Institut Català de Finances

2021

Pillar III Disclosure Report

Pillar III

Generalitat de Catalunya

Contents

1. ICF GROUP PILLAR III

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

Law 10/2014 on the regulation, supervision and solvency of credit institutions was enacted on 26 June 2014 in order to adapt Spanish law to this new regulatory framework. Article 85 of this law states that financial institutions must publish a single document called the "Pillar III Disclosure Report" (hereinafter the P3D) at least once a year.

Standard 59 of Bank of Spain Circular 2/2016 specifies that the contents of the P3D must be reviewed by the institution's internal audit department, its risk control unit, and by independent experts.

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

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

1.1 Regulatory framework

The Pillar III Disclosure Report is part of a European framework designed to create a genuine banking union based on four pillars:

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

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

In 2010, the Basel Committee on Banking Supervision, the international forum which sets general supervisory standards and issues statements on prudential best practice, approved the reform of the global regulatory capital framework known as Basel III. The legislative package implementing this framework in the European Union came into force on 1 January 2014, comprising Regulation (EU) No

575/2013 and Directive 2013/36/EU, known as CRR and CRD IV respectively. While the Regulation is applied directly by the institutions of member states, the CRD IV Directive required the following process for inclusion in the Spanish legal system:

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

On 23 November 2016, the European Commission presented a new package of regulatory reform proposals to strengthen the sector and adopt the most significant new international regulations regarding solvency, risk management and the winding up of banking entities. Thus, proposals for amendments to the CRR and CRD IV were tabled. Against this background, in June 2019 the European Parliament and the Council published Regulation (EU) No 2019/876 or CRR II amending Regulation (EU) No 575/2013 and Directive (EU) 2019/878 or CRD V amending Directive (EU) 2013/36. CRR II is applicable from June 2021 and CRD V from the end of 2020. In environmental, sustainability and governance (ESG) risks, the European Central Bank has produced a guide on climate-related and environmental risks featuring supervisory expectations for managing these risks and their disclosure ("Guide on climate-related and environmental risks", November 2020). Likewise, in March 2021 the European Banking Authority (EBA) brought out a consultation paper setting out technical aspects of ESG risks to be considered for prudential purposes (EBA/CP/2021/06).

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

2. INTRODUCTION

In 2021, the world economy has bounced back from the historic fall in GDP in 2020, yet like the negative shocks of the previous year this upturn has been unevenly distributed. Although the general trend is towards recovery and overall from a 3.2% drop in 2020 to 5.6% growth in 2021, this recovery has been more subdued in the euro area. However, growth in the euro area during 2021 has made it possible to close the year with GDP levels similar to those seen in the fourth quarter of 2019.

Although Catalan GDP has not yet got back to pre-pandemic levels and is still 2.7% below the figures for the fourth quarter of 2019, it has nevertheless posted 5.9% growth in 2021 and outperformed the Spanish economy (5.0%) and the euro area (5.2%). Following the substantial adverse impact in 2020, the Catalan economy has been growing strongly since the spring of 2021. This vibrancy was maintained throughout the rest of the year when in spite of the problems arising from the supply chain, the 6.1% rise in inflation and the outbreak of the sixth wave, the Catalan economy showed considerable resilience to these circumstances and year-on-year growth picked up to 6.9%, the second highest rate since 2001.

After the increase in financing stock in 2020 as a result of the liquidity measures taken by European regulators and public guarantee facilities, 2021 has been a year of stability in terms of volume for the Spanish financial system as a whole, albeit with an uneven distribution: a fall in aggregate financing to SMEs, large companies and the construction industry coupled with an increase in housing finance. Meanwhile, consumer credit stayed stable compared with the end of 2021.

Credit Risk

In 2021, the brisk pace of lending activity offset the year's write-downs and closed 2021 with loan portfolio and total asset levels very much in line with those of the previous year. The ICF Group has provided EUR 535.1 million in financing to 1,213 companies. There have been two distinct trends during the year. Firstly, companies in the sectors worst hit by the Covid-19 restrictions and which still had liquidity needs, and secondly firms that were beginning to cautiously resume some of the investment projects which had been put on hold due to the health crisis.

Credit risk is the ICF Group's main risk, a natural consequence of its business model. At the prudential level, this risk represents 96.4% of total risk-weighted assets. The main financial indicators of credit risk, such as the NPL ratio, stood at 8.2% at the end of 2021, and the NPL coverage ratio is 114.0%, higher than the average for the sector.

Capital and Solvency

The ICF Group maintains at the end of 2021 a solvency level of 42.5%, 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 evolution of the total capital ratio over the last 5 years is shown below:

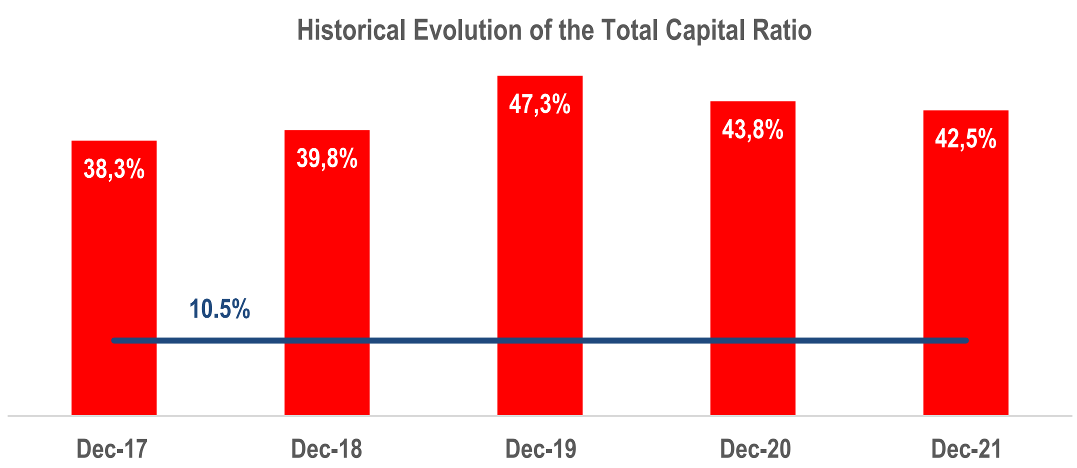

Figure 1. Historical performance (last 5 years) of the ICF Group's total capital ratio

Liquidity Risk

The ICF Group maintains a solid liquidity position with a total cash position at the end of 2021 of EUR 332.8 million, of which EUR 268.6 million is in fixed income investments and promissory notes and EUR 64.2 million in current accounts:

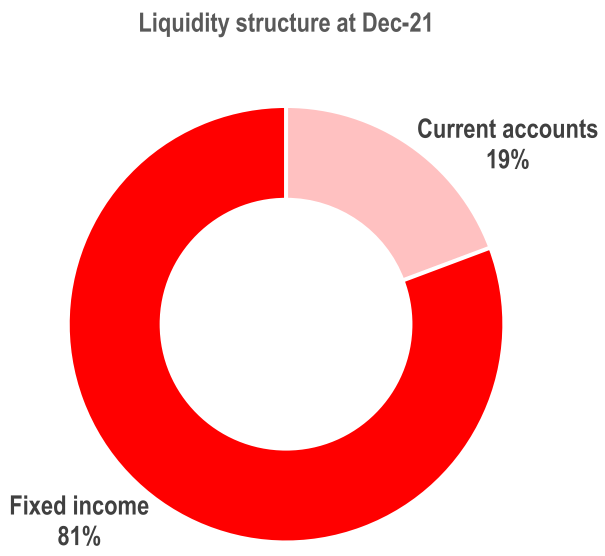

Figure 2. Group liquidity structure

The ICF Group calculates, analyses and monitors the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) metrics following the guidelines of Regulation No 575/2013 and its amendment in Article 428(b) of Regulation No 2019/876 which set minimum compliance requirements. At year-end 2021, the ICF Group complies with the regulatory limits set for the LCR and NSFR metrics:

	31/12/2021	Regulatory limit
LCR	995%	100%
NSFR	116%	100%

Table 1. Regulatory metrics at the end of 2021

In terms of financing, the ICF Group closed 2021 with a position of EUR 1,312 million diversified through various debt instruments. These include EUR 326 million in issues and promissory notes and EUR 986 million in loans, mainly financed by the public sector banking sector. Likewise, 96% of the financing is non-current with an average residual maturity of more than 6.4 years, which makes for stable financing.

3. ICF GROUP

3.1 Description of the Group

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

The ICF is the parent company of a group of subsidiaries over which it has direct and full control. Consequently, the ICF is required to produce, in addition to its own individual annual accounts, the consolidated annual accounts of the Institut Català de Finances and subsidiaries (the ICF Group).

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

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

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

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

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

3.2 Scope of application

The Institut Català de Finances heads the Institut Català de Finances Group (henceforth the Group, or the ICF Group). At 31 December 2021 it comprised the following subsidiaries, wholly owned by the ICF either directly or indirectly:

- **Instruments Financers per a Empreses Innovadores**, **S.L**. Societat Unipersonal (henceforth IFEM) was incorporated by public notarial instrument on 12 December 2008. The corporate purpose of the company is the holding and management of financial assets, in any type of fund, in companies and guarantee funds, venture capital companies and funds and investments in other public or private companies. The company manages the funds provided by the Generalitat to conduct the JEREMIE programme in Catalonia. It is a single-member company and its sole member is the Institut Català de Finances.
- **Institut Català de Finances Capital S.G.E.I.C**., S.A. Societat Unipersonal (henceforth ICF Capital), was incorporated for an indefinite term on 26 February 2011 and is subject to Circular 7/2008, of 26 November, of the Spanish National Securities Market Commission (CNMV), which supervises venture capital management companies, and to current legislation regarding this type of company, including Law 22/2015, of 12 November and, where this is not applicable, Royal Decree Law 1/2011 of 2 July, approving the recast text of the Capital Companies Law. Its corporate purpose and main activity is the administration and management of Venture Capital Funds and the assets of venture capital companies. It is a single-shareholder company, its sole shareholder being the Institut Català de Finances.
- **Capital MAB, F.C.R**. (henceforth Capital MAB) is a venture capital fund established on 27 February 2012 after authorisation by the Spanish National Securities Market Commission (CNMV) was granted on 17 February 2012. On 2 March 2012 the CNMV listed the fund in its Venture Capital Fund register under number 134. The Fund will operate for 10 years, which may be extended to a maximum of 12 years. It was extended for 12 years on 27 September 2021. The investment period ended on 31 December 2018.
- **Capital Expansió, F.C.R.** (hereinafter Capital Expansió) is a venture capital fund established on 20 July 2012 after the authorisation by the Spanish National Securities Market Commission (CNMV) was granted on 6 July 2012. On 26 July 2012 the CNMV listed the fund in its Venture Capital Fund register under number 136. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.It was extended for 12 years on 27 September 2021. The investment period ended on 31 December 2018.
- **ICF Venture Tech II, F.C.R.E.** (hereinafter ICF Venture Tech II) is a venture capital fund registered on 28 June 2019 in the administrative registers for European venture capital funds of the Spanish National Securities Market Commission (CNMV) under number 11, which has been established after authorization granted on 21 June 2019 by the same body. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.
- **CF Capital Expansió II, F.C.R.E.** (hereinafter ICF Capital Expansió II) is a venture capital fund registered on 28 June 2019 in the administrative registers for European venture capital funds of the Spanish National Securities Market Commission (CNMV) under number 11, which has been established after authorization granted on 21 June 2019 by the same body. The Fund will operate for 10 years, which may be extended to a maximum of 12 years.

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

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

3.3 Consolidated group for the purposes of solvency regulations

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

In the preparation of the consolidated annual accounts of the ICF Group, all the subsidiaries and consolidated structured entities were fully consolidated. The associate Avalis de Catalunya is measured using the equity method.

The differences between the consolidated group of companies for the purposes of the prudential regulation and the Accounting Circular are primarily that the prudential regulation only takes into account entities included in the scope of consolidation as a result of their operations, including:

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

The table below lists the reconciliation between accounting capital and regulatory capital at 31 December 2021:

	Prudential regulation	Bank of Spain Circular 4/2017
	Eligible capital	**Total equity ICF Group**
Tier 1	**954.9**	**973.4**
Paid-up capital	693.1	693.1
Reserves	192.9	192.9
Profit (loss) for the year	36.4	35.2
(-) Intangible assets	-0.3	n.a
(-) Deduction for material financial investments	0.0	n.a
(-) Deduction for non-material financial investments	-22.7	n.a
(+/-) Valuation adjustments	55.5	52.1
Tier 2	**20.2**	**-**
General provision (*)	66.0	n.a
(-) Excess general provision	-45.8	n.a
Total	**975.2**	**973.4**

(*) 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, ICF, to its subsidiaries, provided the applicable legal framework is complied with and the necessary procedures are carried out.

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

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

4. ORGANISATION AND INTERNAL GOVERNANCE OF RISK MANAGEMENT

4.1 Strategies and processes for managing risks

The ICF Group sets out the broad lines of its risk monitoring and control system through various policies and procedures which make up its current risk management framework. The Group uses the three lines of defence risk monitoring and control model and follows the EBA/GL/2021/05 guidelines which apply from 31 December 2021 and replace and repeal the previous European Banking Authority guidelines EBA/GL/2017/11 on internal governance.

The three lines of defence are as follows:

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

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

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

- Adopt a medium risk profile which safeguards its operational performance and a countercyclical role without jeopardising its solvency. This profile is medium-low once the effect of guaranteed operations has been discounted.
- Maintain liquidity and solvency levels which enable it to meet its commitments including in stress scenarios. It will act in accordance with the principles of prudence in managing its risks.
- Diversify its investment portfolio to ensure that there is no activity, customer or sector that could expose it to risk.
- Support investments which unlock sustainable development
- Comply with the law and prevention and money laundering regulations.
- The balance sheet result has to be stable and solely subject to the margin produced by its core business. The Group may not engage in any speculative transactions.

4.2 Risk policies

The ICF Group has policies and procedures in place enabling it to identify and manage the risks to which it is exposed. In this respect, the ICF Group has drawn up a Risk Appetite Statement (RAS) which includes all the risks to which the Entity is exposed. The RAS enables each risk to be controlled by specifying metrics, limits and thresholds which are aligned with the Entity's strategy.

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

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

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

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

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

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

- **Market risk:** the possibility of incurring losses in the value of positions held in financial assets due to adverse changes in the risk factors which affect their prices or quotations.

4.3 Structure and organisation of risk control and management

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

4.4 Supervisory Board and delegate committees

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

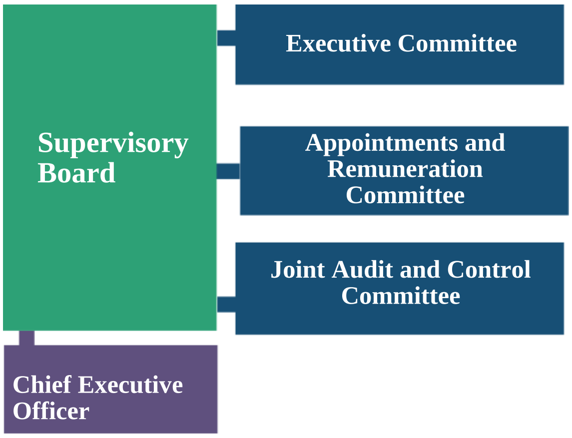

Figure 3. Structure of the Group's governing bodies

The members of the Board and committees at 31 December 2021 is as follows:

	Supervisory Board	Executive Committee	Control Committees
Independent members	Abella Martín, Rafael Peydró Alcalde, José Luis Vilumara Pérez, Albert Casas Onteniente, Joan B. Puig Pla, Xavier Soldevila García, Pilar	Vilumara Pérez, Albert Peydró Alcalde, José Luis Vilumara Pérez, Albert	Joint Auditing and Control Abella Martín, Rafael Peydró Alcalde, José Luís Casas Onteniente, Joan B Appointments and Remuneration Vilumara Pérez, Albert Abella Martín, Rafael Soldevila García, Pilar
Proprietary	Cabrafiga Macias, Jordi Castellanos Maduell, Albert Villarroya Martínez, Matilde Cuenca León, Núria	Cabrafiga Macias, Jordi	-
Executive members	Òliva Ritort, Jordi	Òliva Ritort, Jordi	-

Table 3. Composition of the Group's governing bodies

Supervisory Board

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

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

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

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

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

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

- To propose the criteria and policies to be applied for the composition of the Supervisory Board taking into account the principles of good repute, suitability and good governance.
- At the request of the Supervisory Board, to evaluate proposals to appoint any member of the governing bodies. With regard to executive and key personnel, to carry out an evaluation when so requested by the Chief Executive Officer. Key personnel are those employees who can influence the risk profile of the entity as defined in banking regulations.
- To supervise the criteria applied for the identification and development of key personnel.
- To propose to the Supervisory Board the remuneration policy consisting of fixed and/or variable remuneration of the members of the Supervisory Board and key personnel, ensuring it is compatible with the long-term interests of the institution and with appropriate and effective risk management.
- To propose to the Supervisory Board programmes aimed at acting members of the governing bodies to update their knowledge.
- To inform and give its opinion to the Supervisory Board regarding transactions that involve or may involve conflicts of interest in accordance with the Code of Good Practice.

- At the request of the Chair of the Supervisory Board, issue opinions to help the Board make decisions on whether members of any governing body may take up a new post in another entity or on the early termination of the appointment of independent members of any of the entity's governing bodies.
- To make recommendations to the Supervisory Board for the appointment of a new chairperson or chief executive and, if necessary, make proposals to ensure that the process takes place in an orderly and well-planned manner.

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

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

CEO

The CEO is appointed by the Supervisory Board on the proposal of the minister responsible for the economy and finance of the Government of Catalonia, following a favourable report by the Appointments and Remuneration Committee, and is responsible for the ordinary and extraordinary representation of the ICF in all areas and situations. At 31 December 2020, the ICF's CEO was Mr Josep-Ramon Sanromà i Celma. From 1 February 2021 until 2 November 2021, the Chief Executive Officer of the ICF was Mr Víctor Guardiola Flores. Since 3 November 2021, the Chief Executive Officer of the ICF has been Mr Jordi Òliva Ritort.

The duties of the CEO include:

a) Managing and implementing the agreements and guidelines approved by the Supervisory Board.
b) Coordinating and supervising the work delegated by the Supervisory Board to the institution's committees and management bodies.
c) Representing the ICF on the governing boards of the companies in which it has direct or indirect investments, without prejudice to representing the Institute in such other areas as may be agreed upon.
d) Preparing and drafting the ICF's annual budgets, setting the debt limits and general operating targets included in those budgets, in order to present them to the Supervisory Board, together with the notes, balance sheet and accounts of the entity and proposed distribution of profit/application of losses.

e) The top-level management and appointment of staff and the allocation of managers to the ICF's different functional areas.
f) The internal organisation and structure of the ICF in accordance with the guidelines approved by the Supervisory Board concerning its departments and services, executive committees and investment committees, in the manner the CEO considers most suitable for the performance of its ordinary operations, including the appointment of managers and defining the employment system.
g) The CEO may propose for the approval of the Supervisory Board the changes and timely modifications in the delegated powers in force in order to keep them updated in accordance with the conclusions reached by the management and/or governing bodies in charge of following up their application.
h) Exercising the powers delegated to them by the Supervisory Board.

On 16 December 2021, the Supervisory Board of the ICF Group provisionally approved setting up a delegated Strategy and Sustainability Committee (SSC) with the specific objective of reporting to and advising the Supervisory Board on strategy and sustainability, preparing and promoting strategic discussions in the Board and proposing actions of strategic relevance for the entity.

4.5 Management divisions

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

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

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

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

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

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

- **Communication and Institutional Relations:** encompasses communication and relations with stakeholders (media, organisations, institutions, business community, etc.) using resources and tools to safeguard brand image and promote the ICF's salience and awareness.

- **Marketing and Communication:** includes analysis of customer needs and satisfaction together with internal and external communication with stakeholders (media, organisations, institutions, business, etc.) and managing corporate graphics to safeguard brand image and promote the ICF's salience and awareness.

Credit Investments

In accordance with its powers, the Supervisory Board has delegated authority to the various governing and management bodies for credit investments. This system of delegation is proportionate to the risk assumed. Different authorisation levels are therefore set for the approval of credit risk, largely based on the size of the operation and the cumulative amount with the business group. The pyramid structure of powers and responsibilities is as follows:

Figure 4. Credit risk approval authority diagram

Capital investments

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

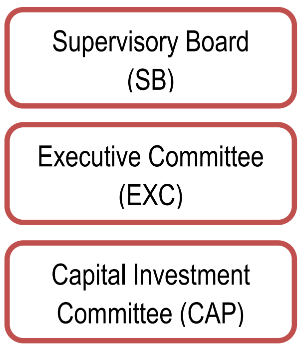

Figure 5. Capital investment approval authority diagram

4.6 Risk management and control functions

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

The **Treasury and Capital Markets** division which is responsible for implementing the investment and funding guidelines and policies set by the Asset and Liability Committee (ALCO) or the Management Committee. Its functions are:

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

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

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

The **Products and Risk Policies** division whose functions include:

- Proposing and defining products and partnership agreements;
- Working with the Technology Division on the development of management tools.

The **Credit Investments** division whose functions include:

- Analysis and evaluation of loan applications;
- Requesting and obtaining information needed to study the operation;
- Drawing up analysis reports;
- Drawing up questionnaires and validating ML and tax avoidance controls for the transactions and customers analysed.
- Submitting recommendations to the appropriate decision-making level;
- Documentary management of approved transactions by drawing up Approval Certificates;
- Disbursement of loans;
- Money movements in the attachment accounts related to the division's activity;
- Registration and management of grants related to the transactions processed.

The Risk Monitoring and Management division whose functions include:

- Systematic Monitoring: annual review of risks in excess of 10 M;
- Symptomatic Monitoring: actions to be taken in the event of alerts generated by the system;
- Submitting portfolio indicators and their evolution to the Monitoring Committee.
- Analysis and evaluation of adjustments to operations due to customer payment difficulties;

- Proposing changes to transactions to the relevant governing and/or management bodies;
- Management of operations subject to irregularities, undertaking negotiations to recover the investment;
- Management of legal proceedings and the control and supervision of external lawyers;
- Deciding upon the recovery strategy and its transfer to litigation.
- Monitoring bankruptcy proceedings;
- Management of auctions and proposals for payment in kind;
- Management and sale of foreclosed assets;
- Collaboration with third parties, other financial institutions, legal and financial advisers for transactions in a banking pool, and with the ministries of the Government of Catalonia to coordinate aspects of related-party transactions;

The Regulatory Compliance division whose objectives include:

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

The Internal Audit and Control division whose functions include:

- Preparing internal audit and control plans which are to be reviewed at least once a year. They must take into account the specific requirements of the Joint Audit and Control Committee and be submitted for its consideration and approval.
- Executing internal audit and control plans in accordance with the scope and guidelines laid down.
- Reporting to and keeping the Joint Audit and Control Committee informed about reports, findings and conclusions of all audit and internal control, research and consultancy activities and, after checking this information, also the CEO and the departments involved where appropriate.
- Regularly reporting to the Joint Audit and Control Committee on the progress of plans and other relevant activities.
- It prepares and submits the activity report for the approval of the Joint Audit and Control Committee on an annual basis.
- Coordinating the Internal Control Model, ensuring its consistency within the Group.
- Advising the first and second lines in the implementation of an appropriate control environment, fostering a control culture.
- Examining and assessing management systems and procedures, risk assessment and control, and the assessment methods used.
- Regularly monitoring the compliance, appropriateness and effectiveness of the Group's policies, procedures, information systems and internal control systems, ensuring they conform to laws, standards and regulations. In particular, overseeing the internal financial reporting control system.
- Performing to the best of its ability and experience the consultancy work requested by senior management.

- Assessing the degree of implementation and effectiveness of recommendations issued both in its internal reports and those from independent experts or supervisory bodies, and informing the Joint Audit and Control Committee as to these matters.

The Global Risk Management division whose functions include:

- Measuring, analysing and monitoring credit, market, liquidity and interest rate risks, both quantitatively and qualitatively;
- Revising and validating risk control models;
- Preparing regular risk, limit use and surplus reports for submission to the ALCO and Global Risk Control Committees, as well as the pertinent regulatory reports;
- Reviewing risk policies and manuals;
- Calculating, analysing and monitoring the ICF Group's regulatory capital and solvency ratio;
- Developing stress tests to assess the potential exposure to each risk under adverse scenarios and carrying out back-tests;
- Actively participating in the development of the institution's risk strategy and in all important risk management decisions;
- Presenting a complete picture of the range of risks to which the ICF Group is exposed;
- Sending regular summaries of the position vis-à-vis different risks to the Joint Auditing and Control Committee (JACC). Submitting to the JACC the Pillar III Disclosure Report after it has been reviewed by Internal Audit.

4.7 Committees

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

- **Global Risk Control Committee:** it is responsible for actions concerning the supervision of all the risks affecting the ICF Group and evaluates suitability for the target risk profile.

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

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

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

5. ELIGIBLE CAPITAL AND CAPITAL REQUIREMENTS

5.1 Eligible capital

Below is a breakdown of the items comprising the ICF Group's eligible capital at 31 December 2021 as well as a comparison with 31 December 2020:

ICF GROUP ELIGIBLE CAPITAL	2021	2020	Differences
Tier 1	**954.9**	**907.7**	**47.2**
Paid-up capital	693.1	693.1	-
Reserves	192.9	185.1	7.8
Profit (loss) for the year	36.4	5.4	31.0
(-) Intangible assets	(0.3)	(3.9)	3.6
(-) Deduction for material financial investments	0.0	-	-
(-) Deduction for non-material financial investments	(22.7)	-	(22.7)
(+/-) Valuation adjustments	55.5	28.0	27.5
Tier 2	**20.2**	**20.7**	**(0.5)**
General provision (*)	66.0	44.1	21.9
(-) Excess general provision	(45.8)	(23.4)	(22.4)
Eligible capital = Tier 1 + Tier 2	**975.2**	**928.4**	**46.8**

(*) Hedging not assigned to individual operations.

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

At year-end 2021, Tier 1 capital corresponds to €954.9 million, an increase compared to 2020 of €47.2 million. This increase is mainly due to reserves and profit/loss for the year, which had a positive year-on-year change of €38.8 million. This latter variation was due firstly to the €7.8 million increase in reserves owing to the allocation against reserves of both the previous year's profit(loss) and the profit generated by venture capital investments, and secondly the €31.0 million increase in profit for the year compared to the same period of the previous year.

The net change in Tier 2 capital was a decrease of €0.5 million.

Total regulatory capital, which is the sum of Tier 1 capital plus Tier 2 capital (the ICF Group does not include any capital items eligible as Additional Tier 1), increased by EUR 46.8 million to EUR 975.2 million.

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

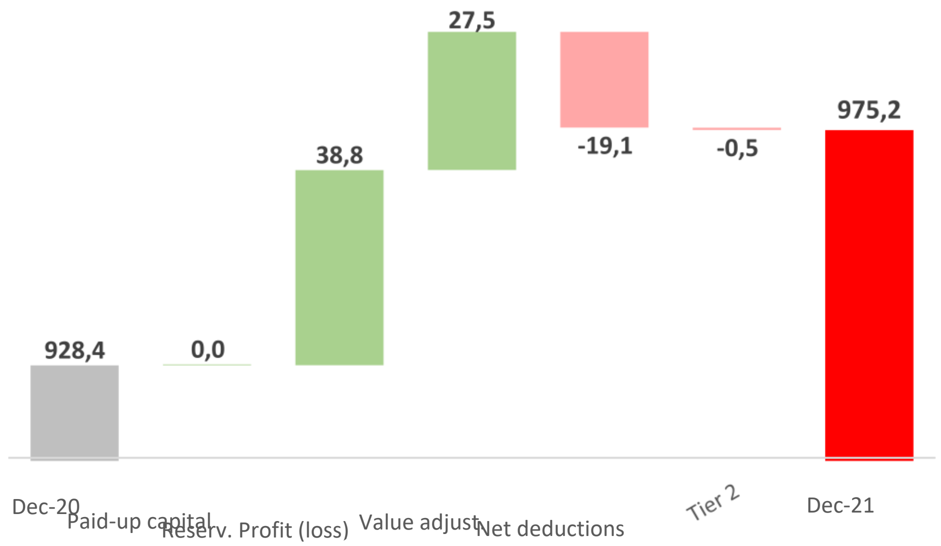

Figure 6. Annual performance of the ICF Group's eligible capital

5.2 Capital requirements

Total Pillar 1 capital requirements broken down by type of risk at 31 December 2021 were as follows:

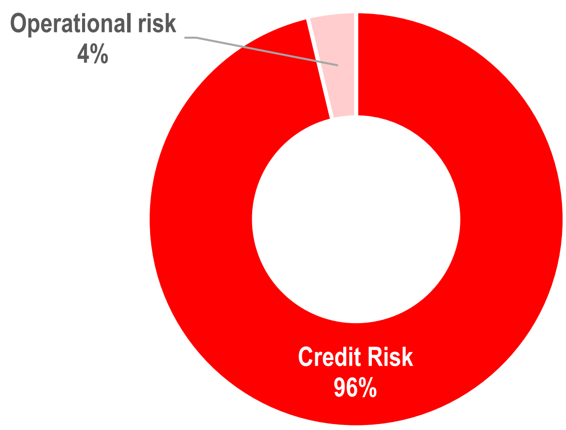

Figure 7. Capital consumption by Pillar 1 risk

The Group's main risk is credit risk, at 96% of capital consumption, followed by operational risk at 4%. The ICF Group is exempt from capital requirements for market risk pursuant to Article 94(1) of Regulation (EU) No 575/2013.

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

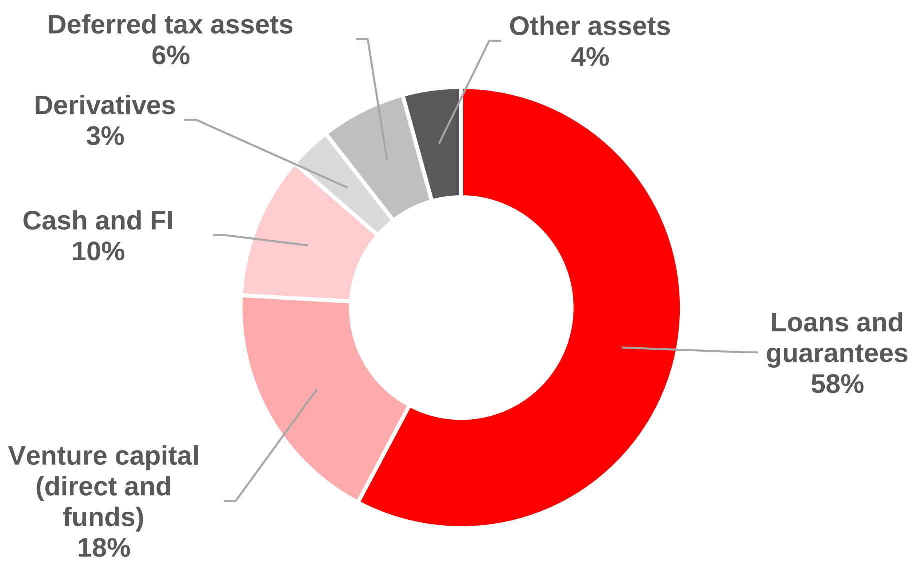

Figure 8. Product type making up the calculation of capital requirements for credit and counterparty risk

Below is a table breaking down by product and risk the calculation of risk-weighted assets and capital requirements for Pillar I risks as at 31 December 2021:

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	**3384.5**	**3015.2**	**73%**	**2208.9**	**176.7**	**96.4%**
a) Credit investment	2565.9	2196.6	59%	**1285.5**	**102.8**	**56.1%**
Loans	2460.7	2134.3	58%	**1238.0**	**99.0**	**54.0%**
Normal risk	2278.1	2102.4	57%	**1204.6**	**96.4**	**53%**
Non-performing	182.6	31.9	105%	**33.4**	**2.7**	**1%**
Guarantees:	99.4	56.5	79%	**44.7**	**3.6**	**1.9%**
Normal risk	97.4	56.2	79%	**44.3**	**3.5**	**2%**
Non-performing	1.9	0.3	108%	**0.4**	**0.0**	**0%**
Pass-through loans	5.8	5.8	47%	**2.7**	**0.2**	**0.1%**
b) Venture capital (direct and funds)	264.9	264.9	148%	**390.9**	**31.3**	**17.1%**
Shareholdings and venture capital (outstanding risk):	177.2	177.2	171%	**303.2**	**24.3**	**13.2%**
of which, subject to 150% weighting	139.7	139.7	150%	**209.6**	**16.8**	**9%**
of which, subject to 250% weighting	37.5	37.5	250%	**93.7**	**7.5**	**4%**
Venture capital (commitments)	87.7	87.7	100%	**87.7**	**7.0**	**3.8%**
c) Current accounts and deposits	73.5	73.5	50%	**36.7**	**2.9**	**1.6%**
d) Fixed income investments	271.3	271.3	72%	**194.8**	**15.6**	**8.5%**
e) Other assets	94.5	94.5	100%	**94.5**	**7.6**	**4.1%**
f) Deferred tax assets	55.3	55.3	250%	**138.1**	**11.1**	**6.0%**
g) Derivatives	59.1	59.1	116%	**68.3**	**5.5**	**3.0%**
Counterparty risk	29.5 (3)	29.5	50%	**14.8**	**1.2**	**0.6%**
CVA risk (4)	29.5 (3)	29.5	181%	**53.6**	**4.3**	**2.3%**
OPERATIONAL RISK (5)	**83.0**	**83.0**	**100%**	**83.0**	**6.6**	**3.6%**
TOTAL	**3467.5**	**3098.2**	**74%**	**2292.0**	**183.3**	**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 total risk-weighted assets of the ICF Group amounted to EUR 2,292.0 million, of which 56.1% were from credit investments, in line with the Group's activity.

The Pillar I minimum capital requirement at the end of 2021 is EUR 183.3 million and the ICF Group held an available capital buffer of EUR 791.9 million. A comparative table with data for year-end 2021 and year-end 2020 is shown below:

	2021	2020	Differences
ICF Group EC	975.2	928.4	46.8
Total RWAs	2292.2	2121.1	170.9
Pillar I Risks Capital Requirements (8%)	183.3	169.7	13.6
Available capital	**791.9**	**758.7**	**33.2**

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

The ICF Group complies with all regulatory limits for capital purposes as at 31 December 2021:

		Minimum requirements		
Capital ratios	2021	TOTAL	Minimum	Conservation Buffer
Common Capital Ratio (CET1)	41.7%	7.0%	4.5%	2.5%
Total capital ratio	42.5%	10.5%	8.0%	2.5%

Table 7. ICF Group capital ratios at year-end 2021

At the end of 2021, the ICF Group's leverage ratio is 35.5%, a value that comfortably complies with the regulatory limits set by the 3% leverage ratio following the guidelines of Regulation (EU) No 575/2013 and its amendment in Regulation (EU) No 2019/876 (as indicated in recital 10 of the latter).

	2021	2020	Differences
Leverage ratio	35.5%	34.6%	+0.9 pp

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

6. CREDIT RISK

6.1 Accounting definition of default and impaired positions

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

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

- Stage 1 – the risk of a default event has not had a material increase from the initial recognition of the transaction.

- Stage 2 – Normal risk requiring special surveillance: the risk of a default event has had a material increase from the initial recognition of the transaction.

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

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

A comparative table of some credit risk indicators at the end of 2021 and 2020 is shown below:

Millions of euros	2021	2020	Differences
Total portfolio	2262.5	2252.4	10.1
Non-performing	184.4	140.1	44.3
NPL ratio	8.2%	6.2%	+2.0 pp
Coverage ratio	114.0%	130.9%	-16.9 pp

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

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

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

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

Methods for estimating credit losses through insolvency

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

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

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

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

- The circumstances in which payment could foreseeably occur.

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

Once the thresholds are set, the process is as follows:

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

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

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

6.3 Changes due to impairments and provisions for credit risk

The changes in impairment losses recorded in 2021 are shown in the table below. At 31 December 2021, hedging for non-impaired operations includes an amount of €37.0 million for operations classified as normal and €52.8 million for operations classified as normal under special surveillance.

The calculation of the provisions for credit risk impairment has been supplemented with the additional amounts considered necessary to reflect the particular characteristics of the borrowers, sectors or portfolios which, although they could not be identified in the general process of estimating the impairment provision, have been temporarily affected by the impact of the Covid-19 pandemic.

2021	Stages 1 and 2 Not Impaired		Stage 3 Impaired		Total
	Individual	Collective	Individual	Collective	
Gross amount					
Balance at 1 January 2021	-	**2004894**	**81755**	**57423**	**2144073**
Balance at 31 December 2021	-	**1954202**	**96048**	**91029**	**2141279**
Impairment					
Balance at 1 January 2021		**(79,214)**	**(66,315)**	**(38,012)**	**(183,541)**
Charges/Recoveries		(9,987)	(15,920)	(6,291)	(32,198)
Transfers between stages	-	(546)	(12,732)	13278	-
Transfer to failed risk	-	-	-	3842	3842
Balance at 31 December 2021	-	**(89,747)**	**(94,967)**	**(27,183)**	**(211,897)**

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

6.4 Geographical distribution of exposures

The classification of the ICF Group's loan portfolio by area of investment as at 31 December 2021 is shown below. The Group's activity focuses on promoting the growth of Catalan companies, so its natural area of activity is the Region of Catalonia:

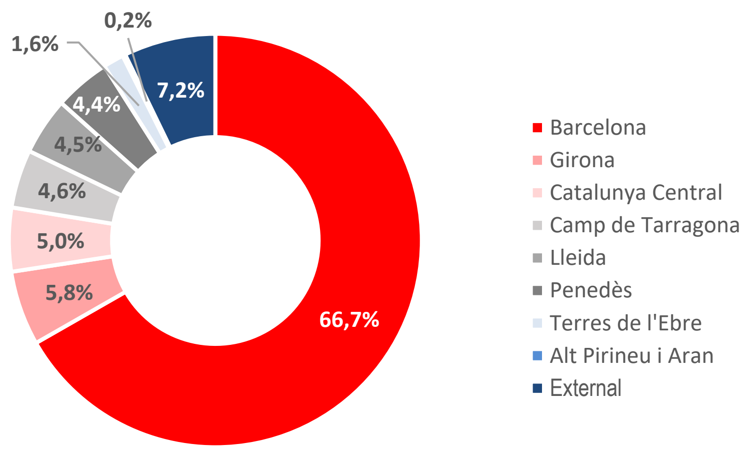

Figure 9. Territorial distribution of the loan portfolio (calculated by gross exposure)

The geographical breakdown used is based on traditional Catalan jurisdictions (vegueries). The Barcelona area represents 66.7% 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 impairments and net carrying amount (total carrying amount less provisions for impairments) by territory:

Millions of euros	Non-performing	Performing	Provisions	Total[1]
Barcelona	132.2	1377.9	-160.7	1349.3
Girona	7.1	124.9	-6.1	125.9
Central Catalonia	1.6	111.2	-1.5	111.3
Tarragona	3.4	99.8	-5.6	97.6
Lleida	9.5	91.7	-1.7	99.4
Penedès	2.9	96.2	-3.6	95.4
Terres de l'Ebre	0.6	36.0	-0.7	35.9
Alt Pirineu and Aran	2.2	2.8	-2.3	2.7
External[2]	25.4	137.5	-27.9	134.7
Total	**184.4**	**2078.1**	**-210.1**	**2052.4**

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

6.5 Distribution of exposure by counterparty or sector

The segmentation of the loan portfolio as at 31 December 2021, distributed by NACE, is shown below:

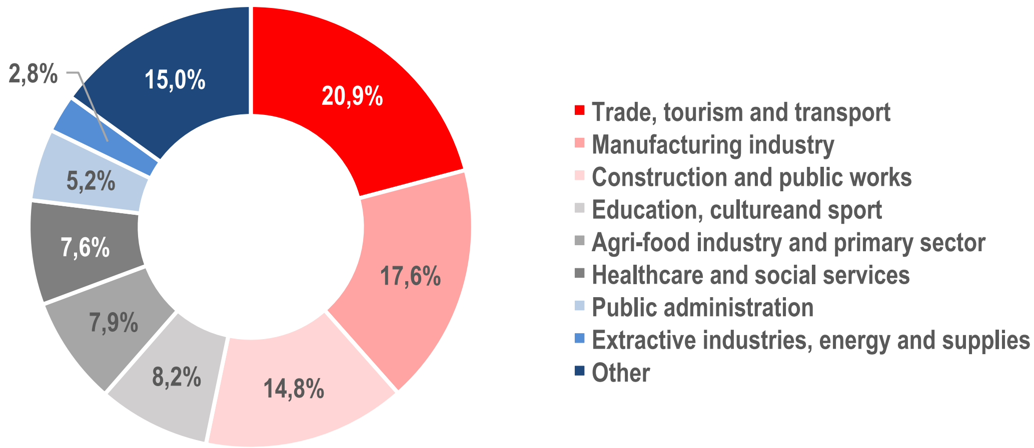

Figure 10. Sector segmentation of the loan portfolio (calculated by gross exposure)

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

[1] 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.
[2] External: investment in companies in Catalonia that invest outside the territorial scope of Catalonia.

Millions of euros	Non-performing	Performing	Provisions	Total
Trade, tourism and transport	22.1	450.1	-22.1	450.1
Manufacturing industry	22.7	375.4	-17.2	381.0
Construction and public works	5.6	328.5	-12.0	322.1
Education, culture and sport	31.6	153.4	-40.0	144.9
Agri-food industry and primary sector	4.7	174.1	-2.9	175.8
Healthcare and social services	0.1	172.3	-7.3	165.1
Public administration	0.0	118.6	0.0	118.6
Extractive industries, energy and supplies	8.7	54.3	-2.3	60.6
Other	88.9	251.4	-106.2	234.1
Total	**184.4**	**2078.1**	**-210.1**	**2052.4**

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

6.6 Distribution of exposure by residual maturity

The table below shows the maturity of cash instruments, customer loans, deposits with credit institutions and debt securities at 31 December 2021, based on their tenor according to their contractual terms:

	Thousands of euros						
Millions of euros	Demand deposits	< 1 month	1- 3 months	3- 12 months	1- 5 years	> 5 years	Total
Cash, deposits in central banks and other on-demand deposits	64445	-	-	-	-	-	64445
Loans and receivables	15859	54356	52837	289637	1008513	529669	1950871
Deposits with credit institutions	12259	323	595	1736	2648	2656	20217
Central banks	3600	-	-	-	-	-	3600
Customer loans	-	54,033	52,242	287,902	1,005,865	527,012	1,927,054
Debt securities	-	4,013	25,348	28,296	207,994	6,880	272,531
Total assets	80,304	58,369	78,185	317,933	1,216,507	536,549	2,287,847

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

6.7 Impairment losses and reversals for previously recognised losses

Impairment losses on financial assets not measured at fair value through profit(loss) for 2021 and 2020 are as follows:

Millions of euros	2021	2020
Impairments or (-) or reversals of impairments to financial assets not recognised at fair value through profit or loss:		
Allocations to provisions	*(58.0)*	*(46.5)*
Recoveries	*28.0*	*18.9*
Other	*20.1*	*4.6*
Impairments of available-for-sale financial assets	-	-
Total loans and receivables	**(9.9)**	**(23.0)**
Total other available-for-sale financial assets	**-**	**-**
Financial assets at cost	-	-
Total financial assets at cost	-	-
Total	**(9.9)**	**(23.0)**

Table 14. Annual evolution of provisions for credit risk

6.8 Regulatory framework

Credit risk is the possibility of incurring economic loss arising from borrowers' potential failure to meet their financial obligations. This risk is calculated according to the standard method (Title II, Chapter 2, Section 1 of Regulation EU No 575/2013 2013 and its amendments in Regulation (EU) No 2019/876). Credit risk adjustments and risk mitigation techniques are applied according to Articles 442 and 453 respectively of Regulation (EU) No 575/2013.

6.9 External credit assessment institutions (ECAI) used

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

A comparison between 2021 and 2020 of the distribution of the Group's exposures by rating for investments in fixed income and derivatives is shown below. 84.7% of the total exposures correspond to investment grade investments. Furthermore, of the 15.3% in high yield counterparties, *12.2%* is in investments in Government of Catalonia bonds and the rest in corporate fixed income bonds.

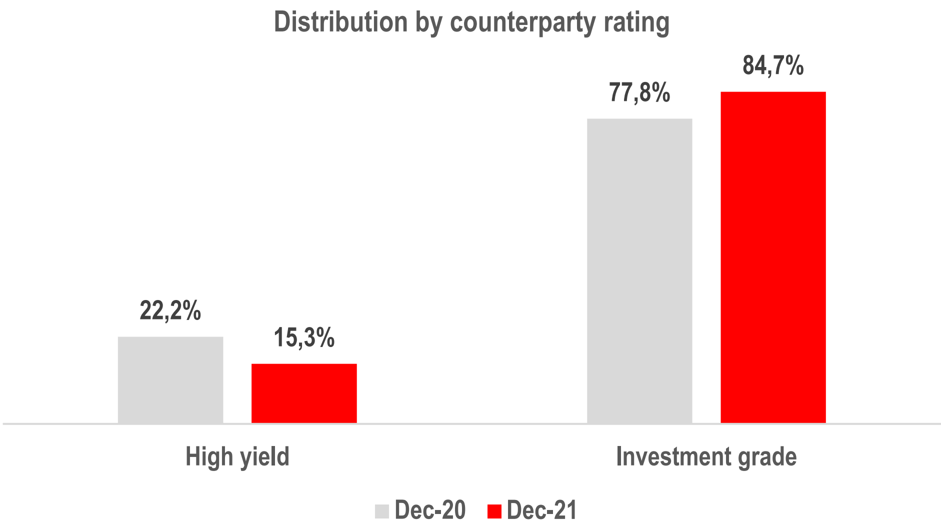

Figure 11. Distribution by counterparty rating of fixed income investment and derivatives

6.10 Application of risk reduction techniques

The ICF Group uses the credit risk reduction techniques referred to in Article 453 of Regulation (EU) No 575/2013. In this respect and following the principle of prudence, credit risk mitigation techniques are only used through guarantees when these guarantees correspond to regional governments and banking institutions (including Avalis S.G.R.), applying Article 201(1)(b) and (f) of Regulation (EU) No 575/2013.

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 2021, 96.4% of risk-weighted assets (RWAs) were classified under credit risk, a total of EUR 2,208.9 million. It should be borne in mind that these are RWAs after applying risk reduction techniques acceptable under applicable standards. Capital requirements for credit risk amounted to EUR 176.7 million.

6.12 Capital requirements for counterparty and CVA risk

Counterparty credit risk is the possibility of incurring losses as a result of the other contracting party to a financial operation failing to comply with the contracted obligations in due time and in an appropriate manner.

The ICF Group, in compliance with Article 286 of Regulation (EU) No 575/2013, has drawn up a counterparty risk management policy which is included in the ICF Group's Financial Risk Policy.

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

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

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

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

At 31 December 2021, the RWAs deriving from the exposure with derivative instruments (accounting for counterparty and CVA risk) totalled EUR 68.3 million and the capital requirements stood at EUR 5.5 million.

6.13 CMOF/ISDA agreements and netting processes

When the ICF Group designates a transaction as a hedge, it does so from the date of inception of the transactions or instruments included in that hedge, and provides adequate documentation of the hedging transaction in accordance with current regulatory requirements. The hedge accounting documentation includes adequate identification of the hedged position(s) and the hedging instrument(s), the nature of the risk to be hedged, and the criteria or methods used by the ICF Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

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

The ICF Group complies with the requirements of the EMIR regulation (Regulation No 648/2012**)** and EMIR Refit (Regulation No 2019/834)**.** This regulation came into force on 15 September 2013 with effect as of 12 February 2014 and specifies reporting obligations affecting entities that trade in derivatives. In the ICF Group, the only entity trading in derivatives is the ICF, which is classified as a Non-Financial Counterparty (NFC) for EMIR reporting purposes.

7. MARKET RISK IN THE TRADING PORTFOLIO

Market risk is defined as the possibility of incurring losses in the value of positions held in financial assets due to price variations.

7.1 Capital requirements for market risk

At the end of 2021, the entity held an interest rate swap for a notional amount of EUR 55 million in the trading portfolio. As this is a residual position with respect to the Group's total activity, Article 325(a)(1) of Regulation (EU) No 2019/876 applies, except for the capital requirements for market risk through small-volume trading portfolios. In this regard, the ICF Group does not have capital requirements for market risk.

8. INTEREST RATE RISK IN THE BANKING BOOK

8.1 Regulatory framework

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

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

Article 98(5) of Directive 2013/36/EU sets out the need to evaluate the impact on economic value of changes of interest rate risk in the banking book.

8.2 Nature of interest rate risk

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

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

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

- **Basis risk:** this arises when the asset and liability positions are benchmarked against different repricing bases (EUR3M, EUR6M, EUR12M);
- **Yield curve risk**: caused by unexpected movements or changes in interest rates that do not affect all tenors of the curve equally;
- **Optionality risk**: risk arising from explicit or implicit options affecting assets or liabilities.

8.3 Management of interest rate risk in the banking book

The ICF Group monitors metrics of interest rate risk in the banking book on a monthly basis. This monitoring includes risk limits, which are defined in the Group's policies. The results of monitoring are reported on a quarterly basis to the Global Risk Control Committee and the JACC.

Risk monitoring metrics

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

- **Repricing gap.** This measures net interest income sensitivity to changes in the yield curve caused by different maturity schedules or repricing of lending and funding transactions which are sensitive to interest rate movements.

  Net interest income (NII) sensitivity. This measures the impact on net interest income of changes in the yield curve. It is evaluated by comparing the 1-year net interest margin according to the base scenario corresponding to the implicit market rate scenario with the net interest margin obtained in a stress scenario, designed using disruptions in the market yield curve. Its result is expressed as the ratio of these two magnitudes. The net interest income sensitivity is a metric based on dynamic scenarios, in other words, simulations of the future balance sheet behaviour.

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

Net interest income sensitivity and economic value

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

- **Regulatory scenario**. This scenario is defined in the EBA/GL/2018/02 guidelines and Bank of Spain Circular 2/2016 (Regulation 50), and applies an instantaneous parallel shift of -200 bp at all points on the yield curve. This disturbance includes a 0% floor 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 2021, net interest income sensitivity under variations defined by the regulatory scenario was -0.43% (worst case scenario) while sensitivity to economic value was -2.6% (worst case scenario). Both metrics are below the established regulatory limits that define negative changes of 50% and 20% respectively (Article 98(5) of Directive 2013/36/EU).

Scenario	Change in Economic Value	Change in Net Interest Income
Regulatory scenario (+/-200 bp)	-2.1% / +0.6%	+13.7% / -0.43%
Parallel scenario (+/-100 bp)	-2.6% / +2.9%	+4.0% / -4.3%

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 (Annex III), which are applied at the supervisory level ("supervisor outlier tests"), are included in the monitoring of the sensitivity to the economic value metric. These scenarios have a floor below 0% and act dynamically, depending on the current rate environment:

- ***Parallel Up:***parallel increase of all points on the curve 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).

EBA scenario	Change in Economic Value	Impact (€m)
Parallel Up	-1.7%	-17.7
Parallel Down	+6.4%	65.4
Steepener	+0.8%	8.7
Flattener	-0.9%	-9.5
Short rates up	-1.8%	-18.7
Short rates down	+1.0%	10.6
Maximum (*)	**-1.8%**	**-16.9**
15% CET1		**139.3**

(*) Expresses maximum loss.

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

Repricing gap

The static repricing gap (assets minus liabilities) in millions of euros at the end of 2021 is set out below. The graph shows the discrete structure, at monthly intervals up to 1 year, and its cumulative structure:

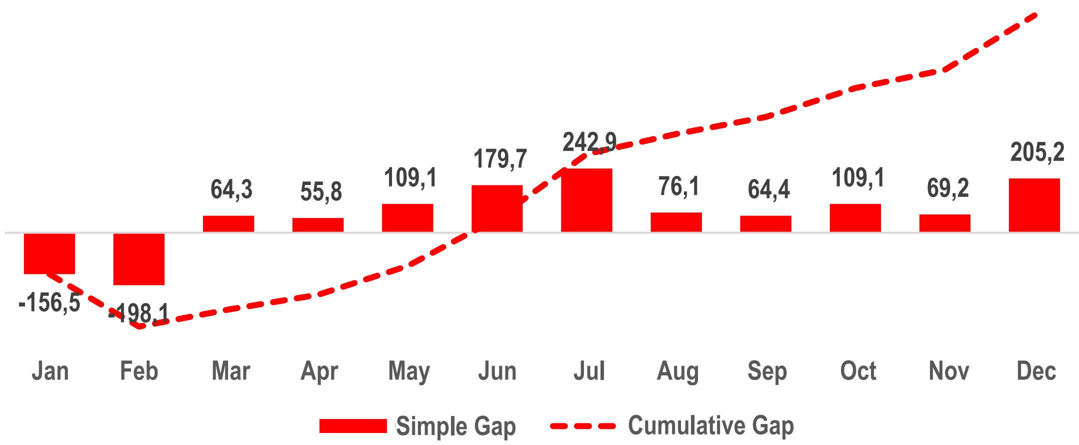

Figure 12. 12-month repricing gap (M€)

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

Thousands of euros RENEWAL	IR-Sensitive Balance		% of total assets		STATIC GAP		
	Assets	Liabilities	Assets	Liabilities	Simple	Cumulative	Cum. gap
Up to 1 month	242,747	400,674	9.2%	15.2%	-157,927	-157,927	-6.0%
1 to 3 months	272,108	406,848	10.3%	15.5%	-134,740	-292,667	-11.1%
3 to 6 months	472,957	129,739	18.0%	4.9%	343,219	50,551	1.9%
6 to 12 months	793,383	29,961	30.2%	1.1%	763,422	813,973	30.9%
CUMULATIVE 12 m	**1,781,195**	**967,221**	**67.7%**	**36.8%**		**813,973**	**30.9%**
1 to 2 years	66,226	48,825	2.5%	1.9%	17,401	831,375	31.6%
2 to 3 years	155,186	67,563	5.9%	2.6%	87,624	918,998	34.9%
3 to 4 years	56,140	35,503	2.1%	1.3%	20,638	939,636	35.7%
4 to 5 years	45,795	44,476	1.7%	1.7%	1,320	940,956	35.8%
5 to 7 years	28,018	49,510	1.1%	1.9%	-21,492	919,464	35.0%
7 to 10 years	26,437	71,675	1.0%	2.7%	-45,238	874,226	33.2%
10 to 15 years	28,595	39,657	1.1%	1.5%	-11,062	863,164	32.8%
15 to 20 years	14,869	0	0.6%	0.0%	14,869	878,032	33.4%
20 to 25 years	12,316	0	0.5%	0.0%	12,316	890,348	33.8%
25 to 30 years	462	0	0.0%	0.0%	462	890,810	33.9%
TOTAL	**2,215,239**	**1,324,429**	**84.2%**	**50.3%**		**890,810**	**33.9%**

Table 17. Repricing gap up to 25 years

Basis risk

The Group also controls its basis risk, analysing the distribution of benchmark bases for both assets and liabilities to determine whether their distribution in the balance sheet is in line with the Group's target

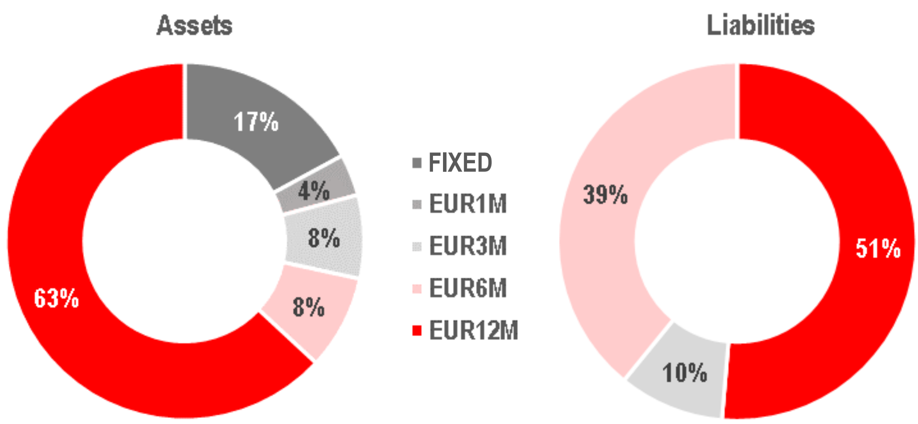

Figure 13. Distribution of bases of the interest rate sensitive amounts on the balance sheet

interest rate exposure. The breakdown at 31 December 2021 is as follows:

8.4 Capital requirements for interest rate risk

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

9. EXCHANGE RATE RISK

9.1 Capital requirements for exchange rate risk

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

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

10. LIQUIDITY RISK

10.1 Regulatory framework

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

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

10.2 Nature of liquidity risk

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

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

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

10.3 Management of liquidity risk

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

Absence of retail or wholesale deposits. In this respect, the Group sources financing through wholesale funding markets by means of debt issuance and loans. The ICF Group therefore manages liquidity by matching the average lifespan of assets with that of liabilities.

Activity focused on the medium and long term. This feature of the ICF Group, together with a cash position consisting of current accounts and fixed income amounting to EUR 332.8 million at the end of 2021, ensures that its day-to-day payment commitments are fully covered. In addition, at the end of 2020, the ICF Group had a line of credit from Sabadell for €75 million.

The liquid cash at year-end 2021 and 2020 is shown below:

Liquid Cash	2021	2020
Current accounts	64.2	24.8
Fixed income	268.6	228.4
Deposits	0	0
Total	332.8	253.2

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

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

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

- **Asset and Liability Committee (ALCO):** responsible for monitoring whether the Group's financial structure is in line with the liquidity needs and risk profiles established by the Supervisory Board. It also analyses liquidity scenarios and survival horizons, and proposes action plans.

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

- **Global Risk Management Unit**: responsible for monitoring and analysing liquidity risk, using risk metrics to anticipate potential variances. It also monitors the degree of compliance with the established risk limits.

Liquidity risk metrics

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

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

- **Survival horizon:** this metric calculates the number of months an institution can meet its payment obligations without obtaining new funding. The calculation of this metric is based on dynamic scenarios;

- **Liquidity Coverage Ratio (LCR):** this is a metric defined by the regulator in Delegated Regulation 2015/61, which complements Regulation (EU) No 575/2013. The ratio was developed to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high-quality liquid assets (HQLA) to survive a 30-calendar day liquidity stress scenario. A minimum of 100% is required;

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

Static liquidity gap

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

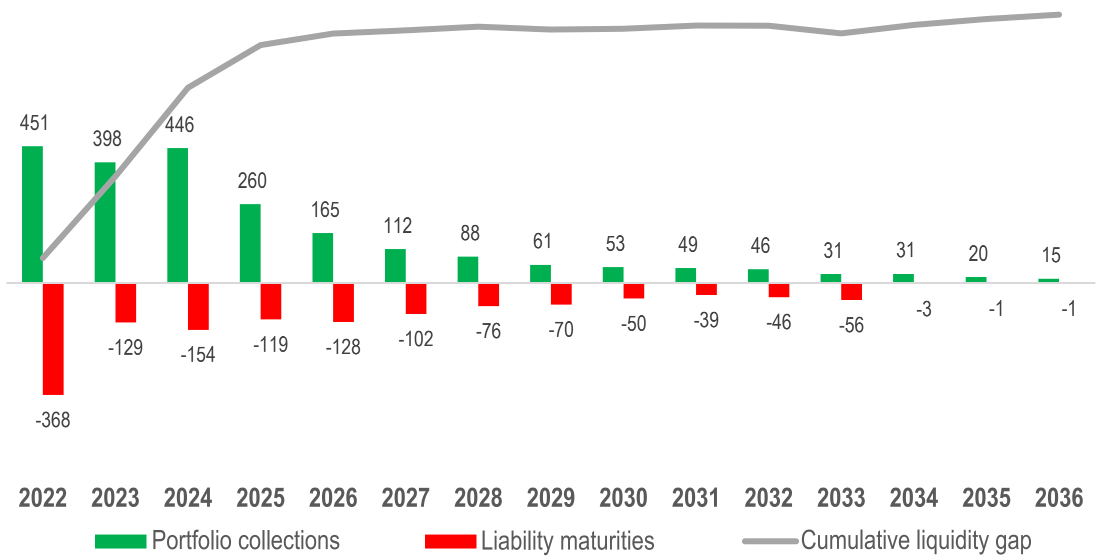

Figure 14. Annual and cumulative static liquidity gap

Survival horizon

At the end of 2021, the ICF Group has liquid cash balances of EUR 332.8 million, which together with the signed and undrawn loans are the starting point for calculating the survival horizon. Based on this initial liquidity, the following two dynamic scenarios can be defined:

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

- **Stressed scenario:** this scenario stresses the base scenario, increasing new budgeted activity by 50%.

In the case of the stressed scenario, the result is 6 months, while the survival horizon of the base scenario is 10 months, within policy limits.

	2021
Base scenario	10
Stressed scenario	6

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 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 2021 at 994.7%, well above regulatory limits. High-quality liquid asset funds at the end of 2021 stand at EUR 83.0 million, where top quality or tier 1 assets account for 84% of total HQLA funds.

The net stable funding ratio at the end of 2021 is 116%, above the regulatory minimums (100%).

	31/12/2021	31/12/2020
LCR	995%	399%
NSFR	116%	125%

Table 20. Annual evolution of liquidity risk metrics

10.4 Funding strategies

At the end of 2021, the ICF Group had €1,312 million in financing, which represents a decrease of 4.5% compared to the same period of the previous year. The main sources of financing are in the capital market through own debt issues, loans and promissory notes. 72% of the financing corresponds to loans with the public banking sector, mainly the European Investment Bank (EIB) and the Instituto de Crédito Oficial (ICO). The breakdown of financing by product type is shown below:

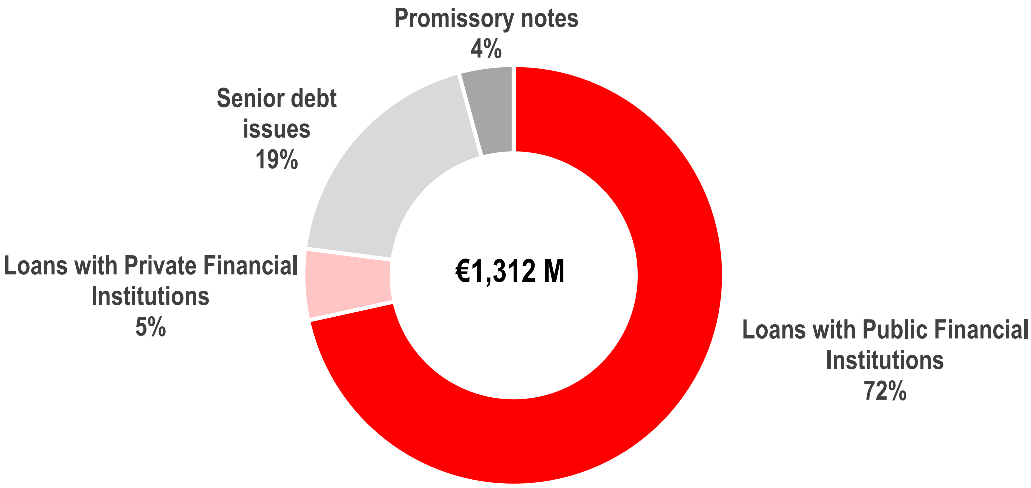

Figure 15. Distribution by type of product of the Group's wholesale financing

10.5 Capital requirements for liquidity risk

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

11. OPERATIONAL RISK

11.1 Definition of operational risk

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

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

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

11.2 Capital requirements for operational risk

The ICF Group performs the calculation of capital requirements for operational risk using the basic indicator approach set out in Articles 315 and 316 of Regulation (EU) No 575/2013. According to the basic indicator approach, the own funds requirement for operational risk results from multiplying the average gross margin over the last three years by a factor of 15%, as calculated as follows:

Millions of euros	Average last 3 years
Interest and similar income	43.8
Interest and similar charges	-12.8
Income from equity instruments	2.0
Commissions received	2.0
Commissions paid	-1.4
Gains or losses on financial assets (net)	0.8
Exchange differences (net)	0.0
Other operating income	9.6
Total	**44.3**
OPERATIONAL RISK (capital requirements)	**6.6**

Table 21. Calculation of capital requirements for operational risk

Capital requirements for operational risk amounted to EUR 6.6 million.

12. INFORMATION ON EQUITY INVESTMENTS AND INSTRUMENTS

12.1 Available-for-sale financial assets and portfolios held for strategic purposes

Available-for-sale assets

The changes in 2021 under the heading “financial assets at fair value through other comprehensive income” are as follows:

Thousands of euros	2021	2020
Equity instruments		
Commitments in venture capital entities, net of returns	230.6	230.7
Outstanding distributions from venture capital entities	-87.7	-103.5
Valuation adjustments	28.3	2.7
Subtotal venture capital instruments	**171.3**	**129.9**
Other equity investments	11.3	10.8
Valuation adjustments	-10.5	-10.8
Subtotal other investments	**0.8**	**0**
Total capital instruments	**172.1**	**129.9**
Debt securities		
Nominal amount representing debt securities	268.6	228.4
Valuation adjustments	3.9	2.8
Total debt securities	**272.5**	**231.2**
Total	**444.6**	**361.1**

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.

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

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

In 2021, a total of EUR 2,377 million has been recognised from dividends on venture capital instruments. In 2020, a total of EUR 289 million was recognised from dividends on venture capital instruments.

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

Portfolios held with strategic aims

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

Millions of euros	2021	2020

Avalis de Catalunya S.G.R		
Shareholding	5.0	5.2
Equity method adjustment	2.8	2.9
Closing balance	**7.8**	**8.1**

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

12.2 Accounting policies and measurement of equity instruments

Valuation adjustments and impairment: venture capital investments

Calculation of fair value

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

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

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

1. If the fair value is greater than the value of the investment. In such cases, the investment is remeasured by the difference taken to net equity.

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

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

<u>Valuation adjustments and impairment: equity investments in listed companies and debt securities</u>

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

13. INFORMATION ON REMUNERATION

This information is prepared in accordance with:

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

13.1. Information on the decision-making process used for establishing the remuneration policy of the identified staff

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

Supervisory Board

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

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

Appointments and Remuneration Committee

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

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

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

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

13.2. Identified staff

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

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

  - CEO
  - Director General of Venture Capital and Capital Markets
  - Director General of Credit Investments
  - Director General of Finance and Operations
  - Corporate Director of Compliance and Control
  - Director of Finance
  - Director of Financial Instruments
  - Director of Finance
  - Director of Risk Monitoring and Management
  - Director of Technology
  - Director of Treasury and Capital Markets
  - Director of Business Development
  - Director of Human Resources
  - Head of Money Laundering Prevention
  - Head of Internal Audit

13.3. Overview of the Group' s remuneration policy

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

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

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

The current remuneration policy, proposed by the Appointments and Remuneration Committee, was approved by the Supervisory Board on 18 June 2015. The amounts related to this policy are updated according to the same percentage increase of the public sector on an annual basis.

13.4. Qualitative information on the remuneration of the identified staff

Directors, members of the Supervisory Board

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

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

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

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

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

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

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

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

The entity's senior executives and key personnel

Fixed remuneration

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

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

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

Variable remuneration

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

It is linked to specific terms in line with prudent risk management, and not just based on the general performance of the markets. Financial and non-financial indicators are used, based on performance scales and in accordance with the weighting attributed to each indicator, as per the amended remuneration policy proposed by the Appointments and Remuneration Committee and approved by the Supervisory Board on 17 December 2015, which is subject to annual review by the Appointments and Remuneration Committee.

The quantitative measures are based on indicators such as total activity volume, NPL ratios, gross margin and pre-tax profit.

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

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

13.5. Quantitative information on the remuneration of the identified staff

The remuneration paid to the Group's identified staff in 2021 was as follows:

Thousands of euros	Directors(1)	Executives(2)	Total
No. of beneficiaries	11	14	**25**
Fixed remuneration 2021	261	1177	**1438**
Variable remuneration 2021 (*)	29	225	**254**

(*) Variable remuneration has been provisioned, subject to assessment by the Appointments and Remuneration Committee. It has been accrued in 2021 and paid in 2022.

(1) Includes the Executive Director and the other Directors at 31 December 2021.
(2) Includes Executives and Key Personnel.

Table 24. Remuneration paid to the Group's identified staff in 2021