INSTITUTO DE CRÉDITO OFICIAL

Consolidated Financial Statements at 31 December 2012
and Consolidated Management Report tor 2012

INFORME DE AUDITORÍA DE CUENTAS CONSOLIDADAS

INSTITUTO DE CRÉDITO OFICIAL

EJERCICIO 2012

OFICINA NACIONAL DE AUDITORÍA

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ÍNDICE

I. INTRODUCCIÓN

La Intervención General de la Administración del Estado, a través de la Oficina Nacional de Auditoria, en uso de las competencias que le atribuye el artículo 168 de la Ley 47/2003, de 26 de noviembre, General Presupuestaria, ha realizado el presente informe de auditoría de cuentas consolidadas del Instituto de Crédito Oficial (ICO).

Las cuentas anuales consolidadas del Instituto de Crédito Oficial y sus sociedades dependientes correspondientes al ejercicio 2012 fueron formuladas por su Presidente el 30 de marzo de 2013 y puestas a disposición de esta Oficina Nacional de Auditoría el 25 de abril de 2013.

El trabajo de auditoría se ha realizado por la empresa Ernst & Young, S.L, en el marco del contrato suscrito entre el Ministerio de Economía y Hacienda y dicha empresa a propuesta de la Intervención General de la Administración del Estado (IGAE). Dicho trabajo ha sido objeto de una revisión selectiva por funcionarios de la Oficina Nacional de Auditoría en los términos establecidos en el pliego de prescripciones técnicas que rige el mencionado contrato.

El presente informe recoge la opinión de los auditores de la Intervención General de la Administración del Estado y ha sido realizado de acuerdo con las Normas de Auditoría del Sector Público.

II. OBJETIVO Y ALCANCE DEL TRABAJO

El objetivo de nuestro trabajo es comprobar si las cuentas anuales consolidadas examinadas presentan en todos los aspectos significativos la imagen fiel del patrimonio consolidado, de la situación financiera consolidada, de los resultados consolidados, de los cambios del patrimonio neto consolidado y de los flujos de efectivo consolidados del Instituto de Crédito Oficial y de sus sociedades dependientes de acuerdo con las normas y principios contables que son de aplicación y contienen la información necesaria para su interpretación y comprensión adecuada. Asimismo, el trabajo ha comprendido la revisión de que la información contable incluida en el informe de gestión consolidado concuerda con la contenida en las cuentas anuales consolidadas y se ha elaborado de acuerdo con su normativa reguladora.

El examen comprende el balance de situación consolidado a 31 de diciembre de 2012, la cuenta de pérdidas y ganancias consolidada, el estado de cambios en el patrimonio neto consolidado, el estado de flujos de efectivo consolidado y la memoria de las cuentas anuales consolidadas correspondientes al ejercicio anual terminado en dicha fecha.

De acuerdo con la legislación vigente se presentan a efectos comparativos, con cada una de las partidas del balance de situación consolidado, de la cuenta de pérdidas y ganancias consolidada, del estado de cambios en el patrimonio neto consolidado, del estado de flujos de efectivo consolidado, y de la memoria de cuentas anuales consolidadas, además de las cifras del ejercicio 2012, las correspondientes al ejercicio anterior. Nuestra opinión se refiere exclusivamente a las cuentas anuales consolidadas del ejercicio 2012. Con fecha 27 de abril de 2012 esta Oficina Nacional de Auditoría emitió un informe de auditoría de las cuentas anuales consolidadas del ejercicio 2011, en el que se expresó una opinión favorable.

La información relativa a las cuentas anuales a que se refiere este informe de auditoría queda contenida en el ficheroGB0721_2012_F_130425_125734_Cuentas.zip cuyo resumen electrónico es F4FC223ADC29A695537068DE5ED3A119 que está depositado en la aplicación CICEP.red de la Intervención General de la Administración del Estado.

En el desarrollo de nuestro trabajo no ha existido ninguna limitación en la aplicación de las normas y procedimientos de auditoría.

III. OPINIÓN

En nuestra opinión, las cuentas anuales consolidadas del Instituto de Crédito Oficial y sus sociedades dependientes correspondientes al ejercicio 2012 representan, en todos los aspectos significativos, la imagen fiel del patrimonio consolidado, de la situación financiera consolidada, de los resultados consolidados de sus operaciones, de los cambios en el patrimonio neto consolidado y de sus flujos de efectivo consolidados y contienen la información necesaria para su interpretación y comprensión adecuada, de conformidad con las normas internacionales de información financiera adoptadas por la Unión Europea, que guardan uniformidad con las aplicadas en la preparación de las cifras correspondientes al ejercicio anterior presentadas a efectos comparativos.

Concordancia del informe de Gestión Consolidado

De acuerdo con la normativa reguladora la Entidad elabora, junto con las cuentas anuales consolidadas, un Informe de Gestión consolidado. El informe de gestión, consolidado adjunto contiene las explicaciones que el Presidente de la Entidad dominante considera oportunas sobre la situación del Grupo, la evolución de sus negocios y sobre otros asuntos, y no forma parte integrante de las citadas cuentas anuales consolidadas.

Nuestro trabajo se ha limitado a verificar que el mismo se ha elaborado de acuerdo con su normativa reguladora y que la información contable que contienen concuerda con la de las cuentas anuales consolidadas auditadas.

El presente informe de auditoría ha sido firmado electrónicamente a través de la aplicación Cicep.red de la Intervención General de la Administración del Estado por Don Ángel Manuel Álvarez Capón, Jefe de División de la Oficina Nacional de Auditoría, y por Doña Mª Ángeles Trigo Quiroga, Auditor Nacional, en Madrid a 30 de abril de 2013.

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011
(Expressed in thousand Euros)

ASSETS	2012		2011	
Cash and deposits at central banks (Note 6)	**284,350**		31,122	
Trading portfolio (Note 7)	**554,945**		**451,799**	
Debt securities	-		-	
Equity instruments	-		-	
Derivates far trading	554,945		451,799	
Memorandum item: By the way of loan or guarantee	-		-	
Other financial assets at fair value with changes in the income statement	**-**		**-**	
Available-for-sale financial assets (Note 8)	**201,633**		**1,026,712**	
Debt securities	-		854,293	
Other equity instruments	201,633		172,419	
Memorandum item: By the way of loan or guarantee	-		-	
Credits, loans and discounts (Note 9)	**91,142,453**		**80,134,758**	
Deposits at credit institutions	46,494,074		50,092,403	
Customer loans	44,648,379		30,042,355	
Debt securities	-		-	
Memorandum item: By the way of loan or guarantee	*12,209,811*		*17,022,077*	
Held-to-maturity investment portfolio (Note 10)	**19,440,338**		**7,412,672**	
Memorandum item: By the way of loan or guarantee				
Adjustments to financial assets due to macro-hedging				
Hedging derivatives(Note 11)	**3,019,268**		**5,206,759**	
Non-current assets for sale(Note 12)	**1,353**		**2,151**	
Shareholdings(Note 13)	**51,621**		**49,544**	
Associates	51,621		49,544	
Jointly Control Entities	-		-	
Pension insurance contracts	**-**		**-**	
Property, plant and equipment (Note 14)	**98,561**		**100,325**	
Fixed Assets	98,561		100,325	
For own use	98,561		100,325	
Real estate investment	-		-	
Memorandum item: Acquired under finance lease	-		-	
Intangible assets (Note 15)	**8,037**		**10,736**	
Other intangible assets	8,037		10,736	
Tax assets (Note 16)	**165,488**		**166,122**	
Current	18,890		2,154	
Deferred	146,598		163,968	
Other assets (Note 17)	279,541		2,557	
TOTAL ASSETS		**115,247,588**		**94,595,257**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011
(Expressed in thousand Euros)

LIABILITIES	2012	2011
Trading portfolio (Note 7)	**553,234**	**442,959**
Derivates held for trading	553,234	442,959
Other financial liabilities at fair value with changes in the income statement	**-**	**-**
Financial liabilities at amortised cost (Note 19)	**109,582,729**	**89,252,076**
Central bank deposits	20,000,000	375,126
Credit Institution deposits	5,127,447	4,333,080
Customer funds	8,076,351	11,334,294
Money market operations through	72,762,718	69,112,721
Subordinated debt Financing	-	-
Other financial liabilities	3,616,213	4,096,855
Adjustments to financial liabilities due to macro-hedging	**-**	**-**
Hedging derivatives (Note 11)	**337,575**	**670,691**
Liabilities associated with non-current assets for sale	**-**	**-**
Provisions (Note 20)	**305,346**	**414,059**
Provisions for pensions and similar obligations	124	173
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	26,158	27,057
Other provisions	279,064	386,829
Tax liabilities (Note 16)	**49,282**	**107,245**
Current	1,893	1,668
Deferred	47,389	105,577
Other liabilities (Note 18)	**262,645**	**4,542**
Capital classified as financial liabilities	**-**	**-**
TOTAL LIABILITIES	**111,090,811**	**90,891,572**
EQUITY		
Valuation adjustments (Note 21)	**69,862**	**205,632**
Available-for-sale financial assets	17,913	24,848
Cash-flow hedging	51,949	180,784
Exchange differences	-	-
Own Funds (Note 22)	**4,086,915**	**3,498,053**
Capital or endowment fund	3,230,234	2,700,837
Share premium	-	-
Reserves	792,610	750,624
Accumulated reserves	792,610	750,624
Retained earnings	-	-
Other equity instruments	-	-
Profit and loss for the period	64,071	46,592
Less: Dividends and remuneration	-	-
TOTAL EQUITY	**4,156,777**	**3,703,685**
TOTAL EQUITY AND LIABILITIES	**115,247,588**	**94,595,257**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011
(Expressed in thousand Euros)

MEMORANDUM ITEM	2012	2011
Contingent risks (Note 24)	**1,928,016**	**2,501,159**
Financial guarantees	1,928,016	2,501,159
Contingent commitments (Note 24)	**6,115,510**	**16,498,696**
Drawable by third parties	5,598,582	15,993,051
Other commitments	516,928	505,645

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS ENDED 31 DECEMBRE 2012 AND 2011

(Expressed in thousand Euros)

	2012	2011
Interest and similar income (Note 25)	**3,470,877**	**2,624,890**
Interest and similar charges (Note 26)	**(2,710,811)**	**(2,190,346)**
NET INTEREST INCOME	**760,066**	**434,544**
Return on equity instruments (Note 27)	**370**	**951**
Share of results of entities accounted for using the equity method (Note 28)	**2,224**	**2,909**
Fee and commission income (Note 29)	**46,802**	**49,637**
Fee and commission expense (Note 29)	**(18,984)**	**(4,278)**
Gains or losses on financial assets and liabilities (net) (Note 30)	**10,153**	**(5,220)**
Derivates held for trading	10,153	(5,220)
Other	-	-
Exchange differences (net) (Note 2.4)	**628**	**(1,989)**
Other operating income (Note 32)	**5,368**	**3,141**
Other operating expenses	**-**	**-**
GROSS OPERATING INCOME	**806,627**	**479,695**
Administrative expenses:	**(32,118)**	**(36,626)**
Personnel expenses (Note 31)	(18,090)	(19,158)
Other administrative expenses (Note 32)	(14,028)	(17,468)
Depreciation and amortization	**(7,421)**	**(6,939)**
Tangible assets (Note 14)	(2,416)	(2,564)
Intangible assets (Note 15)	(5,005)	(4,375)
Provisions expense (net) (Note 20)	**(72,510)**	**(141,197)**
Financial asset impairment losses (net)	**(605,812)**	**(230,925)**
Loans and receivables (Note 9)	(605,812)	(230,925)
Other financial instruments not valued at fair value (Notes 8 and 10)	.-	-
NET OPERATING PROFIT	**88,766**	**64,008**
Losses for impairment of other assets (net)	**(909)**	**(2,269)**
Goodwill and other intangible assets	(1)	(2,137)
Other assets	(908)	(132)
Gains/ (Losses) on disposal of assets not class. As non-current assets held for sale	**234**	**(31)**
Negative difference on business combinations	**-**	**-**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**-**	**-**
PROFIT BEFORE TAX	**88.091**	**61,708**
Income tax (Note 23)	**(24,019)**	**(15,116)**
PROFIT FOR THE PERIOD FROM ONGOING OPERATIONS	**64,071**	**46,592**
CONSOLIDATED NET PROFIT FOR THE YEAR	**64,071**	**46,592**
Profit attributable to the parent company	64,071	46,592
Profit attributable to minority interest	-	-

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

I. CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Expressed in thousand Euros)

	2012	2011
Profit for the year	**64,071**	**46,592**
Other income and expenses recognized	**(135,770)**	**65,914**
Available-for-sale financial assets	**(9,907)**	**(3,907)**
Profit/loss valuation	(9,907)	(3,907)
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Hedging of cash flows	**(184,050)**	**98,070**
Profit/loss valuation	(184,050)	98,070
Amounts transferred to profit and loss account	-	-
Amounts transferred to initial carrying amount of hedged items	-	-
Reclassifications	-	-
Hedges of net investments in foreign	-	-
Profit/loss valuation	-	-
Amounts transferred to profit and loss account	-	-
Income tax	-	-
Exchange differences	-	-
Gains/losses on conversion	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Non-current assets for sale	-	-
Valuation gains	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Gains (Losses) in pension actuarial	-	-
Other income and expenses recognized	-	-
Income tax	58,187	(28,249)
TOTAL RECOGNIZED INCOME AND EXPENSES	**(71,699)**	**112,506**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

II. CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Expressed in thousand Euros)

At December 31, 2012	NET ASSETS ATTRIBUTED TO THE PARENT ENTITY												
	SHAREHOLDERS EQUITY												
			Reserves										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) entities accounted for participation method	Other equity instruments	Less: Treasury shares	Result attributed to the dominant entity	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total	Minority interests	Total Net Equity
Ending Balance at December 31, 2011	**2,700,837**	**-**	**745,248**	**5,376**	**-**	**-**	**46,592**	**-**	**3,498,053**	**205,632**	**-**	**-**	**3,703,685**
Total income and expenses recognized	-	-	-	-	-	-	64,071	-	64,071	(135,770)	-	-	71,699
Other changes in net worth:	**529,397**	**-**	**42,530**	**(544)**	**-**	**-**	**(46,592)**	**-**	**524,791**	**-**	**-**	**-**	**524,791**
Increases in capital endowment	529,397	-	-	-	-	-	-	-	529,397	-	-	-	529,397
Reductions in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	46,592	-	-	-	(46,592)	-	-	-	-	-	-
Other increases (decreases) in equity			(4,026)	(544)					(4,606)				(4,606)
Ending Balance at December 31,2012	**3,230,234**	**-**	**787,778**	**4,832**	**-**	**-**	**64,071**	**-**	**4,086,915**	**69,862**	**-**	**-**	**4,156,777**

At December 31, 2011	NET ASSETS ATTRIBUTED TO THE PARENT ENTITY												
	SHAREHOLDERS EQUITY												
			Reserves										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) entities accounted for participation method	Other equity instruments	Less: Treasury shares	Result attributed to the dominant entity	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total	Minority interests	Total Net Equity
Ending Balance at December 31, 2010	**2,351,448**	**-**	**713,874**	**1,284**	**-**	**-**	**29,960**	**-**	**3,096,566**	**139,718**	**-**	**-**	**3,236,284**
Total income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**-**	**46,592**	**-**	**46,592**	**65,914**	**-**	**-**	**112,506**
Other changes in net worth:	**349,389**	**-**	**31,374**	**4,092**	**-**	**-**	**(29,960)**	**-**	**354,895**	**-**	**-**	**-**	**354,895**
Increases in capital endowment	349,389	-	-	-	-	-	-	-	349,389	-	-	-	354,389
Reductions in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	29,960	-	-	-	(29,960)	-	-	-	-	-	-
Other increases (decreases) in equity	-	-	1,414	4,902	-	-	-	-	5,505	-	-	-	5,505
Ending Balance at December 31,2011	**2,700,837**	**-**	**745,248**	**5,376**	**-**	**-**	**46,592**	**-**	**3,498,053**	**205,632**	**-**	**-**	**3,703,685**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Expressed in thousand Euros)

	2012	2011
A. CASH FLOWS FROM OPERATING ACTIVITIES	**11,749,994**	**2,341,334**
1. Consolidated income for the year	**64,071**	**46,592**
2 Adjustments to result:	**710,535**	**395,426**
Depreciation and amortization	7,421	6,939
Other adjustments	703,114	388,487
3. Net increase/decrease in operating assets	**(9,224,486)**	**(14,347,762)**
Trading portfolio	(103,146)	146,624
Other financial assets at fair value with changes in the income statement	-	-
Available-for-sale financial assets	825,080	234,673
Credits, loans and discounts	(11,007,696)	(13,967,917)
Other operating assets	1,061,276	(761,142)
4 Net increase/decrease in operating liabilities	**20,257,203**	**16,240,484**
Trading portfolio	110,275	(109,657)
Other financial liabilities at fair value with changes in the income statement	-	-
Financial liabilities at amortised cost	20,330,654	17,052,938
Other operating liabilities	(183,726)	(702,797)
5. Collections/payments for income tax	**(57,329)**	**6,594**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**(12,026,163)**	**(3,083,657)**
6. Payments	**(27,891,288)**	**(29,455,487)**
Tangible assets	(891)	(362)
Intangible assets	-	(2,806)
Shareholdings	(2,077)	(13,265)
Other business units	-	-
Non-current assets and liabilities associated for sale	(1,004)	(260)
Held-to-maturity investment portfolio	(27,887,316)	(29,438,794)
Other payments related to investing activities		
7. Collections	**15,865,125**	**26,371,830**
Tangible assets	1,544	335
Intangible assets	2,700	-
Shareholdings	-	45,664
Other business units	-	-
Non-current assets and liabilities associated for sale	1,231	7,530
Held-to-maturity investment portfolio	15,859,650	26,318,301
Other collections related to investing activities	-	-

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

(Expressed in thousand Euros)

	2012	2011
C. CASH FLOWS FROM FINANCING ACTIVITIES	**529,397**	**349,389**
8. Payments	-	-
Dividends	-	-
Subordinated debt financing	-	-
Equity instruments amortizations	-	-
Own equity instruments purchased	-	-
Other finances received	-	-
9. Collections	529,397	349,389
Subordinated debt financing	-	-
Issue own equity instruments	-	-
Disposal own equity instruments	-	-
Other finances charged	529,397	349,389
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**253,228**	**(392,934)**
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**31,122**	**424,056**
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**284,350**	**31,122**
MEMORANDUM ITEM	-	-
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	-	-
Cash	**7**	**12**
Cash equivalent balances with central banks	**284,343**	**31,110**
Other financial balances	-	-
Less: bank overdrafts repayable	-	-

INSTITUTO DE CRÉDITO OFICIAL

Notes to the consolidated financial statements for the year ended 31 December 2012

1. Introduction, basis of presentation and other information

1.1 Introduction

The Instituto de Crédito Oficial (hereinafter the Institute or ICO) was created by Law 13/1971 (19 June) on Official Credit Organisation and System was regulated, up until the publication of Royal Decree Law 12/1995 (28 December) on Urgent Budget, Tax and Financial Measures, by the provisions of Article 127 of Law 33/1987 (30 December) on the General State Budgets for 1988 and some provisions of Law 13/1971 that were not repealed.

The Institute is domiciled at Paseo del Prado, 4, in Madrid, where it carries out all of its activities and it does not have any office network.

The Institute is a public business entity in accordance with the provisions of Article 43.1.b) of Law 6/1997 (14 April), on the Organisation and Operation of the General State Administration and pertains to the Ministry of Finance and Competitiveness through the Secretary of State for Finance and Company Support; it is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finances, as well as management autonomy to fulfil its purposes.

The Secretary of State for Finance and Company Support is responsible for the strategic management of the Institute, as well as for the evaluation and control of the results of its activities.

The Institute is governed by the provisions of Law 6/1997 (14 April) on the Organisation and Operation of the General State Administration, through Additional Provision Six of Royal Decree-Law 12/1995 (28 December), on Urgent Budget, Tax and Financial Measures, by applicable provisions of the General Budget Act approved by Legislative Royal Decree 1091/1998 (23 September), by its bylaws, approved by Royal Decree 706/1999 (30 April), on the adaptation of Instituto de Crédito Oficial to Law 6/1997 (14 April) and the approval of its bylaws (Official State Gazette 114 published on 13 May 1999), and any matters not covered by the above are governed by the special legislation applicable to credit institutions and general civil, mercantile and employment legislation.

The Institute's purpose is to sustain and promote economic activities that contribute to growth and the improvement of national wealth distribution and, in particular, all those that are deserving of support due to their social, cultural, innovative or ecological importance.

When pursuing these aims, the Institute must completely respect the principles of financial balance and the adaptation of means to purposes.

The Institute also has the following duties:

a) Contribute to the mitigation of the economic effects deriving from serious economic recessions, natural catastrophes or similar situations, in accordance with the instructions received in this respect from the Council of Ministers or the Government Commission for Economic Matters.

b) Act as the instrument for executing certain economic policy measures, in line with the fundamental guidelines established by the Council of Ministers or the Government Commission for Economic Matters, or the Ministry of Finance, subject to the rules and decisions adopted by its General Council.

Within the framework of these purposes and duties, the following types of operations are included:

1. Direct credit and mediation activities, providing financial support to certain sectors and strategic activities, such as small business, housing construction, telecommunications, internationalisation of Spanish business, etc., and the operations transferred by the former official banks now forming part of Banco de Bilbao Vizcaya Argentaria, S.A. (hereinafter BBVA), by virtue of the Resolution adopted by the Council of Ministers (hereinafter RCM) on 15 January 1993.

2. Reciprocal Interest Adjustment Agreement (hereinafter RIAA). This export support system ensures a yield for the member financial institution, domestic or foreign. The Institute merely acts as an intermediary in the transaction, charging the State for its management costs, in accordance with the provisions of the General State Budget Act for each year.

   The net result of interest adjustments with member banks is regularly offset by the State or a payment is made by the Institute to the State, depending on which party is the debtor or creditor, respectively.

3. Development promotion fund (F O N P R O D E for its initials in Spanish). This Fund was established in 2010 under Act 36/2010. It is designed to finance development projects and programmes in less developed countries in the form of State-to-State grants. The Institute acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by the Institute and the ICO is reimbursed for the cost of management in accordance with the General State Budget for each year. As of December 2010, this particular Fund, acquired the Fund for micro-credits granting, also managed by the Institute since 1998 until its merge into F O N P R O D E .

4. Corporate internationalisation fund (FIEM for its initials in Spanish). This Fund was established in 2010 under Act 11/2010. Its activity consists of providing reimbursable financing of projects, under concessions or market terms, tied to the acquisition of Spanish goods and services and to the execution of Spanish investment projects or those of national interest. The Institute acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by the Institute and the ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

5. Water and Sanitation Cooperation Fund. It was created through the Sixty-First Additional Provision of Law 51/2007, December 26th; of the 2008 General State Budget to fund water and sanitation projects under the financing arrangements with the national authorities of the Latin America Countries, priority for the Spanish cooperation.

6. Credit facilities system for Fundings for Suppliers Payments (FFPP for its initials in Spanish). Resulting from 4/2012 and 7/2012 Royal Decree-Laws, created to allow local entities such as Autonomous Communities attend the outstanding payment requirements with its suppliers or leasers. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates the Institute a pertinent trading commission.

7. Autonomous Liquidity Fund (FLA for its initials in Spanish) .Resulting from the July 13th 21/2012 Royal Decree-Law, which deals with Public Administration liquidity measures in the financial environment. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates the Institute a trading commission.

The last six types of operations are not included in the accounts kept by the Institute, according to the applicable law for each of them.

1.2 Basis of presentation of the consolidated financial statements

The Group presents its consolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Union (hereafter, NIIF-UE) according to the principles and standards contained in Circular 4/2004 of December 22 (hereafter, Circular 4/2004), Bank of Spain, on financial reporting standards and public reserved models on financial statements. The aforesaid Circular 4/2004 is mandatory for the individual financial statements of the Spanish Credit Institutions.

Accordingly, the accompanying consolidated financial statements have been prepared from the accounting records of the entities Group and in accordance with the requirements established by International Financial Reporting Standards adopted by the European Union (NIIF-UE) and by Bank of Spain Circular 4/2004 of December 22, and subsequent amendments, the Spanish Code of Commerce, the Capital Enterprises Act or other Spanish legislation that is applicable, so that they present fairly the net worth and financial situation of the Group at 31 December 2012 and the results of its operations, of changes in equity and consolidated cash flows for the year ended on that date.

The accounting principles applied in the preparation of the consolidated financial statements for the year ended 31 December 2012 are the same as those applied to the 2011 consolidated financial statements, except for the following standards and interpretations, applicable for annual periods beginning on or after 1 January 2012:

Amendment to IFRS 7 "Disclosures about Transfers of Financial Assets"*:* effective for annual periods beginning on or after 1 July 2012.

The adoption of these amendments and interpretations did not have a significant effect on the consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment issued but not effective.

At the date of publication of these consolidated financial statements, the following IFRSs and amendments had been issued by the IASB but were not mandatory and had not been approved by the EU:

Amendment to IAS 1 "Disclosure of items from other global results": Effective for annual periods beginning on or after July 1st, 2012 on.

IFRS 10 "Consolidated Financial Statements": Effective for annual periods beginning on or after January 1st, 2013 on.

IFRS 11 "Combined Agreements": Effective for annual periods beginning on or after January 1st, 2014 on and subject to retrospective application for combined agreements already into effect at the initial application date.

IFRS 12 “Information to disclosure about any interest arisen on Other Entities”: Effective for annual periods beginning on or after January 1st, 2014 on.

IFRS 13 “Fair Value Intervention”: Effective for annual periods beginning on or after January 1st, 2013 on.

Revised IAS 19 “Profits to Employees”: Effective for annual periods beginning on or after January 1st, 2013 on.

Revised IAS 28 “Investments on associated companies and joint ventures”: Effective for annual periods beginning on or after January 1st, 2014 on.

IFRIC 20 “Digging costs on a surface mine during its production phase”: Effective for annual periods beginning on or after January 1st, 2013 on.

Amendments to IAS 32 “Compensation on financial assets and liabilities”: Effective for annual periods beginning on or after January 1st, 2014 on.

Amendments to IFRS 7 “Breakdown - Compensation on financial assets and liabilities”: Effective for annual periods beginning on or after January 1st, 2013 on.

Amendments to IAS 12 “Deferred taxes-Underlying assets recovery”. Changes are effective for annual periods beginning on or after January 1st, 2013 on and these will not have any impact on the financial situation, results nor Group’s breakdowns.

The Group is willing to adopt these rules, variations and interpretations as soon as they get into effect.

The Group estimates that adoption of these standards and amendments will not have a significant impact on the consolidated financial statements in the initial period of application.

At the consolidate financial statements disclosure date, the following rules, variations and interpretations were already disclosure by the IASB and approved by the European Union although they were not subject of compulsory application:

IFRS 9 “Financial Instruments”: Effective for annual periods beginning on or after January 1st, 2015 on, for IASB.

IFRS Improvements: Effective for annual periods beginning on or after January 1st, 2013 on, for IASB.

Amendments to IFRS 9 and IFRS 7 “Compulsory application date and disclosures within transition”. Effective for annual periods beginning on or after January 1st, 2015 on, for IASB.

Amendments to IFRS 10, IFRS 11 and IFRS 12 “Transition Guideline”: Effective for annual periods beginning on or after January 1st, 2013 on, for IASB.

Amendments to IFRS 10, IFRS 11 and IFRS 27 “Investment companies”: Effective for annual periods beginning on or after January 1st, 2014 on, for IASB.

Currently, the Group is analyzing the impact of the application of these rules and variations.

All obligatory accounting principles and measurement bases with a significant effect have been applied in the preparation of these financial statements. Note 2 provide a summary of the main accounting policies and measurement bases used in the accompanying consolidated financial statements. The President of the Group's parent company is responsible for the information contained in these consolidated financial statements.

The consolidated financial statements for the year 2012 of the Group have been prepared by the Chairman of the Institute dated on March the 30, 2013, still pending approval by the General Council of the Institute, parent entity of the Group, which is expected to approve them without significant changes. These consolidated financial statements, unless otherwise stated, are presented in thousands of Euros.

1.3 Responsibility for information and estimates made.

The information contained in Group's consolidated financial statements for the year ended 31 December 2012 and the accompanying Notes to the consolidated financial statements are the Institute's Chairman responsibility. When preparing these consolidated financial statements, at times estimates made by Group has been used to quantify some of the assets, liabilities, income, expenses, and commitments. These estimates relate basically to:

- Impairment losses on certain assets (Note 2.7)
- Assumptions used in actuarial calculations of liabilities and commitments relating to post-employment benefits and other long-term commitments with employees. (Note 2.10.2)
- Useful lives of fixed assets and intangible assets. (Note 2.12 and 2.13)
- Losses on future obligations deriving from contingent risks. (Note 2.14)
- The fair value of certain unlisted assets. (Note 2.2.4)

These estimates were made based on the best information available at 31 December 2012 in connection with the facts analyses. Nonetheless, future events could generate significant adjustments (upward or downward) significantly in coming years, which would be made prospectively, to recognize the impact of the change in the estimate on the consolidated income statement for the years in question.

1.4 Transfer of assets and liabilities from the former Argentaria

The former entities Argentaria, Caja Postal and Banco Hipotecario, S.A., were the result of the merger between Corporación Bancaria de España, S.A., Banco Exterior de España, S.A. (BEX), Caja Postal, S.A. and Banco Hipotecario de España, S.A. (BHE), in accordance with the public merger document dated 30 September 1998. Banco de Crédito Agrícola, S.A. (BCA), was previously taken over by Caja Postal, S.A. and Banco de Crédito Local de España, S.A. (BCL), which al so pertained to the first entity, maintains its legal personality.

In reference to the provisions of the RCM dated 15 January 1993, on 31 December 1992 the Institute acquired the assets and liabilities pertaining to BCL, BHE, BCA and BEX deriving from economic policy operations that were guaranteed by the State or the Institute and, specifically, the loans and guarantees provided to companies in conversion (covered by legislation regarding conversion and re-industrialization), exceptional loans granted to victims of floods, the loans granted by these entities prior to their transformation into public limited liability companies, as well as other assets, rights and equity investments.

Furthermore, on 25 March 1993 a management agreement was concluded with the relevant banks regarding the transferred assets and liabilities, which includes both the administration and the adequate accounting for these items in accordance with current banking legislation. The management commissions accrued in 2012 and 2011 totalled 422 thousand Euros and 453 thousand Euros, respectively.

At 31 December 2012 and 2011 the breakdown by nature of the transferred assets and liabilities that were managed at those dates by BBVA (the entity resulting from the integration of all of the above, among others), is set out below:

	Thousands of Euros	
Assets and liabilities managed by BBVA	**2012**	**2011**
Credit Institutions	9	9
Loans to Spanish Public Administrations	508	580
Loans to other resident sectors	110	139
Doubtful assets	3,196	3,750
Non-current assets	95	120
Sundry accounts	16	7
Total assets	3,934	4,605
Sundry accounts	224	293
Connection account with ICO	3,532	4,102
Profit for year	178	210
Total liabilities	3,934	4,605

1.5 Presentation of individual financial statements

In accordance with Article 42 of the Code of Commerce, the Institute has prepared its individual financial statements at the same date as the present consolidated financial statements.

A summary is set out below of the individual balance sheet, individual income statement, individual statement of changes in equity and individual cash flow statement of Instituto de Crédito Oficial for the years ended 31 December 2012 and 2011, prepared under the same accounting principles and standards as applied by the Group in consolidated financial statements:

a) Individual balance sheets at 31 December 2012 and 2011:

	Thousands of Euros	
	2012	**2011**
Cash and balances with central banks	284,349	31,121
Financial assets held for trading	554,945	451,799
Available-for-sale financial assets	201,633	1,026,712
Loan and receivables	91,131,038	80,124,223
Held-to-maturity investment portfolio	19,440,338	7,412,672
Hedging derivatives	3,019,268	5,206,759
Non-current assets for sale	1,353	2,151
Shareholdings	46,505	43,199
Tangible assets	98,465	100,190
Intangible assets	7,992	10,694
Tax assets	165,474	166,096
Other assets	278,404	1,334
Total assets	115,229,764	94,576,950
Financial liabilities held for trading	553,234	442,959
Financial liabilities at amortised cost	109,582,729	89,252,076
Hedging derivatives	337,575	670,691
Provisions	305,302	414,015
Tax liabilities	49,282	107,245
Other liabilities	262,483	4,446
Total liabilities	111,090,605	90,891,432
Valuation adjustments	69,862	205,632
Own Funds:	4,069,297	3,479,886
Capital or endowment fund	3,230,234	2,700,837
Reserves	779,049	739,023
Profit and loss for the period	60,014	40,026
Total equity	4,139,159	3,685,518
Total equity and liabilities	115,229,764	94,576,950
Contingent risks	1,928,016	2,501,159
Contingent commitments	6,115,510	16,498,696
Total memorandum item	8,046,526	18,999,855

b) Individual income statements for the years ended 31 December 2012 and 2011:

	Thousands of Euros	
	2012	**2011**
Interest and similar income	3,470,684	2,624,728
Interest and similar charges	(2,710,811)	(2,190,346)
Net interest income	**759,873**	**434,382**
Return on equity instruments	370	951
Fee and commissions income	43,433	44,598
Fee and commissions expense	(18,984)	(4,278)
Gain or losses on financial assets and liabilities (net)	10,153	(5,220)
Exchange differences (net)	628	(1,989)
Other operating income	5,368	3,141
Other operating expenses	-	-
Gross operating income	**800,841**	**471,585**
Administrative expenses	(30,441)	(35,158)
Depreciation and amortization	(7,371)	(6,900)
Provisions expenses (net)	(72,510)	(141,197)
Financial asset impairment losses (net)	(605,812)	(230,935)
Net operating profit	**84,707**	**57,405**
Losses for impairment of other assets (net)	(908)	(2,232)
Gains / losses on disposal of assets not class. As non-current assets held for sale	234	(31)
Negative difference on business combinations	-	-
Gains / losses on non-current assets held for sale not classified as discontinued operations	-	-
Profit before tax	**84,033**	**55,142**
Income tax	(24,019)	(15,116)
Profit for the period from ongoing operations	**60,014**	**40,026**
Profit / Loss from discontinued operations (net)	-	-
Profit for the year	**60,014**	**40,026**

c) Statement of changes in equity. Statements of individual income and expense recognized for the years ended 31 December 2012 and 2011

	Thousands of Euros	
	2012	**2011**
Profit for the year:	60,014	40,026
Other income and expenses recognized:	(135,770)	65,914
Available – for – sale financial assets	(9,907)	(3,907)
Financial liabilities at fair value with changes in equity	-	-
Hedging of cash flows	(184,050)	98,070
Hedges of net investments in foreign	-	
Exchange differences	-	
Non – current assets for sale	-	
Income tax	58,187	(28,249)
Total recognized income and expenses	(75,756)	105,940

d) Statement of changes in equity. Individual statements of changes in equity for the years ended 31 December 2012 and 2011:

(Thousands of Euros)

At December 31, 2012	SHAREHOLDERS EQUITY									
	Capital/endowment fund	Share premium	Reserves	other equity instruments	Less: Treasury shares	Profit for the year	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total net equity
Ending Balance at December 31,2011	2,700,837	-	739,023	-	-	40,026	-	3,479,886	205,632	3,685,518
Total income and expenses recognized	-	-	-	-	-	60,014	-	60,014	(135,770)	(75,756)
Other changes in networth: Increases in capital endowment	529,397							529,397		529,397
Transfers between equity			40,026			(40,026)				
Other increases (decreases) in net worth										
Total other increases (decreases) in net worth	529,397		40,026			(40,026)		529,397		529,397
Ending Balance at December 31,2012	3,230,234		779,049			60,014		4,069,297	69,862	4,139,159

(Thousands of Euros)

At December 31, 2011	SHAREHOLDERS EQUITY									
	Capital/endowment fund	Share premium	Reserves	other equity instruments	Less: Treasury shares	Profit for the year	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total net equity
Ending Balance at December 31,2010	2,351,448	-	707,775	-	-	31,248	-	3,090,471	139,718	3,230,189
Total income and expenses recognized	-	-	-	-	-	40,026	-	40,026	65,914	105,940
Other changes in networth:										
Increases in capital endowment	349,389	-	-	-	-	-	-	349,389	-	349,389
Transfers between equity	-	-	31,248	-	-	(31,248)	-	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	-	-	-	-
Total other increases (decreases) in net worth	349,389	-	31,248	-	-	(31,248)	-	349,389	-	349,389
Ending Balance at December 31,2011	2,700,837	-	739,023	-	-	40,026	-	3,479,886	205,632	3,685,518

e) Individual cash – flow statements for the years ended 31 December 2012 and 2011.

	Thousands of Euros	
	2012	**2011**
Net cash – flows from operating activities:		
Profit for the year	60,014	40,026
Adjustments for cash flows from operating activities	710,484	395,387
Net increase/decrease in operating assets	(9,218,758)	(14,349,844)
Net increase/decrease in operating liabilities	20,257,135	16,240,427
Collections/payments for income tax	(57,341)	6,619
Net cash flows for investing activities:		
Payments	(27,892,593)	(29,446,768)
Collections	15,864,890	26,371,830
Net cash flows for financing activities	529,397	349,389
Effect of exchange rate fluctuations	-	-
Net increase/decrease in cash or cash equivalents	**253,228**	**(392,934)**
Cash or cash equivalents at beginning of the year	31,121	424,055
Cash or equivalents at end of the year	284,349	31,121

1.6 Environmental impact

The Group's global transactions are governed by the laws on environmental protection. The Institute deems that the Group substantially complies with these Laws and that the procedures it uses are designed to encourage and ensure compliance with said Laws.

The Institute considers that the Group has taken appropriate environmental protection and improvement measures and for minimizing, whenever applicable, the environmental impact, and complies with rules enforced in this regard. In 2012 and 2011 the Group has not carried out significant environmental investments and neither has it considered it necessary to record any provision for environmental risks and charges. Nor does it consider that there are any significant contingencies in connection with environmental protection and improvement.

1.7 Minimum coefficients

1.7.1 Minimum equity ratio

The Bank of Spain, dated May 22, 2008, has issued Circular 3/2008 on identification and control of the minimum equity. The aforesaid Circular is the final development in the field of credit institutions, on the legislation on its equity and supervision on a consolidated basis of the financial institutions issued from Law 36/2007 of November 16, which amends Act 13/1985, of May 25, of the investment ratio, equity and information obligations of financial intermediaries and other financial system and that includes the Royal Decree 216/2008, of February 15 of financial institutions equity. This also completes the process of adapting the legislation of Spanish credit institutions to EU directives 2006/48/EC of the European Parliament and the Council of 14 June 2006 concerning the business of credit institutions (recast) and 2006/49/EC of the European Parliament and the Council of 14 June 2006 on capital adequacy of investment services companies and credit institutions (recast). The two Directives have been deeply revised, following the equivalent Agreement adopted by the Basel Committee on Banking Supervision (known as Basel II), the minimum capital requirements due to credit institutions and their consolidated groups.

Directive 2009/111/EC of the European Parliament and of the Council, of 16 September, amends directives as regards banks affiliated to central institutions, certain own fund items, large exposures, supervisory arrangements, and crisis management, and amends certain technical criteria set out in the Annexes of Directive 2006/48/EC. Similarly, Directive 2010/76/EU of the European Parliament and of the Council, of 24 November, contains additional amendments to directives as regards capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies.

Act 2/2011, of 4 March, on the Sustainable Economy and, fundamentally, Act 6/2011, of 11 April, amending Act 13/1985, mark the first stage of implementing these two directives in Spanish legislation. Nevertheless, given the complexity and detail of these directives, above all with respect to solvency, these laws and Royal Decree empowered the Bank of Spain to transpose many of their technical aspects.

Accordingly, the main purpose of Circular 4/2011, of 30 November, was to complete the transposition into Spanish law of these directives (known in the market as CRD2 and CRD3). Moreover, Circular 4/2011 marked progress in adapting Spanish prudential regulations to the new criteria established by the Basel Committee on Banking Supervision in what is known as Basel III; i.e. the new prudential framework for solvency and liquidity initiated at the end of 2009 following the two documents issued by this Committee with the overriding aim of ensuring the future computability of equity instruments issued from 2012.

At December 31, 2012 and 2011, the entity's computable equity, which is calculated in a consolidated basis, exceeds the minimum requirements required by the regulation cited in 1,922,918 thousand Euros and 1,299,354 thousand Euros respectively.

Also, Circular 3/2008 stipulates that net tangible assets and all consolidated groups of credit institutions risks with the same person or economic group, may not exceed certain percentages of equity, also establishing limits on positions in foreign currencies. At December 31, 2012 and 2011, the Entity Group complies with these limits.

In addition, the February 3rd 2/2012 Royal Decree-Law, establishes that credit entities' groups being objects of consolidation, as well as those entities not integrated in a group object of consolidation required to accomplished a minimum level of resources, will have to have an additional excess depending on its exposure to certain assets, calculated upon the impairment percentages established in the named Royal Decree-Law.

ICO fulfils all additional resources requirements related to this concept, amounting 10 million Euros. At March 28th, 2012, the Institute present the report to the Bank of Spain as it follows in the 2/2012 RD-Law, article 1.4.

The November 14th, 9/2012 Law, about restructuring and decision taking in credit entities and the Bank of Spain, November 3rd Circular 7/2012, about minimum resources requirements in credit entities, have both established that these resources named could not be under 9% from January 1st, 2013 on. This regulation is not applicable to the Institute.

At December 31, 2012 and 2011, the ICO Group's computable equity is as follows:

	Thousands of Euros	
	2012	**2011**
Basic own funds	3,990,779	3,407,256
- Capital	3,230,234	2,700,837
- Reserves (*)	760,545	706,419
Second category own funds	311,643	294,913
- Other reserves (*)	30,712	42,966
- Generic insolvency risk coverage	280,931	251,947
Total computable own funds	4,302,422	3,702,169
Total minimum own funds(**)	2,379,504	2,402,815

(*) The total reserves used for the calculation of own resources of the group computable differ from those recorded in the consolidated balance sheet because in the calculation of own funds are given:

- The deduction of basic own funds for intangible assets
- Corrections to valuation adjustments on financial assets available for sale

(**) Calculated as an 8% of the weighted risk as it is said in Circular 3/2008

At December 31, 2012 and 2011, the most important data of the minimal resources of the Group are (in thousands Euros):

	2012	**2011**
Basic own funds	3,990,779	3,407,256
Risk weighted	29,743,800	30,035,188
Basic own funds ratio (%)	13.42%	11.34%
Computable equity	4,302,422	3,702,169
Computable equity ratio (%)	14.46%	12.33%
Minimum computable equity ratio (%)(*)	9.5%	9.5%

(*) ICO's minimum computable own funds is 9.5% according to Additional Provision Forty-nine, point II, of State Budget Act 42/2006, of 28 December, of the 2007 General State Budget.

At December 31, 2012 and 2011 ICO Group's computable own funds exceeded the minimum requirements by the mentioned standards.

1.7.2 Minimum reserves ratio

The Institute must maintain a minimum level of funds deposited in a central bank of a euro country to cover the minimum reserve requirements. At 31 December 2011, this level was 2% of computable liabilities. On 24 November 2011, Regulation (EU) No 1358/2011 came into effect, requiring 1% for additional computable liabilities (time deposits of over two years drawable subject to a notice period of more than two years, sales under repurchase agreements and securities other than shares with maturities of over two years). This amendment will be applied following the maintenance period started January 18th 2012.

At December 2012 and 2011, and throughout 2012 and 2011, Group complied with the minimum ratios required by applicable Spanish regulations.

1.7.3 Capital management

The Group considers capital management, first and second category computable equity regulated by the solvency legislation (Circular 3/2008 Bank of Spain, from May 22, 2008 on the identification and control of minimum equity).

In this sense, the regulatory capital requirements are incorporated directly in the management thereof in order to maintain at all times a solvency ratio higher than 9.5%. This objective is met through a proper capital planning.

1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December 2001, on Tax, Administrative and Social Security measures, amended by Law 42/2006, of State Budget for 2007, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and the Institute itself will form part of the Institute's equity. The amount estimated for 2012 totals 9,5 million Euros, that will be recognized in 2013.

As in previous years, chapter VIII of the General State Budgets for 2013 envisages a new contribution to ICO's equity amounting to 378 million Euros in order to increase the equity of the Institute and adapt it to its activities
In 2013, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalized by government order, new lines of credit to business and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute objectives. The main lines approved are:

- Línea ICO Empresas y Emprendedores 2013: this ICO line provides finance to freelances and companies performing its investments within the country and need to fulfil its liquidity needs. Individuals and landlord communities can also take advantage of this line for housing restoration.

- Línea ICO Garantía SGR 2013: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish within a Reciprocal Guarantee Company (SGR for its initials in Spanish)

- Línea ICO Internacional 2013: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish performing productive investments overseas and/or need to fulfil its liquidity needs.

- Línea ICO Exportadores 2013: this ICO line provides finance to freelances and Spanish companies in need of liquidity though advances in receipts coming from its export activity.

The total amount of the lines amounts to 22,000 million Euros. During January 2013, the ICO and credit institutions that submitted the application for membership of these credit lines firm handled the drafting and funding of contracts.

No significant events other than those described in the above paragraphs have occurred from the end of the reporting period (31 December 2012) to the date these financial statements were issued (30 March 2013).

1.9 Information per business segment

The Group's principal activity is the granting of lines of credit and direct loans and therefore, in accordance with relevant legislation, it is considered that the information relating to the segmentation of operations into different lines of business at the Group is not relevant.

In addition, the Group develops its activity both inside and outside the Spanish territory. All operations are granted to fund Spanish interest.

1.10 ICO direct lending activities

In June 2010, ICO launched a new business segment known as "ICO Direct," designed to provide financing to self-employed individuals, SMEs, and non-profit entities residing in Spain which have been operating for more than one year and are looking to make new investments in machinery, furniture, IT equipment and buildings. This business segment used to complement the ICO's normal lending activities conducted through mediation lines with financial institutions and represented a broadening of the finance channels aimed at SMEs and self-employed individuals. The ICO Direct line was renewed for 2011 and 2012, being over in June 2012.

Transactions derived from ICO Direct activities are formally processed and administered by Banco Santander and Banco Bilbao Vizcaya Argentaria (BBVA). These financial institutions were awarded the public tender held by ICO for this purpose.

The breakdown by nature of ICO Direct's assets and liabilities at 31 December 2012 and the corresponding managing entity is as follows:

	Thousands of Euros			
	2012		2011	
Assets and liabilities of ICO Direct	**BBVA**	**BS**	**BBVA**	**BS**
Loans and advances to other resident sectors	89,233	135,956	199,731	262,902
Doubtful assets	-	-	-	-
Other	-	-	-	(7)
Total assets	**89,233**	**135,956**	**199,731**	**262,895**
Sundry accounts	-	-	-	1
Connection account with ICO	128,219	184,697	209,874	265,249
Profit for the year	(38,986)	(48,741)	(10,143)	(2,355)
Total liabilities	**89,233**	**135,956**	**199,731**	**262,895**

1.11 ICO local corporation/entities lending activity in 2012

The 2011 ICO-Local Corporation Facility was started pursuant to the Royal Decree-Law designed to foster the stability of public accounts and social protection approved in July 2011 by the Spanish cabinet. Its aim was to alleviate the problems of many self-employed professionals and small business that, in light of the struggling economy, were suffering from major problems settling their collection rights on supplies, works and services rendered to local bodies.

This facility was designed to provide local corporations (local and municipal governments) with liquidity to settle their outstanding invoices to 30 April 2011. It was mostly designed to help them repay debts with self-employed individuals and SMEs based on the age of certifications or documents.

The ICO-Local Corporation Facility was in operation from July 2011 to November 2011. During this time, the facility enabled 1,029 local, regional and inter-island town councils throughout Spain to settle 222,975 outstanding invoices for supplies, works and services provided by 38,338 self-employed individuals and SMEs during 2011.

The formalization and administration of the Entidades Locales 2011 ICO line operative is carried out through several EECC added to the project.

The breakdown at 31 December 2012 and 31 December 2011, by assets and liabilities nature related to the Entidades Locales 2011 ICO line, is displayed as follows:

	Thousands of Euros	
ICO EELL 2011 Assets and Liabilities Balance sheet	**2012**	**2011**
Loans and Advances to Spanish Public Administrations	768,247	976,096
Doubtful Assets	-	-
Other	-	-
Total assets	**768,247**	**976,096**
Connection account with ICO	708,196	967,703
Profits for the year	60,051	8,393
Total liabilities	**768,247**	**976,096**

2. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT METHODS APPLIED

During the preparation of Group's consolidated financial statements for the years ended 31 December 2012 and 31 December 2011, the following accounting principles and policies and measurement methods have been applied:

a) Going concern principle

The financial statements were prepared on the assumption that the Institute will continue to operate in the future. Accordingly, the application of accounting policies is not designed to determine net asset value for the total or partial transfer of its assets or that which would result from liquidation.

b) Accruals principle

Except with respect to the cash flow statement, these financial statements have been prepared on an accrual basis, that is, transactions have been recognized at the date the actual goods or services represented by them take place, regardless of when actual payment or collection occurs.

c) Other general principles.

The financial statements have been prepared on a historical cost basis, except for the revaluation of land and structures (only to 1 January 2004) (Note 14), available-for-sale financial assets and financial liabilities (including derivatives) at fair value through profit or loss.

2.1 Shareholdings

2.1.1 Subsidiaries

"Subsidiaries" are those in which the Institute has the capacity to exercise control. This is generally, though not exclusively, reflected by the direct or indirect ownership of at least 50% of the voting rights or, if lower, or where no voting rights are held, by other circumstances or agreements with shareholders that give control to the Parent entity. In accordance with the new regulations, control is deemed to be the power to direct an entity's financial and operational policies in order to benefit from its activities.

The subsidiaries' financial statements are consolidated with those of the Entity using the full consolidation method, as stipulated in prevailing regulations. Consequently, all significant balances deriving from transactions between the fully-consolidated companies have been eliminated during consolidation. The Institute, parent of the Group, which is 99% of it.

Additionally, third-party interests in the:

- Group's equity is presented in "Minority interests" in the consolidated balance sheet, and there is no balance at 31 December 2012 and 2011.

- Consolidated results for the year are presented in "Surplus attributed to minority interests" in the consolidated income statement, and there is no balance at 31 December 2012 and 2011.

Results generated by subsidiaries acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year end.

Appendix I provides relevant information on these entities, all of which close their financial year on 31 December.

2.1.2 Associates entities

These are entities over which the Institute holds significant influence, although they do not form part of a decision unit together with the Institute nor are they under joint control. Normally, significant influence generally accompanies a direct or indirect shareholding of 20% or more of the voting rights.

Shareholdings in "Associates entities" are presented in these financial statements under the heading "Shareholdings-Associates entities" in the balance sheets and are stated at acquisition costs, net of any impairment that they may have undergone.

The results on the transactions between the associate and Group companies are eliminated in the percentage represented by the Group's interest in the associate. The results recorded in the year by the associate, following the elimination referred to above, increase or decrease, as appropriate, the value of the relevant shareholding in the consolidated financial statements. The amount of these results is recorded under "Results in companies carried under the equity method" in the consolidated income statement (Note 28).

The variations in the valuation adjustments of the associate, subsequent to the acquisition date, are recorded as an increase or decrease in the value of the shareholding. The amount of these variations has been recorded under "Valuation adjustments", in consolidated equity.

Appendix I provide relevant information on these entities.

2.2 Financial Instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Group becomes party to the relevant contract, in accordance with the terms of that contract. Specifically, debt instruments such as loans and deposits in cash are recognised as from the date on which the legal right to receive or the legal obligation to pay the cash is generated, respectively. In general, financial derivatives are recognised on the date they are contracted.

Purchases and sales of financial assets arranged through conventional contracts, understood as those contracts under the parties' reciprocal obligations must be fulfilled with a timeframe established by regulations or market conventions and which may not be settled by differences, such as stock market contracts or currency forwards, are accounted for from the date on which the benefits, risks, rights and duties inherent in all ownership are transferred to the acquirer. Depending on the type of financial asset purchased or sold, this may be the date of contract or the date of settlement or delivery. Specifically, transactions effected in the foreign exchange spot market are recognised at the settlement date, transactions affected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions affected using debt instruments traded in Spanish securities markets are recognised at the settlement date.

2.2.2 Disposal of financial instruments

Financial instruments disposals are recorded in the manner in which risks and benefits associated with the transferred financial instruments are transferred, based on the following criteria:

- If the risks and benefits are substantially transferred to third parties, as in unconditional sales, sales and repurchase at fair value at the date of the acquisition, sales of financial assets with a purchase option or sales gained issued deeply out of money, the securitization of assets in which the grantor retains no subordinate financing or grant any credit enhancement to the new owners, etc. , the transferred financial instrument is removed off the balance sheet, recognizing both any right or obligation retained or created as a result of the transfer.

- If the risks and benefits associated with the transferred financial instrument are retained, such as sales of financial assets with repurchase agreements for a fixed price or the sale price plus interest, the loan contracts of values in which the borrower must return the same or similar assets, and so on., the transferred financial instrument is not removed off the balance sheet and continues being measured with the same criteria used before the transfer. However, the financial liability associated by an amount equal to the consideration received is recognized, which is then valued at amortized cost, the transferred financial asset incomes but not recognized and the new financial liability costs.

- If neither the risks and benefits associated with the transferred financial instrument are transferred nor retained substantially, such as sales of financial assets with a purchase option bought or sold that are neither inside nor outside money, securitizations in which grantor assumes a subordinated financing or other credit enhancements for a share of the assets transferred, and so on., is distinguished between:

- If the entity does not retain control over the transferred financial instrument, in which case it gives off the balance sheet and recognizes any right or obligation retained or created as a result of the transfer.

- If the entity retains control over the transferred financial instrument, in which case it continues recognizing it on the balance sheet at an amount equal to its exposure to value fluctuations that can experience and a financial liability associated to an amount equal to the consideration received is recognized. Such liabilities are subsequently valued at amortized cost, unless it meets the requirements to be classified as financial liabilities at fair value with changes in the income statement. To calculate the amount of this financial liabilities, the amount of its financial instruments (such as asset-backed securities and loans) which constitute funding for the entity to which financial assets have been transferred will be deducted, in the exact amount these financial instruments finance specifically the transferred assets. The net amount between the transferred assets and liabilities associated to them will be the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or fair value of the rights and obligations retained, if the transferred asset is measured by its fair value.

Therefore, financial assets are only removed from balance sheet when the cash flows generated have been extinguished or when the implicit risks and benefits have been transferred to third parties. Similarly, financial liabilities are only removed off the balance sheet when the obligations generated have been extinguished or when they are purchased with the intention to cancel or reposition them again.

2.2.3 Fair value and amortised cost of financial instruments

Financial assets:

The fair value of a financial instrument at a given date is understood to be the amount at which it may be purchased or so ld at that date between duly informed parties in an arm's length transaction. The most objective and common reference value for a financial instrument's fair value is the price that would be paid in an organized, transparent and deep market ("quoted price" or "market price").

In the absence of a market price for a specific financial instrument, its fair value is estimated on the basis of recent transactions involving similar instruments or, failing this, using valuation techniques that are acceptable to the international financial community, taking into account the specific features of the instrument to be measured and, above all, the different types of associated risks.

Specifically, the fair value of held-for-trading derivative financial instruments traded in organized, transparent and deep markets is the same as their daily market price. If, in exceptional circumstances, the price cannot be established on a given date, they are measured using similar methods to those applied to derivatives not traded in organized markets.

The fair value of derivatives not traded in organized markets, or traded in organized markets that are not deep or transparent, is equal to the sum of the future cash flows generated by the instrument, discounted at the measurement date ("present value" or "theoretical close"), employing valuation techniques accepted by the financial markets: "Net Present Value" (NPV), option pricing models, etc.

Amortised cost is the acquisition cost of a financial asset or liability adjusted (upward or downward) for capital and interest repayments and, where applicable, for the (higher or lower) portion (recognised in the income statement applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortised cost of financial assets also includes impairment adjustments.

The effective interest rate is the discount rate that brings the initial value of a financial instrument exactly into line with total estimated cash flows throughout its residual life. In the case of fixed-income financial instruments, the effective interest rate is equal to the contractual rate defined on acquisition, adjusted for commissions and transaction costs that, in accordance with the provisions of Bank of Spain Circular 4/2004 (22 December), must be included in the calculation of the effective interest ratio The effective interest rate for variable-rate financial instruments is estimated in the same way as for fixed-income transactions, and is recalculated at each interest review date stated in the contract, taking into consideration changes in the transaction's future cash flows.

Other entities shareholdings whose fair value cannot be determined objectively and financial derivatives that have these instruments like its underlying assets and are settled by delivery of them are kept at cost adjusted, where appropriate, for impairment losses they have experienced.

Variations in financial assets amounts are registered, in general, with counterpart in the profit and loss account, differentiating between those that are caused by the accrual of interest and similar items that are recorded in the heading of Interest and similar income, and those corresponding to other causes, which are recorded by the net amount under the heading of Gain or losses on financial assets and liabilities of the profit and loss account.

However, changes in instruments value included under the heading Available for sale financial assets are recorded temporarily in the epigraph Valuation adjustments in Net Equity unless they come from exchange differences. The amounts in the epigraph Valuation adjustments remain part of net equity until they are removed from balance sheet assets where they are originated, moment when they are written off against profit and loss account.

In addition, the changes in the carrying amount of the items included in "Non-current assets held for sale" are recognized with a balancing entry in "Unrealized gains (losses) reserve."

Also, changes in the value of the items included under the heading Non-current assets held for sale are recorded under consideration in valuation adjustments to equity.

In relation with financial instruments, the valuations at fair value reflected in the financial statements are classified using the following fair value ranking:

i) Level I: reasonable values are obtained from quoted prices (unadjusted) in active markets for the same instrument.

ii) Level II: the fair values are obtained from valuation techniques in active markets for similar instruments, recent transaction prices or expected cash flows, or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

iii) Level III: fair values are obtained from valuation techniques in which any the significant inputs is not based on observable market data.

In financial assets designated as hedged items and hedging accounting, the valuation differences are recorded against the following criteria:

- In fair value hedges, the differences occurring in coverage items and in items covered in relation to the type of hedged risk are recognized directly in profit and loss account.

- Differences in valuation for the inefficiency of cash flows hedging and net foreign investments are carried directly to the profit and loss account.

- In cash flow hedges, the valuation differences arising on the effective coverage of the coverage items are temporarily registered under the heading of valuation adjustments of net equity.

- In net foreign investments coverage, valuation differences arising on the effective coverage of the coverage items are temporarily registered under the heading of valuation adjustments of net equity.

In the last two cases, valuation differences are not recognized as result until hedged item's gains or losses are recorded in the profit and loss account or until the hedged item's expiry date.

In interest rate risk's fair value hedges of a financial instruments portfolio, gains or losses that arise when assessing the hedging instruments are recognized directly in the profit and loss account, whereas the gains or losses in the amount covered fair value changes, in regard to the hedged risk, are recognized in the profit and loss account using as counterpart the heading Adjustments to financial assets by macro-hedges.

In interest rate risk cash flows hedging of a financial instruments portfolio, the effective part of the hedging instrument's value fluctuation is recorded temporarily in Valuation adjustments of net equity until expected transactions occur, being then recorded in the profit and loss account. The ineffective portion of the hedging derivative's value fluctuation is directly registered on the profit and loss account.

Financial liabilities

Financial liabilities are recorded at amortized cost, as defined for financial assets in the previous note, except as follows:

- Financial liabilities included in epigraphs Trading Portfolio, Other financial liabilities at fair value with changes in the income statement and financial liabilities at fair value with changes in equity, as defined for financial assets in the previous note. Financial liabilities covered by fair value hedging operations are adjusted, being registered those fair value variations in relation to the hedged risk covered by the hedge operation.

- Financial derivatives whose underlying asset is equity instruments whose fair value cannot be determined in a sufficiently objective and be settled by delivery of these contracts are valued at cost.

Financial liabilities amount's variations are recorded, in general, offset by the profit and loss account, differentiating between those that are caused by interest accrual and similar items that are recorded in the heading of Interest and similar charges, and those corresponding to other causes, which are recorded by its net amount under the heading of Net operating profit of the profit and loss account.

However, items included under the heading of financial liabilities at fair value with changes in equity value variations, are recorded temporarily in Valuation adjustments of the net equity. The amounts in the row of Valuation adjustments remain part of net equity until liabilities in which their origin are removed of the balance sheet, moment when they are written off against profit and loss account.

Financial liabilities designated as hedged items and hedging accounting valuation differences, are recorded taking into account the above criteria for financial assets in previous Note.

2.2.4 Classification and measurement of financial assets and liabilities

Financial instruments are classified into the following categories in the Group's balance sheet:

- Central bank and credit institutions deposits, which are cash balances and balances held in Bank of Spain and other central banks.

- Financial assets and liabilities at fair value with changes in the income statement: this category is made up financial instruments classified as trading portfolio and other financial assets and liabilities classified at fair value through the income statement:

    Financial assets are those financial assets included in the trading portfolio acquired in order to be realised in the short term or which form part of a portfolio of identified financial instruments for which there is evidence of recent actions taken to obtain short-term gains, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial instruments in accordance with applicable accounting legislation.

    Financial liabilities are those liabilities included in the trading portfolio issued in order to be repurchased in the near future or that form part of a portfolio of financial instruments identified or managed jointly for which there is evidence of recent actions to obtain short-term gains, short positions in securities arising from sales of assets acquired under non optional repurchase agreements and loans of securities, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial. The fact that a financial liability is used to finance asset trading does not involve itself inclusion in this category.

"Other financial assets or liabilities at fair value with changes in the income statement" are:

- Financial assets that not being included in Trading portfolio, are considered hybrid financial assets and are valued at fair value and those that are managed jointly with Liabilities under insurance contracts valued at their fair value or with financial derivatives whose purpose and effect is reducing its exposure to fluctuations in fair value or which are managed jointly with financial liabilities and derivatives in order to reduce the overall exposure to interest rate risk.

- Financial liabilities designated at initial recognition by the entity or when it's done, more relevant information is obtained because:

- With it, inconsistencies in the recognition or appreciation arising on the valuation of assets or liabilities or recognizing the gains and losses will be deleted or significantly reduced, with different criteria.

- A financial liabilities or financial assets and liabilities group is managed and their performance is evaluated based on their fair value under a risk management or investment information strategy and groups documented information is issued al so on the basis fair value to the Management key staff.

- Held-to-maturity investment portfolio: This includes debt securities with fixed maturities and identified or identifiable cash flows that are classified by the Group from the outset and at any subsequent date based on the intention and financial capacity to hold them to maturity.

The debt securities included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement using the effective interest method, defined in applicable accounting legislation. They are subsequently carried at amortised cost, calculated based on the effective interest ratio

- Credits, loans and discounts: This category includes unlisted debt securities, financing provided to third parties arising from the ordinary credit and loan activities carried out by consolidated entities and debts incurred by asset buyers and by service users. It also includes finance lease transactions in which the entities are the lessors.

  The financial assets included in this category are initially carried at fair value, as adjusted for commissions and transaction costs directly attributable to the acquisition of the financial asset and which, under applicable accounting legislation, must be recognised in the consolidated income statement using the effective interest method. Following acquisition, the assets acquired in this category are carried at amortised cost.

  Assets acquired at a discount are recorded in the cash amount paid and the difference between the repayment value and that cash amount is recognised as financial income, applying the effective interest method during the period to maturity.

  In general, the Institute intends to hold the loans and credits granted to their final maturity dates and they are therefore carried at amortised cost in the balance sheet.

  The interest accrued on the assets included in this category, calculated using the effective interest method, is recognised in the caption "Interest and similar income" in the consolidated income statement. Exchange differences on securities denominated in foreign currency other than the euro included this portfolio are accounted for as mentioned in Note 2.4. Possible impairment losses on these securities are recorded as indicated in Note 2.7. Debt securities included in fair-value hedging are recorded as mentioned in Note 2.3.

- Available-for-sale financial assets: This category includes debt securities not classified as held to maturity, such as credits, loans and discounts, or as at fair value through the income statement, and equity instruments owned by the Group relating to entities which are not subsidiaries, joint ventures or associates, which have not been classified as at fair value through the income statement.

  The instruments included in this category are initially measured at fair value, as adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement using the effective interest method to maturity, unless the financial assets have no fixed maturities, in which case they are taken to the consolidated income statement when they become impaired or are written off the consolidated balance sheet. Following acquisition, the financial assets included in this category are carried at fair value.

  Nonetheless, equity instruments whose fair value cannot be determined in a sufficiently objective manner are carried at cost in these financial statements, net of impairment calculated as explained in Note 2.7.

Balancing entries are made in "Interest and similar income" (calculated using the effective interest method) and "Return on equity instruments - Other equity instruments" in the consolidated income statement, with respect to changes in the fair value of financial assets classed as available for sale, relating to interest or dividends accrued, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are accounted for as mentioned in Note 2.4. Changes in fair value of financial assets covered by fair-value hedges are stated as mentioned in Note 2.3.

A balancing entry is made in "Equity - Measurement adjustments – Available-for-sale financial assets", in the Group's equity, with respect to the remaining changes to the fair value from the acquisition date of available-for-sale financial assets, until the financial asset is written off, when the balance is taken to "Gain/ (loss) on financial transactions (net) - Available for sale financial assets" in the consolidated income statement.

- Financial liabilities at amortised cost: This category of financial instruments relates to financial liabilities that are not included in any of the previous categories.

  The financial liabilities included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the issue of the financial liability, which are recognised in the income statement using the effective interest method.. Subsequently they are measured at amortised cost, calculated by applying the effective interest rate method.

  The interest accrued on these assets, calculated using the effective interest method, is recognised in the caption "Interest and similar charges" in the consolidated income statement. Exchange differences on securities denominated in foreign currency other than the euro included this portfolio are accounted for as mentioned in Note 2.4. Financial liabilities included in fair-value hedging are recorded as mentioned in Note 2.3.

  Notwithstanding the above, the financial instruments that must be classed as non-current assets available for sale, in accordance with the provisions of Rule Thirty Four of Circular 4/2004 of December 22, Bank of Spain, are carried in the consolidated financial statements as explained in Note 2.16.

Reclassifications between financial instruments portfolios are made exclusively in their case, according to the following assumptions:

a) Except if the exceptional circumstances described in paragraph d) below take place, the financial instruments cannot be reclassified into or out of the category "valued at fair value with changes in profit and loss" once acquired, issued or assumed.

b) If a financial asset, as a result of a change in intent or in the financial capacity ceases to be classified in the epigraph Held to maturity investment portfolio, it will be reclassified into "available for sale financial assets" category. In this case, the same treatment will be applied to all financial instruments classified into Held to maturity investment portfolio category, unless the reclassification is included in the circumstances permitted by applicable law (sales close to maturity, or once charged almost all the main financial asset or sales attributable to a non-recurring event that could not reasonably have been anticipated by the Institute).

c) If we were to have a financial asset or financial liability reliable valuation for which such valuation was not previously available, and valuation at fair value would be mandatory, such as unquoted equity instruments and derivatives that have these ones by underlying asset, the mentioned financial assets or financial liabilities would be valued at fair value, and the difference with its book value would be maintained in accordance with the requirements of its portfolio type.

During 2012 and 2011, there has been no reclassification as described above.

d) If as a result of intent or financial capacity change of the Institute or, after two years of penalties set by the regulations applicable in the event of financial assets classified in held to maturity investment portfolio's sale, some financial assets (debt instruments) included in the category " available for sale financial assets" could be reclassified into the "held to maturity investment portfolio". In case, this financial instrument's fair value on the transfer date becomes its new amortized cost and the difference between this amount and redemption value is charged to the consolidated profit and loss account, using the type effective interest method over the remaining instrument's life.

During 2012 and 2011, there has been no reclassification as described above.

e) Since 2008, a financial asset that is not a derivative financial instrument may be classified outside the trading portfolio if it ceases to be maintained for sale purpose or short term repurchase, if one of the following circumstances take place:

- In exceptional circumstances, unless the assets could have been included in the category of credits, loans and discounts. Exceptional circumstances are those that arise from a particular event, which is unusual and unlikely to recur in the foreseeable future.

- When the Institute has the intention and financial capacity to maintain the financial asset in the foreseeable future or until maturity, when in its initial recognition it has meet with the investment credit definition.

In these situations, assets reclassification are done at fair value, not reversing the results, and considering this value as their cost or amortized cost, as appropriate. This financial assets reclassification cannot be reclassified into trading portfolio again.

During 2012 and 2011, there has been no reclassification of financial assets included in the trading portfolio.

2.3 Financial derivatives

Financial derivatives are instruments that provide a loss or gain, and allow, under certain conditions, the compensation of the totality or part of the credit and / or market risks associated to transactions and balances, using interest rate and certain rates, individual securities prices, exchange rate cross-currency or other similar references as underlying assets. The Entity uses financial derivatives traded in bilateral organized or negotiated markets being the counterpart out of organized markets (OTC).

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign and market exchange rate, among others. When these operations meet certain requirements of the Standards Thirty-first and thirty-second of Circular 4 / 2004 of December 22, Bank of Spain such operations are considered as "coverage."

When the Group designates a transaction as a hedge, it does so as from the time of inception of the transactions or the instruments included in those hedges, that hedge being appropriately documented. When documenting these hedging transactions the instrument or instruments hedged and hedging instrument or instruments are properly identified together with the nature of the risk which is intended to be hedged and the criteria or methods followed by the Group to measure the efficiency of the hedge over the term of the same, taking into account the risk that it is sought to cover.

The Group only consider highly effective throughout the hedge term are treated as hedge transactions. Hedging is considered highly effective if during the envisaged term any changes in fair value or cash flows attributed to the risk covered in the hedging of the financial instrument or instruments hedged are virtually fully offset by the changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments.

In order to measure the efficiency of hedging defined as such, the Group analyses whether from inception and to the end of the defined hedging period defined, changes in fair value or cash flows of the hedged item which may be attributed to the hedged risk may prospectively be expected to be offset almost completely by changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments and that retrospectively the results of the hedge have fluctuated in a measurement range of 80% to 125% with respect to the results of the item hedged.

Hedging transactions carried out by the Group are classified into the following categories:

- Fair-value hedges: They cover the exposure to changes in the fair value of financial assets and liabilities or firm commitments, or an identified portion of these assets, liabilities or commitments, attributable to a specific risk, provided that they affect the income statement.

- Cash-flow hedges: cover changes in cash-flow that are attributable to a specific risk associated with a financial asset or liability or a highly-probable planned transaction, provided that it may affect the income statement.

Measurement differences are recorded in accordance with the following criteria, when referring specifically to financial instruments designated as hedged components and book hedges:

- For fair-value hedges, differences in the fair value of both hedges and hedged components, with respect to the type of risk hedged, are recognised directly in the income statement.

- For cash-flow hedges, measurement differences arising on the efficient part of the cover of the hedges are temporarily carried under "Equity - Measurement Adjustments - Cash-flow hedges. Hedged financial instruments in this type of hedge are carried in accordance with the criteria explained in Note 2.2, without any modification due to being considered as such.

In this last case, measurement differences are not recognised as results until the gains or losses on the hedged item are recorded in the income statement, or until maturity.

Hedge measurement differences relating to the inefficient portion of cash-flow hedges are recognised directly under the heading "Gain/loss on financial transactions" in the income statement.

The Group interrupts hedge accounting when the hedging instrument expires or is sold, when a hedge no longer meets the criteria for hedge accounting or when the transaction ceases to be classed as a hedge.

Where fair-value hedge accounting is interrupted as stated in the preceding paragraph, in the case of hedged items carried at amortised cost, the value adjustments made for hedge accounting purposes are recognised in the income statement until the maturity date of the hedged items, applying the effective interest rate as recalculated on the interruption date.

Should a cash-flow hedge transaction be interrupted, the accumulated gain or loss from the hedge carried under the heading "Equity - Measurement Adjustments - Cash-flow hedges" in the balance sheet will remain under this heading until the planned hedge transaction takes place, at which time it will be taken to the income statement, or the cost of acquiring the asset or liability to be recorded will be adjusted, in the event that the hedged component is a planned transaction that culminates with the recording of a financial asset or liability. In the event of planned transactions, when expected not to take place, the entry made under "Equity - Measurement adjustments - Cash-flow hedges" relating to that transaction is immediately recognised in the income statement.

2.4 Foreign currency transactions

2.4.1 Functional currency

The Group's functional currency is the euro. Therefore all balances and transactions denominated in currencies other than the euro are considered denominated in foreign currency.

Set out below are the total assets and liabilities denominated in foreign currency held by the Institute, the Group's Parent entity, at 31 December 2012 and 2011 (thousands of units of each foreign currency sing):

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Pounds sterling	172,536	1,200,023	320,883	2,016,884
US Dollars	2,147,810	6,292,235	2,465,991	10,524,885
Canadian dollars	139,229	650,000	138,835	782,682
Swiss Francs	347	1,540,465	10,383	2,205,549
Swedish kroner	-	-	-	-
Norwegian kroner	-	5,450,009	-	7,875,016
Japanese Yen	4	180,996	2	233,495
Australian dollars	56	299,996	66	1,499,987
Other traded currencies	154,102	199,653	152,151	233,597
Other non-traded currencies	157,467	1,834	147,008	-

The equivalent value in Euros of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Institute, the Group's parent entities at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Spanish credit institutions in Spain	269,895	75,808	187,147	525,633
Spanish credit institutions abroad	26,861	42,466	3,658	41,218
Foreign credit institutions abroad	32,092	338,883	188,076	382,024
Loans/Deposits Spanish Public Administrations	-	-	-	591
Loans to/deposits with other resident sectors	773,682	-	1,092,741	-
Loans/Deposits non-resident Public Admin	-	-	-	-
Loans/Deposits, other non-resident sectors	1,152,799	-	1,230,969	-
Provisions denominated in foreign currency	-	-	-	422
Issued bonds and others	1,871	10,325,425	256	16,764,001
	2,257,200	10,782,582	2,702,847	17,713,889

When initially recognised, debtor and creditor balances denominated in foreign currency are translated to the functional currency using the spot exchange rate at the date of recognition, understood as the exchange rate for immediate delivery. After initial recognition, the following rules are applied to translate balances denominated in foreign currency to the functional currency:

i) Monetary assets and liabilities are translated at the year-end exchange rate, understood as the average spot exchange rate at the date to which the financial statements refer.

ii) Non-monetary items measured at cost are translated at the exchange rate on the date of acquisition.

iii) Non-monetary items measured at fair value are translated at the exchange rate on the date on which fair value is determined.

iv) Income and expense are translated by applying the exchange rate on the transaction date. Nonetheless, the average exchange rate for the period is used for all transactions carried out in that period, unless there have been significant fluctuations. Depreciation/ amortisation are translated at the exchange rate applied to the relevant asset.

    Exchange differences arising on translation of debtor and creditor balances denominated in foreign currency are generally recorded in the income statement. Nonetheless, in the case of exchange differences that arise on non-monetary items measured at fair value, for which the fair-value adjustment is recorded under Equity Measurement Adjustments, the component of the exchange rate relating to the revaluation of the nonmonetary element is broken down.

    The exchange rates used by the Group to convert balances denominated in the main foreign currencies in which it operates are the market rates at 31 December 2012 and 2011 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising on the conversion of receivables and payables denominated in foreign currency is a 628 thousand Euros profit at 31 December 2012 (1,989 thousand Euros loss at 31 December 2011).

2.5 Recognition of revenue and expense

Set out below is a summary of the most significant accounting policies employed by the Group to recognise income and expense:

2.5.1 Interest income and expense, dividends and similar items

In general, interest income and expense and similar items are accounted for on an accruals basis, applying the effective interest method defined in applicable accounting legislation. Dividends received from other companies are recognised in the income statement when the consolidated entities become entitled to receive them.

2.5.2 Commissions, fees and similar items

Income and expense relating to commissions and similar fees, which are not included in the calculation of the effective interest rate of operations and/or do not form part of the acquisition cost of financial assets or liabilities, except for those carried at fair value through the income statement, are recognised in the income statement using different methods depending on their nature. The most significant methods used are explained below:

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through the income statement are recognised in the income statement at the payment date.

- Amounts arising from long-term transactions or services are recognised in the income statement over the term of the transactions or services.

- Amounts relating to a one-off event are recorded in the income statement when that event takes place.

2.5.3 Non-financial income and expense

These amounts are accounted for on an accruals basis.

2.5.4 Deferred collections and payments:

Deferred collections and payments over time are accounted for financially amount resulting from the expected cash flows at markets rates depending on their vesting period

2.6 Offset of balances

Only debtor and creditor balances arising on transactions which, under contract or legislation, provide for possible offset and are to be settled at their net amount, or simultaneously realised and paid, are offset and therefore presented in the consolidated balance sheet at their net amount.

2.7 Financial asset impairment

The carrying value of financial assets is generally adjusted against the consolidated income statement when there is objective evidence that there are impairment losses. This is the case where:

- For debt instruments, understood as loans and debt securities, when, following their initial recognition, there is an event or combined effect of several events which have a negative impact on the relevant future cash flows.

- For equity instruments, when following their initial recognition, there is an event or the combined effect of several events, making it impossible to recover their carrying value.

As a general rule, impairment financial instruments value correction is charged to the profit and loss account of the period in which such impairment is manifested and the recovery of previously recorded impairment losses, if place, are recognized in the profit and loss account of the period during which the deterioration is eliminated or reduced. In the event that the recovery of any amount in respect of the impairment recorded is considered remote, such impairment is written off the consolidated balance sheet, although the Group may carry out the necessary actions to attempt to secure collection until the definitive extinguishment of its debt claims due to lapsing, remission or other reasons.

Debt instruments and contingent risks portfolios, regardless of their owner, warranty or instrumentation, are analyzed to determine the credit risk to which the entity is exposed and to estimate coverage requirements for impairment in value. For the financial statements preparation, the Group classifies its operations in terms of its credit risk by analyzing, separately, the insolvency risk due to the customer and country risk to which they are exposed.

Debt instrument's future cash flows estimated are all amounts, principal and interest, the Group believes will receive during the instrument's life. All relevant information which provides data on the possibility of future recovery of contractual cash flows that is available at the time of financial statements elaboration is considered in this estimation. Also, in estimating instruments with security's future cash flows, are taken into account the flows that would result from its realization, less the amount of costs for its acquisition and subsequent sale, irrespective of the probability of the guarantee.

In present value of estimated future cash flows calculation the instrument's original effective interest rate is used as the update rate, if contract rate is fixed, or the effective interest rate on the date to which the statements relate determined according to financial conditions of the contract, if variable.

In the case of debt instruments measured at amortised cost, the amount of impairment losses incurred is equal to the negative difference between the carrying value and the current value of future estimated cash flows, using the original effective interest rate as the adjustment rate, if that rate is fixed, or the effective interest rate at the date of the financial statements calculated in accordance with the terms of the contract when a variable ratio In the case of listed debt instruments, market value may be used as a substitute, provided that it is sufficiently reliable to consider it to be representative of the value the Institute will recover.

Objective evidence of impairment will be determined individually for all debt instruments that are significant and individually or collectively for the groups of debt instruments which are not individually significant. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it will be analysed solely on an individual basis to determine whether it is impaired and, if appropriate, estimate the impairment loss.

The collective assessment of a group of financial assets to estimate impairment losses is as follows:

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor capacity to pay all amounts, principal and interest, in accordance with contractual terms. The characteristics of credit risk which are taken into account in order to group together assets are, inter alia, the type of instrument, the debtor's sector of activity, geographical area of activity, type of guarantee, age of amounts overdue and any other factor that may be relevant when estimating future cash flows.

- Future cash flows in each group of debt instruments are estimated based on the Group's experience of historical losses for instruments with similar credit risk characteristics to those of the respective group, following the necessary adjustments to adapt historical data to current market conditions.

- Impairment losses in each group are the difference between the carrying value of all the group's debt instruments and the present value of its estimated future cash flows.

Debt instruments not measured at fair value through changes in the consolidated income statement, contingent risks and commitments are classified, based on the insolvency risk attributable to the client or the transaction, in the categories defined by applicable accounting legislation (Bank of Spain, Circular 4/2004). For debt instruments not classified as normal risk, estimates are made regarding the specific impairment hedges necessary based on the criteria established in the above-mentioned legislation, bearing in mind the age of the unpaid amounts, the guarantees provided and the client's financial situation and, if appropriate, the guarantors.

Similarly, these financial instruments are analysed to determine the credit risk deriving from country risk, understood to be the risk affecting clients resident in a certain country due to circumstances other than normal commercial risks.

In addition to the specific impairment hedges indicated above, the Group hedges against losses inherent to debt instruments not measured at fair value through the consolidated income statement and contingent risks classified as normal through group hedges, calculated based on historical impairment and other circumstances known at the time of evaluation that relate to the inherent losses incurred at the date of the financial statements, calculated using statistical methods, that have yet to be assigned to specific transactions.

The Group has used the parameters established by the Bank of Spain, based on its sector experience and information, which determine the method and amount to be used to cover inherent impairment losses incurred in debt instruments and contingent risks classified as normal risk, which is changed regularly on the basis of the development of the data in question. This method of determining the coverage for impairment losses is based on the application of certain percentages set in the applicable accounting legislation, which vary based on the risk classification of financial instruments as established in this legislation.

In general, impairment of debt instruments is calculated by applying the following percentages to the outstanding risk:

Age of past-due amount	Percentage of cover
Up to 6 months	25%
More than 6 months and less than 9	50%
More than 9 months and less than 12	75%
More than 12 months	100%

The recognition in account consolidated profit and losses of the income of interests on the base of the contractual terms is interrupted for all the instruments of debt qualified individually and for those for those who had calculated collectively losses for deterioration for having amounts conquered with an antiquity top to three months.

Furthermore and according to forecasting in February 29th 2/2012 Circular from Bank of Spain, , funding and foreclosed assets or assets received in payment from real estate or property development debts have to follow the criteria explained above. It is also, worth it to mention that those funding and assets are the ones existing same at 31 December 2011 as at a prior date and coming from its own refinancing at a later date classified not as regular risk at the named date. The applicable criteria are:

- Hedges applied to operations classified as Doubtfuldoubtful and intended to finance a property development finished business of any kind of assets, could not be higher than 25% of the outstanding risk in any case.

- Hedges applied to operations classified as substandard, intended to finance a property development finished business of any kind of assets, could not be lower than 20% of the outstanding risk in any case. This percentage will be substituted by 24% for those operations with no real guarantee.

- Hedges applied to operations classified as doubtful or substandard, intended to finance the land used for property development on-going business of any kind of assets could not be lower than the following percentages in any case:

Sort of asset	Doubtful	Substandard
Funding for Property development land	60%	60%
Funding Property development stopped business	50%	50%
Funding Property development on-going business	50%	24%

- Minimum hedging percentages referred in section IV from Anejo IX (foreclosed assets) could not be lower than the following:

  a) In the case of underlying assets coming from finished real estate business such as houses financing other houses, not having been the borrower's regular home. The percentage referred in section 32, a) (foreclosed assets as debt payment instruments) will be 25% and its minimum hedging percentages, depending on how old was its inclusion in balance sheet's section 35, will be the followings:

Time from acquisition	Hedging percentage
From over 12 to 24 months	30%
From over 24 to 36 months	40%
Over 36 month	50%

  b) In the case of underlying assets coming from land used for Property development on-going business, no matter how old is its recorder in the balance sheet:

Sort of asset	Hedging percentage
Land for real estate uses	60%
Real estate on-going business	50%

A sole hedge will be established as a 7% of the outstanding total amount of funding and foreclosed assets or assets received as debt payments. These debts have to come from whether property development lands or real estate Spain-settled business which at December 31st, 2011 had a regular risk classification. This hedging amount could be used by entities only to build up specific hedges in need as a later reclassification into doubtful or substandard assets in funding, foreclosed or recoveries fulfilling the before mentioned debt payments.

The amount of impairment losses incurred in debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between their acquisition costs, net of any repayment of the principal, and their fair value less any impairment loss previously recognised in the income statement.

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses recognised directly under "Valuation adjustments" in Equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognised, in the case of debt securities, in the consolidated income statem ent for the recovery period, and, in the case of equity instruments, under "Valuation Adjustments" in Equity.

For debt and equity instruments classified under non-current assets for sale, the losses recorded previously under equity are considered to be realised and are recognised in the consolidated income statement at the date of their classification.

For shareholdings in dependent companies, Multigroup companies and Associates, the Group estimates impairment losses by comparing the recoverable amount with their carrying value. Such impairment losses are recorded in the consolidated income statement for the period in which they arise while subsequent recoveries are recorded in the consolidated income statement for the recovery period.

In the case that the probabilities of recovery any amount recorded like impairment are considered slim, are eliminated in the balance sheet, although the Instituto could carry out necessary actions to try to recover, as long as, their rights do not extinguish permanently by expiration, cancellation or other causes.

2.8 Financial guarantees and related provisions

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the creditor for the loss incurred when a debtor fails to perform specific payment obligation under the conditions, original or amended of an instrument of debt, regardless of their legal form, which can be, inter alia, of a surety, financial guarantee insurance contract or credit derivative.

The issuer of financial guarantee contracts recognized them under the heading "Other financial liabilities" at fair value plus transaction costs that are directly attributable to its issuance, except for contracts issued by insurance companies.

At the beginning, the fair value of financial guarantee contracts issued to a third party not connected within a single transaction in mutual independence conditions, is the premium received plus, presents cash flows value to receive, using an interest rate similar to the financial assets issued by the entity with similar term and risk. Simultaneously, it will be recognized as an asset receivable the present value of future cash flows to be received at the rate of interest mentioned above.

Subsequent to initial recognition, the contracts are treated in accordance with the following criteria:

i) The financial guarantee's commissions or bonuses value to receive is updated by recording the difference in the profit and loss account as financial income.

ii) The value of financial guarantee contracts that have not been qualified as doubtful is the initially recognized amount less the part charged to the profit and loss account on straight-line basis over the expected life of the guarantee or by other criteria, provided that this more accurately reflects economic risks and benefits of the warranty's perception.

The classification of financial guarantee contracts as doubtful will imply the constitution of the pertinent hedges, included in the heading of "Provisions for liabilities and contingent".

2.9 Accounting for leases

2.9.1 Finance leases

Finance leases are those in which substantially all the risks and rewards carried by the leased asset are transferred to the lessee.

Whenever the Group acts as lesser of an asset in a finance lease transaction, the sum of the present values of the amount that will be received from the lessee plus the guaranteed residual value, usually the purchase option price when the lease terminates, are recorded as financing provided to third parties. It is therefore included in Credits, loans and discounts in the consolidated balance sheet, in accordance with the nature of the lessee.

When the Group acts as the lessee in a finance lease transaction, the cost of the leased assets is recorded in the consolidated balance sheet on the basis of the nature of the asset leased and a liability is carried in the same amount, which will be the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if appropriate, the purchase option exercise price. These assets are depreciated at similar rates to those applied to the Group's property, plant and equipment for own use (Note 2.12).

In both cases, the financial income and expense on finance leases is credited and charged, respectively, to the income statement captions "Interest and similar income" and "Interest and similar charges", applying the effective interest method on the lease to estimate accrual, calculated in accordance with the applicable accounting legislation.

2.9.2 Operating leases

In operating leases, ownership of the leased asset and substantially all risks and rewards of ownership are retained by the lessor.

Where the Group acts as the lessor in operating lease agreements, the acquisition cost of the leased asset is carried under "Property, plant and equipment" in "Investment property" or "Other assets assigned under operating lease", depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the income from lease contracts is recognised in the consolidated income statement on a straight-line basis in the caption "Other operating revenue".

Where the Group acts as the lessee in operating lease agreements, the lease costs, including any incentives granted by the lessor, are charged on its account to the income statement caption "Other general administration expenses".

2.10 Staff costs

2.10.1 Short-term remuneration

Short-term remuneration to employees is payments made within twelve months following the end of the year in which the employees have rendered services. This remuneration is measured, without adjustment, at the amount payable for the services received and recorded, in general, as staff costs for the year and a liability accrual account is recorded for the difference between the total expense and the amount already paid.

2.10.2 Post-employment commitments

Pension commitments entered into by the Group with respect to employees are reflected in the collective wage agreement in force.

Institute employees are members of the Joint Employment System Pension Plan offered by the State Administration and regulated by the Pension Plan and Fund Regulation Act approved by Legislative Royal Decree 1/2002 (29 November) and enabling regulations approved by Royal Decree 304/2004 (20 February), which is included in the BBVA Empleo Pension Fund, managed by Gestión de Previsión y Pensiones, Entidad Gestora de Fondos de Pensiones and deposited at BBVA.

As defined contribution commitments, the Institute has assumed annual contributions for employees that have rendered services for more than two years at 1 May of each year, regardless of whether they are career civil servants or interim government employees, contracted personnel, temporary employees or senior management. The following parameters are taken into account when calculating the annual contribution:

- The professional group to which the employee pertains.
- Length of service (understood to be the number of three-year periods the employee has worked in the Administration, regardless of the contractual arrangement).

The amounts to be contributed are those approved in the General State Budget for each year, and the expense totalling not being recorded under the heading "Staff costs" in the accompanying income statement at 31 December 2012 (78 thousand Euros at 31 December 2011).

2.10.3 Death and disability benefits and retirement bonuses

Commitments assumed with personnel for retirement bonuses and death and disability commitments prior to retirement and other similar items are estimated by calculating the present value of legal and implicit obligations at the date of the financial statements, after deducting any actuarial loss less any actuarial gain, the cost of past services yet to be recognized and the fair value of the assets that cover the commitments, including insurance policies. The entire cost of past services and any actuarial gains or losses are immediately recognized.

At 31 December 2012 a provision was recorded for post-employment commitments amounting to 124 thousand Euros (173 thousand Euros at 31 December 2011). Note 20.

2.10.4 Termination benefits

Termination benefits are recorded under the heading "Personnel expenses" and the accompanying income statement crediting the accounts "Pension fund and similar obligations" under the heading "Provisions" in the accompanying balance sheet only when the Institute is demonstrably committed to terminating an employee or group of employees before their normal retirement date, or to pay remuneration as a result of an offer made as an incentive for the voluntary resignation of the employees.

At 31 December 2012 and 2011, the Institute has not recorded any provisions in this respect as there is no plan or agreement that would require such an allocation.

2.11 Corporate income tax

Corporate income tax is considered as an expense and is recorded, in general, under the heading of "Income tax" of the profit and loss consolidated account.

Income tax expense for the year is calculated as tax payable on taxable income for the year, as adjusted for variations during the year in asset and liability balances arising from temporary differences, tax credits and allowances, and any tax-loss carry forwards (Note 23).

The Group considers that there is a temporary difference when there is a difference between the carrying amount and the taxable amount of an asset or liability. The amount attributed to an asset or liability for tax purposes is considered the tax base. A taxable temporary difference is understood as that which will generate a future obligation for the Group to pay the relevant Administration. A deductible temporary difference is understood to be that which will generate for the Group some reimbursement right or a decrease in the payment to be made to the relevant administration in the future.

Tax credits and allowances and tax credits for tax-loss carry forwards are amounts that, though generated on completion of an activity or obtainment of a result, are not applied for tax purposes in the relevant tax return until the conditions stipulated in tax legislation are fulfilled, and provided the Institute considers that application in future years is probable.

Current tax assets and liabilities are amounts that the Institute expects to recover from or pay to the corresponding tax authorities within 12 months as from the date on which they are recognised. Deferred tax assets and liabilities are amounts that the Institute expects to recover from or pay to the corresponding tax authorities in future years.

Deferred tax liabilities are recognized for all taxable temporary differences. Notwithstanding the above, no deferred tax liabilities are recorded based on the recognition of goodwill.

The Group only recognizes deferred tax assets deriving from deductible temporary differences, tax credits or allowances or any tax-loss carry forwards, if they meet the following conditions:

- Deferred tax assets are only recognized in the event that the Group considers it likely that there will be sufficient future taxable profits against which they may be offset.

- In the case of deferred tax assets deriving from tax losses, they have arisen from identified causes that are unlikely to be repeated.

No deferred tax assets or liabilities are recognized when an asset is initially recorded when not deriving from a business combination and when, at the time of recognition, there was no effect on book or taxable profits.

At the time of each accounting closing, deferred tax assets and liabilities are reviewed in order to verify that they remain in force and any relevant adjustments are made in accordance with the results of the analysis performed.

2.12 Property, plant and equipment

2.12.1 Property, plant and equipment for own use

Property, plant and equipment for own use includes those assets that are owned or acquired under finance leases that the Institute holds for its own current or future use for administrative purposes or for the production or supply of assets and when they are expected to be used for more than one financial year. Among other things, this category includes property, plant and equipment received by the Group for the total or partial settlements of financial assets that represent debt claims against third parties which are expected to be used on a continuous and internal basis. Property, plant and equipment for own use is carried in the balance sheet at acquisition cost, which consists of the fair value of any compensation paid plus any monetary payments made or promised, less accumulated depreciation and, if appropriate, any estimated losses that result from comparing the net value of each item with the relevant recoverable amount.

The property, plant and equipment for own use is valued in the balance sheet at its acquisition cost. Which results from any entry's fair value plus the following monetary disbursements made or guaranteed, less its accumulated amortization and any estimated loss resultant from comparing every entry's net value with the potential amount of recovery.

For these purposes, the acquisition cost of foreclosed assets that become part of property, plant and equipment for own use by the Group, is similar to the net amount of the financial assets exchanged for foreclosed.

Depreciation is calculated on a straight-line basis based on the acquisition cost of the assets concerned less any residual value, with the understanding that land on which buildings and other structures are located have an indefinite life and is therefore not depreciated.

Annual allocations to depreciation of property, plant and equipment are charged against the heading "Depreciation-Property, plant and equipment" in the consolidated income statement and basically equals the following depreciation rates (calculated based on the estimated average useful life of the assets concerned:

	Annual rate
Buildings	2%
Plant	4 to 15%
Furnishings and office equipment	10%
Data – processing equipment	25%
Vehicles	16%

At the time of each accounting closing, the Group determines whether or not there are any internal or external indications that the net value of its property, plant and equipment exceeds their recoverable value. If so, the book value of the asset concerned is reduced to the recoverable value and future depreciation charges are adjusted in proportion to the adjusted book value and the new remaining useful life, if a new estimate is required. This reduction in the book value of property, plant and equipment for own use is applied, if necessary, by charging the heading "Impairment losses-Property, plant and equipment" in the consolidated income statement.

Similarly, when there are indications that the value of impaired property, plant and equipment has been recovered, the Institute recognizes the reversal of the impairment loss recorded in prior years by crediting the heading "Impairment losses - Property, plant and equipment" in the consolidated income statement and, consequently, adjusts future depreciation charges. Under no circumstances may the reversal of an impairment loss affecting an asset increase its book value above that which it would have had if the impairment losses had not been recognized in prior years.

In addition, the estimated useful life of property, plant and equipment for own use is reviewed at least on an annual basis in order to detect significant changes in these estimates and, if any are detected, adjustments will be applied by correcting the depreciation charge made to the income statement in future years in accordance with the new estimated useful lives.

Repair and maintenance expenses for property, plant and equipment for own use is charged against results for the year in which they are incurred under the heading "Other general administration expenses" in the consolidated income statement. The financial expense incurred as a result of financing property, plant and equipment for own use is charged against the income statement at the time of accrual and these expenses do not form part of their acquisition cost.

2.12.2 Real estate investments

The consolidated balance sheet heading "Real estate investments" recognizes the net value of land, buildings and other structures that are held for rental or to obtain a capital gain on their sale as a result of increases in their future market prices.

The criteria applied for recognizing the acquisition cost of real estate investments for depreciation, for the estimate of their respective useful lives and for recording any possible impairment losses, coincides with those described with respect to property, plant and equipment for own use (Note 2.12.1).

2.13 Intangible assets

Intangible assets are considered to be identifiable non-monetary assets that, while not existing physically, arise as a result of a transaction or have been internally developed by the Group. Only intangible assets whose cost may be reasonably estimated on an objective basis and which the Institute deems likely to provide a future financial benefit are recognized for accounting purposes.

Intangible assets, other than goodwill, are recognized in the balance sheet at their acquisition or production cost, net of accumulated amortization and any impairment losses they may have suffered.

Intangible assets may have an "indefinite useful life" when the analysis performed on all relevant factors leads to the conclusion that there is no foreseeable limit to the period over which they are expected to generate net cash flows for the Institute, and they have an "definite useful life" in all other cases.

Intangible assets with an indefinite useful life are not amortized, although at the time of each accounting closing the Group reviews their respective remaining useful lives in order to ensure that they continue to be indefinite. If this is not the case appropriate action is taken.

Intangible assets with a defined life-span are amortised accordingly using criteria that are similar to those applied to property, plant and equipment. The annual amortization charge for these intangible assets is carried in the consolidated income statement caption "Amortization - Intangible assets".

For intangible assets with both an indefinite and definite useful life, the Institute recognises any impairment in those assets and uses as a balancing entry "Asset impairment losses (net) - Other intangible assets" in the consolidated income statement. The methods applied to recognise impairment losses on these assets and, if appropriate, the recovery of impairment losses recognised in prior years are similar to those applied to property, plant and equipment (Note 2.12.1).

2.14 Provisions and contingent liabilities

When preparing the financial statements the Group differentiates between:

- Provisions: creditor balances that cover obligations in force at the balance sheet date deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, their amount and/or settlement date cannot be determined.

- Contingent liabilities: possible obligations deriving from past events which may materialise subject to one or more future events beyond the control of the Group.

The Group's consolidated financial statements include all significant provisions for obligations classed as probable. Contingent liabilities are not recognized in the consolidated financial statements, but rather information is provided in accordance with the requirements of Bank of Spain Circular 4/2004 of December 22, (Note 20).

Provisions which are quantified using the best information available on the consequences of the event that justifies them and are re-estimated at the year end. They are applied to meet the specific obligations for which they were originally recognised and fully or partially reversed should such obligations cease to exist or decrease.

At the 2012 and 2011 year end, a number of legal proceedings and claims had been initiated against the Group, arising in the ordinary course of business. ICO's legal advisors and its directors understand that the finalisation of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the consolidated financial statements in which they finalise.

Provisions deemed necessary as stated above are charged or credited to the consolidated income statement caption "Transfers to provisions (net)".

2.15 Cash-flow statements

The terms employed in the cash-flow statements have the following meanings:

- Cash flows: Inflows and outflows of cash and cash equivalents, understood as short-term investments which are highly liquid and involve a low risk of changes in value.

- Operating activities: typical credit institution activities and other activities that may not be classified as investing or financing activities.

- Investing activities: acquisition, sale or disposal through other means of noncurrent assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that cause changes in the size and composition of equity and liabilities and do not form part of operating activities.

2.16 Non-current assets for sale

The heading "Non-current assets for sale" on the consolidated balance sheet records the book value of individual items that are very likely to be so ld in their present condition within one year as from the date of the financial statements.

When in exceptional cases the sale is expected to occur over a period exceeding one year, the Entity assesses the updated sale cost, accounting time value fluctuation under the heading of gains (losses) on non-current assets for sale not classified as discontinued operations in the consolidated profit and loss account.

Consequently, the carrying amount of these items, which may be financial or non-financial in nature, will foreseeable be recovered through their selling price rather than through continued use.

Specifically, the real estate assets or other non-current assets received by the Group to pay off all or part of the payment obligations of its debtors with regard to the Institute are deemed non-current assets for sale, unless the Group has decided to use these assets on an on-going basis.

Symmetrically, "Liabilities associated with non-current assets for sale" includes the credit balances associated with groups or for interruption in the operations of the Group.

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognised as such and their fair value net of estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortization by nature, are not depreciated or amortised.

In the event that the carrying amount exceeds the fair value of the assets, net of cost of sales, the Institute adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption "Asset impairment losses (net) - Non-current assets held for sale" in the consolidated income statement. In the event that the fair value of the assets were to increase at a later date, the Group reverses the losses previously recorded in the accounts, increasing the carrying value subject to the limit of the amount prior to their eventual impairment, against Asset impairment losses (net) - Non-current assets for sale in the consolidated income statement.

The results from the sale of non-current assets for sale are presented under "Gains/ (Losses) on non-current assets held for sale not classified as discontinued operations" in the profit and loss account.

However, financial assets, assets from employee salaries, deferred tax assets and assets for insurance contracts that are part of a group of file or an interruption in operation, not be valued in accordance with in the previous paragraphs, but in accordance with the principles and rules applicable to these concepts, which have been explained in the preceding paragraphs of Note 2.

3. CUSTOMER SERVICE

On 24 July 2004, Order Eco 734 regarding customer service operations entered into force. This has the purpose of regulating customer services and ombudsmen at banks and financial institutions. With respect to this Service, and although the Group is not obligated to have a customer service department, the Group attends to all claims and complaints that it receives during the course of its business as a financial agency. In order to attain the highest quality of service, the Institute decided to create a Unit in December 2006 to centralize the reception, processing, and a response to all complaints and suggestions received from suppliers, users and clients of ICO.

In 2012 a total of 521 complaints were received, (1,319 in 2011) which were addressed within an average of 5.3 working days, (6.2 in 2011). Forty-nine percent of the total related to credit transactions in the intermediary line (ICO Directo and ICO SGR) and were therefore passed on to the relevant financial institutions. Other has taken place within credit operations from the Mediation Lines so therefore, they have been moved out to the relevant financial entities in any case.

4. DISTRIBUTION OF RESULTS

The distribution of 2012 ICO profits, which totalled 64,071 thousand Euros, has not yet been decided by the General Council of the Institute, the Group's Parent entity. Such distribution will conform to the bylaws applicable to the Institute.

5. INSTITUTE'S RISK EXPOSURE, AS THE PREVAILING ENTITY OF THE GROUP

5.1 Risk - General aspects

Risk is inherent to financial activity. Properly measuring, managing and controlling risk must contribute to attaining adequate margins and the maintenance of an entity's solvency based on the confidence of clients, investors and employees.

Without any intention of exhaustively classifying the risks faced by a financial institution, they may be classed into four categories: Liquidity risk, market risk, credit risk and operating risk.

- Liquidity risk: The risk incurred as a result of an absence of sufficient liquid resources to comply with obligations, whether because of a lack of adequacy within the assets and liabilities maturity structure or because of an exceptional crisis in the market.

- Market risk: Covers the influence on the income statement and equity exercised by adverse changes in relevant financial variables, such as domestic or foreign currency interest rates, exchange rates, share prices, etc. This risk may be subdivided into two large groups: Balance sheet or structural market risk and market risk affecting trading portfolios.

- Credit risk: This refers to the risk of not fully recovering the principal and interest relating to our investments within the projected periods. This risk may also be subdivided into two broad groups: Counterparty risks with banking institutions and credit risk regarding investment transactions.

- Operating risk: Incurred as a result of administrative, internal, accounting, computer, legal or external errors due to unforeseen circumstances.

As a credit institution, the ICO, the Parent entity, is exposed to this group of risks that must be identified, measured and monitored in order to operate efficiently. This is done in accordance with the Risk Policy Manual approved by the General Council, which contains the different methods, applicable legislation, procedures and organisational structure.

5.2 Organisational structure

In order to cover the entire risk spectrum, within its organisational structure the Institute, the Group's Parent entity (according to Presidential Organizational Circular 4/2012 of May 11th), has created specialised units that report to the Sub-Directorate for Risk and Accounting, which reports to the General Directorate for Control and Administration and Financial Monitoring.

The Sub-Directorate for Risk's functions include drafting and proposing internal risk policies and methods for analyzing, managing and monitoring all the Institute's risk, assessing the admissibility of ICO credit risk and overseeing ICO's adaptation to national and international risk regulations, while driving, coordinating and supervising the performance of the units under its remit.

The four specialized credit risk areas are Risk Acceptance, Global Risk, Credit Monitoring and
Recovery and Retail credit and assets management each one with specific duties.

The primary duties of the Global Risk area are:

- Preparing, proposing and controlling of financial risk measurement methodologies applied by the Institute: market risks, cash transactions, credit and liquidity: preparing a status report on financial risks.
- Overseeing compliance with the limits of approved financial risks and policies; monitoring volumes and prices.
- Regularly reviewing lines of credit by analysing of the financial-economic situations of counterparties. Analyse requests made by new counterparties for new lines of credit, controlling compliance with balance sheet lines of credit and supervising concentration levels with intermediaries.
- Reviewing and defining measurement, back-testing and stress-testing systems on an on-going basis.
- Proposing criteria for market valuation of new financial products, establishing methodologies and risk measurement.
- Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The Policies and Acceptance department, whose main functions include:

- Evaluating the admissibility of the risk for new asset products.
- Where appropriate analyzing and preparing credit risk reports on transactions proposed to the competent body.
- Analyse, if appropriate, ICO's investment risk limits regarding clients and economic groups, particularly for economic sections considered to be necessary based on industry analysis.
- Analysing and evaluating the risks assumed by ICO under any proposed modification to transactions already formalised that requires the approval of decision-making bodies.
- Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The primary duties of the Credit Monitoring and RecoveryArea are:

- Analysing the proposal for mediation lines proposed to the competent body and monitor and verifying compliance with the conditions for the current portfolio, making all necessary physical inspections and proposing any appropriate corrective action in the event of any failure to comply.
- Establishing and maintaining an internal rating system, country risk classification system and an operational risk methodology.
- Exercising special control over doubtful and default transactions and making subjective proposals for provisions.

- Overseeing transactions and client risks: verifying compliance with the conditions of direct market and economic policy transactions formalised and managed by the Group, until maturity. Calculating and monitoring ratios and covenants, controlling all required documentation, payment status and guarantees, as well as the development of credit risk as a whole.

- Managing of supporting documentation for the Monitoring Commission.

- Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The Retail credit and assets management, has the following tasks to carry out:

- Analyze financial operations viability as regards to the targeted segment.

- Proposals to the IT systems Sub Directorate regarding any incidence or improvement detected by the Analysis application.

- Biweekly basis communication with the Board of Directors related to the approval of the retail refinancing operations Reporting on these operations' risk profile, type of client, share shrinking and approval based on the amount to finance.

- Monitoring and Control over the ICO-owned loans recovery actions which management is outsourced by the Institute to other entities. It is done through services agreements for SME, microSME, freelances and individuals segments.

- Recovery management of those ICO-owned loans which management and administration is carried out directly by the Institute for SME, microSME, freelances and individuals.

- Proposals preparation for the in-house ICO decision taking bodies, regarding each area records (resolution proposals, failed, operations transfer for its direct management, etc.)

- Monitoring, solemnization and design of those direct finance operations which are Government-traded as a consequence of serious economic crisis, natural disasters, or any similar events. Later on, the assessment of any initiative or action proposal for its transfer to the ministerial departments concerned of that particular situation and of certain borrowing groups' action fields.

In summary, the Institute, the Parent company, has a team of professionals specialised in each type of risk, each one responsible for his/her own duties and acting in accordance with the inspirational risk principles, the risk policy manual in force and existing internal procedures.

5.3 Liquidity risk at the Group

National legislation contains several references to be taken into consideration when adequately managing this risk. In addition, together with the 30th November, 4/2011 Circular publication, is introduced in the 3/2008 Circular, Liquidity Information, Liquidity Statements LQ monthly elaborated and presented to Bank of Spain. There are also international recommendations of reference, such as those established in the document published by the Basel Committee on Bank Supervision in February 2000 (Sound Practices for Managing Liquidity in Banking Organizations), which contains guidelines that must be taken into consideration when establishing a system for measuring, managing and monitoring liquidity risk. The establishment of new solvency and liquidity requirements from Basel III: Global Regulatory framework to reinforce banks and the banking system and Basel III: (International framework for liquidity risk measurement, standards and monitoring, and a global regulatory framework for more resilient banks and banking systems) represents a new step in the direction of guaranteeing more efficient parameters in liquidity measurement and control. First days of January 2013, Basel III: The liquidity Coverage Ratio and liquidity risk monitoring tool, is published; it moves forward in the definition and short term liquidity ratio tracking.

At ICO, the Group's Parent entity, is defined an organisational structure responsible for reporting, monitoring and controlling liquidity risk.

ICO's General Council approved the annual measurement methodology, control and liquidity risk limits at July 20th, 2012.

The measurement used to monitor balance sheet liquidity risk is the liquidity gap. The liquidity gap provides information regarding the mismatches between the inflow and outflow of funds on a daily basis for periods of up to 12 months covering all balance sheet and off-balance sheet items that produce cash flows on the actual date occurring.

Liquidity gaps are measured in one week periods, one, three or six months periods. There is a percentage over the total of Institute's liabilities that cannot be exceed for each period: one week-period: up to 0.5%, one month period: up to 1%, three month period: up to 2.5% and six month period: up to 5%.

Short-term liquidity is monitored on a daily basis. On a weekly basis, and at the end of each month, this monitoring and control of limits takes place with a horizon of 1 week, 1 month, 3 months and 6 months.

The ICO has established quantitative limits and alerts that allow us to get ahead of possible situations of liquidity tension.

There is also a policy of diversifying sources of basic finances in order to minimise this risk, and a regular review of liquidity including any projections for new activity, in order to establish needs in terms of amounts and dates of financing sufficiently in advance.

Generally, the Institution raises liquidity in a variety of ways, including tapping the interbank market and issuing debt securities in wholesale and retail markets.

The financial crisis affecting international and national markets, rooted in the US sub-prime market crisis, triggered a sharp downturn by financial markets, causing the resources for raising financing on which both international and national financial entities rely to decline sharply. As a result, fundraising on the interbank market or through the issuance of debt securities was also seriously affected.

Faced with this scenario, decisions were taken throughout 2012 to adapt the Group to the new circumstances in order to secure the liquidity needed to meet its payment commitments on time and achieve its strategic operating, investment, and growth targets. Thanks to these measures, the Group's management does not anticipate any liquidity shortages in 2013.

Maturities of the financial assets and liabilities of the Institution, as parent of the Group.

The following table shows the classification by residual maturity of ICO's assets and liabilities, net of valuation adjustments and amounts in foreign currency, at 31 December 2012:

	Thousands of Euros							
ASSETS	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 5 years**	**More than five years**	**Total**
Cash and balances with central banks	**284,349**	**-**	**-**	**-**	**-**	**-**	**-**	**284,349**
Deposits at credit institutions	**3,052**	**5,601,223**	**1,485,819**	**3,896,717**	**5,612,816**	**26,920,252**	**5,608,018**	**49,127,897**
Loans and advances to other debtors	**1,197,889**	**274,529**	**453,681**	**1,882,018**	**1,374,761**	**24,351,031**	**11,133,984**	**40,667,893**
- Spanish Public Administrations	7,979	225046	334,779	1,387,779	336,783	11,165,211	2,614,854	16,072,431
- Other resident sectors	1,181,274	46,822	118,771	478,356	1,020,155	13,086,126	8,329,424	24,260,928
- Non-residents	8,636	2,661	131	15,883	17,823	99,694	189,706	334,534
Debt securities	**-**	**607,157**	**2,445,217**	**3,096,629**	**2,476,517**	**10,812,993**	**-**	**19,438,513**
Other assets with agreed maturity	-	-	**114,523**	-	-	**7,067**	-	**121,590**
	1,485,290	**6,482,909**	**4,499,240**	**8,875,364**	**9,464,094**	**62,091,343**	**16,742,002**	**109,640,242**

	Thousands of Euros							
LIABILITIES	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 5 years**	**More than five years**	**Total**
Deposits from central banks	**-**	**-**	**-**	**-**	**-**	**20,000,000**	**-**	**20,000,000**
Deposits from credit institutions	**-**	**-**	**3,176**	**11,252**	**760,558**	**2,140,653**	**1,504,849**	**4,420,488**
Deposits from other creditors	**7,624,907**	**24,365**	**56,201**	**238,438**	**127,353**	**-**	**-**	**8,071,264**
- Spanish Public Administrations	1,572,545	-	20,901	238,438	-	-	-	1,831,884
- Other resident sectors	6,052,362	24,365	35,300	-	127,353	-	-	6,239,380
- Non-residents	-	-	-	-	-	-	-	-
Debt certificates including bonds	**-**	**49,829**	**1,610,379**	**2,727,025**	**7,410,228**	**40,206,796**	**7,413,404**	**59,417,661**
Other liabilities with agreed maturity	**-**	**-**	**-**	**-**	**3,614,191**	**-**	**-**	**3,614,191**
	7,624,907	**74,194**	**1,669,756**	**2,976,715**	**11,912,330**	**62,347,449**	**8,918,253**	**95,523,604**

The following table shows the classification by residual maturity of ICO's assets and liabilities, net of valuation adjustments and amounts in foreign currency, at 31 December 2011:

	Thousands of Euros							
ASSETS	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 5 years**	**More than five years**	**Total**
Cash and balances with central banks	**31,121**	**-**	**-**	**-**	**-**	**-**	**-**	**31.121**
Deposits at credit institutions	**2.976**	**2,422,339**	**1,854,606**	**4,530,947**	**6,302,139**	**26,790,297**	**7,603,148**	**49,506,452**
Loans and advances to other debtors	**1,482,222**	**142,538**	**132,729**	**787,439**	**1,076,388**	**13,620,695**	**11,311,105**	**28,553,116**
- Spanish Public Administrations	6,564	13,747	13,703	348,909	85,244	1,220,633	3,090,875	4,779,675
- Other resident sectors	1,466,939	126,164	118,737	429,213	913,922	12,278,711	8,015,939	23,349,625
- Non-residents	8,719	2,627	289	9,317	77,222	121,351	204,291	423,816
Debt securities	**-**	**926,911**	**2,331,003**	**620,155**	**48,588**	**4,347,196**	**-**	**8,273,853**
Other assets with agreed maturity	**-**	**-**	**10,566**	**-**	**-**	**-**	**-**	**10,566**
	1,516,319	**3,491,788**	**4,328,904**	**5.938,541**	**7,427,115**	**44,758,188**	**18,914,253**	**86,375,108**

	Thousands of Euros							
LIABILITIES	**Upon demand**	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 – 5 years**	**More than five years**	**Total**
Deposits from central banks	**-**	**-**	**375,126**	**-**	**-**	**-**	**-**	**375,126**
Deposits from credit institutions	**-**	**26,021**	**3,716**	**8,390**	**18,524**	**178,054**	**3,018,268**	**3,252,973**
Deposits from other creditors	**8,024,976**	**95,062**	**617,406**	**1,274,697**	**1,020,238**	**-**	**-**	**11,032,379**
- Spanish Public Administrations	503,931	-	580,042	1,256,697	892,885	-	-	3,233,555
- Other resident sectors	7,519,379	95,062	37,364	18,000	127,353	-	-	7,797,158
- Non-residents	1,666	-	-	-	-	-	-	1,666
Debt certificates including bonds	**-**	**951, 139**	**3,177,545**	**2,675,752**	**2,000,277**	**33,156,514**	**6,859,333**	**48,820,560**
Other liabilities with agreed maturity	**-**	**-**	**-**	**-**	**4,096,085**	**-**	**-**	**4,096,085**
	8,024,976	**1,072,222**	**4,173,793**	**3,958,839**	**7,135,124**	**33,334,568**	**9,877,601**	**67,577,123**

Analysis of euro-denominated trading and hedging derivatives of the Institute, as parent of the Group.

- The following table shows the contractual maturities for euro-denominated derivatives recognized as financial assets and financial liabilities at 31 December 2012 and 2011 (except for embedded derivatives in hybrid financial instruments) and loan commitments considered financial derivatives as they can be settled through netting, in cash or with another financial asset, in which the maturities are deemed essential for understanding the Institute's cash flow projections.

At 31 December 2012

	Thousands of Euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	185,261	132,539	60,000	156,898	-	**534,698**
- Of which: credit commitments considered as	-	-	-	-	-	
Hedging derivatives	14,664,777	60,153,356	9,982,002	1,701,495	465,415	**86,967,045**
	14,850,038	**60,285,895**	**10,042,002**	**1,858,393**	**465,415**	**87,501,743**

At 31 December 2011:

	Thousands of Euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	Total
Derivatives held for trading	503,076	132,539	60,000	118,308	38,590	**852,514**
- Of which: credit commitments considered as derivatives	-	-	-	-	-	-
Hedging derivatives	17,108,133	54,001,452	11,033,481	1,932,337	465,415	**85,540,818**
	17,611,209	**54,133,991**	**11,093,481**	**2,050,645**	**504,005**	**85,393,332**

Regarding the information presented in the preceding tables, we would like to highlight that:

- Where a counterparty can choose when an amount should be paid, the derivative is assigned in the first period in which payment to the Institute may be demanded;

- The amounts shown relate to undiscounted contractual amounts. Interest-rate swaps are shown at their net amount if settled by differences, loan commitments considered derivatives at their gross amount and all remaining financial derivatives at their contractual amount of exchange unsettled by differences;

- For derivatives with no stated contractual amount at the reporting date, e.g. because they depend on the performance of an index, the residual maturity considered for classification purposes in the preceding tables was determined based on prevailing conditions at 31 December 2012 and 2011, respectively.

Liquidity GAP analysis of the Institute, as parent of the Group.

As explained above, a core feature of the Group's liquidity management is the analysis of the maturities of its several financial assets and liabilities based predominantly on their expected maturities, rather than their contractual maturities.

The Group uses this approach because history has shown that it provides a more accurate picture of how the Institution's cash inflows and outflows are produced.

The tables below compare cash inflows and outflows at different maturities up to 12 months for the Institute, as parent of the Group. Inflows and outflows in foreign currency are shown at their equivalent value in Euros.

At 31 December 2012:

	Thousands of Euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	8,878,324	7,452,767	11,554,892	14,976,237
Equivalent outflows in Euros	(2,342,408)	(6,171,663)	(6,097,026)	(14,019,939)
Partial GAP	6,535,916	1,281,104	5,457,866	956,298
Cumulative GAP	6,535,916	7,817,020	13,274,886	14,231,184

At 31 December 2011:

	Thousands of Euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	4,717,587	5,615,780	8,755,292	12,693,440
Equivalent outflows in Euros	(3,628,924)	(5,451,124)	(8,115,742)	(10,835,956)
Partial GAP	1,088,663	164,657	639,549	1,857,485
Cumulative GAP	1,088,663	1,253,320	1,892,870	3,750,355

5.4 Market risk at the ICO Group

As indicated above, it is possible to distinguish two major groups within this risk: balance sheet or structural market risk and the trading portfolio risk. In accordance with its internal policy, ICO, the Group's Parent entity, is currently attempting to minimize trading portfolios and hold only those that, owing to the application of current legislation, do not allow for their classification as hedging or investment. Accordingly, market risk results almost exclusively from ordinary activities.

1) **There are two basic criteria** through which exposure to changes in interest and exchange rates is revealed: Yield and Solvency.

Yield: At ICO this fundamentally derives from the income statement and therefore the relevant variable is the Financial Margin.

Solvency: A company's equity is the primary guarantee for borrowers. The value of this capital or equity is the main criterion for measuring solvency.

Using these considerations, the ICO has implemented a system for measuring market risk based on three pillars: a) Calculation of the sensitivity of the annual Financial Margin. b) Calculation of the sensitivity of equity and c) Calculation of hypothetical trading portfolios, if any exist.

2) The methodology.

In order to measure balance sheet risks relating to the Financial Margin, the weighted partial maturity gap method is used, calculated as the difference between asset and liability volume and off-balance sheet transactions that mature or renew interest rates within the following 12 months, weighted by the period affecting the Margin.

In order to measure the sensitivity of Equity, the duration gap method is used. Based on these modified methods, the duration gap is obtained as the difference between the duration of assets and liabilities, from which the sensitivity gap may be obtained.

With respect to Value at Risk, the methodology will be determined by the type of portfolio involved and may be based on parametric, historical simulation or Monte Carlo methodology.

3) Degree of risk. The decision regarding the degree of risk assumed by ICO, the Group's Parent entity, is the responsibility of Senior Management, at the proposal of the Directorate for Risks and Accounting, establishes the acceptable limits based on the particular characteristics of the ICO. These limits are reviewed regularly and, at least, on an annual basis.

The net interest income sensitivity at 31 December 2012 to movements in interest rates of 100 base points was 0.12% in the euro (3.19% at December 31, 2011), 0.00% in the US dollar (0.20% at December 31,2011) and 0.05% in the Pounds sterling (0.10% at December 31, 2011). The sensitivity to exchange rate fluctuations (movements of +/- 10%) was 0.36% and 0.06% respectively (0.24% and 0.06% at December 31, 2011). The aggregate amount would represent 0.58% (3.79% in 2011).

The sensitivity of equity at 31 December 2012 to movements in interest rates of 100 bp and fluctuations in the exchange rate of 10% was 0.32% in the euro (0.10% at December 31st, 2011), 0.00% in the US dollar (0.07% at December 31st, 2011) and 0.02% in the Pound sterling (0.03% at December 31st, 2011). The sensitivity to exchange rate between USD/EUR was 0.12% and between GBP/EUR 0.01% (0.06% and 0.05% in respect of the exchange rate at December 31st, 2011). The aggregate amount would represent 1.47% (0.30% at December 31st, 2011)

4) Risk modification.

The last step for efficient risk management is the capacity to modify out maturity and duration gaps in order to bring them into line with desired risk values at any given moment, using balance sheet or off-balance sheet instruments based on market opportunities and in accordance with the management decisions taken within the authority granted for this purpose or the Financial Management Department, Directorate General of Risk or the Operations Committee.

The principal currencies used by ICO to present its balance sheet at 31 December 2012 are the euro, US dollar and Pound sterling, which account for 99% of total balance sheet and off-balance sheet transactions, of which approximately 94% is in Euros, 4% in US dollars and the remaining 1% in Pounds sterling.

With respect to currencies other than the euro, dollar and pound sterling with which the Group operates, its balance sheets are closed to interest and exchange rate risks either because the operation involves financing obtained in the currency concerned and converted to Euros using a derivative instrument that completely covers all currency flows, or because the financial of a certain asset is custom designed to avoid these risks.

In addition to the establishment of limits, monitoring and control of regular compliance, the Group has established an integrated system through the application of measurement, management and control of risks in order to verify the influence that several development scenarios involving relevant financial variables could have on the Financial Margin or on Equity. On a regular basis the development of the controlled variables is observed given different scenarios such as, for example, development estimates provided by the Analysis Service at the ICO, should there be non-parallel movement in interest curves or market stress situations.

5.5 Credit risk at ICO

As has already been mentioned there are two broad groups: Counterparty and country risk.

The first group includes transactions with financial institutions, both on and off the balance sheet. Monitoring activities are carried out by using a system that integrates the administration of transactions and the risks deriving from them in real time, providing operators with current information regarding lines of credit available at any given moment.

The competent bodies at ICO, have defined and approved a method for credit risk revision called consuming counterparty lines of credit based on the evaluation of the transactions at market prices plus a potential future or add-on risk that is measured as a percentage of the nominal value of the transaction, calculated as a potential maximum loss of 95% of confidence over the life of the transaction. The methodology is reviewed on a regular basis and at least once a year, and the add-ons are adjusted at least on a half-yearly basis.

The basic criteria for establishing counterparty lines are also approved by ICO's General Council on an annual basis. These counterparty lines are subdivided into two broad groups as a result of the operating characteristics of the ICO. The first of the counterparty lines relate to cash transactions. The other counterparty line relates to mediation transactions, transactions in which the ICO finances several investment projects through framework programmes concluded with several entities operating in Spain such as, for example, lines for small and medium-sized business.

The transactions involving derivatives contracted by ICO have counterparties with high credit ratings such that at least 99% of them maintain an Agency rating investment grade. These counterparty institutions operate at the national and international level.

The ICO has structured several stages of evaluation and control relating to company credit risk: Acceptance, Monitoring and Oversight and Recovery.

In the Acceptance phase, it is performed an analysis of companies and transactions based on a going concern evaluation and guarantees are examined to issue an opinion as to the risk and the potential client, which is the basis for taking decisions by the Operations Committee or General Council, as appropriate.

The Monitoring process (direct loans) has the purpose of making the Group's credit portfolio of the highest quality, i. e. ensures that our loans are repaid on a timely basis on the agreed dates. The basic monitoring unit is the client, not the transaction, such that any incident affecting a transaction affects the rating for a client and its group. This is achieved through ongoing controls, regular reviews, rating updates and alert systems such that the entire portfolio is classified into one of the following categories: Normal monitoring, Special monitoring and Recovery.

Refer to credits granted to several Public Administrations, a monthly tracking is done over the reimburses received from the funding granted to the Autonomous Communities and Local Entities. In the same way, the amounts paid to the Institute by the Finance and Public Administrations Ministry coming from the deduction rate applied on sharing’s in Public taxes are monthly followed-up too. No incidences registered in this case.

Oversight is performed based on the mediation lines as financed companies are indirect ICO clients in order to establish and maintain a control environment for credit institutions and to verify compliance with the agreements concluded with credit institutions with respect to: i) investments financed through ICO funds and ii) beneficiary conditions meeting the terms of agreement concerned.

Lastly, recovery tasks in the Monitoring and Retail Recovery area are focused in the collection of defaulted operations via telephone, mail or e-mail. Focused also on payment agreements talks, once the operation is in legal dispute, and on the study of those operations that went out to tender in order to establish the Institute’s vote in creditor’s tender.

Under the heading regarding credit risk, special mention must be made of the so-called country risk. Country risk refers to the solvency of all counterparties characterised as pertaining to an area geographically, politically and legally defined as a State.

In this connection, ICO, the Group's Parent entity, has approved a methodology for measuring country risk that follows current legislation and complies with the objective of evaluating countries by risk group based on multiple criteria, thereby allowing for a defined policy when recording provisions for that country risk, evaluating direct loan transactions and segmenting the non-resident loan portfolio and introducing Basel II criteria. Rating agency and OECD-CESCE evaluations are used as source of information when classifying countries into risk groups and these classifications are reviewed on a monthly basis.

The following chart shows the maximum credit risk exposure assumed by the Group at December 31, 2012 and 2011 without deducting collateral or other credit enhancements received to ensure compliance of debtors:

	Thousands of Euros					
	December 31,2012					
Types of instruments	**Available for sale financial assets**	**Credit, loans and discounts**	**Held to maturity investment portfolio**	**Hedging derivatives**	**Off Balance Sheet Items**	**Trading portfolio**
Debt instruments	-	-	19,440,338	-	-	-
Credit institutions deposits	-	46,482,659	-	-	-	-
Securities	201,633	-	-	-	-	-
Customer loans	-	44,648,379	-	-	-	-
Contingent risks: guarantees	-	-	-	-	1,928,016	-
Financial derivatives	-	-	-	3,019,268	-	554,945
Other instruments	-	-	-	-	-	-
TOTAL	**201,633**	**91,131,038**	**19,440,338**	**3,019,268**	**1,928,016**	**554,945**

Types of instruments	Available for sale financial assets	Credit, loans and discounts	Held to maturity investment portfolio	Hedging derivatives	Off Balance Sheet Items	Trading portfolio
	Thousands of Euros					
		December 31,2011				
Debt instruments	-	-	7,412,672	-	-	-
Credit institutions deposits	-	50,081,868	-	-	-	-
Securities	1,026,712	-	-	-	-	-
Customer loans	-	30,042,355	-	-	-	-
Contingent risks: guarantees	-	-	-	-	2,501,159	-
Financial derivatives	-	-	-	5,206,759	-	451,799
Other instruments	-	-	-	-	-	-
TOTAL	**1,026,712**	**80,124,223**	**7,412,672**	**5,206,759**	**2,501,159**	**451,799**

The Credit, loans and discounts breakdown based on credit ratings assigned, internal or external, is as follows:

	2012 Amount	2012 %	2011 Amount	2011 %
External ratings				
Credit quality level 1 (AAA)	-	-	-	-
Credit quality level 2 (AA, AA+)	-	-	-	-
Credit quality level 3 (A)	1,918,978	4%	1,773,291	6%
Others				
Not assigned amounts (without rating)	42,729,401	96%	28,269,064	94%
	44,648,379	100%	30,042,355	100%

5.6 Operating risk at the Group

It is increasingly more important to measure and control operating risks, especially bearing in mind the New Capital Accord (Basel II). The risk deriving from inadequate processes, incorrect records, system failures, legal risks or the risk of loss inherent to the formalisation of transactions is included.

In this area, certain tools have been developed to facilitate the task of covering operating risk. Specifically, these tools consist of the policies covering the monthly monitoring of the control panel or activity indicators, the development of processes and internal procedures, the definition of client and operations monitoring and internal control of incidents, or the existing contingency plan. The regular controls applied to procedures and operations should be emphasized, which are performed by internal and external audits.

5.7 Active credit risk with companies

5.7.1. Classification by sector

Taking into account a classification by sector, the distribution of the outstanding risk, not including valuation adjustments and certain items, classified as loans and advances to other debtors and financial guarantees, is as follows:

	Millions of Euros			
	2012		2011	
	Amount	% s/total	Amount	% s/total
Outstanding risk by sector				
Investment properties	**1,443**	**4%**	1,223	5%
Construction of social housing for sale	52	0%	12	0%
Construction of social housing for rent	724	2%	617	3%
Acquisition and development of land	334	1%	341	1%
Other	333	1%	253	1%
Investment intangible assets	**43**	**-%**	-	0%
Investment tangible assets	**14,900**	**45%**	15,205	65%
Renewable energies	1,625	5%	1,536	7%
Water infrastructures	691	2%	574	2%
Electricity infrastructures	1,607	5%	1,932	8%
Gas and fossil fuel infrastructures	1,559	5%	1,740	7%
Transport infrastructures	7,238	22%	7,273	31%
Tourism and leisure	173	1%	189	1%
Social-health infrastructures	355	1%	332	1%
Telecommunications	158	0%	26	0%
Audiovisual production and exhibition	45	0%	55	0%
Business parks and other constructions	24	0%	26	0%
Other	1,082	3%	1,522	7%
Research and Development material investment	33	-%	-	-
ICO Finance lines AA.CC. Agencies	310	1%	-	-
Acquisitions of companies	**1,153**	**3%**	2,036	9%
General corporate needs	**999**	**3%**	1,132	5%
Restructuring of liabilities	**248**	**1%**	192	1%
General State Budgets	**8,366**	**25%**	3,444	15%
Financial intermediary services	6,421	19%	45	0%
	33,573	100%	23,277	100%

As with other business figures, at 31 December 2012 and 2011 the outstanding risk is concentrated in "Transport infrastructures" and "General State Budgets". In 2012 and 2011, the outstanding risk relating to both sectors amounts to 15,604 million of Euros and 10,717 million of Euros respectively in 2012 and 2011 (47% and 46% of the total outstanding risk each year respectively).

The significant increase of the “Financial Intermediary Services” heading, is due to the Funding for Suppliers Payments Fund, the Local Entities and the Autonomous Communities’ effect (6,387 million Euros)

5.7.2 Classification by geographic location of financial investments

The total risk at 31 December 2012 is distributed as follows: 91% in transactions financing investments in Spain ascending to 30,508 operations (86% at 31 December 2011) and 9% in transactions aimed at financing investment projects in other countries (14% at 31 December 2011).

Of the domestic total, the distribution of outstanding risks by autonomous region is similar to last year; Valencia is the region with the greatest concentration, 12% (8% at 31 December 2011); followed by Cataluña, 10% (10% in 2011), Madrid, 8% (14% in 2011); not taking into account the risks attributed to "general" domestic relating to transactions that, in light of their nature, are not located in a specific geographic area but throughout Spain.

Transactions taking place in the international market at 31 December 2012 and 2011 are distributed as follows in accordance with the active foreign risk:

	Millions of Euros			
	2012		2011	
	Amount	%	Amount	%
European Union	752	25%	719	21%
Latin America	808	26%	843	25%
United States	941	31%	1,007	30%
Rest of Europe (not EU)	8	0%	8	0%
Other	556	18%	795	24%
	3,065	100%	3,372	100%

5.8 Other information.Information on late payments to suppliers

In compliance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December establishing measures against late payment in commercial transactions, developed via a resolution passed by the Spanish Audit and Accounting Institute (ICAC) on information concerning late payment to suppliers in commercial transactions to be included in the Notes to financial statements, we should point out the following:

- Given the Group's core business (financial activity), the information presented in this Note concerning late payment relates exclusively to payments to suppliers of services and sundry suppliers to the Institution and payments to commercial suppliers other than depositors and holders of ICO securities. With the latter, the contractual and legal payment deadlines of both liabilities due on demand and with deferred payment have been met dutifully.

- Regarding the information required by Law 15/2010, of 5 July with respect to the Institution's commercial and service suppliers and considering the provisions of the second transitional provision of ICAC Resolution of 29 December 2010, at 31 December 2012 and 2011, none of ICO's deferrals exceeded the statutory limit (determined in accordance with the nature of the good or service received by the company as provided for in Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions).

5.9 Risk concentration and other specific ICO regulation

The bylaws of ICO, the Group's parent, state that the Institute is subject to the provisions of Royal Decree 1343/1992 of 6 November regulating credit institutions and implementing Law 13/1992 of 1 June on the consolidated capital and supervision of financial institutions and implementing regulations, except though regarding limits on large risks.

Royal Decree-Law 12/2012, of 30 March, establishing the treatment of exposures to financial institutions resident in EU member states, was passed on 31 March 2012.

5.10 Information on construction and property development finance (purpose of the loan).

Regarding property risk portfolio policies and strategies, the Institute has acceptance processes with specific policies for this type of product (e.g. experienced developers, percentages of accredited sales, data on rental demand by independent experts), assessing the economic and financial feasibility of projects.

Payments for certified work are subsequently validated and controlled, construction progress is monitored and sales are controlled.

In addition, studies are conducted to detect the reasons behind the payment difficulties of customers currently in arrears in order to pose solutions that allow for transactions to be completed successfully.

The table below details the finance granted for construction and property development, along with the related hedges (in thousands of Euros):

- Finance granted for construction and property development and related hedges:

	Thousands of Euros					
	2012			2011		
	Gross amount	Excess over value of collateral	Specific allowance	Gross amount	Excess over value of collateral	Specific allowance
Property loans:	1,700,173	521,631	550,003	1,618,185	650,977	369,046
Of which doubtful	469,502	-	420,638	414,887	-	356,065
Of which substandard	159,877	-	56,326	159,877	-	12,981
Memorandum item:						
Defaulted loans	-	-	-	-	-	-

	Thousands of Euros	
	2012	2011
Memorandum item:		
Total loans and advances to other debtors excluding regional governments	28,236,684	25,241,589
Total assets	115,229,764	94,576,950
Total general allowance	280,931	251,947

Total finance for construction and property development at 31 December 2012 represents 1.48% of total assets (1.43% at 31 December 2011).

- Finance for construction and property development (gross amounts):

	Thousands of Euros	
	2012	2011
Without mortgage collateral	**834,393**	**813,191**
With mortgage collateral	**865,780**	**804,994**
Finished buildings	553,491	497,278
Homes	525,920	468,251
Other	27,571	29,027
Buildings under constructions	85,159	67,383
Homes	85,159	67,383
Other	-	-
Land	227,130	240,333
Developed land	227,130	26,629
Other land	-	213,704
TOTAL	**1,700,173**	**1,618,185**

The table below shows loans granted by the Group to households for home purchases (business in Spain):

	Thousands of Euros			
	2012		2011	
	Gross amount	Of which: Doubtful	Gross amount	Of which: Doubtful
Home loans	20,798	-	21,927	-
Without mortgage collateral	18,241	-	18,790	-
With mortgage collateral	2,557	-	3,137	-

- Home purchase loans with mortgage collateral (percentage of risk on latest appraisal available, LTV):

At 31 December 2012

(Thousands of Euros)

	LTV<50%	50<LTV<80	80<LTV<100%	LTV>100
Gross amount	1,748	809	-	-
Of which:Doubtful				

At 31 December 2011

(Thousands of Euros)

	LTV<50%	50<LTV<80	80<LTV<100%	LTV>100
Gross amount	1,595	1,542	-	-
Of which: Doubtful				

- Foreclosed assets received in property development debts payment.

None of the foreclosed assets on the Group's balance sheet (non-current assets classified as held for sale, Note 12) comes from finance granted to construction companies and property developers, or mortgage loans to households for home purchases, nor do they consist of equity instruments, investments and finance to non-consolidated companies holding the assets.

5.11 Information related to Institute's refinanced and restructured operations, as head of the Group

Here the detailed information related to those refinanced and restructured operations as of 31st December, 2012 (gross amounts), as it is said in Bank of Spain 6/2012 Circular, about financial public and reserved information rules:

(Thousands of Euros)

	Real estate mortgage's guarantees	Rest of guarantees	No actual guarantee	Specific hedge	TOTAL amounts	TOTAL specific hedges
Public Administrations						
Regular		51,949			51,949	
Substandard						
Doubtful						
Companies and business owners						
Regular	49,231	279,719	557,408		886,358	
Substandard	67,695	362,042	227,771	163,102	657,508	163,102
Doubtful	427,420	518,509	61,654	752,941	1,007,583	752,941
- From which: property development finance						
Regular						
Substandard			49,877	29,926	49,877	29,926
Doubtful	267,936	60,973	35,769	359,919	364,678	359,919
Rest of individuals						
Regular						
Substandard						
Doubtful						
TOTALS	**544,346**	**1,212,219**	**846,833**	**916,043**	**2,603,398**	**916,043**

6. CASH AND DEPOSITS AT CENTRAL BANKS

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Cash on hand	7	12
Deposits at Bank of Spain	284,343	31,110
Mandatory to comply with minimum reserve ratios	282,890	28,448
Not mandatory	-	-
Accrued interest	1,453	2,662
	284,350	31,122

7. TRADING PORTFOLIO

The total balance under this heading in the balance sheets at 31 December 2012 and 2011 is made up of trading derivatives.

Transactions involving trading derivatives relate mainly to instruments with which the Group manages balance sheet positions globally but which do not meet the requirements to be designated hedging and are therefore classified in the trading portfolio.

No valuation of the derivative associated with the transaction Titulización ICO – Pyme is included in the balance sheet at 31 December 2012, since it is regarded as a hedge instrument. The fair value of this instrument amounted 6,440 thousand of Euros as of 31 December 2011.

The fair value of these items has been calculated in both 2012 and 2011, taking as a reference, implicit curves in monetary and government debt markets.

The effect on the consolidated income statement for the year ended 31 December 2012 generated some changes in the fair value of trading portfolio assets and liabilities, a profit of 10,153 thousand of Euros was delivered in 2012 (5,220 thousand of Euros in 2011) (Note 30).

Set out below is a breakdown, by class of derivative, of the fair value of the Institute's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at 31 December 2012 and 2011:

	Thousands of Euros					
	Notional		Assets		Liabilities	
	2012	2011	2012	2011	2012	2011
By type of market						
Organized markets	-		-		-	
Non – organized markets	3,989,432	6,385,076	554,945	451,799	553,234	442,959
	3,989,432	**6,385,076**	**554,945**	**451,799**	**553,234**	**442,959**
By type of product						
Swaps	3,989,432	6,385,076	554,945	451,799	553,234	442,959
	3,989,432	**6,385,076**	**554,945**	**451,799**	**553,234**	**442,959**
By counterparty						
Credit institutions	2,245,093	2,010,817	184	-	553,234	442,959
Other financial institutions	-	2,626,252	-	6,440	-	-
Other sectors	1,744,339	1,748,007	554,761	445,359	-	-
	3,989,432	**6,385,076**	**554,945**	**451,799**	**553,234**	**442,959**
By type of risk						
Exchange risk	3,731,248	3,486,377	537,283	429,249	529,463	420,336
Interest rate risk	258,184	2,898,699	17,662	22,550	23,771	22,623
	3,989,432	**6,385,076**	**554,945**	**451,799**	**553,234**	**442,959**

The reasonable value has been calculated in the 100% of the cases in 2012 and 2011, taking the implicit curve of the money markets and the public debt as a reference.

At December 31st, 2012 and 2011 the classification of the trading portfolio, stated at fair value and taking the hierarchical into account as shown in Nota 2.2.3, was as follows:

	Thousands of Euros					
	2012			2011		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	554,945	-	-	451,799	-
Held-for-trading-derivatives of liabilities	-	553,234	-	-	442,959	-

The following table shows the amounts recognised in the income statements in 2012 and 2011 for changes in the fair value of the Institute's financial instruments included in the trading portfolio related to unrealised gains and losses, distinguishing between financial instruments whose fair values are measured taking quoted prices in active markets (Level 1), those estimated using valuation technique whose inputs are observable (Level 2) and those whose inputs are not based on observable market data (Level 3):

	Thousands of Euros					
	2012			2011		
	Gains	Losses	Net	Gains	Losses	Net
Level 1	-	-	-	-	-	-
Level 2	471,270	461,117	10,153	373,638	378,858	(5,220)
Level 3	-	-	-	-	-	-

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of the balance of this chapter of the balance sheet at December 31, 2012 and 2011, investment is as follows:

	Thousands of Euros	
	2012	**2011**
FONDICO, Fondo de Capital Riesgo (1)	147,085	147,085
FEI, Fondo Europeo de Inversiones (2)	2,668	2,668
SWIFT (3)	3	3
Fondo Fons Mediterránea Fondo Capital Riesgo (4)	6,199	6,581
Fondo PYMEX Fundación Emp y Crecim (5)	12	33
Fondo de Carbono Postkyoto (6)	1,084	230
SICAV Fondo Marguerite (7)	25,250	4,663
FES Infraestructuras (8)	13,838	9,650
Fondo Carbono empresas Españolas (9)	5,243	1,506
EDW (10)	251	-
Fixed income portfolio (11)	-	854,293
	201,633	1,026,712

The balance of Valuation Adjustment of equity epigraph at December 31, 2012 and 2011 produced by changes in the fair value of the items included under the heading of financial assets available for sale is as follows:

	Thousands of Euros	
	2012	**2011**
Equity instruments	17,913	16,788
Debt instruments	-	8,060
	17,913	24,848

Movements experienced during the years 2012 and 2011 under the heading of financial assets available for sale are listed below:

	Thousands of Euros	
	2012	**2011**
Initial balance	1,026,712	1,261,385
Purchase additions	15,369	676,909
Amortizations and sales	(833,157)	(908,229)
Fair value fluctuations movements	(6 935)	(2,735)
Impairment losses movements	(356)	(618)
Balance at the end of the year	201,633	1,026,712

(1) Fund formed in May 1993, in which the Institute, the Group's Parent entity, is the sole participant managed by Axis Participaciones Empresariales. The fund is fully paid at December 2012 and December 2011.

(2) Interest equivalent to 0.2667% of share capital. An amount of 6,400 thousand Euros was outstanding at 31 December 2012 and 2011.

(3) Institute's shareholding in one action of this entity, as a full member of the same from 2008.

(4) Fund formed in October 2005 and in which the Institute participates with other public and private entities. The Fund was created to invest in projects developed by Spanish companies in the African Maghreb. The allocations to this fund have a provision coverage of 30% of total real capital (not including fair value changes) amounting 2,656 thousand Euros at December 2012 (2,292 thousand Euros at December 2011).

(5) Fund formed in May 2003 by the Enterprise Foundation and Growth, in collaboration with the BID and Nacional Financiera SNC, which aims at taking stakes in the temporary capital of non-financial firms located in Mexico. The allocations to this fund have a decline of 30% of the total contributions made (not including changes in fair value) amounting 68 thousand Euros at December 31, 2012 and 77 thousand Euros at December 31, 2011).

(6) Fund formed in September 2007 in which ICO participates with the BEI, KfW and other public financial institutions in Europe, in the market for the C02 emissions beyond 2012.

(7) Participation in the Marguerite Fund. Whit the participation of leading European public financial institutions, this is a European equity fund which seeks to pro mote investment in infrastructure to implement the key policies of the European Union in the fight against climate change, with the aim of combining the principle of return to investors based on market policies and the objectives set by public policy.

(8) Fund formed in 2012, wholly owned by the ICO and managed by Axis Participaciones Empresariales. At December 2012, Institute's contributions amounted 4,188 thousand Euros (9,650 thousand in 2011).

(9) Fund that began operating in 2011, in which ICO has a 32.68% interest.

(10) A 3.70% participation in the Entidad Enterprise Data Warehouse, from March 2012.

These interests are classified as available-for-sale financial assets and measured at fair value based on the underlying value at year-end. Fair value is determined based on the nature of the investment, with the underlying value calculated using the most appropriate valuation technique.

(11) As part of its liquidity management policy, the ICO can invest in debt instruments classified as financial assets available for sale. These are fixed income securities issued by Spanish financial institutions, consisting mainly of bonds guaranteed by the State:

	Thousands of Euros	
	2012	2011
Maturity of 3 months	-	84,992
Maturity between 3 and 6 months	-	469,886
Maturity between 6 and 9 months	-	-
Maturity over 9 months	-	249,415
	-	854,293

At December 31, 2012 and 2011, the classification of financial assets available for sale, stated at fair value and taking the hierarchical level into account as shown in Note 2.2.3., was as follows:

	Thousands of Euros					
	2012			2011		
	Level I	Level II	Level III	Level I	Level II	Level III
Debt securities	-	-	-	854,293	-	-
Other equity instruments	-	201,633	-	-	172,419	-

9. CREDIT, LOANS AND DISCOUNTS

The breakdown by type and status, of Investment Credit, loans and discounts at December 31, 2012 and 2011, net value adjustment for impairment of assets, is as follows:

	Thousands of Euros	
	2012	**2011**
By mode and location:		
Commercial credit	-	-
Debtors with mortgage	48,042	52,212
Debtor with other security	30,971	1
Assets temporary acquisitions	3,138,730	229,693
Hybrid financial assets	-	-
Other term debtors	85,147,387	77,474,217
Leases	-	-
Advances on demand and other	981,859	1,395,826
Doubtful assets	1,282,967	680,145
Valuation adjustments	512,497	302,664
	91,142,453	80,134,758

In "Advances on demand and other" epigraph are included, not expired impaired assets, funds provisions to third parties pending to be liquidated and other temporary advances.

The composition of the balance of this chapter of the balance sheet at December 31, 2012 and 2011, classified by type of counterparty, is as follows:

	Thousands of Euros	
	2012	**2011**
By counterparty categories		
Credit institutions (Note 9.1)	46,328,867	49,895,251
Acquisition of assets from counterparties under resale agreements (Note 9.2)	3,138,730	30,269
Resident public administrations (Note 9.2)	16,072,431	4,779,676
Non Resident public administrations (Note 9.2)	6,042	-
Other resident sectors (Note 9.2)	25,051,604	24,422,632
Other non resident sectors (Note 9.2)	1,480,136	1,651,455
Other financial assets (Note 9.2)	123,462	10,815
	92,201,272	80,790,098
(Impairment losses)	(1,571,316)	(958,004)
Other measurement adjustments (*)	512,497	302,664
	91,142,453	80,134,758

(*) Measurement adjustments relate to the accrual of interest and similar yields, as well as commission adjustments.

Set out below is the movement for 2012 and 2011 in impairment losses recorded to cover the credit risk and the accumulated amount of such losses at the beginning and end of those years on the portfolio of loans and discounts:

	Thousands of Euros			
	Country risk	Specific provisions	General provision	Total
Balance as at January, 31, 2011	-	561,102	232,591	793,693
Appropriations charged to income				
Recoveries	-	328,894	-	328,894
Application of funds	-	(89,490)	-	(89,490)
Other movements	-	(71,381)	-	(71,381)
Adjustments for exchange differences	-	(2,147)	-	(2,147)
	-	(1,565)	-	(1,565)
Balance as at December, 31 2011	-	725,413	232,591	958,004
Appropriations charged to income	-	715,566	28,984	744,550
Recoveries	-	(130,634)	-	(130,634)
Application of funds	-	-	-	-
Other movements	-	(555)	-	(555)
Adjustments for exchange differences	-	(49)	-	(49)
Balance as at December, 31 2012	-	1,309,741	261,575	1,571,316

The general provision is constituted in December 31, 2012 and 2011, 125% respectively of the alpha parameter established for its calculation in Annex IX of Circular 4/2004, respectively.

The net amount carried in the accompanying income statements for 2012 and 2011 as a result of movements affecting assets whose recovery is deemed remote totals 8,459 thousand Euros and 9,097 thousand Euros, respectively.

The heading "Other movements" included in variations for 2012 and 2011 in the specific provision records amounts reclassified by the Group, taking into account the nature of the transactions covered, broken down mainly as follows:

1. Transfer to liability accounts ("Amounts payable to the Public Treasury") from specific provisions for 553 thousand Euros related to economic policy loans subject to Law 24/2001. (2,311 thousand Euros in 2011).

Specific provision on the basis of determining criteria breakdown is presented below:

	Thousands of Euros	
	2012	2011
Determined:	1,016,548	511,318
Exclusively to customer arrears	202,829	34,659
Other than customer arrears	740,680	476,732
Due to real estate transactions (section 42 and 43, Appendix IX C 4/2004)	73,039	-
Substandard	293,120	214,022

The substandard specific provision corresponds to credit assets for an amount of 1,617,011 thousand Euros at December 31, 2012 (1,526,513 thousand Euros at December 31, 2011).

The movement of financial impaired assets written off to be recovery considered remote is as follows:

	Thousands of Euros	
	2012	**2011**
Initial balance	628,632	431,229
Additions:	181,584	244,798
By remote recoveries	181,211	194,210
By other causes	373	50,588
Recoveries:	(8,459)	(9,097)
By refinancing or restructuring	-	-
By collecting cash without additional funding	(8,459)	(9,097)
For asset allocation	-	-
Others	-	-
Definitive write-off:	(2,981)	(41,578)
By forgiveness	-	-
By expiry	-	-
By other causes	(2,981)	(41,578)
Net Exchange fluctuation	(715)	3,280
Final balance at the year end	798,061	628,632

Set out below is a breakdown of those financial assets classified as credits, loans and discounts and considered to be impaired due to the credit risk at December 2012 and 2011 and those which, although not considered impaired, record some amount which is past due at that date, classified by counterparty and on the basis of time elapsed from the due date of the amount not paid at that date most outstanding on each operation. Impaired assets secured by Central Government are detailed in Note 9.2.

Impaired assets at December 2012

	Thousands of Euros				
	Up to 6 months	**Between 6 and 9 months**	**Between 9 and 12 months**	**Over 12 months**	**Total**
By counterparty categories					
Other resident and non-resident sectors	1,091,758	6,405	51	184,753	1,282,967
	1,091,758	6,405	51	184,753	1,282,967

There were no impaired assets relating to country risk at 31 December 2012 and 2011.

Impaired assets at December 2011

	Thousands of Euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	Over 12 months	Total
By counterparty categories					
Other resident and non-resident sectors	645,485	-	-	34,660	680,145
	645,485	-	-	34,660	680,145

The amount of the unimpaired matured assets relating to 2012 and 2011 totals 32,820 thousand Euros and 83,577 thousand Euros, respectively, and their age in both years is between one and two months.

9.1 Deposits at credit institutions

An Analysis of the balances of this caption in the balance sheets as at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
By nature		
Institute loans to BBVA (Note 9.1.1)	75,512	224,221
Deposits at credit and financial institutions (Note 9.1.2)	1,071,693	1,475,394
Financing loans for small and medium – sized business (Nota 9.1.3)	17,565,501	18,495,296
Other mediation loans (Nota 9.1.2)	26,538,022	29,346,310
Temporary Assets Acquisition (Nota 9.1.2)	905,238	-
Other demand accounts (Nota 9.1.2)	172,901	354,030
	46,328,867	49,895,251
(Impairment losses)	(73)	(73)
Other measurement adjustments (*)	165,280	197,225
	46,494,074	50,092,403

(*) Measurement adjustments relate to the accrual of interest and similar yields, as well as commission adjustments.

9.1.1 Institute loans to BBVA

The breakdown, by product type, of the loans and current accounts granted to BBVA at 31 December 2012 and 2011, as well as the average annual interest charged during those years, is set out below:

	Thousands of Euros		Average nominal interest rate	
	2012	**2011**	**2012**	**2011**
Loans -				
Ordinary financing	75,503	224,212	1.67%	1.57%
Official Export Credit	-	-	-	-
Other accounts	9	9	1.67%	1.57%
	75,512	224,221		
Current accounts -				
Current Accounts and other outstanding debits (1)	327	6,699		
	75,839	230,920		

(1) Included in "Other demand accounts" under Credit institutions.

Of the total recorded under this heading, the amount denominated in foreign currency at 31 December 2012 and 2011 totalled 8,190 thousand Euros and 16,702 thousand Euros, respectively.

The interest accrued during 2012 and 2011 for these loans totalled 2,579 thousand Euros and 4,983 thousand Euros, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the consolidated income statement.

A breakdown of loans by maturity date, excluding restatement adjustments, at 31 December 2012 and 2011 is set out below:

	Thousands of Euros	
	2012	**2011**
Up to 1 year	75,512	148,666
From 1 to 2 years	-	75,555
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	75,512	224,221

9.1.2 Deposits in credit and financial institutions, other mediation loans and other demand accounts.

At 31 December 2012 and 2011, the headings "Deposits in credit and financial institutions" and "Other mediation loans", “Temporary assets acquisition” y “Other accounts” accrued interest at 3.76% and 3.38% per year, respectively. Their composition, in terms of nature and currency, at 31 December 2012 and 2011 is set out below

	Thousands of Euros	
	2012	**2011**
By nature		
Demand deposits	172,901	354,030
Fixed – term deposits	28,514,953	30,821,704
	28,687,854	31,175,734

"Time deposits" grouped by maturity date at 31 December 2012 and 2011 break down as follows:

	Thousands of Euros	
	2012	**2011**
Up to 1 year	8,396,301	9,382,050
From 1 to 2 years	6,012,773	5,025,682
From 2 to 3 years	4,105,556	4,872,046
From 3 to 4 years	3,454,107	3,363,111
From 4 to 5 years	2,894,068	2,922,622
More than 5 years	3,652,148	5,256,193
	28,514,953	30,821,704

The interest accrued during 2012 and 2011 for these loans have amounted to 1,132,401 thousand Euros and 918,669 thousand Euros, respectively, which are included under the heading "Interest and similar income - of credit institutions" of the consolidated profit and loss account.

Mediation lines set up between 2009 and 2012, and also included under “Other mediation loans”, with an outstanding exposure at 31 December 2012 of 5,260 million Euros (6,645 million Euros at 31 December 2011), include certain liquidity lines with ICO risk for SMEs. In these lines ICO assumes a general and global risk for default presented by mediator financial entities, up to 5% of the amount of the provisions made for these lines granted in 2009 and 2010, whereas for credit lines granted in 2011 and 2012, the maximum risk assumed is the average default rate for financial entities, excluding property development transactions. At December 31st, 2012 ICO had set up a provision of 87,999 thousand Euros (176,836 thousand Euros at December 31, 2011) for this item (Note 20). The provisions made are equal to net interest income generated for the Institute by these lines of mediation. If the provisions were insufficient to cover the defaults, the difference would be charged directly to the RDL Fund 12/95, not generating losses for ICO.

9.1.3 Financing loans for small and medium-sized companies

By virtue of the Resolution of the Council of Ministers adopted on 26 February 1993, a line of credit was opened to assist with the financing of small and medium-sized companies (SME). This line is instrumented through loans granted by the Institute to several financial institutions, which formalised the loans with the companies concerned. During successive years this policy continued, and a line of credit in several amounts was approved for each year.

The interest accrued during 2012 and 2011 for these loans totalled 563,687 thousand Euros and 533,383 thousand Euros, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the consolidated income statement.

The breakdown of SME financing loans at 31 December 2012 and 2011, by maturity date, is as follows:

	Thousands of Euros	
	2012	2011
Up to 1 year	4,838,741	5,256,151
From 1 to 2 years	3,961,115	4,018,032
From 2 to 3 years	3,001,208	3,228,609
From 3 to 4 years	1,921,253	2,258,767
From 4 to 5 years	1,314,563	1,293,375
More than 5 years	2,528,621	2,440,362
	17,565,501	18,495,296

In transactions classified as "SME Financing loans" granted up to 31 December 1997, the ICO, the Group's Parent entity, assumes a percentage of credit risk that the entity receiving the funds holds, in turn, regarding final borrowers. Since that date the Institute does not assume any risk whatsoever regarding the insolvency of final borrowers except for certain liquidity lines 2009-2012.

SME loans at 31 December 2012 and 2011 carried annual interest of 3.08% and 2.80%, respectively.

9.2 Customer loans

The breakdown of this balance sheet heading at 31 December 2012 and 2011, based both on the category of counterparty and the currency concerned, is as follows:

	Thousands of Euros	
	2012	**2011**
By counterparty categories		
Resident Public Administrations	3,138,730	4,779,676
Non-resident Public Administrations	16,072,431	-
Acquisition of assets from counterparties under repurchase agreements	6,042	30,269
Other resident sectors	25,051,604	24,422,632
Other non-resident sectors	1,480,136	1,651,448
Other financial assets	123,462	10,822
	45,872,405	30,894,847
(Impairment losses)	(1,571,243)	(957,931)
Other measurement adjustments (*)	347,217	105,439
	44,648,379	30,042,355

(*) Measurement adjustments shown relate to the accrual of interest and similar yields, as well as commission adjustments.

It is included in “Other resident sectors” the book value of certain investments in some Economic Interest Agroupations (55,354 thousand Eurosat December 31st 2012 and 51,279 thousand Euros at December 31st 2011) being assured return structures (Note 13).

This mentioned sharing’s have a fiscal-financial component due to the fact that these entities negative taxable bases are included in the Institute’s taxable base. In order to adjust the fiscal-financial profits obtained along with the final result determined for the investment, a provision is registered annually on the Income tax heading in the consolidated income statement. (Note 20) (Note 23).

Of the above counterparty balances, below we provide information regarding the transactions secured by the State, set out by counterparty and type of instrument, included under “Other resident sectors” and “Resident Public Administrations”, which are classified under the heading Customer loans at 31 December 2012 and 2011:

	Thousands of Euros	
	2012	**2011**
Balances included under “Resident Public Administrations”		
Loans to the national government	6,889,301	498,813
Loans to regional governments	9,183,130	4,280,863
Measurement adjustments	210,252	10,274
	16,282,683	4,789,950
Balances included under “Other resident sectors”		
Doubtful assets secured by the State	47,665	54,569
Loans to other public entities	4,713,221	4,834,246
Loans to other sectors guaranteed by the State	1,636,019	1,724,856
	6,396,905	6,613,671
Total transactions secured by the State	22,679,588	11,403,621

The breakdown of "Loans to the National government", without any measurement adjustment, is as follows at 31 December 2012 and 2011:

	Thousands of Euros	
	2012	2011
Loans to the State and its Autonomous Entities	6,823,056	428,842
Accounts receivable from the Public Treasury	58,689	61,136
Other accounts receivable from the State	7,556	8,835
	6,889,301	498,813

The loan granted to the Funding for Suppliers Payment Fund is included under the caption "Loans to the State" heading, is amounted in 6,386,861 thousand Euros.

The heading "Accounts receivable from the Public Treasury" records the amounts paid by the Group to the Public Treasury that have yet to be effectively repaid as Subsidies receivable to offset interest rate differences affecting mediation loans.

The heading "Other accounts receivable from the State" records the Institute's CARI operations amounts.

The balances of these amounts, which are carried at their nominal value, do not bear any interest whatsoever.

The breakdown of the contribution by public sector entity to net interest income in the consolidated income statements for 2012 and 2011 (Notes 25 and 26) is as follows:

	Thousands of Euros	
	2012	2011
Central government	168,277	(77,417)
Regional governments	361,774	63,954
Other public sector entities	146,516	157,833
	676,567	144,370

The breakdown of the principal amounts of loans included under the heading "Customer loans", including measurement adjustments, and set out by maturity date at 31 December 2012 and 2011, is as follows:

	Thousands of Euros	
	2012	2011
By maturity		
Up to 1 year	8,756,793	3,660,671
From 1 year to 2 years	5,594,785	3,448,474
From 2 to 3 years	8,356,235	3,766,463
From 3 to 4 years	4,958,345	3,965,471
From 4 to 5 years	3,323,344	2,762,455
More than 5 years	15,230,120	13,396,752
	46,219,622	31,000,286

In accordance with current Bank of Spain regulations, the provision for signature risk insolvency is recorded under the heading "Provisions for liabilities and charges - Other provisions" in the consolidated balance sheet.

Loans and advances to other debtors at 31 December 2012 and 2011 carried annual interest of 3.53% and 2.53%, respectively.

10. HELD-TO-MATURITY INVESTMENT PORTFOLIO

The breakdown by counterparty of the held-to-maturity investment portfolio at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	**2011**
By counterparty		
Spanish public administrations	17,730,934	3,563,166
Resident credit institutions	1,707,579	2,821,300
Other resident sectors	-	1,028,206
	19,438,513	7,412,672
Value adjustments for impairment	1,825	-
	19,440,338	7,412,672

The average rate of compensation for the portfolio was 2.66% regardless of coverage, and 2.65% with them (2.43% and 2.38% respectively at December 31, 2011).

The heading "Resident Credit Institutions" include debt securities issued by Spanish financial institutions, which are managed in an active market, have a fixed maturity and its cash flows have determined or determinable amount in which the Institute has, from the outset and at any later date, the positive intention and financial capacity to keep until maturity.

On March 8, 2007, ICO transferred assets in a securitization on receivables from loans that ICO had granted to financial institutions through its lines of mediation since 2001 amounting to 14,099,000,000 Euros.

The assets were securitized through the establishment of a securitization fund called "ICO-MEDIACIÓN AyT, FTA". The assets in this fund were composed of credit rights assigned to serve them as a guarantee for the bond issue amounting to 13,169,000,000 Euros and the other liability elements of the fund which essentially include subordinated loans amounting to 930,470,000 Euros whose payment priority is behind that of the aforementioned bonds which have been signed by other financial institutions.

The bond issue was fully subscribed by the Institute been placed from the beginning in the investment portfolio at maturity. The issue was accepted to trading on the AAIAF Bond Market and given an AAA credit rating by FITCH.

According to the criteria contained in the Note 2.2.2 and the terms of article 23 of Bank of Spain Circular 4/2004, in this transaction the risks and benefits associated with ownership of the receivables were transferred to other parties substantially, through the subordinated loans, so a proceed of taking out of the balance loans that could be securitized.

Additionally along with the securitization the Institute contracted with the Fund, an interest rate swap which was classified from the beginning in the trading portfolio in the balance sheet.

As of December 28th, 2012 the Institute proceeded to repurchase the outstanding amount of the subordinated debts associated to any new named operation with the lending financial entities amounting 249,405 thousand Euros. It also acquired the credit line loan linked to this operation for 84,597 thousand Euros. As a consequence of these acquisitions, and in the position of assuming any risk or profit regarding the once transferred-to-third-parties credit rights ownership, ICO, decided to record again the outstanding amount of those loans object of securitization at that date. The pertinent financial liability was registered as the counterparty. In the same way, bonds linked to this operation were reclassified for its outstanding amount at December 31st 2012 (363,781 thousand Euros) and presented in the "Issued sharings" liabilities heading in the balance sheet (Note 19.3).

The heading "Other resident sectors" mainly included the bonds' current amount being the outstanding balance at 31 December 2011, 1,028,206 thousand Euros.

The contribution of interest to the consolidated income statement in 2012 and 2011 totalled 2,571 thousand Euros and 21,185 thousand Euros, respectively (Note 25).

ICO has not earmarked any amount to hedge impairment losses due to credit risk attributed to securities included in the held-to-maturity investment portfolio at 31 December 2012 and 2011.

Movements experienced during the years 2012 and 2011 under the heading of Held-to-maturity investment portfolio are shown below:

	Thousands of Euros	
	2012	**2011**
Initial balance	7,412,672	4,292,179
Purchase additions	27,887,316	29,438,794
Derecognition from recovery of funds	-	-
Written off for default	-	-
Amortization and depreciation	(15,859,650)	(26,318,301)
Balance at the end of the year	19,440,338	7,412,672

The breakdown by term residual maturity of December 31, 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	**2011**
On demand	-	-
Up to 3 months	3,476,599	3,971,514
Between 3 months and 1 year	5,326,523	274,374
Between 1 and 5 years	10,637,216	3,166,784
Over 5 years	-	-
TOTAL	**19,440,338**	**7,412,672**

11. HEDGING DERIVATIVES (DEBTORS AND CREDITORS)

This caption in the accompanying balance sheet records the hedging instruments carried at fair value in accordance with the explanation provided in Note 2.3.

The derivatives contracted and the hedged items were fundamentally the following:

- Interest-rate swaps, which hedge financial instruments remunerated at a rate other than the Euribor.

- Exchange hedges, which cover changes in fair value and cash flows relating to several financial instruments.

The measurement methods used to determine the fair value of derivatives have been the discounted-cash-flow method to measure interest rate derivatives and exchange risk derivatives.

The notional and net fair values of financial derivatives recorded as "Hedging derivatives" at 31 December 2012 and 2011 are set out below by counterparty, remaining term and risk, are as follows:

	Thousands of Euros					
	Notional		Assets		Liabilities	
	2012	2011	2012	2011	2012	2011
By type of market						
Organized markets	-	-	-	-	-	-
Non-organized markets	60,840,861	69,936,789	3,019,268	5,206,759	337,575	670,691
	60,840,861	**69,936,789**	**3,019,268**	**5,206,759**	337,575	**670,691**
By type of product						
Swaps	60,840,861	69,936,789	3,019,268	5,206,759	337,575	670,691
	60,840,861	**69,936,789**	**3,019,268**	**5,206,759**	**337,575**	**670,691**
By counterparty						
Credit institutions	60,840,861	69,936,789	3,019,268	5,206,759	337,575	670,691
Other financial institutions	-	-	-	-	-	-
Other sectors	-	-	-	-	-	-
	60,840,861	**69,936,789**	**3,019,268**	**5,206,759**	**337,575**	**670,691**
By type of risk						
Exchange risk	6,979,765	12,326,099	1,188,890	3,838,216	189,667	487,556
Interest rate risk	53,861,096	57,610,690	1,830,378	1,368,543	147,908	183,135
	60,840,861	**69,936,789**	**3,019,268**	**5,206,759**	**337,575**	**670,691**

On December 31, 2012 and 2011, the classification of hedging derivatives, measured at fair value and taking into account the hierarchical level set out in Note 2.2.3., was as follows:

	Thousands of Euros					
	2012			2011		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	3,019,268	-	-	5,206,759	-
Held-for-trading-derivatives of liabilities	-	337,575	-	-	670,691	-

12. NON-CURRENT ASSETS FOR SALE

The entire balance in the heading "Non-current assets for sale" relates to assets awarded in foreclosure. None of these foreclosed assets recorded on this heading at December 31st 2012 and December 31st 2011 comes from any funding related to Property development land nor to any other property development business.

Movements between 31 December 2012 and 31 December 2011 in the balances under this balance sheet heading are shown below:

	Thousands of Euros		
	Cost	Impairment	Total
Balance as at January 1, 2011	60,351	(58,759)	1,592
Additions	260	(95)	165
Disposals / Applications	(7,530)	7,273	(257)
Transfers	-	651	651
Balance as at December 31, 2011	53,081	(50,930)	2,151
Additions	1,004	(908)	96
Disposals / Applications	(1,231)	337	(894)
Transfers	-	-	-
Balance as at December 31, 2012	52,854	51,501	1,353

Of the total amount of “Non-current assets held for sale” at 31 December 2012 and 2011, 48,678 thousand Euros corresponds to a single asset, which is fully provisioned.

The Institute’s Board of Directors body gives its approval annually to the Disinvestment Plan referred to these assets.

At it is said in the rule60, section 55, 4/2004 Bank of Spain Circular, non-current assets held for sale are classified in wide categories: residential, industrial and farming assets. On the following chart, Appraisal Companies, its methodology to appraise the assets and the amount given to each of it (company/agency) are shown:

Thousand Euros last appraisal	Appraisal Company	RESIDENCIALES ASSETS Appraisal Methodology
17	GESVALT	COMPARISON
7	GESVALT	COST
146	TASAC HIPOTECARIAS	DYNAMIC RESIDUAL
105	TASVALOR	COMPARISON
825	TASVALOR	COST
1,241	TASVALOR	COST AND COMPARISON
4,018	TASVALOR	DYNAMIC RESIDUAL
79	TASVALOR	RESIDUAL STATISTICS
131	TASVALOR	RESIDUAL STATISTICS AND COST
927	THIRSA	COST AND COMPARISON
28	JUDICIAL APPRAISAL	COMPARISON
14	API	COMPARISON
7,538		

Thousand Euros last appraisal	Appraisal Company	INDUSTRIALE ASSETS Appraisal Methodology
22	TASVALOR	RESIDUAL STATISTICS
3,706	TASVALOR	RENTS ACTUALIZATION
3,728		

Thousand Euros last appraisal	Appraisal Company	FARMING ASSETS Appraisal Methodology
18	GESVALT	OTHERS
10	GESVALT	COMPARISON
0	TASVALOR	NO LOCATION
6	TASVALOR	RENTS ACTUALIZATION
199	TASVALOR	COMPARISON
296	TASVALOR	COST AND COMPARISON
43	JUDICIAL APPRAISAL	MARKET VALUE
572		

13. SHAREHOLDINGS

The balance of this consolidated balance sheet heading at 31 December 2012 and 2011, set out by company and shareholding, is as follows:

	Thousands of Euros
	Associates Entities
Balance at 31 December 2010	**67,073**
Additions	13,265
Disposals/ Applications	-
Others movements	(45,664)
Impairment	14,870
Balance at 31 December 2011	**49,544**
Additions	2,077
Disposals/ Applications	-
Others movements	-
Additions	-
Balance at 31 December 2012	**51,621**

Appendix I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at 31 December 2012 and 2011.

Additions in 2012 and 2011 relate to the capital increase carried out by an ICO investee and to consolidation adjustments.

Other movements in 2011 included the transfer of the book value in certain participations in Economic Interest Groupings (45,664 thousand Euros) following their reclassification to “Loans and receivables” in the balance sheet, as this better represents the actual content of the investment (guaranteed return structures). (Note 9.2)

14. PROPERTY, PLANT AND EQUIPMENT

Movements in 2012 and 2011 recorded under property, plant and equipment, and accumulated depreciation, is as follows:

	Thousands of Euros			
	Building of own use	Furniture, vehicles and another fixed assets	Real-estate investments	Total
Cost				
Balance as at January 1, 2012	112,617	15,780	-	128,397
Additions	313	891	-	1,204
Disposals and other write-offs	-	(1,544)	-	(1,544)
Balance as at December 31, 2012	112,930	15,127	-	128,057
Accumulated depreciation				
Balance as at January, 1 2012	20,077	7,344	-	27,421
Appropriations	1,838	578	-	2,416
Transfers and other movements	-	(992)	-	(992)
Balance as at December 31, 2012	21,915	6,930	-	28,845
Impairment losses				
December 31,2012	-	651	-	651
Property, plant and equipment net				
Balance as at December 31, 2012	91,015	7,546	-	98,561
Cost				
Balance as at January 1, 2011	112,462	15,908	-	128,370
Additions	156	206	-	362
Disposals and other write-offs	(1)	(334)	-	(335)
Balance as at December 31, 2011	112,617	15,780	-	128,397
Accumulated depreciation				
Balance as at January, 1 2011	17,874	7,093	-	24,967
Appropriations	2,203	361	-	2,564
Transfers and other movements	-	(110)	-	(110)
Balance as at December 31, 2011	20,077	7,344	-	27,421
Impairment losses				
December 31,2011	-	651	-	651
Property, plant and equipment net				
Balance as at December 31, 2011	92,540	7,785	-	100,325

At 31 December 2012 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 11,784 thousand Euros (12,711 thousand Euros at 31 December 2011).

In compliance with the Group policy, all property, plant and equipment is insured at 31 December 2012 and 2011.

Transitional Provision One, section B).6 of Bank of Spain Circular 4/2004, allows any asset recorded under Property, plant and equipment to be carried at its fair value. To implement this measurement adjustment, the Group carried out the relevant appraisals of property used in operations, which allowed the value of the Group's property, plant and equipment to be increased by 53,106 thousand Euros. A restatement reserve was recorded for the resulting capital gain, net of the tax effect. The restated book value will be applied as an attributed cost at that date.

The revaluation reserve at December 31, 2012 amounted to 27,233 thousand Euros (28,144 thousand Euros at December 31, 2011) (Note 22).

The table below presents the fair value of certain items of property, plant and equipment at December 31, 2012 and 2011 by category into which they are classified, along with the related carrying amounts at those dates:

	Thousands of Euros			
	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment for own use	98,465	120,813	100,325	120,581
Buildings	91,015	113,363	92,540	113,363
Other	7,450	7,450	7,785	7,785
Investment property	-	-	-	-
Property under construction	-	-	-	-

The fair value of property, plant and equipment in the preceding table was estimated as follows:

- For assets for which an updated appraisal by a Bank of Spain-approved valuer is not available, fair value was determined based on estimates made by the entity using market data relating to trends in prices of similar assets.

- For assets for which an updated appraisal by a Bank of Spain-approved valuer is available, fair value was determined based on the appraisal as provided for in Ministerial Order 805/2003. Information on the valuers performing the appraisals and on the fair value estimated in accordance with the procedure described is as follows:

All properties for own use were appraised by another entity included in correct record of the Bank of Spain, using the comparison approach (M), during 2011.

15. INTANGIBLE ASSETS

The breakdown of Intangible assets in the balance sheet at 31 December 2012 and 2011 relates solely to other intangible assets.

	Useful estimated life	Thousands of Euros 2012	Thousands of Euros 2011
With indefinite useful life	-	-	-
With defined useful life	3 years to 10 years	25,006	22,631
Gross total		25,006	22,631
Of which:			
Internal developments	3 years	21,130	19,179
Remainder	10 years	3,876	3,452
Accumulated depreciation		(14,832)	(9,758)
Impairment losses		(2,137)	(2,137)
		8,037	10,736

All intangible assets at 31 December 2012 and 2011 related to computer software. Fully amortised intangible assets at 31 December 2012 amounted to 4,394 thousand Euros (1,242 thousand euros at 31 December 2011).

16. TAX ASSETS AND LIABILITIES

The breakdown of tax assets and liabilities at 31 December 2012 and 2011 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2012	2011	2012	2011
Current taxes:	18,890	2,154	1,893	1,668
Corporate income tax	18 784	1,799	-	-
VAT	106	355	26	24
Personal income tax withholdings	-	-	1,319	521
Social Security contributions	-	-	548	1,123
Other	-	-	-	-
Deferred taxes:	146,598	163,968	47,389	105,577
Impairment losses on credits, loans and discounts	146,598	163,968	1,517	1,517
Measurement of cash-flow hedges (Note 21)	-	-	22,263	77,479
Restatement of property	-	-	15,932	15,932
Restatement of available – for – sale financial assets (Note 21)	-	-	7,677	10,649
Accrual financial liabilities	-	-	-	-
Accrual of financial commissions	-	-	-	-
Reinvestment deferral	-	-	-	-
	165,488	166,122	49,282	107,245

Movements in 2012 and 2011 in the deferred tax asset and liability balances are set out below:

	Thousands of Euros			
	Assets		Liabilities	
	2012	2011	2012	2011
Balance at beginning of the year	163,968	164,263	105,577	77,384
Impairment losses on credits, loans and discounts	(17,370)	(295)	-	-
Valuation of cash flow hedges	-	-	(55,216)	29,422
Restatement of property	-	-	-	-
Restatement of available -for- sale financial assets	-	-	(2,972)	(1,173)
Accrual financial liabilities	-	-	-	-
Accrual of financial commissions	-	-	-	-
Reinvestment deferral	-	-	-	(56)
Balance at the end of the year	146,598	163,968	47,389	105,577

17. OTHER ASSETS

The breakdown of Other Assets at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Others assets	1,137	1,203
Accruals	278,404	1,354
	279,541	2,557

"Accruals" heading at December 31st, 2012, includes the updated value of the total amount of commissions to be received by the Institute in payment of the Funding for Suppliers Payments Fund (FFPP are its initials in Spanish) and the Autonomous Liquidity Fund (FLA are its initials in Spanish) operational management tasks, among other concepts. It is also included in here the portion of the financial discount accrued in 2012 (173,847 thousand Euros for FFPP and 101,426 thousand Euros for FLA) (Note 1.1). 10,264 thousand Euros (FFPP commissions) and 1,886 thousand Euros (FLA commissions) were recorded in the 2012 income statement, under the "Commissions received, other commissions" heading (Note 29)

18. OTHER LIABILITIES

The breakdown of Other Assets at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	2011
Others assets	2,212	1,107
Accruals	260,433	3,435
	262,645	4,542

"Other liabilities" basically corresponds to several payment obligations in connection with the transfer of assets and liabilities from the now dissolved Argentaria to BBVA (see Note 1.4).

"Accruals" heading at December 31st, 2012, includes, among other concepts, the updated value of the total amount of commissions to be received by the Institute in payment of the Funding for Suppliers Payments Fund and the Autonomous Liquidity Fund operational management tasks. The commissions accrued this year, amounted 160,480 thousand Euros for FFPP and 97,652 thousand Euros for FLA (Note 1.1).

19. FINANCIAL LIABILITIES AT AMORTISED COST

The items that make up the balances recorded under this balance sheet heading are as follows:

	Thousands of Euros	
	2012	**2011**
By counterparty categories		
Deposits from Central Banks (Note 19.1)	20,000,000	375,126
Credit institution deposits (Note 19.2)	5,127,447	4,333,080
Customer deposits (Note 19.3)	8,076,351	11,334,294
Debts represented by negotiable securities (Note 19.4)	72,762,718	69,112,721
Other financial liabilities (Note 19.7)	3,616,213	4,096,855
	109,582,729	89,252,076

19.1 Deposits from central banks - liabilities

The composition of this balance sheet heading at 31 December 2012 and 2011, set out by the nature of the transaction, is as follows:

	Thousands of Euros	
	2012	**2011**
By type of transaction:		
Loans with the ECB	20,000,000	375,126
	20,000,000	375,126

The ICO, temporary increased this source of funding in 2012, given the debt markets situation.

19.2 Credit institution deposits

The composition of this balance sheet heading at 31 December 2012 and 2011, set out by currency and the nature of the transaction, is as follows:

	Thousands of Euros	
	2012	**2011**
By nature:		
Loans from the European Investment Bank	3,183,978	2,052,271
Inter – bank loans	1,234,900	1,636,851
Loans from other financial institutions	457,087	486,089
Assets sold under repurchase agreements	-	26,020
Other accounts	1,439	65
Measurement adjustments – Accrual accounts	250,043	131,784
	5,127,447	4,333,080

Interbank deposits fall due within one year as from 31 December 2012 and 2011, respectively.

The section: “Other accounts” collects certain incomes from credit entities pending on definitive application.

The "Loans from the European Investment Bank" have the following final repayment schedule.

	Thousands of Euros	
	2012	2011
Up to 1 year	4,907	40,641
From 1 to 2 years	26,882	47,153
From 2 to 3 years	3,221	25,130
From 3 to 4 years	-	52,187
From 4 to 5 years	1,551,694	104,000
More than 5 years	1,597,274	1,783,160
	3,183,978	2,052,271

The breakdown by maturity date of "Loans from other financial institutions" is as follows:

	Thousands of Euros	
	2012	2011
Up to 1 year	85,215	-
From 1 to 2 years	2,598	-
From 2 to 3 years	53,905	304,035
From 3 to 4 years	3,464	182,054
From 4 to 5 years	4,150	-
More than 5 years	307,755	-
	457,087	486,089

19.3 Customer funds

The composition of this heading in the consolidated balance sheets at 31 December 2012 and 2011, according to sector and currency, is as follows:

	Thousands of Euros	
	2012	2011
By counterparty category		
Public Administrations	1,831,884	3,234,146
Assets sold under repurchase agreements	-	279,170
Other resident sector (1)	6,239,380	7,797,157
Other non – resident sectors	-	1,666
Measurement adjustments – Accrual accounts	5,087	22,155
	8,076,351	11,334,294

(1) Of which at 31 December 2012 and 2011, 6,052,362 thousand Euros and 7,521,045 thousand Euros, respectively, relate to demand.

At 31 December 2012 and 2011, the breakdown by nature of the balance recorded under "Public Administrations" is as follows:

	Thousands of Euros	
	2012	2011
Special loan from the State	2	2
Reciprocal Interest Adjustment Agreement (RIAA)	20,900	21,873
Public Administration Current Accounts and other items	1,810,982	504,522
Special loan Liquidity Line	-	2,707,749
	1,831,884	3,234,146

With the formalization of liquidity lines mediation ICO 2010, the State subscribed with ICO a special loan to finance the 50% of these lines of mediation to a maximum of 5,000,000 thousand Euros. On December 31, 2012 the amount of the loan is fully amortized (2,707,749 thousand Euros at December 2011).

On 30 July 2010, the Institute carried out another asset transfer in the form of a securitisation of credit rights from loans granted to financial institutions through its 2007-2011 mediation line for 22,868,713 thousand Euros.

This securitisation was carried out through the creation of the “ICO-MEDIACIÓN AyT, FTA II” securitisation fund (the “Securitisation Fund”). The Securitisation Fund’s assets comprised assigned credit rights, which were used as guarantee of a 14,864,700 thousand Euros bond issue and of the fund’s remaining liabilities and, mainly, includes a subordinated loan for 8,004,013 thousand Euros, whose payment rank is below previous bonds, and which was equally subscribed by ICO. This bond issue was fully subscribed by the Institute.It was admitted to trading on the AIAF Fixed-income Market and rated AAA by FITCH.

According to the criteria described in Note 2.2.2 and in Rule 23 of Bank of Spain Circular 4/2004, the risk and rewards incidental to ownership of the assigned credit rights have not been transferred substantially to third parties because of ICO’s subscription of the subordinated loan. Therefore, securitised loans are not derecognisedfrom the balance sheet.

In addition, the Institute arranged an interest rate swap with the Securitisation Fund as a cash flow hedge.

As a result, at 31 December 2012, “Other resident sectors” in “Loans and advances to other debtors” on the liability side of the balance sheet includes, under “Issues of equity instruments” a value of zero, which is the result of netting the amount of cash received (11,596,625 thousand Euros) and the netting amount of equity instruments issued for the securities received in exchange (3,592,612 thousand Euros) plus the amount of the subordinated loan subscribed in the transaction (8,004,013 thousand Euros). A sharing amortization of 5,425,453 thousand Euros has been carried out in 2012 (5,846,636 thousand Euros in 2011).

In October 2011, the Securitization Fund of this transaction gave effect to the credit facility granted by ICO under the related terms. As a result, the 5,000 million Euros amount of the loan was recognized under “Loans and receivables” under assets with a debit to “Deposits from other creditors” under liabilities as the amount was debited to a current account held by the Fund at ICO.

A 2007 securitization operation carried out by the ICO, as a consequence of a December 28th, 2012 repurchase agreement, has been registered in 2012 "Other resident sectors" into Deposits taken from clients (liabilities) heading, under issued sharings. The named repurchase borrowing agreement was so of the outstanding subordinated borrowing linked to operations with the financial entities (Note 10).The amount received is 613,186 thousand Euros, net of the actual value, 363,781 thousand Euros, net of the issued sharings and 249,405 thousand Euros, net of the acquired subordinated debt.

19.4 Debts represented by negotiable securities

The breakdown of the heading "Debts represented by negotiable securities" at 31 December 2012 and 2011 is set out below:

	Thousands of Euros	
	2012	**2011**
Promissory notes and other securities (Note 19.5)	181,042	-
Bonds and debentures issued (Note 19.6).	69,544,301	65,595,975
Valuation adjustments (including transaction costs)(*)	3,037,375	3,516,746
	72,762,718	69,112,721

(*)Including the value adjustments produced by the hedging accountant.

Movements experienced during the years 2012 and 2011 under the heading of debt securities - notes are as follows:

	Thousands of Euros	
	2012	**2011**
Balance at beginning of the year	-	25,905
Issues	211,542	-
Amortizations and depreciations	(30,500)	(25,905)
Balance at the end of the year	181,042	-

Movements experienced during the years 2012 and 2011 under the heading of debt securities - Bonds and obligations are shown below:

	Thousands of Euros	
	2012	**2011**
Balance at beginning of the year	65,595,975	55,081,619
Issues	17,021,086	42,171,489
Amortizations and depreciations	13,072,760	(31,657,133)
Balance at the end of the year	69,544,301	65,595,975

19.5 Promissory notes and other securities

The breakdown of the heading “Promissory notes and other securities”, based on the nominal amount of the securities and their amortization periods, is set out below at 31 December 2012 and 2011.

	Thousands of Euros	
	2012	2011
Up 1 year	181,042	-
From 1 to 2 years	-	-
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	181,042	-

The financial cost of the promissory notes and other securities in 2012 and 2011 totalled 242 thousand Euros and 7,048 thousand Euros, respectively, and are recorded under the heading "Interest and similar charges for deposits represented by negotiable securities" (Note 26) in the consolidated income statement.

19.6 Bonds and debentures issued

Set out below are the main characteristics of the debenture issues outstanding at 31 December 2012 and 2011, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues			Redemption		Thousands of Euros	
2012	2011	Currency	date	Annual interest rate	2012	2011
11	15	Norwegian crone	Until 2021	4.28 to 5.36	740,373	1,014,378
1	6	Australian dollar	Until 2014	6.13	235,997	1,178,967
2	2	Canada dollar	Until 2020	4.53 to 5.00	494,786	491,865
1	1	New Zeeland dollar	Until 2015	6.375	93,487	89,622
19	40	US dollar	Until 2020	Several	4,625,952	7,641,851
241	222	Euro	Until 2032	Several	59,236,618	48,820,560
9	13	Swiss franc	Until 2024	1.38 to 3.25	1,275,923	1,826,928
9	16	British pound	Until 2014	4 to 4.5	1,479,421	2,422,617
-	1	Turkish lira	-	-	-	41,242
14	16	Yen	Until 2030	Several	1,361,744	2,067,945
					69,544,301	65,595,975

A breakdown of each issue may be consulted on the Institute's webpage (www.ico.es) in "Investments – ICO Bonds - Issues of reference".

In 2012 and 2011 the total financial cost of debenture loans in both Euros and foreign currency recorded under the heading "Interest and similar charges for debenture loans and other negotiable securities" in the income statement was 2,771,113 thousand Euros, which is an annual average interest rate of 3.94% (3.07% with accounting hedges). In 2011 financial costs totalled 2,275,412 thousand Euros, which was an average annual interest rate of 2.63% (2.55% with accounting hedges) (Note 26).

19.7 Other financial liabilities

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2012 and 2011 is as follows

	Thousands of Euros	
	2012	2011
Grants	13,399	5,661
Treasury Funds	3,503,950	3,971,214
Other items	98,864	119,980
	3,616,213	4,096,855

At 31 December 2012 "Other items" mainly include, an amount of 1,060 thousand Euros corresponding to operations of outstanding compensation in connection with the operation of ICO PYME securitisation (at December 31, 2011 an amount of 1,120 thousand Euros), an amount of 7,361 thousand Euros from a refinancing of economic policy (at December 31, 2011 an amount of 8,627 thousand Euros), an amount of 766 thousand Euros from recuperations of pending operations of capitalize as it said in the DA 11 ª of the Law 24/2001 (at December 31, 2011 an amount of 8,349 thousand Euros), an amount of 12,755 thousand Euros from timing of financial guarantees (at December 31, 2011 an amount of 14,223 thousand Euros) and an amount of 71,481 thousand Euros as an advanced received for the operation of Jeremie Fund (at December 31, 2011 an amount of 73,838 thousand Euros).

Treasury Funds record those funds received by the Institute, the Group's Parent entity, and repayable in accordance with legislation applicable to each:

- FOMIT - Remove Turismo: fund for the upgrade of tourism infrastructure.

- Avanza: fund for access to new technologies Préstamos Renta Universidad:fund for access to university studies.

- Préstamos Renta Universidad: Fund for college studies access.

- DGT Carnet de conducir: fund for access to a driver's license.

- Plan Vive: renewal of Spain's automobile fleet.

- Linea Future: fund for sustainable projects in the tourism sector.

Detailed information on the lines associated with each of these funds can be found on the Institute website www.ico.es.

The funds associated with the most important lines are:

- Línea FOMIT - Turismo (FOMIT - Tourism line): this line is to provide financial support to projects aimed to renovation and modernization of infrastructure and tourist destinations.

- Línea Avanza this line with the ICO supports and funds the access of citizens and companies to new information technologies (broadband and technological support needed for it). Is implemented, depending on their target, in TIC loans (small and medium enterprises) young people and university students loans (specific group) and digital citizenship loan (citizens in general).

- Línea Préstamos Renta Universidad: this line is to guarantee a future income for postgraduate studies as a Doctorate or a Master degree for 2010-2011.

- Línea Plan Vive: is destinated to make easier to change vehicles with more than 15 years for new ones more efficient.

- Linea Future: This line is to provide incentives for projects in support of sustainable tourism, helping to reorientate current tourist activity with a view to sustainability and ecological efficiency, taking into account variables related to the environment and sustainable development, in order consolidate the position of Spanish tourism at the vanguard of the rational use of energy, the use of renewable energies, the reduction of the water footprint, and waste management.

Unlike other Institute lines, which are funded through market fundraising by the ICO, the financial funds designated to these operations are provided directly by the state, being instrumented through Institute's opened accounts on behalf of the correspondent Ministries. These funds balance, corresponds to the amount provided by formal transactions that are also listed under the heading of Credit, loans and discounts (net amounts, less unamortized willing), so that amount plus the balance of the associated current account (which reflects the balance of the above lines) is always equal to the amount received by the Institute for the provisioning of the line.

The balance of those funds at 31 December 2012 and 2011 is set out below:

	Thousands of Euros	
	2012	2011
FOMIT	665,474	763,629
Avanza	1,280,344	1,591,925
Préstamos Renta Universidad	214,439	218,529
Plan Vive	857,393	870,467
DGT Carnet de conducer	109	6,284
Future	453,703	515,510
Other	32,488	4,870
	3,503,950	3,971,214

20. PROVISIONS

At 31 December 2012 and 2011 the breakdown of the balances recorded under this heading in the accompanying balance sheet is as follows:

	Thousands of Euros	
	2012	2011
Provisions for pensions and similar obligations	124	173
Provisions for contingent exposures and commitments	26,158	27,057
Other provisions	279,064	386,829
	305,346	414,059

Provisions for contingent exposures and commitments

This heading includes the amount of provisions created to cover contingent risks, which are understood to be those transactions in which the Institute guarantees the obligations of a third party as a result of financial guarantees granted or other agreements, and contingent commitments, which are understood to be irrevocable commitments that could give rise to the recognition of financial assets (Note 24).

Other provisions

An analysis of the balances of this caption in the balance sheets as at 31 December 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	**2011**
Royal Decree – Law 12/1995 Fund	120,772	139,144
Provision for other mediation loans (Nota 9.1.2)	87,999	176,836
Other specific provisions – CARI Egypt	-	422
Fund for amounts recovered from BBVA	500	500
Fund Línea Prestige	13,202	12,413
Fund to compensate AIE shareholdings results (Note 9.2)	54,187	53,265
Contingency fund	-	1,846
Other funds	2,404	2,403
	279,064	386,829

<u>Royal Decree- Law 12/1995 (28 December)</u>

Royal Decree- Law 12/1995 (28 December), published in the Official State Gazette (BOE) on 30 December 1995 and taking effect on 1 January 1996,it is stipulated that Instituto de Crédito Oficial would create, by charging the resources obtained from the State Loan referred to by Section 4.1 of the Council of Ministers Resolution (11 December 1987), a Fund totalling a maximum of 150,253 thousand Euros to provide provisions and charge the amounts relating to doubtful and default loans that could arise in the future from the activities listed in Note 1, in accordance with the regulations in force for credit institutions. Additional Provision 4 of Law 66/1997 (30 December) on Tax, Administrative and Social Order Measures stipulated that notwithstanding the application of these regulations, the Council of Ministers or the CDGAE could authorize the ICO to charge the Special provision Fund established under RDL 12/95 for any defaults arising during the course of its business, provided that they did not receive any specific coverage in the General State Budgets. This Fund was created in 1996 under the heading "Other Provisions".

Those loans or transactions that, in view of the relevant terms and conditions, require the use of this Fund are provided for by charge to the same. The Institute's income statement is therefore not affected.

Since they are already provided for through this Fund, the loans covered by the same are not therefore included in the calculation of the general and specific bad debt provision.

The Fund was created as explained in the preceding paragraph and was credited, in addition to the initial allocation, with future allocations that Instituto de Crédito Oficial makes out of profits obtained and any made or authorized by the State when assuming or offsetting losses, or through any other appropriate system . Similarly, the Fund is credited with the amounts of an recoveries obtained from loans for which provisions have been recorded or any that have been declared to be in default and charged against the fund, that in 2012 and 2011 amounted to 57,157 thousand Euros and 1,294 thousand Euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2012 and 2011, amounted to 5,446 thousand Euros and 4,882 thousand Euros, respectively.

In accordance with the provisions of Law 12/1996 (30 December) on the General State Budget, in 1997 an additional 150,253 thousand Euros was allocated to this Fund by charging the Ordinary State Loan.

In 2004 another allocation totalling 249,500 thousand Euros was charged against the State Loan granted to ICO in accordance with the Council of Ministers Resolution dated 30 July 2004 and no further allocations have been made since then.

In 2012 allocations were made for 4,843 thousand Euros directly by the State online mediation Forum Afinsa, by agreement of the Council of Ministers of April 27^{h}, 2007, with any other additional endowment (4,743 thousand Euros in 2011).

Movements in 2012 and 2011 in this fund recorded under "Other Provisions" in the balance sheet at 31 December 2012 and 2011 are as follows:

	Thousands of Euros
Balance as at December 31, 2010	134,812
Capitalisation of interest	4,882
Contributions by the State	4,743
Loan recoveries (principal and interest)	1,294
Applications	(6,587)
Balance as at December 31, 2011	139,144
Capitalisation of interest	5,446
Contributions by the State	4,843
Loan recoveries (principal and interest)	57,157
Applications	(85,818)
Balance as at December 31, 2012	120,772

Other provisions CARI-Egypt

The heading "Other provisions CARI-Egypt" records the present value of the Institute's, the Group's Parent entity, commitments with BBVA, deriving from an old official credit export operation involving Egypt. There are no commitments at 31 December 2012.

Funds recovered from BBVA

Additional provision Eleven of Law *24/2001* (27 December) on Tax, Administrative and Social Order Measures, was applied by the Institute, the Group's Parent entity, in 2001 and 2002, with respect to the heading "Funds recovered from BBVA", to allocate part of its equity to cancel an amount owed to the Institute by the State as a result of certain loans and guarantees granted by the former Official Credit Institutions and secured by the State.

Nonetheless, the management of the transactions affected by the cancellation process has meant that ICO continues to receive collections pertaining to these loans, which for prudence, are not generally reflected as income in the income statement. For those recorded as income, the relevant provision for liabilities has been recorded amounting to 500 thousand Euros and 500 thousand Euros at 31 December 2012 and 2011, respectively, that will be capitalized in accordance with Additional Provision 10.1 of Law 24/2001, amended by Law 42/2006.

Prestige Line fund

The Prestige Line Fund has its origins in the RDL 7 / 2002, November 22, which authorizes to charge on Fund Special Provision 12/95 RDL the default amounts from loans Prestige line, with credit to this fund specific provision.

Fund to compensate AIE shareholdings results

Heading Fund to compensate AIE shareholdings includes the provision to adjust to its profit the transactions performance conducted through the Economic Interest Groupings (Note 9). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of 922 thousand Euros and 4,982 thousand Euros, respectively in the years 2012 and 2011 (Note 23). In addition, in 2011 these investments were reclassified from “Investments” to “Loans and receivables” in the balance sheet, with the related impairment provisions transferred to “Other provisions” (Notes 9 and 13).

Contingency fund

This heading was created in 2010 and includes a generic provision for general contingencies (including operational risk), with no balance as of December 31, 2012 (1,846 thousand Euros as of December 31, 2011).

Movements in 2012 and 2011 in the provisions recorded under these balance sheet headings at 31 December 2012 and 2011:

	Thousands of Euros				
	Provisions for taxes	Fund for pension	Provisions for contingent exposures and commitments	Other provisions	Total
Balance as at December 31,2010	-	95	26,614	349,065	375,774
Net allocation (1)	-	78	3,649	158,885	162,612
Recoveries	-	-	(3,250)	(18,165)	(21,415)
Application of funds	-	-	-	(122,756)	(122,756)
Transfers and other movements	-	-	44	19,852	19,896
Exchange differences	-	-	-	(52)	(52)
Balance as at December 31,2011	-	173	27,057	386,829	414,059
Net allocation (1)	-	-	2,622	182,650	185,272
Recoveries	-	(49)	(3,521)	(109,192)	(112,762)
Application of funds	-	-	-	(181,211)	(181,211)
Transfers and other movements (2)	-	-	-	21	21
Exchange differences	-	-	-	(33)	(33)
Balance as at December 31,2012	-	124	26,158	279,064	305,346

(1) Net charges to profit and loss recognized under "Other provisions" include amounts of 5,446 thousand Euros in 2012 and 4,882 thousand Euros in 2011 related to credits made to the Special Provision Fund (Royal Decree Law 12/1995 Fund) for the capitalisation of interest accrued in relation to the fund's own remuneration. The figure also includes a provision charge for ICO's liquidity lines with ICO risk (see Note 9.1.2.) amounting to 69,346 thousand Euros in 2012 (154,004 thousand Euros in 2011) and the recovery of the contingency fund for 1,846 thousand Euros at 31 December 2012 (18,154 thousand Euros at 31 December 2011).

(2) Transfers and other movements relate mainly to the Fund to compensate AIE shareholding results, (922 thousand Euros, Note 23) and to the reclassification of 901 thousand Euros due to an equity contribution for a BBVA's products recovery (DA 11ª Law 24/2001, 27th December). At 31 December 2011, movements are related also to the Fund to compensate AIE shareholding results, amounting to 4,982 thousand Euros and to the reclassification of impairment provisions for AIE shareholdings for 14,870 thousand Euros (see Note 13).

21. VALUATION ADJUSTMENTS

The valuation adjustments balance attributed to the amount of gross and net tax effect is as follows:

	Thousands of Euros					
	2012			**2011**		
	Gross	**Tax effect (Note 16)**	**Net**	**Gross**	**Tax effect (Note 16)**	**Net**
Available-for-sale financial assets	25,590	(7,677)	17,913	35,497	(10,649)	24,848
Cash flow hedging	74,212	(22,263)	51,949	258,263	(77,479)	180,784
TOTAL	99,802	(29,940)	69,862	293,760	(88,128)	205,632

The balance of this heading relates to the account "Available-for-sale financial assets" and "Valuation adjustments for cash flow hedging" in the accompanying consolidated balance sheets. The first account records the net amount of changes in the fair value of the assets classified as available for sale that, in accordance with Note 2.2.4, must be included as part of the Group's equity. The second account records the net amount of changes in the fair value of the cash flow hedge instruments.

	Thousands of Euros	
	2012	**2011**
Opening balance	205,632	139,718
Change in fair value of available – for – sale financial assets (Note 8)	(6,935)	(2,735)
Cash flow hedges	(128,835)	68,649
Closing balance	69,862	205,632

22. OWN FUNDS

The reconciliation of the opening and closing carrying value in 2012 and 2011 of the heading "Equity" in the balance sheets:

	Thousands of Euros				
	Share	**Restatement reserves.**	**Other reserves**	**Results**	**Total**
Balance as at January 1,2011	2,351,448	29,054	686,104	29,960	3,096,566
Distribution of results	-	-	29,960	(29,960)	-
Other increases in reserves	-	(910)	910	-	-
Result for the year	-	-	-	46,592	46,592
Other movements	349,389	-	5,506	-	354,895
Balance as at December 31,2011	2,700,837	28,144	722,480	46,592	3,498,053
Distribution of results	-	-	46,592	(46,592)	-
Other increases in reserves	-	(911)	911	-	-
Result for the year	-	-	-	64,071	64,071
Other movements	529,397	-	(4,606)	-	524,791
Balance as at December 31,2012	3,230,234	27,233	765,377	64,071	4,086,915

Other movements include mainly the following:

- Contribution of 520,000 thousand Euros by charge to budgetary item 15,16,931 M.871 of 2012 General State Budget Law 2/2012, of 29 June, authorized in order to increase the Institute's equity (340,000 thousand Euros as of December 31, 2011, 2011 General State Budget Law 39/2010 of 22 December).

- Based on the eleventh additional provision of Law 24/2001, of 27 December, on fiscal, administrative and social measures, the amounts recovered after the cancellation of debt owed by the State with ICO as a result of certain loans and guarantees granted by the former official credit entities and by the Institute. The contribution to Equity in this connection amounted to 9,397 thousand Euros in 2012 (9,389 thousand Euros in 2011).

As from 1993, minimum equity was regulated by Bank of Spain Circular *5/1993,* of 26 March 1993 (afterwards regulated by Bank of Spain 3/2008, and its following updated). Laying down that equity should not be less than the accounting balances of risk assets, net of specific provisions, depreciation/amortization and compensatory balances, weighted and multiplied by the coefficients established to that effect.

Royal Decree - Law 12/1995 of 28 December 1995, concerning urgent budgetary, tax and financial measures published in the Official State Gazette of 30 December 1995 also lay down that the level of equity of Instituto de Crédito Oficial will be that required at each time under legislation governing Credit Institutes, with the pertinent regulatory exceptions.

The Institute's net computable equity, that does not include profit and amounted to 4,302,422 thousand Euros at 31 December 2012, exceeded the amount laid down in Bank of Spain Circular. At 31 December 2011 the Institute's net computable equity amounted to 3,702,169 thousand Euros that also exceeded the amount laid down in said Circular (Note 1.7.1).

22.1 Reserves in fully or proportionally consolidated companies

Set out below is the breakdown by consolidated company of balances under equity "Equity - Reserves - Accumulated Reserves" in the consolidated balance sheets at 31 December 2012 and 2011, in the part of that balance which has arisen on consolidation, analyzed for fully and proportionally consolidated companies in the consolidated financial statements:

	Thousands of Euros	
	2012	2011
AXIS Participaciones Empresariales, S.A.	8,729	6,225
Instituto de Crédito Oficial	751,816	710,879
	760,545	717,104

22.2 Reserves and exchange differences in entities carried under the equity method

“Equity - Reserves - Reserves in companies carried under the equity method " in the consolidated balance sheets at 31 December 2012 and 2011, in the part of that balance which has arisen on consolidation process, analyzed for each company carried under the equity method in the consolidated financial statements:

	Thousands of Euros	
	2012	2011
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	8,089	5,327
CERSA, Compañía Española de Reafianzamiento, S.A.	(3,257)	49
Other entities	-	-
	4,832	5,376

23. TAX SITUATION

The balance sheet at 31 December 2012 and 2011 includes, within the heading "Customer debits" the liability relating to applicable taxes.

The Institute does not pay tax under the tax consolidation regime as the Institute, the Group's Parent entity, was exempt from corporate income tax in the years 1993 through 1996, in accordance with Royal Decree Law 3/1993, of 26 February 1993, on urgent budgetary, tax, financial and employment measures. In accordance with the provisions of Transitional Provision Thirteen of Law 43/1995 (27 December) on corporate income tax, the Institute was exempted from this tax in 1997 and 1998 and became liable to general corporate income tax as from 1999.

The reconciliation of the accounting Institute's profit for 2012 and 2011 to the corporate income tax base is as follows:

	Thousands of Euros	
	2012	**2011**
Book profit before income tax	84,033	55,142
Permanent differences		
Externalisation of pension commitments	-	-
Foreign taxes paid	896	1,189
Tax-loss carryforwards attributed to invested companies	(5,890)	(19,665)
Monetary adjustment due to the sale of assets	-	-
Adjustment to the measurement of derivatives	-	-
	79,039	36,666
Temporary differences:		
Due to impairment losses and provision non-deductible	201,383	263,251
Due to the reversal of temporary differences arising in other years	(259,244)	(261,134)
	(57,861)	(883)
Tax assessment base	21,178	35,783
Gross tax payable (30%)	6,353	10,735
Deductions and allowances	(615)	(866)
Withholdings and interim payments	(24,522)	(11,668)
Tax payable (Note 16)	(18,784)	(1,799)
Corporate income tax	23,097	10,134
Adjustments for exchange differences	-	-
Other adjustments (Note 20)	922	4,982
Corporate income tax	24,019	15,116

There are no tax losses available for offset. During the year the losses allocated of the Economic Interest Groupings in which ICO, the Group's Parent entity, has a differing proportional interest in capital are included (5,890 thousand Euros at December 2012 and 19,665 thousand Euros at December 2011). Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

The tax incentive deductions applied in the years 2012 and 2011 in respect of professional training expenses amount to 14 thousand Euros and 17 thousand Euros respectively. There is an international double tax deduction (taxes borne) amounting to 601 thousand Euros and 849 thousand Euros respectively. There are no deductions pending inclusion in future year tax assessments. There are no commitments entered into pending the completion of in relation to the tax incentives applied.

There are no changes in the methods used to depreciate/ amortize fixed assets owing to exceptional causes.

Taxes and other tax obligations applicable to the Institute since 2008 are open to inspection by the tax authorities.

Due to the possible interpretations of tax legislation that may be afforded to some transactions, basically related to new subject ability to corporate income tax following the full exemption from the same, there could be certain contingent tax liabilities. However, in the opinion of the Institute's tax managers, the possibility of these liabilities crystallizing is remote and in any event, the tax debt that may derive from them would not significantly affect the accompanying financial statements.

24. FINANCIAL GUARANTEES AND BALANCES DRAWABLE BY THIRD PARTIES

The headings "Contingent risks" and "Contingent commitments" in the balance sheets record the amounts that the group must pay on behalf of third parties in the event that the obligated parties do not do so, in response to the commitments acquired during the normal course of its business.

This heading breaks down as follows at 31 December 2012 and 2011:

	Thousands of Euros	
	2012	**2011**
Contingent risks		
Guarantees and other sureties	1,928,016	2,501,159
	1,928,016	2,501,159
Contingent commitments		
Balances drawable by third parties:		
Credit institutions	64,926	8,065,971
The Public Administrations sector	248,140	167,657
Other resident sectors	4,915,189	7,395,447
Non-resident sectors	370,327	363,976
	5,598,582	15,993,051
Other commitments	516,928	505,645
	6,115,510	16,498,696

At 31 December 2012 the item titled "Available from third parties - credit entities" no amount in December 2012 by ICO in respect of any formalization of new ICO 2013 lines of mediation (8,000 million Euros at 31 December 2011 since the contracts were formalized by year end).

A significant part of these amounts will mature without any payment obligation arising for the Group and therefore the sum of the balances relating to these commitments cannot be considered as an actual future need for financing or liquidity to be granted by third parties to ICO.

The revenues obtained from guarantee instruments (guarantees and other sureties) are recorded under the heading "Commissions received) in the income statement and are calculated by applying the rate established in the relevant contract to the nominal amount of the guarantee.

25. INTEREST AND SIMILAR INCOME

Interest and similar yields for 2012 and 2011 are broken down below by source:

	Thousands of Euros	
	2012	**2011**
Central Banks/Bank of Spain and credit institutions	1,453	2,662
Credit institution deposits	1,690,163	1,464,020
	7,368	
Loans and advances to other debtors	1,185,233	710,207
Public administrations	568,697	73,059
Resident sectors	561,480	637,148
Non Resident sectors	55,056	-
Debt securities	548,557	456,578
Adjustment of income from accounting hedges	(30,355)	(28,874)
Other interests	57,525	11,413
Doubtful assets	10,933	8,884
	3,470,877	2,624,890

26. INTEREST AND SIMILAR CHARGES

The breakdown of this profit and loss heading during 2012 and 2011 is as follows:

	Thousands of Euros	
	2012	**2011**
Deposits from Central Banks	149,967	4,062
Credit institution deposits	69,235	58,125
	1,016	1,609
Customer funds	340,296	531,629
Deposits represented by marketable securities	2,771,355	2,282,460
Promissory notes (Note 19.5)	242	7,048
Other non-convertible securities (Note 19.6)	2,771,113	2,275,412
Adjustment of expenses owing to hedging operations	(621,058)	(687,539)
	2,710,811	2,190,346

27. RETURN ON EQUITY INSTRUMENTS

All yields obtained in this respect relate to the Equity portfolio and in 2012 and 2011 this item totalled 370 thousand Euros and 951 thousand Euros, respectively, in the consolidated income statement.

28. RESULTS IN COMPANIES CARRIED UNDER THE EQUITY METHOD

All entities results valuated by the equity method registered in this caption in the consolidated income statements amounted losses of 2,224 thousand Euros and, 2,909 thousand Euros in 2012 and 2011, respectively. Appendix I provide a breakdown of and relevant information on the shareholdings at 31 December 2012 and 2011.

29. FEES AND COMMISSIONS INCOME AND EXPENSES

The breakdown of the balance of this consolidated profit and loss account heading is as follows:

	Thousands of Euros	
	2012	**2011**
Commissions received		
Contingent risks	4,321	4,476
Availability commissions	14,050	18,523
Collection and payment services	11	11
Other commissions	28,420	26,627
	46,802	49,637
Commissions paid		
Signature risks	(211)	(105)
Other commissions	(18,733)	(4,173)
	(18,984)	(4,278)
Net commissions for the year	27,818	45,359

The heading "Other commissions paid", at December 31, 2012, includes 13,609 thousand Euros in concept of mediation lines incentives' commissions from 2011 and 2012 paid to EECC contributors.

30. GAIN OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The breakdown of this consolidated profit and loss account heading, based on the origin of its components, is as follows:

	Thousands of Euros	
	2012	**2011**
Hedging derivatives (Note 7)	10,153	(5,220)
Derivatives held for trading	-	-
	10,153	(5,220)

31. PERSONNEL EXPENSES

The composition of this consolidated income statement heading is as follows in 2012 and 2011:

	Thousands of Euros	
	2012	2011
Wages and salaries	12,928	14,210
Staff welfare expenses	3,278	3,366
Other expenses	1,884	1,582
	18,090	19,158

The number of employees at the Group at 31 December 2012 and 2011, by professional category and sex, was as follows:

	Distribution of employees			
	Men		Women	
	2012	2011	2012	2011
Management	9	6	6	8
Managers and technicians	105	114	140	142
Administrative staff	10	10	58	53
Support and sundry staff	-	1	-	-
	124	131	204	203

The average number of employees at the Group in 2012 and 2011, by professional category and location, was as follows:

	Average distribution of employees			
	Men		Women	
	2012	2011	2012	2011
Management	9	6	6	8
Managers and technicians	109	111	138	143
Administrative staff	10	12	54	55
Support and sundry staff	-	1	-	-
	128	130	198	206

NOTE: Since the signing of the Fifth Collective Agreement (published in the Official Gazette on October 24th, 2008), general service staff is included under the heading of administrative professionals.

Application of Royal Decree Law 20/2012, of 13 July

Pursuant to Royal Decree-Law 20/2012 of 13 July, adopting measures to guarantee the budget stability and to foster competitiveness, ICO proceeds to eliminate the employees' Christmas extra wage of that year.

Remuneration and other benefits for the General Council

In 2012 and 2011 the Institute recorded in the Profit and Losses 132 thousand Euros and 89 thousand Euros, respectively, in respect of remuneration accrued by the members of the Governing Bodies of the companies that form the Group in respect of wages, per diems and other remuneration. These allowances were paid to the Treasury, according to the applicable regulation law.

Fees collected by the Institute's Managing Director, as the entity head of the Group and other persons exercising similar functions during the years 2012 and 2011 are as follows (thousand Euros):

Year 2012

Number of Employees	Salaries and wages		Other wages	Total
	Fixed	Variable		
5	472	69	5	546

Year 2011

Number of Employees	Salaries and wages		Other wages	Total
	Fixed	Variable		
5	484	126	4	614

At December 31, 2012 and 2011 there were no loans granted to the executive members of the Institute's General Council. At December 31, 2012 loans granted under internal regulations on loans to staff, had an outstanding amount of 21,972 thousand Euros and the average interest rate was 2.52% (23,139 thousand Euros at 31 December 2011, with an average interest rate of 2.52%).

In addition, at that date no pension or life insurance obligations had been acquired with respect to current or former members of the General Council.

32. OTHER ADMINISTRATIVE EXPENSES

The breakdown of the consolidated balance of this profit and loss account heading is as follows:

	Thousands of Euros	
	2012	2011
Buildings, installations and materials	1,017	1,180
Computers	3,123	3,002
Communications	256	240
Advertising and publicity	1,010	2,755
Rates and taxes	1,502	1,693
Other general administrative expenses	7,120	8,598
	14,028	17,468

Audit fees

The audit fees for the year are borne by the Contracting Body of the Ministry of Finance in accordance with the Law on Contracts with Public Administrations and complementary legislation and, therefore, are not included in “External services” in the accompanying consolidated income statement.

The amount invoiced by companies under the trademark of Ernst and Young (the auditor of the 2012 and 2011 financial statements) for non-audit services in 2012 was 37 thousand Euros (35 thousand in 2011). Altogether, the amounts invoiced under audit services (to Groups’ subsidiaries) are a total of 39 thousand Euros.

33. OTHER OPERATING PRODUCTS

The breakdown of the balance of this chapter in the profit and loss account is as follows:

	Thousands of Euros	
	2012	2011
Operating income from investment property	877	876
Other items	4,491	2,265
	5,368	3,141

"Other items" basically includes the expenses recovered from the return of surpluses and advances made through BBVA asset management.

34. FAIR VALUE

As mentioned above, financial assets are recorded on the balance sheet at fair value, except for credit, loans and discounts and equity instruments whose market value cannot be estimated reliably.

In the same way, financial liabilities are recorded on the balance sheet at amortized cost, except those included in the trading portfolio.

Part of the assets recorded under the heading "Credit, loans and discounts" and liabilities recorded under the heading "Financial liabilities at amortized cost" of the balance sheet at December 31, 2012 are variable rate, with annual interest rate revision, so it’s fair value as a result of the movements of market interest rates is not significantly different from the one recorded in the balance sheet.

Of the total amount recorded under the heading Credit, loans and discounts and financial liabilities at amortized cost, amounting to 4,651,973 thousand Euros and 1,100,000 thousand Euros, respectively, at December 31 of 2012 (4,869,030 thousand Euros and 2,754,026 thousand Euros at December 31, 2011) related to assets and liabilities linked to fixed ratio The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate fair value using a discount flows. The value calculated for these operations to December 31, 2012 and 2011 is as follows:

	Thousands of Euros			
	Book value		Fair value	
	2012	2011	2012	2011
ASSETS				
Credits, loans and discounts				
Deposits at credit institutions	2,809,877	3,161,874	2,790,109	2,790,109
Customer loans	1,842,096	1,707,156	1,983494	1,983,494
LIABILITIES				
Financial liabilities at amortized cost				
Credit institutions deposits	1,100,000	2,754,026	2,868,155	2,868,155

35. OPERATIONS WITH SUBSIDIARIES, JOINTLY CONTROL ENTITIES AND ASSOCIATES

The balance at December 2012 and 2011 of the Company related with the Subsidiaries, Jointly Control Entities and Associates are as follows:

At December 31st, 2012:

CERSA

- Deposits to customers (financial liabilities at amortized cost): 127,353 thousand Euros

At December 31st, 2011:

CERSA

- Deposits to customers (financial liabilities at amortized cost): 127,354 thousand Euros

Financial backdrop

Consequences of the international financial crisis continued to spread over most of the developed countries during this 2012. After a certain stabilization of the production in 2010 and 2011, actual GIP decreased in 1.4% within this 2012.

This market behaviour came along with a dreadful financial situation our country had to face during most of the year and certain fiscal consolidation measures.

As regards to financial requirements, markets started demanding very high returns on every kind of Spanish issues, which in many cases forced our agents to stay out of the market. The financial help request for the Spanish banking system recapitalization seemed to be a full rescue prelude. The banking system risk was feeding back the sovereign risk on a dangerous cycle which seemed difficult to escape from.

The firsts days of summer were truly tough for our economy, mistrust towards our country made the bond market spread soar, reaching the 650 b.p. on a ten years basis. Even the euro feasibility was in doubt until Mario Draghi, head of the ECB, ratified its commitment on the euro as the EU's single currency and declared its will to do whatever in order to safeguard it. This statement took form when the Outright Monetary Transactions (OMT) program got started. This drove to a normalization of the situation and brought relief to markets together with forward movements in explicit rescue and banking unification measures. This way, the pressure on Spanish sovereign debt reduced steadily and allowed other agents, before out of the debt market, to place its issuing at a fairer price.

As it comes to fiscal consolidation, a few soarings in taxes were taken place together with expenses cuts in almost every item. The immediate effects of these measures were reflected on an activity sharp drop, although other expansive measures were put into operation. These were such as the Fondo de Pago a Proveedores (Funding for Supplier Payments Fund) which injected 2.7% of Spanish GIP in company's cash and freelances creditors of Public Administrations.

Meanwhile, structural reforms were initiated such as the reform in the labour sector, and the financial system reform which, together with the fiscal consolidation credibility, should allow our country to deal with the crisis exit in the best way.

Our particular financial system situation made undeniable the need of political resources for the risky companies. Since the Spanish capacity to collect all those funds was limited, the country resorted to European mechanisms on this last phase of the restructuring process. Entities resultant from this process could, this way, face the future in a healthy way, with a fair capital structure which is supposed to lead them to accomplish its financial intermediary task in the correct way. General contractions in 2012 balance sheets were a matter of fact. This caused 9.6% credit droppings a year, including the drop related to the company in charge of managing the damaged credits underlying assets of those nationalized entities. Defaulting also grew during the whole year, reaching the 11.4% of the non-resident sectors credit.

Operating environment

During the year 2012, the Institute's lending activity increased in a significant way (32%) compared to the one from 2011. This is due to the anti-cyclical task that was carried out during this year of deep financial and economic crisis.

The Institute has continued to gain share among the rest of Spanish credit institutions during 2012: ICO's assets represent a 3.4% of the system and has granted the 10.4% of credit to companies within more than a year.

Main 2012 ICO action lines, form its operational perspective, have been:

- Maintenance of funding for liquidity needs and SME investments via the financial private sector mediation lines. 11,511 million Euros were granted to more than 162 thousand freelances and SME through these lines.

- Shareholding as financial support provider, together with other credit entities, in a 23.33% of the Funding Suppliers Payment Fund (FFPP are its initials in Spanish). Assuming besides this fund's administrator role. These funding allowed paying 5.5 million receipts to more than 135 thousand local entities and autonomous communities' suppliers amounting 27,031 million Euros in two months.

- Autonomous Communities' funding line to meet its financial debt maturities amounting 5,333 million Euros. This temporary funding tool has substituted the Autonomous Liquidity Fund (FLA are its initials in Spanish), playing the ICO a financial manager role with no funds contributed.

Additionally to its lending activity, the granting of guarantees and Governmental negotiated funds management are part of the Institute's activity. In these last years and during 2013, new funds have been founded (FFPP and FLA) besides the ones already managed before (CARI, FIEM and FONPRODE). As a consequence of this, the Governmental negotiated funds balance has grown in a 542% in 2012, reaching a volume of 52,559 million Euros.

At the same time, a big effort was made regarding funds attraction in capital markets this 2012, amounting 21,055 million Euros. These attractions were carried out in a very complex context taking into account that these markets were closed during the second and third quarter of 2012.

Additionally, the Institute has gained 20,000 million Euros of special funding from the European Central Bank, reaching a total of 41,055 million Euros funding (a 59% more than in 2011) same for the year lending activity funding as for facing the 2013 first months' needs.

As a consequence of this, the balance sheet has experienced a 22% increase compared to 201, keeping on the track of the lasts years.

Activity

At December 31, 2012, the Investment Credit balance, net of adjustments, amounted 90,611,505 thousand Euros, 14% more than in 2011:

The balance of loans and receivables by direct transactions with customers, has grown the most (27%), reaching the (net of adjustments) amount of 41,038,970 thousand Euros. The main lines fostering the growth, have been:

- The Funding for Suppliers Payment Fund's (FFPP) contribution, amounted 6,386,861 thousand Euros.

- The line to finance Autonomous Communities to attend its financial debt maturities amounted 5,332,994 thousand Euros.

- The liquidity and credit lines at securitization funds' disposal amounted 2,165,520 thousand Euros.

The credit entities' financial investment balance, net of adjustments, is 49,572,535 thousand Euros, practically aligned with the 2011 balance (-1%). From that number, 44,103,895 are mediation credits, 5,115,661 thousand Euros are in terms of deposits granted to interbanking market and temporary purchases of assets, and 352,979 thousand Euros come from resident and non-resident entities loans.

As it happened in 2011, ICO has continued to increase its financial assets portfolio during 2012 with the goal of making cash overstocks profitable and reinforce its liquidity position through European Central Bank's discountable bonds acquisitions. This way, financial entities' bonds and promissory notes together with sovereign debt or State guaranteed debt amounted 19,440,338 thousand Euros and 8,273,853 thousand Euros at December 31, 2012 and December 31, 2011, respectively.

ICO's third parties resources amounted 106,250,091 (86.16% on the balance sheet) at 2012 year end. This way, medium/long term liabilities mean a 87%, a 3% goes to pending funds to pay back by mediation lines financed with other institutions' funds and the 9% remaining, is explained as short term funding.

Long term funding is mainly composed of bonds in circulation amounting 69,109,454 thousand Euros and 20,000,000 thousand Euros of Central Banks deposits. Together medium and long term funding has grown a 21% compared to 2011. Short term, 25% lower than in 2011, is mainly made of current accounts (8,050,363 thousand Euros) and collateral deposits with credit entities (1,234,900 thousand Euros).

Institute's equity has grown in a 12% mainly because of the increase in share capital contribution done by the State, amounting 520 million Euros that has allowed ICO's solvency coefficient to reach the 14.46% (higher than regulatory minimum).

Risk Management Policy

Any Institute's performance regarding credit, liquidity, and operational risk management are detailed in Note 5.3 in the annual accounts' report.

Results

According to Bank of Spain 22nd December 4/2004 Circular and further updates, the interest margin ICO got in 2012 was 759,873 thousand Euros, which represents an increase of 75% compared to 2011. This result has been possible thanks to the credit activity peak and the right management of the returns on assets and liabilities in order to maintain the correct financial balance. As it was said before, ICO's balance sheet grew a 22% in 2012.

As a consequence of the mentioned acting lines mentioned above, the 2012 ordinary gross margin (right before operating expenses) has been through a 70% growth compared to 2011, reaching the 800,841 thousand Euros. This growth has been much superior to the rest of the financial sector one and the early year Institute's forecasting.

At the same time, it has been continued the operational expenses containment policy started in previous years. These expenses have been reduced in a 10% from 2011 to 2012.

It all has made possible a 78% increase in results before provisions compared to the previous year amounting 763,030 thousand Euros.

Apart from keeping the obligation to preserve its financial balance, ICO carries out cautious management policies, which in the context of a credit risk hedge, mean supplies on provisions that could allow any potential unfavourable situation that could appear. In 2012, the Institute has registered supplies net of provisions of 679,230 thousand Euros, 81% more than the ones in 2011.

Despite this increase in supplies on provisions, 2012 earnings before taxes (BAI are its initials in Spanish) have been a 10.6% higher than forecasted, amounting 84,033 thousand Euros.

Research and Development Expenses

There are no records of any research and development activity all along this year.

Treasury Shares

Not applicable to the Institute's activity-

Personnel

Employees' number at December 31st, 2012 is 313, having decreased in 7 people from 2011 records.

Post-balance sheet events.

Still in a crisis scenario, the Institute, on its State's Financial Agency role, will keep on focusing its activity on the execution of anti-cyclical tasks to expand its impact and support certain economical activity and employment growth levels.

This way, freelances and small companies' borrowing programs will continue being fostered through the many Mediation Lines.

Other significant post-balance sheet events are detailed in Note 1.8 of this report.

Appendix I

Shareholding at 31.12.2012 and 31.12.2011
(Direct and indirectly)

The relevant information to the shareholding in associates and subsidiaries on December 31, 2012 and 2011 as follows:

At December 31,2012:

			% of shareholding			Cost value of the shareholding			Entity data		
	Address	**Activity**	**Direct**	**Indirectly**	**Total**	**Gross**	**Impairment**	**Net**	**Assets**	**Net Equity**	**Profit/Loss**
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG.RR	24.15%	-	24.15%	34,038		34,038	395,546	229,270	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries	25.25%	-	25.25%	10,525		10,525	88,442	82,018	8,300
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Asset management Purchase and leasing of aircraft	50.00%	-	50.00%	2		2	718	261	257
Subsidiaries						**44,565**		**44,565**			
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investment	10.00%	-	10.00%	1,940		1,940	12,708	12,502	1,833
						46,505		46,505			

Economic information non audited referred to December 31, 2012

Appendix I

Shareholding at 31.12.2012 and 31.12.2011
(Direct and indirectly)

At December 31,2011:

	Address	Activity	% of shareholding Direct	Indirectly	Total	Cost value of the shareholding Gross	Impairment	Net	Entity data Assets	Net Equity	Profit/Loss
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG.RR	24.15%	-	24.15%	30,733	-	30,733	360,902	233,196	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries	25.25%	-	25.25%	10,524	-	10,524	79,971	72,839	10,058
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Asset management Purchase and leasing of aircraft	50.00%	-	50.00%	2	-	2	1,641	743	739
						41,259	**-**	**41,259**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investment	100.00%	-	100.00%	1,940	-	1,940	11,852	10,669	2,504
						43,199	**-**	**43,199**			

Economic information non audited referred to December 31, 2011

INSTITUTO DE CRÉDITO OFICIAL

APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2012

In accordance with prevailing legislation, the Chairman hereby approves the Institute's consolidated financial statements and consolidated management report for issue and presents the proposed appropriation of results, for the year ended December 31, 2012, consisting of the documents prior to this page and comprising 115 sheets.

Madrid, March 30th, 2013

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D. Román Escolano Olivares
Chairman