Auditors´ Report [2009]

AND ANNUAL ACCOUNTS

Instituto de Crédito Oficial

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Auditores, S.L.
Paseo de la Castellana, 43
28046 Madrid
España
Tel.: +34 915 684 400
+34 902 021 111
Fax: +34 913 083 566
www.pwc.com/es

Free translation of the auditor's report originally issued in Spanish on the consolidated annual accounts prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

AUDITORS' REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the General Board of Instituto de Crédito Oficial

We have audited the consolidated annual accounts of Instituto de Crédito Oficial (the Parent Entity) and its subsidiaries (the Group) consisting of the consolidated balance sheet as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Parent Entity's President . Our responsibility is to express an opinion on the consolidated annual accounts as a whole, based on the work performed in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

For comparative purposes and in accordance with Spanish Corporate Law, the Parent Entity's President has presented for each item of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts, the corresponding amounts for the previous year as well as the amounts for 2009. Our opinion refers solely to the 2009 consolidated annual accounts. On 20 April 2009, we issued our audit report on the consolidated annual accounts for 2008, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2009 present fairly, in all material respects, the consolidated financial position of Instituto de Crédito Oficial and its subsidiaries as at 31 December 2009 and the consolidated results of their operations, changes in consolidated net equity and consolidated cash flows for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards as adopted by the European Union, applied on a basis consistent with the preceding year.

The accompanying consolidated Directors' Report for 2009 contains the information that the Parent Entity's President considers relevant to Instituto de Crédito Oficial and its subsidiaries position, the evolution of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the consolidated annual accounts for 2009. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of Instituto de Crédito Oficial and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L. - P° de la Castellana, 43 - 28046 Madrid -

Original in Spanish signed by
Sergio Durá Mañas
Partner

April 16, 2010

PricewaterhouseCoopers Auditores, S.L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

ASSETS	2009	2008
Cash and deposits at central banks (Note 6)	**74,548**	**344,301**
Trading portfolio (Note 7)	**470,686**	**207,751**
Debt securities	-	-
Other equity instruments	-	-
Derivatives held for trading	470,686	207,751
Memorandum item: By way of loan or guarantee	-	-
Other financial assets at fair value with changes in the income statement	**-**	**-**
Available-for-sale financial assets (Note 8)	**1,473,411**	**105,297**
Debt securities	1,365,803	-
Other equity instruments	107,608	105,297
Memorandum item: By way of loan or guarantee	-	-
Credits, loans and discounts (Note 9)	**48,230,234**	**38,305,414**
Deposits at credit institutions	29,383,824	20,503,654
Customer loans	18,846,410	17,794,631
Debt securities	-	7,129
Memorandum item: By way of loan or guarantee	-	-
Held-to-maturity investment portfolio (Note 10)	**7,828,332**	**10,835,342**
Memorandum item: By way of loan or guarantee		-
Adjustments to financial assets due to macro-hedging		**-**
Hedging derivatives(Note 11)	**1,899,625**	**2,711,636**
Non-current assets for sale(Note 12)	**4,332**	**54,225**
Shareholding (Note 13)	**40,090**	**42,600**
Associates	40,090	42,600
Multi-group Entities	-	-
Pension insurance contracts	**-**	**-**
Property, plant and equipment (Note 14)	**104,961**	**106,315**
Fixed Assets	**104,961**	**106,315**
For own use	104,961	106,315
Real estate investments	-	-
Memorandum item: Acquired under finance lease	-	-
Intangible assets (Note 15)	**11,843**	**9,050**
Other intangible assets	11,843	9,050
Tax assets (Note 16)	**216,022**	**242,312**
Current	12,314	213
Deferred	203,708	242,099
Other assets (Note 17)	**2,158**	**5,608**
TOTAL ASSETS	**60,356,242**	**52,969,851**

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

LIABILITIES	2009	2008
Trading portfolio (Note 7)	**409,498**	**64,934**
Derivatives held for trading	409,498	64,934
Other financial liabilities at fair value with changes in the income statement	**-**	**-**
Financial liabilities at amortised cost (Note 19)	**53,598,908**	**44,443,814**
Central bank deposits	-	-
Credit Institution deposits	1,380,235	1,109,772
Customer funds	5,359,316	2,584,178
Debts represented by negotiable securities	43,694,878	39,345,359
Subordinated debt financing	-	-
Other financial liabilities	3,164,479	1,404,505
Adjustments to financial liabilities due to macro-hedging	**-**	**-**
Hedging derivatives (Note 11)	**3,340,704**	**5,823,536**
Liabilities associated with non-current assets for sale	**-**	**-**
Provisions (Note 20)	**250,202**	**207,781**
Provisions for pensions and similar obligations	78	58
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	26,782	26,314
Other provisions	223,342	181,409
Tax liabilities (Note 16)	**37,689**	**45,076**
Current	1,639	16,943
Deferred	36,050	28,133
Other liabilities (Note 18)	**3,119**	**3,940**
Capital classified as financial liabilities	**-**	**-**
TOTAL LIABILITIES	**57,640,120**	**50,589,081**
EQUITY		
Valuation adjustments (Note 21)	**(191,002)**	**(355,432)**
Available-for-sale financial assets	43,150	19,119
Cash-flow hedging	(234,152)	(374,551)
Exchange differences	-	-
Own Funds (Note 22)	**2,907,124**	**2,736,202**
Capital or endowment fund	2,202,729	2,052,096
Share premium	-	-
Reserves	681,918	595,743
Accumulated reserves	681,918	595,743
Retained earnings	-	-
Other equity instruments	-	-
Profit and loss for the period	22,477	88,363
Less: Dividends and remuneration	-	-
TOTAL EQUITY	**2,716,122**	**2,380,770**
TOTAL EQUITY AND LIABILITIES	**60,356,242**	**52,969,851**

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

MEMORANDUM ITEM	2009	2008
Contingent risks (Note 24)	**3,291,927**	**1,311,969**
Financial guarantees	3,291,927	1,311,969
Contingent commitments (Note 24)	**23,781,577**	**11,027,026**
Drawable by third parties	23,198,017	10,888,655
Other commitments	583,560	138,371

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

	2009	2008
Interest and similar income (Note 25)	**1,436,984**	**2,171,066**
Interest and similar charges (Note 26)	**(1,239,583)**	**(1,875,888)**
NET INTEREST INCOME	**197,401**	**295,178**
Return on equity instruments (Note 27)	**468**	**1,236**
Share of results of entities accounted for using the equity method (Note 28)	**(1,307)**	**(1,629)**
Fee and commissions income (Note 29)	**49,154**	**32,243**
Fee and commissions expense (Note 29)	**(5,678)**	**(2,136)**
Gain or losses on financial assets and liabilities (net) (Note 30)	**30,422**	**24,518**
Derivatives held for trading	29,591	14,986
Other	831	9,532
Exchange differences (net) (Note 2.4)	**(3,179)**	**(10)**
Other operating income (Note 33)	**2,538**	**2,119**
Other operating expenses	**-**	**-**
GROSS OPERATING INCOME	**269,819**	**351,519**
Administrative expenses:	**(39,914)**	**(38,958)**
Personnel expenses (Note 31)	(17,352)	(16,714)
Other administrative expenses (Note 32)	(22,562)	(22,244)
Depreciation and amortization	**(3,788)**	**(3,627)**
Tangible assets (Note 14)	(2,809)	(2,718)
Intangible assets (Note 15)	(979)	(909)
Provisions expense (net) (Note 20)	**(49,763)**	**(28)**
Financial asset impairment losses (net)	**(146,999)**	**(186,833)**
Loans and receivables (Note 9)	(146,999)	(163,754)
Other financial instruments not valued al fair value (Notes 8, 10 and 13)	-	(23,079)
NET OPERATING PROFIT	**29,355**	**122,073**
Losses for impairment of other assets (net)	**-**	**(1)**
Goodwill and other intangible assets	-	-
Other assets	-	(1)
Gains/(Losses) on disposal of assets not class as non-current assets held for sale	**4**	**(85)**
Negative difference on business combinations	**-**	**-**
Gains/(Losses) on non-current assets held for sale not classified as discontinued operations	**-**	**42**
PROFIT BEFORE TAX	**29,359**	**122,029**
Income tax (Note 23)	**(6,882)**	**(33,666)**

PROFIT FOR THE PERIOD FROM ONGOING OPERATIONS	**22,477**	**88,363**
CONSOLIDATED NET PROFIT FOR THE YEAR (attributed to the dominant company)	**22,477**	**88,363**
Profit attributable to the parent company	**22,477**	**88,363**
Profit attributable to minority interests	**-**	**-**

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE RECOGNIZED FOR THE YEARS ENDED 31 DECEMBRE 2009 AND 2008
(Expressed in thousand euros)

	2009	2008
Profit for the year	**22,477**	**88,363**
Other income and expenses recognized	**164,430**	**(197,080)**
Available-for-sale financial assets	**24,031**	**3,226**
Profit/loss valuation	24,031	3,226
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Hedging of cash flows	**140,399**	**(200,306)**
Profit/loss valuation	140,399	(200,306)
Amounts transferred to profit and loss account	-	-
Amounts transferred to initial carrying amount of hedged items	-	-
Reclassifications	-	-
Hedges of net investments abroad	**-**	**-**
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 for sale	-	-
Valuation gains	-	-
Amounts transferred to profit and loss account	-	-
Reclassifications	-	-
Gains (losses) in pension actuarial	-	-
Other income and expenses recognized	-	-
Income tax	-	-
TOTAL RECOGNIZED INCOME AND EXPENSES	**186,907**	**(108,717)**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

At December 31,2009	NET ASSETS ATTRIBUTED TO THE PARENT ENTITY SHAREHOLDERS EQUITY												
			RESERVES										
	Capital/ endowment fund	Share pre-mium	Reserves (losses) accumu-lated	Reserves (losses) entities ac-counted by participation method	Other equity instruments	Less: Trea-sury shares	Result attributed to the dominant entity	Less: Divi-dends and remunera-tion	Total Own Funds	Valuation adjust-ments	Total	Minority interests	Total Net Equity
Ending Balance at December 31, 2008	2,052,096	-	600,136	(4,393)	-	-	88,363	-	2,736,202	(355,432)	-	-	2,380,770
Total income and expenses recognized	-	-	-	-	-	-	22,477	-	22,477	164,430	-	-	186,907
Other changes in net worth:	150,633	-	89,992	(3,817)	-	-	(88,363)	-	148,445	-	-	-	148,445
Increases in capital endowment	150,633	-	-	-	-	-	-	-	150,633	-	-	-	150,633
Reductions in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	-	-	-	-	(88,363)	-	(88,363)	-	-	-	(88,363)
Other increases (decreases) in net worth	-	-	89,992	(3,817)	-	-	-	-	86,175	-	-	-	86,175
Ending Balance at December 31, 2009	2,202,729	-	690,128	(8,210)	-	-	22,477	-	2,907,124	(191,002)	-	-	2,716,122

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

At December 31, 2008	NET ASSETS ATTRIBUTED TO THE PARENT ENTITY SHAREHOLDERS EQUITY												
			RESERVES										
	Capital/ endowment fund	Share pre-mium	Reserves (losses) ac-cumulated	Reserves (losses) entities ac-counted by participation method	Other equity instruments	Less: Trea-sury shares	Result attributed to the dominant entity	Less: Dividends and remu-neration	Total Own Funds	Valuation adjust-ments	Total	Minor-ity inter-ests	Total Net Equity
Ending Balance at December 31, 2007	1,629,144	-	517,260	297	-	-	79,188	-	2,225,889	(158,352)	-	-	2,067,537
Total income and expenses recognized	-	-	-	-	-	-	88,363	-	88,363	(197,080)	-	-	(108,717)
Other changes in net worth:	422,952	-	82,876	(4,690)	-	-	(79,188)	-	421,950	-	-	-	421,950
Increases in capital endowment	422,952	-	-	-	-	-	-	-	422,952	-	-	-	422,952
Reductions in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity	-	-	-	-	-	-	(79,188)	-	(79,188)	-	-	-	(79,188)
Other increases (decreases) in net worth	-	-	82,876	(4,690)	-	-	-	-	78,186	-	-	-	78,186
Ending Balance at December 31, 2008	2,052,096	-	600,136	(4,393)	-	-	88,363	-	2,736,202	(355,432)	-	-	2,380,770

CONSOLIDATED CASH-FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

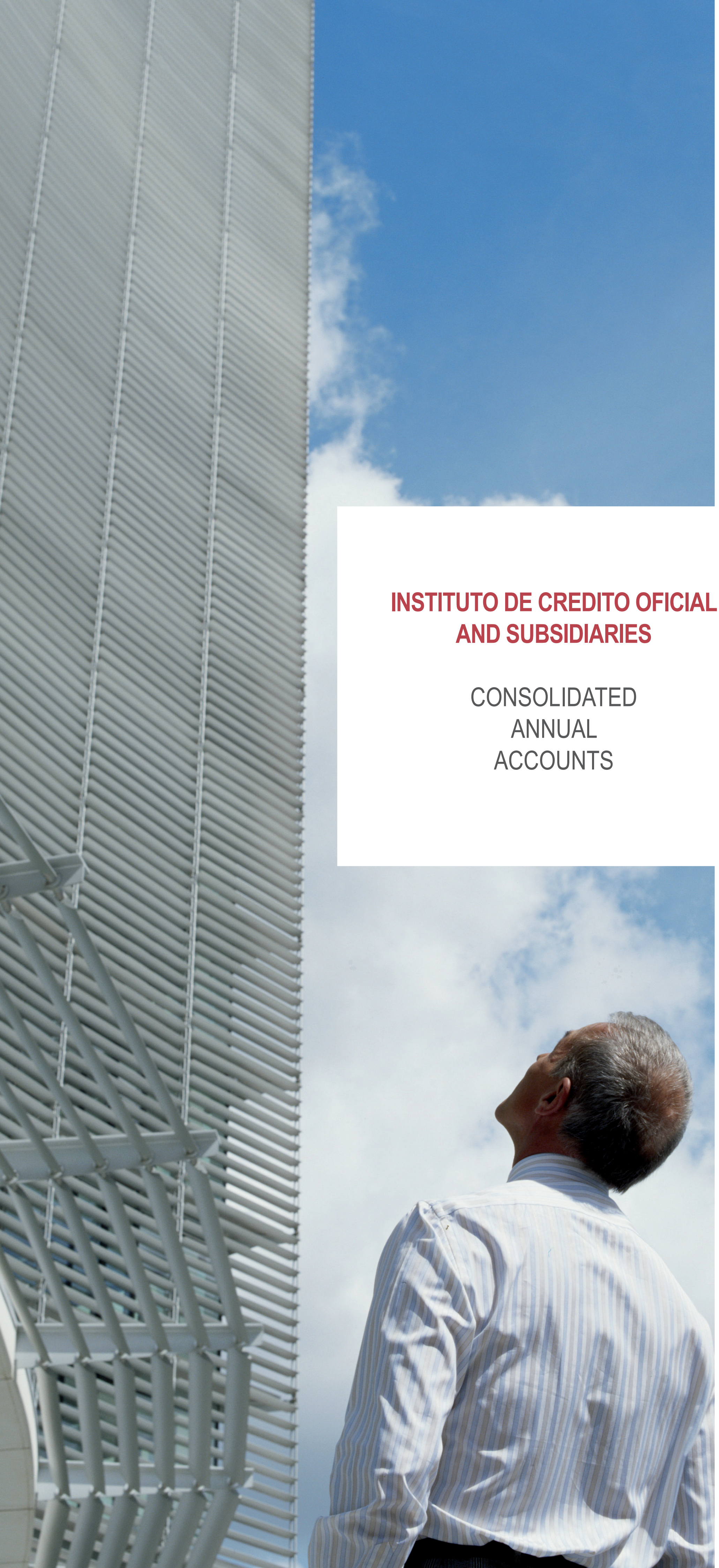
(Expressed in thousand euros)

	2009	2008
A. CASH FLOWS FROM OPERATING ACTIVITIES	**(3,470,341)**	**415,416**
1. Consolidated income for the year	**22,477**	**88,363**
2 Adjustments to result:	**170,262**	**237,133**
Depreciation and amortization	3,788	3,627
Other adjustments	166,474	233,506
3. Net increase/decrease in operating assets	**(10,740,407)**	**(12,573,673)**
Trading portfolio	(262,934)	258,267
Other financial assets at fair value with changes in the income statement	-	-
Available-for-sale financial assets	(1,368,114)	13,702
Credits, loans and discounts	(9,924,821)	(10,538,698)
Other operating assets	815,462	(2,306,944)
4. Net increase/decrease in operating liabilities	**7,058,426**	**12,760,399**
Trading portfolio	344,564	(256,902)
Other financial liabilities at fair value with changes in the income statement	-	-
Financial liabilities at amortised cost	7,395,120	10,828,944
Other operating liabilities	(681,258)	2,188,357
5. Collections/payments for income tax	**18,901**	**(96,806)**
B. CASH FLOWS FROM INVESTMENT ACTIVITIES	**3,049,955**	**(199,367)**
6. Payments	**(8,303)**	**(3,780,670)**
Tangible assets	-	(376)
Intangible assets	(2,793)	(3,050)
Shareholdings	(5,510)	(26,445)
Other business units	-	-
Non-current assets and liabilities associated for sale	-	(80)
Held-to-maturity investment portfolio	-	(3,750,719)
Other payments related to investing activities		
7. Collections	**3,058,258**	**3,581,303**
Tangible assets	1,354	2,467
Intangible assets	-	712
Shareholdings	-	-
Other business units	-	-
Non-current assets and liabilities associated for sale	49,893	41
Held-to-maturity investment portfolio	3,007,011	3,578,083
Other collections related to investing activities	-	-

CONSOLIDATED CASH-FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(Expressed in thousand euros)

	2009	2008
C. CASH FLOWS FROM FINANCING ACTIVITIES	150,633	-
8. Payments	-	-
Dividends	-	-
Subordinated debt financing	-	-
Equity instruments amortizations	-	-
Own equity instruments purchased	-	-
Other finances received	-	-
9. Collections	150,633	-
Subordinated debt financing	-	-
Issue own equity instruments	-	-
Disposal own equity instruments	-	-
Other finances charged	150,633	-
D. EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	(269,753)	216,049
F. CASH OR CASH EQUIVALENTS AT BEGINNING OF THE YEAR	344,301	128,252
G. CASH OR CASH EQUIVALENTS AT END OF THE YEAR	74,548	344,301
MEMORANDUM ITEM	-	-
COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	-	-
Cash	8	133
Cash equivalent balances with central banks	74,540	344,168
Other financial balances	-	-
Less: bank overdrafts repayable	-	-



INSTITUTO DE CREDITO OFICIAL AND SUBSIDIARIES

CONSOLIDATED ANNUAL ACCOUNTS

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Introduction, basis of presentation and other information

1.1 Introduction

The Instituto de Crédito Oficial (hereinafter the Institute or ICO) was created by 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, where it carries out all of its activities and it does not have any office network.

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 and pertains to the Ministry of Finance through the Secretary of State for Finance; it is a credit institution by law and is considered to be a State Finance Agency with its own legal personality, assets and finances, as well as management autonomy to fulfil its purposes.

The Secretary of State for Finance 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 Law 6/1997 (14 April) on the Organisation and Operation of the General State Administration, through Additional Provision Six of Royal Decree-Law 12/1995 (28 December), on Urgent Budget, Tax and Financial Measures, by applicable provisions of the General Budget Act approved by Legislative Royal Decree 1091/1998 (23 September), by its by-laws, 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-laws (Official State Gazette 114 published on 13 May 1999), and any matters not covered by the above are governed by the special legislation applicable to credit institutions and general civil, mercantile and employment legislation.

The Institute's purpose is to sustain and promote economic activities that contribute to growth and the improvement of national wealth distribution and, in particular, all those that are deserving of 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 means to purposes.

The Institute also has the following duties:

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 respect from the Council of Ministers or the Government Commission for Economic Matters.

b) Act as the 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 Finance, 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 former official banks now forming part of Banco de Bilbao Vizcaya Argentaria, S.A. (hereinafter BBVA), by virtue of the Resolution adopted by the Council of Ministers (hereinafter RCM) on 15 January 1993.

2. Reciprocal Interest Adjustment Agreement (hereinafter RIAA). This export support system ensures a yield 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 a payment is made by the Institute to the State, depending on which party is the debtor or creditor, respectively.

3. Development Assistance Fund (hereinafter DAF). It was created in 1976 by Royal Decree-Law 16/1976 and it consists of providing credit to developing countries under conditions that are more favourable than can be provided by the market, with the aim of encouraging Spanish exports. 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 the ICO is reimbursed for the cost of management in accordance with the General State Budget for each year.

4. Fund for granting microloans for social development projects abroad, created in accordance with Article 105 of Law 50/1998 (30 December) on Administrative and Social Order Tax Measures, as a financial instrument through which the Government may attain the funds necessary to grant loans to improve the living conditions of vulnerable populations and the execution of basic social development projects. As is the case with DAF, the Institute acts as a government agent, administrating and accounting for these operations separately from the rest of its activities.

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

The last four types of operations are not included in the accounts kept by the Institute. In this connection, Article 41.3 of Law 46/1985 states as follows: "The structuring and administration of operations charged to the institute will be the responsibility of the Institute and the accounts will be kept separate from the rest of its operations". Additional Provision Fourteen of Law 47/2003 stipulates: "In any event, these funds will be accounted for separate from the accounts relating to the State".

1.2 Basis of presentation of the annual accounts

Since January 1st 2005, the Group presents its consolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Union (hereafter, NIIF-UE) mandatory for those entities that at the time of final balance sheet situation, their values where admitted to trading on a regulated market in any Member State, as established by Regulation 1606/2002 of July 19, European Parliament and Council. Similarly, the consolidated financial statements are presented 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.

As established above the Circular 4/2004, this Circular, by their very nature, serves with both the International Financial Reporting Standards and with the Spanish accounting framework, and will be adapted as the framework evolves over time.

Since the adoption of Circular 4/2004, there have been changes in law and in Spanish NIIF-UE, which affect the accounting. Therefore, Bank of Spain has considered necessary to modify the Circular 4/2004, issuing the Circular 6/2008 in November 26, 2008.

As expressly mentioned in Circular 6/2008, major amendments to Circular 4/2004 concern the definition of credit institutions, public financial statement formats; treatment of financial instruments including guarantees, of pension commitments, payments based on equity instruments and tax benefits, as well as certain information that must be revealed in the memory. Circular 6/2008 also introduces minor changes due to changes in the rules that governs the determination and control of own funds, the information requirements of the European Central Bank, the mortgage market and the national activities classification of economy (NACE).

Accordingly, 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 Accounting Standards (IAS) adopted by the European Union (NIIF-UE) and by Circular 4/2004 of December 22, Bank of Spain, partially modified by Circular 6/2008, November 26, Bank of Spain and with the Commercial Code, the Ley de Sociedades Anónimas or other Spanish legislation that is applicable, so that they present fairly the net worth and financial situation of the Group at 31 December 2009 and the results of its operations, of changes in equity and consolidated cash flows for the year ended on that date.

Standards, amendments and interpretations taking effect in 2009:

In the year 2009 have come into force the following amendments to International Financial Reporting Standards (hereinafter IFRS) or the International Financial Reporting Interpretation Committee (IFRIC).

Standard	Subject
IFRS 2 (Modification)	"Share-based payments"
IFRS 7 (Modification)	"Financial instruments: disclosure"
IFRS 8	"Operating segments"
IAS 1 (Revision)	"Presentation of financial statements"
IAS 23 (Modification)	"Interests costs"
IAS 32 (Modification) and IAS 1 (Modification)	"Financial instruments: Presentation" and "Presentation of Financial Statements" – "Financial Instruments puttable and obligations arising on liquidation"
IFRS 1 (Modification) and IAS 27	"First time adoption IFRS" and "Consolidated and separated financial statements"
IFRIC (Modification) and IAS 39 (Modification)	"Reassessment of embedded derivatives" and "Financial instruments: recognition and measurement"
IFRIC 13	"Customer royalty programs"
IFRIC 16	"Hedges of a net investment in a foreign operation"

The adoption by the Group of these IFRS had no significant impact on the consolidated financial statements.

Information regarding fair value disclosures required by the IFRS 7 are included in Notes 7, 8 and 11.

Standards and amendments and interpretations to existing standards that have not yet taken effect and that the Group has not adopted early

The following standards and interpretations were published on 31 December 2009 by the IASB but have not entered into force because its effective date or for not having been approved by the European Union:

Standard	Mandatory application date	Subject
Project to improve the IFRS (*)	January 1st, 2010	Second annual Project improvements of IFRS (April 2009)
IFRS 1 (Modification) (*)	January 1st, 2010	"Additional exemptions for early adopters"
IFRS 2 (Modification) (*)	January 1st, 2010	"Based payment transactions in shares of the Group cash-settled"
IFRS 3 (Revision)	January 1st, 2010	"Business combinations"
IFRS 5 (Modification)	January 1st, 2010	"Non-current assets held for sale and discontinued operations"
IFRS 9 (*)	January 1st, 2010	"Financial instruments"
IFRS 32 (Modification)	January 1st, 2010	"Classification of emissions rights"
IAS 24	January 1st, 2010	"Disclosure of related party"
IAS 27 (Revision)	January 1st, 2010	"Consolidated and separate financial statements"
IAS 39 (Modification)	January 1st, 2010	"Items that may qualify as covered"
IFRIC 12	January 1st, 2010	"Service contracts"
IFRIC 14 (*)	January 1st, 2010	"Advance payments of the minimum funding"
IFRIC 15	January 1st, 2010	"Agreements for the construction of real estate"
IFRIC 17	January 1st, 2010	"Distribution of non-cash assets to owners"
IFRIC 18	January 1st, 2010	"Transfers of assets from customers"
IFRIC 19 (*)	January 1st, 2010	"Extinction of a financial liability through an equity instrument"

(*) Standards and interpretations not adopted by the European Union at December 31, 2009.

There are not significant accounting standards or principles or mandatory valuation criteria that have not been applied to the preparation of these financial statements. A summary of the accounting principles and standards and the most significant valuation criteria applied to these consolidated financial statements is included in Note 2. The information

contained in these consolidated financial statements is the responsibility of the directors of the Institute.
The consolidated financial statements for the year 2009 of the Group have been prepared by the President of the Institute dated on March the 30, 2010, 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 thousand of euros.

1.3 Responsibility for information and estimates made

The information contained in Group's consolidated annual accounts for the year ended 31 December 2009 and the accompanying Notes to the Consolidated Annual Accounts are the responsibility of the Chairman. When preparing these consolidated annual accounts, at times estimates made by Group has been used to quantify some of the assets, liabilities, income, expenses, and commitments. These estimates relate basically to:

- Impairment losses on certain assets

- Assumptions used in actuarial calculations of liabilities and commitments relating to post-employment benefits and other long-term commitments with employees.

- Useful lives of fixed assets and intangible assets.

- Losses on future obligations deriving from contingent risks.

- The fair value of certain unlisted assets.

These estimates were made based on the best information available at 31 December 2009 in connection with the facts analyses. Nonetheless, future events could generate significant adjustments (upward or downward) in coming years, which would be made prospectively, to recognize the impact of the change in the estimate on the consolidated income statement for the years in question.

1.4 Transfer of assets and liabilities from the former Argentaria

The former 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 also pertained to the first entity, maintains its legal personality.

By virtue of 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.

Furthermore, on 25 March 1993 a management agreement was concluded with the relevant banks regarding the transferred assets and liabilities, which includes both the administration and the adequate accounting for these items in accordance with current banking legislation. The management commissions accrued in 2009 and 2008 totalled €103k and €211k, respectively.

At 31 December 2009 and 2008 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:

Assets and liabilities managed by BBVA	Thousand euros 2009	2008
Credit Institutions	72	72
Loans to Spanish Public Administrations	789	897
Loans to other resident sectors	186	257
Doubtful assets	7,918	13,791
Non-current assets	65	9
Sundry accounts	(71)	(53)
Accrual accounts	1	2
Total assets	**8,960**	**14,975**
Sundry accounts	1,359	1,360
Connection account with ICO	7,591	16,403
Profit for year	10	(2,788)
Total liabilities	**8,960**	**14,975**

The balances of the above accounts relating to 2009 and 2008 do not coincide with the balances included in the Institute's annual accounts at 31 December 2009 and 2008, due to the fact that the latter have only included accounting information up until 30 September 2009 and 30 November 2008, respectively. This accounting information is received from BBVA and the information relating to October, November and December 2009 and December 2008 did not arrive on time to be included in the closing for the year. Nonetheless, the differences in the balances are not significant. Profit for 2009 would have been €76k and the losses for 2008 €62k higher had the balances relating to the months of October, November and December and the month of December been included in the Institute's annual accounts at 31 December 2009 and 2008, respectively.

1.5 Presentation of individual annual accounts

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

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 2009 and 2008, prepared under the same accounting principles and standards as applied by the Group in consolidated accounts:

a) Individual balance sheets at 31 December 2009 and 2008:

	Thousand euros	
	2009	**2008**
Cash and balances with central banks	74,547	344,174
Financial assets held for trading	470,686	207,751
Available-for-sale financial assets	1,473,411	105,297
Loan and receivables	48,226,408	38,298,285
Held-to-maturity investment portfolio	7,824,802	10,835,342
Hedging derivatives	1,899,625	2,711,636
Non-current assets for sale	4,332	54,225
Shareholdings	51,349	50,364
Tangible assets	104,774	106,113
Intangible assets	11,843	9,050
Tax assets	216,022	242,312
Other assets	1,708	4,963
Total assets	**60,359,507**	**52,969,512**
Financial liabilities held for trading	409,498	64,934
Financial liabilities at amortised cost	53,598,908	44,443,814
Hedging derivatives	3,340,704	5,823,536
Provisions	250,202	207,781
Tax liabilities	37,689	45,076
Other liabilities	3,004	3,428
Total liabilities	57,640,005	50,588,569
Valuation adjustments	(191,002)	(355,432)
Own Funds:	2,910,504	2,736,375
Capital or endowment fund	2,202,729	2,052,096
Reserves	684,279	595,556
Profit and loss for the period	23,496	88,723
Total equity	**2,719,502**	**2,380,943**
Total equity and liabilities	**60,359,507**	**52,969,512**
Contingent risks	3,291,927	1,311,969
Contingent commitments	23,781,577	11,027,026
Total memorandum item	**27,073,504**	**12,338,995**

b) Individual income statements for the years ended 31 December 2009 and 2008:

	Thousand euros	
	2009	**2008**
Interest and similar income	1,436,880	2,170,785
Interest and similar charges	(1,239,583)	(1,875,888)
Net interest income	**197,297**	**294,897**
Return on equity instruments	468	1,236
Fee and commissions income	47,721	29,305
Fee and commissions expense	(5,678)	(2,136)
Gain or losses on financial assets and liabilities (net)	30,422	24,518
Exchange differences (net)	(3,179)	(10)
Other operating income	2,538	2,119
Other operating expenses	-	-
Gross operating income	**269,589**	**349,929**
Administrative expenses	(38,794)	(37,604)
Depreciation and amortization	(3,754)	(3,592)
Provisions expenses (net)	(49,763)	(28)
Financial asset impairment losses (net)	(146,999)	(186,791)
Net operating profit	**30,279**	**121,914**
	-	-
Losses for impairment of other assets (net)	-	-
Gains/losses on disposal of assets not class as non-current assets held for sale	(17)	(70)
Negative difference on business combinations	-	-
Gains/losses on non-current assets held for sale not classified as discontinued operations	-	-
Profit before tax	**30,262**	**121,844**
Income tax	(6,766)	(33,121)
Profit for the period from ongoing operations	**23,496**	**88,723**
Profit/Loss from discontinued operations (net)	-	-
Profit for the year	**23,496**	**88,723**

c) Statements of individual income and expense recognized for the years ended 31 December 2009 and 2008:

		Thousand euros
	2009	**2008**
Profit for the year:	**23,496**	**88,723**
Other income and expenses recognized:	**164,430**	**(197,080)**
Available-for-sale financial assets	24,031	3,226
Financial liabilities at fair value with changes in equity	-	-
Hedging of cash flows	140,399	(200,306)
Hedges of net investments abroad	-	-
Exchange differences	-	-
Non-current assets for sale	-	-
Income tax	-	-
Total recognized income and expenses	**187,926**	**(108,357)**

d) Individual statements of changes in equity for the years ended 31 December 2009 and 2008:

At December 31, 2009	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, 2008	2,052,096	-	595,556	-	-	88,723	-	2,736,375	(355,432)	2,380,943
Total income and expenses recognized	-	-	-	-	-	23,496	-	23,496	164,430	187,926
Other changes in net worth:										
Increases in capital endowment	150,633	-	-	-	-	-	-	150,633	-	150,633
Transfers between equity	-	-	88,723	-	-	(88,723)	-	-	-	-
Other increases (decreases) in net worth	-	-	-	-	-	-	-	-	-	-
Total other increases (decreases) in net worth	150,633	-	88,723	-	-	(88,723)	-	150,633	-	150,633
Ending Balance at December 31, 2009	2,202,729	-	684,279	-	-	23,496	-	2,910,504	(191,002)	2,719,502

At December 31, 2008	SHAREHOLDERS EQUITY								VALUATION AD-JUSTMENTS	TOTAL NET EQUITY
	Capital/en-dowment fund	Share premium	Reserves	Other equity instruments	Less: Treasury shares	Profit for the year	Less: Divi-dends and remunera-tion	Total Own Funds		
Ending balance at December 31, 2007	1,629,144	-	513,230	-	-	82,345	-	2,224,719	(158,352)	2,066,367
Total income and expenses recognized	-	-	-	-	-	88,723	-	88,723	(197,080)	(108,357)
Other changes in net worth:										
Increases in capital endowment	422,952	-	-	-	-	-	-	422,952	-	422,952
Transfers between equity	-	-	82,345	-	-	(82,345)	-	-	-	-
Other increases (decreases) in net worth	-	-	(19)	-	-	-	-	(19)	-	(19)
Total other increases (decreases) in net worth	422,952	-	82,326	-	-	(82,345)	-	422,933	-	422,933
Ending balance at December 31, 2008	2,052,096	-	595,556	-	-	88,723	-	2,736,375	(355,432)	2,380,943

e) Individual cash-flow statements for the years ended 31 December 2009 and 2008:

	Thousand euros	
	2009	**2008**
Net cash-flows from operating activities:		
Profit for the year	23,496	88,723
Adjustments for cash flows from operating activities	164,431	225,853
Net increase/decrease in operating assets	(10,743,905)	(12,572,101)
Net increase/decrease in operating liabilities	7,058,826	12,760,139
Collections/payments for income tax	18,898	(96,806)
Net cash flows for investing activities:		
Payments	(3,778)	(3,771,217)
Collections	3,061,772	3,581,474
Net cash flows for financing activities	-	-
Effect of exchange rate fluctuations	-	-
Net increase/decrease in cash or cash equivalents	**(269,627)**	**216,065**
Cash or cash equivalents at beginning of the year	344,174	128,109
Cash or cash equivalents at end of the year	74,547	344,174

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 said Laws.

The Institute considers that the Group has taken appropriate environmental protection and improvement measures and for minimizing, whenever applicable, the environmental impact, and complies with rules enforced in this regard. In 2009 and 2008 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 in connection with 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 Basle Committee on Banking Supervision (known as Basel II), the minimum capital requirements due to credit institutions and their consolidated groups.

The new approach, which contains two new pillars which supports standards that ensure the institutions solvency and stability, aims, among other things, that regulatory requirements were much more sensitive to the business risks, the entities actually bear.

This not only has increased the risks for which coverage is considered relevant, such as operational risk or the possibility of giving them coverage, especially through internal models to measure; it have also grown exponentially, the fundaments and technical requirements underpinning the requirements whose complexity is much higher today than the old Capital Agreement of the Basel Committee. The technical complexity and detail in which the new rules fall, have advised that the mentioned Law and the Royal Decree referred to as standards for its range, enable Bank of Spain, as the supervisor, for the transposition of the Directive in a very large rank. In fact, in many cases, those rules only arbitrate basic principles, letting the Bank of Spain carrying out the development, in many cases, of very large specifications in the article and especially in the various annexes of the Directive.

In addition to the required compliance and consolidated solvency requirements, the new rules incorporate the completion of the requirements at the individual level, both for parents and Spanish subsidiaries. However, the possibility that Bank of Spain may waive this requirement if it meets a number of conditions designed to ensure that own funds are appropriately distributed between the parent and the subsidiaries and that the flows and commitments can move with freedom within the group.

It is also a novelty in Spain the acceptance for credit institutions, of subordinated financing debts within less than five years, as computable equity. This acceptance is only, as the directive 2006/49, with the aim of providing coverage to the requirements of their equities to cover the trading portfolios risks.

It should also noted that, under the freedom of national authorities of deducting certain items from equity which are not considered available to attend business losses and that are not a widespread practice among the countries around us, the computation has been limited, as equities of the group, of shares in subsidiaries that represent minority interests in them, when they exceed certain thresholds of significance and when they come from individual overcapitalized subsidiaries.

Also in development of the admissibleness given by the Royal Decree 216/2008 and according to the agreements that develops Basle II, a strict limit is introduced in basic equities for those shares or preferred shares that incorporate early repayment incentives, for example, "step-up" clauses. Conversely, computing possibilities of that type of instruments are extended, when such instruments contains factors that increases entities capitalization or credit institutions consolidated group, such as mandatory conversion clauses into ordinary shares. All this is to make capital and reserves of credit institutions and their groups be the predominant element of their own equity.

In the minimum equity ratio for credit risk, although the traditional 8% over the risk weighted assets is conserved, the biggest news comes from:

- The possibility of using internal ratings and internal models for calculating the risk weighted exposures and, consequently, the resulting capital requirements. This route is subject of the Bank of Spain express authorization and a detailed set of prudential and technical requirements related primarily to risk management and entity's robust internal controls.

- For those entities that do not use these models and follow the standard method, the Circular sets out the weights to aplicate, and the requirements to be carried out by external rating agencies that are used to determine, in many cases, these weights. These criteria are based primarily on the objectivity, independence, transparency, reputation and continuous updating of the methodology used to define the different grades of risk.

- The tolerated risk reduction techniques expansion and, with extreme detail, its potential impact, particularly in the case of imperfect coverage.

- Specific regulation and technically very complex, of the minimum equity requirements due to the securitization exposures, both to the originator company or any other participant in the securitization process.

Its also new the weighted attributed to mortgage loans where coverage is insufficient, where the amount of the loan exceeds the house value purchased with the loan. The excesses of that amount are considered high risk.

Following the Directive, operational risk equity requirements are incorporated into our regulatory, which are also subject of a detailed regulation in order to identify the different calculation methods and the requirements that entities must meet to obtain the relevant authorization for the use of more advanced risk measurement methods.

The new solvency regulation also includes the setting-up of a supervisory review system in order to promote better entity's internal risk management and ensure the effective correlation between the risks assumed by the entity, including those not directly covered by the settlement. This system also includes an self-evaluation, supervised by Bank of Spain, of the required capital.

In this area, there are also specified the requirements and conditions under which entities can delegate the provision of services or the performance of credit institutions duties, thus providing a consistent treatment between credit and investment services companies which are subject to equivalent standards of norms given in higher rank.

With regard to Pillar 3 of the new Basel Accord, which is dedicated to promote and standardize the market disclosure of relevant information so that it can exercise its discipline, the minimum contents of the document "Prudential relevant Information" that banks are required to publish annually in order to be comparable between entities are determined, and principles on which entity's policy information disclosure should be based is established. Information to disclose is focused on key aspects of its business profile, risk exposure and management thereof.

Updates are minor in other prudential regulation areas, either because the new directive is less innovative, either because they relate to issues such as limits on large exposures, which are still pending review at the EU level.

Lastly, the Circular includes the reserved prudential information that entities and subject groups have to send regularly to Bank of Spain. This information is consistent with the one required under the Single Market, as it responds to a convergence process between the different countries of the European Union.

At December 31, 2009 and 2008, the entity's computable equity, which are calculated in a consolidated basis, exceed the minimum requirements required by the regulation cited in EUR 1,016,167k and EUR 821,696k respectively.

Also, Circular 3/2008 stipulates that net tangible assets and all consolidated groups of credit institutions risks with the same person or economic group, may not exceed certain percentages of equity, also establishing limits on positions in foreign currencies. At December 31, 2009 and 2008, the Entity Group complies with these limits.

At December 31, 2009 and 2008, the Group's computable equity is as follows:

	Thousand euros	
	2009	2008
Basic own funds	**2,851,049**	**2,612,307**
- Capital	2,202,729	2,052,097
- Reserves (*)	648,320	560,210
Second category own funds	**301,452**	**259,618**
- Other reserves (*)	47,057	39,479
- Collective insolvency risk coverage	254,395	220,139
Total computable own funds	**3,152,501**	**2,871,925**
Total minimum own funds	**2,136,334**	**2,050,229**

(*) The total reserves used for the calculation of own resources of the group computable differs from those recorded in the consolidated balance sheet because in the calculation of own funds is given:

- The deduction of basic own funds for intangible assets.
- Corrections to valuation adjustments on financial assets available for sale.

At December 31, 2009 and 2008, the Group's minimum equity most important data is the following:

	2009	2008
Basic own funds ratio	11.51%	10.19%
Second category own funds ratio	1.22%	1.01%
Total own funds ratio	12.73%	11.20%

At December 31, 2009 and 2008, the most important data of the minimal resources of the company are:

	2009	2008
Basic own funds	2,851,049	2,612,307
Risk-weighted	24,763,901	25,627,863
Basic own funds ratio (%)	11.51%	10.20%
Computable equity	3,152,501	2,871,925
Computable equity ratio (%)	12.73%	11.21%
Minimum computable equity ratio (%)	8%	8%

At December 31, 2009 and 2008, ICO´s computable own funds exceeded the minimum requirements by the mentioned standards.

1.7.2 Minimum reserves ratio

In accordance with Monetary Circular 1/1998, of 29 September 1998, that came into effect on 1 January 1999, the ten-year cash ratio was replaced with the minimum reserve ratio.

At 31 December 2009 and 2008, and throughout 2009 and 2008, the Group complied with the minimum ratios required by applicable Spanish regulations.

1.7.3. Capital management

The Institute considers capital management, first and second category computable equity regulated by the solvency legislation (Circular 3 / 2008 Bank of Spain, from May 22, 2008 on identification and control of minimum equity).

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 in 2009 that in 2008 was pending to move the Institute for debts incurred by the State was €10,6 million.

As in previous years, chapter VIII of the General State Budgets for 2010 envisages a new contribution to ICO's equity amounting to €140 million in order to increase the equity of the Institute and adapt it to its activities

In 2010, the Instituto de Crédito Oficial, as a State Financial Agency, has capitalized by government order, new lines of credit to businesses and individuals in order to provide more liquidity to the Spanish credit system and to address other needs within the framework of the Institute objectives. The main lines approved are:

- Línea ICO Inversión Nacional 2010 (combines the old ICO-SME and ICO-Business Growth): this ICO line provides preferential supports and funding for the development of investment projects of freelancers and small and medium-sized Spanish companies.
It is intended for self-employed persons and small and medium enterprises, financing 100% of the investment project and with support for the aid received from the Autonomous Regions and other institutions.

- Línea ICO Inversión Internacional 2010: this line has an interest rate subsidy for the self-employed and small and medium-sized companies, with fewer than 50 employees, with the aim of boosting the output of these companies abroad.

- Línea ICO Emprendedores: this line offers a bonus up to 1,5% to enhance the implementation of new business or professional activities.

- Línea ICO Liquidez 2010: is for self-employed persons, and small and medium-sized companies, with a maximum funding limit of 500 thousand euros per customer per year, in one or more transactions. The part funded by credit institutions will be analyzed by them and the guarantees that must be provided will be based on the applicant`s creditworthiness.

- Línea ICO Vivienda 2010: line aims, among other things, to promote rental housing. ICO may conclude transactions with a credit institution other than the one that initially granted the loan to the developer.

The total amount of the lines amounts to 23,000 million euros. In late December 2009, the ICO and credit institutions that submitted the application for membership of these credit lines firm handled the drafting and funding of contracts.

According to the information received from the Executive Committee of the Government last October 2009, ICO has launched the financial facilitator program with the aim of improving access to credit for self-employed and small and medium-sized companies that have been refused credit requests up to 2 million euros by financial institutions. The facilitator website has been available since December 21st, 2009 and can be accessed through ICO website (www.ico.es). There is also a free customer support line to respond queries from applicants (900 567 777).

Work is underway on a collaborative agreement with the Superior Council of Chambers to allow member Chambers to participate and collaborate on the project.

The process begins when the applicant fills in a formulary that is available on the facilitator website. When the information has been sent electronically, it is evaluated to see if the application is accepted, justifying documentation will then be requested.

If the application is approved it is sent to the credit institution chosen by the applicant from among those that have signed the cooperation agreement with ICO. Once the selected entity accepts the application, it will contact the self-employed individual or company to open the corresponding file.

On December 21st, 2009 ICO signed an agreement with several banks for the implementation of the Sustainable Economy Fund (Fondo de Economía Sostenible), equipped with 20,000 million euros for the years 2010-2011. ICO will provide 10,000 million, the rest will be provided by the financial institutions that have signed the agreement.

1.9 Information per business segment

The Group's principal 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 at the Group is not relevant.

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

2. Accounting principles and policies and measurement methods applied

During the preparation of Group's consolidated annual accounts for the years ended 31 December 2009 and 31 December 2008, the following accounting principles and policies and measurement methods have been applied:

2.1 Shareholdings

2.1.1 Group entities

"Group entities" are those in which the Institute has the capacity to exercise control. This is generally, though not exclusively, reflected by the direct or indirect ownership of at least 50% of the voting rights or, if lower, or where 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' annual accounts 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, parent of the Group, which is 99% of it.

Additionally, third-party interests in the:

• Group's equity are presented in "Minority interests" in the consolidated balance sheet, and there is no balance at 31 December 2009 and 2008.

• Consolidated results for the year are presented in "Surplus attributed to minority interests" in the consolidated income statement, and there is no balance at 31 December 2009 and 2008.

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 to the year end.

Appendix I provides relevant information on these entities which year-end is in all cases December 31st.

2.1.2 Associated entities

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

Shareholdings in "Associated entities" are presented in these annual accounts under the heading "Shareholdings-Associated entities" in the balance sheets and are stated at acquisition costs, net of any impairment that they may have undergone.

The results on the transactions between the associate and Group companies are eliminated in the percentage represented by the Group's interest in the associate.

The results recorded in the year by the associate, following the elimination referred to above, increase or decrease, as appropriate, the value of the relevant shareholding in the consolidated annual accounts. The amount of these results is recorded under "Results in companies carried under the equity method" in the consolidated income statement (Note 28).

The variations in the valuation adjustments of the associate, 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 provides relevant information on these entities.

2.2 Financial Instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Group becomes party to the relevant contract, in accordance with the terms of that contract. Specifically, debt instruments such as loans and deposits in cash are recognised 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 recognised on the date they are 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 recognised at the settlement date, transactions effected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions effected using debt instruments traded in Spanish securities markets are recognised at the settlement date.

2.2.2 Disposal of financial instruments

Financial instruments disposals are recorded in the manner 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., 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, if 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 reposition 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 organised, 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 organised, 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 organised markets.

The fair value of derivatives not traded in organised markets, or traded in organised markets that are not deep or transparent, 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.
Amortised 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 (recognised 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 amortised 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 throughout 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 rate. 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 can not be determined objectively and financial derivatives that have these instruments like its underlying assets and are settled by delivery of them are kept at cost adjusted, where appropriate, for impairment losses 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.

In relation with financial instruments, the 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: the 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 al significant inputs are based on directly or indirectly observable market data.

iii) Level III: fair values are obtained from valuation techniques in which any the significant inputs is 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 on 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 on the effective coverage of the coverage items are temporarily registered under the heading of valuation adjustments 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.

Financial liabilities

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

- Financial liabilities included in epigraphs 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 in relation to the hedged risk covered by the hedge operation.

- Financial derivatives whose underlying asset are equity instruments whose fair value can not be determined in a sufficiently objective and be settled by 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 of 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 part of net equity until liabilities in which their origin are removed of 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 in Note 2.

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 financial instruments classified as trading portfolio and other financial assets and liabilities classified at fair value through the income statement:

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

• Financial liabilities are those liabilities included in the trading portfolio issued in order to be repurchased in the near future or that form part of 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 itself inclusion in this category.

• "Other financial assets or liabilities at fair value with changes in the income statement" are:

- Financial assets that not 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 reducing 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 when it's done, more relevant information is obtained because:

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

- A financial liabilities or financial assets and liabilities group is managed and their performance is evaluated based on their fair value under a risk management or investment information strategy and groups documented information is issued also on the basis 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 outset and at any subsequent date based on the intention and financial capacity to hold them to maturity.

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

- 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, as adjusted for commissions and transaction costs directly attributable to the acquisition of the financial asset and which, under applicable accounting legislation, must be recognised in the consolidated income statement using the effective interest method. Following acquisition, the assets acquired in this category are carried at amortised 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 recognised as financial income, applying the effective interest method during the period to maturity.

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

The interest accrued on the assets included in this category, calculated using the effective interest method, is recognised in the caption "Interest and similar income" in the consolidated income statement. Exchange differences on securities denominated in foreign currency other than the euro included this portfolio are accounted for as mentioned 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, as adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement using the effective interest method defined in applicable accounting legislation, 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 carried at fair value.

Nonetheless, equity instruments whose fair value cannot be determined in a sufficiently objective manner are carried at cost in these annual accounts, net of impairment calculated as explained in Note 2.7.

Balancing entries are made in "Interest and similar income" (calculated using the effective interest method) and "Return on equity instruments - Other equity instruments" in the consolidated income statement, with respect to changes in the fair value of financial assets classed as available for sale, relating 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 accounted for 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 – Measurement adjustments – Available-for-sale financial assets", in the Group's equity, with respect to 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 "Gain/(loss) on financial transactions (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.

The financial liabilities included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the issue of the financial liability, which are recognised in the income statement using the effective interest method, defined in applicable accounting legislation to maturity. Subsequently they are measured at amortised cost, calculated by applying the effective interest rate method defined in applicable accounting legislation.

The interest accrued on these assets, calculated using the effective interest method, is recognised 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 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 classed as non-current assets available for sale, in accordance with the provisions of Rule Thirty Four of Circular 4/2004 of December 22, Bank of Spain, are carried in the consolidated annual accounts 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 can not 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 were to have 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 the year 2009 there has been no reclassification as described above.

d) If as a result of intent or financial capacity 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 type effective interest method over the remaining instrument's life.

During the year 2009 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 purpose 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 recur in the foreseeable future.

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

In these situations, assets reclassification are done at fair value, not reversing the results, and considering this value as their cost or amortized cost, as appropriate. This financial assets reclassification can not be reclassified into Trading portfolio again.

During 2009, 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 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 is sought to cover.

The Group only considers highly effective throughout the hedge term are treated as 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 inception and to the end of the defined hedging period defined, 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 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 referring specifically 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, with respect to the type of risk hedged, are recognised 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 - Measurement Adjustments - Cash-flow hedges. Hedged financial instruments in this type of hedge are carried in accordance with the criteria explained in Note 2.2, without any modification due to being considered as such.

In these latter cases, measurement differences are not recognised as results until the gains or losses on the hedged item are recorded in the income statement, or until maturity.

Hedge measurement differences relating to the inefficient portion of cash-flow hedges are recognised directly under the heading "Gain/loss on financial transactions" 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.

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

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

2.4 Foreign currency transactions

2.4.1 Functional currency

The Group'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, the Group´s Parent entity, at 31 December 2009 and 2008 (thousands of units of each foreign currency):

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Pounds sterling	392,651	3,379,725	409,490	4,252,891
US Dollars	2,459,990	20,243,821	2,923,617	18,726,525
Canadian dollars	37,908	1,387,006	11,267	1,360,819
Swiss Francs	6,329	2,166,310	10,059	879,005
Swedish	-	500,002	-	499,882
Norwegian krona	-	13,475,028	-	13,871,412
Japanese Yen	4	173,670	18	165,487
Australian dollars	11	3,561,735	41	3,710,919
Other traded currencies	141,508	439,456	-	512,787
Other non-traded currencies	132,376	29,640	190,382	43,924

The equivalent value in euros of assets and liabilities denominated in foreign currency, classified by nature, recorded by the Institute, the Group´s parent entities at 31 December 2009 and 2008 is as follows:

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Spanish credit institutions in Spain	41,817	97,938	91,197	186,201
Spanish credit institutions abroad	92,772	61,228	47,989	20,809
Foreign credit institutions abroad	52,694	356,850	60,567	359,099
Loans/Deposits Spanish Public Administrations	-	579	-	-
Loans to/deposits with other resident sectors	939,534	-	1,275,959	-
Loans/Deposits non-resident Public Admin.	-	-	-	-
Loans/Deposits, other non-resident sectors	1,326,165	-	1,256,577	-
Provisions denominated in foreign currency	-	659	-	993
Issued bonds and others	-	25,343,204	2,321	23,913,959
	2,452,982	**25,860,458**	**2,734,610**	**24,481,061**

When initially recognised, debtor and creditor balances denominated in foreign currency are translated to the functional currency using the spot exchange rate at the date of recognition, understood as the exchange rate for immediate delivery. After initial recognition, the following rules are applied to translate balances denominated 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 measured at cost are translated at the exchange rate on the date of acquisition.

iii) Non-monetary items measured at fair value are translated at the exchange rate on the date on which fair value is determined.

iv) Income and expense are translated by applying the exchange rate 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 is translated at the exchange rate applied to the relevant asset.

Exchange differences arising on translation 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 on non-monetary items measured at fair value, for which the fair-value adjustment is recorded under Equity Measurement 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 2009 and 2008 published by the European Central Bank at each of those dates.

The net amount of exchange differences arising on the conversion of receivables and payables denominated in foreign currency is a €3.179k loss at 31 December 2009 (€10k loss at 31 December 2008).

2.5 Recognition of revenue and expense

Set out below is a summary of the most significant accounting policies employed by the Group to recognise income and expense:

2.5.1 Interest income and expense, dividends and similar items

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

2.5.2 Commissions, fees and similar items

Income and expense relating to commissions and similar fees, which are not 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 for on an accruals basis.

2.5.4 Deferred collections and payments:

Deferred collections and payments over time are accounted for financially amount resulting from the expected cash flows at markets rates depending on their vesting period.

2.6 Offset of balances

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

2.7 Financial asset impairment

The carrying value of financial assets is generally adjusted against the consolidated 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 various 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 various 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 is manifested and the recovery of previously recorded impairment losses, if 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 remote, such impairment is written off the consolidated balance sheet, although the Group 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 Group 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 Group believes will receive during the instrument's life. All relevant information which provide data on 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 rate. In the case of listed debt instruments, market value may be used as a substitute, provided that it is sufficiently reliable to consider it to be representative of the value the Group will recover.

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

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

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor capacity 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, inter alia, the type of instrument, the debtor's sector of activity, geographical 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 Group'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 consolidated 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 applicable accounting legislation. 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 legislation, 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 circumstances known at the time of evaluation that relate to the inherent losses incurred at the date of the financial statements, calculated using statistical methods, that have yet to be assigned to specific transactions.

The Group 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 risk, 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 this legislation.

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

The amount of impairment losses incurred in debt securities and equity instruments included under Available-for-sale financial assets is equal to the positive difference between their acquisition cost, net of 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 Measurement adjustments are recorded immediately in the consolidated 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 consolidated income statement for the recovery period, and, in the case of equity instruments, under Equity Measurement Adjustments.

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

For shareholdings in Multigroup companies and Associates, the Group estimates impairment losses by comparing the recoverable amount with their carrying value. Such impairment losses are recorded in the consolidated income statement for the period in which they arise while subsequent recoveries are recorded in the consolidated income statement for the recovery period.

In case that the recovery of any recognized impairment is considered remote, it would be written off the balance sheet, although the Institute may carry out the necessary actions to try its collection until the rights of the asset are definitively extinguished by prescription, 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 recognized 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, present cash flows value to receive, using an interest rate similar to the financial assets issued by the entity with similar term and risk. Simultaneously, it will be recognized as an asset receivable the present value of future cash flows to be received at the rate of interest mentioned above.

Subsequent to initial recognition, the contracts are treated in accordance with 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 imply its reclassification 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 substantially all the risks and rewards carried by the leased asset are transferred to the lessee.

Whenever the Group 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 consolidated 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 theconsolidated 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 of 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 method on the lease to estimate accrual, calculated in accordance with the applicable accounting legislation.

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 Group acts as the lessor in operating lease agreements, the acquisition cost of the leased asset is carried 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 and the income from lease contracts is recognised in the consolidated income statement on a straight-line basis in the caption "Other operating revenue".

Where the Group acts as the lessee in operating lease agreements, the lease costs, including any incentives granted by the lessor, are charged on a straight-line basis to the income statement caption "Other general administration expenses".

2.10 Staff costs

2.10.1 Short-term remuneration

Short-term remuneration 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 adjustment, at the amount payable for the services received and recorded, in general, as staff costs for the year and a liability accrual account is recorded for the difference between the total expense and the amount already paid.

2.10.2 Post-employment commitments

Pension commitments entered into by the Group with respect to employees are reflected in the collective wage agreement in force.

Institute 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 Doce 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 1 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, and the expense totalling €42k at 31 December 2009, is recorded under the heading "Staff costs" in the accompanying income statement (€57k at 31 December 2008).

2.10.3 Death and disability benefits and retirement bonuses

Commitments assumed with personnel for retirement bonuses and death and 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 annual accounts, 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 2009 a provision was recorded for post-employment commitments amounting to €78k (€57k at 31 December 2008).

2.10.4 Termination benefits

Termination benefits are recorded under the heading "Personnel expenses" and the accompanying income statement crediting the accounts "Pension fund 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 resignation of the employees.

At 31 December 2009 and 2008, the Institute has not recorded any provisions in this respect 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, as adjusted for variations during the year in asset and liability balances arising from temporary differences, tax credits and allowances, and any tax-loss carryforwards (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 that which will generate a future obligation for the Institute to pay the relevant Administration. A deductible temporary difference is understood to be that 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 carryforwards 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 provided the Institute considers that application in future years is probable.

Current tax assets and liabilities are amounts that the Institute expects to recover from or pay to the corresponding tax authorities within 12 months as from the date on which they are 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. Notwithstanding the above, no deferred tax liabilities are recorded based on the recognition of goodwill.

The Group 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 event that the Group considers it likely that there will be sufficient future taxable profits 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 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 in force and 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 adjudicated 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 adjudication.

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 indefinite 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 consolidated income statement and basically equals the following depreciation rates (calculated based on the estimated average useful life of the assets concerned:

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

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

Similarly, when there are indications that the value of impaired property, plant and equipment has been recovered, the Institute recognizes the reversal of the impairment loss recorded in prior years by crediting the heading "Impairment losses - Property, plant and equipment" in the consolidated income statement and, consequently, adjusts future depreciation charges. Under no circumstances may the reversal of an impairment loss affecting an asset increase 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 is charged against results for the year in which they are incurred under the heading "Other general administration expenses" in the consolidated 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 consolidated 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, coincides 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 Group. 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, net of accumulated amortization and any impairment losses they may have suffered.

Intangible assets may have an "indefinite 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 Institute reviews their respective remaining useful lives in order to ensure that they continue to be indefinite. If this is not the case appropriate action is taken.

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

For intangible assets with both an indefinite and definite useful life, the Institute recognises any impairment in those assets and uses as a balancing entry "Asset impairment losses (net) – Other intangible assets" in the consolidated income statement. The methods applied to recognise impairment losses on these assets and, if appropriate, the recovery of impairment losses recognised in prior years are similar to those applied to property, plant and equipment (Note 2.12.1).

2.14 Provisions and contingent liabilities

When preparing the annual accounts the Group differentiates between:

- Provisions: creditor balances that cover obligations in force at 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 Institute.

The Group's consolidated annual accounts include all significant provisions for obligations classed as probable. Contingent liabilities are not recognized in the consolidated annual accounts, but rather information is provided in accordance with the requirements of the Circular 4/2004 of December 22, Bank of Spain (Note 20).

Provisions which are quantified using the best information available on 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 2009 and 2008 year end, a number of legal proceedings and claims had been initiated against the Group, 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 consolidated annual accounts for the years in which they finalise.

Provisions deemed necessary as stated above are charged or credited to the consolidated income statement caption "Transfers to provisions (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 non-current 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 for sale

The heading "Non-current assets for sale" on the consolidated balance sheet records the book value of individual items that are very likely to be sold in their present condition within one year as from the date of the annual accounts.

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

Consequently, the carrying amount of these items, which may be financial or non-financial in nature, will foreseeably be recovered through their selling price rather than through 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 with regard to the Institute are deemed non-current assets for sale, unless the Group has decided to use these assets on an on-going basis.

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

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 net of estimated cost of sales. While included in this category, property, plant and equipment, and intangible assets, subject to depreciation and amortisation by nature, are not depreciated or amortised.

In the event that the carrying amount exceeds the fair value of the assets, net of 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 "Asset impairment losses (net) – Non-current assets held for sale" in the consolidated income statement. In the event that the fair value of the assets were to increase 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 Asset impairment losses (net) – Non-current assets for sale in the consolidated income statement.

The results from the sale of non-current assets for sale are presented under "Gains/(Losses) on non-current assets held for sale 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 interruption in operation, not be valued in accordance with in 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 force. This has the purpose of regulating customer services and ombudsmen at banks and financial institutions. With respect to this Service, and although the Group is not obligated to have a customer service department, the Group attends to all claims and complaints that it 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 2009 a total of 2,335 complaints were received, (347 in 2008) of which 2,324 were addressed within an average of 5.82 working days. Ninety-four percent of the total related to credit transactions in the intermediary line and were therefore passed on to the relevant financial institutions.

4. Distribution of results

The distribution of 2009 profits, which totalled €22,477k, has not yet been decided by the General Assembly of the Institute, the Group's Parent entity. Such distribution will conform to the bylaws applicable to each consolidated company and entity.

The distribution of 2008 profits totalling €88,363k was made entirely to voluntary reserves.

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 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 classed 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.

• 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 refers to the risk of not fully recovering the principal and interest relating to our investments within the projected 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, the Parent entity, is exposed to this group of risks that must be identified, measured and monitored in order to operate efficiently. This is done in accordance with 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, the Group's Parent entity (according to Presidential Organizational Circular 1/2010 of January 28th applicable to the end of 2009) , has created specialised units that report to the Sub-Directorate for Risk and Accounting, which reports to the General Directorate for Control and Administration.

The Sub-Directorate for Risk and Accounting is responsible for, among other things, the management of activities relating to the acceptance, measurement, management and control of risk, the supervision and monitoring of the client portfolio and Institute transactions, and keeping a map of the risks faced by the Institute, definition of criteria, proposal and recommendation of methodologies for the analysis, management and monitoring of credit risk and financial risks.

The four specialized credit risk areas are Risk Acceptance, Central Analysis Area, Global Risk and Monitoring and Supervision, each one with specific duties.

The primary duties of the Global Risk area are:

• Preparing, proposing and controlling of financial risk measurement methodologies applied by the Institute: market risks, cash transactions, credit and liquidity: preparing a status report on financial risks.

• Overseeing compliance with the limits of approved financial risks and policies; monitoring volumes and prices.

• Regularly reviewing lines of credit by analysing of the financial-economic situations of counterparties. Analyse requests made by new counterparties for new lines of credit, controlling compliance with balance sheet lines of credit and supervising concentration levels with intermediaries.

• Reviewing and defining measurement, back-testing and stress-testing systems on an on-going basis.

• Proposing criteria for market valuation of new financial products, establishing methodologies and risk measurement.

• Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The primary duties of the Risk Acceptance area are:

• Evaluating the admissibility of the risk for new asset products.

• Where appropriate analyzing and preparing credit risk reports on transactions proposed to the competent body.

• Analyse, if appropriate, ICO's investment risk limits regarding clients and economic groups, particularly for economic sections considered to be necessary based on industry analysis.

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

• Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The primary duties of the Monitoring and Supervision Area are:

- Analysing the proposal for mediation lines proposed to the competent body and monitor and verifying compliance with the conditions for the current portfolio, making all necessary physical inspections and proposing any appropriate corrective action in the event of any failure to comply.

- Establishing and maintaining an internal rating system, country risk classification system and an operational risk methodology.

- Exercising special control over doubtful and default transactions and making subjective proposals for provisions.

- Overseeing transactions and client risks: verifying compliance with the conditions of direct market and economic policy transactions, formalised and managed by the Group, until maturity. Calculating and monitoring ratios and covenants, controlling all required documentation, payment status and guarantees, as well as the development of credit risk as a whole.

- Managing of supporting documentation for the Monitoring Commission.

- Analysing the adaptation of EU Directives and national legislation regarding risks within its competency.

The primary duties of the Central Analysis area are:

- Maintaining and updating risk methodologies to facilitate access to ICO financing by SMES, MICO-SMEs, and the self-employed companies in coordination with the financial sector.

- Developing of the methodologies to coordinate the work of ICO analysts and other resources in collaboration with them to ensure the successful attainment of the financing objectives.

- Maintaining and improving segment rating systems.

- Controlling, developing and maintaining of procedures within the center of analysis, suggesting improvements and actions for the success of the segment financing.

- Segment-targeted funding of the existing ICO line.

- Arranging meetings between ICO and financial institutions in order to identify improvements to the transactions approval process.

- Analyzing the adjustment to national and international standards in matters within its scope of competence.

In summary, the Institute has a team of professionals specialised 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 the Group

National legislation contains several references to be taken into consideration when adequately managing this risk. There are also international recommendations of reference, such as those established in the document published by the Basle 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.

This completely defines 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.

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 and 3 months.

The ICO, the Group's Parent entity, has established quantitative limits and alerts that allow us to get ahead of 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.

5.4 Market risk at the Group

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, the Group's Parent entity, is currently attempting to minimize trading portfolios and hold only those that, owing to the application of current legislation, do not allow for 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: Yield and Solvency.

Yield: At ICO this fundamentally derives from the income statement and therefore the relevant variable 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, 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, from which the sensitivity gap may be obtained.

With respect to Value at Risk, the methodology 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, the Group's Parent entity, is the responsibility of Senior Management, at 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 31 December 2009 to movements in interest rates of 100 base points was 1.96% in the euro (15.15% at December 31, 2008), 0.10% in the US dollar (0.50% at December 31,2008) and 0.37% in the Pounds sterling (0.08% at December 31, 2008). The sensitivity to exchange rate fluctuations (movements of +/- 10%) was 0.54% and 0.09% respectively (0.90 % and 0.17% at December 31,2008).

The sensitivity of equity at 31 December 2009 to movements in interest rates of 100 bp and fluctuations in the exchange rate of 10% was 1.37% in the euro (1.17% at December 31st, 2008), 0.08% in the US dollar (0.14% at December 31st, 2008) and 0.00% in the Pound sterling (0.01% at December 31st, 2008). The sensitivity to exchange rate between USD/EUR was 0.19% and between GBP/EUR 0.05% (and 0.26% and 0.07% in respect of the exchange rate at December 31st, 2008).

4) Risk modification. The last step for efficient risk management is the capacity 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 Directorate General for Investments and Finance or the Operations Committee.

The principal currencies used by ICO to present its balance sheet at 31 December 2009 are the euro, US dollar and Pound sterling, which account for 95% of total balance sheet and off-balance sheet transactions, of which approximately 75% is in euros, 20% in US dollars and the remaining 5% in Pounds sterling.

The classification by residual periods of ICO assets and liabilities in euros, not including valuation adjustments, at 31 December 2009, is set out in the table below:

	Thousand euros							
ASSETS	On demand	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Total
Cash and deposits at central banks	74,548	-	-	-	-	-	-	74,548
Deposits at credit institutions	7,072	540,925	836,612	2,032,478	3,283,673	17,707,786	4,706,997	29,115,543
Customer loans	117,408	62,033	410,443	196,508	481,353	6,497,519	9,477,088	17,242,352
- Spanish Public Admin.	350	12,640	2,813	13,616	53,528	567,265	1,024,036	1,674,248
- Other resident sectors	117,058	44,922	400,900	163,509	397,866	5,752,761	8,267,232	15,144,248
- Non-residents	-	4,471	6,730	19,383	29,959	177,493	185,820	423,856
Debt securities	-	49,967	1,103,025	1,571,448	184,625	6,319,766	-	9,228,831
Other assets with maturity	-	-	8,760	-	-	-	-	8,760
	199,028	652,925	2,358,840	3,800,434	3,949,651	30,525,071	14,184,085	55,670,034

	Thousand euros							
LIABILITIES	On demand	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Total
Credit institution deposits	-	-	8,261	9,041	121,937	99,204	576,642	815,085
Customer funds	1,194,755	127,031	22,056	89,956	2,000,000	1,918,814	-	5,352,612
- Spanish Public Admin.	-	-	-	-	2,000,000	1,918,814	-	3,918,814
- Other resident sectors	1,179,123	127,031	22,056	89,956	-	-	-	1,418,166
- Non-residents	15,632	-	-	-	-	-	-	15,632
Debt securities	-	149,651	2,364,576	29,767	106,493	12,234,421	2,711,391	17,596,299
Other maturing liabilities	-	-	-	-	3,162,740	-	-	3,162,740
	1,194,755	276,682	2,394,893	128,764	5,391,170	14,252,439	3,288,033	26,926,736

The same information at 31 December 2008 is as follows:

Thousand euros								
ASSETS	On demand	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Total
Cash and deposits at central banks	344,174	-	-	-	-	-	-	344,174
Deposits at credit institutions	-	516,428	803,342	1,910,570	2,881,132	5,181,681	8,825,610	20,118,763
Customer loans	-	108,031	574,839	173,306	585,652	5,387,104	8,908,930	15,737,862
- Spanish Public Admin.	-	12,625	83,205	11,322	45,196	362,410	817,165	1,331,923
- Other resident sectors	-	91,171	483,628	142,640	481,295	4,830,104	7,899,378	13,928,216
- Non-residents	-	4,235	8,006	19,344	59,161	194,590	192,387	477,723
Debt securities	-	-	3,780,719	-	-	-	7,084,624	10,865,343
	-	-	9,721	-	-	-	-	9,721
	344,174	624,459	5,168,621	2,083,876	3,466,784	10,568,785	24,819,164	47,075,863

Thousand euros								
LIABILITIES	On demand	Up to 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Total
Credit institution deposits	-	-	8,261	8,974	111,244	229,953	148,397	506,829
Customer funds	37,162	443,143	356,636	86,507	-	-	1,639,085	2,562,533
- Spanish Public Admin.	-	-	-	-	-	-	986,329	986,329
- Other resident sectors	21,309	443,143	356,636	86,507	-	-	652,756	1,560,351
- Non-residents	15,853	-	-	-	-	-	-	15,853
Debt securities	-	197,692	1,069,038	1,197,145	2,545,067	9,442,149	410,052	14,861,143
Other maturing liabilities	-	-	-	-	1,227,303	-	-	1,227,303
	37,162	640,835	1,443,935	1,292,626	3,883,614	9,672,102	2,197,534	19,157,808

With respect to currencies other than the euro and dollar with which the Group operates, its balance sheets are closed to 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 custom designed to avoid these risks.

In addition to the establishment of limits, monitoring and control of regular compliance, the Group has established an integrated system through the application of measurement, management and control of risks in order to verify the influence that various 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 the Group

As has already been mentioned 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 lines of credit available at any given moment.

The competent bodies at ICO, the Group's Parent entity, have defined and approved a method for credit risk revision called consuming counterparty lines of credit 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 relate to cash transactions. The other counterparty line relates to mediation transactions, transactions in which the ICO finances various investment projects through framework programmes concluded with various entities operating in Spain such as, for example, lines for small and medium-sized businesses.

The transactions involving derivatives contracted by ICO have counterparties with high credit ratings such that at least 99% of them maintain an Agency rating equal or higher than A-. 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 Oversight.

Acceptance performs an analysis of companies and transactions based on a going-concern evaluation and guarantees are examined to issue an opinion as to 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 (direct loans) has the purpose of making the Group's credit portfolio of the highest quality, i.e. it ensures that our loans are 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 for 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.

Finally, 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 with respect to: i) investments financed through ICO funds and ii) beneficiary conditions meeting the terms of agreement concerned.

Under the heading regarding credit risk, special mention must be made of 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 connection, ICO, the Group's Parent entity, has approved a methodology for measuring country risk that follows current legislation and complies with the objective of evaluating countries by risk group 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 source of information when classifying countries into risk groups and these classifications are reviewed on a monthly basis.

In order to reduce the Institute's credit risk with Spanish financial institutions deriving from the Intermediary Lines since 2001 and avoid the concentration of risk in the same, a securitization transaction was completed that will enable a more consistent management of the Group's credit risk (Note 9).

The following chart shows the maximum credit risk exposure assumed by the Group at December 31, 2009 and 2008 without deducting collateral or other credit enhancements received to ensure compliance of debtors:

December 31, 2009						
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	-	-	7,828,332	-	-	-
Credit institutions deposits	-	29,383,824	-	-	-	-
Securities	1,473,411	-	-	-	-	-
Customer loans	-	18,846,410	-	-		-
Contingent risks: guarantees	-		-	-	3,291,927	-
Financial derivatives	-	-	-	1,899,625	-	470,686
Other instruments	-	-	-	-	-	-
TOTAL	**1,473,411**	**48,230,234**	**7,828,332**	**1,899,625**	**3,291,927**	**470,686**

December 31, 2008						
Types of instruments	Available for sale financial assets	Credit, loans and discounts	Held to maturity investment portfolio	Hedging derivatives	Off Balan-ce Sheet Items	Trading portfolio
Debt instruments	-	-	10,835,342	-	-	-
Credit institutions deposits	-	20,503,654	-	-	-	-
Securities	105,297	-	-	-	-	-
Customer loans	-	17,794,631	-	-		-
Contingent risks: guarantees	-		-	-	1,311,969	-
Financial derivatives	-	-	-	2,711,636	-	207,751
Other instruments	-	-	-	-	-	-
TOTAL	**105,297**	**38,298,285**	**10,835,342**	**2,711,636**	**1,311,969**	**207,751**

The Credit, loans and discounts breakdown based on credit ratings assigned, internal or external, is as follows:

	2009		**2008**	
	Amount	**%**	**Amount**	**%**
External ratings				
Credit quality level 1 (AAA)	-	-	4,448,171	25%
Credit quality level 2 (AA, AA+)	830,000	4%	411,029	2%
Credit quality level 3 (A)	1,419,600	8%	1,409,609	8%
Others				
Not assigned amounts (without rating)	16,596,810	88%	11,525,822	65%
	18,846,410	100%	17,794,631	100%

The maturity amount's breakdown due (impaired and un impaired assets) as follows:

	Thousand euros	
	2009	2008
Up to 6 months	1,211,707	1,067,813
Between 6 and 12 months	796	1,794
Between 12 and 18 months	83,550	572
Between 18 and 24 months	927	-
Over 24 months	97,833	74,319

The maturity expired not impaired amount's breakdown is as follows:

	Thousand euros	
	2009	2008
Up to 6 months	781,652	750,917
Between 6 and 12 months	-	-
Between 12 and 18 months	-	-
Between 18 and 24 months		
Over 24 months	-	-

5.6 Operating risk at the Group

It is increasingly more important to measure and control operating risks, especially bearing in mind the New Capital Accord (Basle 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. The regular controls applied to procedures and operations should be emphasized, which 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 and certain items, classified as loans and advances to other debtors and financial guarantees, is as follows:

	Million euros			
	2009		2008	
	Amount	% /total	Amount	% /total
Outstanding risk by sector				
Investment properties	766	4%	597	3%
Construction of social housing for rent	430	2%	375	2%
Acquisition and development of land	185	1%	99	1%
Other	151	1%	123	1%
Investment intangible assets	39	0%	38	0%
Investment tangible assets	13,452	67%	12,280	66%
Renewable energies	1,176	6%	1,091	6%
Water infrastructures	449	2%	400	2%
Electricity infrastructures	2,516	12%	2,260	12%
Gas and fossil fuel infrastructures	1,693	8%	1,406	8%
Transport infrastructures	6,155	30%	5,528	30%
Tourism and leisure	193	1%	434	2%
Social-health infrastructures	166	1%	119	1%
Telecommunications	116	1%	139	1%
Audiovisual production and exhibition	49	0%	48	0%
Business parks and other constructions	29	0%	35	0%
Other	910	5%	820	4%
Acquisitions of companies	2,852	14%	3,286	18%
General corporate needs	1,386	7%	1,414	8%
Restructuring of liabilities	254	1%	179	1%
General State Budgets	1,394	7%	839	4%
Financial intermediary services	56	0%	63	0%
	20,199	**100%**	**18,696**	**100%**

As with other business figures, at 31 December 2009 and 2008 the outstanding risk is concentrated in "Transport infrastructures" and "Acquisition of companies". The outstanding risk relating to both sectors amounts to €9,007 million and €8,814 million respectively (44% and 48% of the total outstanding risk each year). In the "Acquisition of companies" sector are set the society mergers and acquisitions approved 2 or 3 years ago. As the timing of such funding will be serving, the weight of this sector will dilute as it happened in 2009, with a drop of 13% over the previous year.

5.7.2. Classification by geographic location of financial investments

The total risk at 31 December 2009 is distributed as follows: 78% in transactions financing investments in Spain, amounting to €15,765 million (76% relating to €14,287 million at 31 December 2008) and 22% in transactions aimed at financing investment projects in other countries (24% at 31 December 2008). This distribution has changed slightly over the last year, increasing in nearly a 2% the risk of domestic investment to the detriment of investment out of Spain.

Of the domestic total, the distribution of outstanding risks by autonomous region is similar to last year; Madrid stills being the regions with the greatest concentration, 24% (23% at 31 December 2008); followed by Cataluña, 7% (5% in 2008), Autonomous Community of Valencia, 5% (5% in 2008) and Andalucía, 5% (5% in 2008); not taking into account the risks attributed to "general" domestic relating to transactions that, in light of their nature, are not located in a specific geographic area but throughout Spain.

Transactions taking place in the international market at 31 December 2009 and 2008 are distributed as follows in accordance with the active foreign risk:

	Million euros			
	2009		2008	
	Amount	%	Amount	%
European Economic Community	1,392	31%	1,466	33%
Latin America	1,526	34%	1,427	32%
Brazil	209	5%	209	5%
United States	877	20%	877	20%
Rest of Europe (not EEC)	35	1%	35	1%
Other	395	9%	395	9%
	4,434	**100%**	**4,409**	**100%**

5.8 Risk concentration

The ICO's, the Group's Parent entity, bylaws stipulate that the Institute is subject to the provisions of Royal Decree 1343/1992 (6 November) governing credit institutions, which enables Law 13/1992 (1 June) on consolidated equity and supervision for financial institutions and its enabling regulations, except for the regulations regarding large risk limits.

6. Cash and deposits at central banks

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
Cash on hand	8	133
Deposits at Bank of Spain	74,540	344,168
Mandatory to comply with minimum reserve ratios	72,524	339,800
Not mandatory	-	-
Accrued interest	2,016	4,368
	74,548	**344,301**

7. Trading portfolio

The total balance under this heading in the balance sheets at 31 December 2009 and 2008 is made up of trading derivatives.

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

Additionally, the balance includes the valuation of the derivative associated with the transaction Titulización ICO – Pyme, since it cannot be regarded as a hedge following the write-off of securitized loans from the balance sheet. The fair value of this instrument amounts to €43,910k at 31 December 2009 (€121,213k at 31 December 2008).

The fair value of these items has been calculated in both 2009 and 2008, taking as a reference, implicit curves in monetary and government debt markets.

The effect on the consolidated income statement for the years ended 31 December 2009 and 2008 of the changes in the fair value of trading portfolio assets and liabilities is a profit of €29,591k and €14,986k, respectively (Note 30).

Set out below is a breakdown, by class of derivative, of the fair value of the Institute's trading derivatives and their notional value (amount on which future payments and collections of these derivatives are based) at 31 December 2009 and 2008:

	Thousand euros					
	National		Assets		Liabilities	
	2009	2008	2009	2008	2009	2008
By type of market						
Organised markets	-	-	-	-	-	-
Non-organised markets	10,830,428	13,044,790	470,686	207,751	409,498	64,934
	10,830,428	**13,044,790**	**470,686**	**207,751**	**409,498**	**64,934**
By type of product						
Swaps	10,830,428	13,044,790	470,686	207,751	409,498	64,934
	10,830,428	**13,044,790**	**470,686**	**207,751**	**409,498**	**64,934**
By counterparty						
Credit institutions	5,259,484	3,628,655	290,642	74,832	409,498	48,755
Other financial institutions	4,910,301	8,768,933	43,910	121,213	-	-
Other sectors	660,643	647,202	136,134	11,706	-	16,179
	10,830,428	**13,044,790**	**470,686**	**207,751**	**409,498**	**64,934**
By type of risk						
Exchange risk	3,211,908	2,047,650	410,117	72,442	401,085	64,809
Interest rate risk	7,618,520	10,997,140	60,569	135,309	8,413	125
	10,830,428	**13,044,790**	**470,686**	**207,751**	**409,498**	**64,934**

The reasonable value has been calculated in the 100% of the cases in 2009 and 2008, taking the implicit curve of the money markets and the public debt as a reference.

At December 31st, 2009 and 2008 the classification of the trading portfolio, stated at fair value and taking the hierarchical into account as shown in Note 2.2.3, was as follows:

	Thousand euros					
			2009		2008	
	Level I	Level II	Level III	Level I	Level II	Level III
Held-for-trading-derivatives assets	-	**470,686**	-	-	**207,751**	-
Held-for-trading-derivatives of liabilities	-	**409,498**	-	-	**64,934**	-

8. Available-for-sale financial assets

An analysis of the balances of this caption in the consolidated balance sheets at 31 December 2009 and 2008, by instrument, is as follows:

	Thousand euros	
	2009	2008
FONDICO, Fondo de Capital Riesgo (1)	101,242	100,811
FEI, Fondo Europeo de Inversiones (2)	2,704	2,628
SWIFT (3)	2	2
Fondo Fons Mediterránea Fondo Capital Riesgo (4)	2,486	1,547
Fondo PYMEX Fundación Emp y Crecim (5)	235	259
Fondo de Carbono Postkyoto (6)	934	50
SICAV Fondo Marguerite (7)	5	-
Fixed income portfolio (8)	1,365,803	-
	1,473,411	105,297

The balance of Valuation Adjustment of equity epigraph at December 31, 2009 and 2008 produced by changes in the fair value of the items included under the heading of financial assets available for sale is as follows:

	Thousand euros	
	2009	2008
Equity instruments	19,892	19,119
Debt instruments	23,258	-
	43,150	19,119

Movements experienced during the years 2009 and 2008 under the heading of financial assets available for sale are listed below:

	Thousand euros	
	2009	2008
Initial balance	105,297	118,998
Purchase additions	1,344,385	-
Amortizations and sales	-	(16,444)
Fair value fluctuations movements	24,031	3,226
Impairment losses movements	(302)	(483)
Balance at the end of the year	1,473,411	105,297

(1) Fund formed in May 1993, in which the Institute, the Group's Parent entity, is the sole participant. The book value of the interest held is €101,242k at 31 December 2009 (31 December 2008 €100,811k), of which €47,390k has yet to be paid in at 31 December 2009 an 2008.

(2) Interest equivalent to 0.2667% of share capital. At 31 December 2009 and 2008 €6,400k is pending payment.

(3) Institute's shareholding in one action of this entity, as a full member of the same from 2008.

(4) Fund formed 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 to this fund have a provision coverage of 30% of total real capital (€785k at December 31, 2009 and €483k at December 31, 2008).

(5) Fund formed in May 2003 by the Enterprise Foundation and Growth, in collaboration with the BID and Nacional Financiera SNC, which aims at taking stakes in the temporary capital of non-financial firms located in Mexico. The allocations to this fund have a decline of 30% of the total contributions made (€77k at December 31,2009 and 2008)

(6) Fund formed in September 2007 in which ICO participates with the BEI, KfW and other public financial institutions in Europe, in the market for the CO2 emissions beyond 2012.

(7) Participation in a Luxemburg based Investment Company with Variable Capital (S.I.C.A.V.) (16.66%) that manages the Marguerite Fund. Whit the participation of leading European public financial institutions, this is a European equity fund which seeks to promote investment in infrastructure 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.

These investments are classified as financial assets available for sale at fair value, with reference to its theoretical value of exercise. In determining the fair value has been found that by investments nature, book value represents the most appropriate valuation technique in the circumstances.

(8) Starting in 2009 ICO, as part of its liquidity management policy, has invested 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 amounting to 1,269,714 thousand euros as shown below:

	Thousand euros	Average yield
Maturity of 3 months	159,764	3.15%
Maturity between 3 and 6 months	1,059,950	3.31%
Maturity between 6 and 9 months	50,000	5.14%
	1,269,714	

At December 31, 2009 and 2008, 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:

				Thousand euros		
	2009			2008		
	Level I	Level II	Level III	Level I	Level II	Level III
Debt securities	1,365,803	-	-	-	-	-
Other equity instruments	-	107,608	-	-	105,297	-

9. Credit, loans and discounts

The breakdown by type and status, of Investment Credit, loans and discounts at December 31, 2009 and 2008, net value adjustment for impairment of assets, is as follows:

	Thousand euros	
	2009	2008
By mode and location:		
Commercial credit	-	-
Debtors with mortgage	68,366	77,389
Debtor with other security	17,440	34,646
Assets temporary acquisitions	-	-
Hybrid financial assets	85	-
Other term debtors	47,423,781	37,515,047
Leases	-	-
Advances on demand and other	45,986	52,047
Doubtful assets	591,106	372,405
Valuation adjustments	83,470	253,880
	48,230,234	38,305,414

In "Advances on demand and other" epigraph are included, not expired impaired assets, funds provisions to third parties pending to be liquidated and other temporary advances.

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2009 and 2008, classified by type of counterparty is as follows:

	Thousand euros	
	2009	2008
By counterparty categories		
Credit institutions (Note 9.1)	**29,332,596**	**20,344,435**
Resident public administrations (Note 9.2)	**1,674,249**	**1,331,922**
Non-resident public administrations (Note 9.2)	**17,828,961**	**16,935,586**
Other financial assets (Note 9.2)	**9,699**	**-**
Other resident sectors	**-**	**7,129**
	48,845,505	**38,619,072**
(Impairment losses)	**(698,741)**	**(567,538)**
Other measurement adjustments (*)	**83,470**	**253,880**
	48,230,234	**38,305,414**

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

Set out below is the movement for 2009 and 2008 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:

	Thousand euros			
	Country risk	Specific provisions	General provision	Total
Balance as at January 1, 2008	**9,301**	**159,738**	**200,471**	**369,510**
Appropriations charged to income	-	136,218	37,167	173,385
Recoveries	(486)	(9,080)	-	(9,566)
Application of funds	-	(1,586)	-	(1,586)
Other movements	-	34,474	-	34,474
Adjustments for exchange differences	10	1,311	-	1,321
Balance as at December, 31 2008	**8,825**	**321,075**	**237,638**	**567,538**
Appropriations charged to income	-	197,303	20,000	217,303
Recoveries	(876)	(44,657)	(25,047)	(70,580)
Application of funds	-	(6,422)	-	(6,422)
Other movements	-	(7,296)	-	(7,296)
Adjustments for exchange differences	(4)	(1,798)	-	(1,802)
Balance as at December, 31 2009	**7,945**	**458,205**	**232,591**	**698,741**

The general provision is constituted in December 31, 2009 and 2008, 125% respectively of the alpha parameter established for its calculation in Annex IX of Circular 4/2004, respectively.

The net amount carried in the accompanying income statements for 2009 and 2008 as a result of movements affecting assets whose recovery is deemed remote totals €5,007k and €65k, respectively.

The heading "Other movements" included in variations for 2009 in the specific provision records amounts reclassified by the Group, taking into account the nature of the transactions covered, broken down mainly as follows:

- Transfer to "Provisions of non-current assets in sale" of € 7,273k related with the award of assets covered by credit operations with specific provision.

The heading "Other movements" included in variations for 2009 in the specific provision records amounts reclassified by the Group, taking into account the nature of the transactions covered, broken down mainly as follows:

- Transfer from "Other provision funds" corresponding to an operation Law 24/01 (18,853 thousand euros) (Note 20) and from " Other financial liabilities "compensatory account of managed portfolio by BBVA (15,621 thousand euros) (Note 19.6).

Specific provision on the basis of determining criteria breakdown is presented below:

	Thousand euros	
	2009	2008
Determined:	357,117	245,983
Exclusively to customer arrears	123,400	170,524
Other than customer arrears	233,717	75,459
Substandard	101,088	75,092

The substandard specific provision corresponds to credit assets for an amount of €779,793k at December 31, 2009 (€750,917k at December 31, 2008).

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

	Thousand euros	
	2009	2008
Initial balance	**326,993**	**325,605**
Additions:	**7,262**	**1,628**
By remote recoveries	7,262	1,586
By other causes	-	42
Recoveries:	**(5,007)**	**(63)**
By refinancing or restructuring	-	-
By collecting cash without additional funding	(5,007)	(65)
For asset allocation	-	-
Others	-	2
Definitive write-off:	**-**	**(532)**
By forgiveness	-	-
By expiry	-	(207)
By other causes	-	(325)
Net exchange fluctuation	**(221)**	**355**
	329,027	**326,993**
Final balance at the year end		

Set out below is a breakdown of those financial assets classified as credits, loans and discounts and considered to be impaired due to the credit risk at 31 December 2009 and 2008 and those which, although not considered impaired, record some amount which is past due at that date, classified by counterparty and on the basis of time elapsed from the due date of the amount not paid at that date most outstanding on each operation. Impaired assets secured by Central Government are detailed in Note 9.2.

IMPAIRED ASSETS AT 31 DECEMBER 2009

	Thousand euros					
	Up to 6 months	Between 6 and 12 months	Between 12 and 18 months	Between 18 and 24 months	Over 24 months	Total
By counterparty categories -						
Other resident and non-resident sectors	430,055	796	83,550	927	97,833	613,161
	430,055	796	83,550	927	97,833	613,161

At 31 December 2009 there is a balance of €7,945k relating to assets impaired by country risk, relating to three transactions (amount included in the previous table).

IMPAIRED ASSETS AT 31 DECEMBER 2008

	Thousand euros					
	Up to 6 months	Between 6 and 12 months	Between 12 and 18 months	Between 18 and 24 months	Over 24 months	Total
By counterparty categories -						
Other resident and non-resident sectors	295,720	1,794	572	-	74,319	372,405
	295,720	1,794	572	-	74,319	372,405

At 31 December 2008 there is a balance of €8,825k relating to assets impaired by country risk, relating to two transactions (amount shown in above table).

The amount of the unimpaired matured assets relating to 2009 and 2008 totals €46,019k and €37,493k, respectively, and their age in both years is between one and two months.

9.1 Deposits at credit institutions

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
By nature -		
Institute loans to BBVA (Note 9.1.1)	**524,472**	**677,077**
Deposits at credit and financial institutions (Note 9.1.2)	**271,708**	**1,675,574**
Financing loans for small and medium-sized businesses (Note 9.1.3)	**15,375,353**	**13,351,253**
Other mediation loans (Note 9.1.2)	**13,144,586**	**4,629,582**
Other demand accounts (Note 9.1.2)	**16,392**	**10,949**
Other financial assets	**85**	**-**
	29,332,596	**20,344,435**
(Impairment losses)	**(26,935)**	**(27,881)**
Other measurement adjustments (*)	**78,163**	**187,100**
	29,383,824	**20,503,654**

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

9.1.1 Institute loans to BBVA

The breakdown, by product type, of the loans and current accounts granted to BBVA at 31 December 2009 and 2008, as well as the average annual interest charged during those years, is set out below:

	Thousand euros		Average nominal interest rate	
	2009	2008	2009	2008
Loans -				
Ordinary financing	**487,902**	**628,098**	**2.17%**	**4.91%**
Official Export Credit	**36,498**	**48,907**	**2.17%**	**4.83%**
Other accounts	**72**	**72**	**2.17%**	**4.83%**
	524,472	**677,077**		
Current accounts -				
Current Accounts and other outstanding debits (1)	**11,448**	**9,189**		
	535,920	**686,266**		

(1) Included in "Other demand accounts" under Credit institutions.

Of the total recorded under this heading, the amount denominated in foreign currency at 31 December 2009 and 2008 totalled €36,498k and €48,907k, respectively.

The interest accrued during 2009 and 2008 for these loans totalled €12,830k and €46,823k, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the income statement.

A breakdown of loans by maturity date, excluding restatement adjustments, at 31 December 2009 and 2008 is set out below:

	Thousand euros	
	2009	**2008**
Up to 1 year	152,333	152,333
From 1 to 2 years	152,333	152,333
From 2 to 3 years	148,666	152,333
From 3 to 4 years	71,140	148,666
From 4 to 5 years	-	71,412
More than 5 years	-	-
	524,472	**677,077**

9.1.2 Deposits in credit and financial institutions, other mediation loans and other demand accounts.

At 31 December 2009 and 2008, the headings "Deposits in credit and financial institutions" and "Other mediation loans" accrued interest at 2.12% and 4.38% per year, respectively. Their composition, in terms of nature and currency, at 31 December 2009 and 2008 is set out below.

	Thousand euros	
	2009	2008
By nature		
Demand deposits	**16,392**	**10,949**
Fixed- term deposits	**13,416,294**	**6,305,156**
	13,432,686	**6,316,105**

"Time deposits" grouped by maturity date at 31 December 2009 and 2008 break down as follows:

	Thousand euros	
	2009	2008
Up to 1 year	1,197,465	580,236
From 1 to 2 years	2,208,900	772,325
From 2 to 3 years	4,113,884	772,065
From 3 to 4 years	1,123,269	517,580
From 4 to 5 years	1,653,242	577,884
More than 5 years	3,119,534	3,085,065
	13,416,294	**6,305,156**

In transactions classified as "Other mediation loans", the Institute assumes a percentage of credit risk that the entity that receives the funds holds, in turn, with final borrowers. At December 31, 2009 and 2008, the Institute maintains a collective provision for "Other mediation loans" of 5,219 and 5,224 thousand euros respectively, that figur in the chapter "Provisions for liabilities and charges" of the balance sheets (Note 20). With this amount is covered the 100% of this kind of risk.

The interest accrued during 2009 and 2008 for these loans have amounted to €214,785k and €260,699k, respectively, which are included under the heading "Interest and similar income - of credit institutions" of the profit and loss account.

The mediation lines that come up in 2009 and are shown under in "Other mediation loans" in the amount of 6,953,247 thousand euros includes the liquidity line for SMEs. In these lines ICO assumes a general and global risk for default presented by mediator financial entities, up to 5% of the amount of the provisions made for these lines. At December 31st, 2009 ICO had set up a provision of 44,009 thousand euros for this item (Note 20). The provisions made are equal to net interest income generated for the Institute by these lines of mediation. If the provisions were insufficient to cover the defaults, the difference would be charged directly to the RDL Fund 12/95, not generating losses for ICO.

9.1.3 Financing loans for small and medium-sized companies

By virtue of the Resolution of the Council of Ministers adopted on 26 February 1993, a line of credit was opened to assist with the financing of small and medium-sized companies (SMB). This line is instrumented through loans granted by the Institute to various financial institutions, which formalised the loans with the companies concerned. During successive years this policy continued, and a line of credit in various amounts was approved for each year.

In 2009 and 2008 €10,000 and 9,000 was approved for each year as a mamimun amount, respectively.

By virtue of a Resolution adopted by the Government Commission for Economic Matters, ICO was authorised to charge the line items contained in the General State Budget for 2009 and 2008, the 0.35% difference between the 6-month Euribor rate (if variable) or the ICO reference rate (if fixed) and the rate assigned for the small and medium-sized business (SMB) line of credit for 2009 and 2008. Should the total amount of the budget be insufficient to cover all of the 0.35% difference, the Institute was authorised to charge the shortfall against the Special Provision fund created by Royal Decree-Law 12/1995 (Note 20).

The interest accrued during 2009 and 2008 for these loans totalled €442,632k and €565,656, respectively, which is included under the heading "Interest and similar revenues - credit institutions" in the income statement.

The breakdown of SMB financing loans at 31 December 2009 and 2008, by maturity date, is as follows:

	Thousand euros	
	2009	2008
Up to 1 year	3,478,474	2,527,865
From 1 to 2 years	3,425,813	2,693,653
From 2 to 3 years	3,090,176	2,523,009
From 3 to 4 years	2,237,618	2,141,251
From 4 to 5 years	1,533,190	1,359,434
More than 5 years	1,610,082	2,106,041
	15,375,353	**13,351,253**

In transactions classified as "SMB Financing loans" granted up to 31 December 1997, the ICO , the Group's Parent entity , assumes a percentage of credit risk that the entity receiving the funds holds, in turn, with respect to final borrowers. Since that date the Institute does not assume any risk whatsoever regarding the insolvency of final borrowers.

At 31 December 2009 and 2008, the Group has recorded a provision for the possible default of these lines of SMB financing totalling €1,348k, which are recorded under the heading "Provisions" (Note 20) in the accompanying balance sheets. Based on the accumulated experience over the years the SMB lines have been open, the Group has been able to determine that defaults have been minimal, representing 0.055% of all draw-downs between 1993 and 1997. Bearing in mind that the lines giving rise to this provision are fully amortised and, given accumulated experience, in 2005 the Group decided to reverse €35,000k from the provision that had been recorded. The adoption of this new approach to the treatment of these provisions meant that, with this amount of €35,000k a reserve was recorded deriving from the first application of Bank of Spain Circular 4/2004. During 2009 the amount of this provision has remained unchanged.

9.2 Customer loans

The breakdown of this balance sheet heading at 31 December 2009 and 2008, based both on the category of counterparty and the currency concerned, is as follows:

	Thousand euros	
	2009	2008
By counterparty categories -		
Resident Public Administrations	1,674,249	1,331,922
Non-resident Public Administrations	-	-
Other resident sectors	16,082,572	15,209,875
Other non-resident sectors	1,746,389	1,725,711
Other financial assets	9,699	-
	19,512,909	18,267,508
(Impairment losses)	(671,806)	(539,657)
Other measurement adjustments (*)	5,307	66,780
	18,846,410	**17,794,631**

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

Of the above counterparty balances, below we provide information regarding the transactions secured 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 2009 and 2008:

	Thousand euros	
	2009	2008
Balances included under "Resident Public Administrations"		
Loans to the national government	45,634	46,565
Loans to regional governments	1,628,615	1,285,357
Measurement adjustments	450	12,790
	1,674,699	**1,344,712**
Balances included under "Other resident sectors"		
Doubtful assets secured by the State	21,347	19,310
Loans to other public entities	4,190,946	3,571,653
Loans to other sectors guaranteed by the State	904,723	774,677
	5,117,016	**4,365,640**
Total transactions secured by the State	**6,791,715**	**5,710,352**

The breakdown of "Loans to the National government", without any measurement adjustment, is as follows at 31 December 2009 and 2008:

	Thousand euros	
	2009	2008
Loans to the State and its Autonomous Entities	787	793
Accounts receivable from the Public Treasury	41,323	34,279
Other accounts receivable from the State	3,524	11,493
	45,634	**46,565**

The heading "Accounts receivable from the Public Treasury" records the amounts paid by the Group to the Public Treasury that have yet to be effectively repaid as Subsidies receivable to offset interest rate differences affecting mediation loans.

The heading "Other accounts receivable from the State" records the Institut´s CARI operations amounts.

The balances of these amounts, which are carried at their nominal value, do not bear any interest whatsoever.

The breakdown of the principal amounts of loans included under the heading "Customer loans", including measurement adjustments without taking in consideration value adjustment for impairment assets, and set out by maturity date at 31 December 2008 and 2007, is as follows:

	Thousand euros	
	2009	2008
By maturity		
Up to 3 months	650,519	372,866
From 3 months to 1 year	811,914	344,796
From 1 to 5 years	6,873,294	5,893,960
More than 5 years	11,105,103	11,645,280
Indeterminate maturity	77,386	77,386
	19,518,216	**18,334,288**

In accordance with current Bank of Spain regulations, the provision for signature risk insolvency is recorded under the heading "Provisions for liabilities and charges - Other provisions" in the consolidated balance sheet.

10. Held-to-maturity investment portfolio

The breakdown by counterparty of the held-to-maturity investment portfolio at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
By counterparty		
Resident credit institutions	3,562,660	3,750,719
Other resident sectors	4,265,672	7,084,623
Doubtful assets	30,000	30,000
	7,858,332	10,865,342
Value adjustments for impairment	**(30,000)**	**(30,000)**
	7,828,332	**10,835,342**

The average rate of compensation for the portfolio was 1.59% regardless of coverage, and 1.49% with them.

The heading "Resident Credit Institutions" include debt securities issued by Spanish financial institutions, which are managed in an active market, have a fixed maturity and its 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 capacity to keep until maturity.

On March 8, 2007, ICO transferred assets in a securitization on receivables from loans that ICO had granted to financial institutions through its lines of mediation since 2001 amounting to €14,099,000,000.

The assets were securitized through the establishment of a securitization fund called "ICO-MEDIACIÓN AyT, FTA". The assets in this fund were composed of credit rights assigned to serve them as a guarantee for the bond issue amounting to €13,169,000,000 and the other liabilitiy elements of the fund which essentially include subordinated loans amounting to €930,470,000 whose payment priority is behind that of the aforementioned bonds which have been signed by other financial institutions. The bond issue was fully subscribed by the Institute having been placed in the investment portfolio at December 31, 2009 and 2008. The Fund was accepted to trading on the AAIAF Bond Market and given a AAA credit rating by FITCH.

According to the criteria contained in the Note 2.2.2 and the terms of article 23 of Bank of Spain Circular 4/2004, in this transaction the risks and benefits associated with ownership of the receivables were transferred to other parties substantially, through the subordinated loans, so a proceed of taking out of the balance loans that could be securitised.

Additionally along with the securitization the Institute contracted an interest rate swap that is classified in the trading book balance sheet on December 31, 2009 and 2008 (Note 7).

The heading "Other resident sectors" mainly includes the bonds issued by the Fund "ICO – Mediación AyT, FTA" being the outstanding balance at 31 December 2009 €4,262,142k (€7,084,623k at 31 December 2008).

The contribution of interest to the consolidated income statement in 2009 and 2008 totalled €279,785k and €482,290k, respectively (Note 25).

The Institute used €30,000k to cover losses owing to the deterioration in the credit risk attributed to different securities held in the held-to-maturity portfolio at 31 December 2009, classified as doubtful assets (€30,000k at 31 December 2008).

Movements experienced during the years 2009 and 2008 under the heading of Held-to-maturity investment portfolio are shown below:

	Thousand euros	
	2009	2008
Initial balance	**10,835,342**	**10,662,707**
Purchase additions	15,390,552	7,800,589
Amortization and depreciation	(18,397,562)	(7,627,954)
Balance at the end of the year	**7,828,332**	**10,835,342**

Movement of impairment losses recorded in the held-to-maturity investment portfolio at the end of the years 2009 and 2008 is shown below:

	Thousand euros
Balance as at January 1, 2008	**30,496**
Appropriations charged to income	22,597
Recoveries	-
Application of funds	(23,093)
Other movements	-
Adjustments for exchange differences	-
Balance as at December, 31 2008	**30,000**
Appropriations charged to income	-
Recoveries	-
Application of funds	-
Other movements	-
Adjustments for exchange differences	-
Balance as at December, 31 2009	**30,000**

The breakdown by term residual maturity of December 31, 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
On demand	30,000	30,000
Up to 3 months	3,562,660	3,750,719
Between 3 months and 1 year	-	-
Between 1 and 5 years	4,235,672	7,054,623
Over 5 years	-	-

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.

- 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 notional and net fair values of financial derivatives recorded as "Hedging derivatives" at 31 December 2009 and 2008 are set out below by counterparty, remaining term and type of risk:

	Thousand euros					
	Notional		Assets		Liabilities	
	2009	2008	2009	2008	2009	2009
By type of market						
Organized markets	-	-	-	-	-	-
Non-organized markets	70,327,761	63,097,375	1,899,625	2,711,636	3,340,704	5,823,536
	70,327,761	**63,097,375**	**1,899,625**	**2,711,636**	**3,340,704**	**5,823,536**
By type of product						
Swaps	70,327,761	63,097,375	1,899,625	2,711,636	3,340,704	5,823,536
	70,327,761	**63,097,375**	**1,899,625**	**2,711,636**	**3,340,704**	**5,823,536**
By counterparty						
Credit institutions	70,327,761	63,097,375	1,899,625	2,711,636	3,340,704	5,823,536
Other financial institutions		-	-	-	-	-
Other sectors		-	-	-	-	-
	70,327,761	**63,097,375**	**1,899,625**	**2,711,636**	**3,340,704**	**5,823,536**
By type of risk						
Exchange risk	20,762,902	19,841,038	1,114,491	1,922,380	2,608,012	4,458,039
Interest rate risk	49,564,859	43,256,337	785,134	789,256	732,692	1,365,497
	70,327,761	**63,097,375**	**1,899,625**	**2,711,636**	**3,340,704**	**5,823,536**

On December 31, 2009 and 2008, 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:

				Thousand euros		
			2009	2008		
	Level I	Level II	Level III	Level I	Level II	Level III
Hedging asset derivatives	-	1,899,625	-	-	2,711,636	-
Hedging liabilities derivatives.	-	3,340,704	-	-	5,823,536	-

12. Non-current assets for sale

The entire balance in the heading "Non-current assets for sale" relates to assets awarded in foreclosure.

Movements between 31 December 2008 and 31 December 2009 in the balances under this balance sheet heading are shown below:

	Thousand euros		
	Cost	Impairment	Total
Balance at 1 January 2008	**56,683**	**(2,497)**	**54,186**
Additions	-	-	-
Disposals/Applications	(3)	42	39
Transfers	-	-	-
Balance as at 31 December 2008	**56,680**	**(2,455)**	**54,225**
Additions	6,058	-	6,058
Disposals/Applications	-	-	-
Transfers	(651)	(55,300)	(55,951)
Balance as at 31 December 2009	**62,088**	**(57,756)**	**4,332**

At December 31, 2009 and 2008, the amount collected under the heading Non-current assets held for sale, an amount of €48,678k and €49,241k respectively, corresponds to a property whose fair value has been obtained by an independent valuation in 2009 and 2008 amounted to €2,449k. This asset is subject to the regulations of Act 24/01 (DA 11), with a compensatory fund, amounting to €49,241k under the heading of Other financial liabilities, Other concepts (Note 19.6) at December 31 of 2009 and 2008. Under the heading of transfers includes a reclassification of the provision of fixed assets has been reclassified from non-current assets for sale to assets for own use (art), of an amount of €651k euros (Note 14).

13. Shareholdings

The balance of this consolidated balance sheet heading at 31 December 2009 and 2008, set out by company and shareholding, is as follows:

	Thousand euros
	Associated Entities
Balance at 31 December 2007	**28,219**
Additions	12,526
Disposals/Applications	-
Others movements	-
Additions	1,855
Balance at 31 December 2008	**42,600**
Additions	8,281
Disposals/Applications	-
Others movements	-
Impairment	(10,791)
	40,090
Balance at 31 December 2009	

Appendix I contains a breakdown of shareholdings, as well as the most relevant information regarding these interests at 31 December 2009 and 2008.

The most significant additions for 2008 relate to the acquisition of a shareholding in the Economic Interest Groupings detailed in Appendix I, engaged in the acquisition and charter of aircraft and ships and the performance of related air transport activities classified as associates under "Shareholdings".

The return on the aforementioned shareholdings is tax related due to the inclusion in the Group's Parent entity's tax base of the relevant tax losses of these companies. The annual impairment charge is calculated such that the tax profit obtained in the year is adjusted to the expected final results of the investment.

At 31 December 2009 an amount of €10,791k was recognized in respect of impairment by charge to corporate income tax in the accompanying consolidated income statement.

At December 31, 2008 an amount of €1,855k was recognized as a recovery of the provision for impairment to tax benefit section of the profit and loss account.

14. Property, plant and equipment

Movements in 2009 and 2008 recorded under Property, plant and equipment, and accumulated depreciation, are as follows:

	Thousand euros			
	Building of own use	Furniture, vehicles and another fixed assets	Real-estate investments	Total
Cost				
Balance as at January 1, 2009	**111,686**	**14,798**	**-**	**126,484**
Additions	-	2,106	-	2,106
Disposals and other write-offs	-	-	-	-
Balance as at December 31, 2009	**111,686**	**16,904**	**-**	**128,590**
Accumulated depreciation				
Balance as at January, 1 2009	**13,645**	**6,524**	**-**	**20,169**
Appropriations	2,364	445	-	2,809
Transfers and other movements	-	-	-	-
Balance as at December, 31 2009	**16,009**	**6,969**	**-**	**22,978**
Impairment losses -				
At December 31, 2009	-	651	-	651
Property, plant and equipment net -				
Balance as at December 31, 2009	95,677	9,284	-	104,961
Cost				
Balance as at January 1, 2008	**111,686**	**14,520**	**-**	**126,206**
Additions	-	278	-	278
Disposals and other write-offs	-	-	-	-
Balance as at December 31, 2008	**111,686**	**14,798**	**-**	**126,484**
Accumulated depreciation				
Balance as at January, 1 2008	**11,477**	**6,324**	**-**	**17,801**
Appropriations	2,168	550	-	2,718
Transfers and other movements	-	(350)	-	(350)
Balance as at December, 31 2008	**13,645**	**6,524**	**-**	**20,169**
Impairment losses -				
At December 31, 2008	-	-	-	-
Property, plant and equipment net -				
Balance as at December 31, 2008	98,041	8,274	-	106,315

At 31 December 2009 there are fully-depreciated property, plant and equipment for own use for a gross amount of approximately €5,977k (€4,966k at 31 December 2008).

In compliance with Group policy, all property, plant and equipment is insured at 31 December 2009 and 2008.

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 €53,106k. 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, 2009 amounted to €29,965k (€30,876k at December 31, 2008) (Note 22).

15. Intangible assets

The breakdown of Intangible assets in the balance sheet at 31 December 2009 and 2008 relates solely to other intangible assets.

		Thousand euros	
	Useful estimated life	2009	2008
With indefinite useful life	-	-	-
With defined useful life	3 years to 10 years	14,198	10,426
Gross total		**14,198**	**10,426**
Of which:			
Internal developments	3 years	11,986	8,688
Remainder	10 years	2,212	1,738
Accumulated depreciation		**(2,355)**	**(1,376)**
Impairment losses		-	-
		11,843	**9,050**

At 31 December 2009 and 2008, all the items recorded under this heading relate to computer applications. At 31 December 2009 and 2008 the Group does not record any fully-amortised intangible assets still in use.

16. Tax assets and liabilities

The breakdown of tax assets and liabilities at 31 December 2009 and 2008 is as follows:

	Thousand euros			
	Assets		Liabilities	
	2009	2008	2009	2008
Corporate income tax	**12,314**	**213**	**1,639**	**16,943**
VAT	12,095	-	-	15,138
Personal income tax withholdings	219	213	13	12
Social Security contributions	-	-	1,279	1,395
Other	-	-	347	398
Deferred taxes:	**203,708**	**242,099**	**36,050**	**28,133**
Impairment losses on credits, loans and discounts	103,357	80,990	224	-
Measurement of cash-flow hedges (Note 21)	100,351	160,522	-	-
Restatement of property	-	-	15,932	15,932
Restatement of available -for- sale financial assets (Note 21)	-	-	18,493	8,194
Accrual financial liabilities	-	-	1,244	3,717
Accrual of financial commissions	-	587	-	-
Reinvestment deferral	-	-	157	290
	216,022	**242,312**	**37,689**	**45,076**

Movements in 2009 and 2008 in the deferred tax asset and liability balances are set out below:

	Thousand euros			
	Assets		Liabilities	
	2009	2008	2009	2008
Balance at beginning of the year	**242,099**	**123,139**	**28,133**	**29,596**
Impairment losses on credits, loans and discounts	22,367	35,133	224	-
Valuation of cash flow hedges	(60,171)	84,605	-	-
Restatement of property	-	-	-	-
Restatement of available -for- sale financial assets	-	(191)	10,299	760
Accrual financial liabilities	-	-	(2,473)	(2,089)
Accrual of financial commissions	(587)	(587)	-	-
Reinvestment deferral	-	-	(133)	(134)
Balance at the end of the year	**203,708**	**242,099**	**36,050**	**28,133**

17. Other assets

The breakdown of Other Assets at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
Other assets	450	1,900
Accruals	1,708	3,708
	2,158	**5,608**

18. Other liabilities

The breakdown of Other Assets at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
Other liabilities	1,819	1,884
Accruals	1,300	2,056
	3,119	**3,940**

The heading "Other liabilities" includes an amount of €1,359k and €1,360k at December 31, 2009 and 2008 respectively, relating to various liabilities payable in the management of the part of the balance sheet handled by BBVA of the extinct Argentaria (see Note 1.4).

19. Financial liabilities at amortised cost

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

	Thousand euros	
	2009	2008
By counterparty categories		
Credit institution deposits (Note 19.1)	1,380,235	1,109,772
Customer deposits (Note 19.2)	5,359,316	2,584,178
Debts represented by negotiable securities (Note 19.3)	43,694,878	39,345,359
Other financial liabilities (Note 19.6)	3,164,479	1,404,505
	53,598,908	**44,443,814**

19.1 Credit institution deposits

The composition of this balance sheet heading at 31 December 2009 and 2008, set out by currency and the nature of the transaction, is as follows:

	Thousand euros	
	2009	2008
By nature:		
Loans from the European Investment Bank (1)	893,883	546,612
Inter-bank loans	34,402	72,430
Loans from other financial institutions	400,118	452,844
Measurement adjustments - Accrual accounts	51,832	37,886
	1,380,235	**1,109,772**

(1) This figure includes the loan granted to the Institute, the Group's Parent entity, that will be repaid in accordance with the results obtained from the liquidation of the Venture Capital Fund - EuroICO, formed in 1998. This loan, for which interest is capitalised, has been totally amortized during 2008.

Interbank deposits fall due within one year as from 31 December 2009 and 2008, respectively.

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

	Thousand euros	
	2008	2008
Up to 1 year	201,168	123,039
From 1 to 2 years	43,706	209,173
From 2 to 3 years	43,332	45,190
From 3 to 4 years	37,944	44,893
From 4 to 5 years	15,739	39,329
More than 5 years	551,994	84,988
	893,883	**546,612**

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

	Thousand euros	
	2008	2008
Up to 1 year	-	118,002
From 1 to 2 years	-	629
From 2 to 3 years	-	629
From 3 to 4 years	69,415	1,048
From 4 to 5 years	-	79,646
More than 5 years	330,703	252,890
	400,118	**452,844**

19.2 Customer funds

The composition of this heading in the consolidated balance sheets at 31 December 2009 and 2008, according to sector and currency, is as follows:

	Thousand euros	
	2009	2008
By counterparty category		
Public Administrations	3,919,392	986,329
Other resident sectors (1)	1,418,168	1,560,352
Other non-resident sectors	15,633	15,853
Measurement adjustments - Accrual accounts	6,123	21,644
	5,359,316	**2,584,178**

(1) Of which at 31 December 2009 and 2008 €1,179,123k and €21,309k, respectively, relate to demand.

At 31 December 2009 and 2008, the breakdown by nature of the balance recorded under "Public Administrations" is as follows:

	Thousand euros	
	2009	2008
Special loan from the State	2	2
Reciprocal Interest Adjustment Agreement (RIAA)	12,184	7,522
Public Administration Current Accounts and other items	335,769	978,805
Special loan Liquidity Line	3,571,437	-
	3,919,392	**986,329**

With the formalization of liquidity lines mediation ICO 2009, the State subscribed with ICO a special loan to finance the 50% of these lines of mediation to a maximum of €5,000,000k. On December 31, 2009 the amount of the loan is €3,571,437k.

19.3 Debts represented by negotiable securities

The breakdown of the heading "Debts represented by negotiable securities" at 31 December 2009 and 2008 is set out below:

	Thousand euros	
	2009	2008
Promissory notes and other securities (Note 19.4)	563,571	668,106
Interest paid in advance	(510,290)	(604,032)
	53,281	**64,074**
Bonds and debentures issued (Note 19.5)	42,857,965	38,760,086
Interest paid in advance and share premium	42,914	(61,035)
	42,900,879	**38,699,051**
Measurement adjustments	740,718	582,234
	43,694,878	**39,345,359**

Movements experienced during the years 2009 and 2008 under the heading of debt securities - notes are as follows:

	Thousand euros	
	2009	2008
Balance at beginning of the year	**64,074**	**64,910**
Issues	-	-
Amortizations and depreciations	(10,793)	(836)
Balance at the end of the year	**53,281**	**64,074**

Movements experienced during the years 2009 and 2008 under the heading of debt securities - Bonds and obligations are shown below:

	Thousand euros	
	2009	2008
Balance at beginning of the year	**38,699,051**	**29,569,115**
Issues	15,221,355	17,582,466
Amortizations and depreciations	(11,019,527)	(8,452,530)
Balance at the end of the year	**42,900,879**	**38,699,051**

19.4. 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 2009 and 2008:

	Thousand euros	
	2009	2008
Up to 1 year	299,606	104,535
From 1 to 2 years	131,983	299,606
From 2 to 3 years	131,982	131,983
From 3 to 4 years	-	131,982
From 4 to 5 years	-	-
More than 5 years	-	-
	563,571	**668,106**

The financial cost of the promissory notes and other securities in 2009 and 2008 totaled €67,243k and €61,657k, respectively, and are recorded under the heading "Interest and similar charges for deposits represented by negotiable securities" (Note 26) in the income statement.

The average weighted interest rate on active promissory notes at 31 December 2009 (all issued between 1989 and 1993) and 2008 was 11.90% and 9.15%, respectively, excluding hedges obtained. Taking hedges into consideration the average rates in 2009 and 2008 fall to 8.93% and 6.87%, respectively.

19.5. Bonds and debentures issued

Set out below are the main characteristics of the debenture issues outstanding at 31 December 2009 and 2008, grouped together by currency together with the relevant interest rates and maximum redemption dates:

Number of issues					Thousand euros	
2009	2008	Currency	Redemption date	Annual interest rate	2009	2008
23	22	Norwegian krone	Until 2016	4.28 to 6.61	1,623,492	1,423,076
1	1	Swedish krona	Until 2016	4.5	48,771	45,998
16	16	Australian dollar	Until 2014	0.055 to 13.5	2,258,843	1,830,921
4	4	Canada dollar	Until 2020	3.32 to 5.00	892,384	794,211
2	2	Brazilian Real	Until 2011	Various	29,865	23,123
3	2	New Zealand dollar	Until 2015	6.375	187,851	85,983
59	74	US dollar	Until 2018	Various	13,846,585	13,121,889
45	53	Euro	Until 2026	Various	17,515,490	14,849,933
11	6	Swiss franc	Until 2024	Until 2,00	1,422,215	592,593
24	29	British pound	Until 2013	0.0475 to 5.00	3,760,840	4,461,927
5	7	Turkish lira	Until 2011	10.00 to 10.50	162,435	424,517
12	22	Yen	Until 2023	Various	1,109,194	1,105,915
					42,857,965	**38,760,086**

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

In 2009 and 2008 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 €1,754,390k, which is an annual average interest rate of 3.99%. In 2008 financial costs totaled €1,700,316k, which was an average annual interest rate of 4.82% (Note 26).

The above interest rates do not take into account the effect of hedges obtained. If hedges are taken into account the above-mentioned rates decline to 2.43% in 2009 and to 4.71% in 2008, respectively.

19.6 Other financial liabilities

An analysis of the balances of this caption in the consolidated balance sheets as at 31 December 2009 and 2008 is as follows:

	Thousand euros	
	2008	2008
Grants	6,276	11,320
Treasury Funds	3,035,545	1,202,409
Other items	122,658	190,776
	3,164,479	**1,404,505**

At 31 December 2009 "Other items" mainly include, an amount of €2,138k corresponding to operations of outstanding compensation in connection with the operation of ICO PYME securitisation (at December 31, 2008 an amount of €89,359k), an amount of €20,828k from a refinancing of economic policy (at December 31, 2008 an amount of €21,892k), an amount of €7,661k from recuperations of pending operations of capitalize as it said in the DA 11ª of the Law 24/2001 (at December 31, 2008 an amount of €7,368k), an amount of €16,645k from timing of financial guarantees (at December 31, 2008 an amount of €10,880k) and an amount of €70,000k as an advanced received for the operation of Jeremie Fund. At December 31, 2008 it was include an amount of €49,241k from liabilities of financial operations classified as non current assets on sale and customer credit (Note 12) reclassified in 2009 as plant awarded.

Treasury Funds record those funds received by the Institute, the Group's Parent entity, and repayable in accordance with legislation applicable to each:

- "FOMIT": Fund for the modernization of tourist infrastructures.
- "Avanza": Fund for access to new technologies.
- "Préstamos Renta Universidad": Fund relating to university admission.
- "DGT Carnet de conducir": Fund relating to obtainment of a driving license
- Plan Vive: fleet renewal.

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 - Turismo (FOMIT – Tourism line): this line is to provide financial support to 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 2009-2010.

- Línea Plan Vive: is destinated to make easier to change vehicles with more than 15 years for new ones more efficient.

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 2009 and 2008 is set out below:

	Thousand euros	
	2009	**2008**
FOMIT	802,477	263,959
Avanza	1,377,983	880,150
University Studies Loans	114,798	42,338
Plan Vive	723,658	3,016
Driving Licence	12,827	12,946
Other	3,802	-
	3,035,545	**1,202,409**

20. Provisions

At 31 December 2009 and 2008 the breakdown of the balances recorded under this heading in the accompanying balance sheet is as follows:

	Thousand euros	
	2009	**2008**
Provisions for pensions and similar obligations	78	58
Provisions for taxes and other legal contingencies	-	-
Provisions for contingent exposures and commitments	26,783	26,314
Other provisions	223,341	181,409
	250,202	**207,781**

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 Group 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 2009 and 2008 is as follows:

	Thousand euros	
	2009	**2008**
Provision for SMB (Note 9.1.3)	1,348	1,348
Royal Decree – Law 12/1995 Fund (Note 9.2)	132,427	134,807
Provision for other mediation loans (Note 9.1.2)	5,219	5,224
Provision for Special Loan Liquidity Line	44,009	-
Other specific provisions – CARI Egypt	538	868
Fund for amounts recovered from BBVA	968	2,500
Fund *Prestige Facility*	8,703	13,318
Fund to compensate AIE shareholdings results	27,583	20,513
Other funds	2,546	2,831
	223,341	**181,409**

<u>Royal Decree- Law 12/1995 (28 December)</u>

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 Credito 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 totaling a maximum of €150,253k (Note 19.2) to provide provisions and charge the amounts relating to doubtful and default loans that could arise in the future from the activities listed in Note 1, in accordance with the regulations in force for credit institutions.. Additional Provision 4 of Law 66/1997 (30 December) on Tax, Administrative and Social Order Measures stipulated that notwithstanding the application of these regulations, the Council of Ministers or the CDGAE could authorize 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 2009 and 2008 amounted to €8,863k and €10,337k, respectively and the income obtained on the management of the funds assigned to the Fund itself, in 2009 and 2008, amounted to €3,104k and €5,498k, respectively.

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

In 2004 another allocation totaling €249,500k was charged against the State Loan granted to ICO in accordance with the Council of Ministers Resolution dated 30 July 2004 and no further allocations have been made since then.

In 2009 allocations were made for €3,795k directly by the State online mediation Forum Afinsa, by agreement of the Council of Ministers of April 27th, 2007, with any other additional endowment.

At 31 December 2009 and 2008, the balance of this Fund totals €132,427k and €134,807k, respectively.

Movements in 2009 and 2008 in this fund recorded under "Other Provisions" in the balance sheet at 31 December 2008 and 2008 are as follows:

	Thousand euros
Balance as at January 1, 2008	**133,964**
Capitalization of interest	**5,498**
Loan recoveries (principal and interest)	**10,337**
Applications	**(14,992)**
Balance as at December 31, 2008	**134,807**
Capitalization of interest	**3,104**
Loan recoveries (principal and interest)	**8,863**
Applications	**(14,347)**
Balance as at December 31, 2009	**132,427**

Other provisions CARI-Egypt

The heading "Other provisions CARI-Egypt" records the present value of the Institute's, the Group's Parent entity, commitments with BBVA, deriving from an old official credit export operation involving Egypt.

Funds recovered from BBVA

Additional provision Eleven 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 to receive collections pertaining to these loans, which for prudence, are not generally reflected as income in the income statement. For those recorded as income, the relevant provision for liabilities has been recorded amounting to €968k and €2,500k at 31 December 2009 and 2008, respectively, that will be capitalized in accordance with Additional Provision 10.1 of Law 24/2001, amended by Law 42/2006 (see Note 1.9).

Prestige Line fund

The Prestige Line Fund has its origins in the RDL 7 / 2002, November 22, which authorizes to charge on Fund Special Provision 12/95 RDL the default amounts from loans Prestige line, with credit to this fund specific provision.

Operations Fund Law 24/2001

The Operations Fund Law 24/2001, due to the nature of the operations covered by it, has been subject of reclassification by the amount remaining to heading impairment provisions to cover credit risk (€18,853k) (Note 9).

Fund to compensate AIE shareholdings results

Heading Fund to compensate AIE shareholdings includes the provision to adjust to its profit the transactions performance conducted through the Economic Interest Groupings (Note 13). This provision has been recognized under the rubric of corporate income tax of the income account for an amount of €10,048k and €17,134k, respectively in the years 2009 and 2008 (Note 23).

Movements in 2009 and 2008 in the provisions recorded under these balance sheet headings at 31 December 2009 and 2008:

	Thousand euros				
	Provisions for taxes	Fund for pensions	Provisions for contingent exposures and commitments	Other provisions	Total
Balance as at December 31, 2008	**35**	**57**	**28,383**	**212,837**	**241,312**
Net allocation (1)	-	1	908	8,121	9,030
Recoveries	(35)	-	(2,977)	(6,025)	(9,037)
Application of funds	-	-	-	(16,838)	(16,838)
Transfers and other movements	-	-	-	(16,718)	(16,718)
Exchange differences	-	-	-	32	32
Balance as at December 31, 2008	**-**	**58**	**26,314**	**181,409**	**207,781**
Net allocation	-	20	5,905	49,523	55,448
Recoveries	-	-	(5,436)	(249)	(5,685)
Application of funds	-	-	-	(17,369)	(17,369)
Transfers and other movements	-	-	-	10,044	10,044
Exchange differences	-	-	-	(17)	(17)
Balance as at December 31, 2009	**-**	**78**	**26,783**	**223,341**	**250,202**

(1) Net transfers by charge to results relating to "Other provisions" include €3,104k in 2009 and €5,498k in 2008, which should be credited to the Special Provision Fund in respect of the capitalization of accrued interest relating to actual remuneration. Additionally in 2009 includes de allocation to the provision for the new liquidity facilities of the Institute (Note 9.1.3).

(2) Transfers and other movements were formed primarily by the compensation Fund of participations results in AIE, endowment is charged to expense in profit tax.

21. Valuation adjustments

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

	Thousand euros					
	2009			2008		
	Gross	Tax effect (Note 16)	Net	Gross	Tax effect (Note 16)	Net
Available-for-sale financial assets	61,643	(18,493)	43,150	27,313	(8,194)	19,119
Cash flow hedging	(334,503)	100,351	(234,152)	(535,073)	160,522	(374,551)
TOTAL	**(272,860)**	**81,858**	**(191,002)**	**(507,760)**	**(152,328)**	**(355,432)**

The balance of this heading relates to the account "Available-for-sale financial assets" and "Valuation adjustments for cash flow hedging" in the accompanying consolidated 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.

	Thousand euros	
	2009	2008
Opening balance	**(355,432)**	**(158,352)**
Change in fair value of available-for-sale financial assets	24,031	3,226
Cash flow hedges	140,399	(200,306)
Closing balance	**(191,002)**	**(355,432)**

22. Own funds

The reconciliation of the opening and closing carrying value in 2009 and 2008 of the heading "Equity" in the consolidated balance sheets:

	Thousand euros				
	Share	Restatement reserves	Other reserves	Results	Total
Balance as at December 31, 2007	**1,629,144**	**31,787**	**485,770**	**79,188**	**2,225,889**
Distribution of results	-		79,188	(79,188)	-
Other increases in reserves	-	(911)	910	-	(1)
Result for the year	-	-	-	88,363	88,363
Other movements	422,952	-	(1,001)	-	421,951
Balance as at December 31, 2008	**2,052,096**	**30,876**	**564,867**	**88,363**	**2,736,202**
Distribution of results	-		88,363	(88,363)	-
Other increases in reserves	-	(911)	911	-	-
Result for the year	-	-	-	22,477	22,477
Other movements	150,633	-	(2,188)	-	148,445
Balance as at December 31, 2009	**2,202,729**	**29,965**	**651,953**	**22,477**	**2,907,124**

In 2009 capital was increased by €150,633k as follows:

- Contribution of 140,000 million euros by charge to budgetary item 15.16.931M.871 of General State Budget Law 2/2008 of 23 December, authorized to increase the Institute's equity.

- Based on the eleventh additional provision of Law 24/2001 of December 27th, on fiscal, administrative and social measures, the amounts recovered after the cancellation of a debt owned by the State with ICO as a result of certain loans and guarantees granted by the former to official credit entities and by the Institute became part of the Institute's assets. The contribution to equity in 2009 as a result of this amounted to € 10,633k.

In 2008 capital was increased by €422.952k as follows:

- Contribution of €303,000k by charge to budgetary item 15.16.931M.871 of 2007 General State Budget Law 42/2006, of 28 December, authorized in order to increase the Institute's equity.

- Capitalization of an amount of €75,861k, in accordance with the ACM 11/12/87 and the Law 51/2007, of PGE 2008 relative to an economic policy operation.

- Capitalization of an amount of €44,091k. Eleventh Additional Provision of Law 24/2001 of December 27, of Fiscal, Administrative and Social Order, was modified, becoming part of the Institute's equity the amounts recovered after the cancellation of debts owed by the State with the ICO as a result of certain loans and guarantees granted by the former official credit institutions and by the Institute.

As from 1993, minimum equity was regulated by Bank of Spain Circular 5/1993, of 26 March 1993, that lays down that equity should not be less than the accounting balances of risk assets, net of specific provisions, depreciation/ amortization and compensatory balances, weighted and multiplied by the coefficients established in said Circular.

The mentioned Circular 5/1993, modified by Circular 3/2005, of 30 June, Bank of Spain, has been modified by Circular 3/2008.

Royal Decree – Law 12/1995 of 28 December 1995, concerning urgent budgetary, tax and financial measures published in the Official State Gazette of 30 December 1995 also laid down that the level of equity of Instituto de Crédito Oficial will be that required at each time under legislation governing Credit Institutes, with the pertinent regulatory exceptions.

The Institute's net computable equity, that does not include profit and amounted to €3,152,501k at 31 December 2009, exceeded the amount laid down in Bank of Spain Circular. At 31 December 2008 the Institute's net computable equity amounted to €2,871,925k that also exceeded the amount laid down in said Circular (Note 1.9.1).

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 2009 and 2008, in the part of that balance which has arisen on consolidation, analyzed for fully and proportionally consolidated companies in the consolidated financial statements:

	Thousand euros	
	2009	**2008**
AXIS Participaciones Empresariales, S.A.	5,849	4,580
Instituto de Crédito Oficial	654,314	564,680
	660,163	**569,260**

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

Set out below is the breakdown by consolidated company of balances under equity "Equity – Reserves – Reserves in companies carried under the equity method " in the consolidated balance sheets at 31 December 2009 and 2008, 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:

	Thousand euros	
	2009	**2008**
COFIDES, Compañía Española de Financiación del Desarrollo, S.A	2,880	2,215
CERSA, Compañía Española de Reafianzamiento, S.A..	-	53
Arrendadora Aeronáutica, AIE	(3,279)	(2,765)
Other entities	(7,811)	(3,896)
	(8,210)	**(4,393)**

23. Tax situation

The balance sheet at 31 December 2009 and 2008 includes, within the heading "Customer debits" the liability relating to applicable taxes.

The Group does not pay tax under the tax consolidation regime as the Institute, the Group's Parent entity, 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 ICO´s profit for 2009 and 2008 to the corporate income tax base is as follows:

	Thousand euros	
	2009	2008
Book profit before income tax	**30,262**	**124,174**
Permanent differences		
Externalization of pension commitments	39	45
Foreign taxes paid	2,571	4,437
Tax-loss carry forwards attributed to investee companies	(51,225)	(47,834)
Monetary adjustment due to the sale of assets	-	-
Adjustment to the measurement of derivatives	-	-
	(48,615)	(43,352)
Temporary differences:		
Due to impairment losses and provision non-deductible	139,164	145,790
Due to the reversal of temporary differences arising in other years	(58,623)	(23,851)
	80,541	121,939
Tax assessment base	**62,188**	**202,761**
Gross tax payable	18,656	60,828
Deductions and allowances	(2,094)	(4,074)
Withholdings and interim payments	(28,657)	(41,616)
Tax payable	**(12,095)**	**15,138**
Corporate income tax	(7,600)	20,173
Adjustments for exchange differences	189	-
Other adjustments (Note 13 and 20)	14,177	12,948
Corporate income tax	6,766	33,121

There are no tax losses available for offset. During the year the losses allocated of the Economic Interest Groupings in which ICO, the Group's Parent entity, has a differing proportional interest in capital are included (€51,225k at December 2009 and €47,834k at December 2008). Losses are allocated on the basis of the information provided by the entities. It has been decided to allocate these items in the same period in which the balance sheets of the Economic Interest Groupings are closed.

The tax incentive deductions applied in the years 2009 and 2008 in respect of professional training expenses amount to €20k and €16k respectively. There is an international double tax deduction (taxes borne) amounting to €2,069k and €3,953k respectively. Deductions charged by the IEA owned sum up a total of €105k in 2008. There are no deductions pending 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 2006 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 subjectability 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 annual accounts.

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 2009 and 2008:

	Thousand euros	
	2009	**2008**
Contingent risks		
Guarantees and other sureties	3,291,927	1,311,969
	3,291,927	**1,311,969**
Contingent commitments		
Balances drawable by third parties:		
Credit institutions	16,686,872	1,568,999
The Public Administrations sector	407,242	544,950
Other resident sectors	5,520,934	7,676,510
Non-resident sectors	582,969	1,098,196
	23,198,017	**10,888,655**
Other commitments	583,560	138,371
	23,781,577	**11,027,026**

At December 31st, 2009 the item titled "Available from third parties – credit entities" includes the total amount formalized in December 2009 by ICO in respect of new ICO 2010 lines of mediation (€ 16,675,000).

A significant part of these amounts will mature without any payment obligation arising for the Group and therefore the sum of the balances relating to these commitments cannot be considered as an actual future need for financing or liquidity to be granted by third parties to the Group.

The revenues obtained from guarantee instruments (guarantees and other sureties) are recorded under the heading "Commissions received) 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 2009 and 2008 are broken down below by source:

	Thousand euros	
	2009	**2008**
Bank of Spain and credit institutions	**694,112**	**877,724**
Credit institution deposits	483,269	803,517
Public administrations	39,420	52,909
Resident sectors	443,849	750,608
Debt securities (Note 10)	**279,785**	**482,290**
Adjustment of income from accounting hedges	(25,517)	(5,671)
Doubtful assets	5,335	13,206
	1,436,984	**2,171,066**

26. Interest and similar charges

The breakdown of this profit and loss heading during 2009 and 2008 is as follows:

	Thousand euros	
	2009	2008
Credit institution deposits	**32,510**	**45,348**
Customer funds	**95,840**	**112,642**
Deposits represented by marketable securities	**1,821,633**	**1,761,973**
Promissory notes (Note 19.4).	67,243	61,657
Other non-convertible securities (Note 19.5)	1,754,390	1,700,316
Adjustment of expenses owing to hedging operations	**(710,400)**	**(44,075)**
	1,239,583	**1,875,888**

27. Return on equity instruments

All yields obtained in this respect relate to the Equity portfolio and in 2009 and 2008 this item totaled €468k and €1,236k, respectively, in the consolidated income statement.

28. Results in companies carried under the equity method

All entities results valuated by the equity method registered in this caption in the consolidated income statements amounted losses of €1,307k and €1,629k in 2009 and 2008, respectively. Appendix I provide a breakdown of and relevant information on the shareholdings at 31 December 2009 and 2008.

29. Fees and commissions income and expenses

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

	Thousand euros	
	2009	2008
Commissions received		
Contingent risks	5,199	5,004
Availability commissions	15,423	8,944
Collection and payment services	11	1,076
Other commissions	28,521	17,219
	49,154	**32,243**
Commissions paid		
Signature risks	(207)	(137)
Other commissions	(5,471)	(1,999)
	(5,678)	**(2,136)**
Net commissions for the year	**43,476**	**30,107**

30. Gain or losses on financial assets and liabilities

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

	Thousand euros	
	2009	**2008**
Hedging derivatives (Note 7)	29,591	14,986
Derivatives held for trading	831	9,532
	30,422	**24,518**

31. Personnel expenses

The composition of this consolidated income statement heading is as follows in 2009 and 2008:

	Thousand euros	
	2009	**2008**
Wages and salaries	12,891	12,440
Staff welfare expenses	2,822	2,831
Other expenses	1,639	1,443
	17,352	**16,714**

The average number of employees at the Group in 2009 and 2008, by professional category and location, was as follows:

	Average distribution of employees			
	Men		Women	
	2009	**2008**	**2009**	**2008**
Management	10	10	3	3
Managers and technicians	89	86	125	123
Administrative staff	18	17	61	59
Support and sundry staff	1	-	-	-
	118	**113**	**189**	**185**

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 2009 and 2008 the Group recorded in the consolidated income statement €230k and €198k, respectively, in respect of remuneration accrued by the members of the Governing Bodies of the companies that form the Group in respect of wages, per diems and other remuneration. These allowances were paid to the Treasury, according to the applicable regulation law (also in 2008).

Fees collected by the Managing Director and other persons exercising similar functions during the years 2009 and 2008 are as follows:

Year 2009:

Number of Employees	Salaries and wages		Other wages	Total
	Fixed	Variable		
5	595	117	7	719

Year 2008:

Number of Employees	Salaries and wages		Other wages	Total
	Fixed	Variable		
5	646	137	75	858

At December 31, 2009 and 2008 there were no loans granted to the executive members of the Institute's General Council. At December 31, 2009 loans granted under internal regulations on loans to staff, had an outstanding amount of €22,771k and the average interest rate was 2.52% (€22,502k at 31 December 2008, 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 consolidated balance of this profit and loss account heading is as follows:

	Thousand euros	
	2009	2008
Buildings, installations and materials	1,292	1,222
Computers	3,429	2,757
Communications	376	382
Advertising and publicity	4,665	3,335
Rates and taxes	3,079	4,870
Other general administrative expenses	9,721	9,678
	22,562	**22,244**

Audit expenses

Audit expenses for the year relating to the Institute, the Group's Parent entity, are borne by the Contracting Body of the Ministry of Finance in accordance with the Law on Contracts with Public Administrations and complementary legislation and are therefore not included in external services in the accompanying consolidated income statement

The amount invoiced by PricewaterhouseCoopers for the rendering of services other than audit services in 2009 amounted to €48k (€278k during 2008).

The amount invoiced by PricewaterhouseCoopers for the remaining group entities for the audit services during 2009 and 2008 amounted to €7k, being the amount charged of other provision services of €3k.

33. Other operating products

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

	Thousand euros	
	2009	2008
Operating income from investment property	958	695
Other items	1,580	1,424
	2,538	**2,119**

"Other items" basically includes the expenses recovered from the return of surpluses and advances made through BBVA asset management and income received from ERDF(European Regional Development Fund).

34. Fair Value

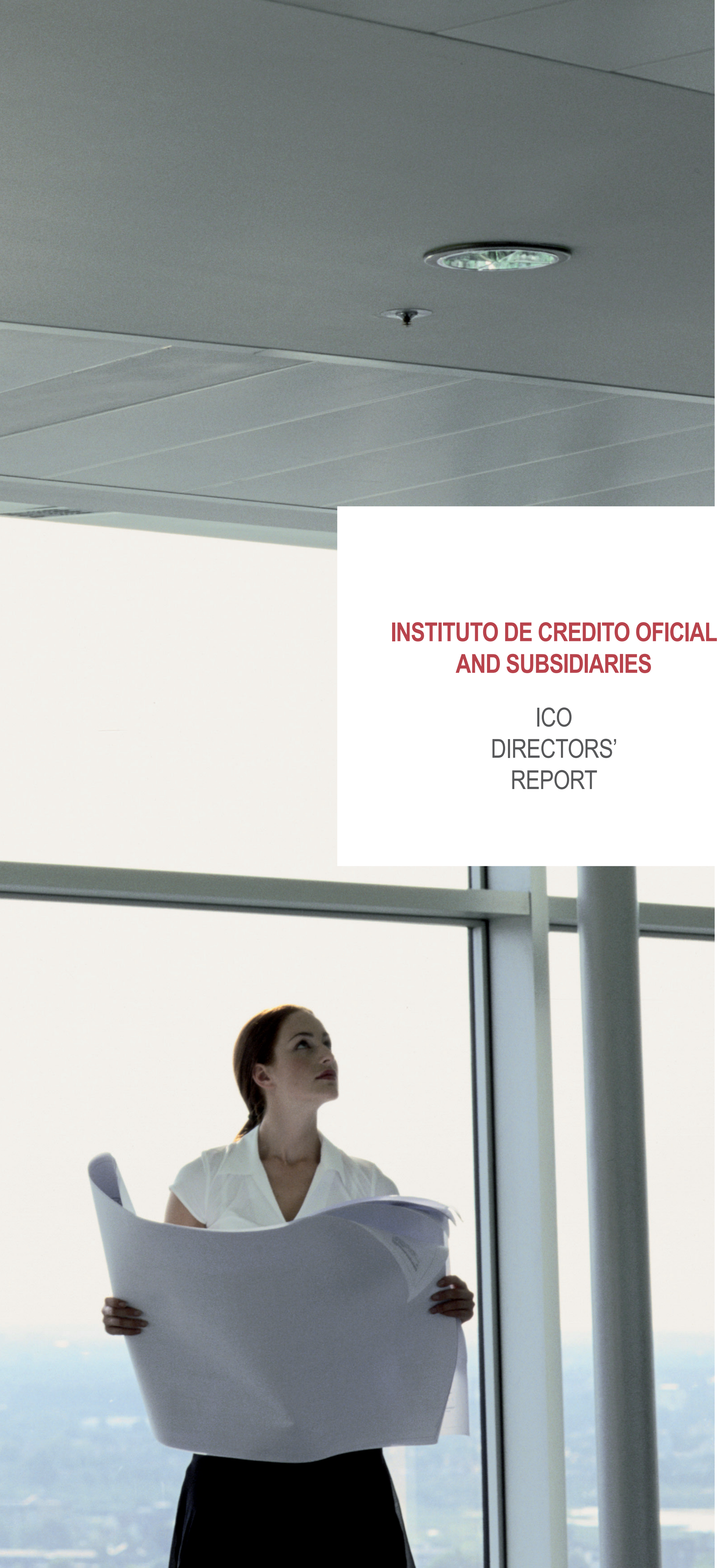
As mentioned above, financial assets are recorded on the balance sheet at fair value, except for credit, loans and discounts and equity instruments whose market value can not be estimated reliably.

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 recorded under the heading "Credit, loans and discounts" and liabilities recorded under the heading "Financial liabilities at amortized cost" of the balance sheet at December 31, 2009 are variable rate, with annual interest rate revision, so its fair value as a result of the movements of market interest rates is not significantly different from the one recorded in the balance sheet.

Of the total amount recorded under the heading Credit, loans and discounts and financial liabilities at amortized cost, amounting to €6,402,183k and €3,829,577k, respectively, at December 31 of 2009 (€6,006,308k and €273,799k at December 31, 2008) related to assets and liabilities linked to fixed rate. 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 fair value using a discount flows. The value calculated for these operations to December 31, 2009 and 2008 is as follows:

	Thousand euros			
ASSETS	**Book value**		**Fair value**	
	2009	**2008**	**2009**	**2008**
Credits, loans and discounts				
Deposits at credit institutions	**4,406,721**	3,707,171	**4,165,302**	3,475,160
Customer loans	**1,995,462**	2,299,137	**1,986,355**	2,285,652
LIABILITIES				
Financial liabilities at amortized cost				
Credit institutions deposits	3,829,577	273,799	3,873,573	315,490



INSTITUTO DE CREDITO OFICIAL AND SUBSIDIARIES

ICO DIRECTORS' REPORT

ICO DIRECTORS' REPORT

Financial context

As in neighboring countries, the Spanish economy suffered a decline in activity that caused GDP to fall by 3.6 % in 2009 (0.9% growth in 2008). This process of decline began in the second half of 2008 and continued throughout 2009 (for six consecutive quarters). On the demand side, GDP contracted in 2009 due to the sharp decline in investment (gross fixed capital formation fell by 15.3%) and by the withdrawal of household consumption (decreased by 5%), while public consumption continued to grow, though less than the previous year. Regarding the external sector, exports also decreased strongly due to less favorable international environment, although imports dropped even more, in this case due to a sharp decline drop in domestic demand.

The downturn that began in 2008 caused a sharp deterioration in the labor market. According to the Labor Force Survey (LFS), in the fourth quarter of 2009 unemployment stood at 18.8% of the population, where a year earlier it was 13.9%. The rise in unemployment was focused primarily on labor-intensive sectors (construction) at first, but ultimately ended up affecting all sectors of activity.

In the international environment, the turmoil in financial markets moved to the real sector, so every economy of the first world has experienced a fall in real terms. However, the tension in international financial markets declined in 2009 compared to the highs reached in September 2008 after the fall of Lehman Brothers, mainly due to governmental decisions to take measures to support the financial sector.

The central bank kept interest rates at historically low levels, without inflationary pressures in a context of weak demand. This, together with fiscal support measures, prevented the crisis from becoming systemic and led to a relaxation of tensions in the markets.

In Spain, public support for the economy was stepped up in the form of counter-measures such as the PlanE for the promotion of public investment and employment and others such as support for the purchase of vehicles that tried to cushion the fall of GDP. From a financial standpoint, the most important support mechanisms that went into effect in 2009 were the Fund for acquisition of financial assets, the guarantee for issues of debt instruments by financial institutions and the creation of the Fund for Orderly Bank Restructuring (FROB).

In the Spanish banking sector, the only episode of tension occurred in March 2009 when the Bank of Spain was forced to take over Caja Castilla-La Mancha due to solvency problems. Other banks have not had problems of this kind, although there has been a notable increase in defaults (which stood at 5.09 by year-end, 1.71 percentage points higher than in December 2008). The fall in credit demand, coupled with more demanding risk policies imposed by banks and the need for some of them to reduce their balances, a credit crunch ensued which in December ended with a year-on-year fall of 1.9%.

Performance Framework

The ICO performs the functions entrusted to it as a public institutional lender, subject to its statutory principles of "financial balance and alignment of means and objectives".

Throughout 2009, as announced in the "subsequent events" section of the 2008 annual report, articulated the Spanish Plan for stimulating the economy and jobs, within which the Institute, following the instructions and guidelines of Economic Authorities guidelines and agreements of the General Council, has initiated the establishment and operation of new lines of credit to facilitate the financing of investment and capital needs of self-employed individuals and small and medium enterprises in order to alleviate the negative effects of the economic and financial crisis. Most notable among these are the lines of credit extended to self-employed individuals and small and medium enterprises (hereinafter SMEs), a housing line of credit and the Renove vehicle plan, among others. In carrying out its tasks, too, as the State Financial Agency, ICO paid timely financial attention to applicants benefited from its credit lines, that have suffered damages.

There will also be highlighted lines: SME 2009, business growth, entrepreneurship and internationalization of Spanish companies, framing them within the Business Development Plan, and other existing lines to finance investment in infrastructure, strategic activities, renewable energy and internationalization of Spanish companies. Action programs were also added in the areas of energy efficiency, film, tourism, road transport and purchase of computer equipment.

The total amount of financing granted in 2009 was € 18,208,146,000. The total amount of provisions for the year was € 19,331,003k. Within these provisions, the largest increase, 57%, focused on the lines of mediation for the reasons

discussed above.
The maximum net increase in the debt that can be assumed by ICO is set annually in the relevant law of the State Budget. For the year 2009, the limit was set at 25,000 million euros.

Obtaining financial resources has responded to the fundamental objective of the generation of new investment credit based on demand for credit by the various lines implemented, to address the maturity structure of the balance so as to eliminate or minimize liquidity risks involved, interest rates and exchange rates and ensuring the transparency of its public issues in the implementation of its financial programs.

In 2009, as in 2008, ICO supported its borrowing mainly through the launch of major strategic issues, issuing debt in nine different currencies. The equivalent in euros of the gross income earned in the year, including long, medium and short term without considering income from the interbank market and customer deposits, amounted to € 17,414,950k.

With certain exceptions, the equity requirements that apply to ICO are the same as the ones that apply to other credit institutions in accordance with the Bank of Spain Circular 3/2008 of 22 May issued to entities credit on the identification and control of minimum capital. At the end of 2009 the balance of these resources, pre-consolidation, amounted to € 3,146,652k, representing 5.21% of the total amount of the balance. The increase in computable equity during the year is initially due to the implementation of a series of measures contained in the Forty-Ninth Additional Provision of Law 42/2006 of the General State Budget for 2007 of December 28, 2006 that enabled the individual solvency ratio of the Official Credit Institute to reach 11.61 %, which is higher than the legal minimum required by the Bank of Spain and 9.5% set by the Finance Act of the State.

Activities

At December 31, 2009, the credit investment balance, considered the outstanding amount of bonds purchased by the ICO and replacing the mediation securitized loans at the time (to date € 4,266,048k) excluding temporary deposits in the interbank and after deducting provisions and adjustments, amounted to € 52,392,678k , a magnitude that exceeds the 19.66% recorded at the end of 2008. The ratio between the balance of loans and the total net balance of the entity at the close of the fiscal years 2008 and 2009 stood at 82.66% and 86.80% respectively.

The balance of ordinary loans from direct business with customers after deducting provisions and adjustments amounted to € 18,773,722k and the amount of mediation-granted claims implemented and brought to the applicants by the end entities' partners, including as such the securitized bonds with an AAA securitization rating – was € 32,787,697k. These stocks were outperforming the previous year at 5.98 % and 30.81%, respectively. Loans and special operations, after deducting provisions, and granted on grounds of economic or social order are estimated at € 62,989k , which is 9.23% lower than the figure at the end of 2008.

At the end of 2009 the balance of the funding provided by ICO to lenders, notwithstanding the intermediary transactions outlined above – was equal to € 858,350k, which is 65.98% less than the previous year due to the reduction of the balance of deposits in the interbank agency. Of this amount € 90,080k refers to the deposits transferred in the interbank market (amount not included as lending); € 524,498k refers to operations with BBVA - attributable entirely to the refinancing of the endowments supplied before privatization of former public credit institutions (FPCI) and the remainder of € 243,772k comprises net lending, valuation adjustments and credit to residents and non-residents net of provisions for country risk.

In relation to total loans, the predominance of unsecured loans between the end of 2008 and 2009 decreased from 40.46% to 35.83%, the mediation of claims rose from 57.25% to 62.58%, that of special and outstanding loans dropped from 0.16% to 0.12% and loans to credit institutions from 2.14% to 1.47%.

The external resources of the ICO, fell in 92.92%, to market financing resources. The balance of ICO's regular funding was estimated at € 46,862,955k , including valuation adjustments, which represents an annual increase of 8.88%. The magnitude of the outstanding debt securities, bonds and notes, including valuation adjustments, - amounted to € 43,694,878k and the funds received from credit institutions, loans from the European Investment Bank (EIB), other banks and funds collected through the interbank system, to € 1,380,201k. In relation to the balances recorded in 2008, these amounts represent an increase of 11.05% and 24.13%, respectively. The debits to customers amounted to € 1,787,876k, which is 30.81% lower than the amount recorded in the previous year.

Special mention should be done to the increase of special funding at a fixed rate loan to finance the State´s credit application on liquidity line to attend current problems of SMEs in the period, the final balance has amounted to €3,571,439k.

Risk management policy

The Institute’s actions with regard to credit, liquidity, market and operational risk management are described in the Notes to the consolidated financial statements.

Results

According to the Bank of Spain Circular 6/2008 of 26 November, the net interest earned by ICO in 2009 was € 197,297k, which represents a decrease of 33.78% over that recorded in 2008, lower that is justified by the decrease in financial income has been higher than the decrease experienced by the financial costs and debt. On the one hand, the situation of economic and financial crisis described earlier in this report has translated into higher spreads in raising funds for the Institute and, secondly, the sharp decline in market interest rates has had a major impact on the repricing of assets and liabilities. The ratio of net interest income calculated on the magnitude of average total assets (ATM) stood at 0.34 %. The gross margin was € 269,589,000 and the results from operations activities totaled € 30,279,000, which represent an annual decline of 21.50% and 73.77%, respectively. Decrease can be explained, in addition to what has been said for the financial margin for the great effort supplied to the specific provision.

The added value on net asset impairment (transfers to provisions and other impairment losses) amounted to € 196,762k. The profit for the year before corporation tax was € 30,263k with net income of € 23,497k, which represents a decrease of 73.52% over the previous year. The after-tax profit ratio of the ATM magnitude (ROA) in 2008 and 2009 was 0.19% and 0.04%, respectively.

Expenditure on Research and Development

There was no research and development activity during the year.

Treasury Shares

Given the nature of the Institute, the regulation of treasury shares is not applicable.

Staff

The number of employees at December 31, 2009 was 307, which was 9 fewer than in 2008.

Events after the balance sheet date

As in previous years, the Law of the 2010 General State Budget allocated 140,000 million euros to budget item 15.16.931M.871 to increase the Institute’s resources.

As it moves into the 2010 financial year faced with this crisis scenario, the Institute in its mission as a state financial agency will focus its activities on the implementation of new counter-measures to mitigate the impact of the financial crisis and to support the recovery of economic activity and job creation. In addition to simplifying and continuing the lines already implemented in 2009, new lines will be implemented to meet the goals of the new sustainable economy law whose primary objective is to help businesses and entrepreneurs focus their attention on sectors with potential long-term growth and to generated sustainable employment from an economic, social and environmental perspective.

In addition, at the time this report, the government was developing proposals for the recovery of economic growth and job creation, some of which will be managed by ICO, including the reactivation of credit and liquidity for Spanish self-employed individuals and SMEs through direct loans.

APPENDIX I. SHAREHOLDING 12.31.2009 AND 12.31.2008 (direct and indirectly)

The relevant information to the shareholding in associated and dependent entities on December 31, 2009 and 2008 is as follows:

At December 31, 2009

			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
CERSA, Compañía Española de Reafianza-miento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG.RR.	23.49%	-	23.49%	21,567	-	21,567	268,200	91,799	-
COFIDES, Compañía Española de Financiación del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial su-pport to private projects with a Spanish interest carried out in develo-ping countries	25.25%	-	25.25%	10,524	-	10,524	63,250	53,086	1,818
EFC2E GESTION S.L.	Paseo del Prado, 4 - Madrid	Asset management	50.00%	-	50.00%	2	-	2	1,683	736	381
Arrendadora Aeronáutica AIE	Paseo de la Castellana 189 - Madrid	Purchase and leasing of aircraft	17.21%	-	17.21%	16,494	(3,279)	13,215	340,484	76,812	(1,663)
Aviones Portacoli CRJ-200 AIE	Gran Vía - Madrid	Support activities for air transportation at airports	25%	-	25%	888	(86)	802	17,203	3,207	138
Aviones Turia CRJ-200 I AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(87)	801	17,158	3,206	135
Aviones Carraixet CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(88)	800	17,129	3,199	135
Aviones Alfambra CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(331)	792	22,388	3,167	(100)
Aviones Gabriel CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(331)	792	22,377	3,168	(100)
Aviones Gorgos CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(330)	793	22,354	3,170	(100)
Aviones Sella CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(330)	793	22,302	3,171	(100)
Naviera Calliope AIE	-	Purchase and leasing of ships	13.19%	-	13.19%	1	(2,225)	(2,224)	266,387	(17,108)	(5,089)
Naviera Attile AIE	-	Purchase and leasing of ships	12.58%	-	12.58%	1,500	(236)	1,264	39,558	10,028	(1,133)
Naviera Electra AIE	-	Purchase and leasing of ships	12.60%	-	12.60%	38	(238)	(200)	40,226	10,021	(1,207)
Naviera Lakme AIE	-	Purchase and leasing of ships	15.12%	-	15.12%	-	-	-	33,094	30,750	2,342

APPENDIX I. SHAREHOLDING 12.31.2009 AND 12.31.2008 (direct and indirectly)

At December 31, 2009

			% of shareholding		Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Total	Gross	Impairment	Net	Assets	Net Equity	Profit/ Loss
Associated entities										
Naviera Alcione I AIE	-	Purchase and leasing of ships	20.30%	20.30%	713	(136)	577	12,323	(668)	(257)
Naviera Alcione II AIE	-	Purchase and leasing of ships	20.30%	20.30%	1	(141)	(140)	12,323	(691)	(236)
Naviera Alcione III AIE	-	Purchase and leasing of ships	20.30%	20.30%	1	(155)	(154)	12,323	(759)	(220)
Naviera Alcione IV AIE	-	Purchase and leasing of ships	20.30%	20.30%	1	(176)	(175)	12,323	(863)	(204)
Naviera Nadela AIE	-	Purchase and leasing of ships	16.70%	16.70%	672	(347)	325	11,786	(1,950)	(10)
Naviera Atios AIE	-	Purchase and leasing of ships	16.70%	16.70%	605	(344)	261	9,914	1,568	(853)
Naviera Moaña AIE	-	Purchase and leasing of ships	16.70%	16.70%	722	(358)	364	11,588	2,181	(1,180)
Naviera Poppea AIE	-	Purchase and leasing of ships	20%	20%	32	(430)	(398)	50,077	12,846	(1,298)
Naviera Kuriles AIE	-	Purchase and leasing of ships	3.77%	3.77%	-	(449)	(449)	278,154	12,137	(3,337)
Naviera Sollube AIE	-	Purchase and leasing of ships	49%	49%	52	(447)	(395)	12,896	(115,645)	(520)
Naviera Rusalka AIE		Purchase and leasing of ships	24.36%	24.36%	11	(22)	(11)	5,686	2,529	(92)
Naviera Bolena AIE		Purchase and leasing of ships	24.36%	24.36%	17	(19)	(2)	5,655	2,446	(64)
Naviera Ludmille AIE		Purchase and leasing of ships	24.36%	24.36%	26	(80)	(54)	10,123	5,088	(104)
Naviera Parsifal AIE		Purchase and leasing ships	24.36%	24.36%	65	(125)	(60)	11,229	5,244	(158)
					60,200	(10,791)	49,409			
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			
					62,140	(10,790)	51,349			

Economic information non audited referred to December 31, 2009.

APPENDIX I. SHAREHOLDING 12.31.2009 AND 12.31.2008 (direct and indirectly)

At December 31, 2008

			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impair-ment	Net	Assets	Net Equity	Profit/Loss
Associated entities											
CERSA, Compañía Española de Reafianza-miento, S.A.	Paseo de la Castellana 151 - Madrid	Released of guarantee operations provided by the SS.GG. RR.	23.49%	-	23.49%	18,748	-	18,748	221,270	68,702	-
COFIDES, Compañía Española de Financia-ción del Desarrollo, S.A.	Príncipe De Vergara, 132 - Madrid	Financial su-pport to private projects with a Spanish interest carried out in develo-ping countries	25.25%	-	25.25%	10,524	-	10,524	67,181	50,471	2,223
EFC2E GESTION S.L.	Paseo del Prado, 4 - Madrid	Asset management	50.00%	-	50.00%	2	-	2	1,202	751	747
Arrendadora Aeronáu-tica AIE	Paseo de la Castellana 189 - Madrid	Purchase and leasing of aircraft	17.21%	-	17.21%	16,495	(2,766)	13,729	477,674	17,449	(7,280)
Aviones Portacoli CRJ-200 AIE	Gran Vía - Madrid	Support activities for air transportation at airports	25%	-	25%	888	(94)	795	17,826	3,249	73
Aviones Turia CRJ-200 I AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(112)	777	17,934	3,247	72
Aviones Carraixet CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	888	(112)	777	17,978	3,247	72
Aviones Alfambra CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(239)	884	32,103	3,536	(854)
Aviones Gabriel CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(239)	884	32,131	3,536	(854)
Aviones Gorgos CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(241)	883	32,214	3,530	(858)
Aviones Sella CRJ – 200 AIE	-	Joined activities for air transportation at airports	25%	-	25%	1,123	(241)	883	32,242	3,533	(855)
Naviera Calliope AIE	-	Purchase and leasing of ships	13.19%	-	13.19%	1	(804)	(803)	298,153	(6,353)	(6,357)
Naviera Attile AIE	-	Purchase and leasing of ships	12.58%	-	12.58%	38	(136)	(98)	55,113	10,902	(990)

APPENDIX I. SHAREHOLDING 12.31.2009 AND 12.31.2008 (direct and indirectly)

At December 31, 2008

			% of shareholding			Cost value of the shareholding			Entity data		
	Address	Activity	Direct	Indirectly	Total	Gross	Impair-ment	Net	Assets	Net Equity	Profit/ Loss
Associated entities											
Naviera Electra AIE	-	Purchase and leasing of ships	12.60%	-	12.60%	38	(137)	(99)	54,395	10,912	(988)
Naviera Lakme AIE	-	Purchase and leasing of ships	15.12%	-	15.12%	-	(391)	(391)	145,019	30,579	(2,485)
Naviera Alcione I AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(28)	(27)	13,560	(359)	(362)
Naviera Alcione II AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(52)	(51)	13,546	(359)	(362)
Naviera Alcione III AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(75)	(74)	13,531	(358)	(361)
Naviera Alcione IV AIE	-	Purchase and leasing of ships	20.30%	-	20.30%	1	(96)	(95)	13,556	(363)	(366)
Naviera Nadela AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	672	(231)	441	8,119	(1,379)	(1,379)
Naviera Atios AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	604	(191)	413	7,610	(1,140)	(1,140)
Naviera Moaña AIE	-	Purchase and leasing of ships	16.70%	-	16.70%	722	(243)	479	8,719	(1,452)	(1,452)
Naviera Poppea AIE	-	Purchase and leasing of ships	20%	-	20%	32	(237)	(205)	67,764	13,370	(1,623)
Naviera Kurilles AIE	-	Purchase and leasing of ships	3.77%	-	3.77%	-	-	-			
Naviera Surille AIE	-	Purchase and leasing of ships	49%	-	49%	52	-	52			
Dependent Entities											
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			
						56 028	6 665	50 368			

Economic information non audited referred to December 31, 2008

Instituto de Crédito Oficial

Paseo del Prado, 4. 28014 Madrid
www.ico.es