INSTITUTO DE CRÉDITO OFICIAL

INFORMATION OF PRUDENTIAL RELEVANCE AT 31 DECEMBER 2012

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1. GENERAL INFORMATION REQUIREMENTS

1.1 Introduction

The aim of this report is to comply with the market reporting requirements of the Consolidable Instituto de Crédito Oficial Group, set forth in chapter eleven of Bank of Spain Circular 3/2008, of 22 May, (hereinafter, the “Solvency Circular”).

This Circular constitutes the final application of the legislation on capital and supervision on a consolidated basis, set forth under Law 13/1985 of 25 May which regulates investment coefficients, capital and reporting requirements of financial intermediaries and other regulations on the financial system, and in Royal Decree 216/2008, of 15 February, which regulates financial institutions' equity. Together, these two laws constitute the adaptation of Spanish credit institutions to Community Directives 2006/48/EC of 14 June, relating to the taking up and pursuit of the business of credit institutions and 2006/49/EC of 14 June on the capital adequacy of investment services firms and credit institutions, issued by the European Parliament and the Council.

Following the Agreement adopted by the Basel Committee on Banking Supervision (known as Basel II), the Solvency Circular is structured around the following pillars:

- PILLAR I: Capital Requirements.
- PILLAR II: Internal governance of companies and self-assessment of capital.
- PILLAR III: Market reporting requirements.

In accordance with the information disclosure policies approved by the Institute, this report has been prepared, on an annual basis, by the Directorate General of Risk and Financial Control of the Institute and approved by the Chairman, subject to verification by the Internal Audit Department.

Certain information required by current regulations to be included in this report is submitted, in accordance with these regulations, referenced to the 2012 consolidated financial statements of the ICO Group, and given that they are contained herein, their repetition herein is redundant. The aforementioned financial statements and this document "Information of prudential relevance" can be viewed on the ICO website (www.ico.es).

1.2 Consolidable Instituto de Crédito Oficial Group

The information presented in this report corresponds to the Consolidable Group of Credit Entities, whose parent company is the Instituto de Crédito Oficial (hereinafter the Group or the ICO Group).

Under applicable accounting rules, "Subsidiaries" are considered to be those over which the Institute has the capacity to exercise control; control which can be exercised, generally although not exclusively, through direct or indirect ownership of 50% or more of the voting power of the investee or, despite this percentage being lower or zero, if, for example, there are agreements with shareholders of the investee awarding the institute control. Under the provisions of said legislation, the term control is understood to mean, the power to govern the financial and operating policies of a company so as to obtain profits from its activities.

In this sense, the financial statements of the subsidiaries are consolidated with those of the Institute by applying the full consolidation method as it is defined in the relevant legislation. Therefore, all balances arising from significant transactions between consolidated companies using this method have been eliminated in the consolidation process.

Also, the shareholding of third parties in:

- The Group's equity is presented under "Minority interests" on the consolidated balance sheet. At 31 December 2012, there were no minority interests.

- Consolidated profit or loss for the year is presented under "Income attributable to minority interests" in the consolidated profit and loss account. At 31 December 2012, there was no income attributable to minority interests.

Alternatively, "associate entities" are considered to be those entities over which the Institute is able to exercise significant influence, but they do not constitute a decision-making unit with the Institute nor are they under joint control. Usually, this ability is evidenced in a (direct or indirect) shareholding equal to or greater than 20% of the voting rights of the investee.

Investments in entities considered to be "associate entities" are presented in the consolidated financial statements recorded under "Investments - Associates" on the consolidated balance sheet, valued at acquisition cost, net of any impairment which, if applicable, shares may have undergone.

The income generated by transactions between the associate entity and the Group entities are eliminated by the percentage of the Group's shareholding in the associate entity.

The profit or loss obtained during the year by the associate entity, after the elimination referred to in the previous section, as applicable, causes the amount of the investment in the consolidated financial statements to increase or decrease. The amount of this profit or loss is under the item "Profit (Loss) in companies accounted for using the equity method" in the consolidated income statement.

Variations in the valuation adjustments of the associate entity, subsequent to the acquisition date are recorded as an increase or decrease in the value of the investment. The amount of these variations is recognised under the item "Valuation adjustments" in consolidated equity.

There are no "jointly controlled entities" included in the consolidation Group.

The following summarises the main differences concerning the consolidation perimeter and the different consolidation methods applied between the Consolidable Group of Instituto de Crédito Oficial Credit Institutions, for which the information is presented in this report and the Crédito ICO Group of Entities, defined in accordance with the third paragraph of Rule 3 of Bank of Spain Circular 4/2004, of 22 December:

- In preparing the consolidated financial statements of the Crédito ICO Group of Entities, all subsidiaries are consolidated using the full consolidation method, to meet the requirements to be considered as consolidated by activity. Consequently, there are no differences in the consolidation perimeter for the purposes of the application of the solvency requirements.

- For the purposes of the preparation of the consolidated financial statements of the Crédito ICO Group of Entities, the holdings in financial institutions that do not meet the requirements to be considered as subsidiaries, jointly controlled or associate entities, are considered financial instruments and are measured as per criteria in Rule 22 of Bank of Spain Circular 4/2004, of 22 December.

However, for the purposes of the application of the solvency requirements, financial institutions that do not qualify as subsidiaries, jointly controlled or associate entities in accordance with the provisions of Rule 46 of Bank of Spain Circular 4/2004, of 22 December, in which it owns or controls at least 20% of the capital or voting rights, are valued by the equity method for the purposes of drawing up the Consolidated Group's information.

According to the above criteria, detailed below are the Consolidated Group's subsidiaries at 31 December 2012 to which the full consolidation method has been applied for the purposes of drawing up the consolidated information of the same:

ENTITY: AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.C.R.

Appendix I of the Institute's consolidated financial statements provides relevant information about the associate entities included in the Group.

1.3 Other general information

At 31 December 2012, there was no material, practical or legal impediment, to the prompt transfer of capital or the repayment of liabilities between the Group subsidiaries and the Instituto de Crédito Oficial, there likewise being no facts to suggest that such impediments may exist in the future.

At 31 December 2012, there were no entities belonging to the economic Group and not included in the consolidated Group that were subject to minimum capital requirements individually, according to the different rules applicable to them.

At 31 December 2012, the holding in the Company AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.C.R. included in the Consolidated Group is not individually subject to the calculation of equity requirements being included in the ICO consolidated group, which itself is subject to such requirements.

2. RISK MANAGEMENT POLICIES AND OBJECTIVES

The information on the risk management policies and objectives to be provided to the market as required by the Solvency Circular, can be found in Note 5 (Risk Exposure) of the Consolidated Report to the Instituto de Crédito Oficial Group's consolidated financial statements of 2012, published on the ICO website. (www.ico.es)

3. INFORMATION ON ELIGIBLE CAPITAL

3.1 Summary of the main characteristics and conditions of the elements accounted for as tier I capital, tier II capital and auxiliary capital

For the purposes of calculating its minimum capital requirements, the Group considers as tier I capital the resources defined as such in Rule 11 of the Solvency Circular, taking into account their corresponding deductions.

Tier I capital is characterised as a capital component that can be used immediately and without restriction for risk hedging or to cover losses, the amount of which is reported free of all foreseeable taxes at the time of the calculation. This capital demonstrates stability and permanency over time that is, a priori, higher than that of tier II capital, which is described below. As indicated in section 3.2 below, at 31 December 2012, the Group's tier I capital is largely made up of the Institute's equity and cash and express reserves.

Tier II capital, on the other hand, is that which corresponds to the capital defined under Solvency Circular, Rule 11, with the limits and deductions established therein. This capital, although compliant with the definition of capital established under prevailing regulations, is characterised by being, a priori, volatile in nature or being less permanent than the resources considered as tier I capital.

As can be seen in the breakdown in section 3.2 below, at 31 December 2012, the Group's Tier II capital comprised mainly corrections carried out in valuation adjustments to tier I capital, reserves for asset revaluation and the general-purpose hedge related to risk exposures (standard method).

Likewise, the Group's auxiliary capital is considered to be that defined in letter e) of paragraph one and letter b) of paragraph two of Rule 11 of the Solvency Circular. Auxiliary capital is only considered as such for the purposes of hedging price and exchange rate risk.

All the items which, pursuant to the provisions set forth in the Solvency Circular, form part of the ICO Group's eligible capital, are standardised in terms of their definition and characteristics, therefore it is unnecessary to describe their content individually.

3.2 Total Capital

The following breakdown shows the Consolidated Group's eligible capital at 31 December 2012, indicating each of its components and deductions and divided into tier I capital, tier II capital and auxiliary capital:

Item	**Amount (€Thousands)**
1. Components eligible as Tier I capital (I)	**3,982,742**
1.1 Eligible Capital:	**3,230,234**
1.1.1 Endowment fund	3,230,234
1.1.2 Other instruments eligible as capital	
1.2 Eligible reserves:	**760,545**
1.2.1 Reserves	760,545
O*f which: for exchange rate differences*	
1.2.2 Minority interests	
1.2.3 Eligible income for the financial year	
1.2.4a (Unaudited financial year losses)	
1.2.4b Income for the financial year to be applied to reserves or current financial year losses	
1.2.5 (Net profits generated applying future income from securitised assets)	
1.2.6 Valuation adjustments considered as tier I capital	
1.3 Other tier I capital pursuant to national legislation	
1.4 (Other deductions from tier I capital):	**(8 037)**
1.4.1 (Intangible assets)	(8 037)
1.4.2 (Overrun of the limits for non-innovative instruments)	
1.4.3 (Overrun of the limits for innovative instruments)	
1.4.4 (Other deductions from tier I capital)	
2. Tier II capital (II)	**319,680**
2.1 Core Tier II capital:	
2.1.1 Overrun of the limits for Tier I capital transferred to core Tier II capital	
2.1.2. Corrections carried out to valuation adjustments on core Tier I capital transferred to core Tier II capital	11,516

2.1.3 Adjustment reserves, updating or revaluation of assets	27,233
2.1.4 Other items	
2.1.4.1 General-purpose hedge related to exposure applying the standard method	280,931
2.1.4.2 General-purpose hedge related to exposure applying the securitised IRB method	
2.1.4.3 Other	
2.1.5 Subordinated financing for an undetermined term and similar instruments.	
2.1.6 Positive amounts resulting from comparison, using the IRB method, of the valuation adjustments due to impairment on assets and provisions against anticipated losses	
2.1.7 Core Tier II capital pursuant to national legislation:	
2.1.7.1 Correction of minority interests in relation to revaluation reserves transferred to core Tier II capital	
2.1.7.2 Correction of minority interests in relation to non-voting shares and preferred shares treated as subordinated financing for an undetermined term transferred to core Tier II capital	
2.1.7.3 Other corrections to minority interests transferred to core Tier II capital	
2.1.7.4 Savings banks' social work funds	
2.2 Additional Tier II capital:	
2.2.1 Cumulative preferred shares with fixed maturity date	
2.2.2 Standard subordinated financing and similar instruments	
2.2.3 Additional Tier II capital pursuant to national legislation	
2.2.3.1 Correction to minority interests related to preferred shares treated as standard subordinated financing equity transferred to additional Tier II capital	
2.2.3.2 Other corrections to minority interests transferred to additional Tier II capital	
2.2.4 (Overrun of the limits for additional Tier II capital)	
Of which: Effect of the transient limit increase for additional Tier II capital	
2.3 (Deduction from Tier II capital)	
2.3.1 (Overrun of the limits for Tier II capital)	
Of which: Effect of the transient limit increase for Tier II capital	
2.3.2 Other deductions from Tier II capital pursuant to national legislation	
3. Deductions from Tier I and Tier II capital	**-**
Of which:	
From Tier I capital (III)	
From Tier II capital (IV)	
3.1 Shares in non-consolidated financial entities where the capital holding is more than 10%	
3.2 Subordinate financing and other securities eligible as capital in non-consolidated financial entities where the capital holding exceeds 10%	
3.3 Excess holdings, subordinate financing and other securities eligible as capital in non-consolidated financial entities different to those recognised in the two previous sections over 10% of the equity of the entity	
3.4 Holdings in insurers and similar where the capital holding exceeds 20%	
3.5 Subordinated financing and other eligible securities in insurers and similar where the capital holding exceeds 20%	
3.6 Tier I and Tier II capital deductions pursuant to national legislation	
3.7 Certain securitisation exposures not included in Tier I capital requirements	
3.8 Expected losses in equity exposures under the IRB method and negative amounts resulting from the comparison in the IRB method between valuation adjustments for impairment in assets and provisions against expected losses	
3.9 Excess holdings in non-financial entities	
3.10 Incomplete operations after 5 working days from the date of second contractual payment or delivery	
3.11 Other deductions from Tier I and Tier II capital pursuant to national legislation	
4. TOTAL TIER I CAPITAL FOR GENERAL SOLVENCY PURPOSES (I-III)	**3,982,742**
5. TOTAL TIER II CAPITAL FOR GENERAL SOLVENCY PURPOSES (II-IV)	**319,680**

6. TOTAL TIER I AND TIER II CAPITAL	**4,302,422**
7. AUXILIARY CAPITAL	-
7.1 Overrun of limits for Tier II capital transferred to auxiliary capital for price and exchange rate risk hedges	
7.2 Short-term subordinated financing	
7.3 (Overrun of auxiliary capital limits for price and market risk hedges)	
8. TOTAL CAPITAL	**4,302,422**
9. DEDUCTIONS FROM TOTAL CAPITAL	**-**
10. TOTAL CAPITAL AFTER TOTAL DEDUCTIONS	**4,302,422**

4. INFORMATION ON MINIMUM CAPITAL REQUIREMENTS

4.1 Minimum capital requirements for credit, counterparty, dilution and delivery risk

Below is the amount of the Consolidable Group's minimum capital requirements for credit risk at 31 December 2012, which has been calculated, for each one of the categories to which the standard method has been applied, as 8% of the weighted risk exposures:

Risk category (*)	Capital requirements (€Thousands)
Central government agencies and central banks	96
Regional government agencies and local authorities	281,990
Public sector entities and non-profit institutions	117,792
Multilateral development banks	1,244
International organisations	8,217
Credit institutions and companies providing investment services	873,307
Companies	867,964
Retailers	23
Exposures guaranteed by intangible assets	-
Non-performing exposures	24,705
High-risk exposures	-
Guaranteed bonds	-
Short-term exposures to institutions and companies	-
Exposures against collective investment institutions	-
Other exposures	93,210
Total requirements for credit risk calculated by the standard method	**2,268,548**

(*) The items included in each one of these categories correspond to the provisions set forth in the Bank of Spain Solvency Circular.

The Group has no additional capital requirements for the risk from securitisation positions, standard method, at 31 December 2012.

4.2 Minimum capital requirements for liquidation risk and price and exchange rate risk

The Group has no capital requirements for liquidation risk.

The Group's capital requirements for price risk on fixed income positions, standard method, total €6,556 thousand.

The Group's capital requirements for exchange rate risk, standard method, total €18,394 thousand.

4.3 Minimum capital requirements for operational risk

The Consolidable Group's minimum capital requirements at 31 December 2012 for operational risk, calculated under the basic indicator approach, came to €86,006 thousand.

4.4 Procedures applied to assess internal capital sufficiency

In accordance with the provisions of the Solvency Circular, the Consolidable Group applies a series of risk identification, measurement and aggregation procedures that enable it to identify and maintain a level of capital in keeping with the risks inherent in its operations, the economic environment in which it operates, the management and control of said risks, the governance systems it has available, its strategic business plan and its real possibilities of obtaining greater capital; that is, it carries out an assessment of internal capital, both current and forecast, in accordance with its planning.

When evaluating its internal capital, the Group applies the following procedures related to each one of its risks:

- Evaluation of capital needs for credit risk: The standard method has been applied as established in the Solvency Circular for the calculation of minimum capital requirements associated with this risk.

- Evaluation of capital needs for credit concentration risk: The simplified option is being used, applying sector and individual concentration indexes set forth by the Bank of Spain for this purpose.

- Evaluation of capital needs for market risk: The standard method has been used as established in the Solvency Circular for estimating the minimum capital requirements associated with this risk.

- Evaluation of capital needs for operational risk: The basic method is being applied transiently according to the exceptions laid out in the regulations in force.

- Evaluation of capital needs for risks from structural interest rates on the balance sheet: The simplified option is being applied.

- Evaluation of capital needs for liquidity risk: The Group does not estimate capital needs associated to this risk, following analysis of its liquidity policy, its liquidity control systems and its contingency plans that demonstrate an appropriate liquidity situation and therefore there is no capital requirement to cover this risk.

- Evaluation of capital needs for other risks: The capital needs for risks other than the above have been estimated at 5% of the Group's total capital requirements, based on the provisions of the Solvency Circular.

The Group's total capital needs have been estimated through aggregation of the capital needs associated with each risk, obtained using the aforementioned methods.

Furthermore, in order to appropriately plan the Group's future capital needs, the corresponding forecasts are made regarding profit assignment to reserves and capital consumption deriving from anticipated business growth in different scenarios which consider, among others, stress situations.

5. INFORMATION ON CREDIT AND DILUTION RISKS

5.1 Book definitions and description of the methods used to establish corrections due to impairment

The concepts of default and impaired positions that are referred to in this document are based on Appendix IX of Bank of Spain Circular 4/2004.

Note 2.7 of the consolidated report included in the ICO Group's annual accounts for the year 2012 includes the definitions of the terms non-performing and impaired positions that are used in different sections of this report. Likewise, the aforementioned note sets out the methods used by the Group to establish the provisions for credit risk impairment, together with the calculation of the provisions set up for contingent risks and commitments associated with the aforementioned risk.

5.2 Credit risk exposure at 31 December, 2012 and average exposure during the financial year

The total value of the Group's credit risk exposure at 31 December 2012, after the adjustments indicated in Rules 13 and 17 of the Solvency Circular and the corresponding value corrections for asset impairment, as appropriate, came to €113,237,940 thousand, without taking into account the effects of credit risk reduction.

Below is the breakdown of the Consolidable Group's exposure to credit risk by counterparty class, net of adjustments and impairment losses, if applicable, at 31 December 2012, calculated using the standard method, regardless of the effects of credit risk reduction for the purposes of calculating equity requirements for credit risk:

Risk category	**Exposure amount (€Thousands)**
A) Central government agencies and central banks	15,230,555
B) Regional government agencies and local authorities	11,008,797
C) Public sector entities and non-profit institutions	4,980,076
D) Multilateral development banks	74,392
E) International organisations	489,494
F) Credit institutions and companies providing investment services	55,118,577
G) Companies	21,351,185
H) Retailers	380
- Individuals	
- Small and medium businesses	380
I) Exposures guaranteed by intangible assets. Of which:	
- Natural persons	
- Small and medium-sized businesses	
- Companies	
J) Exposures in default situations.	232,461
K) High-risk exposures. Of which:	
- Venture capital entities	
- Shares in other entities	
L) Guaranteed bonds. Of which:	
- Central government agencies and central banks	
- Regional government agencies and local authorities	
- Public sector entities and non-profit institutions	
- Multilateral development banks	
- International organisations	
- Credit institutions and investment service companies	
- Property	
- Asset securitisation vehicles	
M) Short-term exposures to institutions and companies. Of which:	
- Credit institutions and other companies and investment services	
- Companies	
N) Exposures to collective investment institutions	
Ñ) Other exposure	4,752,023
Exposure at 31 December 2012	**113,237,940**

Shown below is the average value during the 2012 financial year of the credit risk exposures, net of adjustments and impairment losses, to which the standard method has been applied to estimate the equity requirements for credit risk and dilution:

Risk category	**Average exposure amount (€Thousands)**
Central government agencies and central banks	11,167,864
Regional government agencies and local authorities	8,230,024
Public sector entities and non-profit institutions	5,195,628
Multilateral development banks	128,108
International organisations	556,881
Credit institutions and investment service companies	61,020,228
Companies	18,839,358
Retailers	205
Exposures guaranteed by intangible assets	
Non-performing exposures	329,813
High-risk exposures	
Guaranteed bonds	
Short-term exposures against institutions and companies	
Exposures against collective investment institutions	
Other exposures	4,146,605
Average exposure for 2012	**109,614,711**

5.3 Exposure by geographic distribution

Below is a breakdown of the Consolidable Group's credit risk exposure at 31 December 2012, net of the adjustments established under Rule 17 in the Solvency Circular and the impairment losses, as appropriate, broken down by geographic area:

Geographical Area	**Exposure amount (€Thousands)**
Spain	110,752,447
Rest of EU member states	1,044,288
Latin America	499,618
USA	595,698
Rest of Europe (non-EU)	-
Rest of the world	345,889
Exposure at 31 December 2012	**113,237 940**

5.4 Residual maturity of exposure

Shown below is the distribution of the Consolidable Group's credit risk exposure by residual maturity periods, net of adjustments and impairment losses, to which the standard method has been applied to estimate the capital requirements:

Risk category	Residual maturity period at 31 December 2012 (€Thousands)					
	Demand	**Up to 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**Over five years**	**Total**
A) Central government agencies and central banks	267,373	1,379,026	2,356,771	7,892,228	3,335,157	15,230,555
B) Regional government agencies and local authorities	193,260	996,773	1,703,498	5,704,581	2,410,685	11,008,797
C) Public sector entities and non-profit institutions	87,425	450,913	770,615	2,580,595	1,090,527	4,980,076
D) Multilateral development banks	1,306	6,736	11,511	38,549	16,290	74,392
E) International organisations	8,593	44,320	75,744	253,648	107,188	489,494
F) Credit institutions and investment service companies	967,609	4,990,621	8,529,031	28,561,558	12,069,759	55,118,577
G) Companies	374,821	1,933,208	3,303,875	11,063,840	4,675,441	21,351,185
H) Retailers	7	34	59	197	83	380
I) Exposures guaranteed by intangible assets.						
J) Exposures in default situations.	4,081	21,048	35,971	120,458	50,904	232,461
K) High-risk exposures.						
L) Guaranteed bonds.						
M) Securitisation positions						
N) Short-term exposures to institutions and companies						
Ñ) Exposures to collective investment institutions						
O) Other exposures	83,422	430,264	735,326	2,462,422	1,040,589	4,752,023
Exposure at 31 December 2012	**1,987,897**	**10,252,943**	**17,522,402**	**58,678,074**	**24,796,624**	**113,237,940**

5.5 Impaired positions by geographic distribution and counterparty

Impaired exposure by counterparty

Shown below is the value of impaired exposure and the delinquency situation at 31 December 2012, net of adjustments, broken down by counterparty type, together with the amount of impairment losses and the provisions for risks and contingencies set up thereon at said date, and the amount of the net impairment losses and the provisions for risks and contingencies thereon during the 2012 financial year (standard method in order to determine the capital requirements for credit risk):

Counterparty	Total Impaired exposure	Of which: Non-performing exposure	Losses due to impairment and provisions for contingent risks and commitments	Provisions for losses due to impairment and contingent risks and commitments for the year (net)
A) Central administrations and central banks				
B) Regional administrations and local authorities				
C) Public sector entities and non-profit organisations				
D) Multilateral development banks				
E) International organisations				
F) Credit entities and investment service companies				
G) Companies	1,282,967	232,461	1,316,426	584,033
H) Retailers				
I) Exposures guaranteed by intangible assets.				
J) High-risk exposures				
K) Guaranteed bonds. Of which from:				
- Central administrations and central banks				
- Regional administrations and local authorities				
- Public sector entities and non-profit organisations				
- Multilateral development banks				
- International organisations				
- Credit entities and investment service companies				
- Property				
- Asset securitisation vehicles				
L) Securitisation positions				
M) Short-term exposure to institutions and companies				
- Credit entities and other companies and investment services				
- Companies				
Ñ) Exposure to collective investment institutions				
O) Other exposures				
Amount at 31 December 2012	**1,282,967**	**232,461**	**1,316,426**	**584,033**

Impaired exposure by geographic area

Alternatively, the table below presents the value of impaired exposure and of the delinquent transactions at 31 December 2012, net of adjustments, broken down by significant geographic areas, together with the impairment losses amount and the provisions for risks and contingencies set up thereon:

Geographic Area	**Amount (€Thousands)**		
	Total Impaired exposure	**Of which: Non-forming exposure**	**Losses due to impairment and provisions for contingent risks and commitments**
Spain	1,282,967	232,461	1,316,426
Rest of EU member states			
Latin America			
USA			
Rest of Europe (non-EU)			
Rest of the world			
Amount at 31 December 2012	**1,282,967**	**232,461**	**1,316,426**

5.6 Variations in impairment losses and the provisions for risks and contingencies for credit risk during the 2012 financial year

The variations during the 2012 financial year in impairment losses and provisions for risks and contingencies for credit risk for the Group are in line with the provisions set forth in Bank of Spain Circular 4/2004, both for the type of loss and provisions set up, and as regards the methods used for their calculation (see section 5.1 above in this report).

The breakdown of the modifications carried out during the 2012 financial year in value corrections due to asset impairment and in risk and contingency commitment provisions due to credit risk are indicated below:

	Losses due to asset impairment	**Provisions for risks and contingencies**
Balance at 1 January 2012	**725,340**	**7,657**
Allowances charged to income	715,566	2,622
Recovery credited to income	(130,634)	(3,521)
Amounts applied during the financial year	(555)	
Effect of foreign exchange rate differences	(49)	
Variations produced by business combinations		
Variations in the consolidation perimeter		
Transfers		
Other movements		
Balances at 31 December 2012	**1,309,668**	**6,758**

Additionally, expenditure recorded in the 2012 consolidated income statement for the ICO Group in 2012 for items transferred directly to failed assets is nil, while the credit recorded in the consolidated income statement for the aforementioned financial year for the recovery of assets previously recorded as failed came to €8,459 thousand.

5.7 Information on the Group's counterparty credit risk

Counterparty credit risk is deemed to be the credit risk that the Group incurs in derivative financial instrument transactions and transactions with repurchase commitments, from security or commodity loans, in deferred liquidation and guarantee financing transactions.

It is controlled by a system that integrates the management of operations and the risks associated with them in real time, providing operators with updated information on the credit lines available at any moment.

The definition for derivatives which has been approved by the competent bodies in ICO is obtained using a consumption methodology of counterparty facilities based on the evaluation of transactions at market prices plus a potential future or add-on risk which is measured as a percentage of the nominal value of the transaction and is calculated as the maximum potential loss of 95% probability during the life of the transaction. The methodology is reviewed regularly and at least once a year, adjusting the add-ons at intervals of at least every six months.

Also, annually, the basic criteria for establishing counterparty facilities are approved by the ICO General Council. These counterparty facilities are divided into two large groups depending on ICO's operating characteristics. On one side, the counterparty facilities for cash transactions. On the other, the counterparty facilities for mediation operations, operations in which ICO financed different investment projects through framework programmes subscribed with various entities operating in Spain such as the *Líneas Pyme* SME facilities, for example.

In order to mitigate the counterparty risk exposure, ICO signed ISDA and CMOF (Financial Transaction Framework Agreement) contracts with the counterparties and, if applicable, the corresponding collateral annexes.

Regarding the management of collateral, in the case of derivatives, for entities subject to collateral agreements, our position is assessed periodically (usually every day) and, on that assessment, the parameters agreed in the agreement collateral are applied so as to obtain a collateral amount (cash) to receive from or return to the counterparty.

These amounts (margin calls) are performed on a weekly basis. The counterparty receiving the order for collateral payment reviews the valuation. Discrepancies may arise in this process. If such discrepancies are material, they are analysed in detail.

The collateral signed by ICO with the counterparties have the distinguishing feature of being "one way", only ICO counterparties are required to deposit collateral.

100% of the collateral received is cash therefore value adjustments for collateral impairment are not applicable.

Regarding the correlation between the guarantee and the guarantor in the derivatives, due to the fact that cash is received as collateral, there is no risk of adverse effects due to the existence of correlations.

Below is a breakdown of the Group's counterparty credit risk exposure for its derivative transactions at 31 December 2012, estimated as the amount of the Group's credit exposure to these financial instruments, net of the effects of the corresponding contractual compensation agreements and guarantees received from the transaction counterparties:

	€ Thousands
Positive fair value of the contracts	5,568,642
Less: Effects of compensation agreements	
Credit exposure after compensation	5,568,642
Less: Effect of the guarantees received	
Loans and receivables exposure in derivatives after compensation and guarantees	5,568,642

Shown below is the amount of the Consolidable Group's counterparty credit risk exposure at 31 December 2012 by counterparty credit risk, broken down by the methods applied to calculate the minimum capital requirements associated with this risk:

Method Applied	**Original exposure**
Mark-to-market valuation method	
Original risk method	
Standard method	5,568,642
Internal model method	
EXPOSURE at 31 DECEMBER 2012	**5,568,642**

The exposure value is calculated using the standard method. By applying this method, the exposure value is calculated separately for each netting set and is determined, net of collateral netting, by applying the calculation formula in Rule 74 of the Solvency Circular, and taking into consideration the particularities and calculation parameters specified in this Rule.

6. CREDIT RISK: STANDARD METHOD

6.1 Identification of the internal rating agencies used

Presented below is a list of the external rating agencies and export credit agencies for each category of credit risk exposure to which the standard method is applied whose ratings were being used by the Group at 31 December 2012:

Risk category	Assigned external rating agencies and export credit agencies
Central government agencies and central banks	Moody's / S&P / Fitch
Regional government agencies and local authorities	Moody's / S&P / Fitch
Public sector entities and non-profit institutions	Moody's / S&P / Fitch
Multilateral development banks	Moody's / S&P / Fitch
International organisations	Moody's / S&P / Fitch
Credit institutions and investment service companies	Moody's / S&P / Fitch
Companies	Moody's / S&P / Fitch
Retailers	Moody's / S&P / Fitch
Exposures guaranteed by intangible assets	Moody's / S&P / Fitch
Non-performing exposures	Moody's / S&P / Fitch
High-risk exposures	Moody's / S&P / Fitch
Guaranteed bonds	Moody's / S&P / Fitch
Securitisation positions	Moody's / S&P / Fitch
Short-term exposures to institutions and companies	Moody's / S&P / Fitch
Exposures to collective investment institutions	Moody's / S&P / Fitch
Other exposures	Moody's / S&P / Fitch

The Group only uses the external credit rating agencies (ECAI) recognised by the Bank of Spain:

- Moody´s
- Standard & Poor´s
- Fitch Ratings

6.2 Description of the process of assigning external credit ratings for determining weighted exposure due to credit risk

The assignation regulation is applied that defines Rule TWENTY-ONE of Bank of Spain Circular 3/2008:

- When only a credit rating is available for a rated exposure, this rating will be used to determine the risk weighting.
- When there are two credit ratings for a rated exposure and these ratings correspond to two different risk weightings, the higher risk weighting shall be applied to the exposure.
- When there are more than two credit ratings for a rated exposure, the two ratings are used that provide the lowest weightings shall be used. In the event that they do not coincide, the highest of the two will be applied.

6.3 Effects on risk exposure of the application of risk reduction techniques and exposure deducted directly from capital

Below is a breakdown of the Group's credit risk exposure at 31 December 2012, estimated using the standard method, before and after applying the risk reduction techniques provided for in the Solvency Circular, distributed by exposure category and creditworthiness (measured based on the percentage applied to calculate the weighted risk exposure):

Risk category	Exposure before applying techniques to reduce risks	Exposure after applying techniques to reduce risks
Central government agencies and central banks	15,230,555	15,229,290
Regional government agencies and local authorities	11,008,797	11,174,410
Public sector entities and non-profit institutions	4,980,076	4,900,087
Multilateral development banks	74,392	74,392
International organisations	489,494	489,494
Credit institutions and investment service companies	55,118,577	55,305,785
Companies	21,351,185	21,079,618
Retailers	380	380
High-risk exposures		
Guaranteed bonds		
Short-term exposures to institutions and companies		
Non-performing exposures	232,461	232,461
Exposure to collective investment institutions		
Other exposures	4,752,023	4,752,023
TOTAL EXPOSURE	**113,237,940**	**113,237,940**

Risk weightings	Exposure before applying techniques to reduce risks	Exposure after applying techniques to reduce risks
0%	22,901,811	21,417,881
10%		
20%	77,134,892	77,305,642
35%		
50%	459,078	459,078
75%	351	351
100%	12,381,097	13,694,277
150%	360,711	360,711
200%		
TOTAL EXPOSURE	**113,237,940**	**113,237,940**

The Group has no credit risk exposure deducted directly from capital.

7. SECURITISATION OPERATIONS

7.1 General information on securitisation activity

In order to reduce credit risk held by the Institute with Spanish financial institutions resulting from Second-Floor Facilities granted since 2001 and to avoid the concentration of risk in the same, in 2007, a securitisation operation was carried out, which allowed more standardised management of the Institute's credit risk.

Hence, on 8 March 2007, ICO y Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización (SGFT), constituted the Securitisation Fund called "ICO-MEDIACIÓN AyT, FTA" for the sum of €14,099,000 thousand. The assets of this Fund consisted of the receivables from loans that ICO had granted to financial institutions through its Second-floor facilities since 2001. The volume of bonds issued by the Securitisation Fund, amounting to €13,169,000 thousand, was completed with a syndicated loan of €930,470 thousand, as such the total amount of the transaction came to the value recorded. In addition, the Fund as a credit enhancement, had a credit facility of €169,000 thousand. ICO performed the functions of originator, transferor and financial agent of the transaction.

On 28 December 2012, the Institute proceeded to repurchase the outstanding amount of the subordinated loans associated with the origination of the transaction to the lending financial institutions. It also acquired the credit line loan associated with the transaction, for its residual amount. As a result of these acquisitions, ICO assumed the risks and benefits associated with ownership of the receivables transferred to third parties at the time, subsequently on that date it proceeded to reregister the outstanding amount of the securitised loans on the balance sheet, registering the corresponding associated financial liability as counterparty. Similarly, the bonds associated with this transaction were reclassified according to their outstanding balance at 31 December 2012, for presentation on the balance sheet under the heading "Shares issued" under liabilities.

Accordingly, and with the aforementioned, the original positions affected by this securitisation were recorded on the balance sheet of the Group at 31 December 2012, being considered for the capital requirements for credit, counterparty and delivery risk.

On July 30 2010, the Institute conducted a new asset transfer operation as securitisation of receivables from loans that ICO granted to financial institutions through its Second-Floor Facilities 2007-2010 amounting to €22,868,713 thousand.

The aforementioned securitisation operation was performed by establishing the securitisation Fund called “ICO-MEDIACIÓN AyT, FTA II” (hereinafter, the Securitisation Fund). The assets of this Fund were established by the transferred receivables, these acting as collateral for both the issue of bonds amounting to €14,864,700 thousand and the other remaining elements of the liabilities of the fund and which basically included a subordinated loan of €8,004,013 thousand, with a payment priority order that later than the previously mentioned bonds and that was also subscribed by ICO. The aforementioned bond issue was fully subscribed by the Institute. The aforementioned issue was accepted for trading on AIAF Fixed Income Market and rated by the rating agency FITCH with a credit rating of AAA.

In this operation, according to the criteria described in Note 2.2.2. and the provisions of Rule 23 of Bank of Spain Circular 4/2004, the risks and benefits associated with ownership of the transferred receivables have not been transferred substantially to third parties, due to the subscription of the subordinated loan by ICO, and as such, the securitised loans have not been written off the balance sheet.

Accordingly, and with the above, the original positions affected by this securitisation remained on the Group's balance sheet, being considered for the capital requirements for credit, counterparty and delivery risk.

All the Group's securitisation operations are considered traditional securitisation operations and there have been no synthetic securitisation operations carried out either during the 2012 financial year or in previous years.

The criteria for writing assets subject to securitisation off the balance sheet and the criteria for recognition of income in the case mentioned, are included in Note 2 of the consolidated report of 31 December 2012.

7.2 Exposure in securitisation operations and amount of securitised assets

At 31 December 2012, the Group had no securitisation positions to which the Group could apply the treatment set out under Chapter Four, Section Four of the Solvency Circular for the purposes of calculating the capital requirements for credit risk.

8. CREDIT RISK REDUCTION TECHNIQUES

8.1 General information

The Group generally applies the credit risk reduction techniques set out under Chapter Four, Section Three of the Solvency Circular, according to the guarantees received on risk positions.

These guarantees can be personal (including credit derivatives) or collateral (including those of a financial nature), assessing these effects by the credit enhancement that incorporates the external rating of the guarantor (personal guarantees) or by market parameters in the case of collateral.

8.2 Policies and processes for netting positions

The concept of netting refers to the possibility of compensating between contracts of the same type, under the umbrella of a framework agreement such as the ISDA or similar.

This consists of the compensation of positive and negative market values from derivatives transactions that we have with a particular counterparty, so that in the event of default by this counterparty, we are owed (or we owe, if the net is negative) a single net amount and a set of positive or negative values for each transaction that we have closed with the counterparty. Since one of the components of counterparty risk is the market value, by obtaining a net market value of the transactions the risk is reduced, as the positives will be impaired by the negatives, whereas if there was no netting, the negatives would not have an effect as they would be zero.

An important aspect regarding framework contracts is that they constitute a single legal obligation that covers all the transactions that it covers. This is essential when it is possible to offset the risks of all the transactions under said contract with the same counterparty.

Netting clauses are included regardless of the enforceability of the same, in order to benefit from the provisions of various laws. That is, the inclusion of these agreements does not imply netting will automatically be considered when calculating exposure to counterparty risk with individual counterparties. Such exposure should be calculated under the applicable regulations in each of the jurisdictions involved.

8.3 Policies and processes for managing and valuing collateral

Collateral agreements are a set of tools, in our case cash deposited by a counterparty in favour of another to guarantee/reduce any counterparty credit risk there may be, resulting from the portfolios of operations with risk existing between them.

The nature of these agreements is diverse, but whatever the specific form of collateral, the ultimate goal, as in the technique of netting, is to reduce counterparty risk by the "recovery" of some or all of the benefits (credit granted to the counterparty) generated at a moment in time by the operation (valued at market prices).

8.4 Quantitative information

The following table shows the distribution of the Group's credit risk exposure at 31 December 2012, broken down according to the application or not of credit risk reduction techniques, and where appropriate, the reduction technique applied (the exposure data refers to exposure prior to implementation of the risk reduction applied):

	Exposure value (€Thousands)
A) Exposures to which a credit risk reduction technique is not applied	104,579,111
B) Exposures to which a credit risk reduction technique is applied	8,658,829
- Balance sheet netting agreements	-
- Netting framework agreements relating to operations with repo commitment, securities lending transactions, commodities or other capital market transactions	-
- Collateral (1)	-
- Other collateral (2)	8,658,829
- Hedging based on personal guarantees	-
- Hedging using credit derivatives	-

(1) Includes operations secured by debt securities, shares, receivables and in rem real estate rights accepted by the Solvency Circular as a credit risk reduction technique.

(2) Includes cash deposits, certificates of deposit and similar instruments held in third party entities other than those in the Group pledged in favour of the entities of said Group, the life insurance policies pledged in favour of the Group's entities issued by insurance companies recognised as coverage providers in accordance with paragraph 1 of Rule 40 of the Solvency Circular and debt securities issued by other institutions not included in number (1) above which would receive a maximum of 50% according with the provisions of Rule 16 of the Solvency Circular which must be repurchased at a predetermined price by the issuing institutions at the request of the securities holder.

The following table shows the value of exposures at 31 December 2012 covered by applying risk reduction techniques using collateral (standard method):

Risk category	€ Thousands		
	Hedging with other collateral	**Hedging with collateral**	**Total**
Central government agencies and central banks	1,265		1,265
Regional government agencies and local authorities	3,377,995		3,377,995
Public sector entities and non-profit institutions	4,697,215		4,697,215
Multilateral development banks			
International organisations			
Credit institutions and investment service companies			
Companies	582,354		582,354
Retail			
Exposures guaranteed by intangible assets			
Non-performing exposures			
High-risk exposures			
Guaranteed bonds			
Securitisation positions			
Short-term exposures to institutions and companies			
Exposures to collective investment institutions			
Other exposures			
TOTAL EXPOSURE	**8,658,829**		**8,658,829**

9. INFORMATION ON TRADING PORTFOLIO MARKET RISK

For the purposes of calculating the capital requirements associated with the trading portfolio, it should be noted that the bank considers as such those positions in financial instruments held with the intention of trading or which serve as hedging for elements in said portfolio. Therefore, for the purposes of calculating the Group's capital requirements, there is no difference between the trading portfolio and the trading portfolio defined pursuant to the provisions of Bank of Spain Circular 4/2004, dated 22 December, with respect to debt securities and equity instruments.

Below is the amount of the capital requirements associated with the trading portfolio at 31 December 2012:

	Capital requirements for the trading portfolio (€Thousands)
Requirements for position risk	-
Requirements for liquidation risk	-
Requirements for counterparty credit risk	6,556
Total capital requirements	**6,556**

10. METHODS APPLIED WHEN CALCULATING THE CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The Group uses the Basic Indicator Approach for calculating its capital requirements associated to its operational risk as defined by RULE NINETY-SIX of Solvency Circular 3/2008:

- *"The capital requirements for operational risk will be determined by the relevant average revenue on the income statement for the last three financial years multiplied by the weighting coefficient of 15%."*

At 31 December 2012, said requirements came to €86,006 thousand.

11. MARKET REPORTING REQUIREMENTS: INFORMATION ON REMUNERATION

According to Circular 4/2011, of 30 November, amending Circular 3/2008, Rule 117 bis, provides for the obligation to include information on the compensation policies and practices for the executives of the Entities in their Prudential Relevance report. In this sense, the ICO is not affected by this legislation provided which, without prejudice to having established a formal policy approved by the General Council, under the terms determined by Circular 3/2008, being a Public Business it is subject to Royal Decree 451/2012, of 5 March, regulates the remuneration of the Managing directors and executive directors of public companies and other entities, and, in addition, is subject to the approval of the CIR Executive Committee (Interministerial Committee on Remuneration) with matters involved in determining remuneration of personnel not included in the Entity's collective agreement. Accordingly, the remuneration of the directors of ICO is limited to compliance with the regulations cited above, preventing the competent bodies from passing retributive measures other than those referred to in the aforementioned regulations.

12. INFORMATION ON SHARES AND CAPITAL INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

Note 2.1 of the Group's consolidated report for 2012 includes a description of the portfolios in which the shares and capital instruments owned by the bank are classified, together with the booking and valuation accounting criteria applied to each one. This Note also indicates the models and assumptions applied to determine the value of the instruments included in each portfolio. During the 2012 financial year there were no changes with a significant effect on the practices and hypotheses used by the Group to value its shares and capital instruments.

The Group holds shares and capital instruments for different purposes. In this respect, it has shares in entities with varying degrees of involvement in their management and decision-making, with which it seeks to achieve the objectives comprising the Group's strategy and objectives as a whole and/or in which there is an intention for permanency in the shareholding (“strategic shares”). It likewise holds shares in other entities with different objectives and which are basically oriented towards maximising the income obtained via their co-ordinated management with the objectives and strategies of the Group's risk management (“held-for-sale portfolios”)

In general, the shares and capital instruments owned by the Group for strategic purposes are entered into the accounts classified companies of the Group, associate and multigroup companies, while those shareholdings held for sale and which do not form part of the trading portfolio are classified as financial assets available for sale.

Appendix 1 of the consolidated report for the financial year 2012 includes a detailed description of the ICO Group's investments, with information on the investees, the carrying value of these investments and their fair value, which coincides with their net book value.

Note 8 to the consolidated report for the financial year 2012 indicated the types, nature and amounts of exposures in investments and equity instruments held for sale.

Gains or losses recorded in equity during the period are included in this note and in note 21 to the Group's consolidated report for the financial year 2012.

There were no unrealised gains or losses not recorded on the balance sheet during financial year 2012.

There were no gains or losses during 2012 as a result of the sale or liquidation of equity instruments not included in the trading portfolio.

13. INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO

Interest rate risk is the risk to which the Group is exposed during its activities in asset and liability operations with different interest rates (fixed or floating interest rates or pegged to different indexes) and with different maturity dates, with which the upward or downward variations in the reference interest rates for said operations can produce uneven effects in its assets and liabilities, which in turn affect the Group's income statement and net worth.

Interest rate risk is managed integrally by the Group for all its entities with significant positions exposed to this risk. The Group measures and analyses this risk taking into account the following aspects and based on the following premises:

- The risk is measured and analysed constantly.
- Analysis is carried out on the possible effects that variations in the interest rates of the currencies with a significant exposure could have on the Group's results and the various income statement margins.
- The analyses include all positions that are susceptible to interest rate risk, including derivatives on interest rate, whether implicit or explicit.
- The effects of the movements of parallel and instantaneous interest rates are studied for each currency, defined on percentiles of 1% and 99% of the variations of the interest rates for each currency, calculated with a time threshold of 240 days and over a 5-year history.
- Separate measurements are carried out of the interest rate for each position held in each currency and aggregate measures of the interest rate for all of them.

On the basis of the aforementioned analyses, the Group takes the necessary steps to guarantee optimum management of said risk.

Note 5 in the report on the Group's annual accounts for the 2012 financial year includes information regarding the level of exposure in the net worth and the income statement in terms of the reasonable future changes in the levels of the prevailing interest rates with a breakdown by the most relevant currencies. This information takes into account the effects of hedging by analysing the result of an increase and reduction of 100 basis points in the interest rates or that which is most significant for each currency, as well as certain information on interest rate sensitivity, and the criteria that have been applied to prepare said information, with all the relevant hypotheses that have been taken into consideration.