INFORMATION OF PRUDENTIAL RELEVANCE

31 December 2020

1. GENERAL INFORMATION REQUIREMENTS

1.1. INTRODUCTION

The objective of this report is to comply with the market reporting requirements of the Instituto de Crédito Oficial Consolidated Group, as set out in Part Eight of Regulation EU 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter “the Solvency Regulation”).

Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions replaced, as from 1 January 2014, the previous legal text on prudential banking regulation (Law 13/1985 of 25 May and Bank of Spain Circular 3/2008). The main purpose of Law 10/2014, of 26 June, was to adapt the Spanish legal system to the regulatory changes imposed at international and European Union level, directly incorporating the provisions of Regulation (EU) 575/2013, of 26 June (CRR), and duly transposing Directive 2013/36/EU, of 26 June (CRD4). These Community regulations have substantially altered the applicable legislation for credit institutions, since aspects such as the supervisory regime, the capital requirements and the sanctioning regime have been extensively modified.

Pursuant to the 8th Additional Provision of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, Instituto de Crédito Oficial will be subject to Titles II (Solvency of credit institutions), III (Supervision) and IV (Sanctioning Regime) of said Law, with the exceptions determined by regulation, and the provisions concerning information confidentiality.

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

Certain information required by the regulations in force that must be included in this report is presented, in accordance with said regulations, referenced to the consolidated annual accounts of the ICO Group for the financial year 2020, as it is contained therein and redundant with it. The aforementioned annual accounts, as well as this document on "Information of prudential relevance" can be consulted on ICO's website (www.ico.es).

1.2. INSTITUTO DE CRÉDITO OFICIAL CONSOLIDATED GROUP

The information presented in this report corresponds to the Consolidated Group of Credit Institutions whose dominant entity is Instituto de Crédito Oficial (hereinafter, the Group or ICO Group).

Subsidiaries are those entities over which the Bank has control. It is considered that an entity controls an investee when it is exposed or entitled to variable returns because of its involvement in the investee and has the ability to influence those returns through the power it exercises over the investee.

In order to be considered as subsidiaries, the following must concur:

- Power: An investor has power over an investee when the former has rights in force that give it the capacity to manage the relevant activities, i.e. those that significantly affect the investee's returns;

- Returns: An investor is exposed to, or is entitled to, variable returns for his involvement in the investee when the returns obtained by the investor for such involvement may vary depending on the economic evolution of the investee. The investor's returns may be only positive, only negative or both positive and negative.

Relationship between power and returns: An investor controls an investee if the investor not only has power over the investee and is exposed to, or is entitled to, variable returns for his involvement in the investee, but also has the ability to use his power to influence the returns he obtains from that involvement in the investee.

The annual accounts of the subsidiaries are consolidated with those of the Institute using the full consolidation method as defined in the regulations. Consequently, all significant balances arising from transactions carried out between the companies consolidated using this method have been eliminated in the consolidation process. The Institute, the Group's dominant entity, accounts for 99% of the Group.

In addition, the participation of third parties in:

- The Group's equity: is presented under "Minority Interests" in the consolidated balance sheets. As at 31 December 2020, there were no minority interests.

- The consolidated income for the year: are presented under the "Income Attributable to Minority Interests" heading in the consolidated income statement. As at 31 December 2020, there was no income attributed to minority interests.

  The income generated by the subsidiaries acquired in a given year are consolidated taking into account only those relating to the period between the acquisition date and the year-end.

On the other hand, "associates" are those entities over which the Institute has the capacity to exercise significant influence, although they do not constitute a decision-making unit with the Institute nor are they under joint control. Usually, this capacity is manifested in a participation (direct or indirect) equal to or greater than 20% of the voting rights of the investee.

Investments in entities considered as "associates" are presented in the consolidated annual accounts recorded under the heading "Investments in Subsidiaries, Joint Ventures and Investees - Associates" in the consolidated balance sheet, valued at acquisition cost, net of any impairment losses that may have been suffered by such investments.

The income generated by transactions between the associate and Group entities are eliminated at the percentage represented by the Group's share in the associate.

The income obtained by the associate during the year, after the elimination referred to in the previous section, increase or reduce, as the case may be, the value of the investment in the consolidated annual accounts. The amount of this income is recorded under the heading "Share of profit or loss of entities accounted for using the equity method" in the consolidated income statement.

Changes in the associate's valuation adjustments after the acquisition date are recorded as an increase or decrease in the value of the shareholding. The amount of these changes is recorded under "Accumulated other comprehensive income" as valuation adjustments of consolidated equity.

There are no "jointly-controlled institutions" included in the Consolidation Group.

The following is a summary of the main differences regarding the scope of consolidation and the different consolidation methods applied between the Instituto de Crédito Oficial Consolidated Group of Credit Institutions, for which the information contained in this report is presented, and the ICO Group of Credit Institutions, defined in accordance with Rule 3 of Bank of Spain Circular 4/2017, of 27 November.

In the preparation of the consolidated annual accounts of the ICO Group of Credit Institutions, all subsidiaries have been consolidated applying the full consolidation method, as they meet the requirements to be considered as consolidable due to their activity. Therefore, there are no differences in the scope of consolidation for the purposes of applying the solvency requirements.

For the purposes of preparing the consolidated financial statements of the ICO Group of Credit Institutions, investments in financial institutions that do not meet the requirements to be considered as subsidiaries, jointly controlled entities or associates are considered financial instruments and are valued in accordance with the criteria established in Rule 22 of Bank of Spain Circular 4/2017, of 27 November.

However, for the purposes of applying the solvency requirements, financial entities that have not been classified as subsidiaries, jointly controlled entities or associates pursuant to Rule 47 of Bank of Spain Circular 4/2017, of 27 November, in which at least 20% of their capital or voting rights are owned or controlled, are valued by the equity method for the purposes of preparing the information of the Consolidated Group.

In accordance with the criteria indicated above, the following is a detail as at 31 December 2020 of the subsidiaries of the Consolidated Group to which the full consolidation method has been applied for the purposes of preparing the consolidated information thereof:

ENTITY: AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.I.C, S.A S.M.E.

Annex I to the Institute's consolidated financial statements contains relevant information on the associates included in the Group.

1.3. OTHER GENERAL INFORMATION

As at 31 December 2020, there is no material, practical or legal impediment to the immediate transfer of own funds or reimbursement of liabilities between the Group's subsidiaries and Instituto de Crédito Oficial, and there is nothing to suggest that such impediments may exist in the future.

As at 31 December 2020, there are no entities belonging to the economic Group and not included in the consolidated Group that are subject to minimum own funds requirements at individual level, in accordance with the various regulations applicable to them.

As at 31 December 2020, the stake in AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.I.C, S.A S.M.E. included in the Consolidated Group is not subject to the calculation of own funds requirements in individual terms and is included in the ICO consolidated group, which is subject to such requirements.

All the amounts contained in this report are expressed in thousands of euros.

ICO is not considered a Global Systemic Entity.

2. RISK MANAGEMENT POLICIES AND OBJECTIVES

The information on risk management policies and objectives that the Regulations require to be provided to the market can be found in Note 5 (Risk Exposure) of the Consolidated Report included in the consolidated annual accounts of Instituto de Crédito Oficial Group for 2020, published on ICO's website. (www.ico.es).

3. INFORMATION ON ELIGIBLE OWN FUNDS

3.1. SUMMARY OF THE MAIN CHARACTERISTICS AND CONDITIONS OF THE ITEMS ACCOUNTED FOR AS OWN FUNDS OF TIER 1 AND TIER 2 CAPITAL

For the purposes of calculating its minimum own funds requirements, the Group considers as own funds of Tier 1 capital the items defined as such, considering the corresponding deductions, in Part Two, Title I, Chapters 1 to 3, of the Solvency Regulation.

Own funds of Tier 1 capital are characterised by being components that can be used immediately and without restriction to hedge risks or losses as soon as they occur, the amount being recorded free of any foreseeable tax at the time it is calculated. These elements show stability and permanence over time, a priori higher than that of own funds of Tier 2 capital as explained below. As indicated in section 3.2 below, the Group's Tier 1 capital own funds as at 31 December 2020 consist mainly of the Institute's equity and actual and express reserves.

On the other hand, own funds of Tier 2 capital are considered to be those defined in Part Two, Title I, Chapter 4 of the Solvency Regulation, with the limits and deductions established in said Regulation. Although these own funds comply with the definition of own funds established in the current regulations, they are characterised by having, a priori, a lower volatility or degree of permanence than the elements considered as own funds of Tier 1 capital. As indicated in section 3.2 below, as at 31 December 2020 there were no Group's own funds of Tier 2 capital.

All the concepts which, in accordance with the provisions of the Solvency Regulation, are part of ICO Group's eligible own funds, have homogeneous characteristics as far as their definition and characteristics are concerned, so that their content is not described individually.

3.2. TOTAL AMOUNT OF OWN FUNDS

Below is the detail at 31 December 2020 on the Consolidated Group's eligible own funds, indicating each of its components and deductions, and broken down into own funds of Tier 1 and Tier 2 capital:

	Amount (thousands of euros)
Total Eligible Own Funds	5,024,167
Tier 1 capital	5,024,167
Common Tier 1 capital	5,024,167
Capital instruments eligible as Common Tier 1 capital	4,314,204
Retained earnings	947,967
Other reserves	-202,947
Common Tier 1 capital adjustments due to prudential filters	196,301
Other intangible assets	-6,910
Common Tier 1 capital elements or deductions - Capital instruments Financial Sector Entities with significant investment	-302,080
Elements or deductions from Common Tier 1 capital - Others	77,632
Additional Tier 1 capital	0
Tier 2 capital	0
Adjustments for general credit risk using the standard method	0

3.3. RECONCILIATION OF SHAREHOLDERS' EQUITY TO REGULATORY CAPITAL

The reconciliation between the Institute's shareholders' equity reflected in the financial statements and the regulatory capital for solvency purposes as at 31 December 2020 is presented below:

CONCEPT	*(Thousands of Euros)*
	2020
Capital	4,314,204
Reserves	972,965
Net attributable profit	79,092
TOTAL OWN FUNDS IN PUBLIC BALANCE SHEET	5,366,261
Valuation adjustments	-125,315
TOTAL EQUITY PUBLIC BALANCE SHEET	5,240,946
Other adjustments to basic capital	-
Tier 1 capital deductions	-216,779
TIER 1 CAPITAL	5,024,167

4. INFORMATION ON MINIMUM OWN FUNDS REQUIREMENTS

The summary of the total minimum own funds requirements as at 31 December 2020, by type of risk, is shown below:

TOTAL OWN FUNDS REQUIREMENTS	*(Thousands of Euros)*
	2020
For credit, counterparty credit and dilution risks, and free deliveries	1,050,347
For settlement and delivery risk	0
For position, currency and commodity risks	7,050
For operational risk	13,275
For credit valuation adjustment risk	9,487
TOTAL REQUIREMENTS	1,080,159

NOTE: The minimum total capital ratio for 2020, set by the Bank of Spain for the Institute's Group, is 15.95%, considering both the requirements of EU Regulation 575/2013 (8%) and the additional own funds needs to cover concentration and business risks and other risks set out in the Capital Self-Assessment Report (5.45%) and the capital conservation buffer (2.5%).

4.1. MINIMUM OWN FUNDS REQUIREMENTS FOR CREDIT, COUNTERPARTY CREDIT, DILUTION AND DELIVERY RISKS AND FREE DELIVERIES

Below is the amount of the minimum own funds requirements of the Consolidated Group for credit risk as at 31 December 2019, calculated for each of the categories to which the standard method has been applied (Part 3, Title II, Chapter 2, of the Solvency Regulation), as 8% of the risk-weighted exposures:

Amounts in thousands of euros

Total amount of requirements for credit, counterparty credit and dilution risks and free deliveries	1,050,347
Exposure categories of the standard method	1,042,588
Central governments or central banks	20,818
Regional administrations or local authorities	
Public sector entities	195,795
Multilateral development banks	17,141
International organisations	
Entities	249,504
Companies	422,678
Retail exposures	1,825
Exposures secured by mortgages on immovable property	
Exposures in default	7,344
Exposures associated with particularly high risk	
Covered bonds	
Exposures to institutions and corporates with a short-term credit assessment	
Shares in collective investment undertakings (CIUs)	
Equity instruments	117,097
Others	10,386
Securitisation positions	7,759
*Of which: re-securitisation	

4.2. MINIMUM OWN FUNDS REQUIREMENTS FOR SETTLEMENT AND DELIVERY RISKS

There are no Group own funds requirements for settlement/delivery risk (Part 3, Title V of the Solvency Regulation).

Amounts in thousands of euros

Total amount of requirements for settlement/delivery risk	
Settlement/delivery risk in the investment portfolio	
Settlement/delivery risk in the trading portfolio	

4.3. MINIMUM OWN FUNDS REQUIREMENTS FOR POSITION, CURRENCY AND COMMODITY RISKS (MARKET RISK). MARKET RISK OF THE TRADING PORTFOLIO

Amounts in thousands of euros

Total amount of requirements for position, currency and commodity risks	7,050
Amount of requirements for position, currency and commodity risks according to standard methods	7,050
Negotiable debt instruments	5,657
Equity instruments	
Currency	1,393
Commodities	

The calculation is made in accordance with the provisions of Part 3, Title IV, of the Solvency Regulation.

With respect to the market risk associated with the trading portfolio, it should be noted that the Group considers as such those positions in financial instruments that are held with the intention of trading or that serve as hedges for the elements of said portfolio. In this regard, there are no differences between the trading portfolio for the purposes of calculating the Group's own funds requirements and the trading portfolio defined in accordance with Bank of Spain Circular 4/2017, of 27 November, with respect to debt securities and capital instruments.

The total amount of the own funds requirements associated with the trading portfolio as at 31 December 2020 corresponds to the position risk of negotiable debt instruments.

4.4. MINIMUM OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

Amounts in thousands of euros

Total amount of requirements for operational risk	13,275
Operational risk - Basic indicator method	13,275
Operational risk - Standard/standard alternative methods	
Operational risk - Advanced calculation methods	

The Group uses the relevant indicator (or basic indicator) method to determine the own funds requirements associated with operating risk (Part 3, Title III of the Solvency Regulation).

4.5. MINIMUM OWN FUNDS REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK

Amounts in thousands of euros

Total amount of requirements for credit valuation adjustment risk	9,487
Advanced method	
Standard method	9,487
Based on the original exposure method	

The Group uses the standard method for determining the own funds requirements associated with credit valuation risk (Part 3, Title IV of the Solvency Regulation).

4.6. PROCEDURES APPLIED FOR THE ASSESSMENT OF INTERNAL CAPITAL ADEQUACY

In accordance with the provisions of the Solvency Regulation, the Consolidated Group applies a series of risk identification, measurement and aggregation procedures that allow it to define and maintain a level of own funds in accordance with the risks inherent to its activity, to the economic environment in which it operates, to the management and control it carries out of these risks, to the governance systems at its disposal, to its strategic business plan and to its real possibilities of obtaining greater own funds, in other words, it carries out an assessment of internal capital, both at the present time and in the projected future based on its planning.

In assessing its internal capital, the Group applies the following procedures related to each of its risks:

- Assessment of capital needs for credit risk: the standard method established in the Solvency Regulation was applied to calculate the minimum own funds requirements associated with this risk.

- Assessment of capital needs for liquidity risk: The Group does not foresee capital needs associated with this risk, once its liquidity policy, liquidity control systems and contingency plans have been analysed, which show that it enjoys an adequate liquidity situation and, therefore, does not require capital to cover this risk.

- Assessment of capital needs by market risk: the standard method established in the Solvency Regulation was used to estimate the minimum own funds requirements associated with this risk.

- Assessment of capital needs for operational risk: the basic approach is being applied.

- Assessment of capital needs for credit valuation adjustment risk: the standard methodology for calculating the capital required for this risk is being applied.

The Group's total capital requirement has been estimated by aggregating the capital needs associated with each risk, obtained in accordance with the methods indicated above.

In addition, in order to adequately plan the Group's future capital requirements, the corresponding projections of profits assigned to reserves and capital consumption derived from expected activity growth in different scenarios that contemplate stress situations, among others, are carried out.

The capital planning process seeks to determine ICO's future capital requirements in a given time horizon. For the purposes of this report, three years are considered. To this end, the sources and consumptions of capital are estimated for the next three financial years, considering as a base for this financial year the forecasts of the Institute for the considered horizon, which will be the baseline scenario.

In addition to the baseline scenario, the Institute has estimated what its capital needs would be under an adverse macroeconomic scenario and under various additional stress scenarios, in line with the provisions of the PAC (Capital Self-Assessment Process) and PAL (Liquidity Self-Assessment Process) Guidelines.

The results of the capital planning process include, for all scenarios, the following information:

- Projected evolution of the main balance sheet and income statement amounts.
- Calculation of required capital and risk-weighted assets (RWA) for each of the Pillar I risk types in each year.
- Contrast between capital requirements and available capital.
- Action Plan to cover eventual capital needs (if applicable).

In all cases, it is confirmed that the Institute has a capital figure that is expected to enable it to meet the legally required minimums, even in crisis scenarios.

5. INFORMATION ON CREDIT RISKS

5.1. ACCOUNTING DEFINITIONS AND DESCRIPTION OF THE METHODS USED TO DETERMINE IMPAIRMENT CORRECTIONS

The concepts of positions in default and impairment corrections referred to in this document are based on the definitions in the Solvency Regulation and Annex IX of Bank of Spain Circular 4/2017.

Note 2.7 of the consolidated report forming part of the 2020 financial statements of the ICO Group describes the methods used by the Group in determining the provisions for impairment due to credit risk and in calculating the provisions for contingent risks and commitments associated with that risk.

5.2. EXPOSURE TO CREDIT RISK AND AVERAGE VALUE OF EXPOSURES FOR THE YEAR

The total value of risk-weighted exposures, as at 31 December 2020, for credit risk of the Consolidated Group, and their distribution by counterparty class, is as follows:

Amounts in thousands of euros

Risk-weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	13,129,340
Exposure categories of the standard method	13,032,348
Central governments or central banks	260,222
Regional administrations or local authorities	
Public sector entities	2,447,441
Multilateral development banks	214,257
International organisations	
Entities	3,118,806
Companies	5,283,474
Retail exposures	22,806
Exposures secured by mortgages on immovable property	
Exposures in default	91,803
Exposures associated with particularly high risk	
Covered bonds	
Exposures to institutions and corporates with a short-term credit assessment	
Shares in collective investment undertakings (CIUs)	
Equity instruments	1,463,710
Others	129,829
Securitisation positions	96,992
*Of which: re-securitisation	

The average value of risk-weighted exposures for credit risk of the Consolidated Group and their distribution by counterparty class in 2020, is as follows:

Amounts in thousands of euros

Average amount of risk-weighted exposures for credit, counterparty credit and dilution risks and free deliveries			13,358,733
	Exposure categories of the standard method		13 310 237
		Central governments or central banks	275,976
		Regional administrations or local authorities	
		Public sector entities	2,364,593
		Multilateral development banks	210,664
		International organisations	
		Entities	3,117,829
		Companies	5,634,934
		Retail exposures	23,111
		Exposures secured by mortgages on immovable property	
		Exposures in default	94,088
		Exposures associated with particularly high risk	
		Covered bonds	
		Exposures to institutions and corporates with a short-term credit assessment	
		Shares in collective investment undertakings (CIUs)	
		Equity instruments	1,455,921
		Others	133,303
	Securitisation positions		48,496
		*Of which: re-securitisation	

5.3. GEOGRAPHICAL DISTRIBUTION OF EXPOSURES

The detail of the Consolidated Group's risk-weighted exposures to credit risk as at 31 December 2020, broken down by geographical area, is shown below:

Geographical Area	Exposure amount *(Thousands of Euros)*
	2020
Spain	11,844,679
Other countries of the European Union	388,580
Latin America	490,527
United States	99,087
Rest of Europe (non-EU)	11
Rest of the world	306,456
Exposure as at 31 December 2020	**13,129,340**

5.4. RESIDUAL MATURITY OF EXPOSURES

The distribution by residual maturity of the Consolidated Group's risk-weighted exposure to credit risk as at 31 December 2020, using the standard method for calculating own funds requirements, is presented below:

Risk category	Residual maturity as at 31 December 2020 (*Thousands of euros*)						
	Up to 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
							2020
A) Central governments and central banks	34,980	20,920	30,220	28,022	35,099	110,981	260,222
B) Regional administrations and local authorities	-	-	-	-	-	-	
C) Public sector entities	328,991	196,754	284,225	263,554	330,117	1,043,800	2,447,441
D) Multilateral development banks	28,801	17,225	24,882	23,072	28,899	91,378	214,257
E) International organisations							
F) Entities	419,237	250,727	362,192	335,850	420,672	1,330,128	3,118,806
G) Companies	710,217	424,748	613,578	568,954	712,648	2,253,329	5,283,474
H) Retailers	3,066	1,833	2,648	2,456	3,076	9,727	22,806
I) Exposures secured by immovable property							
J) Exposures in default	12,340	7,380	10,661	9,886	12,383	39,153	91,803
K) High risk exposures.							
L) Covered bonds.							
M) Short-term exposures to institutions and companies							
N) IIC Exposures							
Ñ) Equity Instruments						1,463,710	1,463,710
O) Other exposures	17,452	10,437	15,077	13,981	17,512	55,370	129,829
P) Securitisations	13,038	7,797	11,264	10,445	13,083	41,365	96,992
Exposure as at 31 December 2020	1,568,122	937,821	1,354,748	1,256,219	1,573,488	6,438,942	13,129,340

5.5. DISTRIBUTION BY COUNTERPARTIES AND GEOGRAPHICAL AREA OF EXPOSURES IN DEFAULT

Exposures in default by counterparty

The following table presents the value of original exposures for default risk (impaired and in default) as at 31 December 2020, before adjustments and provisions, broken down by type of counterparty, together with the amount of impairment losses and provisions for contingent risks and commitments established in relation to those exposures at that date and the amount of impairment losses and provisions for contingent risks and commitments recognised, on a net basis, during the 2020 financial

year (standard method for determining own funds requirements for credit risk):

Counterparty	Total impaired exposures	Of which: Exposures in default	Impairment losses and provisions for contingent risks and commitments	Provisions for impairment losses and contingent risks and commitments for the year (net)
			2020	*(Thousands of Euros)*
A) Central Governments and Central Banks				
B) Regional Administrations and Local Authorities				
C) Public sector entities				
D) Multilateral Development Banks				
E) International organisations				
F) Credit institutions and Investment Services companies				
G) Companies	473,468	105,360	423,634	-10,184
H) Retailers				
I) Exposures secured by mortgages on immovable property				
J) High risk exposures				
K) Covered bonds				
L) Short-term exposures to Institutions and Companies				
M) Exposures to Collective Investment Institutions				
N) Equity Instruments				
Ñ) Other exposures				
Amounts as at 31 December 2020	473,468	105,360	423,634	-10,184

Exposures in default by geographical area

Find below the detail, by significant geographical area, of the value of original impaired exposures and of those in default as at 31 December 2020, together with the amount of impairment losses and the provisions for contingent risks and commitments established in relation to these exposures:

Geographical Area			*(Thousands of Euros)*
	Total impaired exposures	Of which: Exposures in default	Impairment losses and provisions for contingent risks and commitments
			2020
Spain	324,360	64,551	300,600
Other countries of the European Union	134,795	31,606	109,830
Latin America	9,875	9,203	9,876
United States			
Rest of Europe (non-EU)	4,438		3,328
Rest of the world			
Amount as at 31 December 2020	473,468	105,360	423,634

5.6. VARIATIONS OCCURRING DURING THE YEAR IN IMPAIRMENT LOSSES AND PROVISIONS FOR CONTINGENT RISKS AND COMMITMENTS FOR CREDIT RISK

The changes in 2020 in the impairment losses due to credit risk accounted for by the Group and in the provisions for contingent risks and commitments due to credit risk are in accordance with Bank of Spain Circular 4/2017, both in the type of losses and provisions constituted and in the methodology applied to calculate them (see section 5.1 above in this report).

The detail of the changes made in 2020 in the value adjustments for impairment of financial assets (including provisions for normal risk under special surveillance) and in the provisions for contingent risks and commitments due to credit risk is shown below:

	Impairment losses on financial assets	Provisions for contingent risks and commitments
		(Thousands of Euros)
Balance as at 01 January 2020	616,174	7,778
Provisions charged to income	51,190	24,416
Recovery with credit to income	-81,980	-3,810
Amounts applied in the year	-4,160	-
Effect of foreign currency exchange differences	290	-529
Changes due to business combinations		
Changes in the scope of consolidation		
First application Circular 4/2017		
Other movements	-	-
Balances as at 31 December 2020	581,514	27,855

In addition, the expenses recognised in the consolidated income statement of the ICO Group in 2020 for items transferred directly to written-off assets are nil, whereas the credit recorded in the consolidated income statement for the year for the recovery of assets previously recorded as written-off amounted to 10,734 thousand euros.

5.7. INFORMATION ON THE GROUP'S COUNTERPARTY CREDIT RISK

Counterparty credit risk is considered to be the credit risk incurred by the Group in the operations it carries out with derivative financial instruments and in the operations with repurchase commitments, securities or commodities lending commitments, in deferred settlement operations and guarantee financing operations.

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

A methodology for the consumption of counterparty lines based on the valuation of operations at market prices plus a potential future risk or "add-on" has been defined for derivatives and has been approved by ICO's competent bodies, which is measured as a percentage of the nominal value of the transaction and is calculated as the maximum potential loss (95% confidence) over the life of the operation. The methodology is reviewed periodically (at least once a year) and the add-ons are adjusted at least semi-annually.

The basic criteria for establishing the counterparty lines are approved by the ICO General Council. These counterparty lines are divided into two main groups as a result of ICO's operational characteristics. On the one hand, the counterparty lines for treasury operations. On the other hand, the counterparty lines for mediation operations, operations in which ICO finances different investment projects through framework programmes signed with different entities operating in Spain, such as, for example, the SME Lines.

In order to mitigate exposure to counterparty risk, the Group signs ISDA and CMOF contracts with the counterparties and, where appropriate, the corresponding collateral annexes.

With respect to the management of collaterals, in the case of derivatives, for entities subject to collateral agreements, the position is periodically valued (normally on a day-to-day basis) and the parameters agreed in the collateral agreement are applied to this valuation, so that a collateral amount (cash) to be received or returned from the counterparty is obtained.

These amounts ("margin calls") are made on a weekly basis. The counterparty that receives the collateral payment request reviews the valuation, and discrepancies may arise in this process. If these discrepancies are material, they are analysed in detail.

The ICO's collateral signed with counterparties can be either "one way" or "two way", where the collateral can be deposited either by the counterparty or by the ICO.

As 100% of collaterals received are in cash, value corrections for collateral impairment are not applicable.

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

Find below the detail of the Group's credit exposure to counterparty risk due to its operation in derivatives as at 31 December 2020, along with its valuation method at market prices, estimated as the amount of the Group's credit exposure for these financial instruments, net of the guarantees received from the counterparties of the transactions:

	Amount (Thousands of Euros)
	2020
Exposure value: method of valuation at market prices	211,662
Less: Effect of guarantees received	-1,814
Credit exposure in derivatives after guarantees as at 31 December 2020	209,848

The value of the exposure has been calculated according to the method of valuation at market prices (Part 3, Title II, Chapter 6 of the Solvency Regulation).

6. CREDIT RISK: CREDIT RATINGS

6.1. IDENTIFICATION OF INTERNAL RATING AGENCIES USED

For all categories of credit risk exposure to which the standard method is being applied, the external and export credit rating agencies whose ratings are being used by the Group as at 31 December 2020 are as follows (ECAIs recognised by the Bank of Spain):

- Moody´s
- Standard & Poor´s
- Fitch Ratings
- D.B.R.S.

6.2. DESCRIPTION OF THE PROCESS OF ASSIGNING EXTERNAL CREDIT RATINGS FOR THE DETERMINATION OF CREDIT RISK WEIGHTED EXPOSURES

The allocation rules defined in the Solvency Regulation apply:

- When, for a rated exposure, only one credit rating is available, this rating will be used to determine the risk weighting.
- When, for a rated exposure, two credit ratings are available and these ratings correspond to two different risk weightings, the highest risk weighting shall be applied to the exposure.

When, for a rated exposure, more than two credit ratings are available, the two credit ratings that provide the lowest weightings are used. In the event that they do not match, the higher of the two will be applied.

7. CREDIT RISK: CREDIT RISK MITIGATION TECHNIQUES

7.1 GENERAL INFORMATION FOR CREDIT RISK

The Group generally applies the credit risk mitigation techniques referred to in the Solvency Regulation (Part 3, Title II, Chapter 4), depending on the guarantees received on the risk positions.

These guarantees may be personal (including credit derivatives) or collateral (including those of a financial nature), being valued for these purposes by the credit enhancement incorporated in the external rating of the guarantor (personal guarantees) or by market parameters in the case of collaterals.

7.2. POLICIES AND PROCESSES FOR POSITION NETTING AND VALUATION OF COLLATERAL FOR COUNTERPARTY RISK

Netting refers to the possibility of offsetting between contracts of the same type under the umbrella of a framework agreement such as ISDA or similar. It consists of offsetting the positive and negative market values of derivative transactions executed with a given counterparty, so that in the event of default, a single flow to be paid or received is generated and not a set of positive or negative values corresponding to each transaction. In this way, and given that one of the components of counterparty risk is the market value, obtaining a net market value of the transactions reduces the risk.

An important aspect of framework contracts is that they involve a single legal obligation encompassing all the transactions covered by them; this makes it possible to offset the risks of all the transactions covered by the framework contract with the same counterparty.

The netting clauses are included independently of the possibility of their direct execution, in order to be able to apply the different applicable laws, so that the inclusion of these agreements does not imply the automatic consideration of netting for the calculation of the exposure to counterparty risk with the different counterparties. These exposures are calculated in accordance with the regulations applicable in each of the jurisdictions involved.

With regard to collateral, the Group enters into collateral agreements for the management of its counterparty risk exposures. These agreements involve a set of instruments, in the form of cash deposits, deposited by one counterparty in favour of another in order to guarantee/reduce the counterparty credit risk that may exist, resulting from the portfolios of transactions with risk existing between them.

The nature of such agreements is diverse and the ultimate objective, as in the netting technique, is to reduce counterparty risk by recovering part or all of the benefits (credit granted to the counterparty) generated at one point in time by the transaction (valued at market prices).

7.3. QUANTITATIVE INFORMATION

The following detail shows the distribution of the Group's credit risk exposure as at 31 December 2020, broken down according to whether or not credit risk mitigation techniques have been applied and, where applicable, according to the mitigation technique applied (exposure data refer to exposures prior to the application of risk mitigation):

EXPOSURE VALUE	*(Thousands of Euros)*
	2020
A) Exposures to which no credit risk mitigation technique is applied	37,709,691
B) Exposures to which a credit risk mitigation technique is applied	846,504
- Netting agreements for balance sheet transactions	-
- Netting framework agreements relating to repurchase agreements, securities or commodities lending or other capital market transactions	-
- Collateral (1)	
- Other collateral (2)	
- Personal guarantees	846,504
- Credit derivatives	-

(1) It includes transactions guaranteed by means of debt securities, shares, collection rights and rights in rem in immovable property admitted by the Solvency Regulation as a credit risk mitigation technique.

(2) It includes cash deposits, deposit certificates and similar instruments held by third parties other than the Group pledged in favour of Group entities, life insurance policies pledged in favour of Group entities issued by insurance entities recognised as protection providers and by debt securities issued by other institutions not included in number (1) above that would receive a maximum weighting of 50%, which must be repurchased at a predetermined price by the issuing institutions at the request of the security holder.

The exposures to which risk reduction techniques are applied, classified by risk category, are the following:

Risk category	Hedged with other collateral	Hedged with personal guarantees	TOTAL
			Thousands of euros 2020
Central governments and central banks			
Regional administrations and local authorities			
Public sector entities		330,233	330,233
Multilateral Development Banks			
International organisations			
Entities			
Companies		441,225	441,225
Retailers			
High risk exposures			
Covered bonds			
Short-term Exposures Institutions and Companies			
Exposures in default		16,093	16,093
CIIs Exposures			
Equity instruments		58,953	58,953
Other exposures			
TOTAL EXPOSURES	-	846,504	846,504

7.4. EFFECT ON RISK EXPOSURES OF THE APPLICATION OF RISK MITIGATION TECHNIQUES AND EXPOSURES DEDUCTED DIRECTLY FROM OWN FUNDS

Below is a detail of the Group's credit risk exposures as at 31 December 2020 to which the standard method has been applied for their estimation, before and after applying the risk mitigation techniques allowed by the Solvency Regulation, broken down by exposure categories and by degrees of credit quality (measured as a function of the percentage applied for the purpose of calculating the value of the risk-weighted exposure):

Risk category	Positions before applying risk mitigation techniques	Positions after applying risk mitigation techniques
		(thousands of euros)
		2020
Central governments and central banks	13,584,804	14,431,308
Regional administrations and local authorities	871,983	871,983
Public sector entities	2,955,008	2,624,774
Multilateral Development Banks	549,790	549,790
International organisations		
Entities	12,704,350	12,704,350
Companies	6,964,185	6,522,961
Retailers	35,954	35,954
High risk exposures		
Covered bonds		
Short-term exposures to Institutions and Companies		
Exposures in default	107,896	91,803
CIIs Exposures		
Equity instruments	652,386	593,433
Other exposures	129,839	129,839
TOTAL EXPOSURES	38,556,195	38,556,195

Risk weightings	Positions before applying risk mitigation techniques	Positions after applying risk mitigation techniques
		(thousands of euros)
Weighting 0%	14,198,547	15,045,051
Weighting 10%		
Weighting 20%	11,684,292	11,684,292
Weighting 35%		
Weighting 50%	1,254,812	1,254,812
Weighting 75%	35,954	35,954
Weighting 100%	10,651,332	9,923,281
Weighting 150%	92,121	32,621
Weighting 250%	639,137	580,184
TOTAL EXPOSURES	38,556,195	38,556,195

As at 31 December 2020 there were certain elements deducted directly from own funds. These are significant shareholdings in Financial Sector Entities, for the part that exceeds 10% of eligible own funds, in accordance with the provisions of Section 3 of Chapter 2 of Title I of Regulation EU 575/2013.

8. SECURITISATION TRANSACTIONS

8.1. GENERAL INFORMATION ON SECURITISATION ACTIVITY

As at 31 December 2020 the Institute has several securitisation positions in its balance sheet ((Part 3, Title II, Chapter V of the Solvency Regulation). All exposures are as an investor, through holding financial assets at amortised cost in the most protected tranches of the investee structures.

8.2. EXPOSURES IN SECURITISATION TRANSACTIONS AND AMOUNT OF SECURITISED ASSETS

As at 31 December 2020, the Group holds positions in securitisation transactions to which the Group applies, for the purposes of calculating its own funds requirements for credit risk, the treatment set out in Section Four of Chapter Four of the Circular on Solvency.

Type of exposure	Exposure net of adjustments	Risk-weighted exposure
		Thousands of euros 2020
STS exposures	297,371	73,360
Other exposures	157,546	23,632
TOTAL EXPOSURES	454,917	96,992

9. MARKET INFORMATION REQUIREMENTS: INFORMATION ON REMUNERATIONS

ICO is a Corporate State-owned Entity and, consequently, is subject to Royal Decree 451/2012, of 5 March, which regulates the remuneration system for senior managers and directors of the public business sector and other entities. It is also subject to the approval of the CIR Executive Committee (Interministerial Remuneration Committee) regarding the determination of remuneration for personnel not covered by the Entity's agreement. As a result of the foregoing, the remuneration of ICO executives is limited by the aforementioned rules, which prevents the competent bodies from approving different remuneration measures.

Pursuant to the 8th additional provision of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Title I of said Law will not apply to the Instituto de Crédito Oficial, which includes the rules of Corporate Government and the remuneration policy.

10. INFORMATION ON SHARES AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

Note 2.1 to the Group's consolidated report for 2020 includes a description of the portfolios in which the Group's investments and equity instruments are classified, together with the accounting policies for recognition and measurement applied to each of them. The Note also indicates the models and assumptions used to determine the value of the instruments included in each portfolio. During the 2020 financial year there were no changes that significantly affect the practices and assumptions used by the Group in the valuation of its investments and equity instruments.

The Group has investments and equity instruments with different objectives. In this sense, it has investments in entities in which it intervenes to a greater or lesser extent in their management and decision-making processes, with which it pursues the attainment of objectives that form part of the strategy and objectives of the Group as a whole and/or in which there is an intention to maintain a permanent relationship with its shareholders ("strategic investments"). It also has investments in other entities with different objectives, basically consisting of maximising the results obtained through their management, in coordination with the Group's risk management objectives and strategies ("portfolios valued at fair value through other comprehensive income").

Investments and equity instruments owned by the Group for strategic purposes are generally classified for accounting purposes in the category of Group companies, associates and jointly controlled entities, whereas investments held with a view to sale and which do not form part of the trading portfolio are classified in the category of financial assets at fair value with changes in other comprehensive income.

Annex I to the 2020 consolidated financial statements includes a detailed description of the investments of the ICO Group, with information on the investees, the book value of these investments and their fair value.

Note 9 to the Group's consolidated financial statements for 2020 includes an indication of the types, nature and amounts of exposures in investments and equity instruments measured at fair value with changes in other comprehensive income.

The unrealised gains or losses recognised in equity during the period are included in notes 9 and 21 to the Group's consolidated financial statements for 2020.

Actual gains or losses recognised in income during the year as a result of the sale or settlement of equity instruments not included in the trading portfolio are disclosed in note 29 to the Group's consolidated financial statements for 2020.

11. INTEREST RATE RISK. MARKET RISK

Interest rate risk is the risk to which the Group is exposed in its activity because it has asset and liability transactions with different interest rates (fixed and variable interest rates or referenced to different indices) and with different maturities, so that changes in the reference interest rates of these transactions upwards or downwards may have asymmetrical effects on its assets and liabilities with an effect on the Group's income statement and equity.

Interest rate risk is managed by the Group in an integrated manner for all Group entities with significant positions exposed to this risk. The Group's measurement and analysis of this risk is performed considering the following aspects and in accordance with the following premises:

Risk measurement and analysis is performed on a permanent basis.

The effects that variations in interest rates in the different currencies in which significant exposures are held could have on the Group's income and on the various margins in the profit and loss account are analysed.

The analyses include all positions that are sensitive to interest rate risk, including both implicit and explicit interest rate derivatives.

As a measure of risk, an analysis is made of the effects/deviations that the intermediation margin and the net asset value can adopt, on the value of the central scenario calculated from the base curve and, by means of value simulation, now calculated from variations on the base curve of +/-200 b.p. with a floor at 0% in each relevant currency.

Separate interest rate risk measurements are performed for each of the positions held in each currency, as well as aggregated interest rate measurements for all of them.

On the basis of the foregoing analyses, the Group adopts the necessary measures to guarantee optimum management of this risk.

Note 5.4 of the notes to the Group's financial statements for 2020 includes information on market risk management.

12. CAPITAL BUFFERS

As at 31 December 2020, the Bank of Spain had not made it compulsory for ICO to comply with the requirement to have an anti-cyclical capital buffer, in accordance with Title VII, Chapter 4, of Directive 36/2013/EU.

Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and EU Regulation 575/2013, regulates, in chapter 3, capital buffers as from its entry into force (February 2016). In this sense:

- A common capital buffer of 2.5% is established, which the Institute complies with as at 31 December 2020;
- An anti-cyclical capital buffer is established in accordance with the requirements established for this purpose. For 2020, the quarterly percentage established for this buffer by the Bank of Spain is 0% for credit exposures in Spain;

- The Institute is not subject to the buffers for entities of global systemic importance or for other entities of systemic importance;

- No systemic risk buffer has been established by the Bank of Spain.

13. INFORMATION ON UNENCUMBERED ASSETS

Below is information on the Group's unencumbered and encumbered assets as at 31 December 2020 (Recommendation JERS/2012/2):

	Carrying amount of Unencumbered Assets			Fair Value of Unencumbered Assets	
		Of which: issued by other entities in the group	Of which: eligible by central banks		Of which: eligible by central banks
					2020 Thousands of euros
Assets of the Reporting Entity	28,834,762				
Call Loans	2,729,620				
Equity instruments	905,636			905,636	
Debt securities	6,024,742			6,024,742	
of which: Covered bonds					
of which: Asset-backed securities					
of which: issued by Public Administrations	5,371,546			5,371,546	
of which: issued by financial corporations	375,826			375,826	
of which: issued by non-financial corporations	277,370			277,370	
Loans and advances other than call loans	18,460,198				
of which: mortgage loans	308,789				
Other Assets	714,567				

	Carrying amount of Encumbered Assets			Fair Value of Encumbered Assets	
		Of which: issued by other entities in the group	Of which: eligible by central banks		Of which: eligible by central banks
					2020 *Thousands of euros*
Assets of the Reporting Entity	5,572,122				
Call Loans					
Equity instruments					
Debt securities	2,036,115			2,036,115	
of which: Covered bonds					
of which: Asset-backed securities					
of which: issued by Public Administrations	1,613,875			1,613,875	
of which: issued by financial corporations	158,240			158,240	
of which: issued by non-financial corporations	264,000			264,000	
Loans and advances other than call loans	3,536,007				
of which: mortgage loans					
Other Assets					

	Sources of charges		
	Financial liabilities	Of which: reused warranties	Of which: own debt securities
			2020 *Thousands of euros*
Selected financial liabilities	5,572,122		
Derivatives			
Deposits	5,572,122		
of which: repurchase agreements	828,579		
of which: guaranteed deposits realised with Central Banks	4,743,543		
Other sources of charges			

14. INFORMATION ON LEVERAGE

Below is information on the Group's leverage ratio as at 31 December 2020:

Exposure corresponding to the leverage ratio	*(Thousands of Euros)*
Exposure values	
Derivatives: current replacement cost	515,577
Derivatives: addition using the valuation method at market prices	168,612
Off-balance-sheet items conversion factor 10%	
Off-balance-sheet items conversion factor 20%	
Off-balance-sheet items conversion factor 50%	4,479,804
Off-balance-sheet items conversion factor 100%	402,336
Other assets	34,255,973
Assets deducted from Tier 1 capital (according to the definition to be applied upon completion of the phasing-in process)	-203,211
Assets deducted from Tier 1 capital (according to the transitory definition)	-203,211
TOTAL LEVERAGE RATIO EXPOSURE (according to the definition to be applied upon completion of the phasing-in process)	39,619,092
TOTAL LEVERAGE RATIO EXPOSURE (according to the transitory definition)	39,619,092
Capital	
Tier 1 capital (according to the definition to be applied upon completion of the phasing-in process)	5,024,167
Tier 1 capital (according to the transitory definition)	5,024,167
Leverage ratio	
Leverage ratio (according to the definition to be applied upon completion of the phasing-in process)	12.68%
Leverage ratio (according to the transitory definition)	12.68%

The detail of the exposure values considered is as follows:

	Leverage ratio exposure according to the standard method	Risk-weighted assets: exposure standard method
Exposures treated as exposures to central governments	**14,529,122**	**2,647,346**
Central Administrations and Central Banks	11,606,886	258,945
Regional administrations and local authorities treated as central governments		
Multilateral development banks and international organisations treated as central governments		
Public Sector Entities treated as central governments	2,922,235	2,388,401
Exposures to regional governments, multilateral development banks, international organisations and public sector bodies not treated as central governments	**1,175,019**	**160,819**
Regional administrations and local authorities NOT treated as central governments	853,292	0
Multilateral development banks NOT treated as central governments	321,727	160,819
Public Sector Entities NOT treated as central governments		
Entities	**11,534,646**	**2,783,536**
Secured by mortgages on immovable property, of which		
Secured by mortgages on residential property		
Retail exposures	**36,558**	**22,685**
Of which: Retail exposures to SMEs	22,951	12,513
Companies	**5,594,180**	**4,421,286**
Financial		
Non-financial	5,594,180	4,421,286
Exposures to SMEs	545,921	442,298
Exposures to non-SME companies	5,048,259	3,978,988
Exposures in default	**531,530**	**91,803**
Other exposures (e.g. equities and other assets other than credit obligations), of which:	**854,919**	**1,593,529**
Securitisation exposures	-	-
Trade finance (memo item), of which:	**-**	**-**
In the framework of an official export credit insurance scheme		

The leverage ratio as at 31 December 2020 was 12.68%. Management is informed on a monthly basis of the leverage ratio and its evolution.

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