MINISTRY OF
FINANCE AND
PUBLIC SERVICE

GENERAL INTERVENTION
BOARD OF THE STATE
ADMINISTRATION

AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

Audit Plan 2018

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National Audit Office

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I. INTRODUCTION

The General Intervention Board of the State Administration, through the National Audit Office and in exercise of the powers conferred on it by Article 168 of the General State Budget Act, has audited the attached consolidated financial statements of the Instituto de Crédito Oficial and its subsidiaries, including the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and the consolidated report for the year ending on that date.

The auditing firm Ernst & Young, S.L. has undertaken the audit work referred to in the preceding section, under the agreement entered into with the Ministry of Finance and Public Service, at the suggestion of the General Intervention Board of the State Administration. The Technical Standard of 11 April 2007 on collaboration with private auditors in public audits was applied to this work by the General Intervention Board of the State Administration.

The General Intervention Board of the State Administration has prepared this report based on the work carried out by the auditing firm Ernst & Young, S.L.

The chairman of the Instituto de Crédito Oficial (ICO) is responsible for the preparation of ICO's annual accounts in accordance with the financial reporting framework described in note 1.2 of the attached report and, in particular, in accordance with accounting principles and criteria. Furthermore, the chairman is responsible for the internal control deemed necessary to ensure that these annual accounts do not contain material inaccuracies.

The consolidated financial statements to which this report refers were issued by the chairman of ICO on 26 March 2018 and submitted to the National Audit Office on the same day.

The information relating to the annual accounts is contained in the file GB0721_2017_F_180326_163817_Cuentas.zip, for which the electronic summary is 69BA88BEB3D91A079BBA1DFF1AB1D2276362184794C9730079CFADCD9F3EC14A. The file has been deposited in the CICEP.red application of the General Intervention Board of the State Administration.

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II. PURPOSE AND SCOPE OF THE WORK: RESPONSIBILITY OF THE AUDITORS

Our responsibility is to issue an opinion about whether the attached consolidated financial statements offer a true representation, based on the work carried out in accordance with Public Sector Auditing Standards. These standards require us to plan and carry out the audit in order to obtain reasonable, but not absolute, assurance that the consolidated financial statements are free from material inaccuracies.

An audit involves the use of procedures to obtain audit evidence regarding the amounts and information disclosed in the consolidated financial statements. The procedures are selected at the auditor's discretion, including the assessment of the risk of material inaccuracies in the financial statements. In performing these risk assessments, the auditor takes into account the corresponding internal control for preparing the consolidated financial statements by managers of the parent company, in order to design appropriate audit procedures based on the circumstances and not for the purpose of expressing an opinion regarding the effectiveness of the entity's internal control function. An audit also includes an assessment of the suitability of the accounting policies applied and the accounting assessments made, as well as an assessment of the overall presentation of the consolidated financial statements.

Our work does not include auditing the 2017 financial statements of AXIS Participaciones Empresariales, Sociedad Gestora de Entidades de Capital Riesgo, S.A., (wholly owned); CERSA Compañía Española de Refianzamiento, S.A., (24.15% shareholding); COFIDES, Compañía Española de Financiación del Desarrollo, S.A., (20.31% shareholding); or EFC2E GESTIÓN, S.L. (50% shareholding). The audit report relating to the annual accounts of the above-mentioned entities was not available for the present purposes. Nevertheless, the net book value of the attached consolidated annual accounts for all of the above-mentioned entities represents 1% of total assets.

We believe that the audit evidence that we have obtained provides a sufficient and appropriate basis for issuing our audit opinion.

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III. OPINION

In our opinion, based on our audit, the attached consolidated financial statements offer a true representation, in all material respects, of the consolidated equity and consolidated financial position of the Instituto de Crédito Oficial and its subsidiaries as at 31 December 2017, and of its consolidated results and consolidated cash flows for the year ending on that date, in conformity with the applicable financial reporting regulatory framework and, in particular, the accounting principles and criteria contained therein.

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IV. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with its articles of association, the Instituto de Crédito Oficial must prepare a management report containing such explanations concerning ICO's situation and progress as are considered appropriate and which does not form an integral part of the financial statements.

Our work has been limited to checking that it has been prepared in accordance with the relevant regulations and that the accounting information it contains matches the details provided in the audited consolidated annual accounts.

This audit report has been affixed with an electronic signature using the CICEP.red application of the General Intervention Board of the State Administration, by the National Audit Office Team Manager and by the Head of Division of the National Audit Office, in Madrid, on 9 April 2018.

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INSTITUTO DE CRÉDITO OFICIAL

Consolidated Financial Statements at 31 December 2017
and Consolidated Management Report tor 2017

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Expressed in thousand euros)

ASSETS	2017	2016
Cash, deposits at central banks and demand deposits (Note 6)	**2 306 411**	**437 826**
Financial assets held for trading (Note 7)	**164 770**	**254 389**
Derivatives	164 770	254 389
Memorandum item: loaned or advanced as collateral	-	-
Financial assets at fair value through profit or loss	**-**	**-**
Available-for-sale financial assets (Note 8)	**1 376 391**	**1 800 530**
Equity instruments	521 429	428 939
Debt securities	854 962	1 371 591
Loans and advances	-	-
Memorandum item: loaned or advanced as collateral	-	-
Loans and receivables (Note 9)	**27 535 827**	**34 237 813**
Debt securities	266 775	1 675 187
Loans and advances	27 269 052	32 562 626
Credit institutions	16 077 669	19 164 816
Customers	11 191 383	13 397 810
Memorandum item: loaned or advanced as collateral	-	-
Held-to-maturity investments (Note 10)	**9 840 836**	**10 504 208**
Debt securities	9 840 836	10 504 208
Loans and advances	-	-
Memorandum item: loaned or advanced as collateral	-	-
Hedging derivatives (Note 11)	**517 145**	**1 222 013**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Investments in subsidiaries, joint ventures and associates (Note 12)	**58 860**	**57 750**
Joint ventures	-	-
Associates	58 860	57 750
Tangible assets (Note 13)	**89 977**	**82 219**
Property, plant and equipment	89 977	82 219
For own use	89 977	82 219
Memorandum item: Acquired under finance lease	-	-
Intangible assets (Note 14)	**7 944**	**9 129**
Other intangible assets	7 944	9 129
Tax assets (Note 15)	**264 512**	**222 547**
Current	130 193	127 172
Deferred	134 319	95 375
Other assets (Note 16)	**38 052**	**36 860**
Non-current assets held for sale (Note 17)	**22**	**-**
TOTAL ASSETS	**42 200 747**	**48 865 284**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Expressed in thousand euros)

LIABILITIES	2017	2016
Financial liabilities held for trading (Note 7)	**161 007**	**249 858**
Derivatives	161 007	249 858
Financial liabilities at fair value through profit or loss	**-**	**-**
Financial Liabilities at amortised cost (Note 18)	**36 047 024**	**42 385 361**
Deposits	12 343 870	14 378 976
Credit Institution	11 495 137	13 375 016
Customer	848 733	1 003 960
Marketable debt securities	22 845 774	26 954 455
Other financial liabilities	857 380	1 051 930
Hedging derivatives (Note 11)	**363 492**	**218 726**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Provisions (Note 19)	**304 665**	**239 260**
Pensions and similar obligations	423	365
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	1 197	14
Other provisions	303 045	238 881
Tax Liabilities (Note 15)	**15 447**	**66 837**
Current	935	877
Deferred	14 512	65 960
Other Liabilities (Note 16)	**4 119**	**8 066**
Capital Classified as financial liabilities	**-**	**-**
TOTAL LIABILITIES	**36 895 754**	**43 168 108**
EQUITY		
Own funds (Note 20)	**5 435 873**	**5 580 443**
Capital or endowment fund	4 313 067	4 312 585
Accumulated reserves	-	-
Revaluation reserves	23 591	23 591
Other reserves	996 115	927 248
Profit and loss for the period	103 100	317 019
Less: Dividends and remunerations	-	-
Other accumulated global results (Note 21)	**(130 880)**	**116 733**
Elements that can be reclassified at profit and loss	(130 880)	116 733
Cash-Flow hedges	(127 567)	117 145
Available-for-sale financial assets (Note 8)	(3 313)	(412)
Debt instruments	2 972	9 187
Equity instruments	(6 285)	(9 599)
TOTAL EQUITY	**5 304 993**	**5 697 176**
TOTAL EQUITY AND LIABILITIES	**42 200 747**	**48 865 284**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016

(Expressed in thousand euros)

MEMORANDUM ITEM	2017	2016
Granted guarantees (Note 22)	605 138	824 186
Contingent granted commitments (Note 22)	3 225 921	2 748 003

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS

ENDED 31 DECEMBER 2017 AND 2016

(Expressed in thousand euros)

	2017	2016
Interest and similar income (Note 24)	**522 590**	**899 788**
Interest and similar charges (Note 25)	**(591 697)**	**(874 163)**
NET INTEREST INCOME	**(69 107)**	**25 625**
Dividends income (Note 26)	**173**	**552**
Share of results of entities accounted for using the equity method (Note 27)	**1 245**	**1 579**
Fee and commission income (Note 28)	**56 494**	**60 558**
Fee and commission expense (Note 28)	**(3 388)**	**(12 898)**
Gains or losses on financial assets and liabilities not measured at fair value (net) (Note 29)	**(3 620)**	**(152 151)**
Financial assets at amortised Cost	5 146	-
Financial liabilities at amortised Cost	(8 766)	(152 151)
Gains or losses on financial assets and liabilities held for trading (net) (Note 30)	**11 326**	**10 551**
Exchange differences (net) (Note 2.4)	**24 553**	**2 839**
Other operating income (Note 31)	**4 868**	**1 541**
Other operating expenses (Note 31)	**(3)**	**(2)**
NET OPERATING PROFIT	**22 541**	**(61 806)**
Administrative expenses	**(38 140)**	**(37 049)**
Personnel expenses (Note 32)	(20 641)	(20 505)
Other administrative expenses (Note 33)	(17 499)	(16 544)
Depreciation and amortization	**(6 040)**	**(5 260)**
Tangible assets (Note 13)	(2 501)	(2 286)
Intangible assets (Note 14)	(3 539)	(2 974)
Provisions expense or reversal of provisions (Note 19)	**3 843**	**96 598**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	**156 547**	**458 002**
Available-for-sale financial assets (Note 8)	446	(2)
Loans and receivables (Note 9)	156 101	458 004
Impairment or reversal of impairment on non-financial assets (net)	**9 876**	**(141)**
Goodwill and other intangible assets(Note 14)	-	-
Other assets (Note 13 and 17)	9 876	(141)
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations (Note 17)	**182**	**1 132**
PROFIT BEFORE TAX FROM ONGOING OPERATIONS	**148 809**	**451 476**
Income tax from ongoing operations (Note 23)	**(45 709)**	**(134 457)**
PROFIT FOR THE PERIOD FROM ONGOING OPERATIONS	**103 100**	**317 019**
PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS	**-**	**-**
CONSOLIDATED NET PROFIT FOR THE YEAR	**103 100**	**317 019**
Profit attributable to the parent company	103 100	317 019
Profit attributable to minority interest	-	-

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

I. CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Expressed in thousand euros)

	2017	2016
Profit for the year	**103 100**	**317 019**
Other income and expenses recognized	**(247 613)**	**62 510**
Available-for-sale financial assets	**(4 144)**	**(876)**
Profit/loss valuation	(4 144)	
Amounts transferred to profit and loss account (Note 21)	-	-
Reclassifications	-	-
Hedging of cash flows	**(349 589)**	**90 176**
Profit/loss valuation	(349 589)	90 176
Amounts transferred to profit and loss account (Note 21)	-	-
Amounts transferred to initial carrying amount of hedged items	-	-
Reclassifications	-	-
Hedges of net investments in foreign	-	-
Profit/loss valuation	-	-
Amounts transferred to profit and loss account	-	-
Income tax	-	-
Exchange differences	-	-
Gains/losses on conversion	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Non-current assets held for sale	-	-
Valuation gains	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Gains/(Losses) in pension actuarial	-	-
Other income and expenses recognized	-	-
Income tax	106 120	(26 790)
TOTAL RECOGNIZED INCOME AND EXPENSES	**(144 513)**	**379 529**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

II. CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Expressed in thousand euros)

At December 31, 2017		SHAREHOLDERS EQUITY										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) from entities consolidated through equity method	Other equity instruments	Less: Treasury shares	Net profit for the year	Less: Dividends and remuneration	Total Own Funds	Other accumulated global results	Minority Interests	Total Net Equity
Ending Balance at December 31, 2016	**4 312 585**		**937 172**	**13 667**	**-**	**-**	**317 019**	**-**	**5 580 443**	**116 733**	**-**	**5 697 176**
Total income and expenses recognized	-	-	-	-	-	-	103 100	-	103 100	(247 613)		(144 513)
Other changes in net worth:	482	-	67 422	1 445	-	-	(317 019)		(247 670)	-	-	(247 670)
Increases in capital endowment	482	-	-	-	-	-	-	-	482	-	-	482
Capital Reductions	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	67 422	1 445	-	-	(317 019)	248 000	(152)	-	-	(152)
Other increases (decreases) in equity	-	-	-	-	-	-	-	(248 000)	(248 000)	-	-	(248 000)
Ending Balance at December 31, 2017	**4 313 067**	**-**	**1 004 594**	**15 112**	**-**	**-**	**103 100**	**-**	**5 435 873**	**(130 880)**		**5 304 993**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

At December 31, 2016		SHAREHOLDERS EQUITY										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) from entities consolidated through equity method	Other equity instruments	Less: Treasury shares	Net profit for the year	Less: Dividends and remuneration	Total Own Funds	Other accumulated global results	Minority Interests	Total Net Equity
Ending Balance at December 31, 2015	4 311 855	-	930 230	11 522	-	-	33 844	-	5 287 451	54 223	-	5 341 674
Total income and expenses recognized	-	-	-	-	-	-	317 019	-	317 019	62 510	-	379 529
Other changes in net worth:	730	-	6 942	2 145	-	-	(33 844)		(24 027)	-	-	(24 027)
Increases in capital endowment	730	-	-	-	-	-	-	-	730	-	-	730
Capital Reductions	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	6 942	2 145	-	-	(33 844)	25 000	243	-	-	243
Other increases (decreases) in equity	-	-	-	-	-	-	-	(25 000)	(25 000)		-	(25 000)
Ending Balance at December 31,2016	4 312 585	-	937 172	13 667	-	-	317 019	-	5 580 443	116 733	-	5 697 176

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Expressed in thousand euros)

	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES	**1 393 397**	**(293 391)**
1. Consolidated income for the year	**103 100**	**317 019**
2 Adjustments to result:	**(108 633)**	**(414 303)**
Depreciation and amortization	6 040	5 260
Other adjustments	(114 673)	(419 563)
3. Net increase /decrease in operating assets	**7 919 418**	**12 983 066**
Trading portfolio	89 619	(100 499)
Other financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	424 139	190 369
Loans and receivables	6 701 986	12 367 046
Other operating assets	703 674	526 150
4 Net increase/decrease in operating liabilities	**(6 427 133)**	**(13 231 387)**
Trading portfolio	(88 851)	101 209
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	(6 338 337)	(13 654 558)
Other operating liabilities	55	321 962
5. Collections/payments for income tax	**(93 355)**	**52 214**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**660 706**	**303 047**
6. Payments	**(6 185 624)**	**(8 642 172)**
Tangible assets (Note 13)	(383)	(308)
Intangible assets (Note 14)	(2 334)	(8 605)
Shareholdings (Note 12)	-	-
Other business units	-	-
Non-current assets and liabilities associated for sale (Note 17)	(22)	-
Held-to-maturity investment portfolio (Note 10)	(6 182 885)	(8 633 259)
Other payments related to investing activities	-	-
7. Collections	**6 846 330**	**8 945 219**
Tangible assets (Note 13)	73	18
Intangible assets (Note 14)	-	5 498
Shareholdings (Note 12)	-	-
Non-current assets and liabilities associated for sale (Note 17)	-	-
Held-to-maturity investment portfolio (Note 10)	6 846 257	8 939 703
Other collections related to investing activities	-	-

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Expressed in thousand euros)

	2017	2016
C. CASH FLOWS FROM FINANCING ACTIVITIES	**(185 518)**	**(24 270)**
8. Payments	**(186 000)**	**(25 000)**
Dividends	(186 000)	(25 000)
Subordinated debt financing	-	-
Equity instruments amortizations	-	-
Own equity instruments purchased	-	-
Other finances received	-	-
9. Collections	**482**	**730**
Subordinated debt financing	-	-
Issue own equity instruments	-	-
Disposal own equity instruments	-	-
Other finances charged	482	730
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**1 868 585**	**(14 614)**
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**437 826**	**452 440**
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**2 306 411**	**437 826**
MEMORANDUM ITEM	-	-
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	-	-
Cash (Note 6)	**10**	**10**
Cash equivalent balances with central banks (Note 6)	**2 027 159**	**56 033**
Other financial balances (Note 6)	**279 242**	**381 783**
Less: bank overdrafts repayables	-	-

INSTITUTO DE CRÉDITO OFICIAL AND DEPENDENT ENTITIES

Notes to the consolidated financial statements for the
year ended 31 December 2017

1. INTRODUCTION, BASIS OF PRESENTATION AND OTHER INFORMATION

1.1 Introduction

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

The Institute is domiciled at Paseo del Prado, 4, in Madrid, place where it carries out all of its activities without having any other office network in Spain.

The Institute is a public business entity of those provided for Article 103 of Law 40/2016, October 1st of Legal Regime of the Public Sector, pertains to the Minister of Economy, Industry and Competitiveness, through the Secretary of State for Economy and Company Support; it is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finance, as well as management autonomy to fulfill its purposes.

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

The Institute is governed by the provisions of the Law 40/2015, October 1st of Legal Regime of the Public Sector, through Additional Provision Six of Royal Decree-Law 12/1995 (28 December), on Urgent Budget, Tax and Financial Measures; By applicable provisions of the General Budget Act approved by Legislative Royal Decree 1091/1998 September 23th, by its by-laws, approved by Royal Decree 706/1999 (April 30th), on the adaptation of Instituto de Crédito Oficial to Law 6/1997 (April 14th) and the approval of its by-laws (Official State Gazette 114 published on May 13th 1999), and any other matter not covered by the above regulation, are governed by the special legislation applicable to credit institutions and general civil, mercantile and employment legislation.

At the end of 2016, the Council of Ministers approved the Royal Decree 1149/2015, December 18th, whereby modify certain precepts of the Instituto de Crédito Oficial (ICO) statutes in order to introduce improvements of corporate governance operation. In October of the same year the Public Sector legal regime law was developed by this standard, which gave input for the first time to four independent directors in the State Financial Agency. Objective selection criteria are also set such as the prestige and training, incompatibilities, and the mandate is for three years renewable only once for three more. In the case of Financial Matters of the own business the independent directors will have double vote, therefore, they will be majority in the Board (the General Board is composed of the president and 10 members (up to then 9)). Furthermore it was established that the appointment and dismissal of all the members corresponds to the Council of Ministers, on the proposal of the Minister of Economy, Industry and Competitiveness.

The Royal Decree approved by the Council of Minister develops these modifications. The requirements to be appointed as independent director include: recognized commercial and professional honourability, have appropriate knowledge and experience, not incurring potential permanent conflicts of interest and refrain from developing activities by self-employed or employed which involve effective competition with the ICO. Furthermore it is required not be linked to credit institutions; financial credit establishments; investment firms; collective investment schemes, Risk Capital Entities, as well as to its subsidiaries and group which they belong to or be associated with.

The General Board members will have to perform their functions always attending to the ICO interest, as well as keeping secret on information, data, reports and confidential backgrounds to which they have had access in the performance of their duties, even after their duties have ceased. The dismissal can occur by resignation accepted by the Minister of Economy, Industry and Competitiveness, expiry of the mandate for the independent members or termination in the case of the members from the public sector. Unexpected lack of suitability in the case of independent members will be cause of dismissal, just like serious breach of confidentiality duties or conflict of interest.

The Institute's purposes are to sustain and promote economic activities that contribute to growth, and the improvement of national wealth distribution, especially, of all those activities that deserve some support due to their social, cultural, innovative or ecological importance.

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

The Institute has also the following functions:

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

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

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

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

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

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

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

4. Company Internationalization Fund (FIEM for its initials in Spanish). This Fund was established in 2010 under Act 11/2010. Its activity consists on providing reimbursable financing for projects, under concessions or market terms, tied to the acquisition of Spanish goods and services and to the execution of Spanish investment projects or those of national

interest. The Institute acts as a Government agent and the structuring, administration and accounting for these transactions is kept separate from all other operations, in independent accounts maintained by the Institute and for what the ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

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

6. Finance Fund to Local Entities, resulting from the December 26th 17/2014 Royal Decree-Law, measures of financial sustainability of the autonomous communities and local entities and others of economic nature, in order to ensure financial sustainability of the municipalities attached, by addressing its financial requirements. The equity of the Fund is endowed by the result of the liquidation of the Fund for the Financing of Payments to Suppliers (created by Royals Decrees 4/2012 and 7/2012), which happens in all its rights and obligations, effective January 1st, 2015. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates for the Institute a pertinent trading commission.

7. Finance Fund to Autonomous Communities resulting from the December 26th 17/2014 Royal Decree-Law, measures of financial sustainability of the autonomous communities and local entities and others of economic nature, in order to ensure financial sustainability of the autonomous communities attached. The equity of the Fund is endowed by the result of the liquidation of the Autonomous Region Liquidity Fund (created by Royal Decree 21/2012), which happens in all its rights and obligations, effective January 1st, 2015. Also it included in the equity part of the funding mechanism for payment to suppliers in the part corresponding to Autonomous Communities. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates for the Institute a trading commission.

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

1.2 Basis of presentation of the financial statements

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

Consequently, the accompanying consolidated financial statements have been prepared from the accounting records of the entities Group and in accordance with the requirements established by International Financial Reporting Standards adopted by the European Union (IFRS-EU) and by Bank of Spain Circular 4/2004 of December 22, and subsequent amendments, the Spanish Code of Commerce, the Capital Enterprises Act or other Spanish legislation that is applicable, so that they present fairly the net worth and financial situation of the Group at 31 December 2017 and the results of its operations, of changes in equity and consolidated cash flows for the year ended on that date.

The information contained in these consolidated financial statements for the year 2016 is presented only for comparative purposes with the information relating to the year 2017 and therefore does not constitute the Group's annual accounts for the year 2016.

Major regulatory changes occurred in the period between January 1 and December 31, 2017

Below are the main novelties that have occurred in the regulations applicable to the Institute in the year 2017 and which have been considered in the preparation of these annual accounts without significant impacts on either the figures reported or the presentation and breakdown from the same:

Circular 3/2017, of 24 October, amending Circular 2/2014, of 31 January, on the implementation of the regulatory options contained in EU regulation 575/2013 (prudential requirements).

In this rule, the Bank of Spain amends certain aspects relating to the scope of application of Circular 2/2014 (for less significant entities only) and its content (to bring it into line with ECB guidelines).

Circular 4/2017, of 27 November, on public and confidential reporting standards and models of financial statements for credit institutions

On January 1, 2018, Bank of Spain Circular 4/2017 went into effect as the new accounting regulatory framework for credit institutions, and thus applicable to the ICO. Circular 4/2017, of November 27, on public and confidential reporting standards and financial statements models for credit institutions aims to adapt the Spanish accounting regime for credit institutions to changes in European accounting regulations as a result of adopting two new International Financial Reporting Standards, IFRS 15 and IFRS 9, effective January 1, 2018. These standards amend the accounting criteria for revenue from contracts with customers and financial instruments, respectively.

The effects of the new regulations will impact the ICO's accounting for 2018, particularly:

- Adjustments of credit risk provisions. The regulations establish a change in the impairment model, which will no longer be based on incurred loss but on expected loss. As a result, the provisioning percentages for alternative solutions established in Bank of Spain Circular 4/2016 (applied by the ICO) have been updated both for standard exposures, normal watchlist exposures, and doubtful exposures due to arrears. Country risk provisions have likewise been amended. The application of these adjustments are retroactive and are thus recorded directly against reserves and not profit (loss) for the year. The impact on the ICO of the effects of these adjustments was a decrease in reserves amounting to 122,310 thousand euros, which was recognized in January 2018.

- Changes in the portfolios in which the financial assets are recorded for measurement purposes. Financial asset portfolios are generally classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss. The circular provides for the retroactive reclassification of certain items, once the related standards go into effect. The impact on the ICO is summarized below:

  In January 2018, the ICO's governing bodies approved the business model reflecting the changes established by the Circular. In general, the related assets are measured using the same criteria applied to date, given that they are classified in equivalent portfolios, since they meet the requirements for doing so.

  In addition, in same month, the ICO completed a specific analysis to verify compliance with the SPPI test (payment of principal and interest only) for the entire financial assets portfolio consisting of debt instruments. The conclusion is that the available-for-sale and held-to-maturity portfolios on the balance sheet at January 1, 2018 comply with the test.

  In accordance with the Circular, the ICO has agreed to reclassify certain financial assets (bonds) from the financial assets at amortized cost portfolio (formerly the held-to-maturity portfolio) to the financial assets at fair value through other comprehensive income. The amount reclassified was 970 million euros, with an estimated impact on comprehensive income of 19 million euros.

Moreover, the ICO agreed to reclassify certain equity instruments, previously measured at fair value through comprehensive income, to the financial assets at fair value through profit or loss. The retroactive application of this standard represented an increase in reserves amounting to 5 million euros.

- Finally, the regulatory change in accounting hedges established by the standard does not affect the ICO, since it opted, as permitted by the Circular, to continue to apply the model in force to date, until it becomes necessary to apply the international standards to macro-hedges.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- **Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"**

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- **Amendments to IAS 27: "Equity method in the separate financial statements"**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- **Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an investor and its Associate or Joint Venture"**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements *2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

- **IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"**

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

- **IFRS 7 "Financial Instruments: Disclosures"**

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

- **Amendments to IAS 1 "Disclosure Initiative"**

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and statement of changes in equity may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. These amendments are not expected to have any impact on the Group.

- **Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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

The consolidated financial statements for the year 2017 of the Group have been prepared by the Chairman of the Institute dated on March 26th, 2018, still pending approval by the General Board of the Institute, parent entity of the Group, which is expected to approve them without significant changes. These consolidated financial statements, unless otherwise stated, are presented in thousands of Euros.

1.3 Responsibility for information and estimates made.

The information contained in the financial statements for the year ended 31 December 2017 and the accompanying Notes regarding those financial statements are responsibility of the Chairman. During the preparation of these financial statements, some estimations have been made by ICO to quantify certain assets, liabilities, income, expenses, and commitments included in those statements. These estimations basically refer to:

- Impairment losses on certain assets (Note 2.7).
- Assumptions used in actuarial calculations of liabilities and commitments related to post-employment benefits and other long-term commitments with employees. (Note 2.10.2).
- Useful life of fixed assets and intangible assets (Notes 2.12 and 2.13).
- Losses on future obligations derived from contingent risks (Note 2.14).
- The fair value of certain unlisted assets (Note 2.2.3).
- Recoverability of deferred tax assets (Note 15).

Although these estimations were made based on the best information available at December 31st, 2017 in relation with the analysed facts, future events could lead significant adjustments to be made (upward or downward) in coming years. These changes would be made prospectively, to recognise the impact of the change in the estimation of the income statement for the specific years.

1.4 Transfer of assets and liabilities from the extincted Argentaria

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

Based on what was established in the A.C.M. on 15th January 1993, the Institute acquired on 31st December 1992, the assets and liabilities pertaining to BCL, BHE, BCA and BEX derived from economic policy operations that were guaranteed by the State or the Institute and, specifically, the loans and guarantees provided to companies in conversion (covered by the conversion and re-industrialization legislation). Also they were acquired exceptional loans granted to victims of floods, the loans granted by these entities prior to their transformation into public limited liability companies, as well as other assets, rights and equity investments.

Furthermore, on 25th March 1993, a management contract was signed with the relevant banks, regarding the assets and liabilities transferred, including its administration as well as its correct accounting in accordance of the current banking legislation. Management commissions accrued from the years 2017 and 2016 have been a total of 397 and 277 thousands of euros, respectively.

At 31 December 2017 and 2016, the breakdown by nature of the transferred assets and liabilities that were managed at those dates by BBVA (the entity resulting from the integration of all of the above, among others), is set out below:

	Thousands of euros	
Assets and liabilities managed by BBVA	**2017**	**2016**
Credit Institutions	9	9
Loans to Spanish Public Administrations	159	225
Loans to other resident sectors	3	18
Doubtful assets (*)	1 855	1 844
Non-current assets	383	382
Sundry accounts	191	190
Total assets	2 600	2 668
Sundry accounts	215	220
Connection account with ICO	2 295	2 311
Profit of the year	90	137
Total liabilities	2 600	2 668

(*) Gross amounts. The amounts are 100% provisioned.

1.5 Presentation of individual financial statements

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

A summary is set out below of the individual balance sheet, individual income statement, individual statement of changes in equity and individual cash flow statement of Instituto de Crédito Oficial for the years ended 31 December 2017 and 2016, prepared under the same accounting principles and standards as applied by the Group in consolidated financial statements:

a) Individual balance sheets at 31 December 2017 and 2016:

	Thousands of euros	
	2017	**2016**
Cash and balances with Central Banks and demand deposits	2 306 410	437 825
Financial assets held for trading	164 770	254 389
Available-for-sale financial assets	1 376 391	1 800 530
Loan and receivables	27 535 698	34 237 709
Held-to-maturity investment portfolio	9 840 836	10 504 208
Hedging derivatives	517 145	1 222 013
Shareholdings	44 444	44 446
Tangible assets	89 965	82 204
Intangible assets	7 880	9 079
Tax assets	264 509	222 544
Other assets	37 812	36 526
Non-current assets held for sale	22	-
Total assets	42 185 882	48 851 473
Financial liabilities held for trading	161 007	249 858
Financial liabilities at amortised cost	36 057 970	42 396 682
Hedging derivatives	363 492	218 726
Provisions	304 665	239 260
Tax liabilities	15 447	66 837
Other liabilities	2 902	6 503
Total Liabilities	36 905 483	43 177 866
Other accumulated global results	(130 880)	116 733
Own funds:	5 411 279	5 556 874
Capital or endowment fund	4 313 067	4 312 585
Reserves	996 289	928 945
Profit and loss for the period	101 923	315 344
Total equity	5 280 399	5 673 607
Total equity and liabilities	42 185 882	48 851 473
Contingent risks	605 138	824 186
Contingent commitments	3 225 921	2 748 003
Total memorandum item	3 831 059	3 572 189

b) Individual income statements for the years ended 31 December 2017 and 2016:

	Thousands of euros	
	2017	2016
Interest and similar income	521 488	899 753
Interest and similar charges	(590 599)	(874 163)
Net interest income	**(69 111)**	**25 590**
Return on equity instruments	5 173	5 552
Fee and commissions income	46 197	50 248
Fee and commissions expense	(3 388)	(12 898)
Gains or losses on financial assets and liabilities measured at fair value (net)	(3 620)	(152 151)
Gains or losses on financial assets held for trading	11 326	10 551
Exchange differences (net)	24 553	2 839
Other operating income	4 794	1 468
Other operating expenses	-	-
Net operating profit	**15 924**	**(68 801)**
Administrative expenses	(34 354)	(33 437)
Depreciation and amortization	(6 031)	(5 251)
Provisions expense or reversal of provisions	3 843	96 598
Financial asset not measured at fair value impairment losses (net)	156 547	458 002
Non-Financial asset impairment losses (net)	9 876	(141)
Gains or losses from non-current assets held for sale	182	1 132
Profit before tax from ongoing operations	**145 987**	**448 102**
Income tax from ongoing operations	(44 064)	(132 758)
Profit for the period from ongoing operations	**101 923**	**315 344**
Profit / Loss from discontinued operations (net)	-	-
Profit for the year	**101 923**	**315 344**

c) Statement of changes in equity. Statements of individual income and expense recognized for the years ended 31 December 2017 and 2016

	Thousands of euros	
	2017	2016
Profit for the year:	101 923	315 344
Other income and expenses recognized:	(247 613)	62 510
Available – for – sale financial assets	(4 144)	(876)
Financial liabilities at fair value with changes in equity	-	-
Hedging of cash flows	(349 589)	90 176
Hedges of net investments in foreign	-	-
Exchange differences	-	-
Non – current assets held for sale	-	-
Income tax	106 120	(26 790)
Total recognized income and expenses	(145 690)	377 854

d) Statement of changes in equity. Individual statements of changes in equity for the years ended 31 December 2017 and 2016:

Thousands of euros

At December 31, 2017	SHAREHOLDERS EQUITY									
	Capital /Endowment Fund	Share premium	Reserves	Other equity instruments	Less: Treasury shares	Profit for the year	Less: Dividends and remuneration	Total Own Funds	Other accumulated global results	TOTAL NET EQUITY
Ending Balance at December 31, 2016	4 312 585	-	928 945	-	-	315 344	-	5 556 874	116 733	5 673 607
Total income and expenses recognized	-	-	-	-	-	101 923	-	101 923	(247 613)	(145 690)
Other increases (decreases) in net worth										
Other changes in the increases in capital endowment	482	-	-	-	-	-	-	482	-	482
Transfers between equity	-	-	67 344	-	-	(315 344)	248 000	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	(248 000)	(248 000)	-	(248 000)
Total other increases (decreases) in net worth	482	-	67 344	-	-	(315 344)	-	(247 518)	-	(247 518)
Ending Balance at December 31, 2017	4 313 067	-	996 289		-	101 923	-	5 411 279	(130 880)	5 280 399

Thousands of euros

At December 31, 2016	SHAREHOLDERS EQUITY									
	Capital /Endowment Fund	Share premium	Reserves	Other equity instruments	Less: Treasury shares	Profit for the year	Less: Dividends and remuneration	Total Own Funds	Other accumulated global results	TOTAL NET EQUITY
Ending Balance at December 31, 2015	4 311 855	-	911 568	-	-	42 377	-	5 265 800	54 223	5 320 023
Total income and expenses recognized	-	-	-	-	-	315 344	-	315 344	62 510	377 854
Other increases (decreases) in net worth										
Other changes in the increases in capital endowment	730	-	-	-	-	-	-	730	-	730
Transfers between equity	-	-	17 377	-	-	(42 377)	25 000	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	(25 000)	(25 000)	-	(25 000)
Total other increases (decreases) in net worth	730	-	17 377	-	-	(42 377)	-	(24 270)	-	(24 270)
Ending Balance at December 31, 2016	4 312 585	-	928 945	-	-	315 344	-	5 556 874	116 733	5 673 607

e) Individual cash – flow statements for the years ended 31 December 2017 and 2016.

	Thousands of euros	
	2017	**2016**
Net cash – flows from operating	**1 393 395**	**(293 429)**
activities: Profit for the year	101 923	315 344
Adjustments for cash flows from operating activities	(115 286)	(421 011)
Net increase/decrease in operating assets	7 919 351	12 983 036
Net increase/decrease in operating liabilities	(6 419 238)	(13 223 015)
Collections/payments for income tax	(93 355)	52 217
Net cash flows for investing activities:	**660 708**	**303 085**
Payments	(6 185 624)	(8 642 172)
Collections	6 846 332	8 945 257
Net cash flows for financing activities	**(185 518)**	**(24 270)**
Effect of exchange rate fluctuations	-	-
Net increase/decrease in cash or cash equivalents	**1 868 585**	**(14 614)**
Cash or cash equivalents at beginning of the year	437 825	452 439
Cash or equivalents at end of the year	2 306 410	437 825

1.6 Environmental impact and greenhouse effect gas emission rights

The Group's global transactions follow the laws on environmental protection. The Institute deems that the Group substantially complies with these Laws and that it maintains procedures designed to ensure and encourage its compliance.

The Institute considers that the Group has taken appropriate environmental protection and improvement measures and for minimizing, when possible, the environmental impact following the rules regarding this matter. In 2017 and 2016 the Group has not carried out significant environmental investments and neither has it considered it necessary to register any provision for environmental risks and charges. Furthermore, the Institute has not considered any significant contingencies in relation with environmental protection and improvement. Likewise, ICO does not have greenhouse effect gas emission rights.

1.7 Minimum coefficients

1.7.1 Minimum equity ratio

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

The Law 10/2014 of June 26, concerning management, supervision and solvency of credit institutions, has replaced, from 1st January 2014, the former legal body concerning prudential banking regulation (Law 13/1985, from May 25 and Circular 3/2008 of the Bank of Spain). Previously, the European Union moved to its legal system Basel III accords, as of December 2010, by Regulation (EU) No 575/2013 of the European Parliament and of the Council from June 26th, 2013 on the prudential requirements for credit institutions and investment services companies, amending Regulation (EU) No 648/2012 and Directive 2013/36/EU of the European Parliament and of the Council of June 26 2013, relating to the activity of credit institutions and the prudential supervision of credit institutions and investment services companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC as transposed into our system started with Royal Decree-Law 14/2013, of 29 November, on urgent measures for adaptation of Spanish law with the norms of the European Union supervision and solvency of financial institutions.

The main purpose of the Law 10/2014, of June 26th, has been adapting Spanish law to regulatory changes imposed on the international stage and the European Union, directly incorporating the provisions of Regulation (EU) 575/2013 of June 26th (CRR), and making the proper transposition of Directive 2013/36/EU of June 26th (CRD). These Community rules have led to a substantial alteration of the rules applicable to credit institutions, since aspects such as the supervisory regime, capital requirements and penalty system has been extensively modified.

The CRR and CRD regulate capital requirements in the European Union and include the recommendations set out in the Basel III capital regulatory framework or agreement, specifically:

- The CRR, which is directly applicable to Member States, contains prudential requirements for credit institutions and covers, inter alia, the following:

    - The definition of elements of eligible own funds, establishing requirements for hybrid instruments to be included and limiting the eligibility of minority interests.

    - The definition of prudential filters and deductions of items in each capital levels. In this respect, the Regulation includes new deductions compared to Basel II (deferred tax assets, pension funds) and introduces changes to existing deductions. Nevertheless, it notes that the Regulation establishes a phase calendar until its final full implementation between 5 and 10 years.

    - Establishment of minimum requirements (Pillar I), with three levels of own funds: a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a minimum requirement total capital ratio of 8%.

    - Requirement of financial institutions to calculate a leverage ratio, defined as Tier 1 capital divided by total exposure unadjusted for risk. The disclosure requirement will be applicable from 2015 onwards. The final leverage ratio will be tested during the monitoring period until 2017 when the Committee will decide on the final definition and calibration.

- The aim and main purpose of the CRD, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment firms and their governance and supervisory framework. The CRD includes, *inter alia*, additional capital requirements to those established in the CRR, which will be phased in gradually until 2019. Failure to comply will imply restrictions on the discretionary distributions of profit, specifically:

  - A capital conservation buffer and a countercyclical capital buffer, extending the regulatory framework of Basel III, to mitigate pro-cyclical effects of financial regulation. All financial institutions must maintain a capital conservation buffer of 2.5% above Common Equity Tier 1 and an institution-specific countercyclical capital buffer above Common Equity Tier 1.

  - A systemic risk buffer. For global systemically important institutions and other systemically important institutions to mitigate systemic or macro prudential risks; i.e. risks of disruptions in the financial system with the potential to have serious negative consequences for the financial system and the real economy in a specific Member State.

  - In addition, the CRD, within the oversight responsibilities, states that the Competent Authority may require credit institutions to maintain a larger amount of own funds than the minimum requirements set out in the CRR (Pillar II).

Pursuant to the Additional Provision 8th of Law 10/2014, of June 26, on management, supervision and solvency of credit institutions, the Instituto de Crédito Oficial will apply Titles II (Solvency of credit institutions), III (Supervision) and IV (Legal penalties) of that Law, except as determined by regulations, and the provisions regarding duty of confidentiality of information.

From the period 2015, according with Circular 2/2014 of Bank of Spain, capital buffers established in this norm are applicable. In this sense, ICO complies with the capital conservation buffer (2.5%), without any established amount for the specific countercyclical capital buffer by the Banking Supervisor this year. ICO is not an entity of global systemic importance (EISM for its initials in Spanish) nor is it considered as a systemically important entity (EIS for its initials in Spanish).

At December 31, 2017 and 2016, the ICO Group's computable equity is as follows:

	Thousands of euros	
	2017	**2016**
Common Equity Tier 1 (*)	5 277 868	5 204 344
- Capital	4 313 068	4 312 585
- Reserves and prudential filters (**)	964 800	891 759
Tier 2	19 854	20 836
- Other reserves (**)	-	-
- Generic insolvency risk coverage	19 854	20 836
Total computable capital	5 297 722	5 225 180
Total minimum capital (***)	1 289 525	1 419 740

(*) The Group has no additional Common Equity Tier 1
(**) The total reserves used for the calculation of capital of the group computable differ from those recorded in the consolidated balance sheet because in the calculation of capital are given: adjustments for intangible assets and adjustments for reserves.
(***) Calculated as 8% of risk-weighted assets (RWA), according to EU Regulation 575/2013

At December 31, 2017 and 2016, the most important data of the minimum capital of the Group are (in thousands Euros):

	2017	2016
Tier 1	5 277 868	5 204 344
Risk-weighted assets (RWA)	16 119 064	17 746 746
Tier 1 ratio (%)	32,74%	29,33%
Computable total Capital	5 297 722	5 225 180
Computable total Capital ratio (%)	32,87%	29,44%
Minimum computable capital ratio (%) (*)	10,5%	10,5%

(*) ICO's minimum computable capital ratio is 10.5%, considering the capital buffers

At December 31, 2017 and 2016 computable Capital of the Group, calculated, where appropriate, on a consolidated basis, exceeds the minimum requirements required by applicable regulations on 4,008,197 thousand euros and 3,805,440 thousand euros, respectively.

1.7.2 Minimum reserves ratio

The Institute must maintain a minimum level of funds deposited in a central bank of an euro country to cover the minimum reserve requirements. At 31 December 2017, this level was 2% of computable liabilities. On 24 November 2011, Regulation (EU) No 1358/2011 came into effect, requiring 1% for additional computable liabilities (time deposits of over two years drawable subject to a notice period of more than two years, sales under repurchase agreements and securities other than shares with maturities of over two years). This amendment was applied following the maintenance period that started on 18 January 2012.

At December 2017 and 2016, and throughout 2017 and 2016, the Group complied with the minimum ratios required by applicable Spanish regulations.

1.7.3 Capital management

The Group considers capital, as management purposes, Tier 1 and Tier 2 computable regulated by the legislation which is applicable to it for solvency purposes (EU Regulation 575/2013).

In this sense, the regulatory capital requirements are incorporated directly in the management thereof in order to maintain at all times a solvency ratio higher than 10.5%. This objective is met through a proper capital planning.

1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December, on Tax, Administrative and Social Security measures, amended by aforementioned Law 42/2006, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and the Institute itself, will form part of the Institute's equity. The amount estimated for 2017 totals €500 thousands, which will be registered in 2018.

Like year 2017, chapter VIII of the General State Budgets for 2018 is not contemplated new contribution to ICO's equity.

In 2018, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalized by government order, new credit lines for businesses and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute objectives. The main lines approved are:

- Línea ICO Empresas y Emprendedores 2018: this ICO line provides finance to freelances and companies performing its investments within the country and that need to fulfil their liquidity needs. Individuals and landlord communities can also take advantage of this line for housing restoration.

- Línea ICO Garantía SGR/SAECA 2018: this ICO line provides finance to freelances and Spanish or mixed companies, which resources are mainly located in Spain, within a Reciprocal Guarantee Company (SGR for its initials in Spanish) or the state-owned corporation of Caución Agraria (SAECA for its initials in Spanish).

- Línea ICO Crédito Comercial 2018: this ICO line provides finance to freelances and Spanish or mixed companies established in Spain, to obtain liquidity through the advance of the amount of the invoices from their commercial business within the national territory.

- ICO-IDEA Energy efficiency facility 2017-2018. Financing for:
  - Industry and commerce: Companies in the industrial and commerce sector that build facilities to reduce their daily carbon emissions and consumption of final energy, which are also included in the IDAE catalogue of measures.

- Hospitality: Individuals and companies in the hospitality business that carry out initiatives included in the catalogue of measures of the Renove Energy Efficiency and Savings Plan for the sector.

- Línea ICO Internacional 2018: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish performing productive investments overseas and/or that need to fulfil its liquidity needs.

- Línea ICO Exportadores 2018: this ICO line provides finance to freelances and Spanish companies that have a need of liquidity, and help them though advances in bills coming from its export activity or to cover pre-production and manufacturing costs for the products they export.

- LICO International channel facility 2018: Financing to support the internationalisation process for self-employed professionals and companies. The main difference between this product and the ICO International Facility and the ICO Exporters Facility is that the loans are applied for at local banks or international institutions that have a central office in the country where the investment projects or export activities are carried out.

- The total amount of these lines increases up to 4,900 million euros. During January 2018, the ICO and credit institutions that submitted the application for membership of these credit lines, handled the drafting and signatures of the contracts.

No significant events other than those described in the previous paragraphs have occurred since the end of the reporting period (31 December 2017) until the date these consolidated financial statements were issued (26 March 2018).

1.9 Information per business segment

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

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

1.10 'ICO Direct' lending activities

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

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

The breakdown by nature of ICO Direct's assets and liabilities at 31 December 2017 and 2016 disaggregated by managing entity is as follows:

				Thousands of euros
		2017		**2016**
Assets and liabilities of ICO Direct	**BBVA**	**BS**	**BBVA**	**BS**
Loans and advances to other resident sectors	6 215	5 764	13 928	18 224
Distressed assets	-	-	-	-
Other	-	-	-	-
Total assets	**6 215**	**5 764**	**13 928**	**18 224**
Sundry accounts	-	-	-	-
Connection account with ICO	1 679	2 892	12 902	15 135
Profit for the year	4 536	2 872	1 026	3 089
Total liabilities	**6 215**	**5 764**	**13 928**	**18 224**

1.11 ICO local corporation/entities lending activity in 2011

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

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

The ICO-Local Corporation Facility was in operation from July 2011 to November 2011. During this time, the facility enabled 1,029 local, regional and inter-island town councils throughout Spain to settle 222,975 outstanding invoices(which amounted a total of 967 million Euros) for supplies works and services provided by 38,338 self-employed individuals and SMEs during 2011.

The formalization and administration of the 2011 ICO-Local Corporation Facility operation is carried out through several EECC added to the project.

The breakdown by nature of assets and liabilities related to the 2011 ICO-Local Corporation Facility at December 31, 2017 and December 31, 2016 disaggregated by management entities are as follows:

	Thousands of euros	
ICO EELL 2011 Assets and Liabilities Balance sheet	**2017**	**2016**
Loans and Advances to Spanish Public Administrations	-	-
Distressed Assets	5 202	6 800
Other	-	-
Total assets	5 202	6 800
Connection account with ICO	5 202	6 800
Profits for the year	-	-
Total liabilities	5 202	6 800

This line is guaranteed to the "Instituto" with the Participation in State Income (PTE for its initials in Spanish) of the borrowing EELL. The reduction in the outstanding balance of this line, from the beginning of it and until December 31, 2017, under the PTE, is 60.1 million euros (58.8 million euros at December 31, 2016). Of the 1,029 hosted entities to December 31, 2017, a total of 409 entities have had to resort to the PTE. At December 31, 2017 are still claiming deductions of PTE to 20 EELL, for an outstanding amount of 5.2 million euros.

2. ACCOUNTING PRINCIPLES, POLICIES AND MEASUREMENT METHODS APPLIED

During the preparation of Group's consolidated financial statements for the years ended 31 December 2017 and 31 December 2016, the following accounting principles, policies and measurement methods have been applied:

a) Going concern principle

In preparing the financial statements has been considered that the management of the Institute will continue in a foreseeable future. Therefore, the application of accounting standards is not designed to determine the net asset value for the purpose of global or partial transfer in the event of liquidation.

b) Accruals principle

The financial statements, except what is related to the cash flow statements, have been prepared on the basis of the real flow of goods and services, regardless the date of payment or collection.

c) Other general principles.

The financial statements have been prepared under the historical cost approach, but modified due to the revaluation, in the case of, land and buildings (only at 1 January 2004) (Note 13), financial assets available for sale and financial assets and liabilities (including derivatives) at fair value.

2.1 Shareholdings

2.1.1 Subsidiaries

Subsidiaries are those over which the Bank has control. It is understood that an entity controls a participated when it is exposed, or has rights, to variable returns about its involvement with the investee and has the ability to affect those returns through the power exercised over the participated.

Consideration as subsidiaries requires:

- Power: An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities; i.e. the activities that significantly affect the investee's returns;

- Returns: An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.

- Link between power and returns: An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

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

Additionally, third-party interests in the:

• Group's equity is presented in "Minority interests" in the consolidated balance sheet, without balance at 31 December 2017 and 2016.

• Consolidated results for the year are presented in "Surplus attributed to minority interests" in the consolidated income statement, without balance at 31 December 2017 and 2016.

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

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

2.1.2 Associates

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

Shareholdings in "Associates" are presented in these financial statements under the heading "Investments in subsidiaries, joint ventures and associates" in the balance sheet and are valued at acquisition costs, adjusted to any impairment that they may have undergone.

The results on the transactions between the associate and Group companies are removed in the percentage represented by the Group's interest in the associate. The results recorded in the year by the associate, after the removing explained above, increase or decrease, as appropriate, the value of the relevant shareholding in the consolidated financial statements. The amount of these results is recorded under "Share of results of entities accounted for using the equity method" in the consolidated income statement (Note 27).

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

Appendix I provide relevant information on these entities.

2.2 Financial Instruments

2.2.1 Initial recognition of financial instruments

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

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

2.2.2 Transfers and disposal of financial instruments

Financial instruments transfers are recorded taking into account the way in which risks and benefits associated with the transferred financial instruments are transferred, based on the following criteria:

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

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

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

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

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

Therefore, financial assets are only removed from balance sheet when the cash flows generated have been extinguished or when the implicit risks and benefits have been transferred to third parties.

Similarly, financial liabilities are only removed off the balance sheet when the obligations generated have been extinguished or when they are purchased with the intention to cancel or to replace them again.

2.2.3 Fair value and amortised cost of financial instruments

<u>Financial assets:</u>

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

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

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

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

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

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

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

Variations in financial assets amounts are registered, in general, with counterpart in the profit and loss account, differentiating between those that are caused by the accrual of interest and similar items that are recorded in 'Interest and similar income', and those corresponding to other causes, which are recorded by the net amount under the heading of 'Gains or losses on financial assets and liabilities measured at fair value'. However, changes in instruments value included in the portfolio 'Available for sale financial assets' are recorded temporarily in the epigraph 'Other accumulated global results' as adjustment in Net Equity, unless they come from exchange differences. The amounts in the epigraph 'Valuation adjustments' remain part of net equity until they are removed from balance sheet assets where they are originated, moment when they are written off against profit and loss account.

Also, changes in the value of the items included under the heading 'Non-current assets held for sale' are recorded under consideration 'Other accumulated global results' as adjustment in consolidated net Equity.

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

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

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

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

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

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

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

- In cash flow hedges, the valuation differences arising from the effective coverage of the coverage items are temporarily registered under the heading of 'Other accumulated global results' as adjustment in net Equity.

- In net foreign investments coverage, valuation differences arising from the effective coverage of the coverage items are temporarily registered under the heading of 'Other accumulated global results' as adjustment in net Equity.

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

In interest rate risk's fair value hedges of a financial instruments portfolio, gains or losses that arise when assessing the hedging instruments are recognized directly in the profit and loss account, whereas the gains or losses in the amount covered fair value changes, in regard to the hedged risk, are recognized in ‘Other accumulated global results’ as adjustment in financial assets by macro coverage.

In interest rate risk cash flows hedging of a financial instruments portfolio, the effective part of the hedging instrument's value fluctuation is recorded temporarily in ‘Other accumulated global results’ as adjustment in net Equity until expected transactions occur, being then recorded in the profit and loss account. The ineffective portion of the hedging derivative's value fluctuation is directly registered on the profit and loss account.

Financial liabilities:

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

- Financial liabilities included in epigraphs ‘Financial liabilities held for trading’, ‘Financial liabilities at fair value through profit or loss’ and ‘ Financial liabilities at fair value with changes in equity’, as defined for financial assets in the previous note, are recorded at fair value. Financial liabilities covered by fair value hedging operations are adjusted, being registered those fair value variations related to the hedged risk covered by the hedge operation.

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

Financial liabilities amount's variations are recorded, in general, offset by the profit and loss account, differentiating between those that are caused by interest accrual and similar items that are recorded in the heading of ‘ Interest and similar incomes’, and those corresponding to other causes, which are recorded by its net amount under the heading of ‘Gains or losses on financial assets and liabilities not measured at fair value’ in consolidated profit and losses account.

However, items included under the heading of financial liabilities at fair value with changes in equity value variations, are recorded temporarily in ‘Other accumulated global results’ as adjustment in net Equity. The abovementioned amounts remain being part of net equity until liabilities, in which they were originated, are removed from the balance sheet, moment when they are written off against profit and loss account.

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

2.2.4 Classification and measurement of financial assets and liabilities

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

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

- Financial assets and liabilities at fair value through profit or loss: this category is made up from financial instruments classified as trading portfolio and other financial assets and liabilities classified at fair value through profit or loss:

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

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

- "Other financial assets or liabilities at fair value through profit or loss" are:

  - Financial assets that, without being included in Trading portfolio, are considered hybrid financial assets and are valued at fair value and those that are managed jointly with Liabilities under insurance contracts, valued at their fair value or with financial derivatives whose purpose and effect is to reduce its exposure to fluctuations in fair value or which are managed jointly with financial liabilities and derivatives in order to reduce the overall exposure to interest rate risk.

  - Financial liabilities designated at initial recognition by the entity or once designated, more relevant information is obtained due to:

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

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

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

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

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

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

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

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

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

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

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

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

  Balancing entries are made in "Interest and similar income" (calculated using the effective interest rate method) and ‘Dividends income’ in the consolidated income statement, regarding changes in the fair value of financial assets classified as available for sale, related to interest or dividends accrued, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are registered as mentioned in Note 2.4. Changes in fair value of financial assets covered by fair-value hedges are stated as mentioned in Note 2.3.

  A balancing entry is made in ‘Other accumulated global results’ as adjustment in the measurement of financial assets available for sale, in the Group's equity, regarding the remaining changes to the fair value from the acquisition date of available-for-sale financial assets, until the financial asset is written off, when the balance is taken to ‘Gains or losses on financial assets and liabilities measured at fair value – Available-for-sale financial assets’ in the consolidated income statement.

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

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

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

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

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

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

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

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

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

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

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

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

In these situations, assets reclassification are done at fair value, without reversing the results, and considering this value as their cost or amortized cost, as appropriate. This financial assets reclassification cannot be reclassified into trading portfolio again.

During 2017 and 2016, there has been no reclassification mentioned in this section.

2.3 Financial derivatives

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

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

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

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

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

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

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

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

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

- For fair-value hedges, differences in the fair value of both hedges and hedged components, regarding the type of risk hedged, are recognized directly in the income statement.

- For cash-flow hedges, measurement differences arising on the efficient part of the cover of the hedges are temporarily carried under ‘Other accumulated global results’ as adjustment in assessment of cash flow hedges. Hedged financial instruments in this type of hedge are carried according to the criteria explained in Note 2.2, without any modification due to being considered as such.

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

Hedge measurement differences related to the inefficient portion of cash-flow hedges are recognized directly under the heading ‘Gains or losses on financial assets and liabilities measured at fair value’ in the consolidated income statement.

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

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

In the case, a cash-flow hedge transaction must be interrupted, the accumulated gain or loss from the hedge carried under the heading ‘Other accumulated global results’ as adjustment in assessment of cash flow hedges in the balance sheet, will remain under this heading until the planned hedge transaction takes place, at which time it will be taken to the income statement, or the cost of acquiring the asset or liability to be recorded will be adjusted, in the event that the hedged component is a planned transaction that culminates with the recording of a financial asset or liability. In the event of planned transactions, when expected not to take place, the entry made under ‘Other accumulated global results’ as adjustment in assessment of cash flow hedges relating to that transaction is immediately recognized in the income statement.

2.4 Foreign currency transactions and functional currency

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

Set out below are the assets and liabilities denominated in foreign currency held by the ICO, as parent entity of the Group at 31 December 2017 and 2016 (thousands of euros):

	2017		2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Pounds sterling	205 384	-	152 234	365 838
US Dollars	1 012 169	6 133 819	1 321 730	4 492 468
Swiss Francs	66	462 475	98	577 016

Japanese Yen (Millions)	851	192 578	986	491 231
Other - currencies (Euros)	203 325	663 300	182 288	350 924
	1 421 795	**7 452 172**	**1 657 336**	**6 277 477**

The equivalent value in Euros of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Institute, at 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	2017		**2016**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Loans to Credit Institutions	341 976	-	501 443	-
Loans to Customers	1 078 1644	-	1 155 893	-
Other financial assets	1 655	-	-	-
Deposits in Credit Institutions	-	772 813	-	665 457
Debt securities issued	-	6 677 695	-	5 612 020
Other financial liabilities	-	1 664	-	-
	1 421 795	7 452 172	1 657 336	6 277 477

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

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

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

iii) Non-monetary items measured at fair value are converted to the exchange rate on the date its fair value is determined.

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

Exchange differences arising from conversion of debtor and creditor balances denominated in foreign currency are generally recorded in the income statement. Nonetheless, in the case of exchange differences that arise from non-monetary items measured at fair value, for which the fair-value adjustment is recorded under ‘Other accumulated global results’, the component of the exchange rate relating to the revaluation of the non-monetary element is broken down.

The exchange rates used by the Group to convert balances denominated in the main foreign currencies in which it operates are the market rates at 31 December 2017 and 2016 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising from the conversion of receivables and payables denominated in foreign currency, arises up to 24,553 thousand euros profit at 31 December 2017 (2,839 thousand euros profit at 31 December 2016).

2.5 Recognition of revenue and expense

Below, there is a summary of the most significant accounting policies used by the Group to recognise incomes and expenses.

2.5.1 Interest income and expense, dividends and similar items:

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

2.5.2 Commissions, fees and similar items:

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

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

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

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

2.5.3 Non-financial income and expense:

These amounts are accounted on an accruals basis.

2.5.4 Deferred collections and payments:

Deferred collections and payments are recognized at the amount obtained by discounting forecast cash flows at market rates.

2.6 Offset of balances

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

2.7 Financial asset impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In general, impairment of debt instruments is calculated by applying the following percentages to the outstanding risk not covered by the amount to be recovered from the effective collateral, based on the risk segment to which the operation belongs and the seniority of past due amounts, in accordance with the model provided by the Bank of Spain on the basis of its experience in the Spanish market: :

	From over 90 days to 6 months	**From over 6 to 9 months**	**From over 9 to 12 months**	**From over 12 to 15 months**	**From over 15 to 18 months**	**From over 18 to 21 months**	**Over 21 months**
Non-credit entities and individual entrepreneurs							
Special Financing							
Construc and property develop.	40	55	70	80	85	95	100
Construc civil work	45	60	70	80	85	95	100
Other espec. financing	20	30	30	55	80	85	100
Non-special Financing							
Large companies	30	70	80	90	95	100	100
SMEs	40	55	65	75	80	90	100
Individual entrepreneurs	25	40	55	70	80	90	100

Houses							
House purchase							
Main residence unpaid (LTV) <80% guarantee	20	30	40	55	65	80	100
Main residence unpaid (LTV) >80% guarantee	20	30	40	55	65	80	100
Secondary residence	20	30	40	55	65	80	100
Consumer credit (incl. credit card debts)	60	70	85	90	95	100	100
Other	60	70	85	90	95	100	100

The generic provisions for operations classified as normal risk, will be different to that calculated for regular risk in the watch-list. Both are calculated by applying the following percentages to the outstanding exposure not covered with effective guarantees:

	Normal risk	**Regular risk in the watch-list**
Non-credit entities and individual entrepreneurs		
Special Financing		
Construc and property develop.	1.7	16.3
Construc civil work	1.7	19
Other especial financing	0.4	2.6
Non-special Financing		
Large companies	0.2	2.3
SMEs	1.0	7.7
Individual entrepreneurs	1.2	10.1
Home		
Home purchase		
Main home unpaid (LTV) <80% guarantee	0.4	3.7
Main home unpaid (LTV) > 80% guarantee	0.4	3.7
Secondary residence	0.4	3.7
Consumer credit	2.4	18.6
Which from: credit card debts	1.4	10.5
Other	2.4	18.6

In estimating effective collateral, for the purpose of calculating hedges, the following estimated discounts on the reference value of such collateral will be applied:

TYPE OF REAL GUARANTEE	**Discount over reference value (%)**
Mortgage guarantees (first charge)	
Buildings and finished building elements	
Homes	30
Offices, commercial premises and warehouses	40
Other	55
Urban and developable land ordered	60
Other immovable property	50
Posted collateral of financial instruments	
Money deposits	0
Other marketable financial instruments	10
Other non-marketable financial instruments	20
Other real guarantees (for example. second mortgages, movable assets)	50

In the case of real estate assets foreclosed or received in payment of debts, for the purposes of valuation of the coverages that may correspond, the following discounts will be applied on the reference value for said assets:

Discount over

TYPE OF FORECLOSED PROPERTIES	reference value (%)
Buildings and finished building elements	
Homes	25
Offices, commercial premises and warehouses	35
Other	35
Urban and developable land ordered	40
Other immovable property	35

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

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

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses, recognised directly under 'Other accumulated global results' as adjustment in net equity, are recorded immediately in the income statement. If, subsequently, all or part of the impairment losses are recovered, the amount involved is recognised, in the case of debt securities, in the income statement for the recovery period, and, in the case of equity instruments, under 'Other accumulated global results' as adjustment in net equity.

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

For shareholdings in associates, joint ventures and subsidiaries, the Institute estimates impairment losses by comparing the recoverable amount with their carrying value. Such impairment losses are recorded in the income statement for the period in which they arise while subsequent recoveries are recorded in the income statement for the recovery period.

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

2.8 Financial guarantees and related provisions

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

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

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

Subsequent to the initial recognition, the contracts are treated according to the following criteria:

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

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

The classification of financial guarantee contracts as doubtful will imply the respective hedging action under the heading of ‘Provisions for contingent exposures and commitments’.

2.9 Accounting for leases

2.9.1 Finance leases

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

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

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

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

2.9.2 Operating leases

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

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

When the Institute acts as the lessee in operating lease agreements, lease costs, including any incentives granted by the lessor, are charged, on a straight-line basis, under the income statement heading "Other administration expenses".

2.10 Staff costs

2.10.1 Short-term remuneration

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

2.10.2 Post-employment commitments

Pension commitments entered into by the Institute with respect to employees are reflected in the collective wage agreement in force and correspond to defined contribution commitments.

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

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

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

The amounts to be contributed are those approved in the General State Budget for each year. Under the heading "Staff Costs", there is no cost registered for this year at 31st December 2017 and neither for the previous one at 31st December 2016.

2.10.3 Death and disability benefits and retirement bonuses

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

At 31 December 2017 a provision was recorded for post-employment commitments amounting to 423 thousand euros (365 thousand euros at 31 December 2016).

2.10.4 Termination benefits

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

At 31 December 2017 and 2016, the Group has not recorded any provisions regarding this aspect as there is no plan or agreement that would require such an allocation.

2.11 Corporate income tax

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

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

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

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

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

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

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

- Deferred tax assets are only recognized in the case that the Institute considers it likely to have enough future taxable against which they may be offset.

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

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

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

2.12 Property, plant and equipment

2.12.1 Property, plant and equipment for own use

Property, plant and equipment for own use includes those assets that are owned or acquired under finance leases that the Institute holds for its own current or future use for administrative purposes or for the production or supply of assets and when they are expected to be used for more than one financial year. Among other things, this category includes property, plant and equipment received by the Group for the total or partial settlements of financial assets that represent debt claims against third parties which are expected to be used on a continuous and internal basis.

Property, plant and equipment for own use is carried in the balance sheet at acquisition cost, which consists of the fair value of any compensation paid plus any monetary payments made or promised, less accumulated depreciation and, if appropriate, any estimated losses that result from comparing the net value of each item with the relevant recoverable amount.

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

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

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

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

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

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

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

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

2.12.2 Real estate investments

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

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

2.13 Intangible assets

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

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

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

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

Intangible assets with a defined life-span are amortised according to some criteria similar to those applied to property, plant and equipment. The annual amortisation charge for these intangible assets is carried in the income statement caption "Amortisation - Intangible assets".

For intangible assets with both an indefinite and definite useful life, the Group recognises any impairment in those assets and uses them as a balancing entry ‘Impairment or reversal of impairment on non-financial assets’ in the consolidated income statement. The methods applied to recognise impairment losses on these assets and, if appropriate, the recovery of impairment losses, recognised in prior years, are similar to those applied to property, plant and equipment (Note 2.12.1).

2.14 Provisions and contingent liabilities

When preparing the financial statements the Group differentiates between:

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

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

The Group's financial statements include all significant provisions for obligations classified as probable. Contingent liabilities are not recognized in the financial statements, but rather information is provided in accordance with the requirements of the Circular 4/2004 of December 22, Bank of Spain (Note 19).

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

At the 2017 and 2016 year end, a number of legal procedures and claims had been initiated against the Institute, arising in the ordinary course of business. ICO's legal advisors and its directors understand that the finalisation of these proceedings and claims will not have a significant effect other than that provided for, if appropriate, in the financial statements for the years in which they finalise.

Accounting provisions that are considered necessary, as stated in the previous criteria, are charged or credited to the income statement caption 'Provisions expense or reversal of provisions'.

2.15 Cash-flow statements

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

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

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

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

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

2.16 Non-current assets held for sale and liabilities associated with non-current assets held for sale

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

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

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

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

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

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognised as such and their fair value, adjusted for estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortisation by nature, are neither depreciated nor amortised.

In the event that the carrying amount exceeds the fair value of the assets, adjusted for cost of sales, the Institute adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption 'Gains/(Losses) on non-current assets held for sale not classified as discontinued operations' in the consolidated income statement. In the event that the fair value of the assets were increased at a later date, the Group reverses the losses previously recorded in the accounts, increasing the carrying value subject to the limit of the amount prior to their eventual impairment, against 'Gains/(Losses) on non-current assets held for sale not classified as discontinued operations' in the consolidated income statement.

The results from the sale of assets for sale are presented under "Gains/ (Losses) on assets held for sale not classified as discontinued operations" in the consolidated income statement.

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

3. CUSTOMER SERVICE

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

In 2017 a total of 72 complaints were received, (107 in 2016) of which were addressed within an average of 4.6 working days (4.9 days in 2016). The 74% of the total are related to credit transactions in the intermediary line and were therefore passed on to the relevant financial institutions. Another 13% were related to repayments or resolutions about ICOdirect operations and 7% to issues relating to transactions under the Regional Governments Liquidity or Local Authorities Financing Fund.

4. RESULTS DISTRIBUTION

The distribution of 2017 profits, which arises up to 103,100 thousand euros, at the date of preparation of these consolidated financial statements has not yet been decided by the General Board and General Shareholders' Meetings of each Entity of the Group. Such distribution will be following the statutes.

5. RISK EXPOSURE

5.1 Risk - General aspects

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

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

- Liquidity risk: The risk incurred as a result of an absence of sufficient liquid resources to comply with obligations. This situation could be thanks to the inadequate assets and liabilities maturity structure, or due to the exceptional market crisis situation.

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

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

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

As a credit institution, the ICO is exposed to these types of risks, that must be identified, measured and monitored in order to operate efficiently. This is done according to the Risk Policy Manual approved by the General Board, which contains the different methods, applicable legislation, procedures and organisational structure.

5.2 Organisational structure

In order to cover the entire risk spectrum, within its organisational structure, the Institute (according to Presidential Organizational Circular 2/2017 of December 16th), has created specialised units under Sub-Directorate for Risk, which reports to the General Directorate for Risk and Finance.

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

The four specialized risk areas are Global Risks, Risk Acceptance and Monitoring and Supervision, each one with specific duties.

The primary duties of the Global Risk area are:

- Preparing, proposing and controlling financial risk measurement methodologies applied by the Institute.

- Overseeing the correct compliance of the limits of financial risks and policies previously approved.

- Analyse, monitor and review periodically credit counterparty lines and monitor levels with the mediating entities.

- Defining and reviewing measurement, back-testing and stress-testing systems.

- Proposing criteria for market valuation of new financial products, establishing methodologies, risk measurement and potential risk (Add-on).• Analysing the adaptation of national and international legislation regarding risks within its competency.

- Value at market price new products and structures and their potential risk (Add-on).

- Supervise the correct application of approved methodologies risks.

- Analysis of credit risk in Liquidity Lines Securitisation Funds operations.

- Propose new Liquidity, Market, Credit and New Products risk limits.

- Reporting and analysis of the situation of risk for Assets and Liabilities Committees, Operations and Council.

- Report states of interest rate risk, liquidity and Basel ratios for Bank of Spain.

- Analyse the adaptation of EU Directives and national legislation regarding risks within its competence.

- Updates and maintenance of the risk adjusted return (RAR) tool.

- Updates and maintenance of the ICO price control tool in RORAC

- Risk appetite framework (RAF)

The primary duties of the Risk Acceptance area are:

- Evaluating the risk admissibility for new asset products and direct credit operations not included in automated procedures.

- Analyse under the assessment of eligibility of direct credit risk limits approved by ICO with clients and economic groups.

- Analysing and evaluating risks assumed by ICO, under any proposed modification to transactions already formalised, that require the approval of decision-making bodies

- Analyse adaptation to national and international standards regarding risks within its competence.

- Coordinate the Credit Committee in which agreements regarding the granting of new ICO direct loans, as well as modifications of operations already formalized are discussed and adopted.

- Define and propose for approval by ICO internal organs of decision direct credit risk policies and/ or, where appropriate, policy changes already approved at the ICO.

The primary duties of the Monitoring and Trade Recovery Area are:

- Control and follow the risk of direct financing operations, fostering the recovery of balances arising from non-performing, resolved and written-off transactions, and monitoring compliance with the portfolio terms and conditions of the existing facilities.

- Analyse and evaluate, from the point of view of ICO credit risk, the proposed mediation lines.

- Monitor and verify compliance with the conditions for ICO mediation lines distributed by partner no financial institutions to final beneficiaries, proposing, if necessary, corrective action upon detection of breaches.

- Establish and maintain a system of internal rating, country risk rating and credit risk limit methodology for direct ICO economic groups clients. Perform control and reporting of large risk exposures.

- Ensuring the quality of the ICO portfolio, using all the information needed.

- Coordinate the Monitoring Committee of the portfolio of direct loans from the ICO.

- Propose risk provisions of normal risk based on current legislation.

- Participate in the Credit Committee in which agreements concerning the granting of new direct loans from ICO, as well as modifications of already formalized operations, are discussed and adopted.

- Promote, in coordination with corresponding Legal & business areas appropriate recuperative actions regarding financing transactions that are in arrears, settled and failed.

- Respond to requests from regulatory agencies (internal and external auditors, Court of Auditors, the Bank of Spain, etc.) and rating agencies.

- Analyse adaptation to national and international standards regarding risks within its competence.

The Monitoring and Retail Supervision Area, has the following tasks to carry out:

- Control and follow the risk of direct operations to retailers.

- To analyse financial operations viability regarding the targeted segment.

- Biweekly basis communication with the Board of Directors regarding the approval of the retail refinancing operations. Reporting of these operations' risk profile, for approval by the internal decision-making bodies of ICO, type of client, share shrinking and approval based on the amount to finance.

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

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

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

- Preparation and presentation at the Monitoring Committee of the situation of the retail risk loan portfolio.

- Coordination with the Legal Counseling Department of Financial Operations and Economic Policy in the response and resolution of incidents that will be transferred to the entities in which the presentation of contentious recovery services is delegated, as well as in other types of actions that require the positioning of ICO within the different phases in judicial claim processes, as well as in bankruptcy proceedings or similar characteristics.

- Management of requests received through the Customer Service Area, by holders and / or guarantors of all loans in the retail portfolio.

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

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

5.3 Liquidity risk at ICO

Community legislation and its development in Spain, in this matter only establish general requirements for the measurement, control and management systems of liquidity risk in entities, and is contained in the following normative texts:

- Regulation (EU) No. 575/2013 of June 26, on prudential requirements of credit institutions and investment services companies, part six.

- Delegated Regulation (EU) 2015/61 of the Commission of 10 October 2014, supplementing Regulation 575/2013 with regard to the Liquidity Coverage requirement (LCR).

- Implementing Regulation 680/2014 of 16 April establishing the technical implementing rules in accordance with Regulation No. 575/2013, chapters 7, 7a and 7ter.

- Commission Implementing Regulation (EU) 2016/322 of 16 February 2016, amending Implementing Regulation 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions of the liquidity coverage requirement (LCR).

- Commission Implementing Regulation (EU) 2016/313 of 1 March 2016, amending Implementing Regulation (EU) 680/2014 with regard to monitoring metrics for liquidity reporting.

- Law 10/2014 of June 28, on the management, supervision and solvency of credit institutions, articles 41, 42 and additional disposal eighth.

- RD 84/2015 of 13 February, which develops Law 10/2014, article 53.

- Circular 2/2016 of February 2, which establishes accounting standards, annual accounts, public financial statements and reserved statistical information of securitization funds that replaces Circular 3/2008 of May 22 (repealed), rule 51, DT6 and Annex VII.

- Circular 4/2004, rule 59 paragraph 4, rule 60 paragraph D.2 and rule 72 paragraph 3 and 8.

- Circular 4/2017 of 27 November, repealing Circular 4/2004, which came into effect on 1 January 2018.

In general, there is no specific requirement for capital for liquidity risk beyond a set of action standards to be followed (qualitative requirements) contained in Fifty-first Rule of chapter six of risk treatment of Circular 2/2016 where it is also mentioned the need to report on the actions carried out in the process of capital self-assessment and supervisory review contained in Chapter 5, all in order to assess whether its internal capital is sufficient to cover its current and future activities.

Currently, with the publication of the updated version of the Basel III liquidity and solvency documents: *Global regulatory framework to strengthen banks and banking systems* and *Basel III: International framework for measurement*, the standardization and monitoring of liquidity risk is a new step in the direction of guaranteeing more efficient parameters in the measurement and control of liquidity. As of January 1, 2013, the Basel Committee published *the liquidity Coverage Ratio and liquidity risk monitoring tools*, which advances the definition and monitoring of the short-term liquidity ratio, and complemented this work with the publication on January 12, 2014 of the Guidance for Supervisors on Market-Based Indicators of Liquidity.

In this sense, on January 17th, 2015, the Delegate Regulation 2015/61 was published, amending Regulation CRR 575/2013 of the European Parliament and of the Council is complete with respect to this ratio (LCR) and by calendar that starts on October 1, 2015 with an obligatory 60%, 70% as of January 1, 2016, 80% as of January 1, 2017, enter fully in effect as of January 1, 2018.

In January 2014 "Basel III: Net Stable Financing Ratio" (NSFR) consultation document was published for the definition and calculation of the ratio of long-term liquidity, which after a consultation phase, which lasted until April 11, 2014, led to the publication of the final document in October 2014. As a result it will be necessary to calculate and maintain a minimum net stable financing ratio from 1 January 2018.

During the year 2013 and 2014, the Institute, calculated on a monthly basis, short and long term liquidity rates, as additional liquidity controls. In every period, the Institute has achieved results that are within the limits that will be applied in the future.

Furthermore, prospectively throughout 2015 and, based on the document published by the BIS "Basel III: the Net Stable Financing Ratio" of October 2014, the results have been calculated quarterly, which provide the ICO balance with the introduction of different scenarios handled one year ahead (to December 2018), in relation to the NSFR ratio.

At ICO, it is perfectly defined an organisational structure responsible for reporting, monitoring and controlling liquidity risk.

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

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

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

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

There is also a financing plan for the current year and a projected plan for the following two years, a policy of diversifying sources of basic finances in order to minimise this risk, and a regular review of liquidity including any projections for new activity, in order to establish needs in terms of amounts and dates of financing, for an annual financing plan, sufficiently in advance.

Generally, ICO raises liquidity in a variety of ways, including raising the interbank market, repo and simultaneous liquidity and issuing debt securities in wholesale and retail markets.

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

Due to this new situation, decisions were taken throughout 2017, as done previously, to adapt ICO to the new circumstances in order to ensure the liquidity needed to meet its payment commitments on time and to achieve its strategic operating, investment and growth targets. Thanks to these measures, ICO's management does not anticipate any liquidity shortages in 2018.

Maturity Analysis of trading and hedging derivatives denominated in euro

The following table shows by notional, the contractual maturities for euro-denominated derivatives, recognised as financial assets and financial liabilities at 31 December 2017 and 2016 (except for embedded derivatives in hybrid financial instruments) and loan commitments considered financial derivatives as they can be settled, by adjusting, in cash or with another financial asset, in which the maturities are deemed essential for understanding the Institute’s cash flow projections.

At 31 December 2017

	Thousands of euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	**Total**
Derivatives held for trading	-	3,333	57,446	-	-	**60,779**
- Of which: credit commitments considered as derivatives	-	-	-	-	-	-
Hedging derivatives	6,210,519	3,740,974	1,166,643	303,764	-	**11,421,900**
	6,210,519	**3,744,307**	**1,224,089**	**303,764**	-	**11,482,679**

At 31 December 2016

	Thousands of euros					
	Up to one year	From 1 to 5 years	From 6 to 10 years	From 11 to 15 years	From 16 to 20 years	**Total**
Derivatives held for trading	-	6,000	46,542	13,439	-	**65,981**
- Of which: credit commitments considered as derivatives	-	-	-	-	-	-

Hedging derivatives	10,365,520	8,320,512	2,475,759	307,706	-	**21,469,497**
	10,365,520	**8,326,512**	**2,522,301**	**321,145**	**-**	**21,535,478**

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

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

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

- For derivatives with a non-stated contractual amount at the reporting date, e.g. because they depend on the performance of an index, the residual maturity, considered for classification purposes in the preceding tables, was determined based on prevailing conditions at 31 December 2017 and 2016, respectively.

Liquidity GAP analysis

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

ICO uses this approach, as history has shown, that it provides a more accurate picture of how the Institute's cash inflows and outflows are produced.

The tables below compare cash inflows and outflows at different maturities up to 12 months. Inflows and outflows in foreign currency are shown at their equivalent value in Euros.

At 31 December 2017

	Thousands of euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	6,900,224	4,404,361	3,620,626	6,557,284
Equivalent outflows in Euros	(5,741,071)	(5,040,388)	(3,482,611)	(7,960,132)
Partial GAP	1,159,153	(636,027)	138,015	(1,402,848)
Cumulative GAP	1,159,153	523,126	661,141	(741,707)

At 31 December 2016:

	Thousands of euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	4,426,494	2,644,412	7,249,176	8,094,830
Equivalent outflows in Euros	(5,082,123)	(2,266,113)	(3,026,045)	(11,447,635)
Partial GAP	(655,629)	378,299	4,223,131	(3,352,805)
Cumulative GAP	(655,629)	(277,330)	3,945,801	592,996

5.4 Market risk at ICO

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

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

   Profitability: At the ICO this, mainly derives from the income statement and therefore the relevant variable here is the Financial Margin.

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

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

2) The **methodology**. In order to measure balance sheet risks relating to the Financial Margin, the weighted partial maturity gap method was used before 2015, calculated as the difference between asset and liability volume and off-balance sheet transactions that mature or renew interest rates within the following 12 months, weighted by the period affecting the Margin.

   In order to measure the sensitivity of Equity, the duration gap method was used before 2015. The duration gap is obtained as the difference between the duration of assets and liabilities, and once the difference is obtained, the sensitivity gap may be calculated.

   Both methods were replaced in mid-2014 by other simulations based on Interest Income and Net Asset.

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

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

   In 2014, to assess the sensitivity of its Financial Margin in cases downward shifts in the curve, ICO determined not to apply a floor of 0% for rates that are negative in the initial curve scenario, and a floor of 0% only where tranches are positive in the initial rates scenario, i.e. for practical purposes, a downward shift will leave rates that are negative in the initial scenario unchanged, and will only bring down rates that are positive on the tranche of the curve under observation, with a floor of 0%. The application of this criterion resulted in the following:

   As a result of applying these movements of +/- 200 bp, with these shifts in interest rates, the sensitivity of the balance of ICO to December 31, 2017 was 1.21 million of total euros, distributed as follows: 0 for the balance in euros, 339 thousand of euros of the balance in US dollars and 512 thousand of the British Pound. Exchange rate (with movements of +/- 10% on changes in USD / EUR and GBP / EUR) was 161 thousand of euros in the dollar and 200 thousand of euros in Pounds.

Similarly, for the establishment of the sensitivity of Equity, variations on the market curve established +/- 200 bp with the same movement in the curve to obtain the sensitivity of the financial margin, i.e. in a downward shift the floor of 0% is applied only in cases where interest rates are positive in the initial scenario, leaving rates that are negative in the initial scenario unchanged.

At December 31, 2017 the values of the sensitivity of the ICO Net Asset reached 0.84% in value added with a distribution on balances as follows: 0.56% for euro interest rate, 0.11% in the US dollar and 0.05% in the British Pound. Exchange rate for Dollar presented a sensitivity of 0.09% and 0.03% for Pounds.

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

The principal currencies used by ICO to present its balance sheet at 31 December 2017 are the Euro, US dollar and Pound sterling, which account for a 96% of the total balance sheet and off-balance sheet transactions, of which approximately a 80% is in Euros, 16% in US dollars.

If we look at the assets of the balance sheet, the euro concentrates approximately 96.5% of the total, the US dollar being 2%, while the remaining currencies are distributed the remaining.

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

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

5.5 Credit risk at ICO

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

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

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

The basic criteria for establishing counterparty lines are also approved by ICO's General Board on a half-yearly basis and is performed an individualized analysis of them. These counterparty lines are subdivided into two broad groups as a result of the operating characteristics of the ICO. The first of the counterparty lines is related to cash transactions. The other counterparty line is related to mediation transactions, operations in which the ICO finances several investment projects through framework programmes arranged with several entities operating in Spain such as, for example, lines of Businesses and Entrepreneurs or Internationalization.

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

ICO’s activities with financial institutions, in the area of both second-floor and direct facilities, are carried out with counterparties that, in over 92% of cases, have an investment grade rating.

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

At the Acceptance stage, the Institute performs an analysis of companies and transactions based on a on-going concern evaluation, guarantees are analysed in order to issue an opinion about the risk and the potential client, which is the basis for taking decisions by the Operations Committee or General Board, as appropriate.

The Monitoring process has the purpose of making the Institute’s credit portfolio to achieve the highest quality, i.e. ensures that our loans are being repaid on a timely basis, on the agreed dates. The basic monitoring unit is the client, not the transaction, such that any incident affecting a transaction affects the rating of a client and its group. This is achieved by a permanent control, with periodic reviews of the economic and financial situation of the same and keeping support tools updated for decision-making and it allow for detect warning signs; as well as promoting action plans against problematic risks in order to maximize the repayment of financing granted.

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

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

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

In this sense, ICO has approved a methodology for measuring country risk that follows current legislation and complies with the objective of evaluating countries by group risk based on multiple criteria, thereby allowing for a defined policy when recording provisions for that country risk, evaluating direct loan transactions and segmenting the non-resident loan portfolio. Rating agency and

OECD-CESCE evaluations are used as a source of information when classifying countries into risk groups and these classifications.

5.6 Operating risk at ICO

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

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

5.7 Active credit risk with companies

5.7.1 Classification by sector

Taking into account a classification by sector, the distribution of the outstanding risk, (*) is as follows:

	Millions of euros			
	2017		2016	
	Amount	% s/total	Amount	% s/total
Outstanding risk by sector				
Investment properties	**699**	**6%**	**867**	**5%**
Construction of social housing for sale	12	0%	30	0%
Construction of social housing for rent	476	4%	568	4%
Acquisition and development of land	193	2%	222	1%
Other	18	0%	47	0%
Investment intangible assets	**-**	-	**-**	**-**
Investment tangible assets	**8 529**	**70%**	**9.726**	**62%**
Renewable energies	1 222	10%	1 162	7%
Water infrastructures	268	2%	368	2%
Electricity infrastructures	629	5%	716	5%
Gas and fossil fuel infrastructures	715	6%	870	6%
Transport infrastructures	4 500	37%	5.315	34%
Tourism and leisure	38	0%	45	0%
Social-health infrastructures	158	2%	192	1%
Telecommunications	18	0%	18	0%
Audiovisual production and exhibition	27	0%	34	0%
Business parks and other constructions	7	0%	10	0%
Other	701	6%	716	5%
Research and Development material investment	17	0%	20	0%
ICO Finance lines AA.CC. Agencies	229	2%	260	2%
Acquisitions of companies	**246**	**2%**	**476**	**3%**
General corporate needs	**589**	**5%**	**770**	**5%**
Restructuring of liabilities	**485**	**4%**	**638**	**4%**
General State Budgets	**1 548**	**13%**	**1 973**	**13%**
Financial intermediary services	**75**	**0%**	**1.291**	**8%**
	12 171	**100%**	15 741	**100%**

(*) Includes loans and advances to customers without valuation adjustments or impairment losses (except for "other financial assets"). Also includes financial guarantees for customers and debt securities of resident Public Administrations classified as loans and advances receivable.

At December 31, 2017 and 2016 the total exposure is mainly concentrated in three sectors: "Investment tangible assets", which account for 70% of total risk in 2017, compared with 62% in 2016;

the sector of “General State Budgets” for 13% (same percentage in 2016) and the sector of "Investment Property", which includes the balance of the total of risk, with an impact in 2017 of 6% (same percentage in 2016).

Inside the “Investment tangible assets” sector, it is important to highlight the impact of the sub-sector named “ Transports Infrastructures” on the sector, with a 37% of weight over the risk of 2017 (34% at 2016).

5.7.2 Classification by geographic location of financial investments

The total risk at 31 December 2017 is distributed as follows: 87% in transactions financing investments in Spain ascending to 10,605 million of euros (89% at 31 December 2016 with 14,044 million of euros) and 13% in transactions aimed at financing investment projects in other countries.

The distribution of outstanding risks by autonomous region is as follows: Madrid, Catalonia and Andalucía are the autonomous regions with the highest concentration of risk, 9% (8%, 13%, 11% in 2016, respectively) followed by Valencia with 8% (7% in 2016). Regardless of all the risks attributed to the generic national, concerning operations which, by their nature, are not located in a specific geographical area, but they extend throughout the territory area.

Transactions taking place in the international market at 31 December 2017 and 2016 are distributed as follows in accordance with the active foreign risk:

	Millions of euros			
	2017		2016	
	Amount	%	Amount	%
European Economic Community	407	26%	355	21%
Latin America	475	30%	445	26%
United States	193	12%	403	24%
Rest of Europe (not EEC)	-	-	24	1%
Other	489	32%	470	28%
	1 564	**100%**	1 697	**100%**

5.8 Information on late payments to suppliers

In compliance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures against late payment in commercial transactions, developed by the Resolution of 29 January 2016 of the Spanish Audit and Accounting Institute (ICAC) on information concerning late payment to suppliers in commercial transactions to be included in the Notes to financial statements, we should point out the following:

- Given ICO's core business (financial activity), the information presented in this Note concerning late payment, is exclusively related to payments to services suppliers and sundry suppliers to ICO other than depositors and holders of ICO securities. With the latter, the contractual and legal payment deadlines of both liabilities due to demand and with deferred payment have been met dutifully. **Nor is any information provided concerning payments to suppliers excluded from the scope of this mandatory disclosure pursuant to the provisions of the aforementioned ICAC Resolution, such as suppliers of fixed assets that are not considered to be trade creditors.**

- Regarding the information required by Law 15/2010, of 5 July corresponding to the Institution's commercial and service suppliers and considering what it is included in the article 6 of ICAC Resolution of 29 January 2017, presented below, with the scope defined in the preceding paragraph, the information required by those regulations:

	2017	2016
(in days)		
Ratio paid operations	7	7
Ratio of outstanding payment transactions	3.5	3,5
Average payment period to suppliers	6.75	6,75
(in thousand euros)		
Total amount of payments	23 272	24 804
total amount of outstanding payments	946	1 095

Payments for payables and receivables between the Group have been excluded from the above data.

5.9 Risk concentration

At December 31, 2017 and 2016, the Group is exempt from the limits on large exposures set out in the applicable regulations (Part IV of EU Regulation 575/2013 and Circular 3/2008 of the Bank of Spain, respectively), according the provisions of the bylaws of the "Instituto".

Royal Decree-Law 12/2012, of 31 March 2012, established the treatment of exposures to financial institutions resident in EU member states.

5.10 Information on construction and property development finance and associated foreclosed properties

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

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

In addition, studies have been conducted to detect the reasons behind the payment difficulties of customers that have not paid in order to suggest solutions that allow transactions to be completed successfully.

Information on construction and property development finance is as follows:

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

	Thousands of euros					
	2017			2016		
	Gross amount	Excess over value of collateral	Specific allowance	Gross amount	Excess over value of collateral	Specific allowance
Property loans:	652 302 169 852	633 753 474 717	235 707 160 132	1 126 072 474 717	1 126 072 474 717	578 967 469 480
Of which doubtful						
Memorandum item:						
Defaulted loans	-	-	-	-	-	-

	Thousands of euros	
	2017	2016
Memorandum item:		
Total loans and advances to other debtors excluding regional governments	7 922 276	9 464 300
Total assets	42 185 882	48 851 473
Total general allowance	18 680	20 822

Total finance for construction and property development at 31 December 2017 represents a 1.55% of the total balance sheet (2.30% at 31 December 2016).

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

	Thousands of euros	
	2017	2016
1 Without mortgage collateral	**203 993**	**381 204**
2 With mortgage collateral	**448 309**	**744 868**
2.1 Finished buildings	436 886	564 744
2.1.1 Homes	425 323	538 590
2.1.2 Other	11 563	26 154
2.2 Buildings under constructions	11 423	331
2.2.1 Homes	11 423	331
2.2.2 Other	-	-
2.3 Land	-	179 793
2.3.1 Developed land	-	1 883
2.3.2 Other land	-	177 910
TOTAL	**652 302**	**1 126 072**

- Home purchase loans

	Thousands of euros			
	2017		2016	
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
Home loans	15 031	-	16 348	-
Without mortgage collateral	14 043	-	15 064	-
With mortgage collateral	988	-	1 284	-

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

At 31 December 2017:

	Thousands of euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%
Gross amount	779	209	-	-	-
Of which: doubtful					

At 31 December 2016:

	Thousands of euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%
Gross amount	939	346	-	-	-
Of which: doubtful					

- Foreclosed assets received as the settlement of debts from construction and property development loans.

None of the foreclosed assets on the Institute’s balance sheet (Note 17) comes from financing granted to construction companies and property developers, or mortgage loans to households for home purchases, nor do they consist on equity instruments, investments and finance to non-consolidated companies holding the assets.

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

Presented in the next table, there is the detailed information related to those refinanced and restructured operations as of 31st December, 2017 and 2016 (gross amounts), as requirement of Bank of Spain 6/2013 Circular, about financial public and reserved information rules:

At 31 December 2017 (gross amounts, thousands of euros):

	Rest of guarantees	No actual guarantee	TOTAL amounts	TOTAL specific hedges
Public Administrations	8 217	383 422	391 639	97 235
Doubtful	8 217	49 876	58 093	
Companies and business owners	1 291 880	339 761	1 631 641	684 156
Doubtful	609 561	96 085	705 646	
Property finance no doubtful	-	-	-	
Property finance doubtful	6 735	-	6 735	6 735
Rest of individuals	-	-	-	-
TOTALES	**1 300 097**	**723 183**	**2 023 280**	**781 391**

At 31 December 2016(gross amounts, thousands of euros):

	Rest of guarantees	No actual guarantee	TOTAL amounts	TOTAL specific hedges
Public Administrations	-	193 098	193 098	36 689
Doubtful	-	-	-	
Companies and business owners	1 637 097	691 048	2 328 145	1 120 552
Doubtful	889 434	219 865	1 109 299	
Property finance no doubtful	217 218	78 088	295 306	
Property finance doubtful	217 218	77 110	294 328	294 309
Rest of individuals	-	-	-	-
TOTALES	**1 637 097**	**884 146**	**2 521 243**	**1 157 241**

6. CASH, DEPOSITS AT CENTRAL BANKS AND DEMAND DEPOSITS

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
Cash on hand	10	10
Deposits at Bank of Spain	2 027 159	56 033
Mandatory to comply with minimum reserve ratios (*)	2 027 159	56 033
Other demand deposits	279 242	381 783
	2 306 411	437 826

(*) Interest included

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The total balance under this heading in the balance sheets at 31 December 2017 and 2016 is made up of trading derivatives.

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

Below, there is a breakdown classified by type of derivative, of the fair value of the Group's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at 31 December 2017 and 2016:

	Thousands of euros					
	Notional		**Assets**		**Liabilities**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
By type of market						
Organised markets	-	-	-	-	-	-
Non – organised markets	**1 138 808**	**3 109 874**	**164 770**	254 389	161 007	249 858
	1 138 808	**3 109 874**	164 770	**254 389**	**161 007**	**249 858**
By type of product						
Swaps	1 138 808	3 109 874	164 770	254 389	161 007	249 858
	1 138 808	**3 109 874**	**164 770**	**254 389**	**161 007**	**249 858**
By counterparty						
Credit institutions	763 919	1 613 409	562	-	161 007	249 858
Other financial institutions	-	-	-	-	-	-
Other sectors	374 889	1 496 465	164 208	254 389	-	-
	-					
	1 138 808	**3 109 874**	**164 770**	**254 389**	**161 007**	**249 858**
By type of risk						
Exchange risk	1 078 098	3 043 893	159 410	247 702	155 731	243 085
Interest rate risk	60 710	65 981	5 360	6 687	5 276	6 773
	1 138 808	**3 109 874**	**164 770**	**254 389**	**161 007**	**249 858**

The fair value has been calculated for the 100% of the cases, both in 2017 and 2016, taking the implicit curve of the money markets and the public debt as a reference.

At December 31st, 2017 and 2016 the trading portfolio classification, stated at fair value and taking the hierarchical order into account as shown in Note 2.2.3, was as follows:

	Thousands of euros					
	2017			2016		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	164 770	-	-	254 389	-
Held-for-trading-derivatives of liabilities	-	161 007	-	-	249 858	-

The following table shows the amounts recognised in the income statements in 2017 and 2016 (Note 30) regarding fluctuations in the fair value of the Institute's financial instruments, included in the trading portfolio related to unrealised gains and losses, differentiating between financial instruments whose fair values are measured considering quoted prices in active markets (Level 1), those estimated using valuation techniques whose inputs are observable (Level 2) and the rest (Level 3):

	Thousands of euros					
	2017			2016		
	Gains	Losses	Net	Gains	Losses	Net
Level 1	-	-	-	-	-	-
Level 2	1 907 134	1 895 808	11 326	295 604	285 053	10 551
Level 3	-	-	-	-	-	-

In 2017 and 2016, changes in the fair value of derivatives classified as level 2 were solely the result of purchase, sales and changes in fair value arising from the application of the valuation techniques described, with no reclassifications between levels.

8. AVAILABLE-FOR SALE FINANCIAL ASSETS

The breakdown of the amount included in this chapter, in the balance sheet at December 31, 2017 and 2016, investment is as follows:

	Thousands of euros	
	2017	2016
Equity instruments:		
FONDICO PYME (1)	80 729	77 042
FONDICO Infraestructuras (2)	28 612	76 943
FONDICO Global (3)	329 158	190 292
FONS MEDITERRANEA Fondo de Capital Riesgo (4)	5 480	11 235
FONDO MARGUERITTE (5)	63 931	59 168
FONDO CARBONO EMPRESAS ESPAÑOLAS (6)	-	-
FEI Fondo Europeo de Inversiones (7)	12 370	12 667
SWIFT (8)	4	3
EDW (9)	206	206
GAM General de Alquiler y Maquinaria (10)	939	1 383
HABITAT Inmobiliaria (11)	-	-
NUEVA PESACNOVA (12)	-	-
ABENGOA (13)	-	-
	521 429	428 939
Debt Instruments (14)	854 962	1 371 591
	1 376 391	1 800 530

The amount of 'Other accumulated global result' as equity valuation adjustments epigraph, at December 31, 2017 and 2016 composed by changes in the fair value of the items included under the heading of available for sale financial assets is as follows (Note 21):

	Thousands of euros	
	2017	2016
Debt instruments	2 972	9 187
Equity instruments	(6 285)	(9 599)
	(3 313)	(412)

Movements experienced during the years 2017 and 2016 under the heading of available for sale financial assets are listed below:

	Thousands of euros	
	2017	2016
Initial balance	1 800 530	1 990 899
Purchase additions	299 485	535 102
Amortizations and sales	(718 527)	(724 856)
Fair value fluctuations movements (21)	(2 901)	(613)
Envelope Provision impairment	(446)	-
Impairment losses movements (application)	(1 750)	(2)
Balance at the end of the year	1 376 391	1 800 530

(1) Fund formed in May 1993, in which the Institute, the Group's Parent entity, is the sole participant managed by AXIS Participaciones Empresariales. The outstanding amount payable at 31 December 2017 stood at 127,866 thousand euros. In 2017, the Fund's equity did not decrease due to the disbursement of contributions (decrease of 53,490 thousand euros in 2016).

(2) Investment fund constituted in 2012, 100% owned by the "Instituto" and managed by AXIS Business Units. In 2017 the contributions of the "Instituto" were 1,101 thousand euros (10,048 thousand euros in 2016). In 2017 the Fund has reduced its net worth by refund of contributions for 51,267 thousand euros (2,648 thousand euros in 2016).

(3) Investment fund created in 2014, 100% owned by the "Instituto" and managed by AXIS Business Units. In 2017 the contributions of the "Instituto" were 180,000 thousand euros (120,000 thousand euros in 2016). In 2017 the Fund has reduced its net worth by refund of contributions for 43,000 thousand euros (66,000 thousand euros).

(4) Fund constituted in October 2005 and in which the Institute participates with other public and private entities. The Fund was created to invest in projects developed by Spanish companies in the African Maghreb. The allocations for this fund have a provision coverage of 30% of the total real capital (without including fair value changes) amounting 1,270 thousand euros at 31st December 2017 (being 2,916 thousand euros the 31st December 2016).

(5) Participation in the Marguerite Fund. With the participation of leading European public financial institutions, this is a European equity fund which seeks to promote investment in infrastructures, in order to implement the key policies of the European Union in the fight against climate change, with the aim of combining the principle of return to investors based on market policies and the objectives set by public policy. In 2017, ICO made contributions totalling 29,650 thousand euros (no contributions were made in 2016). In 2017, disbursements were made for the amount of 34,408 thousand euros (no disbursements were made in 2016).

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

(7) Participation equal to 0.72% of the share capital, at December 31, 2017 (0.72% at December 31, 2016). In 2017 there have not been contributions of the ICO (neither during period of 2016). At December 31, 2017 the disbursement of an amount of 9,193 thousand euros (9,193 at December 31, 2016) was pending.

(8) Participation of the “Instituto” in 1 share of this entity as a full member of the same from 2008.

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

(10) Equity securities of the non-financial company GAM, which was acquired by 2016 as a result of its adjudication in partial payment of a loan of the Institute operation. The ICO participation percentage in the entity is 1.49% at December 31, 2017 (as well as December of 2016). These securities are listed for trading on an official secondary market.

(11) Equity securities of the non-financial company real estate Habitat, which was acquired by 2015 as a result of its adjudication in partial payment of a loan of the Institute operation. The shares were sold in 2017, giving rise to accounting profit of 2,494 thousand euros (Note 28).

(12) Equity securities of the non-financial company Nueva Pescanova (1,200 thousand euros, fully provisioned) acquired in 2017 following their award as partial payment for a loan facility taken out with the Institute.

(13) Equity securities of the non-financial company Abengoa, acquired in 2017 (87,534 thousand euros, fully provisioned) following their award as partial payment for a loan facility taken out with the Institute. The shares were sold in 2017, giving rise to accounting profit of 2,652 thousand euros (Note 28).

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

	Thousands of Euros	
	2017	**2016**
Maturity of 1 year	854 962	653 345
Maturity between 1 and 2 years	-	718 246
Maturity between 2 and 3 years	-	-
Maturity over 3 years	-	-
	854 962	1 371 591

At December 31, 2017 and 2016, the classification of available for sale financial assets stated at fair value and taking the hierarchical level into account as shown in Note 2.2.3., was as follows:

	Thousands of Euros					
	2017			2016		
	Level I	Level II	Level III	Level I	Level II	Level III
Debt securities	854 962	-	-	1 371 591	-	-
Other capital instruments	-	-	521 429	-	-	428 939

In 2017, gains on the disposals of available-for-sale financial assets were recognised on ICO's income statement as a result of the sale of equity instruments for the amount of 5,146 thousand euros (no gains or losses were recognised in 2016) (Note 29).

9. LOANS AND RECEIVABLES

The breakdown of this balance sheet item at 31 December 2017 and 2016 is as follows (including impairment losses and other valuation adjustments):

	Thousands of euros	
	2017	2016
Debt securities (Note 9.1)	266 775	1 675 187
Loans and advances:	27 269 052	32 562 626
Credit institutions (Note 9.2)	16 077 669	19 164 816
Customer (Note 9.3)	11 191 383	13 397 810
	27 535 827	34 237 813

Set out below are the movements for 2017 and 2016 in impairment losses recorded to cover the credit risk and the accumulated amount of such losses at the beginning and end of those years on the portfolio of loans and receivables:

	Thousands of euros			
	Country risk	Specific provisions	General provision	Total
Balance as at January 1, 2016	-	2 102 517	99 157	2 201 674
Appropriations charged to income	-	73 918	-	73 918
Recoveries	-	(449 378)	(78 321)	(527 699)
Application of funds	-	(46 699)	-	(46 699)
Other movements	-	-	-	-
Adjustments for exchange differences	-	452	-	452
Balance as at December 31, 2016	-	1 680 810	20 836	1 701 646
Appropriations charged to income	20 586	19 884	18 680	59 150
Recoveries	-	(187 071)	(20 836)	(207 907)
Application of funds	-	(441 002)	-	(441 002)
Other movements	-	-	-	-
Adjustments for exchange differences	(1 381)	(251)	-	(1 632)
Balance as at December 31, 2017	19 205	1 072 370	18 680	1 110 255

The breakdown of NPL provisions and provisions for risks classified as watch list under standard exposures is as follows:

	Thousands of euros	
	2017	**2016**
Provision for risk determined:	938 117	1 499 681
Exclusively to customer arrears	528 949	409 637
Other than customer arrears	409 168	1 090 044
Provision for regular risk in the watch-list	134 253	181 129
TOTAL	1 072 370	1 680 810

The substandard specific provision corresponds to credit assets for an amount of 1,934,876 thousand euros at December 31, 2017 (2,378,110 thousand euros at December 31, 2016).

A breakdown of the financial assets classified as loans and receivables and considered to be impaired assets due to their credit risk at 31 December 2017 and 2016, classified by counterparty and according to the longest past due date for each transaction, is shown below. Impaired assets secured by the Government are detailed in Note 9.3.

Impaired assets at 31 December 2017

	Thousands of euros								
	Without default	**3-6 months**	**6-9 months**	**9-12 months**	**12-15 months**	**15-18 months**	**18-21 months**	**Mas 21 months**	**TOTAL**
By counterparty categories									
Other resident and non-resident sectors	503 872	6 956	7 858	-	543	-	21 933	500 230	1 041 392

Impaired assets at 31 December 2016

	Thousands of euros								
	Without default	**3-6 months**	**6-9 months**	**9-12 months**	**12-15 months**	**15-18 months**	**18-21 months**	**Mas 21 months**	**TOTAL**
By counterparty categories									
Other resident and non-resident sectors	1 155 133	-	9	2 725	-	-	63 908	407 429	1 629 204

As of December 31, 2017 there is a balance of assets impaired by country risk of 190,144 thousand euros, with a coverage by country risk of 19,205 thousand euros (without balance in 2016).

The amount of non-impaired past due assets for 2017 and 2016 amounted to 1,290 thousand euros and 15,295 thousand euros, respectively, with an age in both years of between one and three months.

The movement of the impaired financial assets derecognized from the asset when their recovery is deemed to be remote (failed) is as follows:

	Thousands of euros	
	2017	2016
Initial balance	1 049 933	1 012 313
Additions:	332 976	55 618
By remote recoveries	308 133	-
By other causes	24 843	55 618
Recoveries:	(7 345)	(4 222)
By refinancing or restructuring	-	-
By collecting cash without additional funding	(7 .345)	(4 222)
For asset allocation	-	-
Others	-	-
Definitive write-off:	(467)	(14 996)
By forgiveness	-	-
By expiry	-	-
By other causes	(467)	(14 996)
Net Exchange fluctuation	(4 647)	1 220
Final balance at the year end	1 370 450	1 049 933

The amount of the unimpaired matured assets relating to 2017 and 2016 totals arises up to 7,344 thousand Euros and 4,222 thousand euros, respectively, with a seniority, in both years, between one and three months.

9.1 Debt securities

Under the heading of Debt securities, registered as loans and receivables, there are included the financial assets amount, no negotiable, which was converted, along the 2013, into a syndicated loan of the 'Credit facilities system for Suppliers Payments Funding', and which at the end of 2012, was included under "Loans and Clients credit- Resident Public Administrations".

On the other hand, in late 2013, the Operations Committee of the "Instituto", as the dominant entity of the Group, approved the document Annex 5 to the ICO Contract Mediation lines framework 2016, to regulate the conditions and operational to which the conversion operation is subject to the conversion to bonds of loans made by Entities in ICO lines in 2016. Such approval included the general specifications for conversion susceptible lines, amounts, interest accruals, eligible entities, schedule and compensation to financial institutions were included. Debt securities resulting from the conversion of loans mediation are also included in the heading "Debt securities" within loans and receivables.

The total amount of this part of the consolidated balance, classified by type of counterparty at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
By type of counterparty		
Resident Public Administrations	75 175	1 294 418
Credit institutions	191 600	380 769
	266 775	1 675 187

The breakdown of the principal operations classified under "debt securities- resident AAPP", within loans and receivables, including valuation adjustments, and without considering changes regarding assets impairment, by maturity terms at 31 December 2017 and 2016, is the following:

	Thousands of euros	
	2017	**2016**
By maturity		
Up to 1 year	75 175	1 219 131
From 1 year to 2 years	-	75 287
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	75 175	1 294 418

At 31st December 2017 these assets, accrued an annual interest rate of 4.13% (4.60% at 31st December 2016).

Interest accrued by these assets in 2017 and 2016 amounted to 25,290 thousand euros and 128,767 thousand euros, respectively, included under "Interest income" on the Income statement (Note 24).

The breakdown of the main operations classified under "Debt - Credit Institutions" within loans and receivables, including valuation adjustments and excluding value adjustments for impairment of assets, for maturity at December 31, 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
By maturity		
Up to 1 year	144 619	175 217
From 1 year to 2 years	21 999	152 913
From 2 to 3 years	19 636	24 900
From 3 to 4 years	1 260	22 391
From 4 to 5 years	1 260	1 260
More than 5 years	2 826	4 088
	191 600	380 769

At December 31, 2017 these assets earned an average annual interest rate of 2.70% (2.59% at 31st December 2016).

Interest accrued by these assets in 2017 and 2016 amounted to 7,660 thousand euros and 19,114 thousand euros, respectively, included under "Interest income" on the Income statement (Note 24).

9.2 Deposits at credit institutions

An Analysis of the amounts of this section of the balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
By nature -		
Deposits at financial institutions (Note 9.2.1)	2 026 820	1 158 849
Mediation loans (Note 9.2.2)	13 773 292	17 736 293
Other loans to Credit entities (Note 9.2.3)	319 988	270 380
	16 120 100	19 165 522
(Impairment losses)	(19 205)	-
Other measurement adjustments (*)	(23 226)	(706)
	16 077 669	19 164 816

(*) Measurement adjustments related to the interest accrual and similar profits, as well as financial commission adjustments.

9.2.1 Deposits at financial institutions

"Time deposits" grouped by maturity date at 31 December 2017 and 2016 broken down as follows:

	Thousands of euros	
	2017	2016
Up to 1 year	2 026 820	1 158 849
From 1 to 2 years	-	-
From 2 to 3 years	-	-
From 3 to 4 years	-	-
From 4 to 5 years	-	-
More than 5 years	-	-
	2 026 820	1 158 849

During the year 2017, the headings "Deposits in financial institutions" accrued an average annual interest of 0.31 % (0.55% during 2016). All deposits included are time deposits as of December 31, 2017 and 2016.

The interest accrued during 2017 and 2016 for these loans have amounted a total of 1,954 thousand euros and 996 thousand euros, respectively, which are included under the heading "Interest and similar income" of the profit and loss account. (Note 24)

9.2.2 Mediation loans

The Agreement of the Council of Ministers of February 26, 1993, opened a mediation loan line in the “Instituto” to help finance small and medium enterprises. This line is instrumented through loans granted by the Institute to various financial institutions, which formalized the loans with the respective companies. During successive years this policy has continued, approving each year different lines for different amounts and objectives, always focusing on the Spanish SMEs.

In the operations classified as mediation loans granted until December 31, 1997, the ICO assumed a percentage of credit risk that the entity receiving the funds holds, in turn, with the ultimate borrowers. Since that date, the “Institute” does not assume any risk of insolvency of final borrowers, except in certain liquidity lines 2009-2012.

Inside mediation lines implemented between 2009 and 2012 and amounting to total exposure of 156 million euros at December 31, 2017 (378 million euros at December 31, 2016) are certain ICO lines with liquidity risk, for SMEs. In these lines, the ICO assumes a generic and comprehensive risk presented by the failed mediators financial institutions, up to 5% of the amount of the provisions made for lines granted in 2009 and 2010, while for the lines granted in 2011 and 2012, the maximum risk assumed is the average default of financial institutions sector excluding real estate finance transactions. During the years 2017 and 2016 no new lines have been approved in which the "Instituto" assume risk.

For all ICO risk mediation lines, the "Instituto" has established a provision at December 31, 2017, 82,849 thousand euros (170,989 thousand euros at December 31, 2016) (Note 19). The allowances have as initial reference the interest income generated for the Institute by these lines of mediation, adjusting exceptionally as expected developments failed to take by ICO. In the event that finally recognized provisions are insufficient to cover the failed submitted, the difference will be charged directly to the RDL Fund 12/95, without generating any losses for the ICO.

The breakdown of mediation loans at December 31, 2017 and 2016 broken down by maturity is as follows:

	Thousands of Euros	
	2017	**2016**
Up to 1 year	4 884 065	7 014 579
From 1 to 2 years	3 179 600	3 750 769
From 2 to 3 years	1 968 496	2 585 683
From 3 to 4 years	1 288 504	1 408 560
From 4 to 5 years	747 317	910 194
More than 5 years	1 705 310	2 066 508
	13 773 292	17 736 293

At December 31, 2017 and 2016, the mediation loans paid an average annual interest rate of 1.43 % and 1.76 %, respectively.

Interest accrued during 2017 and 2016 by mediation loans amounted to 231,399 thousand euros and 395,570 thousand euros, respectively, which are included in "Interest and similar income" of the profit and loss (Note 24).

9.2.3 Other loans to credit entities

This heading includes the balances of loan operations to credit institutions carried out directly (not mediation).

The detail of the balance of these loans as of December 2017 and 2016, broken down by maturity years, is as follows:

	Thousands of euros	
	2017	**2016**
Up to 1 year	-	104
From 1 to 2 years	24 614	20 790
From 2 to 3 years	24 614	20 790
From 3 to 4 years	24 614	20 790
From 4 to 5 years	24 614	20 790
More than 5 years	221 532	187 116
	319 988	270 380

As of December 31, 2017 and 2016, mediation loans accrued an average annual interest rate of 1.43% and 1.76%, respectively.

Interest accrued during 2017 and 2016 on these loans amounted to EUR 8,219 thousand and EUR 7,040 thousand, respectively, which are recognized under "Interest income" in the profit and loss account (Note 24).

This caption includes an amount of impairment losses, as a country risk, for a total of € 19,205 thousand (Note 9).

9.3 Customer loans

The breakdown of this balance sheet heading at 31 December 2017 and 2016, based both on the category of counterparty and the currency concerned, is as follows:

	Thousands of euros	
	2017	**2016**
By counterparty categories		
Acquisition of assets from counterparties under repurchase agreements	-	-
Resident Public Administrations	3 111 759	3 761 952
Non-resident Public Administrations	31 213	38 613
Other resident sectors	7 993 874	10 395 411
Other non-resident sectors	813 264	813 278
Other financial assets	266 129	13 092
	12 216 239	15 022 346
(Impairment losses)	(1 091 050)	(1 701 646)
Other measurement adjustments (*)	66 194	77 110
	11 191 383	11 191 383

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

The book value of certain investments in some Economic Interest Groupings is included in “Other resident sectors” (24,578 thousand euros at December 31st 2017 and 23,653 thousand euros at December 31st 2016) considering that are assured-return structures.

This mentioned sharing have a fiscal-financial component due to the fact that these entities negative taxable bases are included in the Institute’s taxable base. In order to adjust the fiscal-financial profits obtained along with the final result determined for the investment, a provision is registered annually on the Income tax heading in the consolidated income statement (Notes 19 and 23).

Of the above counterparty balances, it is provided below some information regarding the transactions guaranteed by the State, set out by counterparty and type of instrument, included under “Other resident sectors” and “Resident Public Administrations”, which are classified under the heading ‘Loans and advances to client’ at 31 December 2017 and 2016:

	Thousands of euros	
	2017	2016
Balances included under “Resident Public Administrations”		
Loans to the national government	992 349	1 400 466
Loans to regional governments	2 119 410	2 361 486
Valuation adjustments	(140 245)	(93 369)
	2 971 514	3 668 583
Balances included under “Other resident sectors”		
Doubtful assets secured by the State	59 962	185 444
Loans to other public entities	2 465 207	2 934 685
Loans to other sectors guaranteed by the State	162 187	703 148
	2 687 356	3 823 277
Total transactions guaranteed by the State	5 658 870	7 491 860

The breakdown of “Loans to Central Government” is as follows at 31 December 2017 and 2016:

	Thousands of euros	
	2017	2016
Loans to the State and its Autonomous Entities	990 301	1 139 965
Accounts receivable from the Public Treasury	2 048	255 050
Other accounts receivable from the State	-	5 451
	992 349	1 400 466

The heading “Accounts receivable from the Public Treasury” records, at 31st December 2016, the amount of 248,607 thousand euros derived from the formalisation of the “ICO Innovación Fondo Tecnológico 2015-2016, included in the operative Programme FEDER regarding the i+d+i and the firms benefits”. In 2017, the amount corresponding to this item (248,607 thousand euros) was included under “other financial assets”. Additionally, the satisfied amounts by the Institute to the Public Treasury, which are pending from being effective under the concept of Subsidiaries, for the adjustment of interest rates differentials in mediation loans

In 2016, the heading “Other accounts receivable from the State” records the Institute’s CARI operations amounts. These accounts, which are carried at their nominal value, do not accrue any interest.

Interest and similar income contributed to the profit and loss by public sector entities for the years 2017 and 2016 (Note 24) is:

	Thousands of euros	
	2017	**2016**
Central government	7 528	12 091
Regional governments	20 540	31 551
Other public sector entities	27 782	38 530
	55 850	82 172

The breakdown of the principal amounts of loans included under the heading 'Loans and advances to client', including measurement adjustments, and set out by maturity date at 31 December 2017 and 2016, is as follows:

	Thousands of euros	
	2017	**2016**
By maturity		
Up to 1 year	1 503 992	2 185 197
From 1 year to 2 years	998 472	1 680 600
From 2 to 3 years	1 465 753	1 601 534
From 3 to 4 years	1 214 130	1 492 280
From 4 to 5 years	1 594 436	1 355 531
More than 5 years	5 505 650	6 784 314
	12 282 433	15 099 456

According to current Bank of Spain regulations, provisions for contingent exposures and commitments, recorded under the heading 'Provisions – Provisions for contingent exposures and commitments' in the balance sheet.

Loans and advances to other debtors at 31 December 2017 and 2016 carried annual interest of 1.46% and 1.50%, respectively.

At December 31st, 2017 has recorded any benefits neither losses at the income statement on financial assets classified as loans and receivables (neither at 31 December 2016) (Note 28).

10. HELD-TO-MATURITY INVESTMENT PORTFOLIO

The breakdown by counterparty of the held-to-maturity investment portfolio at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
By counterparty		
Spanish public administrations	8 962 724	9 529 114
Resident credit institutions	844 159	971 027
Other resident sectors	4 011	4 067
Doubtful assets	29 942	-
	9 840 836	10 504 208
Impairment Losses	-	-
Value adjustments for impairment	-	-
	9 840 836	10 504 208

The average rate of compensation for the portfolio in 2017 was 0.60% (1.33% in 2016).

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

The Group has provided any amount at December 31th, 2017 nor December 31th, 2016, to cover impairment losses attributed to credit risk in the maturity investment securities portfolio to date.

Movements experienced during the years 2017 and 2016 under the heading of Held-to-maturity investment portfolio are shown below:

	Thousands of euros	
	2017	**2016**
Balance at the beginning of the year	10 504 208	10 810 652
Additions from acquisitions	6 182 885	8 633 259
Movements for impairment	-	-
Redemptions and sales	(6 846 257)	(8 939 703)
Balance at the end of the year	9 840 836	10 504 208

The breakdown by term residual maturity of December 31, 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
On demand	413 270	1 370 505
Up to 3 months	749 324	696 217
Between 3 months and 1 year	10 876	1 349 673
Between 1 and 5 years	8 640 177	7 060 403
Over 5 years	27 189	27 410
TOTAL	9 840 836	10 504 208

11. HEDGING DERIVATIVES (DEBTORS AND CREDITORS)

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

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

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

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

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

The total notional values of derivatives and fair values of financial derivatives designated as "Hedging derivatives" at 31 December 2017 and 2016, by counterparty and risk, are as follows:

	Thousands of euros					
	Notional		Assets		Liabilities	
	2017	2016	2017	2016	2017	2016
By type of market						
Organised markets	-	-	-	-	-	-
Non-organised markets	16 374 428	28 414 644	517 145	1 222 013	363 492	218 726
	16 374 428	**28 414 644**	**517 145**	**1 222 013**	**363 492**	**218 726**
By type of product						
Swaps	16 374 428	28 414 644	517 145	1 222 013	363 492	218 726
	16 374 428	**28 414 644**	**517 145**	**1 222 013**	**363 492**	**218 726**
By counterparty						
Credit institutions	16 374 428	28 414 644	517 145	1 222 013	363 492	218 726
Other financial institutions	-	-	-	-	-	-
Other sectors	-	-	-	-	-	-
	16 374 428	**28 414 644**	**517 145**	**1 222 013**	**363 492**	**218 726**
By type of risk						
Exchange risk	8 510 605	3 135 733	226 224	673 358	277 773	105 493
Interest rate risk	7 863 823	25 278 911	290 921	548 655	85 719	113 233
	16 374 428	**28 414 644**	**517 145**	**1 222 013**	**363 492**	**218 726**

As of December 31, 2017 and 2016, the classification of hedging derivatives, measured at fair value and taking into account the hierarchical level set out in Note 2.2.3., was as follows:

	Thousands of euros					
	2017			2016		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	517 145	-	-	1 222 013	-
Held-for-trading-derivatives of liabilities	-	363 492	-	-	218 726	-

The fair value of these items has been calculated in 100% of the cases, both in 2017 and in 2016, taking as reference the implicit curves of the money and public debt markets.

Once the IFRS 13 of 1st January 2013 has become effective, the Institute included for the derivative instruments valuation, the corresponding risk valuation adjustments from counterparties and its own (Notes 7 and 30).

12. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Variations of this balance sheet heading during years 2017 and 2016 set out by company and shareholding is as follows:

	Thousands of euros
	Associates
Balance at January 1, 2016	**55 929**
Additions	1 821
Disposals/ Applications	-
Others movements	-
Impairment	-
Balance at December 31, 2016	**57 750**
Additions	1 110
Disposals/ Applications	-
Others movements	-
Impairment	-
Balance at December 31, 2017	**58 860**

Appendix I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at 31 December 2017and 2016.

Increases in the years 2017 and 2016 correspond to consolidation adjustments.

13. TANGIBLE ASSETS

Movements in 2017 and 2016 recorded under Property, plant and equipment, and accumulated depreciation, is as follows:

	Thousands of euros			
	Building of own use	Furniture, vehicles and another fixed assets	Real-estate investments	Total
Cost				
Balance as at January 1, 2017	113 785	15 723	-	129 508
Additions	195	188	-	383
Disposals and other write-offs	-	(73)	-	(73)
Balance as at December 31, 2017	113 980	15 838		129 818
Accumulated depreciation				
Balance as at January, 1 2017	29 413	7 349	-	36 762
Appropriations	1 961	540	-	2 501
Transfers and other movements	-	(73)	-	(73)
Balance as at December 31, 2017	31 374	7 816	-	39 190
Impairment losses – at December 31,2017	-	651	-	651
Property, plant and equipment net - Balance as at December 31, 2017	82 606	7 371	-	89 977
Cost				
Balance as at January 1, 2016	113 566	15 652	-	129 218
Additions	219	89	-	308
Disposals and other write-offs	-	(18)	-	(18)
Balance as at December 31, 2016	113 785	15 723	-	129 508
Accumulated depreciation				
Balance as at January, 1 2016	27 798	6 695	-	34 493
Appropriations	1 615	671	-	2 286
Transfers and other movements	-	(17)	-	(17)
Balance as at December 31, 2016	29 413	7 349	-	36 762
Impairment losses – at December 31,2016	9 876	651	-	10 527
Property, plant and equipment net - Balance as at December 31, 2016	74 496	7 723	-	82 219

At 31 December 2017 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 16,460 thousand euros (15,445 thousand euros at 31 December 2016).

In compliance with Institute policy, all property, plant and equipment is insured at 31 December 2017 and 2016.

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

The revaluation reserve at December 31st, 2017 amounted to 23,591 thousand euros 23,591 thousand euros at December 31st, 2016) (Note 20).

The table below presents the fair value of certain items of property, plant and equipment of the Group at December 31st, 2017 and 2016 by category, along with the related carrying amounts at those dates:

	Thousands of euros			
	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Property, plant and equipment for own use	89 977	114 167	82 219	86 208
Buildings	82 606	106 796	74 496	78 485
Other	7 371	7 371	7 723	7 723
Real estate investment	-	-	-	-
Property under construction	-	-	-	-

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

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

- For those assets for which an updated appraisal by a Bank of Spain-approved value is available, fair value was determined based on the appraisal as provided for in the Ministerial Order 805/2003.

All properties for own use were appraised by a Bank of Spain approved appraiser using the comparison approach, at 31 December 2017 and 2016.

14. INTANGIBLE ASSETS

The breakdown of Intangible assets in the balance sheet at 31 December 2017 and 2016 relates exclusively to the account named ‘other intangible assets’.

	Useful estimated Life	Thousands of euros	
		2017	2016
With indefinite useful life	-	-	-
With defined useful life	3 years to 10 years	39 942	37 588
Gross total		39 942	37 588
Of which:			
Internal developments	3 years	32 162	29 077
Remainder	10 years	7 780	8 511
Accumulated depreciation		(29 861)	(26 322)
Impairment losses		(2 137)	(2 137)
		7 944	9 129

All intangible assets at 31 December 2017 and 2016 related to computer software. Fully amortised intangible assets at 31 December 2017 amounted to 24,208 thousand euros (21,665 thousand euros at 31 December 2016).

15. TAX ASSETS AND LIABILITIES

The breakdown of tax assets and liabilities at 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Current taxes:	130 193	127 172	935	877
Corporate income tax	130 170	127 163	-	-
VAT	23	9	77	30
Personal income tax withholdings	-	-	440	457
Social Security contributions	-	-	418	390
Deferred taxes:	134 319	95 375	14 512	65 960
Impairment losses on credits, loans and discounts	79 648	95 375		-
Measurement of cash-flow hedges (Note 21)	54 671	-	-	50 205
Restatement of property	-	-	15 932	15 932
Restatement of available – for – sale financial assets	-	-	(1 420)	(177)
	264 512	222 547	15 447	66 837

Movements in 2017 and 2016 in the deferred tax asset and liability balances are set out below:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Balance at beginning of the year	95 375	228 381	65 960	39 170
Impairment losses on credits, loans and discounts	(15 727)	=	-	-
Valuation of cash flow hedges (Note 21)	54 671	(133 006)	(50 205)	27 053
Restatement of property	-	-	-	-
Restatement of available -for- sale financial assets (Note 21)	-	-	(1 243)	(263)
Balance at the end of the year	134 319	95 375	14 512	65 960

16. OTHER ASSETS AND LIABILITIES

The breakdown of 'Other Assets' at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Other assets	7 828	7 051
Accruals	30 224	29 809
	38 052	36 860

The heading "Accruals" includes, among other items, the accrual of fees receivable by the "Instituto", as the dominant entity of the Group, for the Management of Operational mechanisms Fund for the Financing of Payments to Suppliers and operational management of Autonomous Region Liquidity Fund and for the operational management of the Financing Fund to Autonomous Communities (Note 1.1). In 2017, the overall amount of these fees receivable for ICO is 25 million euros per year (25 million euros at 31 December 2016), also recorded in the income statement for these amounts within the section of 'Fee income' (Note 28).

The breakdown of 'Other Liabilities' at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Other liabilities	1 432	3 034
Accruals	2 687	5 032
	4 119	8 066

"Other liabilities" basically corresponds to several payment obligations for the Group related to the transfer of assets and liabilities from the, now dissolved, Argentaria (see Note 1.4).

Under the heading "Accruals" includes the amounts accrued and unpaid, for commissions to be paid to financial institutions by the concepts of "rappel 2017 lines of mediation" by 750 thousand euros (700 thousand euros in 2016).

17. NON – CURRENT ASSETS HELD FOR SALE

The entire amount in the heading “Non-current assets held for sale” includes assets awarded in foreclosed. None of these foreclosed assets recorded on this heading at December 31st 2017 and December 31st 2016 comes from any funding related neither to Property development land nor to any other property development business.

Movements for years 2017 and 2016 in the balances under this balance sheet heading are shown below:

	Thousands of euros		
	Cost	**Impairment**	**Total**
Balance as at January 1, 2016	72 888	(72 888)	**-**
Additions	208	(141)	67
Disposals / Applications	(206)	139	(67)
Transfers	-	-	-
Balance as at December 31, 2016	72 890	(72 890)	**-**
Additions	22	-	22
Disposals / Applications	(469)	469	-
Transfers	-	-	-
Balance as at December 31, 2017	72 443	(72 421)	**22**

Over the total amount of “Non-current assets held for sale” at 31 December 2017 and 2016, 48,678 thousand euros corresponds to a single asset, which is fully provisioned.

In the year 2017, gains from the sale of non-current assets held for sale in the amount of 182 thousand euros (1,132 thousand earnings in 2016) have been recorded.

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

Pursuant to paragraph 55 of the standard 60th of Circular 4/2004 of the Bank of Spain, non-current assets held for sale are classified into broad categories: soil, urban and urbanizing splitting rustic and constructions, distinguishing between residential, industrial and commercial uses. On the following chart are included Appraisal Companies, its methodology to appraise the assets and the amount given to each of it (company/agency):

RESIDENTIAL USE BUILDINGS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
11	GRUPO TASVALOR	DYNAMIC RESIDUAL
3	ALIA TASACIONES	DYNAMIC RESIDUAL
275	ALIA TASACIONES	COST AND COMPARISON
439	GRUPO TASVALOR	COST AND COMPARISON
13	ARCO VALORACIONES	COST AND COMPARISON
50	GRUPO TASVALOR	COMPARISON
286	JUDICIAL	OTHERS
1.077		

INDUSTRIAL USE BUILDINGS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
2,296	GESVALT	COST AND COMPARISON
2,296		

TERTIARY USE BUILDINGS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
81	GRUPO TASVALOR	
11	GRUPO TASVALOR	COMPARISON
811	GRUPO TASVALOR	COST AND COMPARISON
44	GRUPO TASVALOR	COST
5131	EUROVAL	COST
6 078		

URBAN AND URBANIZABLE LANDS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
19	GRUPO TASVALOR	
172	GRUPO TASVALOR	
172	ALIA TASACIONES	DYNAMIC RESIDUAL
8.982	GRUPO TASVALOR	DYNAMIC RESIDUAL
218	EUROVAL	STATIC RESIDUAL
31	GESVALT	STATIC RESIDUAL
3	ALIA TASACIONES	COST
10.137		

RUSTIC LANDS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
25	GRUPO TASVALOR	COST AND COMPARISON
128	ALIA TASACIONES	COMPARISON
102	GRUPO TASVALOR	COMPARISON
65	GRUPO TASVALOR	COMPARISON
8	GRUPO TASVALOR	RENTS UPDATING
18	GESVALT	OTHERS
117	JUDICIAL	OTHERS
463		
20.051		

18. FINANCIAL LIABILITIES AT AMORTISED COST

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

	Thousands of euros	
	2017	2016
By counterparty categories		
Credit institution deposits (Note 18.1)	11 495 137	13 375 016
Customer deposits (Note 18.2)	848 733	1 003 960
Debts represented by negotiable securities (Note 18.3)	22 845 774	26 954 455
Other financial liabilities (Note 18.4)	857 380	1 051 930
	36 047 024	42 385 361

18.1 Credit institution deposits

The composition of this balance sheet heading at 31 December 2017 and 2016, set out by the nature of the transaction, is as follows:

	Thousands of euros	
	2017	2016
By nature:		
Loans from the European Investment Bank	10 081 159	10 419 575
Inter – bank loans	186 000	758 699
Loans from other financial institutions	1 164 578	2 090 697
Other accounts	-	497
Measurement adjustments – Accrual accounts	63 400	105 548
	11 495 137	13 375 016

Interbank deposits fall due within one year as from 31 December 2017 and 2016, respectively.

"Other accounts" shows certain income from credit entities pending definitive application.

The breakdown by maturity of the "Loans of other financial entities" is as follows

	Miles de euros	
	2017	2016
Up to 1 year	1 572 052	1 007 588
From 1 to 2 years	2 029 155	1 577 796
From 2 to 3 years	1 967 323	2 067 437
From 3 to 4 years	1 882 750	1 649 959
From 4 to 5 years	1 246 522	1 778 584
More than 5 years	1 383 357	2 338 211
	10 081 159	10 419 575

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

	Thousands of euros	
	2017	2016
Up to 1 year	104 750	119 504
From 1 to 2 years	186 000	239 779
From 2 to 3 years	204 750	358 493
From 3 to 4 years	234 750	358 493
From 4 to 5 years	76 750	358 493
More than 5 years	357 578	655 935
	1 164 578	2 090 697

18.2 Customer funds

The composition of this heading in the balance sheets at 31 December 2017 and 2016, according to sector, is as follows:

	Thousands of euros	
	2017	2016
By counterparty category		
Public Administrations	804 913	922 698
Other resident sector (1)	43 471	81 003
Other non – resident sectors	-	-
Measurement adjustments – Accrual accounts	349	259
	848 733	1 003 960

(1) Of which at 31 December 2017 and 2016, 50.286 thousand euros and 88.194 thousand euros respectively were current accounts.

At 31 December 2017 and 2016, the breakdown by nature of the balance recorded under "Public Administrations" is as follows:

	Thousands of euros	
	2017	2016
Special loan from the State	-	-
Reciprocal Interest Adjustment Agreement (CARI)	6 756	11 688
Public Administration Current Accounts and other items	798 157	911.010
	804 913	922 698

18.3 Debts represented by negotiable securities

The breakdown of the heading "Debts represented by negotiable securities" at 31 December 2017 and 2016 is set out below:

	Thousands of euros	
	2017	2016
Bonds and debentures issued	22 124 860	26 109 430
Valuation adjustments (*)	720 914	845 025
	22 845 774	26 954 455

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

Movements experienced during the years 2017 and 2016 under the heading of debt securities - Bonds and obligations are shown below:

	Thousands of euros	
	2017	2016
Balance at beginning of the year	26 109 430	40 480 490
Issues	27 509 063	11 118 769
Amortizations and depreciations	(31 023 445)	(25 622 875)
Exchange differences	(470 188)	133 046
Balance at the end of the year	**22 124 860**	**26 109 430**

Set out below are the main characteristics of the debenture issues outstanding at 31 December 2017 and 2016, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues					Thousands of euros	
2017	2016	Currency	Redemption date	Annual interest rate	2017	2016
3	3	Norwegian crone	Until 2021	4.28 to 5.36	120 981	131 020
1	1	Canada dollar	Until 2020	4.53 to 5.00	166 234	176 205
43	36	US dollar	Until 2022	Several	5 536 911	4 081 407
78	108	Euro	Until 2032	Several	15 465 264	20 497 410
			Until 2024	2 to 3.25	358 892	577 016
-3	4	Swiss franc				
		British pound	Until 2017		-	365 838
1	-			Several		
1		Dollar Australia	Until 2018		324 237	
1		Corona Sweden	Until 2022	1,95		
				0,963	50 793	
4	6	Yen	Until 2030	0.52 to 2.9	101 548	280 534
					22 124 86	26 109 430

A breakdown of each issue may be consulted on the Institute's webpage (www.ico.es), as the dominant entity of the Group, in "Investments - Issues of reference".

In 2017 the total financial cost of debenture loans in both Euros and foreign currency recorded under the heading ‘Interest and similar charges’ in the income statement was 876,354 thousand euros, which is an average annual interest rate of 4.03% (2.05% with accounting hedges). In 2016 financial costs amounted 1,259,547 thousand euros, which was an average annual interest rate of 4.08% (2.45% with accounting hedges) (Note 25).

As of 2017 have been recorded net trading losses as a result of a repurchase of certain financial liabilities at amortised cost (Bonds and debentures issued by the ICO), amounting 8,766 thousand euros (amount includes the result of the cancellation of derivatives associated repurchased cover these emissions). In 2016, the losses recorded by the same concept were 152,151 thousand euros, recorded as 'Gains or losses on financial assets and liabilities not measured at fair value' (Note 29).

18.4 Other financial liabilities

An analysis of the balances of this caption in the balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Treasury Funds	586 853	775 028
Other items	270 527	276 902
	857 380	1 051 930

“Treasury funds” includes funds received by the Group and repayable under the attaching terms of each one. Detailed information on the lines associated with each of these funds can be found on the Institute website www.ico.es.

The funds associated with the most important lines are:

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

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

- Línea Préstamos Renta Universidad: this line is to guarantee a future income for postgraduate studies as a Doctorate or a Master degree for 2011-2012.

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

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

The balance of those funds at 31 December 2017 and 2016 is set out below:

	Thousands of euros	
	2017	2016
FOMIT	205 200	259 743
Avanza	30 085	109 594
Préstamos Renta Universidad	142 355	175 392
Futur E	41 847	70 405
Other	167 366	159 894
	586 853	775 028

‘Other items’ includes the amount corresponding to the constitution of the ICO Innovation Fund 2013-2015, for the financing of specific mediation lines for SMEs and Self-employed, with funds from the ICO and the ERDF (248,607 thousands of euros at 31 December 2017 and 2016).

In December 2013, the FEDER Operational Program for I+D+I was approved for the benefit of the companies, Technological Fund 2013-2016, by Decision number C (2007) 6316. The General Directorate of Community Funds of the Ministry of Finance And Public Administrations is the Public Authority designated to manage said program in Spain. This program includes the possibility of using financial instruments, including the financial instrument 'ICO Innovation Technological Fund 2013-2016', for the management of a part of it. With the instrument 'ICO Innovation Technological Fund 2013-2016', a co-financed action with structural funds (ERDF) is launched, aimed at facilitating access to finance for innovative companies.

19. PROVISIONS

At 31 December 2017 and 2016 the breakdown of the balances recorded under this heading in the accompanying balance sheet is as follows:

	Thousands of euros	
	2017	2016
Provisions for pensions and similar obligations	423	365
Provisions for contingent exposures and commitments	1 197	14
Other provisions	303 045	238 881
	304 665	239 260

An analysis of the balances of ‘Other provisions’ in the balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Royal Decree – Law12/1995 Fund	177 926	107 428
Provision for Special Loan Liquidity Line (Note 9.2.2)	88 361	82 849
Fund for amounts recovered from BBVA	357	174
Fund Prestige Facility	10 980	11 376
Fund to compensate AIE shareholdings results (Note 9.3)	14 401	16 277
Contingency fund	10 000	20 000
Other funds	1 020	777
	303 045	238 881

Royal Decree- Law 12/1995

Royal Decree- Law 12/1995 (28 December), published in the Official State Gazette (BOE) on 30 December 1995 and taking effect on 1 January 1996, it is stipulated that Instituto Oficial de Crédito would create, by charging the resources obtained from the State Loan referred to by Section 4.1 of the Council of Ministers Resolution (11 December 1987), a Fund totalling a maximum of 150,253 thousands Euros (Note 19.2) to provide provisions and charge the amounts relating to doubtful and default loans that could arise in the future from the activities listed in Note 1, in accordance with the regulations in force for credit institutions. Additional Provision 4 of Law 66/1997 (30 December) on Tax, Administrative and Social Order Measures stipulated that notwithstanding the application of these regulations, the Council of Ministers or the CDGAE could authorise the ICO to charge the Special provision Fund established under RDL 12/1995 for any defaults arising during the course of its business, provided that they did not receive any specific coverage in the General State Budgets. This Fund was created in 1996 under the heading "Other Provisions".

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

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

The Fund was created as explained in the preceding paragraph and was credited, in addition to the initial allocation, with future allocations that the Instituto Oficial de Crédito makes out of profits obtained and any made or authorized by the State when assuming or offsetting losses, or through any other appropriate system . Similarly, the Fund is credited with the amounts of an recoveries obtained from loans for which provisions have been recorded or any that have been declared to be in default and charged against the fund, that in 2017 and 2016 amounted to 7,724 thousand euros and 8,319 thousand euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2017 and 2016, amounted to (164) thousand euros and 85 thousand euros, respectively.

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

In 2004 another allocation totalling 249,500 thousand euros was charged against the State Loan granted to ICO in accordance with the Council of Ministers Resolution dated 30 July 2004.

Movements in 2017 and 2016 in this fund recorded under "Other Provisions" in the balance sheet at 31 December 2017 and 2016 are as follows:

	Thousands of euros
Balance as at January 1, 2016	100 009
Capitalisation of interest	85
Contributions by the State	-
Loan recoveries (principal and interest)	8 319
Applications	(985)
Balance as at December 31, 2016	107 428
Capitalisation of interest	(164)
Contributions by the State	3 466
Application results ICO 2016	62 000
Loan recoveries (principal and interest)	9 724
Applications	(4 528)
Balance as at December 31, 2017	177 926

In 2017, an extraordinary contribution to the Fund of 62,000 thousand euros was recognised, as part of the net profit distributed by ICO for 2016.

Funds for amounts recovered from BBVA

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

Nonetheless, the management of the transactions affected by the cancellation process has meant that ICO continues receiving collections pertaining to these loans, which, following the prudence accounting principle, are not generally registered as income in the income statement. For those accounted as income, the relevant provision for liabilities has been recorded amounting to 357 thousand euros and 174 thousand euros at 31 December 2017 and 2016, respectively, that will be capitalised in accordance with Additional Provision 10.1 of Law 24/2001, amended by Law 42/2006.

Prestige Line fund

The Prestige Line Fund has its origins in the ROL 7/2002, November 22, which authorizes to charge on the Fund Special Provision 12/1995 ROL, the default amounts from loans Prestige line, with credit to this fund specific provision.

Fund to compensate AIE shareholdings results

Heading Fund to compensate AIE shareholdings includes the provision in order to adjust its profit to the transactions performance conducted through the Economic Interest Groupings (Note 9.3). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of 1,876 thousand euros and 92 thousand euros, respectively in the years 2017 and 2016

(Note 23). During the year 2017, -no amount - has been applied for the elimination of the corresponding investments, once the AIEs have been dissolved, as it was established in calendars (4,701 thousand euros during the 2016 financial year).

Contingency fund

This heading was created in 2010 and includes a generic provision for general contingencies (including operational risk), with a balance of 10,000 thousand euros at December 31, 2017 (20,000 thousand euros at December 31, 2016).

Movements in 2017 and 2016 in the provisions recorded under these balance sheet headings:

	Thousands of euros				
	Provisions for taxes	**Fund for pension**	**Provisions for contingent exposures and commitments**	**Other provisions**	**Total**
Balance as at January 1,2016	**-**	**343**	19 540	316 034	335 917
Net allocation[(1)]	-	22	-	9 955	9 977
Recoveries	-	-	(19 526)	(87 049)	(106 575)
Application of funds	-	-	-	(4 935)	(4 935))
Transfers and other movements [(2)]	-	-	-	4 876	4 876
Exchange differences	-	-	-	-	-
Balance as at December 31,2016	**-**	**365**	**14**	238 881	239 260
Net allocation[(1)]	-	58	-	4 948	6 189
Recoveries	-	-	1 183	(10 034)	(10 034)
Application of funds	-	-	-	(622)	(622)
Transfers and other movements [(2)]	-	-	-	69 872	69 872
Exchange differences	-	-	-	-	-
Balance as at December 31,2017	**-**	**423**	1 197	303 045	304 665

(1) Net charges to profit and loss account in the 2017, include the amount of *164* thousand euros, related to credits made to the Special Provision Fund (Royal Decree Law 12/1995 Fund) for the capitalization of interest accrued in relation to the fund's own remuneration (82 thousand euros in 2016).The figure also includes a provision charge for ICO's liquidity lines with ICO risk (see Note 9.2.2.) amounting to *4,509* thousand euros (*85,808* thousand euros in 2016) and an allocation to the contingency fund*10,000* thousand euros (*9,699* thousand euros at 31 December 2016).

(2) Transfers and other movements at 31 December 2017 are related mainly to the Fund to compensate AIE shareholding results, (*1,876* thousand euros, Note 23) and to other reclassifications (*62,000* thousand euros) due to an equity contribution for a BBVA's products recovery (Additional Provision 11th of Law 24/2001, 27th December). At 31 December 2016, movements are related also to the Fund to compensate AIE shareholding results, amounting to 799 thousand euros and to other reclassifications (6,911 thousand euros).

20. OWN FUNDS

The reconciliation of the opening and closing carrying value in 2017 and 2016 of the heading "Equity" in the balance sheets:

	Thousands of euros				
	Share	Restatement reserves	Other reserves	Results	Total
Balance as at January 1,2016	4 311 855	24 501	917 251	33 844	5 287 451
Distribution of results	-	-	8 844	(33 844)	(25 000)
Other increases in reserves	-	(910)	910	-	-
Result for the year	-	-	-	317 019	317 019
Other movements	730	-	243	-	973
Balance as at December 31,2016	4 312 585	23 591	927 248	317 019	5 580 443
Distribution of results	-	-	69 019	(317 019)	(248 000
Other increases in reserves	-	-	(152)	-	(152)
Result for the year	-	-	-	103 100	103 100
Other movements	482	-	-	-	482
Balance as at December 31,2017	4 313 067	23 591	996 115	103 100	5 435 873

The distribution of profits in 2016 totalled 248,000 thousand euros, following approval by the Ministry of Economy, Industry and Competitiveness on 27 July 2017. Of this amount, 62,000 thousand euros were recognised as a contribution to the RDL 12/95 fund (Note 19).

Other movements include mainly the following:

- Based on the eleventh additional provision of Law 24/2001, of 27 December, on fiscal, administrative and social measures, the amounts recovered after the cancellation of debt owed by the State with ICO as a result of certain loans and guarantees granted by the former official credit entities and by the Institute. The contribution to Equity in this connection amounted to 482 thousand euros in 2017 (730 thousand euros in 2016).

20.1 Reserves in fully or proportionally consolidated companies

Set out below is the breakdown by consolidated company of balances under equity "Equity - Reserves - Accumulated Reserves" in the consolidated balance sheets at 31 December 2017 and 2016, in the part of that balance which has arisen on consolidation, analysed for fully and proportionally consolidated companies in the consolidated financial statements:

	Thousands of euros	
	2017	2016
AXIS Participaciones Empresariales, S.A.	8 305	8 227
Instituto de Crédito Oficial	996 289	928 945
	1 004 594	937 172

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

“Equity - Reserves - Reserves in companies carried under the equity method" in the consolidated balance sheets at 31 December 2017 and 2016, in the part of that balance which has arisen on consolidation process, analysed for each company carried under the equity method in the consolidated financial statements:

	Thousands of euros	
	2017	2016
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	15 120	13 659
CERSA, Compañía Española de Reafianzamiento, S.A	(44)	(44)
Other entities	36	52
	15 112	13 667

21. OTHER ACCUMULATED GLOBAL RESULTS (VALUATION ADJUSTMENTS)

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

	Thousands of euros					
	2017			2016		
	Gross	Tax effect (Note 15)	Net	Gross	Tax effect (Note 15)	Net
Available-for-sale financial assets	(4 733)	1 420	(3 313)	(589)	177	(412)
Cash flow hedges	(182 239)	54 672	(127 567)	167 350	(50 205)	117 145
TOTAL	(186 972)	56 092	(130 880)	166 761	(50 028)	116 733

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

	Thousands of euros	
	2017	2016
Opening balance	116 733	54 223
Change in fair value of available – for – sale financial assets (Note 8)	(2 901)	(613)
Cash flow hedges	(244 712)	63 163
Closing balance	(130 880)	116 733

22. FINANCIAL GUARANTEES AND BALANCES DRAWABLE BY THIRD PARTIES

This headings in the balance sheets record the amounts that the Group must pay on behalf of third parties in the event that the obligated parties do not do so, in response to the commitments acquired during the normal course of its business (guarantees granted) and the amounts available to third parties (contingent commitments).

This heading breaks down as follows at 31 December 2017and 2016:

	Thousands of euros	
	2017	**2016**
Contingent risks		
Guarantees and other sureties	605 138	824 186
	605 138	824 186
Contingent commitments granted		
Balances drawable by third parties:	260 434	
Credit institutions	2 122 178	2 086 095
The Public Administrations sector	640 621	416 893
Other resident sectors	193 495	245 015
Non-resident sectors	9 193	-
	3 225 921	2 748 003
Other commitments	-	-
	3 831 059	3 572 189

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

23. TAX SITUATION

The balance sheet at 31 December 2017 and 2016 includes, within the heading "Fiscal liabilities" the liability related to applicable taxes.

The Institute, dominant entity of the Group, was exempt from corporate income tax in the years 1993 through 1996, in accordance with Royal Decree Law 3/1993, of 26 February 1993, on urgent budgetary, tax, financial and employment measures. In accordance with the provisions of Transitional Provision Thirteenth of Law 43/1995 (27 December) on corporate income tax, the Institute was exempted from this tax in 1997 and 1998 and became liable to general corporate income tax as from 1999.

The reconciliation of the accounting Institute's profit, as the Parent firm of the Group, for 2017 and 2016 with the corporate income tax base is as follows:

	Thousands of euros	
	2017	2016
Book profit before income tax	145 987	448 102
Permanent differences		
Foreign taxes paid	581	542
		-
Non-accounted accounting income	6 031	(379)
Tax-loss carry forwards attributed to invested companies	2 106	(4 171)
Deductible expenses from previous years	-	-
	154 705	444 094
Temporary differences:		
Due to impairment losses and provision non-deductible	8 056	52 318
Due to the reversal of temporary differences arising in other years	(60 478)	(495 682)
	(52 422)	(443 364))
BI compensation prior years	(25 571)	
Tax assessment base	76 712	730
Gross tax payable (30%)	23 014	219
Deductions and allowances	(1 380)	(378)
Withholdings and interim payments	(33 219)	(113 577)
Tax payable (Note 16)	(11 585)	(113 736)
Corporate income tax	45 940	132 850
Adjustments for exchange differences	-	-
Other adjustments (Note 19)	(1 876)	(92)
Corporate income tax	44 064	132 758

There are no tax losses available for offset. During the year the losses allocated of the Economic Interest Groupings in which ICO, the Group's Parent entity, has a differing proportional interest in capital are included 2,106 thousand euros at December 2017 and (4,171) thousand euros at December 2016. Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

There is a negative tax base pending offsetting, generated in 2015, of 16,691 thousand euros, which has - been 25,571 - in 2017.

No tax incentive deductions applied in the year 2017 and 2016. There is an international double tax deduction (taxes borne) amounting to 472 thousand euros and 378 thousand euros respectively. The international double tax deduction generated in 2016 (530 thousand euros) is pending compensation, as well as an amount of - thousand euros of the one corresponding to 2017.

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

Taxes and other tax obligations applicable to the Institute are open to inspection by the tax authorities during last four years.

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

24. INTEREST AND SIMILAR INCOME

Interest and similar yields for 2017 and 2016 are broken down below by source:

	Thousands of euros	
	2017	**2016**
- Financial assets available for sale	39 163	285 091
- Loans and receivables	421 609	612 684
- Investments held until maturity	58 769	-
- Derivatives, copper accounting	(10 040)	1 898
- Other assets	134	115
- Interest income from liabilities	12 955	-
	522 590	899 788

25. INTEREST AND SIMILAR CHARGES

The breakdown of this profit and loss heading during 2017 and 2016 is as follows:

	Thousands of euros	
	2017	**2016**
-Financial liabilities at amortized cost	1 004 826	1 373 158
-Derivatives, hedge accounting	(418 396)	(499 008)
-Other passives	10	13
-Interest expense on assets	5 257	-
	591 697	874 163

26. DIVIDENDS INCOME

All yields obtained in this respect correspond to the Equity portfolio, ascending in 2017 and in 2016up to 173 thousand euros and 552 thousand euros, respectively.

27. SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

The total amount regarding this heading, registered in the consolidated gains and losses account from years 2017 and 2016, increases up to 1,245 thousand euros and 1,579 thousand euros, respectively of benefits. In the Annex I, the detail of participations is included, as well as the most relevant data at 31 December 2017 and 2016.

28. FEE AND COMMISSION INCOME AND EXPENSES

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

	Thousands of euros	
	2017	**2016**
Commissions received		
Contingent risks	1 665	2 056
Availability commissions	6 620	5 191
Other commissions	48 209	53 311
	56 494	60 558
Commissions paid		
Signature risks	(1 612)	(1 774)
Other commissions	(1 776)	(11 124)
	(3 388)	(12 898)
Net commissions for the year	53 106	47 660

The heading "Other commissions" of commissions income, at December 31, 2017, includes 25,000 thousand euros relative to commissions for the management of FFPP and FLA (25,000 thousand euros at 31 December 2016) (Note 16).

29. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

	Thousands of euros	
	2017	**2016**
Available-for-sale financial assets (Note 8)	5 146	-
Loans and receivables (Note 9.3)	-	-
Financial liabilities at amortised cost (Note 18.3)	(8 766)	(152 151)
	(3 620)	(152 151)

30. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	Thousands of euros	
	2017	**2016**
Hedging derivatives (Note 7)	11 326	10 551
	11 326	10 551

Following the entry into force of IFRS 13 (1 January 2013), the Group did not incorporate the corresponding adjustment for counterparty and equity credit risk (CVA-DVA) for the valuation of the derivative instruments. The adjustment made under this heading (including this caption) at 31 December 2017 amounts to a loss of 5,835 thousand euros (loss of 844 thousand euros at 31 December 2016).

31. OTHER OPERATING INCOME AND EXPENSES

The breakdown of this item in the consolidated income statement is as follows:

OTHER OPERATING INCOME	Thousands of euros	
	2017	**2016**
Operating income from real estate investment	1 035	913
Other items (*)	3 833	628
	4 868	1 541

(*) Includes mainly expenses recovered from the return of surpluses and advances made through BBVA's asset management.

OTHER OPERATING EXPENSES	Thousands of euros	
	2017	**2016**
Other items	(3)	(2)
	(3)	**(2)**

32. PERSONNEL EXPENSES

The composition of this consolidated income statement heading is as follows in 2016 and 2015:

	Thousands of euros	
	2017	2016
Wages and salaries	15 570	15 491
Staff welfare expenses	3 748	3 561
Other expenses	1 323	1 453
	20 641	20 505

The number of employees at 31 December 2017 and 2016, by professional category and gender, was as follows:

	Distribution of employees			
	Men		Women	
	2017	2016	2017	2016
Management	11	8	4	5
Managers and technicians	112	112	156	142
Administrative staff	8	8	53	50
	131	**128**	**213**	**197**

The average number of employees at the Institute in 2017 and 2016, by professional category and gender, was as follows:

	Average distribution of employees			
	Men		Women	
	2017	2016	2017	2016
Management	10	10	5	5
Managers and technicians	114	110	150	146
Administrative staff	8	8	52	50
	132	**128**	**207**	**201**

NOTE: Since the signing of the Fifth Collective Agreement (published in the Official Gazette on October 24th, 2008), general service staff is included under the heading of administrative professionals.

The average number of employees at the Institute with disabilities above 33% has been 3 people in 2017 (the same in 2016).

Compensation and other benefits for the General Board

In 2017 and 2016 the Institute recorded in Income Statement 125 thousand euros and 98 thousand euros, respectively, in respect of remuneration accrued by the members of the General Board in respect of wages, per diets and other remuneration. These allowances were paid to the Treasury, according to the applicable regulation law.

Fees collected by the Managing Director and other persons exercising similar functions during the years 2017and 2016 are as follows (thousands of euros):

Year 2017

	Salaries and wages			
Number of Employees (*)	**Fixed**	**Variable**	**Other wages**	**Total**
5	533	76	2	611

(*) One director joined in February 2017. This director did not receive a full annual salary or any variable compensation in 2017. Includes the variable compensation paid in 2017 to the director who stepped down in 2016.

Year 2016

	Salaries and wages			
Number of Employees (*)	**Fixed**	**Variable**	**Other wages**	**Total**
6	537	77	3	617

(*) During 2016 there was a substitution as President of the "Instituto"

At December 31, 2017 and 2016 there were no loans granted to the executive members of the Institute's General Board. At December 31, 2017 loans granted under internal regulations on loans to staff, had an outstanding amount of 15,879 thousand euros and the average interest rate was 2.51% (17,923 thousand euros at 31 December 2016, with an average interest rate of 2.51%).

In addition, at that date no pension or life insurance obligations had been acquired with respect to current or former members of the General Board.

33. OTHER ADMINISTRATIVE EXPENSES

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

	Thousands of euros	
	2017	**2016**
Buildings, installations and materials	780	980
Computers	3 070	3 086
Communications	1 923	1 720
Advertising and publicity	987	873
Rates and taxes	1 440	1 182
Other general administrative expenses	9 299	8 703
	17 499	16 544

Audit expenses

The annual accounts audit has been made by the General Intervention of the State Administration (IGAE for its initials in Spanish). Consequently, they do not exist remunerations to auditors for this concept, as they are assumed by the General Intervention (Treasury and Public Administrations Minister).

The amounts invoiced to the Group (Taxes included) by companies under the trademark of Ernst and Young (the auditor of the 2017 and 2016 financial statements) for non-audit services in 2016 and 2016 are detailed in the following chart:

	Thousand euros			
	Audit		Other	
	2017	2016	2017	2016
ICO	-	-	54	48
COFIDES (1)	16	27	-	-
AXIS (2)	6	10	19	-
	22	**37**	**73**	**48**

(1) The percentage of expenses related to the participation of ICO in COFIDES.

(2) Expenses invoiced to AXIS are included exclusively and not those invoiced to Funds managed by that entity.

34. FAIR VALUE

As mentioned above, financial assets are recorded on the balance sheet at fair value, except for loans and receivables and equity instruments whose market value cannot be estimated reliably.

In the same way, financial liabilities are recorded on the balance sheet at amortized cost, except those included in the trading portfolio.

Part of the assets registered under "loans and receivables" and liabilities registered under the heading "Financial Liabilities at amortized cost", from the consolidated balance at 31 December 2017 and 2016, are accounted at variable rate, with an annual revision of that rate, so their fair value coming from movements of interest rates, it is not significantly different from the one registered in the consolidated balance. The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate the fair value using discount flows. The value calculated for these operations at December 31, 2017 and 2016 is as follows:

	Thousands of euros			
	Book value		Fair value	
	2017	2016	2017	2016
ASSETS				
Loans and receivables				
Deposits at credit institutions	16 359 782	19 541 659	20 509 876	24 001 408
Customer loans	11 188 383	13 402 645	11 414 263	13 859 642
LIABILITIES				
Financial liabilities at amortized cost				
Credit institutions deposits	11 495 137	13 375 016	12 111 910	14 325 815
Customer deposits	859 678	1 015 281	899 160	1 063 208

In 2017 and in 2016, fair value has been calculated, for all these categories, taking as reference the implicit curves of money markets and Public Debt.

35. OPERATIONS WITH SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The balance at December 2017 and 2016 of the Company related to the Subsidiaries, Joint Ventures and Associates is as follows:

CERSA

Deposits to customers (financial liabilities at amortized cost): 4,198 thousand euros at 31 December 2017 (29,198 thousand euros at 31 December 2016).

INSTITUTO DE CRÉDITO OFICIAL

MANAGEMENT REPORT

Financial backdrop

Economic growth remained strong in 2017, outstripping the eurozone average. GDP advanced 3.1%, slowing slightly from 3.3% in 2016. Nevertheless, the decrease was less than expected at the beginning of the year. This performance was based mainly on robust domestic demand, underpinned by the pickup in employment, alongside healthy exports. As a result, at the same time both domestic demand and net trade contributed positively to the growth of the Spanish economy, unlike during other periods of economic expansion. An extremely accommodative monetary policy lent further support to growth by improving financing conditions for households and companies. Meanwhile, job growth drove up household disposable income, against a backdrop of benign inflation. The tourism sector fared well, with a record number of foreign visitors to Spain.

The main economic driver was domestic demand, with household consumption performing well throughout the year. Corporate investment was also strong, in both capital goods and, to a lesser extent, construction. The contribution from the external sector remained positive as growth in exports was solid all year. Imports also rose, thanks to buoyant domestic demand, but at a slightly lower pace.

Specifically, customs data for exports of goods were solid over the course of the year even despite euro appreciation. Competitiveness gains allowed the growing number of Spanish exporters to continue their international projection, having pursued both product and market diversification in recent years. Exports of services also rose, with growth in both non-tourism, and more importantly, tourism services. Over 81 million foreign tourists visited Spain in 2017. This was the highest ever and marked an 8.6% increase from the year before. All these numbers shored up Spain's borrowing capacity and current account surplus, also unlike other growth stages.

The job market improved in 2017, with more than 490,000 new jobs created according to the Active Population Survey (EPA). This helped the unemployment rate fall further, ending the year at 16.5%, down from 18.6% the year before. Inflation was high early on, but trended down throughout the rest the year. The average annual CPI was 2%, although the year-on-year rate eased gradually, from 3% in January to 1.1% in December. Core inflation was also held in check, with an annual average of 1.1%.

Spain's budget deficit reached 4.3% in 2016, comfortably under the 4.6% commitment with the European authorities. According to available data, the country is on track to meet its 3.1% target for 2017. A growing economy, coupled with the fiscal measures adopted in the past, has enabled Spain to lower its deficit in line with the path marked by the European Council in the excessive deficit procedure. The outlook for 2018 is for the deficit to be well below the 3% limit established in the Stability and Growth Pact.

Meanwhile, activity in the eurozone gathered pace in 2017, growing 2.5%, up from 1.7% the year before. Growth accelerated in the second half of the year from the first. Indeed, the rate outperformed expectations at the beginning of the year. Inflation started off 2017 near the ECB's target, pushed up by energy prices. However, prices easing throughout the year, taking the HICP to around 1.5% year-on-year in the second half. Core inflation was more contained, with the year-on-year rate moving throughout the year within a 0.8-1.3% range, indicating that the economic growth was not feeding through completely to prices.

Among other measures, the continuation of the ECB's exceptionally expansive monetary policy helped bolster economic growth. The ECB did not take any decisions on its interest rates in 2017, leaving the interest rate on the main refinancing operations (MRO) at 0.00%, the rate on the marginal lending facility at 0.25%, and the rate on the deposit facility at -0.40%. The ECB's asset purchase programme featured an average monthly pace in the first quarter of 80 billion euros, before lowering it to 60 billion euros in April, as announced. The monetary authority has also said that it will cut monthly net purchase volume to 30 billion euros from January 2018, but will continue to reinvest redemptions. As a result, the ECB's balance sheet continued to set new records. The outlook is still for interest rates to remain at current levels, if not lower, until well past the horizon of its net purchases and, in any event, until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The exit strategy from the current monetary policy has begun with the reduction in the pace of purchases, but will continue with the end of purchases, the end of the reinvestments, and an increase in interest rates. This succession of events is not expected to begin until the end of 2018.

The abundance of liquidity in financial markets has kept the yields of the main debt instruments at historically low levels. The yield on the Spanish benchmark 10-year bond started the year below 1.50% before rising to around 1.90% in March. From then, it fluctuated in line with the events impacting the market, before ending the year at around 1.40%, implying a net decline of around 10 basis points in 2017. Behaviour in the latter months of the year was especially positive for Spanish issuers, with yields falling at the same time yields on German bunds experimented an inverse movement on the back of expectations, albeit still remote, of increases in increase rates. This caused the spread between Spain's and Germany's 10-year yields to stand at just over 100 basis points by the end of 2017, down from 125 basis points at the beginning of the year. The average spread was around 123 basis points.

Low yields arising from the transfer of monetary policy towards capital markets also trickled down to households and companies via lower interest rates on bank loans. Specifically, the interest rates required on smaller transactions in Spain (i.e. under 1 million euros, as a proxy for assessing SME loans) trended down throughout the year, setting all-time lows (of 2.18% in December compared to 2.55% in January). Indeed, the spread on this type of loan versus Germany was favourable for Spanish companies in 10 of the year’s 12 months, peaking at 23 basis points in November. For even smaller loans; i.e. of up to 250,000 euros, the trend was also downward, with rates ending the year at 2.33%, 57 basis points lower than their German counterparts. This indicated that for the group comprising the smallest SMEs, funding in 2017 was cheaper in Spain than in Germany and below the eurozone average. In addition to the decrease in rates, the volume of new loan transactions showed increases of 8.2% in 2017 for loans of under 1 million euros, and of 7.3% for loans of under 250,000 euros.

Despite the growth in new SME loans, the outstanding balance of bank loans to companies continued to fall (-2.9% in December), owing to maturities and higher outflows from the balance sheet than the inflows of new loans. The non-performing loan (NPL) ratio declined throughout the year, ending December at 7.8% (from 9.1% in December 2016). This was the result of the much sharper fall in loans classified as non-performing than the aggregate decline in total lending to households and businesses.

For its part, the outcome of the bank lending survey published by the ECB in collaboration with national central banks revealed increases in demand for new loans by Spanish SMEs at certain points during the year, with the institutions optimistic that it will continue to rise.

As for Europe's institutions, 2017 did not feature any major changes in the EU’s institutional architecture, with work continuing on the same fronts as already known. The challenges of advancing in negotiations with the UK over the terms of Brexit are still present. Moreover, work is still underway on the process for implementing a capital markets union. Similarly, the two main pillars of the banking union process (the single supervisory authority and the single resolution mechanism) are fully operational, as illustrated by the resolution of Banco Popular in accordance with the mechanisms envisaged in European regulations. The third pillar, the common deposit insurance scheme, has yet to be agreed by the Member States, although the European Commission continues to promote its progress in order to complete the European banking union. Towards the end of the year, European Commission President Jean-Claude Juncker presented his roadmap for deepening Europe's Economic and Monetary Union, with concrete measures, such as the establishment of a European Monetary Fund, and new budgetary instruments for a stable euro area.

The European Banking Authority (EBA) did not conduct any stress tests in 2017 -it has announced planned to do so in 2018- but did undertake a transparency exercise. This exercise provided key data in a comparable and accessible format for 132 banks across the European Union, showing further resilience in the EU banking sector amid a more benign macroeconomic and financial environment, with an additional strengthening of the capital position and an improvement of asset quality.

The other large-scale European project underway is the Investment Plan for Europe, which continued to operate in 2017. The plan initially amounted to 21 billion euros (16 billion euros contributed by the European Commission and 5 billion euros from the EIB). Its objective was to mobilise 315 billion euros, with a multiplier effect of 1:15. In 2017, approval was given to extend the investment plan until 2020, increasing the amount of the EFSI guarantee to 33.5 billion euros. The EU budget increased its contribution to the fund by 10 billion euros, while the EIB increased its contribution by 2.5 billion euros, with a target of mobilising 500 billion euros by the end of the period.

To December 2017, the green light was given to 51.3 billion euros of financing, mobilising nearly 256.9 billion euros -according to the latest data published by the EIB- of investment, for projects in 28 Member States. Specifically, Spain received financing charged to the EFSI of 5.6 billion euros, mobilising around 31.9 billion euros for the 70 projects approved. This makes Spain the third largest recipient, after France and Italy.

In sum, the Spanish economy continued to grow in 2017, with the pace easing slightly from the year before. The solid performance by exports of goods and services enabled both the external sector and domestic demand to make positive contributions to growth, which is new compared to other periods of growth in Spain. Accordingly, the Spanish economy showed balanced growth and is in good shape to cope with the paradigm shift caused by the likely gradual normalisation of monetary policy in the eurozone.

Activity

In the current economic environment, in which lending banks have regular access to low-cost financing, ICO’s contribution as a large liquidity provider to the system is no longer as important.

In 2017, ICO furthered its shift from an extensive model based on contributing volume, to an intensive model underpinned by specialisation and added value. As a result, the Institute is gearing efforts towards activities that support economic growth, above all the internationalisation of Spanish companies.

Nevertheless, it is still a benchmark for SME financing, providing significant levels of funding to Spanish companies. Indeed, new lending totalled 5,415,079 thousand euros, up 7.4% from 2016, of which 84.8% was extended to self-employed professionals, businesses and, and public and private entities through financing facilities.

The breakdown of financing through facilities shows 79,909 new transactions in 2017 amounting to 4,593,973 thousand euros. The bulk of financing is aimed at micro-firms and self-employed professionals (66.5%), with the majority of the loans (52.9%) for under 25,000 euros, highlighting the great capillarity of ICO loans.

Second-floor facility transactions can be divided up into two main areas:

- **SMEs and Entrepreneurs:** facilities designed to provide financing to Spanish self-employed people and companies to make investments in Spain and meet their liquidity needs, which represented 84.7% of all second-floor facility transactions.
  - Under the ICO SMEs and Entrepreneurs Facility, a total of 63,016 transactions were approved for 3,803,097 thousand euros, accounting for 82.8% of all second-floor facilities provided.
  - Under the ICO SGR/SAECA Guarantee Facility, 74 transactions were approved for a total amount of 8,276 thousand euros.
  - The amount of financing in 2017 under the ICO Commercial Credit Facility, designed mainly to provide liquidity to companies and the self-employed through invoice factoring from commercial activity in Spain, was virtually double the amount of 2016, when these facilities were first launched. A total of 81,302 thousand euros was distributed among 3,396 transactions.
- **International:** these facilities offer Spanish companies finance to invest internationally and promote their export activities.
  - Under the ICO Exporters Facility, a total of 571,170 thousand euros of loans was arranged for 13,165 self-employed and SMEs to drive the export activity of Spanish companies.
  - To help fund expansion projects abroad, 51,147 thousand euros was distributed among 255 transactions under the ICO International Facility.
  - Also in 2017, 78,979 thousand euros went to the first three transactions of the ICO International Channel Facility.

For its part, through direct financing, ICO provided 820,976 thousand euros in direct loan transactions to fund large-scale investment projects of Spanish companies.

In 2017, ICO raised 6,224,934 thousand euros of medium- and long-term funding. Of this amount, 85.5% was brought in through issues on capital markets and the remaining 14.5% from bilateral loans from a variety of multilateral agencies. The Institute also secured short-term funding of 9,479,475 thousand euros to meet its lending activity for terms of under one year.

In addition to its own lending activity, ICO also manages funds on behalf of the Spanish government. The balance of these funds rose by 10.2% compared to 2016, to 179,888,756 thousand euros at end-2017:

- The "Regional Governments Financing Fund", in which ICO acts as financial manager, showed an outstanding balance at 31 December 2017 of 166,160,821 thousand euros.
- The "Local Authorities Financing Fund" had an outstanding balance of 6,918,456 thousand euros.
- The State funds for international expansion (CARI, FIEM, FONPRODE and FCAS) had a combined balance of 6,809,479 thousand euros at the end of 2017.

Another of the ICO Group's strategic lines in the year was the launch of two new FOND-ICO Global selection programs. This venture capital fund, managed by AXIS, the ICO Group's venture capital manager, has fared well; its initial balance of 1,200,000 thousand euros grew to 1,200,000 thousand euros in 2016 and to 1,500,000 thousand euros in 2017. This is the first Spanish public-sector fund of funds.

Balance sheet

During 2017, as expected, the Institute's balance sheet position reduced significantly, from €48,851,473 thousand at the 2016 year end to €42,185,882 thousand at December 31, 2017.

In view of the recovery in lending by financial institutions and the improved financing conditions, the ICO acted in keeping with its counter-cyclical role, reducing its outstanding lending balance by 19.6%, to €27,535,698 thousand at December 31, 2017.

- Loans to credit institutions stood at €16,077,540 thousand and mainly comprised outstanding balances on second-floor facilities.

- At December 31, 2017, loans to customers amounted to €11,191,383 thousand, compared to €13,397,810 thousand at the 2016 year end.

- Debt securities totaled €266,775 thousand, down from €1,675,187 thousand at December 31, 2016. Debt securities include non-marketable financial assets from the 2013 conversion of a syndicated loan to the Spanish government's Mecanismo del Fondo de Financiación para el Pago a Proveedores credit facility, as well as other assets from the conversion to bonds of certain second-floor loans to financial institutions.

The ICO has a strong financing portfolio, used to mitigate the liquidity risks that could arise from market turbulence. At December 31, 2017, the outstanding balance on this portfolio (both held-to-maturity and available-for-sale) was €10,695,798 thousand.

In line with the decrease in loans and receivables, during 2017 the balance of financial liabilities at amortized cost fell to €36,057,970 thousand.

ICO's equity stood at €5,280,399 thousand at December 31, 2017, representing 12.5% of the balance sheet total. The Institute's year-end solvency ratio was 32.87%, well above the regulatory minimum.

Risk management policy

The ICO's management of credit, liquidity, market and operational risks is described in Notes 5.3 to 5.6 to the annual financial statements.

Results

In line with the balance sheet reduction, net interest income was down in 2017, also affected by low spreads on new loans and the repayment of loans granted when interest rates were high.

Operating expenses (administration and amortization and depreciation) stood at €40,385 thousand, below the 2016 figure.

Net allowances performed well, with 2017 featuring net recoveries. In any event, NPL coverage was high, at 121% at year-end.

As a result, profit before tax from ongoing operations was significantly higher than forecast, at €145,987 thousand.

Research and development expenses

No research or development activities were carried out in 2017.

Treasury shares

Not applicable to the ICO.

Personnel

In 2017, the ICO's average headcount stood at 321 employees, compared to 312 in 2016.

Events after the reporting date

In 2018, the ICO will continue its firm support for Spanish enterprises, maintaining its program of lending to self-employed workers and entrepreneurs through the different second-floor facilities, particularly supporting the international expansion of Spanish companies.

The ICO will also continue financing projects in Spain and abroad that promote economic growth, particularly in investment, innovation and the international expansion of companies.

Other significant events that occurred after the reporting date are detailed in Note 1.8.

Appendix I

Shareholding at 12/31/2017 and 12/31/2017
(direct and indirect shareholding of ICO, as the parent company)

Key information on shareholding in subsidiaries and associates at December 31, 2017 and 2016 are as follows:

At December 31, 2017:

			% shareholding			Carrying amount of the investment			Investee figures		
	Address	**Activity**	**Direct**	**Indirect**	**Total**	**Gross**	**Impairment**	**Net**	**Assets**	**Equity**	**Profit/(loss)**
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Refinancing of guarantee transactions extended by mutual guarantee societies	24.15%	-	24.15%	34,039	-	34,039	426 951	275 366	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support for private projects in developing foreign countries where there is a Spanish interest	20.31%	-	20.31%	8 463	-	8 463	126 694	122 334	6 180
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Asset management	50.00%	-	50.00%	2	-	2	58	52	(20)
						42 504	**-**	**42 504**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investments	100.00%	-	100.00%	1,940	-	1,940	11 395	10 178	4 933
						44 444	**-**	**44 444**			

Unaudited financial information at December 31, 2017

Appendix I

Shareholding at 12/31/2017 and 12/31/2017
(direct and indirect shareholding of ICO, as the parent company)

At December 31, 2016:

			% shareholding			Carrying amount of the investment			Investee figures		
	Address	Activity	Direct	Indirect	Total	Gross	Impairment	Net	Assets	Equity	Profit/(loss)
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Refinancing of guarantee transactions extended by mutual guarantee societies	24.15%	-	24.15%	34,039	-	34,039	425 229	271 753	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial support for private projects in developing foreign countries where there is a Spanish interest	20.31%	-	20.31%	8,465	-	8,465	119 996	108 960	8 505
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Asset management	50.00%	-	50.00%	2	-	2	78	72	(34)
						42,506	**-**	**42,506**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Investments	100.00%	-	100.00%	1,940	-	1,940	11 828	10 265	5 097
						44,446	**-**	**44,446**			

Unaudited financial information at December 31, 2016

Appendix II

ANNUAL BANKING REPORT

This Annual Banking Report has been prepared in compliance with article 87 of Law 10/2014, of June 26, on the management, supervision and solvency of credit institutions. In accordance with article 87, as from January 1, 2016, credit institutions must submit to the Bank of Spain and annually disclose the consolidated information set out below, as an appendix to their financial statements audited in accordance with prevailing auditing standards and broken down by each country in which they are established.

a) Name, nature of activities and geographic location
b) Revenue
c) Number of employees (full-time equivalent)
d) Gross profit before taxes
e) Income tax
f) Government grants and assistance received

The criteria used to prepare the annual banking report for 2017 and 2016 is as follows:

a) Name, nature of activities and geographic location

This information is disclosed in Note 1 to the Group's consolidated annual financial statements. The primary activity carried out by the Instituto de Crédito Oficial Group is direct and second-floor lending. This activity falls exclusively within Spanish jurisdiction, as the ICO has neither establishments nor subsidiaries abroad.

b) Revenue

For the purposes of this report, revenue is understood as total net operating profit, as defined and presented in the consolidated income statement, which forms part of the Group's consolidated annual financial statements.

c) Number of employees (full-time equivalent)

Data on full-time equivalent employees was obtained from the Group's average workforce.

d) Gross profit before taxes

For the purposes of this report, gross profit before taxes is understood to be profit before tax from on going operations, as defined and presented in the Group's consolidated income statement.

e) Income tax

The corresponding tax accrued and recognized as income tax in the consolidated income statement has been used.

f) Government grants and assistance received

With respect to the disclosures required under prevailing legislation, government grants and assistance received are understood to mean any aid or subsidy in accordance with the European Commission's Guidelines on State Aid. In that regard, Group companies did not receive any public aid or subsidies in either 2017 or 2016.

Details of the key figures for 2017 and 2016 are as follows (in thousands of euros):

At December 31, 2017:

				€ thousand
REGION	Revenue	Average no. of employees	Gross profit before taxes	Income tax
Spain	22 541	339	148 809	45 709

At December 31, 2016:

				€ thousand
REGION	Revenue	Average no. of employees	Gross profit before taxes	Income tax
Spain	(61 806)	329	451 476	134 457

At December 31, 2017, the Group's return on assets (ROA) (consolidated profit before tax from on going operations, divided by average total assets) was estimated at 0.32% (0.82% in 2016).

INSTITUTO DE CRÉDITO OFICIAL

APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

In accordance with prevailing legislation, the Chairman hereby approves the Institute's consolidated financial statements and dependent entities referring to year 2017, the consolidated management report and the Result Distribution Proposal relative to the year 2017, consisting of the documents prior to this page and comprising 163 sheets in the original Spanish version.

Madrid, March 26, 2018

D. Pablo Zalba Bidegain
Chairman