Institut Català de Finances

2019

Prudential Relevance Report

Pillar III 2019

Generalitat de Catalunya

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1. ICF GROUP PILLAR III

With the present document, the Institut Català de Finances Group (hereinafter, the ICF Group) complies with the requirements for public disclosures specified in Section 8 of Regulation (EU) No 575/2013 of the European Parliament and of the Council as applied to financial institutions, related to public reporting obligations on the risk profile of the institution, its risk control and management, its own funds and its solvency levels. This Regulation, together with Directive 2013/36/EU, enforces the CRR / CRD rules which came into force on 1 January 2014, implementing the Basel Committee on Banking Supervision 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 "Pillar III Disclosure Report" at least once a year.

Standard 59 of Bank of Spain Circular 2/2016 specifies that the contents of the P3D 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 P3D will be issued annually, or more frequently if necessary due to market conditions. The P3D will also be published on the ICF's website (www.icf.cat).

The contents of this report not included in the annual accounts have been reviewed by the ICF Joint Audit and Control Committee. The ICF Group also declares that no required information has been omitted because it is confidential or reserved.

2. INTRODUCTION

The ICF Group has a risk management and control model based on the three lines of defence, adopting the main requirements of the Guidelines of the European Banking Authority (EBA) on internal governance in accordance with criteria of proportionality (EBA/GL/2017/11 published in 2017).

The most significant risk is credit risk, which accounts for 96.1% of all risk-weighted assets, according to the nature of its business.

2.1 Balance sheet strength: solvency

The ICF Group maintains a much higher level of solvency than the minimum regulatory requirement, as a consequence of high equity levels and a conservative management policy. The evolution of the total capital ratio is set out below:

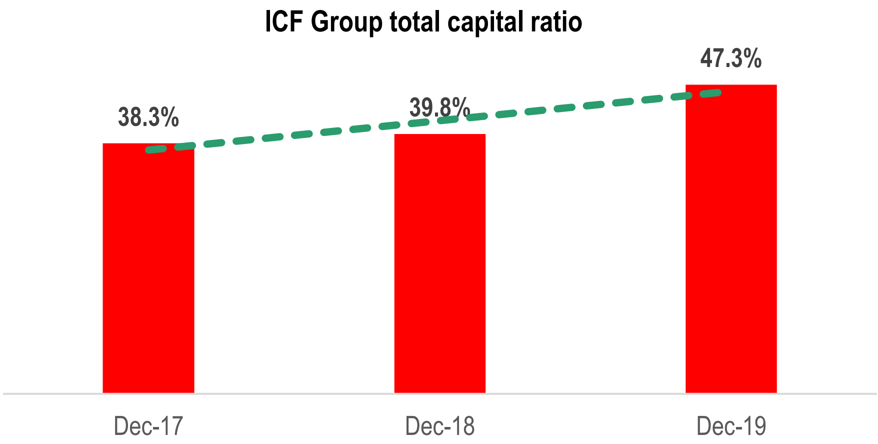


Figure 1. Annual evolution of the Group's total capital ratio.

2.2 Balance sheet strength: liquidity

The ICF Group holds a very strong liquidity position. At the end of 2019, the ICF Group's liquidity position was 340.2 million euros, distributed across current accounts, deposits and fixed-income investments, according to the following comparative graph:

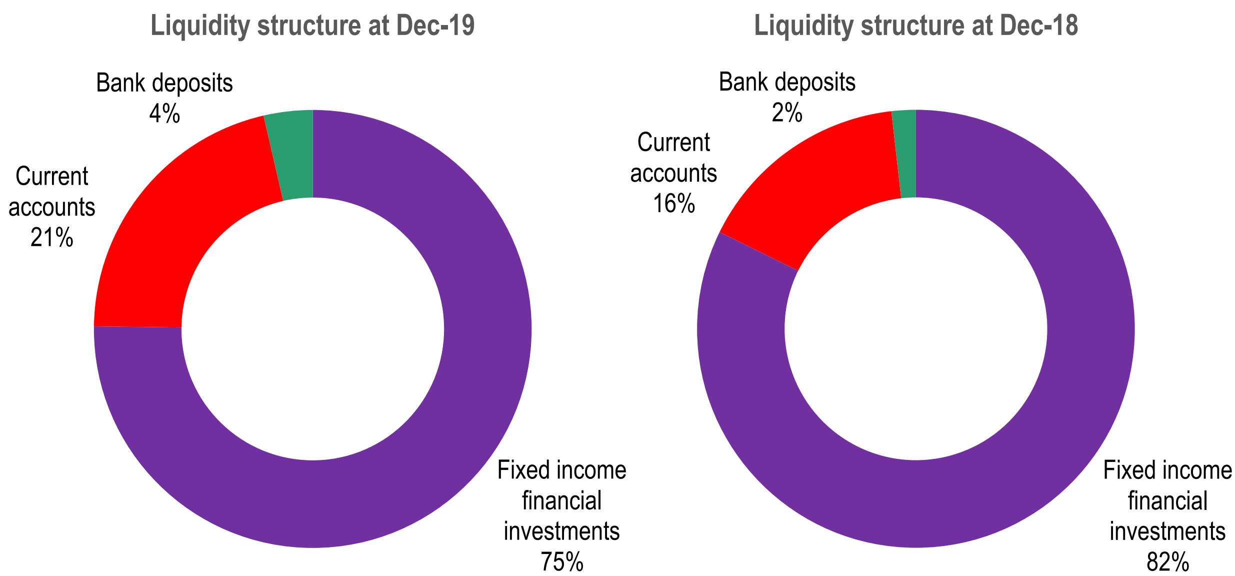


Figure 2. Annual comparison of the Group's liquidity structure.

The Group has a Liquidity Coverage Ratio (LCR) of 4,578%, well above the 100% threshold established by Regulation (EU) No 575/2013. Additionally, the ICF Group has calculated the Net Stable Funding Ratio (NSFR), which will be compulsory from 2021. This value at the end of 2019 was 119.1%, higher than the regulatory minimum of 100%.

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 Capital Requirements Regulation (CRR) 575/2013 and the Capital Requirements Directive (CRD) 2013/36/EU. The aim was to create a genuine banking union based on four pillars:

- 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 institutions.
2. Act 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 Act 10/2014.
4. Bank of Spain Circulars 2/2014 and 2/2016.

On 25 April 2019, Regulation (EU) 2019/630 was published in the Official Journal of the European Union (OJEU), partially amending Regulation (EU) No 575/2013 (CRR) with a view to reducing the current accumulation of non-performing exposures in the European banking system and increasing provisioning. Key points in the text include the following:

- Deduction of CET1 from 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 cover for non-performing risk according to 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);

CRR II / CRD V

Four years after the approval of CRR and CRD IV, the European banking sector faced a new review of its prudential framework. 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 winding up of banking entities. 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, and on 20 May they were ratified as a prior step to their publication in the OJEU on 7 June. These modifications have been included in Directive (EU) 2019/878 and Regulation (EU) 2019/876 and, in general, are effective as of 28 June 2021. The transposition term of the Directive ends on 28 December 2020 and, in the case of Spain, a public consultation is set to be conducted, which will allow a draft law and draft Royal Decree to be developed that will incorporate – into the legal system – the contents of the directive and will allow some state optionality to be exercised in areas such as financial holding companies and mixed financial holding companies, reporting requirements applicable to third-country branches and remuneration, among others.

The changes to these directives and regulations follow the recommendations of the Basel Committee on Banking Supervision (BCBS) – prior to the completion of Basel III – and the Financial Stability Board (FSB), to minimise systemic risk in the international banking system and improve banking institutions' 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 financing risks;
- Capital requirements which are more sensitive to market risk, counterparty risk, and exposure to central counterparties (CCPs) and procedures for major exposure;
- Prevention of money laundering and the financing of terrorism;
- 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 entities; and
- 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 of 2007-08. 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 credit risk models and their elimination for CVA and operational risk; the definition of a capital cushion for the leverage ratio in institutions of global systemic importance; and the introduction of an output floor of 72.5% in 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 2019 with data at 31 December 2018, according to which minimum capital requirements (Tier 1) would be increased by an average of 19.3% for all institutions (27.1% for institutions of global systemic importance) as a result of revisions to credit risk capital requirements (+4.5%), market risk (+1.9%), CVA (+4.0%), operational risk (+4.7%), the output floor (+5.4%) and the leverage ratio (-1.1%). These figures mean European institutions must recapitalise by 9,000 million euros in CET1 capital.

3.2 Description of the Group

The Institut Català Finances (henceforth ICF) is a public entity with its own legal identity 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. By virtue of article 6.4 of Legislative Decree 4/2002, the ICF is authorised to create mercantile companies. Consequently, the ICF is required to produce, in addition to its own individual annual financial statements, the consolidated annual financial statements of the Institut Català de Finances and subsidiaries (the ICF Group).

In 2015, the Catalan Government 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 (EU Directive 2013/36 and Regulation 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 on 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 of Catalonia, 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 2019 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 Act 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 after the authorisation by the Spanish securities market regulator (CNMV) was granted 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 after theauthorisation by the Spanish securities market regulator (CNMV) was granted 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.

- **ICF Venture Tech II, F.C.R.E.** (hereinafter ICF Venture Tech II) is a venture capital fund registered on 28 June 2019 in the administrative registers for European venture capital funds of the Spanish securities market regulator (CNMV) under number 11, which has been established after authorization granted on 21 June 2019 by the same body. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.
- **ICF Capital Expansió II, F.C.R.E.** (hereinafter ICF Capital Expansió II) is a venture capital fund registered on 28 June 2019 in the administrative registers for European venture capital funds of the Spanish securities market regulator (CNMV) under number 11, which has been established after authorization granted on 21 June 2019 by the same body. 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. Prudential regulations are applicable to the entire consolidated Group.

3.4 Consolidated group for the purposes of solvency regulations

The ICF Group submits its financial statements in large part according to the classification and criteria established by Circular 4/2017 and Circular 2/2018 issued by the Bank of Spain (hereinafter, the Accounting Circular), as these are considered the most appropriate Spanish standards and principles. 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 annual accounts of the ICF Group, all the subsidiaries and consolidated structured entities were fully consolidated. Associates, such as Avalis de Catalunya, were measured using the equity method.

The difference between the consolidated group of companies for the purposes of the prudential regulation and the Accounting Circular is primarily that the prudential regulation only takes into account entities 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, bylaws 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 2019:

	Prudential regulation	Bank of Spain Circular 4/2017
	Eligible capital	**Total Equity ICF Group**
Tier 1	**895.0**	
Paid-up capital	693.1	693.1
Reserves	153.4	153.4
Profit(loss) for the year	29.2	29.2
(-) Intangible assets	(1.8)	-
(-) Deduction for material financial investments	-	-
(-) Deduction for non-material financial investments	-	-
(+/-) Remeasurements	21.1	16.0
Fair value changes	*21.1*	*20.2*
Cash flow hedging	-	*(4.2)*
Tier 2	**18.8**	
General provision (*)	47.8	-
(-) Excess general provision	(29.0)	-
(+/-) Remeasurements	-	-
Total	**913.8**	**891.7**

(*) Hedging not assigned to individual operations.

Table 1. Reconciliation between accounting capital and regulatory capital.

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 bylaws 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 solvency regulations.

4. ORGANISATION AND INTERNAL GOVERNANCE OF RISK MANAGEMENT

4.1 Strategies and processes for managing risks

In 2019, 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 (EBA/GL/2017/11 published in 2017). The lines of defence are as follows:

- The business units – as a **first line** of defence – are responsible for executing the various processes and activities, and first of all, for the appropriate control environment in their fields.
- The **second line** ensures the dynamic management of the risks and of the control environment by monitoring them, overseeing that the appropriate control procedures are put in place. This encompasses the functions of regulatory compliance, accounting control, global risk control, as well as those corresponding to internal control executed through the various assigned persons in charge.
- The Internal Audit and Control Department acts independently as the **third line**, regularly monitoring the compliance, appropriateness and effectiveness of the Group's policies, procedures, and internal control systems.

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 policies and procedures in place enabling it to identify and manage the risks to which it is exposed. At present, the Group is in the process of drafting a Risk Appetite Framework (RAF), which must enable the three lines of defence model defined in the policies to be structured into a single document. Along these lines, a Risk Appetite Statement (RAS) has been defined, which includes risk metrics and their limits and thresholds, in line with the institution's strategy.

The chief material risks to which the Group is exposed, in accordance with its activities and its risk map, are as follows:

- **Credit risk:** the possibility of incurring losses due to borrowers failing to meet their contractual payment obligations. It includes counterparty risk in derivative instruments;

- **Liquidity risk:** the possibility of incurring losses due to a lack of sufficient liquid funds, which prevents compliance with commitments undertaken as they become due, together with the risk of being unable to unwind a position as a result of market imperfections;

- **Funding risk:** the possibility of incurring losses due to increased financing costs or the inability to meet payments or make investments due to a lack of funding capacity;

- **Interest rate risk in the banking book:** the possibility of incurring losses due to changes in interest rates affecting balances that are sensitive to them;

- **Operational risk:** the possibility of incurring losses when internal processes are inadequate or flawed due to staff performance or the result of external events;

- **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 quotations.

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:

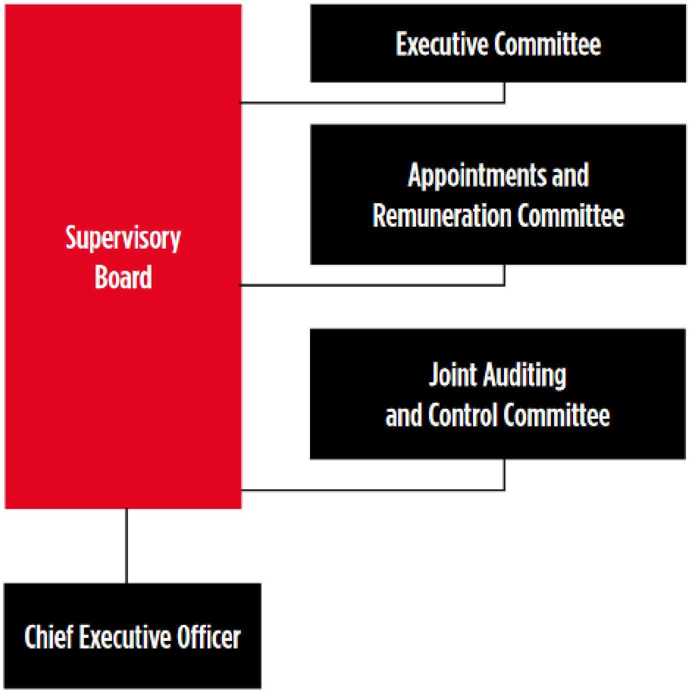


Figure 3. Structure of the Group's governing bodies.

The members of the Board and committees at 31 December 2019 were as follows:

	Supervisory Board	Executive Committee	Control Committees
Independent members	Casas Selvas, Francesc Domingo Piera, Mercedes Verger Casasnovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luis Vilumara Pérez, Albert	Casas Selvas, Francesc Domingo Piera, Mercedes Vilumara Pérez, Albert	<u>Joint Audit and Control</u> Verger Casasnovas, Virgínia Abella Martín, Rafael Peydró Alcalde, José Luís <u>Appointments and Remuneration</u> Casas Selvas, Francesc Domingo Piera, Mercedes Vilumara Pérez, Albert
Public Sector	Obach Medrano, Ester Castellanos Maduell, Albert Villarroya Martínez, Matilde Juncà Pujol, Lluís	-	-
Executive members	Sanromà i Celma, Josep Ramon	Sanromà i Celma, Josep Ramon	-

Table 2. Composition of the Group's governing bodies.

Supervisory Board

The Supervisory Board has the broadest powers concerning the management of the institution and is its highest decision-making body. It also oversees the entire operation of the corporate governance system, the integrity of reporting systems, the information disclosure process, and the effective oversight of senior management. 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 making up 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 risk 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 risk 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 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 allows a suitable and effective risk management.
- To propose to the Supervisory Board programmes aimed at acting members of the governing bodies 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, issue opinions to help the Board make decisions on whether members of any governing body may take up a new post 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:

- 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 monitoring or request 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 report any potentially significant irregularities.

Chief Executive Officer

The CEO is appointed by the Supervisory Board on the proposal of the minister responsible for the economy and finance of the Government of Catalonia – upon a report of approval by the Appointments and Remuneration Committee – and is responsible for the ordinary and extraordinary representation of the ICF in all areas and situations. Josep-Ramon Sanromà has been the Chief Executive Officer 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 those companies.
d) Preparing and drafting the ICF's annual budgets, setting the debt limits and general operating targets included in those 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, lliquidity and wholesale funding markets;

- **Credit Risk:** responsible for originating operations, managing partnership agreements, analysing credit risk operations, managing and monitoring customers, and modifying operations and recoveries;

- **Finance and Operations:** responsible for accounting, management control, financial planning, operations management, technology, processes and general services;

- **Compliance and Control:** tasked with the management and control of operational risk, global risk control, regulatory compliance and internal control, and guaranteeing 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 regulations.

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
- Technical bodies

Capital Investments

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

- Supervisory Board
- Executive Committee
- Capital 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 funding 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;
- Propose and execute the institution's debt contracting.

Investments in Financial Instruments

The functions of this division include:

- Analysing proposed investments in venture capital instruments and equity investments;
- Proposing investments to the Capital Investments Committee and the Executive Committee.
- Due diligence: investigating the features and governance structure of instruments, remuneration of the managing company, the replacement or removal of the management company and the loss of key personnel, distributions policy and capacity to capture investments.

Products and Risk Policies

The functions of this division include:

- Proposing and defining products and partnership agreements;
- Coordinating the development and updating the Credit Investment and Risk department's manuals;
- Working with the Technology Division 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 of delegated powers and attributes through a pyramid structure, which starts 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 client requests for financing. Different authorisation levels are therefore set for the approval of credit risk, 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 financing of terrorism, and 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.

Internal Audit and Control

This division's functions include:

- Preparing internal audit and control plans, which are to be reviewed at least once a year. These must take into account the specific requirements of the Joint Audit and Control Committee and be submitted for its consideration and approval.
- Executing internal audit and control plans in accordance with the scope and guidelines laid down.

- Reporting to and keeping the Joint Audit and Control Committee informed of reports, findings and conclusions regarding all internal auditing and control, research and consultancy activities, prior to submitting this information to the Chief Executive Officer and the divisions involved for their consideration, where appropriate.
- Regularly reporting to the Joint Audit and Control Committee on the progress of plans and other relevant activities.
- It prepares and submits the activity report for the approval of the Joint Audit and Control Committee on an annual basis.
- Coordinating the Internal Control Model, ensuring its consistency within the Group.
- Advising the first and second lines in the implementation of an appropriate control environment, fostering a control culture.
- 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. In particular, overseeing the internal financial reporting control system.
- Developing – to the extent of its capacity and experience – the consultancies requested of it by senior management.
- 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 Audit and Control Committee 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 use and surplus reports for submission to the ALCO and Global Risk Control Committees, as well as the pertinent regulatory reports;
- Reviewing risk policies and manuals;
- Calculating, analysing and monitoring capital ratios;
- Developing stress tests to assess the potential exposure to each risk under adverse scenarios and carrying out back-tests;
- 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 Pillar III Disclosure Report after it has been reviewed by Internal Audit.

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 is responsible for all action concerning the supervision of all the risks affecting the ICF Group and evaluates its suitability for the target risk profile.

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

5. ELIGIBLE CAPITAL AND CAPITAL REQUIREMENTS

5.1 Eligible capital

At 31 December 2019, the ICF Group's eligible capital is as follows:

ICF GROUP ELIGIBLE CAPITAL	2019	2018	Differences
Tier 1 (in millions of euros)	**895.0**	**843.1**	**+51.8**
Paid-up capital	693.1	693.1	-
Reserves	153.4	138.6	+14.8
Profit (loss) for the year	29.2	13.1	+16.1
(-) Intangible assets	(1.8)	(0.8)	(1.0)
(-) Deduction for material financial investments	-	(0.6)	+0.6
(-) Deduction for non-material financial investments	-	-	-
(-) Deduction for deferred tax assets	-	(0.2)	+0.2
(+/-) Remeasurements	21.1	-	+21.1
Fair value changes	*21.1*	-	*+21.1*
Cash flow hedging	-	-	-
Tier 2 (in millions of euros)	**18.8**	**21.7**	**(2.8)**
General provision (*)	47.8	91.0	(43.2)
(-) Excess general provision	(29.0)	(69.4)	+40.4
(+/-) Remeasurements	-	-	-
Eligible capital = Tier 1 + Tier 2	**913.8**	**864.8**	**+49.0**

(*) Hedging not assigned to individual operations.

Table 3. Annual comparison of the breakdown of the Group's eligible capital.

The net increase in Tier 1 capital compared to 2018 was 51.8 million euros, bringing the total to 895.0 million euros. On one hand, it is caused by the increase in reserves and income for the year, which had a positive impact of 30.9 million euros. On the other hand, the recognition during the year of the hidden net reserves deriving from the investment in fixed-income issuances and venture capital instruments classified in the financial assets portfolio at fair value with changes in accumulated other comprehensive income, have brought an increase of 21.1 million euros.

Tier 2 has decreased by 2.8 million euros, with a value at the end of 2019 of 18.8 million euros. This change is chiefly due to the drop in risk-weighted assets (RWAs).

Total regulatory capital (Tier 1 and Tier 2) increased by 49.0 million euros, reaching 913.8 million euros (the ICF Group does not include have any capital element qualifying as Additional Tier 1 capital). The following chart shows these changes:

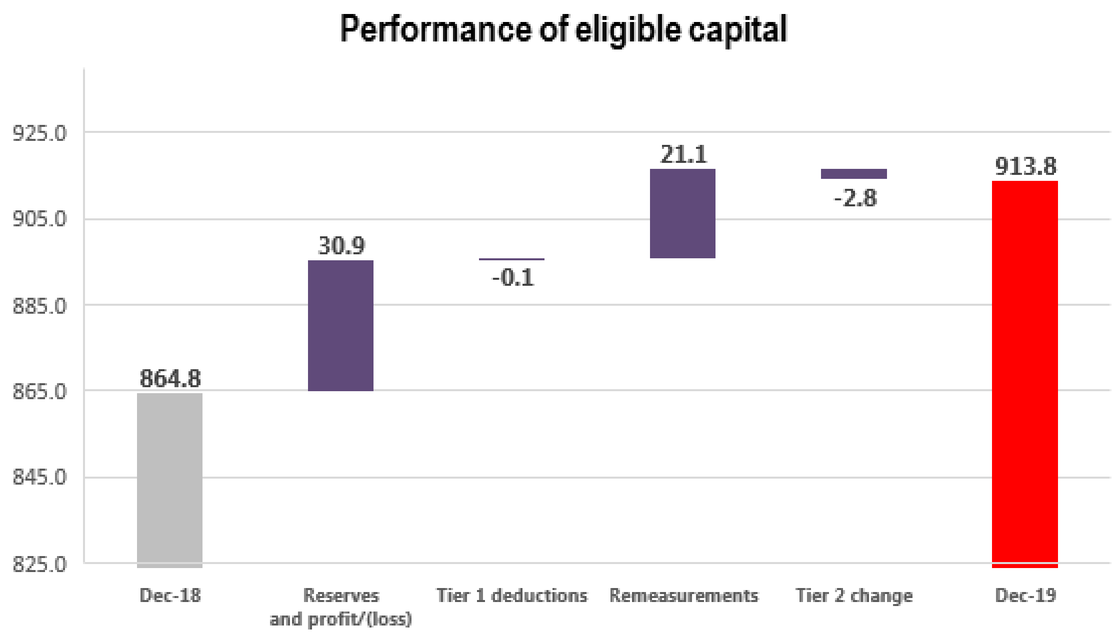
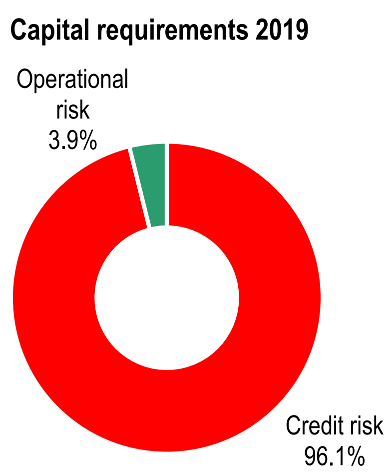


Figure 4. Annual change of the Group's eligible capital.

5.2 Capital requirements

Total Pillar 1 capital requirements broken down by type of risk at 31 December 2019 and 31 December 2018 were as follows:



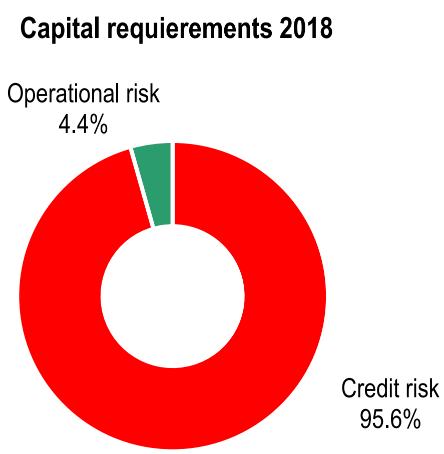


Figure 5. Annual comparison of Pillar 1 regulatory capital consumption by type of risk.

The Group's main risk is credit risk, followed by operational risk. The Group applies the standard method for calculating the Pillar 1 capital requirements for credit risk and the basic indicator method for operational risk.

A breakdown of the capital requirements at 31 December 2019 is presented below. It shows that the ICF Group's eligible capital is significantly higher than the minimum requirements established by the prudential regulation, which require a minimum total capital ratio of 8% for Pillar 1 requirements, plus 2.5% for the capital conservation buffer as of 2019:

Millions of euros	Regulatory Exposure (*)	Regulatory Net exposure (**)	Risk Weight	Risk-Weighted Assets (RWAs)	Capital requeriments (10.5% RWAs)	%
CREDIT RISK	**2,854.2**	**2,392.0**	**77.6%**	**1,857.4**	**195.0**	**96.1%**
a) Credit Risk - loan investments	**1,683.8**	**1,564.1**	**80.3%**	**1,256.1**	**131.9**	**65.0%**
Direct loans:	1,572.0	1,453.7	80.1%	1,164.6	122.3	60.3%
Normal risk - public authorities	403.3	403.3	58.3%	235.0	24.7	12.2%
Normal risk - other resident sectors	1,058.8	1,019.6	88.2%	898.8	94.4	46.5%
Non-performing	109.9	30.7	100.0%	30.7	3.2	1.6%
Pass-through loans	29.3	29.3	67.9%	19.9	2.1	1.0%
Guarantees:	80.7	79.3	88.4%	70.1	7.4	3.6%
Normal risk - public authorities	26.4	26.4	83.7%	22.1	2.3	1.1%
Normal risk - other resident sectors	51.0	49.7	90.2%	44.8	4.7	2.3%
Non-performing	3.3	3.3	100.0%	3.3	0.3	0.2%
Capitalised admin and risk fees	1.8	1.8	80.8%	1.5	0.2	0.1%
b) Credit risk - available	**204.2**	**204.2**	**0.0%**	**0.0**	**0.0**	**0.0%**
c) Credit risk - shareholdings and venture capital	**100.4**	**100.4**	**192.6%**	**193.3**	**20.3**	**10.0%**
of which, subject to 150% weighting	57.6	57.6	150.0%	86.4	9.1	4.5%
of which, subject to 250% weighting	42.8	42.8	250.0%	106.9	11.2	5.5%
d) Credit risk - current accounts and deposits	**93.5**	**93.5**	**26.5%**	**24.8**	**2.6**	**1.3%**
e) Credit Risk - fixed income investments	**259.4**	**259.4**	**55.6%**	**144.3**	**15.1**	**7.5%**
f) Credit risk - counterparty	**357.6**	**15.1**	**50.0%**	**7.6**	**0.8**	**0.4%**
g) Other assets (real estate, prepayments)	**104.1**	**104.1**	**99.3%**	**103.4**	**10.9**	**5.3%**
h) Deferred tax assets	**51.2**	**51.2**	**250.0%**	**128.0**	**13.4**	**6.6%**
OPERATIONAL RISK (***)	**74.8**	**74.8**	**100.0%**	**74.8**	**6.0**	**3.9%**
TOTAL	**2,929.0**	**2,466.8**	**78.3%**	**1,932.1**	**201.0**	**100.0%**

(*) Gross exposure of provisions.
(**) Net exposure includes credit risk mitigation techniques.
(***) 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.

Table 4. Composition of Risk-Weighted Assets (RWAs) and Pillar 1 capital requirements.

The total risk-weighted assets of the ICF Group amounted to 1,932.1 million euros, of which 65% were from credit investments, in line with the Group's activity.

The Pillar 1 minimum capital requirements plus the capital conservation buffer at the end of 2019 amounted to 201.0 million euros, whereas the ICF Group held an available capital buffer of 712.8 million euros. A comparative table with data at the end of 2019 and 2018 is set out below:

	2019	2018
ICF Group EC	913.8	864.8
Total RWAs	1,932.1	2,175.4
Minimum capital requirements	201.0	213.0
Available capital	**712.8**	**651.8**

Table 6. Annual comparison of eligible capital (EC), risk-weighted assets (RWAs), capital requirements, and available capital.

The ICF Group fulfils all the regulatory limits for capital purposes, as well as the leverage ratio:

	2019	2018	Regulatory limits
CET1 ratio	46.3%	38.8%	8.5%
Total capital ratio	47.3%	39.8%	10.5%(1)
Leverage Ratio (LR)	42.5%	35.6%	3%(2)

(1) Includes Pillar 1 risks and the capital conservation buffer.

(2) Applicable from 2021.

Table 5. Annual comparison of the Group's capital ratios and leverage ratios.

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 was first 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 risk, understood as the risk linked to counterparties residing in a specific country and due to circumstances other than normal trading risk.

Financial instruments are classified into the following categories, taking into account whether – from the initial recognition of the transaction – there has been a significant increase in credit risk, and if a default has occurred:

- Stage 1 – Normal risk: the risk of a default event has not had a material increase from the initial recognition of the transaction. The impairment value correction for this type of instrument is equivalent to the 12-month expected credit losses.

- Stage 2 – Normal risk requiring special surveillance: the risk of a default event has had a material increase from the initial recognition of the transaction. The impairment value correction for this type of instrument is calculated as the expected credit losses throughout the life of the transaction.

- Stage 3 – Non-performing: the transaction has been subject to a default event. The impairment value correction for this type of instrument is calculated as the expected credit losses throughout the life of the transaction.

- Failed risk – Transactions for which the institution has no reasonable recovery expectations. The impairment value adjustment for this type of instrument is equivalent to its book value and involves the total derecognition of the asset.

A comparative table of some credit risk indicators at the end of 2019 and 2018 is shown below:

Millions of euros	2019	2018
Total lending portfolio	1,697.0	1,822.9
Non-performing	111.3	142.0
NPL ratio	6.6%	7.8%
Coverage ratio	149.2%	136.1%

Table 7. Annual comparison of portfolio volume and non-performing risk (includes loans and guarantees gross of provisions), NPL ratio and coverage ratio.

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 allowances for contingent liabilities and commitments

The expected loss (EL) is 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 considers 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 adjudication 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 coverage associated with a group of operations and coverage 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 Changes due to impairments and provisions for credit risk

The changes in impairment losses recorded in 2019 are shown in the table below. At 31 December 2019, cover for non-impaired operations includes an amount of 15.0 million euros for operations classified as normal and 71.5 million euros for operations classified as normal under special surveillance.

Millions of euros	Not Impaired		Impaired		Total
2019	**Individual**	**Collective**	**Individual**	**Collective**	
Balance at 1 January 2019	-	**1,537.0**	**81.0**	**55.9**	**1,673.9**
Balance at 31 December 2019	-	**1,492.0**	**60.0**	**49.9**	**1,601.9**
Impairment					
Balance at 1 January 2019	-	**(89.2)**	**(62.7)**	**(40.6)**	**(192.5)**
Charges/Recoveries	-	(6.8)	3.8	4.7	**1.7**
Transfers between stages	-	9.5	-	(9.5)	**-**
Transfer to failed risk	-	-	11.9	13.1	**25.0**
Balance at 31 December 2019	**-**	**(86.5)**	**(47.0)**	**(32.3)**	**(165.8)**

Table 8. Breakdown of the annual evolution of accounting provisions for credit risk corresponding to customer loans.

6.4 Geographical distribution of exposures

The ICF Group's activity by region at 31 December 2019 is shown below. The Group's activity focuses on promoting the growth of Catalan companies, so its natural area of activity is the Autonomous Community of Catalonia:

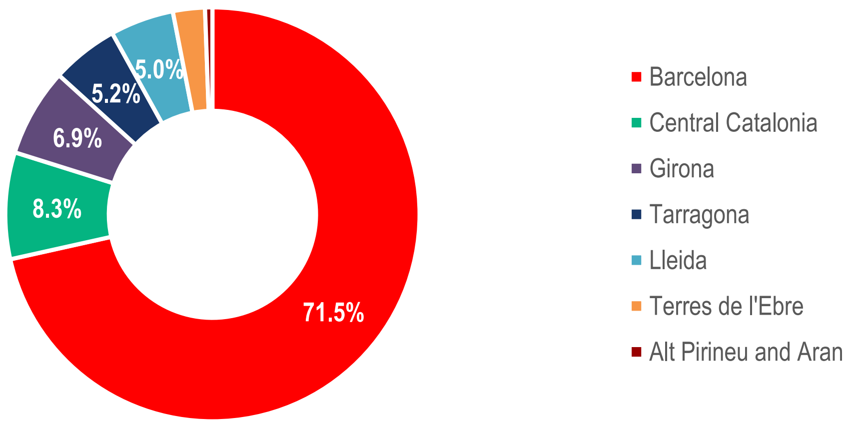


Figure 6. Regional distribution of the lending portfolio.

The geographical breakdown used is based on traditional Catalan jurisdictions (vegueries). The Barcelona area represents 71.5% of the ICF's portfolio, in line with its share of Catalonia's total GDP. Figures for 2019 and 2018 are included for the purposes of comparison:

	2019	2018
Barcelona	71.5%	72.6%
Central Catalonia	8.3%	7.5%
Girona	6.9%	6.5%
Tarragona	5.2%	5.7%

Lleida	5.0%	4.7%
Terres de l'Ebre	2.5%	2.5%
Alt Pirineu and Aran	0.6%	0.5%
Total	**100.0%**	**100.0%**

Table 9. Annual figures for the regional distribution of the lending portfolio.

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

Millions of euros	Non-performing	Performing	Provisions	Total
Barcelona	82.0	1,142.3	(129.3)	1,094.8
Central Catalonia	5.0	129.3	(6.8)	127.6
Girona	9.5	107.4	(11.5)	105.4
Tarragona	1.2	87.7	(8.8)	80.1
Lleida	10.7	68.9	(3.7)	76.1
Terres de l'Ebre	0.5	41.1	(3.4)	38.2
Alt Pirineu and Aran	2.4	9.0	(2.5)	8.8
Total	**111.3**	**1,585.7**	**(166.0)**	**1,531.0**

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

Table 10. Regional distribution of non-performing risk and accounting provisions for credit risk. Participating loans are not included.

6.5 Distribution of exposure by counterparty or sector

Considering the segmentation of the lending portfolio, 51.7% of the total amount was concentrated in 3 sectors at 31 December 2019 (industry; trade, tourism and transport; and education, culture and sport).

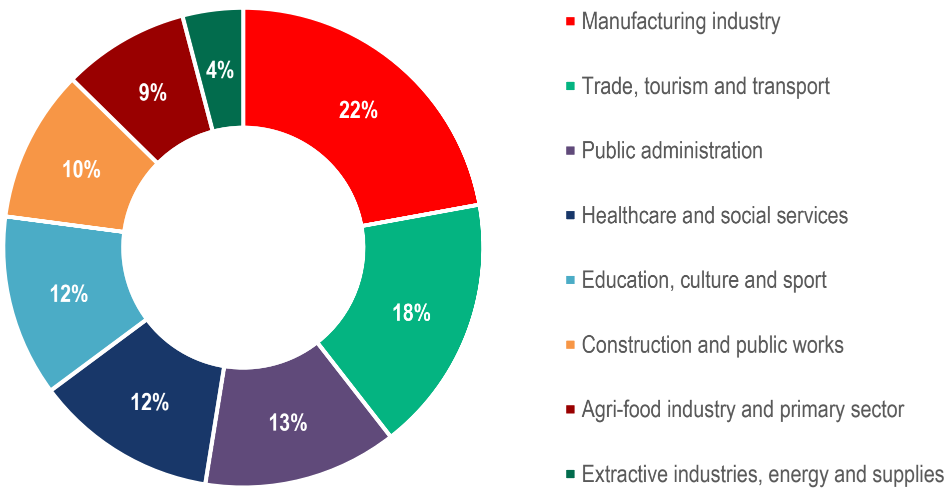


Figure 7. Sector segmentation of the lending portfolio.

Figures for 2019 and 2018 are included for the purposes of comparison:

	2019	2018
Manufacturing industries	22.1%	23.6%
Trade, tourism and transport	17.3%	12.7%
Public administration	13.1%	13.5%
Healthcare and social services	12.3%	11.6%
Education, culture and sport	12.3%	15.0%
Construction and public works	10.3%	11.6%
Agri-food industry and primary sector	8.5%	8.1%
Extractive industries, energy and supplies	4.1%	3.8%
Total	**100.0%**	**100.0%**

Table 11. Annual figures for the sector segmentation of the lending portfolio.

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

Millions of euros	Non-performing	Performing	Provisions	Total
Manufacturing industries	66.9	341.5	(71.0)	338.8
Trade, tourism and transport	12.8	272.6	(19.8)	265.5
Public administration	0.0	206.1	(5.7)	200.1
Healthcare and social services	0.1	203.2	(14.6)	188.2
Education, culture and sport	9.4	196.9	(18.6)	187.6
Construction and public works	8.7	175.1	(26.0)	157.5
Agri-food industry and primary sector	4.8	132.0	(6.0)	130.8
Extractive industries, energy and supplies	8.6	58.1	(4.4)	62.6
Total	**111.3**	**1,585.7**	**(166.0)**	**1,531.0**

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

Table 12. Sector distribution of non-performing risk and accounting provisions for credit risk.

6.6 Distribution of exposure by residual maturity

The chart below shows the maturity of cash instruments, customer loans, deposits with credit institutions, and debt securities at 31 December 2019, based on their tenor 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	72.1	-	-	-	-	-	72.1
Loans and receivables	8.9	26.4	36.6	273.5	651.2	481.4	1,478.1
Deposits with credit institutions	*8.9*	*13.2*	*4.7*	*17.4*	*4.0*	*2.5*	*50.7*
Customer loans	-	*13.2*	*31.9*	*256.1*	*647.2*	*478.9*	*1,427.4*
Debt securities	-	2.4	10.4	42.5	203.8	0.4	259.6
Total assets	**81.0**	**28.8**	**47.1**	**316.0**	**855.1**	**481.8**	**1,809.8**

Table 13. Time distribution of expected cash flows.

6.7 Impairment losses and reversals for previously recognised losses

Impairment losses in financial years 2019 and 2018 are as follows:

Millions of euros	2019	2018
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:	7.5	(14.5)
Allocations to provisions	*(24.6)*	*(60.7)*
Recoveries	*24.7*	*33.0*
Other	*7.5*	*13.2*
Total loans and receivables	**7.5**	**(14.5)**
Impairments of available-for-sale financial assets	-	-
Total other available-for-sale financial assets	**-**	**-**
Financial assets at cost	-	-
Total financial assets at cost	**-**	**-**
Total assets	**7.5**	**(14.5)**

Table 14. The annual evolution of provisions for credit risk.

6.8 Regulatory framework

Credit risk is the possibility of incurring 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 weight applicable to exposures from fixed income investments, positions held with financial institutions (deposits, current accounts or promissory notes) and brokerage operations. The conditions indicated in Regulation (EU) No 575/2013, Article 138, are applied to determine the final assessment for exposure.

The graph below shows the Group's exposures to fixed income investments, deposits, current accounts, bank notes, and pass-through loans in 2019 and 2018. 90% of total exposure corresponds to investment-grade investments, while 10% of exposure in high yield corresponds exclusively to investments in Government of Catalonia bonds.

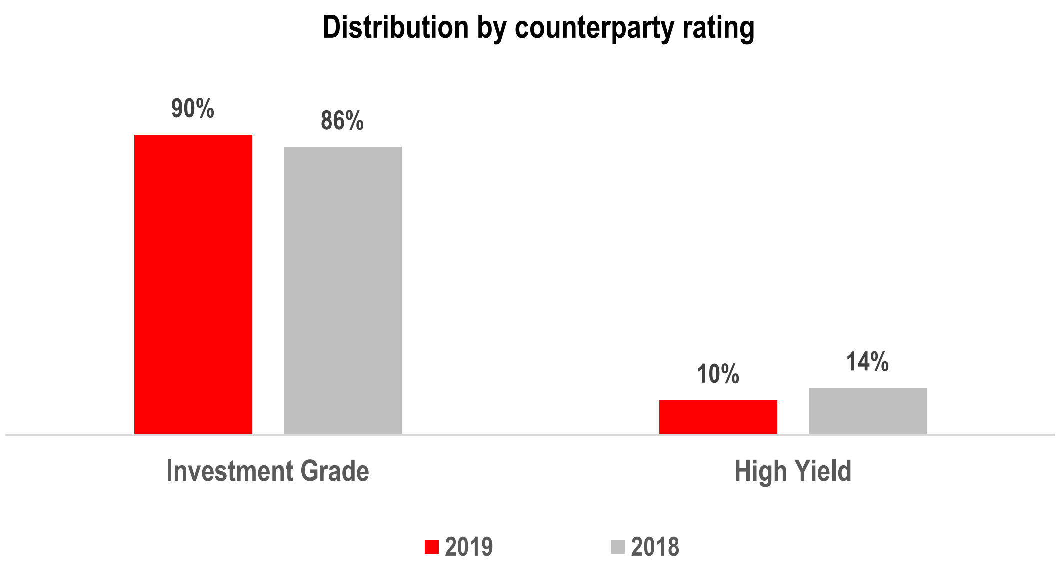


Figure 8. Distribution by counterparty rating.

6.10 Application of risk reduction techniques

The ICF Group generally applies the credit risk reduction techniques referred to in Article 453 of Regulation (EU) 575/2013, on the basis of the guarantees received for risk exposures.

These guarantees may be real or personal in nature. The types of collateral accepted by the ICF Group mostly include first-rate 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 credit risk capital requirements according to Article 501.2 of Regulation (EU) No 575/2013 on exposures with small and medium sized enterprises, which have an adjustment 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 2019, 96.1% of risk-weighted assets (RWAs) were classified under credit risk, a total of 1,857.4 million euros. It should be borne in mind that these are RWAs after applying risk reduction techniques acceptable under applicable standards. Capital requirements for credit risk amounted to 195.0 million euros.

6.12 Capital requirements for counterparty credit risk

Counterparty credit 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 due time and in an appropriate manner.

The ICF Group, in compliance with Article 286 of Regulation (EU) 575/2013 "Management of counterparty risk - policies, processes and systems", has defined:

- A counterparty risk management policy which falls within the ICF Group's Financial Risks Policy;
- Counterparty risk control systems and the maximum exposure limits established in the 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 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 2019, the RWAs deriving from the exposure with derivative instruments totalled 7.6 million euros and the capital requirements stood at 0.8 million euros. For all prudential purposes, counterparty risk is considered within credit risk.

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 that 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 position(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 or 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 the EMIR standard (Regulation 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 that operate with derivatives. In the ICF Group, the only entity operating with derivatives is the parent company, which is classified as a Non-Financial Counterparty (NFC) for EMIR reporting purposes.

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.

7.1 Capital requirements for market risk

At the end of 2019, the entity held an interest rate swap for a notional amount of 55 million euros in the trading portfolio. As this is a residual position with respect to the Group's total activity, Article 94 (1) of Regulation (EU) No 575/2013 applies, except for the capital requirements for market risk through small-volume trading portfolios. In this regard, the ICF Group does not have capital requirements for market risk.

8. INTEREST RATE RISK IN THE BANKING BOOK

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 changes of interest rate risk in the banking book.

8.2 Nature of interest rate risk

Interest rate risk in the banking book is inherent to the activity of the ICF Group and is caused by changes in the yield curve, which impact on the interest margin and on the economic value of the entity.

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

- **Reinvestment risk or repricing**: caused by differences in the time of maturity or the repricing of lending and funding 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 affect all tenors of the curve equally;
- **Optionality risk**: risk arising from explicit or implicit options affecting assets or liabilities.

8.3 Management of interest rate risk in the banking book

The ICF Group monitors metrics of interest rate risk in the banking book on a monthly basis. 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 yield curve caused by different maturity schedules or repricing of lending and funding transactions which are sensitive to interest rate movements.
- **Net interest income (NII) sensitivity.** This measures the impact on the net interest income of changes in the yield 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, designed using disruptions in the market yield curve. Its result is expressed as the ratio of these two magnitudes. The net interest margin sensitivity is a metric based on dynamic scenarios, in other words, simulations of the future balance behaviour, and, in particular, including new lending activity assumptions.
- **Sensitivity to economic value (EV).** Measures the impact on economic value of changes in the yield 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, designed using disruptions in the market yield curve. The result is expressed in relation to the economic value of interest rate sensitive balance sheet items.

Sensitivity of the net interest margin and economic value

The ICF Group has defined various 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 in the EBA/GL/2015/08 guidelines and Bank of Spain Circular 2/2016 (Regulation 50), and 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)**. This scenario applies an instantaneous parallel shift of +/-100 bp at all points on the yield curve. This disturbance includes a 0% floor on the yield curve. If the point is already negative, no disturbance is applied.

The sensitivity of the net interest margin under the regulatory scenario (-4.0%) and the impact on economic value (+0.2%) are below the established regulatory limits in negative changes of 50% and 20% respectively (Article 98, Section 5 of Directive 2013/36/EU):

Scenario	Change in Economic Value	Change in Net Interest Income
Regulatory scenario (+/-200 bp)	-0.7% / +0.2%	+51.9% / -4.0%
Parallel scenario (+/-100 bp)	-0.5% / +0.2%	+23.0% / -4.0%

Table 15. Sensitivity of the economic value and net interest income to scenarios of instant and parallel shifts in the yield curve.

Furthermore, the stress scenarios recommended by the EBA/GL/2018/02 guidelines 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:*** fall in short-term rates and increase in long-term rates. Overall increase in the slope of the curve;
- ***Flattener:*** increase in short-term rates and fall in long-term rates. General decline in the slope of the curve;
- ***Short Up:*** increase in short-term rates;
- ***Short 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 changes greater than -15%) according to the EBA/GL/2018/02 guidelines:

EBA scenario	Change in Economic Value	Impact (€m)
Parallel Up	-0.7%	-6.2
Parallel Down	+0.2%	+1.9
Steepener	-0.3%	-3.0
Flattener	+0.2%	+1.8
Short rates up	-0.4%	-3.5
Short rates down	+0.4%	+4.0
Maximum (*)	**-0.7%**	**-6.2**
15% CET1		**134.2**

(*) Expresses maximum loss.

Table 16. Sensitivity of economic value under various scenarios defined by the EBA.

Repricing gap

The static repricing gap (asset minus liabilities) at the end of 2019 is set out below. The graph shows the discrete structure, at monthly intervals up to 1 year, and its cumulative structure:

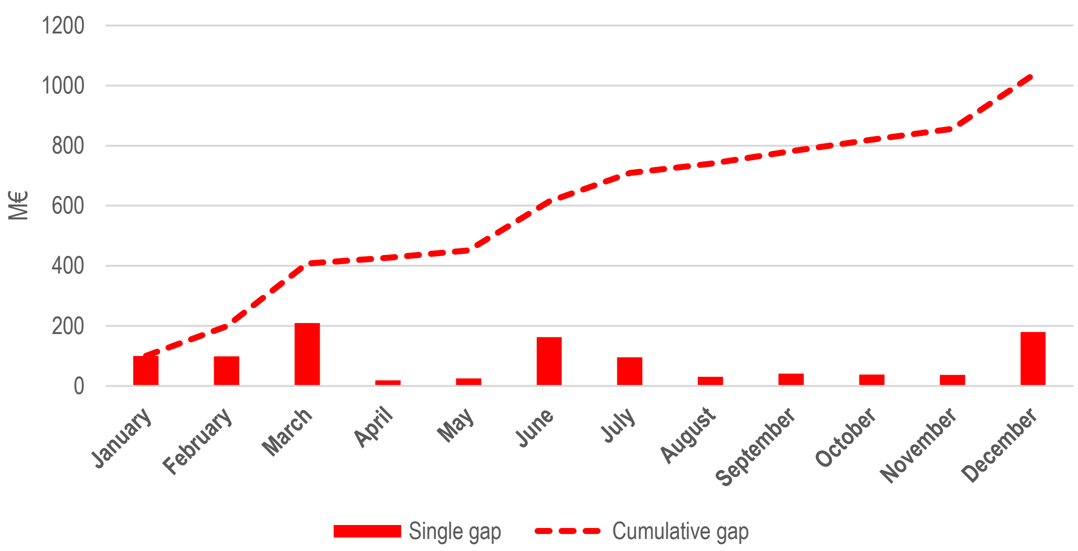


Figure 9. 12-month repricing gap.

The following table also shows the repricing gap for a period of 25 years:

Thousands of euros	IR-Sensitive Balance		% of Total Assets		STATIC GAP		
1st repricing gap	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Simple**	**Cumulative**	**Cum. gap (%TA)**
Up to 1 month	241,892	141,794	12.3%	7.2%	100,099	100,099	5.1%
1 to 3 months	387,548	79,614	19.6%	4.0%	307,934	408,033	20.7%
3 to 6 months	399,969	194,256	20.3%	9.8%	205,713	613,746	31.1%
6 to 12 months	449,351	28,051	22.8%	1.4%	421,301	1,035,047	52.5%
CUMULATIVE 12 months	**1,478,761**	**443,715**	**75.0%**	**22.5%**		**1,035,047**	**52.5%**
1 to 2 years	64,414	51,671	3.3%	2.6%	12,743	1,047,790	53.1%
2 to 3 years	21,315	388,020	1.1%	19.7%	(366,705)	681,085	34.5%
3 to 4 years	27,308	31,754	1.4%	1.6%	(4,447)	676,638	34.3%
4 to 5 years	104,520	39,235	5.3%	2.0%	65,285	741,923	37.6%
5 to 7 years	11,388	29,205	0.6%	1.5%	(17,817)	724,106	36.7%
7 to 10 years	7,236	12,946	0.4%	0.7%	(5,710)	718,396	36.4%
10 to 15 years	9,373	10,829	0.5%	0.5%	(1,456)	716,940	36.3%
15 to 20 years	7,981	-	0.4%	0.0%	7,981	724,922	36.8%
20 to 25 years	4,829	-	0.2%	0.0%	4,829	729,750	37.0%
TOTAL	**1,737,125**	**1,007,375**	**88.1%**	**51.1%**		**729,750**	**37.0%**

Table 17. Static repricing gap up to 25 years.

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 2019 is as follows:

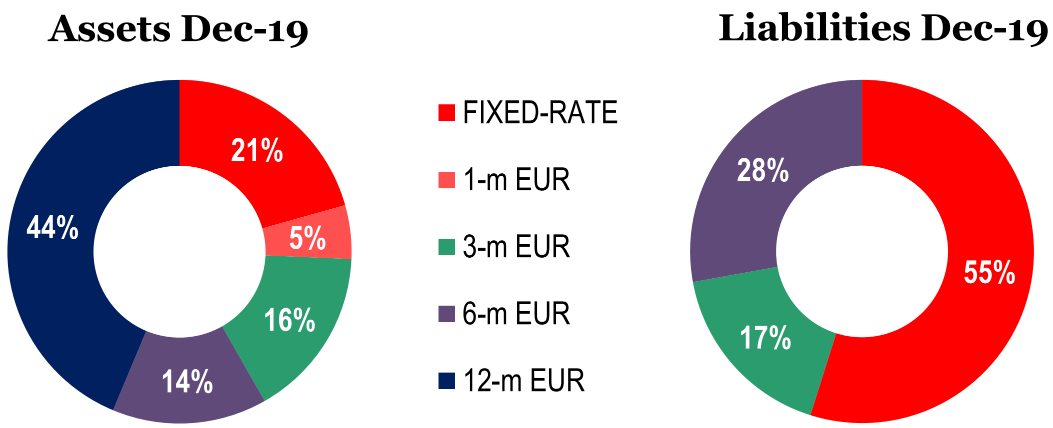


Figure 10. Distribution of bases of the interest rate sensitive amounts on the balance sheet.

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 do not exceed 2% of the eligible capital.

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

10. LIQUIDITY RISK

10.1 Regulatory framework

According to Directive 2013/36/EU, entities must identify, measure, manage and control liquidity risk. Similarly, 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 funding risks:

- **Funding 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 wholesale funding markets by means of debt issuance and loans. The ICF Group therefore manages liquidity by matching the average lifespan 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 340 million euros at the end of 2019, ensures that the ICF Group's day-to-day payment commitments are fully covered. The liquid balance available at the end of 2019 is set out below:

Millions of euros	Dec-19	Dec-18
Current accounts	72.1	88.8
Deposits	12.3	10.0
Fixed income	255.8	458.7
Total	**340.2**	**557.4**

Table 18. Annual changes in the breakdown of the Group's treasury (management data, not including valuation adjustments).

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:

- **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.

- **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.

Liquidity risk metrics

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

- **Static liquidity gap:** this allows the time distribution of net income and exit streams to detect possible liquidity shortfalls in a particular period. It is a projection of future flows under the balance sheet depletion assumption;

- **Survival horizon:** this metric calculates the number of months an institution can meet its payment obligations without obtaining new funding. 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) No 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. A minimum of 100% is required;

- **Net Stable Funding Ratio (NSFR):** prudential metric that is binding from June 2021 in accordance with Article 428b of Regulation (EU) No 2019/876, amending Regulation (EU) No 575/2013. It measures the degree to which long-term obligations are fulfilled through a variety of stable funding instruments, in both normal and stressed situations. A minimum of 100% is required.

Static 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 lending transactions and liquidity outflows for funding transactions. It should be noted that the cumulative liquidity gap is always positive:

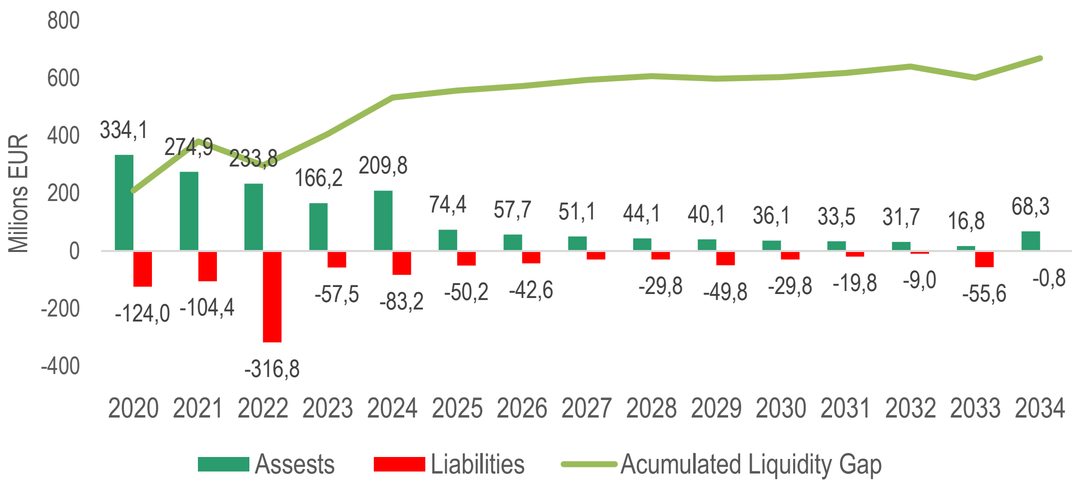


Figure 11. Annual and cumulative static liquidity gap.

Survival horizon

At the end of 2019 the ICF Group had an available liquidity balance of 340.2 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:

- **Base scenario:** this scenario simulates changes in the balance sheet over time, taking into account budgeted activity. It thus incorporates forecasts of disbursements according to new transactions;
- **Stressed scenario:** this scenario stresses the base scenario, increasing new budgeted activity by 50%.

In the case of the stressed scenario, the result is 29 months, while the survival horizon of the base scenario is 30 months. Both figures far exceed the 6-month minimum set out in the ICF Group's liquidity risk management policies.

Liquidity Coverage Ratio (LCR)

The ICF Group comfortably meets the minimum requirements for supervised credit institutions in terms of liquidity, with a 4,578% LCR:

	Dec-19	Dec-18
LCR	4,578%	5,332%
Regulatory limit	100%	100%

Table 19. Annual change of the Liquidity Coverage Ratio.

A breakdown of high-quality liquid assets (HQLA) is shown below at the end of 2019, after the application of regulatory weightings and restrictions for calculating the LCR. It should be noted that the highest-quality assets (Level 1) represent 91.5% of the total liquid assets.

Millions of euros	Dec-19	Dec-18
Level 1	218.1	238.9
Level 2A	0.8	-
Level 2B	19.2	21.1
Total	**238.3**	**260.0**

Table 20. Annual changes in the breakdown of high-quality liquid assets (HQLA).

Net Stable Funding Ratio (NSFR)

The ICF Group has calculated the regulatory NSFR at the end of 2019, reaching a value of 119.1%, which comfortably meets the minimum requirements for supervised credit institutions, which will come into force from 2021.

10.4 Funding strategies

At the end of 2019, available equity of the ICF Group totalled 891.7 million euros, which provides the ICF Group with solid funding resources, especially in terms of long-term assets. Funding in capital markets is carried out mainly through own issues and loans with financial institutions. The breakdown of funding by type of product is shown below:

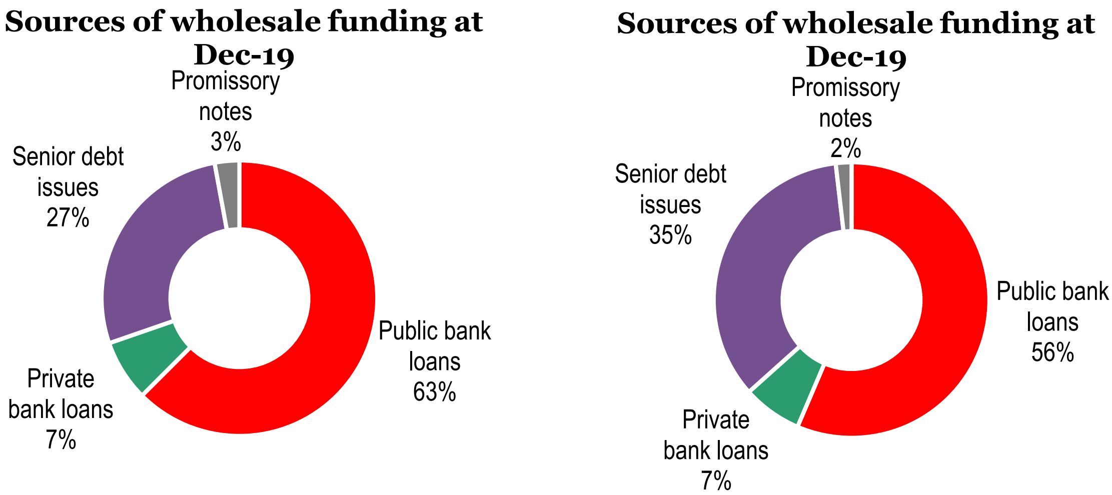


Figure 12. Annual comparison of the breakdown of the Group's wholesale financing.

10.5 Capital requirements for liquidity risk

The ICF Group has no consumption of own funds 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 approach, the capital requirement for operational risk is 15% of the average gross margin for three years as calculated below:

Millions of euros	Average last 3 years
Interest and similar income	49.4
Interest and similar charges	-16.1
Income from equity instruments	0.5
Commissions received	2.8
Commissions paid	-0.8
Gains or losses on financial assets (net)	-0.5
Exchange differences (net)	0.0
Other operating income	4.6
Total	**39.9**
OPERATIONAL RISK (capital requirements)	**6.0**

Table 21. Calculation of capital requirements for operational risk.

Capital requirements for operational risk amounted to 6.0 million euros.

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 2019 under the heading "financial assets at fair value through other comprehensive income" are as follows:

Thousands of euros	2019	2018
Equity instruments		
Commitments in venture capital entities, net of returns	197.3	135.7
Outstanding distributions from venture capital entities	-98.8	(46.9)
Remeasurements	-3.6	5.8
Subtotal venture capital instruments	95.0	94.6
Other investments	10.8	10.8
Remeasurements	-10.8	-10.8
Subtotal other investments	0.0	-
Total capital instruments	95.0	94.7
Debt securities	0.0	-
Nominal amount representing debt securities	255.8	458.9
Remeasurements	3.6	5.6
Total debt securities	259.4	464.5
Total	**354.4**	**559.1**

Table 22. Changes in the breakdown of assets classified in the financial assets portfolio at fair value through other comprehensive income.

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

When it constitutes venture capital companies, the Group is committed to paying out a fixed amount to ensure these financial vehicles can perform the operations for which they were established. These commitments are always enforceable, in accordance with the executed contracts.

In 2019, a total of 0.7 million euros were recognized from dividends on venture capital instruments. In 2018, no dividends were recognised.

Portfolios held with strategic aims

The holding in Avalis de Catalunya S.G.R is accounted for using the equity method, using the best available estimate of its theoretical carrying amount on the date the annual financial statements were prepared:

Millions of euros	2019	2018
Avalis de Catalunya S.G.R		
Shareholding	5.4	6.1
Equity method adjustment	2.8	3.0
Closing balance	**8.2**	**9.1**

Table 23. Holding in Avalis de Catalunya, S.G.R.

12.2 Accounting policies and measurement 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 "Accumulated other 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. If the fair value is greater than the value of the investment. In such cases, the investment is remeasured by the difference taken to net equity.

2. The fair value is between 90% and 100% of the cost of the investment. Changes in the value of an instrument of up to 10% are not treated as a loss. They are due to associated management costs and are necessary in order to create value in the companies being invested in by venture capital entities. No accounting adjustment is therefore made to the investment.

3. If the fair value is less than 90% of the cost of the investment. Changes in the value of an instrument of over 10% are treated as remeasurements and will be recorded in full against 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 entities 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 staff

The governing bodies involved in defining the remuneration policy of the identified staff 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 identified staff that must be approved by the Supervisory Board;
- Periodically review the general principles regarding remuneration.

The Appointments and Remuneration Committee comprises two independent members, 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 Chief Executive Officer or requested by any of its members.

13.2. Identified staff

The identified staff comprises individuals occupying posts 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 staff:

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

  - CEO
  - Director General of Venture Capital and Capital Markets
  - Director General of Credit Investments
  - Director General of Finance and Operations
  - Corporate Director of Compliance and Control
  - 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 18 June 2015. The amounts related to this policy are updated according to the same percentage increase of the public sector on an annual basis.

13.4. Qualitative information on the remuneration of the identified staff

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 proprietary 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 Audit 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): 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, which is subject to annual review by the Appointments and Remuneration Committee. 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 the 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 identified staff

The remuneration paid to the Group's identified staff in 2019 was as follows:

Thousands of euros	Directors(1)	Executives(2)	Total
No. of beneficiaries	11	13	**22**
Fixed remuneration 2019	252	1,091	**1,343**
Variable remuneration 2019 (*)	30	185	**215**

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

(1) Includes the Executive Director and other Directors, at 31 December 2019.

(2) Includes Executives and Key Personnel.

Table 24. Remuneration paid to the Group's identified staff in 2019.

14. NOTE OF SUBSEQUENT EVENTS

On 11 March 2020, the World Health Organization raised the Public Health Emergency caused by the COVID-19 outbreak to a global pandemic. The rapid development of events, at national and international levels, represents an unprecedented health crisis, which will impact the macroeconomic environment and business development. In order to deal with this situation, among other measures, the Government of Spain has proceeded to declare the state of alert, by publishing Royal Decree 463/2020, of 14 March, and adopting a series of extraordinary urgent measures to address the economic and social impact of COVID-19, through Real Decree-law 8/2020, of 17 March. In the same vein, Decree Law 7/2020 of the Government of Catalonia on urgent measures to mitigate the effects of the COVID-19 pandemic has been adopted.

The Group finds that these developments do not imply an amendment to the consolidated financial statements for the year ended 31 December 2019. Since this document includes solvency data and risk metrics on the same dates, its content also remains unchanged. However, current events could have an impact on both the level of solvency and the different risks to which the Group is exposed, which are subject to specific monitoring. In this sense, the growing need of liquidity in the markets arising from this health crisis has become a priority for the Group, which is taking the necessary measures to optimize its management.