Institut Català de Finances

2018

Prudential Relevance Report

Basel Pillar III

Generalitat de Catalunya

Contents

1. ICF GROUP PILLAR III

Grup Institut Català de Finances (henceforth, ICF Group) presents this report in accordance with the requirements for public disclosure specified in Section 8 of Regulation (EU) No 575/2013 of the European Parliament and of the Council applicable to financial institutions, regarding its risk profile, risk control and management, capital and solvency levels. This Regulation, together with Directive 2013/36/EU, enforces the CRD IV rules which came into force on 1 January 2014, implementing the Basel Committee recommendations (known as Basel III) in the European Union.

Law 10/2014 on the regulation, supervision and solvency of credit institutions was enacted on 26 June 2014 in order to adapt Spanish law to this new regulatory framework. Article 85 of this law states that financial institutions must publish a single document called the "Prudential Relevance Report" at least once a year.

Standard 59 of Bank of Spain Circular 2/2016 specifies that the contents of the PRR must be reviewed by the institution's internal audit department, its risk control unit and by independent experts.

The ICF Group has determined that the PRR will be issued annually, or more frequently if necessary due to market conditions. The report will also be published on the ICF's website (www.icf.cat).

The contents of this report not included in the annual financial statements were reviewed by the ICF Group's Joint Auditing and Control Committee. The Group also declares that no required information has been omitted because it is confidential or reserved.

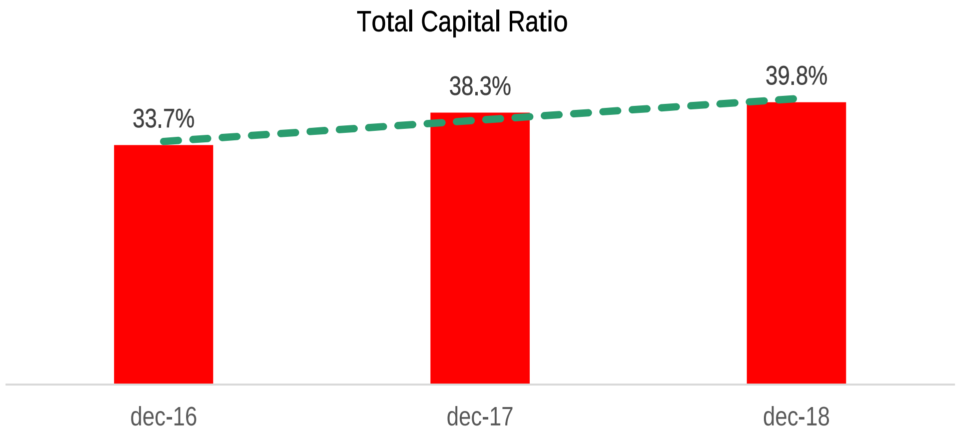
2. INTRODUCTION

The Group has a risk control and management model based on the three lines of defence, adopting the EBA's guidelines on internal governance (GL44, published in 2011, and EBA/GL/2017/11, published in 2017).

The most significant risk is credit risk, which accounts for 95.6% of all risk weighted assets, corresponding basically to the nature of its business.

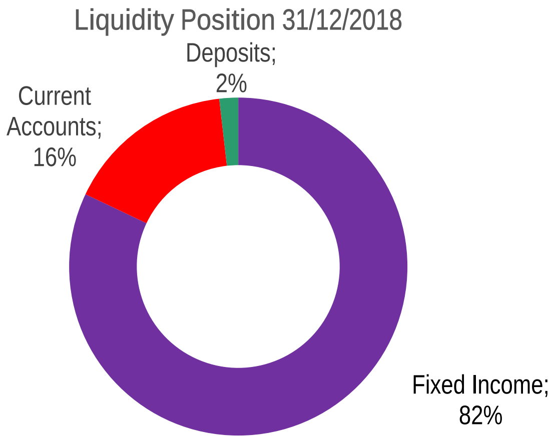
2.1 A Strong Capital Base

The ICF Group maintains a level of a total capital ratio well above the minimum required, thanks to substantial levels of capital and a conservative management policy. The Group's total capital ratio is shown in the chart below:



2.2 A Solid Liquidity Position

The ICF Group holds a very strong liquidity position. At the close of 2018, the ICF Group's liquidity position was 557 million euros. The Group's liquidity structure at the end of 2018 is shown below:



3. ICF Group

3.1 Regulatory Framework

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

In Europe, Basel III was transposed into European law in 2013 with the approval of the Capital Requirements Regulation (CRR) (EU) No 575/2013 and the Capital Requirements Directive (CRD IV) 2013/36/EU. The aim was to create a genuine banking union based on four pillars:

- Single regulatory code (Single Rulebook)
- Single Supervisory Mechanism (SSM)
- Single Resolution Mechanism (SRM)
- European Deposit Insurance Scheme (EDIS)

At the moment, the first three pillars are fully operational, although the deposit insurance scheme still remains to be implemented. The Banking Union, together with the Capital Markets Union (with regulations such as MiFID II or EMIR) and the European Supervisory Authorities (ESAs), should allow the implementation of an Economic and Monetary Union capable of mitigating and adequately absorbing shocks in the financial system and improving the transmission channels of the European Central Bank's monetary policy.

Regulation (EU) No 575/2013 is applied directly by the institutions of Member States, but the CRD IV Directive required the following process for transposition into the Spanish legal system:

1. Royal Decree Law 14/2013, of 29 November 2013, on urgent measures to adapt Spanish law to European Union regulations on the supervision and solvency of financial entities.
2. Law 10/2014, of 26 June 2014, on the regulation, supervision and solvency of credit institutions.
3. Royal Decree 84/2015, of 13 February 2015, implementing Law 10/2014.
4. Bank of Spain Circulars 2/2014 and 2/2016.

In March 2018, the European Commission published a draft amendment to Regulation (EU) 575/2013 (CRR) with a view to reducing the current accumulation of non-performing loans in the European banking system and increasing their coverage. Negotiations concluded at the end of the year with a compromise text that is still (at the time of writing) pending approval by the Council and the Parliament, as a prelude to its publication in the Official Journal of the EU. The Commission's proposed legislation follows the publication of a European Central Bank (ECB) guide in March 2017. Key points in the text include the following:

- Deduction from CET1 of non-performing loans that are not adequately covered ("prudential backstop").
- Classification of exposure as collateralised or uncollateralised and according to the nature of the collateral (securities or real estate).
- Establishment of minimum levels of coverage for non-performing exposures depending on the length of exposure (100% over 3 years for uncollateralised exposure), 7 years for exposure with securities collateral and 9 years for exposure with real estate collateral);

Once approved, the regulations will be applied to all non-performing exposures arising after their publication in the Official Journal of the EU.

CRR II / CRD V

Four years after the approval of CRR/CRD IV, the European banking sector has had to face further reform. On 23 November 2016 the European Commission presented a new set of proposed regulatory reforms to strengthen the sector and adopt the most relevant new international regulations regarding solvency, risk management and the resolution of credit institutions. Amendments were proposed to CRR and CRD IV (CRR II and CRD V). On 14 February 2019 the European Union Permanent Representatives Committee adopted the risk reduction measures in the proposed amendment to CRD IV and CRR agreed by the European Commission, the European Parliament and the European Council. This step is necessary for the approval of the final legislation, expected to come into force in 2021, after the provisions of the new directives have been transposed into the legislation of Member States.

The changes to these directives and regulations follow the recommendations of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) to minimise systemic risk in the international banking system and improve banks' ability to absorb losses. The most significant aspects of the regulations and of the European negotiations regarding CRD and CRR include the following:

- Criterion for exemption from CRD;
- Definition of public development credit institutions;
- Binding leverage ratio, with a minimum of 3% with CET1 capital;
- Binding Net Stable Funding Ratio (NSFR), with a minimum of 100%;
- Environmental, social, governance and sustainable finance risks;
- Capital requirements which are more sensitive to market risk, counterparty credit risk and exposures to central counterparties (CCPs), and procedures for large exposures;
- Prevention of money laundering and terrorist financing;
- Total loss absorbing capacity and minimum requirement for own funds and eligible liabilities (TLAC and MREL);
- Remuneration policies;
- Proportionality in the application of regulatory requirements based on the complexity and business model of institutions;
- Support for the funding of small and medium-sized businesses and infrastructure projects;

Finalising Basel III

On 7 December 2017 the Basel Committee on Banking Supervision (BCBS) published a document which constitutes the conclusion of the regulatory framework known as Basel III, drawn up in response to the global financial crisis in 2007-2008. This package, "Finalising Basel III", also referred to as "Basel IV" aims to reduce the variability of risk weighted assets (RWA) by means of a modification to the standard method for credit risk, operational risk and CVA; the establishment of limits to the use of internal models for credit risk and their elimination from CVA and operational risk; the definition of a capital cushion for the leverage ratio in global systemically important institutions (G-SIIs); and the introduction of an output floor equal to 72.5% of risk-weighted assets calculated using internal models (the full text can be found at: https://www.bis.org/bcbs/publ/d424.pdf).

Both the European Commission and the EBA have launched preliminary studies in the form of initial consultations, calls for advice and impact studies to assess the effect of introducing these changes to the capital requirements of the European banking system. They include the “Basel III Monitoring Exercise” published in October 2018 with data for 31 December 2017, according to which minimum capital requirements (Tier 1) would be increased by an average of 16.7% for all entities (25.4% for G-SIIs) as a result of revisions to capital requirements for credit risk (+4.5%), market risk (+2.0%), CVA (+3.3%), operational risk (+5.7%), the output floor (+6.3%) and the leverage ratio (-5.1%). These figures mean that European institutions must recapitalise by 6,000 million euros in CET1 capital and 14,600 million euros in Tier 1 capital to meet the requirements of the new regulatory framework. During the first half of 2019 the EBA is expected to publish the results of a quantitative analysis it is conducting and the Commission will undertake an assessment of the impact of these measures, with a view to launching a series of initiatives to allow legislation to be adapted to the new international framework, expected to come into force on 1 January 2022.

3.2 Description of the Group

The Institut Català Finances (henceforth ICF) is a public entity with its own legal personality and is subject to the private law applicable to the entities defined in Article 1.b.1 of the revised text of the Statute on Catalan Public Companies, approved by Legislative Decree 2/2002, of 24 December.

The ICF is the parent company of a group of subsidiaries over which it has direct and full control. In accordance with the provisions of Article 6.4 of Legislative Decree 4/2002, the ICF is authorised to create mercantile companies. It is thus required to produce both its own individual financial statements and consolidated financial statements for the Institut Català de Finances and its subsidiaries (the ICF Group).

In 2015, the Government of Catalonia approved Decree Law 2/2015, published on 30 July 2015, to adapt the legislative framework of the Institut Català de Finances (ICF) to the current European regulations (Directive 2013/36/EU and Regulation (EU) No 575/2013 - Basel III) and Spanish legislation (Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, and Royal Decree 84/2015), in accordance with the regulators’ requirements for financial institutions.

Decree Law 2/2015 partially amends and adjusts the revised text of the Law of the Institut Català de Finances, approved by Legislative Decree 4/2002, of 24 December, to the regulatory framework for credit institutions.

This amendment allowed the Government of Catalonia to confirm that the ICF is subject to European regulations governing credit institutions and to increase its independence from the Government, in accordance with the requirements of the European regulators and the organisational and legal nature of the institution.

Decree Law 2/2015 clarifies and ratifies the legal system governing the Catalan public financial institution as being “subject to specific regulations for credit institutions and therefore governed only by basic legislation and the regulations issued by the applicable regulatory bodies of the European Union, in view of its special activities and nature”. The law states that the ICF must be governed by “market criteria” when discharging its functions.

Adapting the institution's governance to specific legislation, in line with the requirements of the regulators, has made it more independent, with governing bodies with a majority of independent members, and plans to create all the commissions and committees required to comply with the regulations governing credit institutions.

3.3 Scope of Application

The Institut Català de Finances heads the Institut Català de Finances Group (henceforth the Group, or the ICF Group). At 31 December 2018 it comprised the following subsidiaries, wholly owned by the ICF, either directly or indirectly.

- Instruments Financers per a Empreses Innovadores, S.L. Sole Proprietor (henceforth IFEM) was created by public deed on 12 December 2008. The corporate purpose of the company is the holding and management of financial assets, in any type of fund, in companies and guarantee funds, venture capital companies and funds and investments in other public or private companies. The company manages the funds provided in the form of capital by the Government of Catalonia for the JEREMIE programme.
- Institut Català de Finances Capital SGEIC, SA Societat Unipersonal (henceforth ICF Capital), was incorporated indefinitely on 26 February 2011 and is subject to Circular 7/2008, of 26 November, of the Spanish securities market regulator (CNMV), which supervises venture capital management companies, and to current legislation regarding this type of company, including Law 22/2015, of 12 November and, where this is not applicable, Royal Decree Law 1/2011 of 2 July, approving the revised text of the Capital Companies Act. Its corporate purpose and main activity is the administration and management of venture capital funds and the assets of venture capital companies. It is a sole-proprietor company, its only shareholder being the Institut Català de Finances.
- Capital MAB, F.C.R. (henceforth Capital MAB) is a venture capital fund established on 27 February 2012, authorisation having been previously granted by the Spanish securities market regulator (CNMV) on 17 February 2012. On 2 March 2012 the CNMV listed the fund in its Venture Capital Fund register under number 134. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.
- Capital Expansió, F.C.R. (henceforth, Capital Expansió) is a venture capital fund established on 20 July 2012, authorisation having been previously granted by the Spanish securities market regulator (CNMV) on 6 July 2012. On 26 July 2012 the CNMV listed the fund in its Venture Capital Fund register under number 136. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.

The ICF Group's registered address is Gran Via de les Corts Catalanes, 635, 08010 Barcelona.

The scope of this document is therefore the consolidated group of institutions headed by the ICF. Solvency regulations are applicable to the entire consolidated Group.

3.4 Consolidated Group for the Purposes of Capital Requirements Regulations

The ICF Group submits its financial statements in large part according to the classification and criteria established in Circular 4/2017 issued by the Bank of Spain (hereinafter, the Accounting Circular), as these are considered the most appropriate Spanish standards and principles based on IFRS. For the purposes of the Accounting Circular, companies form part of a consolidated group when the parent company has or can have direct or indirect control over them.

In the preparation of the consolidated financial statements of the ICF Group, all the subsidiaries and consolidated structured entities were fully consolidated. Associates, such as Avalis de Catalunya, were valued using the equity method.

The difference between the consolidated group of companies for the purposes of the capital requirements regulations and the Accounting Circular is primarily that the capital requirements regulations only take into account institutions included in the scope of consolidation as a result of their activities, including:

- Credit institutions;
- Investment service companies;
- Investment companies, as defined in Article 9 of Law 35/2003 of 4 November on Collective Investment Undertakings;
- Management companies of collective investment schemes, including pension fund management companies and mortgage and asset securitisation fund management companies, whose corporate purpose is the administration and management of these funds;
- Venture capital companies and venture capital fund management companies;
- Organisations whose main activity involves share holdings, except for mixed financial holding companies subject to supervision as a financial conglomerate and not controlled by a credit institution;
- Organisations, regardless of their name, by-laws or nationality, that carry out activities similar to those previously mentioned.

The chart below lists the reconciliation between accounting capital and regulatory capital at 31 December 2018:

	Capital Requirements Regulations	Bank of Spain Circular 4/2017
	Eligible Capital	ICF Group Net Equity
Tier 1	843.15	
Paid-up capital	693.15	693.15
Reserves	138.55	138.55
Income for the year	13.13	13.13
(-) Intangible assets	(0.82)	-
(-) Deduction for material financial investments	(0.64)	-
(-) Deduction for non-material financial investments	-	-
(-) Deduction for deferred tax assets	(0.23)	-
(+/-) Remeasurements	-	16.74
Tier 2	21.67	
General provision	91.03	-
(-) Excess general provision	(69.36)	-
(+/-) Remeasurements	-	-
Total	864.82	861.57

3.5 Other Information of a General Nature

There are no material or legal impediments to the transfer of equity from the parent company, ICF, to its subsidiaries, provided the applicable legal framework is complied with and the necessary procedures are carried out.

Furthermore, providing that the subsidiaries comply with their by-laws and minimum reserve requirements, there are no material or legal impediments to equity transfers from the subsidiaries to the parent company.

There are no entities excluded from the consolidated Group whose capital is below the minimum level required by capital requirement regulations.

4. ORGANISATION AND GOVERNANCE OF RISK MANAGEMENT

4.1 Strategies and Processes for Managing Risks

In 2018, the Group continued consolidating its risk control and management model based on the three lines of defence, adopting the EBA's guidelines on internal governance (GL44, published in 2011, and EBA/GL/2017/11, published in 2017).

The model establishes three lines of defence:

- First line: the managers and owners of the ICF Group's control environment responsible for processes and matters where a need for controls has been detected or defined;
- Second line: this includes the regulatory compliance and internal control functions and those of the Global Risk Control Committee, whose duties include the design and maintenance of the Group's risk models and ensuring they are correctly applied in all management areas;
- Third line: this is carried out by the Internal Audit function which conducts an independent review to ensure the compliance and effectiveness of the corporate policies.

The ICF Group's risk control policies establish the general lines of the Risk Management System applicable to the consolidated group. Furthermore, for each type of risk several levels of responsibility are established and these are assigned to decision-making bodies and specific committees so that the responsibility for all risk is explicitly assigned.

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

- Ensure that risks that may affect the Group's strategies and objectives are adequately identified, analysed, assessed, managed and controlled;
- Achieve the strategic objectives of the Group as to profitability and risk;
- Ensure the management of risk takes into account risks and opportunities;
- Ensure the proper use of financial instruments in accordance with their investment objective and risk hedging and with the requisites of applicable regulations;
- Inform with transparency about the risks of the Group, reporting to the different Committees and Governing Bodies according to the attributions they have assigned.

4.2 Risk Policies

The ICF Group has processes for identifying risk and analysing scenarios that allow it to manage these risks actively. Risks are detected and measured consistently using the methodologies it deems appropriate on a case-by-case basis.

The main risks that may affect the ICF Group are:

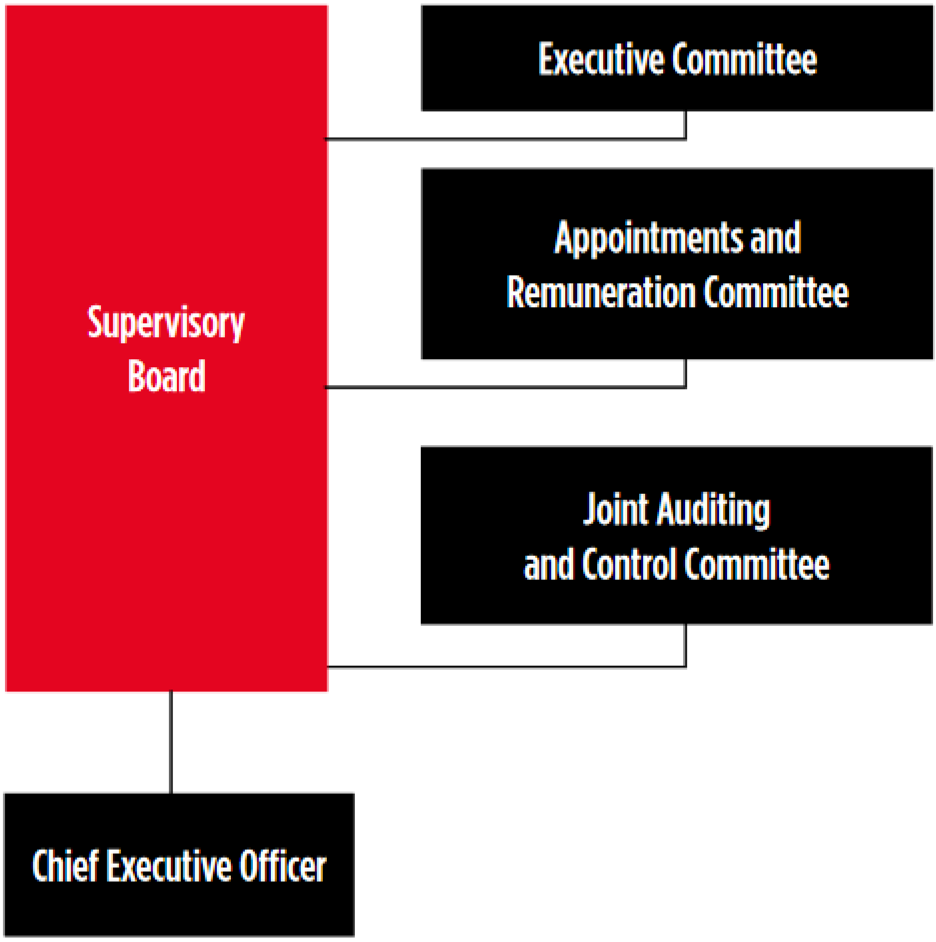
- **Credit risk**: the possibility of incurring losses due to borrowers failing to meet their payment obligations or a deterioration in their creditworthiness;
- **Counterparty credit risk:** risk that the counterparty in a financial operation, especially with derivative instruments and other operations with deferred settlement or loan repayments, may default before the final settlement of the cash flows of this operation;
- **Market risk**: the possibility of incurring losses in the value of positions held in financial assets due to adverse changes in the risk factors which affect their prices or quotes;
- **Liquidity risk**: the risk of incurring losses due to a lack of sufficient liquid funds or an increase in funding costs, which prevents compliance with the commitments undertaken as they become due, together with the risk of being unable to unwind a position as a result of market imperfections;
- **Interest rate risk**: the possibility of incurring losses due to changes in interest rates affecting balances that are sensitive to fluctuations;
- **Operational risk**: the possibility of incurring losses when internal processes are inadequate or flawed due to actions by staff or as the result of external events. This includes legal risk but excludes strategic and reputational risk.

4.3 Structure and Organisation of Risk control and Management

The risk control and management structures of the ICF Group are organised globally, forming part of a comprehensive management framework under the supervision of the Joint Auditing and Control Committee (JACC). The following sections describe the ICF's risk management and control structure and organisation as a parent company. Information on the subsidiaries is contained in the annexes.

4.4 Supervisory Board and Delegate Committees

The organisational and functional structure related to the ICF's risk management and control is as follows:



The members of the Board and committees at 31 December 2018 were as follows:

	Supervisory Board	Executive Committee	Control Committees
Independent Members	Casas Selva, Francesc Domingo Piera, Mercedes Verger Casasnovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luís	Casas Selva, Francesc Domingo Piera, Mercedes	Joint Auditing and Control: Verger Casasnovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luís Appointments and Remuneration Casas Selvas, Francesc Domingo Piera, Mercedes
Public Sector Members	Obach Medrano, Ester Castellanos Maduell, Albert Villarroya Martínez, Matilde	-	-
Executive Members	Sanromà i Celma, Josep Ramon	Sanromà i Celma, Josep Ramon	-

Supervisory Board

The Supervisory Board has the broadest powers concerning the management of the institution and is its highest decision-making body. The decisions taken in this governing body relating to the management and supervision of risks are based on a comprehensive analysis of all those factors that have a degree of influence on the organisation. It also, therefore, takes into account the risks affecting the other subsidiaries constituting the ICF Group, while respecting the organisational and decision-making structure of the subsidiary concerned. Moreover, the Supervisory Board is responsible for approving policies on risk.

Within the specific scope of governance, the Supervisory Board has delegated certain powers to the following committees:

- Executive Committee
- Appointments and Remuneration Committee
- Joint Auditing and Control Committee (JACC):

The responsibilities of the **Executive Committee** are:

- To decide on all matters delegated by the Supervisory Board. Specifically, and in accordance with the powers delegated to it and in force at any time, to decide on investment proposals, either relating to credit investments or investments in venture capital or financial holdings;
- To decide on changes or modifications to the guidelines relating to the definition and creation of credit products, determining the limits and capabilities of campaigns or the types of products, and, lastly, changes relating to different types of liability and products for attracting deposits;
- To propose to the Supervisory Board changes to the credit investment and equity investment policies of the ICF;

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

- To propose the criteria and policies to be applied for the composition of the Supervisory Board taking into account the principles of honourability, suitability and good governance.
- At the request of the Supervisory Board, to evaluate proposals to appoint any member of the governing bodies. With regard to executive and key personnel, to carry out an evaluation when so requested by the Chief Executive Officer. Key personnel are those employees who can influence the risk profile of the entity as defined in banking regulations.
- To supervise the criteria applied for the identification and development of key ICF personnel.
- To propose to the Supervisory Board the remuneration policy and the system and amount of each fixed and/or variable remuneration of the members, executive and key personnel, ensuring it is compatible with the long-term interests of the institution and suits an effective risk management framework.
- To propose to the Supervisory Board educational programmes aimed at members to update their knowledge.
- To inform and give its opinion to the Supervisory Board regarding transactions that involve or may involve conflicts of interest in accordance with the Code of Good Practice.
- At the request of the Chair of the Supervisory Board, to issue opinions to help the Board make decisions on whether members of any governing body may take up a new position in another entity or on the early termination of the appointment of independent members of governing bodies.
- To make recommendations to the Supervisory Board for the appointment of a new chairperson or chief executive and, if necessary, make proposals to ensure that the process takes place in an orderly and well-planned manner.

The responsibilities of the Joint Auditing and Control Committee (JACC) are:

- To supervise the effectiveness of the control of the entity and the functions of Internal Audit, regulatory compliance and internal control, global risk control and risk management and information systems.
- To approve or amend the bylaws governing these functions while at the same time guaranteeing their independence and universal nature.
- To issue opinions to the Supervisory Board to help it make decisions concerning any matter within its remit, including any financial information to be published, and the creation or acquisition of holdings in entities whose corporate purpose or location is different from those approved in the ICF's investment policy.
- To supervise the preparation and presentation of regulatory financial information, ensuring its compliance with legal requirements and the proper application of accounting principles.
- To be promptly advised of any controlling action or specific requirement for information by a supervisory body irrespective of the department responsible for complying with such requests.
- To establish and supervise a mechanism that enables employees to confidentially notify any potentially significant irregularities.

Chief Executive Officer

The CEO is appointed by the Supervisory Board, on the proposal of the minister responsible for economy and finance in the Government of Catalonia, and is responsible for the ordinary and extraordinary representation of the ICF in all areas and situations. Josep Ramon Sanromà has been the CEO of the ICF since 22 February 2011.

The duties of the CEO include:

a) Managing and implementing the agreements and guidelines approved by the Supervisory Board.
b) Coordinating and supervising the work delegated by the Supervisory Board to the institution's committees and management bodies.
c) Representing the ICF on the governing bodies of the companies in which it has direct or indirect investments, independently of other forms of representation agreed between the institution and said companies.
d) Preparing and drafting the ICF's annual budgets, setting the debt limits and general operating targets included in said budgets, in order to present them to the Supervisory Board, together with the annual report, balance sheet and financial statements and proposed application of results.
e) The top level management and appointment of staff and the allocation of managers to the ICF's different functional areas.
f) The internal organisation and structure of the ICF in accordance with the guidelines approved by the Supervisory Board concerning its departments and services, executive committees and investment committees, in the manner the CEO considers most suitable for the performance of its ordinary operations, including the appointment of managers and defining the employment regime.
g) The CEO may propose for the approval of the Supervisory Board the changes and timely modifications in the delegated powers in force in order to keep them updated in accordance with the conclusions reached by the management and/or governing bodies in charge of following up their application.
h) Exercising the powers delegated to them by the Supervisory Board.

4.5 Management Divisions

The ICF's organisational structure comprises the following Management Divisions:

- Venture Capital and Capital Markets: responsible for the management of venture capital investments, treasury and capital markets;
- Lending and Credit Risk Management: responsible for the origination of operations, managing partnership agreements, analysing credit investment operations, managing and monitoring customers, modifying operations and recoveries;
- Finance and Operations: responsible for accounting, global risk control, management control, financial planning, operations management, technology, processes and general services;
- Audit, Compliance and Internal Control: tasked with the management and control of operational risk, regulatory compliance and internal control, and guarantees the existence of an adequate risk management internal control system, reasonably ensuring the efficiency and the effective use of resources, the reliability and consistency of accounting and management information, and compliance with legality.

Credit Investments

For the purposes of approving loans, the powers and duties related to the acceptance of risk are delegated via a pyramid structure:

- Supervisory Board
- Executive Committee
- Credit Investments Committee
- Corporate Financing Committee

Equity Investments

The ICF's organisational and functional structure related to making decisions on equity investments is presented below:

- Supervisory Board
- Executive Committee
- Equity Investment Committee

4.6 Risk Management and Control Functions

The divisions and units involved in the management of risk are:

Treasury and Capital Markets

Division responsible for implementing the investment and financing guidelines and policies set by the ALCO or the Management Committee. Its functions are:

- Ensuring compliance with investment policies and limits;
- Making and implementing investment decisions in line with established parameters.

Venture Capital Investments

The functions of this division include:

- Analysing proposed investments in venture capital instruments and financial investments;
- Proposing investments to the Equity Investment Committee and the Executive Committee;
- Due diligence: investigating the features and governance structure of instruments, remuneration of the investment firm, the replacement or removal of the investment firm and the loss of key personnel, distribution policy and capacity to attract investments.

Products and Risk Policies

The functions of this division include:

- Proposing and defining products and partnership agreements;
- Coordinating the development and updating of the Credit Investment and Risk department's manuals;

- Working with the IT Department on the development of management tools.

Credit Investments

The functions of this division include:

- Analysis and evaluation of loan applications;
- Requesting and obtaining information needed to study the operation;
- Drawing up analysis reports;
- Submitting recommendations to the appropriate decision-making level;
- Preparing loan contracts;
- Ensuring guarantees are correctly recorded and reviewing information systems;
- Disbursing loans.

As regards the approval of operations, risk acceptance is organised via a system for delegating powers and attributes through a pyramid structure, which commences with the Supervisory Board and concludes with the Corporate Financing Committee. This system of delegation is proportional to the risk borne; it also provides the conditions to respond efficiently in due time and manner to customer requests for financing. Different authorisation levels are therefore set for the approval of credit investments, largely based on the size of the operation and the cumulative amount with the business group.

Risk Monitoring and Management

This division's functions include:

- Proactive monitoring: defining and implementing systems to detect incidents;
- Reactive monitoring: carrying out specific measures and regular reviews of risk groups;
- Submitting portfolio indicators to the Supervisory Committee and monitoring expected portfolio losses;
- Analysis and evaluation of adjustments to operations due to customer payment difficulties;
- Proposing adjustments to operations to the Supervisory Committee;
- Management of operations subject to irregularities, undertaking negotiations to recover the investment;
- Management of legal proceedings and the control and supervision of external lawyers;
- Deciding upon the recovery strategy and its transfer to litigation.
- Monitoring bankruptcy proceedings;
- Management of auctions and proposals for payment in kind;
- Management and sale of foreclosed assets;
- Cooperation with internal and external auditing and third parties, particularly ministries of the Government of Catalonia, to coordinate aspects of related-party transactions;
- Generation of management reports for the Business Financing Division and governing bodies of the ICF;

Regulatory Compliance

This division's objectives include:

- Developing a control environment for all legislation covering the effective supervision of risks requiring the establishment of internal control mechanisms and defining procedures for related activities, such as the prevention of money laundering and terrorist financing, personal data protection.
- Monitoring internal issues that may be significant for the reputation of the ICF and its Group, and contributing to the development of measures which the Regulatory Compliance division will be involved in implementing, such as codes of conduct, security or internal governance.
- Submitting an annual work plan to the Joint Auditing and Control Committee (JACC) for approval, together with regular performance reports.

Audit and Internal Control

This division's functions include:

- Preparing audit plans, which are to be reviewed at least once a year. These must take into account the specific requirements of the Joint Auditing and Control Committee (JACC) and be submitted for its consideration and approval;
- Reporting to and keeping the Joint Auditing and Control Committee informed of all reports, findings and conclusions regarding auditing, research and consultancy activities, submitting this information previously to the CEO and the divisions involved for their consideration, where appropriate;
- Regularly reporting to the Joint Auditing and Control Committee (JACC) on the progress of audit plans and other relevant activities;
- Supervising the entity's internal control system, identifying focuses and situations of risk that can be mitigated.
- Examining and assessing management systems and procedures, risk assessment and control, and the assessment methods used;
- Regularly monitoring the compliance, appropriateness and effectiveness of the Group's policies, procedures, information systems and internal control systems, ensuring they conform to laws, standards and regulations;
- Assessing the degree of implementation and effectiveness of recommendations issued both in its internal reports and those from independent experts or supervisory bodies, and informing the Joint Auditing and Control Committee (JACC) as to these matters.

Global Risk Management Unit

This division's functions include:

- Measuring, analysing and monitoring credit, market, liquidity and interest rate risks, both quantitatively and qualitatively;
- Revising and validating risk control models;
- Preparing regular risk limit reports for submission to the ALCO and Global Risk Control Committee, as well as the pertinent regulatory reports;
- Reviewing risk policies and manuals;
- Calculating, analysing and monitoring the capital ratio;
- Developing stress tests to assess the potential exposure to each risk in adverse scenarios and carrying out back-testing;

- Actively participating in the development of the institution's risk strategy and in all important risk management decisions;
- Presenting a complete picture of the range of risks to which the ICF Group is exposed;
- Sending periodic summaries of the position vis-à-vis different risks to the Joint Auditing and Control Committee (JACC). Submitting to the JACC the Prudential Relevance Report after it has been reviewed by Internal Auditing.

4.7 Committees

Notwithstanding the above roles and responsibilities, the following committees are also responsible for the management of risk:

- Global Risk Control Committee: this Committee oversees the risks to which the entire ICF Group is exposed, with the exception of Avalis de Catalunya, and determines whether they are in line with the target risk profile established.

- Asset and Liability Committee (ALCO): responsible for supervising interest rate and liquidity balance risks. It also checks that the investment and financing strategies are optimal and consistent with the profitability and risk levels which the institution is prepared to assume.

5. ELIGIBLE CAPITAL AND CAPITAL REQUIREMENTS

5.1 Eligible Capital

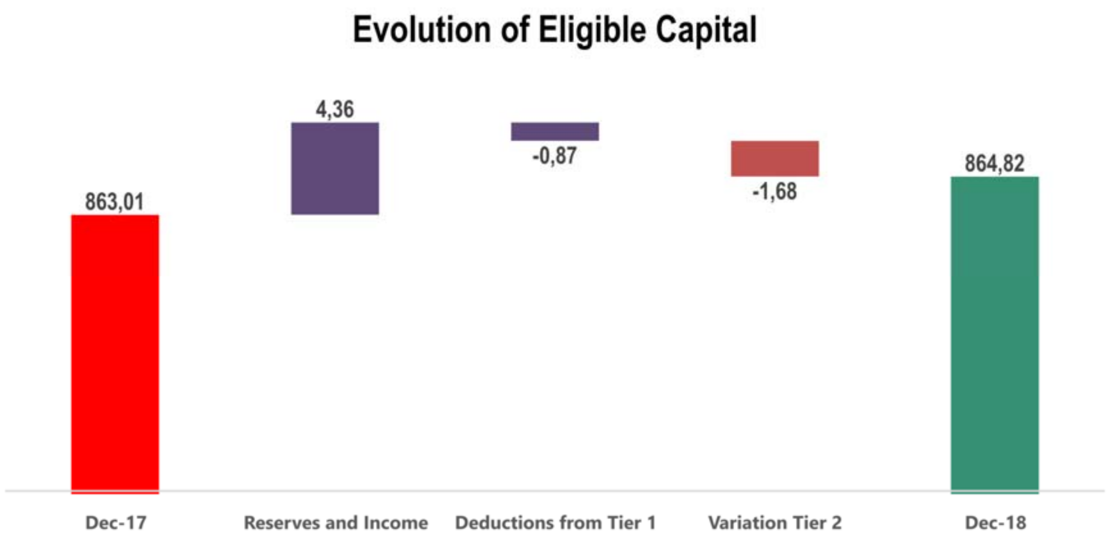
At 31 December 2018, the ICF Group's eligible capital, according to CRD IV, was as follows:

ELIGIBLE CAPITAL ICF GROUP	2018	2017
Tier 1 (in millions of euros)	843.15	839.66
Paid-up capital	693.15	693.15
Reserves	138.55	132.28
Income for the year	13.13	15.05
(-) Intangible assets	(0.82)	(0.81)
(-) Deduction for material financial investments	(0.64)	-
(-) Deduction for non-material financial investments	-	-
(-) Deduction for deferred tax assets	(0.23)	
(+/-) Remeasurements	-	-
Tier 2 (in millions of euros)	21.67	23.35
General provision	91.03	30.14
(-) Excess general provision	(69.36)	(6.79)
(-) Deduction for material financial investments	-	-
(-) Deduction for non-material financial investments	-	-
(+/-) Remeasurements	-	-
Eligible capital = Tier 1 + Tier 2	864.82	863.01

The increase in reserves and income for the year had a positive impact of 4.36 million euros on Tier 1 capital. However, the increase in deferred tax assets and significant holdings above the regulatory limits for deduction purposes in 2018 generated a 0.87 million euro negative impact on Tier 1. The net increase in Tier 1 capital compared to 2017 was 3.4 million euros, bringing the total to 843.15 million euros.

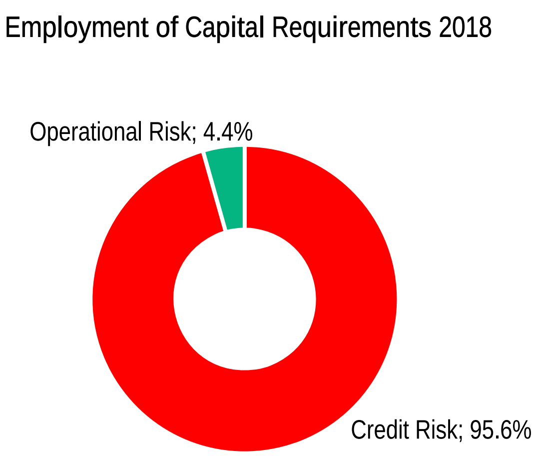
At the end of 2018, provisions for normal risk subject to special surveillance had been increased by 60 million euros. This effect has significantly increased excess generic coverage compared with 2017. This has not been translated into an increase in Tier 2 because of the regulatory limitations that affect the calculation of Tier 2 capital, which has decreased, with respect to 2017, by 1.68 million euros because of the decrease in RWA.

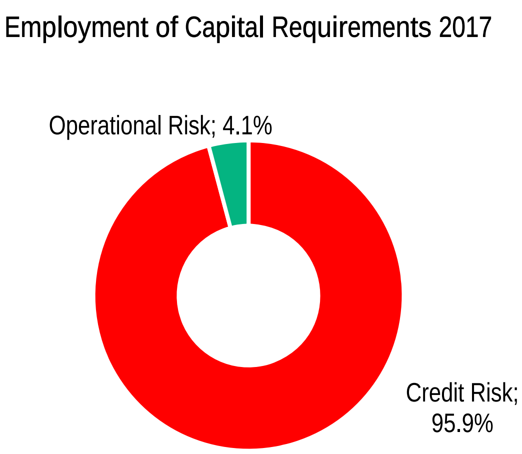
Total regulatory capital (Tier 1 plus Tier 2) increased by 1.81 million euros, to 864.82 million euros. The following chart shows these movements:



5.2 Capital Requirements

The breakdown of total capital requirements by credit risk at 31 December 2018 and 31 December 2017 was as follows:





The Group's main risk is credit risk, followed by operational risk. The Group applies the standard method of calculating the capital requirements for credit risk and the basic indicator method for operational risk.

A breakdown of the capital requirements at 31 December 2018 is presented below. It shows that the ICF Group's eligible capital is significantly higher than the minimum total capital ratio of 9.875% established in European banking regulations for 2018. The regulations stipulate that in 2019 the regulatory limit will be raised to 10.5%.

Amounts in Euro	Exposure	Net exposure	Risk weighting	Risk-Weighted Assets (RWA)	Capital Requirements (9.875% RWA)	%
CREDIT RISK	3,127,819,946	2,671,193,633	77.9%	2,080,190,465	205,418,808	95.6%
a) Credit Risk - credit investments	1,801,751,585	1,696,422,259	80.3%	1,362,862,619	134,582,684	62.6%
Direct loans	1,613,566,794	1,508,237,467	81.2%	1,225,054,296	120,974,112	56.3%
Normal - public authorities	417,487,846	417,487,846	58.7%	244,987,254	24,192,491	11.3%
Normal - other resident sectors	1,059,187,752	1,059,187,752	89.6%	948,505,173	93,664,886	43.6%
Non-performing	136,891,195	31,561,869	100.0%	31,561,869	3,116,735	1.5%
Pass-through loans	57,065,710	57,065,710	84.7%	48,316,852	4,771,289	2.2%
Guarantees:	108,058,173	108,058,173	80.6%	87,109,082	8,602,022	4.0%
Normal - public authorities	43,735,632	43,735,632	71.4%	31,208,847	3,081,874	1.4%
Normal - other resident sectors	56,187,822	56,187,822	85.0%	47,765,516	4,716,845	2.2%
Non-performing	8,134,719	8,134,719	100.0%	8,134,719	803,303	0.4%
Capitalised admin and risk fees	3,413,601	3,413,601	69.8%	2,382,389	235,261	0.1%
Other financial assets (recapitalised multi-year loans and loan to Ministry of Agriculture and the Environment)	19,647,308	19,647,308	0.0%	-	-	0.0%
b) Credit risk - available	148,544,009	148,544,009	0.0%	-	-	0.0%
c) Credit risk - share holdings and venture capital	33,575,808	33,575,808	142.7%	47,907,666	4,730,882	2.2%
d) Credit risk - current accounts and deposits	110,752,505	110,752,505	34.1%	37,717,085	3,724,562	1.7%
e) Credit risk - fixed income investments (financial assets at fair value through other comprehensive income)	464,314,834	464,314,834	49.2%	228,210,842	22,535,821	10.5%
f) Credit risk - counterparty	364,368,028	13,071,041	72.8%	9,510,520	939,164	0.4%
g) Other assets (real estate, prepayments)	77,730,536	77,730,536	99.1%	77,025,130	7,606,232	3.5%
h) Amounts below the deduction threshold (subject to risk weighting of 250%)	126,782,641	126,782,641	250.0%	316,956,603	31,299,465	14.6%
of which, share holdings	66,538,496	66,538,496	250.0%	166,346,239	16,426,691	7.6%
of which, deferred tax assets	60,244,146	60,244,146	250.0%	150,610,364	14,872,773	6.9%
OPERATIONAL RISK (*)	95,213,104	95,213,104	100.0%	95,213,104	7,617,048	4.4%
TOTAL	3,223,033,051	2,766,406,738	78.6%	2,175,403,569	213,035,857	100.0%

(*) Capital requirements for operational risk are calculated as 15% of the 3-year average for the relevant indicator, as defined in Articles 315 and 316 of the CRR. According to Article 92, exposure is calculated by multiplying capital requirements by 12.5.

The total risk-weighted assets of the ICF Group amounted to 2,175,403,569 euros, of which 95.6% were loans, in line with the Group's activity. Minimum capital requirements (9.875%) amount to 213,035,857 euros, keeping a capital cushion of 651,781,152 euros available to the ICF Group.

Thousands of euros	2018
Capital Requirements (9.875% RWA)	213,035,857
Eligible Capital ICF Group	864,817,009
Buffer eligible capital ICF Group	651,781,152
ICF Group total capital ratio	39.8%

6. CREDIT RISK

6.1 Accounting Definition of Default and Impaired Positions

A financial asset is considered to be impaired and its carrying amount adjusted to reflect this impairment when there is objective evidence of a negative impact on the cash flows estimated to be received when the operation originated. This negative impact may be due to customer risk as a result of a default (objective default) or other causes (subjective default), or due to country-specific risk, understood as the risk linked to counterparties residing in a specific country and due to circumstances other than normal trading risk.

Financial instruments classified as loan investments are classified under the following categories according to the risk of customer or transaction default:

- Stage 1 - Normal risk: Includes all debt instruments that do not meet the classification requirements of the other categories.
- Stage 2 - Risk subject to special surveillance: debt instruments and guarantees granted that do not fulfil the criteria to be individually classified as non-performing or failed but still show weaknesses, which may result in losses greater than those associated with similar operations classified as normal risk.
- Stage 3 – Non-performing due to customer arrears: all debt instruments, regardless of who is the account holder and any guarantees given, whose principal, interest or fees negotiated under contract are overdue by more than 90 days, unless classified as failed.

  This category also includes the total amount of a customer's transactions when the balances classified as non-performing due to arrears are over 20% of the amount of all receivables.

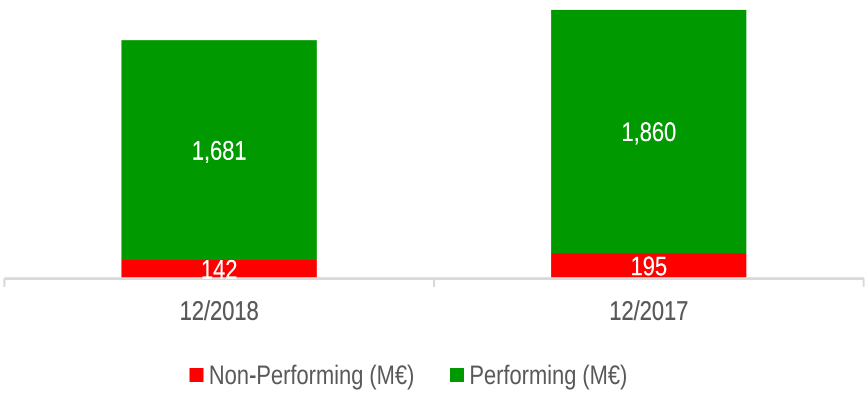
- Stage 4 – Non-performing for reasons other than customer arrears: debt instruments, due or otherwise, that cannot be classified as non-performing due to arrears or failed, but where there is reasonable doubt that they will be repaid in full (principal and interest) in accordance with the terms agreed in the contract.

  This category includes operations with customers where there are indications of impairments to their solvency, such as negative equity, continued losses, general delays in payments, inadequate financial structure, insufficient cash flow for the repayment of debt, outstanding balances subject to legal claims by the Group although they are covered by guarantees, and operations with customers that have declared or will declare bankruptcy without going into liquidation.

The risk of customers declaring bankruptcy without going into liquidation is reclassified to normal risk when the borrower has paid at least 25% of the bank loans affected by the proceedings (considering any haircut applied, if applicable), or after two years have elapsed since the bankruptcy settlement was entered into the Companies Register, provided payments are made regularly and the financial and equity situation has removed any doubts as to whether the loan will be repaid in full.

Failed risk: includes debt instruments, overdue or otherwise, whose recovery after individual analysis is considered remote and which have been written off the balance sheet. Unless proved otherwise, this includes all amounts from bankrupt customers who have declared or will declare they are in liquidation, as well as the balances from non-performing operations due to arrears that are older than 4 years, unless the amounts are covered by effective guarantees.

Non-performing loans, including guarantees, as a proportion of the total portfolio at the end of 2018 and 2017 were as follows:



It should be noted that the classification of operations into financial asset portfolios and the accounting method used, including the possibility of recording impairments, is determined based on the contract conditions and the nature of the cash flows of the operations and the business model used by the entity in its management.

6.2 Remeasurements due to Impairments and Provisions for Contingent Liabilities and Commitments

The coming into force of Circular 4/2017 has led to a substantial change in the impairment model, replacing the loss incurred approach included in Circular 4/2004 by an approach based on expected loss.

The expected loss will be based on the expected credit losses associated with the probability of default over the next twelve months, except where there has been a significant increase in credit risk since the initial recognition. In this case, the estimate will have to consider the likelihood of default during the expected life of the financial instrument. Assessment of whether there has been a significant increase in credit risk must be based on reasonable, substantiated information that is available without cost or disproportionate effort and is indicative of increases in credit risk from the initial recognition, reflecting historical, current and forward-looking information.

Methods for estimating expected credit losses through insolvency

Impairment losses on these instruments equate to the negative difference between the current values of their expected future cash flows discounted at the effective interest rate and their respective carrying amounts.

When estimating the future cash flows of the debt instruments the following are taken into account:

- The total amount expected to be obtained during the remaining life of the instrument, including, if applicable, amounts that may be payable under the guarantees covering it (after deducting the costs necessary for their foreclosure and subsequent sale). The impairment loss takes into account the probability of collecting interest which is accrued, expired or not collected.

- The different types of risk to which each instrument is subject.

- The circumstances in which payment could foreseeably occur.

The assessment of possible impairment losses on these assets depends on whether customers are considered individually material or non-material, following a review of the portfolio and the monitoring policy applied by the entity.
Once the thresholds are set, the process is as follows:

- Individualised analysis: for individually significant assets, an analysis is carried out to identify customers with objective evidence of impairment (OEI), dividing them into two groups:

  • Customers with OEI: the loss incurred is calculated as the difference between the present value of the expected future flows (repayment of the principal plus interest) for each customer operation (discounted using the original effective interest rate) and its carrying amount. Accordingly, both the going concern and the gone concern hypotheses are considered.
  • Clients with no OEI: there is no objective evidence of impairment and no type of provision is required, given their acceptable credit situation. These exposures are classified under homogeneous risk groups and are tested collectively for impairment.

- Collective testing: for non-significant exposure with OEI and other cases of exposure, a collective calculation is made for homogeneous risk groups, to obtain both the generic provision associated with a group of operations and provisions for specific operations which have similar risk characteristics, allowing them to be classified in homogeneous groups. For these purposes, the ICF uses the risk parameters of Bank of Spain Circular 4/2017 as a reference with the minimum percentages specified, which are based on historical experience of the Spanish market, increased if considered necessary for any group in particular, as identified by the Group.

6.3 Movements in 2018 due to Impairments, Provisions for Risk and Contingent Liabilities for Credit Risk

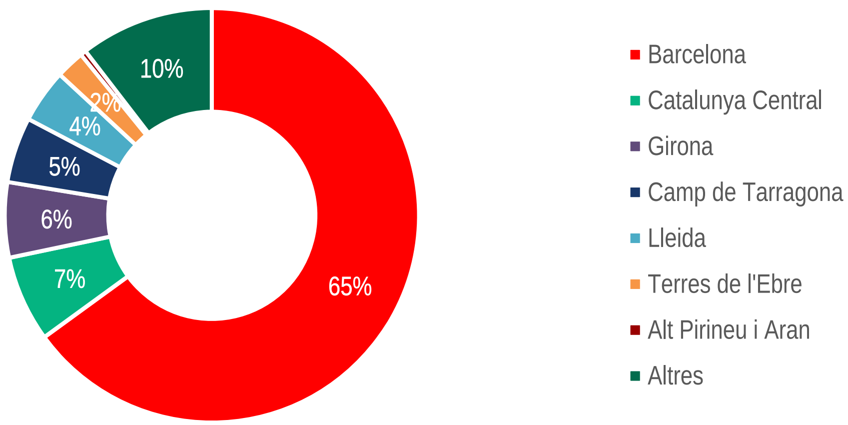
The movements in impairment losses recorded in 2018 are shown in the table below. At 31 December 2018, provisions for non-impaired operations includes an amount of 10,117 thousand euros for operations classified as normal and 79,128 thousand euros for operations classified as normal under special surveillance. At 31 December 2017 the general provision included a provision of 18,836 thousand euros for instruments under special surveillance and 10,458 thousand euros for instruments subject to normal risk.

Thousands of euros	Not Impaired		Impaired		Total
2018	Individual	Collective	Individual	Collective	
Balance at 1 January 2018	-	1,668,292	110,958	76,399	1,855,649
Balance at 31 December 2018	-	1,537,015	80,978	55,897	1,673,890
Impairment					
Balance at 31 December 2017	-	(28,804)	(101,790)	(56,816)	(187,410)
Impact of Circular 4/2017	-	(10,282)	-	(1,236)	(11,518)
Balance at 1 january2018	-	(39,086)	(101,790)	(58,052)	(198,928)
Charges / Recoveries	-	(29,882)	1,926	(1,803)	(29,759)
Transfers	-	(20,277)	17,804	2,473	-
Transfer to Failed Risk	-	-	19,410	16,789	36,199
Balance at 31 December 2018	-	(89,245)	(62,650)	(40,593)	(192,488)

The coverage ratio for non-performing loans stood at 136.1%, higher than the sector average and a significant increase over the previous year, mainly due to the application of the new Bank of Spain Circular 4/2017.

6.4 Geographical Distribution of Exposures

The ICF's activity by region at 31 December 2018 is shown below. The operations of the ICF Group focus on promoting the growth of Catalan companies, so its natural area of activity is the Autonomous Community of Catalonia:



The geographical breakdown used is based on traditional Catalan jurisdictions (vegueries). The Barcelona area represents 65% of the ICF's portfolio, in line with its share of Catalonia's total GDP. Figures for 2018 and 2017 are included for the purposes of comparison:

Area	2018	2017
Barcelona	65.0%	66.3%
Central Catalonia	6.7%	5.9%
Girona	5.9%	5.9%
Camp de Tarragona	5.1%	4.9%
Lleida	4.2%	4.5%
Terres de l'Ebre	2.2%	2.2%
Alt Pirineu and Aran	0.5%	0.5%
Other	10.4%	9.8%
Total	100.0%	100.0%

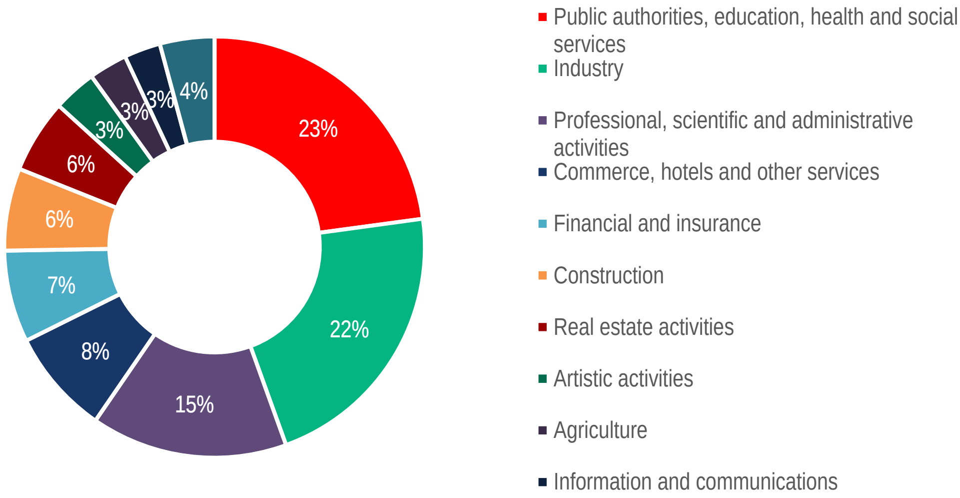
The table below shows the gross carrying amount of loans (broken down into non-performing and performing loans), provisions for impairments and net carrying amount (total carrying amount less provisions for impairments) by sector:

Thousands of euros	Non-Performing	Performing	Provisions	Total
Barcelona	92,115	1,099,777	(132,832)	1,059,059
Central Catalonia	4,873	110,388	(5,793)	109,467
Girona	14,532	94,811	(13,758)	95,585
Camp de Tarragona	1,542	90,387	(8,640)	83,289
Lleida	10,032	62,738	(4,441)	68,329
Terres de l'Ebre	576	38,914	(3,104)	36,386
Alt Pirineu and Aran	2,059	7,690	(2,399)	7,350
Other	16,269	176,154	(22,359)	170,064
Total (*)	141,997	1,680,859	(193,327)	1,629,529

(*) The differences between this total and net credit risk exposure as calculated by the capital ratio are caused by the different treatment of generic provisions, remeasurements and managed funds.

6.5 Distribution of Exposure by Counterparty or Sector

Based on the sector classification used by IDESCAT[1], 59.6% of the total was concentrated in 3 sectors at 31 December 2018 (industry; public authorities, education, health and social services; and professional, scientific and administrative activities).



The breakdown by IDESCAT sectors at year end 2018 and 2017 is as follows:

Area	2018	2017
Public authorities, education, health and social services	22.9%	19.9%
Industry	21.6%	19.6%
Professional, scientific and administrative activities	15.1%	13.9%
Commerce, hotels and other services	8.1%	9.2%
Financial and insurance	7.1%	6.7%
Construction	6.3%	6.3%
Real estate activities	5.7%	7.7%
Artistic activities	3.3%	3.6%
Agriculture	3.0%	2.8%
Information and communications	2.8%	3.4%
Other	4.2%	6.8%
Total	100.0%	100.0%

The table below shows the gross carrying amount of loans (broken down into non-performing and performing loans), provisions for impairments and net carrying amount (total carrying amount less provisions for impairments) by sector:

[1] http://www.idescat.cat/cat/idescat/publicacions/cataleg/pdfdocs/ccae2009.pdf

Thousands of euros	Non-Performing	Performing	Provisions	Total
Industry	37,582	344,947	(30,154)	352,375
Professional, scientific and administrative activities	20,945	250,977	(25,751)	246,172
Shops, hotels and other services	36,535	137,054	(41,829)	131,760
Public authorities, education, health and social services	1,504	389,638	(18,788)	372,353
Information and communications	12,101	49,059	(15,437)	45,723
Financial and insurance	5,467	125,792	(16,251)	115,008
Construction	1,110	106,518	(4,340)	103,287
Artistic activities	6,482	56,359	(8,496)	54,345
Real estate activities	15,989	102,405	(26,262)	92,132
Agriculture	4,021	48,070	(3,967)	48,124
Other	263	70,040	(2,052)	68,251
Total	141,997	1,680,859	(193,327)	1,629,529

(*) The differences between this total and net credit risk exposure as calculated by the capital ratio are caused by the different treatment of generic provisions, remeasurements and managed funds.

6.6 Distribution of Exposure by Residual Maturity

The chart below shows the maturity of all instruments (customer loans, deposits in credit institutions, debt securities, etc.) at 31 December 2018, based on their remaining periods of maturity at said date, according to their contractual terms:

Thousands of euros	Demand Deposits	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash, deposits in central banks and other on-demand deposits	90,467	-	-	-	-	-	90,467
Loans and receivables	25,051	17,224	81,963	225,508	671,239	526,866	1,547,851
Deposits with credit institutions	*10,291*	*3,367*	*5,325*	*17,911*	*39,936*	*404*	*77,233*
Customer loans	*14,760*	*13,857*	*76,638*	*207,597*	*631,303*	*526,463*	*1,470,618*
Debt securities	0	1,091	6,588	45,800	408,741	2,242	464,462
Total assets	115,517	18,315	88,551	271,308	1,079,980	529,108	2,102,780

6.7 Impairment Losses and Reversals for Previously Recognised Losses

Impairment losses in financial years 2018 and 2017 are as follows:

Thousands of euros	2018	2017
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:	(14,519)	(25,023)
Allocations to allowances	*(60,669)*	*(87,159)*
Recoveries	*32,965*	*56,155*
Other	*13,185*	*5,981*
Total loans and receivables	(14,519)	(25,023)
Impairments to available-for-sale financial assets	-	(574)
Total other available-for-sale financial assets	-	(574)
Financial assets at cost	-	(322)
Total financial assets at cost	-	(322)
Total assets	(14,519)	(25,919)

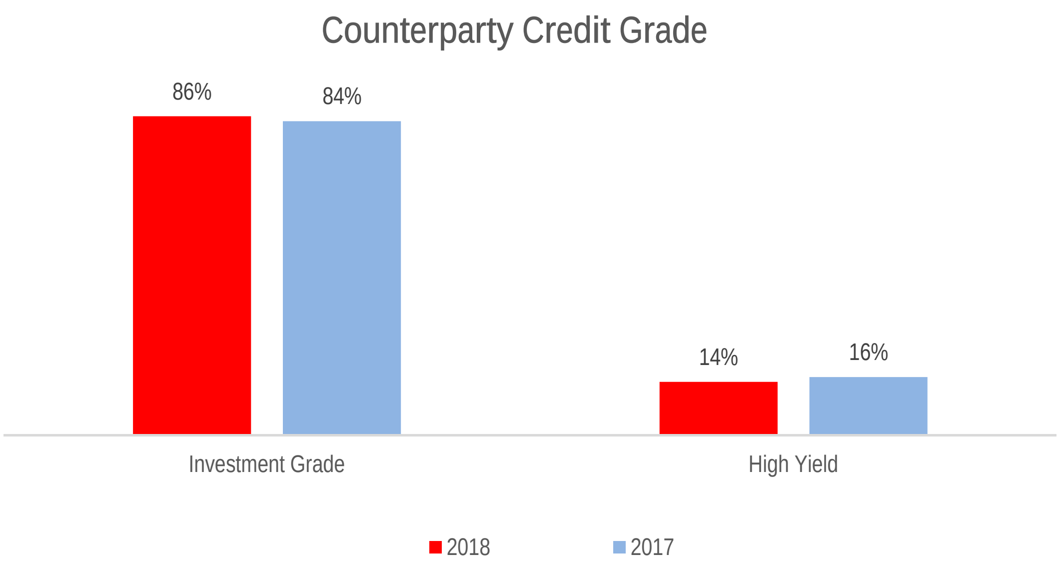
6.8 Regulatory Framework

Credit risk is the possibility of economic loss arising from borrowers' potential failure to meet their financial obligations. This risk is calculated according to the standard method (Chapter 2, Section 1 of Regulation (EU) No 575/2013). Credit risk adjustments and risk mitigation techniques are applied according to Articles 442 and 453 respectively of Regulation (EU) No 575/2013.

6.9 External Credit Assessment Institutions (ECAI) Used

The ICF Group uses the External Credit Assessment Institutions (ECAI) recognised by the European Central Bank, S&P, Moody's, Fitch and DBRS, to determine the risk weighting applicable to exposure from fixed income investments, positions held with financial institutions (deposits, current accounts or promissory notes) and pass-through promotional loans. The conditions indicated in Regulation (EU) No 575/2013, Article 138, are applied to determine the final credit assessment per exposure.

The graph below shows the Group's exposures to fixed income investments, deposits, current accounts, bank notes, and pass-through loans in 2018 and 2017: 86% of total exposure corresponds to Investment Grade investments, while 14% of exposure in high yield corresponds to investments in Government of Catalonia bonds.



6.10 Application of Risk Reduction Techniques

The ICF Group generally applies the credit risk reduction techniques referred to in Article 453 of EU Regulation (EU) No 575/2013, on the basis of the guarantees received on risk exposures.

These guarantees may be real or personal in nature. The types of collateral accepted by the ICF Group mostly include first-lien mortgage guarantees. There are also asset-pledged cash guarantees that are associated, through the management application, with the risk positions that they guarantee.

Some exposures lack sufficient information regarding the aforementioned features. In these cases, the ICF Group has opted for the conservative criterion of not considering them eligible as collateral.

Lastly, it is worth mentioning that the ICF Group calculates capital requirements for credit risk according to Article 501.2 of Regulation (EU) No 575/2013 on exposures with small and medium-sized enterprises, which have a correction factor of 0.7619.

6.11 Capital Requirements for Credit Risk

The ICF Group applies the standard method for calculating risk-weighted assets for credit risk. At 31 December 2018, 95.6% of risk-weighted assets were classified under credit risk, a total of 2,080,190,465 euros. It should be borne in mind that these assets have been risk-weighted after applying risk reduction techniques acceptable under European banking standards.

6.12 Capital Requirements for Counterparty Credit Risk

Counterparty risk is the possibility of incurring losses as a result of the other contracting party to a financial operation failing to comply with the contracted obligations in good time and in an appropriate manner. The ICF Group, in compliance with Article 286 of Regulation (EU) No 575/2013 "Management of counterparty credit risk - policies, processes and systems" has defined:

- A counterparty credit risk management policy which falls within the ICF Group's Financial Risks Policy;
- Counterparty credit risk control systems and the maximum exposure limits established in the FIT TREASURY application, which manages the Group's own financial investments and its wholesale liabilities.

It should be pointed out that the ICF Group does not perform repurchase operations (repos) or use credit derivatives (CDS). The ICF Group only uses financial derivatives as a tool for managing financial risk. When these operations comply with certain requirements they are treated as hedging operations.

The capital requirements regarding counterparty credit risk stemming from the ICF Group's positions on interest rate derivatives are calculated based on the original exposure method, using the notional value of the contract weighted for the residual maturity and rating of the financial institution.

At 31 December 2018, the assets that are risk-weighted as a result of exposure to financial derivatives totalled 9,510,520 euros.

6.13 CMOF/ISDA agreements and netting processes

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 said 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 uses ISDA (International Swaps and Derivatives Association) or Spanish CMOF (Contrato Marco de Operaciones Financieras) contracts to secure counterparty derivatives. Thanks to the ISDA and CMOF contracts, the ICF Group has established netting agreements with the derivative counterparties it operates with, allowing it to perform offsets between contracts of the same type. The offsetting of positive and negative derivative market values with the same counterparty allows the Group, in the case of the bankruptcy of the former, to owe (or be owed) a single amount, and not a set of values for each individual transaction.

The ICF Group complies with the requirements of EMIR regulations (Regulation (EU) No 648/2012). This regulation came into force on 15 September 2013 with effect as of 12 February 2014 and establishes reporting obligations that affect companies operating with derivatives. In the ICF Group, the only entity operating with derivatives is the ICF:

- The ICF is classified as a non-financial counterparty (NFC) and is obliged to report derivatives annually to one of the four official registries established by the European Securities and Market Authority (ESMA);

- The ICF's LEI code (legal entity identifier) is 95980020140005008869.

7. MARKET RISK IN THE TRADING PORTFOLIO

Market risk is defined as the possibility of incurring losses in the value of positions held in financial assets due to price variations. The ICF Group's risk policies do not allow it to use a trading portfolio.

7.1 Capital Requirements for Market risk

The ICF Group is not permitted to hold a trading portfolio, hence it has no capital requirements for market risk.

8. STRUCTURAL INTEREST RATE RISK

8.1 Regulatory Framework

Article 448 of Regulation (EU) No 575/2013 states that financial institutions must disclose the following information concerning exposure to interest rate risk on positions not included in the trading portfolio:

- The nature of the interest rate risk, basic assumptions and the frequency with which it is calculated;
- Changes to revenues, economic value or other relevant measures used as a result of changes in interest rates.

Article 98, paragraph 5 of Directive 2013/36/EU sets out the need to evaluate the impact on economic value of structural interest rate risk variations.

8.2 Nature of Interest Rate Risk

Structural interest rate risk is inherent to the activity of the ICF Group and is caused by changes in the interest rate curve, which impact on the interest margin and on the economic value of the institution.

The main sources of interest rate risk affecting the ICF Group are:

- Risk of reinvestment or repricing: caused by differences in the time of maturity or the repricing of asset and liability transactions. For fixed-rate transactions, the risk occurs at the time of maturity, while for variable-rate transactions, this happens when the coupon is reset;

- Basis risk: this arises when the asset and liability positions are benchmarked against different bases (EUR3M, EUR6M, EUR 12M) in different proportions;

- Yield curve risk: caused by unexpected movements or changes in interest rates that do not equally affect all periods of the curve;

- Optionality risk: risk arising from explicit or implicit options affecting assets or liabilities.

8.3 Management of Structural Interest Rate Risk

The ICF Group monitors structural interest rate metrics monthly. This monitoring includes risk limits, which are defined in the Group's policies. The results of monitoring are reported regularly to the ALCO, the Global Risk Control Committee and the JACC.

Risk-Monitoring Metrics

Currently, the ICF Group uses the following structural interest rate risk metrics:

- Repricing gap. This measures the sensitivity of the net interest margin to changes in the interest rate curve caused by different maturity structures or the repricing of asset and liability transactions which are sensitive to interest rate movements;

- Net interest margin sensitivity. This measures the impact on the interest rate margin of changes in the interest rate curve. It is evaluated by comparing the 1-year net interest margin, according to the base scenario corresponding to the implicit market rate scenario, with the net interest margin obtained in a stress scenario. The result is expressed in relation to the net interest margin generated in the base scenario. The impact on the net interest margin is a metric based on dynamic scenarios, i.e. simulations of the behaviour of the future balance sheet to determine its value. For these simulations, behavioural hypotheses for balance sheet items are used to manage risk more realistically. To calculate the impact on the net interest margin, a one-year margin projection is used, with a constant balance structure (as defined in Bank of Spain Circular 2/2016, Standard 50).

- Sensitivity to economic value (EV). This measures the impact on the economic value of changes in the interest rate curve. This impact is evaluated by comparing the economic value calculated in the base scenario, which includes implicit market curves, with the result of the EV calculated for a stressed scenario. The result is expressed in relation to the economic value of sensitive balance sheet items

Sensitivity to Net Interest Margin and Economic Value

The ICF Group has defined internal scenarios to calculate the impact on the net interest margin and economic value. The scenarios used are detailed below:

Regulatory scenario. This scenario is defined according to the EBA/GL/2015/08 guide. The scenario applies an instantaneous parallel shift of +/-200 bp at all points on the yield curve. This disturbance includes a 0% floor on the curve. If the point is already negative, no disturbance is applied.

Parallel Scenario +/-100 bp. The scenario applies an instantaneous parallel shift of +/-100 bp at all points on the yield curve. This disturbance includes a 0% floor on the curve. If the point is already negative, no disturbance is applied.

The negative impact on the net interest margin of the -2.9% regulatory scenario and the 7.9% impact on economic value are below the established regulatory limits of 50% and 20% respectively (Article 98, Section 5 of Directive 2013/36/EU).

Scenario	Change in Economic Value	Change in Net Interest Margin
Regulatory Scenario (+/- 200 bp)	1% / 7.4%.	39.7% / -2.9%
Parallel Scenario (+/-100 bp)	0.2% / 6.5%	17.9% / -2.9%

In addition, the stress scenarios recommended by the EBA/GL/2018/02 guide have been included exclusively for their impact on economic value ("supervisor outlier tests"). These scenarios have a floor below 0% and act dynamically, depending on the current rate environment.

Parallel Up: Parallel increase of all points on the curve.

Parallel Down: Parallel decrease of all points on the curve.

Steepener shock. Fall in short-term rates and increase in long-term rates. General increase in the slope of the curve.

Flattener shock. Increase in short-term rates and decrease in long-term rates. General decrease in the slope of the curve.

Short rates up. Increase in short-term rates.

Short rates down. Decrease in short-term rates.

The results of this test are presented below and show that the interest rate risk assumed by the ICF Group is lower than the levels considered as significant (outliers with variations greater than -15%) according to the EBA/GL/2018/02 guide.

Scenario	*Change Economic value*
Parallel Up	+1.05%
Parallel Down	+7.42%
Steepener	-7.79%
Flattener	+16.92%
Short rates up	+16.44%
Short rates down	-2.03%
Maximum**	-7.79%

(**) Expresses the maximum loss.

Repricing Gap

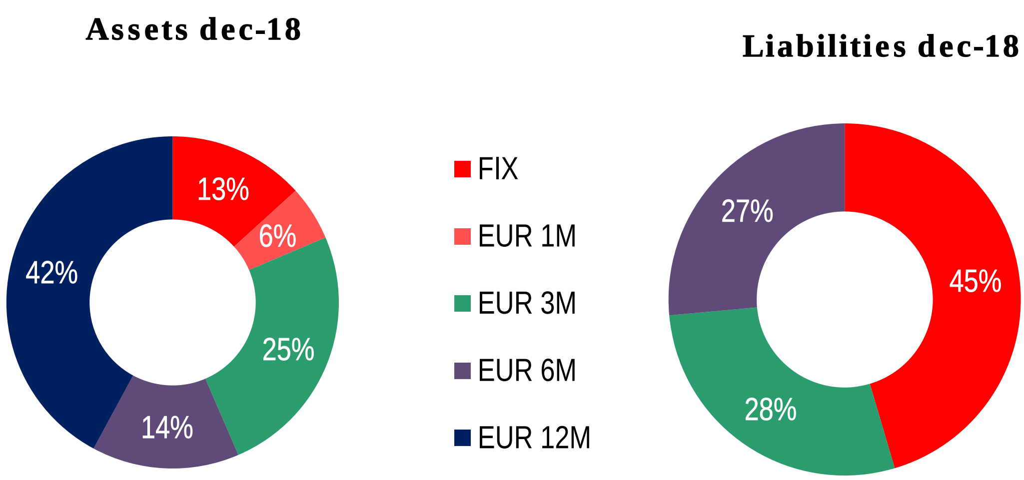
The static gap for the repricing of assets and liabilities at the end of December 2018 is as follows:

Thousands of euros	Sensitive Balance Sheet		% of Total Assets		STATIC GAP		
1st Repricing Gap	Assets	Liabilities	Assets	Liabilities	Simple	Cumulative	Cum. gap (%TA)
Up to 1 month	310,059	285,993	13.2%	12.2%	24,066	24,066	1.0%
1 to 3 months	640,340	305,182	27.2%	13.0%	335,158	359,225	15.3%
3 to 6 months	426,670	159,915	18.1%	6.8%	266,756	625,980	26.6%
6 to 12 months	405,251	49,143	17.2%	2.1%	356,108	982,088	41.7%
CUMULATIVE 12 months	1,782,321	800,233	75.7%	34.0%		982,088	41.7%
1 to 2 years	95,589	53,995	4.1%	2.3%	41,594	1,023,682	43.5%
2 to 3 years	13,599	32,041	0.6%	1.4%	(18,442)	1,005,241	42.7%
3 to 4 years	8,707	333,020	0.4%	14.1%	(324,312)	680,928	28.9%
4 to 5 years	13,672	44,232	0.6%	1.9%	(30,559)	650,369	27.6%
5 to 7 years	57,340	56,308	2.4%	2.4%	1,032	651,401	27.7%
7 to 10 years	5,956	19,544	0.3%	0.8%	(13,588)	637,813	27.1%
10 to 15 years	7,922	(4,413)	0.3%	-0.2%	12,334	650,147	27.6%
15 to 20 years	7,476	-	0.3%	0.0%	7,476	657,623	27.9%
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%

The repricing gap shows that in the short term the entity’s balance sheet is positioned for interest rate rises.

Basis Risk

The Group also controls its basis risk, analysing the distribution of benchmark bases for both assets and liabilities to determine whether their distribution in the balance sheet is in line with the Group's target interest rate exposure. The breakdown at 31 December 2018 is as follows:



8.4 Capital Requirements for Interest Rate Risk

The ICF Group has no capital requirements for interest rate risk.

9. EXCHANGE RATE RISK

9.1 Capital Requirements for Exchange Rate Risk

In accordance with Article 351 of Regulation (EU) No 575/2013, capital requirements for exchange rate risk may be considered to be zero when the sum of the overall net positions in foreign currency and gold do not exceed 2% of the eligible capital.

The ICF Group has no capital requirement for exchange rate risk or gold.

10. LIQUIDITY RISK

10.1 Regulatory Framework

According to European Directive 2013/36, institutions must identify, measure, manage and control liquidity risk. Regulation (EU) No 575/2013 refers to the publication of policies to manage this risk as part of Pillar III.

10.2 Nature of Liquidity Risk

The ICF Group is exposed to the following liquidity and financial risks:

- Financing liquidity risk: probability that the organisation will incur losses or be unable to take on new business due to the inability to meet its commitments or finance additional needs;
- Market liquidity risk: this is the risk to which the entity is exposed when it is unable to unwind a particular position as a result of market imperfections.

10.3 Management of Liquidity Risk

Unlike other financial institutions, the ICF Group has two distinctive features that simplify its liquidity management:

Absence of retail or wholesale deposits. In this respect, the Group sources financing through capital markets by means of fixed income issues and bank loans. The ICF Group therefore manages liquidity by matching the average maturity of assets with that of liabilities.

Activity focused on the medium and long term. This focus, together with a treasury position composed of current accounts, deposits and fixed income from liquid assets that exceeds 500 million euros at the end of 2018, ensures the ICF Group's day-to-day payment commitments are fully covered. The treasury position available at the end of 2018 is detailed below:

Treasury Position	31/12/2018	31/12/2017
Current accounts	€ 88,790,402	€ 81,080,220
Deposits and promissory notes	€ 10,000,000	€ 29,000,000
Fixed income	€ 458,659,000	€ 412,543,000
TOTAL	€ 557,449,402	€ 522,623,220

It should be noted that fixed income assets comply with a financial investment risk policy to ensure their status as liquid assets.

Medium- and long-term liquidity is managed within the areas of responsibility of the three lines of defence. In particular, the following areas and units are involved:

- Treasury and Capital Markets: designs and executes strategies for managing liquidity and obtaining funding as directed by the Assets and Liabilities Committee (ALCO);
- Global Risk Management Unit: responsible for monitoring and analysing liquidity risk, using risk metrics to anticipate potential variances. It also monitors the degree of compliance with the established risk limits.
- Asset and Liability Committee (ALCO): responsible for monitoring whether the Group's financial structure is in line with the liquidity needs and risk profiles established by the Supervisory Board. It also analyses liquidity scenarios and survival horizons, and proposes action plans.

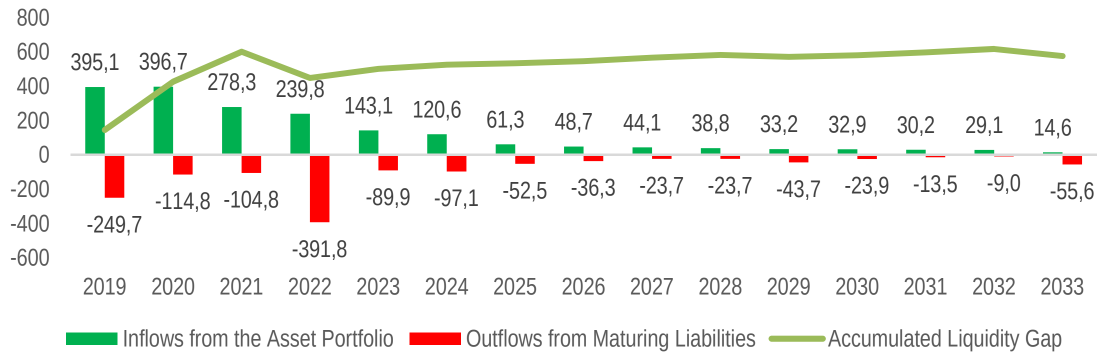
Liquidity Risk Metrics

Currently, the ICF Group manages liquidity risk by defining the following liquidity risk metrics:

- Static liquidity gap. This allows the temporal distribution of net cash inflows and outflows to detect possible liquidity shortfalls in a particular period. This is a projection of future flows with a static balance sheet.
- Survival horizon. This metric calculates the number of months an entity can meet its payment obligations without requiring new financing. The calculation of this metric is based on dynamic scenarios.
- Liquidity coverage ratio (LCR). This is a metric defined by the regulator in Delegated Regulation 2015/61, which complements Regulation (EU) 575/2013. The ratio was developed to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high-quality liquid assets (HQLA) to survive a 30-calendar day liquidity stress scenario.

Liquidity Gap

The ICF Group monitors the static liquidity gap each month. This gap is calculated in the short and long term to analyse possible mismatches between liquidity inflows for asset operations and liquidity outflows for liabilities. It should be noted that the cumulative liquidity gap is always positive:



Survival Horizon

At the end of 2018 the ICF Group had an available liquidity balance of 557 million euros, which is the starting point for calculating the survival horizon. Based on this initial liquidity, the following two dynamic scenarios can be defined:

- *Budget scenario.* This scenario simulates changes in the balance sheet over time, taking into account budgeted activity. It thus incorporates expected disbursements according to the budget.
- *Stressed scenario:* This scenario stresses the budget scenario, increasing new budgeted activity.

In the case of the stressed scenario, the result is 41 months, while the survival horizon of the budget scenario is greater than 48 months.

Liquidity Coverage Ratio (LCR)

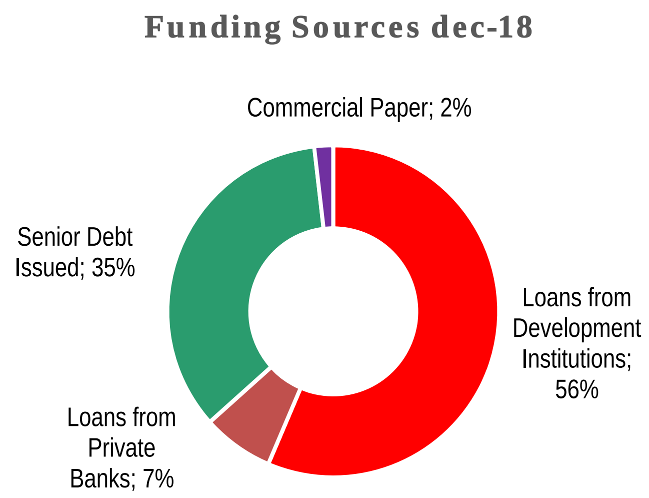
At 31 December 2018 the ICF complied easily with the minimum requirements for Supervised credit institutions, with an LCR ratio as follows:

	ICF LCR	Regulatory limit
31/12/2018	5,332%	100%

It should be pointed out that the LCR calculation performed by the ICF Group is based on conservative hypotheses. In order to make it more prudent, Level II assets are not taken into account.

10.4 Funding Strategies

The ICF Group has a liability structure with a net equity that represents 36% of total liabilities and equity. At the end of 2018, available equity totalled 861.5 million euros, which provides the ICF Group with solid funding sources, especially for long-term assets. Funding in the capital market is carried out mainly through fixed income issued and bank loans. The breakdown of financing by type of product is shown below:



10.5 Capital Requirements for Liquidity Risk

The ICF Group currently has no capital requirement for liquidity risk.

11. OPERATIONAL RISK

11.1 Definition of Operational Risk

The ICF Group adopts the definition of operational risk set out in Article 4 of Regulation (EU) No 575/2013: "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk".

The sources of risk the ICF Group includes in this definition are:

- Internal fraud
- External fraud
- Labour relations and workplace safety
- Customers, products and business practices
- Damage to material assets
- Business disruptions and system failures
- Process execution, delivery and management

11.2 Capital Requirements for Operational Risk

The ICF Group performs the calculation of capital requirements for operational risk using the basic indicator approach set out in Articles 315 and 316 of Regulation (EU) No 575/2013.

According to the basic indicator method, the capital requirement for operational risk is 15% of the average gross margin for three years as calculated below:

Amounts in euros	Average last 3 years
Interest and similar income	59,095,791
Interest and similar charges	-18,791,339
Income from equity instruments	1,028,545
Commissions received	3,160,909
Commissions paid	-707,150
Gains or losses on financial assets (net)	2,963,594
Exchange differences (net)	7,390
Other operating income	4,022,583
Total	50,780,322

OPERATIONAL RISK (capital requirements)	7,617,048

12. INFORMATION ON EQUITY INVESTMENTS AND INSTRUMENTS

12.1 Available-for-Sale Financial Assets and Portfolios Held for Strategic Purposes

Available-for-Sale Assets

The changes in 2018 under the heading “financial assets at fair value through other comprehensive income” are as follows:

Thousands of euros	2018	2017
Equity instruments		
Commitments in venture capital entities, net of returns	135,709	110,397
Outstanding payments from venture capital entities	(46,908)	(46,015)
(+/-) Remeasurements	5,846	211
Subtotal venture capital instruments	94,647	64,593
Other investments	10,824	10,824
Remeasurements	(10,800)	(10,800)
Subtotal other investments	24	24
Total equity instruments	94,671	78,875
Debt securities		
Nominal amount debt securities	458,859	419,743
(+/-) Remeasurements	5,603	11,553
Total debt securities	464,462	431,296
Total	559,133	510,171

The fair value of venture capital entities is measured using their listed price or their carrying amount in the case of unlisted companies.

When venture capital funds are created, the Group is committed to paying out a fixed amount to ensure these financial vehicles can perform the operations for which they were established.

In 2018, no dividends were recognised. In 2017, dividends 1,175 thousand euros were recognised, corresponding to two venture capital entities. The derecognition of equity instruments had a positive impact of 629 thousand euros in 2018, which, in accordance with the provisions of Note 2.b has been recorded against reserves.

Portfolios Held with Strategic Purposes

These investments are accounted for using the equity method using the best available estimate of their theoretical carrying amount on the date the annual financial statements were prepared.

Details of these companies' capital, reserves, and results, as well as the dividends they have distributed and accrued during the year, are provided in Annex II of the notes to the consolidated financial statements for

2018. Information on unlisted companies corresponds to the latest actual or estimated figures available on the date this report was prepared:

Thousands of euros	2018	2017
Avalis de Catalunya SGR		
Participation	6,080	6,776
Equity method	3,016	3,372
Closing balance:	9,096	10,148

12.2 Accounting Policies and Valuation of Equity Instruments

Remeasurement and Impairment: Venture Capital Investments

Calculation of Fair Value

Financial assets at fair value through other comprehensive income are always recorded at their fair value. Changes that occur in this fair value are accounted for with a balancing entry in net equity under "Other cumulative comprehensive income".

Officially listed debt securities and capital instruments are remeasured monthly, based on the information obtained from the organised markets in which they are quoted.

Investments are classified under three headings according to the difference between their cost and fair value:

1. Fair value > Cost of the investment

The investment is remeasured and the difference taken to net equity.

2. Fair value is between 90% and 100% of the cost of the investment.

Variations of up to 10% in the value of instruments are not treated as a loss of value but as a consequence of the associated management expenses, and are necessary for the creation of value in the companies financed by venture capital. Said amounts are not, therefore, subject to any accounting adjustments.

3. Fair value is less than 90% of the cost of the investment.

Any loss of value over 10% will be taken in full to net equity.

Remeasurement and Impairment: Equity Investments in Listed Companies and Debt Securities

These investments are remeasured each month on the basis of their listed price on organised markets. There is evidence of impairment when the market price is less than 60% of the cost of the investment or the listed price has fallen continuously for 18 months.

13. INFORMATION ON REMUNERATION

This information is prepared in accordance with:

- Directive 2010/76/EU, of 24 November
- CEBS guide to remuneration policies and practices
- Chapter XIII of Royal Decree 771/2011, of 3 June
- Bank of Spain Circular 4/2011, of 30 November, amending Circular 3/2008, of 22 May, to credit institutions on the determination and control of minimum own funds (Regulation 117b)

13.1 Information on the Decision-Making Process used for Establishing the Remuneration Policy of the Identified Group

The governing bodies involved in defining the remuneration policy of the identified group are the Supervisory Board and the Appointments and Remuneration Committee.

Supervisory Board

The ICF's Supervisory Board has the non-delegable duties and responsibilities attributed to a corporation's board of directors by the Spanish Corporate Enterprises Act. It is therefore responsible for decisions relating to the remuneration of its directors, within the framework of the remuneration policy approved by the sole shareholder.

The Supervisory Board is also authorised to determine the remuneration received by the organisation's directors, senior executives and key employees, at the proposal of the Appointments and Remuneration Committee.

Appointments and Remuneration Committee

Notwithstanding other duties that may be assigned to it by the Supervisory Board, the Appointments and Remuneration Committee has the following powers in relation to remuneration:

- Approve the appointment and progress of the entity's key personnel;
- Propose to the Supervisory Board the remuneration policy and the fixed and/or variable remuneration system and amounts received by the directors, senior management and key personnel identified; plus the other contractual conditions of senior executives;
- Propose annual remuneration for groups that must be approved by the Supervisory Board;
- Periodically review the general principles regarding remuneration;

The Appointments and Remuneration Committee is composed of three independent members and a secretary, who are appointed and dismissed by the Supervisory Board, based on the knowledge, skills and experience of the members and the duties of this committee. The members of this committee are selected in accordance with the requirements of suitability, honour and good governance, taking into account regulatory stipulations concerning conflicts of interest.

The committee meets at least twice a year and as often as necessary in order to perform its duties properly, and also when called by the CEO or requested by any of its members.

13.2 Identified Group

An identified group comprises individuals occupying positions whose level of responsibility and power to take risks has an impact on the entity's risk profile; It also includes any employee whose total remuneration is in line with that of the senior managers and employees who take on risks, and those performing professional activities which significantly affect the entity's risk profile. Specifically, at the date of this report, the following persons are deemed to be included in the ICF Group's identified group:

- Executive directors
- Non-executive directors
- Senior management and key personnel:

  - CEO
  - Director General of Venture Capital and Capital Markets
  - Director General of Credit Investments and Risk
  - CFO and COO
  - Corporate Director of Audit and Regulatory Compliance
  - Director of Finance
  - Director of Financial Instruments
  - Director of Regulatory Compliance
  - Director of Finance
  - Director of Risk Monitoring and Management
  - Director of Purchases and Services
  - Director of Treasury and Capital Markets
  - Director of Business Development
  - Director of Human Resources

13.3 Overview of the Group' s Remuneration Policy

The Group's remuneration policy is designed to encourage behaviours that ensure value is created over the long term with results that are sustainable. To this end, the variable remuneration system is based not only on targets but also on how these are achieved.

In accordance with the relevant legal framework and the corporate vision and strategy, the remuneration policy is based on the following principles:

- It must be in line with the business strategy, goals, values and long-term interests of the Group and its sole shareholder, including measures to avoid conflicts of interest;
- It must apply the principle of restraint and be linked to results based on prudent and responsible risk taking, producing a remuneration system that supports the profitability and long-term sustainability of the organisation, building in the precautions needed to prevent excessive risk taking and the rewarding of unfavourable results;
- Directors' pay must reasonably reflect the importance of the organisation and the current economic situation. This principle of proportionality is applicable to the general remuneration policy of the Group and takes into account its size, internal organisation, nature, the scope and complexity of its activities and its risk profile;
- The ratio between fixed and variable components of remuneration must be balanced and effective, so the fixed component represents a sufficiently high proportion of total remuneration;
- The remuneration paid to the members of the Supervisory Board must comply fully with the principles of transparency and public disclosure.

The current remuneration policy, proposed by the Appointments and Remuneration Committee, was approved by the Supervisory Board on 20 July 2015.

13.4 Qualitative Information on the Remuneration of the Identified Group

Directors, Members of the Supervisory Board

The remuneration policy for Group directors complies with the provisions of Articles 217 onward of the Spanish Corporate Enterprises Act as amended by Law 31/2014.

In any event, the remuneration of the members included in this remuneration policy is in reasonable proportion to the importance of the organisation and the current economic situation.

The public sector directors of the Supervisory Board receive no remuneration as they hold senior positions in the Government of Catalonia. The remuneration paid to independent members is entirely fixed, with no variable component, staff welfare benefits, remuneration in kind or any contractual term providing compensation for removal from office, or any savings or retirement schemes. In addition to fixed remuneration, the Executive Director receives variable remuneration assessed by the independent members of the Appointments and Remuneration Committee and, finally, the same benefits in kind as other employees.

The maximum annual amount the institution may pay to all the members of the Supervisory Board and members of the board committees is 200,000 euros.

In addition to the annual remuneration as members of the Supervisory Board, the independent members of the Executive Committee, the Joint Auditing and Control Committee and the Appointments and Remuneration Committee are entitled to the annual remuneration expressly agreed upon by the Supervisory Board in payment for the activity carried out and time dedicated.

The remuneration of executive directors complies with commercial legislation and comprises the following:

- Fixed remuneration that takes into account the level of responsibility of their role.
- Variable remuneration based on fulfilling target indicators, discharging their duties and the creation of long term value.

The institution has taken out civil liability insurance for all its directors.

Senior Management and Key Personnel of the Organisation

Fixed Remuneration

The fixed remuneration of senior executives and key personnel consists of predetermined, non-discretionary remuneration that does not directly depend on performance. It is established by taking into consideration the employee's level of responsibility, experience and, if applicable, length of service in the organisation.

The Appointments and Remuneration Committee is responsible for reviewing whether the fixed remuneration of senior executives is in line with the services provided and responsibilities assumed.

Since 2012 an optional Flexible Remuneration Plan has been in place for all employees, allowing part of their fixed remuneration to be paid in non-monetary benefits. The products they may choose from include: health insurance, meal coupons, transport tickets, childcare and training (for the portion not funded by the company).

Variable Remuneration

This is linked to the Group's objectives and to individual targets. It is, therefore, subject to the achievement of specific, measurable targets that are directly linked to the long-term interests of the institution insofar as they contribute to value creation.

It is linked to specific terms in line with prudent risk management, and not just based on the general performance of the markets. Financial and non-financial indicators are used, based on performance scales and in accordance with the weighting attributed to each indicator, as per the amended remuneration policy proposed by the Appointments and Remuneration Committee and approved by the Supervisory Board on 17 December 2015. The quantitative measures are based on indicators such as total activity volume, NPL ratios, gross margin and pre-tax profit.

The variable remuneration is only paid if pre-tax profits are at least 70% of budget.

The variable remuneration paid to key personnel who perform control functions within the Group is mostly independent of the achievement of targets in the business units they oversee.

The Appointments and Remuneration Committee ensures that the variable remuneration adheres to the principles of restraint and professional performance and is linked to the organisation's overall performance so that the combination of both fixed and variable remuneration is aligned with the organisation’s objectives.

13.5 Quantitative Information on the Remuneration of the Group Identified

The remuneration paid to the identified group of employees in 2018 was as follows:

(thousands of euros)	Directors (1)	Executives (2)	Total group
No. of beneficiaries	9	13	22
Fixed remuneration 2018	222	1,023	1,245
Variable remuneration payable for 2018 in accordance with public sector limits (*)	30	170	200

(*) Variable remuneration has been provisioned, subject to assessment by the Appointments and Remuneration Committee.

(1) Includes the Executive Director and other Directors, at 31/12/2018

(2) Includes Executives and Key Personnel