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SUMMARY

Summary of Report 5/2017, relating to the Catalan Finance Institute, year 2011

Barcelona, 31 May 2017

The Public Audit Office for Catalonia has issued Report 5/2017, relating to the Catalan Finance Institute (ICF), financial year 2011, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Ms Emma Balseiro, was approved by the Audit Office Board at its meeting on 11 April 2017.

The regularity audit included a review of the ICF's annual accounts for the 2011 financial year, to check that they had been presented in accordance with the applicable financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that framework. It also included verifying that in the audited period the ICF carried out its activities in accordance with applicable legislation.

The ICF heads up the Catalan Finance Institute Group, comprised of various entities dedicated, basically, to lending and capital investment activities. The ICF, which was set up in 1985 as the main instrument for public lending policy by the Government of Catalonia (*Generalitat*), is an entity created under public law but subject to private law, which in the year covered by the audit reported to the Department for the Economy and Knowledge.

During 2011, the ICF absorbed the Catalan Institute of Agricultural Loans (ICCA), which became an ICF specialist division. It also sold the entire shareholding of the company ICF Equipaments, SAU [ICF Facilities] to the Government of Catalonia, and the company was renamed Equipaments i Edificis de Catalunya, SA [Catalan Facilities and Buildings] (abbreviated to EECAT). At the close of the financial year ICF assets totalled €4,772m, it had made an operating profit of €28m and held a portfolio worth €4,210m. As regards its main activity, 42% of the value of its credit portfolio was concentrated with just nine borrowers through forty-one loan operations (34% to the public sector and 8% to the private sector). ICF calculations showed a solvency ratio of 23.33%.

The Audit Office's opinion, as given in the Conclusions section of the report, is that the annual accounts represent in all significant aspects a true and fair view of the ICF's assets and financial position as at 31 December 2011, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date.

The most significant findings and recommendations arising from the audit are included in section 3, and can be summarised as follows.

- The Notes to the Annual Accounts presented by the ICF did not include sufficient details on the impact to the accounts of the absorption of the ICCA and the sale of EECAT; prominent in this respect, because of the amounts involved, was the revaluation of the hedge funding for ICCA operations, which meant an addition of €26.54 m to the Profit and Loss Statement for year 2011, thanks to a reduction in provisions because of excess hedging, and €29,11 m in capital gains from the sale of EECAT.

- In the 2011 Balance Sheet, the Other Financial Assets item did not include the current value of the commissions to be collected in future years, depending on the duration of a bank guarantee provided to EECAT. And neither did the Other Financial Liabilities item in the Balance Sheet include the revenues from commissions to be apportioned out on a straight-line basis throughout that bank guarantee's lifetime. Likewise, the Contingent Liabilities item in the Balance Sheet's other disclosures did not include the bank guarantee given to EECAT, worth an estimated €52.11 m.

- In the Profit and Loss Statement, the revenue item corresponding to the annual commission for the bank guarantee of €7.39 m provided by the ICF to cover EECAT financial swap operations was calculated using the notional value of the derivatives instead of the value of the contingent liabilities; this meant it was overvalued by €5.83 m.

- The Balance Sheet asset item Hedging Derivatives, and the two liability items Deposits from Lending Institutions and Debits Represented by Marketable Securities, were overvalued by €7.62 m, €4.54 m and €3.08 m respectively.

- The report also mentions other aspects relating to the Programme of Undertakings, Investments and Funding, to lending activities and how loans were awarded and to credit risks and bad loans.

At the end of the report various recommendations are made which, in the Audit Office's opinion, would help to improve the audited organisation's management.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at www.sindicatura.cat.