Institut Català de Finances

2022

Pilar III
Disclosure Report

Generalitat de Catalunya

Contents

1. ICF GROUP PILLAR 3

With this document, the Institut Català de Finances Group (hereinafter the Group) complies with section 8 of Regulation (EU) No 575/2013 (known as CRR) and its amendment in 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 European Union member states.

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" (hereinafter the P3D) 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. Likewise, the P3D will 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

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.

The review of the legislative package under the Basel III framework, which presents proposals for amendments of the CRR and CRD IV, came in June 2019 when the European Parliament and the Council published Regulation (EU) 2019/876 or CRR II amending Regulation (EU) No 575/2013 and Guideline (EU) 2019/878 or CRD V amending Guideline (EU) 2013/36. CRR II is applicable from June 2021 and CRD V has been introduced into Spanish law through Royal Decree Law 7/2021 amending Law 10/2014 and Royal Decree 970/2021 amending provisions including Royal Decree 84/2015.

CRR II amends aspects of 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. Meanwhile, CRD V amends aspects relating to exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

The review of the latest banking package, known as CRR III and CRD VI, is currently under discussion by European legislators and represents the final stage of implementation of the changes carried out in the capital regulatory framework with the aim to strengthen the resilience of the European banking sector and improve the ability of banks to face future crises.

Sustainability regulation

Sustainability is emerging as a key pillar in European legislation with the ultimate goal of shifting the economy towards a more social and sustainable model aligned with the European Green Deal and climate neutrality by 2050 as per the Paris Agreement commitments. Hence as early as November 2019, the Parliament and the Council of the European Union published Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, subsequently amended on 18 June 2020 by Regulation (EU) 2020/852 which sets out in Article 9 the environmental objectives:

1. climate change mitigation;
2. climate change adaptation;
3. the sustainable use and protection of water and marine resources;
4. the transition to a circular economy;
5. pollution prevention and control;
6. the protection and restoration of biodiversity and ecosystems.

In December 2021, the European Commission published Delegated Regulation 2021/2139 (known as the Climate Taxonomy) which complements Regulation (EU) 2020/852 and sets out the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. These criteria, which currently cover the first two objectives, will be supplemented to complete the six objectives.

In addition, regulations are also being drawn up at the prudential level. In this respect, the European Banking Authority (EBA) was mandated to integrate environmental, social and governance risks, known as ESG risks, into the three pillars of banking regulation. Pillar I, on the inclusion of capital requirements for sustainability risks, has not yet made any progress. Regarding Pillar II, in July 2021 the EBA published guidance (EBA/REP/2021/18)[1] to identify, integrate and monitor risks with both environmental criteria and also social and governance criteria as part of the Supervisory Review and Evaluation Process or SREP. With reference to Pillar III on the regulatory context for financial disclosure, in March 2021 the EBA published a consultation (Implementing Technical Standards, EBA/CP/2021/06[2]) on the implementation of ESG risk

[1]On management and supervision of ESG risks for credit institutions and investment firms", EBA Report
[2]"On prudential disclosures on ESG risks in accordance with Article 449a CRR". EBA/CP/2021/06

disclosures. In November 2020, the ECB[3] published guidance on supervisory expectations regarding banks' management of climate risk.

Other sustainable disclosure initiatives come under the Non-Financial Reporting Directive (NFRD), which was amended in April 2021, known as the Corporate Sustainability Reporting Directive (CSRD), which provides greater transparency and expands the scope of corporate sustainability reporting. In March 2021, Regulation EU/2019/2088, known as the Sustainable Financial Disclosure Regulation or SFDR, came into force and which aims to establish a common framework for sustainability disclosures by EU financial institutions and investment firms.

As a public financial institution, the ICF Group provides financial support to small and medium-sized enterprises in their green and innovative projects with the aim of contributing to the development of a more sustainable and innovative economy. Here the ICF Group has two major sustainability challenges for the coming years: firstly, mentoring businesses in the transition towards a sustainable business model, and secondly building ESG (environmental, social and good governance) principles into management models across the board to continue adding to the ICF Group's constructive impact in all three areas.

In order to work towards achieving these goals, this year we have rolled out a sustainability policy which goes beyond what we have done so far. It involves streamlining the process of mapping out and embedding ESG principles into the business model coupled with calculating our carbon footprint, thus deepening our knowledge of the climate impact of the ICF Group's operations.

2. INTRODUCTION

Macroeconomic environment

The global economy has been shaped in 2022 by the spill-over effects of the war in Ukraine, the energy crisis in Europe, strong inflationary pressures, tightening monetary policy and the Chinese economy being held back by restrictive measures against Covid-19. All these factors have led to a steady worsening of economic growth and inflation, bringing several economies close to stagflation in the final part of the year.

However, global economic growth stood at 3.4%, displaying some resilience due to previously accumulated savings, activity rebounding after the Covid-19 restrictions and the vibrancy of the labour market, which helped to boost private consumer spending and the services sector. Distribution by region has been uneven with more significant growth in the euro area, the United Kingdom and India, while in the US and Japan it has been more moderate.

The Catalan economy grew by 5.5% in 2022, at the same rate as the Spanish economy and significantly above the euro area (3.5%). The recovery of foreign tourism, the improvement in the labour market and the momentum of the services and construction sectors have enabled the economy to keep growing in adverse circumstances. It is important to note that Catalan GDP is back up to pre-pandemic levels, standing 0.4% above the figures for the fourth quarter of 2019, a pace of recovery which ranks between the euro area (which is 2.4% above) and the Spanish economy (which is still 0.9% below previous volumes).

[3] Guide on climate-related and environmental risks". European Central Bank, November 2020.

As for Catalan inflation, after reaching a peak of 10.3% in July, it eased in the final stretch of the year to 5.2% in December, mainly due to the energy component and lower supply chain pressures. The gas cap measure in the electricity market, known as the Iberian Exception, placed Catalan and Spanish inflation (5.7%) among the lowest in the euro area (9.2%). However, core inflation continues to rise (6.5% in December) as increases in production costs due to higher commodity prices have been partly passed on to final prices.

In this context of strong inflationary pressures, central banks have significantly tightened monetary conditions by raising interest rates across the board, downplaying the signs of an economic slowdown. In the euro area, the European Central Bank has ended its asset purchase programme and significantly hiked the various official interest rates, bringing the rate on the main refinancing operations to 2.5% as of December 2022 and saying that it will continue to raise them until inflation gets back to close to the 2% target. As a consequence of the tightening of the ECB's monetary policy, the Euribor has also risen significantly with the 12-month benchmark rising from -0.5% to 3.3%.

Against a background of high uncertainty, 2023 appears set to be a complex year. Looking ahead to the coming quarters, economic stagnation is expected as a result of the erosion of purchasing power due to the upturn in inflation, falling confidence and the pass-through of the tightening of monetary policy. However, inflation is expected to ease somewhat in 2023 which, together with the rollout of the Next Generation funds, should support a gradual recovery in real incomes and activity. The latest forecasts for the Catalan economy estimate growth for 2023 at between 1.5% and 1.7%, in line with those for the Spanish economy and higher than the figure forecast for the euro area (0.7%).

Main Credit Risk Metrics

In credit risk management in 2022, the supervision and control of all lending operations was maintained with special attention to the facilities that were implemented during Covid-19, monitoring in particular the evolution of default incidents in these facilities.

Credit risk is the ICF Group's main risk, a natural consequence of its business model. At the prudential level, this risk represents for credit investments 54.6% of total risk-weighted assets. The main financial indicators of credit risk, such as the NPL ratio, stood at 7.5% at the end of 2022, and the NPL coverage ratio is 139.2%, higher than the average for the sector.

Capital and Solvency

The ICF Group maintains at the end of 2022 a solvency level of 39.4%, 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:

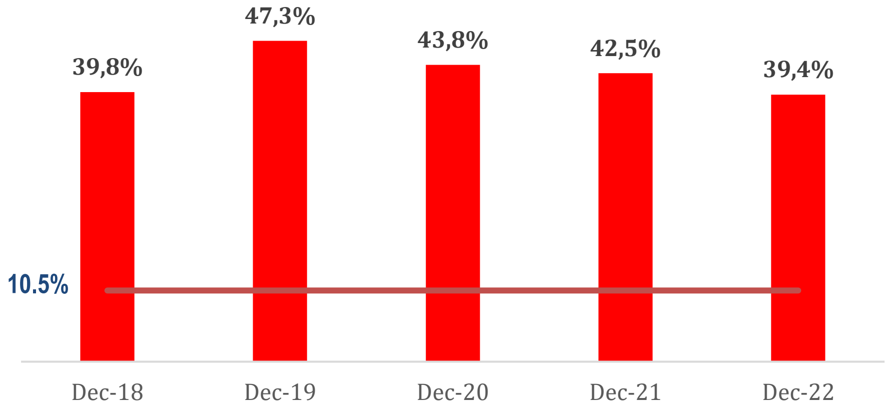

Figure 1. Historical performance (last 5 years) of the ICF Group's total capital ratio. 10.5% is the minimum total regulatory capital ratio (8%) with capital conservation buffer (2.5%).

Main Liquidity Risk Metrics

The ICF Group maintains a solid liquidity position with a total cash position at the end of 2022 of EUR 310 million, of which EUR 232.1 million is in fixed income investments and promissory notes and EUR 77.9 million in current accounts:

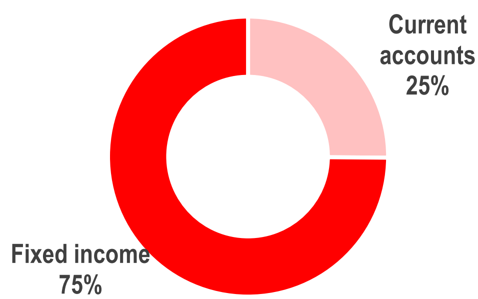

Figure 2. Group liquidity structure

The ICF Group calculates, analyses and monitors the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) metrics following the guidelines in Article 412 of Regulation No 575/2013 and its amendment in Article 428b of Regulation No 2019/876 which set minimum compliance requirements. At year-end 2022, the ICF Group complies with the regulatory limits set for the LCR and NSFR metrics:

	31/12/2022	Regulatory limit
LCR	378%	100%
NSFR	128%	100%

Table 1. Regulatory metrics at the end of 2022

In terms of financing, the ICF Group closed 2022 with a position of EUR 1,192.94 million diversified through various debt instruments. These include EUR 1,087.75 million in loans, mainly financed by the public sector banking sector, and EUR 105.19 million in issues and promissory notes. Likewise, 94% of financing is non-current with an average residual maturity of 7.5 years, which makes for stable financing.

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 Institut Català de Finances has its own assets and funds, and in order to carry out its functions it operates with organisational, financial, capital, operational and management autonomy, fully independent of public administrations.

The Institut Català de Finances is subject to specific regulations for credit institutions and is therefore governed only by public basic legislation and the regulations issued by the applicable regulatory bodies of the European Union in view of its special activities and nature. The Institut has to prepare its annual financial statements and recognise its transactions in accordance with the accounting criteria and standards for 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 2022 and 2021, 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 by the Generalitat to conduct the JEREMIE programme in Catalonia. It is a single-member company and its sole member is the Institut Català de Finances.

- **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 1/2021, of 25 March, of the Spanish National Securities Market Commission (CNMV), which regulates 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, enacting 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. Initially the Fund was to operate for 10 years, extendable to 12 years. It was extended for 12 years on 27 September 2021. The investment period ended on 31 December 2018.

- **Capital Expansió, F.C.R.** (hereinafter 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. Initially the Fund was to operate for 10 years, extendable to 12 years. It was extended for 12 years on 27 September 2021. The investment period ended on 31 December 2018.

- **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 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

In accordance with applicable regulations, the consolidated ICF Group presents the consolidated financial statements for the year ended 31 December 2022 primarily in accordance with the measurement and recognition criteria established in Bank of Spain Circular 4/2017 of 27 November to credit institutions on public and private financial reporting standards and financial statement formats ("Circular 4/2017") and subsequent amendments thereto, which constitute the development and adaptation to the Spanish credit institution sector of the International Financial Reporting Standards adopted by the European Union (EU-IFRS) in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of European Parliament of 19 July 2002 on the application of international accounting standards.

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 entities for the purposes of the prudential regulation, as defined in Part One, Title II, Chapter 2 of the CRR, and the accounting circular are primarily that the solvency circular 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 2022:

	Prudential regulation	Bank of Spain Circular 4/2017
	Eligible capital	**Total equity ICF Group**
Tier 1	**966.4**	**989.1**
Paid-up capital	693.1	693.1
Reserves	227.8	227.8
Profit (loss) for the year	27.4	27.4
(-) Intangible assets	-0.1	n.a.
(-) Deduction for material financial investments	0.0	n.a
(-) Deduction for non-material financial investments	-22.6	n.a.
(+/-) Valuation adjustments	40.8	40.8
Tier 2	**19.6**	**-**
General provision (*)	104.3	n.a.
(-) Excess general provision	-84.7	n.a.
Total	**986.0**	**989.1**

(*) 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

Three lines of defense

The ICF Group's Risk Management System is comprehensive and based on three lines of defence, adopting the EBA/GL/2021/05 guidelines on internal governance issued by the European Banking Authority which were applicable as of 31 December 2021 and replace and repeal the previous EBA/GL/2017/11 guideline.

This organisational framework separates internal control functions from the business lines they control, thus segregating functions and resources. This distinction is translated into the three lines of defence model which establishes:

- *First line:* this includes business units and committees which are the chief guarantors of the control environment for their own activities.

- *Second line*: this includes risk monitoring and control units and committees which are responsible for designing and upholding the Group's risk model and verifying that it is correctly implemented in all areas.

- *Third line*: this is provided by Internal Audit and Control which conducts an independent review to ensure compliance with and the effectiveness of corporate policies and also oversight of the actions of the first and second lines of defence.

Corporate risk map

The ICF Group has defined a corporate risk map that integrates both financial and non-financial risks that have a significant impact on the ICF Group and therefore require follow-up and monitoring. This risk map quantifies each of the risks through the established control systems and procedures, thus strengthening the control environment. Corporate risks include, among others, operational risk, regulatory risk, fraud risk, governance risk, reputational risk, cybersecurity risk and technological failures or sustainability risk. Follow-up and monitoring includes reporting to the Joint Audit and Control Commission and the Board of Governors for their control and supervision.

Risc Appetite Framework (RAF)

The ICF Group has a risk appetite framework (RAF), which integrates the policies, procedures, functions and responsibilities in the entity's risk management. The ICF Group RAF establishes general qualitative principles that apply to the risk management. These principles are classified into 6 broad categories and state the following:

1. Risk profile: The ICF Group is to adopt a medium risk profile that ensures the performance of its operations and a countercyclical role without jeopardising its solvency. The risk will be medium-low after discounting the effect of guarantees, aligned in the medium term with the banking benchmark.

2. Solvency and hedging: The Group is to maintain levels of liquidity and solvency that enable it to meet its commitments, including in stress scenarios. It will act in accordance with the principles of prudence in managing its risks.

3. Concentration: The Group is to diversify its investment portfolio so that there is no business, customer or sector that could put it at risk.

4. Sustainability: The Group's business operations should encourage investments that promote sustainable development.

5. Compliance: The Group's operations are to comply at all times with regulations, paying special attention to the specific features applicable to it in relation to state aid regulations and the European System of Accounts (ESA).

6. Market and interest rate risk: The balance sheet result should be stable and shaped exclusively by the margin generated from its core business. The Group will not engage in speculative activity.

The risk appetite framework of the ICF Group incorporates a Risk Appetite Statement (RAS, for its acronym in English) which allows the identification, control and management of the main risks to which the ICF Group is exposed, as well as establishing levels of tolerance for these risks, which align both with the corporate strategy and the financial plan of the ICF Group.

The main financial 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 a breach of payment obligations on the part of borrowers or impairment of the loan quality of the same.

- **Interest rate risk in the banking book**: the possibility of incurring losses in the ICF Group's net interest margin and equity as a result of changes in the interest rate curve.

- **Solvency and capital risk:** the risk of having insufficient regulatory capital to meet unexpected losses in the entity.

- **Business and asset quality risk:** due to failure to meet the Group's asset return and quality targets.

- **Liquidity risk**: the risk of incurring losses due to a lack of sufficient liquid funds or an increase in the cost of financing, which prevents compliance with commitments undertaken as they become due, together with the risk of being unable to unwind a position as a result of market imperfections.

- **Concentration risk**: the risk of incurring losses due to excessive concentration in a corporate group.

- **Venture capital activity risk**: possibility of incurring losses arising from a negative impact on the value of a venture capital investment as well as exceeding established thresholds limiting the volume of this activity.

4.2 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 Group's risk management and control structure and organisation.

4.3 Supervisory Board and delegated committees

At the close of 2022, the organisational and functional structure related to the ICF's risk management and control is as follows:

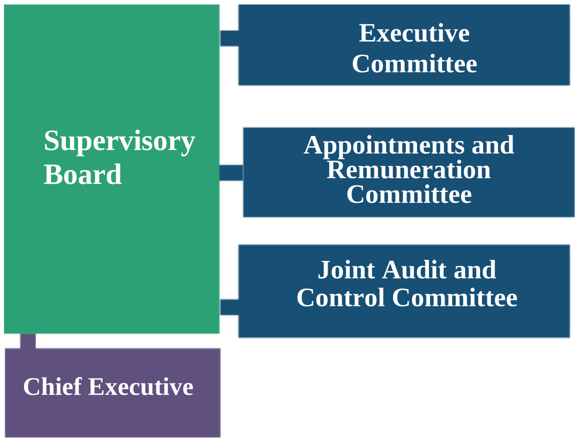

Figure 3. Structure of the ICF's governing bodies

The members of the Board and committees at 31 December 2022 were as follows:

	Supervisory Board	Executive Committee	Control Committees
Independent members	Abella Martín, Rafael Peydró Alcalde, José Luis Vilumara Pérez, Albert Casas Onteniente, Joan B. Puig Pla, Xavier Soldevila García, Pilar	Vilumara Pérez, Albert Peydró Alcalde, José Luis Puig Pla, Xavier	<u>Joint Auditing and Control</u> Abella Martín, Rafael Peydró Alcalde, José Luís Casas Onteniente, Joan B <u>Appointments and Remuneration</u> Vilumara Pérez, Albert Abella Martín, Rafael Soldevila García, Pilar
Proprietary	Vilarrúbia Tapia, Josep Maria Castellanos Maduell, Albert Cuenca León, Núria Puig Raposo, Miquel. (3)	Vilarrúbia Tapia, Josep M. (1)	-

Executive	Òliva Ritort, Jordi(2)	Òliva Ritort, Jordi(2)	-

(1) Since 26/10/2022, when by decision of the Supervisory Board he replaced the previous chair Jordi Cabrafiga i Macias.
(2) On 10/01/2023, he was replaced by Vanessa Servera i Planas. (3) Incorporated on 22/11/2022 by Government Agreement.

Table 3. Composition of the Group's governing bodies

Supervisory Board

The Supervisory Board has the broadest powers concerning the management of the institution and is its highest decision-making body. It also oversees the entire operation of the corporate governance system, the integrity of reporting systems, the information disclosure process, and the effective oversight of senior management. The decisions taken in this governing body relating to the management and supervision of risks are based on a comprehensive analysis of all those factors that have a degree of influence on the organisation. It also, therefore, takes into account the risks affecting the other subsidiaries making up the ICF Group, while respecting the organisational and decision-making structure of the subsidiary concerned. Moreover, the Supervisory Board is responsible for approving policies on risk.

The Supervisory Board's current delegated committees are described below.

- 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 changes to the ICF's credit risk and equity investment policies to the Supervisory Board.

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. For the entire financial year 2022 and as at 31 December 2022, the Chief Executive Officer of the ICF has been Mr Jordi Òliva Ritort. Since 10 January 2023, the ICF's CEO has been Mrs Vanessa Servera i Planas.

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.

4.4 Management divisions

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

- **Treasury and Capital Markets:** responsible for the Group's cash management as well as for making proposals and carrying out financing transactions;

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

- **Product Development**: encompasses specifying, implementing and monitoring products aimed at meeting the financial needs of customers in accordance with the ICF's general policies.

- **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, internal control and internal audit. It guarantees the existence of an adequate risk management internal control system, reasonably ensuring the efficiency and the effective use of resources, the reliability and consistency of accounting and management information, and regulatory compliance.

- **Human Resources**: proposes and implements people policies, managing talent and the life of the organisation and encompassing organisation, recruitment and selection, development and training, compensation and benefits, contractual and payroll management, occupational health and safety and relations with employee representatives, helping to define the organisational culture and aligning the team with the organisation's strategy.

- **Marketing and Communication:** encompasses the roles of customer needs analysis and satisfaction coupled with internal and external communication with stakeholders (media, entities, institutions, business community, etc.) and managing corporate graphic material to safeguard the ICF's brand image and promote awareness and recognition of the ICF.

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 diagram

Capital investments

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:

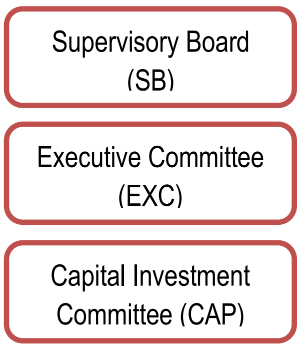

Figure 5. Capital investment approval authority diagram

4.5 Risk management and control functions

The business areas and committees are **the first line of defence** and are responsible for developing and maintaining effective controls over the risks of their respective businesses. Each area operates within the framework of the risk policies it has defined and approved which enable it to identify, manage and mitigate its risks and operate in an appropriate control environment. The roles and responsibilities of the business units in the first line of defence are described below:

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) and/or the Management Committee. Its roles include:

- Ensuring compliance with investment policies and limits;
- Making and implementing investment decisions in line with established parameters;
- Proposing and executing the institution's debt contracting.
- Evaluating and making proposals in relation to the management of assets and liabilities on the ICF's balance sheet.

The **Investments in Venture Capital Funds** division, whose functions include:

- Analysing proposed investments in venture capital instruments;
- 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 **Credit Investments** division whose functions include:

- Analysing and evaluating loan applications and drawing up analysis reports.
- Requesting and obtaining information needed to study the operation;
- Drawing up questionnaires and validating ML and tax avoidance controls for the transactions and customers analysed.
- Submitting recommendations to the appropriate decision-making level;
- Documentary management of approved transactions by drawing up Approval Certificates;
- Registration and management of grants related to the transactions processed.

The Risk Monitoring and Management division whose functions include:

- Systematic monitoring and annual review of risks above a certain threshold set by policy;
- Symptomatic Monitoring: actions to be taken in the event of alerts generated by the system;
- Analysis and evaluation of adjustments to operations due to customer payment difficulties;
- Managing operations subject to irregularities to recover the investment;
- Deciding upon the recovery strategy and its transfer to litigation.
- Monitoring borrowers' insolvency proceedings; managing asset auctions and proposals for payment in kind; management, administration and sale of foreclosed assets;

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 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 is in the third line of defence and has a number of roles including:

- 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.
- 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.

The Global Risk Control division, which reports to the Corporate Compliance and Control Department, is the second line of defence and its roles include:

- Systematically monitoring and analysing the evolution of all the ICF Group's relevant risks and checking that they are in line with the established policies.
- Proposing guidelines, methodologies and strategy for the management of all risks.
- Ensuring the integrity of the information systems and risk measurement techniques used to monitor the Group's risk profile relative to its risk appetite.
- Regularly reporting to the Joint Audit and Control Committee, and where needed to other committees, the updated position of the various risks and metrics in the RAS.

4.6 Committees

Notwithstanding the above roles and responsibilities, during 2022 risk management has also been performed in the following committees:

- **Management Committee:** In this area it is responsible for actions concerning the supervision of all the ICF Group's risks and evaluating suitability for the target risk profile, validating that risks borne are compatible with the level of solvency and ensuring compliance with internal limits.

- **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.

- **Monitoring Committee (MOCO):** responsible for reviewing portfolios and customers under special monitoring and refinancing with control over the evolution of loan quality. Additionally, deciding on the management, accounting classification and provisions to be established for all holders, except for those classified as non-performing due to default.

- **Credit Investments Committee (CINC):** it may take decisions on credit risk investment proposals within its remit in accordance with the established decision thresholds and may amend transactions, facilities and agreements. It may also take decisions on the alignment and exploitation of assets that have been acquired in legal proceedings.

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 2022 as well as a comparison with 31 December 2021:

ICF GROUP ELIGIBLE CAPITAL	2022	2021	Differences
Tier 1	**966.4**	**954.9**	**11.5**
Paid-up capital	693.1	693.1	0.0
Reserves	227.8	192.9	34.9
Profit (loss) for the year	27.4	36.4	-9.0
(-) Intangible assets	-0.1	-0.3	0.15
(-) Deduction for material financial investments	0.0	0.0	0.0
(-) Deduction for non-material financial investments	-22.6	-22.7	0.15
(+/-) Valuation adjustments	40.8	55.5	-14.7
Tier 2	**19.6**	**20.2**	**-0.7**
General provision (*)	104.3	66.0	38.3
(-) Excess general provision	-84.7	-45.8	-38.9
Eligible capital = Tier 1 + Tier 2	**986.0**	**975.2**	**10.8**

(*) Hedging not assigned to individual operations.

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

At the end of the 2022 financial year, the Tier 1 capital corresponds to €966.4M, with an increase compared to 2021 of €11.5M. This increase is mainly due to the item of reserves and result for the year with a positive impact of €25.9M and the negative impact of €14.7M from the item of value adjustments, mainly due to the deterioration of the positions of the fixed income portfolio.

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), has increased compared to year-end 2021 by EUR 10.8 million to EUR 986 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 2022 were as follows:

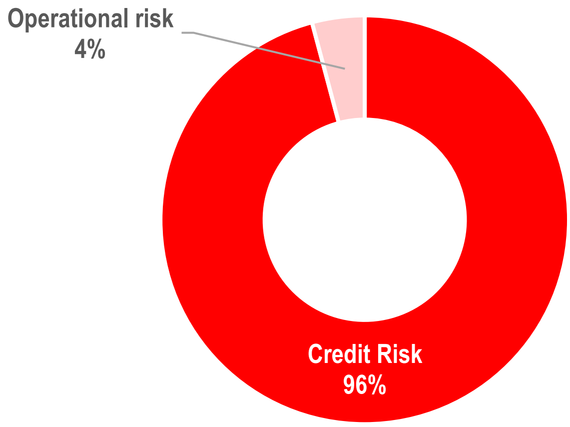

Figure 7. Capital consumption by risk type (Pillar 1 risks).

The ICF Group's main risk is credit risk[4], at 96% of capital consumption, followed by operational risk at 4%. As the ICF Group has no positions in the trading book at the end of December 2022, it is exempt from capital requirements for market risk.

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, taking into account where applicable the amendments introduced by Regulation (EU) No 2019/876. The capital requirements allocated for credit risk by product type are shown below:

[4] Credit risk also includes counterparty risk.

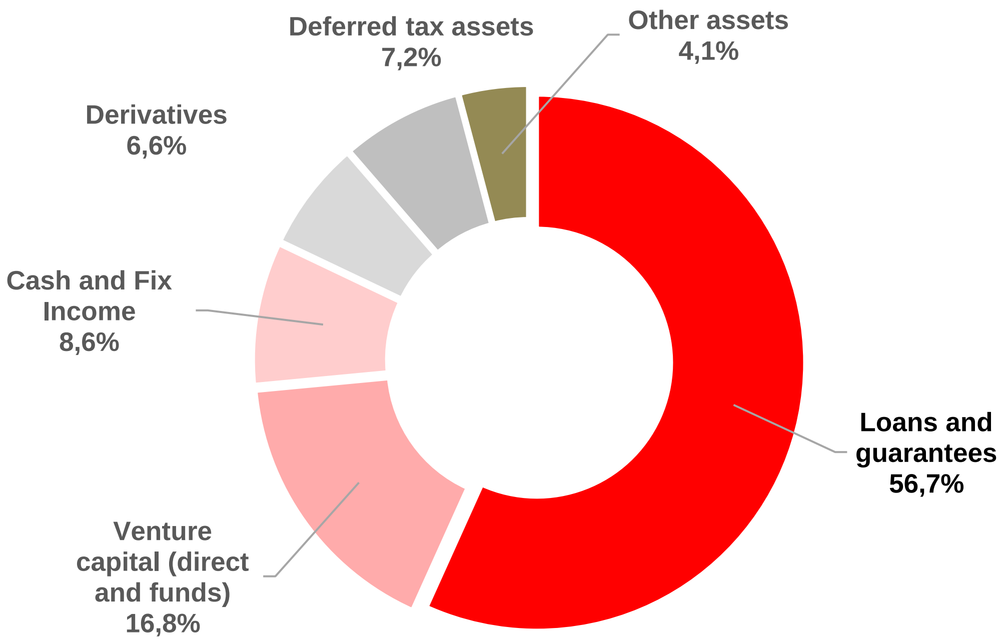

Figure 8. Capital consumption by type of product

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 2022:

Millions of euros	Regulatory exposure (1)	Regulatory net exposure (2)	Risk weighting	Risk-Weighted Assets (RWAs)	Pillar I risks cap. req. (8% RWA)	%
CREDIT RISK	**3,541.9**	**3,172.5**	**76%**	**2,398.6**	**191.9**	**95.8%**
a) Credit investment	2,543.0	2,196.2	62%	1,367.2	109.4	54.6%
Loans	2,425.9	2,130.3	62%	1,317.9	105.4	52.7%
Standard risk	2,261.2	2,102.0	61%	1,275.5	102.0	51%
Non-performing	164.7	28.3	150%	42.4	3.4	2%
Guarantees:	114.1	62.9	76%	47.9	3.8	1.9%
Standard risk	112.3	62.7	76%	47.7	3.8	2%
Non-performing	1.81	0.2	100%	0.2	0.0	0%
Pass-through loans	3.0	3.0	47%	1.4	0.1	0.1%
b) Venture capital (direct and funds)	299.9	277.3	143%	395.7	31.7	15.8%
Shareholdings and venture capital (outstanding risk):	187.8	165.2	172%	283.6	22.7	11.3%
of which, subject to 150% weighting	152.0	129.4	150%	194.1	15.5	8%
of which, subject to 250% weighting	35.8	35.8	250%	89.5	7.2	4%
Venture capital (commitments)	112.1	112.1	100%	112.1	9.0	4.5%
c) Current accounts and deposits	79.5	79.5	50%	39.7	3.2	1.6%
d) Fixed income investments	221.4	221.4	75%	165.9	13.3	6.6%
e) Other assets	148.6	148.6	66%	98.6	7.9	3.9%
f) Deferred tax assets	69.4	69.4	250%	173.5	13.9	6.9%
g) Derivatives	180.1	180.1	88%	158.0	12.6	6.3%
Counterparty risk	44.3	44.3	50%	22.2	1.8	0.9%
CVA risk (4)	135.8	135.8	100%	135.8	10.9	5.4%
OPERATIONAL RISK (5)	**104.1**	**104.1**	**100%**	**104.1**	**8.3**	**4.2%**
TOTAL	**3,646.0**	**3,276.6**	**76%**	**2,502.7**	**200.2**	**100%**

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

(1) Gross exposure of provisions. (2) Net exposure includes credit risk mitigation techniques. (3) Exposure as defined in Article 282 of the CRR-II. (4) Capital requirements for CVA risk are calculated as defined in Article 384 of the CRR. According to Article 92, exposure is calculated by multiplying capital requirements by 12.5. (5) Capital requirements for operational risk are calculated as 15% of the 3-year average for the relevant indicator, as defined in Articles 315 and 316 of the CRR. According to Article 92, exposure is calculated by multiplying capital requirements by 12.5.

The total risk-weighted assets of the ICF Group amounted to EUR 2,502.7 million, of which 54.6% were from credit investments, in line with the Group's activity.

The Pillar I minimum capital requirement at the end of 2022 is EUR 200.2 million and the ICF Group held an available capital buffer of EUR 785.8 million. For illustrative purposes, a comparative table with data for year-end 2022 and year-end 2021 is shown below:

	2022	2021	Differences
ICF Group EC	986.0	975.2	10.8
Total RWAs	2,502.7	2,292.1	210.6
Pillar I Risks Capital Requirements (8%)	200.2	183.3	16.9
Available capital	**785.8**	**791.9**	**-6.1**

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 ratios as at 31 December 2022:

		Minimum requirements		
Capital ratios	2022	TOTAL	Minimum[5]	Conservation buffer[6]
Common Capital Ratio (CET1)	38.6%	7.0%	4.5%	2.5%
Total capital ratio	39.4%	10.5%	8.0%	2.5%

Table 7. ICF Group capital ratios at year-end 2022

At the end of 2022, the ICF Group's leverage ratio is 37.1%, a figure that comfortably complies with the regulatory limits set by the 3% leverage ratio following the guidelines of Article 429 in Regulation (EU) No 575/2013 and its amendment in Regulation (EU) No 2019/876 (as indicated in recital 10 of the latter).

	2022	2021	Differences
Leverage ratio	37.1%	35.5%	+1.6 pp

Table 8. Annual comparison of the ICF Group's leverage ratio.

6. CREDIT RISK

6.1 Accounting definition of default and impaired positions

[5] Chapter I, Section 1, Article 92 of EU Regulation 575/2013.
[6] Chapter 4, Section 1, Article 129 of Directive 2013/36/EU.

Impaired exposures and objective evidence of impairment

The Group considers that there is objective evidence of impairment (OEI) when one or more events with a negative impact on its estimated cash flows have occurred. Observable data relating to the following events constitute evidence that a financial asset is credit-impaired:

- Unpaid instalments past-due 90 days. Likewise, all operations of a borrower are included when the amount of transactions with overdue balances with more than 90 days exceeds 20% of the amounts pending collection.

- There are reasonable doubts about the total reimbursement of the asset.

- Significant financial difficulties of the issuer or the borrower.

- Breach of contractual clauses, such as non-payment or default events.

- Granting by the lender of concessions or advantages due to economic or contractual reasons owing to financial difficulties of the borrower which otherwise would not have been granted and which show evidence of impairment.

- An increase in the likelihood that the borrower enters bankruptcy or in any other financial reorganisation situation.

- Disappearance of an active market for the financial instrument caused by the financial difficulties of the issuer.

- Purchase or origin of a financial asset with a significant discount that reflects the credit losses suffered.

Classification of operations based on credit risk due to insolvency

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

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

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

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

- Failed risk – Transactions for which the Group 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 2022 and 2021 is shown below:

Millions of euros	2022	2021	Differences (%)
Total portfolio	2,228	2,262.5	-1.5%
Non-performing	166.6	184.4	-9.4%
NPL ratio	7.5%	8.2%	-0.7%
Coverage ratio	139.2%	114.0%	+25.2%

Table 9. Annual comparison of portfolio volume and non-performing risk (includes loans and guarantees gross of provisions), NPL ratio and coverage ratio.

6.2 Valuation adjustments due to impairments and allowances for contingent liabilities and commitments

Credit risk impairment provisions are calculated on the basis of the criteria set out in Bank of Spain Circular 4/2017, as amended by Circular 6/2021. These provisions may be supplemented by any additional amounts judged necessary to reflect the particular characteristics of borrowers, sectors or portfolios that cannot be identified in the general process of estimating the impairment provision.

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 any 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.

- Customers 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

Table 10 shows the changes in impairment losses recorded in 2022. At 31 December 2022, hedging for non-impaired operations includes an amount of 88,592 thousand euros (36,437 thousand euros in 2021) for transactions classified as standard and 47,168 thousand euros (52,762 thousand euros in 2021) for transactions classified as standard under special surveillance.

The calculation of the provisions for credit risk impairment has been supplemented due to the macroeconomic and geopolitical environment characterised by greater volatility, inflationary pressures, supply chain problems and more restrictive monetary policies, situations which have worsened as a result of the armed conflict between Russia and Ukraine and which generate uncertainty regarding some of the variables used by the Group to estimate its impairment losses. In view of the foregoing, the Group has supplemented the provisions for credit risk impairment with the additional amounts considered necessary to reflect the particular features of the borrowers.

2022	Stages 1 and 2 Not Impaired		Stage 3 Impaired		Total
	Individual	Collective	Individual	Collective	
Gross amount					
Balance at 1 January 2022	-	1,954,202	96,048	91,029	2,141,279
Balance at 31 December 2022	-	1,940,513	60,387	105,452	2,106,352
Impairment					
Balance at 1 January 2022	-	(89,198)	(94,967)	(27,732)	(211,897)
Charges/Recoveries	-	(45,296)	42,725	(34,989)	(37,560)
Transfers between stages	-	(1,266)	(3,312)	4,578	-
Transfer to failed risk	-	-	-	19,121	19,121
Balance at 31 December 2022	-	(135,760)	(55,554)	(39,022)	(230,336)

Table 10. Breakdown of the annual evolution of accounting provisions for credit risk corresponding to customer loans (includes equity loans and excludes guarantees).

6.4 Geographical distribution of exposures

The classification of the ICF Group's loan portfolio by area of investment as at 31 December 2022 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:

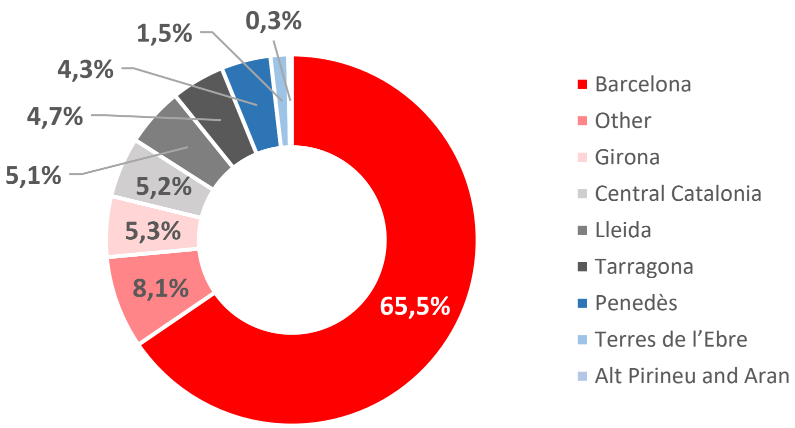

Figure 9. Territorial distribution of the loan portfolio (calculated by gross exposure)

The geographical breakdown used is based on traditional Catalan jurisdictions (vegueries). The Barcelona area represents 65.5% of the ICF's portfolio, in line with its share of Catalonia's total GDP.

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[7]
Barcelona	133.3	1,325.4	-189.3	1,269.4
Lleida	9.6	104.8	-3.1	111.3
Girona	6.7	111.3	-10.6	107.4
Penedès	4.8	91.1	-8.9	87.0
Other	4.6	174.9	-7.3	172.2
Tarragona	4.0	99.7	-9.0	94.7
Alt Pirineu and Aran	2.0	5.0	-0.1	6.9

[7] 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.

Central Catalonia	1.4	115.5	-3.0	113.9
Terres de l'Ebre	0.2	33.9	-0.5	33.5
TOTAL	**166.6**	**2,061.6**	**-231.8**	**1,996.3**

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

6.5 Distribution of exposure by counterparty or sector

The segmentation of the loan portfolio as at 31 December 2022, distributed by NACE, is shown below:

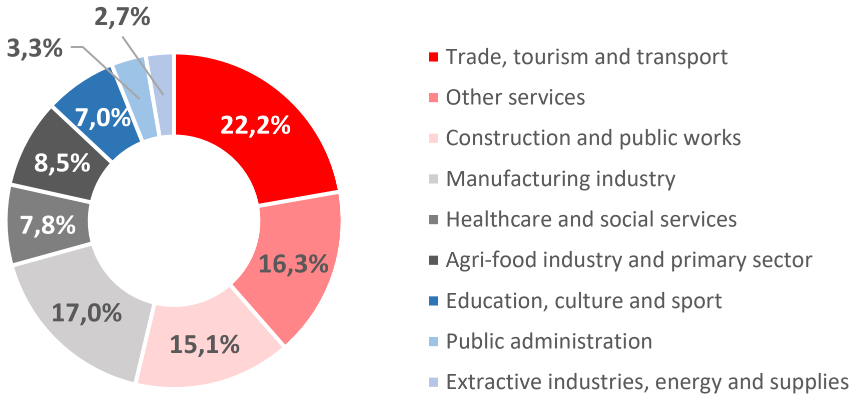

Figure 10. Sector segmentation of the loan portfolio (calculated by gross exposure)

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

Millions of euros	Non-performing	Performing	Provisions	Total
Trade, tourism and transport	23.3	472.0	-25.7	469.6
Manufacturing industry	30.6	348.1	-33.5	345.2
Construction and public works	16.7	320.7	-15.2	322.3
Other services	74.3	289.7	-125.8	238.2
Agri-food industry and primary sector	2.8	186.9	-5.7	184.0
Healthcare and social services	0.9	172.3	-10.9	162.3
Education, culture and sport	9.7	145.3	-14.0	141.0
Public administration	0.0	74.3	0.0	74.3
Extractive industries, energy and supplies	8.3	52.2	-1.1	59.4
TOTAL	**166.6**	**2,061.6**	**-231.8**	**1,996.3**

Table 12. Sector distribution of non-performing loans and accounting provisions for credit risk (includes loans and guarantees and excludes equity loans)

Investment in the construction and public works sector derives solely and exclusively from investment through social housing and public works facilities.

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 2022 based on their tenor according to their contractual terms:

	Thousands of euros						
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	79,479	0	0	0	0	0	79,479
Loans and receivables	10,173	35,490	57,915	297,143	953,396	540,230	1,894,346
Deposits with credit institutions	10,173	228.22	311.36	856	1,320	2,580	15,468
Central banks	0	0	0	0	0	0	0
Customer loans	0	35,262	57,603	296,287	952,076	537,650	1,878,878
Debt securities	0	127	16,104	39,076	163,476	2,570	221,354
Total assets	**89,651**	**35,617**	**74,019**	**336,219**	**1,116,872**	**542,800**	**2,195,179**

Table 13. Time distribution of expected cash flows (data with value adjustments).

6.7 Impairment losses and reversals for previously recognised losses

Impairment losses on financial assets not measured at fair value through profit(loss) for 2022 and 2021 are as follows:

Millions of euros	2022	2021
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:		
Allocations to provisions	*(87.2)*	*(58.0)*
Recoveries	*57.0*	*28.0*
Other	*5.5*	*20.1*
Impairments of available-for-sale financial assets	-	-
Total loans and receivables	**(24.7)**	**(9.9)**
Total other available-for-sale financial assets	**-**	**-**
Financial assets at cost	-	-
Total financial assets at cost	-	-
Total	**(24.7)**	**(9.9)**

Table 14. 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 (Title II, Chapter 2, Section 1 of Regulation EU No 575/2013 2013 and its amendments in Regulation (EU) No 2019/876). 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 2022 and 2021 of the distribution of the Group's exposures by rating for fixed income investments and derivatives is shown below. 89.5% of total exposures are in investment grade investments and 10.5% in high yield counterparties.

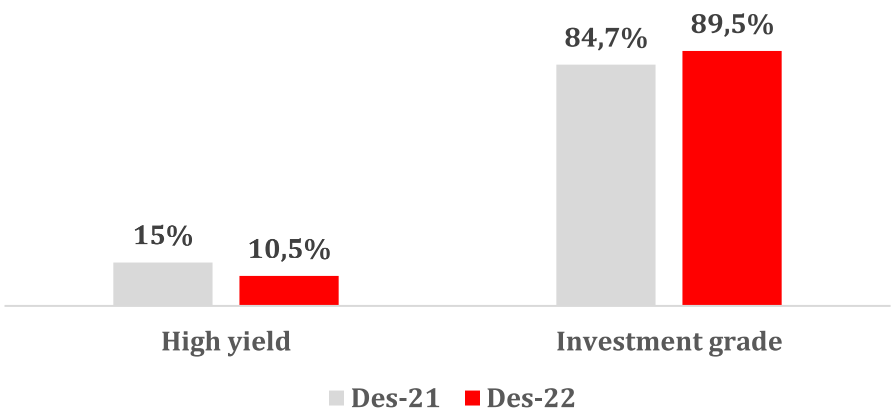

Figure 11. Distribution by counterparty rating of fixed income investment and derivatives

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 following the principle of prudence, credit risk mitigation techniques are only used through guarantees when these guarantees correspond to regional governments and banking institutions (including Avalis S.G.R.), applying Article 201(1)(b) and (f) of Regulation (EU) No 575/2013, or they are mortgage collateral within the meaning of Article 199 of Regulation (EU) No 575/2013 and Article 124 of the same regulation.

Lastly, the ICF Group calculates credit risk capital requirements according to Article 501 of Regulation (EU) No 575/2013 on exposures with small and medium-sized enterprises (SMEs), which have a correction factor of 0.7619. Regulation (EU) No 2019/876 increases the application of this correction factor for exposures up to €2.5 million and applies a factor of 0.85 to exposure above this ceiling.

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 2022, 95.8% of risk-weighted assets (RWAs) were classified under credit risk, a total of EUR 2,398.6 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 191.9 million.

6.12 Capital requirements for counterparty and CVA 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.

The calculation of the credit valuation adjustment or CVA is an adjustment included in the valuation of the derivative to include the effect of the counterparty's credit risk in the measurement. The methodology used prudentially to calculate the CVA is the standard approach methodology as indicated in Article 384 of Regulation (EU) No 575/2013.

The capital requirements for CVA resulting from the ICF Group's interest rate derivative positions are also calculated on the basis of Article 384 of Regulation (EU) No 575/2013.

At 31 December 2022, the RWAs deriving from the exposure with derivative instruments (accounting for counterparty and CVA risk) totalled EUR 158 million and the capital requirements stood at EUR 12.6 million.

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) and EMIR Refit (Regulation No 2019/834). 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 BOOK

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

Pursuant to Article 325a(1) of Regulation (EU) No 2019/876, they are exempt from market risk capital requirements when the trading book business is small. In this respect, the ICF Group at the end of 2022 does not have any positions in the trading book and therefore does not have any 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 sheet behaviour.

- **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/2018/02 guidelines[8] (in section 4.5) and in Bank of Spain Circular 2/2016 (Rule 50) and applies an instantaneous parallel shift of -200 bp at all points on the yield curve. This disturbance includes a 0% floor which states that negative rates cannot be lower than -1%, rising to a floor of 0% over 20 years;

- **Parallel scenario (+/-100 bp)**. This scenario applies an instantaneous parallel shift of +/-100 bp at all points on the yield curve.

At the end of 2022, net interest income sensitivity under variations defined by the regulatory scenario was -7.0% (worst case scenario) while sensitivity to economic value was -2.3% (worst case scenario). Both metrics are below the established regulatory limits that define negative changes of more than -50% in the case of net interest income and negative variations of more than 20% in the case of economic value, applying Article 98(5) of Directive 2013/36/EU as well as the Bank of Spain Circular 3/2008, Rule 106, section 3, (a) and (b).

Scenario	Change in Economic Value	Change in Net Interest Income
Regulatory scenario (+/-200 bp)	-2.3% / +2.8%	+6.9% / -7.0%
Parallel scenario (+/-100 bp)	-1.2% / +1.3%	+3.5% / -3.5%

Table 15. 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 (supervisory outlier tests), are included in the monitoring of the economic value sensitivity 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 by +200 bp;
- ***Parallel Down:*** parallel decrease of all points on the curve by -200 bp;
- ***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, which are defined as variations above -15% of the ICF Group's Tier 1 capital as indicated in the EBA/GL/2018/02 guidelines, section 4(5) (in paragraph 114).

[8] The guidelines are currently under review by the supervisor (EBA)

EBA scenarios	Change in Economic Value	Impact (€m)
Parallel Up	-2.3%	-24.1
Parallel Down	+2.8%	28.7
Steepener	+0.8%	8.2
Flattener	-1.1%	-11.9
Short rates up	-1.8%	-18.9
Short rates down	+1.9%	19.8
Maximum (*)	**-2.31%**	**-22.4**
15% CET1		**145**

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

Repricing gap

The static repricing gap (assets minus liabilities) in millions of euros at the end of 2022 is set out below. The graph shows the discrete structure, at monthly intervals up to 1 year, and its cumulative structure:

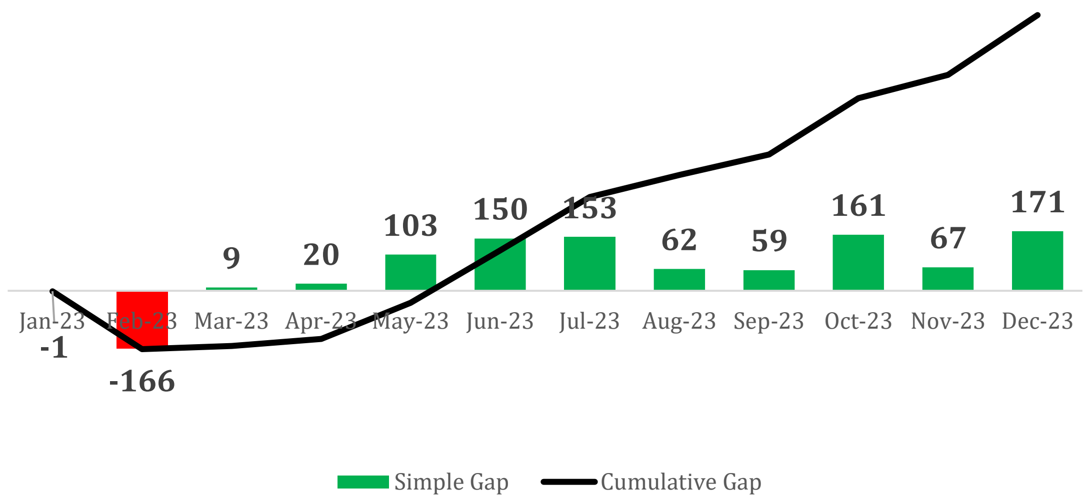

Figure 12. 12-month repricing gap (M€)

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	177,840	179,072	6.8%	6.8%	-1,232	-1,232	0.0%
1 to 3 months	257,737	414,391	9.8%	15.8%	-156,654	-157,886	-6.0%
3 to 6 months	472,584	199,605	18.0%	7.6%	272,979	115,093	4.4%
6 to 12 months	812,486	139,163	31.0%	5.3%	673,323	788,416	30.0%
Cumulative 12 m	**1,720,647**	**932,231**	**65.6%**	**35.5%**		**788,416**	**30.0%**
1 to 2 years	200,345	81,228	7.6%	3.1%	119,117	907,533	34.6%
2 to 3 years	86,737	35,407	3.3%	1.3%	51,330	958,863	36.5%
3 to 4 years	65,888	51,097	2.5%	1.9%	14,791	973,654	37.1%
4 to 5 years	29,698	37,630	1.1%	1.4%	-7,932	965,722	36.8%
5 to 7 years	60,467	74,702	2.3%	2.8%	-14,235	951,487	36.3%
7 to 10 years	50,609	104,675	1.9%	4.0%	-54,066	897,421	34.2%
10 to 15 years	40,915	19,706	1.6%	0.8%	21,209	918,630	35.0%
15 to 20 years	25,382	11,653	1.0%	0.4%	13,730	932,360	35.5%
20 to 25 years	12,553	5,404	0.5%	0.2%	7,149	939,509	35.8%
25 to 30 years	3,215	150	0.1%	0.0%	3,065	942,574	35.9%
TOTAL	**2,296,458**	**1,353,883**	**87.5%**	**51.6%**		**942,574**	**35.9%**

Table 17. 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 2022 is as follows:

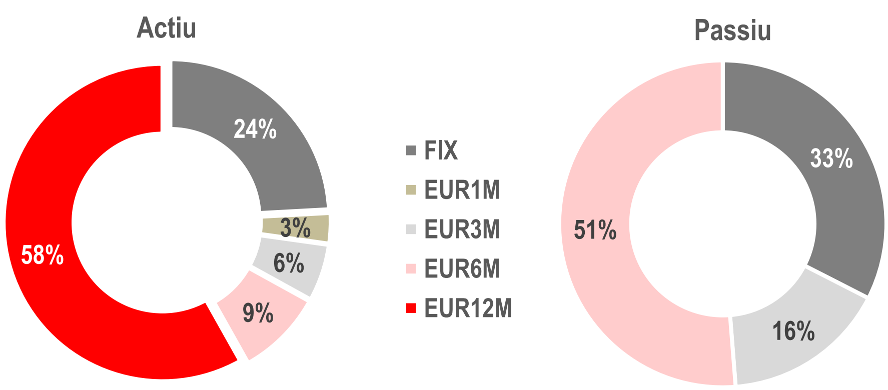

Figure 13. Distribution of bases of the interest rate sensitive amounts on the balance sheet

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 and its extension in Article 325a of Regulation (EU) 2019/876, capital requirements for exchange rate risk may be considered to be zero when the sum of the overall net positions in foreign currency does not exceed 2% of 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 3.

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 310 million at the end of 2022, ensures that its day-to-day payment commitments are fully covered. In addition, at the end of 2022, the ICF Group had a line of credit from Sabadell for €100 million.

The liquid cash at year-end 2022 and 2021 is shown below:

Liquid Cash	2022	2021
Current accounts	77.9	64.2
Fixed income	232.1	268.6
Deposits	0	0
Total	310.0	332.8

Table 18. 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:

- **Technical Liquidity Committee**: this committee reports regularly to the ALCO. It is made up of members from all the areas involved in liquidity risk management and is responsible for monitoring liquidity risk at the Group level.

- **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 Control unit**: in charge of tracking and monitoring the metrics defined for liquidity risk management. It monitors and tracks metrics and compliance with them as set out in policies.

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 supplementing Regulation (EU) No 575/2013 in Part Six, Title I. 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:

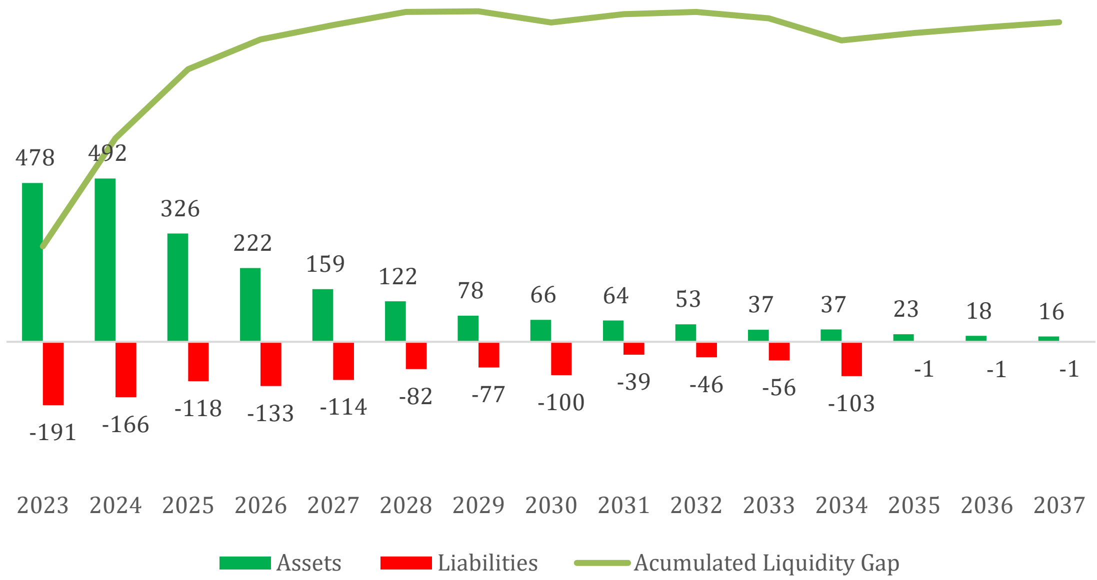

Figure 14. Annual static liquidity gap.

Survival horizon

At the end of 2022, the ICF Group has liquid cash balances of EUR 310 million. The baseline assumption is a 5% loss on fixed income positions which makes it possible to simulate a volatile market for unwinding positions. Total liquidity of €298 million is therefore assumed which is projected under the following two dynamic scenarios:

- **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%.

The result at year-end 2022 was a survival horizon of 29 months for the base scenario and 16 months for the stressed scenario, values that are within policy limits.

	2022
Base scenario	29
Stressed scenario	16

Table 19. Survival horizon by scenario

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 Article 412 in Regulation (EU) No 575/2013 and its amendment in Article 428b of Regulation (EU) No 2019/876 which set a minimum compliance requirement of 100%.

The ICF Group's liquidity coverage ratio closed 2022 at 378%, well above regulatory limits. High-quality liquid asset (HQLA) funds at the end of 2022 stand at €100.9 million, where Tier 1 liquid assets account for 85% of total HQLA funds.

The net stable funding ratio at the end of 2022 is 128%, above the regulatory minimums (100%).

	31/12/2022	31/12/2021
LCR	378%	995%
NSFR	128%	116%

Table 20. Annual evolution of liquidity risk metrics

10.4 Funding strategies

At the end of 2022, the ICF Group had €1,192.94 million in financing, which represents a decrease of -9.1% compared to the same period of the previous year, mainly due to the redemption of the €240 million issues in July 2021. 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:

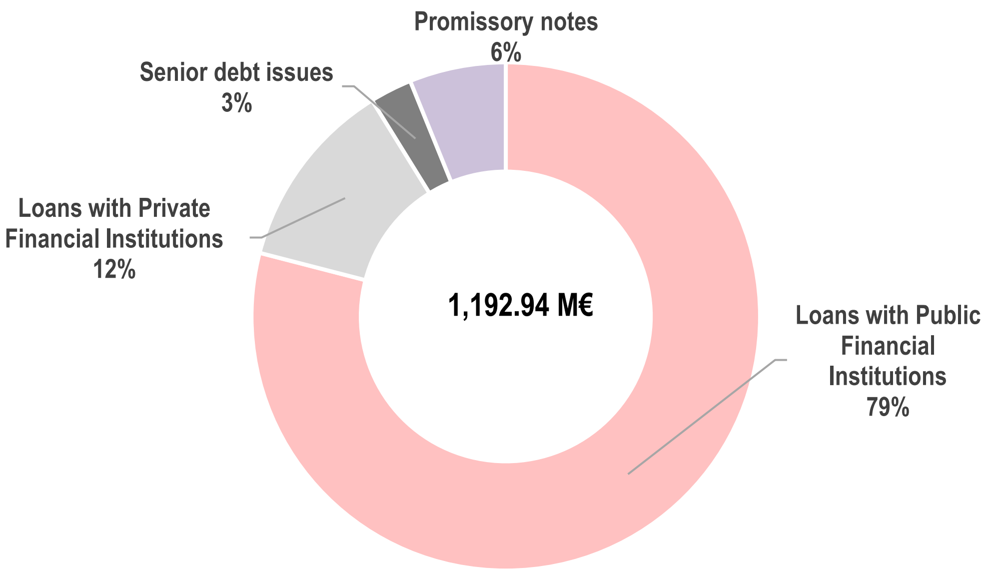

Figure 15. Distribution by type of product of the Group's wholesale financing at year-end 2022.

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	48.1
Interest and similar charges	-12.3
Income from equity instruments	3.3
Commissions received	3.6
Commissions paid	-2.8
Gains or losses on financial assets (net)	1.8
Exchange differences (net)	0.0
Other operating income	13.7
Total	**55.5**
OPERATIONAL RISK (capital requirements)	**8.3**

Table 21. Calculation of capital requirements for operational risk

Capital requirements for operational risk amounted to EUR 8.3 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 2022 under the heading "Financial assets at fair value through other comprehensive income" are as follows:

	2022	2021
Venture capital instruments		
Outstanding risk in venture capital entities	155,168	142,913
Valuation adjustments	27,187	28,341
Subtotal venture capital instruments	**182,355**	**171,254**
Other equity investments	8,749	11,255
Valuation adjustments	(8,197)	(10,451)
Subtotal other equity investments	**552**	**804**
Total capital instruments	**182,907**	**172,058**
Debt securities		
Debt securities	232,075	268,645
Valuation adjustments	(10,721)	(3,886)
Total debt securities	**221,354**	**272,531**
Total	**404,261**	**444,589**

Table 22. 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.

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.

At 31 December 2022, there are outstanding commitments of EUR 112,072 thousand (EUR 87,698 thousand at 31 December 2021).

In 2022, a total of EUR 7,372 million has been recognised from dividends on venture capital instruments. In 2021, a total of EUR 2,377 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	2022	2021
Avalis de Catalunya S.G.R		
Shareholding	4.86	5.02
Equity method adjustment	2.75	2.79
Closing balance	**7.61**	**7.81**

Table 23. 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.

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

At 31 December 2022, identified staff comprises individuals occupying posts whose level of responsibility and ability to take risks has an impact on the entity's risk profile; it also includes any employee whose total remuneration is in the same salary range as senior managers and employees who take on risks. 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 Credit Investments
  - Director General of Finance and Operations
  - Corporate Director of Audit and Compliance
  - Director of Finance
  - Director of Venture Capital Investments
  - 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
  - Director of Product Development
  - Head of Marketing and Communications
  - 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, transport card, 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 60% 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 2022 was as follows:

Thousands of euros	Directors[(1)]	Executives[(2)]	Total
No. of beneficiaries	11	14	**25**
Fixed remuneration 2022	261	1,177	**1,438**
Variable remuneration 2022 (*)	29	182	**211**

(*) Variable remuneration has been provisioned, subject to assessment by the Appointments and Remuneration Committee. It has been accrued in 2022 and paid in 2023.

(1) Includes the Executive Director and the other Directors at 31 December 2022.
(2) Includes Executives and Key personnel.

Table 24. Remuneration paid to the Group's identified staff in 2022