Institut Català de Finances

2023

Pillar III Disclosure Report

Basel Pillar III

Generalitat de Catalunya

Contents

1. ICF GROUP PILLAR III

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

Under Rule 59 of Bank of Spain Circular 2/2016, the contents of the P3D have been reviewed by the institution’s internal audit unit through independent experts.

The ICF Group has determined that the P3D will be issued annually or more frequently if necessary due to market conditions. The P3D will also be published on the ICF’s website (www.icf.cat).

The contents of this report not included in the financial statements have been reviewed by the ICF Group's 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 Act 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 latest review of the banking package was adopted by the European Commission in October 2021 with a number of objectives: strengthening the resilience of the EU banking sector to potential future economic shocks, make banking more resilient against environmental, social and governance risks aligned with the European Commission's sustainable financial strategy, and ensuring better management of banks to better protect financial stability. These changes will be the culmination of the changes begun with Basel III in 2017. In December 2023, the legislation was agreed by the Council and the European Parliament. Its legal review and final vote in the Parliament are still pending, but it is expected that these changes will start applying on 1 January 2025.[1]

In the first half of 2023, European credit institutions categorised as large under EU Regulation No 575/2013 began to publish information on ESG risks within the prudential disclosures framework or Pillar III. This information has been published in a standardised way following Regulation No 2022/2453 amending the implementing technical standards in Regulation No 2021/637 as regards the disclosure of environmental, social and governance risks. This information is essentially designed to show how ESG risks are being built into institutions' business strategies and models. It also has a more quantitative aspect addressing climate-change-related physical risks and transition risks including GAR and BTAR. These ratios show the alignment of the balance sheet and the portfolio with the Taxonomy Regulation.[2].

2. INTRODUCTION

2.1 Macroeconomic environment

The global economy has been shaped in 2023 by central banks' interest rate hikes and their steady impact on economic activity. However, easing inflation in the closing months of the year has led monetary authorities to hold back on further increases in the belief that rates are sufficiently restrictive while stressing their intention to keep them at this level for as long as it takes.

Nevertheless, world economic growth is expected to stand at 3.1% as a result of the surge in the United States and the rebound in Chinese production which have helped to offset the cooling of demand due to rising interest rates and inflationary pressures. Hence a soft landing scenario is looking more likely, mainly on the back of the resilience of the labour market and expansionary fiscal policies. However, the euro area economies are struggling most in this situation and indeed have virtually stagnated.

[1] https://finance.ec.europa.eu/news/latest-updates-banking-package-2023-12-14_en

[2] In December 2021, the European Commission published Delegated Regulation No 2021/2139 (known as the Climate Taxonomy) supplementing Regulation (EU) No 2020/852 by establishing 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.

As for the Catalan economy, preliminary figures point to 2.6% growth in 2023, on a par with the Spanish economy (2.5%) and significantly outstripping the euro area (0.5%). The good performance of the services sector and the improvement in industry, coupled with the resilience of consumer spending and the buoyancy of foreign demand, have driven the economy's growth in an adverse setting. Here it is important to note that Catalan GDP is 3.4% above its pre-pandemic level, which is a stronger recovery than Spain (2.9%) and the euro area (3.0%).

Meanwhile, Catalan inflation in 2023 has further slowed down to an annual average of 3.4% compared to 5.7% in the previous year. This is due to the diminishing impact of energy and food and also the fact that the pass-through of indirect effects to the rest of the basket of goods and services is coming to an end. Although core inflation remains high, in December it posted its lowest rate in almost two years to stand at 4.0%.

A large part of this easing in prices is accounted for by the tightening of monetary policy by central banks which have kept up the interest rate hike cycle they started in 2022, albeit at a slower pace. In the euro area, the European Central Bank has raised the main refinancing operations rate by 200 basis points, reaching a peak of 4.5% in September. Since then, containment of inflation has kept rates stable with future rate cuts contingent on inflation getting closer to the 2% target. At the same time, the 12-month Euribor is below the official interest rate because the market thinks ECB interest rate cuts in the second half of 2024 are unlikely.

The outlook for 2024 is for some economic stability and buoyancy contingent on monetary policy developments. The latest forecasts for Catalonia estimate 1.8% growth in 2024, similar to the Spanish economy and higher than in the euro area (0.9%).[3]

2.2 Main Conclusions

Credit risk

Credit risk is the ICF Group's main risk, a natural consequence of its business model. At the prudential level, this risk represents for credit investment 59.0% of total risk-weighted assets. At the end of 2023, the NPL ratio stood at 7.1% and the NPL coverage ratio was 129.5%, higher than the average for the sector.

Capital and Solvency

[3] All figures in this section (Macroeconomic Environment) have been taken from Economic Situation Note no. 125 published by the Ministry of Economy and Finance in the Government of Catalonia.

The ICF Group maintains at the end of 2023 a solvency level of 38.5%, 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 performance of the total capital ratio over the last five years is shown below:

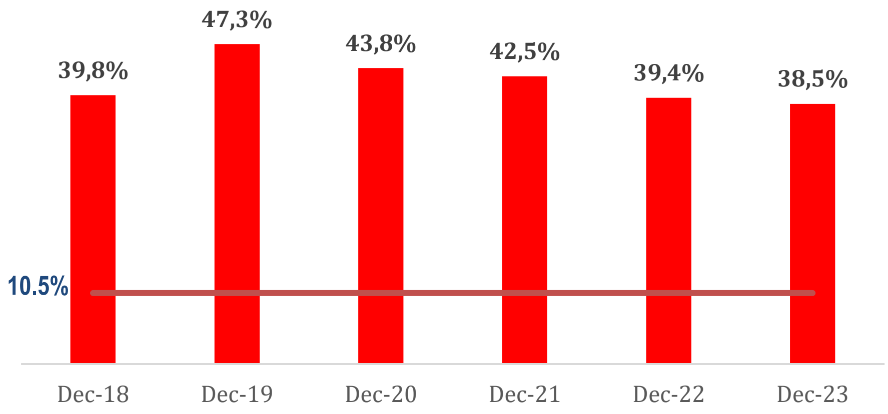

Figure 1. Historical performance (last five years) of the ICF Group's total capital ratio. 10.5% is the minimum total regulatory capital ratio (8%) with capital conservation buffer (2.5%).

Liquidity risk

The ICF Group maintains a solid liquidity position with a total cash position at the end of 2023 of EUR 288 million, of which EUR 204 million is in fixed income investments and EUR 84 million in current accounts:

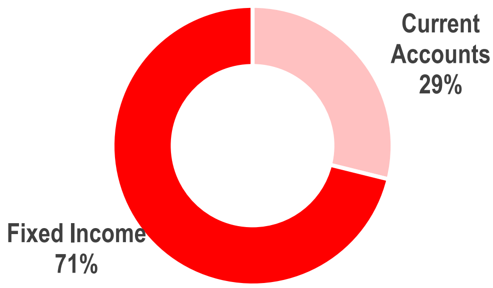

Figure 2. Group liquidity structure

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 2023, the ICF Group complies with the regulatory limits set for the LCR and NSFR metrics:

	31/12/2023	Regulatory limit
LCR	893%	100%
NSFR	127%	100%

Table 1. Regulatory metrics at year-end 2023

In terms of financing, the ICF Group closed 2023 with a position of EUR 1,136 million financed through various debt instruments. Loans make up 93% of the financing, of which 81% are loans financed by the public banking sector (EUR 918 million) and the rest by the private banking sector (EUR 141 million). Issues and promissory notes account for the remaining 7% of the financing and were worth EUR 77 million at the end of December 2023. The ICF Group's financing tends to be non-current with an average residual maturity of 7.3 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 in Legislative Decree 1/2022 of 26 July enacting the recast text of the Law on the Institut Català de Finances.

The Institut Català de Finances has its own assets and funds, and it performs its roles 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 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 Institute 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 2023 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 company's corporate purpose is managing public programmes agreed with the Government of Catalonia and with the European Union and the Spanish Government in the broadest sense of the term. The company performs its corporate purpose using the investment, financing and guarantee financial instruments it considers appropriate, including holding and managing financial investments in guarantee companies, venture capital firms and funds and investment in other state-owned or private enterprises, and awarding financing and investment both directly and also indirectly through financial intermediaries.

The ICF agreed on 31 May 2023 to transfer to IFEM the task of implementing the financial instruments in the Catalonia ERDF 2014-2020 Operational Programme together with all the rights and obligations flowing from its position as implementing entity for these instruments, including all Eurocrèdit loan facility agreements.

The transfers were concluded in September by means of a non-monetary contribution to IFEM, which was coupled with a monetary contribution, leading to the relevant capital increase for a total amount of EUR 175,000 thousand (EUR 156,263 thousand relates to the value of the economic rights resulting from the Eurocrèdit loan facility and EUR 18,737 thousand to the monetary contribution). The increase in IFEM's capital by the ICF, its sole member, involved the creation of 1,750,000 new equity holdings and the amendment of IFEM's bylaws to reflect the new company capital figure after the capital increase which now stands at EUR 225,000 thousand.

- Institut Català de Finances Capital SGEIC, 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 sole shareholder company where this sole shareholder is 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. (henceforth Capital Expansió) is a venture capital fund established on 20 July 2012 after authorisation by the Spanish securities market regulator (CNMV) was granted on 6 July 2012. On 26 July 2012 the CNMV listed the fund in its Venture Capital Fund register under number 136. 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 authorisation 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 authorisation 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, 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

Pursuant to applicable regulations, the consolidated ICF Group presents the consolidated financial statements for the year ended 31 December 2023 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 financial statements 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 holding shares or equity interests, 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 2023:

	Prudential regulation	BoS Circular 4/2017
	Eligible capital	**Total equity ICF Group**
Tier 1	**993.0**	**1,030.4**
Paid-up capital	693.1	693.1
Reserves	255.1	255.1
Profit(loss) for the year	49.5	49.5
(-) Intangible assets	-0.4	n.a.
(-) Deduction for material financial investments	0.0	n.a.
(-) Deduction for non-material financial investments	-37.0	n.a.
(+/-) Valuation adjustments	32.6	32.6
Tier 2	**20.5**	**-**
General provision (*)	92.1	n.a.
(-) Excess general provision	-71.6	n.a.
Total	**1,013.5**	**1,030.4**

(*) 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, the 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. STRUCTURE, ORGANISATION AND INTERNAL GOVERNANCE OF RISK MANAGEMENT

This chapter sets out the ICF Group's risk management system, the strategies and processes making up risk management, and the ICF Group's governance and organisational structure to ensure effective risk management monitoring.

4.1 Strategies and processes for managing risks

Three lines of defence model

The ICF Group's Risk Management System is comprehensive and uses the three lines of defence model following the European Banking Authority's guidelines (EBA/GL/2021/05). This organisational framework separates internal control functions from the business lines they control, thus segregating roles and resources. This distinction is translated into the following roles classified in three lines:

- *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 made up of Internal Audit 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.

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Corporate risk map

The ICF Group has in place a corporate risk map which includes both financial and non-financial risks that have a significant impact on the Group and therefore require follow-up and monitoring. This risk map quantifies each of the risks through the control systems and procedures in place which make it possible to monitor and mitigate the various risks by reinforcing the control environment, reporting them in aggregate in 14 corporate risks to the Joint Audit and Control Committee and the Supervisory Board for their control and oversight.

1. **Regulatory Risk**. Risk related to breach of internal and/or external regulations.
2. **Governance risk**. Risk related to poor management and administration of the institution together with instability in its governance.
3. **Credit risk**. The possibility of incurring losses arising from borrowers' failure to meet their financial obligations or impairment of their credit quality.
4. **Venture capital risk**. Risk of incurring losses stemming from venture capital investments.
5. **Cybersecurity and IT failure risk**. Risk of external cyber attacks, incidents with an impact on sensitive information and system failures.
6. **Reputational risk**. Risk related to events that have a direct negative impact on the institution's image and reputation.

7. **Human capital management risk**. Risk related to challenges in talent selection and/or retention and occupational health and safety management.

8. **Sustainability risk**. Risk related to lack of or improper integration of ESG criteria in operations.

9. **Strategic risk**: based on failure to devise or implement a corporate strategy.

10. **Fraud risk**: associated with wilful actions potentially involving both internal and external fraud.

11. **Operational risk**: related to errors in the performance and management of processes associated with routine operations.

12. **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.

13. **Interest rate risk**: 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.

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

Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS)

The ICF Group has drawn up a risk appetite framework (RAF) identifying the entity's risk management policies, procedures, roles and responsibilities. The ICF Group's RAF sets out general qualitative principles which apply to risk management and control. These principles fall into six broad categories and are as follows:

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 ICF Group also has a risk appetite statement (RAS) to identify, monitor and manage the main financial risks to which it is exposed and set tolerance levels for these risks which are aligned with the ICF Group's corporate strategy and its financial plan.

The main financial risks to which the Group is exposed in accordance with its operations and risk map are credit risk, interest rate risk in the banking book, solvency and capital risk, business and asset quality risk, liquidity risk, concentration risk and venture capital activity risk.

The ICF Group has set out policies and procedures which are its operational framework for controlling and managing the risks to which it is exposed. These policies are ultimately supervised by the highest risk body (JACC) and approved by the Supervisory Board. Every year they are reviewed and updated to accommodate any strategic and external changes which may take place.

4.2 Organisational structure

The ICF Group's risk control and management structures are organised globally, forming part of a comprehensive management framework under the supervision of the Joint Audit and Control Committee (JACC), a risk body delegated by the Supervisory Board. The following sections describe the ICF Group's risk management and control structure and organisation.

Supervisory Board and delegated committees

At the end of 2023, the governance structure related to the ICF Group's risk management and control is as follows:

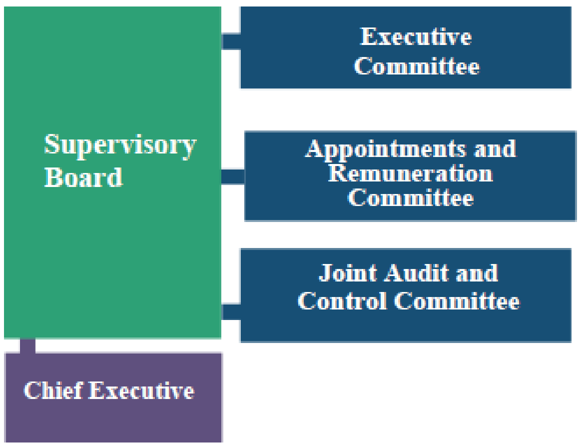

Figure 3. Structure of the ICF Group's governing bodies

The members of the Board and committees at 31 December 2023 were as follows:

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

(1) On 16/01/2024, he was replaced in the post by Mr Josep Maria Aguirre i Font.

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

<u>Supervisory Board</u>

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 Audit 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 currently delegated, to decide on investment proposals, relating to credit risk, or investments in venture capital or financial holdings.

- To decide on new products which it is thought might have a significant impact on the entity's risk profile, and if this is considered to be the case, subsequently report on them to the Supervisory Board.
- To ensure the actions of the ICF Group are consistent with the risk tolerance framework defined by the Supervisory Board in conjunction with the other governing and management bodies.

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.
- Pursuant to the suitability and incompatibility requirements set out in the regulations governing credit institutions and following the policies and procedures approved by the relevant governing bodies, assess the suitability of the members of the ICF's Supervisory Board under the terms of the relevant Regulation on the dismissal, appointment and re-election of the members of the ICF's governing bodies. The chief executive officer is responsible for reporting to this committee on the hiring of senior executives and key personnel undertaken in the performance of their duties. Key personnel are those employees who can influence the risk profile of the entity as defined in banking regulations.
- To supervise the criteria applied for the identification and development of key ICF personnel.
- To propose to the Supervisory Board the remuneration policy 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 serving members of the governing bodies to update their knowledge.
- To inform and give its opinion to the Supervisory Board regarding transactions which 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.
- To monitor and follow up cases of bullying and sexual harassment involving key personnel.

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

- To supervise the efficacy 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. Also to supervise information security management tasks and conduct half-yearly follow-up of the indicators and controls relating to its governance.
- To approve or amend the bylaws governing the functions referred to in the previous paragraph 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 define the entity's tolerance to general risks, ensure that the risk profile remains within the objectives and keep the Supervisory Board informed of the measures adopted to correct any variance that may arise.
- To establish and supervise a mechanism that enables employees to confidentially report any potentially significant irregularities.

Chief Executive Officer

The CEO is freely appointed and removed by the Catalan Government on the proposal of the Minister of Economy and Finance following a favourable report by the Appointments and Remuneration Committee. They are responsible for the ordinary and extraordinary representation of the ICF in all areas and situations. Since 10 January 2023, the ICF's CEO has been Ms 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) The top-level management and appointment of staff and the allocation of managers to the ICF's different functional areas.
d) 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.
e) The internal organisation and structure of the ICF in accordance with the guidelines approved by the Supervisory Board concerning its departments and services, executive committees and investment committees, in the manner the CEO considers most suitable for the performance of its ordinary operations, including the appointment of managers and defining the employment regime.
f) Exercising the powers delegated to them by the Supervisory Board which will be set out in an Authority document.

The CEO may submit for the approval of the Supervisory Board any expedient changes and alterations in delegated powers required to keep them updated based on the conclusions drawn by the management and/or governing bodies tasked with overseeing their application.

Management divisions and committees

The roles of the main divisions engaged in risk control and management are set out below.

The **Risk Monitoring and Management** division's roles 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.

The **Global Risk Control** division's 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.
- Monitoring and regular reporting of the main banking book risks to the Assets and Liabilities Committee (ALCO).
- Monitoring and reporting the main risk indicators and their controls to the Joint Audit and Control Committee (JACC) and where needed to other committees.

The **Compliance and AML** division's roles include:

- Developing a control environment for all legislation covering the effective supervision of risks requiring the establishment of internal control mechanisms and defining procedures for related activities, such as the prevention of money laundering and terrorist financing 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 Audit and Control Committee (JACC) for approval together with regular performance reports.

The **Internal Audit and Control** division 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.
- Ensuring the Corporate Risk Map is maintained and updated to furnish a global and uniform view of the risks to which the entity is exposed.
- Providing guidance and support in identifying, assessing, monitoring, managing and mitigating the entity's risks.

Given their importance and relevance in the organisation and in risk management, the main management bodies involved are described below. Notwithstanding the above roles and responsibilities, in 2023 the management committees have been as follows:

- **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.

- **Technical Liquidity Committee**, whose main role is determining and updating cash needs so that the Treasury area can propose actions to the ALCO.

- **Asset and Liability Committee (ALCO):** it is responsible for supervising interest rate, liquidity and funding risks. It also checks that 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.

- **ICF Capital's Analysis Committee** whose roles include supervising the performance of the venture capital instrument investment portfolio coupled with analysis of investment or divestment operations to be submitted to the Board.

- The **Capital Investment Committee** whose main roles include decisions on investments or divestments in venture capital instruments.

- The **Venture Capital Committee – IFEM** whose roles include recommending investments, amendments and additional or complementary investments.

- The **Digital Information Security Committee (DISC)** whose roles include reporting regularly on information security to the Management Committee.

- The **Internal Control Body (ICB)** which is responsible for designing and coordinating Anti-Money Laundering (AML) policies and its roles include analysis and resolution of AML alerts reported to it.

5. ELIGIBLE CAPITAL AND CAPITAL REQUIREMENTS

5.1 Regulatory framework

The breakdown of the ICF Group's eligible capital is established as shown in Part Two of Regulation (EU) No 575/2013. When applied to the ICF Group, eligible capital is made up of the sum of Tier 1 capital plus Tier 2 capital. The components of Tier 1 capital are defined in Chapter 1 Article 25 of the Regulation. Prudential filters are defined in Articles 32 to 35 of the Regulation. The ICF Group's Tier 2 capital complies with Article 62(c).

5.2 Eligible capital

Below is a breakdown of the items comprising the ICF Group's eligible capital at 31 December 2023 as well as a comparison with 31 December 2022:

ICF GROUP ELIGIBLE CAPITAL	2023	2022	Differences
Tier 1	**993.0**	**966.4**	**26.6**
Paid-up capital	693.1	693.1	0.0
Reserves	255.1	227.8	27.3
Profit(loss) for the year	49.5	27.4	22.1
(-) Intangible assets	-0.4	-0.1	-0.3
(-) Deduction for material financial investments	0.0	0.0	0.0
(-) Deduction for non-material financial investments	-37.0	-22.6	-14.4
(+/-) Valuation adjustments	32.6	40.8	-8.2
Tier 2	**20.5**	**19.6**	**0.9**
General provision (*)	92.1	104.3	-12.2
(-) Excess general provision	-71.6	-84.7	13.2
Eligible capital = Tier 1 + Tier 2	**1,013.5**	**986.0**	**27.5**

(*) Hedging not assigned to individual operations

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

At year-end 2023, Tier 1 capital corresponds to EUR 993.0 million, a net increase compared to 2022 of EUR 26.6 million due to a number of reasons. Firstly, a positive effect on the item from reserves and profit for the year with an impact of EUR 49.4 million. Secondly, there is a negative effect caused by greater venture capital operations which increases deductions by EUR 14.4 million and value adjustments which vary compared to December 2022 by -EUR 8.2 million, mainly due to valuation adjustments for venture capital positions.

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 2022 by EUR 27.5 million to EUR 1,013.5 million.

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

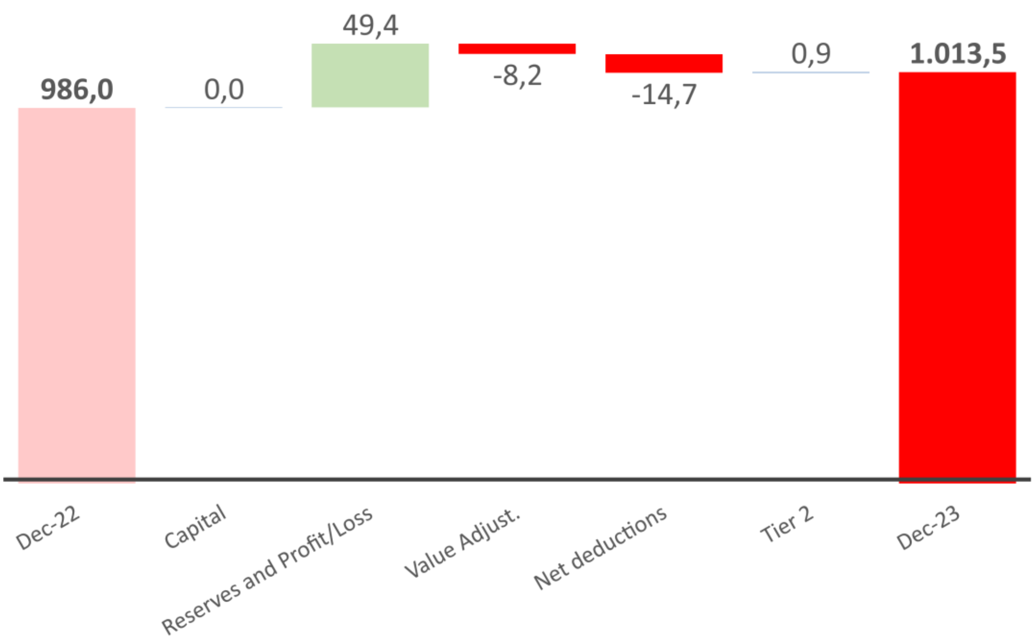

Figure 4. Annual performance of the ICF Group's eligible capital. The *net deductions* item also includes change in intangible assets.

5.3 Capital requirements

Credit risk and operational risk are the ICF Group's only Pillar I risks with capital requirements. The Group's main risk is credit risk[4] at 95% of capital consumption followed by operational risk at 5% (Figure 5). As the ICF Group has no positions in the trading book at the end of December 2023, it is exempt from capital requirements for market risk.

[4] Credit risk also includes counterparty risk.

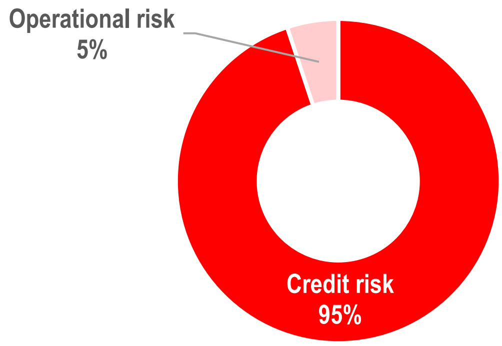

Figure 5. Capital consumption by risk type (Pillar 1 risks).

The assets included in the calculation of the capital requirements for credit risk are assessed in accordance with the standardised approach set out in Regulation (EU) No 575/2013, taking into account where applicable the amendments introduced by Regulation (EU) No 2019/876. 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 2023:

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	3,471.7	3,162.2	79%	2,495.2	199.6	94.9%
a) Credit investment	2,546.2	2,273.7	68%	1,552.5	124.2	59.0%
Loans	2,454.7	2,196.0	68%	1,504.0	120.3	57.2%
Standard risk	2,297.9	2,164.6	67%	1,457,100	116.6	55%
Non-performing	156.8	31.4	149%	46.9	3.8	2%
Guarantees:	89.9	76.1	63%	47.7	3.8	1.8%
Standard risk	87.0	74.4	61%	45.1	3.6	2%
Non-performing	2.91	1.7	153%	2.6	0.2	0%
Pass-through loans	1.6	1.6	50%	0.8	0.1	0.0%
b) Venture capital (direct and funds)	318.6	281.6	144%	405.8	32.5	15.4%
Shareholdings and venture capital (outstanding risk):	202.0	165.0	175%	289.2	23.1	11.0%
of which, subject to 150% weighting	160.5	123.5	150%	185.4	14.8	7%
of which, subject to 250% weighting	41.5	41.5	250%	103.8	8.3	4%
Venture capital (commitments)	116.6	116.6	100%	116.6	9.3	4.4%
c) Current accounts and deposits	85.9	85.9	50%	43.1	3.4	1.6%
d) Fixed income investments	203.8	203.8	60%	121.4	9.7	4.6%
e) Other assets	128.1	128.1	74%	95.1	7.6	3.6%
f) Deferred tax assets	58.8	58.8	250%	147.0	11.8	5.6%
g) Derivatives	130.3	130.3	100%	130.3	10.4	5.0%
Counterparty risk	19.1	19.1	100%	19.1	1.5	0.7%
CVA risk (4)	111.2	111.2	100%	111.2	8.9	4.2%
OPERATIONAL RISK (5)	134.1	134.1	100%	134.1	10.7	5.1%
TOTAL	3,605.8	3,296.3	79.8%	2,629.3	210.3	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 breakdown of capital requirements by product is shown below:

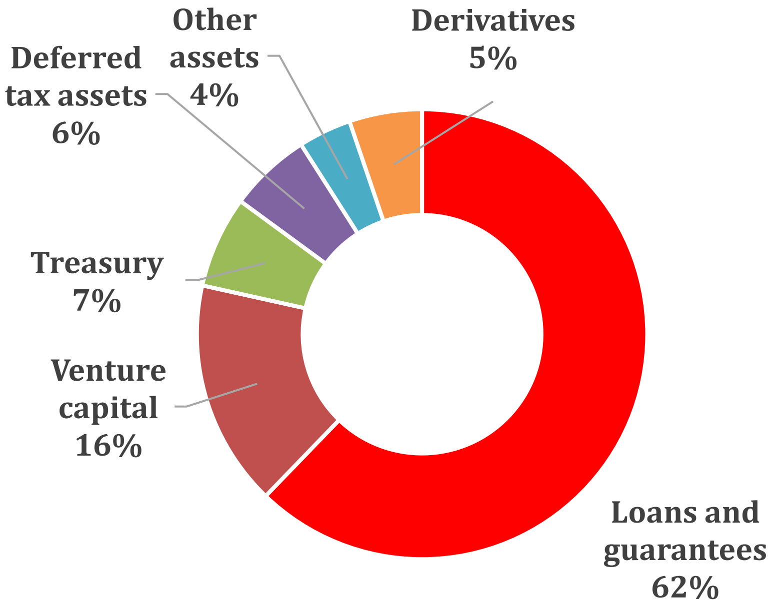

Figure 6. Capital consumption by product type

The ICF Group's total risk-weighted assets amounted to EUR 2,629 million, of which 59% were from credit investments, in line with the Group's activity.

The Pillar I minimum capital requirement at the end of 2023 is EUR 210.3 million and the ICF Group held an available capital buffer of EUR 803.2 million. For illustrative purposes, a comparative table with data for year-end 2023 and year-end 2022 is shown below:

	2023	2022	Differences
ICF Group EC	1,013.5	986.0	27.5
Total RWAs	2,629.3	2,502.7	126.6
Pillar I Risks Capital Requirements (8%)	210.3	200.2	10.1
Available capital	**803.2**	**785.8**	**17.4**

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 2023:

Capital ratios	2023	Minimum requirements TOTAL	Minimum[5]	Conservation buffer[6]
Common Capital Ratio (CET1)	37.8%	7.0%	4.5%	2.5%
Total capital ratio	38.5%	10.5%	8.0%	2.5%

Table 7. ICF Group capital ratios at year-end 2023

At the end of 2023, the ICF Group's leverage ratio is 37.8%, 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).

	2023	2022	Differences
Leverage ratio	37.8%	37.1%	0.7%

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

6. CREDIT RISK

6.1 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 standardised approach (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.

6.2 Accounting definition of default and impaired positions

Impaired exposures and objective evidence of impairment

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

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 transactions 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.

[5] Chapter I, Section 1, Article 92 of EU Regulation No 575/2013.

[6] Chapter 4, Section 1, Article 129 of Directive 2013/36/EU.

- 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.

- Write-off risk – Transactions for which the Group has no reasonable recovery expectations. The impairment value adjustment for this type of instrument is equivalent to its carrying amount and involves the total derecognition of the asset.

A table of the main credit risk indicators at December 2023 (and a comparison with December 2022) is shown below:

	2023	2022	Differences
Total portfolio (millions of euros)	2,245	2,228	17
Non-performing (millions of euros)	159.7	166.6	-6.9
NPL ratio	7.1%	7.5%	-0.4%
Coverage ratio	129.5%	139.2%	-9.7

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

6.3 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 expected credit losses through insolvency

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

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

- The total amount expected to be obtained during the remaining life of the instrument, including 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 transaction (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 transactions and coverage for specific transaction 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.

6.4 Changes due to impairments and provisions for credit risk

At 31 December 2023, hedging for non-impaired transaction includes an amount of EUR 77,822 thousand (EUR 88,592 thousand in 2022) for transactions classified as standard and EUR 47,714 thousand (EUR 47,168 thousand in 2022) for transactions classified as standard under special surveillance. Table 10 shows the changes in impairment losses recorded in 2023.

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.

Millions of euros

2023	Stages 1 and 2 Not Impaired		Stage 3 Impaired		Total
	Individual	Collective	Individual	Collective	
Gross amount					
Balance at 1 January 2023	-	1,940.5	60.4	105.5	2,106.4
Balance at 31 December 2023	-	1,990.9	34.7	123.5	2,149.1
Impairment					
Balance at 1 January 2023	-	-135.8	-55.6	-39.0	-230.3
Charges/Recoveries	-	12.7	41.4	-40.9	13.2
Transfers between stages	-	-2.3	-3.0	5.3	-
Transfer to write-offs	-	-	-	10.6	10.6
Balance at 31 December 2023	-	-125.4	-17.2	-63.9	-206.5

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

6.5 Geographical distribution of exposures

The classification of the ICF Group’s loan portfolio by area of investment as at 31 December 2023 is shown below. The Group's operations focus on promoting the growth of Catalan companies, so its natural area of activity is the Region of Catalonia:

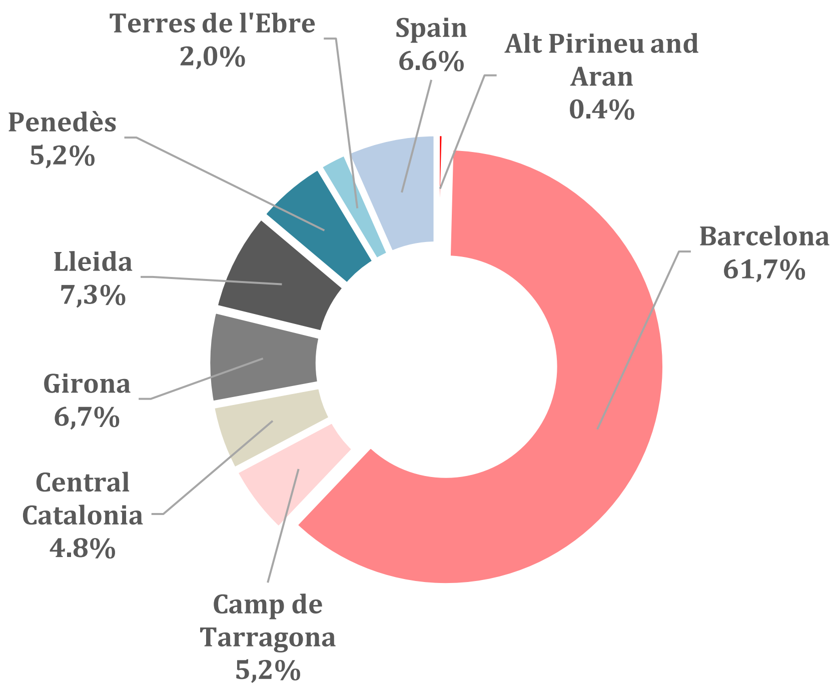

Figure 7. Territorial distribution of the loan portfolio (calculated by gross exposure)

The geographical breakdown used is based on traditional Catalan jurisdictions (*vegueries*). The Barcelona area represents 61.7% 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 impairment and net carrying amount (total carrying amount less provisions for impairment) by county investment area:

Millions of euros	Non-performing	Performing	Provisions	Total[7]
Alt Pirineu and Aran	2.1	7.2	-1.3	8.0
Barcelona	127.1	1,257.1	-158.0	1,226.2
Camp de Tarragona	4.7	111.2	-9.1	106.8
Central Catalonia	4.3	104.3	-8.3	100.2
Girona	7.0	144.1	-11.3	139.9
Lleida	8.5	156.1	-5.4	159.3
Penedès	3.5	114.0	-8.5	109.0
Terres de l'Ebre	0.1	45.2	-1.1	44.2
Spain	2.3	145.8	-3.9	144.3
TOTAL	**159.7**	**2,085.0**	**-206.8**	**2,037.8**

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

6.6 Distribution of exposure by counterparty or sector

The segmentation of the loan portfolio as at 31 December 2023, distributed by NACE, is shown below:

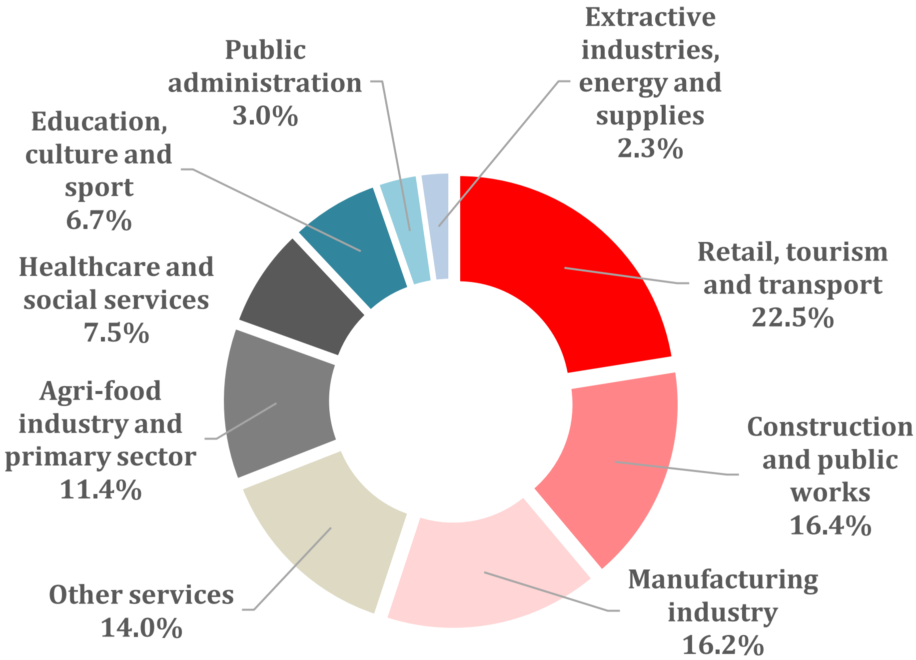

Figure 8. Sector segmentation of the loan portfolio (calculated by gross exposure)

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:

[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.

Millions of euros	Non-performing	Performing	Provisions	Total
Retail, tourism and transport	35.7	468.8	-40.2	464.3
Construction and public works	17.0	351.2	-17.7	350.5
Manufacturing industry	35.6	327.6	-41.1	322.1
Other services	43.6	270.7	-65.4	248.9
Agri-food industry and primary sector	6.0	250.7	-12.9	243.8
Healthcare and social services	1.0	167.2	-10.6	157.6
Education, culture and sport	11.0	139.4	-14.7	135.7
Public administration	0.0	67.9	0.0	67.9
Extractive industries, energy and supplies	9.8	41.4	-4.2	47.0
TOTAL	**159.7**	**2,085.0**	**-206.8**	**2,037.8**

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.

6.7 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 2023 based on their tenor according to their contractual terms:

Millions of euros	Demand deposits	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Cash, deposits in central banks and other on-demand deposits	59.0	-	-	-	-	-	59.0
Loans and receivables	0.7	50.3	64.2	382.1	887.4	595.1	1,979.8
Deposits with credit institutions	0.7	10.3	0.2	15.7	0.9	2.6	30.2
Central banks	-	-	-	-	-	-	-
Customer loans	-	40.0	64.0	366.5	886.5	592.6	1,949.6
Debt securities	-	9.2	5.1	59.0	127.7	2.7	203.8
Total	**59.6**	**59.6**	**69.3**	**441.2**	**1,015.1**	**597.8**	**2,242.6**

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

6.8 Impairment losses and reversals for previously recognised losses

Impairment losses on financial assets not measured at fair value through profit(loss) for 2023 and 2022 are as follows:

Millions of euros	2023	2022
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:		
Allocations to provisions	*(46.2)*	*(87.2)*
Recoveries	*36.5*	*57.0*
Other	*5.1*	*5.5*
Impairments of available-for-sale financial assets	-	-
Total loans and receivables	**(4.6)**	**(24.7)**
Total other available-for-sale financial assets		**-**
Financial assets at cost		-
Total financial assets at cost		-
Total	**(4.6)**	**(24.7)**

Table 14. Annual evolution of provisions for credit risk

6.9 External credit assessment institutions (ECAI) used

The ICF Group uses the external credit assessment institutions (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 Article 138 of Regulation (EU) No 575/2013 are applied to determine the final assessment for exposure.

A comparison between 2023 and 2022 of the distribution of the Group's exposures by rating for investments in fixed income and derivatives is shown below. At the end of December 2023, 93% of total exposures are in investment grade investments.

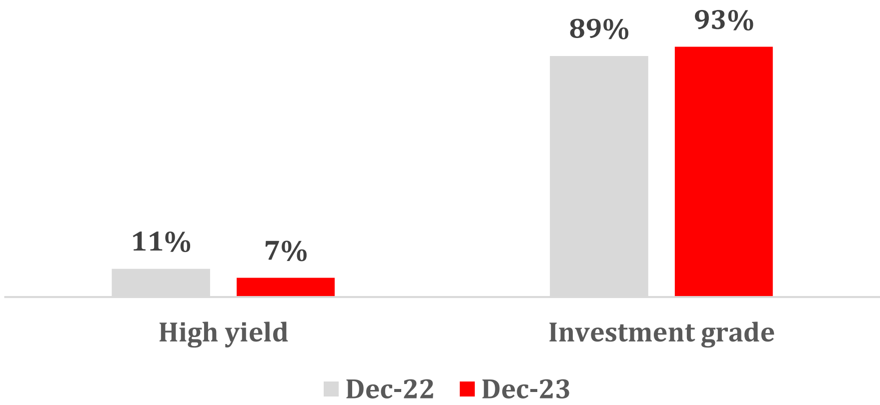

Figure 9. Distribution by counterparty rating of fixed income investment and derivatives

6.10 Application of risk mitigation techniques

The ICF Group uses the credit risk mitigation 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 2023, 94.9% of risk-weighted assets (RWAs) were classified under credit risk, a total of EUR 2,495.2 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 199.6 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 pointed out that the ICF Group does not perform repurchase operations (repos) or use credit derivatives (CDS). The ICF Group only uses financial derivatives as a tool for managing financial risk. When these operations comply with certain requirements they are treated as hedging operations.

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

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 2023, the RWAs deriving from the exposure with derivative instruments (accounting for counterparty and CVA risk) totalled EUR 130.3 million and the capital requirements stood at EUR 10.4 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 to 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 No 648/2012**)** and EMIR Refit (Regulation No 2019/834) regulation**.** This regulation specifies reporting obligations for entities which 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 in the trading book 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 has no positions in the trading book at the end of December 2023 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 book:

- 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 periods 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. Net interest income sensitivity is a metric based on dynamic scenarios, in other words, simulations of future balance sheet behaviour.

- **Economic value (EV) sensitivity.** 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 and economic value sensitivity

The ICF Group has defined various scenarios to calculate the impact on net interest income and economic value. The main scenarios used are detailed below.

- **Regulatory scenario**. This scenario is defined in the EBA/GL/2018/02 guidelines (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 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 2023, net interest income sensitivity under changes defined by the regulatory scenario was -4.0% (worst case scenario) while economic value sensitivity was -1.7% (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 changes of more than 20% in the case of economic value as specified in Article 98(5) of Directive 2013/36/EU and Bank of Spain Circular 3/2008 in Rule 106, section 3, (a) and (b).

Scenario	Change in Economic Value	Change in Net Interest Income
Regulatory scenario (+/-200 bp)	-1.7% / +2.2%	+4.1% / -4.0%
Parallel scenario (+/-100 bp)	-0.9% / +0.9%	+2.0% / -2.0%

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 of 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).

EBA scenarios	Change in Economic Value	Impact (€m)
Parallel Up	-1.7%	-16.7
Parallel Down	+2.2%	20.9
Steepener	+1.2%	11.4
Flattener	-1.5%	-14.2
Short Rates Up	-1.9%	-18.3
Short Rates Down	+2.0%	19.4
Maximum (*)	**-1.9%**	**-19.1**
15% CET1		**149.0**

Table 16. Economic value sensitivity under various scenarios defined by the EBA. The maximum is the worst case scenario.

Repricing gap

The static repricing gap (assets minus liabilities) in millions of euros at the end of 2023 is set out below. The graph shows the discrete structure, at monthly intervals up to 1 year, and its cumulative structure:

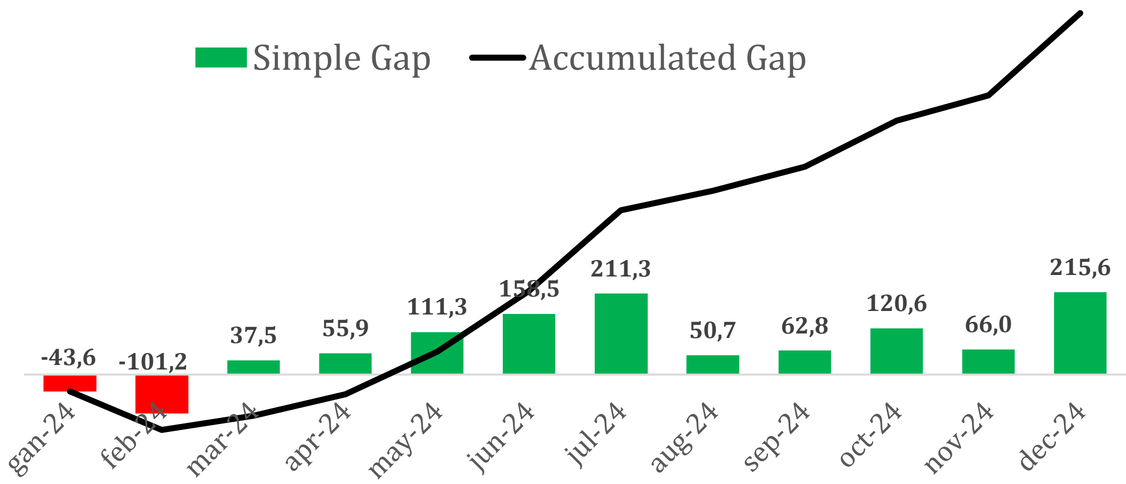

Figure 10. 12-month repricing gap (€m)

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

Millions of euros	IR-Sensitive Balance		% of total assets		STATIC GAP		
RENEWAL	Assets	Liabilities	Assets	Liabilities	Simple	Cumulative	Cum. gap
Up to 1 month	204.3	247.9	7.7%	9.3%	-43.6	-43.6	-1.6%
1 to 3 months	302.9	366.6	11.4%	13.8%	-63.7	-107.2	-4.0%
3 to 6 months	525.7	200.0	19.8%	7.5%	325.6	218.4	8.2%
6 to 12 months	808.3	81.4	30.4%	3.1%	726.9	945.3	35.6%
Cumulative 12 m	**1,841.2**	**895.9**	**69.3%**	**33.7%**	**945.3**	**1,012.9**	**35.6%**
1 to 2 years	119.9	58.7	4.5%	2.2%	61.2	1,006.5	37.9%
2 to 3 years	82.5	52.9	3.1%	2.0%	29.7	1,036.2	39.0%
3 to 4 years	42.1	39.4	1.6%	1.5%	2.7	1,038.9	39.1%
4 to 5 years	32.3	39.2	1.2%	1.5%	-6.9	1,031.9	38.9%
5 to 7 years	60.2	71.6	2.3%	2.7%	-11.4	1,020.5	38.4%
7 to 10 years	39.0	67.0	1.5%	2.5%	-28.0	992.4	37.4%
10 to 15 years	43.0	24.6	1.6%	0.9%	18.4	1,010.8	38.1%
15 to 20 years	34.5	20.7	1.3%	0.8%	13.9	1,024.7	38.6%
20 to 25 years	15.2	10.3	0.6%	0.4%	5.0	1,029.7	38.8%
25 to 30 years	6.7	9.1	0.3%	0.3%	-2.4	1,027.2	38.7%
TOTAL	**2,316.6**	**1,289.4**	**87.2%**	**48.5%**		**1,027.2**	**38.7%**

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 2023 is as follows:

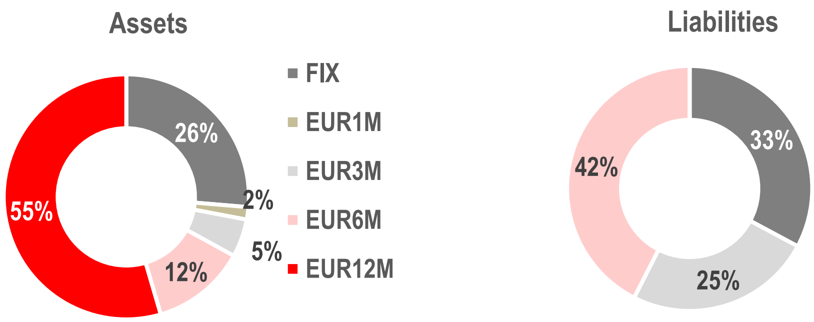

Figure 11. Distribution of bases of the interest rate sensitive amounts on the balance sheet

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

For the purposes of regulatory liquidity metrics, Regulation (EU) No 2019/876 amending Regulation (EU) No 575/2013 includes changes to the net stable funding ratio (NSFR), one of which is that institutions will have to maintain an NSFR of at least 100% (Article 428(b), paragraph 2).

10.2 Nature of liquidity risk

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

- **Financing liquidity risk**: probability that the organisation will incur losses or be unable to take on new business due to the inability to meet its commitments or finance additional needs;

- **Market liquidity risk**: this is the risk to which the entity is exposed when it is unable to unwind a particular position as a result of market imperfections.

10.3 Management of liquidity risk

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

1. Absence of retail or wholesale deposits. The Group sources financing in the capital markets by means of debt issues, loans and promissory notes. Except for promissory notes, which are contracted with maturities of between 12 and 18 months, the rest of the instruments have long maturities.

2. Activity focused on the medium and long term. The ICF Group awards financing with longer maturity periods than the private sector average.

These two standout features result in an alignment of maturities between assets and liabilities coupled with stable liquidity which enables a management approach targeting the medium and long term to a greater extent. In terms of intraday liquidity management, payment commitments are largely covered by liquid cash, the upshot of conservative liquidity policies.

Likewise, to enhance its liquidity to cope with unforeseen scenarios, the ICF Group has a €100 million loan agreement in place concluded equally between two credit institutions which it renews on an annual basis.

Liquid cash at year-end 2023 and a comparison with 2022 are shown below:

Liquid Cash	2023	2022
Current accounts (€m)	59	78
Fixed income (€m)	204	232
Deposits (€m)	25	0
Total (€m)	288	310

Table 18. Annual changes in the composition of the ICF Group's liquidated cash flow (management data)

Fixed income investments strictly comply with financial investment policies whose criteria include high credit ratings and short durations to ensure their status as liquid assets.

Liquidity is managed within the areas of responsibility of the three lines of defence. In particular, the following management bodies 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):** it is 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.

The areas engaged in liquidity risk management and control are:

- **Treasury and Capital Markets**: it designs and executes strategies for managing liquidity and obtaining funding as directed by the Asset and Liability Committee (ALCO).

- **Global Risk Control**: it is 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 liquidity risk metrics which are measured, monitored and managed include:

- **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 regulatory metric defined 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 regulatory minimum of 100% is required.

- **Net stable funding ratio (NSFR):** it measures the extent to which long-term obligations are fulfilled through a variety of stable funding instruments in both normal and stressed situations. This metric includes a 100% regulatory minimum in accordance with Article 428b of Regulation (EU) No 2019/876 amending Regulation (EU) No 575/2013.

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 in the long term:

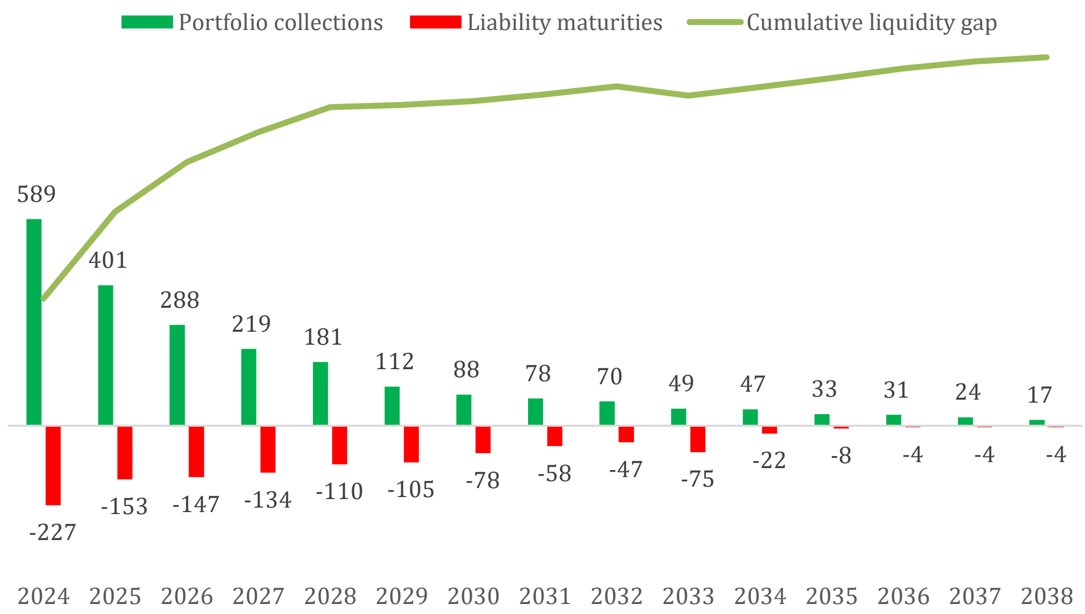

Figure 12. 1 Annual static liquidity gap (figures in millions of euros).

Survival horizon

To calculate the survival horizon at the end of December 2023, the ICF Group started from an initial liquidity buffer of EUR 407 million made up of: (a) cash balances and deposits of EUR 84 million, (b) available credit for a total of EUR 125 million corresponding to EUR 75 million from the European Investment Bank (EIB) and EUR 50 million from the Council of Europe Development Bank (CEB) and (c) fixed income which for the purposes of the calculation is assumed with a 5% loss on nominal (198 million), thus simulating a volatile market when it comes to unwinding positions.

Two calculations of the survival horizon are conducted, simulating two dynamic scenarios with the following characteristics:

- **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 business activity by 50% compared to base activity.

The result at year-end 2023 was a survival horizon of 17 months for the base scenario and 9 months for the stressed scenario, values that are within policy limits.

	2023
Base scenario	17
Stressed scenario	10

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 428(b) of Regulation (EU) No 2019/876 which set a minimum compliance requirement of 100%.

The ICF Group's liquidity coverage ratio closed 2023 at 893%, well above regulatory limits as a result of a conservative risk policy. High-quality liquid asset (HQLA) funds at the end of 2023 stand at EUR 139.3 million, where Tier 1 liquid assets account for 85% of total HQLA funds.

The net stable funding ratio at the end of 2023 is 127%, above the regulatory minimums (100%).

	31/12/2023	31/12/2022
LCR	893%	378%
NSFR	127%	128%

Table 20. Annual evolution of liquidity risk metrics

10.4 Funding strategies

At the end of 2023, the ICF Group had EUR 1,136 million in financing. The main sources of financing are in the capital market through own debt issues, loans and promissory notes. 81% of the financing corresponds to loans with the public banking sector, mainly the European Investment Bank (EIB), the Instituto de Crédito Oficial (ICO) and the Council of Europe Development Bank (CEB). The breakdown of financing by product type is shown below:

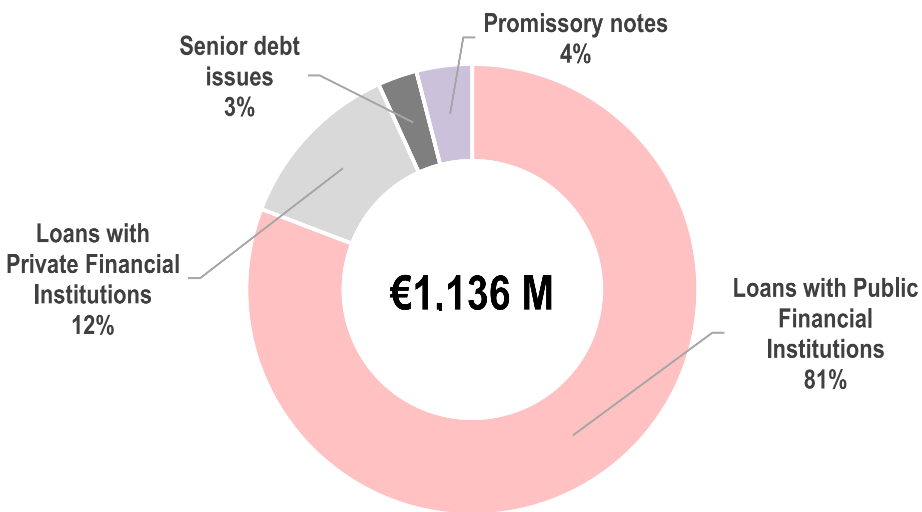

Figure 13. Distribution by type of product of the Group's wholesale financing at year-end 2023.

10.5 Capital requirements for liquidity risk

The ICF Group has no consumption of own funds for liquidity risk.

11. OPERATIONAL RISK

11.1 Regulatory framework

The information concerning operational risk complies with Article 446 in Regulation (EU) No 575/2013. The ICF Group's operational risk-weighted assets are assessed using the basic indicator approach set out in Articles 315 and 316 of the Regulation.

11.2 Definition of operational risk

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

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

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

11.3 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	68.6
Interest and similar charges	-21.4
Income from equity instruments	3.5
Commissions received	4.4
Commissions paid	-3.2
Gains or losses on financial assets (net)	1.8
Exchange differences (net)	0
Other operating income	17.9
Total	**71.5**
Risk-weighted assets (€m)	**134.1**
OPERATIONAL RISK (capital requirements)	**10.7**

Table 21. Calculation of capital requirements for operational risk

Capital requirements for operational risk amounted to EUR 10.7 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 2023 under "Financial assets at fair value through other comprehensive income" are as follows:

Millions of euros	2023	2022
Venture capital instruments		
Outstanding risk in venture capital entities	182.9	155.2
Valuation adjustments	13.9	27.2
Subtotal venture capital instruments	196.8	**182.4**
Other equity investments	40.7	8.7
Valuation adjustments	-40.1	-8.2

Subtotal other equity investments	0.6	**0.6**
Total capital instruments	197.4	**182.9**
Debt securities		
Debt securities	208.7	232.1
Valuation adjustments	-4.9	-10.7
Total debt securities	203.8	**221.4**
Total	**401.2**	**404.3**

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 contracts signed for amounts detailed under "Outstanding disbursements of venture capital entities" in the previous table.

At 31 December 2023, there are outstanding commitments of EUR 116,378 thousand (EUR 112,072 thousand as of 31 December 2022).

In 2023, EUR 591 thousand has been recognised from dividends on venture capital instruments. In 2022, a total of EUR 7,372 thousand was recognised from dividends on venture capital instruments. Annex III of the ICF Group's annual report contains details of the Group's main investees which are neither subsidiaries nor associates together with relevant information about them.

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	2023	2022
Avalis de Catalunya S.G.R		
Shareholding	4.72	4.86
Equity method adjustment	2.76	2.75
Closing balance	**7.48**	**7.61**

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

12.2 Accounting policies and measurement of equity instruments

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 "Cumulative other comprehensive income".

Officially listed debt securities and capital instruments are measured 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 during the first years of operation of the vehicle. 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. The fair value is less than 90% of the cost of the investment or is between 90% and 100% and not associated with management costs. Differences 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 (Rule 117a)

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 Capital Companies Law. 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 executives 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 has at least two independent members who are appointed and removed 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 its chair or at the request of any of its members or the Chief Executive Officer.

13.2. Identified staff

At 31 December 2023, 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 executives 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:

Corporate Director of Audit, Compliance and Legal Affairs, Director of Risk, Director of Venture Capital Investments, Director of Administration, Finance and Markets, Director of Risk Monitoring and Management, Technology Director, Sales Director, Director of Human Resources and Organisation, Director of Product Development, Director of Internal Audit and Control and Marketing Manager.

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, whereby 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 as 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 directors complies with the provisions of Articles 217 and following of the Spanish Capital Companies Law 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 delegated committees is €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 public 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 and nursery school.

Variable remuneration

This is tied 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 business, NPL ratios, gross margin and pre-tax profit.

The variable remuneration is only paid if profits before provisions are at least 80%.

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 identified staff

The remuneration paid to the Group's identified staff in 2023 was as follows:

Thousands of euros	Directors(1)	Executives(2)	Total
No. of beneficiaries	10	11	**21**
Fixed remuneration 2023	251	893	**1144**
Variable remuneration 2023 (*)	30	154	**184**

(*) Variable remuneration has been provisioned up to the maximum expected level, although it is subject to assessment by the Appointments and Remuneration Committee. It has been accrued in 2023 and will not be paid until 2024.

(1) Includes the Executive Director and the other Directors at 31 December 2023.

(2) Includes Executives and Key Personnel.

Table 24. Remuneration paid to the Group's identified staff in 2023