

ANNUAL REPORT

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| BALANCE SHEET^(a) | 2012 | 2011 |
|--|-------------|-------------|
| Total assets | 115,230 | 94,577 |
| Loans and receivables | 88,752 | 77,885 |
| Second-floor loans | 44,104 | 47,842 |
| Direct loans to clients | 44,648 | 30,042 |
| Market resources | 105,967 | 82,448 |
| Net assets (includes results for the year) | 4,139 | 3,686 |
| INCOME STATEMENT^(a) | | |
| Net Interest Income | 760 | 434 |
| Gross margin | 801 | 472 |
| Margin on operating activities | 85 | 57 |
| Pre-tax profits | 84 | 55 |
| Net Profit | 60 | 40 |
| RATIOS^(b) | | |
| ROE | 1.40 | 1.09 |
| ROA | 0.08 | 0.07 |
| Solvency ratio | 14.46 | 12.31 |
| Conversion Expenditure / Ordinary Gross Income | 3.80 | 7.46 |
| HUMAN RESOURCES | | |
| Number of employees | 313 | 320 |
| Men | 118 | 126 |
| Women | 195 | 194 |

(a) Millions of euros

(b) Percentages

LETTER FROM THE CHAIRMAN

In 2012 the Spanish economy underwent one of its most complex years since the crisis began. Renewed stress in the sovereign debt markets between April and July last year caused the financing costs for the state to reach exceedingly high levels, in effect closing the wholesale financing markets to banks and Spanish companies. This situation resulted in a further tightening of credit conditions, contributing to the acceleration of the deleveraging process of our economy. Although the decisive intervention of the European Central Bank (ECB) last summer managed to stabilise the situation by eliminating the so-called 'redenomination risk', the deterioration in expectations extended to all the Eurozone countries, negatively affecting business and consumer confidence in the latter part of the year in the core of the Eurozone.

However, 2012 was also a year of major reforms at both a national and European level. In Spain, the government adopted several measures, including structural reforms of the labour market, the financial system and the Public Administrations, which are already helping to improve our economy's growth potential and competitive position. In the European Union, not only has a political commitment been reached but also a roadmap has been drawn for the creation of a banking union to strengthen the institutional design of European monetary union. The decision to give the ECB responsibility for banking supervision of the major banks in the Eurozone is a step of the utmost importance giving credibility to the path taken.

In the aforementioned context of a severe credit crunch and weak solvent demand for credit, ICO remained active in the Spanish financial system, offering a counter-cyclical response to financing needs as well as seeking to revive the flow of credit. This presence in the system resulted in an increase in the balance sheet of 22% over the previous year, reaching €115,230 million in December 2012, which represents more than 3% of the total assets of the credit institutions in Spain and places the Instituto de Crédito Oficial (ICO) as the seventh largest bank by balance sheet size.

ICO activity aims to provide Spanish companies with a framework of adequate financing to enable them to undertake their productive activity. In this regard, last year 162,167 loan operations were formalised amounting to €27,309 million, up 31% on 2011. To be able to undertake these operations, ICO went to the capital markets and carried out medium- and long-term financing operations, amounting to €21,055 million, making it one of the largest bond issuers in the country.

42% of the loans (€11,511 million) were carried out through so-called "second-floor facilities", which are articulated with credit institutions and aim to finance investment projects or the liquidity needs of Spanish companies. A second-floor facility is a form of co-operation that since its inception more than 20 years ago, has become established as one of the most efficient systems for the distribution of ICO financing. Indeed, the volume of second-floor facility loans granted by ICO in Spain in 2012 was higher than the total volume of SME loans granted by the European Investment Bank (EIB) last year in Europe as a whole.



Román Escolano

On the other hand, in 2012 the Supplier Payment Plan was launched, which permitted the payment of more than 5 million invoices to over 135,000 suppliers of the 14 Autonomous Regions and nearly 4,000 Local Councils, with a total volume of €27,372 million (2.6% of GDP) in liquidity injected directly into the real economy between the months of May and June. ICO has played a major role in the design, creation and management of this scheme, not only by contributing 23.3% (€6,387 million) of the financing for the Fund for the Financing of Payments to Suppliers (FFPP) but also by acting as an agent for completing these payments. According to theoretical studies, the multiplier effect of this liquidity injection, of up to 1 point of GDP in the following twelve months, would have helped cushion the decline in overall economic activity in the second half of 2012 and the first half of 2013.

In this sense, the total activity managed by ICO grew to €131,600 million in 2012, 60% up on the previous year. This amount includes not only the stock of loans and guarantees contained in the Institute's financial statements at the end of last year (€90,680 million) but also the funds of which management has been transferred to ICO, in its capacity as the State Financial Agency, by the Government. Among such funds would be the FFPP (€27,372 million), the Autonomous Region Liquidity Fund (FLA) (€16,656 million) and various foreign sector support instruments, such as the Development Promotion Fund (FONPRODE), the Corporate Internationalisation Fund (FIEM), the Reciprocal Interest Adjustment Contract (CARI) and the Water and Sanitation Co-operation Fund (FCAS).

It is also important to note that the most important growth experienced in 2012 both in terms of both the size of the balance sheet and the activities managed by ICO has not occurred, in any way, at the cost of a deterioration in the main financial ratios. In fact, prudent management of our balance sheet, in line with best market practices has allowed us to improve our solvency ratios (from 12.3% to 14.5%) and efficiency ratios (from 7.5% to 3.8% in the ratio of conversion expenditure over ordinary gross income) while we have maintained our default ratio (3.7%) and coverage of the same (137%) at levels significantly better than those of the financial system as a whole.

The economic situation remains complex, which is why ICO in 2013 will continue to perform its role of supporting Spanish business, giving strong and imaginative responses to their financing needs, encouraging the development of new products and especially promoting the process of foreign reorientation of our production structure, through support for both our exporters and all those companies who want to internationalise their activities.

I would like to conclude this letter by expressing my personal thanks to all ICO employees for their effort, commitment and dedication to press on with this difficult task.

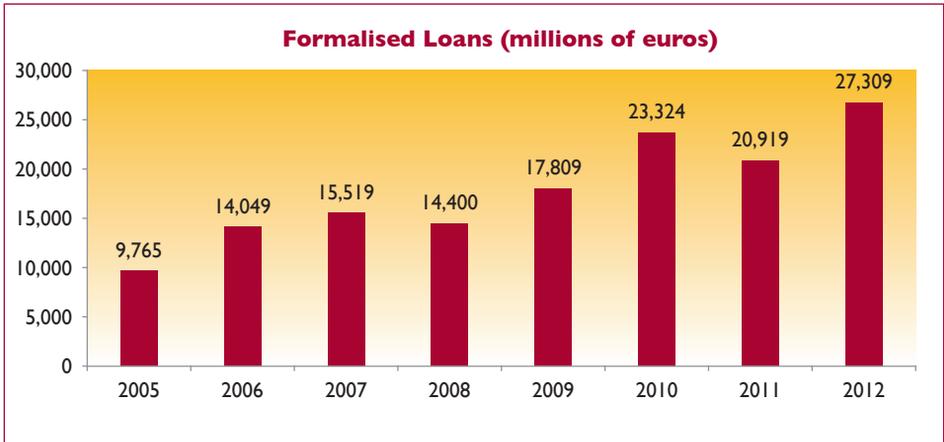


Román Escolano
ICO Chairman

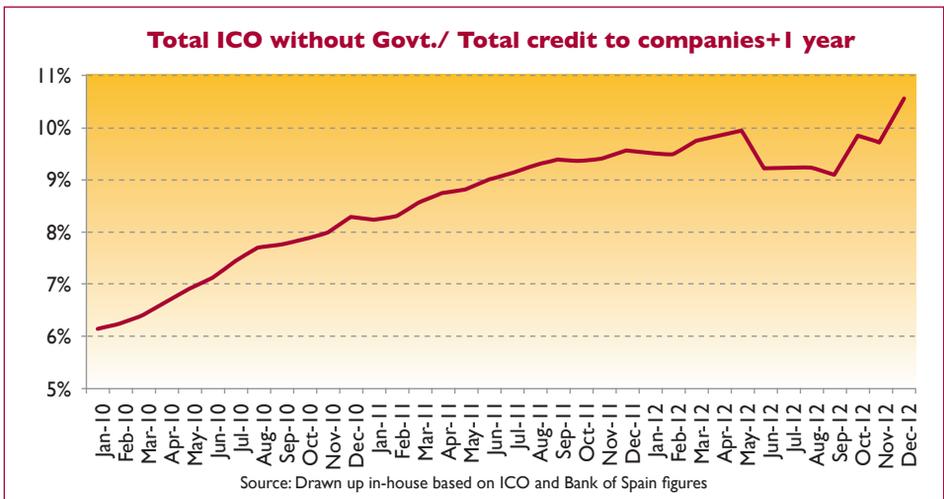
DEVELOPMENT OF THE MAIN FIGURES

Lending activity

Over the 2012 financial year, ICO formalised loans amounting to €27,309 million, which represented an increase of 31% over the previous year.



The Institute's share as a proportion of the total credit in the sector to companies with maturities exceeding one year, without taking into account the loans to Public Administrations, stood at 10.6% at the end of 2012.



DEVELOPMENT OF THE MAIN FIGURES

Through ICO funds distributed through the second-floor facilities in 2012, 162,075 loans were granted to the self-employed and small and medium-sized companies, amounting to €11,511 million.

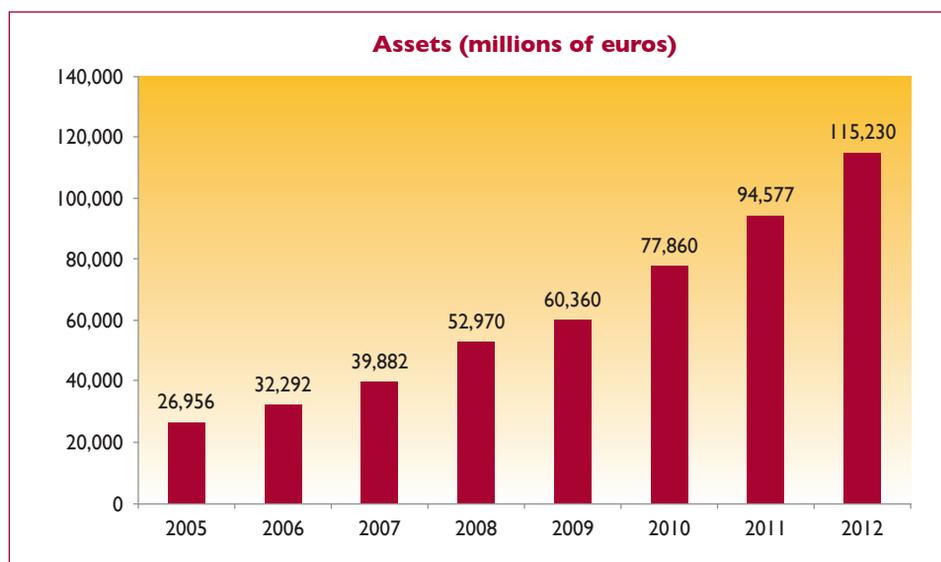
SECOND-FLOOR LOANS FORMALISED IN 2012. DISTRIBUTION BY CREDIT LINE

| CREDIT LINES | AMOUNT (millions of euros) | NUMBER OF TRANSACTIONS |
|---------------------------------|----------------------------|------------------------|
| ICO - Liquidity 2012 | 6,775 | 89,741 |
| ICO - Investment 2012 | 4,175 | 65,728 |
| ICO - Internationalization 2012 | 231 | 462 |
| ICO - Entrepreneurs 2012 | 141 | 4,261 |
| Others | 189 | 1,883 |
| Total | 11,512 | 162,075 |

Balance Sheet and Income Statement

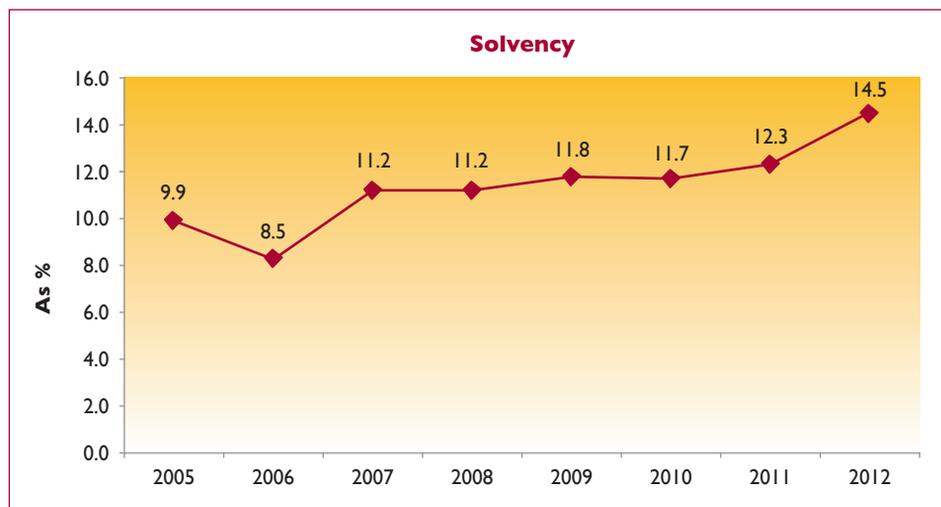
In 2012 ICO's balance sheet was up 22% over the previous year, reaching a total of €115,230 million.

The Institute's assets account for 3.4% of the system overall, ranking it as the seventh Spanish credit institution by assets.



DEVELOPMENT OF THE MAIN FIGURES

The Institute's solvency ratio increased in 2012 and remains well above regulatory minimums.



Net Interest Income earned by ICO in 2012 came to €760 million, up 75% over the previous year. Its gross income, operating margin and profit increased significantly.

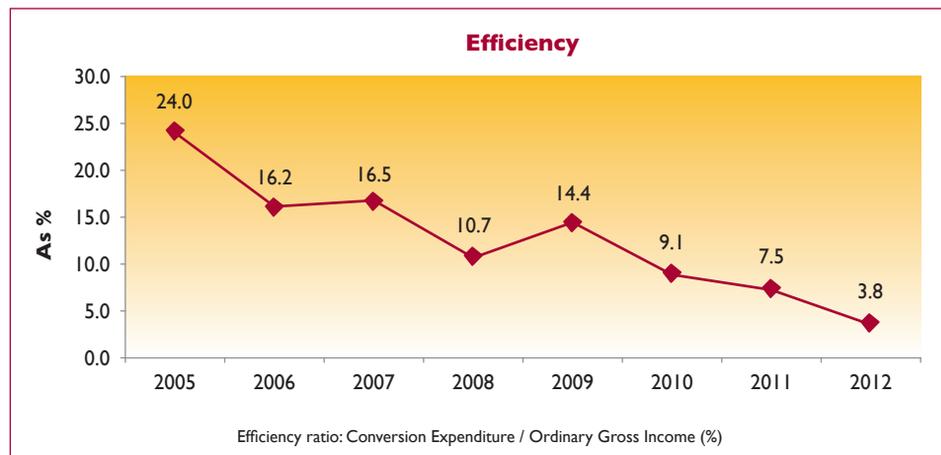
INCOME STATEMENT MARGINS

(millions of euros and percentages)

| | 2012 | 2011 | Variation | |
|-----------------------|------|------|-----------|----|
| | | | Absolute | % |
| Net Interest Income | 760 | 434 | 326 | 75 |
| Gross margin | 801 | 472 | 329 | 70 |
| Operating activities | 85 | 57 | 27 | 48 |
| Pre-tax profits | 84 | 55 | 29 | 52 |
| Profit for the period | 60 | 40 | 20 | 50 |

DEVELOPMENT OF THE MAIN FIGURES

During 2012 general overheads and personnel costs were down 22% and 6%, respectively on the previous year. This, together with the increase in gross margins, has led to the efficiency ratio reaching historically low levels in the institution.



Operations managed by the State

ICO, in addition to performing its functions as institutional lender on its own, also acts as a financial agent, managing certain operations for the State, as instructed by the Government.

OPERATIONS MANAGED BY THE STATE

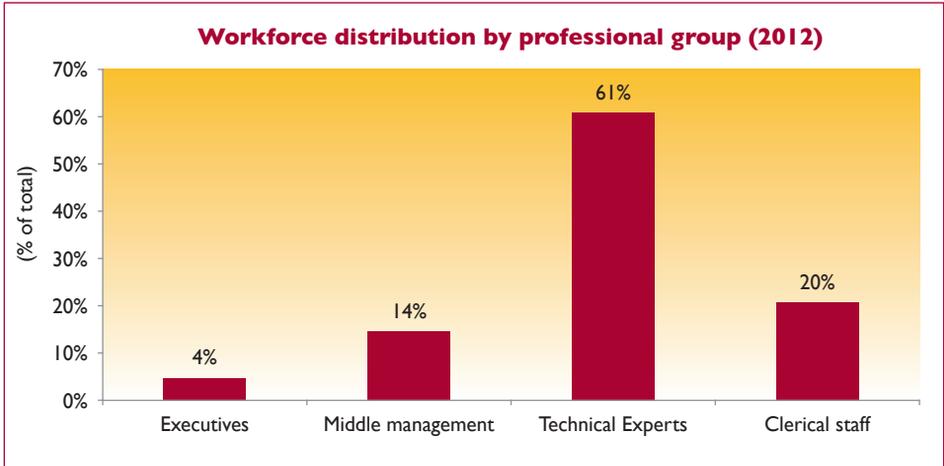
Balances at 31 December

(millions of euros and percentages)

| | 2012 | 2011 | Variation | |
|---|---------------|--------------|---------------|------------|
| | | | Absolute | % |
| Fund for Financing Payments to Suppliers (FFPP) | 27,372 | - | 27,372 | - |
| Regional Liquidity Fund (FLA) | 16,656 | - | 16,656 | - |
| Corporate Internationalisation Fund (FIEM) | 5,168 | 4,539 | 629 | 14 |
| Development Promotion Fund (FONPRODE) | 833 | 814 | 19 | 2 |
| Water and Sanitation Co-operation Fund (FCAS) | 506 | 506 | - | - |
| Reciprocal Interest Adjustment Contract (CARI) | 2,761 | 2,834 | -73 | -3 |
| Total | 53,296 | 8,693 | 44,603 | 513 |

Human Resources

At 31 December 2012, the staff of the Institute consisted of a total of 313 employees. The distribution of professional groups is as follows:



ICO BOARD

On 31 de December 2012

CHAIRMAN:

ROMÁN ESCOLANO ⁽¹⁾

MEMBERS OF THE GENERAL BOARD

ROSA MARÍA SÁNCHEZ-YEBRA ⁽²⁾

CARMEN CÁRDENO ⁽²⁾

FELIPE MARTÍNEZ ⁽²⁾

JAIME IGLESIAS ⁽²⁾

JUAN MIGUEL BÁSCONES ⁽²⁾

MARÍA DEL CORISEO GONZÁLEZ-IZQUIERDO ⁽²⁾

ADOLFO DÍAZ-AMBRONA ⁽²⁾

JAIME PONCE ⁽³⁾

IGNACIO MEZQUITA ⁽⁴⁾

SECRETARY OF THE GENERAL BOARD

IDOYA ARTEAGABEITIA

State Counsel

Assistant Director for Legal Counsel to ICO

EXECUTIVE TEAM

FERNANDO NAVARRETE

Chief Financial Officer

JOSÉ MARÍA GEFAELL

Chief Investment Officer

GERARDO GIMENO

Chief Risk Officer

MARÍA TERESA MOGÍN

Chief Human Resources Officer

1 Appointment by RD 77/2012 of 5 January (BOE 06.01.2012)

2 Board Members since 15.02.2012

3 Board Member since 15.06.2012

4 Board Member since 20.11.2012

CORPORATE SOCIAL RESPONSIBILITY

This year, ICO is once again informing its stakeholders of its economic, social and environmental performance for the previous year, using various communication and transparency channels.

Since 2005, ICO has reported its Social Responsibility performance through its CSR Report and the Communication on Progress of the United Nations Global Compact. These documents complement the economic and activity information which ICO details through its Annual Activity Report. Also, this year ICO has gone further in its commitment to transparency with the creation of its first Corporate Governance Report. To draw up this report, the Institute followed OECD Directives on Corporate Governance of Public Institutions and the Law on Transparency, Access to Public Information and Good Governance. These documents attest to the commitment of ICO, not only to legal requirements, but to best practices in transparency and improving awareness of ICO's activities among our clients, employees and investors.

The main actions taken in 2012 once again include the RSE-pyme Initiative launched in 2009. This is an action designed to promote and establish the principles of social responsibility management among SMEs through training in the values and principles of responsibility, and the development of a computer application which allows companies to manage their CSR indicators.

RSE-pyme is a totally consolidated initiative which has been joined by large companies in 2013 in order to collaborate on the promotion of Corporate Social Responsibility among their stakeholders.

RSE-pyme has been recognised nationally and internationally. At the Rio+20 Conference it won an award as the 4th best CSR initiative in the world among more than 800 candidate projects. At CSR MarketPlace 2012, it took the prizes for best initiative in "Transparency and Good Governance" and "Best SME solution". It was a finalist in the 3rd Corresponsables Awards and recently won the 1st European CSR Award in Spain in the "Transparency towards trust" category. This national and international recognition encourages us to continue with our strategy to promote CSR values among SMEs.

Within the goal of enhancing relations with institutions and organisations regarding CSR, during 2012 we intensified our collaboration and participation in managing CSR associations of which ICO is a member. We also strengthened relations with other organisations which work with underprivileged groups, with whom we are carrying out the actions set out in the Volunteering Plan approved in late 2012. As well as social actions, this plan also incorporates a training programme in which Institute employees will take part, transmitting their knowledge and experience in entrepreneurial programmes for people looking for employment.

ICO and transparency

ICO is committed to providing all its customers with true and accurate information about the characteristics and conditions of its products and services, and to answering rapidly any queries and complaints customers might have. To this end, it has different communication channels which allow information to be accessed easily.

These communication channels can be used by clients receiving lines of funding, and in general, by any person who wants to increase their understanding of the activities and services provided by ICO.

In 2012, the main channels used were: advertising to publicise ICO's lines of funding, printing and distributing leaflets in all the official languages of Spain with information about the characteristics of the funding programmes, the creation of newsletters and monographs to distribute among the different stakeholders of the Institute, and publicising ICO's activities through press releases, the institutional website and the main professional networks.

This transparency policy is complemented at the external level by the boxes for complaints, suggestions and requests for information which the Institute provides for its clients.

In 2012 ICO renewed its Code of Conduct, which details the basic ethical principles that the Institute understands must be applied to ICO activities and business, as well as the professional conduct guidelines for employees, whether in relation to other employees and management staff, or when dealing with customers, suppliers and third parties. The internal regulations regarding conduct in the securities market were also updated.



ICO and its clients

One of the major difficulties that SMEs and the self-employed face when they want to set up or consolidate a business, is access to the necessary funding for embarking on the activity.

ICO, as part of its traditional task of assisting groups of people who have more trouble getting credit, adapts its range of funding offers each year to the needs of society, especially SMEs and the self-employed.

In 2012 the Institute granted 162,075 loans for SMEs and the self-employed, worth 11.51 billion euros.

In 2012 the Fund for Financing Payments to Suppliers (FFPP) was created, a mechanism which injected 27.37 billion euros into the Spanish economy to pay the outstanding bills of Local Governments for services provided by 135,450 suppliers, mostly SMEs and self-employed.



ICO and its employees

ICO has developed and implemented an HR policy based on diversity, non-discrimination and equal opportunities for all employees.

The labour relations of the Institute's employees are based on the application of the company's specific Collective Agreement. 80.5% of the workforce is subject to this Agreement.

On 31 December 2012, the workforce of ICO consisted of 313 employees. 93.9% had permanent contracts. 62.3% of the workforce at ICO are women, and 37.7% are men.

As for professional groups, 81.2% of the workforce consists of technical and administrative personnel; directors and middle management represent 18.8% of total ICO employees.

Professional Development and Training

ICO has an established professional development system which is applied to the entire workforce. It is based on the qualitative assessment of employees' performance and the quantitative evaluation of compliance with the annual targets defined for each operational area. In 2012, 61 employees were promoted to higher salary brackets.

The professional development of ICO employees also depends on a major annual training programme for all staff members, combining specific training for particular job descriptions with more general training that reinforces employees' skills and training for them to be able to take on other activities.



ICO and the environment

ICO's commitment to protecting the environment is expressed in three areas of action: reducing the environmental impact of its business activity; funding environmental investment projects, and analysing the social and environmental impact of its projects.

Even though ICO's corporate activity does not have a significant impact on the environment, the institute is committed to using resources responsibly, trying to minimise any harmful effects its activities may produce.

To reduce its direct consequences on the environment, ICO carries out periodic checks on its electricity and water consumption, the waste it manages and the emissions it generates. By doing so, mechanisms for reducing the above-mentioned are put in place.

ICO has prepared an environmental best practices guide, distributed online to provide a broad overview for all its staff. It aims to create awareness about the environmental impact of ICO activities, both on an institutional level and in terms of the actions of the people that work there.

Through the intranet, different messages are published to raise awareness among employees about the responsible consumption of resources and suitable waste management.

One of the Institute's objectives is to contribute to preserving the environment by promoting recycling and recovery of material that can be reused.

| ECO-EFFICIENCY INDICATORS | UNIT | 2012 | 2011 | Annual variation |
|----------------------------------|-------------|-------------|-------------|-------------------------|
| Electricity consumed | Kwh | 2,046,103.0 | 2,092,103.0 | -2.2% |
| Electricity consumed/employee | Kwh | 5,530.0 | 5,243.4 | 5.5% |
| CO2 emitted | Tonnes | 819.8 | 838.2 | -2.2% |
| CO2 emitted/employee | Kg | 2.2 | 2.1 | 5.7% |
| Total paper consumed | Kg | 11,787.9 | 11,637.5 | 1.3% |
| Paper consumed/employee | Kg | 31.9 | 29.2 | 9.2% |