, estimates have been used to quantify certain assets, liabilities, income, expenses and commitments disclosed therein. These estimates basically refer to:

- Impairment losses of certain assets (see notes 7, 8, 9 and 10).
- The useful life of tangible assets and intangible assets (see notes 12 and 13).
- The fair value of certain unquoted financial assets (see note 18).
- Deferred tax assets (see note 21).

While these estimates are made based on the best information on the facts disclosed available at 31 December 2018, future events may take place requiring these estimates to be modified (increased or decreased) in subsequent years. The effects on the balance sheet and income statement of changes in accounting estimates are recognized prospectively in accordance with the nineteenth standard of Circular 4/2017.

d) Comparison with information

The figures for the financial year 2017 included in the accompanying consolidated financial statements for the year 2018 are presented solely and exclusively for comparative purposes.

From the year 2018 the Group presents commitments on venture capital investments for the net amount disbursed. For comparative purposes, the figures for the year 2017 have been adapted according to this criterion (see Note 1.b).

e) Environmental matters

Given its activities, the Group has no responsibilities, expenses, assets, provisions or contingencies of an environmental nature that may be material to its equity, financial position or results. Therefore, the notes to the Group's consolidated financial statements do not include specific disclosures on environmental issues.

f) Events after the reporting period

No significant subsequent events have arisen between the reporting date and the date on which these consolidated annual financial statements were authorised for issue.

2. Accounting Principles and Valuation Criteria

In the elaboration of the consolidated financial statements for 2018, the following accounting principles and policies, and valuation criteria have been applied:

a) Consolidation principles

The consolidated financial statements have been prepared by applying the global integration method to the subsidiaries and the equity method to the associated entities.

Subsidiary entities

Subsidiary entities (also called subsidiaries) are those entities over which the ICF has the capacity to exercise control, which is understood to be when:

- The Group has the power to govern the activities of the subsidiary;
- The Group has the practical capacity to exercise this power for the purpose of influencing its profitability;
- Due to the involvement of the Group, it is exposed or is entitled to variable profits from the subsidiary.
- Any event or circumstance which could have an effect on the assessment of whether control exists or not, as well as the analyses described in the related guidelines for the application of legislation, i.e. that a direct or indirect interest of more than 50% of voting rights of the entity being assessed is held.

When events and circumstances indicate that there have been changes in one of the three preceding conditions, the Group shall once again evaluate its control capacity over the subsidiary.

In the acquisition of control over a subsidiary, the Group applies the acquisition method set out in the regulatory framework, except for if it involves the acquisition of an asset or group of assets.

The financial statements of subsidiaries are fully consolidated, irrespective of their activity, with those of the ICF, which involves aggregating the assets, liabilities and equity, income and expenses of a similar nature disclosed in the individual financial statements. A percentage of the carrying amount of direct and indirect holdings in subsidiaries is eliminated equivalent to the proportion of equity of these subsidiaries represented by these holdings. The remaining balances and transactions are eliminated in the consolidation process. For consolidation purposes, the results of subsidiaries are those generated since the acquisition date.

Those companies forming part of the venture capital activity are not considered to be subsidiaries, because in accordance with the Regulations on Management of Venture Capital Funds and Companies, the ICF has no control over their management, with the only exception being Capital MAB F.C.R. and Capital Expansió F.C.R., which are solely owned by the ICF and managed by ICF Capital S.G.E.I.C. S.A.U.

Associated entities

Associated entities (also called associates) are entities over which the ICF directly or indirectly exercises significant influence and which are not subsidiaries or joint ventures entities. Significant influence arises, inter alia, in the following situations:

- a) Representation in the Governing Board or equivalent management body of the subsidiary.
- b) Participation in the establishing of policies, including those relating to dividends and other distributions.
- c) Existence of significant transactions between the Group and subsidiary.
- d) Exchange of senior management personnel.
- e) Supply of essential technical information.

The analysis to determine the existence of significant influence over a subsidiary shall also take into consideration the importance of the investment in the subsidiary, the age of the subsidiary's governing bodies and the existence of potential voting rights convertible at the analysis date. Significant influence is considered to exist in most cases when the Group has 20% or more of the voting rights of a subsidiary in which it holds a stake.

Companies which form part of the venture capital activity are not considered associates since, in accordance with the Regulations on Management of Venture Capital Funds and Companies, it does not have significant influence over its management. These investments are recognized under "Available-for-sale financial assets".

Associates are accounted for in the consolidated financial statements using the equity method, i.e. for the percentage of their equity equal to the Group's percentage shareholding, after taking into account dividends received and other equity eliminations. The same percentage of any gains or losses from transactions with associates is eliminated.

Appendix II presents a breakdown of the Group's subsidiaries and associates, together with relevant information thereon.

b) Financial instruments

Initial recognition

Financial instruments are initially recognized on the balance sheet when the Group becomes party to the relevant contract, in accordance with the terms set out therein. Loans and deposits — the most common type of financial asset and liability — are recognized on the date the amount becomes legally payable or receivable. Financial derivatives are generally recognized on the hire date.

Operations involving regular-way sale and purchase of financial assets, and which may not be settled net, are recognized on the date when the rewards, risks, rights and duties inherent to ownership of the asset are transferred to the purchaser. Depending on the type of financial asset acquired or sold, this may occur on the trade, settlement or delivery date. In particular, spot currency transactions are recognized on the settlement date; transactions involving equity instruments traded on Spanish secondary securities markets are recognized at the trade date; and those involving debt instruments traded on secondary Spanish markets are recognized on the settlement date.

Derecognition of financial instruments

An asset is fully or partially derecognized from the balance sheet when the contractual rights to the associated cash flows expire or when the asset is transferred. Transfer of an asset must involve the substantial transfer of the risks and rewards, or, if not, the transfer of control of the asset (Note 2.f).

A financial liability is fully or partially derecognized when the obligations it generates are extinguished or when it is purchased by the Group.

Fair value and amortized cost

All financial instruments are initially recognized in the balance sheet at fair value, this being the cost of the transaction unless there is evidence to indicate otherwise. Subsequently, on a specific date, the fair value is taken to be the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The most objective and common benchmark for the fair value of a financial instrument is the quoted price in an organised, transparent and deep market ("quoted price" or "market price").

If there is no market price for a specific financial instrument, its fair value is estimated based on that established in recent transactions involving similar instruments and, failing that, on models that have been adequately tested by the international financial community. Consideration must also be given to the specific nature of the asset to be valued and, in particular, to the different types of risk associated with the instrument.

The fair value of financial derivatives traded on organised, transparent and deep markets recognized as financial assets held for trading is taken as the daily quoted price. If, for exceptional reasons, it is not possible to obtain a price for a specific date, the instrument will be valued using methods similar to those used to value derivatives that are not traded on organised markets.

The fair value of derivative instruments not traded on organised markets, or which are traded on insufficiently transparent or deep markets, is determined using recognized methods such as the net present value (NPV) method or models used to determine the price of options.

Nevertheless, some specific financial assets and financial liabilities are recognized in the balance sheet at amortized cost. This criterion is applied to financial assets included under "Financial assets at amortized cost" and to financial liabilities recognized as "Financial liabilities at amortized cost".

Amortized cost is the acquisition cost of the financial asset or financial liability, plus or minus principal repayments and the part systematically taken to profit and loss using the effective interest method, of any difference between that initial amount and the maturity amount. In the case of financial assets, amortized cost also includes any reduction for impairment, and also the value adjustments due to the impairment experienced.

The effective interest rate is the rate that exactly matches the initial amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed-rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date, adjusted, where applicable, for initial premiums, discounts and commissions that are similar in nature to interest charges or transaction costs. For variable rate financial instruments, the effective interest rate is the same as that used for all other instruments until the next review of the benchmark interest rate takes place.

As already mentioned above, certain assets and liabilities are recorded in the balance sheet, if applicable, at fair value, such as "Financial assets at fair value through other comprehensive income" and "Derivatives".

A portion of the assets and liabilities recognized under these headings are included in some of the fair-value and cash flow microhedges managed by the Group and the carrying amount is therefore adjusted to include its fair value attributable to the hedged risk.

The ICF Group considers that the fair value of assets and liabilities as a result exclusively of movements of the market interest rate will not be significantly different from those recorded in the balance sheet (see note 3.1).

Regarding the fair value of the assets classified in the balance sheet of "Tangible Assets", see in Note 12.

Classification and measurement of financial assets and financial liabilities

The financial instruments not classified under one of the categories detailed below are recognized under one of the following headings in the accompanying balance sheet: "Cash, cash balances in central banks and other demand deposits", "Derivatives - hedge accounting" and "Investments in subsidiaries, joint ventures and associates". Additionally, all other financial instruments are classified on the balance sheet according to the following categories:

- **Financial assets at amortized cost:** Financial assets must be classified in this category when they are managed with a business model whose purpose is to maintain financial assets to receive contractual cash flows, and their contractual conditions give rise to cash flows at specified dates which are solely payments of principal and interest on principal outstanding amount. This category includes "Loans and advances" and "Debt securities":
 - **Loans and advances:** This heading includes financing extended to third parties in connection with the ordinary lending activities carried out by the Group, and receivables from goods and services. It also includes unquoted debt securities or debt securities which are traded on markets which are barely active. Financial assets included in this category are initially measured at fair value adjusted by the amount of the commissions and transaction costs that are directly attributable to the acquisition of the financial asset and which are expensed using the effective interest method over the life of the asset. They are subsequently measured at amortized cost, as previously described in this Note.

Assets acquired at a discount are measured at the cash amount paid. The difference between their repayment value and the amount paid is recognized as finance income on the income statement during the remaining term to maturity.

The interest accrued on these operations, which is calculated using the effective interest rate method, is recognized under "Interest income" in the income statement. The exchange differences for securities denominated in foreign currency other than the euro are recognized as described in Note 2.d. Any impairment losses on these securities are recognized as set out in Note 2.g. Finally, differences arising in the fair value of financial assets included in fair value hedges are recognized as described in Note 2.c.

- **Debt securities:** This chapter includes the debt securities traded in an active market with a precise maturity date and give rise to payments on a fixed and predetermined date, and on those whose intention and intent is to maintain them until maturity.

They are measured at amortized cost, using the effective interest method for their determination.

- **Financial assets at fair value through other comprehensive income:** Financial assets will have to be classified in this category when they are managed with a business model whose purpose combines the perception of the contractual cash flows of financial assets and the sale, and their contractual conditions give rise to cash flows at specified dates which are solely payments of principal and interest on the principal amount.

This category includes equity securities owned by the Group corresponding to entities that are not subsidiaries or associates, as well as debt instruments not classified as financial assets at amortized cost. The instruments included in this category are initially valued at their fair value, adjusted for the amount of the transaction costs that are directly attributable to the acquisition of the financial asset. After their acquisition, the financial assets included in this category are valued at their fair value.

The changes that occur in the fair value of the debt instruments classified in this category are accounted for with a balancing entry under "Equity. Other comprehensive income. Changes in the fair value of debt instruments valued at fair value through other comprehensive income" until the moment in which the financial asset is derecognized or there is evidence of impairment. At this time, the balance recorded in equity is taken to the profit and loss account, under the heading "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 through gain or loss". In relation to the debt securities, the valuation is made based on the quote on organized markets, considering that there is evidence of impairment when the market value is less than 60% of the cost value.

In the particular case of the equity stake in Entities and Capital Funds without an official quote, they are valued at their fair value, registering in the equity the result of the variations of such fair value, except that this supposes a decrease of the value less than 10%. Once the results are realized, the value adjustments are reclassified against the item "Retained earnings" within the Group's Own Funds.

The receipts received from the Venture Capital Societies and Funds corresponding to the accrued dividends are recorded in the "Dividend income" caption in the income statement.

- **Financial liabilities at amortized cost:** Financial liabilities not classified as held for trading are included under this heading. The balances recognized correspond to the standard activities of obtaining funds carried out by credit institutions, irrespective of the type of operation or its maturity.

They are initially measured at fair value adjusted by the amount of transaction costs that are directly attributable to the issue of the financial liability and which are expensed in the income statement using the effective interest method until maturity. They are subsequently measured at amortized cost, as previously described in this Note.

The interest accrued on these financial liabilities is recognized under "Interest expenses" in the income statement. The exchange differences for securities denominated in foreign currency other than the euro are recognized as described in Note 2.d. The differences arising in the fair value of financial liabilities included in fair value hedges are recognized as described in Note 2.c.

In addition, Circular 4/2017 stipulates other category for financial instruments: "Assets and liabilities held for trading". The group during the year 2018 has not maintained assets and/or liabilities classified in this category. During 2017, ICF maintained the trading derivatives detailed in Note 6, valued at fair value. Changes in this fair value were registered under "Gains or (-) losses of assets and liabilities held for trading, net" of the income statement.

Reclassification between portfolios

Only if the Group decides to change its business model for the management of financial assets, it would reclassify all the financial assets affected according to the requirements set out in Circular 4/2017. This reclassification would be made prospectively from the date of reclassification. In accordance with the Circular 4/2017 approach, the changes in the business model occur very rarely.

c) Derivative instruments and hedging

The ICF Group uses financial derivatives as a tool to manage financial risks (Note 3). When these transactions meet certain requirements, they are considered as "hedges".

When the ICF Group designates a transaction as a hedge, it does so from the date of inception of the transactions or instruments included in the hedge, and provides adequate documentation of the hedging transaction, in accordance with current regulatory requirements. The hedge accounting documentation includes adequate identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the ICF Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The ICF Group only applies hedge accounting for hedges that are considered highly effective. A hedge is regarded as highly effective if, during its expected life, the changes in the fair value or cash flows of the hedged item that are attributable to the risk being hedged in the operation are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the ICF Group analyses whether, from the inception to the end of the term defined for the hedge, the Group can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost completely offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s) and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

The hedging transactions performed by the ICF Group are classified as follows:

- Fair value hedges that hedge the exposure to changes in the fair value of financial assets or liabilities or unrecognized firm commitments, or of an identified portion of such assets, liabilities or firm commitments, that is attributable to a particular risk, provided that it affects profit or loss.
- Cash flow hedges that hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or financial liability or a highly probable forecast transaction, provided that it affects profit or loss.

In the specific case of financial instruments designated as hedged items and qualifying for hedge accounting, gains and losses are recognized as follows:

- In fair value hedges, the gain or loss on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognized directly in profit or loss.
- Cash flow hedges: the Group recognises as income and expenses recognized in equity the gains and losses arising from the measurement at fair value of the hedging instrument which corresponds to the portion that is determined to be an effective hedge. If a hedge of a forecast transaction results in the recognition of a financial asset or liability, the associated gains or losses that were recognized in equity are reclassified to profit or loss in the same period or periods during which the acquired asset or assumed liability affect profit or loss, and in the same income statement caption.

The gains or losses on the ineffective portion of the hedging instruments are recognized directly under "Gains or losses on hedge accounting, net" in the income statement.

The ICF Group discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the criteria for hedge accounting, or the designation as a hedge is revoked.

When, as described in the previous paragraph, a fair value hedge is discontinued, in the case of hedged items carried at amortized cost, the value adjustments made as a result of the hedge accounting described above are recognized in the income statement over the life of the hedged items using the effective interest rate recalculated at the hedge's discontinuation date.

Derivatives embedded in other financial instruments or contracts are disclosed separately when their risks and characteristics are not closely related to those of the host instrument or contract, provided it is possible to assign a reliable, independent fair value to the embedded derivative.

d) Leases

Operating leases

Under an operating lease, ownership of the leased asset and substantially all the risks and rewards incidental to ownership remain with the lessor.

When the ICF Group acts as lessor, the cost of acquisition of the leased assets is presented under "Tangible assets" either as "Investment property". The depreciation policy for these assets is consistent with that for similar tangible

assets for own use (Note 2.I) and income from operating leases is recognized on a straight-line basis under "Other operating income" in the income statement.

When the Group acts as lessee, the lease expenses include incentives, where applicable, granted by the lessor and are presented on a straight-line basis in the income statement under "Other general administrative expenses".

e) Foreign currency transactions

The ICF Group's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency. The Group has no significant balances in foreign currency in its financial statements.

f) Recognition of income and expenses

The most significant accounting criteria used by the ICF Group to recognise its income and expenses are summarised as follows.

a) Interest, dividends and similar concepts income and expenses

Interest income, interest expenses and similar items are generally recognized on an accrual basis using the effective interest method, independently of when the associated cash or financial flows arise.

Interest accrued on receivables classified as non-performing exposures, including those associated with country risk, is credited to income when collected, as an exception to the general rule.

Dividends received from other companies are recognized as income when the Group's right to receive them arises, provided that distribution corresponds to profit generated by the subsidiary since the ICF gained a shareholding interest in it.

b) Commission income and expenses

Commission income and expense are recognized in the income statement using criteria that vary according to their nature.

Financial commissions, such as loan arrangement fees, are a part of the effective cost or yield of a financial transaction and are recognized under the same headings as the finance income or costs, i.e. "Interest income" and "Interest expenses". These commissions, which are collected in advance, are recorded as income over the life of the transaction, except to the extent that they offset related direct costs.

Non-financial commissions deriving from the provision of services are recognized under "Commission income" and "Commission expense" over the period in which the service is provided, except for those relating to services provided in a single act, which are recognized when the single act is carried out.

c) Non-financial income and expenses

These are recognized for accounting purposes on an accrual basis.

d) Deferred collections and payments

These are recognized for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

g) Transfers of financial assets

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the risks and rewards of the transferred assets are transferred to third parties (unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders, and other similar cases), the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized simultaneously.
- If the risks and rewards associated with the transferred financial asset are substantially retained (sale of financial assets under an agreement to repurchase them at a fixed price or the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of financial assets in which a subordinated debt or another type of loan enhancement is retained that absorbs substantially all the expected credit losses on the securitised assets, and other similar cases), the transferred financial asset is not derecognized and continues to be measured using the same criteria as those applied before the transfer. However, the following items are recognized, without offsetting:
 - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost.
 - The income from the transferred financial asset that is not derecognized and any expense incurred on the new financial liability.
- If all the risks and rewards associated with the transferred financial assets are neither substantially transferred nor retained (sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of financial assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases) a distinction is made between:
 - If the Group does not retain control of the transferred financial asset, it is derecognized from the balance sheet and any right or obligation retained or created in the transfer is recognized.
 - If the Group retains control of the transferred financial asset, it continues to recognise the asset in the balance sheet for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost; or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognized when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties.

h) Impairment of financial assets

Debt instruments valued at amortized cost or fair value through other comprehensive income

The entry into force of Circular 4/2017 has led to a substantial change in the impairment model, replacing the loss incurred approach in Circular 4/2004, for an expected loss approach.

The new impairment model is applicable to debt instruments at amortized cost, to debt instruments at fair value through other comprehensive income, as well as to other exposures that entail credit risk, such as loan commitments granted and financial guarantees granted.

The criteria for the analysis and classification of operations in the financial statements according to their credit risk include, on the one hand, credit risk due to insolvency and, on the other hand, the country-risk to which if any, are exposed. Credit exposures in which there are reasons for their credit rating due to insolvency as per country-risk are classified in the category corresponding to the risk of insolvency as a country-risk, unless it corresponds to a worse category for country-risk, without prejudice to the fact that impairment losses due to insolvency risk are calculated by the concept of country risk when it implies a higher demand.

The impairment losses of the period are charged to the income statement as an expense, reducing the carrying amount of the asset. The subsequent reversals of previously recognized impairment losses are registered as

income in the income statement. In the case of instruments valued at fair value through other comprehensive income, the instrument will subsequently adjust to its fair value with a balancing entry in "Other accumulated comprehensive income" in equity.

Classification of operations based on credit risk due to insolvency

Financial instruments - including off-balance-sheet items- are classified in the following categories, taking into account whether there has been a significant increase in credit risk since the origination of the transaction, and if an event of failure:

- Phase 1 – Standard risk: the risk of a failure event has not increased significantly since the initial recognition of the operation. The impairment loss for this type of instrument is equivalent to the expected credit losses in twelve months.
- Phase 2 – Standard risk under special monitoring: the risk of a failure event has increased significantly since the origination. The impairment loss for this type of instrument is calculated as the expected loss of credit in the estimated life of the transaction.
- Phase 3 – Doubtful risk: there has been an event of default in the operation. The impairment loss for this type of instrument is calculated as the expected loss of credit in the estimated life of the transaction. Operations for which the Group has no reasonable expectations of recovery. The impairment loss for this type of instrument is equivalent to its book value.
- Write-off – Operations for which the Group has no reasonable expectations of recovery. The impairment loss for this type of instrument is equivalent to its book value.

In this sense, and for the purpose of making the classification of a financial instrument in one of the previous categories, the Group has taken into account the following definitions:

Significant increase in credit risk

For financial instruments classified in Phase 1 - Standard risk, the Group assesses whether the credit losses expected to be 12 months are still considered appropriate. In this regard, the Group carries out an assessment of whether there has been a significant increase in credit risk since its origination. If this is the case, the financial instrument is transferred to Phase 2 - Standard risk under special monitoring and its expected loss of credit is recognized throughout its entire life. This evaluation is symmetrical, in such a way that the return of the financial instrument to the category Phase 1 - Standard risk is allowed.

In order to carry out this assessment, the Group's credit risk management systems collect both quantitative and qualitative elements that, in combination or by themselves, could lead to the consideration that there has been a significant increase in the credit risk of the financial instrument, such as adverse changes in the debtor's financial situation, reductions in credit rating, unfavorable changes in the sector in which it operates, its regulatory or technological environment, among others, that do not show evidence of deterioration.

Regardless of the existence of signs of aging of the credit risk of the exposure, it is considered that there has been a significant increase in credit risk, in those operations where any of the following circumstances occur:

- Unpaid installments past-due 30 days, rebuttable presumption based on reasonable and supported information. The Group has not used a longer period of time for these purposes.
- Refinancing or restructuring that does not show evidence of impairment. Note 3.4.5 describes the classification criteria for restructured or refinanced operations.
- Special agreement for debt sustainability that does not show evidence of impairment until it applies the criterion of care.
- Those held with issuers or holders declared in arrangement with creditors which do not show evidence of impairment.

Notwithstanding the foregoing, for the assets in which the counterparty has a low credit risk, the Group applies the possibility set forth in the rule to consider that its credit risk has not increased significantly. This type of counterparty identifies, mainly, central banks and Public Administrations.

Impaired exposures and objective evidence of deterioration

For the purpose of determining the risk of default, the Group applies a definition that is consistent with that used for the internal management of credit risk of financial instruments and takes into account quantitative and qualitative indicators.

In this regard, the Group considers that there is objective evidence of impairment (OEI) when one or more events with a negative impact on their estimated cash flows have occurred. The following events constitute evidence that a financial asset presents is impaired:

- Unpaid installments past-due 90 days. Likewise, all operations of a holder are included when the amount of transactions with overdue balances with more than 90 days, exceeds 20% of the amounts pending collection.
- There are reasonable doubts about the total reimbursement of the asset.
- Significant financial difficulties of the issuer or the borrower.
- Breach of contractual clauses, such as non-payment or default events.
- Granting of the concessionaire or advantages due to economic or contractual reasons due to financial difficulties of the borrower, which otherwise would not have been granted and which show evidence of impairment.
- An increase in the likelihood that the borrower enters bankruptcy or in any other financial reorganization situation.
- Disappearance of an active market for the financial instrument caused by the financial difficulties of the issuer.
- Purchase or origin of a financial asset with a significant discount that reflects the credit losses suffered.

Methodologies for estimating the credit losses expected by insolvency

The amount of impairment losses experienced by these instruments is equivalent to the negative difference that arises when comparing the current values of their expected future cash flows discounted at the effective interest rate and their respective book values.

In the estimation of the future cash flows of the debt instruments are taken into account:

- The total amount that is expected to be obtained during the remaining life of the instrument, even if applicable, of those that may originate from the guarantees with which it counts (after deducting the costs necessary for its acquisition and later sale). The impairment loss considers the estimate of the possibility of charging the accrued, expired and not collected interest.
- The different types of risk to which each instrument is subject.
- The circumstances in which foreseeable collections will occur.

The process of evaluating the possible losses due to impairment of these assets is carried out through differentiated processes based on the client's consideration as individually significant or not significant, after carrying out an analysis of the portfolio and the monitoring policy applied by the entity.

Once the thresholds are set, the following process is as follows:

- Individualized analysis: for individually significant assets, an analysis is carried out to identify clients with OEI, distinguishing two groups:
 - Customers with OEI: the loss incurred based on the present value of the expected future flows (repayment of the principal plus interests) of each client's transaction (discounted with the original effective interest rate) is computed and this current value is compared with the book value. That is why both the business continuity hypothesis (going concern) and the assumption of liquidation and execution of guarantees (gone concern) are considered.
 - Customers that do not have OEI: it is verified that they do not present a certain evidence of impairment, not requiring any kind of provision given their proper credit status. These exhibitions

are grouped into homogenous groups of risk and a collective assessment of their impairment losses is carried out.

- Collective analysis: for non-significant exhibitions with OEI and for the rest of exhibitions, a collective calculation is done for homogeneous groups of risk, in order to obtain both the generic coverage associated to a group of operations and those of specific coverage to cover specific operations, which have similar risk characteristics that allow classification in homogeneous groups. For this purpose, the ICF uses as a reference and minimum percentages the risk parameters provided by the Bank of Spain in Circular 4/2017, which are based on the historical experience of the Spanish market, which are increased if considered necessary for some group in particular, according to estimation set forth by the Group.

Equity instruments valued at cost of acquisition

The impairment losses on equity instruments measured at acquisition cost are the difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognized in the income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses may only be subsequently reversed if the related assets are sold.

The estimation and calculation of the impairment losses of shareholdings in subsidiaries, joint venture or associates which, for the purpose of the preparation of these financial statements, are not considered Equity instruments, are made by the ICF Group in accordance with the criteria set out in Note 2.a above.

i) Financial guarantees and provisions for financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the Group. These operations are disclosed in a memorandum account to the balance sheet, under "Contingent liabilities".

When the contracts are arranged they are recognized at fair value (taken to be the present value of the future cash flows) under "Loans and receivables" with a balancing entry in Financial liabilities at amortized cost. Changes to the value of the contracts are recognized as finance income in the income statement under "Interest income".

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments measured at amortized cost (described in Note 2.h above).

The provisions made for these transactions are recognized under "Provisions – Contingent commitments and guarantees" on the liabilities side of the balance sheet. These provisions are recognized and reversed with a charge or credit, respectively, to "Provisions or (-) reversal of provisions" in the income statement.

j) Personnel expenses

Termination benefits

Circular 4/2017 of the Bank of Spain and subsequent updates only allow recognition of a provision for redundancy payments planned in the future when the ICF is demonstrably committed to terminate the bond that unites employees before the normal date of retirement or pay compensation as a result of an offer to encourage voluntary rescission from employees.

k) Income tax

The income tax expense is recognized in the income statement, except when it results from a transaction recognized directly in equity, in which case the income tax is also recognized in the ICF's equity.

The income tax expense for the financial year is calculated as the tax payable on the taxable profit for the year, adjusted by the amount of the changes in the year in the recognized assets and liabilities due to temporary differences and to tax credit and tax losses.

The Group considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A temporary difference for tax purposes is one that will generate a future obligation for the Group to make a payment to the relevant taxation authorities. A deductible temporary difference is one that will generate a right to a refund or a reduction in future tax charges.

Tax credits for tax deductions and benefits are amounts that, after occurrence or performance of the activity or obtainment of the profit or loss carrying the right to them, are not applied for tax purposes in the tax return until the conditions to do so established in the tax regulations are met but the Group considers it probable that they will be used in future periods, as it expects to have sufficient taxable profits in the future against which to offset them.

All these temporary differences are recognized in the balance sheet as deferred assets or liabilities, separate from current tax assets and liabilities.

Deferred tax assets and liabilities are reviewed at each reporting date in order to ascertain that they are still valid, and appropriate adjustments are made in accordance with the findings of the analyses carried out.

Since 1 January 2006, the Group has been subject to the special provisions on consolidation for tax purposes set out in article 64 et seq. of the revised text of the Law on Income Tax approved by Royal Legislative Decree 4/2004.

At 31 December 2018, the Group for consolidation purposes consists of the ICF and its subsidiaries, Instruments Financers per Empreses Innovadores, S.L. and Institut Català de Finances Capital, S.G.E.I.C. S.A.U. (Note 21.1).

I) Tangible assets

Tangible assets are broken down in the balance sheet into property, plant and equipment, investment property and assets leased out under operating leases. Tangible assets that have been foreclosed in settlement of loans are classified as "Non-current assets and disposal groups held for sale".

Property, plant and equipment for own use include assets, owned or held under a finance lease, for present or future administrative uses or for the production or supply of goods, that are expected to be used for more than one financial year. Investment property corresponds to the net value of land, buildings and other constructions held for the purposes of generating rental income or gains from their sale.

Tangible assets are normally recognized at acquisition cost less accumulated depreciation and any adjustment resulting from a comparison of the net value with the corresponding recoverable amount.

Depreciation is calculated on a straight-line basis on the acquisition cost of the assets less their residual value. An exception is land, which is considered to have an indefinite life and is therefore not depreciated.

Depreciation is charged annually to "Amortisation and depreciation" in the income statement, and is calculated using the following fixed rates as percentages of the estimated useful life of each asset type.

	% Annual depreciation
Buildings for own use and constructions	2%
Furniture	10%
Machinery and electronic equipment	10%
Installations	10%
IT equipment	25%

At the reporting date the Group assesses whether there is indication that the net value of its tangible assets exceeds its recoverable amount. If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life, if this needs to be re-estimated. The reduction in the carrying amount of tangible assets is charged to "Impairment losses or (-) reversal of impairment losses on non-financial assets" in the income statement.

Similarly, if there is an indication of a recovery in the value of an impaired item of tangible assets, the Group recognises the reversal of the impairment loss recognized in prior periods in the aforementioned heading in the income statement and adjusts the future depreciation charges accordingly. Under no circumstances may the reversal of an impairment loss on an asset increase its carrying amount above the carrying amount it would have if no impairment losses had been recognized in previous years.

Once a year, or when circumstances make it advisable, the estimated useful lives of tangible assets are reviewed and any necessary adjustments made to the depreciation to be charged to the income statement in future financial years.

Upkeep and maintenance expenses are charged to "Other general administrative expenses" in the income statement.

Independent experts carry out appraisals on behalf of the Group in order to determine whether any impairment exists in its real estate assets.

m) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are acquired from third parties or which are developed internally. Only intangible assets whose cost can be estimated objectively and from which it is considered probable that future economic benefits will be generated are recognized.

Intangible assets are recognized initially at acquisition or production cost, and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

This heading basically refers to amortisable expenses incurred in relation to the development of IT systems. Such assets have a fixed useful life and are amortized over a maximum of five years.

Amortisation is charged annually to "Amortisation and depreciation" in the income statement and any impairment losses and subsequent recoveries are charged to "Impairment losses or (-) reversal of impairment losses on non-financial assets".

n) Non-current assets and disposal groups held for sale

The Group only has classified as non-current assets held for sale the tangible assets received in settlement of loans, which have not been retained for own use or classified as investment property available for lease.

Assets received in settlement of debts are recognized at the lower of the carrying amount of financial assets and the asset's fair value less costs to sell.

Should foreclosed assets remain on the balance sheet for a longer time than initially envisaged, the value of the assets is adjusted to recognise any impairment loss caused by difficulties in finding buyers or receiving reasonable offers.

Impairment losses that become evident after capitalization are recognized under "Impairment losses or (-) reversal of impairment losses of non-financial assets" in the income statement. If the value subsequently recovers, this is recognized under the same heading in the income statement, the amount recovered being limited to the amount of the impairment previously recognized. Assets classified under this category are not depreciated.

o) Provisions and contingencies

Provisions cover present obligations at the reporting date arising from past events, which could give rise to a loss for entities, and are considered to be likely to occur; their nature is certain but their amount and/or timing is uncertain.

Contingent liabilities are possible obligations that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not within the entities' control.

The Group's financial statements include all the material provisions with respect to circumstances in which it is considered that it is more likely than not that the obligation will have to be settled. Provisions are recognized in the balance sheet according to the obligations covered, including provisions for taxes and for contingent exposures and commitments. Contingent liabilities are disclosed in the memorandum accounts to the balance sheet.

Allowances to provisions are recognized in the income statement under "Provisions or (-) reversal of provisions" (Note 16).

p) Consolidated statement of changes in equity

The statement of changes in equity presented in these financial statements shows the total changes in equity during the year. This information is in turn presented in two statements: the statement of recognized income and expense and the full-format statement of changes in equity. The main characteristics of the information contained in both parts of the statement are explained below:

Statement of recognized income and expense

This part of the statement of changes in equity presents the income and expenses generated by the ICF as a result of its business activity during the year, and a distinction is made between the income and expenses recognized in the income statement for the year and the other income and expenses recognized, in accordance with current regulations, directly in equity.

Accordingly, the statement presents:

- a) Profit for the year.
- b) Net amount of the income and expenses recognized temporarily in equity under "Valuation adjustments".
- c) The net amount of the income and expenses recognized definitively in equity.
- d) The income tax incurred by the items indicated in b) and c) above.
- e) The total income and expenses recognized, being the sum of the above letters.

The changes in income and expenses recognized in equity under Valuation adjustments are broken down as follows:

- a) Valuation gains (losses): includes the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in this account during the year are included under this heading, even though they are transferred in the same year to the income statement, at the initial value of other assets or liabilities, or are reclassified into another account.
- b) Amounts transferred to the income statement includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the income statement.
- c) Amounts transferred to opening balance of hedged accounts: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the opening balances of assets or liabilities as a result of cash flow hedges.
- d) Other reclassifications: transfers made in the year between valuation adjustment accounts in accordance with current regulations.

Where applicable, the amounts of these items are presented gross and the related tax effect is recognized under "Income tax".

Total statement of changes in equity

This part of the statement of changes in equity presents the reconciliation of the carrying amount at the beginning and end of the year of all net equity items grouping the movements according to their nature in the the following categories:

- a) Adjustments due to changes in accounting criteria and correction of errors: changes in equity arising as a result of the retrospective restatement of the balances in the financial statements due to changes in accounting policy or to the correction of errors.

- b) Income and expenses recognized during the year: the aggregate total of the aforementioned items recognized in the statement of recognized income and expense.
- c) Other changes in equity: the remaining items recognized in equity, including increases and decreases in the assigned capital, distribution of profit, transactions involving own equity instruments, equity-instrument based payments, transfers between equity items and any other increases or decreases in equity.

q) Consolidated statement of cash flows

The following terms are used in the statements of cash flows:

- Cash flows: Inflows and outflows of cash or cash equivalents, which are short-term, highly liquid investments subject to a low risk of changes in value.
- Operating activities: the typical activities of credit institutions and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash or cash equivalents
- Financing activities: activities that result in changes in liabilities that do not form part of operating activities. Issues made by the Group and placed on established markets are considered to be financing activities.

For the purpose of preparing the cash flow statement, any short-term investments that are highly liquid and have a low risk of them changing in value are considered as cash or cash equivalents. Thus, the Group recognises the following financial assets and financial liabilities as cash or cash equivalents:

- Cash held by the Group is recognized under “Cash, cash balances with central banks and other demand deposits” on the balance sheet.
- Cash held by the Group is recognized under “Cash, cash balances with central banks and other demand deposits” on the balance sheet.

r) Going concern principle

Upon preparing the statements it has been considered that the Group will continue to operate as a going concern in the foreseeable future. Therefore, the application of the accounting legislation is not focused on determining the value of equity for the purpose of global or partial transfer or the resulting amount in the event of liquidation.

s) Accrual basis

These financial statements, except for the statements of cash flows, have been prepared on the basis of the real flow of assets and services, irrespective of the date of payment or collection, with the exception of interest relating to lending and other risks without investment with borrowers considered as impaired, which is charged to profit or loss when collected.

The accrual of interest in asset and liability transactions, with liquidation terms exceeding 12 months, is calculated using the effective interest rate method. In operations of less than 12 months, interest is accrued without distinction between the interest or straight-line method.

Following general financial practice, transactions are recognized at the date on which they take place, which can differ from their corresponding value date, base on which finance income and costs are calculated.

t) Transactions with related parties

Transactions with related parties are accounted in accordance with the valuation rules detailed above, except for the following transactions:

- The non-monetary contributions of a business to a company in the group are generally measured at the book value of the equity items delivered in the consolidated financial statements at the date the transaction is carried out.

- In the merger and split operations of a business, the acquired elements are generally valued at the amount corresponding to them, once the transaction has been completed, in the consolidated financial statements. Differences that arise are registered in reserves.

The prices of operations carried out with related parties are adequately supported, so the ICF Directors consider that there are no risks that may give rise to liabilities.

3. Risk management and capital management

3.1 Market risk

In the year 2018 the Group does not have in its assets positions in the trading portfolio, and therefore does not incur in market risk. In the year 2017 the Group had contracted trading derivatives solely with the purpose of covering the risk of interest rates.

3.2 Liquidity risk

3.2.1 Liquidity risk purposes, policies and management

Liquidity risk involves the risk of not having sufficient funds to meet obligations acquired as they fall due, as well as the risk of not being able to liquidate a certain position as a result of market imperfections.

Liquidity risk policies and procedures are approved at the Governing Board, and the ICF's Asset-Liability Committee (hereinafter the ALC) is responsible for supervising it and define the procedures for mitigating and controlling it.

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.

Aside from the daily forecast of what funds are available and are needed, medium-term planning to assess these needs is fundamental. This planning is prepared taking into account future evolution of the balance sheet. This enables the Group to make forecasts sufficiently in advance of any possible cash flow tensions that could arise and ensure instruments are available to resolve them. This analysis is performed under different growth rates, bad debt, and other scenarios and enables future payments and collections that are expected to be made in the short to mid-term to be identified and planned.

As a general rule, the Group normally has several sources of funds, including capital increases, borrowing from public and private financial institutions, and issuing of debt securities.

The monthly review by the ALC of this action ensures the Group has sufficient funds to meet all its payment obligations on a timely basis, and fulfil its strategic and operating objectives regarding investments, and sustained, stable and moderate growth.

Its ordinary financing policy has always been conservative, based on the following three principles:

- a. Diversifying its debt between private financial institutions, public credit institutions and capital markets.
- b. Entering into long-term transactions. Consequently, the average debt contract length is 12.6 years.

3.2.2 Maturity dates of financial assets and financial liabilities

As explained in section 3.2.1 above, a key part of the ICF Group's strategy to manage liquidity is to analyse the maturity dates of its financial assets and financial liabilities. The tables below show financial assets and financial liabilities at December 31, 2018 and 2017, classified in accordance with the time remaining to maturity at these dates, according to the conditions stipulated in the associated contractual conditions:

At December 31, 2018

	On-demand deposits	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets							
Cash, cash balances in central banks and other demand deposits	88,795	-	-	-	-	-	88,795
Loans and advances	27,322	17,224	81,963	225,508	671,239	526,866	1,550,123
Deposits in credit institutions	11,962	3,367	5,325	17,911	39,936	404	78,905
Loans to customers	15,360	13,857	76,638	207,597	631,303	526,463	1,471,218
Debt securities	-	1,091	6,588	45,800	408,741	2,242	464,462
Total assets	116,117	18,315	88,551	271,308	1,079,980	529,108	2,103,380
Liabilities							
Financial liabilities at amortized cost	80	6	624	33,286	168,906	763,979	966,881
Deposits from credit institutions	-	-	-	18,795	140,003	678,864	837,662
Funds from customers	80	6	624	14,491	28,902	85,116	129,219
Debt securities issued	-	-	2,722	150,951	305,109	32,554	491,336
Total liabilities	80	6	3,346	184,237	474,015	796,533	1,458,217
Maturity GAP	115,438	18,309	85,205	87,070	605,965	(267,425)	645,163
% of total assets	5%	1%	4%	4%	29%	(12%)	31%

At December 31, 2017

	On-demand deposits	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Assets							
Cash, cash balances in central banks and other demand deposits	82,765	-	-	-	-	-	82,765
Loans and advances	20,832	40,522	50,666	250,893	807,264	615,666	1,785,843
Deposits in credit institutions	10,005	4,331	18,031	32,267	67,088	728	132,450
Loans to customers	10,827	36,191	32,635	218,626	740,176	614,938	1,653,393
Debt securities	-	10,292	13,924	80,659	307,605	19,916	432,396
Total assets	103,597	50,814	64,590	331,552	1,114,869	635,582	2,301,004
Liabilities							
Financial liabilities at amortized cost	15,546	135	406	36,241	266,101	794,386	1,112,814
Deposits from credit institutions	-	-	-	35,624	228,183	708,383	972,189
Funds from customers	15,546	135	406	617	37,918	86,003	140,625
Debt securities issued	-	9,008	-	24,956	454,063	33,574	521,601
Total liabilities	15,546	9,143	406	61,197	720,164	827,960	1,634,415
Maturity GAP	88,051	41,671	64,184	270,355	394,705	(192,378)	666,589
% of total assets	3%	2%	3%	11%	15%	(7%)	27%

3.3 Structural interest rate risk

3.3.1 Interest rate risk purposes, policies and management

Interest rate risk consists of the risk to which the Group is exposed in relation to its financial instruments, the source of which lies in variations in market interest rates.

The interest rate risk directly affects the Group's activity due to the effect that its variations could have on the income statement. The pegging of financial instruments to market interest rates gives rise to accrued income and expenses indexed to market performance, in such a way that variations in these references could affect, in a non-symmetric manner, other instruments (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 objectives of managing interest rate risk and the policies to do so are approved by the entity's Governing Board. Meanwhile, the ALC is responsible for defining and overseeing procedures to ensure these objectives are met and policies are implemented.

The Group's objectives regarding this risk focus on limiting any deviation in the financial margin to ensure any corrections in market interest rate curves do not significantly directly affect its results.

The ALC implements procedures that ensure the Group complies with interest rate risk control and management policies at all times, and takes any corrective measures it sees fit to resolve any deviations that may arise in an effective manner.

In order to analyse, measure and control interest rate risk assumed by the Group, sensitivity analyses and scenario analyses are performed, establishing appropriate limits to avoid exposure to levels of risk that could significantly affect the Group. These analytical procedures and techniques are reviewed as often as is required to ensure they function correctly.

The Group uses hedges to mitigate individual interest rate risk associated with all significant financial instruments that could expose the Group to significant interest rate risk, thereby reducing this type of risk to practically zero.

3.3.2 Interest rate risk sensitivity analysis

Interest rate risk measures the exposure of the interest margin or the economic value of the Group to potential variations in market interest rates, derived from the repreciation structure and expiration profile of the sensitive masses of the balance sheet.

The information presented in this section on sensitivity to interest rate risk in the income statement and the Group's equity was calculated considering a standard market interest rate disturbance of 200 basic points with the specificities defined in the EBA guide EBA/GL/2015/08.

The analysis indicated has been done considering the evolution of the type curve for the reference sections used by the ICF and maintaining the rest of variables that affect the profit or loss and the Group's equity constant. The effect shown below has been calculated taking into account the existing financial instruments at December 31, 2018, without taking into account the existence of new investments or financing that can be made from that moment onwards.

The following tables show, through a static gap, the distribution of maturities and revisions of variable interest rates, at December 31, 2018 and December 31, 2017, of the sensitive masses of the balance sheet, regardless of valuation adjustments. For those masses without contractual maturity, their sensitivity to interest rates has been analyzed along with their expected maturity term.

At December 31, 2018:

in thousands of Euros RENEWAL	Sensitive balance sheet		As a % of total assets (TA)		Quantification of static gap		
	Assets	Liabilities	Assets	Liabilities	Simple	Accum.	Ac. Gap (%TA)
Up to 1 month	310,059	285,993	13.2%	12.2%	24,066	24,066	1.0%
From 1 to 3 months	640,340	305,182	27.2%	13.0%	335,158	359,225	15.3%
From 3 to 6 months	426,670	159,915	18.1%	6.8%	266,756	625,980	26.6%
From 6 to 12 months	405,251	49,143	17.2%	2.1%	356,108	982,088	41.7%
ACCUMULATED 12M	1,782,321	800,233	75.7%	34.0%		982,088	41.7%
From 1 to 2 years	95,589	53,995	4.1%	2.3%	41,594	1,023,682	43.5%
From 2 to 3 years	13,599	32,041	0.6%	1.4%	(18,442)	1,005,241	42.7%
From 3 to 4 years	8,707	333,020	0.4%	14.1%	(324,312)	680,928	28.9%
From 4 to 5 years	13,672	44,232	0.6%	1.9%	(30,559)	650,369	27.6%
From 5 to 7 years	57,340	56,308	2.4%	2.4%	1,032	651,401	27.7%
From 7 to 10 years	5,956	19,544	0.3%	0.8%	(13,588)	637,813	27.1%
From 10 to 15 years	7,922	(4,413)	0.3%	-0.2%	12,334	650,147	27.6%
From 15 to 20 years	7,476	-	0.3%	0.0%	7,476	657,623	27.9%
From 20 to 25 years	3,495	-	0.1%	0.0%	3,495	661,119	28.1%
Total	1,996,079	1,334,960	84.8%	56.7%		661,119	28.1%

At December 31, 2017:

in thousands of Euros RENEWAL	Sensitive balance sheet		As a % of total assets (TA)		Quantification of static gap		
	Assets	Liabilities	Assets	Liabilities	Simple	Accum.	Ac. Gap (%TA)
Up to 1 month	296,219	315,223	11.5%	12.2%	(19,004)	(19,004)	-0.7%
From 1 to 3 months	459,845	397,430	17.8%	15.4%	62,415	43,412	1.7%
From 3 to 6 months	447,735	145,457	17.4%	5.6%	302,278	345,690	13.4%
From 6 to 12 months	422,366	21,909	16.4%	0.8%	400,456	746,146	28.9%
ACCUMULATED 12M	1,626,165	880,019	63.0%	34.1%		746,146	28.9%
From 1 to 2 years	147,253	77,184	5.7%	3.0%	70,068	816,214	31.6%
From 2 to 3 years	97,258	24,275	3.8%	0.9%	72,983	889,197	34.5%
From 3 to 4 years	53,817	18,025	2.1%	0.7%	35,792	924,989	35.9%
From 4 to 5 years	59,181	319,275	2.3%	12.4%	(260,094)	664,896	25.8%
From 5 to 7 years	77,671	68,550	3.0%	2.7%	9,121	674,017	26.1%
From 7 to 10 years	7,527	60,324	0.3%	2.3%	(52,798)	621,219	24.1%
From 10 to 15 years	6,709	34,489	0.3%	1.3%	(27,780)	593,439	23.0%
From 15 to 20 years	4,854	1,100	0.2%	0.0%	3,754	597,193	23.1%
From 20 to 25 years	3,206	0	0.1%	0.0%	3,206	600,399	23.3%
Total	2,083,640	1,483,241	80.8%	57.5%		600,399	23.3%

For calculating the impact on the financial margin, interest rate projection simulations have been carried out with a period of one year and under the assumption of a constant balance structure (conditions defined by Circular 2/2016 of the Bank of Spain).

The impact on the financial margin and economic value at a decrease of 200 basis points has been calculated on the base scenario, which uses the implicit types of the market curve.

31/12/2018 (Thousands of euros)	Interest margin (1)	Impact on equity (2)
200 basic points decrease	(570)	53.279

31/12/2017 (Thousands of euros)	Interest margin (1)	Impact on equity (2)
200 basic points decrease	(310)	51.877

(1) Sensitivity to 1 year of interest margin of sensitive balance masses.

(2) Sensitivity of the base economic value of sensitive masses of balance.

(1 and 2) A floor is considered 0%, except for rates that are below 0% in the calculation of the stress scenario.

The balance is positioned at the end of 2018 on interest rate increases due to the exceptionally low type of rates environment. Insofar as there is a progressive increase in the type curve, the financial margin and the economic value of the Group will have a positive effect in line with the dynamics and risk management of the financial sector.

3.4 Credit risk

3.4.1 Credit risk management objectives, policies and processes

Credit risk is the risk of incurring a loss due to a customer or other counterparty breaching its contractual payment obligations. This risk is inherent to traditional banking products (loans, credit facilities, financial guarantees provided, etc.). Credit risk affects both financial assets that are recognized at amortized cost in the financial statements, and those carried at fair value. The Group applies the same policies and procedures to control credit risk, irrespective of the accounting criteria used to recognise financial assets in the financial statements.

The general objectives and policies for awarding credit and the credit limits to mitigate credit risk are approved by the Group's Governing Board. The Risk Supervision and Management Department has also established the required control procedures to oversee the credit risk portfolio by type of customer and inform Supervisory Committee of its performance. On the other hand, the Global Risk Management Department performs this supervision at global level and ensures that the risk policies established in the Group's regulations are appropriately applied and that the risk control methods and procedures are adequate and are effectively implemented and reviewed regularly. This department sends any information thereon to General Management to permit them, where necessary, to implement any corrective measures required.

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 impairment allowances on the other.

The risk concentration objectives are approved by the Group's Governing Board from two perspectives: firstly, by selecting levels of positioning in certain priority sectors based in accordance with the Group's strategic plan; and secondly, limiting the concentration of credit risk for counterparties at an individual level and for groups of companies. The limits of risk concentration are established based on economic sector, and other common economic factors. The objectives for risk concentration limits are basically established using parameters such as equity and the total amount of credit extended.

The maximum credit risk to which the Group is exposed is measured, for financial assets at amortized cost, at the nominal value of the assets plus the balances available to debtors without any conditions applying.

The Group internally classifies financial assets subject to credit risk based on the characteristics of the operation, taking into account the counterparties with which the arrangements have been made and the guarantees provided to secure the operation, among other factors.

The Supervisory Committee decides on management, accounting qualification and associated coverage.

The Global Risk Management 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,

of which the Global Risk Management Committee is informed periodically that it will take the corrective measures it deems appropriate.

In addition, the Audit and Control Committee is in charge of planning and monitoring internal and external audit, global control of risk and regulatory compliance; internal control and anti-money laundering.

3.4.2 Level of credit risk exposure

The following table shows the level of credit risk to which the Group is exposed at December 31, 2018 and 2017 for each class of financial instrument, without deducting any real guarantee or other loan enhancements received to ensure debtors honour their payment obligations:

At December 31, 2018:

Types of instruments	Thousands of euros					
	Asset balances				Memorandum: Off-balance sheet items	Total
	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost – Loans and receivables	Financial assets at amortized cost – Debt securities	Derivatives		
Debt instruments						
Deposits in credit institutions	-	79,106	-	-	-	79,106
Loans to customers	-	1,673,890	-	-	-	1,673,890
Debt securities	458,859	-	-	-	-	458,859
Total debt instruments	458,859	1,752,996	-	-	-	2,211,855
Guarantees granted						
Financial guarantees	-	-	-	-	108,058	108,058
Other financial guarantees granted	-	-	-	-	-	-
Total guarantees given	-	-	-	-	108,058	108,058
Other exposures						
Derivatives	-	-	-	5,677	-	5,677
Contingent commitments granted	-	-	-	-	150,080	150,080
Total other exposures	-	-	-	5,677	150,080	155,757
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	458,859	1,752,996	-	5,677	258,138	2,475,670

At December 31, 2017:

Types of instruments	Thousands of euros					
	Asset balances				Memorandum: Off-balance sheet items	Total
	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost – Loans and receivables	Financial assets at amortized cost – Debt securities	Derivatives		
Debt instruments						
Deposits in credit institutions	-	132,191	-	-	-	132,191
Loans to customers	-	1,855,649	-	-	-	1,855,649
Debt securities	431,296	-	1,100	-	-	432,396
Total debt instruments	431,296	1,987,840	1,100	-	-	2,420,236
Guarantees granted	-	-	-	-	-	-
Financial guarantees	-	-	-	-	110,725	110,725
Other financial guarantees granted	-	-	-	-	-	-
Total guarantees given	-	-	-	-	110,725	110,725
Other exposures	-	-	-	-	-	-
Derivatives	-	-	-	6,278	-	6,278
Contingent commitments granted	-	-	-	-	117,716	117,716
Total other exposures	-	-	-	6,278	117,716	123,994
MAXIMUM LEVEL OF CREDIT RISK EXPOSURE	431,296	1,987,840	1,100	6,278	228,441	2,654,955

The following points are of note in relation to the information provided in the previous tables:

- Data on debt instruments in the previous tables recognized under assets on the balance sheet are shown at their carrying amount, net of related impairment losses and any other valuation adjustments (deferred interest, loan arrangement commission and similar income pending accrual, etc.).
- Guarantees given are recognized for the maximum amount guaranteed by the Group. In general, it is estimated that the majority of these balances reach maturity without the Group having a real need to finance them. These balances are presented net of provisions established to cover any credit risk associated therewith.
- Information on other exposure to credit risks, such as counterparty risk associated with the contracting of derivative financial instruments, is presented at their carrying amount.

3.4.3 Real guarantees received and other loan enhancements

Credit risk approval decisions will be based, basically, on the borrower's ability to pay or on the ability to generate or obtain treasury to meet, in time and in form, the total of financial obligations assumed, based on the income from his business, or usual income source, without relying on guarantors, guarantors or assets delivered as collateral, which should always be considered as second, and exceptional, recovery method.

In some cases it is considered necessary to have guarantees, in particular, with effective guarantees that allow, if necessary, to be a second source of recovery. In this sense, the Group uses as a fundamental instrument in the management and mitigation of the credit risk to look for that the financial assets acquired or contracted by the Group have real guarantees and other credit improvements additional to the personal guarantee of the debtor.

The Group's policies for analysing and selecting risk define, based on the characteristics of the operations (purpose of risk, counterparty, maturity period, etc.), the real guarantees or loan enhancements required in addition to the own debtor's real guarantee for such arrangements to be entered into. Real guarantees are measured based on the nature of the real guarantee received.

Details, in thousands of euros, of the amount of credit risk covered by each type of real guarantee, other loan enhancements available and class of financial instrument to the Group at December 31, 2018 and 2017, excluding Public Administrations, are as follows:

At December 31, 2018:

	Real estate guarantee	Other real guarantees	Guarantees from financial institutions	Guarantees from the public sector	Total
Debt instruments					
Loans to customers	328,162	153,636	41,062	16,708	539,567
Total debt instruments	328,162	153,636	41,062	16,708	539,567
Guarantees granted					
Financial guarantees	4,362	36,182	-	37,216	77,759
Total guarantees granted	4,362	36,182	-	37,216	77,759
Total hedged amount	332,524	189,817	41,062	53,924	617,326

At December 31, 2017:

	Real estate guarantee	Other real guarantees	Guarantees from financial institutions	Guarantees from the public sector	Total
Debt instruments					
Loans to customers	365,126	150,892	53,300	62,007	631,325
Total debt instruments	365,126	150,892	53,300	62,007	631,325
Guarantees granted					
Financial guarantees	5,017	11,918	-	62,193	79,128
Total guarantees granted	5,017	11,918	-	62,193	79,128
Total hedged amount	370,143	162,810	53,300	124,200	710,453

3.4.4 Credit quality of unmatured and unimpaired financial assets

3.4.4.1 Classification of exposure to credit risk by counterparty

The level of exposure to credit risk classified by counterparty at December 31, 2018 and 2017 for credit risk exposures that are not matured or impaired at these dates is as follows:

At December 31, 2018:

Thousands of euros	Public entities	Financial institutions	Other national sectors	Total
Debt instruments				
Financial assets at amortized cost – Debt securities	-	-	-	-
Financial assets at fair value through other comprehensive income	148,931	161,239	154,292	464,462
Deposits in credit institutions	-	79,106	-	79,106
Loans to customers	447,770	-	1,089,245	1,537,015
Total debt instruments	596,701	240,345	1,243,537	2,080,583
Guarantees granted				
Financial guarantees	28,519	-	71,405	99,923
Other guarantees granted	-	-	-	-
Total guarantees granted	28,519	-	71,405	99,923
Total	625,220	240,345	1,314,942	2,180,506

At December 31, 2017:

Thousands of euros	Public entities	Financial institutions	Other national sectors	Total
Debt instruments				
Financial assets at amortized cost – Debt securities	-	-	1,100	1,100
Financial assets at fair value through other comprehensive income	105,556	224,957	100,783	431,296
Deposits in credit institutions	-	132,191	-	132,191
Loans to customers	541,190	-	1,127,102	1,668,292
Total debt instruments	646,746	357,148	1,228,985	2,232,879
Guarantees granted				
Financial guarantees	12,364	-	98,361	110,725
Other guarantees granted	-	-	-	-
Total guarantees granted	12,364	-	98,361	110,725
Total	659,110	356,398	1,327,346	2,343,604

3.4.5 Renegotiated financial assets

In accordance with Bank of Spain Circular 04/2017, a brief summary of the policy for modifying transactions is set out below.

Modifications that involve changes to the repayment calendar are implemented in accordance with the following premises:

- A detailed analysis of the economic and financial situation of the borrower, including the circumstances that have given rise to the need to modify the envisaged repayment calendar.
- In accordance with the business plan, reviewed by the Group, the customer must be able to pay the sums included in the new repayment calendar.
- A minimum of 6 months experience with the customer in order to modify the transaction
- All accrued and unpaid interest payments, both current and in arrears, for the transaction must be up to date
- Extending time periods will be avoided, instead the subsequent payments will be adjusted to return to the agreed debt period

With regard to guarantee changes, these will be studied on a case-by-case basis, although it is envisaged that guarantee changes will be made maintaining the hedge in the approval of the transaction, and that any releasing of guarantees will be associated to a reduction in risk by the same amount.

On the other hand, modifications are classified according to the reason for the modification and the economic and financial situation of the borrower. Accordingly, the following is taken into consideration:

- Refinancing transaction: a transaction which, for reasons relating to the borrower's financial difficulties (current or foreseeable) in cancelling one or various transactions extended by the Group or other companies in its economic group, or to fully or partially fulfil payment obligations, for the purpose of facilitating payment of the debt by the borrowers because they cannot, or it is foreseen that they will be unable to, comply in time and form with these conditions.
- Refinanced transaction: a transaction which fully or partially has fulfilled payment obligations as a result of a refinancing transaction.
- Restructured transaction: a transaction which, for reasons relating to the borrower's financial difficulties (current or foreseeable) modifies the financial conditions in order to facilitate payment of the debt because the borrower cannot, or it is foreseen it will not be able to, comply in time and form with these conditions, in the case that the modification is foreseen in the contract. In any case, restructured transactions include those transactions in which a waiver is carried out or assets are received to reduce the debt; terms and conditions are modified to increase the maturity period; the repayment schedule is changed to decrease the sum of the instalments in the short term, decrease their frequency or establish or extend the grace period of the principal, interest or both; except when it can be proved that the conditions are modified for reasons other than financial difficulties of the borrowers and are similar to those applied in the market at the date of modifying these transactions for customers with similar risk profiles.

- Renewal transaction: this is formalised to replace another transaction previously granted by the same Group, without the borrower having or foreseeably going to have financial difficulties.
- Renegotiated transaction: this is where the transaction's financial terms are modified without the borrower having or foreseeably going to have financial difficulties in the future.

The Group classifies the restructured, refinanced and refinanced transactions as a standard risk under special monitoring or doubtful risk based on the Bank of Spain guidelines in this regard. As a general rule, refinanced or restructured transactions and new transactions carried out for refinancing are classified as standard risk under special monitoring. However, taking into account the specific characteristics of the operation are classified as doubtful risk when they meet the general criteria for classifying such debt instruments, and in particular, i) transactions underpinned by an inadequate business plan, ii) transactions that include contractual clauses that dilate reimbursement as periods of invalidity over 24 months, and iii) transactions that present amounts deducted from the balance sheet to be considered unrecoverable that exceed the coverage that would result from applying the percentages established for standard risk under special monitoring.

Refinanced or restructured transactions and new transactions carried out for refinancing remain identified as special surveillance during a trial period until all of the following requirements are met:

- That it has been concluded, after a review of the owner's equity and financial situation, that it is not expected that it may have financial difficulties and that, therefore, it is highly probable that it can fulfill its obligations to the Group within the deadline established and in the pertinent form.
- That a minimum term of two years has elapsed since the date of formalization of the restructuring or refinancing transaction or, if it is later, from the date of reclassification from the category of doubtful risk.
- That the holder has paid the principal and interest accrued fees from the date on which the restructuring or refinancing operation has been formalized or, if it is later, from the date of reclassification from the doubtful category.
- That the holder does not have another transaction with expired amounts more than 30 days at the end of the trial period.

When all of the above requirements are met, transactions are no longer identified in the financial statements as refinancing, refinancing or restructuring transactions.

During the previous test period, a new refinancing or restructuring of refinancing transactions, refinancing, or restructuring operations, or the existence of amounts in these transactions of more than 30 days, involves the reclassification of these operations to the category of doubtful risk for reasons other than delinquency, as long as they are classified in the category of doubtful risk before the start of the trial period.

The refinanced or restructured transactions and the new transactions carried out for refinancing remain identified as a doubtful risk until the general criteria for debt instruments are verified and in particular the following requirements:

- That a period of one year has elapsed since the date of refinancing or restructuring.
- That the holder has paid the accrued quotes of principal and interests and reduced the principal renegotiated, from the date on which the restructuring or refinancing operation has been formalized or, if it is later, from the reclassification date of the one in the category of doubtful.
- That has been paid by any sources of regular payments an amount equivalent to all amounts, principal and interest, that has been expired on the date of the restructuring or refinancing operation, or which have been derecognized as a result of, or, when it is more appropriate taking into account the characteristics of the operations, that other objective criteria have been verified that demonstrate the holder's ability to pay.
- The holder has no other transaction with amounts expired in more than 90 days on the date of reclassification to the category of standard risk under special monitoring of the refinancing transaction, refinancing or restructuring operation.

Below is the book value, classified by financial instrument class, of financial assets as of December 31, 2018 and December 31, 2017, considered refinanced or restructured according to the definitions of Circular 4/2017 of the Bank of Spain :

31/12/2018	TOTAL					Of which: DOUBTFUL				
	Without real guarantee		With real guarantee		Accum. impairment losses due to credit risk	Without real guarantee		With real guarantee		Accum. impairment losses due to credit risk
	No. of transactions	Gross book value	No. of transactions	Gross book value		No. of transactions	Gross book value	No. of transactions	Gross book value	
Public administrations	4	20,521	-	-	-	1	729	-	-	-
Non-financial companies and individual entrepreneurs (non-financial business activity)	131	134,109	126	191,331	(114,103)	67	75,210	57	30,872	(87,668)
Of which: funding to property construction and development (including land)	12	11,979	13	15,020	(14,894)	6	1,500	1	4,189	(8,874)
Other homes	-	-	-	-	-	-	-	-	-	-
Total	135	154,630	126	191,331	(114,103)	68	75,939	57	30,872	(87,668)

31/12/2017	TOTAL					Of which: DOUBTFUL				
	Without real guarantee		With real guarantee		Accum. impairment losses due to credit risk	Without real guarantee		With real guarantee		Accum. impairment losses due to credit risk
	No. of transactions	Gross book value	No. of transactions	Gross book value		No. of transactions	Gross book value	No. of transactions	Gross book value	
Public administrations	1	747	2	6,056	-	-	-	-	-	-
Non-financial companies and individual entrepreneurs (non-financial business activity)	141	91,160	102	253,396	(146,099)	75	50,659	56	100,162	(132,485)
Of which: funding to property construction and development (including land)	12	1,759	16	51,060	(29,784)	8	1,055	8	26,901	(25,200)
Other homes	-	-	-	-	-	-	-	-	-	-
Total	142	91,907	104	259,452	(146,099)	75	50,659	56	100,162	(132,485)

3.4.6 Assets that have matured and/or are impaired due to credit risk

Furthermore, details of financial assets estimated on an individual basis to be impaired at December 31, 2018 and 2017, based on the age of the oldest outstanding amount of each operation, are as follows:

At December 31, 2018:

	Thousands of euros					Total
	Up to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 to 24 months	More than 24 months	
Debt instruments						
Loans to customers	17,088	57,186	3,726	25,329	33,546	136,875
Total debt instruments	17,088	57,186	3,726	25,329	33,546	136,875
Total	17,088	57,186	3,726	25,329	33,546	136,875

At December 31, 2017:

	Thousands of euros					Total
	Up to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 to 24 months	More than 24 months	
Debt instruments						
Loans to customers	61,927	4,219	32,455	9,380	79,376	187,357
Total debt instruments	61,927	4,219	32,455	9,380	79,376	187,357
Total	61,927	4,219	32,455	9,380	79,376	187,357

3.4.7 Financial assets considered as impaired

Below is a detail at December 31, 2018 and 2017, classified by type of financial assets, of those assets that have been considered as impaired and the impairment losses assigned:

At December 31, 2018:

	Thousands of euros	
	Carrying amount (excluding impairment losses)	Impairment losses
Debt instruments		
Loans to customers	136,875	103,243
Total debt instruments	136,875	103,243

At December 31, 2017:

	Thousands of euros	
	Carrying amount (excluding impairment losses)	Impairment losses
Debt instruments		
Loans to customers	187,357	160,487
Total debt instruments	187,357	160,487

3.4.8 Movement in impairment losses

Below is the movement of exposures for credit risk of loans and advances (registered as financial assets at amortized cost) and of impairment losses accounted for in 2018 and 2017.

	Phase 1 and 2 Not impaired transactions		Phase 3 Impaired transactions		Total
	Individual calculation	Collective calculation	Individual calculation	Collective calculation	
Gross amount					
Balance at January 1, 2018	-	1,668,292	110,958	76,399	1,855,649
Balance at December 31, 2018	-	1,537,015	80,978	55,897	1,673,890
Impairment					
Balance at December 31, 2017	-	(28,804)	(101,790)	(56,816)	(187,410)
Impact on the Circular 4/2017 (see note 1.b)	-	(10,282)	-	(1,236)	(11,518)
Balance at January 1, 2018	-	(39,086)	(101,790)	(58,052)	(198,928)
Charges/Recoveries	-	(29,882)	1,926	(1,803)	(29,759)
Transfers between phases	-	(20,277)	17,804	2,473	-
Transfers to failed	-	-	19,410	16,789	36,199
Balance at December 31, 2018	-	(89,245)	(62,650)	(40,593)	(192,488)

The charges/recoveries include the impacts of the first application of Circular 4/2017 (note 1.b).

At December 31, 2018, coverage of non-impaired transactions includes an amount of 10,117 thousands of euros for transactions classified as normal and 79,128 thousands of euros for transactions classified as normal under special surveillance.

On the other hand, the movement during the year 2017 of impairment losses is shown below. Within the generic allowance at December 31, 2018, there is an amount of 18,836 thousands of euros for the provision of special surveillance risk and 10,458 for the provision of standard risk.

2017	Thousands of euros				
	Opening balance	Charges	Recoveries	Transfers and others	Balance 31/12/2017
Specific allowance	(207,327)	(71,150)	50,578	67,412	(160,487)
Loans to customers	(207,327)	(71,150)	50,578	67,412	(160,487)
Generic allowance	(18,865)	(16,009)	5,577	3	(29,294)
Loans to customers	(18,865)	(16,009)	5,577	3	(29,294)
Total	(226,192)	(87,159)	56,155	67,415	(189,781)

The amounts corresponding to debt instruments are registered under "Impairment losses or (-) reversal of impairment losses on financial assets not measured at fair value through profit or loss - Loans and receivables". This heading includes in the year 2018 other recoveries, linked mainly to the recovery of bankrupt assets, amounting to 13,180 thousands of euros (5,910 thousands of euros in 2017).

Movement for 2017 included under "Transfers and others" mainly reflects the derecognition of financial assets for their transfer to irrecoverable assets (Note 3.4.10)

3.4.9 Matured and unimpaired financial assets

Details of financial assets that have matured but are not impaired at December 31, 2018 and 2017, classified by class of financial instrument and the period passed from maturity, are as follows:

At December 31, 2018:

Thousands of euros	Up to 3 months	More than 3 months	Total
Debt instruments			
Loans to customers	1,491	-	1,491
Total debt instruments	1,491	-	1,491

At December 31, 2017:

Thousands of euros	Up to 3 months	More than 3 months	Total
Debt instruments			
Loans to customers	444	-	444
Total debt instruments	444	-	444

3.4.10 Impaired financial assets and derecognized from assets

A summary of movements in 2018 and 2017 in items that have been derecognized in the accompanying balance sheet as their recovery is considered remote is provided below. These financial assets are recognized under "Irrecoverable assets" in the memorandum accounts complementary to the accompanying balance sheets.

Thousands of euros	2018	2017
Opening balance at year:	292,173	283,518
Additions	41,550	84,879
Charged to adjustments for asset impairments	36,199	67,083
Recognition of interest accrued	5,350	17,796
Recoveries	(20,468)	(5,973)
Recovery of principal in cash and/or instruments expired and not received	(20,468)	(5,973)
Disposals	(1,000)	(70,251)
Closing balance at year:	312,255	292,173

3.4.11 Breakdown of the distribution of loans to customers by activity and geographical activity

Distribution of the Group's credit portfolio at December 31, 2018 is as follows:

Thousands of euros	Total	Catalonia	Other
Credit institutions	56,861	56,861	-
Public Administrations and rest of Public Sector	447,770	447,770	-
Others	447,770	447,770	-
Non-financial companies and individual entrepreneurs	1,122,877	1,114,511	8,366
Property construction and development	169,489	169,215	274
Other purposes	953,388	945,296	8,092
Large-sized companies	325,458	325,100	357
Small and medium-sized companies and individual entrepreneurs	627,931	620,196	7,735
Less: Impairment adjustments of assets not attributable to specific operations	(89,245)	(89,245)	-
Total	1,538,263	1,529,897	8,366

And the distribution of the credit portfolio at December 31, 2017:

Thousands of euros	Total	Catalonia	Other
Credit institutions	101,054	101,054	-
Public Administrations and rest of Public Sector	541,190	541,190	-
Others	541,190	541,190	-
Non-financial companies and individual entrepreneurs	1,141,275	1,135,309	5,966
Property construction and development	137,639	137,639	-
Other purposes	1,003,636	997,671	5,966
Large-sized companies	423,258	422,841	417
Small and medium-sized companies and individual entrepreneurs	580,378	574,830	5,548
Less: Impairment adjustments of assets not attributable to specific operations	(29,295)	(29,295)	-
Total	1,754,224	1,748,258	5,966

3.4.12 Breakdown of the distribution of loans to customers by activity and guarantee

In accordance with the provisions set out in Circular 6/2015, the distribution of credit risk to customers by activity is set out below.

At December 31, 2018:

31/12/2018	Of which: real estate guarantee	Of which: other real guarantees	TOTAL
Public Administrations	140,731	32,854	447,770
Non-financial companies and individual entrepreneurs	328,509	293,299	1,122,877
Property construction and development (including land)	88,606	72,282	169,489
Other purposes	239,903	221,017	953,388
Large-sized companies	50,495	49,493	325,458
Small and medium-sized companies and individual entrepreneurs	189,411	171,524	627,931
TOTAL	469,240	326,153	1,570,647

At December 31, 2017:

31/12/2017	Of which: real estate guarantee	Of which: other real guarantees	TOTAL
Public Administrations	145,511	42,281	541,190
Non-financial companies and individual entrepreneurs	334,272	394,609	1,141,275
Property construction and development (including land)	84,405	18,810	137,639
Other purposes	189,867	335,799	1,003,636
Large-sized companies	46,083	144,911	423,258
Small and medium-sized companies and individual entrepreneurs	143,784	190,888	580,378
TOTAL	479,783	436,890	1,682,465

3.5 Counterparty risk

The Group incurs in this risk when financial entities have mediation lines, deposits in other financial entities and interest rate hedges.

Intermediation loans (56,861 thousands of euros in 2018 and 101,054 thousand euros in 2017), as deposits and current accounts (103,063 thousands of euros in 2018 and 111,882 thousands of euros in 2017) are recognized in the balance sheet in deposits from credit institutions and are diversified in 9 credit entities (9 entities in 2017). See Note 8.1.

The counterparties of the interest rate hedges at December 31, 2018 and 2017 are 5 credit entities, with notionals of 364,368 and 365,049 thousands of euros, respectively. The distribution of notional by maturity is as follows:

Derivative type	Maturity	Notional 2018	Notional 2017
IRS	From 1 to 3 years	35,000	35,000
IRS	From 3 to 5 years	297,368	298,049
IRS	More than 5 years	32,000	32,000
		364,368	365,049

At December 31, 2018 and 2017, the entire ICF Group balance sheet is in euros.

3.6 Operational risk

Operational risk relates to the possibility of incurring losses as a result of poor allocation or of errors in processes, systems and personnel, or extraneous circumstances.

In accordance with the Risk Control and Management Model adopted by ICF, which is based on three lines of defence, the management and control of operational risk involves the whole Group and is not limited to specific organizational areas or areas specialising in risks or control functions.

In this regard, the Group's different areas and companies are responsible, in the first instance, for the daily management of operational risk and are assigned, inter alia, the responsibility for keeping processes, risks and controls in their areas of activity updated. As a second line of defence the Group has set up an internal control coordination function, focusing on analysing the Group's operating processes and maintaining the corporate risk and control map and another operational risk function, in charge of establishing the specific procedures and methodologies for identifying, assessing and controlling operational risk. In addition, the Group has a Global Risk Control Department which is responsible, inter alia, for calculating the consumption of own resources due to operational risk using the basic indicator method set out by Basel III.

Finally, as an ultimate control measure, the Internal Audit Department carries out an independent review of the Model, verifying compliance and efficiency of the corporate policies and reporting the results of its activities to the Audit and Control Committee.

3.7 Capital management

The ICF Group has eligible own funds for 864,817 thousands of euros at December 31, 2018 (863,011 thousands of euros at December 31, 2017), with a solvency ratio of 39.75% (38.3% at December 31, 2017), a coefficient well in excess of that required by the Regulator Basel III.

Solvency is calculated in accordance with Royal Decree 84/2015 published in the Spanish Official Gazette of 14 February 2015.

Details of the solvency ratio at December 31, 2018 and 2017 are as follows:

Solvency ratio (thousands of euros)	2018	2017
Common equity tier 1 (CET1)	843,148	839,663
Eligible equity	864,817	863,011
Total Risk Weighted Assets	2,175,404	2,253,553
CET1 ratio	38.76%	37.3%
Solvency ratio	39.76%	38.3%

4. Distribution of profit for the year of Institut Català de Finances as Parent of the ICF Group

The distribution of 2018 profit that the ICF's Governing Board proposes submitting for approval and the distribution approved for 2017, respectively, are as follows:

Thousands of euros	2018	2017
Basis of allocation: Profit and loss	12,886	14,783
Distribution: Capitalization reserves	585	985
Voluntary reserves	12,301	13,798

The capitalization reserve is distributed in accordance with Article 25 of Law 27/2014 of 27 November on the Income Tax.

5. Cash, cash balances with central banks and other demand deposits

Details of this caption of the balance sheet at December 31, 2018 and 2017 are as follows:

Thousands of euros	2018	2017
Cash	1	-
Deposits in Bank of Spain	4	2,020
Current accounts	88,790	80,745
Total	88,795	82,765

6. Financial assets and liabilities held for trading

At December 31, 2018, this caption has no balance. The total of the balances of this item in the accompanying balance sheet at December 31, 2017, was made up of trading derivatives.

Transactions with trading derivatives corresponded mainly to instruments with which the Group manages balance positions but which, while not complying with the regulatory requirements established by Circular 4/2004 to be designated as hedges, are classified in the portfolio of trading. With the entry into force of Circular 4/2017, which

aligns the management criteria with those of accounting (note 2.b), these derivatives have become reclassified as hedging derivatives (note 9).

All hedging derivatives at December 31, 2017, with a notional amount of 220 thousands of euros, corresponded to unquoted interest rates, and had credit institutions as counterparties.

The amounts registered in the income statement for the year 2017 for changes in the fair value of the trading derivatives, distinguishing between the three levels of hierarchies described in Note 18, are the following:

	2017		
	Gains	Losses	Net
Level 2	842	(396)	446

7. Financial assets at fair value through other comprehensive income

Details of this caption of the accompanying balance sheet at December 31, 2018 and 2017, by type of transaction, are as follows:

Thousands of euros	2018	2017
Equity instruments		
Commitments in venture capital entities, net return	135,709	124,537
Disbursements pending of venture capital entities	(46,908)	(46,015)
Valuation adjustments	5,846	(16)
Subtotal venture capital instruments	94,647	78,851
Other investments	10,824	10,824
Valuation adjustments	(10,800)	(10,800)
Subtotal other investments	24	24
Total capital instruments	94,671	78,875
Debt securities		
Notional amount of debt securities	458,859	419,743
Valuation adjustments	5,603	11,553
Total debt securities	464,462	431,296
Total	559,133	510,171

Valuation adjustments include:

- In the case of venture capital instruments, changes in fair value.
- In the case of debt securities: changes in fair value, as well as accrued interests and premiums pending for the prepayments and accrued income.

At the time of constitution of venture capital entities, the Group undertakes to disburse a fixed amount so that these financial vehicles can carry out the operations for which they were constituted. These commitments are at all times enforceable, in accordance with the subscribed contracts, for amounts detailed in the "Disbursements pending of venture capital entities".

In the year 2018, no dividends were recognized. In 2017, 1,175 thousands of euros were recognized as dividends for two venture capital entities. On the other hand, the derecognition of equity instruments represented a positive impact of 629 thousands of euros in the year 2018, which in accordance with the provisions in note 2.b have been registered against reserves.

In Annex III of this report we present the details of the companies invested by the Group not considered subsidiary or associated, together with certain significant information about them.

Regarding the debt securities, the composition of the balances of this balance sheet heading, based on the nature of the transactions, is detailed below (excluding valuation adjustments):

Thousands of euros	2018	2017
Autonomous region public debt	81,219	58,632
Other public debt	63,500	40,000
Financial entities	163,569	222,960
Other fixed-income securities	150,571	98,151
Total	458,859	419,743

The whole balance reflects debt issues at an average effective interest rate of 0.65% for 2018 and 0.68% for 2017.

8. Financial assets at amortized cost

Details of this caption of the accompanying balance sheet by type of financial instrument, are as follows:

Thousands of euros	2018	2017
Loans and advances	1,550,123	1,786,943
Credit institutions	78,905	132,450
Customers	1,471,218	1,653,393
Debt securities	-	1,100
Total	1,550,123	1,786,943

The main valuation adjustments made to each asset type included under "Loans and receivables" are detailed below:

Thousands of euros	Valuation adjustments 2018					Net balance
	Gross balance	Impairment provisions	Interest accrued	Commission	Other	
Credit institutions	79,106	(406)	205	-	-	78,905
Customers	1,673,890	(192,488)	4,247	(5,957)	(8,474)	1,471,218
Total	1,752,996	(192,894)	4,452	(5,957)	(8,474)	1,550,123

Thousands of euros	Valuation adjustments 2017					Net balance
	Gross balance	Impairment provisions	Interest accrued	Commission	Other	
Credit institutions	132,191	(203)	462	-	-	132,450
Customers	1,855,649	(189,781)	5,519	(6,629)	(11,365)	1,653,393
Total	1,987,840	(189,984)	5,981	(6,629)	(11,365)	1,785,843

Loans and receivables - Customers - Other valuation adjustments include microhedges on loan operations to the value of 2,198 thousands of euros at 31 December 2018 (2,638 thousands of euros at 31 December 2017), and adjustments to the fair value of loans acquired at a discount for an amount of -10,674 thousands of euros (13,967 thousands of euros in 2017).

8.1 Credit institutions

A breakdown of the balances under this heading by type and status of the credit, excluding valuation adjustments, is as follows:

Thousands of euros	2018	2017
Term deposit accounts	22,246	31,137
Intermediation loans	56,860	101,054
Total deposits in credit institutions	79,106	132,191

“Credit institutions - Term deposits accounts” mainly comprises balances on deposits with fixed maturity held by ICF in financial institutions.

“Credit institutions - Intermediation loans” correspond to agreements signed with various financial institutions for loans marketing.

The average effective interest rate accrued during 2018 on the balances deposits in credit institutions was 1.49%. During 2017 it was 1.83%.

8.2 Customers

A breakdown of the balances under this heading by type and form of loan, borrower's sector and by type of interest accrued, excluding valuation adjustments, is as follows:

By type and form of loan:

Thousands of euros	2018	2017
Public entities and rest of Public Sector	446,586	541,192
Secured debtors	522,859	582,433
Other fixed-term debtors	565,990	496,088
Debtors on demand and sundry debtors	1,580	48,579
Doubtful assets	136,875	187,357
Total loans to customers	1,673,890	1,855,649

By borrower's sector:

Thousands of euros	2018	2017
Public sector	447,770	541,190
Public entities and rest of Public Sector	447,770	541,190
Private sector	1,226,120	1,314,459
Resident	1,226,120	1,314,459
Total loans to customers	1,673,890	1,855,649

By interest rate:

Thousands of euros	2018	2017
At fixed interest rate	229,048	261,388
At variable interest rate	1,444,842	1,594,261
Total loans to customers	1,673,890	1,855,649

The average effective interest rate payable on the balances recognized under “Loans to customers” was 2.12% in 2018. During 2017 it was 2.21%.

Movement in the balance of non-performing exposures in 2018 and 2017 was as follows:

Thousands of euros	2018	2017
Opening balance:	187,357	289,349
Plus:		
Additions of new assets	19,420	67,467
Less:		
Debts settled	(22,796)	(100,371)
Recoveries	(10,906)	(2,005)
Transfer to irrecoverable assets (Note 3.4.10)	(36,199)	(67,083)
Closing balance:	136,876	187,357

8.3 Impairment provisions

In note 3.4.8., it is shown the movement that occurred in the balance of the provisions that cover the impairment losses on the assets that make up the heading "Financial assets at amortized cost" for the years 2018 and 2017.

8.4. Financial assets derecognized due to impairment

In note 3.4.10. is shown the movement produced in financial years 2018 and 2017 of impairment financial assets that are not registered in the balance sheet to be considered remote recovery, although the ICF Group has not interrupted the actions to achieve the recovery of the imported indebtedted

At December 31, 2018 and at December 31, 2017, the balances of "Financial assets at amortized cost" derecognized from the consolidated balance sheet of the ICF Group, when their recovery is considered remote, correspond entirely to loans to customer.

9. Derivatives – Hedge accounting

The breakdown by type of product of the notional amount of the derivatives classified as "Derivatives – Hedge accounting" at 31 December 2018 and 31 December 2017 is as follows:

Thousands of euros	2018	2017
Interest rate swaps	364,368	145,049
Total	364,368	145,049

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Group, as the net position held in these instruments results in them being offset and/or combined.

All interest rate swap operations relate to micro-hedges to mitigate the impact that changes in interest rates may have on fair value or cash flows from covered operations. Specifically, at December 31, 2018, the Group had 8 interest rate swap operations, of which: 3 are micro-hedges of cash flows of a debt issue at a variable rate, 3 are hedges of the fair value of debits represented by securities issued at fixed and variable rates, 1 more is micro-hedges of fair value credit investment transaction and 1 is micro-hedges of fair value fixed-income asset transaction.

The breakdown by type of product of the fair value of the derivatives classified as hedging derivatives at December 31, 2018 and 31 December 2017 is as follows:

Fair value hedge transactions:

Thousands of euros	31/12/2018	31/12/2017
	Fair value	Fair value
Receivable balances:		
Interest rate swaps	5,677	5,287
Total	5,677	5,287
Payable balances:		
Interest rate swaps	2,202	2,638
Total	2,202	2,638

Cash flow hedge transactions:

Thousands of euros	31/12/2018	31/12/2017
	Fair value	Fair value
Receivable balances:		
Interest rate swaps	-	-
Total	-	-
Payable balances:		
Interest rate swaps	11,676	11,513
Total	11,676	11,513

The breakdown of the balances of this chapter in the accompanying income statement is as follows:

Thousands of euros	2018	2017
Profits or (-) losses of the accounting net coverages	-	(968)
Total	-	(968)

10. Non-current assets and disposal groups held for sale

This heading on the balance sheet only contains assets which have been foreclosed in the settlement of unpaid loans and which have not been retained for own use or classified as investment property.

Movement in foreclosed assets during 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Opening balance for the year:	6,728	4,356
Plus:		
Other additions for the year (note 33)	7,509	2,279
Transfers	-	-
Less:		
Derecognition through sale	(430)	(1,601)
Derecognition through transfers	-	-
Impairment funds for the year (Note 34)	(3,805)	1,694
Closing balance for the year:	10,001	6,728

The update of the 2018 and 2017 impairment funds have been registered in accordance with updated individual appraisals made by independent experts. The assets sale of 2018 have been a profit of 575 thousands of euros (1,999 euros in 2017). See note 34.

11. Investments in joint ventures and associates

This heading of the accompanying balance sheets contains the interest held in the capital of one associate (Note 2.a). These shareholdings are accounted for using the equity method using the best available estimate of their underlying carrying amount on the date the financial statements were authorised for issue.

Details of this company's capital, reserves, and results, as well as the interest held by the Group, are provided in Appendix II of the notes to these financial statements. Information is the latest actual or estimated data available on the date these notes to the financial statements were drafted.

Thousands of euros	2018	2017
Avalis de Catalunya S.G.R		
Shares	6,080	6,776
Equity method	3,016	3,372
Closing balance of year:	9,096	10,148

In accordance with Circular 5/2013 details of the most relevant information in relation to the financial statements of the associated entity are as follows:

Thousands of euros	2018	2017
Total assets	89,192	87,308
Total liabilities	54,009	52,498
Total equity	34,810	34,810
Profit after income tax	-	-

Movement during 2018 and 2017 of the reserves consolidated using the equity method is detailed in Note 20.2 .

12. Tangible assets

A breakdown of the heading "Tangible assets", the corresponding accumulated depreciation and movement during 2018 and 2017 is as follows:

2018 (Thousands of euros)	Tangible fixed assets for own use	Investment property	Total
Cost			
Opening balance	11,941	74,245	86,186
Additions	118	41	159
Disposals	(31)	-	(31)
Transfers	-	-	-
Total cost at December 31, 2018	12,028	74,286	86,314
Accumulated depreciation			
Opening balances	(2,250)	(5,439)	(7,689)
Additions (Note 32)	(113)	(740)	(853)
Derecognition and transfers	15	-	15
Total accum. depreciation at December 31, 2018	(2,348)	(6,179)	(8,527)
Impairment			
Opening balances	-	(14,661)	(14,661)
Additions	-	-	-
Recoveries	-	-	-
Total impairment at December 31, 2018	-	(14,661)	(14,661)
TOTAL TANGIBLE ASSETS AT DECEMBER 31, 2018	9,680	53,446	63,126

2017 (Thousands of euros)	Tangible fixed assets for own use	Investment property	Total
Cost			
Opening balance	12,064	74,212	86,276
Additions	58	33	91
Disposals	(181)	-	(181)
Transfers	-	-	-
Total cost at December 31, 2017	11,941	74,245	86,186
Accumulated depreciation			
Opening balances	(2,332)	(4,743)	(7,075)
Additions (Note 32)	(99)	(672)	(767)
Derecognition and transfers	181	(24)	156
Total accum. depreciation at December 31, 2017	(2,250)	(5,439)	(7,686)
Impairment			
Opening balances	-	(20,142)	(20,142)
Additions	-	-	-
Recoveries	-	5,481	5,482
Total impairment at December 31, 2017	-	(14,661)	(14,660)
TOTAL TANGIBLE ASSETS AT DECEMBER 31, 2017	9,691	54,145	63,836

The breakdown, according to its nature, of the items that make up the balance of "Tangible Assets – Tangible fixed assets for own use" in the balance sheet at December 31, 2018 and 2017 is the following:

2018 (Thousands of euros)	Cost	Accumulated depreciation	Net balance
IT equipment and installations	765	(623)	142
Furniture and other fixtures	1,468	(1,091)	377
Land and buildings	9,795	(634)	9,161
Balances at December 31, 2018	12,028	(2,348)	9,680

2017 (Thousands of euros)	Cost	Accumulated depreciation	Net balance
IT equipment and installations	703	(550)	153
Furniture and other fixtures	1,469	(1,092)	377
Land and buildings	9,769	(608)	9,161
Balances at December 31, 2017	11,941	(2,250)	9,691

At December 31, 2018, certain tangible fixed assets for own use valued at 1,425 thousands of euros (1,317 thousands of euros at December 31, 2017) were fully depreciated.

The fair value of total tangible assets at 31 December 2018 and 31 December 2017 does not differ significantly from that recognized under "Tangible assets" in the accompanying balance sheet.

13. Intangible assets

Other intangible assets correspond entirely to the acquisition of software programs and systems. Movement in this balance sheet heading in 2018 and 2017 is as follows:

2018	Thousands of euros
Cost	
Balances at January 1, 2017	5,982
Additions	372
Derecognition and transfers	-
Total cost at December 31, 2018	6,354
Accumulated depreciation	
Balances at January 1, 2017	(5,170)
Additions (Note 32)	(367)
Derecognition and transfers	-
Total accum. depreciation at December 31, 2018	(5,537)
TOTAL INTANGIBLE ASSETS AT DECEMBER 31, 2018	817

2017	Thousands of euros
Cost	
Balances at January 1, 2016	5,343
Additions	659
Derecognition and transfers	(23)
Total cost at December 31, 2017	5,979
Accumulated depreciation	
Balances at January 1, 2016	(4,723)
Additions (Note 32)	(401)
Derecognition and transfers	(42)
Total accum. depreciation at December 31, 2017	(5,166)
TOTAL INTANGIBLE ASSETS AT DECEMBER 31, 2017	813

At 31 December 2018, certain intangible assets valued at 4,830 thousands of euros (4,595 thousands of euros at 31 December 2017) were fully amortized.

14. Other assets

Details of this balance sheet caption are as follows:

Thousands of euros	2018	2017
Prepayments and accrued income	1,926	2,213
Other items	2,678	5,677
Total	4,604	7,890

Composition of the heading "Prepayments and accrued income" is as follows:

Thousands of euros	2018	2017
Accruals through the sale of financial instruments	1,879	2,213
Unaccrued current expenses paid	47	-
Total	1,926	2,213

Prepayments through the sale of financial instruments recognized for 2018 and 2017 correspond to the sale or cancellation of derivatives in 2012 with maturity after December 31, 2018 and 2017, which are taken to profit or loss in accordance with the remaining life of the different hedged items (see Note 27).

"Other assets – Other items" for 2018 and 2017 mainly include the following:

- Approved contributions to be received from various departments of the Generalitat de Catalunya for obligations recognized on certain loans to entities and companies. In general, these loans have been extended in the form of advances for subsidies awarded by these departments, when they have not been obtained to secure the transfer of receivables.
- Group receivables

15. Financial liabilities at amortized cost

A breakdown by type of this heading on the accompanying balance sheets at December 31, 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Deposits from credit institutions	837,662	972,189
Client funds	129,219	140,625
Debt securities issued	491,336	521,601
Other financial liabilities	4,108	4,322
Total	1,462,325	1,638,737

Thousands of euros	Valuation adjustments 2018					
	Gross balance	Interest accrued	Derivative micro-hedges	Transaction costs	Discounted premiums	Net balance
Deposits from credit institutions	835,648	2,420	-	(405)	-	837,662
Client funds	129,195	24	-	-	-	129,219
Debt securities issued	482,978	1,617	6,811	-	(71)	491,336
Other financial liabilities	4,108	-	-	-	-	4,108
Total	1,451,929	4,061	6,811	(405)	(71)	1,462,325

Thousands of euros	Valuation adjustments 2017					
	Gross balance	Interest accrued	Derivative micro-hedges	Transaction costs	Discounted premiums	Net balance
Deposits from credit institutions	969,811	2,871	-	(493)	-	972,189
Client funds	140,601	24	-	-	-	140,625
Debt securities issued	513,414	1,851	6,421	-	(83)	521,601
Other financial liabilities	4,322	-	-	-	-	4,322
Total	1,628,148	4,746	6,421	(493)	(83)	1,638,737

15.1 Deposits from credit institutions

A breakdown of the balances under this heading by transaction type, excluding valuation adjustments, is as follows:

Thousands of euros	2018	2017
Fixed-term deposits	835,648	969,811
Fixed-term accounts	835,648	969,811
Total	835,648	969,811

In 2018, the average effective interest rate on the financial instruments classified under this heading was 0.98% (0.93% in 2017).

The heading contains the bank borrowings used by the Group. The detailed balance relates to 9 public and private entities at December 31, 2018 (9 entities at December 31, 2017).

Repayments of bank borrowings by residual maturity at December 31, 2018 and 2017 were as follows:

Thousands of euros	2018	2017
Up to three months	-	-
From three months to one year	18,750	35,536
From one to five years	139,667	227,625
More than five years	677,231	706,650
Total	835,648	969,811

At December 31, 2018, there are debt consolidations that were formalized and not arranged for 77 million euros. At December 31, 2017, there are debt consolidations that were formalized and not arranged for 127 million euros.

15.2 Client Funds

A breakdown of the balances under this heading by sector and transaction type, excluding valuation adjustments, at December 31, 2018 and at December 31, 2017 is as follows:

By sectors:

Thousands of euros	2018	2017
Public Administrations	111,523	123,694
Other resident sectors	17,672	16,907
Total	129,195	140,601

By nature:

Thousands of euros	2018	2017
Funds received	96,352	93,829
Other – Managed loans	32,843	46,772
Total	129,195	140,601

Funds received mainly relate to resources received from various departments and entities of the Generalitat de Catalunya to secure a number of lending transactions.

The average effective interest rate of current accounts and other demand accounts during 2018 was 0.21% (0.16% in 2017).

15.3 Debt securities issued

A breakdown of the balances under this heading at December 31, 2018 and at December 31, 2017, considering the principal amount of the issues, is as follows:

31/12/2018	Thousands of euros		
	Maturity	Amount	Effective cost
Sixth issue	05/07/2022	295,000	EUR3M+0.06%
Eighth issue	15/06/2024	12,000	EUR3M+2.35%
Tenth issue	18/09/2019	14,900	4.540%
Eleventh issue	22/10/2029	20,000	EUR3M+1.550%
Twelfth issue	28/10/2019	100,000	EUR3M+1.595%
Fourteenth issue	01/09/2019	16,800	3.750%
Total		458,700	

31/12/2017	Thousands of euros		
	Maturity	Amount	Effective cost
Sixth issue	05/07/2022	295,000	EUR3M+0.06%
Eighth issue	15/06/2024	12,000	EUR3M+2.35%
Tenth issue	18/09/2019	15,000	4.540%
Eleventh issue	22/10/2029	20,000	EUR3M+1.550%
Twelfth issue	28/10/2019	100,000	EUR3M+1.595%
Thirteenth issue	08/05/2018	10,000	0.250%
Fourteenth issue	01/09/2019	33,000	3.750%
Total		485,000	

At December 31, 2018 and December 31, 2017, redemption of the aforementioned issues according to their residual maturity dates was as follows:

Thousands of euros	2018	2017
From 3 months to 1 year	131,700	10,000
From 1 to 5 years	295,000	443,000
More than 5 years	32,000	32,000
Total	458,700	485,000

In addition, at December 31, 2018 the caption includes quoted promissory notes for a total of 24,278 thousands of euros (28,414 thousands of euros at December 31, 2017). This amount reflects 43 transactions (55 transactions at December 31, 2017) with nominal amounts of between 100 thousands and 2,000 thousands of euros (between 100 thousands and 2,000 thousands of euros at December 31, 2017). The average weighted return on the promissory notes is 0.88% (0.89% at December 31, 2017) and the average residual term is 0.8 years (0.7 years at December 31, 2017).

15.4 Other financial liabilities

A breakdown of this balance sheet heading is as follows:

Thousands of euros	2018	2017
Accrued commissions on financial guarantees	4,108	4,323
Total	4,108	4,323

16. Provisions

Details of this caption of the balance sheet at December 31, 2018 and 2017 are as follows:

2018	Thousands of euros				
	31/12/2017	Net provision	Recoveries	Transfers and others (note 1.b)	31/12/2018
Provisions for risks and contingent commitments	2,750	581	-	133	3,464
Guarantess granted	2,750	581	-	133	3,464
Other provisions	882	-	-	-	882
Total	3,632	581	-	133	4,346

2017	Thousands of euros				
	31/12/2016	Net provision	Recoveries	Transfers and others (note 1.b)	31/12/2017
Provisions for risks and contingent commitments	2,212	538	-	-	2,750
Guarantess granted	2,212	538	-	-	2,750
Other provisions	882	-	-	-	882
Total	3,094	538	-	-	3,632

The balance shown at December 31, 2018 and 2017 under "Commitments and guarantees granted" it corresponds to the cover due to impairment of the guarantees received.

The Group's directors do not consider that any additional liabilities will accrue in addition to those disclosed at December 31, 2018.

17. Other liabilities

A breakdown of this balance sheet heading is as follows:

	2018	2017
Accruals	963	827
Suppliers and other accounts payable	5,654	4,915
Total	6,617	5,742

18. Fair value of financial assets and liabilities

The fair value of a financial asset or financial liability at a certain date is understood to be the amount by which it can be exchanged or settled, respectively, on that date between two independent and expert parties, who act willingly and prudently on an arm's length basis.

The fair values of financial instruments reflected in the financial statements are classified using the following fair value levels:

- Level I: fair values are obtained from quoted prices (unadjusted) in active markets for the same instrument.
- Level II: fair values are obtained from quoted prices in active markets for similar instruments, recent transaction prices or expected cash flows or other valuation techniques in which all significant inputs are based on market data.
- Level III: fair values are obtained using valuation techniques in which a certain significant input is not based on observable market data.

The main valuation techniques, assumptions or inputs used to estimate the fair value of financial instruments classified in Levels II and II, according to the type off instrument. The valuation criteria remain the same as those in 2017.

Financial instruments	Valuation techniques	Main assumptions	Main inputs used
Level II			
Derivatives	LIBOR Market Model	This model assumes that the forward rates in the term structure of the rates curve are perfectly correlated.	- Temporary structure of interest rates - Credit risk of issuers

Financial instruments Level III	Valuation techniques	Main assumptions	Main inputs used
Capital instruments available for sale	Contrast of the accounting information with the equity value of the investee companies, using as equity value the one indicated in the financial statements to formulate provided by the respective management companies.	- Calculation based on the financial information of the instruments available at the date of development of the annual accounts. - Impairment exists if the fair value is below 60% of the investment value. - Variations below 10% are not significant for the volatility of the instruments	Financial information of the investee companies

The main financial instruments recognized at fair value on the accompanying balance sheet at December 31, 2018 and 2017, detailing the valuation technique used to estimate their fair value, are as follows:

	2018		
	Level 1	Level 2	Level 3
Assets:			
Financial assets at fair value through other comprehensive income (Note 7)	464,462	-	92,206
Hedging derivatives (Note 9)	-	5,677	-
Trading Derivatives (note 6)	-	-	-
Total assets	464,462	5,677	92,206

	2018		
	Level 1	Level 2	Level 3
Liabilities:			
Hedging derivatives (note 9)	-	13,878	-
Trading derivatives (note 6)	-	-	-
Total liabilities	-	13,878	-

	2017		
	Level 1	Level 2	Level 3
Assets:			
Financial assets at fair value through other comprehensive income (Note 7)	431,296	-	78,875
Hedging derivatives (Note 9)	-	5,287	-
Trading Derivatives (note 6)	-	842	-
Total assets	431,296	6,129	78,875

	2017		
	Level 1	Level 2	Level 3
Liabilities:			
Hedging derivatives (note 9)	-	14,151	-
Trading derivatives (note 6)	-	396	-
Total liabilities	-	14,547	-

Any variation in one or more variables and other reasonably possible alternative assumptions would not entail any significant change in the fair value of Level 3 instruments over the whole financial instruments portfolio.

As indicated in Note 2.b, the fair value of financial assets and liabilities measured at amortized cost does not significantly differ from their carrying amount. These assets and liabilities are classified as Level 3.

During 2018 and 2017 changes in the fair value of Level 2 and Level 3 financial instruments are solely due to the maturity of existing transactions, the arrangement of new transactions and changes in the fair value classified in other comprehensive income (in the case of Available-for-sale financial assets and cash flow hedging derivatives) and in income statement (in the case of fair value hedging derivatives). No transfers from one level to another occurred.

19. Other accumulated comprehensive income

This heading of the accompanying balance sheet includes the following:

- The net amount of the tax effect of the differences between the market value and acquisition cost (net gains/losses) of assets classified as financial assets at fair value through other comprehensive income which, as disclosed in Note 2.g, must be included in the Group's equity.
- The net tax effect of the variations in cash flow hedges, in accordance with what is disclosed in Note 2.c.

The total amount of the adjustments for change in value, net of tax effect, recognized in equity is as follows:

Thousands of euros	2018	2017
Financial assets at fair value through other comprehensive income	25,710	27,419
Equity instruments	29,569	25,782
Debt instruments	(3,859)	1,636
Cash flow hedges	(8,973)	(8,522)
Total	16,737	18,897

20. Own Funds

20.1 Endowment fund

The movement in this caption during 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Opening balance	693,149	693,149
Contribution to the endowment fund	-	-
Total	693,149	693,149

20.2 Reserves

The movement in this heading during 2018 and 2017 was as follows:

Item	Parent reserves	Subsidiaries reserves	Reserves in equity method	Profit /(loss) for the year	Total
Balance at 31.12.2016	120,627	(1,508)	3,597	9,762	132,478
Distribution of profit	10,125	(377)	14	(9,762)	-
Other movements	-	41	(239)	-	(198)
Profit or loss for 2016	-	-	-	15,046	15,046
Balance at 31.12.2017	130,752	(1,844)	3,372	15,046	147,326
Distribution of profit	14,783	263	-	(15,046)	-
Other movements	629	-	(356)	-	273
Profit or loss for 2017	-	-	-	13,131	13,131
First application of 4/2017 (note 1.b)	(9,048)	-	-	-	(9,048)

Balance at 31.12.2018	137,116	(1,581)	3,016	13,131	151,682
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With the sole exception of the capitalization reserves, amounting to 7,748 thousands of euros at December 31, 2018 and 6,763 thousands of euros at December 31, 2017, which comply with the terms established in Law 27/2014, of 27 of November of the Corporation Tax, all reserves at December 31, 2018 and 2017 are freely available.

21. Taxation

21.1 Tax consolidation

The ICF Group has filed consolidated corporate income tax returns since 2006.

The composition of the Group filing consolidated corporate income tax returns in 2018 is as follows:

Parent	Institut Català de Finances
Subsidiaries	Institut Català de Finances Capital, SGEIC, S.A.U. Instruments Financers per a Empreses Innovadores S.L.U.

21.2 Financial years subject to tax inspection

At December 31, 2018, the Group is open to inspection for all taxes to which it is liable for the last four financial years.

Due to the treatment permitted by fiscal legislation of certain operations carried out by the ICF Group, certain tax contingencies could arise that cannot be objectively quantified. In the opinion of the Group's management and that of its tax advisors, any such liabilities would not, in any event, have a significant impact on the 2018 consolidated financial statements.

21.3 Reconciliation of accounting profit and taxable income and tax rate calculation

A reconciliation of the 2018 and 2017 accounting profit and taxable income, and the income tax expense/(recoverable income tax) is as follows:

Thousands of euros	2018	2017
Accounting profit or loss before tax	15,951	19,190
Consolidation adjustments		
Profit of companies not included in the tax group	276	(150)
Other consolidation adjustments	-	71
Permanent differences	103	(1,216)
Temporary differences		
Increases	55,514	28,069
Decreases	(37,743)	(4,080)
Capitalization reserve (Note 4)	(585)	(985)
Consolidated taxable income	33,516	40,899
Tax at prevailing rate	8,379	10,225
Deductions and credits	(4)	(4)
Withholdings and payments on account	(5,641)	(6,631)
Income tax expense (recoverable tax)	2,734	3,590

Details of the income tax expense related to profit tax and profit for years 2018 and 2017 are as follows:

Thousands of euros	2018	2017
Accounting profit or loss before tax	15,951	19,190
Tax at current tax rate	3,988	4,798
Tax effect of non-deductible expenses	26	(304)
Consolidation adjustments	69	(20)
Deductions and credits applied	(1,063)	-
Capitalization reserve (Note 4)	(4)	(4)
Adjustments	(146)	(246)
Income tax expense (recoverable tax)	(50)	(79)
Accounting profit before tax	2,820	4,144

A reconciliation of current income tax and the income tax expense (recoverable income tax) for 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Taxable income due to tax rate	8,379	10,406
Deductions and credits	(4)	(4)
Current income tax for the year	8,375	10,402
Change in temporary differences	(4,443)	(6,178)
Adjustments	(50)	(79)
Activation of off-balance sheet tax credits	(1,063)	-
Income tax expense (recoverable tax)	2,820	4,144

21.4 Deferred taxes

The differences, wherever applicable, between the amount of income tax recognized and that payable corresponds to current and deferred taxes arising due to temporary differences, and are recognized under "Tax assets" and "Tax liabilities". Details of current and deferred tax balances at December 31, 2018 and 31 December 2017 are as follows:

Thousands of euros	2018	2017
Opening balance of deferred tax assets	50,907	45,743
For non-deductibility of provisions	4,544	6,081
Changes in value of equity	1,417	(823)
Depreciation limit	(20)	(21)
Other tax assets	(31)	(73)
Activation of off-balance sheet tax credits	1,063	-
Adjustments Circular 4/2017	2,604	-
Closing balance of deferred tax assets	60,484	50,907

Thousands of euros	2018	2017
Opening balance of deferred tax liabilities	546	378
IFDV changes in value	(536)	168
Other tax liabilities	-	-
Closing balance of deferred tax liabilities	10	546

21.5 Current taxes

The balances related to current tax assets at December 31, 2018 and 2017, amounting to 141 and 178 thousands of euros, respectively, correspond essentially to the uncollected arrears of Group entities that are not part of the consolidated tax .

The detail of current tax liabilities at December 31, 2018 and 2017 is as follows:

Liabilities (thousands of euros)	2018	2017
Withholding debt	125	115
Social security debt	116	99
Taxation authority, IS credit	2,734	3,590
Taxation authority, VAT credit	278	128
Total	3,253	3,932

22. Other relevant information

a) Financial guarantees granted

Contingent exposures are defined as those amounts which the Group would be obliged to pay on behalf of a third party in the event of that party failing to meet its payment obligations, in accordance with commitments assumed during normal business activity.

The majority of such amounts will reach maturity without giving rise to any obligation to pay on the part of the Group, and therefore the total balance of these commitments cannot be considered part of the Group's real financing or liquidity needs.

Revenues earned on guarantee instruments are recognized under "Commission income" and "Interest income" (in the amount corresponding to the adjustment to the value of the commissions) in the income statement for the financial year and are calculated by applying the rate established in the contract to the nominal amount of the guarantee.

The provisions recognized to cover these guarantees, calculated using similar criteria to those used to calculate impairment losses and valued at amortized cost, are recognized under "Provisions" in the balance sheet (note 16).

The breakdown of the heading "Financial guarantees granted" included in the memorandum accounts to the balance sheets at December 31, 2018 and December 31, 2017 is as follows:

Thousands of euros	2018	2017
Guarantees and other deposits	108,058	110,725
Total	108,058	110,725

b) Loan commitments granted

The balance on this caption includes any irrevocable commitment that could give rise to the recognition of a financial asset.

The breakdown of the heading "Loan commitments granted" included in the memorandum accounts to the balance sheets at December 31, 2018 and December 31, 2017 is as follows:

Thousands of euros	2018	2017
Available to third parties	150,080	117,716
Public sector	30,313	118
Other resident sectors	119,767	117,598
Total	150,080	117,716

23. Interest income

This heading on the income statement includes interest accrued during the year as the implicit or explicit yield on financial assets, obtained by applying the effective interest rate (mainly for loans provided by the ICF Group).

The breakdown of the origin of interest and similar payments accrued in favour of the ICF Group in 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Deposits in credit institutions	3,185	4,620
Loans to customers	42,339	50,385
Public Administrations	8,154	10,628
Other resident sectors	34,185	39,757
Debt securities	2,844	3,172
Other interest	428	(23)
Total	48,796	58,154

24. Interest expenses

This heading on the income statement includes interest accrued during the year as the implicit or explicit interest generated on financial liabilities, obtained by applying the effective interest rate, and also adjustments due to accounting hedges.

The breakdown of this heading in the income statements for 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Deposits from credit institutions	(8,564)	(10,367)
Client Funds	(152)	(95)
Debits represented by marketable securities	(7,623)	(8,061)
Total	(16,338)	(18,523)

25. Commission income

Commission income at December 31, 2018 and 2017 amounts to 2,932 thousands of euros and 3,177 thousands of euros, respectively, and mainly corresponds to commissions for financial guarantees granted.

26. Commission expenses

Commission expense at December 31, 2018 and 2017 amounts to 752 thousands of euros and 703 thousands of euros, respectively, and mainly corresponds to fees for asset and liability transactions.

27. Gains or (-) losses on derecognition of financial assets and liabilities not at fair value through profit or loss, net

The breakdown of this heading is as follows:

Item	Millers de Euros	
	2018	2017
Sale of debt securities	725	1,447
Sale of swaps (Note 14)	(334)	(123)
Repurchase of own issues	(301)	(36)
Total	90	1,288

28. Other operating income

The breakdown of this heading in the accompanying income statements for 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Operating income from investment property	4,097	3,805
Other items	188	54
Total	4,285	3,859

The balance of "Operating income from investment property" relates mainly to the income that the Group has received in the lease of the offices of the buildings classified by the Group under the heading of real estate investments.

29. Other operating expenses

The breakdown of this heading in the accompanying income statements for 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Operating expenses from investment property	(896)	(733)
Other items	(752)	(623)
Total	(1,648)	(1,356)

30. Personnel expenses

The breakdown of this heading in the accompanying income statements for 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Wages and Salaries	(4,561)	(4,281)
Social Security	(1,148)	(1,106)
Total	(5,709)	(5,388)

Staff expenses include the remuneration of the key personnel of the parent entity defined by the Appointments and Remuneration Committee (14 people) for the amount of 1,123 thousands of euros in 2018 (13 people and 1,212 thousands of euros in 2017). Key personnel are considered those who carry out functions that, due to their level of responsibility and ability to take risks, impact on the risk profile; as well as all those staff who receive a global remuneration that includes it in the same salary range as senior managers and employees who take risks, and whose professional activities impact significantly on the risk profile. In particular, the following members are considered as key personnel of the ICF:

- Managing Director

- **General Directors:** General Director of Venture Capital and Capital Markets; General Director of Credit Investments and Risk; General Director of Finance and Operations.

- **Directors:** Corporate Director of Audit and Regulatory Compliance; Director of Credit Investments; Director of Financial Instruments; Director of Regulatory Compliance; Director of Finance; Director of Monitoring and Risk Management; Director of Technology, Purchases and Services; Director of Treasury and Capital Markets; Director of Business Development; Director of Human Resources.

At December 31, 2018 and 2017, the distribution ICF Group's workforce by professional category and gender is as follows:

	31 de desembre de 2018			31 de desembre de 2017		
	Men	Women	Total	Men	Women	Total
Managing Director	1	-	1	1	-	1
General Directors	1	2	3	1	2	3
Corporate Directors	-	1	1	-	1	1
Directors / Unit Responsible	14	9	22	13	8	21
Technical / Administrative	22	48	70	21	51	72
Total	38	60	98	36	62	98

The distribution ICF Group's average workforce by professional category and gender during 2018 and 2017 is as follows:

	31 de desembre de 2018			31 de desembre de 2017		
	Men	Women	Total	Men	Women	Total
Managing Director	1	-	1	1	-	1
General Directors	1	2	3	1	2	3
Corporate Directors	-	1	1	-	1	1
Directors / Unit Responsible	14	9	22	11	8	19
Technical / Administrative	21	49	71	21	51	72
Total	37	60	98	34	62	96

In accordance with the last Budget Law of Generalitat de Catalunya (Law 2/2015 of 11 March), a budget the validity of which was extended through Decrees 252/2015 of 15 December, the Group shall make potential contributions to the pension fund in accordance with future budget Laws.

The ICF Group complies with Law 13/1982, which requires companies with more than 50 employees to either employ 2% or more employees with a disability equal to or greater than 33%, or to adopt the alternative measures set out in Royal Decree 27/2000.

In 2018 and 2017 the ICF Group has 2 employees with a disability equal to or greater than 33%.

Additionally, the Group has supplemented this requirement adopting alternative measures and has contracted the services of the company Femarec, which has been certified to that effect in accordance with its corporate purpose.

31. Other administrative expenses

The breakdown of this heading in the accompanying income statement is as follows:

Thousands of euros	2018	2017
Furniture, fittings and materials	(167)	(394)
Information technology	(1,210)	(1,195)
Publicity and advertising	(423)	(424)
Technical reports	(909)	(668)
Security and fund courier services	(74)	(74)
Insurance premiums	(24)	(59)
Outsourced administrative services	(38)	(32)
Contributions and taxes	(242)	(182)
Control and governing bodies	(102)	(110)
Other expenses	(477)	(377)
Total	(3,667)	(3,515)

The fees and expenses of Ernst & Young S.L. are included in the balance of "Other general administrative expenses". as an annual audit amounting to € 74,000 (excluding VAT), in the year 2018 and € 74,000 (VAT excluded) in the year 2017. Also, in the years 2018 and 2017 they have accrued by the external auditor to review the information on the Financial Information Control System contained in the Annual Corporate Governance Report and review of the Report of the Prudential Relevance of the ICF Group a total of 23 thousands of euros. Additionally, during 2018, 18 thousands of euros have been credited for other services.

The heading "Government and control bodies" includes 102 thousands of euros (110 thousands of euros in 2017) corresponding to the compensation received for assistance to the governing bodies of the Institut Català de Finances, the ICF Group's dominant entity. Law 3/2015, of March 11, on fiscal, financial and administrative measures suspended the receipt of rights of assistance to the senior officials of the Generalitat as a result of concurrence to meetings of governing bodies, from the date of entry into force on March 14, 2016. Independent Directors members of the Governing Board, the Executive Committee and the control committees (Audit and Control Committee, and Appointments and Remuneration Committee) received notice a specific annual remuneration for their status as independent Directors, in accordance with the Remuneration Policy approved by the Governing Board on June 18, 2015 in accordance with the proposal of the Appointments and Remuneration Committee. A greater detail of these remunerations corresponding to the year 2018 is shown in Annex I.

There has been no transaction with any member of the governing bodies for concepts other than those detailed.

Information on payment appeals made to suppliers. Third additional provision "Duty of information", of Law 15/2012 of July 5

At December 31, 2018 and as of December 31, 2017, the Group has no pending invoices to suppliers with a postponement exceeding the established legal term.

The information on the average payment period during 2018 is as follows:

	2018	2017
	Days	Days
Average payment period for suppliers	29.10	41.02
Ratio of paid transactions	29.10	41.02
Ratio of transactions pending payment	-	22.78
		Amount in thousands
Total payments made	5,396	5,773
Total pending payments	-	17

32. Amortisation

Details of this heading in the income statement for the years ended December 31, 2018 and December 31, 2017 is as follows:

Thousands of euros	2018	2017
Tangible assets (Note 12):		
For own use	(113)	(99)
Investment property	(740)	(672)
Intangible assets (Note 13)	(367)	(401)
Total	(1,220)	(1,172)

33. Impairment losses or (-) reversal of impairment losses on financial assets not at fair value through profit or loss

The breakdown of the balance of this caption of the accompanying income statement for the years 2018 and 2017 is as follows:

Thousands of euros	2018	2017
Impairment losses or (-) reversal of impairment losses on financial assets not at fair value through profit or loss:		
Impairment allowances	(60,669)	(87,159)
Recoveries	32,965	56,155
Others	13,185	5,981
Total Loans and receivables	(14,519)	(25,023)
Financial assets impairment at fair value through other comprehensive income (note 7)	-	(574)
Total Financial Assets at fair value through other comprehensive income	-	(574)
Financial assets measured at cost	-	(322)
Total Financial assets measured at cost	-	(322)
Total	(14,519)	(25,919)

The recoveries include 13,180 thousands of euros for recovery of principal and interest and 7,509 thousands of euros for the award of guarantees, which have an associated impairment of 3,805 thousands of euros (see note 10).

34. Gains (losses) on non-current assets and disposal groups classified as held for sale not eligible as discontinued operations

The breakdown of the balance of this caption is as follows:

Thousands of euros	2018	2017
Impairment of foreclosed assets (note 10)	3,708	1,694
Gains on the sale of foreclosed assets	574	1,998
Total	4,282	3,692

35. Related parties

The Group considers related parties to the associated entities, the sole shareholder, the directors and senior management.

The breakdown of the balances and transactions for 2018 and 2017 with the related parties of the ICF Group, not disclosed in any other note, is as follows:

Amounts and transactions with Avalis de Catalunya S.G.R.:

Year 2018 - Thousands of euros	Assets	Liabilities	Expenses	Income
Convertible debt	982	-	-	12
Debt securities	-	9,909	(51)	-
Rental of offices	-	-	-	258
Total	982	9,909	(51)	270

Year 2017 - Thousands of euros	Assets	Liabilities	Expenses	Income
Convertible debt	1,212	-	-	17
Debt securities	-	9,500	(49)	-
Rental of offices	-	-	-	254
Total	1,212	9,500	(49)	271

Balances and transactions with the sole shareholder:

	Balances Assets / (Liabilities)		Revenues (expenses)	
	2018	2017	2018	2017
Debt securities (note 7)	81,219	58,632	1,445	1,748
Customer funds	39,795	72,446	702	1,348
Other assets (space rental)	122	80	592	561
Other assets (note 14)	370	4,199	-	-
Client Funds (note 15.2)	(114,247)	(120,509)	-	-

The amounts indicated in the heading "Representative debt securities" correspond to the acquisition in the secondary market of fixed-income securities, which have accrued market interest.

The balances under the heading "Loans and advances - Customers" correspond mainly to a credit policy, which has earned a market interest.

The amounts included in the "Other Assets" heading correspond to approved contributions pending receipt from various departments of the Generalitat de Catalunya in favor of ICF borrowers, mainly granted before the financial year 2009.

On the other hand, the "Customer funds" correspond to balances deposited by the sole shareholder, either by interest rate rebate or as collateral, as help to borrowers for certain lines. These aids have been granted in a framework of free concurrence and complying with the state aid regulations.

36. Note added to the English translation

These consolidated financial statements have been translated from financial statements originally prepared in Catalan. In case of discrepancy, the Catalan-language version will prevail.

APPENDIX I – ALLOWANCES AND REMUNERATION OF THE MEMBERS OF THE GOVERNING BODIES OF INSTITUT CATALÀ DE FINANCES DURING 2018 (Note 31)

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

The composition at 31/12/2018 of the governing bodies and the delegated commissions was as follows:

	Governing Board	Executive Committee	Control committees
Independent	Casas Selva, Francesc Domingo Piera, Mercedes Verger Casanovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luis	Casas Selva, Francesc Domingo Piera, Mercedes	<u>Audit and Control</u> Verger Casanovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luis <u>Remuneration and Appointments</u> Casas Selvas, Francesc Domingo Piera, Mercedes
Proprietary	Obach Medrano, Ester Castellanos Maduell, Albert Villarroya Martínez, Matilde	-	-
Executives	Sanromà i Celma, Josep Ramon	Sanromà i Celma, Josep Ramon	-

Taking into consideration all the aforementioned changes, the table below shows the remuneration earned by the members of the governing board and delegate committees at December 31, 2018:

Euros	Remuneration of Governing Board	Remuneration of Delegate Committees	Total
Abella Martin, Rafael	12,000	8,000	20,000
Casas Selva, Francesc	12,000	11,333	23,333
Domingo Piera, Mercedes	12,000	13,000	25,000
Ganyet Cirera, Carmina	3,000	5,333	8,333
Verger Casanovas, Virginia Maria	12,000	8,000	20,000
Peydró Alcalde, José Luis	3,600	2,000	5,600
TOTAL	54,600	47,666	102,266

APPENDIX II - SUBSIDIARIES AND ASSOCIATES IN THE INSTITUT CATALÀ DE FINANCES GROUP AT DECEMBER 31, 2018

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

Investment	Address	Activity	Auditors	% of shares owned:	Figures in Thousands of euros at 31/12/2018							Total Shareholders' equity
					Capital	Share premium	Technical provisions	Reserves/ Prior years' profit (loss)	Profit/(loss) for the last year	Valuation adjustments	Interim dividend	
Subsidiaries												
Instruments Financers per a Empreses Innovadores, S.L.	Gran Via de les Corts Catalanes, 635 Barcelona	Possession and management of financial and equity stakes on behalf of the Generalitat, in funds of any type, in companies and guarantee funds, companies and venture capital funds.	EY	100.00%	50,000	-	-	(793)	326	182	-	49,715
Institut Català de Finances Capital SGEIC, S.A.	Gran Via de les Corts Catalanes, 635 Barcelona	Administration and management of Venture Capital Funds and assets of Venture Capital Companies.	EY	100.00%	300	-	-	885	82	-	-	1,268
Capital Expansió, F.C.R.	Gran Via de les Corts Catalanes, 635 Barcelona	Venture capital for technology and industrial companies.	EY	100.00%	16,000	-	-	(3,192)	(173)	-	-	12,635
Capital MAB, F.C.R.	Gran Via de les Corts Catalanes, 635 Barcelona	Capital risk, support departures to M.A.B.	EY	100.00%	4,992	-	-	(378)	511	350	-	5,476
Associates												
Avalis de Catalunya S.G.R.	Gran Via de les Corts Catalanes 129-131, Barcelona	Reciprocal Guarantee Society	KPMG	16.57%	19,000	-	16,295	(485)	-	-	-	34,810

(1) There are two companies of the ICF Group that hold Avalis, ICF and Instruments Financers per a Empreses Innovadores S.L.

APPENDIX II - SUBSIDIARIES AND ASSOCIATES IN THE INSTITUT CATALÀ DE FINANCES GROUP AT DECEMBER 31, 2017

Investment	Address	Activity	Auditors	% of shares owned:	Figures in Thousands of euros at 31/12/2017							Total Shareholders' equity
					Capital	Share premium	Technical provisions	Reserves/ Prior years' profit (loss)	Profit/(loss) for the last year	Valuation adjustments	Interim dividend	
Subsidiaries												
Instruments Financers per a Empreses Innovadores, S.L.	Gran Via de les Corts Catalanes, 635 Barcelona	Possession and management of financial and equity stakes on behalf of the Generalitat, in funds of any type, in companies and guarantee funds, companies and venture capital funds.	EY	100.00%	50,000	-	-	(941)	149	182	-	49,390
Institut Català de Finances Capital SGEIC, S.A.	Gran Via de les Corts Catalanes, 635 Barcelona	Administration and management of Venture Capital Funds and assets of Venture Capital Companies.	EY	100.00%	300	-	-	850	36	-	-	1,186
Capital Expansió, F.C.R.	Gran Via de les Corts Catalanes, 635 Barcelona	Venture capital for technology and industrial companies.	EY	100.00%	11,800	-	-	(3,368)	176	-	-	8,608
Capital MAB, F.C.R.	Gran Via de les Corts Catalanes, 635 Barcelona	Capital risk, support departures to M.A.B.	EY	100.00%	5,500	-	-	(351)	(26)	(972)	-	4,151
Associates												
Avalis de Catalunya S.G.R.	Gran Via de les Corts Catalanes 129-131, Barcelona	Reciprocal Guarantee Society	KPMG	19%	19,000	-	16,295	(485)	-	-	-	34,810

(1) There are two companies of the ICF Group that hold Avalis, ICF and Instruments Financers per a Empreses Innovadores S.L.

APPENDIX III - INVESTEES OF INSTITUT CATALÀ DE FINANCES – DECEMBER 31, 2018

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

Company name	Address	Activity	Auditors	%	Figures in thousands of Euros		
					Shareholders' equity	Changes in value	Net value of share
Spinnaker Invest S.C.R., S.A.	Diputació 246, Barcelona	Venture capital for media sector	KPMG	24.10%	6,488	23,624	12,808
Barcelona Empren S.C.R., S.A.	Gran Via de les Corts Catalanes 635, Barcelona	Venture capital for technology companies	BDO Auditores	27.07%	898	1,423	628
Nauta Tech Invest II S.C.R., S.A.	Diagonal, 593, Barcelona	Venture capital for technology, media and telecommunications	EY	7.40%	2,375	27,924	2,241
Mediterrània Capital, F.C.R.	Diputació 246, Barcelona	Venture capital	KPMG	24%	48,255	-	11,580
Caixa Capital TIC, S.C.R., S.A.	Diagonal 613, Barcelona	Venture capital for technology companies	Vir Audit, SLP	9.68%	9,488	982	1,013
Ysios BioFund I, F.C.R.	Travessera de Gràcia 11, Barcelona	Venture capital for health sciences and biotechnology	KPMG	4.33%	23,104	(2,407)	895
Nauta Invest Tech III S.C.R., S.A.	Diagonal, 593, Barcelona	Venture capital for technology, media and telecommunications	EY	5.72%	33,485	59,307	5,308
Caixa Capital Biomed S.C.R., S.A.	Diagonal 613, Barcelona	Venture capital for health sciences and biotechnology	Deloitte	4.55%	4,214	-	192
Caixa Invierte Industria S.C.R.	Diagonal 613, Barcelona	Venture capital for technology and industrial companies.	Deloitte	8.57%	20,218	689	1,792
Amerigo Invierte Spain Ventures F.C.R.	Diagonal 401, Barcelona	Venture capital for technological projects	BDO Auditores	3.72%	62,151	-	2,312
Caixa Invierte BioMed II, F.C.R.	Diagonal 613, Barcelona	Venture capital for health sciences and biotechnology	Deloitte	5.71%	22,783	-	1,301
Suma Capital Growth Fund I, S.C.R	Diagonal 640, Barcelona	Venture capital for companies with growth projects	BDO Auditores	30.30%	25,238	16,352	12,602
Idinvest Digital Fund II	Avenue des Champs Elysées 117, Paris	Venture capital for companies in the digital sector	Aplitec	2.59%	148,865	-	3,873
Nauta Tech Invest IV, F.C.R.	Diagonal 593, Barcelona	Venture capital for technological projects	EY	14.06%	46,667	9,515	7,900
Aurica III, S.C.R.	Diagonal 407, Barcelona	Venture capital	Price WaterHouse	15.71%	48,664	-	7,676
Elaia Delta Fund, FPCI	Rue de Ponthieu 54, Paris	Venture capital for technological projects	Price WaterHouse	2.36%	29,195	-	840
Indinvest Digital Fund III	Avenue des Champs Elysées 117, Paris	Venture capital for companies in the digital sector	KPMG	1.82%	45,251	-	900
Bonsai Partners Fund I, F.C.R	Caracas 19, Madrid	Venture capital	BDO Auditores	6.38%	4,205	-	300
SC Efficiency & Environment Fund II, F.C.R.	Diagonal 640, Barcelona	Venture capital for energy efficiency projects	EY	8.81 %	16,134	-	1,640

Finaves IV, S.A.	Diagonal 453, Barcelona	Investment Company in joint venture	GNL Russell Bedford Auditors	12.86%	717	2,865	461
Inveready First Capital I, SA	Serrano 50, Madrid	Investment Company in joint venture	BDO Auditores	31.58%	1,071	471	487
Societat d'Inversió dels Enginyers S.L.	Via Laietana 39, Barcelona	Investment Company in joint venture	BDO Auditores	49.58%	1,705	-	1,796
Inveready Venture Finance, S.C.R.	Serrano 50, Madrid	Investment Company in joint venture	RSM Spain Auditores	8.90%	2,416	2,106	402
Healthequity, S.C.R. SA	Pg. Bonanova, 47 Barcelona	Investment Company in joint venture	Deloitte	35.03%	5,758	1,419	2,514
Venturcap II, S.C.R.	Dr. Ferran, 3 Barcelona	Investment Company in joint venture	BDO Auditores	33.33%	2,014	303	772
Inveready Biotech II, S.C.R.	Serrano 50, Madrid	Investment Company in joint venture	BDO Auditores	5.81%	16,316	4,241	1,195
Caixa Invierte Start, F.C.R.	Diagonal 613, Barcelona	Investment Company in joint venture	VirAudit	9.48%	12,615	-	1,196
K Fund, F.C.R.E	Rafael Calvo 40, 1-2 Madrid	Investment Company in joint venture	KPMG	3.44%	22,792	1,005	888
Encomenda Seed I BFCRE SA	Muntaner 449, Barcelona0	Investment Company in joint venture	Grant Thornton	10.71%	2,473	-	300
Inveready Biotech III, S.C.R, SA	Serrano 50, Madrid	Investment Company in joint venture	BDO Auditores	5.32%	3,384	-	200
TOTAL							86,012

Additionally, at December 31, 2018, the Group has direct capital investments in venture capital of 8,635 thousands of euros, mainly through Capital MAB F.C.R. and Capital Expansió F.C.R.

Figures relating to the equity of these companies were obtained from their financial statements at December 31, 2018 available at the date these financial statements were authorised for issue.

APPENDIX III - INVESTEES OF INSTITUT CATALÀ DE FINANCES – DECEMBER 31, 2017

Company name	Address	Activity	Auditors	%	Figures in thousands of Euros		
					Shareholders' equity	Changes in value	Net value of share
Spinnaker Invest S.C.R., S.A.	Diputació 246, Barcelona	Venture capital for media sector	Deloitte	22.83%	6,001	22,936	13,030
Invernova F.C.R.	Diagonal 399, Barcelona	Venture capital for companies with a technological base	Deloitte	5.44%	917	169	59
Barcelona Empren S.C.R., S.A.	Gran Via de les Corts Catalanes 635, Barcelona	Venture capital for technology companies	BDO Auditores	26.04%	2,388	1,423	992
Nauta Tech Invest II S.C.R., S.A.	Diagonal, 593, Barcelona	Venture capital for technology, media and telecommunications	Deloitte	7.40%	2,595	27,208	2,205
Mediterrània Capital, F.C.R.	Diputació 246, Barcelona	Venture capital	Deloitte	24%	64,530	-	12,086
Caixa Capital TIC, S.C.R., S.A.	Diagonal 613, Barcelona	Venture capital for technology companies	Vir Audit, SLP	9.68%	10,068	439	1,017
Highgrowth Innovación, F.C.R.	Diagonal 605, Barcelona	Venture capital for companies with innovative projects	Grant Thornton	38.58%	1,615	(60)	600
Ysios BioFund I, F.C.R.	Travessera de Gràcia 11, Barcelona	Venture capital for health sciences and biotechnology	Price WaterHouse	4.33%	39,331	8,512	2,069
Nauta Invest Tech III S.C.R., S.A.	Diagonal, 593, Barcelona	Venture capital for technology, media and telecommunications	Deloitte	5.72%	86,905	46,928	4,971
Caixa Capital Biomed S.C.R., S.A.	Diagonal 613, Barcelona	Venture capital for health sciences and biotechnology	Deloitte	4.55%	7,527	-	342
Caixa Invierte Industria S.C.R.	Diagonal 613, Barcelona	Venture capital for technology and industrial companies.	Deloitte	8.57%	22,924	689	1,965
Amerigo Invierte Spain Ventures F.C.R.	Passeig de Gràcia 35, Barcelona	Venture capital for technological projects	BDO Auditores	3.72%	27,577	19,777	1,762
Caixa Invierte BioMed II, F.C.R.	Diagonal 613, Barcelona	Venture capital for health sciences and biotechnology	Deloitte	5.71%	24,472	229	1,410
Suma Capital Growth Fund I, S.C.R	Diagonal 640, Barcelona	Venture capital for companies with growth projects	BDO Auditores	30.30%	16,690	10,370	8,199
Idinvest Digital Fund II	Avenue des Champs Elysées 117, Paris	Venture capital for companies in the digital sector	Aplitec	2.59%	117,838	-	3,052
Nauta Tech Invest IV, F.C.R.	Diagonal 593, Barcelona	Venture capital for technological projects	Deloitte	14.06%	25,263	2,159	4,420
Aurica III, S.C.R.	Diagonal 407, Barcelona	Venture capital	Price WaterHouse	15.71%	33,228	-	5,527
Elaia Delta Fund, FPCI	Rue de Ponthieu 54, Paris	Venture capital for technological projects	-	3.14%	10,631	-	385
SC Efficiency & Environment Fund II, F.C.R.	Diagonal 640, Barcelona	Venture capital for energy efficiency projects	EY	9.86%	4,350	-	500
Arrendadora Ferroviària SA	Diagonal, 640, Barcelona	Lease of trains	Deloitte	40.86%	60	-	25

Finaves IV, S.A.	Avinguda Diagonal 453, Barcelona	Investment Company in joint venture	Audalia Auditores S.L.	12.86%	713	2,317	390
Inveready First Capital I, SA	Cavallers 50, Barcelona	Investment Company in joint venture	BDO Audiberia	31.58%	1,102	464	495
Societat d'Inversió dels Enginyers S.L.	Via Laietana 39, Barcelona	Investment Company in joint venture	BDO Audiberia	49.58%	1,867	(100)	876
Inveready Venture Finance, S.C.R.	Cavallers 50, Barcelona	Investment Company in joint venture	RSM Gassó Auditors	8.90%	4,187	3,395	675
Healthequity, S.C.R. SA	Pg. Bonanova, 47 Barcelona	Investment Company in joint venture	Deloitte	36.40%	5,511	197	2,077
Venturcap II, S.C.R.	Dr. Ferran, 3 Barcelona	Investment Company in joint venture	BDO Audiberia	33.33%	2,144	-	715
Inveready Biotech II, S.C.R.	Cavallers 50, Barcelona	Investment Company in joint venture	BDO Audiberia	5.81%	16,948	3,409	1,184
Caixa Innvierte Start, F.C.R.	Diagonal 613, Barcelona	Investment Company in joint venture	VirAudit	9.48%	11,024	-	1,160
K Fund, F.C.R.E	Rafael Calvo 40, 1-2 Madrid	Investment Company in joint venture	KPMG	1.13%	10,434	674	320
Encomenda Seed I BFCRE SA	Muntaner 449, Barcelona0	Investment Company in joint venture	Grant Thornton	19.77%	931	-	210
TOTAL							72,839

Additionally, at December 31, 2017, the Group has direct capital investments in venture capital of 6,035 thousands of euros, mainly through Capital MAB F.C.R. and Capital Expansió F.C.R.

Figures relating to the equity of these companies were obtained from their financial statements at December 31, 2017 available at the date these financial statements were authorised for issue.

DIRECTOR'S REPORT OF THE ICF GROUP

(Translation from the original Consolidated Financial Statements issued in Catalan. In the event of discrepancy, the Catalan-language version prevails)

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1. THE INSTITUT CATALA DE FINANCES (ICF) GROUP

1.1 ICF Group Structure

The Institut Català de Finances (hereinafter referred to as the Institute or the ICF) is a public financial entity with its own legal personality subject to the private legal system, wholly owned by the Generalitat of Catalonia. The regulations governing the ICF can be found in Legislative Decree 4/2002, of December 24, approving the revised text of the Law of the ICF, subsequently amended several times, the most recent one of the Decree Law 4/2015, of December 29.

The net assets and liabilities of the ICF account for almost all of the ICF Group. The rest of the Group's perimeter as of December 31, 2018 consists of:

- **IFEM (Instruments Financers per a Empreses Innovadores, SLU):** An entity focused on the management of resources from the JEREMIE - Joint European Resources for Micro to Medium Enterprises - programme, which has the support of structural funds, dedicated to creating and expanding micro, small and medium-sized companies, through participating loans, venture capital, guarantees, micro-credits and investment and working capital loans. Wholly owned by ICF.
- **ICF Capital SGEIC, SAU:** its main objective is to promote, advice and manage venture capital funds or companies which contribute capital to Catalan companies. Wholly owned by ICF. ICF currently directly manages three investment vehicles:
 - **Capital MAB:** a venture capital fund which invests in companies when floated on the Alternative Stock Market (ASM). Wholly owned by ICF.
 - **Capital Expansió:** a venture capital fund, under a co-investment regime, destined to support growth, internationalisation and sector consolidation of medium-sized companies. Wholly owned by ICF.
 - **BCN Emprèn,** a venture capital company specialised in technological and innovative-based companies.
- **Avalis de Catalunya, SGR:** also forms part of the Group and is considered an associate. It is a mixed capital (public-private) reciprocal guarantee company promoted by the Generalitat de Catalunya in 2003 to facilitate access to credit by small and medium-sized companies and self-employed individuals with activity in Catalonia and to improve their financing conditions by providing guarantees to banks. At December 31, 2018 the Group holds a 16.57% in this company through Institut Català de Finances and IFEM.

1.2 Corporate governance model and structure

At December 31, 2108 the governing structure of ICF, the parent of the Group, is as follows:



Governing Bodies

The **Governing Board** is the maximum governing body of the entity and makes strategic and essential decisions regarding its activity

In accordance with law, the Governing Board can present budgets, notes to the annual accounts, balance sheet and accounts of the entity and propose the distribution of results, to the Generalitat de Catalunya - owner of the entity - for approval. It can also make decisions regarding the ICF's organization, functioning and legal relationships and be informed of the initiatives of the other bodies of the ICF.

In accordance with the regulations of the ICF, the Governing Board can set up committees to which it may delegate powers such as approving and amending investment and credit operations that have been specifically delegated. The **Executive Committee** is the competent body for approving and amending credit operations, investments in venture capital and financial investments, as delegated by the Governing Board.

Since 2014, in the specific area of governance and in accordance with Law 10/2014 of 26 June 2014 on the organization, supervision and solvency of credit institutions, ICF has delegated specific powers to the Appointments and Remuneration Committee and the Mixed Audit and Control Committee, which report directly to the entity's highest governance body. Both committees are currently exclusively formed by independent individuals appointed by the Governing Board.

The **Appointments and Remuneration Committee** has the competency to analyse, validate and make proposals to the Governing Board on aspects regarding the appointment of the members (whether they are honourable and suitable) of the ICF's governing bodies and key personnel and their fixed and variable remuneration.

The **Mixed Audit and Control Committee** is in charge of planning and monitoring internal and external audit; globally controlling risk; legislative compliance; internal control and anti-money laundering

CEO

The Chief Executive Officer (CEO) is appointed freely by the Generalitat de Catalunya and is proposed by the Vice-Presidency of Economy and Tax subsequent to approval by the Appointments and Remuneration Committee. The CEO assumes the ordinary and extraordinary representation of the entity in any scope or circumstance.

Since February 22, 2011, the CEO of the ICF is Josep-Ramon Sanromà i Celma.

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

ICF's two subsidiaries (ICF Capital and IFEM) have their own Governing Board which is their highest governing body and is responsible for the administration and management of the ICF.

2. ECONOMIC ENVIRONMENT AND POSITIONING IN 2018

Economic environment

The world economy closed in 2018 with a solid growth rate of 3.7%, in line with forecasts and data from the previous year. And this, despite the shadow of certain uncertainties, some of which will continue in the year 2019: commercial tensions - mainly, but not only, between the US and China -, geopolitics - Brexit and its repercussions in the the British economy and the Pound Sterling; tensions between the Italian government and the European Commission - and macro-finances - the Central Bank's claim to assume a monetary standardization that does not adversely affect markets - will continue to focus on the markets in the current year.

In relation to the main geographic areas, it has surprised the growth of the American economy positively, although the positive deviation is attributed largely to the fiscal impulse carried out by the Trump Administration and not to structural factors . The Euro zone, on the other hand, has a slightly lower growth than expected, mainly due to lower dynamism of exports, despite domestic demand still solid and the labor market has returned to unemployment levels close to the end of the year 2006. With regard to China, growth is aligned with the forecast thanks to the good performance of its foreign sector despite commercial tensions.

In this context, the Catalan economy grew for the fifth consecutive year, placing the gross domestic product increase 2.6%, 8 decimals higher than that of the Euro Zone. After three years of strong increases (3.8% in 2015, 3.6% in 2016 and 3.45 percent in 2017), moderation in growth is largely explained by external factors: the slowdown in world trade - which affects in particular the industrial sector - the uncertainty of the global context and the progressive weakening of the monetary impulse of the ECB. With regard to the labor market, the Catalan unemployment rate stood at 11.5%, the lowest in the last 10 years and almost two percentage points lower than in the previous year.

Financial system

The sector continues to focus on three main areas: the increase in profitability, the novelties in the regulatory environment and a competitive environment characterized by the emergence of new technologies and competitors.

With regard to profitability, the focus is on two aspects. On the one hand, the need to continue reducing the volume of doubtful assets. This type of assets, although they have been significantly deducted from the peak reached in the year 2013, continue to be relevant from a historical perspective, and the measures proposed by the European Commission in the last year emphasize the importance to continue working on balancing the balances. And on the other, the context of low interest rates and high competition continues to generate the need to find ways to optimize the operating accounts of entities beyond the margin of interests.

Regarding the regulatory environment, there is a need for adaptation to a framework that continues to increase its level of demand, especially in terms of capital requirements, liquidity and resolution mechanisms. In this sense, from the point of view of the ICF Group, in the regulatory sphere, we must point out:

- The entry into force in the year 2018 of the first application of Circular 4/2017, of November 27, which replaces Circular 4/2004, and which adapts the accounting framework to the derivative of the International Information Standards Financial (IFRS). The impacts of the new Circular have mainly affected two areas: on the one hand, to the classification of financial instruments, with a redefinition of the existing portfolios, and on the other, to the calculation of hedges, with a methodological change: before the deterioration had to be based on methods of loss incurred, with the new regulatory framework have to be based on a methodology of expected loss. The adoption of this change of criteria has led to an increase in the provisions related to risks classified as special vigilance, as well as a negative impact of the CT1 rate in terms of regulatory capital.
- The definition and regulation of public credit institutions -promotional banks- which is expected to be published by European regulators shortly.

Lastly, digital content continues to focus attention on the areas of innovation and operations of the entities, as it facilitates the entry of new players in the sector, new business models emerge, and should facilitate simplifying processes and allowing efficiency gains.

3. PERFORMANCE

3.1 Lending activity

The ICF Group/Avalis has facilitated access to financing to 1,512 companies for an amount of 599.2 million euros in 2018, through 2,257 loan and/or guarantee transactions. The number of companies funded by the Group has grown 27% this year compared to 2017, while 96% of the companies financed were SMEs and entrepreneurs.

The table below shows details of the lending activity by product:

	Number of transactions	Amount (M€)
ICF guarantees	16	30.8
Direct loans and co-investment	355	353.0
Investment / Working capital	132	181.0
Industry	49	94.5
ICF Eurocredit	121	51.3
Agrofood	18	1.4
Housing	9	17.9
Culture	14	2.1
Other purposes	12	4.9
Intermediation loans (shared risk)	94	5.4
ICF Commerce	94	5.4
Refinancing	69	66.3
TOTAL ICF GROUP	534	455.5
Avalis guarantees	1,723	143.7
TOTAL AVALIS	1,723	143.7
TOTAL ICF GROUP + AVALIS	2,257	599.2

The direct loans and the co-investment stand out by volume, with a total of 355 transactions for an amount of 353.0 million euros in 2018. In this sense, it is important to highlight:

- The development of the ICF Industria line launched jointly with the General Directorate of Industry of the Department of Enterprise and Knowledge, through which 49 transactions have been financed for 94.5 million euros.
- The launch of the ICF Eurocredit line, co-financed with the European Regional Development Fund (ERDF) of the European Union, with which 121 transactions have been financed for 51.3 million euros.
- The implementation of two lines of loans with preferential conditions to promote and finance the construction and purchase of social housing (ICF Habitage Social). They were launched jointly with the Housing Agency of Catalonia and financed 9 transactions for 17.9 million euros.

In addition, the number of transactions includes guarantees, which with the formalization of 1,739 transactions, have allowed companies to access 174.5 million euros of financing, both for investment and for working capital. The number of guarantees granted by the Group has grown 10% this year compared to 2017.

As for the territorial distribution of the credit activity of the entity, Barcelona and its area of influence concentrate the most important bulk, both with respect to the volume of investment and in terms of the number of credit operations, with more than 70% of the investment, in line with the economic weight of the demarcation in the Catalan GDP and with the concentration of business activity in Catalonia. Girona and Central Catalonia are the following districts with the highest investment volume. The Group has continued this 2018 with the development of the commercial plan started in 2014 to grow in these demarcations with the objective of getting more and better its offer of financing to the business fabric of the territory, both through its own network of commercial delegates and through financial promoters.

In relation to sectoral distribution, industry, commerce, transport and tourism have been the main recipients of the financing of the ICF Group in 2018. The ICF has continued to actively work to support a wide range of sectors, under the premise that the entity can provide financing to any company with activity in Catalonia, regardless of the sector to which it belongs and its size with the exception of the real estate development sector, which cannot be financed by the Group, unless it is an officially protected housing.

By type of company, 96.5% of the financing for the year was used to finance self-employed workers, small and medium-sized companies, a segment severely affected by access restrictions to credit in recent years. On the other hand, credit activity to large companies and the public sector, accounted for 2.6% and 0.9%, respectively.

Overall, the volume of financing granted by the ICF Group in 2018, both in the private sector and the public, has allowed the creation and / or maintenance of almost 56,000 jobs.

3.2 Capital activity

Venture capital activity is, along with loans and guarantees, another way through which the ICF Group facilitates access to financing for the Catalan business sector. In this area, the Group acts mainly as a fund of funds. The participation of the entity is based on collaboration and complementarity with the specialized private sector, identifying market gaps and acting as a driving force to multiply the resources coming from other investors that are allocated to each fund.

The objective of the Group in venture capital is to promote growth and the creation of companies and is directed, in general, to projects of innovation, internationalization and / or sectoral consolidation and with good profitability expectations.

Currently, the ICF accumulates investment commitments in venture capital funds and / or investment funds with a living portfolio of 167 million euros -nearly 6% more than in 2017- through 33 vehicles, which together with the 1,693.0 million euros pledged by other investors, add an investment capacity of more than 1,900 million euros.

During 2018, new commitments were made in the Seed and Venture segments for the amount of 1.3 and 14.0, respectively. Likewise, the venture capital funds managed by the Group have made investments for a total amount of 9.0 million euros.

To this potential investor in venture capital, investment must be added through participative loans, under a co-investment scheme with private investors (business angels, venture builders, accelerators and other instruments), for innovative companies in initial stages managed through IFEM. Through this line, during 2018 the Group has invested 3.2 million euros in 19 Catalan start-ups.

4. FINANCIAL INFORMATION

4.1. Balance sheet performance

The ICF group and its parent company have closed 2018 with a total volume of assets of more than 2,300 million euros, according to the forecasts of administrators, of which approximately 66% correspond to the heading "Loans and advances", where the Group's credit portfolio is registered. In the year 2018, the financing of the activity was carried out mainly thanks to the same generation of business resources and its own treasury, although bilateral financing operations with private and public entities have also taken place.

The default ratio at December 31, 2018 stands at 7.8%, increasing to 9.0% if the assets awarded are taken into account, which represents a fall of 1.7% and 1, 4%, respectively, in relation to the closing figures for the 2017 financial year, a fall which, on the other hand, is aligned with the trend of the sector. On the other hand, the coverage ratio of doubtful operations stood at 136.1%, a figure higher than the average for the sector, which is a significant increase regarding the previous year, mainly due to the application of the new Circular 4/2017 of the Bank of Spain.

In relation to liabilities, the cost of borrowing with different counterparties has been managed allowing a strong treasury position to continue in 2018. The indebtedness capacity of the ICF is determined by the annual budgetary law. In accordance with these limits, the ICF can capture resources other than through any modality, either for contracts with public and/or private financial institutions or for issuance and private placement of securities in the capital markets. In this regard, we should point out that the resources of the ICF do not generate a deficit or debt to the Generalitat of Catalonia.

On the other hand, and despite the impact on reserves that has been the first application of Bank of Spain Circular 4/0217, as explained in the accompanying annual report, we must highlight an additional year increase in own funds, as a result of the distribution to reserves of the result 2017, thus increasing the capacity of the ICF Group to increase its future activity. In relation to own funds, the historical generation of profits and the profile of investments allow 2018 to close with own funds of 865 million euros and a consolidated solvency ratio of 39.75%, higher than the year 2017 and well above the minimum required by the regulator:

Consolidated Solvency ratio (Basel III)		
2018	2017	Minimum required by the regulator*
39.75%	38.30%	9.875%

* Source: Basel III and Law 10/2014 on ordination, supervision and solvency of credit entities.

Average payment period for external suppliers

The information on the average payment period during the 2018 financial year is as follows:

	2018
	Days
Average payment period for suppliers	29.10
Paid transactions ratio	29.10
Outstanding transactions ratio	-
Total payments made	5,396
Total pending payments	-

Acquisition and disposal of own shares

The ICF Group has not made acquisitions or disposals of own shares during the year.

4.2 Income statement

The ICF closed the year 2018 with a pre-tax profit of 15.5 million euros at an individual level and 15.9 million euros at a consolidated level. A historical policy of prudence in the management of credit risk monitoring, translated into a high level of coverage, has led to significantly lower requirements for additional provisions compared to the previous year, which has more than offset the reduction in the interest margin. Result of the already anticipated decrease in the balance sheet and the context of risk tolerance and falling prices.

In this way, if the extraordinary results generated by the own buildings in the year 2017 are excluded, the pre-tax profit or loss is maintained in line with the previous exercise and with the forecasts of the administrators.

The Group ended 2018 with a total average assets yield of 0.65%, in line with the rest of the sector. On the other hand, the efficiency ratio is 30%, much lower than that of the sector.

4.3 Information on credit ratings

At December 31, 2018, ICF's credit rating stood at BB according to Fitch Rating's:

Rating				
Agency	Last review	Long term	Short term	Outlook
Fitch	April 2018	BB	B	Stable

It should be pointed out that the method used by the rating agencies links ICF's rating to that of the Generalitat de Catalunya, irrespective of ICF's high solvency and liquidity ratios.

5. RISKS AND UNCERTAINTIES

Note 3 to the accompanying consolidated annual accounts provides details of ICF Group's risk management.

Structure of management and control of financial risks

The organizational structure and functions relating to the management and control of the ICF Group's financial risks are as follows:

- **Governing Board:** maximum body responsible for establishing policies and global limits for risk management purposes.
- **Mixed Audit and Control Committee (CMAiC):** responsible for overseeing that the Group's risk profile is maintained within the established objectives, advising the Board in the Group's current and future global risk strategy. It is also the responsibility of the CMAiC to ensure the validity and application of the processes to identify, measure and control financial risks.
- **Asset-Liability Committee (ALC):** maximum body for managing and controlling financial risks
- **Global Risk Management Committee:** body supervising all the Group's risks from a global perspective.

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.

Concentration risk management is based on that stipulated in the Bank of Spain Circular on calculation and supervision of minimum equity capital requirements (Circular 3/2008), in particular the ninth chapter relating to limits to large risks

The highest credit risk monitoring and control bodies are the Governing Board, the Mixed Audit and Control Committee, the Executive Committee and the Credit Investments Committee.

On the other hand, the Global Risk Control Unit performs periodic monitoring of risk concentration levels, the evolution of delinquency rates and different defined alerts that allow monitoring the evolution of credit risk. Likewise, the Risk Monitoring Committee analyses in detail specific clients with large exposures, in a situation of special or doubtful surveillance and / or with alerts.

Counterparty credit risk

In compliance with article 286 of Regulation (EU) No 575/2013 "Management of CCR - policies, processes and systems", the ICF Group has a counterparty credit risk policy contained within its Financial Risks Policy and it also has systems to control counterparty credit risk and maximum exposure.

At December 2018, the counterparty risk of the ICF Group comes from the exposure it holds in trading derivatives and interest rate hedging, which it uses solely as a tool for managing financial risks.

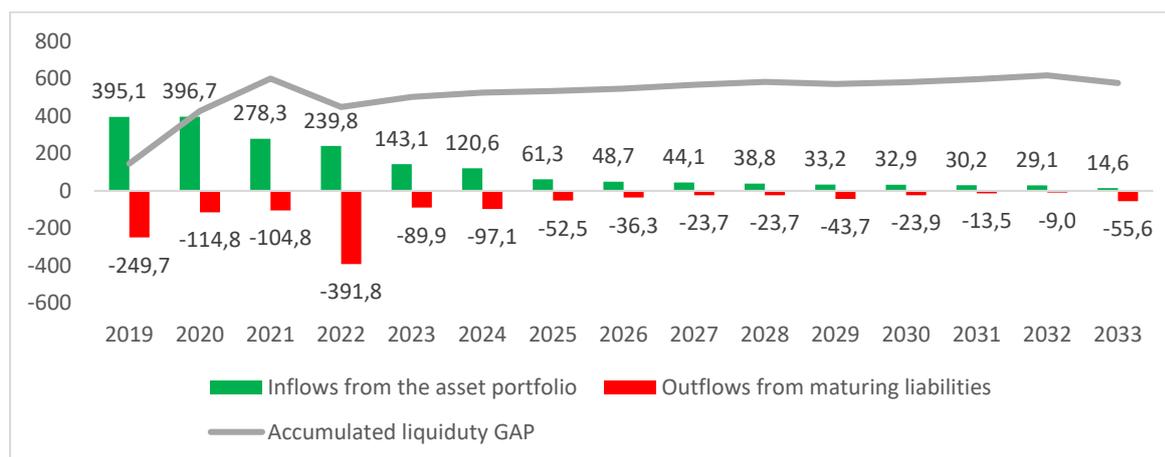
The ICF Group follows the EMIR regulation (Regulation 648/2012). This regulation entered into force on September 15, 2013 with effect as of February 12, 2014, and establishes reporting obligations that affect entities that operate with derivatives.

Liquidity risk

Liquidity position at December 31, 2018:

At December 31, 2018, total treasury positions reached 557 million euros, 459 million euros in fixed-income, 88 million euros in current accounts and 10 million euros in deposits. The treasury position accounts for 27% of the total assets of the entity.

Note 3.2 to the accompanying financial statements for 2018 provides details of the liquidity management policies, as well as information on the maturity dates and main uses and potential sources of liquidity existing at reporting date. The Group has a continuously positive accumulated liquidity gap for the period 2019-2033:



The high positive value of the liquidity gap is due to the conservative risk management profile. Likewise, liquidity management aims to adapt the average life of liabilities to the average life of loans.

Financing:

The debt at the end of 2018 is of 1,318.6 million euros, where more than 63% corresponds to loans financed in the long term.

It should be noted that the ICF Group maintains a liability structure where equity accounts for 36% of the total debt, with an available equity of 852 million euros at the end of 2018.

Liquidity coverage ratio (LCR):

On 17 January 2015 the European Commission published Commission Delegated Regulation 2015/61 which complements Regulation 575/2013 on the liquidity coverage ratio for all credit institutions supervised in accordance with CRD IV.

In accordance with Commission Delegated Regulation 2015/61, credit institutions supervised by CRD IV must comply with the LCR of 100% since October 1, 2018.

At December 31, 2018 ICF amply complies with the minimum requirements required for supervised credit institutions:

	LCR ICF (*)	Regulator threshold
31/12/2018	5,332%	100%

The LCR calculation for the ICF Group is more conservative, given that only HQLA Level I assets are considered.

Market risk

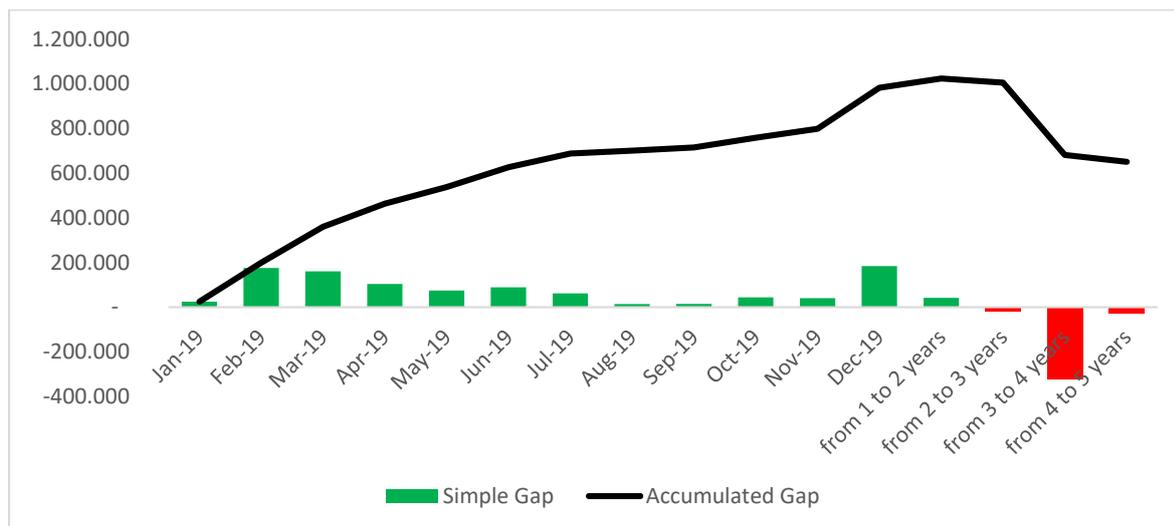
The ICF Group does not have in its assets a trading portfolio that is incurred at market risk. With reference to the fixed-income portfolio available for sale and maturity, its totality is in euros

Note 3.1 to the accompanying consolidated financial statements show more details of the ICF's market risk.

Interest rate risk

The interest rate risk directly affects the Group's activity due to the effect that its fluctuations could have on the income statement and economic value. The distribution of assets and liabilities due to maturity or repreciation allows to detect concentrations of interest rate risk in different periods (repricing gap).

Note 3.3.1. to the accompanying consolidated financial statements provides details of the objectives, policies and processes for the ICF Group's management of the structural interest rate risk. The gap of the first repricing, complementing the information provided in the aforementioned note, is as follows:



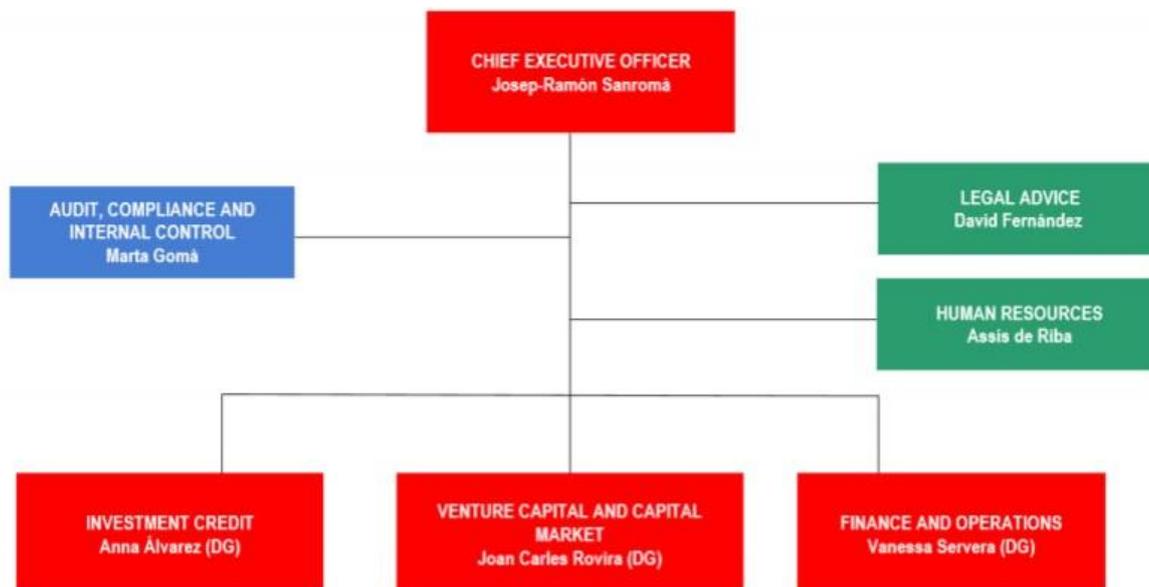
The interest margin sensitivity, simulated one year with a constant balance structure, to parallel movements of the curve of -200 basic points is -2.9%, calculated based on the base scenario. The sensitivity to the economic value on the same movement of the curve results + 7.42%. In both cases, ICF complies with the regulatory limits.

Operational risk

Operational risk is related to the losses that may be caused by errors linked to internal processes or human errors within the entity's daily activity. The consolidation of the ICF group in the management and risk control model based on the three lines of defense, allows to reduce and manage this risk from the different areas. Note 3.6 to the accompanying consolidated financial statements provide details of the objectives, policies and processes for the ICF Group's management of operational risk.

6. INFORMATION ON HUMAN RESOURCES

Functional organizational chart



Workforce

At December 31, 2018 the ICF Group has a headcount of 98 workers (61% female and 39% male), with an average age of 43.

The Group's human resources are formed of highly skilled personnel. Most of the Group's workforce is formed of qualified personnel, those with university education representing 87% of the headcount.

Training

The ICF Group makes significant efforts to train its team of professional through external and internal courses, identifying talent and promoting it according to its needs

This is why the ICF Group does not only have several financing options for accessing training and/or personal and/or professional development courses. Besides, as observed in the data below, the training percentage fully financed by the company is very high. In the event that employees choose to co-finance a percentage of such training, they can instrument it through the ICF's flexible compensation scheme as part of the remuneration framework.

In relation to the year 2018, 56 training actions were carried out that amount to 1,021 training hours, in which 539 professionals participated. 96% were financed 100% by the ICF while the remaining 5% were co-funded.

Once again, the consolidation of language training, internal politics aimed at enhancing professional certifications, as well as training pills and the series of internal conferences on innovation and digital transformation, have been remarkably notable, which have been highly valued internal.

Corporate social responsibility

The mission of the ICF is to promote financing to the economic fabric in order to contribute to the growth, innovation and sustainability of Catalonia. To do this, the entity accompanies companies and entities in their business development contributing value and generating a positive impact for society as a whole. In this sense, the values of the entity (commitment, professionalism, honesty and proximity) define how its activity is carried out on a daily basis, through a transparent and inclusive governance model.

The social commitment of the ICF is channeled into different products, actions and initiatives; all of them carried out taking into account values of integration, transparency and service to the community. The following areas stand out:

- **Socially responsible products and investments:** loans to encourage the promotion of social rental housing; Specific financing lines to promote projects of social and cooperative economy, culture, education; as well as business initiatives of green, circular economy and energy efficiency.
- **Occupation:** during 2018, the activity of the entity has contributed to the creation and/or maintenance of almost 56,000 jobs in different sectors of the Catalan economy. At the same time, the financing and investment of projects of social and cooperative economy has allowed to occupy people with different types of disability.
- **Culture:** since 2014, it is a founding member and patron of the Fundació Catalunya Cultura, an entity that seeks to increase collaboration between the business sector and the culture sector, recovering its social work and enhancing the prestige of patronage.
- **Financial education and training:** the ICF participates, for the fifth consecutive year, in the program of Financial Education in the Schools of Catalonia (EFEC), promoted by the Generalitat de Catalunya in collaboration with the Institute of Financial Studies (IEF). Likewise, the ICF has a student program of internships with the aim of completing their training, offering them a professional experience of value and a first contact with the world of work. Since 2012, the ICF offers this opportunity to students from different universities. In total, 12 students have completed a placement internship.
- **Solidarity:** In a recurring way, the entity works with non-profit organizations and foundations to manage internal services such as irrigation or the recycling of paper and cardboard. In the institutional sphere, in addition, it uses sign-up dates or initiatives promoted by the ICF to collaborate with non-profit organizations.

7. R+D+i ACTIVITIES

The ICF Group started in 2018 a strategic plan for digital transformation with the objective of defining, prioritizing and planning the entity's digital strategy. The project is coordinated by the General Directorate of Finances and Operations, and has the collaboration of multidisciplinary internal and external teams.

The plan envisages different phases, in which they will be addressed:

- **Aspects of external transformation:** customer experience, relationship model, 360º client.

- **Internal transformation:** organizational model, talent management, processes and technology.

- **Innovation in the business model:** innovation model, design of products and services, disruptive models.

8. OUTLOOK FOR 2019

Company financing activity

Lending activity

The ICF Group maintains the objective of contributing to the economic growth of Catalonia, continuing with the strategy of focusing on facilitating access to credit for SMEs, entrepreneurs and entities and in the financing of projects of innovation, internationalization, growth and creation of employment in the Catalan business fabric.

In this sense, in the 2019 activity forecast stand out:

- Continuation of the ICF Eurocredit line, launched in the year 2017, and which conveys- the image and resemblance of the European public investment banks-, in co-investment regime, ERDF funds allocated to the financing of the Catalan business network, focusing on in SMEs.
- Strengthening the differential and strategic lines: Social housing, Green Economy and Social Economy, among others.
- Maintenance of lines of co-investment with private financial entities, valuing the complementarity of the Group in the financial market and its effect as a catalyst and financial tool.

Venture capital activity

In the area of venture capital, through the ICF and the specialised Group companies (ICF Capital and IFEM) the Group continues to promote the Fund of funds lines for the Growth, Venture and Seeds segments to foster

internationalisation, innovation, consolidation and growth of businesses; additionally, co-investment with business angels will be extended to entrepreneurial corporations and the knowledge industry, as well as other certified investment vehicles.

Attracting resources

The current cash position ensures the needs for 2019. However, the Group's mission is to be active in the market, to get better sources of financing that are granted in the long term at the best cost.

Financial statements

As for the evolution of the balance sheet, in 2019, it is expected to continue in the process of slowing down the balance sheet, mainly due to the decrease in mediation with banks without assuming client risk and the low activity in high volume syndicated operations, while maintaining the current credit quality of the portfolio and focusing on the activity of accessing credit to SMEs, entrepreneurs and entities. All of this, keeping the high levels of capitalization, liquidated and hedging, significantly higher than the minimums set by the regulators and the average of the sector, which allow the ICF Group to face the future challenges from a high level of financial robustness.

With respect to the income statement, it is expected that the impact on the margin of the balance reduction will be reduced and compensated for a reduction in the coverage needs, as a result of the historical policy of prudent valuation of the entity and of a favorable macroeconomic environment. Thus, both the pre-tax profit and the yield of assets are expected to be in figures close to those of the year 2018.

Internal organization

The internal organization of the Group for 2019 is marked by two important milestones:

- Maintenance of the activity figures: reinforcement of the technical means to be able to improve the support to the business areas.
- Promotion of innovation and digital transformation of the Group:
 - Development of the first stage of the digital transformation plan initiated in 2017 with the hiring of a technological partner
 - Redefinition of processes and digitalization of them.

The commitment, effort and spirit of continuous improvement of the professionals of the ICF have allowed us to achieve the objectives established for 2018, and we are convinced that they must allow us to achieve the important challenges that we are marking each year.

9. EVENTS AFTER THE REPORTING PERIOD

No significant events have taken place between the reporting date and the date the annual accounts were authorised for issue.

Barcelona, 28th of March, 2019