



ICO 2013



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Román Escolano

Nearly six years since the onset of the Great Recession, in 2013 the Spanish economy began a gradual recovery relying partly on progressive improvement of financing conditions and on the strong performance of the export sector, driven by the competitiveness gains of recent years.

The dissipation of the perception of a risk of a rupture in the eurozone reversed the dynamics seen in 2012, thus leading the Spanish economy into a virtuous circle. The gradual reduction in financial fragmentation and the State's improving financing conditions are being felt in the real economy in the form of lower interest rates in new loans to SMEs and in better conditions applied by banks. Further, simultaneously with the ongoing improvement in the economic outlook, the demand for credit is

increasing, driven by companies' financing needs for fixed capital investments. As a result, the better supply and demand conditions brought about an uptick in the flow of new loans to SMEs in the latter half of the year that is in line with the slowdown in the same period in the contraction of the total financing stock for companies.

In addition, the Spanish economy continued its process of international expansion and rotation of its productive structure. The first surplus in 25 years was attained (0.7% of GDP) in the current account balance and external demand continued to make a positive input (1.5pp) to GDP growth. Although Spanish exports of goods and services barely represented 27% of GDP in 2007, they now represent more than 34%, above countries like the UK, Italy, France, the United States or Japan. This strength of the Spanish export sector, in combination with the incipient stabilisation of domestic demand induced by the momentum of investment in capital goods and machinery, allowed the Spanish economy to exit the recession in the third quarter and quickened the pace of quarter-on-quarter growth (up to +0.2%) in the last three months of the year.

In the midst of this change of cycle, ICO kept up an active presence in the Spanish financial system, offering a counter-cyclical response to Spanish companies' financing needs as well as helping to revive the flow of credit. This presence in the system resulted in an increase in the weight of ICO loans as part of the total loans at more than 1 year of the entire financial system, amounting to 11.4% in December 2013, the highest in this historical series, up from 10.6% of the previous year. As a result, the weight of the ICO balance sheet as part of the total assets of the system also mildly increased from 3.4% in 2012 to 3.5% in 2013, and the ICO remained the seventh largest bank in Spain in terms of the size of its balance sheet (€102,203 million).

ICO activity aims to provide Spanish companies with a framework of adequate financing to enable them to undertake their productive activity. In this regard, last year 190,217 loan operations were formalised amounting to €15,140 million, up 17% on 2012. To be able to undertake these operations, ICO raised €11,495 million, of which 73% was raised through medium and long-term term issues in capital markets, where ICO remains one of Spain's

LETTER FROM THE CHAIRMAN

leading fixed-income issuers. The other 27% was raised through bilateral loans both from multilateral bodies (European Investment Bank (EIB), Development Bank of Latin America (CAF) and the Council of Europe Development Bank (CEB)) and foreign institutions that are similar to ICO (Kreditanstalt Für Wiederaufbau (KfW) of Germany). ICO not only managed to increase to 47% (as against 41% of the previous year) the proportion of instruments placed among foreign investors, but also successfully carried out its first issues in foreign currencies (dollars and yens) since 2011.

92% of the new loans granted in 2013 (€13,884 million) were carried out through so-called "second-floor facilities" which are articulated with credit institutions and aim to finance investment projects or the liquidity needs of Spanish companies. A second-floor facility is a form of co-operation that, since its inception more than 20 years ago, has been establishing itself as one of the most efficient systems for the distribution of ICO financing. In this regard, the volume of new second-floor loans granted in 2013 was 21% higher than in the previous year.

The total activity managed by ICO grew to €156,435 million in 2013, up 19% on 2012. This amount includes not only the stock of credit and guarantees in the financial statements at the end of last year (€74,827 million) but also funds the management of which was transferred to ICO, in its capacity as State Financial Agency, by the Government. Among such funds would be the Fund for the Financing of Payments to Suppliers (FFPP) (€33,342 million), the Autonomous Region Liquidity Fund (FLA) (€39,091 million) and various foreign sector support instruments, such as the Development Promotion Fund (FONPRODE), the Corporate Internationalisation Fund (FIEM) the Water and Sanitation Co-operation Fund (FCAS) and the Reciprocal Interest Adjustment Contract (CARI).

Further, AXIS Participaciones Empresariales, SGECR, ICO's venture capital management subsidiary, launched FOND-ICO Global in 2013, a fund of funds with €1,200 million that has the objective of investing in more than 40 private funds and raise €5,000 million over the next four years. The investment selection process of the fund, which made an initial investment of €189 million in six private funds in late 2013, is articulated on the basis of the principles of public tenders: publicity, competition, equality and transparency.

It is also important to note that the most important growth experienced in recent years both in terms of both the size of the balance sheet and the activities managed by ICO has not occurred, in any way, at the cost of a deterioration in the main financial ratios. In fact, prudent management of our balance sheet, in line with best market practices has allowed us to improve our solvency ratios (from 14.5% in 2012 to 19.8% in 2013) and efficiency ratios (from 4.7% to 4.5% in the ratio of conversion expenditure over ordinary gross income) while we have maintained our NPL rate (5.3%) and coverage of the same (132%) at levels significantly better than those of the Spanish financial system as a whole.

2014 will be the year of consolidation of the process of gradual recovery that began in the latter half of 2013. This change of cycle creates new challenges and opportunities for the Spanish business community, whose internationalisation ICO will continue to support both in the quantity and variety of products and in their quality and adequacy for the needs of our companies.

LETTER FROM THE CHAIRMAN

I would like to conclude this letter by expressing my personal thanks to all the employees of ICO for their effort, commitment and dedication to press on with this difficult task, and without whom these results would not have been possible.



Román Escolano
Chairman of ICO

Main figures (millions of euros and percentages)

	2013	2012	Year-on-year variation (%)
Balance sheet			
Total assets	102,202.7	115,229.8	-11.3%
Credit investment	73,215.8	77,113.6	-5.1%
Second-Floor Facilities	42,447.2	44,103.9	-3.8%
Direct Customer Loans	30,768.6	33,009.7	-6.8%
Market Funding	93,637.6	106,250.1	-11.9%
Equity (including yearly results)	4,465.7	4,139.2	7.9%
Income Statement^(a)			
Net Interest Income	727.3	759.9	-4.3%
Gross margin	816.6	800.8	2.0%
Operating activity margin	100.8	83.8	20.3%
Pre-tax profit	101.1	84.0	20.3%
Net Profit	71.2	60.0	18.7%
Ratios^(b)			
Solvency	19.76	14.46	36.7%
Coverage	131.65	137.37	-4.2%
Efficiency	4.53	4.72	-4.0%
NPL rate	5.25	3.68	42.6%

(a) Millions of euros

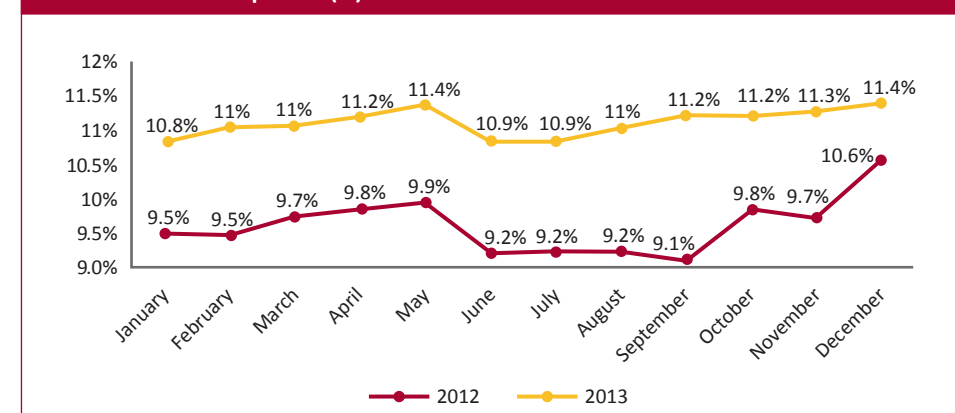
(b) Percentages

LENDING ACTIVITY

ICO formalised loans amounting to €15,140 million in 2013. Of this amount, €13,884 million was granted through second-floor facilities, up 21% on the previous year.

The increase in lending activity has resulted in a greater presence of ICO in the Spanish credit system. At year end, ICO represented 3.5% of the system. The amount of lending to companies with maturity greater than one year granted by ICO, not including credit to public authorities accounted for 11.4% of total sector lending at year-end 2013, surpassing every month the market share reached in 2012.

Total ICO credit (excl. public authorities/Total Credit > 1 year of credit institutions to companies (%)



ICO SECOND-FLOOR FACILITIES

Throughout the 2013 financial year, ICO continued to finance the liquidity and investment needs of Spanish small and medium sized companies through second-floor facilities. These facilities are distributed through Spanish credit institutions. ICO designs the products and the banks analyse, formalise and assume the risk of operations.

In 2013, ICO granted through these lines €13,884 million, with an upward trend in distributions from the month of April, and a substantial uptick in the last quarter. The total amount disbursed in the year represents a 21% increase on 2012. This financing was formalised through 190,168 credit operations.

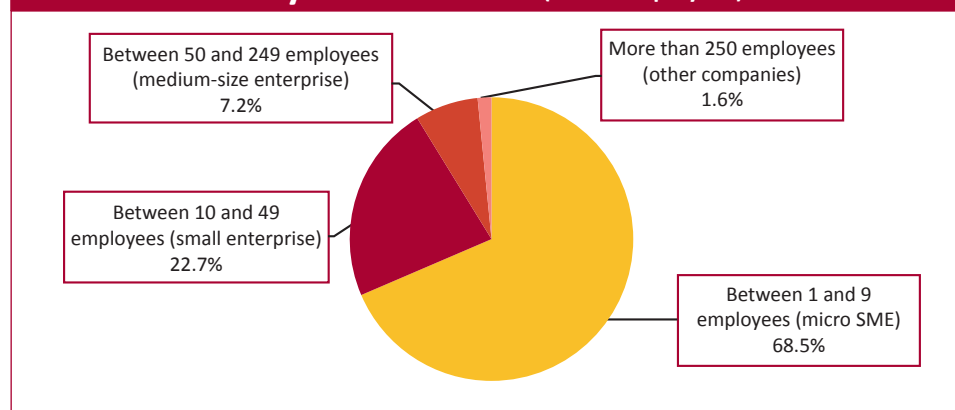
Second-Floor Facilities (millions of euros)

	2013		2012	
	Amount (millions of euros)	No. of operations	Amount (millions of euros)	No. of operations
Companies and Entrepreneurs	12,208	176,251	11,261	161,278
ICO-Companies and Entrepreneurs	12,114	175,140	11,198	160,801
ICO-Garantía SGR	72	665	48	449
Other	22	446	16	28
Internationalisation	1,675	13,898	243	592
ICO International Facility 2013	277	773	231	462
ICO Export Facility 2013 ²	1,398	13,125	12	130
Other Lines	1	19	6	206
Total	13,884	190,168	11,511	162,076

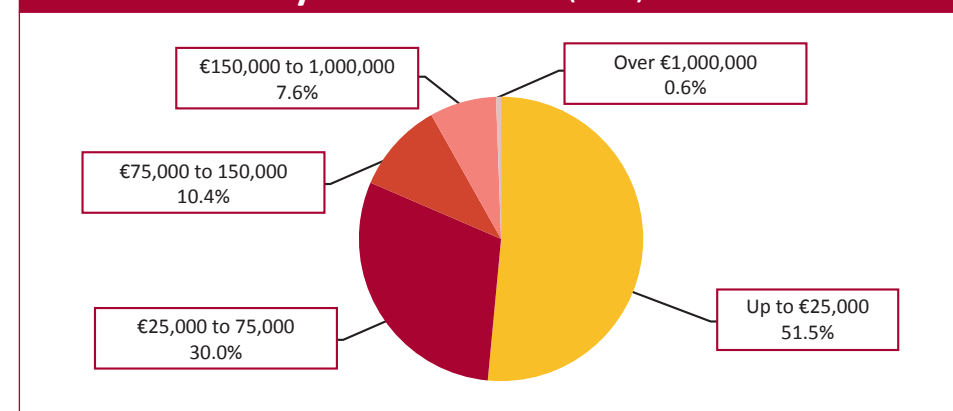
Loans have been distributed mainly among the self-employed and small enterprises: 68.55% of the operations are for micro SMEs with between 1 and 9 employees. In addition, 51.5% of the credits granted were less than €25,000 and 81.5% were less than €75,000.

These indicators show the high degree of capillarity of ICO loans.

Distribution by business size (no. of employees)



Distribution by credit volume (euros)



Also noteworthy in 2013 is the start-up of a new catalogue of comprehensive credit lines in support of internationalisation, with the aim of supporting the foreign presence of Spanish companies. Some 13,898 operations were formalised through these lines, amounting to €1,675 million.

Internationalisation Lines (millions of euros). Distribution by investee country.

	Amount	%/Total
France	296	17.7%
Germany	161	9.6%
Italy	137	8.2%
United Kingdom	113	6.8%
United States	100	6.0%
Portugal	75	4.5%
Others	794	47.4%
Total	1,675	100.0%

FUNDING

In order to carry out its lending activity, ICO raised medium and long-term funding of €11,495 million in 2013. 73% of this amount was raised through issues in international capital markets and the remaining 27% through bilateral loans from multilateral bodies and foreign institutions that are similar to ICO.

OPERATIONS MANAGED BY THE STATE

ICO, acting as State Financial Agency, manages certain operations for the State, as instructed by the Government. Regarding these instruments, ICO arranges and manages its operations and performs all the related financial tasks.

The total amount of funds managed by ICO amounted to €81,608 million at year-end 2013, up 53% on year-end 2012.

Operations managed by the State (millions of euros)

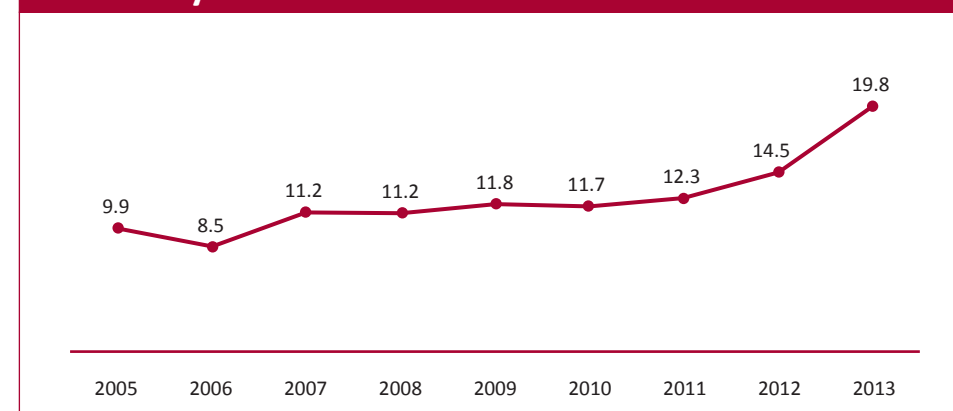
	2013	2012	Year-on-year variation (%)
Region Liquidity Fund (FLA)	39,091	16,656	134.7%
Fund for Financing Payments to Suppliers (FFPP)	33,342	27,372	21.8%
Corporate Internationalisation Fund (FIEM)	5,115	5,168	-1.0%
Reciprocal Interest Adjustment Contract (CARI)	2,703	2,761	-2.1%
Development Promotion Fund (FONPRODE)	812	833	-2.6%
Water and Sanitation Co-operation Fund (FCAS)	546	506	7.8%
Total	81,608	53,296	158.6%

BALANCE SHEET AND INCOME STATEMENT

The ICO Balance Sheet has virtually quadrupled since 2005. At 31 December 2013, ICO assets account for 3.5% of the Spanish financial system overall, as it continues to be the seventh largest Spanish credit institution by assets.

The Institute's solvency ratio increased in 2013, to 19.8%, which is well above regulatory minimums.

Solvency (%)



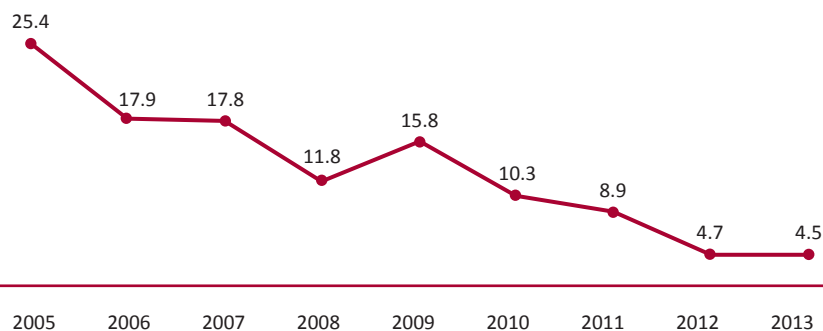
ICO earned net interest income of €727.3 million in 2013. Nevertheless, the strong performance of fees and of earnings from financial transactions yielded a Gross Margin of €816.6 million, 2% higher than in 2012.

Margins of Income Statement (millions of euros)

	2013	2012	Year-on-year variation (%)
Net Interest Income	727.3	759.9	-4.3%
Gross margin	816.6	800.8	2.0%
Operating activity margin	100.8	83.8	20.3%
Pre-tax profit	101.1	84.0	20.3%
Net profit	71.2	60.0	18.7%

During 2013, operating expense was down 2% over the previous year, continuing the cost containment policy initiated in previous years. This, together with the increase in Ordinary Gross Income, generated an efficiency ratio of 4.5% at year end.

Efficiency (%)



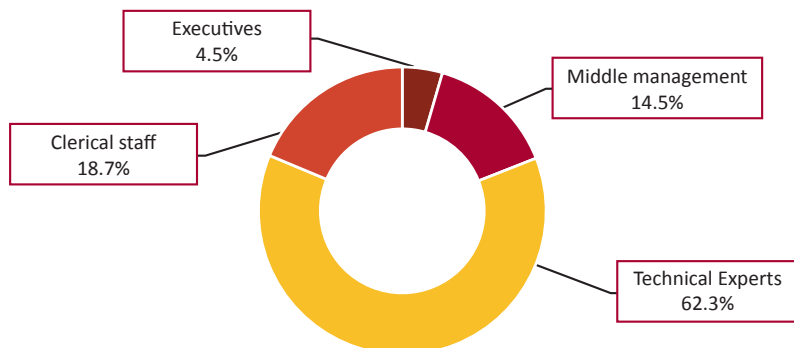
The before-provision profit amounted to €779.4 million, which allowed ICO to make net provisions and asset write-offs of €678.7 million, which is in line with those carried out in the previous year, and achieve a high rate of coverage as noted above.

The before-tax profit amounted to €101 million, representing an increase of 20.2% on 2012.

HUMAN RESOURCES

At 31 December 2013, the staff of the Institute consisted of a total of 310 employees. The breakdown by professional groups is as follows:

Workforce distribution by professional group



GENERAL BOARD AND ORGANISATIONAL CHART

On 31 December 2013

GENERAL BOARD:

Chairman:

ROMÁN ESCOLANO

Members:

ROSA MARÍA SÁNCHEZ-YEBRA

Director of the Minister of Economic Affairs and Competitiveness Office
Ministry of Economy and Competitiveness

CARMEN CÁRDENO

Director General of Domestic Trade
Ministry of Economy and Competitiveness

FELIPE MARTÍNEZ

Director of the Minister of Finance and Public Administration's Office
Ministry of Finance and Public Administrations

JAIME IGLESIAS

Director General of Budgets
Ministry of Finance and Public Administrations

JUAN MIGUEL BÁSCONES

Director General of Economic Programming and Budgets
Ministry of Public Works

MARÍA DEL CORISEO GONZÁLEZ-IZQUIERDO

CEO
Instituto Español de Comercio Exterior (Spanish Institute for Foreign Trade, or ICEX)

ADOLFO DÍAZ-AMBRONA

Technical Secretary General
Ministry of Agriculture, Food and Environment

JAIME PONCE

Assistant Director General of Legislation and Financial Policy
Ministry of Economy and Competitiveness

IGNACIO MEZQUITA

Director General for Economic Policy
Ministry of Economy and Competitiveness

GENERAL BOARD AND ORGANISATIONAL CHART

Secretary of the Board:

IDOYA ARTEAGABEITIA
Secretary of the General Board
Assistant Director General of Legal Counsel of ICO

ORGANISATIONAL CHART:

FERNANDO NAVARRETE
Chief Financial Officer

JOSÉ MARÍA GEFAELL
Chief Investment Officer

GERARDO GIMENO
Chief Risk Officer

MARÍA TERESA MOGÍN
Chief Human Resources Officer

CORPORATE SOCIAL RESPONSABILITY

Once again, ICO has informed its groups of interest of its economic, social and environmental performance in the last year, using various communication and transparency channels in this connection.

Since 2005, ICO has detailed its Social Responsibility procedures via its CSR report and United Nations' Global Compact Progress Report. These documents complement the economic and activity reporting provided in the Annual Activity Report, and that relating to governance of the Institute, which is informed upon through the Corporate Governance Report.

On this occasion, ICO has revealed three significant novelties in the area of CSR reporting. Firstly, the CSR Report is presented in a more reader-friendly format. Secondly, the CSR Report has been prepared following the GRI G4 standard, approved in mid-2013. Lastly, the GRI Report and the Progress Report have been unified into a single document, thereby ensuring higher quality and more efficient transparency.

Traditionally, ICO has clearly focused on developing CSR initiatives aimed at SMEs. In 2013, however, special emphasis was granted to projects involving professionals of the organisation, implementing the first Corporate Volunteer Programme, in which more than 25% of the workforce participated.

The experience acquired in developing a Volunteer Programme and its reinforcement of alliances with third-sector entities, has led ICO to develop a new initiative aimed at SMEs, which will be revealed in the second semester of 2014. In partnership with the Spanish Network of the Global Compact, the CARING SMEs initiative aims to boost and facilitate the participation in corporate volunteer campaigns of SMEs, mainly aimed at training and the social and labour market insertion of risk groups.

ICO AND TRANSPARENCY

ICO undertakes to provide all its customers with true and accurate information on the characteristics and conditions of its products and services, and to grant a rapid response to all queries and claims which may be made by such customers. Accordingly, it has various communication channels in place enabling effective access to such information.

These communication channels may be used by the customers who obtain lending facilities and, in general, by any person wishing to extend his/her knowledge of the activities and services provided by ICO.

In 2013, the main channels used were: advertising campaigns to promote ICO's lending facilities, printing in the languages of Spain and distribution of information brochures with the characteristics of the lending programmes, the preparation of a Newsletter and information monographs to be distributed among the Institute's different groups of interest, and notification of the activities performed by ICO through press releases, the institutional web page and the main professional networks.

This transparency policy is complemented at external level with complaints, suggestions and information request mailboxes, provided by the Institute to its customers.

ICO AND GOOD GOVERNANCE

In 2013, ICO prepared and published its first Corporate Governance Report. Furthermore, in order to ensure compliance with the applicable legislation, it approved the creation of the Regulatory Compliance area.

Good Governance procedures were completed in 2013 with the preparation of a Risk Map contemplating the different types of ICO risk. This Map, which already includes the reputational risks, complements the Risk Policy Manual.

ICO AND ITS CUSTOMERS

One of the greatest difficulties facing SMEs and self-employed workers wishing to implement or consolidate their businesses is obtaining the funding required to commence their activity.

In its traditional role of helping groups which have the greatest difficulty accessing credit, ICO annually adapts its offering of loan products to the needs of the company, mainly SMEs and self-employed workers.

In 2013, the Institute granted 190,168 loans to SMEs and self-employed workers, amounting to €13,884 million, up 21% on the amount granted in 2012.

ICO AND ITS EMPLOYEES

ICO has developed and implemented a human resources policy based on diversity, non-discrimination and equal opportunities for all employees.

The employment relationship of the Institute's employees is based on the application of a company-specific Collective Labour Agreement, whose sixth version was signed in 2013. The Agreement encompasses 80.5% of the workforce.

At 31 December 2013, ICO's workforce comprised 310 employees, of which 293 had signed indefinite-term contracts. Of the workforce, 61.3% are women and 38.7% are men.

PROFESSIONAL DEVELOPMENT AND TRAINING

ICO has developed a professional training programme which is applied to its entire workforce. It is based on both the qualitative performance of employees and on quantitative accomplishment based on the attainment of the annual targets set for each of the operating areas. In 2013, 53 employees were promoted to a higher remuneration level.

ICO stands out for maintaining its pledge for training as an essential tool to retain and develop talent. The professional career of ICO employees is set forth in a significant annual training plan applicable to all of them, which combines specific training programmes for the work post in question with others of a general nature to strengthen the training and qualifications of employees in order that they may undertake other activities. In 2013, investment in training amounted to €306,740. A total of 21,829 hours were devoted to training.

ICO AND THE ENVIRONMENT

Although ICO's business activity does not have a significant impact on the environment, the Institute undertakes to consume its resources in a responsible manner, endeavouring to minimise the harmful effect of its activities.

In order to reduce direct environmental effects, ICO frequently controls electricity and water consumption, waste management and the generation of emissions. In this way, mechanisms are established to reduce such effects.

ICO has prepared a manual of good environmental practices, distributed over the intranet for the general knowledge of all its employees. Its objective is to make the environmental effect of ICO's activities known, both at institutional level and with respect to employee procedures.

In 2013, ICO included environmental clauses in 27.5% of the tender processes performed to provide products and services. With such measure, ICO intends to transfer its commitment to the environment to its supply chain.

ICO AND SOCIETY

ICO has a clear commitment to society as a whole, and to the groups of interest with which it interacts during the performance of its activity. Such undertaking leads ICO to review its lending facilities to adapt them to the needs of companies and self-employed workers.

It also reveals its commitment to the 10 Principles of the United Nations Global Compact, and its focus on reinforcing and establishing new public-private alliance with expert organisations in social responsibility and other third-sector entities.

Variations in the main economic indicators

INDICATOR	2013	2012	2011	2010	2009
SME loans (€ million)	13,884	11,511	16,394	19,797	15,155
Personnel expenses (€ thousand)	13,531	12,339	13,386	13,429	11,975
Average salary (€ thousand)	43.6	39.4	41.8	41.7	39.0
Supplier costs (€ million)	29.79	28.94	No available data	No available data	26.55
ICO Foundation (€ million)	1.2	1.5	2.40	4.68	4.68
Electricity consumption (kwh)	2,356,615	2,046,103	2,092,103	2,529,510	2,720,522
Electricity consumption per employee	6,334.99	5,530.0	5,243.4	6,065.9	6,635.4
Paper consumption (Kg)	11,000	11,787.9	11,637.5	14,577.0	16,235.0
Recycled paper (Kg)	5,000	5,000	5,000	5,500	15,100
Toner and cartridges removed (units)	156	182	223	265	680
Fluorescent tubes recycled	790	870	1,050	1,200	No available data
Water consumed (m3)	2,513	2,509	2,562	3,539	3,246
Water consumed per employee	6.76	6.78	6.42	8.50	7.70
Total number of employees	310	313	320	322	307
Employees with permanent contract	293	294	293	299	282
Number of women	190	195	194	199	193
Women in management and middle management positions	30	31	29	27	24
Average age of the workforce	45.6	44.8	43.5	42.7	No available data
Minimum entry level wage (Technical staff)	26,807.2	26,807.2	26,807.2	26,807.2	28,133.72
Minimum entry level wage (Clerical staff)	18,246.4	18,246.4	18,246.4	18,246.4	19,149.2
Number of lost days due to sick leave	2,305	2,815	3,370	3,370	2,554
Investment in training (€)	306,740	194,588	243,880	331,173	275,668
Language training	120,584	98,773.3	79,155.8	74,776.5	71,284.8
On-the-job training	115,454	28,888.8	74,356.8	79,584.3	96,274.5
Training in new technologies	14,819	10,880.9	21,563.2	8,619.0	13,469.0
Training for development	27,573	27,595.0	50,820.0	110,400.0	90,000.0
Skills training	27,860	28,450.1	17,894.4	57,793.2	4,640.0
Talks	450	--	--	--	--
Total hours of training	21,829	14,067	15,246	17,349	18,483
Number of employees who received training	311	286	238	232	217
Number of employees promoted	53	61	65	57	44
Number of technical staff promoted	43	37	38	38	36
Number of clerical staff promoted	10	24	27	19	8