PILLAR III REPORT

31 DECEMBER 2013

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1. GENERAL INFORMATION REQUIREMENTS

1.1. INTRODUCTION

The purpose of this report is to comply with the market reporting requirements of the Consolidated Instituto de Credito Oficial Group set forth in chapter eleven of Bank of Spain Circular 3/2008, of 22 May, (hereinafter, the "Solvency Circular").

This Circular is the final implementation, for credit institutions, of the legislation on capital and consolidated supervision, set forth under Law 13/1985, of 25 May, on investment ratios, capital and reporting requirements of financial intermediaries and other financial regulations, and in Royal Decree 216/2008, of 15 February, on the capital of financial institutions. This legislation represents the adaptation of Spanish credit institutions to Community Directive 2006/48/EC, of 14 June, relating to the taking up and pursuit of the business of credit institutions and Community Directive 2006/49/EC, of 14 June, on the capital adequacy of investment firms and credit institutions, of the European Parliament and the Council.

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

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

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

Certain information required by current regulations that must be included in this report is submitted, in accordance with these regulations, relating to the ICO Group's consolidated financial statements for 2013, given that this information are contained herein and its repetition herein is redundant. The aforementioned financial statements and this document "Pillar III report" can be consulted on the ICO website (www.ico.es).

1.2. CONSOLIDATED INSTITUTO DE CREDITO OFICIAL GROUP

The information presented in this report corresponds to the consolidated group of credit institutions, the Parent of which is the Instituto de Credito Oficial (hereinafter, the “Group” or “ICO Group”).

Pursuant to applicable accounting legislation, “Subsidiaries” are defined as entities over which the Institute has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Institute control. In accordance with the aforementioned legislation, control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

In this regard, the financial statements of the subsidiaries are consolidated with those of the Institute using the full consolidation method as defined in the regulations. Accordingly, all material balances arising from the transactions between fully consolidated companies are eliminated on consolidation.

Also, the share of third parties of:

- The Group's equity is presented under “Minority interests” in the consolidated balance sheets. At 31 December 2013, there were no minority interests.

- Consolidated profit for the year is presented under “Profit attributable to minority interests” in the consolidated income statement. At 31 December 2013, there was no profit or loss attributable to minority interests.

Alternatively, “associates” are entities over which the Institute is in a position to exercise significant influence, but they do not constitute a single decision-making unit with the Institute and are not under joint control. Significant influence generally exists when the Bank holds, directly or indirectly, 20% or more of the voting power of the investee.

Investments in entities deemed to be “associates” are recognised in the consolidated financial statements under “Investments - Associates” in the consolidated balance sheet and are measured at acquisition cost, net of any impairment losses.

The profit or loss generated by transactions between associates and Group companies is eliminated to the extent of the Group's interest in the associate.

The profit or loss obtained in the year by the associate, after eliminating that referred to above, increases or decreases, as applicable, the value of the ownership interest in the consolidated financial statements. This profit or loss is recognised under “Share of results of entities accounted for using the equity method” in the consolidated income statement.

Changes in the valuation adjustments of the associate, subsequent to the acquisition date, are recognised as an increase or decrease in the value of the ownership interest. These variations are recognised under “Valuation adjustments” in consolidated equity.

There are no “jointly controlled entities” included in the consolidated Group.

The main differences relating to the scope of consolidation and to the different consolidation methods applied between the Consolidated Group of Instituto de Credito Oficial Credit Institutions, for which the information is presented in this report, and the Group of ICO Credit Institutions, defined in accordance with paragraph 3 of Rule 3 of Bank of Spain Circular 4/2004, of 22 December, are summarised as follows:

- In preparing the consolidated financial statements of the Group of ICO Credit Institutions, all subsidiaries were fully consolidated as they meet the requirements to be considered as such as a result of their activities. Consequently, 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 Group of ICO Credit Institutions, the ownership interests in financial institutions that do not meet the requirements to be considered subsidiaries, jointly controlled entities or associates, are considered financial instruments and are measured in accordance with the criteria set forth in Rule 22 of Bank of Spain Circular 4/2004, of 22 December.

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

In accordance with the aforementioned criteria, the Consolidated Group's subsidiaries that were fully consolidated at 31 December 2013 for the purposes of preparing the Group's consolidated information are listed as follows:

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

Appendix I of the Institute's consolidated financial statements provides relevant information on the associates included in the Group.

1.3 OTHER GENERAL INFORMATION

At 31 December 2013, there was no material, practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the Group's subsidiaries and the Instituto de Credito Oficial, and no event has taken place to suggest that such impediments may exist in the future.

At 31 December 2013, there were no entities belonging to the economic Group and not included in the consolidated Group that were subject to minimum capital requirements individually, in accordance with the different regulations applicable thereto.

At 31 December 2013, the ownership interest in AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.C.R. included in the Consolidated Group is not obliged to calculate its capital requirements individually as it is included in the ICO consolidated group, which is in fact subject to such requirements.

2. RISK MANAGEMENT POLICIES AND OBJECTIVES

The information on the risk management policies and objectives to be provided to the market as required by the Solvency Circular, can be found in Note 5 (Risk Exposure) of the Instituto de Credito Oficial Group's consolidated financial statements for 2013, published on the ICO website. (www.ico.es)

3. INFORMATION ON ELIGIBLE CAPITAL

3.1 SUMMARY OF THE MAIN CHARACTERISTICS AND CONDITIONS OF THE COMPONENTS CLASSIFIED AS CORE CAPITAL, TIER 2 CAPITAL AND AUXILIARY CAPITAL

For the purposes of calculating its minimum capital requirements, the Group considers core capital to be the components defined as such in Rule 11 of the Solvency Circular, taking into account their corresponding deductions.

Core capital is characterised by the fact that the capital can be used immediately and without restriction for hedging risks or covering any losses incurred, the amount of which is reported free of all foreseeable taxes at the time of calculation. This capital demonstrates stability and permanence over time, and is initially greater than that of tier 2 capital, which is described below. As indicated in section 3.2 below, at 31 December 2013, the Group's core capital is largely made up of the Institute's equity and cash and express reserves.

Accordingly, tier 2 capital is that defined in Rule 11 of the Solvency Circular, with the limits and deductions established therein. This capital, although compliant with the definition of capital established in current legislation, is characterised by initially being volatile in nature or less permanent than the components considered as core capital.

As seen in the breakdown in section 3.2 below, at 31 December 2013, the Group's tier 2 capital was mainly made up of corrections to valuation adjustments on core capital, asset revaluation reserves and the general provisions related to risk exposures (standardised approach).

Similarly, the Group's auxiliary capital is considered to be that defined in paragraph 1.e) and paragraph 2.b) of Rule 11 of the Solvency Circular. Auxiliary capital is only considered as such for the purposes of hedging price and exchange rate risk.

All the items which, pursuant to the provisions set forth in the Solvency Circular, form part of the ICO Group's eligible capital are standardised in terms of their definition and characteristics, such that it is not necessary to describe their content individually.

3.2 TOTAL CAPITAL

The Consolidated Group's eligible capital at 31 December 2013, broken down into core capital, tier 2 capital and auxiliary capital, indicating each of its components and deductions, is detailed below:

	DESCRIPTION	Amount
		Thousands of Euros
1. COMPONENTS CLASSIFIED AS CORE CAPITAL (I)		4 422 985
1.1	Eligible capital:	3 609 855
	1.1.1 Endowment fund	3 609 855
	1.1.2 Other instruments eligible as capital	
1.2	Eligible reserves:	820 084
	1.2.1 Reserves	822 644
	Of which: for exchange differences	
	1.2.2 Minority interests	
	1.2.3 Eligible profit for the year	
	1.2.4a (Unaudited losses for the year)	
	1.2.4b Profit for the year to be applied to reserves or current losses for the year	
	1.2.5 (Net profits generated by applying future income from securitised assets)	
	1.2.6 Valuation adjustments eligible as core capital	(2 560)
1.3	Other core capital pursuant to Spanish legislation	
1.4	(Other deductions from core capital):	(6 954)
	1.4.1 (Intangible assets)	(6 954)
	1.4.2 (Excess over the limits for non-innovative instruments)	
	1.4.3 (Excess over the limits for innovative instruments)	
	1.4.4 (Other deductions from core capital)	
2. COMPONENTS CLASSIFIED AS TIER 2 CAPITAL (II)		307 254
2.1	Upper Tier 2 capital:	
	2.1.1 Excess over the limits for core capital transferred to upper Tier 2 capital	
	2.1.2. Corrections made to valuation adjustments on core capital transferred to upper Tier 2 capital	
	2.1.3. Revaluation reserves, restatement or revaluation of assets	26 323
	2.1.4 Other items	
	2.1.4.1 General provisions related to exposures under the standardised approach	280 931
	2.1.4.2 General provisions related to securitised exposures under the IRB approach	
	2.1.4.3 Other	
	2.1.5 Subordinated loans with not fixed maturity date and similar instruments.	
	2.1.6 Positive amounts resulting from comparing the valuation adjustments due to asset impairment and provisions against expected losses under the IRB approach	
	2.1.7 Upper Tier 2 capital pursuant to Spanish legislation:	
	2.1.7.1 Correction to minority interests in relation to revaluation reserves transferred to upper Tier 2 capital	
	2.1.7.2 Correction to minority interests related to non-voting shares and preferred shares treated as subordinated loans without a fixed maturity date transferred to upper Tier 2 capital	
	2.1.7.3 Other corrections to minority interests transferred to upper Tier 2 capital	
	2.1.7.4 Welfare fund of savings banks	
2.2	Additional Tier 2 capital:	
	2.2.1 Cumulative preferred shares with a fixed maturity date	
	2.2.2 Standard subordinated loans and similar instruments	

	2.2.3 Additional Tier 2 capital pursuant to Spanish legislation	
	2.2.3.1 Correction to minority interests related to preferred shares treated as standard subordinated loans transferred to additional Tier 2 capital	
	2.2.3.2 Other corrections to minority interests transferred to additional Tier 2 capital	
	2.2.4 (Excess over the limits for additional Tier 2 capital)	
	Of which: effect of the temporary increase to the limit for additional Tier 2 capital	
2.3	(Deduction from Tier 2 capital)	
	2.3.1 (Excess over the limits for Tier 2 capital)	
	Of which: effect of the temporary increase to the limit for Tier 2 capital	
	2.3.2 Other deductions from Tier 2 capital pursuant to Spanish legislation	
3. DEDUCTIONS FROM CORE CAPITAL AND TIER 2 CAPITAL		
	Of which:	
	From core capital (III)	
	From Tier 2 capital (IV)	
3.1	Investments in unconsolidated financial institutions in which more than 10% of share capital is held	
3.2	Subordinated loans and other securities eligible as core capital from unconsolidated financial institutions in which more than 10% of share capital is held	
3.3	Excess investments, subordinated loans and other securities eligible as capital from unconsolidated financial institutions other than those included in the two previous sections over 10% of the entity's capital	
3.4	Investments in insurance and similar companies in which more than 20% of share capital is held	
3.5	Subordinated loans and other eligible securities in insurance and similar companies in which the Entity holds more than 20% of share capital	
3.6	Deductions from core capital and tier 2 capital pursuant to Spanish legislation	
3.7	Certain securitisation exposures not included in the capital requirements	
3.8	Expected losses from equity exposures under the IRB approach and negative amounts resulting from comparing the asset impairment losses and provisions against expected losses under the IRB approach.	
3.9	Excess investments in non-financial institutions	
3.10	Incomplete transactions once 5 business days have elapsed from the date of second contractual payment or delivery	
3.11	Other deductions from core capital and Tier 2 capital pursuant to Spanish legislation	
4. TOTAL CORE CAPITAL FOR GENERAL SOLVENCY PURPOSES (I-III)		4 422 985
5. TOTAL TIER 2 CAPITAL FOR GENERAL SOLVENCY PURPOSES (II-IV)		307 254
6. TOTAL CORE CAPITAL AND TIER 2 CAPITAL		4 730 239
7. AUXILIARY CAPITAL		-
7.1	Excess over the limits for Tier 2 capital transferred to auxiliary capital to hedge price and exchange rate risk	
7.2	Short-term subordinated loans	
7.3	(Excess over the limits for auxiliary capital to hedge price and market risk)	
8. TOTAL CAPITAL		4 730 239
9. DEDUCTIONS FROM TOTAL CAPITAL		-
10. TOTAL CAPITAL AFTER TOTAL DEDUCTIONS		4 730 239

4. INFORMATION ON MINIMUM CAPITAL REQUIREMENTS

4.1. MINIMUM CAPITAL REQUIREMENTS FOR CREDIT, COUNTERPARTY, DILUTION AND DELIVERY RISK

The Consolidated Group's minimum capital requirements with regard to credit risk at 31 December 2013, calculated as 8% of the weighted risk exposures for each of the categories to which the standardised approach has been applied, is detailed as follows:

Risk category (*)	Capital requirements (Thousands of Euros)
	2013
Central governments and central banks	
Regional governments and local authorities	70 282
Public sector entities and non-profit institutions	169 058
Multilateral development banks	1 118
International organisations	7 680
Credit institutions and investment services companies	829 287
Companies	721 696
Retailers	28
Exposures secured by real estate property	-
Exposures in default	22 724
High-risk exposures	-
Covered bonds	-
Short-term exposures to institutions and companies	-
Exposures to collective investment undertakings	-
Other exposures	27 938
Total requirements for credit risk calculated using the standardised approach	1 849 813

(*) The items included in each of these categories are in line with the provisions set forth in the Bank of Spain Solvency Circular.

The Group has no additional capital requirements for risk from securitisation positions, under the standardised approach, at 31 December 2013.

4.2 MINIMUM CAPITAL REQUIREMENTS FOR LIQUIDATION, PRICE AND EXCHANGE RATE RISK

The Group has no capital requirements for liquidation risk.

The Group's capital requirements for price risk on fixed income positions, under the standardised approach, total 5,434 thousand euros.

The Group's capital requirements for exchange rate risk, under the standardised approach, total 22,753 thousand euros.

4.3 MINIMUM CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The Consolidated Group's minimum capital requirements at 31 December 2013 for operational risk, calculated using the basic indicator approach, total 105,241 thousand euros.

4.4 PROCEDURES APPLIED TO THE INTERNAL CAPITAL ADEQUACY ASSESSMENT

Pursuant to the provisions of the Solvency Circular, the Consolidated Group applies a series of risk identification, measurement and aggregation measures that enable it to define and maintain a level of capital in accordance with the risks inherent to its activities, the economic environment in which it operates, the risk management and control that it performs, the governance systems that it has in place, its strategic business plan and the actual likelihood of it obtaining further capital, in other words, it performs an assessment of its current and forecast internal capital based on its planning.

In the internal capital adequacy assessment, the Group applies the following procedures relating to each risk:

- Assessment of capital requirements for credit risk: the standardised approach established in the Solvency Circular was applied to calculate the minimum capital requirements associated with this risk.

- Assessment of capital requirements for credit concentration risk: the simplified approach is being used and concentration ratios are applied for the industry as a whole and on an individual basis, established by the Bank of Spain for such purpose.

- Assessment of capital requirements for market risk: the standardised approach established in the Solvency Circular was used to estimate the minimum capital requirements associated with this risk.

- Assessment of capital requirements for operational risk: the basic approach is being applied provisionally in accordance with the exceptions laid out in the regulations in force.

- Assessment of capital requirements for on-balance-sheet structural interest rate risk: the simplified approach is being applied.

- Assessment of capital requirements for liquidity risk: the Group does not estimate the capital requirements associated with this risk and, after analysing its liquidity policy, liquidity control systems and contingency plans, it is evident that the Group has a comfortable liquidity position and, as a result, does not need to set aside capital to cover this risk.

- Assessment of capital requirements for other risks: the capital requirements associated with risks other than those mentioned above have been estimated at 5% of the Group's total capital requirements, based on the provisions of the Solvency Circular.

The Group's total required capital has been estimated through aggregation of the capital requirements associated with each risk, obtained in accordance with the aforementioned approaches.

In addition, in order to adequately project the Group's future capital requirements, projections are made of expected profits allocated to reserves and the use of capital arising from expected business growth in various scenarios that consider, among others, stress situations.

5. INFORMATION ON CREDIT AND DILUTION RISK

5.1 ACCOUNTING DEFINITIONS AND DESCRIPTION OF THE METHODS USED TO ESTABLISH CORRECTIONS DUE TO IMPAIRMENT

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

Note 2.7 to the ICO Group's consolidated financial statements for 2013 includes the definitions of default and impaired positions that are used in various sections of this report. Similarly, this note also describes the methods used by the Group to determine the provisions for impairment as a result of credit risk and to calculate the provisions arranged for contingent liabilities and commitments associated with this risk.

5.2 CREDIT RISK EXPOSURE AT 31 DECEMBER 2013 AND AVERAGE EXPOSURE VALUE FOR THE YEAR

The total value of the Consolidated Group's exposure to credit risk at 31 December 2013, after making the adjustments indicated in Rules 13 and 17 of the Solvency Circular and recognising the related impairment losses, where applicable, amounted to 90,156,704 thousand euros, without taking into account the effects of credit risk reduction.

The distribution, by counterparty, of the Consolidated Group's exposure to credit risk, net of adjustments and impairment losses recognised, where applicable, at 31 December 2013, calculated using the standardised approach, without taking into account the effects of credit risk reduction for the purposes of calculating capital requirements for credit risk, is as follows:

Risk category	Exposure amount *(Thousands of Euros)*
	2013
A) Central governments and central banks	5 779 012
B) Regional governments and local authorities	8 660 896
C) Public sector entities and non-profit institutions	6 448 164
D) Multilateral development banks	21 961
E) International organisations	404 120
F) Credit institutions and investment services companies	53 991 688
G) Companies	11 542 970
H) Retailers	461
- Individuals	
- Small- and medium-sized enterprises	461
I) Exposures secured by real estate property Of which:	
- Individuals	
- Small- and medium-sized enterprises	
- Companies	
J) Exposures in default	595 958
K) High-risk exposures Of which:	
- Venture capital entities	
- Shares of other entities	
L) Covered bonds Of which:	
- Central governments and central banks	
- Regional governments and local authorities	
- Public sector entities and non-profit institutions	
- Multilateral development banks	
- International organisations	
- Credit institutions and investment services companies	
- Property	
- Asset securitisation vehicles	
M) Short-term exposures to institutions and companies Of which:	
- Credit institutions and other companies and investment services	
- Companies	
N) Exposures to collective investment undertakings	
O) Other exposures	2 711 474
Exposure at 31 December 2013	90 156 704

In 2013 the average value of the exposure to credit risk, net of adjustments and impairment losses recognised, to which the standardised approach has been applied to estimate the capital requirements for credit and dilution risk, is as follows:

Risk category	Average exposure amount *(Thousands of Euros)* 2013
Central governments and central banks	8 436 510
Regional governments and local authorities	9 474 414
Public sector entities and non-profit institutions	5 683 639
Multilateral development banks	50 438
International organisations	424 864
Credit institutions and investment services companies	51 434 272
Companies	13 122 034
Retailers	404
Exposures secured by real estate property	
Exposures in default	632 082
High-risk exposures	
Covered bonds	
Short-term exposures to institutions and companies	
Exposures to collective investment undertakings	
Other exposures	3 529 286
Average exposure for 2013	92 787 943

5.3 EXPOSURES BY GEOGRAPHICAL DISTRIBUTION

The Consolidated Group's exposure to credit risk at 31 December 2013, net of the adjustments established under Rule 17 in the Solvency Circular and the impairment losses recognised, where appropriate, broken down by geographic area, is detailed as follows:

Geographical Area	Exposure amount *(Thousands of Euros)* 2013
Spain	88 807 149
Other EU countries	638 480
Latin America	230 869
United States	286 277
Rest of Europe (non-EU)	-
Rest of the world	193 930
Exposure at 31 December 2013	90 156 704

5.4 EXPOSURES BY RESIDUAL MATURITY

The distribution of the Consolidated Group's exposure to credit risk by residual maturity period, net of adjustments and impairment losses recognised, to which the standardised approach has been applied to estimate the capital requirements, is as follows:

Risk category	Residual maturity period at 31 December 2013 (Thousands of euros)					
	On demand	Within 3 months	From 3 months to 1 year	From 1 to 5 years	More than five years	Total
						2013
A) Central governments and central banks	31 328	469 723	857 900	3 071 455	1 348 607	5 779 012
B) Regional governments and local authorities	46 950	703 964	1 285 719	4 603 131	2 021 132	8 660 896
C) Public sector entities and non-profit institutions	34 955	524 112	957 237	3 427 098	1 504 762	6 448 164
D) Multilateral development banks	119	1 785	3 260	11 672	5 125	21 961
E) International organisations	2 191	32 847	59 992	214 783	94 307	404 120
F) Credit institutions and investment services companies	292 685	4 388 486	8 015 121	28 695 739	12 599 657	53 991 688
G) Companies	62 574	938 221	1 713 566	6 134 908	2 693 701	11 542 970
H) Retailers	2	37	68	245	108	461
I) Exposures secured by real estate property						
J) Exposures in default	3 231	48 440	88 471	316 742	139 074	595 958
K) High-risk exposures						
L) Covered bonds						
M) Securitisation positions						
N) Short-term exposures to institutions and companies						
O) Exposures to collective investment undertakings						
P) Other exposures	14 699	220 391	402 521	1 441 106	632 757	2 711 474
Exposure at 31 December 2013	488 733	7 328 006	13 383 855	47 916 880	21 039 230	90 156 704

5.5 IMPAIRED POSITIONS BY COUNTERPARTY AND GEOGRAPHICAL AREA

Impaired exposures by counterparty

Following is the value of impaired exposures and exposures in default at 31 December 2013, net of adjustments, broken down by counterparty, together with the amount of impairment losses and the provisions for contingent liabilities and commitments arranged thereon at said date, and the amount of the impairment losses and the provisions for contingent liabilities and commitments thereon, which are presented net, recognised in 2013 (standardised approach in order to determine the capital requirements for credit risk):

Counterparty	Total impaired exposures	Of which: Exposures in default	Impairment losses and provisions for contingent liabilities and commitments	Provisions for impairment losses and contingent liabilities and commitments for the year (net)
				2013 (Thousands of Euros)
A) Central governments and central banks				
B) Regional governments and local authorities				
C) Public sector entities and non-profit institutions				
D) Multilateral development banks				
E) International organisations				
F) Credit institutions and investment services companies				
G) Companies	1 728 575	595 958	1 887 891	580 093
H) Retailers				
I) Exposures secured by real estate property				
J) High-risk exposures				
K) Covered bonds. Of which:				
- Central governments and central banks				
- Regional governments and local authorities				
- Public sector entities and non-profit organisations				
- Multilateral development banks				
- International organisations				
- Credit institutions and investment services companies				
- Property				
- Asset securitisation vehicles				
L) Securitisation positions				
M) Short-term exposures to institutions and companies				
- Credit institutions and other companies and investment services				
- Companies				
O) Exposures to collective investment undertakings				
P) Other exposures				
Amount at 31 December 2013	1 728 575	595 958	1 887 891	580 093

Impaired exposures by geographic area

The value of impaired exposures and exposures in default at 31 December 2012, net of adjustments, broken down by significant geographical areas, together with the amount of the impairment losses and the provisions for contingent liabilities and commitments thereon, is as follows:

Geographical Area	*Amount (Thousands of Euros)*		
	Total impaired exposures	Of which: Exposures in default	Impairment losses and provisions for contingent liabilities and commitments
			2013
Spain	1 728 575	595 958	1 887 891
Other EU countries			
Latin America			
United States			
Rest of Europe (non-EU)			
Rest of the world			
Amount at 31 December 2013	1 728 575	595 958	1 887 891

5.6 CHANGES IN IMPAIRMENT LOSSES AND PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS DUE TO CREDIT RISK IN 2013

The changes in 2013 in impairment losses due to credit risk recognised by the Group and in the provisions for contingent liabilities and commitments due to credit risk comply with the rules of Bank of Spain Circular 4/2004, both in terms of the type of losses and provisions made and of the methodology applied in the calculation thereof (see section 5.1 above of this report).

The detail of the changes made in 2013 in the impairment losses on financial assets and in the provisions for contingent liabilities and commitments due to credit risk is as follows:

	Impairment losses on financial assets	Provisions for contingent liabilities and commitments
		(Thousands of Euros)
Balance at 1 January 2013	1 309 668	6 758
Impairment losses charged to income	584 840	2 009
Impairment losses reversed with a credit to income		(6 756)
Provisions used in the year	(6 455)	
Effect of differences in foreign currency exchange rates	(1 566)	
Changes arising from business combinations		
Changes in the scope of consolidation		
Transfers		
Other changes	-606	
Balances at 31 December 2013	1 885 881	2 010

In addition, the expenses recognised in the ICO Group's consolidated income statement for 2013 for items transferred directly to written-off assets is nil, whereas the credit recognised in the 2013 consolidated income statement for the recovery of assets previously recognised as written off amounted to 52,019 thousand euros.

5.7 INFORMATION ON THE GROUP'S COUNTERPARTY CREDIT RISK

Counterparty credit risk is deemed to be the credit risk that the Group incurs in transactions carried out with derivative financial instruments, transactions with repurchase commitments, securities loans or commodities, in deferred liquidation transactions and guarantee financing transactions.

Counterparty credit risk is controlled by a system that integrates the management of transactions and the risks associated with them in real time, providing operators with updated information on the credit facilities available at any given time.

A methodology for using counterparty facilities has been determined for derivatives, and was approved by ICO's competent bodies, based on the valuation of transactions at market prices plus a potential future or add-on risk which is measured as a percentage of the nominal value of the transaction and calculated as the maximum potential loss of 95% confidence during the life of the transaction. The methodology is reviewed periodically and at least once a year, and the add-ons are adjusted at intervals of at least every six months.

The basic criteria for establishing counterparty facilities are also annually approved by the ICO General Council. These counterparty facilities are divided into two large groups depending on ICO's operating characteristics. On one hand, counterparty facilities for cash transactions, and on the other hand, those for mediation transactions in which ICO finances various investment projects through framework programmes entered into with various entities operating in Spain such as, for example, the SME facilities.

For the purpose of mitigating its exposure to counterparty risk, ICO entered into ISDA agreements and Financial Transaction Framework Agreements with the counterparties and, if applicable, the corresponding collateral appendices.

With regard to managing collateral, in the case of derivatives, for entities subject to collateral agreements, our position is assessed periodically (usually every day) and, based on this assessment, the parameters agreed upon in the collateral agreement are applied in order to obtain a collateral amount (cash) to be received from or returned to the counterparty.

These margin calls are carried out on a weekly basis. The counterparty receiving the order for collateral payment reviews the valuation, and makes note of any discrepancies that may arise in this process. If such discrepancies are material, they are analysed in detail.

The collateral agreements entered into by ICO with the counterparties are one-way agreements, whereby only ICO counterparties are required to deposit collateral.

100% of the collateral received is in cash and, therefore, impairment losses on the collateral are not applicable.

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

The Group's exposure to counterparty credit risk for its derivative transactions at 31 December 2013, under the original exposure approach, estimated as the amount of the Group's credit exposure as a result of these financial instruments, net of the effects of the related master netting arrangements and guarantees received from the transaction counterparties, is detailed as follows:

	Amount (Thousands of Euros)
	2013
Original exposure value of the contracts	4 254 043
Less: Effects of compensation agreements	
Credit risk exposure after compensation	4 254 043
Less: Effects of guarantees received	
Credit risk exposure in derivatives after compensation and guarantees	4 254 043

The amount of the Consolidated Group's exposure to counterparty credit risk at 31 December 2013 by counterparty credit risk, broken down by the methods applied to calculate the minimum capital requirements associated with this risk, is as follows:

Method Applied	*Exposure Value* **2013** ***(Thousands of Euros)***
Mark-to-market valuation method	
Original exposure method	4 254 043
Standardised approach	
Internal model method	
Exposure at 31 December 2013	4 254 043

The exposure value is calculated using the standardised approach. By using this approach, the exposure value is calculated separately for each set of netting transactions and is determined, net of collateral netting, by applying the calculation formula included in Rule 74 of the Solvency Circular, and taking into consideration the particular features and calculation parameters specified in this Rule.

6. CREDIT RISK: STANDARDISED APPROACH

6.1 IDENTIFICATION OF EXTERNAL RATING AGENCIES USED

Following is a list of the external rating agencies and export credit agencies, for each category of credit risk exposure to which the standardised approach is applied, whose ratings were being used by the Group at 31 December 2013:

Risk category	Assigned export credit or external rating agencies ***2013***
Central governments and central banks	Moody's / S&P / Fitch
Regional governments and local authorities	Moody's / S&P / Fitch
Public sector entities and non-profit institutions	Moody's / S&P / Fitch
Multilateral development banks	Moody's / S&P / Fitch
International organisations	Moody's / S&P / Fitch
Credit institutions and investment services companies	Moody's / S&P / Fitch
Companies	Moody's / S&P / Fitch
Retailers	Moody's / S&P / Fitch
Exposures secured by real estate property	Moody's / S&P / Fitch
Exposures in default	Moody's / S&P / Fitch
High-risk exposures	Moody's / S&P / Fitch
Covered bonds	Moody's / S&P / Fitch
Securitisation positions	Moody's / S&P / Fitch
Short-term exposures to institutions and companies	Moody's / S&P / Fitch
Exposures to collective investment undertakings	Moody's / S&P / Fitch
Other exposures	Moody's / S&P / Fitch

The Group uses the following external credit rating agencies (ECAI): Moody's, Standard & Poor's and Fitch Ratings, recognised by the Bank of Spain:

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

The assignment rules defined in Rule 21 of Bank of Spain Circular 3/2008 are applied:

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

6.3 EFFECTS ON RISK EXPOSURE OF APPLYING RISK REDUCTION TECHNIQUES AND EXPOSURE DEDUCTED DIRECTLY FROM CAPITAL

Following is a breakdown of the Group's exposure to credit risk at 31 December 2013, estimated using the standardised approach, before and after applying the risk reduction techniques provided for in the Solvency Circular, broken down by exposure category and creditworthiness (measured based on the percentage applied to calculate the risk weighted exposure):

Risk category	Positions before applying risk reduction techniques	Positions after applying risk reduction techniques
		(thousands of euros)
		2013
Central governments and central banks	5 779 012	10 878 881
Regional governments and local authorities	8 660 896	4 360 114
Public sector entities and non-profit institutions	6 448 164	6 025 946
Multilateral development banks	21 961	21 961
International organisations	404 120	404 120
Credit institutions and investment services companies	53 991 688	54 168 690
Companies	11 542 970	11 346 166
Retailers	461	461
High-risk exposures		
Covered bonds		
Short-term exposures to institutions and companies		
Exposures in default	595 958	238 891
Exposures in the form of collective investment undertakings		
Other exposures	2 711 474	2 711 474
TOTAL EXPOSURES	90 156 704	90 156 704

Risk weightings	(thousands of euros)	
	Positions before applying risk reduction techniques	Positions after applying risk reduction techniques
0%	16 681 994	20 293 295
10%		
20%	62 035 428	56 969 955
35%		
50%	372 208	372 208
75%	185 083	185 083
100%	10 725 945	12 180 117
150%	156 046	156 046
200%		
TOTAL EXPOSURES	90 156 704	90 156 704

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

7. SECURITISATION TRANSACTIONS

7.1 GENERAL INFORMATION ON SECURITISATION ACTIVITY

At 31 December 2013, the Institute did not have any securitisation positions on its balance sheet.

7.2 EXPOSURE IN SECURITISATION TRANSACTIONS AND AMOUNT OF SECURITISED ASSETS

At 31 December 2013, the Group had no securitisation positions to which the treatment set out under Chapter Four, Section Four of the Solvency Circular could be applied for the purposes of calculating its capital requirements for credit risk.

8. CREDIT RISK REDUCTION TECHNIQUES

8.1 GENERAL INFORMATION

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

These guarantees can be personal guarantees (including credit derivatives) or collateral (including those of a financial nature), and are assessed for these purposes by the credit enhancement included in the external rating of the guarantor (personal guarantees) or by market parameters in the case of collateral.

8.2 POSITION NETTING POLICIES AND PROCESSES

Netting refers to the possibility of offsetting positions between concepts of the same type, under the umbrella of a framework agreement such as an ISDA or similar agreement.

This consists of offsetting the positive and negative market values of derivatives transactions that we have with a certain counterparty, such that in the event of default, this counterparty owes us (or we owe the counterparty, if the net amount is negative) a single net amount, rather than various positive or negative values for each transaction that we carried out with the counterparty. Since market value is one of the components of counterparty risk, the risk is reduced on obtaining a net market value for the transactions, since positive amounts will be offset by negative amounts, whereas if there is no netting arrangement, the negative amounts would not have any effect as they would be considered to be zero.

An important aspect of framework agreements is that they constitute a single legal obligation that encompasses all transactions covered thereby. This is essential when offsetting the risks of all transactions covered under said agreement with the same counterparty.

Netting clauses are included regardless of the enforceability thereof, in order to benefit from the provisions of the various laws. In other words, the inclusion of these arrangements does not imply that netting will be automatically considered when calculating exposure to counterparty risk with the various counterparties. Such exposure should be calculated in accordance with applicable regulations in each of the jurisdictions involved.

8.3 COLLATERAL MANAGEMENT AND VALUATION POLICIES AND PROCESSES

Collateral agreements are a set of tools, in our case cash deposited by a counterparty in favour of another party to secure/reduce any possible counterparty credit risk resulting from the portfolios of transactions with any risk between the parties.

The nature of these agreements is diverse, but regardless of the specific form of the collateral, the ultimate goal, just as in the case of netting, is to reduce counterparty risk by “recovering” some or all of the profits (credit facilities granted to the counterparty) generated at the time by the transaction (valued at market prices).

8.4 QUANTITATIVE INFORMATION

The following table shows the distribution of the Group's exposure to credit risk at 31 December 2013, broken down according to whether or not credit risk reduction techniques are applied and, where appropriate, the reduction technique used (exposure data refers to exposure prior to applying the risk reduction technique used):

EXPOSURE VALUE	*(Thousands of Euros)*
	2013
A) Exposures to which a credit risk reduction technique is not applied	75 388 731
B) Exposures to which a credit risk reduction technique is applied	14 767 973
- Balance sheet netting agreements	-
- Framework netting agreements relating to transactions with a repurchase commitment, securities lending transactions, commodities or other capital market transactions	-
- Collateral (1)	239 471
- Other collateral (2)	14 528 502
- Hedges based on personal guarantees	-
- Hedges using credit derivatives	-

(1) Includes transactions secured by debt securities, shares, collection rights and other rights in rem on properties accepted by the Solvency Circular as a credit risk reduction technique.

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

The following table shows the value of the exposures at 31 December 2013 covered by applying risk reduction techniques using collateral (standardised approach):

Risk category	*Thousands of Euros*		TOTAL
	Hedges with other collateral	Hedges with collateral	
			2013
Central governments and central banks	66 859		66 859
Regional governments and local authorities	7 661 830		7 661 830
Public sector entities and non-profit institutions	5 356 457		5 356 457
Multilateral development banks			
International organisations			
Credit institutions and investment services companies			
Companies	1 086 288	239 471	1 325 759
Retailers			
Exposures secured by real estate property			
Exposures in default	357 068		357 068
High-risk exposures			
Covered bonds			
Securitisation positions			
Short-term exposures to institutions and companies			
Exposures to collective investment undertakings			
Other exposures			
TOTAL EXPOSURES	14 528 502	239 471	14 767 973

9. INFORMATION ON MARKET RISK OF THE TRADING PORTFOLIO

For the purposes of calculating the capital requirements associated with the trading portfolio, it should be noted that the Group considers as such those positions in financial instruments that are held for trading or used as hedges for items in the portfolio. Therefore, for the purposes of calculating the Group's capital requirements, there is no difference between the trading portfolio and the trading portfolio defined pursuant to the provisions of Bank of Spain Circular 4/2004, of 22 December, with regard to debt securities and equity instruments.

The amount of capital requirements associated with the trading portfolio at 31 December 2013 is as follows:

Capital requirements for the trading portfolio	*(Thousands of Euros)*
	2013
Requirements for position risk	
Requirements for liquidation risk	-
Requirements for counterparty credit risk	5 434
Total capital requirements	5 434

10. METHODOLOGY APPLIED FOR CALCULATING CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The Group uses the basic indicator approach for calculating its capital requirements associated with operational risk as defined by Rule 96 of Solvency Circular 3/2008:

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

At 31 December 2013, these requirements amounted to 105,241 thousand euros.

11. MARKET REPORTING REQUIREMENTS: INFORMATION ON REMUNERATION

According to Rule 117 bis of Circular 4/2011, of 30 November, amending Circular 3/2008, the Pillar III Report must include information on the Entities' policies and practices for compensating executives. In this regard, ICO is not affected by the aforementioned legislation since, without prejudice to having established a formal policy approved by its General Council, under the terms set forth in Circular 3/2008, as it is a State-owned business it is subject to Royal Decree 451/2012, of 5 March, governing

the remuneration of the senior executives and directors of public companies and other entities, and is also subject to the approval of the Interministerial Remuneration Committee (CIR) Executive Committee with regard to determining the remuneration of personnel not included in the Entity's collective agreement.

The remuneration of ICO's executives is therefore limited as a result of being subject to the regulations mentioned above, which prevents the competent bodies from approving remuneration measures other than those referred to in the aforementioned regulations.

12. INFORMATION ON INVESTMENTS AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO

Note 2.1 of the Group's consolidated financial statements for 2013 includes a description of the portfolios in which the investments and equity instruments owned by the Group are classified, together with the accounting policies and measurement bases applied to each one. This Note also indicates the methods and assumptions applied in determining the value of the instruments included in each portfolio. There were no changes in 2013 with a significant effect on the practices and assumptions used by the Group in valuing its investments and equity instruments.

The Group holds investments and equity instruments for different purposes. In this respect, the Group has investments in entities with varying degrees of involvement in their management and decision-making processes, with which it seeks to reach the goals included in the Group's strategy and objectives as a whole and/or in which it has the intention of maintaining a long-term relationship in its shareholder structure (“strategic investments”). The Group also has investments in other entities with different objectives, which basically consist of maximising the profit obtained through management in coordination with the Group's risk management objectives and strategies (“held-for-sale portfolios”).

In general, the investments and equity instruments owned by the Group for strategic purposes are classified for accounting purposes under Group companies, associates and jointly controlled entities, while those investments held for sale and that do not form part of the trading portfolio are classified as financial assets available for sale.

Appendix 1 of the consolidated financial statements for 2013 includes a detailed description of the ICO Group's investments, with information on investees, the carrying value of these investments and their fair value, which coincides with their carrying amount.

Note 8 of the Group's consolidated financial statements for 2013 indicates the type, nature and amount of exposures in investments and equity instruments held for sale.

Gains or losses recognised in equity during the period are included in Note 8 and Note 21 of the Group's consolidated financial statements for 2013.

There were no unrealised gains or losses that were not recognised in the 2013 balance sheet.

There were no gains or losses in 2013 as a result of the sale or settlement of equity instruments not included in the trading portfolio.

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

Interest rate risk is the risk to which the Group is exposed in its activities as a result of carrying out asset and liability transactions with different interest rates (fixed or floating interest rates or tied to various indexes) and with different maturity dates, such that upward or downward fluctuations in the reference interest rates for these transactions may give rise uneven effects on its assets and liabilities, which in turn affect the Group's income statement and equity.

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

- The risk is measured and analysed constantly.
- The possible effects that any fluctuations in interest rates in the different currencies in which there is significant exposure may have on the Group's results and the various margins in the income statement are analysed.
- The analyses include all positions that are subject to interest rate risk, including implicit and explicit interest rate derivatives.
- The effects of the changes in parallel and instantaneous interest rates are analysed for each currency, defined based on the 1% and 99% percentiles of the interest rates fluctuations for each currency, calculated over a time frame of 240 days and over a historical period of 5 years.
- Interest rate risk is measured separately for each position held in each currency and aggregate measurements are taken for the interest rate for all positions.

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

Note 5 of the Group's consolidated financial statements for 2013 includes information on its level of exposure in equity and the income statement in terms of reasonable future changes in the level of the prevailing interest rates, broken down by the most relevant currencies. This information takes into account the effects of hedging activities by analysing the result of an increase and decrease of 100 basis points in the interest rates or that which is most significant for each currency, as well as certain information on interest rate sensitivity, and the criteria used as a basis to prepare such information, with all relevant assumptions taken into consideration.

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