

# **INFORMATION OF PRUDENTIAL SIGNIFICANCE**

**31 December 2015**

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## **1. GENERAL INFORMATION REQUIREMENTS**

### **1.1. INTRODUCTION**

This report is intended to comply with the market reporting requirements of Instituto de Crédito Oficial Consolidatable Group, established in Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter, "the Solvency Regulation").

As of 1 January 2014, Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions replaced the previous body of laws on prudential banking regulation (Law 13/1985 of 25 May and Banco de España Circular 3/2008). The main purpose of Law 10/2014 of 26 June was to adapt the Spanish legal system to regulatory changes introduced internationally and within the European Union, directly incorporating the provisions of Regulation (EU) 575/2013 of 26 June (CRR) and duly transposing Directive 2013/36/EU of 26 June (CRD4). These Community regulations have involved substantial changes to the regulations applicable to credit institutions, as aspects such as the rules on supervision, capital requirements and penalties have been extensively amended.

In accordance with the Eighth Additional Provision of Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, Instituto de Crédito Oficial (ICO) is subject to Titles II (Solvency of credit institutions), III (Supervision) and IV (Sanctions) of said law, with the exceptions established by regulations, and the provisions regarding the duty of confidentiality.

In accordance with the information disclosure policies approved by ICO, this report is prepared on an annual basis by ICO's Directorate General for Risks and Financial Control and approved by its Chairman, having been checked by the Internal Audit Department.

Certain information required by current regulations to be included in this report is submitted, in accordance with these regulations, by reference to the 2015 consolidated financial statements of the ICO Group, since it is contained therein and it would thus be redundant to repeat it here. The aforementioned financial statements and this document "Information of prudential significance" can be viewed on the ICO website ([www.ico.es](http://www.ico.es)).

### **1.2. INSTITUTO DE CRÉDITO OFICIAL CONSOLIDATABLE GROUP**

The information presented in this report corresponds to the Consolidatable Group of Credit Institutions, whose parent company is Instituto de Crédito Oficial (hereinafter, "the Group" or "ICO Group").

Entities over which ICO is able to exert control are considered subsidiaries. An entity is considered to control an investee when it is exposed to, or has a right to, variable returns on its holding in the investee, and it has the ability to influence such returns through the power it exercises over the investee.

The following conditions must be met for an entity to be considered a subsidiary:

- Control: An investor is considered to have control over an investee when it possesses rights that give it the capacity to influence significant activities: i.e. those with a material impact on the performance of the investee;
- Returns: An investor is exposed, or has a right, to variable returns from investment in an investee when the returns obtained by the investor may vary depending on the performance of the investee. The investor's returns may be solely positive, solely negative, or both positive and negative.

Relationship between control and returns: An investor is deemed to control an investee when the investor not only has rights over the investee and is exposed, or has a right, to variable returns from this investment, but also has the capacity to use its power to influence the returns on its investment in the investee.

The financial statements of the subsidiaries are consolidated with those of ICO by applying the full consolidation method as defined in the regulations. Accordingly, all balances arising from significant transactions between consolidated companies using this method have been eliminated in the consolidation process. Instituto de Crédito Oficial represents 99% of the Group of which it is the parent.

Also, the shareholding of third parties in:

- The Group's equity is presented under "Non-controlling interests" in the consolidated balance sheets. As at 31 December 2015 there were no non-controlling interests.
- Consolidated profit or loss for the year is presented under "Profit or loss attributable to non-controlling interests" in the consolidated income statement. As at 31 December 2015 there was no profit or loss attributable to non-controlling interests.

The profit or loss of subsidiaries acquired during the year is consolidated only from the date of acquisition until year end.

On the other hand, "associates" are considered to be those entities over which ICO is able to exercise significant influence, although they do not form part of a decision-making unit together with ICO nor are they under joint control. Usually, this ability is evidenced in a (direct or indirect) shareholding equal to or greater than 20% of the voting rights of the investee.

Investments in entities considered to be "associates" are presented in the consolidated financial statements under "Investments - Associates" in the consolidated balance sheet, valued at acquisition cost, net of any impairment that the holdings may have suffered.

The income and expenditure generated by transactions between the associate and the Group entities are eliminated to the extent of the percentage of the Group's shareholding in the associate.

The profit or loss obtained during the year by the associate, after the elimination referred to in the previous section, causes the value of the investment in the consolidated financial statements to increase or decrease as the case may be. The amount of this profit or loss is shown under "Share in profit (loss) of companies accounted for using the equity method" in the consolidated income statement.

Changes in the valuation adjustments of the associate subsequent to the acquisition date are recognised as an increase or decrease in the value of the investment. The amounts of these changes are recognised under "Valuation adjustments" in consolidated equity.

There are no "jointly controlled entities" included in the consolidation Group.

The following summary shows the main differences concerning the consolidation perimeter and the different consolidation methods applied, between the Consolidatable Group of ICO Credit Institutions for which the information is presented in this report, and the ICO Group of Credit Institutions as defined in accordance with the third paragraph of Rule 3 of Banco de España Circular 4/2004 of 22 December.

In preparing the consolidated financial statements of the ICO Group of Credit Institutions, all subsidiaries are consolidated using the full consolidation method, since they meet the requirements for being considered as consolidatable in view of their activity. Consequently, there are no differences in the consolidation perimeter for the purposes of the application of the solvency requirements.

For the purposes of the preparation of the consolidated financial statements of the ICO Group of Credit Institutions, holdings in financial institutions that do not meet the requirements for being

considered as subsidiaries, jointly controlled or associates are considered financial instruments and are measured as per the criteria established in Rule 22 of Banco de España Circular 4/2004 of 22 December.

However, for the purposes of the application of the solvency requirements, financial institutions that do not qualify as subsidiaries, jointly controlled or associates in accordance with the provisions of Rule 46 of Banco de España Circular 4/2004 of 22 December, in which ICO owns or controls at least 20% of the capital or voting rights, are valued using the equity method for the purposes of drawing up the financial statements of the Consolidatable Group.

In accordance with the aforementioned criteria, detailed below are the Consolidatable Group's subsidiaries as at 31 December 2015 to which the full consolidation method has been applied for the purposes of drawing up the consolidated financial statements:

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

Appendix I to the consolidated financial statements provides significant information on the associates included in the Group.

### **1.3 OTHER GENERAL INFORMATION**

As at 31 December 2015 there was no material practical or legal impediment to the prompt transfer of capital or the repayment of liabilities between the Group subsidiaries and Instituto de Crédito Oficial, nor was there any reason to suppose that such impediments might exist in the future.

As at 31 December 2015 there were no entities belonging to the economic Group and not included in the consolidated Group that were subject to minimum capital requirements individually, in accordance with the different rules applicable to them.

As at 31 December 2015 the holding in AXIS PARTICIPACIONES EMPRESARIALES, S.G.E.C.R. included in the Consolidatable Group is not individually subject to the calculation of capital requirements, being included in the ICO consolidatable group, which is itself subject to such requirements.

All amounts contained in this report are expressed in thousands of euros.

ICO is not considered a global systemically important institution.

## **2. RISK MANAGEMENT POLICIES AND OBJECTIVES**

The information on risk management policies and objectives which must be provided to the market in accordance with the Regulation can be found in Note 5 (Risk Exposure) of the notes to the Instituto de Crédito Oficial Group's 2015 consolidated financial statements, published on the ICO website. ([www.ico.es](http://www.ico.es)).

## **3. INFORMATION ON ELIGIBLE CAPITAL**

### **3.1 SUMMARY OF THE MAIN CHARACTERISTICS AND CONDITIONS OF THE ELEMENTS COUNTED AS TIER 1 AND TIER 2 CAPITAL**

For the purposes of calculating its minimum own funds requirements, the Group considers as tier 1 capital the elements defined as such, taking into account their relevant deductions, in Section Two, Title I, Chapters 1 to 3 of the Solvency Regulation.

Tier 1 capital is characterised by being a component of own funds that can be used immediately and without restriction to cover risks or losses when they arise, the amount of which is recorded free of all foreseeable taxes at the time it is calculated. Tier 1 capital is in principle more stable and durable than tier 2 capital, which is described below. As indicated in section 3.2 below, as at 31 December 2015 the Group's tier 1 capital basically consisted of ICO's equity and effective and explicit reserves.

Tier 2 capital, on the other hand, is as defined in Part Two, Title I, Chapter 4 of the Solvency Regulation, with the limits and deductions established therein. These own funds, although conforming to the definition of own funds established under current regulations, are characterised by being, in principle, more volatile or less permanent than elements considered as tier 1 capital.

As broken down in section 3.2 below, as at 31 December 2015 the Group's tier 2 capital comprised solely adjustments for general credit risk using the standardised approach. All items which, in accordance with the provisions of the Solvency Regulation, form part of the ICO Group's eligible capital, are homogeneous as regards their definition and characteristics, and so their content is not described individually.



### 3.2 TOTAL AMOUNT OF OWN FUNDS

The following breakdown shows the eligible own funds of the Consolidated Group at 31 December 2015, indicating each of its components and deductions and broken down into tier 1 and tier 2 capital:

|                                                                       | Amount (€ thousands) |
|-----------------------------------------------------------------------|----------------------|
| Total eligible own funds                                              | 5,302,816            |
| Tier 1 capital                                                        | 5,184,303            |
| Common equity tier 1 capital                                          | 5,184,303            |
| Capital instruments eligible as common equity tier 1 capital          | 4,311,855            |
| Retained earnings                                                     | 915,229              |
| Other reserves                                                        | 54,022               |
| Adjustments to common equity tier 1 capital due to prudential filters | -65,755              |
| Other intangible assets                                               | -8,996               |
| Elements of or deductions from common equity tier 1 capital - Other   | -22,053              |
| Additional tier 1 capital                                             | 0                    |
| Tier 2 capital                                                        | 118,513              |
| General credit risk adjustments under standardised approach           | 118,513              |

### 3.3 RECONCILIATION OF ACCOUNTING CAPITAL WITH REGULATORY CAPITAL

A reconciliation of the accounting capital stated in ICO's financial statements with regulatory capital for solvency purposes at 31 December 2015 is set out below:

| ITEM                                           | (€ thousands) |
|------------------------------------------------|---------------|
|                                                | <b>2015</b>   |
| Capital                                        | 4,311,855     |
| Reserves                                       | 941,752       |
| Attributed profit                              | 33,844        |
| TOTAL OWN FUNDS AS PER PUBLISHED BALANCE SHEET | 5,287,451     |
| Valuation adjustments                          | 54,223        |
| TOTAL EQUITY AS PER PUBLISHED BALANCE SHEET    | 5,341,674     |
| Other adjustments to basic own funds           | -157,371      |
| Deductions from tier 1 capital                 | 0             |
| TIER 1 CAPITAL                                 | 5,184,303     |

## 4. INFORMATION ON MINIMUM OWN FUNDS REQUIREMENTS

Total minimum own fund requirements by risk type at 31 December 2015 were as follows:

| TOTAL OWN FUNDS REQUIREMENTS                             | (€ thousands) |
|----------------------------------------------------------|---------------|
|                                                          | <b>2015</b>   |
| Credit, counterparty and dilution and free delivery risk | 1,147,791     |
| Settlement and delivery risk                             | 0             |
| Position, exchange rate and commodity risk               | 5,254         |
| Operational risk                                         | 73,447        |
| Credit valuation adjustment risk                         | 62,746        |
| TOTAL REQUIREMENTS                                       | 1,289,238     |

#### **4.1 MINIMUM OWN FUNDS REQUIREMENTS FOR CREDIT, COUNTERPARTY AND DILUTION AND FREE DELIVERY RISK**

Below is the amount of the Consolidatable Group's minimum own funds requirements for credit risk as at 31 December 2015, which has been calculated, for each of the categories to which the standardised approach (Section 3, Title II, Chapter 2, of the Solvency Regulation) has been applied, as 8% of the risk-weighted exposures:

|                                                                                                   |           |
|---------------------------------------------------------------------------------------------------|-----------|
| 1.1 Total requirements for credit, counterparty and dilution and free delivery risk               | 1,147,791 |
| 1.1.1 Standardised approach                                                                       | 1,147,791 |
| 1.1.1.1 Categories of exposure under the standardised approach excluding securitisation positions | 1,147,791 |
| 1.1.1.1.01 Central governments or central banks                                                   | 19,867    |
| 1.1.1.1.02 Regional governments or local authorities                                              |           |
| 1.1.1.1.03 Public sector entities                                                                 | 12,958    |
| 1.1.1.1.04 Multilateral development banks                                                         | 308       |
| 1.1.1.1.05 International organisations                                                            | 144       |
| 1.1.1.1.06 Institutions                                                                           | 563,305   |
| 1.1.1.1.07 Corporates                                                                             | 432,196   |
| 1.1.1.1.08 Retail exposures                                                                       | 1,464     |
| 1.1.1.1.09 Exposures secured by mortgages on immovable property                                   |           |
| 1.1.1.1.10 Exposures in default                                                                   | 20,712    |
| 1.1.1.1.11 Items associated with particularly high risk                                           |           |
| 1.1.1.1.12 Covered bonds                                                                          |           |
| 1.1.1.1.13 Exposures to institutions and corporates with a short-term credit assessment           |           |
| 1.1.1.1.14 Units or shares in collective investment undertakings (CIUs)                           |           |
| 1.1.1.1.15 Equity instruments                                                                     | 87,537    |
| 1.1.1.1.16 Other                                                                                  | 9,300     |
| 1.1.1.2. Securitisation positions under the standardised approach                                 |           |
| 1.1.1.2* Of which: resecuritisation                                                               |           |

## **4.2 MINIMUM OWN FUNDS REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK**

There are no own funds requirements for settlement/delivery risk relevant to the Group (Section 3, Title V, of the Solvency Regulation).

## **4.3 MINIMUM OWN FUNDS REQUIREMENTS FOR POSITION, EXCHANGE RATE AND COMMODITY RISK (MARKET RISK). TRADING BOOK MARKET RISK**

|                                                                                                                  |       |
|------------------------------------------------------------------------------------------------------------------|-------|
| 1.3 Total amount of own funds requirements for position, foreign exchange and commodities risk                   | 5,254 |
| 1.3.1 Amount of requirements for position, foreign exchange and commodities risk under the standardised approach | 5,254 |
| 1.3.1.1 Negotiable debt instruments                                                                              | 4,225 |
| 1.3.1.2 Equity instruments                                                                                       |       |
| 1.3.1.3 Currencies                                                                                               | 1,029 |
| 1.3.1.4 Commodities                                                                                              |       |

The calculation is carried out in accordance with Part 3, Title IV of the Solvency Regulation.

As regards market risk associated with the trading book, it should be noted that the Group considers as such those positions in financial instruments held with the intention of trading or which serve to hedge elements in the trading book. In this regard, there are no differences between the trading book for the purposes of calculating the Group's own funds requirements and the trading book defined according to Banco de España Circular 4/2004 of 22 December, with respect to debt securities or equity instruments.

The own funds requirements associated with the trading book as at 31 December 2015 correspond to position risk on negotiable debt instruments.

#### **4.4 MINIMUM OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK**

|                                                                                  |        |
|----------------------------------------------------------------------------------|--------|
| 1.4 Total amount of own funds requirements for operational risk                  | 73,447 |
| 1.4.1 Operational risk - basic indicator approach                                | 73,447 |
| 1.4.2 Operational risk - standardised approach/alternative standardised approach |        |
| 1.4.3 Operational risk - advanced measurement approach                           |        |

The Group uses the basic indicator approach to determine the own funds requirements associated with operational risk (Section 3, Title III of the Solvency Regulation).

#### **4.5 MINIMUM OWN FUNDS REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK**

|                                                                                 |        |
|---------------------------------------------------------------------------------|--------|
| 1.6 Total amount of own funds requirements for credit valuation adjustment risk | 62,746 |
| 1.6.1 Advanced measurement approach                                             |        |
| 1.6.2 Standardised approach                                                     | 62,746 |
| 1.6.3 Based on the original exposure approach                                   |        |

The Group uses the standardised approach to determine the own funds requirements associated with credit valuation adjustment risk (Section 3, Title IV, of the Solvency Regulations).

#### **4.6 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS**

In accordance with the provisions of the Solvency Regulation, the Consolidatable Group applies a series of risk identification, measurement and aggregation procedures that enable it to define and maintain a level of own funds appropriate to the risks inherent in its activity, the economic environment in which it operates, the management and control of those risks, its governance systems, its strategic business plan and its real possibilities of obtaining more own funds; that is, it carries out an assessment of internal capital, both current and forecast, according to its planning.

In evaluating its internal capital, the Group applies the following procedures related to each of its risks:

- Assessment of capital requirements for credit risk: the standardised approach established in the Solvency Regulation for calculating the minimum own funds requirements associated with this risk has been applied.

- Assessment of capital requirements for credit concentration risk: the simplified option is being used, applying the relevant sector and individual concentration indices established by Banco de España.

- Assessment of capital requirements for market risk: the standardised approach established in the Solvency Regulation for estimating the minimum own funds requirements associated with this risk has been used.

- Assessment of capital requirements for operational risk: the basic approach is being applied.

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

- Assessment of capital requirements for liquidity risk: The Group estimates no capital requirements associated with this risk, following analysis of its liquidity policy, its settlement control systems and its contingency plans, which show an appropriate liquidity situation and therefore no capital requirement to cover this risk.

- Assessment of capital requirements for other risks: the capital requirements associated with risks other than those above have been estimated at 5% of the Group's total own funds requirements in accordance with the provisions of the Solvency Regulation.

The Group's total capital needs have been estimated through aggregation of the capital needs associated with each risk, obtained using the aforementioned methods.

Furthermore, in order to appropriately plan the Group's future capital needs, the corresponding forecasts are made regarding profit to be appropriated to reserves and capital consumption deriving from expected business growth in different scenarios which consider, among others, stress situations.

ICO's capital planning process seeks to determine its future capital requirements over a particular time horizon. For the purposes of this report, the horizon is considered to be three years. This involves estimating the sources and consumption of capital over the next three years, based on ICO's projections for the period. This forms the baseline scenario.

In addition to this baseline scenario, ICO has also estimated its capital requirements in an adverse macroeconomic scenario, and in several additional stress scenarios, in line with ICAAP guidelines.

The results of the capital planning process include the following information for each scenario:

- Projections for the main balance sheet and income statement items.

- Calculations of the capital required and risk-weighted assets (RWA) for each Pillar 1 risk type in each year.
- A comparison of capital requirements and available capital (in both “phase-in” and “fully-loaded” scenarios).
- An action plan to meet any capital requirements (as necessary).

In all cases, ICO has an amount of capital which is expected to enable it to meet its statutory minimum requirements, even in stress scenarios.

## **5. INFORMATION ON CREDIT RISKS**

### **5.1 ACCOUNTING DEFINITIONS AND DESCRIPTION OF THE METHODS USED TO DETERMINE CORRECTIONS FOR IMPAIRMENT**

The concepts of exposures in default and corrections for impairment referred to in this document are based on the definitions in the Solvency Regulation and Appendix IX of Banco de España Circular 4/2004.

Note 2.7 of the notes to the ICO Group's 2015 consolidated financial statements describes the methods used by the Group to determine provisions for impairment due to credit risk and calculate the provisions established in relation to contingent risks and liabilities associated with that risk.

**5.2 CREDIT RISK EXPOSURE AND AVERAGE AMOUNT OF THE EXPOSURES FOR THE FINANCIAL YEAR**

As at 31 December 2015 the Consolidatable Group's total amount of risk-weighted exposures to credit risk, and its distribution by counterparty type, was as follows:

|                                                                                                   |            |
|---------------------------------------------------------------------------------------------------|------------|
| 1.1 Amount of the exposures weighted for credit, counterparty and dilution and free delivery risk | 14,347,391 |
| 1.1.1 Standardised approach                                                                       | 14,347,391 |
| 1.1.1.1 Categories of exposure under the standardised approach excluding securitisation positions | 14,347,391 |
| 1.1.1.1.01 Central governments or central banks                                                   | 248,339    |
| 1.1.1.1.02 Regional governments or local authorities                                              |            |
| 1.1.1.1.03 Public sector entities                                                                 | 161,979    |
| 1.1.1.1.04 Multilateral development banks                                                         | 3,849      |
| 1.1.1.1.05 International organisations                                                            | 1,804      |
| 1.1.1.1.06 Institutions                                                                           | 7,041,314  |
| 1.1.1.1.07 Corporates                                                                             | 5,402,450  |
| 1.1.1.1.08 Retail exposures                                                                       | 18,295     |
| 1.1.1.1.09 Exposures secured by mortgages on immovable property                                   |            |
| 1.1.1.1.10 Exposures in default                                                                   | 258,896    |
| 1.1.1.1.11 Items associated with particularly high risk                                           |            |
| 1.1.1.1.12 Covered bonds                                                                          |            |
| 1.1.1.1.13 Exposures to institutions and corporates with a short-term credit assessment           |            |
| 1.1.1.1.14 Units or shares in collective investment undertakings (CIUs)                           |            |
| 1.1.1.1.15 Equity instruments                                                                     | 1,094,216  |
| 1.1.1.1.16 Other                                                                                  | 116,249    |
| 1.1.1.2. Securitisation positions under the standardised approach                                 |            |
| 1.1.1.2* Of which: resecuritisation                                                               |            |



The average value of the Consolidatable Group's total risk-weighted exposures to credit risk in 2015, and its distribution by counterparty type, was as follows:

|                                                                                                    |            |
|----------------------------------------------------------------------------------------------------|------------|
| 1.1 Average amount of exposures weighted for credit, counterparty, dilution and free delivery risk | 15,549,738 |
| 1.1.1 Standardised approach                                                                        | 15,549,738 |
| 1.1.1.1 Categories of exposure under the standardised approach excluding securitisation positions  | 15,549,738 |
| 1.1.1.1.01 Central governments or central banks                                                    | 246,020    |
| 1.1.1.1.02 Regional governments or local authorities                                               |            |
| 1.1.1.1.03 Public sector entities                                                                  | 116,542    |
| 1.1.1.1.04 Multilateral development banks                                                          | 4,017      |
| 1.1.1.1.05 International organisations                                                             | 3,014      |
| 1.1.1.1.06 Institutions                                                                            | 7,762,576  |
| 1.1.1.1.07 Corporates                                                                              | 5,258,689  |
| 1.1.1.1.08 Retail exposures                                                                        | 19,596     |
| 1.1.1.1.09 Exposures secured by mortgages on immovable property                                    |            |
| 1.1.1.1.10 Exposures in default                                                                    | 959,249    |
| 1.1.1.1.11 Items associated with particularly high risk                                            |            |
| 1.1.1.1.12 Covered bonds                                                                           |            |
| 1.1.1.1.13 Exposures to institutions and corporates with a short-term credit assessment            |            |
| 1.1.1.1.14 Units or shares in collective investment undertakings (CIUs)                            |            |
| 1.1.1.1.15 Equity instruments                                                                      | 1,063,984  |
| 1.1.1.1.16 Other                                                                                   | 116,053    |
| 1.1.1.2. Securitisation positions under the standardised approach                                  |            |
| 1.1.1.2* Of which: resecuritisation                                                                |            |

### **5.3 GEOGRAPHICAL DISTRIBUTION OF EXPOSURES**

Detailed below are the Consolidatable Group's risk-weighted exposures to credit risk, as at 31 December 2015, broken down by geographical areas:

| Geographical Area                   | Amount of exposure |
|-------------------------------------|--------------------|
|                                     | (€ thousands)      |
|                                     | <b>2015</b>        |
| Spain                               | 13,883,515         |
| Other EU countries                  | 249,659            |
| Latin America                       | 142,929            |
| USA                                 | 42,331             |
| Rest of Europe (non-EU)             | 10,024             |
| Rest of the world                   | 18,933             |
| <b>Exposure at 31 December 2015</b> | <b>14,347,391</b>  |

### **5.4 RESIDUAL MATURITY OF EXPOSURES**

Below is the distribution by residual maturity of the Consolidatable Group's risk-weighted exposures to credit risk as at 31 December 2015, to which the standardised approach for calculating own funds requirements has been applied:

| Risk category                                          | Residual maturity period at 31 December 2015 |                |                             |                       |                 |               |
|--------------------------------------------------------|----------------------------------------------|----------------|-----------------------------|-----------------------|-----------------|---------------|
|                                                        |                                              |                |                             |                       |                 | (€ thousands) |
|                                                        | At sight                                     | Up to 3 months | Between 3 months and 1 year | Between 1 and 5 years | Over five years | Total         |
| <b>2015</b>                                            |                                              |                |                             |                       |                 |               |
| A) Central governments and central banks               | 5,828                                        | 30,864         | 43,122                      | 100,374               | 68,152          | 248,339       |
| B) Regional governments and local authorities          | -                                            | -              | -                           | -                     | -               | -             |
| C) Public sector entities                              | 3,801                                        | 20,131         | 28,126                      | 65,469                | 44,452          | 161,979       |
| D) Multilateral development banks                      | 90                                           | 478            | 668                         | 1,556                 | 1,056           | 3,849         |
| E) International organisations                         | 42                                           | 224            | 313                         | 729                   | 495             | 1,804         |
| F) Institutions                                        | 165,251                                      | 875,105        | 1,222,657                   | 2,845,956             | 1,932,345       | 7,041,314     |
| G) Corporates                                          | 126,789                                      | 671,424        | 938,084                     | 2,183,560             | 1,482,592       | 5,402,450     |
| H) Retail exposures                                    | 429                                          | 2,274          | 3,177                       | 7,394                 | 5,021           | 18,295        |
| I) Exposures secured by immovable property             |                                              |                |                             |                       |                 |               |
| J) Exposures in default                                | 6,076                                        | 32,176         | 44,955                      | 104,640               | 71,049          | 258,896       |
| K) High-risk exposures                                 |                                              |                |                             |                       |                 |               |
| L) Covered bonds                                       |                                              |                |                             |                       |                 |               |
| M) Short-term exposures to institutions and corporates |                                              |                |                             |                       |                 |               |
| N) Exposures to collective investment institutions     |                                              |                |                             |                       |                 |               |
| O) Equity instruments                                  |                                              |                |                             |                       | 1,094,216       | 1,094,216     |
| P) Other exposures                                     | 2,728                                        | 14,448         | 20,186                      | 46,985                | 31,902          | 116,249       |
| Exposure at 31 December 2015                           | 311,036                                      | 1,647,123      | 2,301,288                   | 5,356,663             | 4,731,280       | 14,347,391    |

## **5.5 DISTRIBUTION BY COUNTERPARTY AND GEOGRAPHICAL DISTRIBUTION OF EXPOSURES IN DEFAULT**

### **Exposures in default by counterparty**

Below is the amount of original risk exposures in default (impaired and delinquent) as at 31 December 2015, before adjustments and provisions, broken down by counterparty type, together with the amount of impairment losses and provisions for risks and contingent liabilities established in relation to those exposures as at that date, and the net amount recognised in relation to them for impairment losses and provisions for risks and contingent liabilities during the 2015 financial year (standardised approach for determining own funds requirements for credit risk):

| Counterparty                                           | Total impaired exposures | Of which: Non-performing exposures | Losses due to impairment and provisions for contingent risks and commitments | Provisions for losses due to impairment and contingent risks and commitments for the year (net) |
|--------------------------------------------------------|--------------------------|------------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
|                                                        |                          |                                    | <b>2015</b>                                                                  | <b>(€ thousands)</b>                                                                            |
| A) Central governments and central banks               |                          |                                    |                                                                              |                                                                                                 |
| B) Regional governments and local authorities          |                          |                                    |                                                                              |                                                                                                 |
| C) Public sector entities                              |                          |                                    |                                                                              |                                                                                                 |
| D) Multilateral development banks                      |                          |                                    |                                                                              |                                                                                                 |
| E) International organisations                         |                          |                                    |                                                                              |                                                                                                 |
| F) Credit institutions and investment firms            |                          |                                    |                                                                              |                                                                                                 |
| G) Corporates                                          | 1,746,127                | 658,383                            | 1,487,230                                                                    | -20,598                                                                                         |
| H) Retail exposures                                    |                          |                                    |                                                                              |                                                                                                 |
| I) Exposures secured by immovable property             |                          |                                    |                                                                              |                                                                                                 |
| J) High-risk exposures                                 |                          |                                    |                                                                              |                                                                                                 |
| K) Covered bonds.                                      |                          |                                    |                                                                              |                                                                                                 |
| L) Short-term exposures to institutions and corporates |                          |                                    |                                                                              |                                                                                                 |
| M) Exposures to collective investment undertakings     |                          |                                    |                                                                              |                                                                                                 |
| N) Equity instruments                                  |                          |                                    |                                                                              |                                                                                                 |
| O) Other exposures                                     |                          |                                    |                                                                              |                                                                                                 |
| Amounts at 31 December 2015                            | 1,746,127                | 658,383                            | 1,487,230                                                                    | -20,598                                                                                         |

### **Exposures in default by geographical area**

The table below shows the amount of impaired and delinquent original exposures at 31 December 2015, net of adjustments and provisions, broken down by significant geographical areas, together with the amount of impairment losses and provisions for risks and contingent liabilities established in relation to them:

| Geographical Area          | (€ thousands)            |                                    |                                                                              |
|----------------------------|--------------------------|------------------------------------|------------------------------------------------------------------------------|
|                            | Total impaired exposures | Of which: Non-performing exposures | Losses due to impairment and provisions for contingent risks and commitments |
|                            |                          |                                    | <b>2015</b>                                                                  |
| Spain                      | 1,746,127                | 658,383                            | 1,487,230                                                                    |
| Other EU countries         |                          |                                    |                                                                              |
| Latin America              |                          |                                    |                                                                              |
| USA                        |                          |                                    |                                                                              |
| Rest of Europe (non-EU)    |                          |                                    |                                                                              |
| Rest of the world          |                          |                                    |                                                                              |
| Amount at 31 December 2015 | 1,746,127                | 358,383                            | 1,487,230                                                                    |

## **5.6 CHANGES DURING THE FINANCIAL YEAR IN LOSSES DUE TO IMPAIRMENT AND PROVISIONS FOR RISKS AND CONTINGENT LIABILITIES FOR CREDIT RISK**

The changes during the 2015 financial year in impairment losses for credit risk recognised by the Group and the changes in provisions for risks and contingent liabilities for credit risk are in accordance with Banco de España Circular 4/2004, as regards both the type of loss and provisions established and the method used to calculate them (see section 5.1 above).

The breakdown of the changes made during the 2015 financial year in value corrections due to financial asset impairment (including substandard risk) and in provisions for risks and contingent liabilities for credit risk, is given below:

|                                              |                                        |
|----------------------------------------------|----------------------------------------|
| Losses due to impairment of financial assets | Provisions for risks and contingencies |
|----------------------------------------------|----------------------------------------|

|                                                    | <b>(€ thousands)</b> |            |
|----------------------------------------------------|----------------------|------------|
| Balance at 1 January 2015                          | 2,307,570            | 4,985      |
| Additions to provisions charged to profit and loss | 106,889              |            |
| Recoveries credited to profit and loss             | -122,686             | -4,845     |
| Amounts applied during the financial year          | -196,905             |            |
| Effect of exchange rate differences                | 7,649                |            |
| Changes produced by business combinations          |                      |            |
| Changes in the consolidation perimeter             |                      |            |
| Transfers                                          |                      |            |
| Other movements                                    |                      |            |
| <b>Balances at 31 December 2015</b>                | <b>2,102,517</b>     | <b>140</b> |

Additionally, expenditure recognised in the ICO Group's 2015 consolidated income statement in respect of items transferred directly to bad debts is nil, while credits to the consolidated income statement for the same financial year in respect of recovery of debts previously written off amounted to €1.54 million.

## **5.7 INFORMATION ON THE GROUP'S COUNTERPARTY CREDIT RISK**

Counterparty credit risk is deemed to be the credit risk that the Group incurs in derivative financial instrument transactions and transactions with repurchase commitments, securities or commodities lending, in deferred settlement and guarantee financing transactions.

It is controlled by means of a system that integrates the administration of transactions and the risks deriving from them in real time, providing operators with updated information on the credit lines available at any moment.

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

The basic criteria for establishing counterparty facilities are approved by ICO's General Board. These counterparty facilities are divided into two large groups due to ICO's operational characteristics. On the one hand, counterparty facilities for treasury operations. On the other,

counterparty facilities for on-lending transactions, in which ICO finances various investment projects through framework programmes with various entities operating in Spain.

In order to mitigate counterparty risk exposure, the Group signs ISDA and CMOF (Financial Transaction Framework Agreement) contracts with the counterparties and, where applicable, the corresponding collateral annexes.

Regarding the management of collateral, in the case of derivatives, for entities subject to collateral agreements, the position is valued periodically (usually from day to day) and the parameters agreed in the collateral agreement are applied to that valuation to obtain an amount of (cash) collateral to receive from or return to the counterparty.

These amounts (margin calls) are performed on a weekly basis. The counterparty receiving the margin call reviews the valuation. Discrepancies may arise in this process. If such discrepancies are material, they are analysed in detail.

A distinctive characteristic of the collateral agreements signed by ICO with the counterparties is that they are "one way", such that only ICO's counterparties are required to deposit collateral.

100% of the collateral received is cash, and therefore value adjustments for collateral impairment are not applicable.

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

Below is a breakdown of the Group's counterparty credit risk exposure for its derivative transactions as at 31 December 2015, using the mark-to-market valuation method, estimated as the amount of the Group's credit exposure due to these financial instruments, net of the effects of the corresponding contractual netting agreements and guarantees received from the transaction counterparties:

|                                                 | Amount (€ thousands) |
|-------------------------------------------------|----------------------|
|                                                 | 2015                 |
| Exposure value: mark-to-market valuation method | 2,196,283            |
| Less: Effect of netting agreements              | -776 761             |

|                                                                                 |           |
|---------------------------------------------------------------------------------|-----------|
| Credit exposure after netting                                                   | 1,419,522 |
| Less: Effect of collateral received                                             | -12,115   |
| Credit exposure in derivatives after netting and collateral at 31 December 2015 | 1,407,407 |

The amount of the exposure has been calculated using the mark-to-market method (Section 3, Title II, Chapter 6, of the Solvency Regulation).

## **6. CREDIT RISK: CREDIT RATINGS**

### **6.1 IDENTIFICATION OF THE EXTERNAL RATING AGENCIES USED**

For all credit risk exposure categories to which the standardised approach is being applied, the following are the external rating and export credit agencies whose ratings were being used by the Group as at 31 December 2015 (ECAIs recognised by Banco de España):

- Moody's
- Standard & Poor's
- Fitch Ratings
- D.B.R.S.

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

The assignment rules defined in the Solvency Regulation are applied:

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

### **6.3 EFFECT ON RISK EXPOSURES OF APPLYING RISK REDUCTION TECHNIQUES AND EXPOSURES DEDUCTED DIRECTLY FROM OWN FUNDS**



Below is a breakdown of the Group's credit risk exposure as at 31 December 2015, estimated using the standardised approach, before and after applying the risk reduction techniques permitted by the Solvency Regulation, broken down by exposure category and credit quality (measured based on the percentage applied to calculate the amount of the risk-weighted exposure):

| Risk category                                       | (€ thousands)                                       |                                                    |
|-----------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                                                     | Positions before applying risk reduction techniques | Positions after applying risk reduction techniques |
| <b>2015</b>                                         |                                                     |                                                    |
| Central governments and central banks               | 16,503,410                                          | 16,643,683                                         |
| Regional governments and local authorities          | 2,823,974                                           | 2,865,699                                          |
| Public sector entities                              | 4,899,340                                           | 4,821,393                                          |
| Multilateral development banks                      | 19,244                                              | 19,244                                             |
| International organisations                         | 9,018                                               | 9,018                                              |
| Institutions                                        | 35,530,805                                          | 35,530,805                                         |
| Companies                                           | 6,584,136                                           | 6,480,087                                          |
| Retail exposures                                    | 26,241                                              | 26,241                                             |
| High-risk exposures                                 |                                                     |                                                    |
| Covered bonds                                       |                                                     |                                                    |
| Short-term exposures to institutions and corporates |                                                     |                                                    |
| Exposures in default                                | 258,896                                             | 258,896                                            |
| Exposure to collective investment undertakings      |                                                     |                                                    |
| Equity instruments                                  | 447,067                                             | 447,067                                            |
| Other exposures                                     | 116,249                                             | 116,249                                            |
| <b>TOTAL EXPOSURES</b>                              | <b>67,218,382</b>                                   | <b>67,218,382</b>                                  |

| Risk weightings | (€ thousands)                                       |                                                    |
|-----------------|-----------------------------------------------------|----------------------------------------------------|
|                 | Positions before applying risk reduction techniques | Positions after applying risk reduction techniques |

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Weighting 0%           | 23,571,387        | 24,077,593        |
| Weighting 10%          |                   |                   |
| Weighting 20%          | 35,953,906        | 35,587,692        |
| Weighting 35%          |                   |                   |
| Weighting 50%          | 1,150,539         | 1,150,539         |
| Weighting 75%          | 26,241            | 26,241            |
| Weighting 100%         | 5,962,505         | 5,822,513         |
| Weighting 150%         | 122,371           | 122,371           |
| Weighting 250%         | 431,433           | 431,433           |
| <b>TOTAL EXPOSURES</b> | <b>67,218,382</b> | <b>67,218,382</b> |

The Group has no credit risk positions deducted directly from own funds.

## **7. CREDIT RISK: CREDIT RISK REDUCTION TECHNIQUES**

### **7.1 GENERAL INFORMATION FOR CREDIT AND DILUTION RISK**

The Group generally applies the credit risk reduction techniques referred to in the Solvency Regulation (Section 3, Title II, Chapter 4), depending on the guarantees received for risk positions.

These guarantees can be personal (including credit derivatives) or collateral (including those of a financial nature), and are valued for this purpose by reference to the credit enhancement provided by the guarantor's external rating (in the case of personal guarantees) or by market parameters in the case of collateral.

### **7.2. POLICIES AND PROCESSES FOR OFFSETTING POSITIONS AND VALUATION OF COLLATERAL FOR COUNTERPARTY RISK**

The concept of netting refers to the possibility of offsetting between contracts of the same type, under the umbrella of a framework agreement, such as the ISDA or similar. This consists of the offsetting of positive and negative market values of derivatives transactions undertaken with a particular counterparty, such that, in the event of default by that counterparty, a single flow to pay or be paid is generated, as opposed to a number of positive or negative values for each transaction. In this way, since market value is one of the components of counterparty risk, by obtaining a net market value for the transactions the risk is reduced.

An important aspect of framework agreements is that they involve a single legal obligation which encompasses all the transactions covered, which makes it possible to offset the risks of all the transactions covered by that agreement with any one counterparty.

Netting clauses are included regardless of whether they can be executed directly, to make it possible to apply the various applicable laws, so the inclusion of such agreements does not imply that netting is automatically taken into account when calculating the counterparty risk exposure

with the various counterparties. Such exposures are calculated in accordance with the applicable regulations in each of the jurisdictions involved.

As regards collateral, the Group enters into collateral agreements to manage its exposures to counterparty risk. These collateral agreements involve a set of instruments, in the form of cash deposited by a counterparty in favour of another to guarantee/reduce any counterparty credit risk there may be, resulting from the portfolios of transactions with risk between them.

The nature of these agreements is diverse, and the ultimate goal, as in the technique of netting, is to reduce counterparty risk by recovering some or all of the profits (credit granted to the counterparty) generated at a moment in time by the transaction (valued at market prices).

### 7.3. QUANTITATIVE INFORMATION

The following table shows the distribution of the Group's credit risk exposure as at 31 December 2015, broken down according to whether or not credit risk reduction techniques are applied, and, where applicable, the reduction technique used (the exposure data refer to exposure prior to application of the risk reduction technique):

| VALUE OF THE EXPOSURE                                                                                                                                                   | (€ thousands) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
|                                                                                                                                                                         | <b>2015</b>   |
| A) Exposures to which a credit risk reduction technique is not applied                                                                                                  | 60,732,718    |
| B) Exposures to which a credit risk reduction technique is applied                                                                                                      | 6,485,664     |
| - On-balance sheet netting agreements                                                                                                                                   | -             |
| - Framework netting agreements relating to transactions with a repurchase commitment, securities lending transactions, commodities or other capital market transactions | -             |
| - Collateral (1)                                                                                                                                                        |               |
| - Other collateral (2)                                                                                                                                                  | 109,942       |
| - Personal guarantees                                                                                                                                                   | 6,375,722     |
| - Credit derivatives                                                                                                                                                    | -             |

- (1) Includes transactions secured by debt securities, shares, receivables and ownership rights to immovable property allowed by the Solvency Regulation as credit risk reduction techniques.
- (2) Includes cash deposits, certificates of deposit and similar instruments held with third party entities other than those of the Group and pledged in favour of entities of the Group, life insurance policies pledged in favour of Group entities issued by insurance companies recognised as providers of cover and debt securities issued by other institutions not included in point (1) above which would receive a maximum weighting of 50%, which must be repurchased at a predetermined price by the issuing institutions at the request of the holder of the securities.

The exposures to which risk reduction techniques are applied are shown below, classified by risk category:

| Risk category                                       |                             |                                |           |
|-----------------------------------------------------|-----------------------------|--------------------------------|-----------|
|                                                     | Covered by other collateral | Covered by personal guarantees | TOTAL     |
| € thousands, 2015                                   |                             |                                |           |
| Central governments and central banks               |                             | 281,688                        | 281,688   |
| Regional governments and local authorities          |                             | 2,361,605                      | 2,361,605 |
| Public sector entities                              |                             | 3,604,618                      | 3,604,618 |
| Multilateral development banks                      |                             |                                |           |
| International organisations                         |                             |                                |           |
| Institutions                                        |                             |                                |           |
| Companies                                           | 109,942                     | 103,250                        | 213,192   |
| Retail exposures                                    |                             |                                |           |
| High-risk exposures                                 |                             |                                |           |
| Covered bonds                                       |                             |                                |           |
| Short-term exposures to institutions and corporates |                             |                                |           |
| Exposures in default                                |                             | 24,561                         | 24,561    |
| Exposure to collective investment undertakings      |                             |                                |           |
| Equity instruments                                  |                             |                                |           |
| Other exposures                                     |                             |                                |           |
| TOTAL EXPOSURES                                     | 109,942                     | 6,375,722                      | 6,485,664 |

## **8. SECURITISATION TRANSACTIONS**

### **8.1 GENERAL INFORMATION ON SECURITISATION**

As at 31 December 2015, ICO did not have any securitisation positions in its balance sheet (Section 3, Title II, Chapter V, of the Solvency Regulation).

### **8.2 EXPOSURES IN SECURITISATION TRANSACTIONS AND AMOUNT OF SECURITISED ASSETS**

As at 31 December 2015, the Group had no securitisation transaction positions to which it might apply the treatment provided for in Chapter Four, Section Four, of the Solvency Circular for the purposes of calculating its own funds requirements for credit risk.

## **9. MARKET REPORTING REQUIREMENTS: INFORMATION ON REMUNERATION**

ICO is configured as a public business entity and, consequently, is subject to Royal Decree 451/2012 of 5 March, which regulates the remuneration of senior executives and management in the public business sector and other entities. It is also subject to the approval of the Inter-ministerial Remuneration Committee as regards setting the pay of the entity's personnel who are not covered by a collective agreement. Accordingly, the remuneration of ICO's executives is limited by the regulations referred to above, which prevents different remuneration measures from being approved by the competent bodies.

In accordance with the Eighth Additional Provision of Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, Title I of that law, which sets out corporate governance rules and remuneration policy, does not apply to ICO.

**10. INFORMATION ON SHARES AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK**

Note 2.1 to the Group's consolidated financial statements for 2015 includes a description of the portfolios into which the shares and equity instruments held by the Group are classified, together with the accounting recognition and valuation criteria applied to each. This Note also indicates the models and assumptions applied to determine the value of the instruments included in each portfolio. During the 2015 financial year there were no changes with a significant effect on the practices and assumptions used by the Group to value its shares and equity instruments.

The Group holds shares and equity instruments for various different purposes. In this respect, it holds interests in entities with varying degrees of involvement in their management and decision-making, with which it seeks to achieve the objectives forming part of the Group's strategy and objectives as a whole and/or in which it is the intention to maintain a lasting presence as a shareholder ("strategic holdings"). It also holds shares in other entities with different objectives, basically consisting of maximising the income obtained through their management in coordination with the Group's risk management objectives and strategies ("available-for-sale portfolios").

In general, the shares and equity instruments held by the Group for strategic purposes are accounted for as Group companies, associates and joint ventures, whereas those held for sale and not forming part of the trading portfolio are classified as available-for-sale financial assets.

Appendix 1 to the notes to the 2015 consolidated financial statements includes a detailed description of the ICO Group's holdings, with information on the investee entities, the carrying amount of those holdings and their fair value.

Note 8 to the consolidated financial statements for the financial year 2015 indicates the types, nature and amounts of exposures in available-for-sale investments and equity instruments.

Gains or losses recognised in equity during the period are included in this note and in note 21 to the Group's consolidated financial statements for the financial year 2015.

There were no unrealised gains or losses not recognised in the balance sheet during financial year 2015.

There were no gains or losses during 2015 as a result of the sale or liquidation of equity instruments not included in the trading portfolio.

## **11. INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING BOOK**

Interest rate risk is the risk to which the Group is exposed by having asset and liability transactions at different interest rates (fixed, variable or pegged to different indices) and with different maturities, such that upward or downward movements in the reference interest rates for these transactions can produce asymmetric effects on its assets and liabilities, which in turn affect the Group's income statement and equity.

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

- The risk is measured and analysed constantly.
- Analysis is carried out on the possible effects that changes in the interest rates of the currencies with a significant exposure could have on the Group's results and the various income statement margins.
- The analyses include all positions that are sensitive to interest rate risk, including interest rate derivatives, whether implicit or explicit.
- To measure the risk, an analysis is carried out of the possible (deviation) effects of the intermediation margin and net asset value, now calculated based on changes of +/- 200 bps relative to the base curve, with a floor of 0% in each significant currency, on the value of the central scenario, calculated based on the base curve and by simulating values.
- Separate measurements are carried out of the interest rate for each position held in each currency and aggregate measures of the interest rate for all of them.

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

Note 5 of the notes to the Group's 2015 consolidated financial statements includes information regarding the Group's level of exposure, in equity and in the income statement, to the effects of reasonable future changes in the level of prevailing interest rates, with a breakdown by the most significant currencies. This information takes into account the effects of hedging, and analyses the



result of an increase or decrease of 200 basis points, with a floor of 0%, in the interest rates, as well as certain information on interest rate sensitivity and the criteria that have been applied to prepare the information, with all the significant assumptions used.

## **12. CAPITAL BUFFERS**

As of 31 December 2015, Banco de España had not made it obligatory for ICO to comply with the requirement for a countercyclical capital buffer under Title VII, Chapter 4 of Directive 36/2013/EU.

Chapter 3 of Banco de España Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency, completing the transposition of Directive 2013/36/EU and Regulation EU 575/2013 into Spanish law, regulates capital buffers from the date of its coming into force (February 2016). In this regard:

- It establishes an ordinary capital buffer of 2.5%, with which ICO was compliant at 31 December 2015;
- A countercyclical capital buffer has been established pursuant to the requirements of the Circular. For the first and second quarters of 2016 the percentage set by Banco de España for this buffer is zero for credit exposures in Spain;
- ICO is not subject to buffers for global or other systemically important institutions;
- Banco de España has not set any buffer for systemic risks.

### 13. INFORMATION ON UNENCUMBERED ASSETS

Shown below is information on the Group's unencumbered and encumbered assets as at 31 December 2015 (Recommendation ESRB/2012/2):

|                                                  | Carrying Amount of Unencumbered Assets |                                                   |                                               | Fair Value of Unencumbered Assets |                                                  |
|--------------------------------------------------|----------------------------------------|---------------------------------------------------|-----------------------------------------------|-----------------------------------|--------------------------------------------------|
|                                                  |                                        | Of which:<br>issued by<br>other group<br>entities | Of which:<br>eligible for<br>central<br>banks |                                   | Of<br>which:<br>eligible for<br>central<br>banks |
| <b>2015</b><br><b>(€ thousands)</b>              |                                        |                                                   |                                               |                                   |                                                  |
| Assets of the reporting institution              | 62,184,593                             |                                                   |                                               |                                   |                                                  |
| Loans on demand                                  | 452,429                                |                                                   |                                               |                                   |                                                  |
| Equity instruments                               | 402,621                                |                                                   |                                               | 402,621                           |                                                  |
| Debt securities                                  | 17,147,027                             |                                                   |                                               | 17,147,027                        |                                                  |
| of which: Covered bonds                          |                                        |                                                   |                                               |                                   |                                                  |
| of which: Asset securitisation<br>bonds          |                                        |                                                   |                                               |                                   |                                                  |
| of which: issued by public<br>administrations    | 13,262,538                             |                                                   |                                               | 13,262,538                        |                                                  |
| of which: issued by financial<br>companies       | 3,880,420                              |                                                   |                                               | 3,880,420                         |                                                  |
| of which: issued by non-financial<br>companies   | 4,069                                  |                                                   |                                               | 4,069                             |                                                  |
| Loans and advances other than<br>loans on demand | 41,846,129                             |                                                   |                                               |                                   |                                                  |
| of which: mortgage loans                         | 332,071                                |                                                   |                                               |                                   |                                                  |
| Other Assets                                     | 2,336,386                              |                                                   |                                               |                                   |                                                  |

ICO had no encumbered assets at 31 December 2015.

## 14. INFORMATION ON LEVERAGE

Shown below is information on the Group's leverage ratio as at 31 December 2015:

| Exposure relating to the leverage ratio                                                                                                 | (€ thousands) |
|-----------------------------------------------------------------------------------------------------------------------------------------|---------------|
| <b>Exposure values</b>                                                                                                                  |               |
| Exposure to securities financing transactions (SFTs) according to article 220 of the CRR                                                |               |
| Exposure to securities financing transactions according to article 222 of the CRR                                                       |               |
| Derivatives: mark-to-market                                                                                                             | 2,196,283     |
| Derivatives: add-on - Mark-to-market valuation method                                                                                   | 343,946       |
| Derivatives: original exposure method                                                                                                   | 0             |
| Undrawn credit lines that are unconditionally cancellable at any time without prior notice                                              | 0             |
| Off-balance sheet items related to medium/low-risk trade finance                                                                        | 0             |
| Off-balance sheet items related to medium-risk trade finance and off-balance sheet items related to officially supported export credits | 0             |
| Other off-balance sheet items                                                                                                           | 4,534,868     |
| Other assets                                                                                                                            | 63,469,025    |
| <b>Capital and statutory adjustments</b>                                                                                                | 0             |
| Tier 1 capital (according to the definition to be applied on completion of the phase-in process)                                        | 5,184,303     |
| Tier 1 capital (according to the transitional definition)                                                                               | 5,184,303     |
| Amount to add in application of article 429, section 4, second paragraph, of the CRR                                                    | 0             |
| Amount to add in application of article 429, section 4, second paragraph, of the CRR (according to the transitional definition)         | 0             |
| Regulatory adjustments - Tier 1 capital (according to the definition to be applied on completion of the phase-in process)               | -74,751       |
| Of which: Adjustments in relation to credit risk                                                                                        | -7,403        |
| Tier 1 capital statutory adjustments (according to the transitional definition)                                                         | -74,751       |
| <b>Leverage ratio</b>                                                                                                                   |               |
| Leverage ratio (according to the definition of tier 1 capital to be applied on completion of the phase-in process)                      | 7.36%         |
| Leverage ratio (according to the transitional definition of tier 1 capital)                                                             | 7.36%         |

Details of the exposure values taken into account are as follows:

|                                                                                                                                                                        | Exposure corresponding to the leverage ratio under the standardised approach | Risk-weighted assets: exposures under the standardised approach |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------|
| <b>Covered bonds</b>                                                                                                                                                   |                                                                              |                                                                 |
| <b>Exposures comparable to exposures to central governments</b>                                                                                                        | <b>19,219,024</b>                                                            | <b>400,430</b>                                                  |
| Central governments and central banks                                                                                                                                  | 14,407,992                                                                   | 248,339                                                         |
| Regional governments and local authorities comparable to central governments                                                                                           |                                                                              |                                                                 |
| Multilateral development banks and international organisations comparable to central governments                                                                       |                                                                              |                                                                 |
| Public sector entities comparable to central governments                                                                                                               | 4,811,032                                                                    | 152,091                                                         |
| <b>Exposures to regional governments, multilateral development banks, international organisations and public sector entities not comparable to central governments</b> | <b>2,781,665</b>                                                             | <b>3,814</b>                                                    |
| Regional governments and local authorities not comparable to central governments                                                                                       | 2,762,595                                                                    | 0                                                               |
| Multilateral development banks not comparable to central governments                                                                                                   | 19,070                                                                       | 3,814                                                           |
| Public sector entities not comparable to central governments                                                                                                           |                                                                              |                                                                 |
| <b>Institutions</b>                                                                                                                                                    | <b>32,928,285</b>                                                            | <b>6,532,034</b>                                                |
| Secured by mortgages on immovable property, of which                                                                                                                   |                                                                              |                                                                 |
| Secured by mortgages on residential immovable property                                                                                                                 |                                                                              |                                                                 |
| <b>Retail exposures</b>                                                                                                                                                | <b>26,177</b>                                                                | <b>18,170</b>                                                   |
| Retail exposures to SMEs                                                                                                                                               | 7,432                                                                        | 3,909                                                           |
| <b>Companies</b>                                                                                                                                                       | <b>6,114,216</b>                                                             | <b>4,859,078</b>                                                |
| Financial                                                                                                                                                              |                                                                              |                                                                 |
| Non-financial                                                                                                                                                          | 6,114,216                                                                    | 4,859,079                                                       |
| Exposures to SMEs                                                                                                                                                      | 1,846,519                                                                    | 1,531,994                                                       |
| Exposures to companies other than SMEs                                                                                                                                 | 4,267,697                                                                    | 3,327,084                                                       |
| <b>Exposures in default</b>                                                                                                                                            | <b>1,746,126</b>                                                             | <b>258,896</b>                                                  |
| <b>Other exposures (for example, equities and other non-credit obligation assets), of which:</b>                                                                       | <b>653,533</b>                                                               | <b>116,249</b>                                                  |
| Securitisation exposures                                                                                                                                               |                                                                              |                                                                 |
| <b>Trade finance (memorandum item), of which:</b>                                                                                                                      |                                                                              |                                                                 |
| Under an official export credit insurance scheme                                                                                                                       |                                                                              |                                                                 |

As at 31 December 2015 the leverage ratio stood at 7.36%. This is significantly higher than the latest Basel and EBA recommendations, of 4% to 5%. The level and changes in the leverage ratio are reported to senior management every month.



**PASEO DEL PRADO, 4 - 28014**

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