Institut Català de Finances

2020

Pillar III Disclosure Report

Generalitat de Catalunya

Contents

1. ICF GROUP PILLAR III

With this document, the Institut Català de Finances Group (hereinafter, the Group) complies with section eight of Regulation (EU) No 575/2013 (known as CRR) and its amendment to Regulation (EU) No 2019/876 (known as CRR II) applicable to financial institutions relating to the obligations to disclose financial information on the risk profile of the institution, its risk control and management, its own resources and solvency levels. These regulations are directly applicable in the member states of 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.

1.1 Regulatory framework

The Pillar III Disclosure Report is part of a European framework designed 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.

In 2010, the Basel Committee on Banking Supervision, the international forum which sets general supervisory standards and issues statements on prudential best practice, approved the reform of the global regulatory capital framework known as Basel III. The legislative package implementing this framework in the European Union came into force on 1 January 2014, comprising Regulation (EU) No 575/2013 and Directive 2013/36/EU, known as CRR and CRD IV respectively. While the Regulation is applied directly by the institutions of member states, the CRD IV Directive required the following process for inclusion in 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. Law 10/2014, of 26 June 2014, on the regulation, supervision and solvency of credit institutions.
3. Royal Decree 84/2015, of 13 February 2015, implementing Law 10/2014.
4. Bank of Spain Circulars 2/2014 and 2/2016.

On 23 November 2016, the European Commission presented a new package of regulatory reform proposals to strengthen the sector and adopt the most significant new international regulations regarding solvency, risk management and the winding up of banking entities. Thus, proposals for amendments to the CRR and CRD IV were tabled. Against this background, in June 2019 the European Parliament and the Council published Regulation (EU) No 2019/876 or CRR II amending Regulation (EU) No 575/2013 and Directive (EU) 2019/878 or CRD V amending Directive (EU) 2013/36.

CRR II amends aspects regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures and reporting and disclosure requirements. Furthermore, CRD V amends aspects regarding exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

2. INTRODUCTION

The 2020 financial year has been shaped by the health emergency brought about by Covid-19 which has had a significant impact on the global economy. In this respect, and with the aim of providing support to the economy in view of the economic consequences of the pandemic, national and European authorities have introduced regulatory changes featuring flexibility measures including:

- By the ECB: authorisation for the use of capital conservation and countercyclical capital buffers to operate temporarily below the minimum liquidity coverage ratio (LCR) of 100% and to relax the classification of loans as impaired, mainly at the prudential level.

- By the EBA: publication of the Guidelines on the regulatory treatment of moratoria.

- By the Bank of Spain: publication of Circular 3/2020, which introduces flexibility to avoid automated classification of transactions which are not appropriate for economic contexts such as the current one, in line with ECB and IASB guidelines.

Consequently, the control and management of the ICF Group's risks, particularly credit risk and liquidity risk, have been particularly closely monitored. Firstly, its management bodies have stepped up their monitoring and control of all lending operations, both new business and all transactions which have been amended (restructured and refinanced) as a result of the economic crisis arising from the Covid-19 pandemic. Secondly, liquidity risk controls have been increased to avoid structural pressure and to continue supporting the liquidity needs of the business community and ensure that jobs are maintained.

Credit Risk

Credit risk is the ICF Group's main risk, a natural consequence of its business model. At the prudential level, this risk represents 96.7% of total risk-weighted assets. The main financial indicators of credit risk, such as the NPL ratio, stood at 6.2% at the end of 2020 *and* the NPL coverage ratio is 130.9%, higher than the average for the sector.

Capital and Solvency

In 2020, the ICF Group's lending activity was significantly high driven by strong demand for loans from the economic sectors hardest hit by the economic crisis generated by the Covid-19 pandemic. This increase in assets has led to a 3.5 p.p. decrease in the total capital ratio compared to year-end 2019. However, the ICF Group maintains at the end of 2020 a solvency level of 43.8%, well above the regulatory minimum of 10.5% (8% for capital requirements plus 2.5% for the capital conservation buffer) as a result of high own funds and a conservative management policy. The historical evolution of the total capital ratio over the last 5 years is shown below:

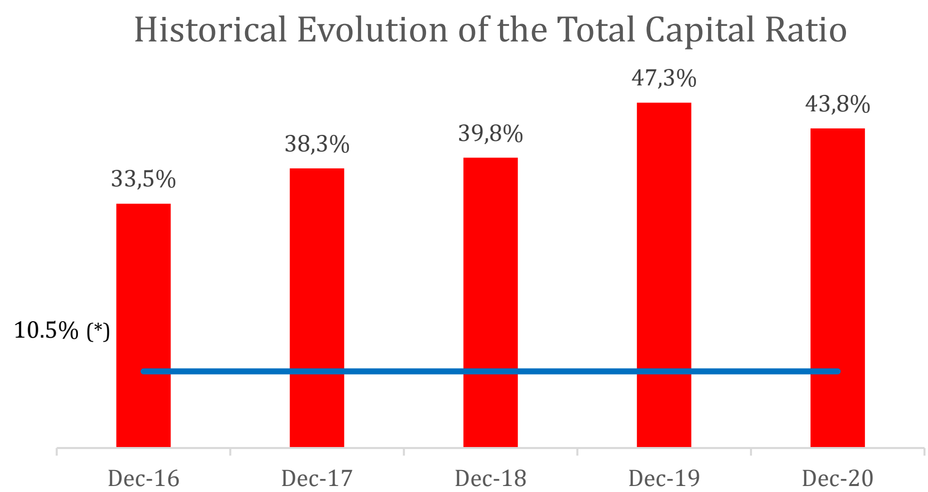

Figure 1. Historical performance (last 5 years) of the ICF Group's total capital ratio

Liquidity Risk

Liquidity management was particularly closely monitored in 2020. Accordingly, a specific committee was set up to monitor, control and manage liquidity risk during the period of peak demand for liquidity. Against this backdrop, the ICF Group maintains a solid liquidity position with a total cash position at the end of 2020 of EUR 253.2 million, of which EUR 228.4 million is in fixed income investments and promissory notes and EUR 24.8 million in current accounts:

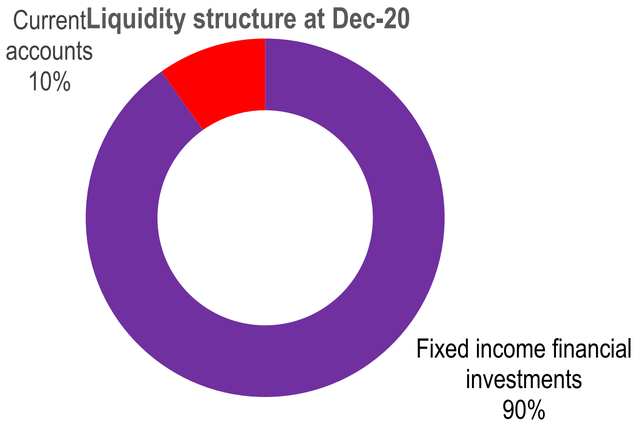

Figure 2. Group liquidity structure.

The ICF Group calculates, analyses and monitors the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) metrics following the guidelines of Regulation No 575/2013 and its amendment to Regulation No 2019/876 which set minimum compliance requirements. At year-end 2020, the ICF Group complies with the regulatory limits set for the LCR and NSFR metrics:

	31/12/2020	Regulatory limit
LCR	399%	100%
NSFR	125%	100%

Table 1. Regulatory metrics at the end of 2020.

The ICF Group's borrowings at year-end 2020 are EUR 1,373 million, divided into issues and promissory notes amounting to EUR 316 million and EUR 1,057 million in loans. 96.8% of the financing is non-current, with an average residual maturity of more than 7 years.

3. ICF GROUP

3.1 Description of the Group

The Institut Català de Finances (hereinafter the Institute, the Entity or the ICF) is a financial institution under public law with its own legal personality subject to private law which is wholly owned by the Generalitat de Catalunya. The regulations governing the Institute are Legislative Decree 4/2002, of 24 December, approving the recast text of the Law on the Institut Català de Finances, subsequently amended on a number of occasions with the most recent change made by Law 5/2017, of 28 March, on tax, administrative, financial and public sector measures.

The ICF is the parent company of a group of subsidiaries over which it has direct and full control. Consequently, the ICF is required to produce, in addition to its own individual annual accounts, the consolidated annual accounts 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 current European regulations (EU Directive 2013/36 and Regulation No 575/2013 - Basel III) and Spanish legislation (Law 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, and Royal Decree 84/2015), in accordance with the regulators' requirements for financial institutions.

Decree Law 2/2015 partially amends and adjusts the recast 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 shall be governed by "market criteria" when performing its functions.

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

3.2 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**. Societat Unipersonal (henceforth IFEM) was incorporated by public notarial instrument 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 Generalitat for the JEREMIE programme in Catalonia.
- **Institut Català de Finances Capital S.G.E.I.C**., S.A. Societat Unipersonal (henceforth ICF Capital), was incorporated for an indefinite term on 26 February 2011 and is subject to Circular

7/2008, of 26 November, of the Spanish National Securities Market Commission (CNMV), which supervises venture capital management companies, and to current legislation regarding this type of company, including Law 22/2015, of 12 November and, where this is not applicable, Royal Decree Law 1/2011 of 2 July, approving the recast text of the Capital Companies Law. 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 single-shareholder company, its sole 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 authorisation by the Spanish National Securities Market Commission (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 the authorisation by the Spanish National Securities Market Commission (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 National Securities Market Commission (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 National Securities Market Commission (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.

3.3 Consolidated group for the purposes of solvency regulations

The ICF Group submits its financial statements mainly based on the classification and criteria set by Circular 4/2017 issued by the Bank of Spain (hereinafter, the Accounting Circular), as these are considered the most appropriate Spanish accounting 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. The associate Avalis de Catalunya is measured using the equity method.

The differences between the consolidated group of companies for the purposes of the prudential regulation and the Accounting Circular are primarily that the prudential regulation only takes into account entities included in the scope of consolidation as a result of their operations, 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 table below lists the reconciliation between accounting capital and regulatory capital at 31 December 2020:

	Prudential regulation	Bank of Spain Circular 4/2017
	Eligible capital	Total equity ICF Group
Tier 1	**907.7**	**908.3**
Paid-up capital	693.1	693.1
Reserves	185.1	185.1
Profit (loss) for the year	5.4	5.4
(-) Intangible assets	(3.9)	n.a
(-) Deduction for material financial investments	-	n.a
(-) Deduction for non-material financial investments	-	n.a
(+/-) Valuation adjustments	28.0	24.7
Fair value changes	*28.0*	28.1
Cash flow hedging	*n.a*	(3.3)
Tier 2	**20.7**	**-**
General provision (*)	44.1	n.a
(-) Excess general provision	(23.4)	n.a
Total	**928.4**	**908.3**

(*) Hedging not assigned to individual operations.

Table 2. Reconciliation between accounting capital and regulatory capital.

3.4 Other general information

There are no material or legal impediments to equity transfers 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

The ICF Group's risk management and control model includes the three lines of defence under proportionality criteria and following the main requirements of the European Banking Authority (EBA) 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 Group's risks, reporting to the various 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. In this respect, the ICF Group has drawn up a Risk Appetite Statement (RAS) which includes all the risks to which the Entity is exposed. The RAS enables each risk to be controlled by specifying metrics, limits and thresholds which are aligned with the Entity'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;
- **Financing 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 financing 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 the parent company.

4.4 Supervisory Board and delegate committees

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

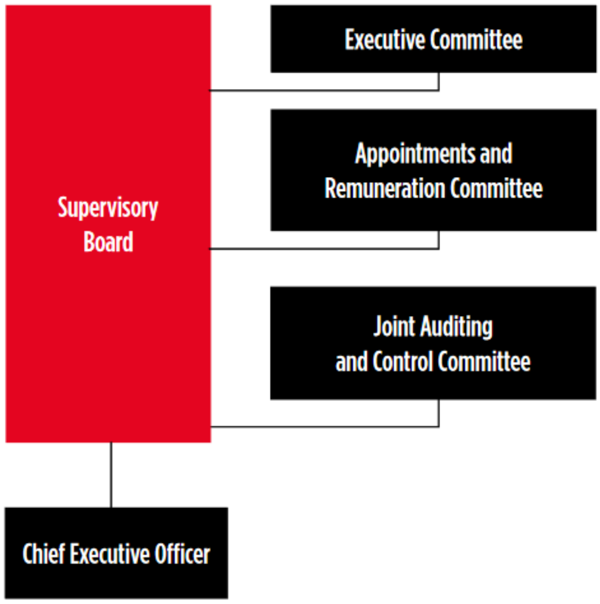

Figure 3. Structure of the Group's governing bodies.

The members of the Board and committees at 31 December 2020 were as follows:

	Supervisory Board	Executive Committee[1]	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 Auditing 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
Proprietary	Masó Carbó, Meritxell Castellanos Maduell, Albert Villarroya Martínez, Matilde Juncà Pujol, Lluís	-	-
Executive	Sanromà i Celma, Josep Ramon	Sanromà i Celma, Josep Ramon	-

Table 3. Composition of the Group's governing bodies.

Supervisory Board

[1] As of 01/28/2021, the Board has agreed that the Executive Committee is chaired by the President of the Supervisory Board, Mr. Albert Castellanos Maduell and to maintain the remaining members, that is, the CEO, three independent members and the secretary (no member). Subsequently, on 02/01/2020 a new CEO has been appointed in the person of Mr. Victor Guardiola Flores replacing Mr. Josep-Ramon Sanromà Celma.

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 ICF's credit risk and equity investment policies;

The responsibilities of the **Appointments and Remuneration Committee** are:

- To propose the criteria and policies to be applied for the composition of the Supervisory Board taking into account the principles of good repute, 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 consisting of fixed and/or variable remuneration of the members of the Supervisory Board and key personnel, ensuring it is compatible with the long-term interests of the institution and with appropriate 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 any of the entity's governing bodies.

- To make recommendations to the Supervisory Board for the appointment of a new chairperson or chief executive and, if necessary, make proposals to ensure that the process takes place in an orderly and well-planned manner.

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

- To supervise the effectiveness of the control of the entity and the functions of Internal Audit, regulatory compliance and internal control, global risk control and risk management and information systems. To approve or amend the bylaws governing these functions while at the same time guaranteeing their independence and universal nature.
- To issue opinions to the Supervisory Board to help it make decisions concerning any matter within its remit, including any financial information to be published, and the creation or acquisition of holdings in entities whose corporate purpose or location is different from those approved in the ICF's investment policy.
- To supervise the preparation and presentation of regulatory financial information, ensuring its compliance with legal requirements and the proper application of accounting principles.
- To be promptly advised of any 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.

CEO

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, following a favourable report by the Appointments and Remuneration Committee, and is responsible for the ordinary and extraordinary representation of the ICF in all areas and situations. At 31 December 2020, the ICF's CEO was Mr Josep-Ramon Sanromà i Celma. Since 1 February 2021, the ICF's CEO has been Mr Víctor Guardiola Flores.

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 boards of the companies in which it has direct or indirect investments, without prejudice to representing the Institute in such other areas as may be agreed upon.
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 notes, balance sheet and accounts of the entity and proposed distribution of profit/application of losses.
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 system.

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 Group's organisational structure comprises the following Management Divisions:

- **Venture Capital and Capital Markets:** responsible for the management of financial holdings, venture capital investments, liquidity 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

In accordance with its powers, the Supervisory Board has delegated authority to the various governing and management bodies for credit investments. This system of delegation is proportionate to the risk assumed. 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. The pyramid structure of powers and responsibilities is as follows:

Figure 4. Credit risk approval authority outline.

<u>Capital investments</u>

The Supervisory Board has also delegated authority to the various governing and management bodies for capital investments. In this respect, there is also an organisational and functional structure for decision-making about the ICF Group's equity investments which approves or submits investment proposals depending on the volume of risk:

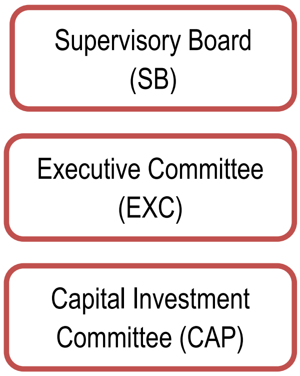

Figure 5. Capital investment authority diagram.

4.6 Risk management and control functions

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

The **Treasury and Capital Markets** division which is responsible for implementing the investment and funding guidelines and policies set by the Asset and Liability Committee (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.

The **Investments in Financial Instruments** division whose functions 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.

The **Products and Risk Policies** division whose functions 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.

The **Credit Investments** division whose functions 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.

The Risk Monitoring and Management division whose 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;
- Analysis and evaluation of adjustments to operations due to customer payment difficulties;
- Proposal of modifications on the operations to the corresponding management 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.

The **Regulatory Compliance** division whose 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.

The Internal Audit and Control division whose functions include:

- Preparing internal audit and control plans which are to be reviewed at least once a year. They 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 about reports, findings and conclusions of all audit and internal control, research and consultancy activities and, after checking this information, also the CEO and the departments involved 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.
- Performing to the best of its ability and experience the consultancy work requested 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.

The Global Risk Management division whose 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 regular 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:** it is responsible for all actions concerning the supervision of all the risks affecting the ICF Group and evaluates 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

Below is a breakdown of the items comprising the ICF Group's eligible capital at 31 December 2020, as well as a comparison with 31 December 2019:

ICF GROUP ELIGIBLE CAPITAL	2020	2019	Differences
Tier 1	**907.7**	**895.0**	**12.7**
Paid-up capital	693.1	693.1	-
Reserves	185.1	153.4	31.7
Profit (loss) for the year	5.4	29.2	(23.8)
(-) Intangible assets	(3.9)	(1.8)	(2.1)
(-) Deduction for material financial investments	-	-	-
(-) Deduction for non-material financial investments	-	-	-
(+/-) Valuation adjustments	28.0	21.1	6.9
Tier 2	**20.7**	**18.8**	**1.9**
General provision (*)	44.1	47.8	(3.7)
(-) Excess general provision	(23.4)	(29.0)	5.6
Eligible capital = Tier 1 + Tier 2	**928.4**	**913.8**	**14.6**

(*) Hedging not assigned to individual operations.

Table 4. Annual comparison of the breakdown of the Group's eligible capital.

At year-end 2020, Tier 1 capital corresponds to €907.7 million, an increase compared to 2019 of €12.7 million. This increase is the result of a combination of factors. Firstly, valuation adjustments had a positive net variation compared to the previous year of €6.9 million, mainly caused by net unrealised gains derived from risk capital instruments classified in the portfolio of financial assets at fair value with changes in accumulated other comprehensive income. Secondly, reserves and income for the year had a net positive variation compared to the previous year of €5.8 million. This latter variation was the aggregation of the €31.7 million increase in reserves due to the allocation against reserves of the previous year's profit (loss), and the €23.8 million decrease in profit (loss) for the year mainly due to higher impairment of financial assets not measured at fair value through profit or loss.

The net change in Tier 2 capital was an increase of €1.9 million, mainly due to the increase in risk-weighted assets.

Total regulatory capital, which is the sum of Tier 1 capital plus Tier 2 capital (the ICF Group does not include any capital items eligible as Additional Tier 1), increased by EUR 14.6 million to EUR 928.4 million.

The chart below shows the performance of eligible capital through its various components:

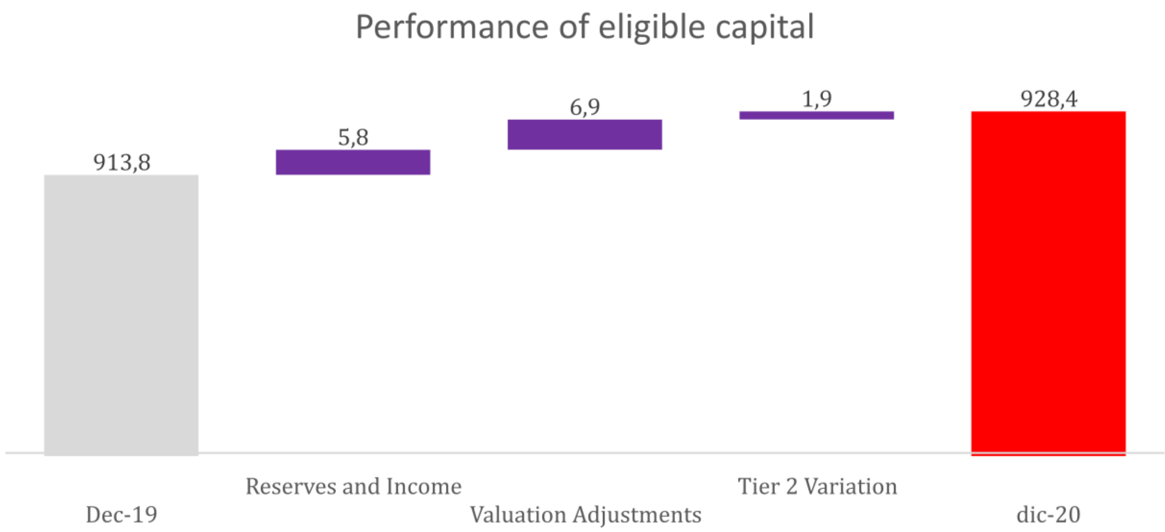

Figure 6. Annual performance of the ICF Group's eligible capital.

5.2 Capital requirements

Total Pillar 1 capital requirements broken down by type of risk at 31 December 2020 were as follows:

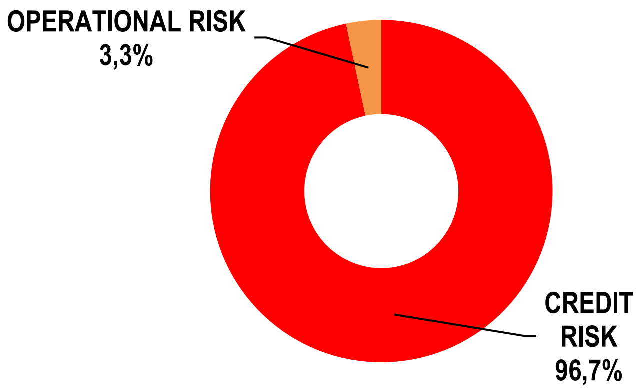

Figure 7. Capital consumption by Pillar 1 risk.

The Group's main risk is credit risk, at 96.7% of capital consumption, followed by operational risk at 3.3%. The ICF Group is exempt from capital requirements for market risk pursuant to Article 94(1) of Regulation (EU) No 575/2013.

The assets included in the calculation of the capital requirements for credit risk are assessed in accordance with the standardised method set out in Regulation (EU) NO 575/2013. The capital requirements allocated for credit risk by product type are shown below:

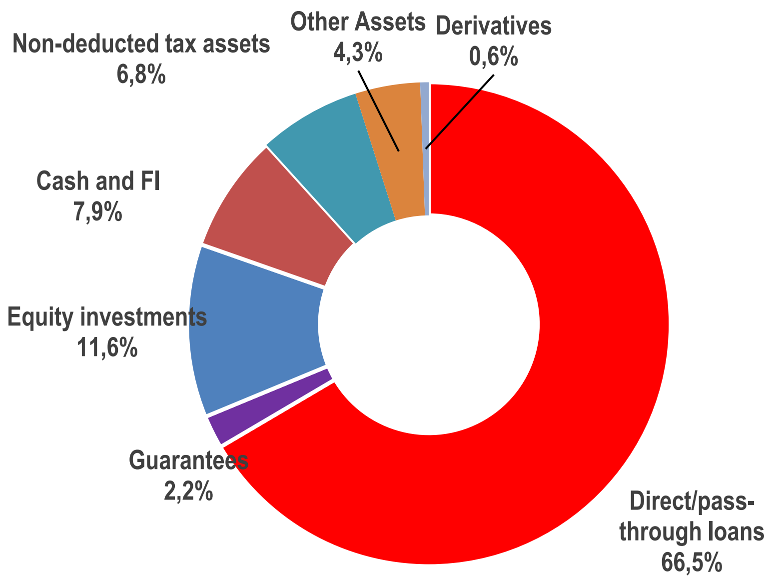

Figure 8. Product type making up the calculation of capital requirements for credit risk.

Below is a table breaking down by product and risk the calculation of risk-weighted assets and capital requirements for Pillar I risks as at 31 December 2020:

Millions of euros	Regulatory exposure (*)	Regulatory net exposure (**)	Risk weighting	Risk-Weighted Assets (RWAs)	Pillar I risks cap. req. (8% RWA)	%
CREDIT RISK	**3449.6**	**2506.3**	**82%**	**2050.9**	**164.1**	**96.7%**
a) Credit Risk - loan investments	**2248.1**	**1687.4**	**84%**	**1412.8**	**113.0**	**66.6%**
Direct loans:	2125.0	1616.6	84%	1356.0	108.5	63.9%
Normal risk - public authorities	374.2	356.3	60%	214.3	17.1	10.1%
Normal risk - other resident sectors	1611.8	1236.8	90%	1118.2	89.5	52.7%
Non-performing	139.0	23.5	100%	23.5	1.9	1.1%
Pass-through loans	12.6	12.6	67%	8.5	0.7	0.4%
Guarantees:	107.4	55.1	83%	45.6	3.6	2.1%
Normal risk - public authorities	26.2	24.8	85%	21.0	1.7	1.0%
Normal risk - other resident sectors	78.0	28.3	80%	22.6	1.8	1.1%
Non-performing	3.3	2.0	100%	2.0	0.2	0.1%
Capitalised admin and risk fees	3.0	3.0	87%	2.6	0.2	0.1%
b) Credit risk - available	**173.0**	**173.0**	**0%**	**0.0**	**0.0**	**0.0%**
c) Credit risk - shareholdings and venture capital	**135.0**	**135.0**	**176%**	**238.1**	**19.0**	**11.2%**
of which, subject to 150% weighting	99.4	99.4	150%	149.1	11.9	7.0%
of which, subject to 250% weighting	35.6	35.6	250%	88.9	7.1	4.2%
d) Credit risk - current accounts and deposits	**41.3**	**41.3**	**26%**	**10.8**	**0.9**	**0.5%**
e) Credit Risk - fixed income investments	**231.2**	**231.2**	**66%**	**151.6**	**12.1**	**7.1%**
f) Credit risk - counterparty	**406.1**	**23.5**	**50%**	**11.7**	**0.9**	**0.6%**
g) Other assets (real estate, prepayments)	**159.1**	**159.1**	**54%**	**86.3**	**6.9**	**4.1%**
h) Deferred tax assets	**55.9**	**55.9**	**250%**	**139.7**	**11.2**	**6.6%**
OPERATIONAL RISK (***)	**70.2**	**70.2**	**100%**	**70.2**	**5.6**	**3.3%**
TOTAL	**3519.8**	**2576.5**	**82%**	**2121.1**	**169.7**	**100%**

(*) 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 5. Composition of Risk-Weighted Assets (RWAs) and Pillar 1 capital requirements.

The total risk-weighted assets of the ICF Group amounted to EUR 2,121 million, of which 66.6% were from credit investments, in line with the Group's activity.

The minimum capital requirement for Pillar I risks at year-end 2020 is EUR 169.7 million, with a capital buffer available to the ICF Group of EUR 758.7 million. A comparative table with data for year-end 2020 and year-end 2019 is shown below:

	2020	2019	differences
ICF Group EC	928.4	913.8	14.6
Total RWAs	2121.1	1932.1	189.0
Pillar I Risks Capital Requirements (8%)	169.7	154.6	15.1
Available capital	**758.7**	**759.3**	**-0.5**

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

The ICF Group complies with all regulatory limits for capital purposes as at 31 December 2020:

		Minimum requirements		
Capital ratios	**2020**	**TOTAL**	**Minimum**	**Conservation Buffer**
Common Capital Ratio (CET1)	42.8%	7.0%	4.5%	2.5%
Total capital ratio	43.8%	10.5%	8.0%	2.5%

Table 7. ICF Group capital ratios at year-end 2020.

At the end of 2020, the ICF Group's leverage ratio is 34.6%, a value that largely complies with the regulatory limits set by the 3% leverage ratio, following the guidelines of Regulation (EU) No 575/2013 and its amendment in Regulation (EU) No 2019/876.

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.

- 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.

- Stage 3 – Non-performing: the transaction has been subject to a default event.

- 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 2020 and 2019 is shown below:

Millions of euros	2020	2019	Differences
Total portfolio	2,252	1,697.0	555.4
Non-performing	140.1	111.3	28.8
NPL ratio	6.2%	6.6%	-0.3%
Coverage ratio	130.9%	149.2%	-18.2%

Table 8. 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 Valuation adjustments due to impairments and allowances for contingent liabilities and commitments

The provisions for impairment of credit risk are calculated in accordance with the criteria established in Circular 4/2017 of the Bank of Spain. These provisions can be supplemented with additional amounts deemed necessary to collect the particular characteristics of borrowers, sectors or portfolios that cannot be identified in the general process of estimating the provision for impairment.

Methods for estimating 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 2020 are shown in the table below. At 31 December 2020, hedging for non-impaired operations includes an amount of €15.7 million for operations classified as normal and €53.1 million for operations classified as normal under special surveillance.

The calculation of the provisions for credit risk impairment has been supplemented with the additional amounts considered necessary to reflect the particular characteristics of the borrowers, sectors or portfolios which, although they could not be identified in the general process of estimating the impairment provision, have been temporarily affected by the impact of the Covid-19 pandemic. As at 31 December 2020, the Group has recognised on these grounds an additional impairment of the unimpaired credit risk hedges of €10.4 million corresponding to a sector impairment.

Amounts in thousands of euros	Not Impaired		Impaired		Total
2020	Individual	Collective	Individual	Collective	
Gross amount					
Balance at 1 January 2020	-	**1,492.0**	**60.0**	**49.9**	**1,601.9**
Balance at 31 December 2020	-	**2,004.9**	**81.8**	**57.4**	**2,144.1**
Impairment		-	-	-	**-**
Balance at 1 January 2020		**(86.5)**	**(47.0)**	**(32.3)**	**(165.8)**
Charges/Recoveries	-	(7.2)	(11.7)	(8.0)	**(26.8)**
Transfers between stages	-	14.5	(7.6)	(6.8)	**-**
Transfer to failed risk	-	-	-	9.1	**9.1**
Balance at 31 December 2020	**-**	**(79.2)**	**(66.3)**	**(38.0)**	**(183.5)**

Table 9. Breakdown of the annual evolution of accounting provisions for credit risk corresponding to customer loans.

6.4 Geographical distribution of exposures

The classification of the ICF Group's loan portfolio by area of investment as at 31 December 2020 is shown below. The Group's activity focuses on promoting the growth of Catalan companies, so its natural area of activity is the Region of Catalonia:

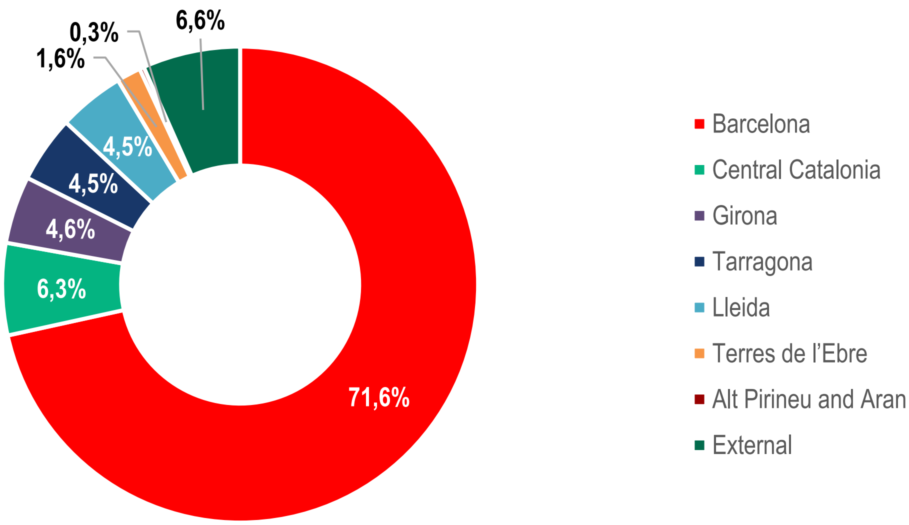

Figure 9. Territorial distribution of the loan portfolio (calculated by gross exposure).

The geographical breakdown used is based on traditional Catalan jurisdictions (vegueries). The Barcelona area represents 67.1% of the ICF's portfolio, in line with its share of Catalonia's total GDP. Figures for 2020 and 2019 are included for the purposes of comparison:

Territorial scope	2020	2019
Barcelona	71.6%	65.0%
Central Catalonia	6.3%	7.1%
Girona	4.6%	6.2%
Tarragona	4.5%	4.7%
Lleida	4.5%	4.2%
Terres de l'Ebre	1.6%	2.2%
Alt Pirineu and Aran	0.3%	0.6%
External[2]	6.6%	9.8%
Total	**100.0%**	**100.0%**

Table 10. Annual evolution of the territorial distribution of the loan portfolio (calculated by gross exposure).

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 territory:

Millions of euros	Non-performing	Performing	Provisions	Total
Barcelona	112.5	1499.4	-146.5	1465.5
Central Catalonia	5.8	135.1	-7.8	133.1
Girona	5.8	97.4	-10.0	93.2
Tarragona	9.3	92.8	-7.8	94.2
Lleida	1.0	100.1	-3.6	97.6
Terres de l'Ebre	0.6	36.3	-4.3	32.6
Alt Pirineu and Aran	2.0	4.8	-2.1	4.6
External	3.2	146.3	-1.4	148.1
Total	**140.1**	**2112.3**	**-183.4**	**2069.0**

Table 11. Territorial distribution of non-performing loans and accounting provisions for credit risk (loans and guarantees, not including equity loans[3]).

6.5 Distribution of exposure by counterparty or sector

The segmentation of the loan portfolio as at 31 December 2020 is shown below:

[2] External: investment in companies in Catalonia that invest outside the territorial scope of Catalonia.
[3] The differences between this total net credit risk exposure as calculated by the solvency ratio are caused by the different treatment of generic provisions, valuation adjustments and managed funds.

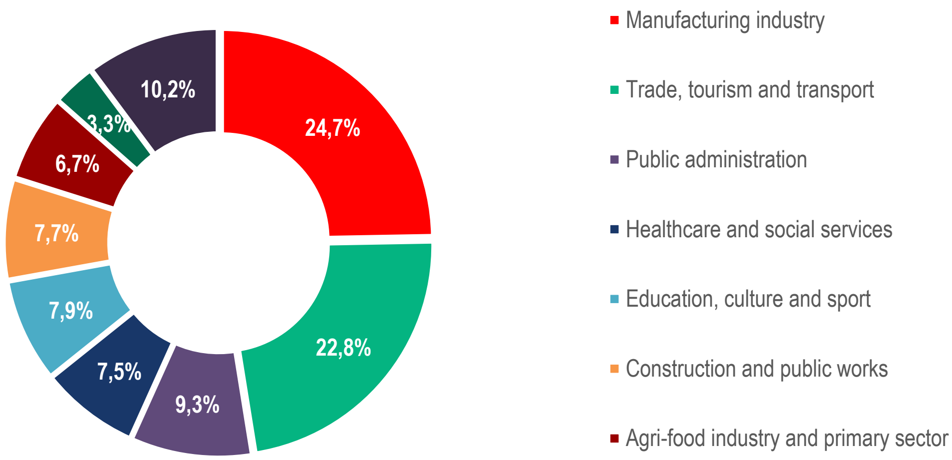

Figure 10. Sector segmentation of the loan portfolio (calculated by gross exposure).

The share of the "Trade, tourism and transport" sector has increased during 2020 to 22.8%, as it was one of the economic sectors hardest hit by the Covid-19 pandemic. The evolution of the concentration by sector between 2020 and 2019 is shown below for comparison purposes:

Sector scope	2020	2019
Manufacturing industry	24.7%	21.9%
Trade, tourism and transport	22.8%	15.2%
Public administration	9.3%	11.0%
Healthcare and social services	7.5%	11.0%
Education, culture and sport	7.9%	10.8%
Construction and public works	7.7%	9.8%
Agri-food industry and primary sector	6.7%	7.3%
Extractive industries, energy and supplies	3.3%	3.6%
Other	10.2%	9.4%
Total	**100.0%**	**100.0%**

Table 12. Annual figures for the sector segmentation of the loan portfolio.

The table below shows the gross carrying amount of the loan 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 industry	65.5	491.1	-66.2	490.5
Trade, tourism and transport	24.9	487.6	-40.2	472.3
Public administration	27.2	181.4	-29.7	178.9
Healthcare and social services	0.0	169.5	-2.5	166.9
Education, culture and sport	0.1	178.0	-9.4	168.7
Construction and public works	2.3	171.5	-14.8	159.0
Agri-food industry and primary sector	1.6	148.3	-4.0	145.8
Extractive industries, energy and supplies	8.8	65.5	-3.7	70.5
Other	9.8	219.5	-13.0	216.3
Total	**140.1**	**2112.3**	**-183.4**	**2069.0**

Table 13. Sector distribution of non-performing loans and accounting provisions for credit risk[4] (loans and guarantees, not including equity loans).

6.6 Distribution of exposure by residual maturity

The table below shows the maturity of cash instruments, customer loans, deposits with credit institutions and debt securities at 31 December 2020, based on their tenor according to their contractual terms:

Millions 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	24.8	0.0	0.0	0.0	0.0	0.0	24.8
Loans and advances	14.7	13.2	32.9	272.1	1,138.8	514.2	1,986.0
Deposits with credit institutions	14.7	1.2	1.7	5.4	3.7	2.3	29.0
Customer loans	0.0	12.1	31.3	266.7	1,135.0	511.9	1,957.0
Debt securities	0.0	1.0	10.5	63.9	154.3	1.5	231.2
Total assets	**39.5**	**14.2**	**43.5**	**336.0**	**1,293.0**	**515.7**	**2,242.0**

Table 14. Time distribution of expected cash flows.

6.7 Impairment losses and reversals for previously recognised losses

Impairment losses on financial assets not measured at fair value through profit or loss for 2020 and 2019 are as follows:

[4] *The differences between this total net credit risk exposure as calculated by the solvency ratio are caused by the different treatment of generic provisions, valuation adjustments and managed funds.*

Millions of euros	2020	2019
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:		
Allocations to provisions	*(46.5)*	*(24.6)*
Recoveries	*18.9*	*24.7*
Other	*4.6*	*7.5*
Impairments of available-for-sale financial assets	-	-
Total loans and receivables	**(23.0)**	**7.5**
Total other available-for-sale financial assets	**-**	**-**
Financial assets at cost	-	-
Total financial assets at cost	-	-
Total	**(23.0)**	**7.5**

Table 15. 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 rating agencies (ECAIs) S&P, Moody's, Fitch and DBRS, recognised by the European Central Bank, to determine the risk weights applicable to exposures from fixed income investments and positions held with financial institutions through deposits, current accounts, pass-through transactions and derivatives. The conditions indicated in Regulation (EU) No 575/2013, Article 138, are applied to determine the final assessment for exposure.

A comparison between 2020 and 2019 of the distribution of the Group's exposures by rating for investments in fixed income, deposits and current accounts, pass-through transactions and derivatives is shown below. 79% of the total exposures correspond to investment grade investments. Furthermore, of the 21% in high yield counterparties, *8.2%* is in investments in Government of Catalonia bonds and the rest mainly in corporate fixed income bonds.

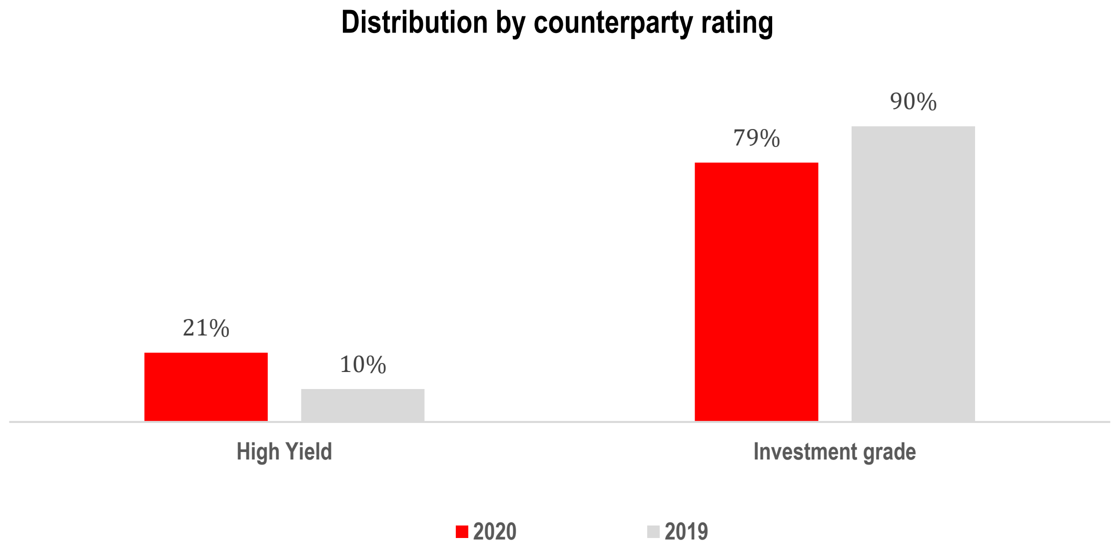

Figure 11. Distribution by rating of the counterpart of fixed income investment items, current accounts, pass-through loans and derivatives.

6.10 Application of risk reduction techniques

The ICF Group uses the credit risk reduction techniques referred to in Article 453 of Regulation (EU) No 575/2013. In this respect and in application of the principle of prudence, credit risk mitigation techniques are only applied through guarantees when these guarantees correspond to regional governments, applying Articles 115(2) and 400(e) of Regulation (EU) No 575/2013.

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 2020, 96.7% of risk-weighted assets (RWAs) were classified under credit risk, a total of EUR 2,050.9 million. 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 EUR 164.1 million.

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) No 575/2013, has drawn up a counterparty risk management policy which is included in the ICF Group's Financial Risk Policy;

It should be noted 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 2020, the RWAs deriving from the exposure with derivative instruments totalled EUR 11.7 million and the capital requirements stood at EUR 0.9 million. 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. The ISDA and CMOF contracts have enabled the ICF Group to establish netting agreements with the derivative counterparties it trades with, allowing it offset 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 regulation (Regulation No 648/2012**).** This regulation came into force on 15 September 2013 with effect as of 12 February 2014 and specifies reporting obligations affecting entities that trade in derivatives. In the ICF Group, the only entity trading in derivatives is the ICF, 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 2020, the entity held an interest rate swap for a notional amount of EUR 55 million 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(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 or repricing risk**: caused by differences in the time of maturity or the repricing of lending and borrowing 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 repricing bases (EUR3M, EUR6M, EUR12M);

- **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 on a quarterly basis to 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 net interest income sensitivity 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 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 income 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).** It measures the impact on the present value of balance sheet assets and liabilities 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.

Net interest income sensitivity and economic value

The ICF Group has defined various scenarios to calculate the impact on the net interest margin and economic value. The main 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.

At the end of 2020, net interest income sensitivity under variations defined by the regulatory scenario was -0.2% (worst case scenario) while sensitivity to economic value was -0.3% (worst case scenario). Both metrics are below the established regulatory limits that define negative changes of 50% and 20% respectively (Article 98(5) of Directive 2013/36/EU).

Scenario	Change in Economic Value	Change in Net Interest Income
Regulatory scenario (+/-200 bp)	-0.3% / +0.01%	+26.4% / -0.2%
Parallel scenario (+/-100 bp)	-0.8% / +0.01%	+9.3% / -0.2%

Table 16. Economic value and net interest income sensitivity to scenarios of instant and parallel shifts in the yield curve.

Furthermore, the stress scenarios recommended by the EBA/GL/2018/02 guidelines, which are applied at the supervisory level ("supervisor outlier tests"), are included in the monitoring of the sensitivity to economic value metric. 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	-0.28%	-2.5
Parallel Down	+0.01%	0.1
Steepener	+0.85%	7.7
Flattener	-1.15%	-10.4
Short rates up	-1.59%	-14.4
Short rates down	+0.65%	5.9
Maximum (*)	**-1.59%**	**-14.4**
15% CET1		**136.2**

(*) Expresses maximum loss.

Table 17. Sensitivity of economic value under various scenarios defined by the EBA.

Repricing gap

The static repricing gap (assets minus liabilities) at the end of 2020 is set out below. The graph shows the discrete structure, at monthly intervals up to 1 year, and its cumulative structure:

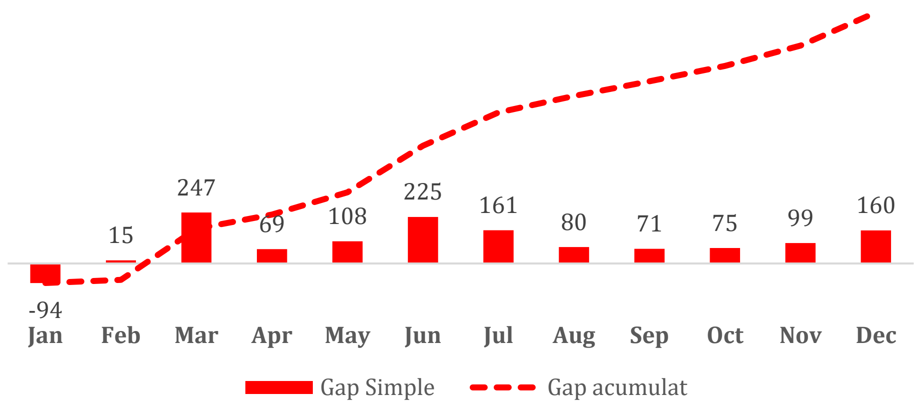

Figure 12. 12-month repricing gap.

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		
RENEWAL	Assets	Liabilities	Assets	Liabilities	Simple	Cumulative	Cum. gap
Up to 1 month	241.950	336.375	9,3%	12,9%	-94.425	-94.425	-3,6%
1 to 3 months	438.237	176.192	16,9%	6,8%	262.045	167.620	6,4%
3 to 6 months	578.320	175.901	22,3%	6,7%	402.419	570.039	21,9%
6 to 12 months	709.722	64.611	27,3%	2,5%	645.111	1.215.151	46,6%
CUMULATIVE 12 months	**1.968.229**	**753.078**	**75,8%**	**28,9%**		**1.215.151**	**46,6%**
1 to 2 years	31.956	341.420	1,2%	13,1%	-309.463	905.687	34,8%
2 to 3 years	41.787	31.754	1,6%	1,2%	10.033	915.720	35,1%
3 to 4 years	117.789	56.535	4,5%	2,2%	61.254	976.974	37,5%
4 to 5 years	13.065	36.783	0,5%	1,4%	-23.718	953.256	36,6%
5 to 7 years	9.556	65.599	0,4%	2,5%	-56.043	897.213	34,4%
7 to 10 years	5.665	49.193	0,2%	1,9%	-43.528	853.686	32,8%
10 to 15 years	7.422	62.661	0,3%	2,4%	-55.240	798.446	30,6%
15 to 20 years	1.459	0	0,1%	0,0%	1.459	799.905	30,7%
20 to 25 years	3.535	0	0,1%	0,0%	3.535	803.440	30,8%
TOTAL	**2.200.464**	**1.397.024**	**84,8%**	**53,6%**		**803.440**	**30,8%**

Table 18. 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 2020 is as follows:

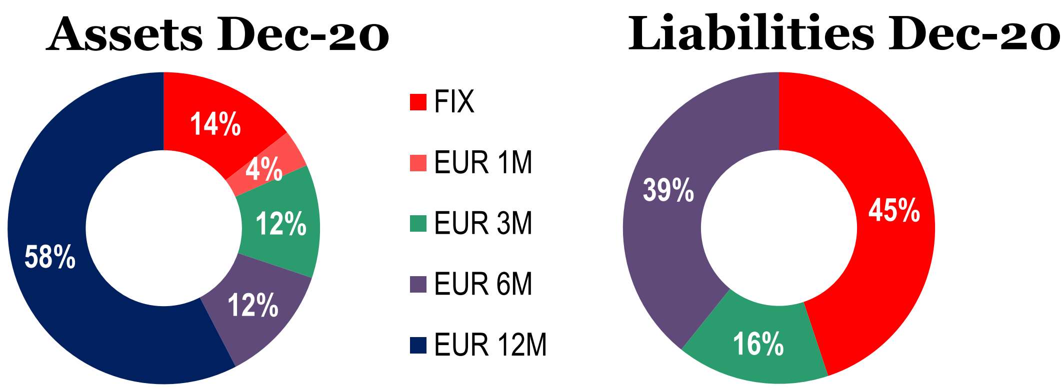

Figure 13. Distribution of bases of the interest rate sensitive amounts on the balance sheet.

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.

For the purposes of regulatory liquidity metrics, Regulation (EU) No 2019/876 amending Regulation (EU) No 575/2013 includes changes to the net stable funding ratio (NSFR).

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 feature of the ICF Group, together with a cash position consisting of current accounts and fixed income amounting to EUR 253.2 million at the end of 2020, ensures that its day-to-day payment commitments are fully covered. In addition, at the end of 2020, the ICF Group had a line of credit from Sabadell for €100 million.

The liquid cash at year-end 2020 and 2019 is shown below:

Liquid Cash	2020	2019
Current accounts	24.8	68.1
Fixed income	228.4	252
Deposits	0	10
Total	253.2	330.2

Table 19. Annual changes in the composition of the ICF Group's liquidated cash flow (management data).

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 divisions 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

The ICF Group manages liquidity risk through a series of metrics that have been identified and defined to respond to the entity's risk profile. The following liquidity risk metrics, among others, are measured, monitored and managed:

- **Static liquidity gap:** this allows the time distribution of net inflows and outflows in order 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:

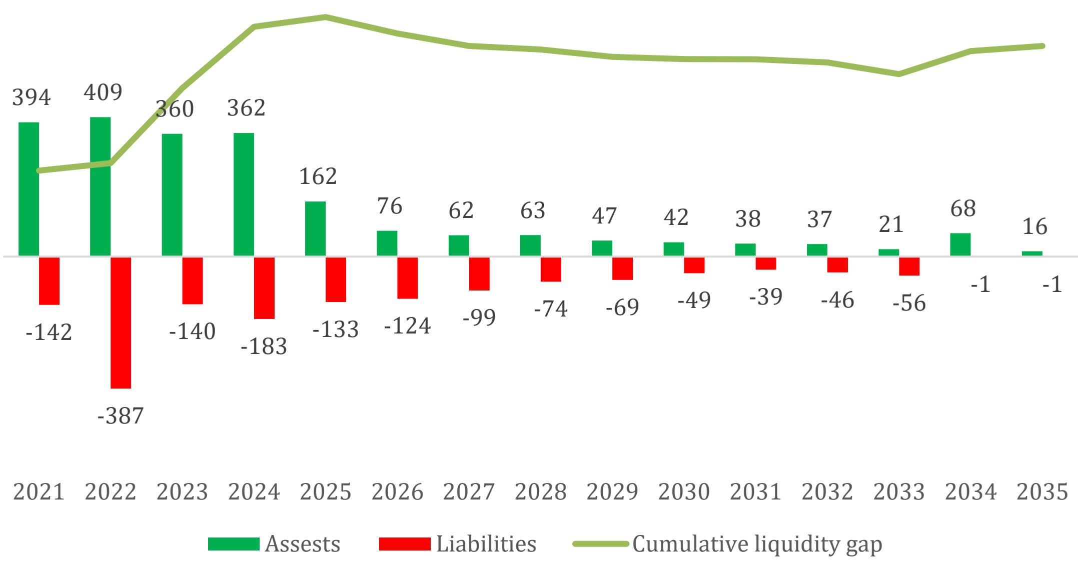

Figure 14. Annual and cumulative static liquidity gap.

Survival horizon

At the end of 2020 the ICF Group had an available liquidity balance of EUR 253.2 million, 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 15 months, while the survival horizon of the base scenario is 17 months. Both figures exceed the minimums set out in the ICF Group's liquidity risk management policies.

Regulatory ratios

The ICF Group includes the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory metrics in its liquidity risk management framework in line with Regulation (EU) No 575/2013 and its amendment to Regulation No 2019/876, which establish a minimum compliance requirement of 100%.

The ICF Group's liquidity coverage ratio closed 2020 at 399%, well above regulatory limits. The stock of high-quality liquid assets at the end of 2020 represents EUR 55.7 million, where top quality or tier 1 assets represent 85% of total HQLA funds.

The net stable funding ratio at the end of 2020 is 125%, above the regulatory minimums (100%).

10.4 Funding strategies

At the end of 2020, the ICF Group had €1,373 million in financing, which represents an increase of 38.3% compared to the same period of the previous year. The main sources of financing are in the capital market through own debt issues, loans and promissory notes. 72% of the financing corresponds to loans with the public banking sector, mainly the European Investment Bank (EIB) and the Instituto de Crédito Oficial (ICO). The breakdown of financing by product type is shown below:

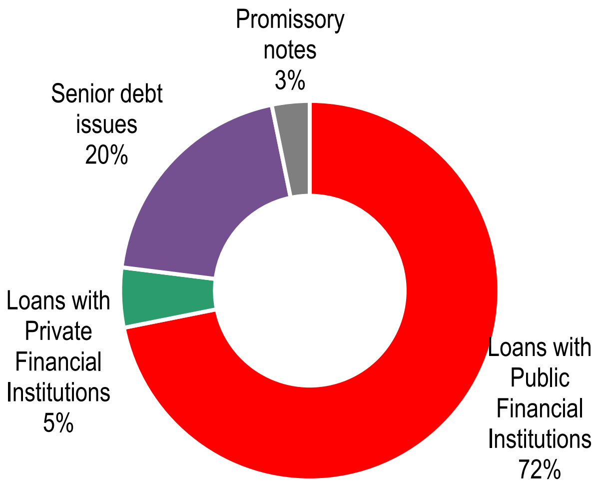

Figure 15. Distribution by type of product of the Group's wholesale financing.

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, and includes 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 own funds requirement for operational risk results from multiplying the average gross margin over the last three years by a factor of 15%, as calculated as follows:

Millions of euros	**Average last 3 years**
Interest and similar income	44.3
Interest and similar charges	-14.0
Income from equity instruments	0.1
Commissions received	2.6
Commissions paid	-1.0
Gains or losses on financial assets (net)	-0.7
Exchange differences (net)	0.0
Other operating income	6.1
Total	**37.5**
OPERATIONAL RISK (capital requirements)	**5.6**

Table 20. Calculation of capital requirements for operational risk.

Capital requirements for operational risk amounted to EUR 5.6 million.

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 2020 under the heading “financial assets at fair value through other comprehensive income” are as follows:

Thousands of euros	2020	2019
Equity instruments		
Commitments in venture capital entities, net of returns	230.7	197.3
Outstanding distributions from venture capital entities	-103.5	-98.8
Valuation adjustments	2.7	-3.6
Subtotal venture capital instruments	**129.9**	**95**
Other equity investments	10.8	10.8
Valuation adjustments	-10.8	-10.8
Subtotal other investments	**0**	**0**
Total capital instruments	**129.9**	**95**
Debt securities		
Nominal amount representing debt securities	228.4	255.8
Valuation adjustments	2.8	3.6
Total debt securities	**231.2**	**259.4**
Total	**361.1**	**354.4**

Table 21. Changes in the breakdown of assets classified in the financial assets portfolio at fair value through other comprehensive income.

The valuation adjustments include:

- For venture capital instruments: changes in fair value.
- For debt securities: changes in fair value, accrued interest and premiums to be accrued.

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

When venture capital companies are set up, 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 2020, a total of EUR 289 million has been recognised from dividends on venture capital instruments. In 2019, a total of EUR 697 million was recognised from dividends on venture capital instruments.

Annex III of the ICF Group's annual report contains details of the main investees of the ICF Group that are neither subsidiaries nor associates.

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	2020	2019
Avalis de Catalunya S.G.R		
Shareholding	5.2	5.4
Equity method adjustment	2.9	2.8
Closing balance	**8.1**	**8.2**

Table 22. Holding in Avalis de Catalunya, S.G.R.

12.2 Accounting policies and measurement of equity instruments

Valuation adjustments 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 valuation adjustments and will be recorded in full against net equity.

Valuation adjustments 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 personnel, 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, good repute 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 Finance
  - Director of Risk Monitoring and Management
  - Director of Technology
  - Director of Treasury and Capital Markets
  - Director of Business Development
  - Director of Human Resources
  - Head of Money Laundering Prevention
  - Head of Internal Audit

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 EUR 200,000.

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.

The entity's senior executives and key personnel

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 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 2020 was as follows:

Thousands of euros	Directors(1)	Executives(2)	Total
No. of beneficiaries	11	14	**25**
Fixed remuneration 2020	261	1,157	**1,418**
Variable remuneration 2020 (*)	30	187	**217**

(*) Variable remuneration has been provisioned, subject to assessment by the Appointments and Remuneration Committee. It has been accrued in 2020 and paid in 2021.

(1) Includes the Executive Director and the other Directors at 31 December 2020.

(2) Includes Executives and Key Personnel.

Table 23. Remuneration paid to the Group's identified staff in 2020.