INSTITUTO DE CRÉDITO OFICIAL

Consolidated Financial Statements at 31 December 2014
and Consolidated Management Report for 2014

INSTITUTO DE CRÉDITO OFICIAL Y SOCIEDADES DEPENDIENTES

Informe auditoría de las cuentas anuales consolidadas
Ejercicio 2014

Oficina Nacional de Auditoría

Índice

I. Introducción

La Intervención General de la Administración del Estado, a través de la Oficina Nacional de Auditoría en uso de las competencias que le atribuye el artículo 168 de la Ley General Presupuestaria ha auditado las cuentas anuales consolidadas adjuntas de la entidad Instituto de Crédito Oficial y sociedades dependientes, que comprenden, el balance consolidado a 31 de diciembre de 2014, la cuenta de pérdidas y ganancias consolidada, el estado de cambios en el patrimonio neto consolidado, el estado de flujos de efectivo consolidado y la memoria consolidada correspondientes al ejercicio terminado en dicha fecha.

El Presidente del Instituto de Crédito Oficial es responsable de la formulación de las cuentas anuales de la entidad de acuerdo con el marco de información financiera que se detalla en la nota 1.2 de la memoria adjunta y en particular de acuerdo con los principios y criterios contables, asimismo, es responsable del control interno que considere necesario para permitir que la preparación de las citadas cuentas anuales estén libres de incorrección material.

Las cuentas consolidadas a las que se refiere el presente informe fueron formuladas por el Presidente del Instituto de Crédito Oficial el 26 de marzo de 2015 y fueron puestas a disposición de la Oficina Nacional de Auditoría el 27 de marzo de 2015.

La información relativa a las cuentas anuales queda contenida en el fichero GB0721_2014_F_150327_154937_Cuentas.zip cuyo resumen electrónico se corresponde con 284C7879F4219EC19EEBF992DA426D49FA5ACFB7592F0C392D1368750A6ED518 y está depositado en la aplicación CICEP.Red de la Intervención General de la Administración del Estado.

II. Objetivo y alcance del trabajo: Responsabilidad de los auditores

Nuestra responsabilidad es emitir una opinión sobre si las cuentas consolidadas adjuntas expresan la imagen fiel, basada en el trabajo realizado de acuerdo con las Normas de Auditoría del Sector Público. Dichas normas exigen que planifiquemos y ejecutemos la auditoría con el fin de obtener una seguridad razonable, aunque no absoluta, de que las cuentas anuales consolidadas están libres de incorrección material.

Una auditoría requiere la aplicación de procedimientos para obtener evidencia de auditoría sobre los importes y la información revelada en las cuentas anuales consolidadas. Los procedimientos seleccionados dependen del juicio del auditor, incluida la valoración de los riesgos de incorrección material en las cuentas anuales. Al efectuar dichas valoraciones del riesgo, el auditor tiene en cuenta el control interno relevante para la formulación por parte de los gestores de la entidad dominante de las cuentas anuales consolidadas, con el fin de diseñar los procedimientos de auditoría que sean adecuados en función de las circunstancias, y no con la finalidad de expresar una opinión sobre la eficacia del control interno de la entidad. Una auditoría también incluye la evaluación de la adecuación de las políticas contables aplicadas y la razonabilidad de las estimaciones contables realizadas por el gestor, así como la evaluación de la presentación global de las cuentas anuales consolidadas.

Nuestro trabajo no incluyó la auditoria de las cuentas anuales 2014 de la Entidad AXIS Participaciones Empresariales, Sociedad Gestora de Entidades de Capital Riesgo, S.A., participada en un 100%, de la Entidad CERSA Compañía Española de Refianzamiento, S.A., participada en un 24,22%, de la Entidad COFIDES, Compañía Española de Financiación del Desarrollo, S.A., participada en un 20,31% y de la Entidad EFC2E GESTIÓN, S.L participada en un 50%. Las mencionadas cuentas anuales han sido auditadas por Ernst &Young en el caso de AXIS y COFIDES, no disponiendo del informe de auditoría correspondiente a las cuentas anuales de CERSA y EFC2E GESTIÓN, S.L. No obstante, el valor neto contable en las cuentas anuales consolidadas adjuntas del total de las Entidades mencionadas representa el 1% de los activos totales.

Nuestra opinión expresada en este informe sobre las cuentas anuales consolidadas se basa, en lo relativo a las participaciones indicadas, únicamente en el informe de los otros auditores para los casos en los que se ha dispuesto del mismo.

Consideramos que la evidencia de auditoría que hemos obtenido proporciona una base suficiente y adecuada para emitir nuestra opinión de auditoría.

III. Opinión.

En nuestra opinión, basada en nuestra auditoría y en el informe de otros auditores, las cuentas anuales consolidadas adjuntas expresan, en todos los aspectos significativos, la imagen fiel del patrimonio consolidado y de la situación financiera consolidada del Instituto de Crédito Oficial y sus sociedades dependientes a 31 de diciembre de 2014, así como de sus resultados consolidados y flujos de efectivo consolidados correspondientes al ejercicio anual terminado en dicha fecha, de conformidad con el marco normativo de información financiera que resulta de aplicación y, en particular con los principios y criterios contables contenidos en el mismo.

IV. Informe sobre otros requerimientos legales y reglamentarios.

De acuerdo con sus estatutos el Instituto de Crédito Oficial tiene que elaborar un Informe de Gestión que contiene las explicaciones que se consideren oportunas respecto a la situación y evolución del Instituto de Crédito Oficial y no forma parte integrante de las cuentas anuales.

Nuestro trabajo se ha limitado a verificar que se han elaborado conforme con su normativa reguladora y que la información contable coincide con la de las cuentas anuales consolidadas auditadas.

El presente informe de auditoría ha sido firmado electrónicamente a través de la aplicación CICEP.Red de la Intervención General de la Administración del Estado por el Jefe de División de la Oficina Nacional de Auditoría y por un Auditor Nacional Director de Equipos, en Madrid, a 20 de mayo de 2015.

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2014 AND 2013
(Expressed in thousand euros)

ASSETS	**2014**	**2013**
Cash and deposits at central banks (Note 6)	**21 786**	**17 726**
Trading portfolio (Note 7)	**309 550**	**400 771**
Debt securities	-	-
Equity instruments	-	-
Trading Derivatives	309 550	400 771
Memorandum item: loaned or advanced as collateral	-	-
Other financial assets at fair value through profit and loss	**-**	**-**
Available-for-sale financial assets (Note 8)	**912 678**	**1 104 887**
Debt securities	590 575	896 117
Other equity instruments	322 103	208 770
Memorandum item: loaned or advanced as collateral	-	-
Loans and receivables (Note 9)	**66 441 205**	**78 102 444**
Deposits at credit institutions	38 788 520	43 650 763
Customer loans	19 700 715	27 583 605
Debt securities	7 951 970	6 868 076
Memorandum item: loaned or advanced as collateral	-	-
Held-to-maturity investment portfolio (Note 10)	**13 948 582**	**20 660 688**
Memorandum item: loaned or advanced as collateral	-	-
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**-**	**-**
Hedging derivatives (Note 11)	**1 951 138**	**1 509 208**
Non-current assets held for sale (Note 12)	**-**	**-**
Shareholdings (Note 13)	**54 275**	**53 334**
Associated Entities	54 275	53 334
Jointly control Entities	-	-
Subsidiaries	-	-
Insurance contracts linked to pensions	**-**	**-**
Tangible assets (Note 14)	**85 528**	**97 445**
Property, plant and equipment	85 528	97 445
For own use	85 528	97 445
Memorandum item: Acquired under finance lease	-	-
Intangible assets (Note 15)	**8 507**	**6 952**
Other intangible assets	8 507	6 952
Tax assets (Note 16)	**265 661**	**253 034**
Current	12	18 791
Deferred	265 649	234 243
Other assets (Note 17)	**10 153**	**13 773**
TOTAL ASSETS	**84 009 063**	**102 220 262**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2014 AND 2013
(Expressed in thousand euros)

LIABILITIES	2014	2013
Trading Portfolio (Note 7)	**289 999**	**398 114**
Derivates held for trading	289 999	398 114
Other financial liabilities at fair value with changes in the income statement	**-**	**-**
Financial Liabilities at amortised cost (Note 19)	**78 065 372**	**96 660 140**
Central bank deposits	6 899 167	20 258 472
Credit Institution deposits	11 081 862	6 457 644
Customer funds	2 839 377	1 820 520
Money market operations through	55 143 517	64 744 899
Subordinated debt Financing	-	-
Other financial liabilities	2 101 449	3 378 605
Adjustment to financial liabilities due to macro-hedging	**-**	**-**
Hedging derivatives (Note 11)	**351 153**	**354 234**
Liabilities associated with non-current assets held for sale	**-**	**-**
Provisions (Note 20)	**327 289**	**284 846**
Provisions for pensions and similar obligations	216	196
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	24 385	21 410
Other provisions	302 688	263 240
Tax Liabilities (Note 16)	**21 782**	**25 994**
Current	3 955	9 598
Deferred	17 827	16 396
Other Liabilities (Note 18)	**26 792**	**5 458**
Capital Classified as financial liabilities	**-**	**-**
TOTAL Liabilities	**79 082 387**	**97 728 786**
EQUITY		
Valuation adjustments (Note 21)	**(13 146)**	**(54 420)**
Available-for-sale financial assets (Note 8)	4 423	(2 458)
Cash-Flow hedging	(17 569)	(51 962)
Exchange diferences	-	-
Own funds (Note 22)	**4 939 822**	**4 545 896**
Capital or endowment fund	3 960 893	3 609 855
Reserves	898 190	857 001
Accumulated reserves	898 190	857 001
Retained earnings	-	-
Other equity instruments	-	-
Profit and loss for the period	80 739	79 040
Less: Dividends and remunerations	-	-
TOTAL EQUITY	**4 926 676**	**4 491 476**
TOTAL EQUITY AND LIABILITIES	**84 009 063**	**102 220 262**

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2014 AND 2013
(Expressed in thousand euros)

MEMORANDUM ITEM	2014	2013
Contingent risks (Note 24)	**1 319 047**	**1 610 637**
Financial guarantees	1 319 047	1 610 637
Contingent commitments (Note 24)	**3 641 474**	**4 827 269**
Drawable by third parties	3 183 070	4 362 979
Other commitments	458 404	464 290

INSTITUTO DE CRÉDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS

ENDED 31 DECEMBER 2014 AND 2013

(Expressed in thousand euros)

	2014	2013
Interest and similar income (Note 25)	**2 389 876**	**2 945 741**
Interest and similar charges (Note 26)	**(1 811 004)**	**(2 218 273)**
NET INTEREST INCOME	**578 872**	**727 468**
Return on equity instruments (Note 27)	**568**	**2 761**
Share of results of entities accounted for using the equity method (Note 28)	**1 616**	**2 793**
Fee and commission income (Note 29)	**36 211**	**91 073**
Fee and commission expense (Note 29)	**(26 384)**	**(24 168)**
Gains or losses on financial assets and liabilities (net) (Note 30)	**(36 740)**	**25 214**
Derivatives held for trading	(26 178)	25 214
Available-for-sale financial assets (Note 8)	6 665	-
Loans and receivables (Note 9.2)	(17 227)	-
Exchange differences (net) (Note 2.4)	**6 171**	**(1 186)**
Other operating income (Note 33)	**2 399**	**2 460**
Other operating expenses	**-**	**(20)**
GROSS OPERATING INCOME	**562 713**	**826 395**
Administrative expenses:	**(34 628)**	**(33 105)**
Personnel expenses (Note 31)	(19 780)	(19 255)
Other administrative expenses (Note 32)	(14 848)	(13 850)
Depreciation and amortization	**(4 966)**	**(6 017)**
Tangible assets (Note 14)	(2 506)	(2,411)
Intangible assets (Note 15)	(2 460)	(3,606)
Provisions expense (net) (Note 20)	**(54 742)**	**(81 669)**
Financial asset impairment losses (net)	**(336 446)**	**(583 647)**
Credit investments(Note 8, 9,and 10)	(336 446)	(583 647)
NET OPERATING PROFIT	**131 931**	**121 957**
Impairment losses on other assets (net)	**(18 538)**	**(13 438)**
Goodwill and other intangible assets(Note 15)	-	-
Other assets (Note 12)	(18 538)	(13 438)
Gains/ (Losses) on disposal of assets not classified as non-current assets held for sale	**560**	**364**
Negative difference on business combinations	-	-
Gains/(Losses) on disposal of assets not classified as discontinued operations	-	-
PROFIT BEFORE TAX	**113 953**	**108 883**
Income tax (Note 23)	**(33 214)**	**(29,843)**
PROFIT FOR THE PERIOD FROM ONGOING OPERATIONS	**80 739**	**79 040**
CONSOLIDATED NET PROFIT FOR THE YEAR	**80 739**	**79 040**
Profit attributable to the parent company	80 739	79 040
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 2014 AND 2013
(Expressed in thousand euros)

	2014	2013
Profit for the year	**80 739**	**79 040**
Other income and expenses recognized	**41 274**	**(124 282)**
Available-for-sale financial assets	**9 830**	**(29 101)**
Profit/loss valuation	9 830	(29 101)
Amounts transferred to profit and loss account (Note 21)	-	-
Reclassifications	-	-
Hedging of cash flows	**49 132**	**(148 444)**
Profit/loss valuation	49 132	(148 444)
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	(17 688)	53 263
TOTAL RECOGNIZED INCOME AND EXPENSES	**122 013**	**(45 242)**

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 2014 AND 2013
(Expressed in thousand euros)

At December 31,2014	SHAREHOLDERS EQUITY										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) accounted for participation method	Other equity instruments	Less: Treasury shares	Net profit for the year	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total Net Equity
Ending Balance at December 31, 2013	**3 609 855**	**-**	**848 966**	**8 035**	**-**	**-**	**79 040**	**-**	**4 545 896**	**(54 420)**	**4 491 476**
Total income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**-**	**80 739**	**-**	**80 739**	**41 274**	**122 013**
Other changes in net worth:	**351 038**	**-**	**39 071**	**2 118**	**-**	**-**	**(79 040)**	**-**	**313 187**	**-**	**313 187**
Increases in capital endowment	351 038	-	-	-	-	-	-	-	351 038	-	351 038
Transfers between equity	-	-	39 071	2 118	-	-	(79 040)	-	(37 851)	-	(37 851)
Other increases (decreases) in equity	-	-	-	-	-	-	-	-	-	-	-
Ending Balance at December 31,2014	**3 960 893**	**-**	**888 037**	**10 153**	**-**	**-**	**80 739**	**-**	**4 939 822**	**(13 146)**	**4 926 676**

At December 31,2013	SHAREHOLDERS EQUITY										
	Capital / endowment fund	Share premium	Reserves (losses) accumulated	Reserves (losses) accounted for participation method	Other equity instruments	Less: Treasury shares	Net profit for the year	Less: Dividends and remuneration	Total Own Funds	Valuation adjustments	Total Net Equity
Ending Balance at December 31, 2012	**3 230 234**	**-**	**787 778**	**4 832**	**-**	**-**	**64 071**	**-**	**4 086 915**	**69 862**	**4 156 777**
Total income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**-**	**79 040**	**-**	**79 040**	**(124 282)**	**(45 242)**
Other changes in net worth:	**379 621**	**-**	**61 188**	**3 203**	**-**	**-**	**(64 071)**	**-**	**379 941**	**-**	**379 941**
Increases in capital endowment	379 621	-	-	-	-	-	-	-	379 621	-	379 621
Transfers between equity	-	-	61 188	-	-	-	(64 071)	-	(2 883)	-	(2 883)
Other increases (decreases) in equity	-	-	-	3 203	-	-	-	-	3 203	-	3 203
Ending Balance at December 31,2013	**3 609 855**	**-**	**848 966**	**8 035**	**-**	**-**	**79 040**	**-**	**4 545 896**	**(54 420)**	**4 491 476**

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013
(Expressed in thousand euros)

	2014	2013
A. CASH FLOWS FROM OPERATING ACTIVITIES	**(6 642 567)**	**1 395 197**
1. Consolidated income for the year	**80 739**	**79 040**
2. Adjustments to result:	**429 360**	**698 780**
Depreciation and amortization	4 966	6 017
Other adjustments	424 394	692 763
3. Net increase /decrease in operating assets	**11 506 360**	**14 066 949**
Trading portfolio	91 221	154 174
Other financial assets at fair value with changes in the income statement	-	-
Available-for-sale financial assets	192 209	(903 254)
Credits, loans and discounts	11 661 239	13 040 010
Other operating assets	(438 309)	1 776 019
4. Net increase/decrease in operating liabilities	**(18 642 187)**	**(13 338 737)**
Trading portfolio	(108 115)	(155 120)
Other financial liabilities at fair value with changes in the income statement	-	-
Financial liabilities at amortised cost	(18 594 768)	(12 922 589)
Other operating liabilities	60 696	(261 028)
5. Collections/payments for income tax	**(16 839)**	**(110 835)**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**6 295 589**	**(2 041 442)**
6. Payments	**(11 809 293)**	**(14 613 550)**
Tangible assets	(472)	(1 295)
Intangible assets	(4 015)	(2 521)
Shareholdings	(941)	(3 772)
Other business units	-	-
Non-current assets and liabilities associated for sale	-	-
Held-to-maturity investment portfolio	(11 379 940)	(13 784 628)
Other payments related to investing activities	(423 925)	(821 334)
7. Collections	**18 104 882**	**12 572 108**
Tangible assets	376	814
Intangible assets	2 460	3 604
Shareholdings	-	2 059
Other business units	-	-
Non-current assets and liabilities associated for sale	-	1 353
Held-to-maturity investment portfolio	18 102 046	12 564 278
Other collections related to investing activities	-	-

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013

(Expressed in thousand euros)

	2014	2013
C. CASH FLOWS FROM FINANCING ACTIVITIES	**351 038**	**379 621**
8. Payments	-	-
Dividends	-	-
Subordinated debt financing	-	-
Equity instruments amortizations	-	-
Own equity instruments purchased	-	-
Other finances received	-	-
9. Collections	351 038	379 621
Subordinated debt financing	-	-
Issue own equity instruments	-	-
Disposal own equity instruments	-	-
Other finances charged	351 038	379 621
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	**4 060**	**(266 624)**
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**17 726**	**284 350**
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	**21 786**	**17 726**
MEMORANDUM ITEM	-	-
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	-	-
Cash (Note 6)	**9**	**13**
Cash equivalent balances with central banks (Note 6)	**21 777**	**17 713**
Other financial balances	-	-
Less: bank overdrafts repayables	-	-

INSTITUTO DE CRÉDITO OFICIAL AND DEPENDENT ENTITIES

Notes to the consolidated financial statements for the
year ended 31 December 2014

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 in accordance with the provisions of Article 43.1.b) of Law 6/1997 (14 April), on the Organisation and Operation of the General State Administration. Pertains to the Ministry of Economy 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 fulfil 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 6/1997 (14 April) on the Organisation and Operation of the General State Administration, through Additional Provision Sixth of Royal Decree-Law 12/1995 (28 December), on Urgent Budget, Tax and Financial Measures; By applicable provisions of the General Budget Act approved by Legislative Royal Decree 1091/1998 (23 September), by its by-Iaws, approved by Royal Decree 706/1999 (30 April), on the adaptation of Instituto de Crédito Oficial to Law 6/1997 (14 April) and the approval of its by-Iaws (Official State Gazette 114 published on 13 May 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.

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 and Competitiveness, subject to the rules and decisions adopted by its General Council.

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

1. Direct credit and mediation activities, providing financial support to certain sectors and strategic activities, such as small 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 15 January 1993.

2. Reciprocal Interest Adjustment Agreement (hereinafter RIAA). 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. Firms 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 Additional Provision Sixty-First 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. Funds for Financing Supplier Payments (FFPP for its initials in Spanish). Resulting from 4/2012 and 7/2012 Royal Decree-Laws, created to allow local entities, such as Autonomous Communities, attending to the outstanding payment requirements with its suppliers or leasers. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates for the Institute a pertinent trading commission.

7. Autonomous Region Liquidity Fund (FLA for its initials in Spanish) .Resulting from the July 13th 21/2012 Royal Decree-Law, deals with Public Administration liquidity measures in the financial environment. ICO plays the trader role, without registering any of these operations on its accounting records. This activity generates 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, NIIF-UE) according to the principles and standards contained in Circular 4/2004 of December 22 (hereafter, Circular 4/2004), Bank of Spain, on financial reporting standards and public reserved models on financial statements. The aforesaid Circular 4/2004 is mandatory for the individual financial statements of the Spanish Credit Institutions.

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 (NIIF-UE) and by Bank of Spain Circular 4/2004 of December 22, and subsequent amendments, the Spanish Code of Commerce, the Capital Enterprises Act or other Spanish legislation that is applicable, so that they present fairly the net worth and financial situation of the Group at 31 December 2014 and the results of its operations, of changes in equity and consolidated cash flows for the year ended on that date.

The accounting principles applied in the preparation of the consolidated financial statements for the year ended 31 December 2014 are the same as those applied to the 2013 consolidated financial statements, except for the following standards and interpretations, applicable for annual periods beginning on or after 1 January 2014:

- **Amendments to IFRS 10, IFRS 11 and IFRS 12: "Consolidated Financial Statements", "Joint Arrangements" and "Disclosures of Interests in Other Entities: Transition Guidance"**

The amendments clarify the transition guidance for IFRS 10 "Consolidated Financial Statements". In addition, they provide transition relief for IFRS 10, IFRS 11 ("Joint Arrangements") and IFRS 12 ("Disclosure of Interests in Other Entities"), limiting the requirements to provide adjusted comparative information to the immediately preceding period only.

- **Amendments to IFRS 10, IFRS 12 and IAS 27: "Investment Entities"**

The amendments apply to a particular class of business that qualify as investment entities. Not applicable to the Group.

- **Amendments to IAS 32: "Offsetting Financial Assets and Liabilities" and IFRS 7: "Disclosures – Offsetting Financial Assets and Financial Liabilities"**

The amendments provide additional clarification regarding the requirements for offsetting financial assets and financial liabilities for the purposes of presentation on the balance sheet. In addition, the amendments introduce new disclosure requirements for financial assets and financial liabilities presented net on the balance sheet, and for those subject to an enforceable netting arrangement or similar agreement, whether or not they are presented net.

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

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

Following is a list of the main standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") that have yet to be adopted by the European Union and therefore were not applied in the preparation of these consolidated annual financial statements:

IFRS 9 “Financial Instruments”

Effective for annual periods beginning on or after 1 January 2018, with early adoption permitted

IFRS 9 will replace IAS 39. IFRS 9 final version, was published last 24th July 2014, which included the phases of classification and measurement, impairment and hedge accounting.

There are important differences to the current standard regarding financial assets, including inter alia approval of a new classification model based on only two categories: amortized cost and fair value; the elimination of the current classifications of the held-to-maturity investments and available-for-sale financial assets categories; a single impairment method only for assets carried at amortised cost; and the non-separation of embedded derivatives in financial asset contracts.

Regarding financial liabilities, the categories proposed in IFRS 9 are the same as those currently included in IAS 39. Therefore, there should not be any major differences except for the change affecting liabilities that an entity chooses to measure at fair value, in which it will present the portion of the change in fair value related to changes in its own credit risk in valuation adjustments rather than in the income statement.

Regarding the impairment model, "incurred loss" of IAS 39 is replaced by model "expected credit loss", which means there is no need to occur a loss event before an impairment loss is recognized.

With regard to hedge accounting, the new model attempts to align accounting rules with risk management. The three types of hedge accounting in the current standard are retained (cash flow hedges, fair value hedges and hedges of a net investment in a foreign operation), but there are significant changes with respect to IAS 39 regarding hedged items, hedging instruments, accounting for the time value of options and the assessment of effectiveness.

- **Amendments to IAS 16 and IAS 18 "Clarification of Acceptable Methods of Depreciation and Amortisation”**

[Effective for annual periods beginning on or after 1 July 2016, with early adoption permitted]

This amendment clarifies when the use of a revenue-based depreciation or amortization method may be appropriate. The amendments clarify that the use of revenue-based methods for calculating the depreciation of an asset is not appropriate, as the revenue generated from an activity that includes the use of the asset reflects factors other than the consumption of the economic benefits of the asset. It indicates that, in general, revenue is not an appropriate basis for measuring the consumption of the economic benefits of an intangible asset, but this presumption can be rebutted in limited circumstances.

- **IFRS 15 “Revenue from Contracts with Customers”**

[Effective for annual periods beginning on or after 1 January 2017, with early adoption permitted]

The core principle of IFRS 15 is that a company should recognise revenue to depict the transfer of promised goods or services to the consumer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. To recognise the revenue, the company would apply the following five steps: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price; and recognise revenue when a performance obligation is satisfied.

IFRS 15 includes a comprehensive set of disclosure requirements that require a company to disclose quantitative and qualitative information about its contracts with consumers to help users of the financial statements understand the nature, amount, timing and uncertainty of revenue and cash flows.

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

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

The consolidated financial statements for the year 2014 of the Group have been prepared by the Chairwoman of the Institute dated on March the 26, 2015, still pending approval by the General Council of the Institute, parent entity of the Group, which is expected to approve them without significant changes. These consolidated financial statements, unless otherwise stated, are presented in thousands of Euros.

1.3 Responsibility for information and estimates made.

The information contained in the financial statements for the year ended 31 December 2014 and the accompanying Notes regarding those financial statements are responsibility of the Chairwoman. 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 2.2.4)

Although these estimations were made based on the best information available at 31st December 2014 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), was previously taken over by Caja Postal, S.A. and Banco de Crédito Local de España, S.A. (BCL), which al so pertained to the first entity, maintains its legal personality.

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

Moreover, on 25 March 1993, a management contract was sign with corresponding Banks, regarding assets and liabilities transferred, and it also includes both their management and correct accounting, as said in the prevailing banking law. Management commissions accrued in 2014 and 2013 have been 408 thousand euros and 444 thousand euros, respectively.

At 31 December 2014 and 2013 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	**2014**	**2013**
Credit Institutions	9	9
Loans to Spanish Public Administrations	368	437
Loans to other resident sectors	55	81
Doubtful assets	2 146	2 444
Non-current assets	333	174
Sundry accounts	3	3
Total assets	**2 914**	**3 148**
Sundry accounts	225	225
Connection account with ICO	2 254	2 816
Profit of the year	435	107
Total liabilities	**2 914**	**3 148**

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 2014 and 2013, prepared under the same accounting principles and standards as applied by the Group in consolidated financial statements:

a) Individual balance sheets at 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Cash and balances with Central Banks	24 193	18 304
Financial assets held for trading	309 550	400 771
Available-for-sale financial assets	912 678	1 104 887
Loan and receivables	66 438 619	78 094 723
Held-to-maturity investment portfolio	13 948 582	20 660 688
Hedging derivatives	1 951 138	1 509 208
Non-current assets held for sale	-	-
Shareholdings	44 446	44 446
Tangible assets	85 496	97 385
Intangible assets	8 490	6 923
Tax assets	265 649	253 021
Other assets	9 790	12 327
Total assets	**83 998 631**	**102 202 683**
Financial liabilities held for trading	289 999	398 114
Financial liabilities at amortised cost	78 086 781	96 668 720
Hedging derivatives	351 153	354 234
Provisions	327 245	284 802
Tax liabilities	21 782	25 994
Other liabilities	25 468	5 089
Total Liabilities	**79 102 428**	**97 736 953**
Valuation adjustemtns	(13 146)	(54 420)
Own funds:	4 909 349	4 520 150
Capital or endowment fund	3 960 893	3 609 855
Reserves	874 679	839 063
Profit and loss for the period	73 777	71 232
Total equity	**4 896 203**	**4 465 730**
Total equity and liabilities	**83 998 631**	**102 202 683**
Contingent risks	1 319 003	1 610 594
Contingent commitments	3 641 474	4 827 269
Total memorandum item	**4 960 477**	**6 437 863**

b) Individual income statements for the years ended 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Interest and similar income	2 389 798	2 945 549
Interest and similar charges	(1 811 004)	(2 218 273)
Net interest income	**578 794**	**727 276**
Return on equity instruments	568	2 761
Fee and commissions income	26 126	84 197
Fee and commissions expense	(26 384)	(24 168)
Gain or losses on financial assets and liabilities (net)	(36 740)	25 214
Exchange differences (net)	6 171	(1 186)
Other operating income	2 399	2 460
Other operating expenses	-	-
Gross operating income	**550 934**	**816 554**
Administrative expenses	(32 150)	(31 046)
Depreciation and amortization	(4 920)	(5 968)
Provisions expenses (net)	(54 742)	(81 669)
Financial asset impairment losses (net)	(336 446)	(583 647)
Net operating profit	**122 676**	**114 224**
Impairment losses on other assets (net)	(18 536)	(13 436)
Gains / losses on disposal of assets not classified as non-current assets held for sale	560	287
Negative difference on business combinations	-	-
Gains / losses on disposal of assets not classified as discontinued operations	-	-
Profit before tax	**104 700**	**101 075**
Income tax	(30 923)	(29 843)
Profit for the period from ongoing operations	**73 777**	**71 232**
Profit / Loss from discontinued operations (net)	-	-
Profit for the year	**73 777**	**71 232**

c) Statement of changes in equity. Statements of individual income and expense recognized for the years ended 31 December 2014 and 2013

	Thousands of euros	
	2014	**2013**
Profit for the year:	73 777	71 232
Other income and expenses recognized:	41 274	(124 282)
Available – for – sale financial assets	9 829	(29 101)
Financial liabilities at fair value with changes in equity	-	-
Hedging of cash flows	49 134	(148 444)
Hedges of net investments in foreign	-	-
Exchange differences	-	-
Non – current assets held for sale	-	-
Income tax	(17 689)	53 263
Total recognized income and expenses	**115 051**	**(53 050)**

d) Statement of changes in equity. Individual statements of changes in equity for the years ended 31 December 2014 and 2013:

Thousands of euros

At December 31, 2014	**SHAREHOLDERS EQUITY**									
	Capital /Endowment Fund	**Share premium**	**Reserves**	**Other equity instruments**	**Less: Treasury shares**	**Profit for the year**	**Less: Dividends and remuneration**	**Total Own Funds**	**Valuation adjustments**	**TOTAL NET EQUITY**
Ending Balance at December 31,2013	3 609 855	-	839 063	-	-	71 232	-	4 520 150	(54 420)	4 465 730
Total income and expenses recognized	-	-	-	-	-	73 777	-	73 777	41 274	115 051
Total Income and expenses recognized										
Other changes in the increases in capital endowment	351 038	-	-	-	-	-	-	351 038	-	351 038
Transfers between equity	-	-	35 616	-	-	(71 232)	35 616	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	(35 616)	(35 616)	-	(35 616)
Total other increases (decreases) in net worth	351 038	-	35 616	-	-	(71 232)	-	315 422	-	315 422
Ending Balance at December 31,2014	3 960 893	-	874 679	-	-	73 777	-	4 909 349	(13 146)	4 896 203

At December 31, 2013	**SHAREHOLDERS EQUITY**									
	Capital /Endowment Fund	**Share premium**	**Reserves**	**Other equity instruments**	**Less: Treasury shares**	**Profit for the year**	**Less: Dividends and remuneration**	**Total Own Funds**	**Valuation adjustments**	**TOTAL NET EQUITY**
Ending Balance at December 31,2012	3 230 234	-	779 049	-	-	60 014	-	4 069 297	69 862	4 139 159
Total income and expenses recognized	-	-	-	-	-	71 232	-	71 232	(124 282)	(53 050)
Total Income and expenses recognized										
Other changes in the increases in capital endowment	379 621	-	-	-	-	-	-	379 621	-	379 621
Transfers between equity	-	-	60 014	-	-	(60 014)	-	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	-	-	-	-
Total other increases (decreases) in net worth	379 621	-	60 014	-	-	(60 014)	-	379 621	-	379 621
Ending Balance at December 31,2013	3 609 855	-	839 063	-	-	71 232	-	4 520 150	(54 420)	4 465 730

e) Individual cash – flow statements for the years ended 31 December 2014 and 2013.

	Thousands of euros	
	2014	**2013**
Net cash – flows from operating activities:	**(6 646 212)**	**1 392 057**
Profit for the year	73 777	71 232
Adjustments for cash flows from operating activities	427 023	689 652
Net increase/decrease in operating assets	11 500 140	14 063 372
Net increase/decrease in operating liabilities	(18 630 313)	(13 330 364)
Collections/payments for income tax	(16 639)	(110 835)
Net cash flows for investing activities:	**6 301 063**	**(2 037 723)**
Payments	(11 803 805)	(14 609 820)
Collections	18 104 868	12 572 097
Net cash flows for financing activities	**351 038**	**379 621**
Effect of exchange rate fluctuations	-	-
Net increase/decrease in cash or cash equivalents	**5 889**	**(266 045)**
Cash or cash equivalents at beginning of the year	18 304	284 349
Cash or equivalents at end of the year	24 193	18 304

1.6 Environmental impact

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

The Institute considers that the Group has taken appropriate environmental protection and improvement measures and for minimizing, whenever applicable, the environmental impact following the rules enforced in this regard. In 2014 and 2013 the Group has not carried out significant environmental investments and neither has it considered it necessary to record any provision for environmental risks and charges. Nor does it consider that there are any significant contingencies related to the environmental protection and improvement.

1.7 Minimum coefficients

1.7.1 Minimum equity ratio

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

The Law 10/2014 from 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 26 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 (CRD4). 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.

Pursuant to the Additional Provision eighth 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.

At December 31, 2014 and 2013, the ICO Group's computable equity is as follows:

	Thousands of euros	
	2014	**2013**
Own funds level 1	4 826 784	4 422 985
- Capital	3 960 894	3 609 855
- Reserves (*)	865 890	813 130
Own funds level 2	120 731	307 254
- Other reserves (*)	-	26 323
- Generic insolvency risk coverage	120 731	280 931
Total computable own funds	4 947 515	4 730 239
Total minimum own funds(**)	1 655 981	1 911 310

(*) The total reserves used for the calculation of own resources of the group computable differ from those recorded in the consolidated balance sheet because in the calculation of own funds are given: 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, 2014 and 2013, the most important data of the minimal resources of the Group are (in thousands Euros):

	Thousands of euros	
	2014	**2013**
Own funds level 1	4 826 784	4 422 985
Risk-weighted assets (RWA)	20 699 756	23 891 375
Own funds level 1 ratio(%)	23.32%	18.51%
Computable equity	4 947 515	4 730 239
Computable equity ratio (%)	23.90%	19.80%
Minimum computable equity ratio (%)(*)	9.5%	9.5%

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

At December 31, 2014 and 2013, computable equity of the Group, calculated, where appropriate, on a consolidated basis, exceeds the minimum requirements required by applicable regulations on 3,291,534 thousand euros and 2,818,929 thousand euros, respectively.

1.7.2 Minimum reserves ratio

The Institute must maintain a minimum level of funds deposited in a central bank of a euro country to cover the minimum reserve requirements. At 31 December 2014, this level was 2% of computable liabilities. On 24 November 2011, Regulation (EU) No 1358/2011 came into effect, requiring 1% for additional computable liabilities (time deposits of over two years drawable subject to a notice period of more than two years, sales under repurchase agreements and securities other than shares with maturities of over two years). This amendment will be applied following the maintenance period started January 18th 2012.

At December 2014 and 2013, and throughout 2014 and 2013, the Group complied with the minimum ratios required by applicable Spanish regulations.

1.7.3 Capital management

The Group considers capital, as management purposes, computable own funds Level 1 and Level 2 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 9.5%. This objective is met through a proper capital planning.

1.8 Post-balance sheet events

In accordance with Additional Provision of Law 24/2001, of 27 December 2001, on Tax, Administrative and Social Security measures, amended by Law 42/2006, of State Budget for 2007, the amounts recovered following the repayment by Central Government of the debts incurred with ICO as a result of certain credit and guarantee facilities granted by the former Entidades Oficiales de Crédito and the Institute itself will form part of the Institute's equity. The amount estimated for 2014 totals 787 thousand euros, that will be recognized in 2015.

As in previous years, chapter VIII of the General State Budgets for 2015 envisages a new contribution to ICO's equity amounting to 350 million Euros in order to increase the equity of the Institute and adapt it to its activities.

In 2015, the Instituto de Crédito Oficial, as a State Financial Agency, will capitalize by government order, new lines of credit to business and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute objectives. The main lines approved are:

- Línea ICO Empresas y Emprendedores 2015: this ICO line provides finance to freelances and companies performing its investments within the country and need to fulfil its liquidity needs. Individuals and landlord communities can also take advantage of this line for housing restoration.

- Línea ICO Garantía SGR/SAECA 2015: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish within a Reciprocal Guarantee Company (SGR for its initials in Spanish) or a State Anonimous Entity of Agricultural Suretyship (SAECA for its initials in Spanish).

  Linea ICO Pagarés y Bonos de Empresas 2015: This ICO line provides finance to Spanish firms that issue, in the primary market, promissory notes and bonds accepted in the organized markets or in multi-lateral negotiation systems in Spain.

- Línea ICO Internacional 2015: this ICO line provides finance to freelances and Spanish or mixed companies with resources mainly Spanish performing productive investments overseas and/or need to fulfil its liquidity needs.

- Línea ICO Exportadores 2015: this ICO line provides finance to freelances and Spanish companies that need liquidity through advances in receipts from its export activities.

The total amount of the lines increases up to 14,000 million euros. During January 2015, the ICO and credit institutions that submitted the application for membership of these credit lines, signed the draft and the finance contracts.

No significant events other than those described in the previous paragraphs have occurred from the end of the reporting period (31 December 2014) to the date these financial statements were issued (26 March 2015).

1.9 Information per business segment

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

The Group develops its activity both inside and outside the Spanish territory. AII operations are granted to increase the Spanish interest.

1.10 'ICO Directo' lending activities

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

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

The breakdown by nature of ICO Direct's assets and liabilities at 31 December 2014 and 2013 the corresponding managing entity is as follows:

	Thousands of euros			
	2014		2013	
Assets and liabilities of ICO Direct	**BBVA**	**BS**	**BBVA**	**BS**
Loans and advances to other resident sectors	38 268	51 793	71 325	95 296
Distressed assets	-	-	-	-
Other	-	-	-	-
Total assets	**38 268**	**51 793**	**71 325**	**95 296**
Sundry accounts	-	-	-	-
Connection account with ICO	34 992	49 417	85 429	118 051
Profit for the year	3 276	2 376	(14 104)	(22 755)
Total liabilities	**38 268**	**51 793**	**71 325**	**95 296**

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 Entidades Locales 2011 ICO line operative is carried out through several EECC added to the project.

The breakdown at 31 December 2014 and 31 December 2013, by assets and liabilities nature related to the Entidades Locales 2011 ICO line, is displayed as follows:

	Thousands of euros	
ICO EELL 2011 Assets and Liabilities Balance sheet	**2014**	**2013**
Loans and Advances to Spanish Public Administrations	89 566	412 269
Distressed Assets	10 087	14 721
Other	-	-
Total assets	**99 653**	**426 990**
Connection account with ICO	83 777	389 392
Profits for the year	15 876	37 598
Total liabilities	**99 653**	**426 990**

This line is guaranteed to the "Instituto" with the Participation in State Income (PIE in spanish) of the borrowing EELL. The reduction in the outstanding balance of this line, from the beginning of it and until December 31, 2014, under the PIE, is 44.59 million euros (27 million euros at December 31, 2013). Of the 1,028 hosted entities, to December 31, 2014, a total of 383 entities (303 entities at December 31, 2013) have had to resort to the PIE.

2. ACCOUNTING PRINCIPLES AND POLICIES AND MEASUREMENT METHODS APPLIED

During the preparation of Group's consolidated financial statements for the years ended 31 December 2014 and 31 December 2013, the following accounting principles, policies and measurement methods have been applied:

a) Going concern principle

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

b) Accruals principle

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

c) Other general principles

The financial statements have been prepared on a historical cost basis, except for the revaluation of

land and structures (only to 1 January 2004) (Note 14), available-for-sale financial assets and financial liabilities (including derivatives) at fair value through profit or loss.

2.1 Shareholdings

2.1.1 Subsidiaries

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

The subsidiaries' financial statements are consolidated with those of the Entity using the full consolidation method, as stipulated in prevailing regulations. Consequently, all significant balances deriving from transactions between the fully-consolidated companies have been eliminated during consolidation. The Institute 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 2014 and 2013.

- Consolidated results for the year are presented in "Surplus attributed to minority interests" in the consolidated income statement, without balance at 31 December 2014 and 2013.

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 Associated entities

Associated entities are organizations 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 "Associated entities" are presented in these financial statements under the heading "Shareholdings-Associated entities" in the balance sheets 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 "Results in companies carried under the equity method" in the consolidated income statement (Note 28).

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 "Valuation adjustments", in consolidated equity.

Appendix I provide relevant information on these entities.

2.2 Financial Instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially 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 Disposal of financial instruments

Financial instruments disposals 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 with changes in the income statement. To calculate the amount of this financial liabilities, the amount of its financial instruments (such as asset-backed securities and loans) which constitute funding for the entity to which financial assets have been transferred will be deducted, in the exact amount these financial instruments finance specifically the transferred assets. The net amount between the transferred assets and liabilities associated to them will be the amortized cost of the rights and obligations retained, 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

Financial assets:

The fair value of a financial instrument at a given date is understood to be the amount at which it may be purchased or 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.

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 the heading of Interest and similar income, and those corresponding to other causes, which are recorded by the net amount under the heading of Gain or losses on financial assets and liabilities of the profit and loss account.

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

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

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 valuation adjustments of 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 valuation ajustments of net equity.

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

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

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

<u>Financial liabilities:</u>

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

- Financial liabilities included in epigraphs Trading Portfolio, Other financial liabilities at fair value with changes in the income statement and financial liabilities at fair value with changes in equity, as defined for financial assets in the previous note. Financial liabilities covered by fair value hedging operations are adjusted, being registered those fair value variations 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 charges, and those corresponding to other causes, which are recorded by its net amount under the heading of Net operating profit in the profit and loss account.

However, items included under the heading of financial liabilities at fair value with changes in equity value variations, are recorded temporarily in Valuation adjustments of the net equity. The amounts in the row of Valuation adjustments remain 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 and other central banks.

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

- 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 with changes in the income statement" 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 group of 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.

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

  The financial assets included in this category are initially carried at fair value, 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 "Return on equity instruments - Other equity instruments" 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 "Equity - Valuation adjustments – Available-for-sale financial assets", 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 (net) - Available for sale financial assets" in the consolidated income statement.

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

  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 charges" 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 "valued at fair value with changes in profit and loss" once acquired, issued or assumed.

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

c) If we 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.

During 2014 and 2013, there has been no reclassification as described above.

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.

During 2014 and 2013, there has been no reclassification as described above.

e) Since 2008, a financial asset that is not a derivative financial instrument may be classified outside the trading portfolio if it ceases to be maintained for sale 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 credits, loans and discounts. 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 2014 and 2013, there has been no reclassification of financial assets included in the trading portfolio.

2.3 Financial derivatives

Financial derivatives are instruments that provide a loss or gain, and 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 "Equity - Valuation Adjustments - Cash-flow hedging. 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" in the income statement.

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

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

2.4 Foreign currency transactions

2.4.1 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 total assets and liabilities denominated in foreign currency held by the Institute, at 31 December 2014 and 2013 (thousands of units of each foreign currency):

	2014		2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Pounds sterling	141 234	796 623	197 130	563 113
US Dollars	1 372 694	4 518 808	1 746 903	3 516 897
Canadian dollars	71 014	650 000	74 120	649 998
Swiss Francs	278	1 170 295	319	1 170 367
Norwegian kroner	-	4 451 719	-	3 949 992
Japanese Yen	132	164 607	164 607	193 696
Australian dollars	121	-	49	299 999
Other traded currencies	35 288	96 618	43 642	89 489
Other non-traded currencies	130 624	914	134 260	1 489

The equivalent value in Euros of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Institute, at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	2014		**2013**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Spanish credit institutions in Spain	267 652	-	83 010	-
Spanish credit institutions abroad	25 748	-	110 799	-
Foreign credit institutions abroad	15 927	1 220 184	21 985	287 698
Loans/Deposits Spanish Public Administrations	-	-	-	-
Loans to/deposits with other resident sectors	637 933	-	703 843	-
Loans/Deposits non-resident Public Admin	33 203	-	-	-
Loans/Deposits, other non-resident sectors	543 049	-	810 847	-
Provisions denominated in foreign currency	-	-	-	-
Issued bonds and others	6 072	6 683 310	1 388	6 430 540
	1 529 584	**7 903 494**	**1 731 872**	**6 718 238**

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 “Equity - Valuation adjustments”, 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 2014 and 2013 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 6,171 thousand euros profit at 31 December 2014 (1,186 thousand euros loss at 31 December 2013).

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 the income statement, are recognised in the income statement using different methods depending on their nature. The most significant methods used are explained below:

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

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

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

2.5.3 Non-financial income and expense:

These amounts are accounted 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 analyzed to determine the credit risk to which the entity is exposed and to estimate coverage requirements for impairment in value. For the financial statements preparation, the Institute classifies its operations in terms of its credit risk by analyzing, separately, the insolvency risk due to the customer and country risk to which they are exposed.

Debt instrument's future cash flows estimated are all amounts, principal and interest, the Entity believes will receive during the instrument's life. AII 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 Institute will recover.

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

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

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor 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:

Age of past-due amount	Percentage of cover
Up to 180 days	25%
More than 180 days and less than 270	50%
More than 270 days and less than 1 year	75%
More than 1 year	100%

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.

Furthermore and according to forecasting's in February 29th 2/2012 Circular from Bank of Spain, , funding and foreclosed assets or assets received as payments from real estate or property development debts corresponding to some business located in Spain from the credit entities. It is also, worth it to mention that those funding and assets are the ones existing same at 31 December 2011 as at a prior date and coming from its own refinanciation at a later date classified not as regular risk at the named date. The applicable criteria are:

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

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

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

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

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

  a) In the case of underlying assets coming from finished real estate businesses such as houses financing other houses, without having been the lender's regular residence. The percentage referred in section 32, a) (foreclosed assets as debt payment instruments) will be 25% and its minimum hedging percentages, depending on how long it has been recorder in balance sheet's section 35, will be the followings:

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

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

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

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

The amount of impairment losses incurred in debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between their acquisition costs, 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 “Equity - Valuation adjustments”, 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 “Equity - Valuation adjustments”.

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, jointly control entities 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, that are directly attributable to its issuance, except for contracts issued by insurance companies.

At the beginning, the fair value of financial guarantee contracts issued to a third party not connected within a single transaction in mutual independence conditions, is the premium received plus, presents cash flows value to receive, using 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 liabilities and contingent".

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 Credits, loans and discounts 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 application of the Bank of Spain Circular 4/2004, December 22.

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 "Property, plant and equipment" in "Investment property" or "Other assets assigned under operating lease", depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use. The income from lease contracts is recognised in the income statement on a straight-line basis in the caption "Other operating revenue".

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 general 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 2014 and neither for the previous one at 31st December 2013.

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 2014 a provision was recorded for post-employment commitments amounting to 216 thousand euros (196 thousand euros at 31 December 2013).

2.10.4 Termination benefits

Termination benefits are recorded under the heading "Personnel expenses" and the accompanying income statement crediting the accounts "Provisions for pensions 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 2014 and 2013, 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" 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 "Depreciation and amortization – Tangible 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 "Depreciation and amortization – Tangible 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 general 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 Instituto. 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 losses on other assets (net) – Goodwill and other intangible assets" in the 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 20).

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 2014 and 2013 year end, a number of legal procedures and claims had been initiated against the Instituto, 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 (net)".

2.15 Cash-flow statements

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

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

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

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

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

2.16 Non-current assets 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 disposal of assets 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 disposal of assets not classified as discontinued operations" in the 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 disposal of assets not classified as discontinued operations" in the income statement.

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

However, financial assets, assets from employee salaries, deferred tax assets and assets for insurance contracts that are part of a group of file or an 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 2014 a total of 157 complaints were received, (325 in 2013) of which were addressed within an average of 5.1 working days (6 days in 2013). 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 10% were related to repayments or resolutions about ICOdirect operations.

4. RESULTS DISTRIBUTION

The distribution of 2014 profits, which arises up to 80,739 thousand euros, has not yet been decided by the General Council of each Entity of the Institute. 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 Council, which contains the different methods, applicable legislation, procedures and organisational structure.

5.2 Organisational structure

In order to cover the entire risk spectrum, within its organisational structure, the Institute (according to Presidential Organizational Circular 4/2012 of May 11), 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 analyzing, managing and monitoring all the Institute's risk, assessing the admissibility of ICO credit risk and overseeing ICO's adaptation to national and international risk regulations, while driving, coordinating and supervising the performance of the units under its remit.

The four specialized 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.

- Analyze, 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.

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.
- Analyze 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
- Analyze adaptation to national and international standards regarding risks within its competence.
- Propose for approval by the 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:

- Analyze 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 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, operational risk methodology 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 substandard and doubtful for reasons other than the default risk.
- Participate in the Credit Committee in which are discussed and adopted agreements concerning the granting of new direct loans from the ICO, as well as modifications of already formalized operations.
- 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 (rating agencies, internal and external auditors, Court of Auditors, the Bank of Spain, etc).

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

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

- 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, type of client, share shrinking and approval based on the amount to finance.

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

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

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

- Monitoring, 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

National legislation contains several recommendations to be taken into consideration in order to adequately managing this risk. In addition, together with the 30th November, 4/2011 Circular publication, is introduced in the 3/2008 Circular, Liquidity Information, Liquidity Statements LQ monthly elaborated and presented to Bank of Spain. There are also international recommendations, such as those established in the document published by the Basel Committee on Bank Supervision in February 2000 (Sound Practices for Managing Liquidity in Banking Organizations), which contains guidelines that must be taken into consideration when establishing a system for measuring, managing and monitoring liquidity risk. The establishment of new solvency and liquidity requirements from Basel III: Global Regulatory framework to reinforce banks and the banking system and Basel III: (International framework for liquidity risk measurement, standards and monitoring, and a global regulatory framework for more resilient banks and banking systems) represents a new step in the direction of guaranteeing more efficient parameters in liquidity measurement and control. During the first days of January 2013, Basel III: The liquidity Coverage Ratio and liquidity risk monitoring tools, is published and moves forward in the definition and short term liquidity ratio tracking, completing this work with the publication on 12 January 2014 of the document Guidance for Supervisors on Market-Based Indicators of Liquidity.

In this sense, on January 17, 2015 is published the Delegate Regulation 2015/61 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%, 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 1st January 2018.

During the year 2013 and 2014, the Institute, has being calculating 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.

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

Generally, 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 2014, 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 2015.

Maturities of ICO's assets and liabilities

The following table shows the classification, by residual maturity of assets and liabilities, net of valuation adjustments and amounts in foreign currency of ICO at 31 December 2014:

	Thousands of euros							
ASSETS	**Upon demand**	**Up to 1 month**	**1 – 3 months**	**3 – 6 months**	**6 – 12 months**	**1 - 5 years**	**More tan five years**	**Total**
Cash and balances with central Banks	**24 193**	**-**	**-**	**-**	**-**	**-**	**-**	**24 193**
Deposits at credit institutions	**343 872**	**1 970 113**	**605 604**	**1 748 259**	**5 543 670**	**20 768 132**	**7 957 995**	**38 937 645**
Loans at credit institutions	**319 924**	**147 935**	**411 397**	**1 694 331**	**1 009 774**	**5 085 755**	**11 416 919**	**20 086 035**
- Spanish public administration	277 105	-	319 257	1 410 250	63 702	585 310	3 031 314	5 686 938
- Other resident sectors	42 819	147 935	92 140	284 081	946 072	4 460 433	8 138 906	14 112 386
- Non-residents	-		-	-	-	40 012	246 699	286 711
Debt securities	**-**	**3 607 455**	**2 226 741**	**1 952 570**	**3 387 326**	**11 029 847**	**287 642**	**22 491 581**
Other assets with agreed maturity	**17 306**	-	**(61)**	**2**	**13**	**697**	**703**	**18 660**
	705 295	5 725 503	3 243 681	5 395 162	9 940 783	36 884 431	19 663 259	81 558 114

	Thousands of euros							
LIABILITIES	**Upon demand**	**Up to 1 month**	**1 – 3 months**	**3 – 6 months**	**6 – 12 months**	**1 - 5 years**	**More tan five years**	**Total**
Deposits central Banks	**-**	**-**	**6 800 000**	**-**	**-**	**-**	**-**	**6 800 000**
Deposits from credit institutions	**6 259**	**-**	**129**	**-**	**155 178**	**1 976 508**	**7 649 987**	**9 788 061**
Deposits from other creditors	**2 757 583**	**19 363**	**36 000**	**25 000**	**18 543**	**4 000**	**-**	**2 860 489**
- Spanish public administration	2 686 401	-	-	-	-	-	-	2 686 401
- Other resident sectors	71 182	19 363	36 000	25 000	18 543	4 000	-	174 088
- Non-residents	-	-	-	-	-	-	-	-
Debt certificates including bonds	**-**	**114 998**	**3 118 302**	**3 044 454**	**7 499 804**	**27 597 155**	**4 855 655**	**46 230 368**
Other liabilities with agreed maturity	**-**	**-**	**-**	**-**	**2 094 571**	**-**	**-**	**2 094 571**
	2 763 842	134 361	9 954 431	3 069 454	9 768 096	29 577 663	12 505 642	67 773 489

The following table shows the classification by residual maturity of assets and liabilities, net of valuation adjustments and amounts in foreign currency of ICO at 31 December 2013:

ASSETS	Thousands of euros Upon demand	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More tan five years	Total
Cash and balances with central banks	**18 304**	**-**	**-**	**-**	**-**	**-**	**-**	**18 304**
Deposits at credit institutions	**31 258**	**2 584 050**	**469 470**	**1 419 634**	**4 739 920**	**25 367 871**	**10 450 970**	**45 063 173**
Loans and advances to other debtors	**424 051**	**9 561**	**1 361**	**181 447**	**240 195**	**12 474 661**	**12 687 433**	**26 018 709**
- Spanish Public Administrations	360 310	-	-	69 624	31 274	5 610 382	3 056 826	9 128 416
- Other resident sectors	63 741	9 561	1 361	111,823	208 872	6 813 196	9 375 579	16 584 133
- Non-residents	-	-	-	-	49	51 083	255 028	306 160
Debt securities	**-**	**2 088 961**	**2 942 447**	**3 965 441**	**4 239 511**	**15 093 596**	**104 262**	**28 434 218**
Other assets with agreed maturity	**66 330**	**-**	**-**	**-**	**96**	**1 585**	**1 100**	**69 111**
	539 943	**4 682 572**	**3 413 278**	**5 566 522**	**9 219 722**	**52 937 713**	**23 243 765**	**99 603 515**

LIABILITIES	Thousands of euros Upon demand	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 - 5 years	More tan five years	Total
Deposits from central banks	**-**	**-**	**-**	**-**	**-**	**20 000 000**	**-**	**20 000 000**
Deposits from credit institutions	**8 332**	**-**	**462**	**-**	**-**	**1 322 831**	**4 771 451**	**6 103 076**
Deposits from other creditors	**1 720 621**	**16 965**	**30 502**	**17 000**	**43 543**	**-**	**-**	**1 828 631**
-Spanish Public Administrations	1676 763	-	-	-	-	-	-	1 676 763
- Other resident sectors	43 858	16 965	30 502	17 000	43 543	-	-	151 868
- Non-residents	-	-	-	-	-	-	-	-
Debt certificates including bonds	**-**	**3 133 870**	**5 013 047**	**523 927**	**4 432 225**	**35 624 766**	**7 245 378**	**55 973 213**
Other liabilities with agreed maturity	**-**	**-**	**-**	**-**	**3 377 035**	**-**	**-**	**3 377 035**
	1 728 953	**3 150 835**	**5 044 011**	**540 927**	**7 852 803**	**56 947 597**	**12 016 829**	**87 281 955**

Maturity Analysis of trading and hedging derivatives denominated in euro

The following table shows the contractual maturities for euro-denominated derivatives, recognised as financial assets and financial liabilities at 31 December 2014 and 2013 (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 2014

	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	56 350	13 266	49 452	15 312	-	**134 380**
- Of which: credit commitments considered as derivatives	-	-	-	-	-	**-**
Hedging derivatives	14 751 175	27 455 578	2 550 907	667 798	243 527	**45 668 985**
	14 807 525	**27 468 844**	**2 600 359**	**683 110**	**243 527**	**45 803 365**

At 31 December 2013

	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	-	59 155	64 768	16 154	-	**140 077**
- Of which: credit commitments considered as derivatives	-	-	-	-	-	**-**
Hedging derivatives	11 674 445	32 012 991	3 728 888	871 046	243 527	**48 530 897**
	11 674 445	**32 072 146**	**3 793 656**	**887 200**	**243 527**	**48 670 974**

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 2014 and 2013, 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 2014

	Thousands of euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	5 891 137	9 187 604	11 384 261	17 462 770
Equivalent outflows in Euros	(6 276 326)	(10 821 186)	(8 035 716)	(11 271 713)
Partial GAP	(385 190)	(1 633 581)	3 348 545	6 191 057
Cumulative GAP	(385 190)	(2 018 771)	1 329 774	7 520 831

At 31 December 2013:

	Thousands of euros			
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Equivalent inflows in Euros	6 658 882	7 735 594	14 804 946	17 514 462
Equivalent outflows in Euros	(4 300 862)	(8 340 158)	(3 211 646)	(8 076 126)
Partial GAP	2 358 021	(604 564)	11 593 300	9 438 336
Cumulative GAP	2 358 021	1 753 457	13 346 757	22 785 093

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 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 is used, calculated as the difference between asset and liability volume and off-balance sheet transactions that mature or renew interest rates within the following 12 months, weighted by the period affecting the Margin.

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

The sensitivity of net interest income at December 31, 2013 to movements in interest rates of 100 basis points was 5.22% in the euro, 0.09% in the US dollar and 0.01% in sterling pounds. The sensitivity to changes in the exchange rate (movements of +/- 10% change in USD / EUR and GBP / EUR) was 0.29% and 0.08% respectively. The sum of all of them represented a 5.68%.

In 2014, the ICO adopted as a way to establish the sensitivity of its net interest margin a calculation thereof from the base curve variations of +/- 200 bp with a floor of 0%.

As a result of applying these movements in interest rates, the sensitivity of the balance of ICO to December 31, 2014 was 4.56% of the total, distributed as follows: 3.99% for the balance in euros, 0.15 % of the balance in US dollars and 0.01% of the British Pound. Exchange rate (with movements of +/- 10% on changes in USD / EUR and GBP / EUR) was 0.41% in the dollar and 0.02% in Pounds.

Similarly, for the establishment of the sensitivity of Equity, variations on the market curve established +/- 200 bp with floor at 0%.

At December 31, 2014 the values of the sensitivity of the ICO Net Asset reached 3.02% in value added with a distribution on balances as follows: 2.87% for euro interest rate, 0.03% in the US dollar and 0.02% in the British Pound. Exchange rate for Dollar presented a sensitivity of 0.11% and 0.00% 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 2014 are the Euro, US dollar and Pound sterling, which account for a 98% of the total balance sheet and off-balance sheet transactions, of which approximately a 94% is in Euros, 3% in US dollars and the remaining 1% in Pounds sterling.

Regarding currencies other than the euro and dollar with which the ICO operates, 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 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 Council on an annual basis. These counterparty lines are subdivided into two broad groups as a result of the operating characteristics of the ICO. The first of the counterparty lines 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 99% of them maintain an Agency rating investment grade. These counterparty institutions operate at the national and international level.

The ICO has structured several stages of evaluation and control relating to company credit risk: Acceptance, Monitoring and 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 Council, 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 through ongoing controls, regular reviews; rating updates and alert systems such that the entire portfolio is classified into one of the following categories: Normal monitoring, special monitoring and Recovery.

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

Oversight is performed based on the mediation lines as financed companies are indirect ICO clients, in order to establish and maintain a control environment for credit institutions and to verify compliance with the agreements concluded with credit institutions 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 and introducing Basle II criteria. Rating agency and OECD-CESCE evaluations are used as a source of information when classifying countries into risk groups and these classifications are reviewed on a monthly basis.

The following chart shows the maximum credit risk exposure assumed by the Institute at December 31, 2014 and 2013 without deducting collateral or other credit enhancements received to ensure compliance of debtors:

	Thousands of euros					
	December 31,2014					
Types of instruments	Available for sale financial assets	Credit, loans and discounts	Held to maturity investment portfolio	Hedging derivatives	Off Balance Sheet Items	Trading portfolio
Debt instruments	-	-	13 948 582	-	-	-
Credit institutions deposits	-	38 785 941	-	-	-	-
Securities	912 678	-	-	-	-	-
Customer loans	-	27 652 678	-	-	-	-
Contingent risks: guarantees	-	-	-	-	1 319 003	-
Financial derivatives	-	-	-	1 951 138	-	309 550
Other instruments	-	-	-	-	-	-
TOTAL	912 678	66 438 619	13 948 582	1 951 138	1 319 003	309 550

	Thousands of euros					
	December 31,2013					
Types of instruments	Available for sale financial assets	Credit, loans and discounts	Held to maturity investment portfolio	Hedging derivatives	Off Balance Sheet Items	Trading portfolio
Debt instruments	-	-	20 660 688	-	-	-
Credit institutions deposits	-	43 643 049	-	-	-	-
Securities	1 104 887	-	-	-	-	-
Customer loans	-	34 451 674	-	-	-	-
Contingent risks: guarantees	-	-	-	-	1 610 594	-
Financial derivatives	-	-	-	1 509 208	-	400 771
Other instruments	-	-	-	-	-	-
TOTAL	1 104 887	78 094 723	20 660 688	1 509 208	1 610 594	400 771

The Credit, loans and discounts breakdown based on credit ratings assigned, internal or external, is as follows (amounts in thousands of euros):

	2014		2013	
	Amount	**%**	**Amount**	**%**
External ratings				
Credit quality level 1 (AAA)	-	-	-	-
Credit quality level 2 (AA, AA+)	-	-	-	-
Credit quality level 3 (A)	575	1%	575	1%
Others				
Not assigned amounts (without rating)	27 652 103	99%	34 451 099	99%
	27 652 678	**100%**	**34 451 674**	**100%**

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 II). The risk deriving from inadequate processes, incorrect records, system failures, legal risks or the risk of loss inherent to the formalisation of transactions is included.

In this area, certain tools have been developed to facilitate the task of covering operating risk. Specifically, these tools consist of the policies covering the monthly monitoring of the control panel or activity indicators, the development of processes and internal procedures, the definition of client and operations monitoring and internal control of incidents, or the existing contingency plan. 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 (not including valuation adjustments, classified as loans and advances to other debtors and financial guarantees), is as follows:

	Millions of euros			
	2014		2013	
	Amount	% s/total	Amount	% s/total
Outstanding risk by sector				
Investment properties	**1 072**	**4%**	**1 328**	**4%**
Construction of social housing for sale	38	0%	41	0%
Construction of social housing for rent	671	3%	737	2%
Acquisition and development of land	336	1%	328	1%
Other	27	0%	221	1%
Investment intangible assets	**20**	**0%**	**56**	**0%**
Investment tangible assets	**12 134**	**48%**	**13 606**	**42%**
Renewable energies	1 353	5%	1 448	5%
Water infrastructures	581	2%	632	2%
Electricity infrastructures	1 187	5%	1 423	4%
Gas and fossil fuel infrastructures	1 184	5%	1 386	4%
Transport infrastructures	6 475	25%	6 894	22%
Tourism and leisure	81	0%	92	0%
Social-health infrastructures	322	1%	328	1%
Telecommunications	3	0%	111	0%
Audiovisual production and exhibition	43	0%	40	0%
Business parks and other constructions	22	0%	23	0%
Other	575	2%	889	3%
Research and Development material investment	5	0%	30	0%
ICO Finance lines AA.CC. Agencies	303	1%	310	1%
Acquisitions of companies	**694**	**3%**	**999**	**3%**
General corporate needs	**726**	**3%**	**878**	**3%**
Restructuring of liabilities	**685**	**3%**	**415**	**1%**
General State Budgets	**4 283**	**17%**	**7 917**	**25%**
Financial intermediary services	**5 799**	**23%**	**6 860**	**22%**
	25 413	**100%**	**32 059**	**100%**

At December 31, 2014 and 2013 the total exposure is mainly concentrated in two sectors: "Material Investment", which account for 48% of total risk in 2014, compared with 42% in 2013; and on the other hand, the sector of "financial intermediation", which includes the balance of the total contributed by ICO to the Fund for the Financing of suppliers payment, with an impact in 2014 of 23% and 22% in 2013.

Inside the “ Material Investment” sector, it is important to highlight the impact of the sub-sector named “Transports Infrastructures” on the sector, with a 25% of weight over the risk of 2014 (22% at 2013).

5.7.2 Classification by geographic location of financial investments

The total risk at 31 December 2014 is distributed as follows: 92% in transactions financing investments in Spain ascending to 23,362 million euros (92% at 31 December 2013 with 29,361 million euros) and 8% in transactions aimed at financing investment projects in other countries.

Regarding the regional distribution of financial investment in Spain, Madrid and Catalonia are the Regions with the highest risk concentration by 19% (in 2013, 8% and 10% respectively), followed by Valencia with 9% and Andalucía with 6% (in 2013, 12% and 8%, respectively)

These figures do not take into account all risks attributed to the generic national concerning operations that, by their nature, are not located in a specific geographic area, but throughout the country level.

Transactions taking place in the international market at 31 December 2014 and 2013 are distributed as follows in accordance with the active foreign risk:

	Millions of euros			
	2014		**2013**	
	Amount	**%**	**Amount**	**%**
European Economic Community	453	22%	628	23%
Latin America	520	25%	683	25%
United States	680	33%	849	31%
Rest of Europe (not EEC)	6	0%	6	0%
Other	392	20%	532	21%
	2 051	100%	2 698	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 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 and payments to commercial suppliers other than depositors and holders of ICO securities. With the latter, the contractual and legal payment deadlines of both liabilities due to demand and with deferred payment have been met dutifully.

- 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 second transitional provision of ICAC Resolution of 29 December 2010, at 31 December 2014 and 2013, none of ICO's deferrals exceeded the statutory limit (determined in accordance with the nature of the good or service received by the company as provided for in Law 3/2004, of 29 December, establishing measures to combat against late payment in commercial transactions).

5.9 Risk concentration

At December 31, 2014 and 2013, 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 31st 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					
	2014			2013		
	Gross amount	Excess over value of collateral	Specific allowance	Gross amount	Excess over value of collateral	Specific allowance
Property loans:	1 430 111	1 430 111	669 248	1 603 563	725 855	698 443
Of which doubtful	564 530	564 530	529 284	579 249	252 245	550 513
Of which substandard	865 581	865 581	139 964	1 024 314	473 610	147 930
Memorandum item:						
Defaulted loans	-	-	-	-	-	-

	Thousands of euros	
	2014	2013
Memorandum item:		
Total loans and advances to other debtors excluding regional governments	13 970 547	18 248 085
Total assets	83 998 631	102 202 683
Total general allowance	120 731	280 931

Total finance for construction and property development at 31 December 2014 represents a 1.7% of the total balance sheet (1.57% at 31 December 2013).

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

	Thousands of euros	
	2014	2013
1 Without mortgage collateral	**628 943**	**725 871**
2 With mortgage collateral	**801 168**	**877 692**
2.1 Finished buildings	789 404	571 870
2.1.1 Homes	582 368	544 299
2.1.2 Other	207 036	27 571
2.2 Buildings under constructions	11 748	78 678
2.2.1 Homes	11 748	78 678
2.2.2 Other	-	-
2.3 Land	16	227 144
2.3.1 Developed land	16	24 611
2.3.2 Other land	-	202 533
TOTAL	**1 430 111**	**1 603 563**

- Home purchase loans

	Thousands of euros			
	2014		2013	
	Gross amount	Of which: doubtful	Gross amount	Of which: doubtful
Home loans	19 562	-	19 758	-
Without mortgage collateral	17 664	-	17 780	-
With mortgage collateral	1 898	-	1 888	-

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

At 31 December 2014:

	Thousands of euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%
Gross amount	1 383	515	-	-	-
Of which: doubtful					

At 31 December 2013:

	Thousands of euros				
	LTV<40%	40%<LTV<60%	60%<LTV<80%	80%<LTV<100%	LTV>100%
Gross amount	1 182	706	-	-	-
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 12) 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, 2014 (gross amounts), as requirement of Bank of Spain 6/2012 Circular, about financial public and reserved information rules:

At 31 December 2014 (gross amounts in thousands of euros)

	Real estate mortgage's guarantees	Rest of guarantees	No actual guarantee	TOTAL amounts	TOTAL specific hedges
Public Administrations					
Regular	-	-	-	-	-
Substandard	-	28 750	124 946	153 696	47 845
Doubtful	-	-	-	-	-
Companies and business owners					
Regular	4 615	187 264	373 195	565 074	-
Substandard	-	403 153	304 738	707 891	161 156
Doubtful	220 059	779 894	215 342	1 215 295	1 096 797
- From which: property development finance					
Regular	-	-	-	-	-
Substandard	-	-	1 700	1 700	1 700
Doubtful	202 053	60 778	77 272	340 103	340 103
Rest of individuals					
Regular	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
TOTALS	**224 674**	**1 399 061**	**1 018 221**	**2 641 956**	**1 305 798**

At 31 December 2013 (gross amounts in thousands of euros)

	Real estate mortgage's guarantees	Rest of guarantees	No actual guarantee	TOTAL amounts	TOTAL specific hedges
Public Administrations					
Regular	-	-	-	-	-
Substandard	-	49 270	6 610	55 880	13 964
Doubtful	-	-	-	-	-
Companies and business owners					
Regular	4 520	195 004	984 552	1 184 076	
Substandard	866	667 392	288 767	957 025	226 328
Doubtful	462 704	514 774	130 167	1 107 645	927 183
- From which: property development finance					
Regular	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	267,953	60 788	84 272	413 013	392 595
Rest of individuals					
Regular	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
TOTALS	**468 090**	**1 426 440**	**1 410 096**	**3 304 626**	**1 167 475**

6. CASH AND DEPOSITS AT CENTRAL BANKS

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
Cash on hand	9	13
Deposits at Bank of Spain	21 777	17 713
Mandatory to comply with minimum reserve ratios	21 714	17 112
Not mandatory	-	-
Accrued interest	63	601
	21 786	17 726

7. TRADING PORTFOLIO

The total balance under this heading in the balance sheets at 31 December 2014 and 2013 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 2014 and 2013:

	Thousands of euros					
	Notional		Assets		Liabilities	
	2014	2013	2014	2013	2014	2013
By type of market						
Organised markets	-	-	-	-	-	-
Non – organised markets	4 309 917	3 434 148	309 550	400 771	289 999	398 114
	4 309 917	3 434 148	309 550	400 771	289 999	398 114
By type of product						
Swaps	4 309 917	3 434 148	309 550	400 771	289 999	398 114
	4 309 917	3 434 148	309 550	400 771	289 999	398 114
By counterparty						
Credit institutions	2 749 714	1 873 596	19 779	220	289 999	398 114
Other financial institutions	-	-	-	-	-	-
Other sectors	1 560 203	1 560 552	289 771	400 551	-	-
	4 309 917	3 434 148	309 550	400 771	289 999	398 114
By type of risk						
Exchange risk	4 175 537	3 191 271	301 483	388 283	279 522	381 941
Interest rate risk	134 380	242 877	8 067	12 488	10 477	16 173
	4 309 917	3 434 148	309 550	400 771	289 999	398 114

The fair value has been calculated for the 100% of the cases, both in 2014 and 2013, taking the implicit curve of the money markets and the public debt as a reference.

At December 31st, 2014 and 2013 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					
	2014			2013		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	309 550	-	-	400 771	-
Held-for-trading-derivatives of liabilities	-	289 999	-	-	398 114	-

The following table shows the amounts recognised in the income statements in 2014 and 2013 (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					
	2014			2013		
	Gains	Losses	Net	Gains	Losses	Net
Level 1	-	-	-	-	-	
Level 2	290 634	316 812	(26 178)	356 767	331 553	25 214
Level 3	-	-		-	-	-

Once the IFRS 13 from 1st January 2013 has become effective, the Group makes the appropriate valuation adjustments regarding derivatives valuation and their credit, own and counterparty's, risk (CVA-DVA). The adjustment made the 31 December 2014 increased up to 17,247 thousand euros (loss of 26,768 thousand euros at December 31, 2013) thousand euros, being charged to results (Note 30)

8. AVAILABLE-FOR SALE FINANCIAL ASSETS

The breakdown of the amount included in this chapter, in the balance sheet at December 31, 2014 and 2013, investment is as follows:

	Thousands of euros	
	2014	**2013**
FONDICO PYME (before FESPYME Fondo de Capital Riesgo) (1)	130 959	133 031
FONDICO Infraestructuras (2)	55 103	20 232
FONDICO Global (3)	70 328	7 334
Fondo Fons Mediterránea Fondo de Capital Riesgo (4)	10 005	11 537
Fondo PYMEX Fundación Empresa y Crecimiento (5)	-	-
Fondo de Carbono Postkyoto (6)	-	-
Fondo Marguerite (7)	43 668	33 068
Fondo Carbono Empresas Españolas (8)	74	381
FEI, Fondo Europeo de Inversiones (9)	11 861	2 971
SWIFT (10)	3	3
EDW (11)	102	213
Fixed income portfolio (12)	590 575	896 117
	912 678	**1 104 887**

The amount of Valuation Adjustment of equity epigraph at December 31, 2014 and 2013 composed by changes in the fair value of the items included under the heading of financial assets available for sale is as follows:

	Thousands of euros	
	2014	**2013**
Equity instruments	(7 432)	(2 560)
Debt instruments	11 855	102
	4 423	**(2 458)**

Movements experienced during the years 2014 and 2013 under the heading of financial assets available for sale are listed below:

	Thousands of euros	
	2014	**2013**
Initial balance	1 104 887	201 633
Purchase additions	428 234	925 069
Amortizations and sales	(628 049)	(458)
Fair value fluctuations movements	6 881	(20 371)
Impairment losses movements	725	(986)
Balance at the end of the year	**912 678**	**1 104 887**

(1) Fund formed in May 1993, in which the Institute, the Group's Parent entity, is the sole participant managed by Axis Participaciones Empresariales. The fund is fully paid at December 2014 and December 2013.

(2) Investment fund constituted in 2012, 100% owned by the "Instituto" and managed by Axis Business Units. In 2014 the contributions of the "Instituto" were 32,122 thousand euros (6,820 thousand euros in 2013).

(3) Investment fund created in 2013, 100% owned by the "Instituto" and managed by Axis Business Units. In 2014 the contributions of the "Instituto" were 70,000 thousand euros (10,000 thousand euros in 2013).

(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 2,758 thousand euros at December 2014 (3,482 thousand euros at December 2013).

(5) Fund constituted in May 2003 by the Enterprise Foundation and Growth, in collaboration with the BID and Nacional Financiera SNC, which objective is to take temporary stakes in the capital of non-financial firms located in Mexico. The allocations related to impairment made to this fund are considered to be 100%of the total amount the contributions made, without including changes in the fair value, with an amount of 228 thousand euros at 31st December 2014(being 228 thousand euros the 31st December 2013)

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

(7) Participation in the Marguerite Fund. 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 2014 the contributions of the Institute were 3,500 thousand euros (35,650 thousand euros in 2013).

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

(9) Participation equal to 0.72% of the share capital, at December 31, 2014, after disbursements in that year (0.2667% at December 31, 2013). In 2014 the contributions of the "Instituto" were 8,427 thousand euros (without contributions in 2013). At December 31, 2014 the disbursement of an amount of 5,990 thousand euros (6,400 thousand euros at December 31, 2013) was pending.

(10) Participation of the "Instituto" in 1 share of this entity as a full member of the same from 2008.

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

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

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

	Thousands of euros	
	2014	**2013**
Maturity of 3 months	-	-
Maturity between 3 and 6 months	-	-
Maturity between 6 and 9 months	-	-
Maturity over 9 months	590 575	896 117
	590 575	896 117

At December 31, 2014 and 2013, the classification of financial assets available for sale stated at fair value and taking the hierarchical level into account as shown in Note 2.2.3., was as follows:

	Thousands of euros					
	2014			2013		
	Level I	Level II	Level III	Level I	Level II	Level III
Debt securities	590 575	-	-	896 117	-	-
Other capital instruments	-	322 103	-	-	208 770	-

During 2014 “Instituto” income statement recorded a profit of 6,665 thousand euros, as trading gains arising from the sale of certain debt securities classified in the portfolio of financial assets available for sale (Note 30).

9. CREDIT, LOANS AND DISCOUNTS

The breakdown by type and status, of Investment Credit, loans and discounts at December 31, 2014 and 2013, adjusted for value changes due to assets impairment, is as follows:

	Thousands of euros	
	2014	2013
By mode and location:		
Commercial credit	-	-
Debtors with mortgage	35 748	45 231
Debtor with other security	26 829	31 465
Assets temporary acquisitions	1 332 463	1 749 575
Hybrid financial assets	-	-
Other term debtors	62 989 397	74 026 102
Leases	-	-
Advances on demand and other	45 200	134 262
Doubtful assets	1 807 016	1 728 575
Valuation adjustments	204 552	387 234
	66 441 205	**78 102 444**

In "Advances on demand and other" epigraph are included, apart from expired impaired assets, provisions for funds to third parties that are still pending of being satisfied, and other temporary advances.

The structure of the total amount of this chapter of the balance sheet at December 31, 2014 and 2013, classified by type of counterparty, is as follows:

	Thousands of euros	
	2014	2013
By counterparty categories		
Credit institutions (Note 9.1)	38 727 065	43 536 998
Acquisition of assets from counterparties under resale agreements (Note 9.2)	522 462	1 749 575
Resident public administrations (Note 9.2)	5 686 938	9 128 415
Non-resident public administrations (Note 9.2)	54 278	18 971
Other resident sectors (Note 9.2)	14 778 338	17 321 259
Other non resident sectors (Note 9.2)	899 814	1 168 927
Other financial assets (Note 9.3)	24 733	70 500
Credit debt securities investment (Note 9.2)	7 951 970	6 868 076
	68 645 598	79 862 721
(Impairment losses)		
Other measurement adjustments (*)	(2 408 945)	(2 147 529)
By counterparty categories	204 552	387 252
	66 441 205	**78 102 444**

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

Set out below are the movements for 2014 and 2013 in impairment losses recorded to cover the credit risk and the accumulated amount of such losses at the beginning and end of those years on the portfolio of loans and discounts:

	Thousands of euros			
	Country risk	**Specific provisions**	**General provision**	**Total**
Balance as at January 1, 2013	**-**	**1 309 741**	**261 575**	**1 571 316**
Appropriations charged to income	-	584 840	-	584 840
Recoveries	-	-	-	-
Application of funds	-	(6 455)	-	(6 455)
Other movements	-	(606)	-	(606)
Adjustments for exchange differences	-	(1 566)	-	(1 566)
Balance as at December 31, 2013	**-**	**1 885 954**	**261 575**	**2 147 529**
Appropriations charged to income	-	548 553	-	548 553
Recoveries	-	(38 313)	(160 200)	(198 513)
Application of funds	-	(93 373)	-	(93 373)
Other movements	-	-	-	-
Adjustments for exchange differences	-	4 749	-	4 749
Balance as at December 31, 2014	**-**	**2 307 570**	**101 375**	**2 408 945**

The net amount carried in the accompanying income statements for 2014 and 2013 as a result of movements affecting assets whose recovery is deemed remote, arises up to 2,869 thousand euros and 12,177 thousand euros, respectively.

The heading "Other movements", included in variations for 2014 and 2013 in the specific provision, records different amounts reclassified by the Group, taking into account the nature of the transactions covered, broken down mainly as follows:

- At December 31, 2014: no transfers;

- At December 31, 2013: transfer to liability accounts ("Amounts payable to the Public Treasury") from specific provisions for 606 thousand euros related to economic policy loans subject to Law 24/2001.

The Specific provision detailed based on the determining criteria, is broken down in the following chart:

	Thousands of euros	
	2014	**2013**
Determined:	1 579 228	1 412 311
Exclusively to customer arrears	649 387	652 222
Other than customer arrears	929 841	760 089
Due to real estate transactions (sections 42 and 43, Annex IX Circular 4/2004)	--	-
Substandard	728 342	473 643
TOTAL	2 307 570	1 885 954

The substandard specific provision corresponds to credit assets for an amount of 3,316,556 thousand euros at December 31, 2014 (2,552,871 thousand euros at December 31, 2013).

At 31 December 2014 and 2013, there are not specific provisions for real estate transactions, sections 42 and 43 of Annex IX from the Spanish Circular 4/2004, from the Bank of Spain. The total amount of the specific provision has been reclassified into provisions for impaired assets or substandard provisions, (73,039 thousands euros).

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

	Thousands of euros	
	2014	2013
Initial balance	841 338	798 061
Additions:	30 628	98 590
By remote recoveries	27 365	97 923
By other causes	3 263	667
Recoveries:	(2 869)	(52 019)
By refinancing or restructuring	-	-
By collecting cash without additional funding	(2 869)	(31 793)
For asset allocation	-	(20 226)
Others	-	-
Definitive write-off:	(8 436)	(1560)
By forgiveness	-	-
By expiry	-	-
By other causes	(8 436)	(1560)
Net Exchange fluctuation	5 028	(1734)
Final balance at the year end	**865 689**	**841 338**

The table below provides a breakdown of financial assets classified as loans and receivables considered to be impaired due to their credit risk at 31 December 2014 and 2013, by counterparty and period elapsed from the amount unpaid at said dates and the age of the risk. Impaired assets guaranteed by the State are disclosed in Note 9.2.

Impaired assets at December 2014

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	Over 12 months	Total
By counterparty categories					
Other resident and non-resident sectors	1 159 620	2 858	2 421	642 117	1 807 016
	1 159 620	**2 858**	**2 421**	**642 117**	**1 807 016**

Impaired assets at December 2013

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	Over 12 months	Total
By counterparty categories					
Other resident and non-resident sectors	1 076 603	221	1343	650 408	1 728 575
	1 076 603	**221**	**1343**	**650 408**	**1 728 575**

There were no impaired assets due to country risk at 31 December 2014 and 2013.

The amount of the unimpaired matured assets relating to 2014 and 2013 totals arises up to 44,847 thousand Euros and 131,880 thousand euros, respectively, with a seniority, in both years, between one and three months.

9.1 Deposits at credit institutions

An Analysis of the amounts of this section of the balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
By nature -		
Deposits at financial institutions (Note 9.1.1)	496 838	690 429
Mediation loans (Note 9.1.2)	37 007 498	42 467 127
Temporary assets acquisition (Note 9.1.3)	810 001	229 264
Other demand accounts (Note 9.1.3)	412 728	150 178
	38 727 065	43 536 998
(Impairment losses)	-	(20 153)
Other measurement adjustments (*)	61 455	133 918
	38 788 520	43 650 763

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

9.1.1 Deposits at financial institutions

During the year 2014, the headings "Deposits at financial institutions" accrued an average annual interest of 0.14% (3.20% during 2013). All deposits included are time deposits as of December 31, 2014 and 2013.

"Time deposits" grouped by maturity date at 31 December 2014 and 2013 broken down as follows:

	Thousands of euros	
	2014	2013
Up to 1 year	496 838	257 604
From 1 to 2 years	-	144 801
From 2 to 3 years	-	114 738
From 3 to 4 years	-	70 683
From 4 to 5 years	-	42 255
More than 5 years	-	60 438
	496 838	**690 429**

The interest accrued during 2014 and 2013 for these loans have amounted a total of 1,154 thousand euros and 1,187 thousand euros, respectively, which are included under the heading "Interest and similar income" regarding credit institutions of the profit and loss account.

9.1.2 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 1,667 million euros at December 31, 2014 (3,115 million euros at December 31, 2013) 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 2014 and 2013 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 2014, 31 152,822 thousand euros (114,964 thousand euros at December 31, 2013) (Note 20). 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.

Interest accrued during 2014 and 2013 by mediation loans amounted to 1,065,274 thousand euros and 1,260,298 thousand, respectively, which are included in "Interest and similar income credit institutions" of the profit and loss account.

The breakdown of mediation loans at December 31, 2014 and 2013 broken down by maturity is as follows:

	Thousands of Euros	
	2014	**2013**
Up to 1 year	16 095 646	15 844 788
From 1 to 2 years	7 717 973	8 906 495
From 2 to 3 years	5 190 076	7 057 319
From 3 to 4 years	2 730 449	4 347 579
From 4 to 5 years	1 869 889	2 599 052
More than 5 years	3 403 465	3 711 894
	37 007 498	**42 467 127**

At December 31, 2014 and 2013, the mediation loans paid an average annual interest rate of 2.66% and 2.76% respectively.

9.1.3 Reverse repos and other deposit accounts

The amounts included under the heading of "Reverse repos" are formalized repo transactions with financial institutions, with a term of maturity less than three months.

The "Other accounts" heading, includes balances in favor of the “Instituto” in cash accounts opened in other financial institutions.

Interest accrued during 2014 and 2013 for these items amounted to 120 thousand euros and 3,186 thousand euros, respectively, which are included in "Interest and similar income" regarding credit institutions in the income statement (Note 25).

9.2 Customer loans

The breakdown of this balance sheet heading at 31 December 2014 and 2013, based both on the category of counterparty and the currency concerned, is as follows:

	Thousands of euros	
	2014	**2013**
By counterparty categories		
Acquisition of assets from counterparties under repurchase agreements	522 462	1 749 575
Resident Public Administrations	5 686 938	9 128 415
Non-resident Public Administrations	54 278	18 971
Other resident sectors	14 778 338	17 321 259
Other non-resident sectors	899 814	1 168 927
Other financial assets	24 733	70 500
	21 966 563	29 457 647
(Impairment losses)	(2 408 945)	(2 127 376)
Other measurement adjustments (*)	143 097	253 334
	19 700 715	**27 583 605**

(*) 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 Agroupations is included in “Other resident sectors” (23,651 thousand euros at December 31st 2014 and 25,250 thousand euros at December 31st 2013) considering that are assured-return structures (Note 20).

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 20 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 Customer loans at 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Balances included under “Resident Public Administrations”		
Loans to the national government	846 977	745 061
Loans to regional governments	4 839 961	8 383 355
Valuation adjustments	(36 131)	117 581
	5 650 807	9 245 997
Balances included under “Other resident sectors”		
Doubtful assets secured by the State	197 591	179 233
Loans to other public entities	4 408 672	4 695 285
Loans to other sectors guaranteed by the State	913 084	1 545 219
	5 519 347	6 419 737
Total transactions guaranteed by the State	**11 170 154**	**15 665 734**

The breakdown of “Loans to the National government”, excluding valuation adjustments, is as follows at 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Loans to the State and its Autonomous Entities	569 931	384 750
Accounts receivable from the Public Treasury	269 148	352 263
Other accounts receivable from the State	7 898	8 048
	846 977	**745 061**

The heading “Accounts receivable from the Public Treasury” records, at 31st December 2014, the amount of 248,607 thousand euros (323,601 thousand euros at December 2013) derived from the formalisation of the “ICO Innovación Fondo Tecnológico 2013-2015, included in the operative Programme FEDER regarding the i+d+i and the firms benefits” Aditionally, the satisfied amounts by the Institute to the Public Treasury, that are pending from being effective under the concept of Subsidiaries, for the adjustment of interest rates differentials in mediation loans

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 2014 and 2013 (Note 25) is:

	Thousands of euros	
	2014	**2013**
Central government	10 655	147 647
Regional governments	235 306	376 517
Other public sector entities	90 982	107 012
	336 943	631 176

Under the heading “Loans granted to Territorial Administrations”, are included the direct loans granted to Autonomous Communities. On 14 February 2013, the Government council for Economic Matters (CDGAE), decided to train the ICO in the principal quotes deferment, forecasted for the year 2013, between the ICO and the different AACC that asked for these loans. The total amount of AACC assigned to this line, supposed for the Institute an amount of 1,630,600 thousand euros. During the year 2014, there have not been incidents in the payments of this credit line, corresponding, exclusively to interest clearance.

The breakdown of the principal amounts of loans included under the heading "Customer loans", including measurement adjustments, and set out by maturity date at 31 December 2014 and 2013, is as follows:

	Thousands of euros	
	2014	**2013**
By maturity		
Up to 1 year	4 931 984	8 662 897
From 1 year to 2 years	2 323 268	5 633 635
From 2 to 3 years	3 095 205	2 985 438
From 3 to 4 years	2 535 558	2 417 252
From 4 to 5 years	1 455 924	1 909 896
More than 5 years	7 767 721	8 101 863
	22 109 660	29 710 981

According to current Bank of Spain regulations, the provision for signature risk insolvency is recorded under the heading "Provisions - Other provisions" in the balance sheet.

Loans and advances to other debtors at 31 December 2014 and 2013 carried annual interest of 2.47% and 2.80%, respectively.

At December 31, 2014 the income statement recorded net trading losses, amounting to 17,227 thousand euros as a result of restructuring and / or sale of certain transactions classified as loans and receivables a (Note 30).

9.3 Debt securities

Under the heading of Debt securities, registered as credit investment, there are included the financial assets amount, no negotiable, which was converted, along the 2013, into a syndicated loan of the ‘Instituto’ to ‘Fund for Financing Supplier Payments’, and which at the end of 2012, was included under “Clients credit- Resident Public Administrations”.

On the other hand, in late 2013, the Operations Committee of the “Instituto” approved the document Annex 5 to the ICO Contract Mediation lines framework 2014, 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 2014. 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 lending.

The total amount of this part of the balance, classified by type of counterparty at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
By type of counterparty		
Resident Public Administrations	5 797 828	6 868 076
Credit institutions	2 154 142	-
	7 951 970	6 868 076
(Loses from impairment)	-	-
Valuation Adjustments	-	-
	7 951 970	6 868 976

The breakdown of the principal operations classified under "debt securities- resident AAPP", including valuation adjustments, and without considering changes regarding assets impairment, by maturity terms at 31 December 2014 and 2013, is the following:

	Thousands of euros	
	2014	**2013**
By maturity		
Up to 1 year	2 213 668	1 069 337
From 1 year to 2 years	2 288 999	2 214 016
From 2 to 3 years	1 219 830	2 289 359
From 3 to 4 years	75 331	1 220 022
From 4 to 5 years	-	75 342
More than 5 years	-	-
	5 797 828	6 868 076

At 31st December 2014 these assets, accrued an annual interest rate of 5.14% (5.21% at December 2013).

The breakdown of the main operations classified under "Debt securities - Credit Institutions" in lending, including valuation adjustments and excluding value adjustments for impairment of assets, for maturity at December 31, 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
By maturity		
Up to 1 year	884 867	-
From 1 year to 2 years	802 282	-
From 2 to 3 years	204 695	-
From 3 to 4 years	184 183	-
From 4 to 5 years	38 641	-
More than 5 years	39 474	-
	2 154 142	-

At 31st December 2014 these assets, accrued an annual interest rate of 3.10%.

10. HELD-TO-MATURITY INVESTMENT PORTFOLIO

The breakdown by counterparty of the held-to-maturity investment portfolio at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
By counterparty		
Spanish public administrations	11 678 805	18 667 702
Resident credit institutions	2 266 157	1 948 304
Other resident sectors	4 074	4 011
Doubtful assets	-	50 008
	13 949 036	20 670 025
Impairment Losses	-	(10 000)
Value adjustments for impairment	(454)	663
	13 948 582	**20 660 688**

The average rate of compensation for the portfolio was 2.18 % (2.41% in 2013).

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.

At December 31, 2014, the “Instituto” has not assigned any provision, to cover the impairment losses attributed to credit risk in the maturity investment securities portfolio to date (10,000 thousand euros at December 31, 2013).

Movements experienced during the years 2014 and 2013 under the heading of Held-to-maturity investment portfolio are shown below:

	Thousands of euros	
	2014	**2013**
Balance at the beginning of the year	20 660 688	19 440 338
Additions from acquisitions	11 379 940	13 784 628
Movements for impairment	10 000	-
Redemptions and sales	(18 102 046)	(12 564 278)
Balance at the end of the year	13 948 582	20 660 688

The breakdown by term residual maturity of December 31, 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
On demand	1 304 667	2 079 758
Up to 3 months	5 106 110	2 997 088
Between 3 months and 1 year	2 581 092	7 216 125
Between 1 and 5 years	4 905 549	8 279 443
Over 5 years	51 164	88 274
TOTAL	13 948 582	20 660 688

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 2014 and 2013, by counterparty and risk, are as follows:

	Thousands of euros					
	Notional		Assets		Liabilities	
	2014	2013	2014	2013	2014	2013
By type of market						
Organised markets	-	-	-	-	-	-
Non-organised markets	53 330 405	55 321 333	1 951 138	1 509 208	351 153	354 234
	53 330 405	**55 321 333**	**1 951 138**	**1 509 208**	**351 153**	**354 234**
By type of product						
Swaps	53 330 405	55 321 333	1 951 138	1 509 208	351 153	354 234
	53 330 405	**55 321 333**	**1 951 138**	**1 509 208**	**351 153**	**354 234**
By counterparty						
Credit institutions	53 330 405	55 321 333	1 951 138	1 509 208	351 153	354 234
Other financial institutions	-	-	-	-	-	-
Other sectors	-	-	-	-	-	-
	53 330 405	**55 321 333**	**1 951 138**	**1 509 208**	**351 153**	**354 234**
By type of risk						
Exchange risk	5 072 446	4 432 611	720 584	453 754	229 639	266 833
Interest rate risk	48 257 959	50 888 722	1 230 554	1 055 454	121 514	87 401
	53 330 405	**55 321 333**	**1 951 138**	**1 509 208**	**351 153**	**354 234**

As of December 31, 2014 and 2013, 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					
	2014			2013		
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	1 951 138	-	-	1 509 208	-
Held-for-trading-derivatives of liabilities	-	351 153	-	-	354 234	-

Once the IFRS 13 of 1st January 2013 has become effective, the Institute includes for the derivative instruments valuation, the corresponding risk valuation adjustments from counterparties and its own (Notes 8 and 30).

12. 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 2014 and December 31st 2013 comes from any funding related neither to Property development land nor to any other property development business.

Movements for years 2014 and 2013 in the balances under this balance sheet heading are shown below:

	Thousands of euros		
	Cost	**Impairment**	**Total**
Balance as at January 1, 2013	52 854	(51 501)	1 353
Additions	12 116	(13 438)	(1 322)
Disposals / Applications	(56)	25	(31)
Transfers	-	-	-
Balance as at December 31, 2013	64 914	(64 914)	-
Additions	8 660	(8 660)	-
Disposals / Applications	(579)	579	-
Transfers	-	-	-
Balance as at December 31, 2014	72 995	(72 995)	-

Over the total amount of “Non-current assets held for sale” at 31 December 2014 and 2013, 48,678 thousand euros corresponds to a single asset, which is fully provisioned.

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

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 BUILDINGS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
502	ALIA TASACIONES	COST AND COMPARISON
17	GESVALT	COMPARISON
117	TAS. HIPOTECARIAS	DYNAMIC RESIDUAL
249	TASVALOR	COST AND COMPARISON
7	TASVALOR	COST
88	SOCIEDAD DE TASACIÓN	COMPARISON
13	TASVALOR	STATIC RESIDUAL
426	JUDICIAL	VARIOUS
1 419		

INDUSTRIAL BUILDINGS

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
3 706	TASVALOR	RENTS UPDATING
3 706		

CONSTRUCTION COMMERCIAL USE

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
116	ALIA TASACIONES	COST AND COMPARISON
5 181	SOCIEDAD TASACIÓN	DYNAMIC RESIDUAL AND RENTS UPDATING
11	TASVALOR	COST AND COMPARISON
986	TASVALOR	COMPARISON
131	TASVALOR	STATIC RESIDUAL AND COST
51	VALMESA	COST
6 476		

URBAN AND DELVELOPABLE LAND

Last appraisal (thousand euros)	Appraisal Company	Appraisal Methodology
12 315	TASVALOR	DYNAMIC RESIDUAL
3	ALIA TASACIONES	STATIC RESIDUAL
535	SOCIEDAD TASACIÓN	DYNAMIC RESIDUAL
1 953	TASVALOR	DYNAMIC RESIDUAL
28	TASVALOR	STATIC RESIDUAL
14 834		

RUSTIC LANDS

Last appraisal (thousand Euros)	Appraisal Company	Appraisal Methodology
61	ALIA TASACIONES	COMPARISON
10	GESVALT	COMPARISON
18	GESVALT	OTHERS
48	TASVALOR	RENTS UPDATING
138	TASVALOR	COMPARISON
131	TASVALOR	COST AND COMPARISON
172	TINSA	DYNAMIC RESIDUAL
37	JUDICIAL	OTHERS
615		

13. SHAREHOLDINGS

Variations of this balance sheet heading during years 2014 and 2013, set out by company and shareholding, is as follows:

	Thousands of euros
	Associates
Balance at 31 December 2012	**51 621**
Additions	3772
Disposals/ Applications	(2 059)
Others movements	-
Impairment	-
Balance at 31 December 2013	**53 334**
Additions	941
Disposals/ Applications	-
Others movements	-
Impairment	-
Balance at 31 December 2014	**54 275**

Appendix I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at 31 December 2014 and 2013.

Disposals that have taken place during the year 2013, correspond to the capital reduction from one of the Institute´s shareholding.

14. PROPERTY, PLANT AND EQUIPMENT

Movements in 2014 and 2013 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, 2014	**113 122**	**15 416**	**-**	**128 538**
Additions	214	258	-	472
Disposals and other write-offs	(6)	(370)	-	(376)
Balance as at December 31, 2014	**113 330**	**15 304**	**-**	**128 634**
Accumulated depreciation				
Balance as at January, 1 2014	**23 988**	**6 454**	**-**	**30 442**
Appropriations	2 039	467	-	2 506
Transfers and other movements	-	(369)	-	(369)
Balance as at December 31, 2014	**26 027**	**6 552**	**-**	**32 579**
Impairment losses – at December 31,2014	9 876	651	-	10 527
Property, plant and equipment net - Balance as at December 31, 2014	**77 427**	**8 101**	**-**	**85 528**
Cost				
Balance as at January 1, 2013	**112 930**	**15 127**	**-**	**128 057**
Additions	192	1 103	-	1 295
Disposals and other write-offs	-	(814)	-	(814)
Balance as at December 31, 2013	**113 122**	**15 416**	**-**	**128 538**
Accumulated depreciation				
Balance as at January, 1 2013	**21 915**	**6 930**	**-**	**28 845**
Appropriations	2 073	338	-	2 411
Transfers and other movements	-	(814)	-	(814)
Balance as at December 31, 2013	**23 988**	**6 454**	**-**	**30 442**
Impairment losses – at December 31,2013	-	651	-	651
Property, plant and equipment net - Balance as at December 31, 2013	**89 134**	**8 311**	**-**	**97 445**

At 31 December 2014 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately 13,322 thousand euros (13,425 thousand euros at 31 December 2013).

In compliance with Institute policy, all property, plant and equipment is insured at 31 December 2014 and 2013.

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

The revaluation reserve at December 31, 2014 amounted to 25,412 thousand euros (26,323 thousand euros at December 31, 2013) (Note 22).

The table below presents the fair value of certain items of property, plant and equipment at December 31, 2014 and 2013 by category, along with the related carrying amounts at those dates:

	Thousands of euros			
	2014		**2013**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Property, plant and equipment for own use	85 528	86 526	97 445	121 614
Buildings	77 427	78 485	89 134	113 363
Other	8 101	8 041	8 311	8 251
Investment property	-	-	-	-
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 (M), at 31 December 2014 and 2013.

15. INTANGIBLE ASSETS

The breakdown of Intangible assets in the balance sheet at 31 December 2014 and 2013 relates exclusively to the account named ‘other intangible assets’.

	Useful estimated life	Thousands of euros	
		2014	2013
With indefinite useful life	-	-	-
With defined useful life	3 years to 10 years	31 542	27 527
Gross total		31 542	27 527
Of which:			
Internal developments	3 years	23 174	21 116
Remainder	10 years	8 368	6 411
Accumulated depreciation		(20 898)	(18 438)
Impairment losses		(2 137)	(2 137)
		8 507	**6 952**

All intangible assets at 31 December 2014 and 2013 related to computer software. Fully amortised intangible assets at 31 December 2014 amounted to 19,179 thousand euros (16,412 thousand euros at 31 December 2013).

16. TAX ASSETS AND LIABILITIES

The breakdown of tax assets and liabilities at 31 December 2014 and 2013 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Current taxes:	12	18 791	3 955	9 598
Corporate income tax	-	18 784	2 592	7 903
VAT	12	7	84	78
Personal income tax withholdings	-	-	457	983
Social Security contributions	-	-	822	634
Other	-	-	-	-
Deferred taxes:	265 649	234 243	17 827	16 396
Impairment losses on credits, loans and discounts	258 119	211 974	-	1 517
Measurement of cash-flow hedges (Note 21)	7 530	22 269	-	-
Restatement of property	-	-	15 932	15 932
Restatement of available – for – sale financial assets	-	-	1 895	(1 053)
Accrual financial liabilities	-	-	-	-
Accrual of financial commissions	-	-	-	-
Reinvestment deferral	-	-	-	-
	265 661	**253 034**	**21 782**	**25 994**

Movements in 2014 and 2013 in the deferred tax asset and liability balances are set out below:

	Thousands of euros			
	Assets		Liabilities	
	2014	2013	2014	2013
Balance at beginning of the year	**234 243**	**146 598**	**16 396**	**47 389**
Impairment losses on credits, loans and discounts	46 157	65 376	(1 518)	-
Valuation of cash flow hedges (Note 21)	(14 739)	22 269	-	(22 263)
Restatement of property	-	-	-	-
Restatement of available -for- sale financial assets (Note 21)	-	-	2 949	(8 730)
Accrual financial liabilities	-	-	-	-
Accrual of financial commissions	-	-	-	-
Reinvestment deferral	-	-	-	-
Balance at the end of the year	**265 661**	**234 243**	**17 827**	**16 396**

17. OTHER ASSETS

The breakdown of Other Assets at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Others assets	2 607	1 431
Accruals	7 546	12 342
	10 153	**13 773**

The heading "Accruals" includes, among other items, the accrual of fees receivable by the “Instituto” for the Management of Operational mechanisms Fund for Financing Supplier Payments and operational management of Autonomous Region Liquidity Fund (Note 1.1). During 2013, the “Instituto” changed the accounting treatment of these fees, so that from the year 2014, they went to accrue linearly adjusting balances accrued assets and liabilities recorded at 31 December 2012. Since 2014, the overall amount of these fees receivable for ICO is 5 million euros per year.

During the year 2014, 5,000 thousand euros were registered as FFPP and FLA commissions (35,655 thousand euros at 31 December 2013), under “Commissions received, other commissions” heading (Note 29)

18. OTHER LIABILITIES

The breakdown of Other Assets at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	2013
Others assets	4 015	3 324
Accruals	22 777	2 134
	26 792	**5 458**

"Other liabilities" basically corresponds to several payment obligations 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 "rapell 2014 lines of mediation" (15,713 thousand euros) and "mediation bonds conversion 2014" (5,000 thousand euros).

19. FINANCIAL LIABILITIES AT AMORTISED COST

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

	Thousands of euros	
	2014	**2013**
By counterparty categories		
Deposits from central banks (Note 19.1)	6 899 167	20 258 472
Credit institution deposits (Note 19.2)	11 081 862	6 457 644
Customer deposits (Note 19.3)	2 839 377	1 820 520
Debts represented by negotiable securities (Note 19.3)	55 143 517	64 744 899
Other financial liabilities (Note 19.7)	2 101 449	3 378 605
	78 065 372	**96 660 140**

19.1 Deposits from central banks - liabilities

The breakdown of this heading in the balance sheet at 31 December 2014 and 2013 by nature of the related transaction is as follows:

	Thousands of euros	
	2014	**2013**
By type of transaction:		
Repurchase agreements with the ECB	6 800 000	20 000 000
Valuation Adjustments(Accruals)	99 167	258 472
	6 899 167	20 258 472

19.2 Credit institution deposits

The composition of this balance sheet heading at 31 December 2014 and 2013, set out by the nature of the transaction, is as follows:

	Thousands of euros	
	2014	**2013**
By nature:		
Loans from the European Investment Bank	7 498 626	4 422 853
Inter – bank loans	1 754 980	715 600
Loans from other financial institutions	1 747 670	1 243 772
Other accounts	6 259	8 332
Measurement adjustments – Accrual accounts	74 327	67 087
	11 081 862	**6 457 644**

Interbank deposits fall due within one year as from 31 December 2014 and 2013, respectively.

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

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

	Thousands of euros	
	2014	**2013**
Up to 1 year	54 511	21 993
From 1 to 2 years	110 837	51 171
From 2 to 3 years	1 019 629	105 579
From 3 to 4 years	1 561 069	721 474
From 4 to 5 years	1 211 343	895 497
More than 5 years	3 541 237	2 627 139
	7 498 626	**4 422 853**

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

	Thousands of euros	
	2014	**2013**
Up to 1 year	57 495	98 159
From 1 to 2 years	1 070	62 647
From 2 to 3 years	224 663	-
From 3 to 4 years	235 462	83 307
From 4 to 5 years	256 012	166 614
More than 5 years	972 968	833 045
	1 747 670	**1 243 772**

19.3 Customer funds

The composition of this heading in the balance sheets at 31 December 2014 and 2013, according to sector, is as follows:

	Thousands of euros	
	2014	**2013**
By counterparty category		
Public Administrations	2 686 401	1 676 763
Assets sold under repurchase agreements	-	-
Other resident sector (1)	152 679	143 288
Other non – resident sectors	-	-
Measurement adjustments – Accrual accounts	297	469
	2 839 377	**1 820 520**

(1) Of which at 31 December 2014 and 2013, 71,182 thousand euros and 43,858 thousand euros, respectively, were demand accounts.

At 31 December 2014 and 2013, the breakdown by nature of the balance recorded under "Public Administrations" is as follows:

	Thousands of euros	
	2014	**2013**
Special loan from the State	2	2
Reciprocal Interest Adjustment Agreement (RIAA)	21 096	21 680
Public Administration Current Accounts and other items	2 665 303	1 655 081
Special loan Liquidity Line	-	-
	2 686 401	**1 676 763**

19.4 Debts represented by negotiable securities

The breakdown of the heading "Debts represented by negotiable securities" at 31 December 2014 and 2013 is set out below:

	Thousands of euros	
	2014	**2013**
Promissory notes and other securities (Note 19.5)	-	18 228
Bonds and debentures issued (Note 19.6).	52 894 775	62 380 255
Valuation adjustments (including transaction costs)(*)	2 248 742	2 346 416
	55 143 517	**64 744 899**

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

Movements experienced during the years 2014 and 2013 under the heading of debt securities - notes are as follows:

	Thousands of euros	
	2014	**2013**
Balance at beginning of the year	18 228	181 042
Issues	-	118 500
Amortizations and depreciations	(18 228)	(281 314)
Balance at the end of the year	**-**	**18 228**

Movements experienced during the years 2014 and 2013 under the heading of debt securities - Bonds and obligations are shown below:

	Thousands of euros	
	2014	**2013**
Balance at beginning of the year	62 380 255	69 544 301
Issues	13 021 254	9 650 201
Amortizations and depreciations	(22 506 734)	(16 814 247)
Balance at the end of the year	**52 894 775**	**62 380 255**

19.5 Promissory notes and other securities

The breakdown of the heading “Promissory notes and other securities”, based on the nominal amount of the securities and their amortization periods, is set out below at 31 December 2014 and 2013

	Thousands of euros	
	2014	**2013**
Up 1 year	**-**	**18 228**
From 1 to 2 years	**-**	**-**
From 2 to 3 years	**-**	**-**
From 3 to 4 years	**-**	**-**
From 4 to 5 years	**-**	**-**
More than 5 years	**-**	**-**
	-	**18 228**

The financial cost of promissory notes and other securities in 2014 and 2013 increased up to 24 thousand euros and 1,249 thousand euros, respectively, recognized under “Interest and similar charges – Promissory notes of Deposits represented by marketable securities” on the income statement (see Note 26).

19.6 Bonds and debentures issued

Set out below are the main characteristics of the debenture issues outstanding at 31 December 2014 and 2013, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues					Thousands of Euros	
2014	**2013**	**Currency**	**Redemption date**	**Annual interest rate**	**2014**	**2013**
8	8	Norwegian crone	Until 2021	4.28 to 5.36	435 798	471 180
1	1	Australian dollar	Until 2014	6.13	-	194 516
2	2	Canada dollar	Until 2020	4.53 to 5.00	462 206	443 051
1	1	New Zealand dollar	Until 2015	6.375	96 618	89 488
23	30	US dollar	Until 2020	Several	3 390 696	2 434 829
236	249	Euro	Until 2032	Several	46 230 369	55 954 978
7	7	Swiss franc	Until 2024	2 to 3.25	973 129	953 158
2	6	British pound	Until 2017	Several	353 584	683 215
15	15	Yen	Until 2030	0.52 to 2.9	952 375	1 155 840
					52 894 775	**62 380 255**

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

In 2014 the total financial cost of debenture loans in both Euros and foreign currency recorded under the heading "Interest and similar charges for debenture loans and other negotiable securities" in the income statement was 2,283,693 thousand euros, which is an annual average interest rate of 4.09% (2.97% with accounting hedges). In 2013 financial costs amounted 2,749,117 thousand euros, which was an average annual interest rate of 4.11% (2.99% with accounting hedges) (Note 26).

19.7 Other financial liabilities

An analysis of the balances of this caption in the balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
Grants	2 649	2 708
Treasury Funds	1 790 990	2 964 068
Other items	307 810	411 829
	2 101 449	**3 378 605**

At 31 December 2014 "Other items" mainly include, an amount of 5,687 thousand euros corresponding to political and economic operations (6,424 thousand euros at 31 December 2013), the amount of 493 thousand euros due to the recovering of pending-to-be-capitalized operations, as it is said in Additional Provision Eleventh of the Law 24/2001 (at December 31, 2013 an amount of 479 thousand euros), an amount of 12,570 thousand euros corresponding to the accrual of financial guarantees (10,947 thousand euros at 31st December 2013).

It is also included in the account “ Other concepts”, at 31st December 2014, the amount of 248,653 thousand euros, related to the creation of the Technological Fund ICO- Innovation 2013-2015, specifically designed to finance mediation lines which are orientated to small and autonomous business as well as to the FEDER. In December 2013, the Operative Programme FEDER, of I+D +I was approved to allow firms to benefit from the Technological Fund 2013-2015, through the C Decision(2007) 6316. The General Management of Community Funds from the Treasury and Public administrations is the one that manages the Plan in Spain. This programme offers the possibility to use financial instruments like ICO Innovación Fondo Tecnológico 2013-2015, in order to manage one part of the Fund. With this instrument, it starts a confinanced action with FEDER, oriented to facilitate the access to finance innovative firms.

“Treasury funds” includes funds received by ICO and repayable under the attaching terms of each:

- FOMIT - Renove Turismo: fund for the upgrade of tourism infrastructure.
- Avanza: fund for the access to new technologies
- Préstamos Renta Universidad: fund for access to university studies.
- DGT Carnet de conducir: fund for the access to driver's license.
- Plan Vive, renewal of Spain’s automobile fleet.
- Línea FuturE: fund for sustainable projects in the tourism sector.

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

The funds associated with the most important lines are:

- Línea FOMIT – 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 Avanzada (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 Plan Vive: is designated to make easier to change vehicles with more than 15 years for new ones more efficient.
- Línea FuturE: 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 Credit, loans and discounts (net amounts, less unamortized willing), so that amount plus the balance of the associated current account (which reflects the balance of the above lines) is always equal to the amount received by the Institute for the provisioning of the line.

The balance of those funds at 31 December 2014 and 2013 is set out below:

	Thousands of euros	
	2014	**2013**
FOMIT	450 683	555 189
Avanza	565 914	962 427
Préstamos Renta Universidad	113 949	210 642
Plan Vive	157 807	836 112
FuturE	206 075	350 786
Other	296 562	48 912
	1 790 990	**2 964 068**

20. PROVISIONS

At 31 December 2014 and 2013 the breakdown of the balances recorded under this heading in the accompanying balance sheet is as follows:

	Thousands of euros	
	2014	**2013**
Provisions for pensions and similar obligations	216	196
Provisions for contingent exposures and commitments	24 385	21 410
Other provisions	302 688	263 240
	327 289	**284 846**

Provisions for contingent exposures and commitments

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

Other provisions

An analysis of the balances of this caption in the balance sheets as at 31 December 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
Royal Decree – Law12/1995 Fund	90 740	90 241
Provision for Special Loan Liquidity Line (Note 9.1.2)	152 822	114 964
Fund for amounts recovered from BBVA	800	1 000
Fund Prestige Facility	13 038	13 590
Fund to compensate AIE shareholdings results (Note 9.2)	20 271	22 818
Contingency fund	23 336	19 164
Other funds	1 681	1 463
	302 688	**263 240**

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 Fourth 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 12/95 for any defaults arising during the course of its business, provided that they did not receive any specific coverage in the General State Budgets. This Fund was created in 1996 under the heading "Other Provisions".

Those loans or transactions that, in view of the relevant terms and conditions, require the 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 2014 and 2013 amounted to 16,201 thousand euros and 25,342 thousand euros, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2014 and 2013, amounted to 779 thousand euros and 3,077 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.

In 2014 allocations were made of 3,048 thousand euros, directly from the Estate, to the mediation line “Forum Afinsa” , following the Ministry Council agreement of 27 April 2007(2,853 thousand euros in 2013)

Movements in 2014 and 2013 in this fund recorded under "Other Provisions" in the balance sheet at 31 December 2014 and 2013 are as follows:

	Thousands of euros
Balance as at January 1, 2013	**120 772**
Capitalisation of interest	3 077
Contributions by the State	2 853
Loan recoveries (principal and interest)	25 342
Applications	(61 803)
Balance as at December 31, 2013	**90 241**
Capitalisation of interest	779
Contributions by the State	3 048
Loan recoveries (principal and interest)	16 202
Applications	(19 530)
Balance as at December 31, 2014	**90 740**

Funds 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 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 800 thousand euros and 1,000 thousand euros at 31 December 2014 and 2013, 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 12/95 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 results includes the provision in order to adjust its profit to the transactions performance conducted through the Economic Interest Groupings (Note 9). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of 677 thousand euros and 1,536 thousand euros, respectively in the years 2014 and 2013 (Note 23). During the year 2014, 1,869 thousand euros from this provision, have been used to eliminate the corresponding investments, once the AIEs have been dissolved, as it was established in calendars. (29,834 thousand euros at 2013)

Contingency fund

This heading was created in 2010 and includes a generic provision for general contingencies (including operational risk), with a balance of 23,336 thousand euros at December 31, 2014 (19,164 thousand euros at 31 December 2013).

Movements in 2014 and 2013 in the provisions recorded under these balance sheet headings at 31 December 2014 and 2013:

	Thousands of euros				
	Provisions for taxes	**Fund for pension**	**Provisions for contingent exposures and commitments**	**Other provisions**	**Total**
Balance as at January 1,2013	**-**	**124**	**26 158**	**279 064**	**305 346**
Net allocation[(1)]	-	72	2 009	86 345	88 426
Recoveries	-	-	(6 757)	-	(6 757)
Application of funds	-	-	-	(102 495)	(102 495)
Transfers and other movements [(2)]	-	-	-	326	326
Exchange differences	-	-	-	-	-
Balance as at December 31,2013	**-**	**196**	**21 410**	**263 240**	**284 846**
Net allocation[(1)]	-	20	4 985	51 747	56 752
Recoveries	-	-	(2 010)	-	(2 010)
Application of funds	-	-	-	(12 401)	(12 401)
Transfers and other movements [(2)]	-	-	44	102	146
Exchange differences	-	-	-	-	-
Balance as at December 31,2014	**-**	**216**	**24 385**	**302 688**	**327 289**

(1) Net charges to profit and loss account in the 2014, include the amount of 779 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(3,077 thousand euros in 2013).The figure also includes a provision charge for ICO's liquidity lines with ICO risk (see Note 9.1.2.) amounting to 45,747 thousand euros (63,940 thousand euros in 2013) and an allocation to the contingency fund of 4,172 thousand euros (19,164 thousand euros at 31 December 2013).

(2) Transfers and other movements at 31 December 2014 are related mainly to the Fund to compensate AIE shareholding results, (677 thousand euros, Note 23) and to other reclassifications (574 thousand euros) due to an equity contribution for a BBVA's products recovery (DA 11ª Law 24/2001, 27th December). At 31 December 2013, movements are related also to the Fund to compensate AIE shareholding results, amounting to 1,536 thousand euros and to other reclassifications (1,862 thousand euros).

21. VALUATION ADJUSTMENTS

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

	Thousands of euros					
	2014			**2013**		
	Gross	**Tax effect (Note 16)**	**Net**	**Gross**	**Tax effect (Note 16)**	**Net**
Available-for-sale financial assets	6 319	(1 896)	4 423	(3 511)	1 053	(2 458)
Cash flow hedging	(25 099)	7 530	(17 569)	(74 231)	22 269	(51 962)
TOTAL	**(18 780)**	**5 634**	**(13 146)**	**(77 742)**	**23 322**	**(54 420)**

The balance of this heading relates to the account "Available-for-sale financial assets" and "Valuation adjustments - Cash flow hedging" 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	
	2014	**2013**
Opening balance	(54 420)	69 862
Change in fair value of available – for – sale financial assets (Note 8)	6 881	(20 371)
Cash flow hedges	34 393	(103 911)
Closing balance	**(13 146)**	**(54 420)**

22. OWN FUNDS

The reconciliation of the opening and closing carrying value in 2014 and 2013 of the heading "EQUITY" in the balance sheets:

	Thousands of euros				
	Share	**Restatement reserves**	**Other reserves**	**Results**	**Total**
Balance as at January 1,2013	**3 230 234**	**27 233**	**765 377**	**64 071**	**4 086 915**
Distribution of results	-	-	64 071	(64 071)	-
Other increases in reserves	-	(910)	910	-	-
Result for the year	-	-	-	79 040	79 040
Other movements	379 621	-	320	-	379 941
Balance as at December 31,2013	**3 609 855**	**26 323**	**830 678**	**79 040**	**4 545 896**
Distribution of results	-	-	35 616	(79 040)	(43 424)
Other increases in reserves	-	(911)	911	-	-
Result for the year	-	-	-	80 739	80 739
Other movements	351 038	-	5 573	-	356 611
		-			
Balance as at December 31,2014	**3 960 893**	**25 412**	**872 778**	**80 739**	**4 939 822**

Other movements include mainly the following:

- Contribution of 350,000 thousand euros by charging to the budgetary item 15.16.931 M.871 of General State Budget Law 22/2013, of 23 December, authorized in order to increase the Institute's equity (378,136 thousand euros as of December 31, 2013, General State Budget Law 17/2012 of 27 December).

- Based on the eleventh additional provision of Law 24/2001, of 27 December, on fiscal, administrative and social measures, the amounts recovered after the cancellation of debt owed by the State with ICO as a result of certain loans and guarantees granted by the former official credit entities and by the Institute. The contribution to Equity in this connection amounted to 1,038 thousand euros in 2014 (1,485 thousand euros in 2013).

22.1 Reserves in fully or proportionally consolidated companies

Set out below is the breakdown by consolidated company of balances under equity "EQUITY - Reserves - Accumulated Reserves" in the consolidated balance sheets at 31 December 2014 and

2013, in the part of that balance which has arisen on consolidation, analyzed for fully and proportionally consolidated companies in the consolidated financial statements:

	Thousands of euros	
	2014	**2013**
AXIS Participaciones Empresariales, S.A.	13 358	9 904
Instituto de Crédito Oficial	849 267	812 740
	862 625	**822 644**

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

“Equity - Reserves" regarding Reserves in companies carried under the equity method in the consolidated balance sheets at 31 December 2014 and 2013, in the part of that balance which has arisen on consolidation process, analyzed for each company carried under the equity method in the consolidated financial statements:

	Thousands of euros	
	2014	**2013**
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	10 052	7 950
CERSA, Compañía Española de Reafianzamiento, S.A	(44)	(44)
Other entities	145	128
	10 153	**8 034**

23. TAX SITUATION

The balance sheet at 31 December 2014 and 2013 includes, within the heading "Tax liabilities" the liability related to applicable taxes.

The Institute was exempt from corporate income tax in the years 1993 through 1996, in accordance with Royal Decree Law 3/1993, of 26 February 1993, on urgent budgetary, tax, financial and employment measures. In accordance with the provisions of Transitional Provision Thirteen of Law 43/1995 (27 December) on corporate income tax, the Institute was exempted from this tax in 1997 and 1998 and became liable to general corporate income tax as from 1999.

The reconciliation of the accounting Institute's profit, as the Parent firm of the Group, for 2014 and 2013 with the corporate income tax base is as follows:

	Thousands of euros	
	2014	**2013**
Book profit before income tax	104 700	101 075
Permanent differences		
Externalisation of pension commitments	-	-
Foreign taxes paid	573	686
Tax-loss carry forwards attributed to invested companies	1 328	4 484
Monetary adjustment due to the sale of assets	-	-
Adjustment to the measurement of derivatives	-	-
	106 601	106 245
Temporary differences:		
Due to impairment losses and provision non-deductible	427 593	416 571
Due to the reversal of temporary differences arising in other years	(271 356)	(198 651)
	156 237	217 920
Tax assessment base	262 838	324 165
Gross tax payable (30%)	78 851	97 250
Deductions and allowances	(380)	(495)
Withholdings and interim payments	(75 879)	(88 852)
Tax payable (Note 16)	**2 592**	**7 903**
Corporate income tax	31 600	31 379
Adjustments for exchange differences	-	-
Other adjustments (Note 13 and 20)	(677)	(1 536)
Corporate income tax	**30 923**	**29 843**

The income tax expense for the year 2014 consolidated income is 33,214 thousand euros, incorporating the amount generated in AXIS (2,291 thousand euros).

There are no tax losses available for offset. During the year the losses allocated of the Economic lnterest Groupings in which ICO, the Group's Parent entity, has a differing proportional interest in capital are included (1,328 thousand euros at December 2014 and 4,484 thousand euros at December 2013). 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 lnterest Groupings are closed.

No tax incentive deductions applied in the year 2014 (32 thousand euros in 2013, for professional training expenses). There is an international double tax deduction (taxes borne) amounting to 380 thousand euros and 463 thousand euros respectively. There are no deductions spending inclusion in future year tax assessments. There are no commitments entered into pending the completion of in relation to the tax incentives applied.

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

Taxes and other tax obligations applicable to the Institute since 2010 are open to inspection by the tax authorities.

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

24. FINANCIAL GUARANTEES AND BALANCES DRAWABLE BY THIRD PARTIES

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

This heading breaks down as follows at 31 December 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Contingent risks		
Guarantees and other sureties	1 319 047	1 610 637
	1 319 047	**1 610 637**
Contingent commitments		
Balances drawable by third parties:		
Credit institutions	-	-
The Public Administrations sector	2 265 814	135 941
Other resident sectors	807 106	3 787 420
Non-resident sectors	110 150	439 618
	3 183 070	4 362 979
Other commitments	458 404	464 290
	3 641 474	**4 827 269**

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

25. INTEREST AND SIMILAR INCOME

Interest and similar yields for 2014 and 2013 are broken down below by source:

	Thousands of euros	
	2014	**2013**
Central Banks deposits – Bank of Spain	63	601
Credit institution deposits	1 066 611	1 264 780
Money market transactions	2 671	3 822
Costumer loans	543 461	906 161
Public Administration	245 961	524 164
Resident sector	270 933	339 607
Non resident Public Administration	2 019	-
Non resident sector	24 548	42 390
Debt securities	782 514	781 108
Adjustment of income from accounting hedges	(22 046)	(28 123)
Other interests	302	4 891
Doubtful assets	16 300	12 501
	2 389 876	**2 945 741**

26. INTEREST AND SIMILAR CHARGES

The breakdown of this profit and loss heading during 2014 and 2013 is as follows:

	Thousands of euros	
	2014	**2013**
Deposits from central banks	28 744	112 500
Credit institution deposits	119 604	74 276
Money market transactions	86	100
Customer funds	1 450	34 160
Deposits represented by marketable securities	2 283 717	2 750 366
Promissory notes (Note 19.5)	24	1 249
Other non-convertible securities (Note 19.6)	2 283 693	2 749 117
Adjustment of expenses owing to hedging operations	(622 597)	(753 129)
	1 811 004	**2 218 273**

27. RETURN ON EQUITY INSTRUMENTS

All yields obtained due to this concept correspond to the Equity portfolio, ascending in 2014 and in 2013 up to 568 thousand euros and 2,761 thousand euros, respectively. In the 2013 amount, it is included a capital gain that comes from the sale of part of the shares from the Institute (2,744 thousand euros).

28. RESULTS FROM VALUED ENTITIES THROUGH THE PARTICIPATION METHOD

The total amount regarding this heading, registered in the consolidated gains and losses account from years 2014 and 2013, increases up to 1,616 thousand euros and 2,793 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 2014 and 2013.

29. FEES AND COMMISSIONS INCOME AND EXPENSES

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

	Thousands of euros	
	2014	**2013**
Commissions received		
Contingent risks	2 987	2 661
Availability commissions	5 404	8 976
Collection and payment services	-	14
Other commissions	27 820	79 422
	36 211	**91 073**
Commissions paid		
Signature risks	(1 385)	(947)
Other commissions	(24 999)	(23 221)
	(26 384)	**(24 168)**
Net commissions for the year	**9 827**	**66 905**

The heading “Other commissions paid”, at December 31, 2014, includes 5,000 thousand euros relative to commissions for the management of EECC and FLA (35,656 thousand euros at 31 December 2013).

30. GAIN OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

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

	Thousands of euros	
	2014	**2013**
Hedging derivatives (Note 7)	(26 178)	25 214
Available-for-sale financial assets (Note 8)	6 665	-
Loans and receivables (Note 9.2)	(17 227)	-
	(36 740)	**25 214**

31. PERSONNEL EXPENSES

The composition of this income statement heading is as follows in 2014 and 2013:

	Thousands of euros	
	2014	**2013**
Wages and salaries	14 670	14 354
Staff welfare expenses	3 635	3 364
Other expenses	1 475	1 537
	19 780	**19 255**

The number of employees at 31 December 2014 and 2013, by professional category and sex, was as follows:

	Distribution of employees			
	Men		**Women**	
	2014	**2013**	**2014**	**2013**
Management	10	9	5	6
Managers and technicians	115	107	150	140
Administrative staff	10	10	50	55
	135	**126**	**205**	**201**

The average number of employees at the Institute in 2014 and 2013, by professional category and location, was as follows:

	Average distribution of employees			
	Men		**Women**	
	2014	**2013**	**2014**	**2013**
Management	10	9	6	6
Managers and technicians	111	106	145	141
Administrative staff	10	10	53	53
	131	**125**	**204**	**200**

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.

Remuneration and other benefits for the General Council

In 2014 and 2013 the Institute recorded in Income Statement 106 thousand euros and 115 thousand euros, respectively, in respect of remuneration accrued by the members of the General Council 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 2014 and 2013 are as follows (thousands of euros):

Year 2014	Salaries and wages			
Number of Employees (*)	**Fixed**	**Variable**	**Other wages**	**Total**
6	533	77	3	613

(*)During 2014 there was a substitution as President of the “Instituto”

Year 2013

	Salaries and wages			
Number of Employees	**Fixed**	**Variable**	**Other wages**	**Total**
5	538	70	2	610

At December 31, 2014 and 2013 there were no loans granted to the executive members of the Institute's General Council. At December 31, 2014 loans granted under internal regulations on loans to staff, had an outstanding amount of 20,345 thousand euros and the average interest rate was 2.51% (20,601 thousand euros at 31 December 2013, with an average interest rate of 2.52%).

In addition, at that date no pension or life insurance obligations had been acquired with respect to current or former members of the General Council.

32. OTHER ADMINISTRATIVE EXPENSES

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

	Thousands of euros	
	2014	**2013**
Buildings, installations and materials	1 080	1 056
Computers	2 813	2 873
Communications	1 616	1 617
Advertising and publicity	974	1 025
Rates and taxes	1 196	1 265
Other general administrative expenses	7 169	6 014
	14 848	**13 850**

Audit expenses

The annual accounts audit, has been made by the General Intervention of the State Administration (IGAE 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 2014 and 2013 financial statements) for non-audit services in 2014 and 2013 are detailed in the following chart:

	Thousand euros			
	Audit		**Other**	
	2014	**2013**	**2014**	**2013**
ICO	-	-	105	50
COFIDES (1)	33	33	27	6
AXIS (2)	12	12	40	7
	45	**45**	**172**	**63**

(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.

33. OTHER OPERATING INCOME

The breakdown of this item in the income statement is as follows:

	Thousands of euros	
	2014	**2013**
Operating income from investment property	1 188	902
Other items	1 211	1 558
	2 399	**2 460**

"Other items" includes mainly expenses recovered from the return of surpluses and advances made through BBVA's asset management.

Other operating expenses

	Thousands of euros	
	2014	**2013**
Operating expenses: Other concepts	-	(20)
	-	**(20)**

34. FAIR VALUE

As mentioned above, financial assets are recorded on the balance sheet at fair value, except for credit, loans and discounts and equity instruments whose market value cannot be estimated reliably.

In the same way, financial liabilities are recorded on the balance sheet at amortized cost, except those included in the trading portfolio.

Part of the assets registered under “credit investments” and liabilities registered under the heading “Financial Liabilities at amortized cost”, from the consolidated balance at 31 December 2014 and 2013, 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.

Of the total amount recorded under the heading Credit, loans and discounts and financial liabilities at amortized cost, amounting to 8,939,741 thousand euros and 4,550,000 thousand euros, respectively, at December 31 of 2014 (10,502,350 thousand euros and 2,350,213 thousand euros at December 31, 2013) are related to assets and liabilities linked to a fixed ratio. The fair value of these has been obtained using a weighted average maturity and a weighted average rate through which it has proceeded to calculate the fair value using discount flows. The value calculated for these operations at December 31, 2014 and 2013 is as follows:

	Thousands of euros			
	Book value		**Fair value**	
	2014	**2013**	**2014**	**2013**
ASSETS				
Credit, loans and discounts				
Deposits at credit institutions	7 724 034	8 920 353	12 334 962	11 517 702
Customer loans	1 215 707	1 581 997	1 630 600	1 798 795
LIABILITIES				
Financial liabilities at amortized cost				
Credit institutions deposits	4 550 000	2 350 213	5 535 700	2 671 632

35. OPERATIONS WITH SUBSIDIARIES, JOINTLY CONTROL ENTITIES AND ASSOCIATES

The balance at December 2014 and 2013 of the Company related to the Subsidiaries, Jointly Control Entities and Associates is as follows:

CERSA

Deposits to customers (financial liabilities at amortized cost): 28,343 thousand euros at 31 December 2014 (47,543 thousand euros at 31 December 2013).

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MANAGEMENT REPORT

Financial Backdrop

During 2014, the recovery of the Spanish economy began in mid-last year was gaining momentum, supported by strengthening domestic demand and sustained progress in exports, thanks to improvements in competitiveness. GDP grew throughout the year by 1.4%, after a decline of 1.2% in 2013, in a context of increased confidence, improving labor market and easing of financial conditions. In addition, the acceleration of Spanish GDP growth was supported in the second half of the year by two main factors, the depreciation of the euro and the reduction in oil prices, which will probably continue to exert a positive effect on activity in 2015.

The most dynamic growth in Spain over the past year occurred despite the loss of strength of the recovery in the Eurozone especially in the last quarter, which was accompanied by a decline in inflation to remote lows target of 2%. The weak activity in the euro area as a whole, together with the moderate slowdown in emerging economies, reduced the prospects for recovery of the global economy expanding differences in growth by geographical area and orientation of monetary policy major advanced economies. Thus, in the Eurozone the European Central Bank (ECB) adopted a more expansionary monetary policy to deal with the risk of deflation, encouraging credit and revive economic growth. Additionally, the European Commission presented the European Investment Plan for a period of three years (2015-2017) amounting to 315,000 million euros, which may be input from public and private capital, in order to encourage investment in strategic projects infrastructure, education, research, innovation, renewable energy and energy efficiency.

The monetary stimulus measures taken by the ECB, both conventional and unconventional character, contributed to improving financing conditions and gradually reduce the financial fragmentation in the whole of the eurozone. Specifically, the monetary authority cut in June and then in September, the interest rate of the main refinancing operations to lows of 0.05%, the credit facility to 0.30% and introduced a negative type interest for the deposit facility at 0.20% placing. In the unconventional field, in June announced a new program Long term Financing Transactions specific which objective was to improve bank lending to the private sector (TLTRO, for its acronym in English) and in September a purchase program guaranteed bank bonds (CBPP3) and a program of acquisition of asset backed securities (ABSPP). Finally, at the end of the year announced its intention to expand the balance to the levels of early 2012.

In this context, financial markets remained generally a well performance except for some occasional bouts of volatility related to doubts about the growth of the global economy and geopolitical factors. In the European debt markets yields fell to very low levels. As an example, the interest rate of the Spanish 10-year bond reached the end of year lows 1.61% approaching risk premium to 100 basis points, compared with levels of 4.1% and 220 p.b. earlier this year respectively.

In Spain, the improved conditions in financial markets was reflected in a reduction of the cost of bank lending to companies and households. The relaxation of the conditions of supply with higher demand for credit as the ECB Survey of Bank Loans, was a true on-year increase in the volume of new credit operations. Additionally, in a context of greater buoyancy of activity, a decrease in the default rate for the entire financial sector was seen to stand at 12.5% in December from elevated levels greater than 13% at the end of 2013 and the first months of 2014.

In the case of credit to new non-financial corporations, interest rate transactions involving less than one million euros (proxy of loans to SMEs) fell in 2014 96 p.b. compared to the levels of December 2013 to stand at 3.87%, while the amount of such transactions increased in the year to 8.6% year to year. Meanwhile, total financing companies (including loans to resident credit institutions, debt securities and loans from abroad) continued to decline over the past year by 3.4% over the previous year levels.

Moreover, further progress in the process of European Banking Union were held in 2014. Following the publication in October of the global evaluation of European bank balance sheets in the Spanish financial sector showed favorable results, entered, in November the Unified Monitoring Mechanism (MUS) assuming the ECB the function of banking supervision area eur. Since then, the ECB has direct supervision over entities considered significant, a total of 120 in the whole Euro Zone representing about 85% of the total assets of the banking sector, 15 of which are Spanish and involving more 90% of the assets of Spanish deposit institutions.

In conclusion, the Spanish economy strengthened the recovery process during 2014 and progressed in correcting major imbalances, showing great strength against the worsening international situation, thanks to the reforms, improvements in competitiveness achieved, the growing confidence and progress towards normalization of financial conditions, in a context of further progress towards European Union Banking.

Activity

In 2014, through mediation lines, ICO has granted 21,468,935 thousand euros in 298,799 operations to SMES and autonomous. The granted volume this year has supposed a significant increase (55%) respect to 2013, and the largest amount distributed by these lines in its 20 year history.

ICO finance is oriented to micro firms and freelances (62%), and most of the loans are lower than 25,000 euros (51%), showing the spectrum of the ICO loans, which are issued also to very small firms.

Principal mediation lines have been 'ICO- Empresas y Emprendedores' and 'ICO- Internalización', which acumulate a 99.5% of the total yearley operations.

- Changed to the ICO-Empresas y Emprendedores Line, they have been granted 231.652 operations for an amount of 16,165,423 thousand euros.

- Also, through the ICO internacionalización and ICO exports at short term, they have been formalized 5,188,634 thousand euros in loans to 65,742 freelances and SMES, in order to promote projects for the abroad expansion and the export activity in Spanish firms. These lines are those that have experienced higher growth, namely the short term Exporters ICO-line grew by 242% over 2013.

Apart from the mediation lines, ICO during 2014, has granted direct finance, for an amount of 495,581 thousand euros, to finance large investment projects of Spanish companies.

With all of the above, the Institute has kept gaining weight during 2014 inside the spanish credit entities group: At the end of the year, the alive credit amount, to firms with a deadline higher than a year, is 11.7% of the total.

Moreover, the Institute grants endorsements and manages funds instructed by the Government. The amount of these funds has experienced an increase of 29% compared to 2013, reaching a volume of 104,440,373 thousand euros.

- FLA, in which the ICO acts as financial manager, presents an alive amount, at the end of the 2014, of 62,442,317 thousand euros.

- Payment of Suppliers financing fund: The total amount of this fund at the end of the year increases up to 33,842,452 thousand euros, which supposes an increment of 2% respect the previous year.

- Estate Funds for the internationalization: the alive amount of this portfolio (CARI, FIEM, and FONPRODE), at closing is 8,155,604 thousand euros.

In order to carry out the credit activity, during 2014, the ICO has catch finance for an amount of 10,174,400 million euros. From this, the 65% has been obtained through the issues in the capital makets. The other 35% was caught through loans coming from multilateral organizations. The latest loans increased by 55% over the previous year.

In 2014 there have been realized an important effort in order to achieve a bigger diversification in the investor base; so, a 70% of the issues have been located between foreign investors, against a 47% from 2013.

Moreover, the Institure has caught finance for the short term for an amount of 1.448.000 thousand euros, in order to attend to credit activity for deadlines lower than 1 year.

Another of the principal strategic actuation line, made by the ICO Group in this period, has been the launch of three new convocations FON-ICO Global.

This capital risk fund, managed by AXIS, the credit risk management entity for the ICO group, has a grant of 1.200.000 thousand euros, and it is the first Spanish public " Fund of Funds".

Balance

At 31 December 2014, the alive amount from the credit investment, without including accruals and valuation adjustments, increased up to 66.226.613 thousand euros, a 15% less than the one registered on 2013.

This decrease in the balance of loans included the reduction of the outstanding balance of the 2012 funding line to the regions to meet the maturities of its debt (3,261,234 thousand euros) and the financing granted to the Fund Provider Payment (1,064,476 thousand euros).

In line with the stabilization of financial markets, the ICO is reducing the financial portfolio that allowed them to mitigate risks arising from market disruption. At the end of 2014, the outstanding balance of this portfolio (both maturity and available for sale) is 14,539,157 thousand euros compared to 21,556,806 thousand euros in 2013.

External resources to the ICO, without accruals and valuation adjustments, increase up to 75.651.679 thousand euros at the end of 2014, which supposes a 90% of the balance.

Institute's Equity, has been increased in a 10% in 2014, mainly because of the capital contribution made by the Estate of an amount of 350.000 thousand euros and which locates the solvency rate of the ICO in 23,85%, higher than the minimum regulated.

Risk management Policy

The actions developed by the Institute regarding credit risk, liquidity, market and operational management, are described in the Note 5.3, corresponding to the Annual Account Memo.

Results

The interest margins achieved by the ICO in 2014, was 578,794 thousand euros and the gross margin locates in 550,934 thousand euros.

Operating expenses stood at 37,071 thousand euros, roughly in line with the previous year (0.2%). As a result, the efficiency ratio of the "Instituto" was 6.73% at year end.

Result before provisions achieves an amount of 513,863 thousand years, which has allowed the Institute to make net contributions of provisions of 409,723 thousand euros, and achieve a high cover for the doubtful loans at 141%. At closing, the morosity ratio was 7%, lower than the Spanish Financial entities sector average.

Even the important amount contributed to provision, the benefit before taxes at closing, 104.700 thousand euros, has been a 3.6% greater than the one achieved in 2013.

Research and Development Expenses

Along the year there has not been R+D activity.

Own Actions

Not applicable for the ICO.

Personnel

The average number of employees of the Institute in 2014 is 318, against the 312 from 2013.

Subsequent Events

ICO in 2015 will keep developing the freelances and SMES loan program through different Mediation Lines, specially supporting the internationalization of the Spanish firm, financing external investments and exports.

Another subsequent events are detailed in the point 1.8 of this document.

Appendix I
Shareholding at 31.12.2014 and 31.12.2013
(Direct and indirectly)

The relevant information to the shareholding in associates and subsidiaries on December 31, 2014 and 2013 as follows:

December 31, 2014:

	Address	Activity	% of shareholding Direct	Indirectly	Total	Cost value of the shareholding Gross	Impairment	Net	Entity data Assets	Net Equity	Profit/Loss
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG.RR	24.22%	-	24.22%	34 039	-	34 039	398 276	240 225	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe de Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries Asset management	20.31%	-	20.31%	8 465	-	8 465	105 098	99 806	8 610
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Purchase and leasing of aircraft	50.00%	-	50.00%	2	-	2	287	30	264
						42 506	**-**	**42 506**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investment	100.00%	-	100.00%	1 940	-	1 940	22 011	20 644	5 346
						44 446	-	44 446			

Economic information non audited referred to December 31, 2014

December 31, 2013:

	Address	Activity	% of shareholding Direct	Indirectly	Total	Cost value of the shareholding Gross	Impairment	Net	Entity data Assets	Net Equity	Profit/Loss
Associates											
CERSA, Compañía Española de Reafianzamiento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG.RR	24.15%	-	24.15%	34 039	-	34 039	381 176	216 432	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe de Vergara, 132 - Madrid	Financial support to private projects with interest Spanish carried out in developing countries Asset management	20.23%	-	20.23%	8 465	-	8 465	99 142	94 520	13 677
EFC2E GESTIÓN S.L.	Paseo del Prado, 4 - Madrid	Purchase and leasing of aircraft	50.00%	-	50.00%	2	-	2	564	293	32
						42 506	**-**	**42 506**			
Subsidiaries											
AXIS Participaciones Empresariales Sociedad Gestora de Entidades de Capital Riesgo, S.A.	Los Madrazo, 38 - Madrid	Financial investment	100.00%	-	100.00%	1 940	-	1 940	17 271	16 859	5 015
						44 446	-	44 446			

Economic information non audited referred to December 31, 2013.

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APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014

In accordance with prevailing legislation, the Chairwoman hereby approves the Institute's consolidated financial statements and dependent entities referring to year 2014, the consolidated management report and the Result Distribution Proposal relative to the year 2014, consisting of the documents prior to this page and comprising 109 sheets.

Madrid, March 26th, 2015

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Dª. Irene Garrido Valenzuela
Chairwoman